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Chapter I: Summary of the year 2017
Dear Sir or Madam,

This is an annual report of the BGK Capital Group for 2017. We are pleased to inform you that it was yet another year in which the bank proved that it plays a major role in the economic development of Poland. As one of the key entities involved in the implementation of the Strategy for Responsible Development, we supported the fulfilment of its most important objective, which is supporting entrepreneurship, inventiveness, and productivity.

We support national enterprises...

In the previous year, the amount of BGK credit exposure increased by nearly PLN 2.3 bn and exceeded PLN 41 bn. Our financing ensured above all the development of national enterprises and allowed for foreign expansion. In 2017, as a financing or co-financing entity, we took part in over 200 foreign projects carried out by Polish companies. Together with those companies, we conduct operations in fifty seven countries on six continents.

As a managing authority for EU funds, we were involved in funding innovation, which is one of the most important factors determining the strength and growth of developed economies. It was through our mediation that Polish micro, small and medium-sized enterprises received a total of PLN 770 mn in funding to carry out technological innovation projects.

Polish companies were also supported by us through guarantees and sureties. In the last year alone, over 15.3 thousand

Yours faithfully,

Beata Daszyńska-Muzyczka
President of the Management Board of BGK

List of the President of the Management Board
development institutions. Thanks to partnership with, among others, the Polish Development Fund, the Polish Agency for Enterprise Development, the Industrial Development Agency, the Credit Insurance Corporation, and the Polish Investment and Trade Agency, operations carried out by the bank can be even more efficient, and the support ensured through the governmental strategy is provided, wherever it is needed.

In 2017, the bank generated yet another increase in its balance sheet total which, as at the end of December, exceeded PLN balance of 74 bn. This amount, in combination with operations carried out in the previous year, proves that Bank Gospodarstwa Krajowego has the potential, the resources, and the experience necessary to meet its role assigned in the Strategy for Responsible Development.

We’re looking into the future

The previous year is characterised by thousands of projects aimed at the development of Poland. I would like to thank the entire BGK staff whose professionalism and daily work contribute to the fulfilment of the bank’s major assignment.

As a development institution, we are constantly looking into the future. In the previous year, Bank Gospodarstwa Krajowego adopted a strategy for the years 2017-2020. The main objectives of the strategy include: leveraging the capital for the economy, initiating and carrying out operations which support economic growth, and promoting commercial banks by filling a market gap in key elements of the economy. I am convinced that the operations scheduled by us prove that Bank Gospodarstwa Krajowego is a partner of the state which supports its socio-economic development.

Dear Sir or Madam, on behalf of the Management Board of the bank and my own, I wish to thank all the stakeholders for trusting us. Responsible business management and appropriate relations with the social environment are two of the key principles of the bank’s operations from its very establishment. Already pre-war BGK President of the Management Board, Gen. Roman Górecki, said that Bank Gospodarstwa Krajowego was not an institution oriented at profit. The bank’s profit is a general progress in the economic life of Poland. In July 2018, the bank became one of the top 10 companies with the highest social responsibility in Poland, all the more reason for us to be proud. We treat this promotion as an obligation to maintain the high standards of cooperation with all partners as well as keep up the work on increasing the bank’s profit, as defined by General Górecki.
Established in 1924, Bank Gospodarstwa Krajowego (BGK) is the only state-owned bank in Poland. The entities from the BGK Capital Group are actively involved in cooperation between enterprises, the public sector, and financial institutions. They support governmental entrepreneurship and development programmes which aim at an economic development of the country. They cooperate with other development institutions incorporated in the Polish Development Fund Group: Polish Development Fund (PFR), Export Credit Insurance Corporation (KUKE), Polish Investment and Trade Agency (PAIH), Polish Agency for Enterprise Development (PARP), and Industrial Development Agency (ARP).

BGK supports the social and economic development of the country. All activities performed by the bank aim at Poland's sustainable development.
BGK Capital Group... 

- **... initiates and implements actions aimed at economic growth and enterprise development**
  
  The bank funds major infrastructure projects, local government projects, export projects and co-finance the foreign expansion of Polish companies. It is a shareholder of KUKE S.A. and its main business partner in the implementation of the government export support programme.

  In order to stimulate entrepreneurship and the development of micro, small and medium-sized enterprises, BGK offers surety and guarantee systems. The bank and group entities also operate programmes aimed at improving the situation on the housing market. Moreover, BGK manages European programmes.

- **... supplements the banking system by filling the market gap in key areas of the economy**
  
  The bank operates counter-cyclically and implements programmes that activate stagnated sectors. It finances high-risk projects of significant importance to the market economy and supports economic growth in areas where the market does not function efficiently. BGK cooperates with other financial institutions on partnership terms, supplementing their offer.

- **... acts for Responsible Development**
  
  BGK plays a major role in the implementation of the Strategy for Responsible Development, i.e. so-called Morawiecki’s Plan.

  The strategy approved by the Council of Ministers in 2017 is a key document which defines a mid- and long-term economic policy of the country. The bank cooperates in this regard with other development institutions, i.e. PFR, PARP, ARP, KUKE S.A. and PAIH.

  BGK also supports sustainable development. On 1 March 2018, the bank’s branches were transformed into BGK Regions. Thanks to their new role, they will support the financial ecosystem of local entrepreneurs and local government units. In all of the 16 provinces, the bank will be a regional ambassador of state development institutions.

- **... mobilises the capital for the economy**
  
  The Group participates in consortia and creates transaction structures on the domestic and foreign markets. The bank finances capital needs through cooperation with development institutions and mobilised private capital through the development of guarantee and surety programmes.

- **... supports housing development**
  
  BGK is involved in programmes which provide Poles with extended possibilities of buying or renting flats and improve access to them. Apart from debt financing, mainly to Social Housing Associations and managing government programmes (e.g. ‘Mieszkanie dla Młodych’ (Mortgage Programme for Young People), the bank provides capital to Fundusz Sektoru Mieszkania na Wynajem FIZ AN (Rental Housing Fund CEPEIF) and Fundusz Sektoru Mieszkania dla Rozwoju FIZ AN (Housing for Growth Fund CEPEIF).

  In addition, in 2017 Fundusz Sektoru Mieszkania dla Rozwoju FIZ AN (Housing for Growth Fund CEPEIF) from the BGK Capital Group launched a pilot programme ‘Mieszkanie Plus’, which provides for construction of affordable flats for rent with future ownership. The fund implements activities consisting in the construction of flats in cooperation with communes and local government units to meet their respective needs.
ORGANISATIONAL STRUCTURE OF THE BGK CAPITAL GROUP

The BGKs mission is to support social and economic growth of Poland and the public finance sector in the performance of its tasks, which is supported by the entities of the capital group. BGK expands its product offer in the scope of debt financing as well as surety and guarantee financing through investments in funds supporting the development of Polish enterprises, funds for infrastructure development and foreign expansion funds. Those investments are implemented in cooperation with PFR S.A. and PFR TFI S.A.

The organisational structure of the BGK Capital Group – full consolidation method:

- Bank Gospodarstwa Krajowego
- BGK Nieruchomości S.A.
- Fundusz Sektora Mieszkań na Wynajem FIZ AN (Rental Housing Fund CEPEIF)
- Fundusz Ekspansji Zagranicznej FIZ AN (Foreign Expansion Fund CEPEIF)
- Fundusz Sektora Mieszkań dla Rozwoju FIZ AN (Housing for Growth Fund CEPEIF)
- Special purpose vehicles
The following entities of the Group were consolidated using the equity method:

◊ **Funds managed by PFR S.A.**, supporting the development of Polish enterprises and infrastructure:
  - Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN (Polish Enterprise Investments Fund Closed-End Private Equity Investment Fund)
  - Fundusz Inwestycji Infrastrukturalnych - Kapitałowy FIZ AN (Infrastructure Investments Capital Closed-End Investment Private Equity Fund)
  - Fundusz Inwestycji Infrastrukturalnych - Dłużny FIZ AN (Infrastructure Investments Debenture Closed-End Investment Private Equity Fund)
  - Fundusz Inwestycji Samorzadowych FIZ AN (Local Government Investments Fund Closed-End Private Equity Investment Fund)

◊ **Surety funds** established in cooperation with local government units
  - Krajowa Grupa Poręczeniowa Sp. z o.o. (National Guarantee Group, ltd.)
Major events

January
- Standardisation of accounting and financial reporting through implementation of the International Financial Reporting Standards (IFRS).

February
- Issuance of BGK own bonds. The bank places three-year bonds with a nominal value of PLN 1.2 bn.

March
- Execution of a contract for the construction of the Łagiewnicka Route, including a new tram line, with the European Investment bank. The loan granted by the EIB has been guaranteed by the European Fund for Strategic Investments (EFSI) - one of the pillars of the Investment Plan for Europe developed by the European Commission under supervision of Jean Claude Juncker.

April
- A business visit by the President of the Republic of Poland Andrzej Duda in Mexico. It gave rise to a contract on commercial cooperation between the two countries. The contract was signed by BGK, KUKE S.A., and Bancomext.

May
- Another issuance of BGK own bonds valued at PLN 1.2 bn.
- The conclusion of an agreement with the EIB which provides for the establishment of an investment platform. The purpose of the platform is to support projects associated with the construction of rental social housing in communes all across Poland.
- The establishment of credit guarantees for the Smart Development Operational Programme that allow to generate credit funding for SME totalling PLN 1.75 bn.
June
Bank Gospodarstwa Krajowego entered into two contracts with the local government of the Świętokrzyskie Province. The contracts provide for the management by BGK of EU funds in the region. Repayable instruments for SME and people starting up business activity will consist of a total of PLN 285.5 mn. The Świętokrzyskie Province is the 15th region which established cooperation with BGK as part of implementation of repayable financial instruments from regional operational programmes.

