# REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP

## FOR 1ST QUARTER 2016

## MAIN CONSOLIDATED FINANCIAL DATA

| | Amount '000 PLN | | Amount '000 EUR | |
|---|---|---|---|---|
| | Period from 1.01.2016 - 31.03.2016 | Period from 1.01.2015 - 31.03.2015* | Period from 1.01.2016 - 31.03.2016 | Period from 1.01.2015 - 31.03.2015* |
| Interest income | 556 667 | 582 940 | 127 796 | 140 505 |
| Fee and commission income | 161 382 | 177 814 | 37 049 | 42 858 |
| Operating income | 557 846 | 558 779 | 128 067 | 134 681 |
| Operating profit | 222 976 | 203 271 | 51 189 | 48 994 |
| Profit (loss) before income tax | 190 687 | 201 845 | 43 777 | 48 650 |
| Profit (loss) after taxes | 137 185 | 162 569 | 31 494 | 39 184 |
| Total comprehensive income of the period | 206 535 | 76 931 | 47 415 | 18 542 |
| Net cash flows from operating activities | (599 026) | (1 407 791) | (137 521) | (339 317) |
| Net cash flows from investing activities | (2 226 994) | (14 730) | (511 259) | (3 550) |
| Net cash flows from financing activities | 219 649 | (85 141) | 50 426 | (20 521) |
| Net cash flows, total | (2 606 371) | (1 507 662) | (598 354) | (363 388) |
| Total Assets | 65 315 929 | 66 235 256 | 15 302 204 | 15 542 709 |
| Liabilities to banks and other monetary institutions | 1 488 173 | 1 443 921 | 348 649 | 338 829 |
| Liabilities to customers | 52 009 985 | 52 810 389 | 12 184 890 | 12 392 441 |
| Equity | 6 649 700 | 6 443 165 | 1 557 891 | 1 511 948 |
| Share capital | 1 213 117 | 1 213 117 | 284 209 | 284 669 |
| Number of shares | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN/EUR) | 5.48 | 5.31 | 1.28 | 1.25 |
| Diluted book value per share (in PLN/EUR) | 5.48 | 5.31 | 1.28 | 1.25 |
| Capital adequacy ratio | 17.19% | 16.72% | 17.19% | 16.72% |
| Earnings (losses) per ordinary share (in PLN/EUR) | 0.11 | 0.13 | 0.03 | 0.03 |
| Diluted earnings (losses) per ordinary share (in PLN/EUR) | 0.11 | 0.13 | 0.03 | 0.03 |
| Pledged or paid dividend per share (in PLN/EUR) | - | - | - | - |

* - Comparative balance sheet data was presented, in compliance with IFRS requirements, as at 31.12.2015. Other comparative data is presented for the period from 1.01.2015 to 31.03.2015.

**Exchange rates accepted to convert selected financial data into EURO**

The following rates were used to calculate amounts stated in EURO:

- for balance sheet items: 4.2684 PLN/EURO – the exchange rate of 31 March 2016 (for comparative data as at 31 December 2015: 4.2615 PLN/EURO),
- for profit and loss account items for the period from 1 January – 31 March 2016: 4.3559 PLN/EURO, the exchange rate was calculated as the average of the rates at the end of the months covered by the financial statements (for comparative data: 1 January – 31 March 2015: 4.1489 PLN/EURO).

## INFORMATION ABOUT THE ACTIVITY OF BANK MILLENNIUM CAPITAL GROUP IN 1 QUARTER OF 2016

Bank Millennium Group (the "Group") consolidated net profit in 1Q 2016 amounted to PLN 137.2 million and was lower by 15.6% than in 1Q 2015. This result was influenced by the new banking tax: PLN 32.3 million charge for two months of the quarter. Without this tax, consolidated net profit would reach a solid PLN 169.5 million in 1Q 2016, i.e. 4.2% more than PLN 162.6 million achieved in 1Q 2015.

This yearly increase of net profit on a comparable basis was achieved through a reduction of operating costs and impairment provisions that more than compensated for the slightly lower operating income driven by still unfavourable conditions for banking sector in Poland. Return on Equity reached 8.4% (or 10.4% before new tax) and apart from that tax was also affected by the significant increase of equity by 13.8% yearly.

