

Annual Report

of the Bank Millennium S.A.

for the 12-month period ending 31st December 2015



FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2015 to 31.12.2015	period from 1.01.2014 to 31.12.2014	period from 1.01.2015 to 31.12.2015	period from 1.01.2014 to 31.12.2014
Interest income	2 220 978	2 479 852	530 725	591 949
Fee and commission income	622 325	633 314	148 711	151 174
Operating income	2 411 823	2 175 787	576 329	519 368
Operating profit / (loss)	939 144	790 808	224 418	188 769
Profit /(loss) before taxes	939 144	790 808	224 418	188 769
Profit /(loss) after taxes	814 157	619 511	194 551	147 879
Total comprehensive income for the period	945 372	637 799	225 906	152 245
Net cash flows from operating activities	4 017 543	(682 743)	960 032	(162 973)
Net cash flows from investing activities	(1 969 466)	(1 438 083)	(470 624)	(343 275)
Net cash flows from financing activities	(595 159)	766 522	(142 219)	182 971
Net cash flows, total	1 452 918	(1 354 304)	347 189	(323 277)
Total assets	66 065 250	60 484 050	15 502 816	14 190 472
Liabilities to banks and other monetary institutions	1 443 921	1 986 125	338 829	465 975
Liabilities to customers	52 920 583	47 807 862	12 418 299	11 216 447
Total equity	6 292 081	5 346 709	1 476 494	1 254 419
Share capital	1 213 117	1 213 117	284 669	284 616
Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	5.19	4.41	1.22	1.03
Diluted book value per share	5.19	4.41	1.22	1.03
Capital adequacy ratio	16.55%	14.40%	16.55%	14.40%
Pledged or paid dividend per share (in PLN/EUR)	-	0.22	-	0.05

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.2615 EUR/PLN rate of 31 December 2015 (for comparable data as of 31 December 2014: 4.2623 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January - 31 December 2015 - 4.1848 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data for the period 1 January - 31 December 2014: 4.1893 EUR/PLN).

MAIN QUARTERLY FINANCIAL INFORMATION

INCOME STATEMENT

Amount '000 PLN	1.01.2015- 31.12.2015	1.10.2015- 31.12.2015*	1.01.2014- 31.12.2014	1.10.2014- 31.12.2014*
Interest income	2 220 978	552 318	2 479 852	595 341
Interest expense	(950 570)	(227 936)	(1 131 005)	(272 544)
Net interest income	1 270 408	324 382	1 348 847	322 797
Fee and commission income	622 325	148 600	633 314	149 174
Fee and commission expense	(74 682)	(21 808)	(62 446)	(16 277)
Net fee and commission income	547 643	126 792	570 868	132 897
Dividend income	334 049	300 000	28 605	0
Result on investment financial assets	41 852	2 715	18 447	3 542
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	174 863	49 445	185 294	53 797
Other operating income	43 008	5 553	23 726	6 609
Operating income	2 411 823	808 887	2 175 787	519 642
General and administrative expenses	(982 111)	(247 823)	(1 001 930)	(250 080)
Impairment losses on financial assets	(228 479)	(43 488)	(248 021)	(59 859)
Impairment losses on non-financial assets	(1 406)	(790)	(425)	(80)
Depreciation and amortization	(47 432)	(12 673)	(53 548)	(14 960)
Other operating expenses	(213 251)	(162 443)	(81 055)	(12 202)
Operating expenses	(1 472 679)	(467 217)	(1 384 979)	(337 181)
Operating profit / (loss)	939 144	341 670	790 808	182 461
Profit / (loss) before taxes	939 144	341 670	790 808	182 461
Corporate income tax	(124 987)	(8 732)	(171 297)	(36 478)
Profit / (loss) after taxes	814 157	332 938	619 511	145 983

* quarterly financial information has not been audited

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	1.01.2015- 31.12.2015	1.10.2015- 31.12.2015*	1.01.2014- 31.12.2014	1.10.2014- 31.12.2014*
Profit / (loss) after taxes	814 157	332 938	619 511	145 983
Other elements of total comprehensive income that will be subsequently reclassified to profit or loss	161 225	299 779	25 221	(56 909)
Effect of valuation of available for sale debt securities	(31 637)	14 746	69 491	4 994
Effect of valuation of available for sale shares	213 075	213 075	0	0
Hedge accounting	(20 213)	71 958	(44 270)	(61 903)
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	769	769	(2 643)	(2 643)
Actuarial gains (losses)	769	769	(2 643)	(2 643)
Other elements of total comprehensive income before taxes	161 994	300 548	22 578	(59 552)
Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss	(30 633)	(56 958)	(4 792)	10 813
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	(146)	(146)	502	502
Other elements of total comprehensive income after taxes	131 215	243 444	18 288	(48 237)
Total comprehensive income for the period	945 372	576 382	637 799	97 746

* quarterly financial information has not been audited

ANNUAL FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. FOR THE 12-MONTHS PERIOD ENDING 31 DECEMBER 2015

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1. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	Note	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Interest income	1	2 220 978	2 479 852
Interest expense	2	(950 570)	(1 131 005)
Net interest income		1 270 408	1 348 847
Fee and commission income		622 325	633 314
Fee and commission expense		(74 682)	(62 446)
Net fee and commission income	3	547 643	570 868
Dividend income	4	334 049	28 605
Result on investment financial assets	5	41 852	18 447
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	174 863	185 294
Other operating income	6	43 008	23 726
Operating income		2 411 823	2 175 787
General and administrative expenses	7	(982 111)	(1 001 930)
Impairment losses on financial assets	8	(228 479)	(248 021)
Impairment losses on non financial assets	9	(1 406)	(425)
Depreciation and amortization	10	(47 432)	(53 548)
Other operating expenses	11	(213 251)	(81 055)
Operating expenses		(1 472 679)	(1 384 979)
Profit / (loss) before taxes		939 144	790 808
Corporate income tax	12	(124 987)	(171 297)
Profit / (loss) after taxes		814 157	619 511

Notes on pages 13-119 are integral part of these financial statements.

2. TOTAL COMPREHENSIVE INCOME STATEMENT

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Profit / (loss) after taxes	814 157	619 511
Other elements of total comprehensive income that will be subsequently reclassified to profit or loss:	161 225	25 221
Effect of valuation of available for sale debt securities	(31 637)	69 491
Effect of valuation of available for sale shares	213 075	0
Hedge accounting	(20 213)	(44 270)
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss:	769	(2 643)
Actuarial gains (losses)	769	(2 643)
Other elements of total comprehensive income before taxes	161 994	22 578
Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss	(30 633)	(4 792)
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	(146)	502
Other elements of total comprehensive income after taxes	131 215	18 288
Total comprehensive income for the period	945 372	637 799

Notes on pages 13-119 are integral part of these financial statements.

3. BALANCE SHEET

BALANCE SHEET

ASSETS

<i>Amount '000 PLN</i>	Note	31.12.2015	31.12.2014
Cash, balances with the Central Bank	14	1 946 384	2 612 015
Deposits, loans and advances to banks and other monetary institutions	15	2 348 735	2 384 744
Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge	16	767 062	1 419 234
Hedging derivatives	17	70 833	18 999
Loans and advances to customers	18	46 070 719	43 634 324
Investment financial assets	19	13 862 060	9 249 216
- available for sale		13 862 060	9 249 216
- held to maturity		0	0
Investments in related entities	19	226 373	227 752
Receivables from securities bought with sell-back clause	20	0	155 642
Property, plant and equipment	21	152 207	147 629
Intangible assets	22	51 987	48 110
Non-current assets held for sale	23	0	0
Receivables from Tax Office resulting from current tax		32 562	63 871
Deferred income tax assets	24	163 249	124 957
Other assets	25	373 079	397 557
Total Assets		66 065 250	60 484 050

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2015	31.12.2014
LIABILITIES			
Liabilities to banks and other monetary institutions	26	1 443 921	1 986 125
Financial liabilities valued at fair value through profit and loss and adjustment due to fair value hedge	27	344 792	629 870
Hedging derivatives	17	2 132 053	1 390 225
Liabilities to customers	28	52 920 583	47 807 862
Liabilities from securities sold with buy-back clause	29	0	66 774
Debt securities	30	1 135 501	1 740 633
Provisions	31	30 267	95 023
Liabilities to Tax Office resulting from current tax		0	5 976
Deferred income tax liabilities	32	0	0
Other liabilities	33	1 126 421	775 114
Subordinated debt	34	639 631	639 739
Total Liabilities		59 773 169	55 137 341
EQUITY			
Share capital	35	1 213 117	1 213 117
Share premium	35	1 147 241	1 147 241
Revaluation reserve	35	18 052	(113 163)
Retained earnings	35	3 913 671	3 099 514
Total Equity		6 292 081	5 346 709
Total Liabilities and Equity		66 065 250	60 484 050

Notes on pages 13-119 are integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

01.01.2015 - 31.12.2015 Amount '000 PLN	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	5 346 709	1 213 117	1 147 241	(113 163)	619 511	2 480 003
Total comprehensive income for 2015 (net)	945 372	0	0	131 215	814 157	0
net profit/ (loss) of the period	814 157	0	0	0	814 157	0
valuation of available for sale debt securities	(25 625)	0	0	(25 625)	0	0
valuation of available for sale shares	172 590	0	0	172 590	0	0
hedge accounting	(16 373)	0	0	(16 373)	0	0
actuarial gains (losses)	623	0	0	623	0	0
Transfer between items of reserves	0	0	0	0	(619 511)	619 511
Equity at the end of the period	6 292 081	1 213 117	1 147 241	18 052	814 157	3 099 514

01.01.2014 - 31.12.2014 Amount '000 PLN	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	4 975 796	1 213 117	1 147 241	(131 451)	496 775	2 250 114
Total comprehensive income for 2014 (net)	637 799	0	0	18 288	619 511	0
net profit/ (loss) of the period	619 511	0	0	0	619 511	0
valuation of available for sale debt securities	56 288	0	0	56 288	0	0
hedge accounting	(35 859)	0	0	(35 859)	0	0
actuarial gains (losses)	(2 141)	0	0	(2 141)	0	0
Dividend payment	(266 886)	0	0	0	(266 886)	0
Transfer between items of reserves	0	0	0	0	(229 889)	229 889
Equity at the end of the period	5 346 709	1 213 117	1 147 241	(113 163)	619 511	2 480 003

Detailed information concerning changes in different equity items are presented in the note (35).

5. CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

<i>Amount '000 PLN</i>	1.01.2015 - 31.12.2015	1.01.2014 - 31.12.2014
Profit (loss) after taxes	814 157	619 511
Adjustments for:	3 203 386	(1 302 254)
Interests in net profit/(loss) of associated companies	0	0
Depreciation and amortization	47 432	53 548
Foreign exchange (gains) /losses	14 307	39 889
Dividends	(334 049)	(28 605)
Changes in provisions	(64 756)	31 957
Result on sale and liquidation of investment financial assets	(40 754)	(19 516)
Change in financial assets valued at fair value through profit and loss	580 124	(419 862)
Change in loans and advances to banks	21 398	(819 538)
Change in loans and advances to customers	(2 441 029)	(2 549 757)
Change in receivables from securities bought with sell-back clause	155 642	86 419
Change in liabilities valued at fair value through profit and loss	456 750	514 560
Change in liabilities to banks	(546 232)	(237 107)
Change in deposits from customers	5 112 721	2 359 202
Change in liabilities from securities sold with buy-back clause	(66 774)	(50 029)
Change in debt securities	(34 034)	(11 383)
Change in income tax settlements	169 149	171 245
Income tax paid	(209 231)	(189 902)
Change in other assets and liabilities	368 260	(239 977)
Other	14 462	6 602
Net cash flows from operating activities	4 017 543	(682 743)

B. CASH FLOWS FROM INVESTING ACTIVITIES

<i>Amount '000 PLN</i>	1.01.2015 - 31.12.2015	1.01.2014 - 31.12.2014
Inflows:	219 597 381	276 084 597
Proceeds from sale of property, plant and equipment and intangible assets	778	4 993
Proceeds from sale of shares in related entities	0	0
Proceeds from sale of investment financial assets	219 262 554	275 980 999
Other	334 049	98 605
Outflows:	(221 566 847)	(277 522 680)
Acquisition of property, plant and equipment and intangible assets	(52 518)	(26 513)
Acquisition of shares in related entities	0	0
Acquisition of investment financial assets	(221 514 329)	(277 496 167)
Other	0	0
Net cash flows from investing activities	(1 969 466)	(1 438 083)

C. CASH FLOWS FROM FINANCING ACTIVITIES

<i>Amount '000 PLN</i>	1.01.2015 - 31.12.2015	1.01.2014 - 31.12.2014
Inflows:	1 070 071	1 843 557
Long-term bank loans	108 488	211 328
Issue of debt securities	961 583	1 632 229
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other	0	0
Outflows:	(1 665 230)	(1 077 035)
Repayment of long-term bank loans	(108 094)	(198 968)
Redemption of debt securities	(1 532 681)	(581 565)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	(266 886)
Other	(24 455)	(29 616)
Net cash flows from financing activities	(595 159)	766 522

D. NET CASH FLOWS, TOTAL (A+B+C)	1 452 918	(1 354 304)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	5 398 236	6 752 540
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	6 851 154	5 398 236

Additional information regarding cash flows is presented in point 5 of chapter 13 "Supplementary information".

6. GENERAL INFORMATION ON THE ISSUER

Bank Millennium S.A. (the Bank) is a nationwide universal bank, offering its services to all market segments via a network of branches, corporate centers, individual advisors and electronic banking.

The Bank, entered under the number KRS 0000010186 in the National Court Register kept by the Local Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, is seated in Warsaw, ul. Stanisława Żaryna 2A.

The Bank is listed on the Warsaw Stock Exchange since 1992, first Bank ever to float its shares on the WSE.

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 5,900 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, and investment fund management.

Supervisory Board and Management Board of Bank Millennium S.A. as at 31 December 2015

Composition of the Supervisory Board as at 31 December 2015 was as follows:

- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board,
- Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board,
- Julianna Boniuk-Gorzelańczyk - Member of the Supervisory Board,
- Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
- Agnieszka Hryniewicz-Bieniek - Member of the Supervisory Board,
- Anna Jakubowski - Member of the Supervisory Board,
- Grzegorz Jędryś - Member of the Supervisory Board,
- David Harris Klingensmith - Member of the Supervisory Board,
- Andrzej Koźmiński - Member of the Supervisory Board,
- Miguel Maya Dias Pinheiro - Member of the Supervisory Board,
- Rui Manuel da Silva Teixeira - Member of the Supervisory Board.

Composition of the Management Board as at 31 December 2015 was as follows:

- Joao Nuno Lima Bras Jorge - Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board,
- Wojciech Haase - Member of the Management Board,
- Andrzej Gliński - Member of the Management Board,
- Maria Jose Henriques Barreto De Matos De Campos - Member of the Management Board,
- Michał Gajewski - Member of the Management Board.

7. ACCOUNTING POLICY

1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330, with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These financial statements meet the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).

This financial report was approved for publication by the Management Board on 25 February 2016.

2) STANDARDS AND INTERPRETATIONS APPLIED IN 2015 AND NOT BINDING AS OF THE BALANCE SHEET DAY

Applied new and revised standards and interpretations:

Preparing financial statements the Bank applied for the first time following new and revised standards and interpretations, which came into force on 1 January 2015:

Improvements to IFRSs 2011-2013

IAS Board issued in December 2013 "Improvements to IFRSs 2011-2013" which consist of changes to four standards.

The amendments include changes in presentation, recognition and valuation as well terminology and editorial changes.

IFRIC 21 - Levies

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

Published standards and interpretations that are not yet effective and have not been early adopted by the Bank

Preparing financial statements the Bank did not decided to early adopt the following published standards, interpretations and amendments before their date of entry into force.

IFRS 16 "Leases"

IFRS 16 "Leases" was issued in on 13 January 2016 by the International Accounting Standards Board and is effective for annual periods beginning on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements set out in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The impact of the application of the new rules by the Group has not yet been estimated.

As at the day of preparation of these consolidated financial statements, IFRS 16 was not endorsed by the European Union.

IFRS 9 “Financial Instruments: Classification and Measurement”

IFRS 9 replaces IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018.

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). The classification is made at initial recognition and depends on the entity's business model applied to manage financial instrument and the contractual cash flow characteristics of these instruments. IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses model.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

In terms of hedge accounting changes were designed to more closely match the hedge accounting to risk management.

The Bank has analyzed the new standard. The most important changes arising from the implementation of IFRS 9 will result in amendments in the classification and measurement of financial assets, including the methodology of calculation of the impairment. Having in mind the scale of possible changes, the real impact of the application of the new rules by the Bank is currently not possible to estimate.

At the date of these financial statements, IFRS 9 has not yet been endorsed by the European Union.

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19

Amendments to IAS 19 “Employee benefits” were published by IAS Board in November 2013 and become effective for annual periods beginning 1 February 2015 or after that date.

The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

Improvements to IFRSs 2010-2012

IAS Board issued in December 2013 “Improvements to IFRSs 2010-2012” which consist of changes to seven standards.

The amendments include changes in presentation, recognition and valuation as well terminology and editorial changes. The amendments are effective in the majority for annual periods beginning on or after 1 February 2015.

The Bank believes that the application of the standards will not have a material impact on the financial statements of the Bank.

IFRS 14, Regulatory Deferral Accounts

IFRS 14 comes into force for annual periods beginning on or after 1 January 2016. The standard permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previously binding accounting standards. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, IFRS 14 requires that the effect of rate regulation must be presented separately from other items both in statement of financial position as well as in the income statement and statement of other comprehensive income.

The Bank believes that the application of the standards will not have an impact on the financial statements of the Bank.

At the date of these financial statements, IFRS 14 has not yet been endorsed by the European Union.

Amendments to IFRS 11 regarding acquisitions of interests in Joint Operations

This amendment to IFRS 11 requires the investor when he acquires an interest in a joint operation that constitutes a business as defined in IFRS 3 to apply accounting rules on businesses connections in accordance with IFRS 3 and the rules under other standards, unless they are contrary to the guidelines set out in IFRS 11.

Aforementioned changes are effective for the periods beginning on or after 1 January 2016

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

Amendments to IAS 16 and IAS 38 regarding depreciation

Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Aforementioned changes are effective for the periods beginning on or after 1 January 2016

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 “Revenue from Contracts with Customers” was issued by IAS Board on 28 May 2014 and is effective for the periods beginning on or after 1 January 2017.

The principles set out in IFRS 15 will apply to all contracts resulting in revenue. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the value of revenues varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Additionally accordingly IFRS 15 costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

At the moment the real impact of the implementation of the new standards by the Bank is not possible to estimate.

At the date of these financial statements, IFRS 15 has not yet been endorsed by the European Union.

Amendments to IAS 27 concerning equity method in separate financial statements

The amendments of IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendments were issued on 12 August 2014 and are effective for annual periods beginning on or after 1 January 2016.

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28. The accounting recognition depends on whether non-monetary assets sold or contributed to an associate or joint venture involves a business. If the non-monetary assets meet the definition of a business the investor will show the full gain or loss on the transaction. In case a transaction involves assets that do not constitute a business a partial gain or loss is recognised (excluding the part representing the interests of other investors).

The amendments were published on 11 September 2014 but effective data has not been set.

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

At the date of these financial statements, aforementioned amendments have not yet been endorsed by the European Union.

Improvements to IFRSs 2012-2014

IAS Board issued on 25 September 2014 “Improvements to IFRSs 2012-2014” which impact 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

Amendments to IAS 16 and IAS 41 concerning agriculture (bearer plants)

These changes do not apply to the activities of the Bank.

Amendments to IAS 1

In December 2014, in the framework of so-called initiative on disclosure, the IAS Board issued an amendment to IAS 1. The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. Amended Standard also provides new guidance on subtotals in financial statements depending on materiality.

The amendments are effective for annual periods beginning on or after 1 January 2016.

The Bank believes that the application of the standard will not have a material impact on the financial statements of the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 concerning exclusion of investment entities from consolidation

In December, 2014, IAS Board has published so called an amendment of limited scope Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2016.

The application of the standard will not have a material impact on the financial statements of the Bank.

3) ADOPTED ACCOUNTING STANDARDS**Basis of Financial Statements Preparation**

These financial statements are prepared for the financial year from 1 January 2015 to 31 December 2015, on the basis of the going concern assumption of Bank, namely scale of business is not to be reduced substantially, in a period of not less than one year from the balance sheet date.

The financial statements have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

The financial statements, have been prepared based on the fair value principle for financial assets and liabilities recognised at fair value through profit and loss account including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost with effective interest rate applied less impairment charges, or at their purchase price less impairment charges.

The preparation of financial statements in accordance with IFRS, as adopted by the EU, requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. The respective unit of the Bank is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Bank management.

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances.

Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on basis of other sources. The actual results may differ from those estimates.

The conformity between actual results and adopted estimations and assumptions is verified on regular basis. Adjustments to estimates are recognized in the period when the estimation was changed, provided that the adjustment applies to this period alone, or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

The below-presented accounting principles have been applied to all reporting periods presented in the non-consolidated financial statements.

Functional and presentation currency

Functional and presentation currency

Items included in the financial statements are priced in the currency of the basic business environment in which a given entity operates („functional currency”). The Bank’s financial statements are presented in PLN which is the Bank’s functional and presentation currency.

Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences on monetary items, both those valued at fair value through the profit and loss account or classified as available for sale or held to maturity are disclosed in the profit and loss account.

Exchange rate differences on non monetary items valued at fair value through the profit and loss, are accounted in the profit and loss account. Exchange rate differences due to items, such as equity instruments classified to financial assets available for sale, are included in Other comprehensive income.

Application of Estimates in connection with Accounting Policies

The preparation of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements.

The estimates and assumptions, revised by the Bank management on a regular basis, are made on basis of historical experience and other factors considered being relevant in given circumstances.

Despite the fact, that such estimates are based on best knowledge about current conditions and activities undertaken by the Bank, the actual results may differ from the estimates. The major areas for which the Bank makes estimates are presented below.

- Impairment of loans and advances

For each balance sheet date, the Bank assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Bank assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio since the initial recognition of those assets, although the decrease cannot yet be identified with the individual. The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group. Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be received are regularly reviewed and updated, in order to decrease the difference between the actual loss results and estimations of impairment.

The effect of increase / decrease of cash flows for the impaired credit or either PI or LGI parameter for IBNR portfolio at the end of 2015 for the Bank is presented in the following table (in PLN million):

Type of analysis	Change of provision amount considering :	
	Scenario 1 (improvement 10%)	Scenario 2 (deterioration 10%)
1. Individual Analysis (Impaired)	-25.50	29.45
a) Change in cash flows from debtors business activity	-5.96	6.84
b) Change in cash flows from collateral	-19.54	22.61
2. Collective Analysis	-81.90	76.51
a) Change in LGI parameter (Impaired)	-69.57	64.18
b) Change in LGI or PI parameter (IBNR)	-12.33	12.33
Total Bank	-107.40	105.96

- Fair value of financial instruments

Fair value of financial instruments not quoted on active markets is determined with use of measurement techniques consistent with the Bank's accounting policy. With respect to non-option derivatives and debt securities use is made of models based on discounted cash flows. Option pricing models are applied to option instruments. All models are approved prior to use and also calibrated to ensure that attained results reflect the actual fair value of the measured instruments. If possible, only observable data from the active market are used in the models.

In case of lack of measurement parameters coming from the active market, fair value is determined on the basis of application of measurement techniques using estimated input parameters.

The Bank measures financial instruments using the measurement methods below in the following hierarchical order:

- Prices quoted on the active market for identical instruments for following financial instruments:
Treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:
Treasury floating interest debt securities,
Derivatives:
 - FRA, IRS, CIRS,
 - FX Swap, FX Forward,
 - Embedded derivatives,*Bills issued by the Central Bank;*
- Techniques of measurement with use of significant parameters not coming from the market:
Debt securities of other issuers (e.g. municipalities),
Derivatives:
 - FX Options acquired by the Bank,
 - Indexes options acquired/placed by the Bank.

For derivative financial instruments valuation the Bank applies the component of credit risk taking into account both: counterparty risk (credit value adjustment - CVA) and own Bank's risk (debit value adjustment - DVA). The Bank assesses that unobservable inputs related to applying this component used for fair value measurement are not significant.

- Impairment of other non-current assets

The Bank assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Bank performs an estimation of recoverable amount. Estimation of value-in-use of a non-current asset (or cash generating units) requires assumptions to be adopted, regarding, among others, amounts and timing of future cash flows, which the Bank may obtain from the given non-current asset (or cash generating unit). The Bank performs an estimation of the fair value less costs to sell on the basis of available market data regarding this subject or estimations made by external parties.

- Other Estimate Values

Retirement provision is calculated using an actuarial method by an independent actuary as the present value of future liabilities of the Bank due to employees based on headcount and remuneration as of the date of the update. The provision for retirement benefits is updated on a yearly basis. The estimation of the provision is made on the basis of several assumptions, regarding macroeconomic conditions and employee turnover, mortality risk and other.

With regard to employee benefits, such as bonuses granted to directors and key management personnel, bonuses for employees, the Management Board makes assumptions and estimates regarding the amount of benefits as at the balance sheet date. The final amount of bonuses granted is established by Personnel Committee of the Management Board or Personnel Committee of the Supervisory Board.

Financial assets and liabilities

Classification

The Bank classifies financial instruments (as defined in IAS 39) into the following categories: financial assets and liabilities valued at fair value through profit and loss, investments held to maturity, loans and receivables, financial assets available for sale, other financial liabilities. The classification of financial instruments is determined by the related individuals at the time of their initial recognition.

- Financial instruments valued at fair value through the profit and loss

These are financial assets or financial liabilities that are either held for trading (those that are acquired or incurred principally for the purpose of selling it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking). Derivatives are also classified as held for trading, other than those that are designated as effective hedging instruments or those that were designated as at fair value through profit and loss.

Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting mismatch due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

- Held to maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than: (1) those that the Bank upon initial recognition designates as at fair value through profit or loss; (2) those that the entity designates as available for sale; and (3) those that meet the definition of loans and receivables. Held to maturity investments cannot be reclassified to other category of financial instruments or sold. The Bank cannot classify any financial assets as held to maturity during two financial years (any remaining held to maturity investments have to be reclassified as available for sale), if the Bank, during the current financial year, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. This does not apply if the sale or reclassification described above took place, so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; the event occurs after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or the event is result of an isolated event that is beyond the Bank's control, is nonrecurring and could not have been reasonably anticipated by the Bank.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: 1) those that are designated as at fair value through profit or loss; 2) those that the entity upon initial recognition designates as available for sale 3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Receivables resulting from factoring without recourse are presented as Purchased receivables.

- Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets valued at fair value through profit or loss and are not capital investment in subsidiaries and associates.