July
The BGK Supervisory Board adopts a strategy for the years 2017-2020.

August
As a result of recapitalisation through issuance of two-year treasury bonds with a nominal value of PLN 2 bn, the BGK’s own funds go up by PLN 1.9 bn.

October
BGK Nieruchomości S.A. receives from BGK a recapitalisation of PLN 2.5 mn (in total PLN 7.5 mn in the entire year) up to PLN 25.5 mn.

November
An increase in the BGK own funds by PLN 4.3 bn as a result of recapitalisation with two-year treasury bonds with a nominal value of PLN 3 bn and through cash injection of PLN 1.5 bn from the state budget.

December
The initiation - in cooperation with European development banks and the EIB - of an international infrastructure fund Marguerite II. It will support key infrastructure investments in the EU in the following sectors: energy, transportation, and digitalisation.
As at the end of 2017, the financial position of the BGK Capital Group was very good. BGK closed the year with a balance sheet total of PLN 74.3 bn. It went up by 11.3% year-over-year. The increase in the capital base had the greatest impact on the increase of the balance sheet total. Compared to 2016, the said balance went up by 56.5%. The bank also generated an increase in the revaluation reserve.
## Financial highlights

<table>
<thead>
<tr>
<th>Item</th>
<th>Performance</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net banking income (in PLN mn)</td>
<td>778.4</td>
<td>851.1</td>
</tr>
<tr>
<td>Operating costs and depreciation (in PLN mn)</td>
<td>420.5</td>
<td>354.8</td>
</tr>
<tr>
<td>Net impairment losses and provisions (in PLN mn)</td>
<td>48.9</td>
<td>-242.8</td>
</tr>
<tr>
<td>Share in profits and losses of affiliates (in PLN mn)</td>
<td>-11</td>
<td>-55.7</td>
</tr>
<tr>
<td>Gross profit (in PLN mn)</td>
<td>424.4</td>
<td>263.5</td>
</tr>
<tr>
<td>Net profit (in PLN mn)</td>
<td>380.8</td>
<td>257</td>
</tr>
<tr>
<td><strong>Scope of activity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit exposure in nominal terms (in PLN mn), including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans in nominal terms (in PLN mn)</td>
<td>22,417.2</td>
<td>27,352.4</td>
</tr>
<tr>
<td>Deposits from customers (in PLN mn)</td>
<td>19,842.2</td>
<td>37,492.1</td>
</tr>
<tr>
<td>Own funds (in PLN mn)</td>
<td>9,710</td>
<td>12,766.7</td>
</tr>
<tr>
<td>Balance sheet total (in PLN mn)</td>
<td>43,092.7</td>
<td>66,746.6</td>
</tr>
<tr>
<td><strong>Operating performance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C/I rate(^3)</td>
<td>54.00%</td>
<td>41.70%</td>
</tr>
<tr>
<td>ROE (net profit/average equity)</td>
<td>4.10%</td>
<td>2.60%</td>
</tr>
<tr>
<td>ROA (net profit/average assets)</td>
<td>0.60%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Interest margin(^4)</td>
<td>1.00%</td>
<td>0.90%</td>
</tr>
</tbody>
</table>

\(^1\) Own funds - share capital, supplementary capital, reserve capital, general banking risk reserve, revaluation reserve, prior year profit and net profit

\(^2\) Average balance sheet results in indicators were calculated based on end results of particular months (e.g. December 2016 – December 2017)

\(^3\) C/I (cost to income ratio) = (operating expenses + amortisation and depreciation) / net banking income

\(^4\) Interest margin = net interest income / average interest-bearing assets
PROFITABILITY

In 2017, BGK generated a total of PLN 584.4 mn, which is 127% more than in the previous year. The main impact on the increase is attributable mainly to a positive change in net impairment losses (PLN +193.2 mn) resulting from improved portfolio quality and greater scale of operations.

The potential for financing large investment projects improved.

Compared to 2016, the bank improved its basic efficiency indicators:
- ROE, i.e. return on equity, went up by 1.4 p.p. up to 4%.
- ROA, i.e. return on assets, went up by 0.2 p.p. up to 0.6%.
- C/I rate, i.e. costs to income ratio, went down by 19 pp to 39.8% due to the increase in net banking income and moderate increase of expenses.
LENDING ACTIVITY OF BGK

BGK’s credit exposure total exceeded in 2017 PLN 41 bn. The increase amounted to nearly 6%, mainly due to increased lending in the area of financing enterprises, export, foreign expansion, and healthcare entities.

The portfolio of credit exposures broken down by business line (PLN mn)

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2017</th>
<th>Change versus 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit exposure in nominal terms, including off-balance sheet items</td>
<td>3,912.1</td>
<td>41,371.6</td>
<td>2,250.5 5.80%</td>
</tr>
<tr>
<td>Structured finance</td>
<td>20,145.8</td>
<td>19,369.8</td>
<td>-776 -3.90%</td>
</tr>
<tr>
<td>Export and foreign expansion financing</td>
<td>2,192.1</td>
<td>2,914.8</td>
<td>722.7 33.00%</td>
</tr>
<tr>
<td>Businesses and financial entities</td>
<td>2,532.8</td>
<td>4,203.9</td>
<td>1671.1 66.00%</td>
</tr>
<tr>
<td>Local government institutions and municipal companies</td>
<td>7,739.3</td>
<td>7,993.6</td>
<td>254.3 3.30%</td>
</tr>
<tr>
<td>Central budget entities</td>
<td>33.2</td>
<td>23.6</td>
<td>-9.6 -28.90%</td>
</tr>
<tr>
<td>Healthcare entities</td>
<td>692.2</td>
<td>1,159</td>
<td>466.8 67.40%</td>
</tr>
<tr>
<td>Social housing programmes</td>
<td>5,652.1</td>
<td>5,582.5</td>
<td>-69.6 -1.20%</td>
</tr>
<tr>
<td>including the Residential Construction Support Programme (former National Housing Fund)</td>
<td>5,433.8</td>
<td>5,146.3</td>
<td>-287.5 -5.30%</td>
</tr>
<tr>
<td>Other</td>
<td>133.6</td>
<td>124.4</td>
<td>-9.2 -6.90%</td>
</tr>
<tr>
<td>including bonds</td>
<td>4,992.9</td>
<td>3,473.6</td>
<td>-1,519.3 -30.40%</td>
</tr>
</tbody>
</table>

The highest increase, as much as by 66% in relation to the previous year, was generated by the bank in the area of financing enterprises. The factors that mostly contributed to that growth include entry into several agreements for a total value of over PLN 50 mn with entities operating in the fuel, energy, chemical, defence, and production industries. Financing recognised under this business line is mostly general in nature.

BGK recorded a nearly 4% decline in the structured financing portfolio. This was primarily attributable to the improving financial condition of mining sector entities and early repayment of their credit liabilities. The bank classified primarily financing related to the implementation of investment and infrastructure projects to that line.

As regards projects pertaining the financing of social housing (implemented by BGK), the scale of growth recorded by new programmes implemented by BGK exceeded PLN 200 mn, but did not manage to fully compensate repayments in the portfolio of the former National Housing Fund.
The total value of credit exposures grew in relation to the previous year by nearly PLN 850 mn and amounted to PLN 33.2 bn. Similarly to the total balance sheet and off-balance sheet exposure, the biggest growths were recorded in the financing of enterprises, export and foreign expansion, and healthcare entities.

The structure of financing changed as well. Due to the acquisition of bonds, debt financing decreased by nearly PLN 1.5 bn, whereas the value of loans went up by nearly PLN 2.4 bn.
DEPOSIT ACTIVITIES OF BGK

In 2017, BGK achieved a 9.4% decline (up to PLN 34.1 bn) in total deposits. In terms of the balance amount, the most considerable drop from PLN 19.5 bn to PLN 15.2 bn (down by 21.8%) was observed in the central budget entities segment.

In 2017, the value of business deposits went up in the non-financial segment (by 9.6%, up to nearly PLN 14.2 bn).

<table>
<thead>
<tr>
<th>Item</th>
<th>2016 Performance</th>
<th>2016 Structure</th>
<th>2017 Performance</th>
<th>2017 Structure</th>
<th>Change versus 2016 nominal</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer deposits</td>
<td>37,599.7</td>
<td>100%</td>
<td>34,075</td>
<td>100%</td>
<td>-3,524.7</td>
<td>-9.40%</td>
</tr>
<tr>
<td>financial sector entities</td>
<td>2,094.6</td>
<td>5.60%</td>
<td>1,920.1</td>
<td>5.60%</td>
<td>-174.5</td>
<td>-8.30%</td>
</tr>
<tr>
<td>non-financial sector entities</td>
<td>12,947.8</td>
<td>34.40%</td>
<td>14,184.6</td>
<td>41.60%</td>
<td>1,236.8</td>
<td>9.60%</td>
</tr>
<tr>
<td>natural persons</td>
<td>34</td>
<td>0.10%</td>
<td>37.8</td>
<td>0.10%</td>
<td>3.8</td>
<td>11.20%</td>
</tr>
<tr>
<td>businesses</td>
<td>12,913.8</td>
<td>34.30%</td>
<td>14,146.8</td>
<td>41.50%</td>
<td>1,233</td>
<td>9.50%</td>
</tr>
<tr>
<td>budget sector entities</td>
<td>22,557.3</td>
<td>60.00%</td>
<td>17,970.3</td>
<td>52.70%</td>
<td>-4,587</td>
<td>-20.30%</td>
</tr>
<tr>
<td>central budget entities</td>
<td>19,485.1</td>
<td>51.80%</td>
<td>15,236.1</td>
<td>44.70%</td>
<td>-4,249</td>
<td>-21.80%</td>
</tr>
<tr>
<td>local government entities</td>
<td>3,072.2</td>
<td>8.20%</td>
<td>2,734.2</td>
<td>8%</td>
<td>-338</td>
<td>-11.00%</td>
</tr>
</tbody>
</table>

As at the end of December 2017, the amount of deposits from the budget sector was substantially lower than at the end of 2016. Due to the high volatility of this item at the end of the year, BGK has appropriately increased the value of other deposits to ensure the stable financing of assets. The average level of deposits, excluding the deposits of central budget entities, amounted to PLN 24.2 bn and was higher than in 2016 by 32.6%. Customer deposits constitute an important source of financing due to the growing level of BGKs lending and investment activities and ensure a safe level of liquidity.
Chapter II: Operations and development of the bank
As a highly reliable state financial institution, BGK, specialises in services for the public sector. The bank ensures economically efficient and operationally effective support for the government’s social and economic programmes as well as local government programmes for regional development. It cares for the modernity and high quality of its offer and having good relations with customers through a flexible approach to their needs.
Mission of BGK and its pillars

Mission of BGK

To support social and economic growth of Poland and support the public finance sector in the performance of its tasks

- To finance investments, export and enterprise development
- Infrastructure, construction and strategic projects
- European programmes
- Local governments
- Public finance

Efficient organization, processes, tools and engaged employees
In 2017, BGK defined a new strategy for the years 2017-2020. In line with the plan adopted by the Supervisory Board, the bank will expand its involvement in key measures set out in the Strategy for Responsible Growth. This way, the bank will contribute to the implementation of its priorities, i.e. a knowledge-based economic growth, sustainable social and territorial development, and an effective state.