Main financial and business highlights of 1Q 2016 results are the following:

**Solid profit before special banking tax**

- Quarterly net profit PLN 137.2 million or 169.5 million before special banking tax
- ROE at 8.4% (10.4% without new tax)

**Stable Cost-to-Income ratio**

- Operating income and operating costs fell by 1% y/y
- Stable Cost to income ratio at 50.4%

**Improved asset quality and cost of risk**

- Impaired loans ratio at low 4.5%; for mortgage at 2.1% (of which past-due over 90 days at 0.9%)
- Cost of risk at 38 bps *, lower by 22 bps versus 1Q'15 and stable versus previous quarter

**Very strong capital and liquidity ratios**

- Group TCR** at 17.2% level, CET1** at 16.8% (after AGM decision to retain 2015 profit)
- Loans-to-deposits ratio*** at low 88%

**Deposits/accounts/customers**

- Fast growth of retail deposits kept: +18.4% y/y +1.7% q/q
- 72 thousand new current accounts acquired during 1Q 2016; 1.39 million active customers at quarter end.
- More than 37 thousand on-line applications in Family 500+ program

**Loans**

- High cash loans sale kept: PLN 619 million in 1Q'16; portfolio 14% up y/y
- Acceleration of mortgage loans sale: +33% y/y and 11% q/q
- Strong position in leasing and factoring (4th place on the Polish market in both)

*(*) total provisions created (net) to average net loans, per annum*
*(**) under CRR/CRD4 rules and partial IRB approach (with regulatory constraint)*
*(***) deposits include Bank's debt securities sold to individuals and repo transactions with customers*

**Macroeconomic situation and factors influencing results in the next quarters**

Year 2015 was a period of solid and balanced economic growth in Poland. Gross Domestic Product was in 2015, in real terms, by 3.6% higher than in 2014 when it grew by 3.3%. Economic growth was fuelled by private consumption, that increased by 3.1% after growing by 2.6% a year before, as well as investment in fixed assets the dynamics of which slowed down a bit as compared with 2014 (5.8% vs. 10.0%). The external balance added 0,3 percentage point to the annual growth rate, while a year before the contribution was negative, equal to -1.5 percentage point. The Bank assesses that the economic growth is balanced and macroeconomic data show no sign of the build-up of macroeconomic imbalances.

In the first quarter economic growth probably slowed down slightly as compared with the rate 4.3% y/y recorded in the fourth quarter of 2015, but probably remained solid and significantly above 3.0% y/y. Consumption remained the main engine of economic growth, while the investment dynamics probably deteriorated. It is pointed by the collapse of the construction and assembly production, the average dynamics of which in the first three months of the year was equal to -12.2%, mainly as a consequence of the reduction of public investment outlays pending new financial perspective from EU.

Labour market conditions are currently the best since 2008. Having declined by 1.6 percentage points in 2015, to 9.8% in December, registered unemployment rate increased in January 2016 to 10.3%, on the back of seasonal factors such as the termination of fix-term contracts and winter standstill in some sectors. In months that followed the unemployment decreased to 10.0% in March and was by 1.5 percentage points lower than in the corresponding period of the previous year. In March 2016 employment in the enterprise sector increased by 15.5 thousands and it was the best March reading since 2007. It is however worth noting that the mismatch between labour supply and demand is growing, what is visible in high number of vacancies unfilled at the end of each month. At the same time growing number of unemployed persons per each job offer bears increasing problems with finding suitable employees. This might, with time, translate into growing wage pressure. Nonetheless wage growth remains moderate, and in March average wage in the enterprise sector increased by 3.3% y/y. The data are however disrupted by structural changes: the decline of employment in mining and the increase in low-paid services as well as declining prices that support real wage dynamics.

The consumer price index in year-on-year terms has been negative since June 2014r. Since the bottom in February 2015 at -1.6% y/y the deflation has been slowly diminishing, but the period of its persistence has been longer than forecasted. At the beginning of 2016 the price decline deepened as the fall of world oil prices intensified, and it was equal to -0.9% y/y in March vs. -0.5% y/ in December. The persistence of negative inflation is the consequence of supply-side shocks on food and fuel markets, but the demand pressure in the economy is also low. Net inflation, excluding food and energy, has been negative since the beginning of the year and in March was equal to -0,2% y/y.

In the environment of lack of inflation pressures, monetary authority kept loose monetary policy stance. In March 2015 MPC cut interest rates by 50 bps stabilizing the reference rate at the record low level of 1.50%. At the beginning of 2016, after the term of the old Council had expired, eight new Monetary Policy Members took an oath. New MPC, that until June will be presided by the governor Marek Belka, does not differ significantly in its attitude from the previous one and sees the need of precautious actions. In the Bank's assessment the NBP rates will remain at current level in the nearest future.