- Other financial liabilities

The Bank classifies as other financial liabilities any financial liabilities not included in the category of financial instruments priced at fair value through the income statement, including in particular deposits taken and advances received.

Recognition of financial instruments in the balance sheet

The Bank recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Standardised purchase and sale transactions of financial assets are recognized at the transaction date.

All financial instruments at the moment of initial recognition are recognized at fair value adjusted, in the case of a financial instrument not valued at fair value through profit and loss, by transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

De-recognition of financial instruments from the balance sheet

The Bank derecognizes a financial asset when and only when: the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the financial asset to third party. The transfer takes place when the Bank:

- transfers the contractual right to receive the cash flows from the financial asset, or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to an entity from outside the Bank.

On transferring a financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset,

the Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Valuation of financial instruments after the initial recognition in the balance sheet

After the initial recognition, financial instruments are valued as follows:

- Financial instruments valued at fair value through the profit and loss
The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Bank.
- Held to maturity investments and loans and receivables
This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.
- Financial asset available for sale
Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized in Other comprehensive income until the derecognition of the respective financial asset from the balance sheet or until its impairment: at such time the aggregate net gain or loss is recognised in the profit and loss.
Interests calculated using the effective interest rate is recognized in interest income.
If there are objective triggers that such asset has become impaired, then the Bank recognises the revaluation charge in the manner described in item **Impairment of Financial Assets**.

- Other financial liabilities

Financial instruments classified as other financial liabilities are valued at amortized cost using the effective interest rate.

In the first place the measurement at fair value is based on prices quoted for a given instrument on the active market. If the valued instrument is not quoted on an active market, the Bank determines the fair value using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of other instruments, discounted cash flow analysis and option pricing models, as well as other valuation methods generally applied by market participants.

Capital investments in subsidiary and associated entities

Subsidiary entities

Subsidiaries are all entities (including special purpose entities) controlled by the Bank in respect of which it has the ability to affect the financial results achieved by the investee (power), due to its involvement with the investee is exposed, or has rights, to variable returns from its involvement and has the ability to use power over the investee to affect the amount of the investor's returns. When assessing whether the Bank has power over that entity are taken into account, inter alia, the existence and effect of potential voting rights that are currently exercisable or convertible.

Associated entities

Associated entities are any entities which the Bank has a considerable influence upon but which are not controlled by it - this is usually accompanied by holding 20% to 50% of the total number of votes in the decision-making bodies. A considerable influence is defined as the right to participate in decision-making about the operational and financial policy of the business entity, provided it does not consist in exercising control or joint control over the such entity's policy.

Investments in subsidiary and associated entities are recognised at cost of purchase (under IAS 27) less potential impairment charges calculated according to IAS 36 and recognised in the income statement. The payout of a dividend is not reflected in the on-balance value of the investment, it impacts solely the income statement and is included under „dividend income”.

Hedge Accounting and Financial Derivatives

Valuation at fair value

Derivative instruments are reported at fair value starting from the day of conclusion of the transaction. Fair value is determined on the basis of quotations of instruments on active markets, including pricing of recently concluded transactions. A market is considered active when the quoted instrument prices are regularly available and result from actual transactions on the market and represent a level, at which the Bank could conclude such transactions. If the market for the instruments is not active the Bank determines fair value with use of measurement techniques, including models based on discounted cash flows and options measurement models. The measurement techniques used by the Bank are based on maximum use of input data coming from the active market, such as interest rates, FX rates and implied volatilities. In case of lack of input data from the active market the Bank makes use in the measurement techniques of proprietary estimates of measurement parameters, based on best knowledge and experience. An additional element of the valuation of derivatives is a component of credit risk including both the risk of the counterparty (credit value adjustment - CVA) and own Bank's risk (debit value adjustment - DVA).

Recognition of embedded derivative instruments

The Bank distinguishes and records in the balance sheet the derivatives which are a component of hybrid instruments. A hybrid agreement contains an underlying (host) contract (not being a derivative) and an embedded derivative which on the basis of a specific interest rate, price of financial instrument, price of a commodity, rate of a currency, index of prices or rates or another variable modifies part or the total of the cash flows resulting from the underlying contract.

Embedded derivative instruments are treated as stand alone derivative instruments provided they meet conditions presented below. Embedded derivative instruments are valued at fair value, and their changes are recognized in the profit and loss. Embedded derivative instruments are recognized and valued separately from the host contract if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The method of recognizing the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedging relationship and the hedged item.

Derivative instruments designated as hedging instruments - hedge accounting

The Bank uses derivative instruments in order to hedge against interest rate risk and FX risk, arising from operating, financing and investing activities of the Bank. Derivative instruments are designated as a hedging instrument of:

- cash flows hedges of recognized asset or liability or highly probable forecasted transaction (cash flow hedges), or;
- fair value hedges of recognized asset or liability or firm commitment (fair value hedges).

Hedge accounting criteria

The Bank uses hedge accounting, if the conditions established in IAS 39 are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- The Bank anticipates that the hedge will be highly effective in balancing cash flows and changes in fair value in accordance with the documented risk management strategy pertaining to this particular hedge combination (prospective effectiveness test);
- The hedging of cash flows covers a highly probable forecasted transaction exposed to the risk of changing cash flows impacting the level of earnings (high probability test);
- The effectiveness of a hedge can be reliably assessed, i.e. one can credibly assess the fair value of the hedged position or cash flows originating from such position and the fair value of the hedging instrument;
- The hedge is verified on an on-going basis and it is found to be very effective throughout the period of its utilisation (retrospective effectiveness test).

Cash flow hedge

The hedging of cash flows consists in hedging against the risk of cash flow fluctuations which (i) can be attributed to a specific risk connected with a given asset or liability (such as all or part of future interest payments on floating interest rate debt) or with a highly probable planned transaction and which (ii) can affect the income statement.

A cash flow hedge is treated in the following manner: part of the profits or losses attributed to a hedging instrument which is an effective hedge are recognised in equity through other comprehensive income, while the ineffective part of the profits or losses attributed to the hedging instrument is recorded in Result on financial instruments valued at fair value through profit and loss.

The profits and losses recorded in other comprehensive income (effective hedge), at the moment of recording a financial asset or liability resulting from the planned hedged transaction are transferred to the income statement in such period or periods in which the hedged asset or liability affects the income statement.

In case of a hedge of non-financial asset or a non-financial liability, the associated gains and losses, recognised in other comprehensive income as an effective hedge, are transferred successively into the profit or loss account in the same period or periods during which the asset acquired or liability assumed affects the profit or loss account directly from equity or are transferred from equity to initial purchase price in the balance sheet and recognized successfully in the periods, in which non - financial asset or liability has impact on profit and loss account.

Fair value hedge

The hedging of fair value consists in hedging against the risk of changing fair value of a given asset or liability or future liability whose likelihood is justified, which can be attributed to a specific risk and which can impact the income statement.

Changes in the fair value of derivative instruments assigned and qualifying as fair value hedge are put through the income statement along with the corresponding changes in the fair value of the hedged asset or liability relating to the risk which the Bank hedges against.

The profits and losses resulting from the revaluation of the fair value of a hedging instrument (for a derivative hedging instrument) are disclosed in the income statement, while the profits or losses associated with the hedged position resulting from the hedged risk adjust the on-balance value of the hedged position and are recorded in the income statement. This principle applies to a hedged position which in other circumstances is valued at depreciated cost. If the hedged position is a financial asset available for sale, the profits or losses resulting from the hedged risk are recorded in the income statement until disposing or maturity date of such asset. Valuation of secured financial assets classified as available for sale, resulting from factors other than the hedged risk is presented in other comprehensive income until the disposal or maturity of the asset.

Termination of hedge accounting

If the fair value hedge no longer meets the criteria for applying hedge accounting, the carrying value adjustment of the hedged instrument valued at effective interest rate is linearly amortized through profit and loss account remaining to maturity. The valuation of hedged financial assets classified as available for sale resulting from other factors than hedged risks is presented under revaluation reserve until disposing or maturity date of such asset.

If the cash flow hedge no longer meets the criteria for hedge accounting, the valuation of hedging instrument recognized in other comprehensive income at the date of the last effectiveness test remains in equity until the realization of cash flow resulting from the hedged item. Then the amount is transferred into profit and loss account in the periods, in which the hedged transaction influences the profit and loss account.

Derivative instruments not qualifying as hedging instruments

Derivative instruments that are not subject to hedge accounting principles are classified as instruments held for trading, and valued at fair value. The changes in fair value of derivative instruments that do not meet hedge accounting criteria are recognized in the profit and loss for the current period in item 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Income Statement.

The Bank uses the following principles of recognition of gains and losses resulting from the valuation of derivative instruments:

- FX forward

Forward transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FX forward transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

Moreover the Bank designated selected FX forward transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

- FX SWAP

FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of FX SWAP transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' in the Profit and Loss Account.

- Interest Rate SWAP (IRS)

IRS transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of IRS transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

Moreover the Bank designated selected IRS transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

- Cross - Currency Swap (CCS)

CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of CCS transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'.

Moreover the Bank designated selected CCS transactions as hedging instruments. The method of recognition and measurement of hedging instruments was described in the part devoted to hedge accounting.

- IRS transactions with embedded options

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Bank.

- FX and Index options

Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Bank's counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of options are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' line of the Profit and Loss Account.

- Forward Rate Agreement (FRA)

FRA transactions are valued at fair value on discounted future cash flows basis and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FRA transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

- Commodity futures

Commodity futures are measured at fair value based on the discounted future cash flow methodology, using reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodities market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

- Commodity options

Commodity options are measured at fair value with use of option valuation models as well as reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodities market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assessment of impairment of financial assets takes place in the framework of individual and collective analysis. Subject of individual analysis are significant assets according to the criteria of significance adopted by the Bank using early warning signals, based primarily on the size of the exposure using early warning signals. As regards collective analysis the process includes assets not individually significant, and individually significant, for which as a result of individual analysis, impairment has not been identified.

The Bank has defined a list of evidence of impairment, adapted to the profile of the Bank, based on the requirements of IAS 39 Financial Instruments: Recognition and Measurement and recommendations provided by Financial Supervision in Recommendation R. The list of evidence of impairment was defined separately for the assets covered by individual and collective analysis.

Assets valued at amortized cost

The Bank assesses in the first place, whether evidence of impairment exists both for individually significant assets and assets that are not individually significant. If the Bank determines that no evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective analysis.

If there is evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Impairment is presented as reduction of the balance-sheet value of an asset, while the amount of loss (of the impairment charge posted in the period) is charged against profit or loss for the period.

If in the next period the amount of impairment loss is reduced in result of an event, which occurred after the impairment (e.g. improvement of the debtor's debt capacity assessment) then the previously made impairment charge is reversed. The amount of the made reversal is reported in the Profit and Loss Account.

Financial assets are written off against the related provision for impairment in case when collection of receivables becomes not possible. Recoveries subsequent to write-offs are recognised in the Profit and Loss Account as a decrease of the amount of created provisions.

Financial assets available for sale

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of instrument below its cost is considered in determining whether the assets are impaired.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

Detailed accounting policy regarding write-offs due to impairment of loan receivables is described in **Chapter 8. Financial Risk Management**.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.

The Bank presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause, provided that risks and rewards relating to this asset are retained by the Bank after the transfer.

When the Bank purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

Transactions with repurchase/resell agreement are measured at amortized cost. Securities, which are the subjects of transactions with repurchase clause, are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio. The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

Settlement of lease agreements

The Bank is a party to lease agreements based on which it accepts for paid use or collecting benefits external fixed assets for an agreed period.

In the case of lease contracts, under provisions of which the Bank takes transferring substantially all risks and rewards resulting from the ownership of the assets being the subject of the contract (financial leasing), the subject of the lease (in this case: investments in third party fixed assets, equipment, furniture and means of transport) is recognized in the Bank's Balance Sheet and the settlement of lease payments is reflected in the profit and loss account based on effective interest rate method.

In the case of operating lease contracts concluded by the Bank, under which substantially all risks and rewards resulting from leased assets are taken by the party who provides the assets (lessor), lease payments are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, under the rent agreement or for administrative purposes.

Tangible fixed assets are reported at historical cost less depreciation and impairment.

Fixed assets under construction are disclosed at the value of the purchasing price or production cost and are not subject to depreciation.

The Bank recognises in the on-balance value of tangible fixed assets the costs of replacing part of those positions at the moment of incurring them, if it is likely to obtain future economic benefits connected with a given asset and the purchasing price or production cost can be credibly valued. Other costs are incurred in the income statement at the moment of their incurring.

Costs of repairing and maintenance of tangible fixed assets encumber the income statement in the reporting period in which they were incurred.

Intangible assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form and will generate economic benefits for the Bank in the future.

The main components of intangible assets are licenses for computer software.

Purchased computer software licenses are activated in the amount of incurred cost of purchase and preparation for use, taking into account impairment charges.

Outlays associated with the improvement and maintenance of computer software are disclosed as costs at the moment of being incurred.

Other intangibles purchased by the Bank are recognized at cost less accumulated amortization and accumulated impairment write-offs.

Subsequent costs incurred after initial recognition of acquired intangible assets are recognized only when it is probable that future economic benefits will flow to the Bank. In the other cases, costs are charged to the profit and loss in the reporting period in which they were incurred.

All intangible assets are subject to periodic review in order to verify whether there were triggers indicating possible loss of values, which would require a test for the loss of values and an impairment recognition.

Depreciation and amortization charges

The depreciation charge of tangible and intangible assets is accounted for on a straight line basis with the use of defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized prospectively from the date of application.

No depreciation is made of land, outlays for tangible fixed assets and outlays for intangible assets. Neither are any depreciation charges made with respect to an intangible asset with an indefinite period of use. Intangible assets with an indefinite period of use are regularly tested for impairment as of every balance sheet date.

On-balance depreciation rates employed for basic groups of tangible fixed assets and intangible assets and for investment real estate are as follows:

Selected categories of property, plant and equipment:

Bank buildings	2.5%
Lease holding improvements	period of the lease
Computer hardware	30%
Network devices	30%
Vehicles	as standard 25%
Telecommunication equipment:	10%
Intangibles (software):	
Main applications (systems)	10%
For other computer software the Bank applies the rate not higher than 50%, which depends on the expected useful life.	

Depreciation and amortization charges are recognized as operating expenses in the profit and loss account.

Non-current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated.

Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of: its carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and classifies the asset to appropriate category of assets. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Impairment of non-current assets

The Bank assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Bank estimates the recoverable amount of the asset and if the recoverable amount of an asset is less than its carrying amount, the Bank recognizes impairment charge in the profit and loss.

The impairment loss is the difference between the carrying amount and the recoverable amount of the asset. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is established for particular assets, if a given asset generates cash flows substantially independent of those generated by other assets or groups of assets. If such indications exist, the Bank performs an estimation of recoverable value. If, and only if, the recoverable value of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value.

If pursuant to IAS 36, paragraph 21 there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will be particularly the case of an asset that is held for disposal.

Impairment charge can be reversed through P & L to the level at which the book value of the asset does not exceed the net book value of a given asset component on the assumption that no revaluation charge was made, but depreciation was continued.

Prepayments, Accruals and Deferred Income

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet.

Accruals are liabilities for costs arising from services provided to the Bank, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities” in the balance sheet.

Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities” in the balance sheet.

Provisions

Provisions are established when (1) the Bank has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Bank has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The restructuring provision does not cover future operating expenses.

Employee Benefits

Short-term employee benefits

Short-term employee benefits of the Bank (other than termination benefits due wholly within 12 months after the work is completed) comprises of wages, salaries, and paid annual leave and social security contributions.

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities. The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

Long-term employee benefits

The Bank's liabilities on long-term employee benefits are equal to the amount of future benefits which the employee will receive in return for providing his services in the current and earlier periods which are not fully due within 12 months from carrying out the work.

In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Bank's future liabilities due to employees according to the headcount and wages as at the date of revaluation. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2015 has been set at 2.5%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

In 2012, Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

The benefits of the program are realized partially in cash payments and partially by granting phantom shares entitling to receive cash in the amount that depends on the share price of Bank Millennium in the relevant period. Part of the scheme payable in cash is accounted for in the period employees acquire rights to such benefits. In the case of benefits granted in the form of phantom shares a 3-year term of holding shares is applied. During this period the employee cannot perform the rights attaching to the allocated phantom shares.

The fair value of the phantom shares is determined in accordance with accepted principles and allocated over the vesting period. The value of the provision is recognized as a liability to employees in correspondence with the Profit and Loss Account.

Policy details are presented in **Chapter 13.8**).

Provisions for short-term and long-term employee benefits are recognized in the caption 'Other Liabilities' in balance sheet in correspondence with the 'staff costs' in the profit and loss.

The Bank fulfils a programme of post - employment benefits called defined contribution plan. Under this plan the Bank pays fixed contributions into the state pension fund. Post - employment benefits are paid to an employee from the proceeds of the fund including the return on the invested contributions. Consequently, the Bank does not have a legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Bank's Equity

Equity consists of capital and funds established in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or the Articles of Association.

Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are presented at nominal value.

Share Capital

Share capital is presented at nominal value, in accordance with the Articles of Association and the entry in the Register of Companies.

If the Bank acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is treated as a change in the Equity. Acquired own shares are treated as own shares and disclosed as reduction of the Equity until the time they are cancelled.

Dividends for the financial year which have been approved by the General Shareholders' Meeting, but not distributed as of the balance sheet day are disclosed in the caption „Other Liabilities” in the balance sheet.

Share Premium

Share premium is formed from agio obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Revaluation Reserve

Revaluation reserve consists of: revaluation of financial assets available for sale and result of cash flow hedge valuation with deferred income tax effect applied. Revaluation reserve is not subject to distribution.

Retained Earnings

Retained earnings are created with charges against profit and are allocated for purposes specified in the Articles of Association or other legal regulations (the remaining part of supplementary capital, additional reserve capital, including general banking risk fund) or constitute previous years' profit/loss or year-to-date net financial result.

The General Banking Risk Fund at Bank Millennium SA is created from profit after tax in accordance with the Banking Act dated 29 August 1997 as later amended.

A current period's net financial income is the result from the current period's income statement adjusted by the corporate income tax charge.

Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees granted are measured at the higher of:

- The amount being the best estimate of the expenditure required to settle the present obligation resulting from this financial guarantee, considering the probability of its realization;
- the amount initially recognised less amortized amount of commission received for guarantee granting.

Interest income

The Bank recognises in the Profit and Loss Account all interest revenue and costs concerning financial instruments measured at amortised cost with use of the effective interest rate method as well as financial assets available for sale.

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.

Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the hedge accounting (detailed information on active hedge accounting relationships is presented in **note (17)**).

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

Interest income comprises interest and commissions (received or due) included in the calculation of the effective interest rate on: loans with repayment schedule, inter-bank deposits and securities held to maturity, available for sale and valued at fair value through profit and loss account. Additionally, interest income includes the directly attributable incremental costs to the conclusion loan agreement incurred by the Bank (mainly commissions paid to external and own agents for concluding mortgage loan agreements, and costs of property valuation connected with this type of agreements) that are an integral part of the effective interest rate calculation and subject to amortization over time.

At the time of recognition of an impairment loss on a financial instrument carried at amortized cost and available for sale financial assets, interest income is recognised in the profit and loss calculated on a net asset value basis (gross carrying amount less impairment amount). In this case interest income is calculated using the interest rate applied for discounting future cash flows for the purpose of impairment valuation.

Fee and commission income/ Fee and commission Costs

Fee and commission income and expenses relating to the handling of bank accounts, payment card operations, are included in the income statement at the moment of carrying out the service, while the remaining fees and commissions are settled over time.

The basic types of commissions associated with lending operations at the Bank include among others preparation fees/commissions and commitment fees.

Fees and commissions (both income and expense) directly associated with the origination of financial assets having specific repayment schedules are included in the income statement as an element of the effective interest rate; they are part of interest income. Other fees integrally associated with the origination of assets without specific time schedules are settled on a straight-line basis within the duration of the contract. Fees for a commitment to grant an advance which will probably be taken are deferred and once the financial assets arise are settled as an element of an effective interest rate or on a straight-line basis with the use of the above-mentioned criterion. In the case of loans and advances with unspecified instalment payment dates and unspecified interest rate repricing dates, e.g. overdraft facilities and credit cards, commissions are settled over time throughout the period of card validity or overdraft limit validity by straight-line method and accounted towards commission income.

In connection with the Bank's bancassurance activity (selling insurance services), based on the criterion how the income from aforementioned activity is recorded, two groups of products can be identified.

The first group consists of insurance products without direct links with the financial instrument (for example: health insurance, personal accident insurance) - in this case the Bank's remuneration is recognised as income after performance of a significant act, i.e. in a date of commencement or renewal of insurance policies.

In the second group (where there is a direct link to a financial instrument) two sub-groups can be identified:

- a) With respect to insurance connected with housing loans, in case of insurance premiums collected monthly (life insurance and property insurance) remuneration is applied to Profit and Loss Account upon remuneration receipt.
- b) With respect to insurance associated with cash loans the Bank allocates the total value of remuneration for combined transaction due to their respect for the individual elements of the transaction, after deducting by provision on the part of the remuneration to be reimbursed, for example as a result of the cancellation by the customer with insurance, prepayments or other titles. Provision estimate is based on an analysis of historical information about the real returns in the past and predictions as to the trend returns in the future.

Allocation of remuneration referred to above is based on the methodology of 'relative fair value' involving division of the total remuneration pro rata to, respectively, fair value of remuneration with respect to financial instrument and fair value of intermediation service. Determination of the above fair values is based on market data including, in particular, for:

- Intermediation services - upon market approach involving the use of prices and other market data for similar market transactions,
- Remuneration relative to financial instrument - upon income approach based on conversion of future amounts into present value using information on interest rates and other charges applicable to identical or similar financial instruments offered separately from the insurance product.

Individual, separated elements of a given transaction or several transactions considered jointly are subject to the following income recognition principles:

- Fees charged by insurance agencies - partially including fee for performance of a significant act, recognised in revenue on the day of commencement or renewal of insurance policy.
- Fees/charges constituting an integral part of effective interest rate accruing on financial instrument - treated as adjustment of effective interest rate and recognised under interest income.

In 2015 Bank has again reviewed the assumptions of the model applied for recognition of revenue from bancassurance. In consequence in the field of insurance of cash loans the part of revenue recognized on a one-off basis as commission for the execution of significant act has been set at 9% whereas in 2014 the rate of 14% used to be applied.

As on 31 December 2015, with respect to insurance products linked with cash loans, the Bank estimated provisions against refunds of premiums, expressed as percentage ratio of refunds to the level of gross fees, at 54%.

Remaining fees and commissions connected with financial services offered by the Group, such as:

- Asset management services;
- Services connected with cash management;
- Income from participation system of remuneration of the Bank from participation in insuring bank products (The bank is paid part of the earnings generated by the insurer in cooperation with the Bank).
- Brokerage services;

are recognised in the Profit and Loss Account on an one-off basis.

Dividend Income

Dividend income is recognized in the profit and loss when the shareholders' right to receive payment is established.

Result on Investment Financial Instruments

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.

Result on Financial Instruments Valued at Fair Value through the Profit and Loss Account and foreign exchange result

Result on financial instruments valued at fair value through profit and loss and foreign exchange result includes profits and losses generated as a result of selling financial instruments from the trading portfolio and the effect of their valuation to fair value (debt securities and derivatives held for trading) as well as foreign exchange profit.

Foreign exchange profit includes: i) realised result and result of valuation of FX spot and FX forward transactions ii) exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency at the average rate established as at the balance sheet date for a given currency by National Bank of Poland.

Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the Bank's core activity.

In particular, this is result on sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines and provisions for litigations issues.

Income tax

Corporate income tax comprises current and deferred tax.

Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.

Deferred income tax is recognized in profit and loss, except for when it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized in other comprehensive income or directly in equity.

Provision for deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Bank offsets deferred tax assets and deferred tax liabilities, because it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes (levied by the same taxation authority).

Deferred income tax provision is recognised using the balance sheet method for all positive temporary differences except when it arises from the amortization of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

Deferred income tax assets are recognised using the balance sheet method with respect to tax loss carry forwards and all negative temporary differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets are not recognised for negative temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

The amount of calculated deferred tax is based on expected degree of realisation of balance-sheet values of assets and liabilities with use of tax rates, which are expected to be in force when the asset is realised or provision eliminated, assuming the tax rates (and tax legislation) legally or factually in force as of the balance sheet date.

8. FINANCIAL RISK MANAGEMENT

The management of risk is one of the key tasks of the Management Board in the process of effective management of the Bank. It defines the framework for business development, profitability and stability, by creating rules ensuring the Bank's compliance with best internal control practices and legal requirements and coordination of the strategy for managing all risks.

1) BANK'S RISK MANAGEMENT RULES

Risk Management is one of the crucial features that determines the risk profile of a financial institution. Efficient risk management requires a consistent risk management system, which is a collection of rules and mechanisms that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such rules also include a broad range of methods, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems (see also "Risk management framework" in part of Management Board Report).

The results of risk measurement are regularly reported within the management information system.

Important principle of risk management is the optimization of the risk and profitability trade-off - the Bank pays special attention to ensure that its business decisions balance risk and profit adequately.

When defining the business and profitability targets, the Bank takes into account the specified risk framework (Risk Appetite) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed

The Risk Appetite of the Bank is mainly defined through the principles and targets defined in the Bank internal document "Risk Strategy 2015-2017", approved by the Management Board and Supervisory Board, and complemented in more detail by the principles and qualitative guidelines defined in the following internal documents, approved by the Management Board:

- Capital Management and Planning Framework
- Credit Principles and Guidelines
- Credit Concentration Risk Management Principles
- Principles and Rules of Liquidity Risk Management
- Principles and Guidelines on Market Risk Management on Financial Markets
- Principles and Guidelines for Market Risk Management in Banking Book
- Investment Securities Policy
- Principles and Guidelines for the Management of Operational Risk

Another major rule on the risk management framework in the Bank is the segregation of duties between risk origination, risk management and risk control.

The split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Group's Risk Strategy, including the Group's Risk Appetite and verifying the assets and liabilities prices offered to customers;
- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board.
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;

- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee and the Management Board to make decisions with respect to risk management;
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Bank. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Bank's limits, including counterparty and stop-loss limits, the Bank's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs.
- Fraud Risk Management Office has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Bureau constitutes a competence center for anti-fraud process.

2) CAPITAL MANAGEMENT

Capital management process

Bank's capital management is based on the high-level document „Capital Management and Planning Framework”, approved by the Bank's Management Board and Supervisory Board.

Bank's capital management relates to two areas: capital adequacy management and capital allocation. For both areas, management goals were set.

The goal of capital adequacy management is: (a) ensuring the solvency of the Bank in the normal and stressed conditions (economic capital adequacy) and (b) meeting the requirements specified in external regulations (regulatory capital adequacy).

