INFORMATION ON RISK, OWN FUNDS, CAPITAL REQUIREMENTS, REMUNERATION POLICY AND OTHER INFORMATION

disclosed according to part eight of Regulation (EU) No 575/2013 of the European parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

as at 31 December, 2015

Warsaw, 25th February, 2016

Update as at 6th July, 2016

CONTENTS

I. Introduction and main capital ratios

Main capital ratios as for Group are as follows (in PLN m):

Capital	31.12.2015	31.12.2014
Own Funds	6 208,9	5 368,9
Own Funds requirements	2 970,4	2 820,5
Risk-weighted assets	37 129,6	35 257,0
Total Capital Ratio (TCR)	16,7%	15,2%
Common Equity Tier 1 Capital ratio (CET1)	16,4%	14,5%
Leverage ratio	9,15%	8,26%

Main capital ratios as for Bank are as follows (in PLN m):

Wskaźniki kapitałowe	31.12.2015	31.12.2014
Own Funds	6 081,3	4 988,4
Own Funds requirements	2 940,5	2 770,8
Risk-weighted assets	36 755,7	34 634,5
Total Capital Ratio (TCR)	16,6%	14,4%
Common Equity Tier 1 Capital ratio (CET1)	16,2%	13,7%
Leverage ratio	9,02%	7,73%

Pursuant to the requirements set forth in Part Eight of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 ("CRR"), this material ("Disclosures") presents qualitative and quantitative information pertaining to the comprehensive image of the risk profile of the Bank Millennium S.A. ("Bank") Capital Group ("Group") as at 31 December 2015.

Pursuant to Article 432.1 of CRR, the Group omitted in its disclosures any information that is not regarded as material. The Group regards as immaterial any information the omission or misstatement of which could not change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Pursuant to Article 432.2, the Group may omit in its disclosures any items of information which is regarded as proprietary or confidential. Information is regarded as proprietary if the Group believes that disclosing it publicly would undermine its competitive position. Information is regarded as confidential if the Group has made an obligation to a customer or other counterparty binding it to confidentiality.

It should be noted that this material does not cover the entire scope of information to be disclosed, as defined in Part Eight of CRR. Information not included in these disclosures has been presented in the following documents:

- Report of the Bank Millennium SA Capital Group for 12 months ended 31 December 2015,
- Report of Bank Millennium SA for 12 months ended 31 December 2015,
hereinafter referred to as "Yearly Financial Reports"

- Management Board Report on the Activity of the Bank Millennium Capital Group for 12 months ended 31 December 2015,
- Management Board Report on the Activity of Bank Millennium for 12 months ended 31 December 2015,
  hereinafter referred to as: "Management Board Activity Reports"

Disclosures of information required by Part Eight of CRR in other documents is regulated by Article 434.2 of CRR.

The information presented has been prepared on the basis of the top domestic consolidation level (Bank Millennium SA Group).

All figures are stated in thousands of Polish zloty (PLN).

II. Risk management objectives and strategies[1]

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: “Risk Strategy for 2016-2018” (2015-2017 version was in force previously). The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank’s Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, Capital Plan.

The Risk Strategy contains a number of objectives for the risk types regarded as material. Among others, the following should be mentioned:

- Target structure of the loan portfolio,
- Credit portfolio quality indicators,
- Cost of risk,
- Capital requirements/economic capital,
- Required liquidity level and structure,
- Limits and rules for market and operational risk.

The objectives included in the Risk Strategy are measurable, quantitative figures, as well as qualitative principles. Simultaneously, the Group has developed a number of guidelines for the strategy/policy for specific risk types/areas. These documents – in addition to measurable limits and objectives – include a broad description of different qualitative risk aspects. We should mention the following:

- Capital Management and Planning Principles,
- Credit Principles and Guidelines,
- Credit Concentration Risk Management Principles,
- Liquidity Risk Management Principles and Rules,
- Market Risk Management Principles and Guidelines for Financial Markets,
- Market Risk Management Principles and Guidelines for the Banking Book,
- Policy for Investment Securities,
- Operational Risk Management Principles and Guidelines.

The strategies/policies mentioned above, in conjunction with the Risk Strategy, define the “risk appetite” defined as the level of individual material risk types and their management, which is accepted and recognized as permitted by the Bank and the Group in its business.

- <u>Strategies and processes of risk management (Article 435.1.a-d)</u>

In respect to individual disclosures made pursuant to Article 435.1 of CRR, the following:

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[1]Information published pursuant to Article 435 of CRR

- the structure and organization of the relevant risk management function including information on its authority and statute, or other appropriate arrangements;
- the scope and nature of risk reporting and measurement systems;
- the strategy for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants,

have been discussed in risk management chapters in the Report and the Management Board Activity Report.

➢ Declaration on the adequacy of risk management (Article 435.1.e)

The declarations on the adequacy of risk management arrangements providing assurance that the risk management systems put in place are adequate with regard to the profile and strategy are presented at the end of this document.

➢ Article 435.1.f

Discussion of the overall risk profile, with key indicators and figures have been included in the Management Report, in the chapter on risk management.

➢ Article 435.2.a

the number of directorships held by members of the management body

Every Board Member holds 1 directorship.

➢ Article 435.2.b

the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;

Procedures and recruitment practices of the Bank aimed at assessing suitability of candidates for work covers all positions and verification process is even more comprehensive with reference to persons applying for key functions.

Main preconditions of assigning and suitability assessment of Supervisory Board members are stated in Articles of Associations of Bank Millennium SA. A permanent body affiliated to Supervisory Board of the Bank, Personnel Committee, assesses candidates for members of management board and evaluates their qualifications and results of work.

Assessment of qualifications of members of the management body is based on the criteria defined in the Banking Law and the criteria enumerated in detail in the Guidelines on the assessment of the suitability of members of the management body and key function holders, EBA/GL/2012/06, of November 22, 2012. They are especially related to:

- experience
- reputation
- management

The above mentioned criteria are taken into consideration in accordance with profile of the performed function, size of the area they manage, scope and character of the tasks performed in this area.

Current practices meet requirements of provisions of law.

- Article 435.2.c

the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved

Personnel Committee of Supervisory Board selects Board Members in the way that general composition of Board of Management possesses practical experience related to managing of financial institutions as a whole. In doing this Personnel Committee follows the criteria defined in point 435.2.b of CRR.

Currently all Board Members have many years' experience not only in managing of the Bank but in specific areas they are responsible for as well.

- Article 435.2.d

whether or not the institution has set up a separate risk committee and the number of times the risk committee has met

The Bank has established a separate risk committee: Bank Millennium SA Risk Committee. In 2015, the Committee held 10 meetings.

- Article 435.2.e

The description of the information flow on risk to the management body

The Bank and the Group have in place an integrated management information system that enables it to generate reports on identification, measurement and control measures relating to the management of individual risk types.

The Bank and the Group have defined the risk exposure reporting policy for management purposes, which sets forth the general rules for preparing and distributing information used to manage different risks. The unit responsible for preparing reports on exposure to different risks is mainly the Risk Department. The frequency and information content of the reports is adjusted to the level of powers and responsibilities of their recipients and also to the changes in the Bank's and the Group's risk profile.

Information contained in internal reports enable reliable evaluation of the risk exposure and support the decision-making process in the bank's risk management area.

The reports also include information on exposure to risks in the business activity of the subsidiaries.

Risk exposure reports for management purposes are addressed to:

- Supervisory Board (reports approved by the Bank's Management Board)
- Bank's Management Board
- Committees dedicated to risk management – Risk Committee, Capital, Assets and Liabilities Committee, Credit Committee, Liabilities at Risk Committee, Processes and Operational Risk Committee
- Members of the Bank's Management Board
- Risk Department (internal reports)

The risk exposure reporting policy defines the following for each addressee:

- Information content (e.g. synthetic information about the credit portfolio, including key risk parameters, change in revaluation charges in the profit and loss account, etc.),
- Information format
- Information frequency

➢ Article 436

An outline of the differences in the basis of consolidation for accounting and prudential purposes

The scope of consolidation of the Capital Group of Bank Millennium SA as determined in accordance with the prudential regulations (Regulation CRR) is the same as the scope of consolidation made for the preparation of consolidated financial statements prepared by the Group in accordance with IAS/IFRS. The Group did not make any exclusions of consolidated entities in comparison to IFRS financial statements, based on possibility provided by article 19.1 of the CRR.

Companies included in consolidation as at 31.12.2014 are presented in the following table:

Table no 1 Companies of Bank Millennium group included in consolidation as at 31.12.2015

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
BANK MILLENNIUM SA	banking services	Warsaw	Parent company		full consolidation
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI SA	investment funds management	Warsaw	100	100	full consolidation
MB FINANCE AB	funding companies from Millennium Group	Stockholm	100	100	full consolidation
MILLENNIUM SERVICE Sp. z o.o.	leasing and property management	Warsaw	100	100	full consolidation

TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation

As at 31 December 2015 none of the Group's companies disclosed the capital shortage in relation to existing capital requirements.

III. Own funds (CRR Art. 437)

The below values presents own funds components of Group as at 31.12.2015.

Table no 2 Bank Millennium Group Own Funds as at 31.12.2015 (in PLN thous.)

ID	Item	Amount
1	OWN FUNDS	6 208 930
1.1	TIER 1 CAPITAL	6 070 965
1.1.1	COMMON EQUITY TIER 1 CAPITAL	6 070 965
1.1.1.1	Capital instruments eligible as CET1 Capital	2 360 619
1.1.1.1.1	Paid up capital instruments	1 213 117
1.1.1.1.2*	Memorandum item: Capital instruments not eligible	0
1.1.1.1.3	Share premium	1 147 502
1.1.1.1.4	(-) Own CET1 instruments	0
1.1.1.1.4.1	(-) Direct holdings of CET1 instruments	0
1.1.1.1.4.2	(-) Indirect holdings of CET1 instruments	0
1.1.1.1.4.3	(-) Synthetic holdings of CET1 instruments	0
1.1.1.1.5	(-) Actual or contingent obligations to purchase own CET1 instruments	0
1.1.1.2	Retained earnings	451 865
1.1.1.2.1	Previous years retained earnings	0
1.1.1.2.2	Profit or loss eligible	451 865
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	546 525
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-94 661
1.1.1.3	Accumulated other comprehensive income	18 052
1.1.1.4	Other reserves	3 288 871
1.1.1.5	Funds for general banking risk	228 902
1.1.1.6	Transitional adjustments due to grandfathered CET1 Capital instruments	0
1.1.1.7	Minority interest given recognition in CET1 capital	0
1.1.1.8	Transitional adjustments due to additional minority interests	0
1.1.1.9	Adjustments to CET1 due to prudential filters	173 067
1.1.1.9.1	(-) Increases in equity resulting from securitised assets	0

1.1.1.9.2	Cash flow hedge reserve	182 172
1.1.1.9.3	Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	0
1.1.1.9.4	Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	0
1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-9 105
1.1.1.10	(-) Goodwill	0
1.1.1.10.1	(-) Goodwill accounted for as intangible asset	0
1.1.1.10.2	(-) Goodwill included in the valuation of significant investments	0
1.1.1.10.3	Deferred tax liabilities associated to goodwill	0
1.1.1.11	(-) Other intangible assets	-61 858
1.1.1.11.1	(-) Other intangible assets gross amount	-61 858
1.1.1.11.2	Deferred tax liabilities associated to other intangible assets	0
1.1.1.12	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	0
1.1.1.13	(-) IRB shortfall of credit risk adjustments to expected losses	-380 741
1.1.1.14	(-)Defined benefit pension fund assets	0
1.1.1.14.1	(-)Defined benefit pension fund assets gross amount	0
1.1.1.14.2	Deferred tax liabilities associated to defined benefit pension fund assets	0
1.1.1.14.3	Defined benefit pension fund assets which the institution has an unrestricted ability to use	0
1.1.1.15	(-) Reciprocal cross holdings in CET1 Capital	0
1.1.1.16	(-) Excess of deduction from AT1 items over AT1 Capital	0
1.1.1.17	(-) Qualifying holdings outside the financial sector which can alternatively be subject to a 1250% risk weight	0
1.1.1.18	(-) Securitisation positions which can alternatively be subject to a 1250% risk weight	0
1.1.1.19	(-) Free deliveries which can alternatively be subject to a 1250% risk weight	0
1.1.1.20	(-) Positions in a basket for which an institution cannot determine the risk weight under the IRB approach, and can alternatively be subject to a 1250% risk weight	0
1.1.1.21	(-) Equity exposures under an internal models approach which can alternatively be subject to a 1250% risk weight	0
1.1.1.22	(-) CET1 instruments of financial sector entites where the institution does not have a significant investment	0
1.1.1.23	(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	0