Leading indicators suggest that good business climate will be sustained in months to come. PMI index, that describes the sentiment in manufacturing, increased to 53.8 points in March from 52.8 points in February and significantly exceeds no-change level of 50 points. Consumer confidence is on the other hand at the highest levels since 2008. The Bank expects that in 2016 domestic demand will remain strong and the economic growth will reach 3.5%. In the Bank's assessment high consumption dynamics will be sustained and its acceleration in the second half of the year will result from the launch of social programme Rodzina 500+. Investment may however slow down, as the implementation of the new financial perspective may be delayed, but it should continue to grow supported by high capacity utilization and good financial standing and liquidity of companies. Despite the fact that the economic growth will be maintained we do not expect the return of positive inflation earlier than in the fourth quarter of 2016.

According to the NBP data total deposits increased in the first quarter by 6.7 billion PLN. The growth was in households deposits, which increased by 16.9 billion PLN quarterly, while corporate deposits has not jet recovered after a seasonal decline in January and were by 10.1 billion PLN lower than at the end of 2015. Corporate deposit were in March by 8.1% higher than in the corresponding period of the previous year. Households deposits has been growing at the solid and stable pace of almost 10.0% y/y, despite the record low interest rates, confirming improved income situation of households.

Total credit in March was by 4.3% higher than in the corresponding period of last year. Credit to households grew at the stable pace that equalled to 4.2% in March, of which mortgage loans grew slower, by 2.5% y/y. Corporate credit dynamics in particular months of the quarter weakened, mainly as a consequence of a slowdown of credit to other entities than non-financial corporations (including local governments), in March it was equal to 4.5% as compared with 9.5% in January.

In coming quarters the activity of banking sector, including Bank Millennium, can be influenced by the following external factors:

- There are discussions and proposals to support FX mortgage borrowers in other way than Borrowers Support Fund (FWK) created in 2015 to help distressed mortgage borrowers. On January 15th 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however without an assessment of impact for the banking sector. According to estimations later announced by Polish Financial Supervision Authority, the overall direct costs for the polish banking sector may reach PLN 66.9 billion. In these circumstances, if implemented in the proposed version, this law could significantly deteriorate profitability and capital position of many Polish banks (and the Bank).

- Banks in Poland will continue to operate in the environment of record low interest rates. A hypothetical decrease of interest rates in 2016 would negatively influence interest margin of banks (and the Bank).

- Potential increase of currency markets volatility (among others due to growing risk of Brexit), including a risk of PLN depreciation in the context of possible further sovereign rating downgrades, may cause an increase of Polish banks financing costs and impact FX loan portfolios.

- Positive situation in Polish economy, including good financial standing of the companies and further unemployment decrease, will support the quality of loans portfolio.

- The closing of the Visa transaction, described below, will have a positive influence on the results of the Bank in 2016. 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. On 23 December 2015 the Bank 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:

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

    In accordance with initially proposed time-table, the above payments should be settled by 30 June 2016, but this term will be probably delayed. The terms and implementation of the payment time-table are subject to acceptance by the regulatory authorities, in particular European markets. 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.

    Based on the recent information received from Visa Europe, the amount of payments under the transaction given initially to the banks may change due to further renegotiations with Visa Inc. after the European Commission's revision of the transaction. In particular due to possible change in the scheme of the transaction, initial estimations made by the Bank indicate that the total amount received up-front in cash can be higher by up to 8% of the amount estimated by VISA Europe and communicated to the Bank in December 2015 – as the Bank reported on 23 December 2015 (current report 78/2015).

    Having in mind, that the Bank still awaits final confirmation of the amounts to be received (they may change also 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, kept recognition of VISA shares in its books as at 31 March 2016 at value of EUR 50 million.