Capital allocation purpose is to create value for shareholders by maximizing the return on risk in business activity, taking into account established risk appetite.

Own Funds requirements

Bank is obliged by law to meet minimum own funds requirements, set in art. 92 of Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and Polish Banking Act. At the same time, maintaining regulatory capital adequacy on a higher level than required minimum is one of a goal of capital management. Calculating own funds requirements, local solutions and interpretations are used (issued by Polish Financial Supervisory Authority - PFSA). During 2015 the Bank complied with requirements specified in external regulations.

Bank is implementing a project of an implementation of internal ratings based method (IRB) for calculation of own funds requirements for credit risk and obtaining of approval decisions from Regulatory Authorities (Banco de Portugal and PFSA) on that matter.

In the end of 2012, Banco de Portugal (consolidating Regulator) with cooperation of Polish Financial Supervision Authority (PFSA) granted an approval to the use of IRB approach as to following loan portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE). According to the mentioned approval, minimum own funds requirements calculated using the IRB approach should be temporarily maintained at no less than 80% ("Regulatory floor") of the respective capital requirements calculated using the Standardized approach.

In 2014, Bank submitted to Regulatory Authorities an IRB approval pack regarding remaining main loan portfolios.

During 2014, the Group submitted to Regulatory Authorities an IRB approval pack regarding the remaining loan portfolios under the IRB roll-out plan - "other retail" and "corporate" portfolios.

In the end of 2014, the Bank received another decision by Regulatory Authorities regarding the IRB process. According to its content, for the RRE and QRRE loan portfolios, the minimum own funds requirements calculated using the IRB approach must be temporarily maintained at no less than 70% ("Regulatory floor") of the respective capital requirements calculated using the Standardized approach until the Bank fulfils further defined conditions. The IRB approval for the remaining portfolios under roll-out plan shall be possible after meeting a list of conditions defined by Regulatory Authorities.

Data on regulatory capital adequacy (own funds requirements and capital ratios) are shown in the below table.

Bank Millennium - capital adequacy (PLN mn)	31.12.2015	31.12.2014
	IRB with regulatory floor ¹⁾	IRB with regulatory floor ¹⁾
Risk-weighted assets (RWA)	36 755.7	34 634.5
Own funds requirements, including:	2 940.5	2 770.8
- Credit risk and counterparty credit risk	2 643.6	2 489.0
- Market risk	29.1	24.8
- Operational risk	248.0	233.1
- Credit Valuation Adjustment CVA	19.8	23.8
Own Funds including:	6 081.3	4 988.4
Common Equity Tier 1 Capital, including:	5 943.4	4 742.6
- paid up capital instruments	1 213.1	1 213.1
- share premium	1 147.2	1 147.2
- recognised part of current profit	732.9	155.6
- other retained earnings	3 099.5	2 480.0
- recognised part of revaluation reserve	78.2	(3.8)
- regulatory adjustments	(327.5)	(249.5)
Tier II Capital, including:	137.9	245.8
- subordinated debt	252.1	380.1
- regulatory adjustments	(114.2)	(134.3)
Total Capital Ratio (TCR)	16.55%	14.40%
Common Equity Tier 1 Capital ratio (CET1 ratio) ²⁾	16.17%	13.69%

1) Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor”

2) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio

The capital adequacy, measured by Total Capital Ratio and Common Equity Tier 1 Capital ratio, improved in 2015 (yearly increase by 2.15 and 2.48 p.p., respectively).

Total risk-weighted assets went up by ca. 6% and that rise was influenced mainly by increase of business activity. Own Funds raised by almost 22% in effect from retaining of full net earnings from 2014, and consideration of full net earnings for first ten months of 2015 after deducting the extra charge to Banking Guarantee Fund (BFG) for the bankrupt SK Bank (according to the decision of PFSA) and dividend from subsidiary.

The Bank has received from the Polish Financial Supervision Authority ("PFSA") a recommendation to maintain own funds for the coverage of additional capital requirement at the level of 3.83 p.p. in order to secure the risk resulting from FX mortgage loans for households, which should consist of at least 75% of Tier I capital (which corresponds to 2.87 p.p.).

The abovementioned recommendation should be respected by the Bank from the date of receipt until further notice, i.e. until the PFSA determines, based on the analysis and supervisory assessment, that the risk associated with FX mortgage loans, being the reason for imposing the additional capital requirement on the Bank, has significantly changed.

This means that the minimum required capital ratios of the Bank (and the Group), taking into account the additional capital requirement recommended by the PFSA as at 31 December 2015 were:

Tier I Capital Ratio (T1) = $9 + 2.87 = 11.87\%$

Total Capital Ratio (TCR) = $12 + 3.83 = 15.83\%$

PFSA also announced an additional capital conservation buffer of 1.25 p.p. for all banks to be valid from 1st January 2016. The above mentioned new capital buffers are applicable on top of previous applicable base of 12% Total and 9% Tier 1 capital minimum ratios valid in Poland and are to be fulfilled by the Bank (and the Group) until the end of June 2016.

Internal capital

Bank defines internal capital according to Polish Banking Act, as the estimated amount needed to cover all identified, material risks found in Bank's activity and changes in economic environment, taking into account the anticipated level of risk in the future.

Internal capital is used in capital management in following processes: economic capital adequacy management and capital allocation.

Maintaining economic capital adequacy means a coverage (provision) of internal capital (that is an aggregated risk measure) by available financial resources (own funds). An obligation to banks to have in place that sort of risk coverage stems from Banking Act. It was mirrored in the Bank's capital targets/limits: economic capital buffer and economic capital buffer in stressed conditions.

In 2015, both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

At the same time internal capital is utilised in capital allocation process, to assign an internal capital to products/business lines, calculating risk-adjusted performance measures, setting risk limits and internal capital reallocation.

3) CREDIT RISK

The credit risk is one of the most important risk types for the Bank and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures as well as off-balance sheet financial instruments, such as granted and unutilized credit lines, guarantees and letters of credit, as well as limits for transactions in financial instruments.

The credit policy is subject to periodic reviews and verification process taking into account the prevailing market conditions and changes in the Bank's regulatory environment.

The Bank uses several rating systems to manage credit risk depending on the type of exposure and the customer segment involved. A rating system is a set of methods (models), processes, controls, data collection procedures and IT systems that identify and measure credit risk, sort levels of exposure by grades or pools (granting of credit rating), and quantify probability of default and expected loss estimates for specific types of exposure.

(3A) Measurement of Credit Risk

Loans and advances

Measurement of credit risk, for the purpose of the credit portfolio management, on the level of individual customers, on account of granted loans is done with the consideration of three parameters:

- (i) Probability of Default (PD) of a customer or counterparty as regards their liability;
 - (ii) amount of Exposure At Default (EAD) and
 - (iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.
- (i) The Bank assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed in-house or at the level of the BCP Bank or by external providers, and combine statistical analysis with assessment by a credit professional. The Bank's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Bank's Master Ratings Scale, presented below, also contains the scale of probabilities of non-compliance with the liabilities specified for a given class/rating. Rating models are subject to regular reviews and - if necessary - to relevant modification. Modifications of models are confirmed by Validation Committee.

The Bank regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments is performed by Rating Department independently from credit decision process and transactions are supported by IT systems, obtaining and analyzing information from internal and external databases.

The Bank's internal rating scale

Master scale	Description of rating
1-3	Highest quality
4-6	Good quality
7-9	Medium quality
10-12	Low quality
13-14	Watched
15	Default

- (ii) EAD - amount of exposure at default - concerns amounts which according to the Bank's predictions will be the Bank's receivables at the time of default against liabilities. Liabilities are understood by the Bank to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.
- (iii) LGD - loss given default is what the Bank expects will be its losses resulting from actual cases of default, with the consideration of internal and external costs of recovery and the discount effect.

Debt Securities

Debt securities Treasury and the Central Bank are monitored on the basis of Polish rating. Whereas the economic and financial situation of issuers of municipal debt securities is monitored on a quarterly basis based on their finance report.

Derivatives

The Bank maintains strict control over the limits of net open derivative positions both with respect to amounts and transaction maturities. Credit risk exposures resulting from derivatives are managed as part of total credit limits defined for individual customers calculated on the basis of verification of natural exposure and analysis of customer's financial situation, and also as part of counterparties' limits.

The Bank offers Treasury products for FX risk or interest rate risk only for hedging purposes and under Treasury limits assigned to clients or secured by specific collateral (deposit).

Most of the Bank's agreements include the possibility of calling the client to replenish the margin deposit, (if the valuation of the client's open position exceeds treasury limit, the so-called margin call); and if the client does not supplement the deposit, the Bank has the right to close the position.

Credit risk-based off-balance sheet liabilities

Credit risk-based off-balance sheet liabilities include guarantees, letters of credit as well as granted credit lines. The main purpose of these instruments is to enable the customer to use the funds granted by the Bank in a specific way.

Guarantees and letters of credit of standby type (liability similar to guarantee) bears at least the same credit risk as loans (in the case of guarantees and stand-by letters of credit type when valid claim appears, the Bank must make a payment).

Documentary and commercial letters of credit are a written, irrevocable and final obligation of the Bank to accept payments based on compliant documents within the time limits specified in the letters of credit and are connected with a guarantee-like risk.

The available credit line balance is the non-utilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters of credit. Considering the credit risk of undertakings to grant credit, the Bank is potentially exposed to a loss in an amount equal to the sum of non-utilised liabilities. However the probable loss amount is usually lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on customers' particular credit conditions.

The Bank monitors the period remaining to maturity of off-balance liabilities because long-term liabilities usually involve a higher degree of credit risk than short-term liabilities.

(3B) Limits control and risk mitigation policy

The Bank measures, monitors and controls large credit exposures and high credit risk concentrations, wherever they are identified. Concentration risk management process encompasses single-name exposures (with respect to an individual borrower or group of connected borrowers with material capital, organizational or economic relations) and sectoral concentration - to economic industries, geographical regions, countries, and the real estate financing portfolio (including FX loans), portfolio in foreign currencies and other. Above types of sectoral exposures are subject to internal limits system. Information about the utilization of limits are presented at the Supervisory Board and the Risk Committee.

The internal, sectoral limits are monitored quarterly. Limits are subject to annual or more frequent review, when deemed appropriate. The limits are approved by the Supervisory Board or the Risk Committee.

Management of credit risk exposure is also performed through regular monitoring of customers' economic and financial situation and/or track record of their relationship with the Bank from the point of view of punctual repayment of their principal and interest liabilities.

Collateral

The Bank accepts collateral to mitigate its credit risk exposure; the main role of collateral is to minimize loss in the event of customers' default in repayment of credit transactions in contractual amounts and on contractual dates by ensuring an alternative source of repayment of due and payable amounts.

Collateral is accepted in accordance with the credit policy principles defined for each customer segment. The key principle is that collateral for credit transaction should correspond to the credit risk incurred by the Bank, taking into account the specific nature of the transaction (i.e. its type, amount, repayment period and the customer's rating).

The credit policy defines the types, kinds and legal forms of collateral accepted in the Bank as well as more detailed requirements that are to ensure the probability of selling collateral of respective types in the context of the Bank's recovery experiences.

The Bank pays special attention to the correct determination of collateral value. It defined the rules for preparing and verifying collateral valuation and does it utmost to ensure that such valuations are objective, conservative and reflect the true value of the collateral. In order to ensure effective establishment of collateral, the Bank has developed appropriate forms of collateral agreements, applications, powers-of-attorney and representations.

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the corporate segment, in addition to all types of real property (residential, commercial, land), physical collateral is also accepted (vehicles, construction equipment, technical equipment, machinery) as well as assignment of contractual receivables.

Temporary collateral is also accepted in the period before the final collateral is established. Additionally, the Bank uses various forms of instruments supplementing the collateral, which facilitate enforcement or increase probability of effective repayment of debt from a specific collateral. Those instruments include: statement of submitting to enforcement, blank promissory note, power-of-attorney to a bank account, assignment of rights under an insurance agreement.

The Bank monitors the collateral to ensure that it satisfies the terms of the agreement, i.e. that the final collateral of the transaction has been established in a legally effective manner or that the assigned insurance policies are renewed. The value of the collateral is also monitored during the term of the credit transaction.

In accordance with credit policy adopted in the Bank it is also allowed to grant a transaction without collateral, but this takes place according to principles, which are different depending on the client's segment. But in the case of the deterioration of the debtor's economic and financial situation, in the most of documents signed with the client the Bank stipulates the possibility of taking additional collateral for the transaction.

(3C) Policy with respect to impairment and creation of impairment charges

Organisation of the Process

The process of impairment identification and measurement with respect to loan exposures is regulated in the internal instruction introduced by a Management Note of the Bank's Management Board Member. Moreover, the principles of receivables classification and estimation of impairment charges and provisions in the bank's management system are laid down in the document „Management System at Bank Millennium S.A.” adopted by resolution of the Management Board and approved by the Supervisory Board.

Supervision over the process of estimating impairment charges and provisions is exercised at the Bank by the Risk Department (DMR), which also has direct responsibility for individual analysis in the business portfolio, as well as collective analysis. In addition to DMR the process also involves recovery and restructuring units. These are the Corporate Recovery Department - DNG (individual analysis for the recovery-restructuring portfolio for corporate customers) and the Retail Liabilities Collection Department - DDN (individual analysis of individually significant retail impairments, mainly mortgages). DMR is a unit not connected with the process of lending; it is supervised by the Management Board Member responsible for risk management. Similarly organised is the impairment process at Millennium Leasing.

The Management Board of the Bank plays an active part in the process of determining impairment charges and provisions. The results of credit portfolio valuation are submitted to the Management Board for acceptance in a monthly cycle with a detailed explanation of the most important changes with an impact on the overall level of impairment charges and provisions, in the period covered by the analysis. Methodological changes resulting from the validation process and methodological improvements are presented at the Validation Committee, and subsequently at the Risk Committee, which includes all the Management Board Members.

In monthly periods detailed reports are prepared presenting information about the Group's retail portfolio in various cross-sections, including the level of impairment charges and provisions, their dynamics and structure. The recipients of these reports are Members of the Management Board supervising the activity of the Group in the area of finance, risk and management information.

The process of determining impairment charges and provisions in the Group is formalised and described in the above-mentioned regulation, which defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating particular parameters.

The Audit Department assesses the correctness of estimating the impairment and provisions at least twice a year.

The methodology and assumptions adopted for determining credit impairments are regularly reviewed in order to reduce discrepancies between the estimated and actual losses. In order to assess the adequacy of the impairment determined both in individual analysis and collective analysis a historical verification (backtesting) is conducted from time to time (at least once a year), whose results will be taken into account in order to improve the quality of the process.

Individual analysis of impairment for credit receivables

Credit exposures are selected for individual analysis on the basis of materiality criteria which ensure that case-by-case analysis covers at least 55% of the Group's business corporate portfolio and 80% of the portfolio managed by entities responsible for the recovery and restructuring of corporate receivables.

Principal elements of the process of individual analysis:

(1) Identification of impairment triggers;

The Group defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers incorporates in some more detail the triggers specified in IAS 39 and recommendation R, which pertain among others to:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Breach of the contract, e.g. delay in payments of principal or interest exceeding 90 days,
- Stating the customer's unreliability in communicating information about his economic and financial situation,
- Permanent lack of possibility of establishing contact with the customer in the case of violating the terms of the agreement,
- High probability of bankruptcy or a different type of reorganising the Customer's enterprise/business.
- Declaring bankruptcy or opening a recovery plan with respect to the Customer.
- Granting by the Bank, for economic and legal reasons, resulting from the client's financial problems, facilities in conditions of financing (restructuring)

The internal regulation contains a fine-tuning of the above-mentioned triggers by indicating specific cases and situations corresponding to them, in particular with respect to triggers resulting from the Customer's considerable financial problems, violating the critical terms of the agreement and high probability of a bankruptcy or a different enterprise reorganisation. Additionally, the Bank has an extended monitoring process which identifies in monthly periods various types of early warning signals subject to additional assessment by credit analysts.

(2) Estimating future flows;

One element of the impairment calculation process is the estimation of the probability of cash flows contained in the timetable pertaining to the following items: principal, interest and other cashflows. The probability of realising cash flows contained in the time-table results from the conducted assessment of the customer's economic and financial situation (indication of the sources of potential repayments) must be justified and assessed on the basis of current documentation and knowledge (broadly understood) of his situation with the inclusion of financial projections. This information is gathered by an analyst prior to the actual analysis in accordance with the guidelines specified in appropriate Group regulations.

If at least one of impairment triggers has been identified in the individual analysis, we have the so-called base impairment, i.e. probability of full repayments of liabilities by the customer from his current activity is estimated at a level lower than 100%. Internal instructions define specific parameters determining the minimum value of base impairment for the business portfolio of corporate customers and for the retail.

In the event of estimating the probability of cash flows for customers in the portfolio managed by restructuring-recovery departments analysts will take into account the individual nature of each transaction pointing among others to the following elements which may have an impact on the value of potential cash flows:

- Operational strategy with respect to the Customer adopted by the Group,
- Results of negotiations with the customer and his attitude, i.e. willingness to settle his arrears,
- Improvement/deterioration of his economic and financial situation,
- Possibility of settling liabilities from the borrower's own funds, or perhaps the necessity to seize the collateral, e.g. through its selling.

The Group also uses the formal terms of setting and justifying the amount of probability and amount of the payment by the Bank of funds under the extended off-balance sheet credit exposure such as guarantees and letters of credit.

- (3) Estimation of the fair value of collateral, specifying the expected date of sale and estimation of expected revenues from the sale after deduction of the costs of the recovery process;

If base impairment has occurred with respect to a given credit exposure, then one should estimate the cash flows from realising collateral including the dates of its realisation. The inclusion of cash flows from realising collateral must be preceded by an analysis of how realistically it can be sold and estimation of its fair value after recovery costs.

In order to ensure the fairness of the principles of establishing collateral recoveries the Group prepared guidelines with respect to the recommended parameters of the recovery rate and recovery period for selected collateral groups. Depending on the place of the exposure in the Bank's structure (business portfolio, restructuring-recovery portfolio) and type of exposure (credit, leasing) separate principles have been specified for particular portfolio types: business, restructuring-recovery and leasing portfolio. The recommended recovery rates and period of collateral recovery are verified in annual periods.

If the total discounted value of the expected cash flows from the customer's current activity, collateral recoveries and other documented sources is lower than the on-balance value of the credit exposure, then an impairment is recognised and a revaluation charge posted. If an impairment has been recognised with respect to at least one of the customer's exposure in an individual analysis, then all the remaining exposures of the customer are estimated in the process of an individual analysis irrespective of the exposure level and are classified in the impaired portfolio (cross default).

Internal regulations define the principles of reversing impairment losses. In the case of a customer in an individual analysis after finding that the consequences of the triggers no longer occur and the exposures are being properly repaid in a defined period (which is different for corporate and retail customers), the Bank may decide that the trigger no longer exists/persists and reverse the loss.

Collective analysis of the credit portfolio

Subject to collective analysis shall be the following receivables from the group of credit exposures:

- Individually insignificant exposures;
- Individually significant exposures for which there has not been recognised impairment as a result of an individual analysis.

The former group includes exposures for which as a result of a collective analysis impairment triggers have been defined and for which there has been created a revaluation charge/ provision (the so-called collective impairment), as well as exposures for which no impairment triggers have been identified with respect to an individual exposure, but there has been created a group charge for an incurred but not reported loss (IBNR). The latter group includes exposures for which there have not been identified impairment triggers as a result of an individual analysis and, moreover, exposures for which there have been identified impairment triggers, but there has not been created an individual revaluation charge/ provision due to full coverage of the exposure with the discounted value of the expected flows from collateral or other documented sources. For this group an IBNR charge is created.

The Bank has defined among others the following catalogue of impairment triggers used in collective analysis for individually insignificant exposures:

- Delay in the repayment of principal or interest in excess of 90 days,
- Exposure restructuring,
- Inclusion of receivables in the recovery process,
- The Customer's having a product earlier written off.

In its impairment estimation process the Bank employs for many years the cross-default rule, which consists in a transfer to the impairment portfolio of the value of all exposures to the customer (irrespective of the segment) for whom there has been detected the occurrence of at least one of the impairment triggers with respect to at least one receivable.

For the purposes of collective analysis the Bank has defined homogenous portfolios consisting of exposures with a similar credit risk profile. These portfolios have been created on the basis of segmentation into business lines, types of credit products, number of days of default, type of collateral (leasing), etc. The division into homogenous portfolios is verified from time to time for their uniformity.

The calculation of impairment charges and provisions by the collective method employs model parameters determined on the basis of historical observations of credit losses for particular homogenous portfolios. The Bank employs the following parameters:

- PI (probability of being impaired),
- LIP (loss identification period),
- LGI (loss given impairment),
- PU (probability of utilization), which is the ratio/probability of implementing an off-balance sheet commitment.

The parameters employed in collective analysis are determined in monthly periods based on historical statistical data. The period of observing historical data is defined in the Bank's internal regulations, taking into account the tendency to adjusting impairment charges to the market and internal situation of the Bank with a simultaneous observance of the statistical correctness of the calculated parameters.

The PI parameter is determined on the basis of the historical impairment ratio, the so-called „impaired rate”. For the purposes of PI calculation data samples are collected whose length corresponds to the loss identification period (LIP) adopted for a given homogenous portfolio. The samples are collected with monthly frequency. These samples are given weights, so that any observations coming from the most current period have the highest rate, and the least current ones - the lowest. The period of historical data observation for determining PI covers the last 36 months from the balance sheet day and takes into account the shift of the observation time window corresponding to the LIP length. Exposures covered by collective analysis for which at least one impairment trigger has been identified receive $PI = 1$.

The Loss Identification Period (LIP) is determined to each homogeneous portfolio by statistical analysis of historical events for the time that the Bank took between the event that lead to the default and the moment the Bank recognized the impairment.

The Loss Identification Period (LIP) in the retail and corporate segment is verified at least once a year based on data obtained from customers who have a problem with timely repayment.

Since October 2014, for mortgage exposures the Bank uses new LGI model, which is an adaptation of LGD model developed for the capital calculation, based on the IRB approach. Similar model was adapted for other retail exposures (including Microbusiness) in September 2015. The models are based on a discounted cash flow analysis. In case of corporate exposures the Bank uses simplified LGI model based on comparison of balances. The LGI models use a deep and statistically driven segmentation based on: product type, amount of exposure, LTV, currency, restructuring flag, etc. In addition, all models differentiate LGI depending on the number of months from impaired date.

The PU parameter denoting the ratio of using an off-balance exposure during LIP months before going impaired, is calculated for credit cards, revolving loans and overdraft limits. In case of guarantees the PU is the probability of guarantee realisation in the event of submitting by beneficiary of the guarantee, an application for guarantee payment. This parameter is estimated separately for individuals and business entities. The period of observing historical data for PU determination covers the last 36 months from the balance sheet day. Data samples coming from the observation period are assigned appropriate weights whose levels are calculated similarly as in the case of the PI parameter. The PU parameter is updated every month.

Internal regulations provide a detailed definition of the principle of reversing impairment losses determined by the collective method. In principle, reversing a loss and elimination of a revaluation charge is possible in the case of cessation of the impairment triggers, including the repayment of arrears or exclusion from the recovery portfolio (reclassification to the Non-Impaired category) or in the case of selling receivables. Reclassification to the Non-Impaired category in the case of exposures subject to restructuring is possible only when the customer has successfully passed the „quarantine” period, during which he will not show delay in the repayment of principal or interest above 30 days. The quarantine period only starts counting after any eventual grace period that may be granted on the restructuring. The above does not pertain to the Corporate Recovery restructuring portfolio, for which there have been defined separate objective and subjective conditions of transfer to the Non-Impaired category. For leasing transactions the quarantine period is equal to the period of staying in the restructuring portfolio, plus an additionally defined period. Within its duration delays in repayments must not exceed 30 days.

The results of models employed in collective analysis are subject to periodical historical verification. The parameters and models are also covered by the process of models management governed by the document „Principles of Managing Credit Risk Models”, which specifies, among others, the principles of creating, approving, monitoring and validation, and historical verification of models. The validation of models and parameters and historical verification of revaluation charges/ provisions determined by the collective method is conducted at least once a year.

If as a result of the validation and analysis of cyclicity of credit models and historical verification of revaluation charges and provisions the Bank comes to the conclusion that the parameters employed as of a given balance sheet day deviate from the actual trend of the data being the basis for their determination, then the Bank may adjust the period of observing historical data to the current economic conditions.

In 2015 the Bank reviewed its impairment classification criteria and, as a consequence, adopted in 3rd quarter a more restrictive classification of impaired retail exposures that went under restructuring. This adjustment translated in the amount of recognized impaired receivables PLN 144 million in mortgage and other retail exposures.

In September 2015 in Bank there was a sale of PLN 104 million of on balance sheet NPL receivables, with higher than average coverage ratio. The sale included mainly other retail receivables (ca PLN 83 million) and mortgage receivables (ca PLN 21 million).

IFRS 9 implementation

The Bank continues to work on the implementation of IFRS 9. The preliminary analysis of the needs and the resources required for the proper and timely implementation of the Standard had already been carried out. In order to achieve the highest quality solutions, take advantage of international experience and to assure efficient and timely implementation of the Standard, a working team has been established, in liaison with Millennium bcp Group. The implementation of the Standard will take place on 1 January 2018. However the Bank assumes that in the year 2017 will simultaneously apply two methods of estimating impairment provisions, i.e. current and according to the standards IFRS 9.

(3D) Maximum exposure to credit risk

PLN'000	Maximum exposure	
	31.12.2015	31.12.2014
Exposures exposed to credit risk connected with balance sheet assets	63 008 176	56 968 811
Loans and advances to banks	2 348 735	2 384 744
Loans and advances to customers:	46 070 719	43 634 324
Loans to private individuals:	32 905 953	31 435 346
- Credit cards	645 325	665 462
- Cash loans and other loans to private individuals	4 577 232	3 863 260
- Mortgage loans	27 683 396	26 906 624
Loans to companies	12 746 420	11 684 317
Loans to public entities	418 346	514 661
Trading debt securities	408 572	933 482
Derivatives and adjustment due to fair value hedge	429 323	504 751
Financial assets valued at fair value	0	0
Investment debt securities	13 635 726	9 242 574
Receivables from securities bought with sell-back clause	0	155 642
Other financial assets	115 101	113 294
Credit risk connected with off-balance sheet items	7 860 979	7 796 275
Financial guarantees	1 148 003	1 104 794
Credit commitments and other commitments connected with loans	6 712 976	6 691 481

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2015 and 31st December 2014, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

The quality of financial assets, which were neither past-due(*), nor impaired.