Mission of the bank as regards the implementation of the Strategy for Responsible Growth (SRG)

Key priorities of the Strategy for Responsible Growth

- Economic growth based on knowledge and excellence
- Sustainable social and territorial growth
- System of Development Institutions - PFR Group
- Effective State

Activity of BGK in relation to the implementation of the SRG

- Reindustrialization financing
- Aid for innovation development
- Support for small and medium enterprises
- Foreign expansion and export financing
- Infrastructure investment financing
- Social economy
- Promoting equal opportunities
- Financing local government projects promoting regional socio-economic growth
- Effective use of EU funds and programmes
- Ensuring effective public finance management
ECONOMIC GROWTH

The BGK Capital Group is actively involved in financing reindustrialisation and infrastructure investments, supporting foreign expansion and export of Polish enterprises, ensuring systemic support for small and medium-sized enterprises, and aid in innovation development.

Reindustrialisation and infrastructure investment financing

The bank plans to increase its lending activity in the upcoming years, in particular by increasing the financing of enterprises, including by mobilising funds for financing infrastructure projects and by increasing the number of new projects in sectors of strategic and key importance to the country’s development. This activity will be supplemented by BGK product offer, e.g. an increase in intermediate funding.

The year 2018 will be another year of higher road and railway investment expenditures (up by nearly PLN 2 bn) (activity of flow funds).

Supporting foreign expansion and export of Polish enterprises

BGK plans to increase its involvement in financing foreign expansion and export of Polish enterprises. The bank follows its customers, Polish enterprises, to new markets, and expands its product offer, including by export letters of credit, factoring as well as hybrid guarantees and financing.

The BGK Capital Group also financially supports the expansion of Polish enterprises through the Foreign Expansion Fund Closed-End Private Equity Investment Fund. The Fund invests in projects related to the establishment of new or acquisition of existing companies outside the borders of the Republic of Poland together with Polish partners. The Group intends to invest approximately PLN 1 bn in the Fund by 2020.

Support for small and medium-sized enterprises

The bank continues de minimis guarantee programme and uses EU funds to decrease the competitive gap in the small and medium-sized enterprises sector.

Aid for innovation development

BGK implements financial instruments to support innovation. This is carried out by way of fund management. The operations under the Operational Programme Smart Growth 2014-2020 are presented below:

- Investments in innovative start-ups - Starter;
- Business angels’ group investments in SMEs - Biznest;
- Competitive Nationwide Fund of Innovative Funds;
- Open innovation - support for technology transfer.

In the near future, BGK will work on the implementation of guarantees with the EIF counter-guarantee for the creative sector. This will make it possible to utilise the funds under the “Creative Europe” EU programme.

Additionally, BGK, in cooperation with the Ministry of Science and Higher Education, is working on the establishment of a research and development fund. The final scale of investments is estimated at PLN 500 mn.
BGK actively supports the key project of the Strategy for Responsible Development: striving after a sustainable socio-economic growth. To this end, it is involved in social economy and equal opportunity initiatives and finances local government projects.

BGK intends to continue dedicated government programmes (cash flow fund operations and debt financing in the area of social rental housing) and to increase the availability of flats for young families and people with relatively lower income.

The Group also plans to develop its investment activity for funds managed by BGK Nieruchomości.

In addition, the bank will expand its activities under social economy programmes and those that boost activity on the labour market.

As for the local government segment, BGK intends to mainly finance projects promoting a regional socio-economic growth. The bank assumes that in the near future the financing of small infrastructure and regeneration projects will double, with consideration of European programmes and investment projects.
Effective use of EU funds and programmes

The bank will actively engage in actions to improve the scale of financing (with support for infrastructure projects from the EFSI) of the Investment Plan for Europe (the so-called Juncker Plan). The cooperation will take the form of bridge financing, participation of BGK in syndicated financing, acquisition of funds to finance BGK programmes or counter-guarantees for credit risk.

Ensuring effective public finance management

BGK will attempt to maintain its operations at a high quality or aim to achieve operating excellence in public finance sector management and distribution of EU funds.

Cooperation with Polish development institutions

The New Branch Model project was carried out in 2018. The branches were transformed into regional centres where (in addition to products offered by BGK), potential partners will be able to obtain support from an entire variety of products and information on the entire range of solutions offered by Polish development institutions.

Cultural transformation

Development directions defined in that way require major investments to raise the operating efficiency and deep changes in the organisational culture of the bank and BGK Capital Group. Operating excellence is one of four main pillars of the strategy of BGK for the years 2017-2020. That is why for the year 2018, and for the years to follow, the bank is expected to undertake more activities towards an increase in efficiency through optimisation, electronisation of processes, and higher staff engagement.

The plan for the year 2018 provides for increasing the number of projects from several to several dozen and over a threefold increase of the budget for project costs and investment expenditures.

The year 2018 will be the first full year of a substantial transformation of the organisational culture that promotes professionalism, partnership and engagement. The change of organisational culture will be a key element of implementing the strategy of BGK and enable the introduction of many necessary changes and strategic investments.
Employees

Whether an organisation is successful or not is determined by the quality of its staff. Therefore, BGK employs the best employees and provides a friendly working environment focused on continuous development.

The bank holds employees' opinion on the organisation in high esteem because they are the ones that know best and are the first ones to identify potential problems. In order to be able to continuously update knowledge on its role as an employer, the bank conducts surveys of its staff on a regular basis.

CULTURAL TRANSFORMATION

The bank also undertook a number of activities related to the organisational culture that better prepare employees to effectively perform its mission and multi-annual strategy. The basis for the implementation of effective communication as well as process-based and project-based management is the ongoing cultural transformation. It aims at promotion of a sense of responsibility as well as managerial and business maturity. The resulting increase in the involvement of the employees will make it possible to effectively and efficiently implement measures defined in BGK's strategy on an operational level.
As at the end of 2017, employment in the BGK Capital Group amounted to 1,531 FTEs, i.e. increased in comparison with 2016 by 127 FTEs (8.3%). The growth in FTEs was observed mainly in the European Funds Division: IT Division, Finance and Markets Division, HR and Communication Division, and Product Management Division.

The bank’s remuneration system consists of fixed and variable remuneration elements:
- basic salary,
- bonuses and rewards.

Moreover, the bank offers its employees numerous additional benefits, such as growth packages (sub-financing of English lessons and post-graduate studies), healthcare, life insurance, Employee Pension Fund, and sports and recreation services.

The BGK remuneration policy meets legal requirements and compliance principles as well as external guidelines and regulations which BGK is obligated to follow.
EMPLOYEE DEVELOPMENT

In 2017, the bank allowed its employees to take part in major development projects, trainings, both closed (external and internal) and open ones, learn new languages, and take up studies.

Most development initiatives took the form of closed training courses which allow to tailor the training programme to the bank’s needs, train a higher number of people and ensure a more efficient use of funds. The purpose of training courses was to expand knowledge in current tasks and develop employees’ skills aligned with the general development strategy of the bank. Some of the training sessions, mainly for the Risk and Sales Division employees, were financed under EIB grants.

Managers participated in a number of development initiatives, i.e. GRID programme, Aware Leadership, Maxwell’s Academy, Manager’s Handbook, and Manager’s ABCs.

Employees on expert positions participated in a number of general development training courses, i.e. negotiations in business, assertiveness, dealing with stress, public speaking, and the 7 habits of highly effective people.
Determinants of BGK’s activities in 2017

Macroeconomic conditions
DOMESTIC ECONOMY

Faster growth rate in Poland

The year 2017 brought about a sharp increase in the economic growth rate in Poland. The GDP growth rate increased from 2.8% in 2016 to 4.6% in 2017 and was the highest recorded since 2011. The annual growth rate continued to accelerate in subsequent quarters of the year, reaching the level of 5.1% in the last quarter, i.e. the highest level recorded since 2011. Importantly enough, the high growth rate was more sustainable than in the previous year.

Household consumption continued to have the biggest contribution to GDP growth, with a clear rebound of investments recorded in the second half of the year. The growth in investments was the result of optimism exhibited by enterprises, high utilisation of production capacities, and faster implementation of projects co-financed from EU funds. Good consumption moods were attributable to the improved condition of the labour market which was reflected in the lowest unemployment rate since the 90s and a fast increase in real wages.