1.1.1.24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	0
1.1.1.25	(-) Amount exceeding the 17.65% threshold	0
1.1.1.26	Other transitional adjustments to CET1 Capital	-7 812
1.1.1.27	(-) Additional deductions of CET1 Capital due to Article 3 CRR	0
1.1.1.28	CET1 capital elements or deductions - other	0
1.1.2	ADDITIONAL TIER 1 CAPITAL	0
1.1.2.1	Capital instruments eligible as AT1 Capital	0
1.1.2.1.1	Paid up capital instruments	0
1.1.2.1.2*	Memorandum item: Capital instruments not eligible	0
1.1.2.1.3	Share premium	0
1.1.2.1.4	(-) Own AT1 instruments	0
1.1.2.1.4.1	(-) Direct holdings of AT1 instruments	0
1.1.2.1.4.2	(-) Indirect holdings of AT1 instruments	0
1.1.2.1.4.3	(-) Synthetic holdings of AT1 instruments	0
1.1.2.1.5	(-) Actual or contingent obligations to purchase own AT1 instruments	0
1.1.2.2	Transitional adjustments due to grandfathered AT1 Capital instruments	0
1.1.2.3	Instruments issued by subsidiaries that are given recognition in AT1 Capital	0
1.1.2.4	Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	0
1.1.2.5	(-) Reciprocal cross holdings in AT1 Capital	0
1.1.2.6	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	0
1.1.2.7	(-) AT1 instruments of financial sector entities where the institution has a significant investment	0
1.1.2.8	(-) Excess of deduction from T2 items over T2 Capital	0
1.1.2.9	Other transitional adjustments to AT1 Capital	0
1.1.2.10	Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	0
1.1.2.11	(-) Additional deductions of AT1 Capital due to Article 3 CRR	0
1.1.2.12	AT1 capital elements or deductions - other	0
1.2	TIER 2 CAPITAL	137 965

1.2.1	Capital instruments and subordinated loans eligible as T2 Capital	252 187
1.2.1.1	Paid up capital instruments and subordinated loans	252 187
1.2.1.1*	Memorandum item: Capital instruments and subordinated loans not eligible	0
1.2.1.3	Share premium	0
1.2.1.4	(-) Own T2 instruments	0
1.2.1.4.1	(-) Direct holdings of T2 instruments	0
1.2.1.4.2	(-) Indirect holdings of T2 instruments	0
1.2.1.4.3	(-) Synthetic holdings of T2 instruments	0
1.2.1.5	(-) Actual or contingent obligations to purchase own T2 instruments	0
1.2.2	Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	0
1.2.3	Instruments issued by subsidiaries that are given recognition in T2 Capital	0
1.2.4	Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	0
1.2.5	IRB Excess of provisions over expected losses eligible	0
1.2.6	SA General credit risk adjustments	0
1.2.7	(-) Reciprocal cross holdings in T2 Capital	0
1.2.8	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	0
1.2.9	(-) T2 instruments of financial sector entities where the institution has a significant investment	0
1.2.10	Other transitional adjustments to T2 Capital	-114 222
1.2.11	Excess of deduction from T2 items over T2 Capital (deducted in AT1)	0
1.2.12	(-) Additional deductions of T2 Capital due to Article 3 CRR	0
1.2.13	T2 capital elements or deductions - other	0
	Common Equity Tier1 Ratio (CET1)	16,72%
	Total Capital Ratio (TCR)	16,35%

III.1 Description of key components of own funds (CRR art. 437.1)

Table no 3 Details of items from Table no. 1 (in PLN thous.)

1.1.1.1.1	**Paid-for capital instruments**	**1 213 117**

This item is equal to the company's share capital, which comprises the following components (nominal value of one share = PLN 1):

Series / issue	Share type	Privilege type	Number of shares	Series / issue value	Payment of capital	Registration date	Right to dividend
A	registered founding	x2 voting rights	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
Increase of nominal share value from PLN 1 to 4				122 603 154	Reserve capital	24.11.1994	
1:4 share 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 stock capital				1 213 116 777			

1.1.1.1.3	**Agio**	**1 147 502**

Agio is the capital from sale of shares above their nominal value. It is created with the issue premium generated from an issue of shares less direct related costs incurred.

<table>
<tr><td>1.1.1.2.2.1</td><td>Profit or loss attributable to owners of the parent entity</td><td>546 525</td></tr>
<tr><td colspan="3">This item is equal to 2015 consolidated net result.</td></tr>
<tr><td>1.1.1.2.2.2</td><td>(-) Part of not recognised current profit or not recognised annual profit</td><td>-94 661</td></tr>
<tr><td colspan="3">This is the amount of net result, which cannot be included in own funds for purposes of calculation of prudential standards as of reporting date. As for the remaining amount (PLN 451 864 842) the Bank obtained consent of the Polish Financial Supervision Authority for its inclusion in Tier I. This amount constitutes net profit of the Group for 1O months of 2015 (PLN 534 922 078) less the amount (PLN 83 057 236) representing the Bank's net burden due to the amount of mandatory contributions to Banking Guarantee Fund “BFG” intended for the payment of guaranteed depositors of the Co-operative Crafts and Agriculture Bank in Wołomin.</td></tr>
<tr><td>1.1.1.3</td><td>Accumulated other total income</td><td>18 052</td></tr>
<tr><td colspan="3">This item comprises revaluation capital, which arose in result of recognition of:
- Effect of measurement (at fair value) of financial assets available for sale in the net amount i.e. after deduction of deferred tax. These amounts are removed from revaluation capital is done when all or part of the valuated assets are taken out of the books or when impairment is recognised (the valuation effect is then taken to the P&L Account). Amount of PLN 201 741 890
- Effect of measurement (at fair value) of derivative instruments hedging cash flows in the net amount i.e. after deduction of deferred tax. Revaluation capital carries part of profit or loss involved with the instrument hedging cash flows, which constitutes an effective hedge, while the ineffective part of profit or loss involved with this hedging instrument is carried in P&L. Amount of PLN -182 171 688
- Actuarial profit / (loss) in the net amount i.e. after deferred tax. Revaluation capital carries profit or loss resulting from discounting of future liabilities arisen on account of a provision created for retirement severance pay. These values are not eligible for moving to P&L. the amount is PLN -1 517 957.</td></tr>
<tr><td>1.1.1.4</td><td>Additional reserve capital</td><td>3 288 871</td></tr>
<tr><td colspan="3">This capital arose in result of annual resolutions of the Shareholders’ Meeting on distribution of profit. These resolutions decided to retain part of profit generated in the Bank and in Companies of the Group. According to the Articles of Association the GSM decides about use of additional reserve capital and it may be used in particular to cover any future losses or for payment of dividend.</td></tr>
<tr><td>1.1.1.5</td><td>General banking risk fund</td><td>228 902</td></tr>
<tr><td colspan="3">The General Banking Risk Fund in the Bank was created with profit after tax in keeping with provisions of Banking Law of 29 August 1997 as amended.</td></tr>
<tr><td>1.1.1.9.2</td><td>Provision for instruments hedging cash flows</td><td>182 172</td></tr>
<tr><td colspan="3">This amount with a negative mark is a component of item 1.1.1.3 and in accordance with article 33 of Regulation No. 575/2013 the Bank does not include it in own funds.</td></tr>
<tr><td>1.1.1.9.5</td><td>Value adjustments coming from requirements on prudent valuation</td><td>-9 105</td></tr>
<tr><td colspan="3">That adjustment concerns:
- debt securities (trading portfolio): PLN -408 600
- debt securities (available for sale): PLN -5 704 500
- shares (available for sale): PLN -85 200
- balance sheet value of derivatives (trading portfolio): PLN -703 300</td></tr>
</table>

- balance sheet value of derivatives (hedging): PLN -2 202 900		
1.1.1.11.1	**(-) Gross amount of other intangible assets**	**-61 858**
This amount comprises mainly the value of software purchased by the Bank and companies of the Group.		
1.1.1.13	**(-) Shortage of credit risk corrections in view of expected losses according to IRB approach**	**-380 741**
Deductions under art. 36 CRR concern portfolios of retail residential real estate (RRE) mortgages and renewable retail exposures (QRRE), with respect to which the Group has permission to apply the IRB approach. The method of carrying the amounts of expected losses is consistent with CRR art. 128 and 159.		
1.1.1.26	**Other interim corrections in Tier I**	**-7 812**
These corrections comprise following amounts: - Transfer of 30% of item 1.1.1.13 to item 1.2.10 in keeping with article 472 and 478 of Regulation No. 575/2013. Correction amount PLN +114 222 317 - Correction of measurement (at fair value) of financial assets available for sale, reported in item 1.1.1.3 by 60% of unrealised gains in keeping with article 468 of Regulation No. 575/2013. Correction amount PLN -122 034 117		
1.2.1.1	**Paid-for equity instruments and subordinated loans**	**252 187**
The Bank (and Group) includes in supplementary funds the liabilities from issue of securities with maturities in December 2017. The nominal amount of the liability is EUR 150 000 000. After using daily depreciation the amount included in Tier II is EUR 59 178 082 i.e. PLN 252 187 397		
1.2.10	**Other interim corrections in Tier II**	**-114 222**
Correction for transfer of 30% of the item 1.1.1.13 in keeping with article 472 and 478 of Regulation No. 575/2013.		

III.2 Reconciliation of items of own funds and equity reported in the audited financial report

Table no. 4 Reconciliation of items of own funds and equity reported in the audited financial report (in PLN thous.)

Item	Note of financial report	Value in financial report	Item in Table No. 3
Subordinated liabilities	34	639 631	1.2.1.1
Share capital	35	1 213 117	1.1.1.1.1
Capital from sale of shares over nominal value	List of equity items page 10	1 147 502	1.1.1.1.3
Revaluation capital	35	18 250	1.1.1.3

Retained earnings	35	4 064 296	1.1.1.4 1.1.1.5 1.1.1.2.2.1
Total equity and subordinated liabilities reported in the audited financial report		**7 082 796**	
Part of net result, which cannot be included in own funds as of reporting date for purposes of calculation of prudential standards		-94 661	1.1.1.2.2.2
Gross amount of other intangible assets		-61 858	1.1.1.11.1
Shortage of credit risk corrections in view of expected losses according to IRB approach		-380 741	1.1.1.13
Correction by 60% of unrealised gains		-121 823	1.1.1.26
Korekty wartości z tytułu wymogów w zakresie ostrożnej wyceny		-9 105	1.1.1.9.5
Correction by part of principal of subordinated liability, which cannot be included in own funds		-387 444	1.2.1.1
Correction by interest accrued on subordinated liability		-406	1.2.1.1
Provision for instruments hedging cash flows		182 172	1.1.1.9.2
Total own funds		**6 208 930**	**1**

III.3 Items not deducted from own funds

As at 31 December 2015 the Group did not make significant investments in financial sector entities, as mentioned in article 43 CRR.

In case of deferred tax assets, mentioned in article 38 CRR, their value constitutes 4,0% of adjusted Tier I and in consequence it is exempted from deductions in keeping with article 48 CRR, at the same time this amount was assigned a risk weight of 250% for purposes of calculation of capital requirements.