PLN'000	Exposure	
	31.12.2015	31.12.2014
Balance exposures exposed to credit risk not past due and not impaired:	61 367 924	55 477 935
Loans and advances for banks (external rating Fitch: from BB+ to AA-; Moody's: from B1 to Aa3; S&P: from B+ to AA-)	2 348 744	2 384 754
Loans and advances for clients (according to Master Scale):	44 545 559	42 256 712
• 1-3 Highest quality	18 024 538	17 887 906
• 4-6 Good quality	7 060 219	6 378 071
• 7-9 Medium quality	10 766 935	9 620 534
• 10-12 Low quality	4 077 011	4 270 798
• 13-14 Watched	220 781	229 197
• 15 Default (**)	101 693	524 292
• Without rating (***)	4 294 382	3 345 914
Trading debt securities (State Treasury(****) bonds)	408 572	933 482
Derivatives and adjustment from fair value hedge (according to Master Scale):	429 323	504 752
• 1-3 Highest quality	139 764	218 158
• 4-6 Good quality	138 611	207 400
• 7-9 Medium quality	14 719	9 263
• 10-12 Low quality	9 515	5 671
• 15 Default	0	0
• Without rating	33 729	18 164
• fair value adjustment due to hedge accounting	22 152	27 097
• Valuation of future FX payments	14	0
• Hedging derivative	70 833	18 999
Investment debt securities (State Treasury(****), Central Bank(****), Local government)	13 635 726	9 242 593
Receivables from securities bought with sell-back clause	0	155 642

(*) - loans overdue not more than 4 days are treated as technical delay and are shown in this category

(**) - receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure

(***) - the group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and some leasing clients

(****) - rating of Poland in 2015 A - (S&P)

The quality of loans and advances for clients (according to Master Scale) divided by customer segments, which were neither past-due(*), nor impaired:

were neither past due(), nor impaired.

Gross exposure in '000 PLN		31.12.2015			Total
		Loans and advances to customers			
		Companies	Mortgages	Other retail	
1-3	Highest quality	66 961	17 618 958	338 619	18 024 538
4-6	Good quality	692 167	5 212 406	1 155 646	7 060 219
7-9	Medium quality	5 457 642	2 986 769	2 322 524	10 766 935
10-12	Low quality	2 375 714	770 355	930 942	4 077 011
13-14	Watched	18 615	161 433	40 733	220 781
15	Default (**)	22 955	60 297	18 441	101 693
Without rating (***)		4 290 244	1 898	2 240	4 294 382
Total		12 924 298	26 812 116	4 809 145	44 545 559

(*) - loans overdue not more than 4 days are treated as technical delay and are shown in this category

(**) - receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure

(***) - the group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and particular leasing clients

(3E) Loans

The structure of loans granted to customers and to banks as well as key loans portfolio ratios are as follows:

Gross exposure in '000 PLN	31.12.2015		31.12.2014	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	44 545 559	2 348 744	42 256 712	2 384 754
Overdue(*), but without impairment	869 164	0	953 518	0
Total without impairment (IBNR)	45 414 723	2 348 744	43 210 230	2 384 754
With impairment	1 981 085	0	1 649 731	0
Loans and advances, gross	47 395 808	2 348 744	44 859 961	2 384 754
Impairment write-offs together with IBNR	(1 325 089)	(9)	(1 225 637)	(10)
Loans and advances, net	46 070 719	2 348 735	43 634 324	2 384 744
Loans with impairment / total loans	4.18%	0.00%	3.68%	0.00%

(*) Loans overdue not more than 4 days are treated as technical delay and are not shown in this category.

Loans and advances without impairment in '000 PLN

	31.12.2015		31.12.2014	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without identified triggers	45 378 692	2 348 744	42 783 726	2 384 754
With identified triggers, incl.	36 031	0	426 504	0
- expected cash flows from collateral, incl.	36 031	0	426 504	0
- overdue(*)	12 116	0	17 890	0
Loans and advances without impairment, gross	45 414 723	2 348 744	43 210 230	2 384 754
Impairment for IBNR portfolio	(127 340)	(9)	(137 040)	(10)
Loans and advances without impairment, net	45 287 383	2 348 735	43 073 190	2 384 744

(*) Loans overdue not more than 4 days are treated as technical delay and are not shown in this category.

Loans and advances past due but without impairment

Loans past due below 90 days are not considered as impaired exposures, unless other impairment triggers are identified. The gross amount of loans past due but without impairment, divided between customer segments, is as follows:

Gross exposure in '000 PLN	31.12.2015				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Delay 5 - 30 days (*)	39 715	434 325	179 875	0	653 915
Delay 31 - 60 days	15 612	86 599	50 196	0	152 407
Delay 61 - 90 days	4 473	25 686	21 632	0	51 791
Delay above 90 days(**)	8 094	1 389	1 568	0	11 051
Total	67 894	547 999	253 271	0	869 164

Gross exposure in '000 PLN	31.12.2014				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Delay 5 - 30 days (*)	46 792	505 793	177 498	0	730 083
Delay 31 - 60 days	14 765	92 026	48 783	0	155 574
Delay 61 - 90 days	5 619	32 676	21 166	0	59 461
Delay above 90 days(**)	6 611	11	1 778	0	8 400
Total	73 787	630 506	249 225	0	953 518

(*) - Loans overdue not more than 4 days are treated as technical delay and are not shown in this category

(**) - Receivables past due over 90 days, but not included in the impaired portfolio, displaying impairment triggers but not demonstrating impairment due to estimated cash flows or below the minimum threshold.

Impaired loans and advances

The gross amount of impaired loans and advances broken down into customer segments is as follows:

Gross exposure in '000 PLN	31.12.2015				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	626 050	168 096	2 612	0	796 758
Collective analysis	162 390	426 418	595 519	0	1 184 327
Total	788 440	594 514	598 131	0	1 981 085

Gross exposure in '000 PLN	31.12.2014				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	599 668	109 360	2 117	0	711 145
Collective analysis	172 999	314 044	451 543	0	938 586
Total	772 667	423 404	453 660	0	1 649 731

Loans and advances covered by case-by-case analysis

The quantification of the value of the portfolio subjected to case-by-case analysis as well as of the value of created charges, split between impaired receivables and the IBNR portfolio (and respectively charges) is presented in financial notes.

The tables below present the structure of the impaired portfolio subjected to case-by-case analysis.

Loans and advances to customers, gross exposure - by currency

	31.12.2015			31.12.2014		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	648 862	81.5%	71.6%	645 051	90.7%	72.6%
CHF	117 209	14.7%	23.4%	62 655	8.8%	22.3%
EUR	30 416	3.8%	27.3%	3 439	0.5%	81.6%
USD	271	0.0%	49.8%	0	0.0%	n/a
GBP	0	0.0%	n/a	0	0.0%	n/a
Total (Case by Case impaired)	796 758	100.0%	62.8%	711 145	100.0%	68.2%

Loans and advances to customers, gross exposure - by coverage ratio

	31.12.2015		31.12.2014	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	150 675	18.9%	66 596	9.4%
20% to 40%	102 304	12.8%	89 051	12.5%
40% to 60%	81 931	10.3%	84 833	11.9%
60% to 80%	142 255	17.9%	123 643	17.4%
Above 80%	319 593	40.1%	347 022	48.8%
Total (Case by Case impaired)	796 758	100.0%	711 145	100.0%

At the end of 2015, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis amounted to PLN 226 million (in 31/12/2014: PLN 183 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

Restructured loans and advances

The restructuring of receivables is done by dedicated units (separately for corporate and retail receivables).

The restructuring of both corporate and retail receivables allows the Bank to take effective action towards the customers, the purpose of which is to minimize losses and mitigate, as quickly as possible, any risks to which the Bank is exposed in connection with client transactions giving rise to the Bank's off-balance sheet receivables or liabilities.

The restructuring process applies to the receivables which, based on the principles in place in the Bank, are transferred to restructuring and recovery portfolios and includes setting new terms of transactions which are acceptable for the Bank (including in particular the terms of their repayment and their collateral and possibly obtaining additional collateral).

Recovery of retail receivables is a fully centralised process implemented in two stages:

- warning process - conducted by Direct Banking Department,
- restructuring and execution proceedings - implemented by Retail Liabilities Collection Department.

Process performed by Direct Banking Department involves, solely, direct, telephone contacts with Customers and obtaining repayment of receivables due to the Bank. In case of failure to receive repayment or in case the Customer applies for debt restructuring, the case is taken over by the Retail Liabilities Collection Department and involves any and all restructuring and execution activities.

Recovery process is supported by specialised IT system covering the entire Customer portfolio, fully automated at the stage of portfolio monitoring and supporting actions undertaken in later restructuring and recovery phases. The behavioural scoring model constitutes an integral component of the system, used at the warning stage. The system is used for retail liabilities collection process applicable to all retail Customer segments.

The scoring model is based on internal calculations including, inter alia, Customer's business segment type of credit risk based product (applicable, primarily, to mortgage products) and history of cooperation with the Customer relative to previous restructuring and execution activities. Late receivables from retail customers are sent to the IT system automatically no later than 4 days after the date of the receivable becoming due and payable.

The restructuring and recovery process applicable to corporate receivables (i.e. receivables due from corporate and SME customers) is centralized and performed by the Corporate Recovery Department. Recovery of corporate receivables aims to maximize the recovery amounts in the shortest possible periods of time and to mitigate risk incurred by the Group by carrying out the accepted restructuring and recovery strategies towards:

- the customer,
- corporate receivables,
- collateral ensuring their repayment.

The actions performed as part of those strategies include, among others: setting the terms and conditions of Customer financing, terms and conditions of restructuring corporate receivables, including the terms on which they will be repaid and secured, obtaining valuable and liquid collateral, achieving amicable repayment, recovery of due and payable receivables (also by court executive officer), also from collateral, actions performed within debtors' bankruptcy proceedings, conducting required legal actions.

Corporate Recovery Department manages the corporate receivable restructuring and recovery process by using IT applications supporting the decision-making process and monitoring. They provide instantaneous information on receivables, collateral, approach used and key actions and dates.

The table below presents the loan portfolio with recognised impairment managed by the Bank's organisational units responsible for loan restructuring.

Gross exposure in '000 PLN	31.12.2015	31.12.2014
Loans and advances to private individuals	601 521	434 483
Loans and advances to companies	302 210	150 267
Total	903 731	584 750

Bank execution titles

In 2015, the Bank issued for corporate receivables 87 bank execution titles for the aggregated amount of PLN 76.8 million (based on the average NBP exchange rate of 31 December 2015), including:

- 85 bank execution titles for the aggregated amount of PLN 75.6 million,
- 2 bank execution titles for the aggregated amount of EUR 0.3 million.

Additionally, in 2015 the Bank issued 10 558 bank execution titles for retail and small business receivables for the aggregated amount of PLN 156.4 million. In addition, in 2015, the Bank sent to the courts 7 328 lawsuit for a payment order in the amount of PLN 84 million.

(3F) Debt and equity securities

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2015.

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	408 572	9 363 699	0	9 772 271
Central Bank	0	4 198 776	0	4 198 776
Other	0	73 283	458 941	532 224
- listed	0	0	0	0
- not listed	0	73 283	458 941	532 224
Total	408 572	13 635 758	458 941	14 503 271

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2014.

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	933 482	6 749 204	0	7 682 686
Central Bank	0	2 400 000	0	2 400 000
Other	0	93 388	239 243	332 631
- listed	0	0	0	0
- not listed	0	93 388	239 243	332 631
Total	933 482	9 242 592	239 243	10 415 317

(3G) Collateral transferred to the Bank

Apart from one case described below in 2014 there were no major seizures by the Bank or sale of fixed assets. In 2015 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from lien or transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (also as part of selling organized parts of the debtor's whole enterprise). Funds obtained in such a way are allocated directly for repayment of the Bank's receivables (such debt-collection procedure is implemented without recording transferred collateral on the so-called "Fixed Assets for Sale").

(3H) Policy for writing off receivables

Credit exposures, with respect to which the Group no longer expects any cash flows to be recovered and for which impairment provisions (or fair value adjustments in case of receivables originated from derivatives) have been created fully covering the outstanding debt are written-off the balance sheet against said provisions and transferred to off-balance. This operation does not cause the debt to be cancelled and the legal and recovery actions, reasonable from the economic point of view, are not interrupted in order to enforce repayment.

In most of cases the Group writes off receivables against impairment provisions when said receivables are found to be unrecoverable i.e. among other things:

- obtaining a decision on ineffectiveness of execution proceedings;
- death of a debtor;
- confirmation that there are no chances to satisfy claims from the estate in bankruptcy;
- exhaustion of all opportunities to carry out execution due to the lack of assets of the main debtor and other obligors (e.g. collateral providers).

(3I) Concentration of risks of financial assets with exposure to credit risk

Industry sectors

The table below presents the Bank's total main categories of credit exposure broken down into components, according to category of customers.

31.12.2015	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	2 348 744	0	0	0	0	0	0	0	2 348 744
Loans and advances to customers	54 116	4 798 986	3 882 026	2 037 469	394 854	27 954 629	5 660 547	2 613 181	47 395 808
Trading securities	0	0	0	0	408 572	0	0	0	408 572
Derivatives and adjustment due to fair value hedge	395 658	19 791	2 725	0	0	0	0	11 149	429 323
Investment securities	308 042	144 000	0	145 13 635 780	0	0	0	6 732	14 094 699
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	0	0	0	0	0	0	0	0	0
Total	3 106 560	4 962 777	3 884 751	2 037 614	14 439 206	27 954 629	5 660 547	2 631 062	64 677 146

* including: credit cards, cash loans, current accounts, overdrafts

31.12.2014	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	2 384 754	0	0	0	0	0	0	0	2 384 754
Loans and advances to customers	142 150	4 429 114	3 389 096	1 763 060	473 674	27 138 444	4 879 755	2 644 668	44 859 961
Trading securities	0	0	0	0	933 482	0	0	0	933 482
Derivatives and adjustment due to fair value hedge	473 863	22 739	1 939	124	0	0	0	6 086	504 751
Investment securities	88 461	144 000	0	28 9 242 596	0	0	0	6 732	9 481 817
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	155 642	0	0	0	0	0	0	0	155 642
Total	3 244 870	4 595 853	3 391 035	1 763 212	10 649 752	27 138 444	4 879 755	2 657 486	58 320 407

* including: credit cards, cash loans, current accounts, overdrafts

4) MARKET RISK

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Bank's portfolio due to adverse movement in interest rates, foreign exchange rates or prices of bonds, equities or commodities.

Market-risk evaluation measures

The Bank's market risk measurement allows monitoring of all of the risk types, that is generic risk (including interest rate risk, foreign exchange risk, equity risk), non-linear risk, specific risk and commodity risk. In 2015 the nonlinear risk, commodities risk and equity risk either did not exist in the Bank or was immaterial.

Each market risk type is measured individually using an appropriate risk model and then integrated measurement of total market risk is built from those assessments without considering any type of diversification between the four risk types (the worst case scenario).

The main measure used by the Bank to evaluate market risks (interest rate risk, foreign exchange risk, equity risk) is the parametric VaR (Value at Risk) model - an expected loss that may arise on the portfolio over a specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement.

The Value at Risk in the Bank (VaR) is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). In order to adapt to regulatory requirements of CRDIV / CRR, since April 2014 the volatility associated with each market risk vertex considered in the VaR model (and respective correlation between them) has been estimated by the equally weighted changes of market parameters using the effective observation period of historical data of last year. Previously applied EWMA method (exponentially weighted moving average method) with effectively shorter observation period is now only justified by a significant upsurge in price volatility.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear risk, commodity risk and specific risk), the appropriate assessment rules were defined. The non-linear risk is measured according to internally developed methodology which is in line with the VaR methodology - the same time horizon and significant level is used. Specific and commodities' risks are measured through standard approach defined in supervisory regulations, with a corresponding change of the time horizon considered.

The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.

All reported excesses are documented. This includes an explanation of their causes and their incorporation in one of the three classes of excess explanation: adequacy of the model, insufficient model accuracy or unanticipated market movements.

Parallel to the VaR calculation the portfolios are subject to a set of stress scenarios, in order to:

- Estimate the potential economic loss resulting from extreme variations in market risk factors,
- Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- Identify the actions that can be taken to reduce the impact of extreme variations in the risk factors.

The following types of market scenarios are being applied in the stress test analysis:

- Parallel shifts of the yield curves;
- More steep or flat shape of the yield curves;
- Variations of the exchange rates;
- Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows having on-line access to the risk exposures in terms of VaR in all market risk management areas (intra-day and end-of-day).

The VaR is used as a measure in assessing the risks incurred by the positions in consolidated terms and separately for the Trading and Banking Book. In addition, each Book is divided into the risk management areas.

The global limit is expressed as a fraction of the consolidated Own Funds and then limit is divided into the books, risk management areas and various types of risk, which enables the full measurement, monitoring and control of market risk. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Bank.

The market risk limits are revised at least once a year and in order to take into account, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 1st June 2015.

In 2015 the VaR indicators for the Bank remained on average at the level of PLN 42.1 million (15% of the limit) and PLN 35.8 million (13% of the limit) as of the end of December 2015. The VaR indicators presented in the table below reflect joint exposures to market risk in the Bank, that is Trading Book and the Banking Book. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect is connected with the fact that the Bank's market risk is mainly the interest rate risk. The figures in the Table include also the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

The market risk in terms of VaR for the Bank ('000 PLN):

VaR measures for market risk	VaR (2015)				
	31.12.2014	Average	Maximum	Minimum	31.12.2015
Total risk	61 005	42 071	68 401	18 377	35 818
Generic risk	58 499	39 690	65 916	16 155	33 864
Interest Rate VaR	58 492	39 698	65 788	16 144	33 861
FX Risk	107	249	3 090	8	41
Diversification Effect	0.2%				0.1%
Specific risk	2 497	2 381	2 498	1 954	1 954

The corresponding exposures as of 2013 respectively amounted to:

VaR measures for market risk	VaR (2014)				
	31.12.2013	Average	Maximum	Minimum	31.12.2014
Total risk	17 316	29 084	62 717	13 215	61 005
Generic risk	14 506	26 363	60 232	10 416	58 499
Interest Rate VaR	14 503	26 376	60 254	10 404	58 492
FX Risk	132	159	1 471	12	107
Diversification Effect	0.9%				0.2%
Specific risk	2 810	2 721	2 814	2 485	2 497

The market risk exposure divided into Trading Book and Banking Book together with risk type division is presented in the tables below ('000 PLN):

Banking Book:

VaR measures for market risk ('000 PLN)	VaR (2015)				
	31.12.2014	Average	Maximum	Minimum	31.12.2015
Total risk	58 442	40 179	65 235	17 128	33 957
Generic risk	55 962	37 806	62 755	14 912	32 010
Interest Rate VaR	55 962	37 806	62 755	14 912	32 010
FX Risk	0	0	0	0	0
Diversification Effect	0.0%				0.0%
Specific risk	2 480				1 947

VaR measures for market risk ('000 PLN)	VaR (2014)				
	31.12.2013	Average	Maximum	Minimum	31.12.2014
Total risk	17 232	27 433	58 808	11 376	58 442
Generic risk	14 422	24 715	56 328	8 579	55 962
Interest Rate VaR	14 422	24 720	56 328	8 579	55 962
FX Risk	0	22	136	0	0
Diversification Effect	0.0%				0.0%
Specific risk	2 810				2 480

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2015)				
	31.12.2014	Average	Maximum	Minimum	31.12.2015
Total risk	5 350	5 321	12 358	1 747	3 245
Generic risk	5 323	5 314	12 353	1 740	3 238
Interest Rate VaR	5 316	5 299	12 398	1 721	3 236
FX Risk	107	251	3 090	8	41
Diversification Effect	1.9%				1.2%
Specific risk	18				7

VaR measures for market risk ('000 PLN)	VaR (2014)				
	31.12.2013	Average	Maximum	Minimum	31.12.2014
Total risk	1 124	3 708	8 651	500	5 350
Generic risk	1 124	3 705	8 649	498	5 323
Interest Rate VaR	1 118	3 705	8 699	434	5 316
FX Risk	132	147	1 471	12	107
Diversification Effect	11.2%				1.9%
Specific risk	0				18

In 2015, total market risk limits in terms of VaR were not breached - neither for the whole Bank nor for the Banking Book and Trading Book, separately.

All eventual excesses of market risk limits are always reported, documented and ratified at the proper competence level.

Open positions mostly included interest-rate instruments and FX risk instruments. The FX risk covers all the foreign exchange exposures of the Bank. According to the Risk Strategy approved in the Bank, the FX open position is allowed, however should be kept at low levels. For this purpose, the Bank has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows to keep FX open positions mainly in Trading Book.

In 2015, the FX Total open position (Intraday as well Overnight) remained below the maximum limits in place and was kept only in Trading Book.

Evolution of the total FX open position (Overnight) in Trading Portfolio (PLN thousand):

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2015	7 945	1 685	40 100	4 421
2014	7 075	1 727	34 258	6 598

In addition to above mentioned market risk limits, the stop loss limits are introduced in the Bank for the financial markets portfolios. The aim is to limit the maximum losses of the trading activity of the Bank. In case the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

In the back-testing calculation for VaR model, three excesses were detected during the last twelve months (see Table below, PLN thousand).

Reporting Date	VaR (generic risk)	Theoretical change in the value of the portfolio (absolute values)	Number of excesses in last 12 months *
2015-12-31	33 864	2 593	3
2014-12-31	58 499	659	0

* the excess is said to happen whenever the difference between the absolute change in portfolio value and VaR measure is positive

The excesses in the process of VaR model back testing were caused by unanticipated market movements, that is a rapid movements of PLN swap and PLN bond yield curves in December 2015. The number of excesses proves the model adequacy (green zone: 1 - 8 excesses acceptable).

VaR assessment is supplemented by monitoring the sensitivity to the above-mentioned stress tests scenarios of portfolios carrying market risk.

The results of stress tests for market risk were reported on monthly basis to the Capital, Assets and Liabilities Committee. In keeping with principles adopted by the Bank the limits for stress test results based on the probability of the scenario materialization are triple as high as limits for daily management of market risk. In 2015 the limits for market risk exposure under stress scenarios were not exceeded. In 4Q2015, the stress tests scenario were revised taking under consideration recently observed volatilities and correlation between market risk parameters. The new scenarios will be implemented in 2016.

Interest rate risk in Banking Book

In case of the Banking Book, the main component of the market risk is interest rate risk. As a rule, FX position generated in the Banking Book is fully transferred to the Trading Book where is managed on a daily basis. Conservative limits applied to FX position guarantees that the market risk generated by open FX positions is residual and does not occur in the Banking Book (see table above).

Exposure to interest rate risk in the Banking Book are primarily generated by the unbalance between assets and liabilities (including equity) that have fixed rate (or zero rate) and also, to a lower extent, by the different repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. Additionally, due to specificity of the polish legal system, the interest rate of consumer credits cannot exceed four times the Lombard interest rate of the National Bank of Poland and from January 2016 two times Reference Rate of the National Bank of Poland increased by 7 percentage points). In situations of decreasing interest rates, the impact on Net Interest Income is negative and depend on the percentage of the loan portfolio that is affected by the new maximum rate.

Regarding the interest rate risk in Banking Book, the following principles are in place:

- The market risk that results from the commercial banking activity is hedged or transferred on the monthly basis to areas that actively manage market risk and that are measured in terms of risk and profit and loss,
- The Bank uses natural hedging between loans and deposits as well as fixed rate bonds and derivatives to manage interest rate risk with the main purpose of protecting the net interest income.

The variations in market interest rate have an influence on the Bank's net interest income, both under a short and medium-term perspective, affecting also its economic value in the long term. The measurement of both is complementary in understanding the complete scope of interest rate risk in Banking Book.

For this reason, apart from daily market risk measurement in terms of value at risk, the scope of the additional measurement of interest rate risk covers both earnings-based and economic value measures, that is quarterly:

- the Economic value of Equity that measures the theoretical change in the net present value of all Bank's positions resulting from different upward/downward parallel basis points shocks applied to market interest rates curves (0% floor in a low interest rate environment is assumed¹). Therefore, the results shows the impact on the Bank's economic value resulting from the interest rate change,

and monthly:

- the interest rate sensitivity in terms of BPVx100, that is the change of the portfolio's value for the parallel movement in the yield curve by 1 basis point multiply by 100,
- the impact on net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of 100 basis points.

The measurement is carried for all the risk management areas in the Bank, with the particular attention on Banking Book. For the purpose of above mentioned analysis for the non-maturing assets and liabilities or for the instruments with Client's option embedded, the Bank is defining specific assumptions, including:

- Due date for non-maturing deposits is defined on the basis of historical data regarding customer behaviour, taking into account the stability of the volumes and with assumption of a maximum maturity of 3 years,
- In the interest rate risk measurement process a tendency to faster repayment of receivables than contractually scheduled is taken under consideration. On the basis of historical data a prepayment rate is determined in respect to all relevant Bank's loan portfolios. It should be noted, that mortgages loans that are the Bank's loan product with a dominant share, are indexed to floating interest rate. This causes that the tendency to early repayment is less important for the interest rate risk,
- The equity, fixed and other assets are assumed to have repricing period of 1 year.

The results of the above mentioned analysis as of the end of 2015 and 2014 are presented in Table below (PLN thousand). The internally defined limits were not exceeded.

Sensitivity of the Banking Book to changes of interest rates was as follows ('000 PLN):

	31.12.2015			31.12.2014		
	BPVx100	-200 bps	+200 bps	BPVx100	-200 bps	+200 bps
PLN	(70 893)	148 098	(128 566)	(85 511)	177 202	(164 136)
CHF	17 151	13 086	44 059	15 536	(228)	30 712
EUR	16 340	524	32 484	13 755	(2 443)	26 741
USD	7 806	(10 407)	15 098	4 528	(5 594)	8 733
Other	2 128	(1 991)	4 108	1 282	(1 187)	2 479
TOTAL	(27 468)	149 310	(32 817)	(50 410)	167 750	(95 471)
Equity, fixed and other assets	53 622	(85 790)	105 181	50 914	(92 616)	99 875
TOTAL	26 154	63 520	72 364	504	75 134	4 404

Additionally, for position in Polish Zloty, in Banking Book, in a scenario of immediate parallel yield curve decreased by 100 bps, the impact on net interest income in the next 12 months after 31st December 2015 is negative and equal to -7.3% of the annualized 4Q2015 net interest income (+5.5% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the polish legal system mentioned above (the formula for maximum rate valid in 2016 was applied). The NBP Reference rate is currently set at 1.5%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 8% annually in comparison to currently valid 10%.

¹ According to *guidelines on the management of interest rate risk arising from non-trading activities (IRRBB) (EBA/GL/2015/08)*.

5) LIQUIDITY RISK

The objective of liquidity risk management is to ensure and maintain the Bank's ability to meet both current, as well as future funding requirements taking into account costs of funding.

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the needs for funding arising from the Bank's obligations.