Household satisfaction was reflected in all-time high leading economic indicators. Simultaneous increase in investments and faster consumption translated into a high import growth rate. At the same time, due to the improved economic situation of major counterparties (including in the Eurozone), export grew at a fast rate. The combination of these factors resulting in a neutral contribution of trade with the rest of the world to GDP growth. It is important to note the first positive annual current account balance in history, which demonstrates better balance in relations with the rest of the world. A large surplus in the trade in services was instrumental in achieving that positive result.
Better balance could also be observed in public finance, despite an increase in expenditures. In 2017, the budget deficit to GDP ratio went down to approximately 1.5%. Budgetary income grew at a fast rate. This was partially due to the improved economic climate, including higher consumption facilitating higher inflows from indirect taxes (VAT, excise duty). Incomes from direct taxes (PIT and CIT) also increased owing to the fast growth rate of remunerations and better financial results recorded by enterprises. In addition, as a result of improved condition of the labour market, the needs of the Social Insurance Fund have declined. Higher inflows were also attributable to legislative changes that increased the effectiveness of tax collection. The VAT gap was significantly reduced, with the effectiveness of excise duty collection being on an increase. The improved budgetary situation also had a significant impact on the situation on the domestic debt market. It resulted in lower borrowing needs, which in turn facilitated lower yields on bonds. The good budgetary situation allowed to make Polish debt prices resistant to turbulence on base markets.

The acceleration in GDP growth rate was accompanied by the stabilisation of the National Bank of Poland (NBP) reference rate at the lowest level in history (1.5%). Monetary authorities did not make the decision to tighten the policy, mainly due to the insufficient force of inflationary processes. Despite the fact that the CPI (prices of consumer goods and services) ratio continued to grow in recent years, it remained below the target set by the Monetary Policy Council. At the same time, NBP forecasts indicate that there is a low probability that the annual CPI will exceed the permissible range of deviations from the inflation target (1.5-3.5%). So far, the high growth rate in wages did not have a strong impact on the price pressure due to an increase in productivity. In addition, a factor to which the Council may pay attention is the issue of currency exchange rates. Reference rate increases could increase the risk of excessive appreciation of Polish zloty. The national currency appreciated in 2017 due to the improved economic situation, both domestically and abroad. The appreciation of Polish zloty was significant primarily in relation to USD (over 15%), but lower in relation to EUR (nearly 5%). In effect, at the end of 2017, the EUR/PLN exchange rate amounted to 4.18, whereas the USD/PLN exchange rate amounted to 3.48.
Year 2017 was a period of improvement in global economy. This also applied to the American economy, the most important macroeconomic parameters of which returned to pre-crisis levels. The labour market situation continued to be very good, stimulating internal demand that contributed to the rising inflationary pressure. In such conditions, American monetary authorities decided to normalise the monetary policy. They raised interest rates three times and made the decision to start the process of reducing the Federal Reserve (Fed) balance, which became inflated after years of quantitative easing. Looser fiscal policy of the new administration of the USA, including tax reductions, were also conducive to faster tightening of monetary policy.

The condition of the eurozone also continued to gradually improve. It is important to note that the improved results also include eurozone’s peripheral economies. The growth was based on the combination of internal demand and increasingly faster growth in employment. However, the economic recovery in the eurozone was not strong enough to be a source of concern for the European Central Bank regarding an excessive rise in inflation. In effect, not much was done to shift away from the ultra-loose monetary policy. Caution in this regard was also encouraged by uncertainty that accompanied global economic growth. It is necessary to mention the problems of major emerging economies, including the Chinese economy, the risk associated with protectionist actions that weaken global trade and uncertainty as to the future shape of relations between the EU and Great Britain.
Implementation of the strategy

The year 2017 was manifested by activities in operational and cultural areas which prepared the BGK Capital Group for the implementation of the multi-annual strategy for the years 2017-2020. BGK is focused on initiating and implementing tasks that promote general economic growth and development of enterprises. It finances infrastructural projects, provides sureties and guarantees as well as manages numerous programmes aimed at improving the situation on the real estate market. Based on one of its core values, i.e. cooperation, it establishes relations with other financial institutions.
In 2017, BGK’s credit exposure total exceeded PLN 41 bn. The increase amounted to nearly PLN 2.3 bn, mainly due to increased lending in the area of financing enterprises, export, foreign expansion, and healthcare entities.

Year by year, BGK has been increasing its exposure to export credit granted both under “Finansowe Wsparanie Eksportu” (Financial Support for Exports) Government Programme and as part of the bank’s own activities. The amount of export and foreign expansion financing provided by BGK in 2017 totalled PLN 1.8 bn. BGK supported over foreign 200 projects of Polish enterprises, including (but not limited to): the construction of a hotel in Great Britain, a sports and logistics centre in Belarus, the sale of mining machinery to Russia, the sale of aircraft to Germany.

At the end of 2017, the bank supported transactions and projects of Polish-based enterprises in 52 countries on 6 continents.

Guarantees and sureties are granted to entrepreneurs as a form of support and constitute a major part of BGK activities. In 2017 alone, they were used by over 15.3 thousand companies. In total in the previous year, the guarantees and sureties granted by the bank allowed the borrowers to take out loans totalling PLN 18.5 bn.

In 2017, BGK signed an annex to the COSME agreement with the European Investment Fund, which doubled the maximum volume of the guarantee portfolio that raised from PLN 0.8 bn to PLN 1.6 bn. This will allow to secure lending activity for the SME sector up to PLN 2 bn.

As a result of intensive activities pertaining to the implementation of the EFSI, BGK signed two contracts with the European Investment Bank. The first one provides for the construction of the Łagiewnicka route, with the second one concerning commercial loans from the new cooperation platform intended for financing social housing associations. Owing to the signed agreement, the value of the portfolio of transactions financing such undertakings may amount to even PLN 1.6 bn.

**EFIS**
(European Fund for Strategic Investments)
- a financial pillar of the Investment Plan for Europe, commonly known as the Juncker Plan.
In 2017, the bank was highly involved in activities aimed at improving the quality of life of Poles through private investments and those implemented by local government units. The bank took part in, inter alia, transport streamlining projects (e.g. for the acquisition of city buses in Toruń, Tomaszów Mazowiecki, and Sosnowiec), regeneration projects (e.g. the Silesian Museum in Katowice, the Branicki Residential House in Warsaw), and operations aimed at improving the quality of air (e.g. the acquisition of hybrid buses in Głogów, the construction of bike stations in Warsaw, Poznań, and Łódź).

The bank proceeded with Housing Development operations - both through government programmes, including the Subsidy Fund, as well as investing operations.

In 2017, BGK participated in meetings with associations of investors from the social rental housing (SRH= segment and continued a series of regional conferences intended for local government units (LGE) and the investors they partner with. The BGK Capital Group organised 4 conferences for local government units (in Kielce, Toruń, Poznań, and Wrocław). The topic of these conferences was the financing of local government investments in housing by the BGK Capital Group. At 85 meetings organised all across Poland, bank’s employees presented a refundable financing offer.

In 2017, BGK granted 40 loans in the amount totalling PLN 170.7 mn from funds acquired at the EIB and own funds. They were earmarked for the development of social rental housing. Loans were granted for the construction of 1,631 flats on the basis of initial applications submitted in editions 2016-2017. In 2017, a total of 629 flats were commissioned.

In the 3rd edition of the social rental housing programme, completed in 2017, BGK accepted applications for a total of PLN 259 mn. This will give rise to new 2,155 real estate units. The Thermomodernisation and Repair Fund, which belongs to the bank, has improved the technical condition of over 67 thousand residential premises.

BGK offers construction loans on commercial terms or the arrangement of bond issues for social housing associations or municipal enterprises. In 2017, BGK granted 9 construction loans totalling PLN 40 mn in relation to the construction of 548 flats. The bank also organised and secured 2 bond issues in the amount of PLN 12 mn, intended to finance the construction of 134 affordable rental flats.
EUROPEAN PROGRAMMES

BGK is also actively involved in European programmes (also at a national level) as well as regional operational programmes.

2017 will be the first year of implementation of the European programmes under the new EU Perspective 2014-2020. The funds supporting economic development, managed by the bank, will reach a total of PLN 9 bn vs. PLN 2 bn of funds employed in the Financial Perspective 2007-2013.

By entering into financing contracts, BGK increased its scale of operations by the end of December 2017 from 6 to 15 provinces.

<table>
<thead>
<tr>
<th>Voivodeship</th>
<th>Allocation (in PLN mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>dolnośląskie</td>
<td>756.1</td>
</tr>
<tr>
<td>kujawsko-pomorskie</td>
<td>2471</td>
</tr>
<tr>
<td>lubelskie</td>
<td>425.9</td>
</tr>
<tr>
<td>lubuskie</td>
<td>302.4</td>
</tr>
<tr>
<td>łódzkie</td>
<td>671.6</td>
</tr>
<tr>
<td>małopolskie</td>
<td>599.3</td>
</tr>
<tr>
<td>mazowieckie</td>
<td>282.2</td>
</tr>
<tr>
<td>opolskie</td>
<td>336.3</td>
</tr>
<tr>
<td>podkarpackie</td>
<td>2571</td>
</tr>
<tr>
<td>podlaskie</td>
<td>267.0</td>
</tr>
<tr>
<td>pomorskie</td>
<td>429.9</td>
</tr>
<tr>
<td>świętokrzyskie</td>
<td>285.6</td>
</tr>
<tr>
<td>warmińsko-mazurskie</td>
<td>298.9</td>
</tr>
<tr>
<td>wielkopolskie</td>
<td>944.2</td>
</tr>
<tr>
<td>zachodniopomorskie</td>
<td>468.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,571.7</strong></td>
</tr>
</tbody>
</table>
An important element in the implementation of the new perspective is innovation support. This is supported by, inter alia, Smart Growth 2014-2020 which constitutes support for the SME. Enterprises that place innovative products or services on the market may apply for a technological grant of up to PLN 6 mn.