**Bank Millennium Group profit and loss account after 1st quarter 2016**

| Operating Income *(PLN million)* | 1Q 2016 | 1Q 2015 | Change y/y |
|---|---|---|---|
| Net Interest Income * | 364.8 | 351.1 | 3.9% |
| Net Commission Income | 134.4 | 156.7 | -14.3% |
| Core Income ** | 499.1 | 507.8 | -1.7% |
| Other Non-Interest Income *, *** | *40.0* | *37.7* | 6.1% |
| **Total Operating Income** | **539.1** | **545.5** | **-1.2%** |

*(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 13.6 million in 1Q 2016 and PLN 17.8 million in 1Q 2015) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.*

*(**) Sum of Net Interest Income and Net Commission Income.*

*(***) Includes FX results, Results on Financial Operations and net other operating income and costs.*

**Net Interest Income** (pro-forma) in 1 quarter 2016 reached PLN 364.8 million and increased by 3.9% versus the corresponding period of the previous year. This was the third consecutive quarterly increase since 2Q 2015, when interest income reached the bottom after last interest rate cut in Poland. Net Interest Margin (over average interest earning assets) in 1Q'16 was at 2.28% and showed an increase by 1 bps yearly and by 6 bps quarterly. Average cost of deposits in 1Q'16 decreased by 28 bps during one year.

**Net Commission Income** in 1 quarter 2016 amounted to PLN 134.4 million, which means a decrease of 14.3% year-on-year. Negative situation on capital markets during first quarter was responsible for lower fees from investment products. Also insurance fees were lower than one year ago due to high base effect in 1Q 2015. These reductions were partially offset by higher fees from lending activity.

**Core Income,** defined as a combination of net interest and commission income, reached the amount of PLN 499.1 million in 1 quarter 2016, which means a small decrease of 1.7% yearly. **Other non-interest income** (pro-forma) amounted to PLN 40.0 million in 1 quarter 2016 and grew by 6.1% year-on-year.

**Total operating income** of the Group reached PLN 539.1 million in 1 quarter 2016 and decreased by 1.2% year-on-year.

| Operating Costs *(PLN million)* | 1Q 2016 | 1Q 2015 | Change y/y |
|---|---|---|---|
| Personnel Costs | (138.8) | (138.3) | *0.4%* |
| Other Administrative Costs* | (133.0) | (136.2) | *-2.3%* |
| **Total Operating Costs** | (271.8) | (274.4) | *-0.9%* |
| Cost/Income Ratio | 50.4% | 50.3% | *+0.1 p.p.* |

*(*) including depreciation*

**Total costs** in 1 quarter 2016 fell by 0.9% yearly and amounted to PLN 271.8 million. In quarterly terms total costs decreased too by 1.3%. **Personnel costs** in 1 quarter 2016 amounted to PLN 138.8 million and presented a minor increase of 0.4% compared to the corresponding period of the previous year. The total number of employees in the Group decreased by 123 employees compared to the end of March 2015, to the level of 5,877 persons (in Full Time Equivalents) - in line with network optimisation process.

The structure of employment of Bank Millennium Group is presented in the table below:

| Employment structure (in FTEs) | 31.03.2016 | 31.12.2015 | Change q/q | 31.03.2015 | Change y/y |
|---|---|---|---|---|---|
| Bank Millennium S.A. | 5 534 | 5 575 | -0.7% | 5 668 | -2.4% |
| Subsidiaries | 344 | 336 | +2.4% | 332 | +3.6% |
| **Total Bank Millennium Group** | **5 877** | **5 911** | **-0.6%** | **6 000** | **-2.0%** |

**Other administrative costs** (including depreciation) in 1 quarter 2016 amounted to PLN 133.0 million and presented the decrease by 2.3% year-on-year. The decrease was driven mainly by lower cost of marketing.

**Cost-to-Income ratio** in 1 quarter 2016 stood at 50.4% that is at similar level as an year ago (50.3%) and average level of entire 2015 year (without one-off charges of 4Q'15).

| Net Profit *(PLN million)* | 1Q 2016 | 1Q 2015 | Change y/y |
|---|---|---|---|
| Operating Income | 539.1 | 545.5 | *-1.2%* |
| Operating Costs * | (271.8) | (274.4) | *-0.9%* |
| Impairment provisions | (44.3) | (67.8) | *-34.7%* |
| Banking tax | (32.3) | - | - |
| Pre-tax Profit** | 190.7 | 201.8 | *-5.5%* |
| Income tax | (53.5) | (39.3) | *36.2%* |
| **Net Profit** | **137.2** | **162.6** | ***-15.6%*** |

*(*) without impairment provisions for financial and non-financial assets*
*(**) includes share in profits of associates*

**Total net impairment provisions** created by the Group in 1 quarter 2016 amounted to PLN 44.3 million and were 35% lower compared with corresponding period of 2015. The provisions were much lower for corporate segment and other (PLN 3.4 million compared to PLN 25.9 million an year ago), supported by credit recoveries and sale of NPL's, and similar in retail segment. In relative terms, cost of risk (i.e. net provisions created to the average net loans) reached 38 bps. which is less by 22 bps vs. 1Q'15 level and equal to 4Q'15 level.