III.4 Own Funds in accordance with the EU Commission Implementing Regulation No 1423/2013 of 20.12.2013, establishing the implementing technical standards to the requirements for disclosure of information on the institution's own funds, according to the Regulation of the European Parliament and Council Regulation (EU) No 575/2013

Main features of capital instruments

1	Issuer
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)
3	Governing law(s) of the instrument
Regulatory treatment	
4	Transitional CRR rules
5	Post-transitional CRR rules
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated
7	Instrument type (types to be specified by each jurisdiction)
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)
9	Nominal amount of instrument
9a	Issue price
9b	Redemption price
10	Accounting classification
11	Original date of issuance
12	Perpetual or dated
13	Original maturity date
14	Issuer call subject to prior supervisory approval
15	Optional call date, contingent call dates and redemption amount
16	Subsequent call dates, if applicable
Coupons / dividends	
17	Fixed or floating dividend/coupon
18	Coupon rate and any related index
19	Existence of a dividend stopper
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)
21	Existence of step up or other incentive to redeem
22	Noncumulative or cumulative
23	Convertible or non-convertible
24	If convertible, conversion trigger(s)

25 If convertible, fully or partially
26 If convertible, conversion rate
27 If convertible, mandatory or optional conversion
28 If convertible, specify instrument type convertible into
29 If convertible, specify issuer of instrument it converts into
30 Write-down features
31 If write-down, write-down trigger(s)
32 If write-down, full or partial
33 If write-down, permanent or temporary
34 If temporary write-down, description of write-up mechanism
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)
36 Non-compliant transitioned features
37 If yes, specify non-compliant features

	A	B1	B2	C	D1	D2	D3
1	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.
2	N/A	N/A	N/A	PLBIG0000016	PLBIG0000016	PLBIG0000016	PLBIG0000016
3	Polish	Polish	Polish	Polish	Polish	Polish	Polish
4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I
6	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level
7	registered founder	registered ordinary	registered ordinary	bearer ordinary	bearer ordinary	bearer ordinary	bearer ordinary
8	427 400	600 000	600 000	18 772 600	6 800 008	10 445 464	4 006 000
9	1,00	1,00	1,00	1,00	1,00	1,00	1,00
9a	1,00	1,00	1,00	1,00	1,00	1,00	1,00
9b	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	equity	equity	equity	equity	equity	equity	equity

11	30.06.1989	13.06.1990	13.12.1990	17.05.1991	31.12.1991	31.01.1992	10.03.1992
12	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual
13	N/A	N/A	N/A	N/A	N/A	N/A	N/A
14	N/A	N/A	N/A	N/A	N/A	N/A	N/A
15	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16	N/A	N/A	N/A	N/A	N/A	N/A	N/A
17	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate
18	N/A	N/A	N/A	N/A	N/A	N/A	N/A
19	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20a	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary
20b	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary
21	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	N/A	N/A	N/A	N/A	N/A	N/A	N/A
23	N/A	N/A	N/A	N/A	N/A	N/A	N/A
24	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	N/A	N/A	N/A	N/A	N/A	N/A	N/A
31	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach
32	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial
33	N/A	N/A	N/A	N/A	N/A	N/A	N/A
34	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution
35	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	N/A	N/A	N/A	N/A	N/A	N/A	N/A

	E	F	G	H	I	J	K	L
1	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Bank Millennium S.A.
2	PLBIG0000016	PLBIG0000016	PLBIG0000016	PLBIG0000016	PLBIG0000016	PLBIG0000016	PLBIG0000016	PLBIG0000016
3	Polish	Polish	Polish	Polish	Polish	Polish	Polish	Polish
4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I	Kapitał podstawowy Tier I
6	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level	Stand-alone level/consolidated level
7	bearer ordinary	bearer ordinary	bearer ordinary	bearer ordinary	bearer ordinary	bearer ordinary	bearer ordinary	bearer ordinary
8	24 000 000	37 490 884	32 000 000	28 328 516	65 000 000	196 120 000	424 590 872	363 935 033
9	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
9a	1,00	1,43	2,38	2,75	3,40	1,00	1,80	2,90
9b	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	equity	equity	equity	equity	equity	equity	equity	equity
11	28.05.1993	10.12.1993	30.05.1994	24.10.1994	12.08.1997	12.09.1997	31.12.2001	26.02.2010
12	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual
13	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
14	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
15	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
17	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate
18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
19	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20a	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary
20b	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary

21	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
23	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
24	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
31	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach	GSM, statutory approach
32	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial
33	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
34	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution
35	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Transitional Own Funds (PLN thousand)

	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	2 360 619	26 (1), 27, 28, 29, EBA list 26 (3)	0
Retained earnings	3 288 870	26 (1) (c)	0
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	18 052	26 (1)	0
Funds for general banking risk	228 902	26 (1) (f)	0
Independently reviewed interim profits net of any foreseeable charge or dividend	451 865	26 (2)	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	6 348 308		0
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments (negative amount)	-9 105	34, 105	0
Intangible assets (net of related tax liability) (negative amount)	-61 858	36 (1) (b), 37, 472 (4)	0
Fair value reserves related to gains or losses on cash flow hedges	182 172	33 (a)	0
Negative amounts resulting from the calculation of expected loss amounts	-266 519	36 (1) (d), 40, 159, 472 (6)	0
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-122 033		0
Of which: …filter for unrealised loss 1	0	467	0
Of which: …filter for unrealised loss 2	0	467	0
Of which: …filter for unrealised gain 1	-18 479	468	0
Of which: …filter for unrealised gain 2	-103 554	468	0
Total regulatory adjustments to Common equity Tier 1 (CET1)	-277 343		0
Common Equity Tier 1 (CET1) capital	6 070 965		0

Additional Tier 1 (AT1) capital: instruments			
Additional Tier 1 (AT1) capital before regulatory adjustments	0		0
Additional Tier 1 (AT1) capital: regulatory adjustments			
Additional Tier 1 (AT1) capital	0		0
Tier 1 capital (T1 = CET1 + AT1)	6 070 965		0
Tier 2 (T2) capital: instruments and provisions			
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	252 187	486 (4)	0
Tier 2 (T2) capital before regulatory adjustments	252 187		0
Tier 2 (T2) capital: regulatory adjustments			
Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-114 222	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	0
Total regulatory adjustments to Tier 2 (T2) capital	-114 222		0
Tier 2 (T2) capital	137 965		0
Total capital (TC = T1 + T2)	6 208 930		0
Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts)	0		0
Of which: …items not deducted from CET1 (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liablity, indirect holdings of own CET1, etc)	243 446	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	0
Of which: …items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	0	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	0
Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	0

Total risk weighted assets	37 129 594		0
Capital ratios and buffers	0		0
Common Equity Tier 1 (as a percentage of risk exposure amount)	16,35%	92 (2) (a), 465	0
Tier 1 (as a percentage of risk exposure amount)	16,35%	92 (2) (b), 465	0
Total capital (as a percentage of risk exposure amount)	16,72%	92 (2) (c)	0
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	0	CRD 128, 129, 130	0
of which: capital conservation buffer requirement	0		0
of which: countercyclical buffer requirement	0		0
of which: systemic risk buffer requirement	0		0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	CRD 131	0
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0	CRD 128	0

IV. Capital requirements

IV.1 Approach to assessing the adequacy of internal capital (CRR Article 438.a)

The Group carries out the internal capital adequacy assessment process (ICAAP) in reliance on the internal models of economic capital.

The Group defines economic capital as the amount of capital which is needed to cover all the unexpected economic losses that may occur during a specified future period and that are estimated with specific probability, without jeopardizing interests of the Group's depositors/creditors. Internal capital calculations incorporate all the material risk types to which the Group is exposed and are based on a set of parameters developed on the basis of the individual features and characteristics of the Polish market. The models quantify the value of expected and unexpected losses on account of the risk types considered to be material, at the assumed confidence level and in a 1-year time horizon.

The Group has taken a conservative approach to the correlation between individual risk types (the fact that different risk types do not convert to losses simultaneously) and calculates the effect of diversification on the entire loss distribution.

In line with the recommendations issued by the banking supervision authority, individual risk types and the diversification effect are subject to stress tests. The total diversified internal capital is subject to economic assessment of capital adequacy, by a comparison with "risk bearing capacity" (available financial resources). The Group conservatively assumes that the available financial resources are equivalent to regulatory own funds which form the basis for calculating the solvency ratio.

The internal capital adequacy assessment process following the Group's approach is closely linked to the risk, capital and business management processes in place in the Group. It consists of the following stages:

1. Classification and assessment of materiality of risk types, to determine the method for incorporating them in the risk management process and in the ICAAP process,
2. Measurement (quantification) of risk,
3. Aggregation of internal capital to secure material risk of operations, while taking into account the effect of correlation between risk types,
4. Assessment of capital adequacy by comparing the Bank’s economic risk (internal capital) to its capacity to cover the risk,
5. Allocation of internal capital to business lines/areas of operation,
6. Use of allocated internal capital to measure risk-based efficiency, set risk limits, reallocate capital while taking into account risk-weighted returns,
7. Control and monitoring of the risk level, available financial resources, capital limits and objectives.

Capital adequacy assessment carried out at the end of 2015 indicates a high level of this adequacy, which is shown in a significant surplus of capital resources (equivalent to regulatory own funds) as compared to economic risk (internal capital value) and risk calculated on the basis of supervisory regulations (the value of minimum capital requirements to cover risk. Internal capital at the end of 2015 is lower than the capital requirements in the 1st Pillar, both in the Standardized Approach and the IRB Approach (taking into account the following additional requirement resulting from a temporary supervisory restriction) for credit risk.

Both the Bank and the Group meet the statutory requirements regarding the level of own funds and the internal capital set forth in Article 128 of the Banking Law Act and in the CRR.

IV.2 Amounts equal to 8% of risk-weighted exposure, calculated separately for each exposure class defined in Article 147 and 112 of CRR

The Group has obtained a permission from the Bank of Portugal and the Polish Financial Supervision Commission (hereinafter: Regulatory Authorities) to apply the Advanced Internal Ratings Based Approach to a part of the retail exposure portfolio. Detailed information on this matter is provided in item XII.1.

The table below presents the amounts of capital requirements calculated according to the permission received from the Regulatory Authorities to apply the IRB approach.

Table no 5 Capital requirements as at 31 December 2014, the Group (in PLN thous.)

No	Exposure class	Capital requirements
1	Central banks and governments	0
2	Institutions	58 386
3	Corporates	833 251
4	Retail exposures, incl.:	975 807
4.1	*- Residential Real Estate exposures (RRE) (*)*	*539 219*
4.2	*- Qualified Retail Revolving Exposures (QRRE) (*)*	*75 876*
4.3	*- Other Retail exposures*	*360 712*
5	Trading Book	22 079
6	Specialised Lending, incl.:	48 769
6.1	*- category 1*	*0*
6.2	*- category 2*	*33 718*
6.3	*- category 3*	*4 126*
6.3	*- category 4*	*5 832*

6.4	*- category 5*	*5 093*
7	Equity exposures	18 428
8	Securitization	0
9	Other assets	85 156
10	CAPITAL REQUIREMENTS TO CREDIT RISK, COUNTERPARTY CREDIT RISK, SETTLEMENT / DELIVERY, LARGE EXPOSURES EXCEEDING LIMITS AND OTHER ASSETS	2 041 876
10.1	*- including counterparty credit risk*	*28 307*
12	Capital requirements to credit valuation adjustment	19 777
13	CAPITAL REQUIREMENTS TO MARKET RISK	29 103
14	CAPITAL REQUIREMENTS TO OPERATIONAL RISK	271 126
15	TOTAL CAPITAL REQUIREMENTS (without regulatory floors)	2 361 882
16	REGULATORY FLOOR (**)	608 484
17	TOTAL CAPITAL REQUIREMENTS (with regulatory floor)	2 970 366

(*) Capital requirements calculated using the IRB Approach

(**) Additional requirement resulting from the temporary supervisory constraint explained in part xvii.1 of this Information

For equity exposure class, the risk-weighted exposure amounts are calculated using the simple risk-weight approach laid down in Article 150.2 of CRR. These requirements are an immaterial amount compared to the amount of the requirement for own funds for credit risk.

IV.3 Capital requirements for market risk, settlement risk, large exposures limits excess

- Market risk

The Group uses standardized approaches to calculate its capital requirements for various types of market risk. The Group had requirements for own funds for specific risk of debt instruments and the general interest rate risk. The exposure to market risk was not material. Capital requirements for this risk represented about 1% of the total amount of capital requirements (without the regulatory floor) as at 31 December 2015.

- Settlement risk, delivery risk, large exposures limits excess

As at 31 December 2015, there were no capital requirements for these risks.

IV.4 Capital requirements for operational risks and losses borne by operational risk

The capital requirements for operational risk are calculated using the standardized approach (CRR Article 317-320). They represented about 11% of the total amount of capital requirements (without the regulatory floor) as at 31 December 2015.

Losses stemming from operational risk events

The below table presents operational risk events registered in the operational risk database in 2015.