In 2017, BGK carried out and completed two calls for applications for co-financing (an instrument called ‘Loan for Technological Innovations’). The projects submitted by Polish micro-, small-, and medium-sized enterprises were co-financed by a total of PLN 770 mn. The funds entrusted to the bank for that purpose total approximately PLN 2 bn.

REGIONAL BUSINESS CENTRES

Part of the new strategy, accepted in 2017, involves the transformation of bank’s branches into BGK Regions. They will support the financial ecosystem of local entrepreneurs and local government units. BGK will be a regional ambassador of state development institutions in all of the 16 provinces. BGK Regions will serve as competence centres in which customers will learn about possibilities of support as well as solutions offered by state development institutions.
The BGK Capital Group places particular emphasis on the development of corporate social responsibility. The bank pays special attention to social responsibility initiatives and takes actions to improve the living conditions of local communities. The most important initiatives to support the social development of the country undertaken by the bank in 2017 include:

- sharing knowledge and experience;
- promoting equal opportunities;
- building social capital;
- promoting volunteer projects.

In 2017, bank representatives shared their unique knowledge and experience at over 100 events, conferences, and seminars addressed to private enterprises, local government units and individuals planning to start a business. They were in total participated by over 250 thousand people.
Chapter III: Summary of financial results
In 2017, the BGK Capital Group for the first time prepared consolidated financial statements in line with the International Financial Reporting Standards.
The balance sheet total reported in the BGK Statement of Financial Position as at the end of 2017 was PLN 74.3 bn. With 48%, debt securities represented the biggest share in the asset structure and their carrying amount totalled PLN 35.8 bn as at the end of the year. Approximately 60% of that portfolio was represented by NBP (money market) bills and nearly 26% by Treasury bonds. As compared to the previous year, the share of debt securities in the asset structure rose by 2 pp.

The asset structure was characterised by high liquidity and a significant share of securities issued by the National Bank of Poland (NBP) and the State Treasury.

### Asset structure of the BGK Capital Group

#### 2017

- Cash, transactions with the Central Bank and Nostro accounts: 3%
- Interbank deposits: 37%
- Net loans: 3%
- Receivables due to reverse repo and buy-sell-back transactions: 48%
- Debt securities: 4%
- Stocks and shares: 1%
- Other: 2%

#### 2016

- Cash, transactions with the Central Bank and Nostro accounts: 2%
- Interbank deposits: 38%
- Net loans: 6%
- Receivables due to reverse repo and buy-sell-back transactions: 46%
- Debt securities: 2%
- Stocks and shares: 3%
- Other: 1%

#### 2015

- Cash, transactions with the Central Bank and Nostro accounts: 13%
- Interbank deposits: 48%
- Net loans: 3%
- Receivables due to reverse repo and buy-sell-back transactions: 31%
- Debt securities: 1%
- Stocks and shares: 3%
Net loans comprised 37% of the structure, with the carrying amount as at the end of December 2017 amounting to PLN 27.8 bn. Due to the increase of the balance sheet total resulting from capital injections and generated profit, the share of net loans fell by 1 pp.

The value of shares as at the end of 2017 rose by PLN 877.1 mn compared to 2016 and totalled PLN 2.33 bn, which represents approx. 3% of the balance sheet total. That increase was attributable primarily to an increase of PLN 420.8 mn in investments and valuation in affiliates as well as an increase of PLN 396 mn in the valuation of PKO BP S.A. shares.

Changes in the remaining items recognised under assets of the BGK Capital Group were attributable mainly to the management of the liquidity position of the BGK as well as changes in prepayments and accruals and settlements.
Key items of the bank’s balance sheet – liabilities

Customer deposits had the biggest share in the structure of equity and liabilities of the BGK Capital Group, i.e. 46% as at the end of December 2017. The value of deposits as at the end of the year totalled PLN 34 bn, i.e. went down by PLN 3.5 bn in relation to the previous year.

The higher balance sheet total was attributable primarily to the capital injection of PLN 6.3 bn received by Bank Gospodarstwa Krajowego and profit of PLN 584.4 mn generated in 2017. The share of total equity of the BGK Capital Group in the structure of equity and liabilities rose by 8 pp to 27%.

Structure of liabilities of the BGK Capital Group

| 2017 | 46% | 4% | 8% | 10% | 27% | 4% |
| 2016 | 56% | 5% | 9% | 9% | 19% | 2% |
| 2015 | 46% | 6% | 13% | 7% | 23% | 2% |

- Interbank deposits
- Deposits from customers
- Loans received
- Liabilities due to debt securities issued
- Liabilities due to repo and sell-buy-back transactions
- Total equity
- Other
Changes in the remaining items recognised under liabilities of the BGK Capital Group were attributable mainly to the management of the liquidity position of the bank. With capital totalling PLN 20 bn, the BGK Capital Group has a significant potential to increase its exposure in lending activity and increase its investment activity by investing funds in fund deposits, housing development, supporting the economic growth of Poland in such areas as reindustrialisation and infrastructure investments, and supporting the foreign expansion of Polish enterprises.
## Profit and loss account

### Consolidated profit and loss account (PLN mn)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>1,826.2</td>
<td>1,510.6</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-1,050.1</td>
<td>-859.1</td>
</tr>
<tr>
<td>Interest income</td>
<td>776.1</td>
<td>651.6</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>167.9</td>
<td>131.0</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>-11.3</td>
<td>-10.9</td>
</tr>
<tr>
<td>Net fee and commission</td>
<td>156.6</td>
<td>120.1</td>
</tr>
<tr>
<td>Gain/loss on financial instruments measured at fair value through profit or loss</td>
<td>26.2</td>
<td>54.6</td>
</tr>
<tr>
<td>Gain/loss on investments in financial assets</td>
<td>30.6</td>
<td>24.9</td>
</tr>
<tr>
<td>Net banking income</td>
<td>989.5</td>
<td>851.1</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>102.4</td>
<td>75.1</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>-29.7</td>
<td>-9.4</td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>-394</td>
<td>-354.8</td>
</tr>
<tr>
<td>Net impairment losses and provisions</td>
<td>-49.6</td>
<td>-242.8</td>
</tr>
<tr>
<td>Profit on operating activities</td>
<td>618.5</td>
<td>319.2</td>
</tr>
<tr>
<td>Share of profit or loss of associates</td>
<td>72.0</td>
<td>-55.7</td>
</tr>
<tr>
<td>Gross profit</td>
<td>690.5</td>
<td>263.5</td>
</tr>
<tr>
<td>Income tax</td>
<td>-106</td>
<td>-6.4</td>
</tr>
<tr>
<td>Net profit</td>
<td>584.4</td>
<td>257.0</td>
</tr>
<tr>
<td>Net profit attributable to the owner of the parent</td>
<td>584.6</td>
<td>257.0</td>
</tr>
<tr>
<td>Net profit/loss per non-controlling interest</td>
<td>-126</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Operating expenses, depreciation and amortisation

Operating expenses, depreciation and amortisation of the BGK Capital Group in 2017 totalled PLN 394 mn and were PLN 39.3 mn higher when compared to 2016. The increase was attributable mainly to higher operating expenses of consolidated entities (which went up by PLN 29.9 mn), especially operating expenses of BGK TFI and BGK Nieruchomości. It was related to the greater scale of activity and preparations made by companies to implement new investments, in particular housing programmes.

Operating expenses, depreciation and amortisation (PLN mn)

<table>
<thead>
<tr>
<th>Item</th>
<th>Performance</th>
<th>Change versus 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses, depreciation and amortisation*</td>
<td>311.5</td>
<td>320.9</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>186.1</td>
<td>216.4</td>
</tr>
<tr>
<td>Material costs</td>
<td>65.0</td>
<td>76.8</td>
</tr>
<tr>
<td>Payments to BGF, PFSA and the Financial Ombudsman</td>
<td>30.6</td>
<td>5.0</td>
</tr>
<tr>
<td>including: Contributions and payments to the Bank Guarantee Fund</td>
<td>27.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>29.8</td>
<td>22.7</td>
</tr>
</tbody>
</table>

* including: costs of EU programmes (new perspective) in the year 2017 – PLN 15.5 mn
Volume and composition of the bank’s loan portfolio

In 2017, the most considerable growth was observed by Bank Gospodarstwa Krajowego in the non-financial sector. This was attributable mainly to the financing of enterprises. The volume of loans granted to public sector entities, including mainly to local government entities, grew as well.

### Volume and composition of the BGK loan portfolio in nominal terms (PLN mn)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans in nominal terms</td>
<td>27,352.4</td>
<td>100%</td>
<td>29,720.4</td>
<td>100%</td>
<td>2,368.1</td>
</tr>
<tr>
<td>financial sector entities</td>
<td>854.4</td>
<td>3.10%</td>
<td>832.3</td>
<td>2.80%</td>
<td>-22.2</td>
</tr>
<tr>
<td>non-financial sector entities</td>
<td>20,913</td>
<td>76.50%</td>
<td>22,833.6</td>
<td>76.80%</td>
<td>1,920.5</td>
</tr>
<tr>
<td>natural persons</td>
<td>58.4</td>
<td>0.20%</td>
<td>45.7</td>
<td>0.20%</td>
<td>-12.7</td>
</tr>
<tr>
<td>businesses</td>
<td>20,854.6</td>
<td>76.20%</td>
<td>22,787.9</td>
<td>76.70%</td>
<td>1,933.3</td>
</tr>
<tr>
<td>budget sector entities</td>
<td>5,584.9</td>
<td>20.40%</td>
<td>6,054.6</td>
<td>20.40%</td>
<td>469.7</td>
</tr>
<tr>
<td>central budget entities</td>
<td>246.6</td>
<td>0.90%</td>
<td>317.5</td>
<td>1.10%</td>
<td>70.9</td>
</tr>
<tr>
<td>local government entities</td>
<td>5,338.3</td>
<td>19.50%</td>
<td>5,737.1</td>
<td>19.30%</td>
<td>398.8</td>
</tr>
</tbody>
</table>
As at the end of 2017, the bank’s share in the loan market was slightly higher than in the previous year and amounted to 2.7%. The increase was mainly driven by the implementation of the bank’s strategy with respect to the funding of investments and corporate growth. The bank organised financing primarily through co-participation in consortia with commercial banks. As of 2009, BGK no longer grants loans to natural persons.