Both the financing requirements and any liquidity surplus of subsidiaries are managed by transactions with the Bank, unless specific market transactions are previously decided and agreed. The Treasury Department is responsible for the day-to-day management of the Bank's liquidity position in accordance with the adopted rules and procedures taking into account goals defined by the Management Board and the Capital, Assets and Liabilities Committee.

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Bank. At the end of 2015 total Clients' deposits of the Bank reached the level of PLN 52.9 billion. The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grew to approx. 67.1% at the end of December 2015 from 62.0% at the end of December 2014. The increasing share of funds from individuals had a positive impact on the Bank's liquidity and supported the compliance of the supervisory measures.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2015 was lower in comparison to the end of 2014, amounting respectively to 3,7 % and 7,4 % (in December 2014 it was respectively 4,7 % and 9,8 %). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2015. In case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Bank maintains the reserves of liquid assets in the form of securities portfolio.

The deposit base is supplemented by the deposits from financial institutions and other money market operations. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

During 2015 the Bank continued to explore the possibility of raising additional funding from loans from financial institutions and bond issue in order to diversify the source of funding. In January 2015 was received the second tranche of 5-year loan from the EBRD in the amount of CHF 25.1 million (the loan was originally signed in December 2013). In June 2015, the Bank issued PLN 300 million of 3-year bonds. At the end of December 2015, the value of bonds placed in institutional investors was kept at relatively high level of 834 million (PLN 1 408 million in December 2014 and PLN 353 million at the end of December 2013).

In 2015, the increase of the deposits from Customers at the faster pace than loans, allowed Bank to maintain Loan-to-Deposit ratio below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, decreased at the end of December 2015 and was equalled to 87% (comparing to level of 90% as of end of December 2014). The Bank continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of December 2015. During 2015 this portfolio grew by 39% from PLN 10.1 billion at the end of December 2014 (16.7% of total assets) to approx. PLN 14.0 billion at the end of December 2015 (21.2% of total assets). Those assets are characterized with high liquidity and can be easily used as a collateral or sold without material loss on its value. The portfolio supplemented by the cash and exposures to the National Bank of Poland, is treated as the Bank's liquidity reserve, which can overcome crisis situations.

The Bank manages FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as a collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as a collateral from the counterparties. In none of signed ISDA Schedules and Credit Support Annex (both international and domestic) there exists a relationship between level of the Bank's ratings and parameters of collateral. The potential downgrade of any of the ratings will not have impact on method of calculation and collateral exchange.

The Bank assesses the possibility of unfavourable changes of FX rates (especially CHF and EUR, which causes increase of liquidity needs), analyses the impact on liquidity risk and reflects this risk in the liquidity plans.

Liquidity risk evaluation measures

The estimation of the Bank's liquidity risk is carried out with both the use of ratios defined by the supervisory authorities and the internal indicators, for which exposure limits were also established.

The evolution of the Bank's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively. Additionally, the liquid asset portfolio is calculated on the daily basis.

These figures are compared with the exposure limits in force and reported daily to the areas responsible for the management and control of the liquidity risk in the Bank. During 2015, all internal as well as supervisory liquidity indicators were well above minimum limits. In 2Q2015, the internal limits were revised. The revision of the limits took into account the size of the consolidated own funds, current and expected balance sheet structure, historical consumption limits, as well as current market conditions. The new limits are effective from 1st June, 2015.

Current Liquidity indicators

PLN million

	31.12.2015		
	Immediate liquidity ratio*	Quarterly liquidity ratio*	Liquid assets for coverage of sources of financing volatility**
Exposure	10 369	9 093	12 900
Minimum limit	(790)	(3 160)	2 000

	31.12.2014		
	Immediate liquidity ratio*	Quarterly liquidity ratio*	Liquid assets for coverage of sources of financing volatility**
Exposure	6 008	5 468	9 268
Minimum limit	(768)	(3 072)	2 000

* Immediate and Quarterly Liquidity Indicator: The sum of cash flows in spot date or during the next 3 months respectively, Nostro Balance (the algebraic sum for all currencies reduced by obligatory reserve) and Highly Liquid Assets.

** Liquid Assets Portfolio: The sum of Polish government debt securities, NBP-Bills and due from banks (up to 1 month). The debt securities portfolio is reduced by securities encumbered for non liquidity purposes.

The Bank monitors liquidity on the basis of internal liquidity measures, taking into account in particular the impact of FX rates on the liquidity situation.

According to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Bank is calculating the liquidity coverage requirement (LCR). The regulator minimum of 60% for LCR valid in December 2015 was complied by the Bank. The measure is calculated daily and has been reported on the monthly basis to NBP since March 2014. Internally, the LCR is estimated daily and reported daily to the areas responsible for the management and control of the liquidity risk in the Bank.

For the purpose of management of supervisory liquidity measures imposed by the KNF resolution 386/2008, the Bank developed a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. Keeping the indicators above the minimum buffer ensures the safe level of the measures even in face of strong PLN depreciation. In 2015, the supervisory liquidity measured remained well above the minimum, supervisory limits.

Additionally the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on a real basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted by the Bank for the ratio of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets.

In 2015 liquidity gaps in both normal and under stress scenarios were maintained at levels significantly above the safe limits.

The Bank has developed a liquidity risk management tool defining stress scenarios under which liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence (among others taking into account a reduction of deposits, delays of loans repayment, deteriorated liquidity of the secondary securities market, the highest cost of funding - the assumption of the worst observed margins on deposits in the Bank, parallel shift of the yield curve and PLN depreciation).

Adjusted Liquidity Gap (m PLN)	31.12.2015					
	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	26 052	3 788	5 322	4 749	6 681	27 011
Adjusted balance liabilities	9 011	2 736	5 269	3 975	6 197	42 469
Balance-Sheet Gap	17 041	1 052	53	774	484	(15 458)
Cumulative Balance-Sheet Gap	17 041	18 093	18 146	18 920	19 404	3 946
Adjusted off-balance assets	146	113	165	123	433	53
Adjusted off-balance liabilities	(920)	(92)	(120)	(93)	(139)	(50)
Off-Balance Sheet Gap	(774)	21	45	30	294	3
Total Gap	16 267	1 073	98	804	778	(15 455)
Total Cumulative Gap	16 267	17 339	17 438	18 241	19 019	3 564

Adjusted Liquidity Gap (m PLN)	31.12.2014					
	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	21 131	3 369	5 294	4 325	5 968	27 717
Adjusted balance liabilities	10 220	2 622	4 181	3 442	5 696	36 529
Balance-Sheet Gap	10 912	746	1 112	883	272	(8 812)
Cumulative Balance-Sheet Gap	10 912	11 658	12 770	13 654	13 926	5 114
Adjusted off-balance assets	173	140	230	168	260	126
Adjusted off-balance liabilities	(906)	(101)	(172)	(111)	(175)	(106)
Off-Balance Sheet Gap	(733)	39	58	58	85	20
Total Gap	10 179	786	1 171	941	357	(8 792)
Total Cumulative Gap	10 179	10 964	12 135	13 076	13 433	4 641

Stress tests are performed at least quarterly, to determine the Bank's liquidity-risk profile, to ensure that the Bank is in a position to fulfil its obligations in the event of a liquidity crisis and to update the liquidity contingency plan and management decisions.

The results of the stress test analysis demonstrated that the liquidity indicators will be maintained above the established limits.

The information regarding the liquidity risk management, including the utilization of the established limits for internal and supervisory measures, is reported monthly to the Capital, Assets and Liabilities Committee and quarterly to the Management Board and Supervisory Board.

The process of the Bank's planning and budgeting covers the preparation of the Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In order to comply with the Recommendation P regarding financial liquidity risk management in banks that was issued by the PFSA in March 2015, the Capital, Assets and Liabilities Committee's decided to assemble dedicated Team to guarantee the fulfilment of the Recommendation P until 31st December 2015. The Team was composed of representative from different departments of the Bank, including Risk Department and Treasury Department as well as the Board Members supervising those departments. The internal policy and others procedures connected with the liquidity risk management were revised and adjusted to the provisions of recommendation. The documents were supplemented, inter alia, by the rules for concentration of the source of funding, the intraday liquidity and collateral management.

The Bank has also emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan (contingency plan in case the Bank's financial liquidity deteriorates). The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least once a year. In 2015, the Liquidity Contingency Plan was tested and revised in order to guarantee that it is operationally robust as well as it comply with provisions of the amended Recommendation P. The Plan was approved by the Supervisory Board in December 2015.

6) OPERATING RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk and excluding strategic and reputational risk (last two are treated as separate categories). Operational risk is demonstrated in every aspect of activity of the organisation and constitutes its intrinsic part.

In the year 2015 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions. The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Bank. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks. Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

A higher risk management level is the Processes and Operational Risk Committee, which focuses on threats identified in more than one process. All and any activities concerning operational risk are coordinated and supervised by the Risk Committee, the Management Board and the Supervisory Board.

In keeping with the adopted model, risk management is a process of continuous improvement as regards identification, assessment, monitoring, mitigating and reporting by:

1. Gathering operational risk events,
2. Self-assessment of operational risk in individual processes,
3. Analysis and monitoring of risk indicators.

The Bank gathers operational risk events in an IT tool, which is being continuously improved. The tool supports management of operational risk. Such events are being afterwards analysed in what concerns the source of event and possibility of mitigating the effects and apply appropriate preventive actions. In the IT tool, events are being ascribed to a certain risk category and proper process type, which is later used as a part of reporting and risk self-assessment validation. The internal database of risk events additionally meets qualitative and quantitative requirements for following the advanced approach in calculating capital requirements on account of operational risk.

The risk self-assessment was being realised together with the processes review. It relied on assessment of adopted solutions' effectiveness in fulfilling expectations of Clients and business partners in the scope of both, services quality and costs optimisation. Approved operational risk and control methodology allowed assessment of risk level in a given process, taking into account existing controls and basing on accepted scenarios. Mitigation actions were proposed implemented and are monitored for purposes of assessment of risk levels above the accepted tolerance threshold.

During the risk and control self-assessment exercise an analysis of performance indicators was made, including risk indicators defined for each process. Key persons - responsible for creating and implementation activities in given processes - have defined and adjusted the indicators thus to make them the best forecasts of future risks. On-going monitoring of indicators serves the purpose of increasing effectiveness and productivity of processes as well as effective control of risk on the level of individual actions within processes.

Information about operational risk in processes is included in the top level dashboards consolidating information about the processes performance.

Considering the degree of development of operational risk management and the scale and profile of its activity, the Bank calculates its capital requirement due to the operational risk using the Standard Approach.

9. TRANSACTIONS WITH RELATED ENTITIES

1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 2015 and 2014 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLESKI,
- MILLENNIUM TFI
- MB FINANCE AB,
- ORCHIS
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- TBM

and with the Capital Group of Bank parent company - Banco Comercial Portugues (ultimate parent company), these transactions are mainly of banking nature.

Apart from transactions described herein, in the indicated period neither Bank Millennium S.A., nor subsidiaries of Bank Millennium S.A. made any other transactions with related entities, which individually or jointly may have been significant and concluded under terms and conditions other than market-based.

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2015

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks - accounts and deposits	0	2 615	0
Loans and advances to customers	4 341 250	0	0
Investments in associates	224 997	0	0
Financial assets valued at fair value through profit and loss (held for trading)	107	0	0
Hedging derivatives	0	0	0
Other assets	226 949	0	0
LIABILITIES			
Deposits from banks	0	73 227	118 130
Deposits from customers	208 116	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	1 251	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	103	0	0
Subordinated debt	639 631	0	0
Other liabilities, including:	86 632	0	0
- financial leasing liabilities	75 502	0	0

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2014

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks - accounts and deposits	0	28 705	10 699
Loans and advances to customers	3 466 329	0	0
Investments in associates	224 991	0	0
Financial assets valued at fair value through profit and loss (held for trading)	2 717	0	0
Hedging derivatives	0	0	0
Other assets	243 035	0	0
LIABILITIES			
Deposits from banks	0	72 327	147 859
Deposits from customers	353 047	0	0
Liabilities from securities sold with buy-back clause	7 009	0	0
Liabilities arising from debt securities	1 172	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	80	0	0
Subordinated debt	639 739	0	0
Other liabilities, including:	84 840	0	272
- financial leasing liabilities	71 164	0	0

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2015

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	76 987	18	0
Commissions	54 884	200	0
Financial instruments valued at fair value through profit and loss	0	0	0
Dividends	331 799	0	0
Other net operating income	2 851	0	95
Expense from:			
Interest	17 185	827	(201)
Commissions	38	0	0
Financial instruments valued at fair value through profit and loss	89	125	0
General and administrative expenses	93 725	0	1 638

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2014

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	83 907	10 448	0
Commissions	54 830	256	0
Financial instruments valued at fair value through profit and loss	111	0	0
Dividends	26 763	0	0
Other net operating income	1 251	0	188
Expense from:			
Interest	20 232	2 160	214
Commissions	48	178	0
Financial instruments valued at fair value through profit and loss	0	195	3
General and administrative expenses	95 875	0	3 718

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2015

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	39 863	102 175	0
- granted	37 609	100 345	0
- obtained	2 254	1 830	0
Derivatives (par value)	112 944	0	0

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2014

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	40 628	103 952	0
- granted	38 812	100 345	0
- obtained	1 816	3 607	0
Derivatives (par value)	77 867	0	0

2) TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

Information on total exposure towards the managing and supervising persons as at 31.12.2015 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	181.0	188.0
- including an unutilized limit	128.0	160.1
Mortgage loans and advances	-	-
Active guarantees	-	-

The Bank provides standard banking services to Members of the Management Board and Members of the Supervisory Board and their relatives, which services comprise i.a.: keeping bank accounts, accepting deposits or sale of financial instruments. In the Bank's opinion these transactions are concluded on market terms and conditions. In accordance with the credit lending policy adopted in the Bank, term credits described in this section have appropriate collateral to mitigate its credit risk exposure.

Data about total exposure to entities related personally, as at 31.12.2015 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	27	2 000	110	Personal with a supervising person

Information on total exposure towards the managing and supervising persons as at 31.12.2014 (in '000 PLN) :

	The management	The supervising persons
Total debt limit	336.0	158.0
- including an unutilized limit	289.8	109.3
Mortgage loans and advances	2 796.6	-
Active guarantees	-	-

Data about total exposure to entities related personally, as at 31.12.2014 (in '000 PLN) :

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	23	2 000	114	Personal with a supervising person
Client 2	0	0	20	Personal with a supervising person
Group 1	62 764	0	0	Personal with a supervising person
Group 2	5 564	0	0	Personal with a supervising person

3) INFORMATION ON REMUNERATIONS AND BENEFITS OF PERSONS MANAGING AND SUPERVISING THE BANK

Salaries (including the balance of created and reversed provisions for payments of bonuses) and benefits of managing persons recognized in Profit and loss account of the Bank were as follows (data in thousand PLN):

Year	Salaries and bonuses	Benefits	Total
2015	11 565.4	1 857.2	13 422.6
2014	16 660.7	1 795.7	18 456.4

The benefits are mainly the costs of accommodation of the foreign members of the Management Board. The values presented in the table above include items classified to the category of short-term benefits and provision for variable remuneration components.

In 2015 the Members of the Management Board did not receive any salaries or any fringe benefits from Subsidiaries.

Remuneration of the Supervisory Board Members of the Bank (data in PLN thousands):

Period	Short term salaries and benefits
2015	2 048.9
2014	2 113.1

In 2015, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

10. FAIR VALUE

The best reflection of fair value of financial instruments is their market value which can be obtained for the sale of assets or paid for the transfer of liability in case of mutually beneficial market transactions (an exit price). For many products and transactions for which market value to be taken directly from the quotations in an active market (marking-to-market) is not available, the fair value must be estimated using internal models based on discounted cash flows (marking-to-model). Financial flows for the various instruments are determined according to their individual characteristics, and discounting factors include changes in time both in market interest rates and margins.

Accordingly IFRS 13 “Fair value measurement” in order to determinate fair value the Bank applies models that are appropriate under existing circumstances and for which sufficient input data is available, based to the maximum extent on observable input whereas minimizing use of unobservable input, namely:

- 1 - valuation based on the data fully observable (active market quotations);
- 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;
- 3 - valuation models using unobservable data (not derived from an active market).

Valuation techniques used to determine fair value are applied consistently. Change in valuation techniques resulting in a transfer between these methods occurs when:

- transfer from method 1 to 2 takes place when for the financial instruments measured according to method 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from method 2 to 3 takes place when for the financial instruments measured according to the method 2 value of parameters not derived from the market has become significant at the balance sheet day (and previously used to be irrelevant).

Financial instruments not recognized at fair value in the balance sheet

All estimation models are arbitrary to some extent and this is why they reflect only the value of those instruments, for which they were built. In these circumstances the presented differences between fair values and balance-sheet values cannot be understood to mean adjustments of the economic value of Bank. Fair value of these instruments is determined solely in order to meet the disclosure requirements of IFRS 13 and IFRS 7.

The main assumptions and methods applied in estimating fair value of assets and liabilities of the Group are as follows:

Receivables and liabilities with respect to banks (structured contract)

This is a transaction, which comprises the simultaneous purchase of a long-term zero-coupon bond and the taking-out of a long-term fixed-rate loan from the issuer of the bond.

The fair value of both sides of the transaction has been estimated by discounting the related cash flows on maturity/due date with use of the current zero-coupon rate and the margin, which was rescaled to adjust it to the current level of market rates.

Other receivables and liabilities with respect to banks

The fair value of these instruments was determined by discounting future principal and interest flows with current rates, assuming that the flows arise on contractual dates.

Loans and advances granted to customers

The fair value of such instruments without specified repayment schedule, given their short-term nature and the time-stable policy of the Bank with respect to this portfolio, is close to balance-sheet value.

The fair value of instruments with defined maturity is estimated by discounting related cash flows on contractual dates and under contractual conditions with the use of current zero-coupon rates and credit risk margins.

In case of mortgage loans due to their long-term nature estimation of the future cash flows also includes: the effect of early repayment and liquidity risk in foreign currencies.

Liabilities to customers

Fair value of such instruments without maturity or with maturity under 30 days is considered by the Bank to be close to balance-sheet value.

Fair value of instruments due and payable in 30 days or more is determined by discounting future cash flows from principal and interest (including the current average margins by major currencies and time periods) using current interest (including the original average margins by major currencies and time periods) in contractual terms.

Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities - bank's securities (BPW) are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond.

The fair value of other liabilities arising from debt securities issued by the Bank (bonds (BKMO)) was estimated based on the expected cash flows using current interest rates taking into account the margin for credit risk. The current level of margins was appointed on the basis of recent transactions of similar credit risk.

Subordinated liabilities and medium term loans

The fair value of these financial instruments is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and credit risk margin based on current level of market rates and historical margin for credit risk. Similar as in loan portfolio the Bank includes the level of the original margin as a part of mid-term cost of financing obtained in the past in relation to the current margin level for the comparable instruments, as long as reliable assessment is possible. Due to lack of the mid-term loans liquid market as a reference to estimate current level of margins, the Bank used the original margin.

The table below presents results of the above-described analyses as at 31 December 2015:

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	2 348 735	2 348 985
Loans and advances to customers *	18	46 070 719	44 120 233

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	1 443 921	1 445 700
Amounts due to customers	28	52 920 583	52 921 584
Debt securities	30	1 135 501	1 143 969
Subordinated debt	34	639 631	633 781

* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads. The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is widely applied for valuation of debt securities, which are not quoted on active markets. In result, paradoxically whenever the Bank raises spreads, fair value of the "old" loans portfolio falls.

Models used for determination of the fair value of financial instruments presented in the above table and not recognized at fair value in Bank's balance sheet, use techniques based on parameters not derived from the market. Therefore, they are considered as the third level of fair value hierarchy. The significant unobservable inputs to the fair value measurement are current credit and deposit spreads applied by the Bank.

For balance sheet items not measured at fair value in financial statements and not disclosed in the above table, it has been assumed that their fair value is approximately equal to carrying amount.

The table below presents results of the above-described analyses as at 31 December 2014:

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	2 384 744	2 412 196
Loans and advances to customers	18	43 634 324	41 901 648

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	1 986 125	2 016 187
Amounts due to customers	28	47 807 862	47 816 101
Debt securities	30	1 740 633	1 753 997
Subordinated debt	34	639 739	633 950

Financial instruments recognized at fair value in the balance sheet

The table below presents balance sheet values of instruments measured at fair value, ranked according to the fair value measurement method applied:

In PLN ths., as at 31.12.2015

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			294 048	42 289
- debt securities		408 572		
Hedging derivatives	17		70 833	
Financial assets available for sale	19			
- debt securities		9 363 699	4 198 776	73 251
- shares and interests				213 075
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities		0	283 721	42 658
Hedging derivatives	17		2 132 053	

In PLN ths., as at 31.12.2014

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			383 870	74 785
- debt securities		933 482		
Hedging derivatives	17		18 999	
Financial assets available for sale	19			
- debt securities		6 749 204	2 400 000	93 371
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities		162 254	373 591	73 979
Hedging derivatives	17		1 390 225	

Using the criterion of valuation techniques Bank classified into the third category following financial instruments:

- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- municipal bonds, the fair value is calculated based on discounted cash flows with consideration of the impact of credit risk parameter;
- VISA shares; fair value is calculated in accordance with the information presented in **Chapter 12, note 19**.

In the reporting period, the Bank did not make transfers of financial instruments between the techniques of fair value measurement.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2015 are presented in the table below:

	Indexes options	Options embedded in securities issued and deposits	Municipal bonds	Shares and interests
As at 01.01.2015	68 745	(67 939)	93 371	0
Settlement/sell/purchase	(24 687)	24 150	(19 123)	0
Change of valuation recognized in equity	0	0	0	213 075
Change of valuation recognized in P&L account (including interests)	(5 786)	5 147	(997)	0
As at 31.12.2015	38 272	(38 642)	73 251	213 075

For options on indexes concluded on an inactive market, the Bank concludes back-to-back transactions on the interbank market, in result estimated credit risk component has no impact on the financial result.

Accordingly Bank's estimation impact of adjustments for counterparty credit risk was not significant from the point of view of individual derivative transactions concluded by the Bank. Consequently, the Bank does not consider the impact of unobservable inputs used in the valuation of derivative transactions for significant and in accordance with the provisions of IFRS 13.73 does not classify such transactions for level 3 fair value measurements.

11. CONTINGENT LIABILITIES AND ASSETS

Total value of claims in the court proceedings in which the Bank was either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31 December 2015 to PLN 777.5 million (excluding groups actions as described below). Total value of claims in the court proceedings, in which the bank appeared as defendant was PLN 518.9 million, and the total value of claims in the court proceedings, in which the Bank appeared as plaintiff was PLN 258.6 million.

Below are presented the amount of claims in which the Bank appears as defendant in the division due to the risk of resources outflow as result of case losing. Data in table includes also proceedings with participation of the Chairman of UOKiK with total value of claims PLN 2.8 million, in which the Bank formally acts as the plaintiff, though there is a risk associated with the resources outflow.

The proceedings associated with the Fiscal Control Office stands for separate category and are described in Chapter 12. Section 12 "Income Taxes".

The amount of claims for which:	PLN million
probability of resources outflow is negligible	0.0
outflow of resources is possible	512.3
outflow of resources is probable	9.4
TOTAL	521.7

The Bank assesses that the risk of adverse financial consequences in the event of losing the claim is fully covered by the value created provisions for contentious claims.

As at 31 December 2015 the volume of claims in the court proceedings for which outflow of resource is considered to be possible amounted to PLN 512.3 million. In the Bank's opinion probability of winning cases included in this category is high, in effect the Bank has not created provisions for these proceedings. The most important group of lawsuits for which an outflow of resources is possible are proceedings connected with derivatives with total value in dispute amounted to PLN 318.3 million.

In terms of lawsuits connected with derivatives, the Bank, as a defendant, was present together in 25 such proceedings. The highest unit value of the dispute considering this group of proceedings was PLN 71.1 million. Whereas in the group of proceedings not connected with derivatives, in which the Bank acted as the defendant, the highest unit value of the dispute was PLN 150.0 million.

On 21 October 2014 a group action was delivered to the Bank in which a group of the Bank's borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that the Bank is liable towards the same for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that the Bank unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits. According to the statement of claim there are approx. 2,300 group members and the value of the subject matter of the dispute is defined at PLN 45.2 million. The Bank does not agree with the claims of the group members. On 31 December 2014 the Bank submitted a response to the statement of claim. On 4 March 2015 new members joined the group action and the Claimant extended the statement of claim accordingly. According to the Claimant after the extension there are approx. 3,400 group members (including the group members included in the statement of claim) and the value of the subject matter of the dispute is approx. PLN 81.5 million (including the value provided in the statement of claim). On 14 May 2015 the Regional Court in Warsaw held a hearing concerning the admissibility of the group action proceedings. On 28 May 2015 the Regional Court in Warsaw issued a decision rejecting the group action on the grounds that the case cannot be heard in group action proceedings. On 3 July 2015 the Claimant filed an appeal against this decision, and the Court of Appeal upheld the appeal by refusing rejection of the claim. Currently, the Bank awaits setting a date for the next hearing.

On 3 December 2015 the Bank received a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million PLN claiming that the clauses of the agreements pertaining to low down payment insurance are prohibited and thus null and void. The Bank shall file by the 3rd of March 2016 the response to the lawsuit demanding its dismissal.

OFF-BALANCE ITEMS

	31.12.2015	31.12.2014
Off-balance conditional commitments granted and received	7 923 821	7 930 574
Commitments granted:	7 860 979	7 796 275
a) financial	6 712 976	6 691 481
b) guarantee	1 148 003	1 104 794
Commitments received:	62 842	134 299
a) financial	3 963	60 459
b) guarantee	58 879	73 840

The granted conditional commitments presented in the table above comprise commitments to grant credit (such as: unutilised credit card limits, unutilised current account overdraft facilities, unutilised tranches of investment loans) and issued guarantees and Letters of Credit (securing performance by customers of the Bank of their obligations to third parties). The value of above-presented guarantee commitments presents the maximum value of a loss, which may be incurred by the Bank, should the customers default on their obligations. The Bank creates provisions for impaired irrevocable conditional commitments, reported in the "provisions" item under liabilities in the balance-sheet. The provision value is determined as the difference between the estimated amount of utilised conditional exposure and the present value of expected future cash flows under this credit exposure. In this context, the Bank considers that the values presented in the above table are similar to the fair value of contingent liabilities.