Table no 6 Operational risk events, divided by events categories and loss amount

Event category	Amount of events	Net loss	Gross loss
	no	PLN mn	PLN mn
External fraud	74	0,3	7,7
Damage to physical assets	56	0,1	0,4
Other	4	0,3	0,4
TOTAL	134	0,7	8,5

Operational risk management system requires identification of a causes of an events and implementation of decisions or actions to reduce frequency and financial impact of events. It is completed using change of processes, strengthening of internal controls, adjustments of documentation and procedures and dedicated trainings.

In 2015 Bank reported no material operational risk events, i.e. those for which gross loss exceeds 10% of capital requirements for operational risk.

The structure of capital requirements for risks other than credit risk are presented in the table below.

Table no 7 Structure of capital requirements for market risk, large exposures exceeding concentration limits, currency, settlement, commodities, operational risks as at 31 December 2015 (in PLN thous.)

Capital requirements for market, settlement, delivery risks, large exposures limits exces, operational risk	Amount
Capital requirements for market risk, including:	29 103
- Foreign exchange risk	0
- Commodities risk	0
- Equity securities price risk	0
- Specific debt instrument price risk	21
- General interest rate risk	29 082
Capital requirement for settlement risk	0
Capital requirement for delivery risk	0
Capital requirement for large exposures exceeding concentration limits	0
Capital requirement for operational risk	271 126

V. Credit risk

V.1 Exposure to counterparty credit risk (CRR Article 439)

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The exposure to counterparty credit risk pertains to exposures arising from derivatives, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions.

Within this catalog, at the end of 2015, the Group had derivatives, and regarding securities or commodities lending or borrowing transactions, long settlement transactions or margin lending transactions or repurchase transactions, there were no transactions or their amounts were immaterial.

The Group presents its exposure to counterparty credit risk primarily under hedging derivatives and derivatives under contracts concluded with customers.

- *Internal capital* (Article 439.a)

In respect to the approaches used to assign internal capital to counterparty credit risk exposures, a modified Credit Risk+[2] approach is used, taking into account counterparty risk parameters: PD, LGD & EAD.

Credit limits

Credit limits applicable to counterparty credit risk exposures are set within the exposure limits for banks and non-bank customers, which are parties to transactions.

For banks, exposure limits are set in accordance with the Instructions for setting and controlling exposure limits to foreign and Polish banks. With respect to foreign exchange transactions, currency swaps, currency options, deposit transactions, FRAs, interest rate swaps and principal-interest rate swaps ("currency and deposit transaction limit") - partial limits are set, which mark the Bank's maximum exposure to outstanding currency purchase/sale transactions (spot and forward), active (outstanding) term deposits in a foreign or Polish bank (without due interest) and other outstanding transactions mentioned above. Irrespective of the partial limits, settlement limits have been set, which are linked to the concentration of the counterparty's obligations towards the Bank for the settlement date agreed on when they were concluded ("value date").

The Group also concludes derivatives contracts upon orders from its customers. With respect to treasury transaction limits (including derivatives) concluded with non-bank customers, granting such limits to a customer is a pre-requisite[3] for the Bank to perform a derivative transaction for the customer. The Bank requires a customer applying for a treasury limit to have credit capacity for its current exposure and additionally for the amount equal to a specific portion of the requested treasury limit, to have a risk rating and natural exposure, that is cash flows under sales and purchases in a convertible currency other than PLN.

- *Collateral (*<u>Article 439.b)</u>

As part of the policies for securing collateral, Credit Support Annexes to ISDA agreements (CSAs) are broadly used.

The Bank concludes derivative transactions with other players on the inter-bank market, with which it has signed ISDA agreements (International Swaps and Derivatives Agreements). According to the current market practices, CSAs are signed along with ISDA agreements to regulate the matters related to the collateralization of exposures under concluded derivative transactions. CSAs are bilateral agreements and establish mutual rights for a party whose valuation of derivatives is negative on a given day to request a security deposit.

The position under concluded derivative transactions with customers other than banks is immediately referred for management by inter-bank market dealers and is hedged by an inter-bank market transaction.

The rules for establishing credit reserves for credit risk are presented in the section entitled "Financial risk management - Credit risk" of the Yearly Financial Report.

[2] Statistical credit risk model, developed by Credit Suisse First Boston
[3] It is possible to conclude transaction under cash deposit, in case of lack of treasury transaction limit

- Wrong way-way risk exposures <u>(Article 439.c)</u>

The Group does not identify its wrong-way risk exposures as material.

- The impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating <u>(Article 439.d)</u>

The Bank is a party to a loan agreement with the European Investment Bank („Finance Contract"). The loan amount is EUR 100 million.

At the end of 2015, the loan is secured by State Treasury bonds WZ0117 with a nominal value of PLN 554 million.

According to the provisions of the Finance Contract, in the event of a downgrade in the Bank's credit rating, it will be necessary to establish additional pledges in the form and amounts to the satisfaction of EIB.

- <u>Articles 439.e, 439.f, 439.g, 439.h, 439,i</u>

Fair values of respective derivatives contracts, notional amounts of instruments by maturities and valuation of derivative instruments are presented in notes to the Yearly Financial Report (Note 16f).

Data on security margins and netting of receivables and liabilities under master agreements are presented in Additional Information to the Yearly Financial Report.

To determine the amount of its credit exposure under derivative instruments, the Group applies the Mark-to-market method laid down in Article 274 of C44.

V.2 Credit risk adjustments (CRR Article 442)

- <u>Articles 442.a, 442.b</u>

The Group's strategy and policy applicable to impairment and recognizing impairment charges has been presented in the Report, section 8 "Credit risk" in the part devoted to financial risk management. It contains a detailed description of:

- Organization of the process to identify and measure impairment of credit exposures in order to determine adjustments for specific and general credit risk
- Analysis of individual impairment of credit receivables
- Collective analysis of a credit portfolio

- Credit risk exposures <u>(Article 442.c)</u>

The amount of credit risk exposures (without counterparty credit risk) after accounting offsets and without taking into account the effects of credit risk mitigation, broken down by different types of exposure classes (Original exposure) calculated for own funds requirements purposes.

Table no 8 Credit risk exposures (*) (without counterparty credit risk) broken down by different types of exposure classes (Original exposure) as at as at 31 December 2015 and average (quarterly) amount in 2015 (in PLN thous.)

Amount of credit risk exposures (without counterparty credit risk) after accounting offsets and without taking into account the effects of credit risk mitigation, broken down by different types of exposure classes (Original exposure)	Amount	Average amount in 2015 (quarterly)
Retail portfolio, including:	38 049 079	38 204 428
* Loans secured by real estate (IRB RRE class)	28 016 163	28 456 737
* Qualifying revolving retail exposures (IRB QRRE class)	3 148 388	3 060 261
* Other retail loans	4 883 160	4 740 886
* Small businesses	2 001 368	1 946 543
Corporate lending portfolio	17 605 463	17 706 206
Amounts due from institutions	3 231 840	3 899 619
Amounts due from government sector and central banks	14 977 882	12 786 435
Trading book	408 739	1 696 821
TOTAL	74 273 004	74 293 508

** after accounting offsets and without taking into account the effects of credit risk mitigation*

- Article 442.d

The Group does not present a geographical distribution of its exposures, since it has no material exposure to counterparties located outside Poland.

- Article 442.e

The Yearly Financial Report (in section 3e „Loans and borrowings” of the chapter 8 on financial risk management) presents detailed figures pertaining to:

- Structure of loans and borrowings granted to customers and banks and key credit portfolio quality parameters:
    - Loans not classified as past due and without recognized impairment and distribution of exposures to risk grades used in the internal ratings system.
    - Past due loans without recognized impairment and distribution of exposures by time past due and credit portfolio (corporates, mortgage loans, other retail loans)
    - Total loans without recognized impairment
    - Impairment charges
    - Loans and borrowings with recognized impairment and distribution by type of analysis (individual, collective) and credit portfolio
    - Loans and borrowings with impairment recognized in individual analysis and distribution by type of credit product, coverage by impairment charges (adjustments for specific credit risk) and currencies

    - Size and structure of loans and borrowings coverage by the restructuring of receivables
- Distribution of exposures by industry, broken down into exposure classes/product types (section 3i "Concentration of the risk of financial assets with the credit risk exposure" in the financial risk management chapter).

➢ Article 442.f

The Group has presented the distribution of the key receivables portfolio by the residual maturity for main exposure types: deposits and loans granted to banks and other monetary institutions (Note 15b to the Yearly Financial Report), loans and borrowings granted to customers (Note 18e to the Yearly Financial Report).

- Article 442.g

The table below presents the distribution of credit receivables by significant industry and presentation of the amounts of impaired exposures, past due exposures, impairment charges (specific and general credit risk adjustments), amounts written down from the balance sheet in connection with revaluation charges.

Table no 9 Distribution of credit receivables by significant industry and presentation of the amounts of impaired exposures, past due exposures, impairment charges (specific and general credit risk adjustments), amounts written down from the balance sheet in connection with revaluation charges, the Group, in PLN thous., as at 31 Dec. 2015

	Industry	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
A	Agriculture	96 682	14 287	110 969
B	Mining	233 515	2 679	236 194
C	Processing industry	3 845 339	1 717 577	5 562 916
D	Generation and supply of electricity, gas, water	180 784	145 234	326 018
E	Supply of water; sewage and waste	110 342	58 317	168 659
F	Construction	1 012 225	791 475	1 803 700
G	Commerce and repairs	3 900 771	1 724 140	5 624 911
H	Transportation and warehousing	2 137 820	177 860	2 315 680
I	Hotels and restaurants	123 322	10 338	133 660
J	Information and communication	331 318	244 869	576 187
K	Financial and insurance business	73 583	203 115	276 698
L	Real estate administration	612 575	52 106	664 681
M	Other professional, scientific and technical activity	334 759	161 382	496 141
O	Public administration	394 854	93 590	488 444
P	Education	47 480	63 716	111 196
Q	Health care	148 251	45 071	193 322
R	Culture, recreation and entertainment	21 662	3 298	24 960
N+S	Other services	609 850	167 596	777 446
	Total	14 215 133	5 676 650	19 891 783

	Industry	Impaired balance-sheet exposures	Balance-sheet exposures > 4 days past due	Adjustments for general credit risk (IBNR)	Adjustments for specific credit risk (impaired)	Amounts written off from the balance sheet in 2015
A	Agriculture	2 901	5 787	773	2 066	338
B	Mining	2 606	5 624	1 133	1 034	8
C	Processing industry	257 817	190 382	22 468	181 727	8 513
D	Generation and supply of electricity, gas, water	509	691	1 001	356	17
E	Supply of water; sewage and waste	2 337	5 185	705	1 999	69
F	Construction	274 238	267 376	5 719	210 938	8 371
G	Commerce and repairs	184 027	322 958	27 403	123 739	13 846
H	Transportation and warehousing	62 141	295 729	12 406	36 720	4 364
I	Hotels and restaurants	36 347	13 019	682	11 003	392
J	Information and communication	16 147	16 943	1 968	12 486	448
K	Financial and insurance business	5 286	9 381	548	3 470	774
L	Real estate administration	69 160	98 947	4 660	18 154	16 359
M	Other professional, scientific and technical activity	38 396	45 222	2 401	31 779	1 794
O	Public administration	10	531	174	8	0
P	Education	2 225	4 006	294	1 191	20
Q	Health care	2 189	3 092	904	1 473	6
R	Culture, recreation and entertainment	3 279	11 241	497	2 384	124
N+S	Other services	51 934	87 036	3 650	23 792	3 189
	Total	1 011 551	1 383 148	87 385	664 320	58 630

At the same time, chapter VII.3 “Credit risk” of the Management Board Report on the Activity of the Bank/Group presents a general assessment of the credit risk level and assessment of changes in this respect observed during 2015 year, along with key asset quality indicators. It also presents an assessment of concentration levels in the credit portfolio, broken down into product types and industries.

➢ Article 442.h

The Group does not information broken down by significant geographical areas, due to immaterial exposures to counterparties having site in countries other than Poland.

➢ Article 442.i

The agreed changes in the specific and general credit risk adjustments for impaired exposures are presented in the Yearly Financial Report.