<table>
<thead>
<tr>
<th>Item</th>
<th>Performance</th>
<th>Change versus 2016 in pp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credits</td>
<td>2.60%</td>
<td>2.70%</td>
</tr>
<tr>
<td>financial sector entities</td>
<td>1.50%</td>
<td>1.30%</td>
</tr>
<tr>
<td>businesses</td>
<td>4.90%</td>
<td>5.10%</td>
</tr>
<tr>
<td>natural persons</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>central budget entities</td>
<td>25.30%</td>
<td>31.80%</td>
</tr>
<tr>
<td>local government entities</td>
<td>16.80%</td>
<td>19.20%</td>
</tr>
</tbody>
</table>

Source: National Bank of Poland (NBP) data and own calculations
Chapter IV: Risk management
Credit management and assessment

Risk is an integral part of every business. We undertake a number of activities aimed at preventing risks from taking place and reducing their impact. BGK has developed a sophisticated risk management system and monitors it based on knowledge and experience of its employees.
The risk management system in place at BGK is organised on three independent levels.

1. The first line of defence
   - Risk management in operating activities of BGK

2. The second line of defence
   - Risk management by employees at positions or in organisational units established specifically for that purpose (independent from risk management under the first line of defence) and the compliance function.

3. The third line of defence
   - Activities undertaken by the Internal Audit Department
The risk management system in place at BGK includes the following tasks:

- **Identification of risks and specification of their types, sources (risk factors), significance and relationships between individual types of risk.**
- **Risk measurement or assessment**, which comprises the determination and enforcement of risk quantification methods and stress test performance.
- **Risk control**, which comprises the determination and enforcement of risk control mechanisms (including limit systems, ensuring independence between first-level risk management and second-level risk management, insurance, risk transfer, financing plans).
- **Risk monitoring**, which comprises the monitoring of risk levels, review of relevance and accuracy of the applied risk assessment methods and the evaluation of efficiency of the tools used.
- **Risk reporting**, which comprises information on the risk profile, identification of possible threats, and information on the measures adopted.
The internal objective of risk management at BGK is to maintain stability and security of operations as well as to maintain the high quality of assets and achieve the anticipated financial result within an acceptable risk level.

In 2017, BGK expanded its risk management system and carried out work aimed to ensure compliance with regulatory requirements, including to the regulation of the Minister of Development and Finance on risk management.

The bank adopted the “Strategy for Risk Management at BGK”, which covers all identified risks to which BGK is exposed as part of its activities. The document also defined the general acceptable level of risk, whereas acceptable risk levels in relation to specific risks have been specified in risk management policies applicable to particular risks.

The Strategy also defined the principles of risk culture. The Management Board of the bank promotes among its employees awareness of the meaning of risk inherent in operations carried out by the bank, the rules for which this risk is taken, along with risk management. Next, these practices cascade down to individual levels the organisational structure of BGK and to subsidiaries.
ORGANISATION OF THE CREDIT AND CONCENTRATION RISK MANAGEMENT PROCESS

Credit risk is the most important element of financial risk to which the bank is exposed. The bank uses a credit risk management process that comprises risk identification, measurement and assessment, control, monitoring and reporting to identify credit risk and mitigate it to an acceptable level, and for the purposes of controlling the effectiveness of actions taken on a continuous basis.

Credit risk management is carried out at two levels:
- customer risk accounting for an individual credit exposure.
- loan portfolio risk.

The bank identifies and assesses the existing credit risk based on:
- the implementation of internal procedures enabling the assessment of creditworthiness for individual borrowers and classification of credit exposures into relevant risk groups.
- the results of control and monitoring measures taken with regard to asset items managed by the organisational units of BGK.

The bank applies a prudential approach to the credit risk management process. Key characteristics of the current risk management system are:
- the separation of sales functions from customer risk assessment at both branch and Head Office levels of BGK.
- comprehensive individual credit risk assessment for all customers and transactions, so as to assign them to a specific credit risk category.
- the application of expert and statistical methods for measuring credit risk arising from an individual transaction of customer, supporting the estimation of the probability that the customer will default on their obligation towards the bank, and when the customer has problems with repaying their debt – measuring the impairment of granted credit exposures.
- a system for measuring portfolio risk by assessing its concentration by industry, entity and type of product.
- a system of decision-making competencies.
- periodic verification of the risk of past transactions, taking into consideration the developments concerning the financial standing of borrowers and the environment.
- diversification of industry sectors, borrowers and types of loans, within the resource exposure limits set out by the bank.
- the determination of impairment losses and provisions for credit exposures.
- the analysis and verification of valuation principles related to loan collaterals.
- a system for monitoring exposures and their collaterals that allows for early threat identification.

The system of limits constitutes one of the basic tools for credit risk management at BGK. Limits are established at both operational and strategic levels in line with relevant responsibilities:
- industry limits that reflect the risk stemming from the type of activity of the customer.
- objective limits, resulting from the risk borne by the purpose of the loan.
- subjective limits, defined depending on the customer type.
- product limits.
One of the most important credit risk factors is concentration risk. At BGK, it is monitored in line with the provisions of the Banking Law and the resolutions and recommendations of the Polish Financial Supervision Authority, the Act on Bank Gospodarstwa Krajowego and the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. In accordance with the resolution of the Management Board, irrespective of statutory concentration limits, BGK has additional exposure limits applicable at the stage of making financial decisions.

The risk monitoring process consists in periodic reviews of the parameter levels which are subject to limits in addition to analysing the utilisation of those limits. The bank drafts regular credit risk and concentration risk reports presented to the Credit Committee of the bank, the Management Board, and in semi-annual periods also to the Supervisory Board.

The bank has in place procedures that specify the rules to be followed in the event of an increased level of credit risk.
OVERVIEW OF KEY CREDIT AND CONCENTRATION RISKS

Credit risk is defined as risk that a borrower will default on their contractual obligations, i.e. fail to repay amounts due under credit exposure along with the bank’s fee, either in whole or in part, within time limits defined in the agreement.

The bank mitigates credit risk at the micro level by assessing and monitoring individual customers and transactions, and at the macro level - for the entire portfolio - by establishing limits for the various segments and products.

Although the credit risk is uniform in nature, it is possible to distinguish several of its subtypes.

Debt concentration risk

Debt concentration risk is an important aspect of credit risk. The bank has introduced relevant principles and procedures applied to exposure concentration, with particular focus on large exposures to individual customers and customer groups. Portfolio concentration is monitored at the level of individual borrowers, entities with equity or organisational relationships, industries etc. The exposure concentration policies address different areas of the bank’s operations (not only lending but also investing activities or money market transactions).

Risk of partial or total default

The risk of default is a situation where a customer fails to meet the contractual repayment deadlines or no payments are made. The materialisation of that risk is associated with an increase in costs related to the need to make loss allowances which, in the case of total non-payment, turn into a loss incurred.

The bank mitigates the risk of default by:

- assessing a customer’s credit rating based on financial models, including predictive models based on which the customer is assigned a credit rating adequate to the level of associated risk.
- periodically monitoring a customer’s economic and financial situation.
Collateral risk

Collateral risk occurs when taken collateral of a credit exposure is inadequate to the financing granted or when the value of the collateral fluctuates significantly.

Collateral risk is mitigated by:

- collateral policy adopted by a resolution of the Management Board, which sets the boundary conditions of collateral’s adequacy for a particular type of exposure, customer, and collateral;
- monitoring the value of collateral, in particular mortgages, through a periodic verification of property valuation,
- stress tests, including simulations of changes in the value of collaterals.

Interest rate risk and foreign exchange risk

Interest rate risk and foreign exchange risk are associated with the risk of default because the rise in the former considerably increases the probability of the latter. This risk causes increased payments due from a customer due to the increase in interest rates or negative change in currency exchange rates, which results in higher instalment commitments.

The bank mitigates interest rate risk and foreign exchange risk by:

- applying appropriate procedures for financing in foreign currencies, in particular when verifying the repayment sources of the bank’s receivables,
- stress tests, including, but not limited to, simulations of interest rate and foreign exchange rate fluctuations and their impact on the customer’s creditworthiness.
ORGANISATION OF THE FINANCIAL RISK MANAGEMENT PROCESS

The financial risk monitoring system functioning at the bank supports risk management in all key areas. For each identified risk, procedures have been implemented to describe the authority and responsibilities of the bank’s individual units involved in the risk monitoring process as well as the process itself and the methodologies used.

The system of financial risk measurement used at BGK includes, in particular, the following approaches and tools:

- liquidity ratios, liquidity gap analysis, fund stability analyses, and daily monitoring of the deposit base - applied in relation to the liquidity risk,
- measure of position volumes (inter alia foreign exchange position volume, interest rate gap) - concerning foreign exchange and interest rate risk, and sensitivity measures used for detailed analyses (BPV, duration, sensitivity of interest income to interest rate fluctuations) - applied to examine an interest rate risk,
- Value at Risk (VaR) - applied as part of market risk assessment,
- capital adequacy ratios - arising from external regulations and adjusting the volume of own funds to the level and nature of risks the bank is taking on, including, inter alia, the size and structure of risk-weighted assets,
- leverage ratios - applied to specify excessive leverage risk,
- stress tests - applied to specify the financial risk.