During 1 quarter 2016 Bank paid a special banking tax in the amount of PLN 32.3 million. This new special banking tax, commencing from February 2016, has a 0,44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount.

**Pre-income tax profit** in 1 quarter 2016 amounted to PLN 190.7 million, which was 5.5% lower compared to the level of the corresponding period of the previous year (effect of special tax). **Net Profit** for the analysed period amounted to PLN 137.2 million and was 15.6% lower than an year ago. Without special banking tax of PLN 32.3 million the Net Profit would increase by 4.2% yearly to the amount of PLN 169.5 million.

**Business results after 1$^{st}$ quarter 2016**

**Total assets** of the Group reached PLN 65,316 million as at 31 March 2016, which means an increase by 2.0% compared to the end of March 2015.

Total **customer funds** of Bank Millennium Group reached PLN 58,751 million showing the growth of 4.2% vs. the end of March 2015. Customer deposits grew by 6.2% yearly whereas non-deposit investment products fell by 9.3% yearly (of which -4.8% in 1Q'16).

| Customer Funds *(PLN million)* | 31.03.2016 | 31.12.2015 | Change q/q | 31.03.2015 | Change y/y |
|---|---|---|---|---|---|
| Deposits of individuals | 36 229.4 | 35 616.4 | 1.7% | 30 599.1 | 18.4% |
| Deposits of Companies and public sector | 15 780.5 | 17 194.0 | -8.2% | 18 374.1 | -14.1% |
| Total Deposits | 52 010.0 | 52 810.4 | -1.5% | 48 973.2 | 6.2% |
| Investment products * | 6 741.3 | 7 083.4 | -4.8% | 7 435.5 | -9.3% |
| **Total Customer Funds** | 58 751.3 | 59 893.7 | -1.9% | 56 408.7 | 4.2% |

*(*) This category includes bonds to retail customers issued by the Bank, Millennium TFI mutual funds and other investment products of third parties sold to Group's clients*

Households deposits were the main driver of overall deposits' growth keeping strong pace of +18.4% yearly (or by PLN 5.6 billion), supported by strong growth of new customers and retail accounts. Deposits of companies and public sector amounted to PLN 15,781 million at the end of March 2016 and decreased by 14.1% year-on-year, which was more than compensated by strong growth in households deposits and is consistent with balance sheet and margin management goals.

Non-deposit savings and other investment products sold to Group's retail customers reached PLN 6,741 million as at the end of March 2015 and falling by 9.3% yearly reflecting weak capital markets performance in Poland and internationally.

The Bank continues its effort to acquire new customers, which has positive impact on its deposit base. After very good results of sale of new current accounts for retail clients in the previous year, the Bank started the 1st quarter of 2016 with 11.4% higher amount of new current accounts opened compared to the 1st quarter of the previous year. Growth of current accounts is in line with the strategic target of acquiring 300 thousand new retail active customers during the period 2015-2017. In the 1st quarter 2016 the Bank managed to grow active individual clients[1] by 18 thousand (increase of 87 thousand during 12 months since the end of March 2015).

| Loans and advances to Clients *(PLN million, net values)* | 31.03.2016 | 31.12.2015 | Change q/q | 31.03.2015 | Change y/y |
|---|---|---|---|---|---|
| Loans to households | 32 647.7 | 32 906.0 | *-0.8%* | 33 218.7 | *-1.7%* |
| - mortgage loans | 27 290.1 | 27 683.4 | *-1.4%* | 28 464.4 | *-4.1%* |
| - other loans to households | 5 357.7 | 5 222.6 | *2.6%* | 4 754.3 | *12.7%* |
| Loans to companies and public sector | 13 437.5 | 13 463.4 | *-0.2%* | 13 316.0 | *0.9%* |
| - leasing | 4 733.5 | 4 639.8 | *2.0%* | 4 067.8 | *16.4%* |
| - other loans to businesses | 8 704.0 | 8 823.7 | *-1.4%* | 9 248.3 | *-5.9%* |
| **Total Loans & Advances to Clients** | 46 085.2 | 46 369.4 | *-0.6%* | 46 534.7 | *-1.0%* |

Total net **loans** of Bank Millennium Group reached PLN 46,085 million as at the end of March 2016, which means a small decrease of 1% yearly, mainly due to FX mortgage loans decrease.