V.3 Use of external ratings (ECAIs)[4] (CRR Article 444)

When calculating requirements for own funds for entities other than financial institutions or government entities, the Group does not use ratings awarded by eligible credit assessment institutions (ECAIs). This is justified by the immaterial number of borrowers and counterparties who have a rating awarded by an ECAI.

The following table presents the mapping of external ratings of each of the named ECAIs to credit quality grades featured in the unified rating Master Scale. The Group recognizes the following external rating agencies: Fitch, Moody's, Standard & Poors.

Table no 10 *Bank's Master Scale vs. ratings used by external rating agencies*

MS risk grades	Fitch	Moody's	S&P
1	AAA	Aaa	AAA
1	AA+	Aa1	AA+
2	AA	Aa2	AA
2	AA-	Aa3	AA-
3	A+	A1	A+
3	A	A2	A
4	A-	A3	A-
5	BBB+	Baa1	BBB+
6	BBB	Baa2	BBB
7	BBB-	Baa3	BBB-
8	BB+	Ba1	BB+
9	BB	Ba2	BB
10	BB-	Ba3	BB-
11	B+	B1	B+
12	B or lower	B2 or lower	B or lower

V.4 Exposure to securitisation positions (CRR Article 449)

Exposure to securitisation positions are not present (Explanations in the additional information to the Yearly Financial Report).

[4] ECAI - *Eligible Credit Assessment Institution*

VI. Capital buffers, Indicators of global systemic importance (CRR Articles 440, 441)

Group and Bank received from Polish Financial Supervisory Authority (PFSA/KNF) in October 2015 the specific recommendation to maintain own funds for the coverage of additional capital requirements at the level of 3.83 p.p.in order to secure the risk resulting from FX mortgage loans for households, which should consists of at least 75% of Tier I capital (which corresponds to 2.87 p.p.). Group and Bank is obliged to achieve the required levels of the capital ratios (with addition of abovementioned additional Pillar II capital requirements) no later than as at the end of June 2016. Simultaneously, Group and Bank – as another banks in Poland – is obliged to maintain from the commence of 2016 the capital conservation buffer of 1.25 p.p. above minimum capital ratios defined in CRR.

According to the position of PFSA, the above mentioned requirements (individual buffer to risk resulting from FX mortgage loans and conservation buffer) are added to the recommended by KNF in 2015 minimum total capital ratio of 12% and Tier 1 capital ratio at 9%. These recommended in 2015 by KNF levels of capital ratios are significantly higher than the ratios required by the Capital Requirements Regulation (CRR) – (TCR of 8% and Tier 1 ratio of 6%).

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%.

VII. Encumbered assets (CRR Article 443)

The following table presents information about the encumbered assets of the Group. For purposes of this disclosure, an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes).

As at 31 December 2015 the Group's used assets in order to secure obligations from following transactions:

- Lombard credit,
- loan agreement
- futures contracts on bonds,
- derivatives transactions,
- Guaranteed Monies Protection Fund under Banking Guarantee Fund,
- Futures Settlements Guarantee Fund,

- OTC Collateral Fund – KDPW CCP

Table no 11 Encumbered assets, as at 31.12.2015, in PLN thous.

Assets of the Group	Balance sheet value of encumbered assets	Fair value of encumbered securities	Balance sheet value of unencumbered assets	Fair value of unencumbered securities
Total assets	2 671 669		63 563 587	
Loans on demand			1 698 582	
Equity instruments			228 268	228 268
Debt securities	689 983	689 983	13 366 323	13 366 323
Other loans and advances	1 981 686		46 451 744	
Other assets			1 818 670	

Additionally, in the period from 31 December 2015 to 31 January 2016 the Bank was obliged to keep on its current account with NBP an average balance of PLN 1 891 624 thousand (obligatory reserve).

VIII. Market risk

VIII.1 Exposure to market risk (CRR Article 445)

The amounts of own funds requirements for different market risks are presented in items IV.3 of Disclosures. Information on exposures to market risk are presented in the Yearly Financial Report, in the market risk management section of the financial risk management chapter

VIII.2 Exposures in equities not included in the trading book (CRR Article 447)

As at 31 December 2015 the Group had exposures in equities not included in the trading book with total balance-sheet value of PLN 227 964 tsd. The adopted methods of valuation, balance-sheet classification and effect of measurement at fair value for shares quoted on the active market are presented by the table below:

Table no 12 Exposures in equities not included in the trading book; data in PLN thous.

Balance-sheet classification	Measurement method	Balance-sheet value	Effect of pricing on active quoted market carried in revaluation capital

Investment in subordinates	Equity rights	1 378	-
Shares and stock available for sale	Fair value; in case of stock and shares not quoted on the active market	226 334	213 075
Shares and stock available for sale	Fair value measured on the basis of active market quotations	252	243

Below are presented the most important from the point of view of the balance sheet, equity exposures of the Group as at 31 December 2015, including the assignment of strategic goals of connected with these equities:

1. Visa Europe Ltd.; balance sheet value PLN 213 075 tsd – equity exposure is connected with banking activity;

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.

2. Polski Standard Płatności sp. z o.o.; balance-sheet value PLN 12 332 tsd – the purpose of the equity exposure is to introduce into the Bank's offering new products and services for the Bank's customers,

3. Lubuskie Fabryki Mebli S.A.; balance-sheet value PLN 1 378 tsd - the original purpose of the equity exposure in LFM SA was to generate capital gains.
4. Biuro Informacji Kredytowej S.A.; balance-sheet value PLN 400 tsd – the equity exposure is connected with the banking activity;
5. Krajowa Izba Rozliczeniowa S.A.; balance-sheet value PLN 313 tsd - the equity exposure is connected with the banking activity;
6. Giełda Papierów Wartościowych SA; balance-sheet value PLN 252 tsd. – the equity exposure is connected with activity on the capital market.

In the analysed period (2015) the Group:

- did not change accounting principles or methods of pricing for stocks and shares,

- did not realise profit on sale of shares from the “available for sale” book,

- in calculating own funds as at 31.12.2015 the positive effect of pricing of shares quoted on the active market from the “available for sale” book, presented in the balance-sheet in revaluation capital was taken in amount of PLN 69 036 tsd..

VIII.3 Exposure to interest rate risk on positions not included in the trading book (CRR Article 448)

Information on exposures to interest rate risk on positions not included in the trading book are presented in the Yearly Financial Report, in the market risk management section of the financial risk management chapter.

IX. Operational risk (CRR Article 446)

Description of the calculation methodology and amounts of own funds requirements for the operational risk are presented in items IV.4 of Disclosures.

X. Remuneration policy (CRR Article 450)

Decision-making processes regarding remuneration policy

In the year 2012 the Bank introduced “Policy for Variable Components of Remuneration of Persons Occupying Management Positions in the Group of Bank Millennium SA” prepared on the basis of assumptions concerning remuneration of employees in Bank Millennium Group – with consideration of the management and internal control system used as well as requirements Polish Financial Supervision Authority Resolution No. 258/2011 – by a dedicated project team composed of experts in HR, Bank Law and Labour Law, risk management and compliance. The method of analysis of scopes of responsibility for risk-based decisions, adopted remuneration assumptions as well as evaluation rules and criteria were presented to the dedicated Steering Committee. Subject to the Committee's verification was the list of positions and persons responsible for taking decisions significantly affecting the bank's risk profile. When drawing up "Policy for Variable Components of Remuneration of Persons Occupying Management Positions" no external consultants were used.

In the 2013 the text of the "Policy" became more detailed by the documents describing the rules for implementation of the Policy separately for Members of the Bank's Management Board and for remaining Risk Takers in the Group and was also verified against European Parliament and Council Directive 2013/36 EU. Updates were drafted internally by a project team comprised of experts in risk management, compliance and legal – headed by the Director of the HR Department.

In 2015 the "Policy" was complemented i.a. others with rules for granting of fixed remuneration components. The name of the Policy has also been changed to "Policy for Remuneration of Persons Occupying Management Positions in Bank Millennium Group". The currently binding policy is reflecting recommendations contained i.a. in principles of Corporate Governance valid in institutions supervised by Polish Financial Supervision Authority and the records of functioning so far "Policy for Variable Components of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group".

The "Policy" has been approved by the Supervisory Board on 24 April 2015. On 22 October 2015 was a subjected of a review process by the Personnel Committee of the Supervisory Board.

Composition, scope of tasks and procedure of work of the Supervisory Board Personnel Committee in 2015

Supervision over remuneration of persons occupying management positions in Bank Millennium Group is exercised by the Supervisory Board Personnel Committee, composed of the following persons:

Until 21 May 2015:	from 21 May 2015:
1. Maciej Bednarkiewicz – Chairman 2. Nuno Manuel da Silva Amado 3. Luis Pereira Coutinho 4. Marek Furtek 5. Bogusław Kott	1. Andrzej Koźmiński – Chairman 2. Nuno Manuel da Silva Amado 3. Miguel de Campos Pereira de Bragança 4. Bogusław Kott

The Committee is responsible i.a. for defining terms and conditions of employment, defining evaluation criteria and evaluating work of members of the Bank's Management Board. Moreover the Supervisory Board Personnel Committee in line with its powers pronounces opinions on the remuneration policy, including amount and type of components awarded to persons occupying management positions, including persons involved with risk management and compliance of the Bank's activity with legal provisions and internal regulations.

The Supervisory Board Personnel Committee met three times in 2015; during the meetings review was made of implementation of ""Policy for Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group" and decisions were taken regarding awarding of variable remuneration to Members of the Bank's Management Board for completed evaluation periods (including variable remuneration with deferred payment date).

Once a year the Supervisory Board presents the General Meeting (GSM) with report evaluating the operation of the remuneration policy in Bank Millennium Group. GSM assesses whether the approved policy is conducive to the development and security of the Bank, and determine the remuneration of the Supervisory Board Members.

Information about the remuneration system, including criteria used when measuring results and adjusting for risk; about payments deferral policy and about eligibility criteria

Remuneration of persons taking decisions affecting the risk profile is determined in particular with consideration of:

- Scope of tasks performed in the organisational unit,
- Scope of responsibility of the employees
- Based on analysis of salary information presented in labour market surveys of salaries in financial institutions

Bonus pool vs. results

Variable remuneration components – annual bonus pool for persons occupying management positions is approved after prior analysis of the Bank's situation regarding:

- Actual business performance: net profit, Result on Banking Activity, Cost to Income ratio, ROE;
- Liquidity: Loans/Deposits ratio, value of liquid assets;
- Capital adequacy ratios with respect to the KNF reference level.

The Bank's results before approval of bonus pool for variable remuneration for persons occupying management positions are analysed in a three-year perspective.

The level of the bonus pool is correlated with the actual Result on Banking Activity, net profit, Cost to Income ratio, ROE. Capital adequacy ratios in the evaluated period cannot fall below levels accepted by KNF. Risk ratios regarding the Bank's liquidity in the evaluated period cannot fall below levels accepted by KNF.

The bonus pool may be raised as the ratios improve. The bonus pool assigned for payment of bonus to Management Board Members cannot exceed 100% of total annual base remuneration and 2% of Consolidated Net Profit of Millennium Group. Variable remuneration of a person covered by the Policy cannot exceed 100% of the person's total annual fixed remuneration.

Payments deferral policy
Management Board Members
Awarding and payment of 50% of the value of variable components of remuneration occurs after the end of the settlement period and after announcement of financial results, while payment of 50% of variable remuneration is deferred for 3 years, payable in equal annual instalments. Members of the Management Board receive each part of the awarded bonus – paid in the year coming after the settlement period and deferred – half of it in cash and half in a financial instrument, the value of which is related to the value of shares of Bank Millennium.

Other persons covered by the Policy for Variable Components of Remuneration:
Other persons covered by the Policy for Variable Components of Remuneration have the bonus paid in 50% in cash form in the year coming after the given financial year. The remaining 50% is paid in a financial instrument, the value of which is related to the value of shares of Bank Millennium – in equal annual instalments during 3 years.

Criteria of eligibility
The bonus, in the deferred part, is subject to reassessment in subsequent years and may be reduced or withheld on the basis of a decision of the Personnel Committee depending on the Bank's financial situation resulting from actions undertaken in the evaluated period.

The condition for payment is the non-occurrence of following events:

- Significant correction of results with respect to the evaluated period,
- Low level of results of the Bank threatening the capital base,
- Materialisation of risk of decisions taken in the evaluated period, adversely affecting the bank's risk profile.