The breakdown by entity of all net guarantee liabilities, reported in non balance-sheet items of the Bank is presented in the table below:

Customer - sector, amount in PLN million	31.12.2015	31.12.2014
financial sector	79.7	101.9
non-financial sector (companies)	1 059.9	992.5
public sector	7.4	7.8
private individuals	1.0	2.6
Total	1 148.0	1 104.8

The Bank as the dominant entity extended no guarantees, sureties or avals to remaining companies of the Group, while it did grant them upon instructions from these companies to external entities. The value of the guarantees, sureties and avals granted by the Bank upon instructions of companies comprising the Group is presented by the table below:

Subsidiary, amount in PLN million	31.12.2015	31.12.2014
Millennium Leasing Sp. z o.o.	20.0	20.0
Millennium Service Sp. z o.o.	17.6	18.8
Total	37.6	38.8

Guarantees and sureties granted to Clients

Liabilities granted - guarantee in PLN million	31.12.2015	31.12.2014
Active guarantees and sureties	683.8	739.8
Sureties for loans granted through EFRWP*	1.2	1.6
Lines for guarantees and sureties	468.3	381.6
Total gross	1 153.3	1 123.0
Impairment charges	(5.3)	(18.2)
Total net	1 148.0	1 104.8

* European Development Fund of the Polish countryside

The structure of liabilities under guarantees and sureties divided by particular criteria are presented by the tables below (PLN'000):

By currency	31.12.2015	31.12.2014
PLN	540 365	584 430
Other currencies	143 398	155 400
Total	683 763	739 830

By type of commitment	31.12.2015		31.12.2014	
	Number	Amount in	Number	Amount in
Guarantee	2 950	662 647	3 095	717 205
Surety	1	5 000	1	6 000
Re-guarantee	28	16 116	32	16 625
Total	2 979	683 763	3 128	739 830

By object of the commitment	31.12.2015			31.12.2014		
	Number	% share	Amount in	Number	% share	Amount in
good performance of contract	2 204	57.45%	392 836	2 236	57.70%	426 865
rent payment	288	7.05%	48 198	313	7.27%	53 793
punctual payment for goods or services	265	22.61%	154 585	249	19.82%	146 625
bid bond	126	2.38%	16 302	221	7.81%	57 795
other	30	0.58%	3 935	36	1.07%	7 930
advance return	24	5.38%	36 768	41	3.64%	26 930
customs	32	3.03%	20 707	25	1.48%	10 945
payment of bank loan	10	1.52%	10 432	7	1.21%	8 947
Total	2 979	100.00%	683 763	3 128	100.00%	739 830

12. NOTES TO FINANCIAL REPORT

Figures presented in the notes to financial report in PLN thousands.

1) INTEREST INCOME

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balances with the Central Bank	25 188	37 903
Loans and advances to banks	1 017	2 201
Loans and advances to customers	1 545 026	1 770 639
Transactions with repurchase agreement	22 976	29 137
Hedging derivatives	343 332	333 478
Financial assets held for trading (debt securities)	32 811	7 562
Investment securities	250 628	298 932
Total	2 220 978	2 479 852

The item „Hedging derivatives” contains net interest income on selected derivatives used as effective hedging instruments regarding cash flows and fair value. Detailed description of hedging mechanisms applied by the Bank can be found in **note (17)**.

Interest income for the year 2014 contains interest accrued on impaired loans in the amount of PLN 70,786 thous. (for corresponding data in the year 2014 the amount of such interest stood at PLN 60,748 thous.).

2) INTEREST EXPENSE

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Banking deposits	(20 884)	(16 869)
Loans and advances from banks	(50 158)	(54 211)
Transactions with repurchase agreement	(47 132)	(43 419)
Deposits from customers	(774 487)	(954 261)
Subordinated debt	(13 668)	(15 177)
Debt securities	(43 591)	(46 284)
Other	(650)	(784)
Total	(950 570)	(1 131 005)

3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Resulting from accounts service	86 285	93 130
Resulting from loan activity	101 978	75 999
Resulting from payments service	49 650	46 836
Resulting from payment and credit cards	135 059	183 017
Resulting from sale of insurance products	74 083	66 103
Resulting from distribution of investment funds units and other savings products	138 030	134 979
Resulting from guarantees and sureties granted	12 693	13 038
Resulting from brokerage and custody service	7 815	8 551
Other	16 732	11 661
Total	622 325	633 314

3b. Fee and commission expense

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Resulting from accounts service	(1 314)	(1 451)
Resulting from loan activity	(4 024)	(1 614)
Resulting from payments service	(1 951)	(1 505)
Resulting from payment and credit cards	(60 351)	(54 635)
Other	(7 042)	(3 241)
Total	(74 682)	(62 446)

4) DIVIDEND INCOME

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Dividend income from related parties	331 799	26 763
Dividend income from other entities	2 250	1 842
Total	334 049	28 605

Income from dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in financial years 2015 and 2014 to PLN 331,799 thousand, and PLN 26,763 thousand, respectively.

5) RESULT ON FINANCIAL INSTRUMENTS AND FOREIGN EXCHANGE RESULT**5a. Result on investment financial assets**

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Operations on debt instruments	41 852	8 622
Operations on equity instruments	0	9 825
Total	41 852	18 447

5b. Result on financial instruments valued at fair value through profit and loss and foreign exchange result

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Operations on securities	(7 154)	8 064
Operations on derivatives	76 292	26 845
Fair value hedge accounting operations, including:	7	(566)
- result from hedging derivatives	330	237
- result from items subjected to hedging	(323)	(803)
Foreign exchange result	108 280	153 232
Costs of financial operations	(2 562)	(2 281)
Total	174 863	185 294

The Result on financial instruments measured at fair value through profit and loss account and foreign exchange result comprises profits and losses generated as a result of selling financial instruments allocated to financial assets/liabilities measured at fair value through the profit and loss account and the effect of their fair value valuation.

This category includes the instruments qualified as “held for trading” - at the moment the Bank does not use the capacity to assign other instruments as valued at fair value through the profit and loss account at the initial recognition (so-called fair value option).

6) OTHER OPERATING INCOME

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Profit on sale and liquidation of property, plant and equipment, intangible assets	287	297
Income from sale of other services	10 637	12 555
Income from adjustments of value added tax charge	4 542	0
Income from collection service	2 407	2 327
Other	25 135	8 547
Total	43 008	23 726

7) GENERAL AND ADMINISTRATIVE EXPENSES

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Staff costs:	(507 065)	(507 605)
Salaries (including bonuses)	(418 869)	(421 664)
Social security contributions	(68 659)	(67 879)
Employee benefits, including:	(19 537)	(18 062)
- provisions for retirement benefits	(2 755)	(2 059)
- provisions for unused employee holiday	(651)	(839)
- other	(16 131)	(15 164)
General administrative costs	(475 046)	(494 325)
Costs of advertising, promotion and representation	(42 594)	(61 992)
Costs of IT and communications	(65 677)	(66 991)
Costs of renting	(166 239)	(173 525)
Costs of buildings maintenance, equipment and materials	(29 766)	(27 805)
Costs of ATMs and cash handling	(17 356)	(17 463)
Costs of consultancy, audit and legal advisory and translation	(11 904)	(23 509)
Taxes and fees	(14 932)	(17 170)
Costs of National Clearing House	(4 092)	(4 016)
Costs of National Fund for the Rehabilitation of Disabled	(4 662)	(4 920)
Costs of Banking Guarantee Fund	(65 459)	(35 604)
Financial Supervision costs	(4 578)	(4 351)
Other	(47 787)	(56 979)
Total	(982 111)	(1 001 930)

8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Impairment losses on loans and advances to customers	(240 533)	(253 862)
- Impairment charges on loans and advances to customers	(592 288)	(490 895)
- Reversal of impairment charges on loans and advances to customers	320 836	226 566
- Amounts recovered from loans previously written off	1 575	2 425
- Result from sale of receivables portfolio	29 344	8 042
Impairment losses on investment securities	(15)	38
- Impairment write-offs for investment securities	(33)	(27)
- Reversal of impairment write-offs for investment securities	18	65
Impairment losses on investments in associates	(1 385)	(246)
- Impairment write-offs for investments in associates	(1 385)	(246)
- Reversal of impairment write-offs for investments in associates		
Impairment losses on off-balance sheet liabilities	13 454	6 049
- Impairment write-offs for off-balance sheet liabilities	(5 052)	(21 795)
- Reversal of impairment write-offs for off-balance sheet liabilities	18 506	27 844
Total	(228 479)	(248 021)

9) IMPAIRMENT LOSSES ON NON FINANCIAL ASSETS

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Fixed assets	0	0
Other assets	(1 406)	(425)
Total	(1 406)	(425)

10) DEPRECIATION AND AMORTIZATION

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Property, plant and equipment	(35 643)	(41 577)
Intangible assets	(11 789)	(11 971)
Total	(47 432)	(53 548)

11) OTHER OPERATING COSTS

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Loss on sale and liquidation of property, plant and equipment, intangible assets	0	0
Contribution to Banking Guarantee Fund dedicated for the repayment of guaranteed deposits for clients of SBRiR Wołomin	(102 540)	0
Indemnifications, penalties and fines paid	(24 847)	(4 452)
Costs of provisions for disputed claims	(28 748)	(39 739)
Costs of the provision created for the Borrowers Supporting Fund	(15 622)	0
Costs of sale of other services	(7 753)	(10 564)
Donations made	(281)	(330)
Costs of collection service	(11 187)	(11 228)
Prudential fee for Banking Guarantee Fund	(17 317)	(13 173)
Other	(4 956)	(1 569)
Total	(213 251)	(81 055)

One offs

Based on the resolution No. 87/DGD/2015 issued by the Management Board of Banking Guarantee Fund, the Bank paid in November 2015 a mandatory fee of PLN 102.5 million which was allocated to the payment of the funds guaranteed for the deposits in the Co-operative Crafts and Agriculture Bank in Wołomin.

On 6 October 2015, the Warsaw Court of Appeal delivered a judgment in a case concerning the interchange, which reimposed the amount of fines imposed on banks by the President of the Office of Competition and Consumer Protection on 29 December 2006. Banks participating in the proceedings were obliged to pay penalties until 20 October 2015. The Bank has paid aforementioned penalty in the amount of PLN 12.2 million.

In December 2015 the Bank created a provision in the amount of PLN 15.6 million dedicated for contribution to the newly created Distressed Mortgage Support Fund, according to the Act on Support of Housing Borrowers in a Difficult Financial Situation, which was passed by the Polish Parliament on 9th October 2015.

12) INCOME TAX

12a. Income tax reported in income statement

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Current tax	(197 279)	(187 657)
Current year	(197 279)	(187 657)
Adjustment of previous years	0	0
Deferred tax	73 666	16 362
Appearance and reversal of temporary differences	73 666	16 362
Appearance and utilisation of tax loss	0	0
Adjustment resulted from Article 38a of CIT	(1 374)	(2)
Total income tax reported in income statement	(124 987)	(171 297)

12b. Effective tax rate

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Gross profit / (loss)	939 144	790 808
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(178 437)	(150 254)
Impact of permanent differences on tax charges:	49 437	(15 075)
- Non taxable income	63 946	5 733
Dividend income	63 469	5 435
Release of other provision	477	283
Other	0	15
- Cost which is not a tax cost	(14 509)	(20 808)
Loss on sale of receivables	(1 624)	(3 175)
PFRON fee	(886)	(935)
Prudential fee for Banking Guarantee Fund	(3 290)	(2 503)
Receivables written off	(877)	(456)
Costs of litigations	(4 085)	(7 505)
Cost of provisions for factoring receivables	(2 121)	(2 261)
Other	(1 626)	(3 973)
Amendments in declaration CIT 8 for previous years	0	0
Adjustment resulted from Article 38a of CIT	(1 374)	(2)
The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet	5 387	(5 966)
Total income tax reported in income statement	(124 987)	(171 297)

12c. Deferred tax reported in equity

	31.12.2015	31.12.2014
Valuation of available for sale securities	(47 322)	(12 849)
Valuation of cash flow hedging instruments	42 731	38 891
Actuarial gains (losses)	356	502
Deferred tax reported directly in equity	(4 235)	26 544

Changes in deferred tax recognized directly in equity are presented in **Note (35b)**.

On 1 January 2011 the Bank created with a subsidiary - Millennium Services Sp. z o.o., Tax Capital Group (TCG). TCG is a vehicle, described in and subject to the provisions of the Polish Corporate Income Tax law. The essence of TCG is to concentrate two or more related entities as one taxpayer for the corporate income tax purposes. The creation of TCG does not lead to the creation of a new entity, and consolidation is done only at the level of corporate income tax settlements.

TCG formation is aimed at increasing the efficiency of tax management within the Group and reducing risks resulting from the corporate income tax settlements through centralization of expertise of tax calculations and payments obligations to one chosen entity of the Group (the Bank).

Bank Millennium S.A. tax control procedures

As a result of the tax inspection carried out in the Bank in 2011 the Tax Inspection Office questioned the correctness of income tax calculation for 2005, having its consequences for subsequent tax years. The Bank fully supported the correctness of its tax calculation, nonetheless several procedural steps have been undertaken, such as: (i) adjusting tax settlements for the period 2005-2010; (ii) paying (in November 2011) the tax arrears of PLN 69 million (to avoid the risk of penalty interest burden); and (iii) raising a claim against the Tax Office for the above mentioned amount. As a result of these proceedings on 30 January 2012 the Tax Office returned to the Bank a substantial part of the amount paid (PLN 66 million). At the same time the tax authority sustained a negative opinion in the proceedings. In 2013, the Bank re-paid to the account of the Tax Office an amount of PLN 58.6 million (based on the decision of the Tax Chamber in Warsaw, on which see below), and part of that amount has been paid to the Bank in the amount of PLN 1.8 million.

As a result of the different positions of the Bank and tax authorities, there were appeals against the decision, in particular:

- 1) Proceedings in front of the Tax Chamber in Warsaw resulting from the Bank's appealing against the decision of the Director of the Tax Control Office (first instance) determining a tax loss in the CIT for 2005. On 27.06.2013 the Director of the Tax Chamber in Warsaw issued a decision upholding the decision of the first instance. On 22 July 2013 the Bank submitted a complaint to the Regional Administrative Court in Warsaw. Originally the court ordered a hearing on February 6, 2014 and then postponed it to 8th April, 2014. A hearing was held on the scheduled date. The court delivered judgment on 28 April 2014 dismissing the complaint of the Bank. On 23 July 2014 the Bank filed a cassation complaint to the Supreme Administrative Court.
- 2) Appeal proceedings against the decision of the Head of Second Mazovian Tax Office determining CIT for the year 2006. On the 22nd of August 2013 the appellate authority - the Director of the Tax Chamber in Warsaw issued the decision which upheld the decision of the tax office and determined the Bank's income which did not cause the obligation to pay additional tax burden from CIT 2006 to the tax office. On the 25th of September 2013 Bank lodged the complaint to the Regional Administrative Court in Warsaw. The hearing was held on 14th of April 2014. The court dismissed the Bank's complaint. On 1 July 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.
- 3) Appeal proceedings against the decisions of the Head of Second Mazovian Tax Office - determining tax liabilities for 2007 and 2008, and refusing confirmation of tax overpayment for 2007 and 2008.
 - a. Year 2007
On the 27th of August 2013 the Director of Tax Chamber in Warsaw issued the decision which upheld the decision of the tax office and determined the Bank's CIT liability for 2007. On the 30th of September 2013 the Bank lodged the complaint to the Regional Administrative Court in Warsaw. Court set the trial date 19 March 2014. A hearing was held on the scheduled date but the judgment was delivered on 21 March 2014. The court dismissed the Bank's complaint. On 25 June 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.
On the 29th of August 2013 Director of the Tax Chamber in Warsaw issued a decision setting new deadline for examining an appeal regarding refusing the statement of overpayment in CIT for the year 2007 for 31st of October 2013. On the 18th of September 2013 the Director of the Tax Chamber in Warsaw issued the decision which upheld the decision of The Head of Second Mazovian Tax Office refusing the statement of overpayment in CIT for 2007. On 23 October 2013 the Bank submitted a complaint to the Regional Administrative Court in Warsaw. The hearing was held on 14th of April 2014. The court dismissed the Bank's complaint. On 1 July 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.

b. Year 2008

On the 29th of August 2013 Director of the Tax Chamber in Warsaw issued a decision setting new deadline for examining an appeal regarding determining liability and refusing the statement of overpayment in CIT for the year 2008 till 31st of October 2013. On the 18th of September 2013 the Director of Tax Chamber issued the decision which upheld the decision of The Head of Second Mazovian Tax Office and determine Bank's income for 2008. On 23 October 2013 Bank submitted a complaint to the Regional Administrative Court in Warsaw. The Court set the hearing date on the 9th of April 2014. The court dismissed the Bank's complaint. On 27 June 2014 the Bank filed a cassation complaint to the Supreme Administrative Court. On the 30th of September 2013 the Director of Tax Chamber in Warsaw issued the decision which upheld the decision of The Head of Second Mazovian Tax Office refusing the statement of overpayment in CIT for 2008. Then on 25 October 2013 the Bank submitted a complaint to the Regional Administrative Court in Warsaw. The hearing was held on 9th of April 2014. The court dismissed the Bank's complaint. On 1 July 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.

On the 26th of January 2016 the Supreme Administrative Court issued the six judgements. In five judgements the Court dismissed the Banks' claims. In one, regarding 2006 tax year, it annulled the judgement of Local Administrative Court. The judgements are final. The Bank has already allocated provisions to uncertain tax position in order to cover risk that resulted from aforementioned verdicts.

13) EARNINGS PER SHARE

Under IAS 33, the Bank calculates earnings per share on the basis of consolidated data and presents these earnings in the consolidated financial report.

14) CASH, BALANCES WITH THE CENTRAL BANK

14a. Cash, balances with the Central Bank

	31.12.2015	31.12.2014
Cash	532 467	534 891
Cash in Central Bank	1 413 877	2 077 084
Other funds	40	40
Total	1 946 384	2 612 015

In the period from 31 December 2015 to 31 of January 2016 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,891,624 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

14b. Cash, balances with the Central Bank - by currency

	31.12.2015	31.12.2014
in Polish currency	1 780 085	2 495 578
in foreign currencies (after conversion to PLN)	166 299	116 437
- currency: USD	33 450	25 003
- currency: EUR	95 713	62 645
- currency: CHF	13 665	13 255
- currency: GBP	18 064	10 842
- other currencies	5 407	4 692
Total	1 946 384	2 612 015

15) DEPOSITS, LOANS AND ADVANCES TO BANKS AND OTHER MONETARY INSTITUTIONS**15a. Deposits, loans and advances to banks and other monetary institutions**

	31.12.2015	31.12.2014
Current accounts	284 687	359 258
Deposits granted	2 061 664	1 511 094
Loans	0	511 194
Interest	2 393	3 208
Total (gross) deposits, loans and advances	2 348 744	2 384 754
Impairment write-offs	(9)	(10)
Total (net) deposits, loans and advances	2 348 735	2 384 744

15b. Deposits, loans and advances to banks and other monetary institutions by maturity date

	31.12.2015	31.12.2014
Current accounts	284 687	359 258
to 1 month	2 051 664	1 501 094
above 1 month to 3 months	0	10 000
above 3 months to 1 year	10 000	511 194
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	2 393	3 208
Total (gross) deposits, loans and advances	2 348 744	2 384 754

15c. Deposits, loans and advances to banks and other monetary institutions by currency

	31.12.2015	31.12.2014
in Polish currency	91 439	708 759
in foreign currencies (after conversion to PLN)	2 257 305	1 675 995
- currency: USD	176 164	85 232
- currency: EUR	1 948 889	1 504 861
- currency: CHF	14 344	27 166
- currency: JPY	12 261	12 978
- currency: GBP	55 821	4 133
- other currencies	49 826	41 625
Total	2 348 744	2 384 754

15d. Change of impairment write-offs for deposits, loans and advances to banks and other monetary institutions

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	10	16
Impairment write-offs created in the period	19	10
Impairment write-offs released in the period	(20)	(16)
Balance at the end of the period	9	10

16) FINANCIAL ASSETS VALUED TO FAIR VALUE THROUGH THE PROFIT AND LOSS (HELD FOR TRADING) AND ADJUSTMENT DUE TO FAIR VALUE HEDGE ACCOUNTING

16a. Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge

	31.12.2015	31.12.2014
Debt securities	408 572	933 482
Issued by State Treasury	408 572	933 482
a) bills	0	0
b) bonds	408 572	933 482
Adjustment due to fair value hedge	22 152	27 097
Positive valuation of derivatives	336 338	458 655
Total	767 062	1 419 234

16b. Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge

	31.12.2015	31.12.2014
Trading financial assets	744 910	1 392 137
Adjustment due to fair value hedge	22 152	27 097
Financial assets valued at fair value when initially recognized	0	0
Total	767 062	1 419 234

Information on financial assets collateralizing liabilities has been presented in Chapter 13.2).

16c. Debt securities valued at fair value through profit and loss, at balance sheet value

	31.12.2015	31.12.2014
- with fixed interest rate	348 262	761 373
- with variable interest rate	60 310	172 109
Total	408 572	933 482

16d. Debt securities valued at fair value through profit and loss (held for trading) by maturity

	31.12.2015	31.12.2014
to 1 month	0	0
above 1 month to 3 months	0	0
above 3 months to 1 year	57 912	2 294
above 1 year to 5 years	299 092	727 622
above 5 years	51 568	203 566
Total	408 572	933 482

16e. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	933 482	432 822
Increases (purchase and accrual of interest and discount)	45 851 440	44 202 796
Reductions (sale and redemption)	(46 377 394)	(43 701 945)
Differences from valuation at fair value	1 044	(191)
Balance at the end of the period	408 572	933 482

Note 16 f / Note 27 Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2015

	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Interest rate derivatives	5 794 096	3 843 867	8 053 556	505 959	17 831	254 290	236 459
Forward Rate Agreements (FRA)	2 500 000	750 000	0	0	417	452	35
Interest rate swaps (IRS)	3 294 096	3 093 867	7 968 054	505 959	17 414	253 837	236 423
Other interest rate contracts: options	0	0	85 502	0	0	1	1
2. FX derivatives *	12 204 459	2 261 527	855 008	0	(7 502)	39 759	47 261
FX contracts	2 134 044	999 949	250 256	0	(5 369)	6 720	12 089
FX swaps	7 517 015	410 928	20 480	0	8 442	30 997	22 555
Other FX contracts (CIRS)	2 553 400	850 650	584 272	0	(10 575)	2 042	12 617
FX options	0	0	0	0	0	0	0
3. Embedded instruments	281 321	1 499 753	906 470	0	(38 642)	0	38 642
Options embedded in deposits	258 949	1 409 228	752 722	0	(31 623)	0	31 623
Options embedded in securities issued	22 372	90 525	153 748	0	(7 019)	0	7 019
4. Indexes options	463 854	1 581 024	900 776	0	38 272	42 289	4 017
Valuation of derivatives, TOTAL	18 743 730	9 186 171	10 715 810	505 959	9 959	336 338	326 379
Valuation of balance sheet items designated to fair value hedge accounting						22 152	18 413
Liabilities from short sale of securities							0

* Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

Note 16 g / Note 27 Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2014

	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Interest rate derivatives	2 294 017	8 693 288	8 203 086	587 498	14 367	350 602	336 235
Forward Rate Agreements (FRA)	0	2 600 000	0	0	493	493	0
Interest rate swaps (IRS)	2 294 017	5 993 288	8 167 715	587 498	13 874	348 697	334 823
Other interest rate contracts: options	0	100 000	35 371	0	0	1 412	1 412
2. FX derivatives *	8 777 516	891 710	366 639	83 123	(4 088)	33 268	37 355
FX contracts	1 564 903	717 142	231 060	0	1 321	8 348	7 027
FX swaps	7 212 613	174 568	135 579	0	5 665	24 920	19 255
Other FX contracts (CIRS)	0	0	0	83 123	(11 073)	0	11 073
FX options	0	0	0	0	0	0	0
3. Embedded instruments	710 872	1 120 475	1 047 861	0	(67 939)	0	67 939
Options embedded in deposits	697 923	1 061 796	798 219	0	(55 790)	0	55 790
Options embedded in securities issued	12 949	58 679	249 642	0	(12 149)	0	12 149
4. Indexes options	1 077 077	1 219 083	1 005 862	0	68 745	74 785	6 040
Valuation of derivatives, TOTAL	12 859 482	11 924 556	10 623 448	670 621	11 086	458 655	447 569
Valuation of balance sheet items designated to fair value hedge accounting						27 097	20 047
Liabilities from short sale of securities							162 254

* Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

17) DERIVATIVE AND HEDGING INSTRUMENTS

The Bank as at the end of 2015 uses the following types of hedge accounting:

1. Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate;
2. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
3. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them.

Starting from 1 January 2006 the Bank established first formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding resulting from the zloty deposit portfolio). Implementation of formal hedge accounting permitted presentation of the transactions in the Profit and Loss Account in accordance with their economic meaning.

At the end of each month the Bank performs an assessment of effectiveness of the hedge used by analysing changes of fair value of the hedged instrument and the hedging instrument.

During year 2015 expired hedging transactions concluded in order to hedge the variability of cash flows due to future revenues and expenses denominated in foreign currencies. As at 31.12.2015 the Bank continues to apply hedge accounting to the following relationship:

	Hedging fair value of the fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables	Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans
Description of hedge transactions	The Bank hedges the risk related to changes in fair value of the fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables resulting from variation in interest rate component (margin).	The Bank hedges the risk of the volatility of cash flows generated by PLN mortgages. The volatility of cash flows results from interest rate risk.
Hedged items	Fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables.	Cash flows resulting from the PLN mortgage loan portfolio
Hedging instruments	CIRS transactions	IRS transactions
Presentation of the result on the hedged and hedging transactions	Adjustment to fair value of hedged and hedging instruments are recognised in profit and loss as result on financial instruments valued at fair value through profit and loss and FX result; interest on hedging and hedged instruments are recognised in net interest income.	Effective part of the valuation of hedging instruments is recognised in other comprehensive income; interest on both the hedged and the hedging instruments are recognised in net interest income;

	Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN liabilities
Description of hedge transactions	The Bank hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN liabilities financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk.
Hedged items	Cash flows resulting from the FX mortgage loan portfolio and PLN deposits together with issued debt PLN securities funding them.
Hedging instruments	CIRS transactions
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in other comprehensive income; interest on both the hedged and the hedging instruments are recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in financial instruments valued at fair value through profit and loss and foreign exchange result

17a. Hedge accounting

As at 31.12.2015	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Fair value hedging derivatives connected with interest rate risk							
CIRS contracts	0	0	992 439	0	(140 909)	0	140 909
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	6 837 099	11 547 021	11 761 589	3 537 254	(1 930 002)	60 538	1 990 540
IRS contracts	200 000	1 275 000	650 000	0	9 691	10 295	604
Forward contracts	0	0	0	0	0	0	0
3. Total hedging derivatives	7 037 099	12 822 021	13 404 028	3 537 254	(2 061 220)	70 833	2 132 053

Adjustment to fair value of hedged items due to hedged risk for active hedging relationships, for the year 2015 amounted to PLN 794 thousand, of which PLN 5,782 thousand related to hedged assets, and PLN 4,988 thousand related to hedged liabilities.