Loans for individuals amounted to PLN 32,648 million (net) falling by 1.7% yearly. Mortgage loans dropped by 4.1% yearly to the net balance of PLN 27,290 million. Thus, share of FX mortgage loans continued to decrease and fell to the level of 38.3% (in gross loans terms) as at the end of March 2016. New mortgage loans sale rebounded and reached PLN 230 million during 1Q'16 (33% higher than in 1Q'15).

[1] According to the Bank's internal criteria active client should have evidenced record of required activity on his/her account or a Group's product volume level in a certain period of time.

Non-mortgage retail loans continued strong growing trend: an increase by 12.7% year-on-year to the level of PLN 5,358 million as at the end of March 2016. Cash loans remain the key growing item of this portfolio with +14.4% year-on-year growth (in gross terms). Sale of cash loans during 1 quarter 2016 reached PLN 619 million, which was 8% lower versus 1Q'15 but was higher than the sale during last two quarters.

Loans to companies (including leasing) amounted to PLN 13,438 million as at 31 March 2016, growing by 0.9% yearly. Leasing exposure grew by 16.4% year-on-year reaching PLN 4,734 million. Millennium Leasing advanced during 1Q'16 to the 4th position on the Polish market. In factoring Bank Millennium was also the 4th on the market with a quarterly turnover of PLN 3,474 million, 15% higher than in the corresponding period of the previous year. Other loans to companies decreased as the Bank continued effort to prudently manage credit risk and margin in a very competitive market.

**Liquidity, asset quality and solvency**

Bank Millennium Group continues to keep strong liquidity position: loan-to-deposit ratio was at 88% level at the end of March 2016. Liquid treasury bonds and NBP bills portfolio constituted 20.4% of total assets of the Group, with increased volume of T-bonds: PLN 11.7 billion.

The Group enjoys one of the best asset quality among Polish banks with impaired loans ratio at 4.5%; 0.1% lower than at the end of 2015 year. Share of loans past-due more than 90 days in total portfolio keep improving trend moving down to 2.6% level in March. A sale transaction of non-performing loans with the gross balance sheet value of PLN 166 million had positive effect on both ratios. Consequently, coverage ratio of impaired loans decreased to 64%, but still is at a very comfortable level. Coverage by provisions of loans past-due more than 90 days stood at 112% as at the end of March 2016.

Mortgage loans impaired ratio remained at a stable and low 2.13% level. Mortgage loans past-due more than 90 days stood at 0.94% of total mortgage portfolio.

The evolution of main indicators of the Group's loan portfolio quality is presented below:

| Total portfolio quality indicators | 31.03.2016 | 31.12.2015 | 31.03.2015 |
|---|---|---|---|
| Total impaired loans (PLN million) | 2 123 | 2 204 | 2 012 |
| Total provisions (PLN million) | 1 363 | 1 461 | 1 415 |
| Impaired over total loans ratio (%) | 4.5% | 4.6% | 4.2% |
| Loans past-due over 90 days /total loans (%) | 2.6% | 2.8% | 2.9% |
| Total provisions/impaired loans (%) | 64% | 66% | 70% |
| Total provisions/loans past-due (>90d) (%) | 112% | 110% | 101% |

Bank Millennium enjoys very strong capital ratios level. Consolidated equity increased by 13.8% yearly to the level of PLN 6,650 million.

Capital ratios of Bank Millennium on consolidated level grew to the level of 17.2% (TCR) and 16.8% (CET1), partially as a consequence of AGM decision of full retention of 2015 profit. Also Capital ratios on unconsolidated level grew strongly, to 17.0% (TCR) and 16.6% (CET1).

The Bank and the Group are on track to fulfil the capital ratios, including the new buffers connected with the FX mortgage portfolio specific risk (3.83 p.p. of which T1 2.87 p.p. for the Bank and 3.75 p.p. of which T1 2.81 p.p. for the Group) and a new conservation buffer of 1.25 p.p. The above mentioned new capital buffers are to be fulfilled by the Bank (and the Group) until the end of June 2016. The Group capital ratios are already covering the new buffers as at 31 March 2016.