Criteria of evaluation of results on the level of the Bank, organisational units and personal, providing a basis for ascertaining and paying individual variable remuneration

Members of the Bank's Management Board:
Decisions concerning awarding of bonus to Members of the Management Board are taken by the Supervisory Board Personnel Committee after analysis of results, with consideration of financial criteria:

- Fulfilment of planned budgets and ratios defined for the managed area of activity,
- Comparison with competitive banks of similar size,
- Market business criteria defined for the specific period;

And non-financial criteria, in particular:

- Overall quality of management in the area of responsibility,
- Effective leadership and contribution to the Bank's development,
- Management and supervision over units in the area of responsibility.

Other persons covered by the Policy for Variable Components of Remuneration:

The Personnel Committee of the Management Board of Bank Millennium evaluates work in the given settlement period looking at quantitative criteria for the particular area of responsibility (results of banking activity of business lines) as well as discretionary evaluation of personal work quality with particular consideration of the quality of decision affecting the bank's risk profile in an at least three-year perspective. On this basis it determines the value of annual discretionary bonus.

Quantitative information regarding remuneration

Aggregated quantitative information concerning remuneration of persons in management positions in Bank Millennium Group, who have material impact on its risk profile, in the meaning of article 450 of CRR

Table no 13 Aggregate quantitative information on remuneration in 2015, broken down by areas of the company's activity and by senior management and members of staff whose actions have a material impact on the risk profile of the institution (PLN thous.)

Business lines	Total remuneration		
	Management Board	Risk Takers (without Management Board Members)	Total
Retail Banking		1 033	1 033
Corporate Banking		4 759	4 759
Overall Bank Management	15 152	5 655	20 807
Total	15 152	11 447	26 599

Table no 14 The amounts of remuneration for 2015, split into fixed and variable remuneration, and the number of beneficiaries; the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; the amounts of outstanding deferred remuneration, split into vested and unvested portions; broken down by Management Board Members, persons reporting directly to Management Board Members and other persons in management positions in Bank Millennium Group, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
Number of persons	8	26	6
Fixed remuneration	9 152	7 731	1 778
Variable remuneration (*)	6 000	1 581	357

Total cash	3 000	792	190
Cash paid	1 500	792	190
Cash deferred	1 500	0	0
Total financial instrument (*)	3 000	789	167
Vested financial instrument	1 500	0	0
Deferred financial instrument	1 500	789	167
Paid financial instrument	0	0	0

(*) Variable remuneration of Management Board Members for 2015 was granted in the decision of Supervisory Board Personnel Committee on 13th May, 2016

	Management Board	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
Variable remuneration with deferred payment - part already awarded	0	0	0
Variable remuneration with deferred payment - part not yet awarded	3 000	789	167
Total deferred variable remuneration	3 000	789	167

Table no 15 The amounts of deferred remuneration awarded during 2015 year, paid out and reduced through performance adjustments for persons in management positions, broken down by Management Board Members, persons reporting directly to Management Board Members and other persons in management positions in Bank Millennium Group, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
Number of persons	7	29	6
Deferred remuneration paid out during the financial year, subject to adjustment for performance in previous financial years	1 608	551	54

Table no 16 New sign-on and severance payments made during 2015 year, and the number of beneficiaries of such payments among persons in management positions, broken down by

Management Board Members, persons reporting directly to Management Board Members and other persons in management positions in Bank Millennium Group, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
New sign-on and severance payments	1 660	35	0
Highest such payment	978,5	35	0
Number of persons receiving such payments	2	1	0

The number of individuals being remunerated EUR 1 million or more per financial year

No such individuals.

XI. Leverage (CRR Article 451)

Bank completed calculation of leverage ratio on consolidated base, as at 31 December 2015, based on CRR and Regulatory Technical Standards (EU) 2015/62 from 10 October 2014 on leverage ratio.

As at 31 December 2015, the leverage ratio at the Group level was 9,15%

When calculating leverage, the Group does not apply the derogations set forth in Articles 499.2 and 499.3 of CRR. Leverage ratio is calculated both with respect to Tier 1 capital and using the temporary definition of Tier 1 capital.

The distribution of the total exposure measure used in the leverage ratio and leverage levels as at 31 December 2015 are presented in the table below:

Table no 17 Distribution of total exposure measure and leverage ratios as at 31 December 2015, (in PLN thous., %).

The amount and distribution of total exposure used in the leverage ratio, according to COREP report	Value
Exposure to equity financing transactions in accordance with Article 220 of CRR	0
Derivatives: market value	684 704
Undrawn credit facilities unconditionally cancellable at any time without notice	672 665
Other assets	64 922 602
Medium/low risk trade finance off-balance sheet items	105 745
Medium risk trade finance off-balance sheet items and off-balance sheet items related to officially supported export financing	313 961

Other off-balance sheet items	38 418
Leverage ratio - using the fully implemented Tier 1 Capital definition	9,15%
Leverage ratio - using the temporary Tier 1 Capital definition	9,13%

The Group does not apply amounts that have been excluded from the total exposure measure in accordance with CRR 429.11.

With the Risk Strategy assumptions currently in place, the Group assesses the risk of excessive financial leverage as immaterial and therefore no specific procedures have been developed in this area.

The table below presents the leverage ratio levels in 2015; its level is satisfactory, with slight changes, and therefore a description of factors that had an impact on its levels is not justified.

Table no 18 Leverage ratios of the Groups in quarters of 2015 year (in %)

Leverage ratio	31.03.2015	30.06.2015	30.09.2015	31.12.2015
Leverage ratio - using the fully implemented Tier 1 Capital definition	7,82%	7,88%	9,01%	9,15%
Leverage ratio - using the temporary Tier 1 Capital definition	7,91%	8,01%	8,73%	9,13%

XII. Qualifying requirements for the use of particular instruments and methodologies – use of the IRB approach to credit risk (CRR Article 452)

XII.1 Competent authority's approval to use the IRB Approach (CRR Article 452.a)

As at 31 December 2015, the Banco Comercial Portugues Group (the parent owner of Bank Millennium SA) has obtained the described below approvals of the competent authority pertaining to the use of the IRB Approach by the Group and Bank Millennium SA ("IRB Decisions"). Both approvals were issued by Banco de Portugal (the consolidating regulator of the Banco Comercial Portugues Group) in cooperation with the Polish Financial Supervision Commission.

The approval issued at the end of 2012 to use the Advanced IRB Approach for two credit portfolios of: retail exposures to individual clients secured by residential property (RRE) and qualifying revolving retail exposures (QRRE). The first IRB decision contained a "regulatory floor" according to which the minimum own funds requirements for the portfolios covered by the decisions had to be temporarily maintained at no less than 80% of the relevant capital requirements calculated using the Standardized Approach. The regulatory floor applied until the relevant authority determined that the conditions set forth by this decision have been fulfilled.

The approval issued at the end of 2014 entails:

1) reduction of the "regulatory floor" for RRE and QRRE portfolios from 80% to 70% of the relevant capital requirements calculated using the Standardized Approach. The regulatory floor shall be applied portfolio by portfolio, and should be adjusted up or downwards in case of any difference between expected losses and provisions so that the impact in the solvency ratios is exactly the same of considering only 70% of the capital requirements calculated under the standard method. According to the position of Competent Authorities (European Central Bank and KNF) presented in December 2015, regulatory validation regarding removal of the regulatory floor will be continuing in 2016.

2) commencement of use of the IRB Approach for the other retail exposures class is conditional upon meeting certain conditions by 30 June 2015. According to the position of Competent Authorities (European Central Bank and KNF) presented in December 2015, regulatory validation regarding IRB approval for that exposures class will be continuing in 2016.

3) commencement of use of the IRB Approach for corporates (including specialized lending) is conditional upon meeting certain conditions, while the new application to use the IRB Approach should not be submitted before 31 December 2016.

4) the permission to make changes to models applicable to RRE and QRRE portfolios is conditional upon meeting certain conditions, while the new application to use the IRB

Approach to these portfolios should be submitted until 30 June 2015. According to the position of Competent Authorities (European Central Bank and KNF) presented in December 2015, regulatory validation regarding implementation of changes in RRE QRRE models will be continuing in 2016.

XII.2 Structure of internal rating systems and relation between internal and external ratings (CRR Article 452.b.i)

The Group defines a rating system as all of the methods, processes, controls, data collection and IT systems that are used for the assessment of credit risk and for classification of exposures to a pool with a specified risk level, including the rules on the priority of rating models, if applicable, and the rules for overriding rating grades. Elements of the rating system include PD, LGD, CCF-EAD models (hereinafter: models) and methodologies for evaluating specialized lending.

Evaluation of the client's credit risk in respect to its probability of default (PD) is based on a uniform rating scale, referred to as the Master Scale.

The Master Scale (MS) has 15 risk grades, where ratings 1 to 3 are equivalent to a high credit quality, ratings 4-6: good credit quality, ratings 7-12 average and low credit quality and ratings 13-15 are procedural ratings used for impaired exposures.

All the clients with available lending, whether or not they actually use the approved credit limits and all other participants of credit transactions should have a previously awarded rating and should be assigned to an appropriate pool.

An adequate credit or rating policy should specify the model to be used for rating purposes or a homogenous pool for a given client segment.

Each PD model used must be calibrated to MS based on the observed or estimated probability of default.

The rating for governments, central banks, international organizations, multilateral development banks and Institutions may be assigned based on a rating awarded by recognized rating agencies, mapped to the Master Scale.

Should the above-mentioned entities have more than one classification awarded by recognised rating agencies (split rating) the rating corresponding to the second best risk shall be taken into account at all times.

The table showing relationships between internal and external risk grades is presented in chapter VIII of the Disclosures. The Bank recognizes the following external rating agencies for comparison purposes: Fitch, Moody’s, Standard & Poors.

A rating awarded through a behavioral model (behavioral rating) by default takes precedence over a rating awarded through an application model (application rating) if behavioral rating only is awarded.

Procedural ratings (13, 14 and 15 according to the Master Scale) are awarded to clients showing signs of deteriorating borrowing capacity and creditworthiness or with overdue debt.

Procedural ratings by default take precedence over application ratings.

After the pre-conditions necessary to award any of the procedural ratings are no longer satisfied, ratings 13 and 14 expire immediately, while rating 15 either expires or is maintained for a "quarantine period".

XII.3 Use of internal estimates other than for calculating risk-weighted exposure amounts (CRR Article 452.b.ii)

The Group acts in accordance with the IRB principles for the application of "use test" criteria. This means that the risk parameters used to calculate capital requirements for credit risk are also the parameters that are used for other internal purposes, in particular in the risk management process. Internal rating or internal loss estimation models play a major role in the risk management process and in the decision process at different risk management levels, i.e. for the purposes of defining the Bank's credit risk strategy, for approving and monitoring credit risk and for allocating economic capital.

The Group has many years of experience in using internal rating models, since individual rating systems have been used to evaluate client risk since the 1990s. Ever since that time, the methodologies have been developed, improved and, to an increasing extent, incorporated in business processes, thus boosting risk management "culture" and awareness in the management process.

- Management information system

Internal estimates are used broadly in the management information system in the areas of risk and operating activity. The individual management levels (Supervisory Board, Management Board, specialized committees) receive detailed information about exposure to individual risks types and about the risk profile, including estimated risk parameters. This allows for effective risk management.

- Risk Appetite

Internal estimates have been used to determine the "risk appetite" of the Bank and the Bank Millennium Group. The risk appetite incorporates measures, buffers and quantitative limits which, along with qualitative guidelines on managing individual risk types, determine the Bank's propensity for risk. Risk parameters are also an important element of the risk strategy being pursued, which includes objectives and guidelines for managing different risk types.

- Concentration limits

In the area of credit concentration risk and risk of significant exposures, internal estimates have been used to develop exposure limits for individual segments of the credit portfolio. For this purpose, a risk level calculated using risk parameters is compared to the available financial resources, which may be used to secure the risk, including a buffer for a potential increase in risk.

- Decision-making powers

Credit decision-making powers are an important area where internal estimates are applied. The levels of limits for decision-making powers rely on the client's MS risk grade and the total exposure to its economic group (and the group of related entities in which the client is a member).