The system of limits is the main financial risk management tool at BGK. They are applied:

- for specification of liquidity risk - limits and threshold values of liquidity ratios,
- for specification of interest rate risk - sensitivity limits, position limits and loss limits,
- for specification of foreign exchange risk - position limits and loss limits,
- for specification of capital adequacy - capital adequacy limits and capital limits in the particular types of activity,
- for specification of excessive leverage risk - internal limits for regulatory leverage ratio.

Risk monitoring consists in a periodic control of limited parameter levels and an analysis of limit utilisation. Financial risk reports are submitted to the Finance Committee, the Management Board, the Risk Committee as well as to the Supervisory Board. Procedures additionally specify the rules to be followed in the event of an increased level of financial risk.
OVERVIEW OF KEY FINANCIAL RISKS

Liquidity risk

Liquidity risk is a risk of losing the ability to pay liabilities in a timely manner as a result of unfavourable changes in assets and liabilities, off-balance-sheet transactions, improper timing of current cash flows, and possible losses resulting from the foregoing.

The purpose of liquidity risk management is to:

- ensure and maintain the bank’s ability to meet its current and future (planned) liabilities, taking account of liquidity costs and return on equity.
- prevent contingencies.
- define business continuity solutions for potential crisis.

Liquidity risk level is presented in regular liquidity reports including, in particular, information on the utilisation of regulatory and internal liquidity limits, the stability of external funding and stress tests results as well as additional analyses concerning, inter alia, long-term liquidity.

Quarterly reports also contain an assessment of the size and profile of the bank’s liquidity risk related to the operations of its subsidiaries. In 2017, cash flows generated by subsidiaries were insignificant from the perspective of the liquidity of BGK.

The bank controls liquidity risk using a system of limits and liquidity ratio thresholds. The limit system includes current, short-term, mid-term and long-term liquidity.

In 2017, BGK developed its liquidity risk management, including by changing and adding new risk ratios. Moreover, the bank adjusted its liquidity risk management principles to new accounting principles that take into account the International Financial Reporting Standards.

BGK’s liquidity status remained at a safe level throughout 2017. Supervisory liquidity measurements defined in PFSA’s resolution no. 386/2008 of 17 December 2008 on defining liquidity norms binding for banks (as amended) and in Commission Delegated Regulation No. 2015/61 (EU) of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (OJ L 11, 17.01.2015, p. 1) and internal liquidity standards were not breached.

A change in the liquidity measures was mainly driven by expansion of lending operations pursued by BGK and an increase in equity investments.
Market risk

Market risk is understood as a risk of possible deterioration in the value of the bank’s financial instruments portfolio or its financial result as a consequence of unfavourable changes in market parameters (exchange rates, interest rates, prices of debt instruments and capital instruments).

Market risk management objectives:
- for interest rate risk (including the price risk of debt securities) – to reduce the risk of losing a part of the interest income as a result of a change in market interest rates and the risk of an unfavourable change in the market value of the interest-bearing financial instruments held by the bank.
- for foreign exchange risk - to mitigate the risk of losses that may be incurred as a result of changes in market foreign exchange rates.
- for equity price risk – to mitigate the risk of losses that may be incurred as a result of changes in equity instruments prices.

In 2017, the bank expanded the method for calculating the sensitivity of the bank’s economic value to changes in interest rates, introduced new stress test scenarios for estimating the risk of reduction in net interest income on the banking book (that provide for multi-directional changes in interest rates) and improved the procedure for back-testing VaR.

In 2017, BGK maintained the acceptable level of market risk approved by the Supervisory Board (risk appetite).

Interest rate risk

The bank monitored interest rate risk using:
- BPV limits for the trading book and the banking book;
- loss limits;
- limits for income risk in the banking book;
- other risk measures, such as VaR and duration.
The internal reporting system for interest rate risk includes, in particular, information on the utilisation of limits and the threshold values for interest rate risk, gains/losses on interest rate movements, measures (VaR, BPV, duration, modified duration), interest rate gap analysis, interest income sensitivity and results of stress tests.

In 2017, interest income risk over a period of 12 months remained at a moderate level. The exposure to interest rate risk was limited through the ongoing management of the liquid asset portfolio.

As at the end of the reporting period, BPV, VaR and interest income risk grew as a result of a capital injection received by the bank, including in particular an increase in the value of the debt securities portfolio.

**Foreign exchange risk**

In 2017, the level of the bank’s foreign exchange risk was considered low. The risk was measured in accordance with the applicable principles, including based on measurement of foreign exchange positions, VaR and foreign exchange gains or losses. The utilisation of internal limits was also constantly monitored with respect to currency position and loss.

Exchange rate risk reports include, in particular, information on the utilisation of exchange risk limits, results generated, VaR and stress test results.

The total foreign currency position as at 31 December 2017 amounted to PLN 131.1 mn, whereas VaR for that item totalled PLN 699.9 thousand.

**Equity price risk**

In 2017, the equity price risk at BGK was moderate. Compared to the year 2016, the share portfolio value grew by PLN 411 mn (in relation to the growing price of PKO BP S.A. shares over 2017 and a high volume of those shares in the BGKs portfolio). Moreover, the portfolio of investment certificates continued to grow as well.

Risk was measured in accordance with the applicable principles, mainly through measuring equity instruments portfolio and VaR. As at 31 December 2017, VaR with regard to the equity instruments portfolio amounted to PLN 37.7 mn.
ORGANISATION OF THE OPERATIONAL RISK MANAGEMENT PROCESS

Operational risk is inherent in all major areas of operations pursued by BGK, including any new, existing and modified products, processes and systems, and it takes account of internal factors (such as the organisational structure, business profile, IT systems used, customer profile, customer complaints, HR quality, organisational changes and employee turnover) and external factors (external environment of the bank).

Operational risk management covers all branches/organisational units of the head office of BGK and subsidiaries supervised by appropriate organisational units of the bank’s head office in line with the Head Office Organisational Regulations and their responsibilities.

The bank manages operational risk through:

- the function of Operational Risk Coordinator,
- process-based approach to the assessment of business lines, increased risk products the risk posed by branches of BGK and organisational units of its head office,
- operational risk ratios.

An Operational Risk Committee operates in the bank, acting as an opinion-making and decision-making body, enabling the BGK Management Board to supervise and control the bank’s operational risk level, and to verify the efficiency of the system used for managing this type of risk.

Reporting of operational risk is based on the information entered into the application Operational Risk Registry by operational risk coordinators from all branches/organisational units of the head office of BGK and transferred from subsidiaries.

OVERVIEW OF OPERATIONAL RISK

The gross loss arising from operational risk events in 2017 amounted to PLN 54 thousand. Provisions for operational risk-related events totalled, as at the end of 2017, PLN 0.9 mn.
OTHER RISKS

Additionally, BGK manages hard-to-measure risks, especially compliance risk, adopting similar principles as in the case of operational risk management, and risk models adopted in accordance with relevant internal procedures.
Capital adequacy

The bank monitors the level of capital adequacy using capital adequacy ratios determined in line with the Banking Law and CRR.1

In 2017, BGK expanded its capital adequacy management, including by developing methods and updating principles related to capital adequacy. The bank introduced reverse stress tests, clarified methods for determining capital limits, updated principles that govern the development of a capital plan and changed selected methods for examining the relevance of risks.

In 2017, the capital adequacy standards set out in Article 128.1 of the Banking Law and in Article 92.1 of the CRR were met (CET1 of at least 4.5%, the Tier 1 capital ratio of at least 6%, the solvency ratio of at least 8%, and the internal capital ratio of no more than 100%).

The above indicators are specified individually due to the lack of need to carry out prudential consolidation in line with the CRR.

In 2017, the increase of total capital requirement and internal capital ratio was related to the expanded financing of enterprises by the bank and to the purchase of investment certificates of Closed-End Investment Funds. Increase in equity, on the other hand, was attributable to the fact that the statutory fund of BGK was increased by the State Treasury through the transfer of securities with a total value of PLN 4.8 bn and cash totalling PLN 1.5 bn.

Internal capital is determined in respect of the risks identified by the bank as significant. The largest part of it is represented by internal capital for credit risk and counterparty credit risk.

Internal capital structure

- Credit risk and counterparty risk: 78.9%
- Concentration risk: 6.6%
- Equity price risk (in the bank portfolio): 4.6%
- Interest rate risk (in the bank portfolio): 4.1%
- CVA risk: 1.4%
- Other risks: 4.4%
Chapter V: Corporate governance
Management Board and Supervisory Board

MANAGEMENT BOARD

As at 31 December 2017, the Management Board of BGK consisted of six members:

Beata Daszyńska-Muzyczka
President of the Management Board

Paweł Nierada
First Vice-President of the Management Board

Włodzimierz Kocon
Vice-President of the Management Board

Przemysław Cieszyński
Member of the Management Board

Wojciech Hann
Member of the Management Board

Radosław Kwiecień
Member of the Management Board

In 2017, there were no changes to the composition of the Management Board of BGK.
MEMBERS OF THE SUPERVISORY BOARD

as at 31 December 2017:

Paweł Borys
Chairman

Witold Słowik
Deputy Chairman

Jakub Modrzejewski
Secretary

Artur Adamski
Member

Beata Gorajek
Member

Kamil Mroczka
Member

Jarosław Nowacki
Member

Jan Filip Staniłko
Member

Jerzy Szmit
Member

Łukasz Robert Śmigasiewicz
Member
The table below presents the composition of Supervisory Board of BGK in 2017 (with changes)

<table>
<thead>
<tr>
<th>Name and surname</th>
<th>term in office in the Supervisory Board</th>
<th>Position in the Supervisory Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paweł Borys</td>
<td>01.01.2017 - 31.12.2017</td>
<td>Chairman</td>
</tr>
<tr>
<td>Witold Słowik</td>
<td>01.01.2017 - 31.12.2017</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>Artur Adamski</td>
<td>01.01.2017 - 31.12.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Joanna Bęza-Bajanowska</td>
<td>01.01.2017 - 24.07.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Michał Łukasz-Kamiński</td>
<td>01.01.2017 - 03.01.2017</td>
<td>Secretary</td>
</tr>
<tr>
<td>Wojciech Kowalczyk</td>
<td>01.01.2017 - 13.02.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Jadwiga Lesisz</td>
<td>01.01.2017 - 15.01.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Jakub Modrzejewski</td>
<td>03.07.2017 - 24.09.2017</td>
<td>Member</td>
</tr>
<tr>
<td></td>
<td>25.09.2017 - 31.12.2017</td>
<td>Secretary</td>
</tr>
<tr>
<td>Jarosław Nowacki</td>
<td>01.01.2017 - 31.12.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Jan Filip Staniłko</td>
<td>01.01.2017 - 31.12.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Jerzy Szmit</td>
<td>01.01.2017 - 31.12.2017</td>
<td>Member</td>
</tr>
<tr>
<td>Robert Zima</td>
<td>01.01.2017 - 24.07.2017</td>
<td>Member</td>
</tr>
</tbody>
</table>
The activities of Bank Gospodarstwa Krajowego are regulated by law primarily in the banking sector than in any other sector.