| Main solvency and liquidity indicators | 31.03.2016 | 31.12.2015 | 31.03.2015 |
|---|---|---|---|
| Consolidated equity (PLN million) | 6 650 | 6 443 | 5 842 |
| Consolidated regulatory capital (PLN million) | 6 340 | 6 209 | 5 343 |
| Consolidated capital requirement (PLN million): | 2 951 | 2 970 | 3 016 |
| - Credit risk | 2 642 | 2 670 | 2 719 |
| - Market risk | 30 | 29 | 25 |
| - Operating risk | 279 | 271 | 271 |
| Risk Weighted Assets (PLN million) | 36 889 | 37 130 | 37 697 |
| Total Capital Ratio* (%, consolidated) | 17.2% | 16.7% | 14.2% |
| Total Capital Ratio* (%, the Bank) | 17.0% | 16.5% | 13.4% |
| Common Equity Tier 1 ratio* (%, consolidated) | 16.8% | 16.4% | 13.6% |
| Common Equity Tier 1 ratio* (%, the Bank) | 16.6% | 16.2% | 12.8% |
| Loans to Deposits ratio (%)** | 88.4% | 87.3% | 94.4% |

*(*) Calculated according to CRR/CRD4, with partial IRB approach (on mortgage and revolving retail loans) but under regulatory constraint*
*(**) Deposits include Group's debt securities sold to individuals and repo transactions with customers*

**Share price main indicators and ratings**

During 1st quarter of 2016 Bank Millennium shares partially rebound and grew by 4.9% after weak performance during 2015 for entire banking sector (WIG Banks fell by 15.2% yearly till March 2016). This decrease was driven by new banking tax introduction, few extraordinary charges booked at the end of 2015 year and still continued uncertainty concerning regulatory or legal interventions towards banks with FX mortgages.

In the yearly horizon, average daily turnover of Bank Millennium shares fell by 19.6%.

| Market ratios | 31.03.2016 | 30.12.2015* | Change (%) YTD | 31.03.2015 | Change (%) Yearly |
|---|---|---|---|---|---|
| Number of shares of the Bank (in ths.) | 1 213 117 | 1 213 117 | 0.00% | 1 213 117 | 0.00% |
| Daily trading (PLN ths. avg. ytd) | 6 150 | - | - | 7 652 | -19.6% |
| The Bank's share price (PLN) | 5.83 | 5.56 | 4.9% | 6.65 | -12.3% |
| Market cap. (PLN million) | 7 072 | 6 745 | 4.9% | 8 067 | -12.3% |
| WIG - main index | 49 017 | 46 467 | 5.5% | 54 091 | -9.4% |
| WIG Banks | 6 499 | 6 087 | 6.8% | 7 660 | -15.2% |
| WIG30 | 2 219 | 2 076 | 6.9% | 2 605 | -14.8% |
| mWIG 40 | 3 612 | 3 567 | 1.3% | 3 732 | -3.2% |

*(*) last day of quotation in 2015*

During the 1st quarter of 2016 there were no changes of the two basic ratings assigned to Bank Millennium.

| Rating | FITCH | MOODY'S |
|---|---|---|
| Long-term deposit rating/IDR | BBB- (stable outlook) | Ba1 (stable outlook) |
| National Long-term IDR | A-(pol) (stable outlook) | - |
| Short-term deposit rating | F-3 | NP |
| Individual (Viability rating / standalone BCA) | bbb- | ba3 |
| Counterparty Risk Assessment (CR) | | Baa3/Prime-3 |
| Support | 4 | |

# CONTENTS

# I. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE THREE MONTHS ENDED 31 MARCH 2016

## CONTENTS

## 1. GENERAL INFORMATION ON THE ISSUER

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

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

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

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

**Supervisory Board and Management Board of Bank Millennium S.A. as at 31 March 2016**

Composition of the Supervisory Board as at 31 March 2016 was as follows:
- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado – Deputy Chairman of the Supervisory Board,
- Dariusz Rosati – Deputy Chairman and Secretary of the Supervisory Board,
- Julianna Boniuk-Gorzelańczyk – Member of the Supervisory Board,
- Miguel de Campos Pereira de Bragança – Member of the Supervisory Board,
- Agnieszka Hryniewicz-Bieniek – Member of the Supervisory Board,
- Anna Jakubowski – Member of the Supervisory Board,
- Grzegorz Jędrys – Member of the Supervisory Board,
- David Harris Klingensmith – Member of the Supervisory Board,
- Andrzej Koźmiński – Member of the Supervisory Board,
- Miguel Maya Dias Pinheiro – Member of the Supervisory Board,
- Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

Composition of the Management Board as at 31 March 2016 was as follows:
- Joao Nuno Lima Bras Jorge – Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho – Deputy Chairman of the Management Board,
- Wojciech Haase – Member of the Management Board,
- Andrzej Gliński – Member of the Management Board,
- Maria Jose Henriques Barreto De Matos De Campos – Member of the Management Board.
- Michał Gajewski - Member of the Management Board.