- Evaluation of borrowing capacity and creditworthiness

Internal estimates affect significantly the evaluation of the client's borrowing capacity and creditworthiness. The rating affects the borrowing capacity through the following activities: (a) verification of "cut-off point" criteria which determine the maximum acceptable rating for each segment/product; (b) calculation of the client's credit limit.

- Loan prices and pricing policy

Risk parameters are also used for pricing credit transactions, by reflecting the cost of risk and the cost of capital in the price.

- Economic capital

Credit and market risk parameters are used as one of the elements that allow the Bank to calculate economic capital corresponding to the risk. Economic capital in turn is used to evaluate the safety of operations, to allocate and reallocate capital to business lines, to evaluate risk-based efficiency and to determine concentration limits.

XII.4 Description of the process for managing and recognizing credit risk mitigation (CRR Article 452.b.iii)

The main criterion considered in the Group when making a decision to provide financing on specific terms is the evaluation whether the client has capacity to service the financing on a timely basis without a need to realize the collateral. Collateral is accepted to reduce credit risk incurred by the Group if the client fails to make the payments in contractual amounts and on contractual dates. Accordingly, the requirements for accepted collateral should correspond to the credit risk incurred by the Group in connection with the specific client, while taking into account the specific features of each individual financing transaction. Additionally, in the case of loans to finance real property (in particular retail mortgage loans), establishing collateral on the property is a mandatory element of the credit product.

The Group's collateral policy defines the principles governing the types, kinds and legal forms of collateral, the rules for valuating collateral and the requirements to be satisfied when collateral is accepted, the rules of measuring and monitoring collateral.

The list of collateral types accepted by the Group is long and includes financial security, mortgage, material collateral, guarantees, sureties and receivables. The accepted collateral types have been described in detail and the Group has also defined the terms relating to features of individual asset types on which they can be accepted as collateral. The Group has also defined a list of acceptable legal forms of collateral, taking into account the risk associated with the probability that the collateral might be lost, in particular upon bankruptcy of or enforced debt collection against the client.

The Group has defined the rules for measuring the value of assets accepted as collateral.

For financial collateral, its value is determined on the basis of current market valuation of the asset, less relevant haircuts, including price volatility haircuts.

Mortgage collateral is measured on the basis of valuations prepared by expert appraisers verified by the Group's specialized units. As the value of collateral of retail loans is monitored during their service, the collateral amount is revaluated using the statistical method based on real property price indices.

For physical collateral, valuation depends on the type, unit value of the asset and age of the asset; the valuation is performed most frequently on the basis of the estimated market price determined by the Group's specialized units.

In each case, the units performing the valuations/verifying the valuations are separate from sales units.

Depending on the type and kind of collateral items, the Bank monitors them in order to:

- ensure that the contractual terms of collateral are satisfied, which includes confirmation of legal certainty,
- update the value of collateral,
- verify that the collateral exists (local visits).

The Group additionally uses a range of supplementary collateral to facilitate enforcement or increase probability of achieving repayment from a given collateral type.

XII.5 Control mechanisms for rating systems and rating systems review (CRR Article 452.b.iv)

The Group has implemented the principle of strict separation of commercial functions generating credit risk (which are performed in the Business Area) and client risk and exposure evaluation functions (which are performed by units in the Risk Area). In the area of retail exposures, the final risk grade (rating) is awarded automatically. In respect to corporate exposures, risk grades are awarded to clients and ratings monitored and changed when necessary during their term by the specialized Ratings Department.

Management of rating models, including the performance of control functions, is regulated in internal procedures pertaining to model development, model calibration and model monitoring. Responsibility for these actions has been assigned to designated model owners.

In order to ensure the appropriate control and review of the rating systems (adequate estimation of risk parameters and correct course of the rating and credit decision process), a validation and monitoring process has been introduced.

The monitoring process is performed by the unit responsible for model development.

The validation process is performed by a unit independent from the organizational units responsible for model development.

The following units handle the monitoring and validation process:

- The Risk Committee, which has general responsibility for risk control
- The Bank's Validation Committee which is responsible for confirming the results risk models validation and for continuing the implementation of the measures prescribed by the Model Validation Bureau. Validation results are then ratified by the Risk Committee.
- The Model Validation Bureau, which is responsible for qualitative and quantitative analyses, model validation independent from model development, development of model validation and monitoring methodologies, preparation of reports for the Validation Committee.
- Model Owners and Rating System Owners responsible for the development function which involves the following: new model development, recalibration of existing models, management of factors affecting the use of a model, implementation of Validation Committee recommendations on its own and in cooperation with the IT team.

Reports and recommendations from model monitoring are approved by the Head of the Risk Department. The results are presented to the Validation Committee and then approved by the Risk Committee..

Reports and recommendations of the Validation Team are approved by the Validation Committee.

The Chairman of the Validation Committee is obligated to submit to the Risk Committee and, if necessary, to other committees responsible for controlling credit risk, requests from the Validation Committee regarding all the credit risk models and rating systems and the implementation status of corrective action, if any.

The Bank stores the documentation of implemented models, rating systems, monitoring and validation reports and the methodologies used to prepare monitoring and validation reports; minutes on decisions made by the Validation Committee and the Risk Committee.

In addition, the Internal Audit Department shall review rating systems according to the annual Audit Plans approved by the Supervisory Board. These include the credit area, in particular issues of risk parameters estimation: PD, LGD, CCF and expected loss EL. Audit inspections include also an assessment of the model management processes, monitoring and validation. Inspections are carried out on the basis of uniform audit programs and methodologies approved by the Audit Committee of the Supervisory Board.

XII.6 Description of the internal ratings process (CRR Article 452.c)

XII.6.1 Central governments and central banks (CRR Article 452.c.i)

This exposure class is excluded permanently from the IRB approach.

XII.6.2 Institutions (CRR Article 452.c.ii)

This exposure class is excluded permanently from the IRB approach.

XII.6.3 Corporates, including SMEs, specialized lending and purchased corporate receivables (CRR Article 452.c.iii)

Exposure classes subject to the plan of gradual implementation of the IRB approach. In accordance with the last IRB permission, the Group plans to file the IRB application for these portfolios on 31 December 2016 at the earliest.

XII.6.4 Retail exposures (CRR Article 452.c.iv)

- PD models

The rating process in Bank Millennium is based on the following principles:

i. awarding risk grades to all credit exposures;
ii. All credit decisions should be preceded by awarding a risk grade to the client;
iii. In the retail segment, the rating process is based on PD scoring/rating models;
iv. The rating process is separated and independent from the credit decision process.

The presented rating principles apply to all categories of retail exposures: retail exposures to individuals secured by residential real estate, qualifying revolving retail exposures and other retail exposures.

The class of retail exposures to individuals secured by residential real estate include exposures which are mortgage loans or home equity loans granted to retail clients (small businesses and private individuals) and secured by mortgage.

The class of qualifying revolving retail exposures includes exposures to natural persons which are unsecured, renewable, with exposures not exceeding EUR 100,000 and which meet the requirement of low volatility of loss rates.

All the retail exposures that do not qualify to the above categories are treated as other retail exposures. They are covered by the IRB roll-out plan, and according to the last IRB permission, IRB Approval Pack regarding these exposures was delivered on the 30th June, 2015.

In the rating process, the powers are allocated as follows:

a) Data input
b) Verification of data
c) Awarding of the final risk grade (automated decision);

Model-based risk grades and procedural ratings are awarded automatically and are not subject to expert adjustments.

In the rating process, the Bank uses data from various available sources:

- internal sources (Bank’s IT systems),
- external sources (Biuro Informacji Kredytowej S.A.)
- data received from customers.

With respect to probability of default (PD) models for retail exposures, there is a rating system in place for microbusinesses and a rating system for private individuals. Both systems use behavioral scoring models and application scoring models designed for specific client and/or product groups. Procedural ratings are awarded to clients showing signs of deteriorating borrowing capacity and creditworthiness or with past due debt.

A procedural rating has the priority in use. If the client has no procedural rating then the behavioral rating should be used, provided that it has been awarded.

Behavioral rating is awarded for the first time after three months of the client's cooperation with the Bank and then monthly, provided that the client's accounts meet the requirements of the behavioral model.

If the client has no procedural rating and no behavioral rating then the application rating should be used.

- LGD models

Loss Given Default (LGD) models have been built for the following two portfolios:

a) unsecured portfolio for retail clients,
b) portfolio secured by residential real estate for retail clients.

Pursuant to CRR, as amended, banks must estimate LGD parameters using data on defaulted exposures from all the available sources, taking into account all information that is significant for the estimation of economic loss levels.

Accordingly, the Bank has estimated LGD parameters using a database that contains all the defaults resulting from quantitative and qualitative premises included in default definitions.

According to the LGD calculation methodology, the main factors in the calculation include: probability of cure or completion of the client recovery process, value of recoveries, costs and discount rate.

The Bank has taken the following approach to building LGD models:

- Estimate the probability of the path of cure from the default status, i.e. a probability tree;
- Estimate loss parameters for each path of cure from default.

Loss given default is estimated at a transaction level.

- Exposure at Default (EAD) models

An EAD model has been built for retail portfolio exposures. When estimating EAD, exposure at default was compared to the value of the limit and the book value of the exposure observed one year before the default event. Credit Conversion Factor (CCF) parameters have been calculated for product groups for which an off-balance sheet exposure could occur and where the Bank had a significant number of observations that enabled statistical conclusions to be drawn, i.e. for overdraft limits and for credit cards. In the case of guarantees, where the number of observations was too low to carry out statistical analyses, a conservative CCF value was used. At the same time, EAD model for RRE portfolio was not developed due to immaterial number of observations.

XVII.6.5 Equities (CRR Article 452.c.v)

In equity exposures, the Millennium Group classifies shares and equity instruments held by any of the Bank's units. On the consolidated basis, however, the shares representing investments in subsidiaries are excluded, since those are classified as intragroup transactions. However due to the fact that the total value of the Group's equity portfolio is insignificant, it has been decided that these exposures should be excluded from the IRB approach permanently and the capital requirement for these exposures should be calculated based on the standardized approach.

XII.6.6 Exposure values by exposure classes, including the value of outstanding loans (balance sheet), unused commitments (off-balance sheet), average risk weights, average risk-weighted exposure amounts (CRR Article 452.d.e)

Table no 19 Amounts of exposures by exposure classes, including the amount of outstanding loans (balance sheet), unused commitments (off-balance sheet) as at 31 December 2015 (in PLN thous.)

No.	Exposure class	Exposure amount	Exposure type			
			balance sheet	off-balance sheet	Derivatives	REPO transactions
1	Governments and central banks	14 977 882	14 977 882			
2	Institutions	3 273 070	2 921 275	125 200	226 595	
3	Corporates	11 576 445	11 041 012	535 170	263	
4	Retail exposures, including:	36 875 926	35 319 197	1 556 730	0	
4a	*- Retail exposures secured by residential real estate*	27 950 187	27 950 187			
4b	*- Qualifying revolving retail exposures*	2 782 711	1 241 621	1 541 089		
4c	*- Other retail exposures*	6 143 028	6 127 388	15 641		
5	Specialised lending	583 707	583 707			
6	Equity exposures	229 645	229 645			
7	Exposures in the trading book	900 087	408 739		491 348	
8	Other non credit-exposure assets	1 371 442	1 371 442			
9	TOTAL	69 788 205	66 852 899	2 217 100	718 206	

Table no 20 Amount of exposure, risk-weighted exposure and the average risk weight by exposure class as at 31 December 2015 (in PLN thous.)

No.	Exposure class	Exposure amount	Risk-weighted exposure amount	Average risk weight
1	Governments and central banks	14 977 882	0	0,0%
2	Institutions	3 273 070	729 824	22,3%
3	Corporates	11 576 445	10 415 633	90,0%
4	Retail exposures, including:	36 875 926	12 197 594	33,1%
4a	*- Retail exposures secured by residential real estate*	27 950 187	6 740 242	24,1%
4b	*- Qualifying revolving retail exposures*	2 782 711	948 455	34,1%
4c	*- Other retail exposures*	6 143 028	4 508 897	73,4%
5	Specialized lending	583 707	609 614	104,4%
6	Equity exposures	229 645	230 355	100,3%
7	Exposures in the trading book	900 087	275 991	30,7%
8	Other non credit-exposure assets	1 371 442	1 064 453	77,6%
9	TOTAL	69 788 205	25 523 463	36,6%

XII.6.7 Amount of retail exposures in respective rating classes grouped by classes to allow for a meaningful differentiation of credit risk (CRR Article 452.f)

Table no 21 Amount of exposure, risk-weighted exposure and the average risk weight by exposure class as at 31 December 2015(in PLN thous.)