As at 31.12.2014	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Fair value hedging derivatives connected with interest rate risk							
CIRS contracts	0	0	0	935 781	(84 493)	0	84 493
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	7 344 731	1 565 422	17 318 411	9 876 006	(1 295 832)	4 777	1 300 609
IRS contracts	330 000	555 000	435 000	0	13 512	13 760	248
Forward contracts	65 307	30 672	0	0	(4 413)	462	4 875
3. Total hedging derivatives	7 740 038	2 151 094	17 753 411	10 811 787	(1 371 226)	18 999	1 390 225

Adjustment to fair value of hedged items due to hedged risk for active hedging relationships, for the year 2014 amounted to PLN 1,117 thousand, of which PLN 4,568 thousand related to hedged assets, and PLN 3,451 thousand related to hedged liabilities.

17b. Hedge accounting - cash flow hedge

Hedge relationship	Maximum period in which cash flows with hedged value are expected to occur
Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate	24.03.2020
Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	30.06.2017
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	07.01.2025

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2015 amounted to PLN - 4.34 million (respectively in 2014 amounted to PLN -9.95 million).

18) LOANS AND ADVANCES TO CUSTOMERS**18a. Loans and advances to customers**

	31.12.2015	31.12.2014
Loans and advances	41 852 946	40 192 825
- to companies	8 705 527	8 547 052
- to private individuals	32 729 850	31 135 265
- to public sector	417 569	510 508
Receivables on account of payment cards	684 845	685 431
- due from companies	27 486	32 824
- due from private individuals	657 359	652 607
Purchased receivables	4 555 599	3 629 578
- from companies	4 555 393	3 626 953
- from public sector	206	2 625
Guarantees and sureties realised	12 551	12 011
Debt securities eligible for rediscount at Central Bank	5 217	9 851
Other	3 885	123
Interest	280 765	330 142
Total gross	47 395 808	44 859 961
Impairment write-offs	(1 325 089)	(1 225 637)
Total net	46 070 719	43 634 324

18b. Quality of loans and advances to customers portfolio

	31.12.2015	31.12.2014
Loans and advances to customers (gross)	47 395 808	44 859 961
- impaired	1 981 085	1 649 731
- not impaired	45 414 723	43 210 230
Impairment write-offs	(1 325 089)	(1 225 637)
- for impaired exposures	(1 197 749)	(1 088 597)
- for incurred but not reported losses (IBNR)	(127 340)	(137 040)
Loans and advances to customers (net)	46 070 719	43 634 324

18c. Loans and advances to customers portfolio by methodology of impairment assessment

	31.12.2015	31.12.2014
Loans and advances to customers (gross)	47 395 808	44 859 961
- case by case analysis	796 758	711 145
- collective analysis	46 599 050	44 148 816
Impairment write-offs	(1 325 089)	(1 225 637)
- on the basis of case by case analysis	(500 441)	(485 296)
- on the basis of collective analysis	(824 648)	(740 341)
Loans and advances to customers (net)	46 070 719	43 634 324

18d. Loans and advances to customers portfolio by customers

	31.12.2015	31.12.2014
Loans and advances to customers (gross)	47 395 808	44 859 961
- corporate customers	13 780 632	12 841 762
- individuals	33 615 176	32 018 199
Impairment write-offs	(1 325 089)	(1 225 637)
- for receivables from corporate customers	(615 866)	(642 784)
- for receivables from individuals	(709 223)	(582 853)
Loans and advances to customers (net)	46 070 719	43 634 324

18e. Loans and advances to customers by maturity

	31.12.2015	31.12.2014
Current accounts	3 545 837	3 371 813
to 1 month	468 726	55 006
above 1 month to 3 months	1 620 570	1 221 858
above 3 months to 1 year	3 491 261	3 489 596
above 1 year to 5 years	14 029 356	12 688 213
above 5 years	22 956 325	22 689 143
past due	1 002 968	1 014 190
Interest	280 765	330 142
Total gross	47 395 808	44 859 961

18f. Loans and advances to customers by currency

	31.12.2015	31.12.2014
in Polish currency	26 026 278	24 509 127
in foreign currencies (after conversion to PLN)	21 369 530	20 350 834
- currency: USD	66 603	328 652
- currency: EUR	2 671 405	2 186 161
- currency: CHF	18 626 108	17 829 209
- currency: JPY	294	2 386
- other currencies	5 120	4 426
Total gross	47 395 808	44 859 961

18g. Change of impairment write-offs for loans and advances to customers

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	1 225 637	1 190 184
Change in value of provisions:	99 452	35 453
Write-offs in the period	592 269	490 885
Amounts written off	(63 899)	(173 424)
Reversal of write-offs in the period	(320 816)	(226 550)
Write-offs decrease due to sale of receivables	(118 773)	(63 902)
Changes resulting from FX rates differences	10 394	7 663
Other	277	781
Balance at the end of the period	1 325 089	1 225 637

19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2015	31.12.2014
Debt securities	13 635 726	9 242 574
Issued by State Treasury	9 363 699	6 749 204
a) bills	0	0
b) bonds	9 363 699	6 749 204
Issued by Central Bank	4 198 776	2 400 000
a) bills	4 198 776	2 400 000
b) bonds	0	0
Other securities	73 251	93 370
a) listed	0	0
b) not listed	73 251	93 370
Shares and interests in other entities	226 334	6 642
Total financial assets available for sale	13 862 060	9 249 216
Available for sale instruments listed on the stock exchange	9 363 699	6 749 204
Available for sale instruments not listed on the stock exchange	4 498 361	2 500 012

Shares and interests in other entities include investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which value amounted to as at 31.12.2015 and 31.12.2014 PLN 13,259 thousand and PLN 6,642 thousand, respectively. Due to the nature of those instruments, the variability in the range of reasonable fair value measurements is significant and probabilities of the various estimates within the range cannot be reasonably assessed. Currently the Bank does not intend to dispose of these investments.

As member of Visa Europe Ltd the Bank is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. In accordance with the information published by Visa Inc. the transaction value includes 16.5 billion euros paid upfront to the beneficiaries and in addition potentially up to 4.7 billion euros, contingent on the financial results, in payouts after the fourth anniversary of the transaction's completion, giving the total transaction amount up to 21.2 billion euros. The upfront sum covers a cash payment of 11.5 billion euros and preference shares convertible to ordinary Visa Inc. class A shares valued at 5 billion euros.

Bank Millennium has received the preliminary initial estimates of the amount of payments under the transaction calculated on the basis of the Bank's share in Visa's business in Europe:

- 55.5 million euros in cash,
- shares valued at 19 million euros (at the exchange rates as of 18.10.2015).

In accordance with the proposed time-table the above payments will be settled by 30 June 2016.

The terms and implementation of the payment time-table are subject to acceptance by the regulatory authorities in particular European markets.

The amounts payable by 30 June 2016 are to be finally confirmed by 1 March 2016.

Based on the received information the Bank re-estimated the fair value of VISA shares in the Bank's books as at 31 December 2015 and the effect was recognized in other comprehensive income. Having in mind that the Bank still awaits final confirmation of the amounts to be received (they may change due to transaction costs or possible objections of members Visa Europe for their participation in the settlement) as well as wide time horizon of the transaction (uncertainty and discount factors), the Bank following the principle of prudent valuation recognised in its books as at 31 December 2015 VISA shares at value of EUR 50 million.

19b. Debt securities available for sale

	31.12.2015	31.12.2014
- with fixed interest rate	10 095 315	7 320 712
- with variable interest rate	3 540 411	1 921 862
Total	13 635 726	9 242 574

19c. Debt securities available for sale by maturity

	31.12.2015	31.12.2014
to 1 month	4 544 850	2 407 056
above 1 month to 3 months	0	0
above 3 months to 1 year	1 548 308	159 234
above 1 year to 5 years	6 843 247	6 212 924
above 5 years	699 321	463 360
Total	13 635 726	9 242 574

19d. Change of investment financial assets available for sale

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	9 249 216	8 241 226
Increases (purchase and accrual of interest and discount)	221 514 329	277 496 168
Reductions (sale and redemption)	(217 082 908)	(276 557 707)
Difference from measurement at fair value	181 438	69 491
Impairment write-offs	(15)	38
Other	0	0
Balance at the end of the period	13 862 060	9 249 216

19e. Investments in related entities

	31.12.2015	31.12.2014
Investments in related entities	226 373	227 752

19f. Investments in related entities as at 31.12.2015

Company	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM DOM MAKLESKI S.A.	brokerage services	Warszawa	100	100
MB FINANCE AB	funding companies from the Group	Sztokholm	100	100
MILLENNIUM SERVICE Sp. z o.o.	leasing and property management	Warszawa	100	100
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	45	45
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50+1 share	50+1 share
BG LEASING	leasing services	Gdańsk	74	74

19f. Investments in related entities as at 31.12.2015

Name	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	4 938 587	4 628 667	48 195	129 965	46 167	subordinated
MILLENNIUM DOM MAKLESKI S.A.	16 500	0	0	189 092	97 853	16 500	27 518	13 208	subordinated
MB FINANCE AB	232	0	0	641 491	640 269	232	259	30	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	143 000	379 527	9 907	1 000	98 242	270	subordinated
TBM Sp. z o.o.	225	0	0	681	0	500	323	0	associated
LUBUSKIE FABRYKI MEBLI S.A.*	6 700	(5 324)	0	5 169	4 303	602	9 041	(67)	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	272	0	100	892	5	subordinated
BG LEASING S.A. under bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates	89 597	(6 224)	143 000						

* data as at 31.08.2015;

Millennium Dom Maklerski S.A., subsidiary of the Bank, is a 100% holder of Millennium TFI S.A. shares.

19g. Investments in related entities as at 31.12.2014

Company	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM DOM MAKLESKI S.A.	brokerage services	Warszawa	100	100
MB FINANCE AB	funding companies from the Group	Sztokholm	100	100
MILLENNIUM SERVICE Sp. z o.o.	leasing and property management	Warszawa	100	100
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	45	45
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50+1 share	50+1 share
BG LEASING	leasing services	Gdańsk	74	74

19g. Investments in related entities as at 31.12.2014

Name	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	4 336 239	3 820 854	48 195	137 561	47 462	subordinated
MILLENNIUM DOM MAKLESKI S.A.	16 500	0	0	190 939	136 354	16 500	24 689	10 813	subordinated
MB FINANCE AB	226	0	0	645 679	644 827	227	289	85	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	143 000	403 157	0	1 000	99 101	196	subordinated
TBM Sp. z o.o.	225	0	0	672	0	500	226	11	associated
LUBUSKIE FABRYKI MEBLI S.A.*	6 700	(3 939)	0	15 953	7 531	13 400	15 205	(2 340)	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	296	0	100	747	26	subordinated
BG LEASING S.A. under bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates	89 591	(4 839)	143 000						

* data as at 30.11.2014

19h. Change of investments in related entities

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	227 752	298 007
Impairment write-offs in the period	(1 385)	(246)
Return of additional capital paid in	0	(70 001)
Differences in valuation of shares expressed in foreign currencies	6	(8)
Balance at the end of the period	226 373	227 752

20) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

	31.12.2015	31.12.2014
a) from banks	0	155 583
b) from clients	0	0
c) interest	0	59
Total	0	155 642

21) PROPERTY, PLANT AND EQUIPMENT**21a. Property, plant and equipment**

	31.12.2015	31.12.2014
Land	1 261	1 261
Buildings, premises, civil and hydro-engineering structures	67 091	69 294
Machines and equipment	42 526	35 396
Vehicles	19 878	22 469
Other fixed assets	5 599	5 358
Fixed assets under construction	15 852	13 851
Total	152 207	147 629

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2015 - 31.12.2015

	land	buildings, premises, civil and hydro- engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 261	325 248	175 539	31 187	86 628	13 851	633 714
b) increases (on account of)	0	13 076	21 407	2 445	3 143	39 735	79 806
- purchase	0	0	0	0	0	35 874	35 874
- transfer from fixed assets under construction	0	7 809	12 227	0	1 760	0	21 796
- transfer from financial leasing	0	5 267	9 180	2 445	1 375	0	18 267
- unpaid investments	0	0	0	0	0	3 861	3 861
- other	0	0	0	0	8	0	8
c) reductions (on account of)	0	16 753	21 332	1 417	9 292	37 734	86 528
- sale	0	63	80	0	25	0	168
- liquidation	0	13 839	18 504	0	7 602	0	39 945
- settlement of fixed assets under construction	0	0	0	0	0	37 618	37 618
- settlement of financial leasing agreement	0	2 537	2 748	1 417	1 665	0	8 367
- other	0	314	0	0	0	116	430
d) gross value of property, plant and equipment at the end of the period	1 261	321 571	175 614	32 215	80 479	15 852	626 992
e) cumulated depreciation (amortization) at the beginning of the period	0	236 456	140 143	8 718	81 270	0	466 587
f) depreciation over the period (on account of)	0	326	(7 055)	3 619	(6 390)	0	(9 500)
- current write-off (P&L)	0	14 758	13 851	4 404	2 630	0	35 643
- reductions on account of sale	0	(30)	(80)	0	(25)	0	(135)
- reductions on account of liquidation	0	(13 693)	(18 454)	0	(7 340)	0	(39 487)
- settlement of financial leasing	0	(2 509)	(2 372)	(785)	(1 655)	0	(7 321)
- transfer from impairment write-offs	0	1 800	0	0	0	0	1 800
g) cumulated depreciation (amortization) at the end of the period	0	236 782	133 088	12 337	74 880	0	457 087
h) impairment write-offs at the beginning of the period	0	19 498	0	0	0	0	19 498
- increase	0	0	0	0	0	0	0
- reduction - transfer to depreciation	0	1 800	0	0	0	0	1 800
i) impairment write-offs at the end of the period	0	17 698	0	0	0	0	17 698
j) net value of property, plant and equipment at the end of the period	1 261	67 091	42 526	19 878	5 599	15 852	152 207
including finance lease	0	27 583	20 852	19 850	2 456	274	71 015

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2014 - 31.12.2014

	land	buildings, premises, civil and hydro- engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 261	333 639	172 788	28 696	86 324	11 320	634 028
b) increases (on account of)	0	11 764	10 573	7 682	3 608	28 487	62 114
- purchase	0	0	0	0	0	10 953	10 953
- transfer from fixed assets under construction	0	11 764	10 573	0	3 608	0	25 945
- transfer from financial leasing	0	0	0	7 682	0	8 431	16 113
- unpaid investments	0	0	0	0	0	9 103	9 103
- other	0	0	0	0	0	0	0
c) reductions (on account of)	0	20 155	7 822	5 191	3 304	25 956	62 428
- sale	0	10 158	1 207	0	194	0	11 559
- liquidation	0	8 674	5 286	0	2 657	0	16 617
- settlement of fixed assets under construction	0	0	0	0	0	25 945	25 945
- settlement of financial leasing agreement	0	1 323	1 329	5 191	453	0	8 296
- other	0	0	0	0	0	11	11
d) gross value of property, plant and equipment at the end of the period	1 261	325 248	175 539	31 187	86 628	13 851	633 714
e) cumulated depreciation (amortization) at the beginning of the period	0	232 109	134 398	7 762	81 268	0	455 537
f) depreciation over the period (on account of)	0	4 347	5 745	956	2	0	11 050
- current write-off (P&L)	0	20 829	13 225	4 240	3 283	0	41 577
- reductions on account of sale	0	(4 954)	(1 194)	0	(195)	0	(6 343)
- reductions on account of liquidation	0	(8 473)	(5 158)	0	(2 636)	0	(16 267)
- settlement of financial leasing	0	(1 255)	(1 128)	(3 284)	(450)	0	(6 117)
- transfer to impairment write-offs	0	(1 800)	0	0	0	0	(1 800)
g) cumulated depreciation (amortization) at the end of the period	0	236 456	140 143	8 718	81 270	0	466 587
h) impairment write-offs at the beginning of the period	0	19 548	0	0	0	0	19 548
- increase - transfer from depreciation	0	1 800	0	0	0	0	1 800
- reduction	0	1 850	0	0	0	0	1 850
i) impairment write-offs at the end of the period	0	19 498	0	0	0	0	19 498
j) net value of property, plant and equipment at the end of the period	1 261	69 294	35 396	22 469	5 358	13 851	147 629
including finance lease	0	31 689	17 496	22 469	1 637	475	73 766

22) INTANGIBLE ASSETS**22a. Intangible assets**

	31.12.2015	31.12.2014
- concessions, patents, licenses, know-how and similar assets, including:	51 987	48 110
- computer software	44 866	45 397
Total intangible assets	51 987	48 110

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2015 - 31.12.2015

	concessions, patents, licenses, know-how and similar assets, including:		TOTAL
	computer software		
a) gross value of intangible assets at the beginning of the period	233 771	229 496	233 771
b) increases (on account of)	15 675	9 558	15 675
- expenditures on intangible assets	15 675	9 558	15 675
- unpaid investments	0	0	0
- other	0	0	0
c) reductions (on account of)	13	13	13
- liquidation	4	4	4
- other	9	9	9
d) gross value of intangible assets at the end of the period	249 433	239 041	249 433
e) cumulated depreciation (amortization) at the beginning of the period	185 661	184 099	185 661
f) depreciation over the period (on account of)	11 785	10 076	11 785
- current write-off (P&L)	11 789	10 080	11 789
- liquidation	(4)	(4)	(4)
- other	0	0	0
g) cumulated depreciation (amortization) at the end of the period	197 446	194 175	197 446
h) impairment write-offs at the beginning of the period	0	0	0
i) impairment write-offs at the end of the period	0	0	0
j) net value of intangible assets at the end of the period	51 987	44 866	51 987

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2014 - 31.12.2014

	concessions, patents, licenses, know-how and similar assets, including: computer software		TOTAL
a) gross value of intangible assets at the beginning of the period	214 205	213 190	214 205
b) increases (on account of)	23 398	20 128	23 398
- expenditures on intangible assets	15 560	12 290	15 560
- unpaid investments	7 838	7 838	7 838
- other	0	0	0
c) reductions (on account of)	3 832	3 822	3 832
- liquidation	3 644	3 634	3 644
- other	188	188	188
d) gross value of intangible assets at the end of the period	233 771	229 496	233 771
e) cumulated depreciation (amortization) at the beginning of the period	177 336	176 934	177 336
f) depreciation over the period (on account of)	8 325	7 165	8 325
- current write-off (P&L)	11 971	10 801	11 971
- liquidation	(3 644)	(3 634)	(3 644)
- other	(2)	(2)	(2)
g) cumulated depreciation (amortization) at the end of the period	185 661	184 099	185 661
h) impairment write-offs at the beginning of the period	0	0	0
i) impairment write-offs at the end of the period	0	0	0
j) net value of intangible assets at the end of the period	48 110	45 397	48 110

23) NON-CURRENT ASSETS HELD FOR SALE

As of 31.12.2015 and 31.12.2014 the Bank did not classify any assets in the Fixed Assets for Sale category.

24) DEFERRED INCOME TAX ASSETS**24a. Deferred income tax assets and liability**

	31.12.2015			31.12.2014		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	4 802	0	4 802	5 121	0	5 121
Balance sheet valuation of financial instruments	461 964	(487 718)	(25 754)	307 393	(307 690)	(297)
Unrealised receivables/ liabilities on account of derivatives	27 570	(41 924)	(14 354)	44 652	(52 463)	(7 811)
Interest on deposits and securities to be paid/ received	38 468	(33 022)	5 446	34 764	(90 914)	(56 150)
Interest and discount on loans and receivables	0	(7 874)	(7 874)	0	(26 733)	(26 733)
Income and cost settled at effective interest rate	73 009	(34)	72 975	61 388	(102)	61 286
Provisions for loans presented as temporary differences	105 466	0	105 466	93 050	0	93 050
Employee benefits	13 723	0	13 723	14 931	0	14 931
Provisions for future costs	11 653	0	11 653	14 510	0	14 510
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	43 087	(47 322)	(4 235)	39 393	(12 849)	26 544
Other	2 968	(1 567)	1 401	2 582	(2 076)	506
Net deferred income tax asset	782 710	(619 461)	163 249	617 784	(492 827)	124 957
- including long-term net deferred income tax asset			131 288			107 995

24b. Change of temporary differences

	31.12.2014	Adjustment to previous years	Changes to financial result	Changes to equity	31.12.2015
Difference between tax and balance sheet depreciation	5 121	0	(319)	0	4 802
Balance sheet valuation of financial instruments	(297)	(1 611)	(23 846)	0	(25 754)
Unrealised receivables/ liabilities on account of derivatives	(7 811)	0	(6 543)	0	(14 354)
Interest on deposits and securities to be paid/ received	(56 150)	(3 009)	64 605	0	5 446
Interest and discount on loans and receivables	(26 733)	246	18 613	0	(7 874)
Income and cost settled at effective interest rate	61 286	0	11 689	0	72 975
Provisions for loans presented as temporary differences	93 050	(223)	12 639	0	105 466
Employee benefits	14 931	0	(1 208)	0	13 723
Provisions for future costs	14 510	0	(2 858)	0	11 653
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	26 544	0	0	(30 779)	(4 235)
Other	506	0	894		1 401
Total	124 957	(4 597)	73 666	(30 779)	163 249

24c. Change of temporary differences

	31.12.2013	Changes to financial result	Changes to equity	31.12.2014
Difference between tax and balance sheet depreciation	5 401	(280)		5 121
Balance sheet valuation of financial instruments	2 442	(2 739)		(297)
Unrealised receivables/ liabilities on account of derivatives	(7 982)	171		(7 811)
Interest on deposits and securities to be paid/ received	(54 111)	(2 039)		(56 150)
Interest and discount on loans and receivables	(26 588)	(145)		(26 733)
Income and cost settled at effective interest rate	23 419	37 867		61 286
Provisions for loans presented as temporary differences	102 916	(9 866)		93 050
Employee benefits	14 003	928		14 931
Provisions for future costs	19 640	(5 130)		14 510
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	30 834		(4 290)	26 544
Other	3 157	(2 651)		506
Total	113 131	16 116	(4 290)	124 957

24d. Change of deferred income tax

	1.01.2015 - 31.12.2015	1.01.2014 - 31.12.2014
Difference between tax and balance sheet depreciation	(319)	(280)
Balance sheet valuation of financial instruments	(23 846)	(2 739)
Unrealised receivables/ liabilities on account of derivatives	(6 543)	171
Interest on deposits and securities to be paid/ received	64 605	(2 039)
Interest and discount on loans and receivables	18 613	(145)
Income and cost settled at effective interest rate	11 689	37 867
Provisions for loans presented as temporary differences	12 639	(9 866)
Employee benefits	(1 208)	928
Provisions for future costs	(2 858)	(5 130)
Other	894	(2 651)
Change of deferred income tax recognized in financial result	73 666	16 116
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	(30 779)	(4 290)

24e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2015	31.12.2014
Unlimited	11 749	17 136
Total	11 749	17 136

In accordance with IAS 12, the Bank offset deferred income tax assets with deferred income tax liabilities.

	31.12.2015	31.12.2014
Net deferred income tax assets	163 249	124 957
Net deferred income tax provision	-	-
Total	163 249	124 957

25) OTHER ASSETS

	31.12.2015	31.12.2014
Expenses to be settled	255 328	279 001
Income to be received	21 567	24 441
Interbank settlements	1 428	1 801
Settlements of financial instruments transactions	0	8 200
Receivables from sundry debtors	96 276	82 785
Settlements with the State Treasury	2 650	5 262
Total other assets (gross)	377 249	401 490
Provisions	(4 170)	(3 933)
Total other assets (net)	373 079	397 557
- including other financial assets*	115 101	113 294
- including long-term other assets	146 398	172 829

* - other financial assets include all of the remaining other net assets excluding the Expenses to be settled and Settlements with the State Treasury

26) LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

26a. Liabilities to banks and other monetary institutions

	31.12.2015	31.12.2014
In current account	114 518	288 967
Term deposits	498 235	369 684
Loans and advances received	829 770	1 326 101
Interest	1 398	1 373
Total	1 443 921	1 986 125

26b. Liabilities to banks and other monetary institutions by maturity

	31.12.2015	31.12.2014
Current accounts	114 518	288 967
to 1 month	274 742	277 494
above 1 month to 3 months	204 216	91 230
above 3 months to 1 year	115 450	561 846
above 1 year to 5 years	733 597	765 215
above 5 years	0	0
Interest	1 398	1 373
Total	1 443 921	1 986 125

26c. Liabilities to banks and other monetary institutions by currency

	31.12.2015	31.12.2014
in Polish currency	458 796	1 050 326
in foreign currencies (after conversion to PLN)	985 125	935 799
- currency: USD	881	9 636
- currency: EUR	558 251	559 211
- currency: CHF	425 767	343 053
- other currencies	226	23899
Total	1 443 921	1 986 125

27) FINANCIAL LIABILITIES VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2015	31.12.2014
Negative valuation of derivatives	326 379	447 569
Adjustment due to fair value hedge	18 413	20 047
Short sale of securities	0	162 254
Financial liabilities valued at fair value through profit and loss	344 792	629 870

The breakdown of the negative valuation of derivatives into individual instruments has been presented in **note (16)**.