The most important amendments that affect BGK’s operation concerned the following legal and regulatory acts.

- Regulation of the Minister of Development and Finance of 6 March 2017 regarding criteria and procedure for supervisory review and assessment in banks.
- Regulation of the Minister of Development and Finance of 6 March 2017 regarding the risk management system and internal control system, remuneration policy and detailed procedure for measuring internal capital in banks.
- Announcement of the Speaker of the Sejm of the Republic of Poland of 10 March 2017 regarding the publication of the consolidated text of the Act on Interest Subsidies for Fixed-Rate Housing Loans.
- Resolution No. 141/2017 of the Polish Financial Supervision Authority of 25 April 2017 regarding the issue of Recommendation H concerning the internal control system in banks (Official Journal of the Polish Finan-
The Act of 22 June 2017 amending the Act on Certain Forms of Support for Residential Construction and Certain Other Acts. The amendment consisted in the elimination of barriers, identified in the practice in place thus far, in applying for refundable financing under a government residential construction support programme related to social rental housing.

The Act of 7 July 2017 amending the Act on State Aid Provided for the Purchase of the First Apartment by Young People. The amendment made it possible to submit applications for co-financing of own contribution up until the moment when the amount resulting from submitted applications with the aid disbursement date scheduled for the relevant year reaches the equivalent of 100% of the limit earmarked for disbursement in that year (previously it was 95%). Based on that amendment, in August 2017 BGK conducted a supplementary call for applications for co-financing.
Announcement of the Speaker of the Sejm of the Republic of Poland of 15 September 2017 regarding the publication of the consolidated text of the Act on Bank Gospodarstwa Krajowego (published on 5 October 2017).

The Act of 24 November 2017 amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Entities as well as Certain Other Acts. The amendment consisted in the introduction of a new systemic instrument supporting the development of SMEs that utilises sureties and guarantees for the repayment of loans, based on the National Guarantee Fund (NGF). The NGF, which pursuant to the amendment was established at BGK as of 1 January 2018, will as of 1 July 2018 become the source of financing costs and expenses related to granted guarantees constituting state aid or de minimis aid. In accordance with the amendment, the NGF received a capital injection of PLN 900 mn made by reducing the statutory fund of BGK as of the end of January 2018.


Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014. The Regulation entered into force on 30 June 2016. Compliance with the requirements resulted in the acquisition of the WIBID and WIBOR reference rate fixing function management by GPW Benchmark S.A. from the ACI Polska Association as of 30 June 2017. The “Code of Conduct for WIBID and WIBOR Fixing Participants” developed by GPW Benchmark S.A. was consulted by GPW Benchmark S.A. with banks-participants in WIBID and WIBOR Fixing, including BGK. The Code of Conduct imposed a number of requirements on banks-participants in WIBID and WIBOR Fixing, in particular relating to the implementation of internal procedures regarding fixing. “Procedure for the participation of Bank Gospodarstwa Krajowego in WIBID and WIBOR reference rate Fixing” was introduced by way of the Resolution No. 450/2017/DS/KRE of the Management Board of BGK of 19 December 2017. This Resolution entered into force as of 1 January 2018.

Apart from the above, a number of other generally applicable laws governing the bank’s operations to a varying degree were enacted in 2017.
Chapter VI: Social commitment
The mission of BGK’s Jan Kanty Steczkowski foundation is to mobilise and support citizens at various stages of their life. The foundation consists of 3 programmes:

- equalising educational opportunities,
- providing support to people over age 50,
- My Little Homeland.

In 2017, the foundation implemented six of its own programmes, four partnership programmes, and two volunteer campaigns. The total number of project recipients exceeded 20 thousand.

### Equalising educational opportunities

One of the initiatives that has been implemented by the BGK foundation for the past 10 years is the “Na dobry początek!” (A Good Start) grant competition. The objective of the competition is to support educational programmes addressed to children aged 2-8 residing in rural areas or small towns with a population of fewer than 20 thousand. 4.6 thousand children participated in the 9th edition of the competition (2016/2017). Its coordinators also organised workshops for them as well as their parents and grandparents. Grants were received by social organisations, sports, cultural and recreational centres, public libraries, community centres.

In 2017, the foundation also financed the pilot programme “Małe miasto” (Small Town) addressed to families with a low socio-economic status. The objective of the initiative was to present children and their caregivers how small towns function. The workshops consisted in familiarising their participants effective planning of expenses, earning and saving money, and how the economy functions. 123 children and 40 volunteers, local and municipal government authorities, public service officers and entrepreneurs providing support for the project participated in the "Small Town" programme.

The foundation also launched a new programme titled "Były sobie pieniądze" (Once Upon a Time There Was Money) for children aged 3-9. The project aims to raise the financial knowledge of children and introducing them to the basics of finance in a way that enables them to better function in the modern society. 385 pupils and 20 teachers participated in the programme.

### My Little Homeland

In 2017, the foundation initiated a call for applications for the programme titled “Moja Mała Ojczyzna” (My Little Homeland) It is addressed to all active individuals who care about their cities/towns and have an idea how to change them. “My Little Homeland” mobilises local communities to take actions that will integrate them, improve their quality of life, promote local patriotism, commemorate local heroes and events as well as support sports recreation and education. 509 entities have submitted their applications under the project, of which 25 received grants. The projects will be implemented from March to August 2018.

The year 2018 is marked by the 100th anniversary since Poland regained its independence. For that reason, in October 2017 the foundation launched a pilot grant programme titled “Na 100 Niepodległa”. 
The purpose of the programme is to spread more extensive knowledge about Polish history and build a national identity among children aged 7-18. The programme will be implemented in the form of classes, workshops, one-time or regular events promoting patriotism. An additional advantage of the programme is to develop bonds between generations through the cooperation of children and young people with parents and seniors. The results will be announced in 2018.

The BGK foundation continued its cooperation with the Centre for Citizenship Education - initiated in 2010 - under the educational programme “Młody Obywatel” (Young Citizen). The programme was addressed to adults working with young people: teachers, librarians, cultural workers, so as to engage young people in actions to the benefit of local communities through them. Participation in the programme allows pupils to learn about their community, teaches them teamwork, communication and cooperation. The “Young Citizen” programme is implemented under the honorary patronage of the Minister of National Education and the Government Plenipotentiary for Civil Society. 209 projects group from all over Poland participated in the 9th edition of the programme.

In 2017, the BGK foundation was a strategic partner of two competitions: for the Best Social Enterprise of the Year and Recent History.

In the former case, organised by the foundation for Social and Economic Initiatives, the foundation funded the prize in ‘An Idea for Development’ category. The award was received by Spółdzielnia Socjalna Margines (the Margin Social Cooperative) in Warsaw, which employs political and economic migrants and uses innovative work management and organisation methods.

The Recent History competition is organised by the KARTA Centre foundation. The main topic of the 20th edition of the event was “Fighting, working, surviving... People and actions for Independent Poland 1918–2018”, i.e. examining recent history which often is unknown to, forgotten by and beyond the awareness of local communities. By announcing the competition in the period of preparations for the celebration of the 100th anniversary of Poland regaining its independence, the competition organisers wanted to encourage young people to present different aspects of fighting for their own country, care for its shape and sustainability, and work for its benefit.
Voluntary service

BGK enables its employees to take part in volunteer programmes. It encourages them to use their occupational skills, is involved in social activities, organises charity events, and funds projects proposed by bank’s employees.

As of 2008, BGK employees are involved in the programme "Voluntary service is great!". Through the programme, they act on behalf of their respective communities in which they live and work and, with the support of societal organisations, help support local problems. In the 9th edition of the programme, the funding was granted to as many as 33 projects involving the participation of 279 volunteers from the BGK Capital Group. The main beneficiaries of aid were children and youth, including children with special educational needs as well as wards in children’s home and special purpose school and educational centres. The support reached around 5700 recipients.

In 2017, the BGK foundation, in cooperation with the BGK employees, organised two subsequent voluntary campaigns. The first one was "Time for School", where bank employees collected school supplies for the wards of the Friends of Primary School Association "Child’s Laughter" in Wielka Wieś near Kraków. Volunteers have donated over 2400 school supplies.

The second initiative was the "Small Package, Big Gesture" campaign organised at the end of October 2017. The campaign participants collected food and hygiene products for the wards of St. Christopher Oncological Hospice in Warsaw. The employees donated over 1,100 products.

Volunteers from the BGK Capital Group also participated in a joint project of the Polish banking sector - Bankers for Financial Education of the Young - BAKCYL, organised by the Warsaw Institute of Banking. In 2017, the workshops provided by them lasted over 40 hours.