No.	Exposure class	Exposure amount
1	Retail exposures secured by residential real estate	27 950 187
1.1	• High credit quality (1-3 MS)	17 573 255
1.2	• Good credit quality (4-6 MS)	5 285 181
1.3	• Average and low credit quality (7-12 MS)	3 903 738
1.4	• Procedural ratings (13-15 MS)	1 188 014
2	Qualifying revolving retail exposures	2 782 711
2.1	• High credit quality (1-3 MS)	1 066 581
2.2	• Good credit quality (4-6 MS)	739 522
2.3	• Average and low credit quality (7-12 MS)	825 633
2.4	• Procedural ratings (13-15 MS)	150 975

XII.6.8 Actual specific credit risk adjustments for each exposure class (CRR Article 452.g)

Table no 22 Amount of specific credit risk adjustments for each exposure class as at 31 December 2015 (in PLN thous.)

No.	Exposure class	Value of adjustments for specific credit risk
1	Governments and central banks	0
2	Institutions	545
3	Corporates	547 393
4	Retail exposures, including:	832 033
4a	• *Retail exposures secured by residential real estate*	271 486
4b	• *Qualifying revolving retail exposures*	57 725
4c	• *Other retail exposures*	502 823
5	Specialised lending	48 714
6	Equity exposures	0
7	Exposures in the trading book	0
8	Other non credit-exposure assets	0
9	TOTAL	1 428 686

The Group has not observed significant differences in value adjustments in 2015 compared to previous experiences.

XII.6.9 Description of the factors that impacted on the loss experience, in conjunction with the actual results in a longer term. (CRR Article 452.h.i.j.)

Comparison of actual and modeled PD

The tables below present the calculation of actual default rates and estimated default rates for portfolios covered by the permission to use the IRB approach.

Table no 23 Actual and estimated default rates for the QRRE portfolio (in %)

Term	Estimated default rate	Actual default rate
2012	3.12%	2.16%
2013	2.74%	2.16%
2014	2.68%	1.99%
2015	2,69%	1,82%

Table no 24 Actual and estimated default rates for the portfolio of loans secured by residential property (in %)

Term	Estimated default rate	Actual default rate
2012	1.12%	0.49%
2013	0.80%	0.49%
2014	0.78%	0.48%
2015	0,82%	0,55%

The actual default rates have fallen in recent years and are now lower than estimated. The observed decrease in actual default rates in recent years is consistent with the observed market trends and may be explained by the following:

- Stable macroeconomic situation,
- Change of the Bank's credit policy introduced in 2010 in response to the global financial crisis.

The actual default rates were also lower than the average probability of default (PD) because of the following:

- Higher level of default rates in previous years, which were taken into account when estimating the long-term PD
- The fact that the long-term PD estimation also included a conservative buffer for estimation errors, which boosts the estimated PD levels.

Comparison of actual and modeled CCF

The analysis of actual CCF has been conducted for QRRE portfolio cases defaulted during the calendar year 2015 (reporting period) and 2014 (comparative period) which, at the end of the preceding year (31 December 2014 and 31 December 2013, respectively) were not defaulted and had a positive off-balance sheet exposure. The analysis involved a comparison of the average actual conversion factors with average modeled levels (average weighed by the amount of off-balance sheet exposure was applied in both cases). The modeled factors include a number of conservative haircuts and should be higher than the actual figures. The results are presented in the table below.

Table no 25 Comparison of actual and modeled CCF (in %)

	2015	2014
Modeled CCF	86.1%	82.4%
Actual CCF	61.6%	60.3%

In both the reporting period and the comparative period, actual CCF levels did not exceed the modeled levels. Since the Bank has not recorded higher than expected credit conversion factors, this credit risk element does not lead to the occurrence of higher than expected losses.

Comparison of actual and modeled LGD

The analysis of actual LGD was carried out for cases from RRE and QRRE portfolios. Calculation of actual LGD figures requires a longer time horizon, because recoveries may occur only after the exposure achieves the default status. Accordingly, the calculation of actual LGDs was based on the cases, which defaulted by December 2013. The average LGD calculated on the basis of these cases (average weighed by the exposure size) was compared with the average LGD level obtained from the model used (average weighed by the exposure size was applied in both cases). The modeled values include a number of conservative haircuts and should be higher than the actual losses. The results are presented in the table below.

Table no 26 Comparison of actual and modeled LGD (in %)

LGD	Portfolio	
	RRE	QRRE
Actual	21,7%	49,4%
Modeled	31,6%	82,5%

For both analyzed portfolio, modeled loss amounts were much higher than actual figures. We can therefore state that there were no unexpected losses associated with LGD levels and the model used has proven to be sufficiently conservative.

- CRR Article 452.j.

Not applicable. The Group does not have companies conducting credit activity abroad.

XII.7 Use of credit risk mitigation techniques (CRR Article 453)

- CRR Article 453.a

The Group does not make use of on- and off-balance sheet netting.

- CRR Article 453.b

Policies and processes for collateral valuation and management

In the collateral management area, the Group applies the approach, in which collateral is used to ensure that the Group receives the repayment of principal, interest, commissions and fees if the client fails to make the payments in contractual amounts and on contractual dates. However the main source for the repayment of receivables is always the borrower's income and/or the funded project. Accordingly, collateral should correspond to the credit risk incurred by the Bank, while taking into account the specific features of each individual credit transaction.

Legal collateral is applicable until all the amounts due to the Group under the collateralized credit transaction are repaid. The validity date or maturity date of collateral should not be earlier than the date of total repayment of the secured credit transaction.

Real estate collateral (revaluation)

In respect to the valuation of loan collateral in the largest credit portfolio, i.e. residential retail loans, the loan application review process must include in each case a valuation of the real estate securing the loan performed by an expert appraiser.

The Group monitors collateral in order to:

- update the base value of the collateral,
- ensure that the contractual terms of collateral are satisfied,
- verify that the collateral exists (local visits).

The base value of mortgage collateral may be updated using one of the following forms:

- assessment of the value of the real estate, understood as the Group's estimation of the current value of the real estate collateralizing the credit transaction, based on the methodologies used by the Bank or on an analysis of the real estate market analysis on the date of the assessment.
- valuation by an expert appraiser.

Update of the base value of financial collateral

In the case of financial collateral classified as "participation units in mutual funds sold by Bank Group entities and managed by Millennium TFI" and "WSE-listed shares", their base value is updated daily.

Update of the base value of material collateral

The base value of material collateral is updated by assessing the value of material collateral. The value of material collateral is assessed once a year.

Assessment of material collateral value involves the application of depreciation ratios determined by the age and type of the material collateral, to its initial value. The application of depreciation begins in the year following the year of production. An assumed period of use is assumed for every collateral item, after which a zero value of collateral is assumed.

- CRR Article 453.c

The table below presents the types, kinds and legal forms of collateral accepted by the Bank. The collateral acceptance process is regulated by special procedures. Other collateral types may be accepted if they meet certain specified requirements.

Table no 27 Types and kinds of collateral used by the Group

Type	Kind	Legal form
Financial	Term deposit in the Bank in PLN/foreign currency with a 100% principal guarantee	Ownership transfer
	Superduet Deposit in PLN/foreign currency with a 100% principal guarantee in the deposit part	For a deposit: - Ownership transfer For participation units in mutual funds: Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
	Prestige Investment Program in PLN/foreign currency	Transfer of receivables.
	Guarantee policy	Transfer of receivables
	Megazysk insurance agreement	Transfer of receivables
	Term deposit in another bank in PLN/foreign currency with a 100% principal guarantee	Transfer of receivables
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
	Participation units in mutual funds	Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
	WSE-listed shares included in WIG 20 stock index, deposited in Millennium Brokerage House	Ownership transfer
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
	Treasury bills deposited in the Bank	Ownership transfer
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
	Dematerialized State Treasury bonds admitted to organized trading, deposited in the Bank or in Millennium Brokerage House	Ownership transfer
		Registered pledge (ultimately) and Ordinary pledge

Type	Kind	Legal form
		(as temporary collateral)
		Ordinary pledge
	Dematerialized State Treasury bonds not admitted to organized trading, deposited in the Bank or in Millennium Brokerage House	Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
Mortgage	Residential properties (apartment complexes, houses, apartments, farm house in the case of farming land)	Mortgage and Registered pledge and Ownership transfer (conditionally) – if collateral is established on parts of real property [e.g. devices, specialized equipment, machinery, production lines permanently connected to land or to a building which, if dismantled, will compromise the building's structure or materially reduce the value of collateral being dismantled (e.g. utilities, elevators)]
	Commercial real estate (offices, storage space, stores, service facilities, hotels)	
Material	Vehicles, including cars, construction equipment built on car chassis, other vehicles (e.g. semi-trailers and trailers and truck tractors)	Registered pledge and ownership transfer (temporary)
		Registered pledge for future collateral and ownership transfer (temporary)
	Fleet consisting of cars	Registered pledge and ownership transfer (temporary)
	Independent specialized hardware and machinery	Registered pledge and ownership transfer (temporary)
		Ownership transfer
	Production lines	Registered pledge and ownership transfer (temporary)
		Ownership transfer
	Collection of fixed assets including specialized equipment and machinery	Registered pledge and ownership transfer (temporary)
	Inventory	Registered pledge and ownership transfer (temporary)

Type	Kind	Legal form
		Ownership transfer
Receivables	Receivables under contracts pertaining to the client's business activity and lease.	Assignment of contractual receivables
	Receivables from permanent cooperation with specified business partners	Assignment of receivables from permanent cooperation with specified business partners
Guarantees and sureties	Bank guarantee	Bank guarantee
	Surety	Surety under Civil Law
		Promissory note surety

- CRR Article 453.d

The Group does not use any guarantees and credit derivatives as risk protection instruments in the capital requirement calculation process.

- CRR Article 453.e

The Group notices concentration related to credit risk mitigation with respect to collaterals for loans in the form of a mortgage. Loans secured by real estate accounted for ca. 59% of the total loan portfolio at the end of 2015, including PLN loans 20% of the portfolio (ca. PLN 9.3 billion), and loans denominated in CHF 39% (ca. PLN 18.6 billion). The main risk factor associated with this protection are:

1) an increase in the exchange rate of CHF / PLN,
2) a decrease in the value of mortgage.

Both of these factors contribute to increase of average LTV ratio (the ratio of loan to value of collateral) and the resulting increase in the value of loans, where the value of the LTV is greater than 100% and a deterioration of capital adequacy. The first risk factor increases the DTI ratio (the ratio of debt-to-income for a customer) and it leads also to deterioration of liquidity.

The Group identifies, measures, monitors and controls continuously above risk factors. Conservative liquidity strategy is used, which provides for the maintenance of liquid assets buffer for unexpected changes in exchange rates. Capital plan provides for the maintenance of capital adequacy at a satisfactory level in the coming years. Both plans - Liquidity and Capital –account for stress tests assuming a significant appreciation of the exchange rate of CHF / PLN. The level of non-performing loans is regularly monitored and in case of potential problems with debt repayment customer is contacted in order to apply the right solution, suitable to his financial capability. The quality of loans secured by real estate remains at a high level.

- CRR Article 453.f, 453.g – not applicable

- CRR Article 454 – not applicable

- CRR Article 455 – not applicable

XIII. Statement of the Management Board

The Management Board of Bank Millennium SA hereby represents that the findings described in the Disclosures are true to the facts and the risk management systems put in place are adequate with regard to the risk profile and strategy of the Group and Bank Millennium SA.

SIGNATURES

Date	Name and Surname	Position/Function	Signature
6.07.2016	Joao Bras Jorge	Chairman of the Management Board	……………………….
6.07.2016	Fernando Bicho	Deputy Chairman of the Management Board	………………………
6.07.2016	Maria Jose Campos	Member of the Management Board	………………………
6.07.2016	Wojciech Haase	Member of the Management Board	………………………
6.07.2016	Andrzej Gliński	Member of the Management Board	………………………
6.07.2016	Wojciech Rybak	Member of the Management Board	………………………