28) DEPOSITS FROM CUSTOMERS**28a. Structure of liabilities to customers by type**

	31.12.2015	31.12.2014
Amounts due to private individuals	35 518 684	29 643 701
Balances on current accounts	16 917 166	13 907 131
Term deposits	18 396 274	15 538 947
Other	83 380	99 074
Accrued interest	121 864	98 549
Amounts due to companies	16 199 185	16 091 602
Balances on current accounts	4 823 754	4 199 785
Term deposits	11 106 364	11 635 448
Other	238 231	215 729
Accrued interest	30 836	40 640
Amounts due to public sector	1 202 714	2 072 559
Balances on current accounts	741 985	789 179
Term deposits	427 940	1 247 485
Other	31 761	34 100
Accrued interest	1 028	1 795
Total	52 920 583	47 807 862

28b. Liabilities to customers by maturity

	31.12.2015	31.12.2014
Current accounts	22 482 905	18 896 095
to 1 month	11 381 219	12 361 531
above 1 month to 3 months	10 248 046	9 439 713
above 3 months to 1 year	7 535 488	5 228 211
above 1 year to 5 years	1 089 197	1 741 328
above 5 years	30 000	0
Interest	153 728	140 984
Total	52 920 583	47 807 862

28c. Liabilities to customers by currency

	31.12.2015	31.12.2014
in Polish currency	48 908 801	44 519 156
in foreign currencies (after conversion to PLN)	4 011 782	3 288 706
- currency: USD	1 347 815	944 842
- currency: EUR	2 375 445	2 125 421
- currency: GBP	182 820	138 959
- currency: CHF	76 234	60 788
- other currencies	29 468	18 696
Total	52 920 583	47 807 862

29) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

	31.12.2015	31.12.2014
a) to the Central Bank	0	0
b) to banks	0	0
c) to customers	0	66 623
d) interest	0	151
Total	0	66 774

30) DEBT SECURITIES**30a. Debt securities**

	31.12.2015	31.12.2014
Outstanding bonds and bills	829 566	1 400 665
Bank Securities	301 527	332 443
Interest	4 408	7 525
Total	1 135 501	1 740 633

30b. Debt securities

	31.12.2015	31.12.2014
to 1 month	0	400 015
above 1 month to 3 months	22 288	104 898
above 3 months to 1 year	124 992	469 737
above 1 year to 5 years	983 813	758 458
above 5 years	0	0
Interest	4 408	7 525
Total	1 135 501	1 740 633

30c. Change of debt securities

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	1 740 633	701 352
Increases, on account of:	1 114 965	1 794 358
- issue of bonds	961 583	1 632 230
- issue of Bank Securities	109 791	115 844
- interest accrual	43 591	46 284
Reductions, on account of:	(1 720 097)	(755 077)
- repurchase of bonds	(1 532 681)	(590 679)
- repurchase of Bank Securities	(140 708)	(122 752)
- interest payment	(46 708)	(41 646)
Balance at the end of the period	1 135 501	1 740 633

30d. Debt securities by type

As at 31.12.2015	Balance sheet value	Final legal maturity	Market
BPW_2016/02,A	5 085	2016-02-03	-
BPW_2016/03,A	17 203	2016-03-02,30	-
BPW_2016/04,A	15 587	2016-04-29	-
BPW_2016/05,A	3 548	2016-05-31	-
BPW_2016/06,A	5 534	2016-06-29	-
BPW_2016/07	6 003	2016-07-29	-
BPW_2016/08,A	16 840	2016-08-31,29	-
BPW_2016/09,A,B	23 916	2016-09-29,30	-
BPW_2016/10,A	14 069	2016-10-31	-
BPW_2016/12,A,B	9 929	2016-12-02,30	-
BPW_2017/01,A	11 731	2017-01-31	-
BPW_2017/02,A	6 946	2017-02-28	-
BPW_2017/03,A	12 774	2017-03-30	-
BPW_2017/04,A,C	16 573	2017-04-28	-
BPW_2017/05	5 220	2017-05-30	-
BPW_2017/06	4 485	2017-06-30	-
BPW_2017/07	3 895	2017-07-31	-
BPW_2017/11	5 778	2017-11-30	-
BPW_2017/12,A	6 688	2017-12-29	-
BPW_2018/01	5 404	2018-01-31	-
BPW_2018/02	5 707	2018-02-27	-
BPW_2018/03	7 021	2018-03-30	-
BPW_2018/04	9 243	2018-04-30	-
BPW_2018/06,A	20 152	2018-06-01,29	-
BPW_2018/07	11 507	2018-07-31	-
BPW_2018/08	14 950	2018-08-31	-
BPW_2018/09	15 616	2018-09-28	-
BPW_2018/10	6 326	2018-10-31	-
BPW_2018/11	9 435	2018-11-30	-
BPW_2019/01	4 362	2019-01-03	-
BKMO_280317C	504 165	2017-03-28	Catalyst (ASO BondSpot)
BKMO_220618N	300 243	2018-06-22	-
BKMO_150916P	29 566	2016-09-15	-
TOTAL	1 135 501		

In the case of Bonds (BM) and Banking Securities (BPW) issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date. For the remaining bonds (BKMO) interest shall be calculated from the value of bonds and paid semi-annually. As of 31.12.2015 the interest balance amounted to PLN 4,408 thousand.

As at 31.12.2015, 3-year bonds Millennium Series C with a total nominal value of PLN 500 million were listed on the wholesale debt market Catalyst (ASO BondSpot).

30e. Debt securities by type

As at 31.12.2014	Balance sheet value	Final legal maturity	Market
BPW_2015/01	283	2015-01-05	-
BPW_2015/03	4 031	2015-03-04	-
BPW_2015/04,A,B,C,D	17 041	2015-04-01,29	-
BPW_2015/06,A	2 011	2015-06-03	-
BPW_2015/07	14 545	2015-07-01	-
BPW_2015/09,A	8 487	2015-09-30	-
BPW_2015/11	3 505	2015-11-30	-
BPW_2015/12,A,B,C	24 148	2015-12-31	-
BPW_2016/02,A	9 112	2016-02-03	-
BPW_2016/03,A	24 236	2016-03-02	-
BPW_2016/04,A	16 934	2016-04-29	-
BPW_2016/05,A	4 324	2016-05-31	-
BPW_2016/06,A	7 905	2016-06-29	-
BPW_2016/07	10 434	2016-07-29	-
BPW_2016/08,A	22 860	2016-08-29,31	-
BPW_2016/09,A,B	34 405	2016-09-29,30	-
BPW_2016/10,A	21 194	2016-10-31	-
BPW_2016/12,A,B	18 140	2016-12-02,30	-
BPW_2017/01,A	14 347	2017-01-31	-
BPW_2017/02,A	11 277	2017-02-28	-
BPW_2017/03,A	14 937	2017-03-30	-
BPW_2017/04,A,C	19 359	2017-04-28	-
BPW_2017/05	6 352	2017-05-30	-
BPW_2017/06	4 586	2017-06-30	-
BPW_2017/07	5 273	2017-07-31	-
BPW_2017/11	5 754	2017-11-30	-
BPW_2017/12,A	7 027	2017-12-29	-
BKMO_080115G	399 797	2015-01-08	-
BKMO_100315H	100 868	2015-03-10	-
BKMO_051015B	252 550	2015-10-05	Catalyst (ASO BondSpot)
BKMO_151215I	50 056	2015-12-15	-
BKMO_281215A	100 040	2015-12-28	-
BKMO_280317C	504 815	2017-03-28	Catalyst (ASO BondSpot)
TOTAL	1 740 633		

In the case of Bonds (BM) and Banking Securities (BPW) issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date. For the remaining bonds (BKMO) interest shall be calculated from the value of bonds and paid semi-annually. As of 31.12.2014 the interest balance amounted to PLN 7,525 thousand.

As at 31.12.2014, 3-year bonds Millennium Series B and C with a total nominal value of PLN 750 million were listed on the wholesale debt market Catalyst (ASO BondSpot).

31) PROVISIONS**31a. Provisions**

	31.12.2015	31.12.2014
Provision for off-balance sheet commitments	14 239	27 692
Provision for disputed claims and others	16 028	67 331
Total	30 267	95 023

31b. Change of provisions

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Provision for off-balance sheet commitments		
Balance at the beginning of the period	27 692	33 738
Charge of provision	5 052	21 795
Release of provision	(18 506)	(27 844)
FX rates differences	1	3
Balance at the end of the period	14 239	27 692
Provision for disputed claims and others		
Balance at the beginning of the period	67 331	29 327
Charge of provision	28 748	39 738
Release of provision	(2 516)	(1 398)
Utilisation of provision	(77 535)	(336)
Balance at the end of the period	16 028	67 331

32) DEFERRED INCOME TAX PROVISION

	31.12.2015	31.12.2014
Deferred income tax provision	0	0

33) OTHER LIABILITIES

33a. Other liabilities

	31.12.2015	31.12.2014
Short-term	1 048 326	691 527
Accrued costs - bonuses, salaries	43 360	52 525
Accrued costs - other	79 103	88 058
Interbank settlements	159 558	137 397
Settlements due to financial instruments	388 751	37 878
Other creditors	140 347	156 922
Liabilities from financial leasing	25 189	14 041
Liabilities to public sector	21 706	44 062
Deferred income	179 130	146 456
Provisions for unused employee holiday	9 522	9 100
Provisions for retirement benefits	1 125	1 354
Other	535	3 734
Long-term	78 095	83 587
Provisions for retirement benefits	15 118	13 596
Deferred income	3 912	3 936
Liabilities from financial leasing	54 091	61 399
Accrued costs	4 974	4 656
Total	1 126 421	775 114
- including other financial liabilities*	921 138	576 925

* - other financial liabilities includes all of the other liabilities excluding the Liabilities to public sector, Deferred income and other items

The Bank is a lessee in financial leasing agreements concerning the car fleet as well as office space and equipment, signed with the Bank's subsidiaries - Millennium Leasing Sp. z o.o. and Millennium Service Sp. z o.o. The Bank carries the property in the financial lease as fixed assets.

33b. Liabilities from financial leasing

	31.12.2015	31.12.2014
Liabilities from financial leasing (gross)	85 465	83 050
Unrealised financial costs	(6 185)	(7 610)
Current value of minimum leasing instalments	79 280	75 440
Liabilities from financial leasing (gross) by maturity		
Under 1 year	27 862	17 062
From 1 year to 5 years	49 027	61 922
Above 5 years	8 576	4 066
Total	85 465	83 050
Liabilities from financial leasing (net) by maturity		
Under 1 year	25 189	14 041
From 1 year to 5 years	45 898	57 582
Above 5 years	8 193	3 817
Total	79 280	75 440

33c. Change of provisions for unused employee holiday

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	9 100	8 392
Charge of provisions/ reversal of provisions	651	839
Utilization of provisions	(229)	(131)
Balance at the end of the period	9 522	9 100

33d. Change of provisions for retirement benefits

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	14 950	10 475
Charge of provisions/ reversal of provisions	2 755	2 059
Utilization of provisions	(693)	(227)
Actuarial gains (losses)	(769)	2 643
Balance at the end of the period	16 243	14 950

34) SUBORDINATED DEBT

34a. Subordinated debt

	31.12.2015	31.12.2014
Name of entity	MB FINANCE A.B.	MB FINANCE A.B.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	639 225	639 345
Interest rate	1.999%	2.216%
Maturity	20.12.2017	20.12.2017
Interest	406	394
Balance sheet value of subordinated debt	639 631	639 739

34b. Change of subordinated debt

	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Balance at the beginning of the period	639 739	622 585
Increases, on account of:	13 668	32 442
- FX rates differences	0	17 265
- interest accrual	13 668	15 177
Reductions, on account of:	(13 776)	(15 288)
- interest payment	(13 656)	(15 288)
- FX rates differences	(120)	0
Balance at the end of the period	639 631	639 739

In the course of 2015 and 2014 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

35) SHAREHOLDERS' EQUITY

35a. Share capital

The share capital of the Bank Millennium S.A. is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

SHARE CAPITAL

Par value of one share = 1 PLN

Series / issue	Share type	Type of preference	Number of shares	Value of series/issue	Manner of capital coverage	Registration date	Right to dividend
A	registered founder	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			05.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

In the reporting period there was conversion of 596 registered shares into the bearer shares. As a consequence number of registered shares decreased and as of 31.12.2015 amounted to 108 640, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2015. Information on the ultimate parent company - Banco Comercial Portugues S.A. presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Bank's General Shareholders Meeting held on 21 May 2015. In case of Nationale-Nederlanden OFE (former ING OFE) and AVIVA OFE BZ WBK the number of shares and their participation in the Bank's share capital were calculated on the basis of annual asset structure, published as at 31 December 2014 and 31 December 2015 (published on the websites, respectively: www.nn.pl and www.aviva.pl). For the purpose of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 8.25 PLN for 2014 and 5.6468 PLN for 2015.

The largest shareholders of the Group's parent entity - the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2015

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.1	607 771 505	50.1
Nationale-Nederlanden Emerytalny	115 615 810	9.53	115 615 810	9.53
AVIVA Otworthy Fundusz Emerytalny AVIVA BZ WBK	78 310 605	6.46	78 310 605	6.46

Shareholders as at 31.12.2014

<i>Shareholder</i>	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING Otworthy Fundusz Emerytalny	95 521 053	7.87	95 521 053	7.87

35b. Revaluation capital

The revaluation capital of the Bank is generated in result of recognizing:

- result of valuation (at fair value) of financial assets available for sale at their net value, i.e. after deferred tax. The above items are deducted from the revaluation capital when all or some of the valued assets are taken out of the books or at the moment of recognising impairment (the result of the valuation is then recognized in the profit and loss account),
- result of valuation (at fair value) of derivative instruments hedging cash flows at their net value, i.e. after deferred tax. The revaluation capital contains the part of profits or losses related to the instrument hedging the cash flows, which is an effective hedge, while the ineffective part of profits or losses on the instrument is posted in the profit and loss account,
- actuarial gains (losses) at their net value, i.e. after deferred tax. Aforementioned gains or losses result from the discounting of future liabilities arising from a provision created for retirement benefits. These values are not reclassified to the profit and loss account.

Revaluation reserve

	31.12.2015	31.12.2014
Effect of valuation (gross)	22 287	(139 707)
Deferred income tax	(4 235)	26 544
Net effect of valuation	18 052	(113 163)

Sources of the revaluation capital evolution are as follows (data in PLN thousands):

Revaluation reserve on available for sale financial assets 1.01.2015 - 31.12.2015

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	67 626	(12 849)	54 777
Transfer to income statement of the period as a result of sale	(41 852)	7 952	(33 900)
Change connected with maturity of securities	(301)	57	(244)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	223 591	(42 482)	181 109
Revaluation reserve at the end of the period	249 064	(47 322)	201 742

Revaluation reserve on available for sale financial assets 1.01.2014 - 31.12.2014

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(1 865)	354	(1 511)
Transfer to income statement of the period as a result of sale	(8 622)	1 638	(6 984)
Change connected with maturity of securities	(997)	189	(807)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	79 109	(15 031)	64 079
Revaluation reserve at the end of the period	67 626	(12 849)	54 777

Revaluation reserve on cash flows hedge financial instruments 1.01.2015 - 31.12.2015

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(204 690)	38 891	(165 799)
Gains or losses on valuation of financial instruments recognized in equity	(24 556)	4 665	(19 891)
Transfer to income statement during period	4 343	(825)	3 518
Revaluation reserve at the end of the period	(224 903)	42 731	(182 172)

Revaluation reserve on cash flows hedge financial instruments 1.01.2014 - 31.12.2014

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(160 420)	30 480	(129 940)
Gains or losses on valuation of financial instruments recognized in equity	(54 220)	10 302	(43 918)
Transfer to income statement during period	9 950	(1 891)	8 060
Revaluation reserve at the end of the period	(204 690)	38 891	(165 799)

Revaluation reserve due to actuarial gains (losses) 1.01.2015 - 31.12.2015

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(2 643)	502	(2 141)
Discounting the obligations arising from the provision for retirement benefits	769	(146)	623
Revaluation reserve at the end of the period	(1 874)	356	(1 518)

Revaluation reserve due to actuarial gains (losses) 1.01.2014 - 31.12.2014

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	0	0	0
Discounting the obligations arising from the provision for retirement benefits	(2 643)	502	(2 141)
Revaluation reserve at the end of the period	(2 643)	502	(2 141)

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2015	374 957	1 876 144	228 902	619 511	3 099 514
appropriation of profit, including:	0	619 511	0	(619 511)	0
- transfer to reserve capital	0	619 511	0	(619 511)	0
net profit/ (loss) of the period	0	0	0	814 157	814 157
Retained earnings at the end of the period 31.12.2015	374 957	2 495 655	228 902	814 157	3 913 671

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2014	374 957	1 646 255	228 902	496 775	2 746 889
appropriation of profit, including:	0	229 889	0	(496 775)	(266 886)
- transfer to reserve capital	0	229 889	0	(229 889)	0
- dividend payment	0	0	0	(266 886)	(266 886)
net profit/ (loss) of the period	0	0	0	619 511	619 511
Retained earnings at the end of the period 31.12.2014	374 957	1 876 144	228 902	619 511	3 099 514

36) FINANCIAL LIABILITIES BY LEGAL MATURITY

2015	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	TOTAL
Deposits from banks	389 652	204 886	116 680	757 774	0	1 468 992
Deposits from customers	33 917 611	10 330 641	7 622 908	1 093 139	30 812	52 995 111
Liabilities from securities sold with buy-back clause	0	0	0	0	0	0
Debt securities	0	26 537	126 957	1 031 384	0	1 184 878
Subordinated debt	0	0	406	665 452	0	665 858
Liabilities from trading derivatives - notional value	2 930 444	5 812 895	4 414 557	5 184 452	286 429	18 628 777
Liabilities from hedging derivatives - notional value	1 537 578	2 148 791	7 321 979	7 525 079	1 910 609	20 444 036
Commitments granted - financial	6 712 976	0	0	0	0	6 712 976
Commitments granted - guarantee	1 148 003	0	0	0	0	1 148 003
TOTAL	46 636 264	18 523 750	19 603 487	16 257 280	2 227 850	103 248 631

2014	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	TOTAL
Deposits from banks	566 982	91 973	601 769	797 811	0	2 058 535
Deposits from customers	31 331 871	9 518 961	5 305 613	1 792 526	0	47 948 971
Liabilities from securities sold with buy-back clause	59 805	0	7 057	0	0	66 862
Debt securities	400 283	122 166	474 499	809 964	0	1 806 912
Subordinated debt	0	0	394	681 537	0	681 931
Liabilities from trading derivatives - notional value	3 184 073	3 161 856	5 630 475	4 842 351	370 285	17 189 040
Liabilities from hedging derivatives - notional value	1 429 259	2 719 377	1 368 544	9 266 477	5 720 260	20 503 917
Commitments granted - financial	6 691 481	0	0	0	0	6 691 481
Commitments granted - guarantee	1 104 794	0	0	0	0	1 104 794
TOTAL	44 768 548	15 614 333	13 388 351	18 190 666	6 090 545	98 052 443

13. SUPPLEMENTARY INFORMATION

1) 2015 DIVIDEND

The Management Board of the Bank will submit to the Annual General Shareholders Meeting a proposal to retain 100% of the net profit of 2015 in equity.

2) INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

As at 31 December 2015 following assets of the Bank constituted collateral of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	131 063
2.	Treasury bonds WZ0118	available for sale	Initial security deposit for bond futures	500	504
3.	Treasury bonds WZ0117	available for sale	Loan agreement	554 000	558 920
4.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	210 000	211 718
5.	Treasury bonds WZ0117	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	89 000	89 790
6.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
7.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	3 752	3 752
8.	Deposits	Deposits in other banks	Settlement on transactions concluded	1 981 663	1 981 663
Total				2 969 015	2 977 510

As at 31 December 2014 following assets of the Bank constituted collateral of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	131 209
2.	Treasury bonds WZ0118	available for sale	Initial security deposit for bond futures	500	505
3.	Treasury bonds WZ0117	available for sale	Loan agreement	589 000	589 683
4.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	200 000	201 860
5.	Treasury bonds WZ0117	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	74 000	74 858
6.	Cash		Payment to the Futures Settlement Guarantee Fund	100	100
7.	Deposits	Deposits in other banks	Settlement on transactions concluded	1 501 094	1 501 094
Total				2 494 694	2 499 309

3) SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

As at 31 December 2015 the Bank did not have any repo transactions concluded.

As at 31 December 2014 following securities (presented in the Bank's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Par value	Balance sheet value
Treasury bonds	66 189	66 741
TOTAL	59 589	66 189

4) OFFSETTING OF ASSETS AND LIABILITIES ON THE BASIS OF ISDA AGREEMENT

The majority of the Bank's derivatives portfolio arises due to conclusion by the Bank framework ISDA agreements (International Swaps and Derivatives Agreements). Provisions included in the agreements define comprehensive procedures in case of infringement (mainly difficulties in payments), and provide possibility to cancel a deal, making settlements with counterparty based on offset amount of mutual receivables and liabilities. To date, the Bank has not exercised that option, however, in order to meet information requirements as described in IFRS 7 the following table presents the fair values of derivative instruments (both classified as held for trading and dedicated to hedge accounting) as well as cash collaterals under ISDA framework agreements with a theoretical maximum amount resulting from the settlement on the basis of compensation.

	Amounts to be received	Amounts to be paid
Valuation of derivatives	339 200	2 301 504
Amount of cash collaterals accepted/granted	(44 651)	(1 908 473)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	294 549	393 031
Theoretical maximum amount of compensation	(268 558)	(268 558)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical maximum amount of compensation	25 991	124 473

5) ADDITIONAL EXPLANATIONS TO CASH FLOW

The following assets are recognized by the Bank as cash and cash equivalents for the application in the cash flow account:

Data in PLN thous.	31.12.2015	31.12.2014
Cash and balances with the Central Bank	1 946 384	2 612 015
Receivables from interbank deposits (*)	359 920	379 165
Debt securities issued by the State Treasury (*)	4 544 850	2 407 056
of which available for sale	4 544 850	2 407 056
of which trading	0	0
Total	6 851 154	5 398 326
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	4 098	6 582

(*) financial assets of maturity below 3 months

In the periods presented in the financial statements the Bank has received and made interest payments in the following amounts:

Data in PLN thous.	01.01.2015 - 31.12.2015	01.01.2014 - 31.12.2014
Interests received, including:	2 232 500	2 417 351
- operating activities	2 025 079	2 170 486
- investing activities	207 421	246 865
Interests paid, including:	899 196	1 170 523
- operating activities	874 741	1 140 907
- financing activities	24 455	29 616

The following activity categories have been adopted for the cash flow account report:

1. operating activity - covers core scope of activities related to provision of the Bank's services, covering any efforts to generate profits, other than investment or financial ones,
2. investment activity - covers actions related to purchase and sale of fixed assets, in particular financial assets not classified as „held for trading” or stocks and shares in subsidiaries, and material fixed assets and intangibles,
3. financial activity - covers actions related to acquisition of funds in form of capitals or liabilities, as well as the servicing the sources of financing.

6) INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2015 the Custody Department maintained 11,554 accounts in which Customers' assets were kept with the total value of PLN 46.40 billion (including assets of the Group's companies in the amount of PLN 0.32 billion). Net revenue from the custody business for 2015 amounted to PLN 7.81 million (of which PLN 0.01 million falls on Group's companies). The Custody Department serves as a depositary bank for 85 mutual funds including 11 of Millennium TFI S.A.

7) OPERATING LEASE

The Bank has lease agreements for office space, which according to IAS 17 are posted under operating leasing. As a standard, the Bank usually makes agreements of lease of commercial property for a specified period of maximum 5 years' time, with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The other agreements are made with no time limitation, and may be terminated with adequate notice, usually 3 to 6 months.

Total liabilities under the operating leasing are as follows (data in PLN thousands):

Balance as at:	31.12.2015	31.12.2014
to 1 year	52 576	54 885
above 1 year to 5 years	120 783	165 872
above 5 years	6 344	8 854
TOTAL	179 703	229 611

8) SHARE BASED PAYMENTS

In 2012 the Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

According to the mentioned Policy, Bank's employees who are covered by this Policy, who have significant impact on Bank's risk profile, will be paid variable remuneration on the basis of individual results and on the basis of unit / department and the entire Bank results.

Part of the variable remunerations for employees of the Bank will be paid in the form of Bank's phantom shares. Those payments fulfil definition of the cash-settled share-based payments.

Variable Remuneration - Phantom Shares for:	2015	2014	2013	2012
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments			
Commencement of vesting period	1 January 2015	1 January 2014	1 January 2013	1 January 2012
The date of announcing the program	30 July 2012			
Starting date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after closing of financial year			
Number of granted instruments	Determined at the grant date of the program in accordance with the definition of IFRS 2			
Maturity date	3 years since the date of granting program			
Vesting date	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Vesting conditions	Employment in the Bank 2015, results of the Bank and individual performance	Employment in the Bank 2014, results of the Bank and individual performance	Employment in the Bank 2013, results of the Bank and individual performance	Employment in the Bank 2012, results of the Bank and individual performance
Program settlement	On the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw, preceding the settlement date. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment.			
Program valuation	The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date.			

Phantom shares granted to Bank's employees who are not members of the Management Board of the Bank, for the year:	2015	2014	2013	2012
Date of shares assigning	12.02.2016	05.02.2015	13.02.2014	15.02.2013
Number of shares	130 004	109 303	73 468	45 037
- granted	0	0	0	0
- deferred	130 004	109 303	73 468	45 037
Value as at assigning date (PLN)	722 953	794 959	651 807	212 843
- granted	0	0	0	0
- deferred	722 953	794 959	651 807	212 843
Fair value as at 31.12.2015 (PLN)	-	635 967	521 445	255 411

Profit and Loss Account for 2015 has been charged with the change in the value of the phantom shares assigned for the years 2012, 2013 and 2014, and the provision for phantom shares to be assigned for 2015.

Phantom shares granted to members of the Management Board of the Bank, for the year:	2015	2014	2013	2012
Date of shares assigning	-	21.05.2015	24.04.2014	03.07.2013
Number of shares	-	246 258	137 780	74 401
- granted	-	0	0	0
- deferred	-	246 258	137 780	74 401
Value as at assigning date (PLN)	-	1 925 000	1 206 000	390 159
- granted	-	0	0	0
- deferred	-	1 925 000	1 206 000	390 159
Fair value as at 31.12.2015 (PLN)	-	1 540 098	964 736	411 438

Until the publication of the Annual Report, the Personnel Committee of the Supervisory Board has not taken a decision on the amount of variable remuneration for the members of the Management Board for 2015.

9) ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED, AND ITS PUBLICATION DATE

Banking tax

Commencing from February 2016 a new special banking tax will be valid, with 0,44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount. Accordingly Bank's understanding of methodology to be applied for the tax computation, the preliminary estimation based on balance sheet positions and own funds as of 31/12/2015, for all monthly calculations, would amount to PLN 186 million of charge for entire 2016 year. This tax will be implemented on top of other taxes, which the Bank, as each bank in Poland, is regularly paying.

The amount of banking tax which will actually be paid in 2016 may ultimately differ from aforementioned estimation mainly due to variable tax basis which will be used for monthly tax calculation.

CHF loan portfolio

On January 15th 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however without an assessment of impact for the banking sector. In these circumstances, it is still difficult for the Bank to assess the impact, but if implemented in the proposed version, this law could significantly deteriorate the Bank's profitability and capital position. According to the Financial Stability Report published by the National Bank of Poland on 10th February 2016, the overall direct costs for the polish banking sector may reach PLN 44 billion, in addition, in case of compulsory restructuring, a further impact of PLN 21 billion has been estimated. In these estimations are not included neither the costs of closing the currency position nor operational costs. Further estimations are expected to be announced by Polish Financial Supervision Authority.

Date	Name and surname	Position/Function	Signature
25.02.2016	Joao Bras Jorge	Chairman of the Management Board	
25.02.2016	Fernando Bicho	Deputy Chairman of the Management Board	
25.02.2016	Wojciech Haase	Member of the Management Board	
25.02.2016	Andrzej Gliński	Member of the Management Board	
25.02.2016	Maria Jose Campos	Member of the Management Board	
25.02.2016	Michał Gajewski	Member of the Management Board	