**Bank Millennium S.A. Capital Group**

Bank Millennium S.A. is the parent company of the Bank Millennium Group. The companies comprising the Group as at 31 March 2016 are presented in table below:

| Company | Activity domain | Head office | % of the Group's capital share | % of the Group's voting share | Recognition in financial statements |
|---|---|---|---|---|---|
| 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 the 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. | services connected with concluding FX transactions | Warsaw | 100 | 100 | full consolidation |
| LUBUSKIE FABRYKI MEBLI S.A. in liquidation | furniture manufacturer | Świebodzin | 50 (+1 share) | 50 (+1 share) | equity method valuation (*) |
| BG LEASING S.A. in bankruptcy | leasing services | Gdańsk | 74 | 74 | historical cost (*) |

(*) Despite having a control over the companies Lubuskie Fabryki Mebli S.A. and BG Leasing S.A., due to insignificant nature of these companies from the realization of the primary goal of the consolidated financial statements point of view, which is the correct presentation of Group's financial situation, the Group does not consolidate capital involvement in aforementioned enterpises.

In February 2015, Extraordinary general Assembly of Lubuskie Fabryki Mebli SA adopted resolution of dissolution of the company and opening of its liquidation process.

As a result of the completion of securitization transactions and the related financial instruments in the second quarter 2015, the Group ceased to consolidate the special purpose vehicle Orchis Sp. z o.o., which was created for the needs of a securitisation transaction conducted by the Group in 2007. In accordance with the provisions of IFRS 10 the Company used to be consolidated, even though the Group had no capital commitment.

## 2. INTRODUCTION AND ACCOUNTING PRINCIPLES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in the consolidated financial statements of Bank Millennium S.A. Capital Group for the year ended 31 December 2015, with consideration of the specific requirements of IAS 34.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with later amendments) the Bank is required to publish the financial results for the three months ended 31 March 2016.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2016 to 31 March 2016:

- include financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method;
- are prepared on the basis of the assumption of business continuity by the Group, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;
- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

The Board of Directors approved these condensed consolidated interim financial statements on 28 April 2016.

## 3. CONSOLIDATED FINANCIAL DATA (GROUP)

CONSOLIDATED INCOME STATEMENT

| *Amount '000 PLN* | Note | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|---|
| Interest income | 1 | 556 667 | 582 940 |
| Interest expense | 2 | (205 531) | (249 631) |
| Net interest income | | **351 136** | **333 309** |
| Fee and commission income | 3 | 161 382 | 177 814 |
| Fee and commission expense | 4 | (27 030) | (21 064) |
| Net fee and commission income | | **134 352** | **156 750** |
| Dividend income | | 0 | 1 |
| Result on investment financial assets | | 17 097 | 14 318 |
| Result on financial instruments valued at fair value through profit and loss (held for trading) and Foreign exchange result | 5 | 44 215 | 47 081 |
| Other operating income | | 11 046 | 7 320 |
| **Operating income** | | **557 846** | **558 779** |
| General and administrative expenses | 6 | (258 360) | (262 514) |
| Impairment losses on financial assets | 7 | (43 357) | (67 844) |
| Impairment losses on non-financial assets | | (971) | 6 |
| Depreciation and amortization | | (13 467) | (11 912) |
| Other operating expenses | | (18 715) | (13 244) |
| **Operating expenses** | | **(334 870)** | **(355 508)** |
| **Operating profit** | | **222 976** | **203 271** |
| Share of profit of associates | | 0 | (1 426) |
| Banking tax | | (32 289) | 0 |
| **Profit / (loss) before income tax** | | **190 687** | **201 845** |
| Corporate income tax | 8 | (53 502) | (39 276) |
| **Profit / (loss) after taxes** | | **137 185** | **162 569** |
| Attributable to: | | | |
| Owners of the parent | | 137 185 | 162 569 |
| Non-controlling interests | | 0 | 0 |
| Weighted average number of ordinary shares | | 1 213 116 777 | 1 213 116 777 |
| Earnings (losses) per ordinary share (in PLN) | | 0.11 | 0.13 |

CONSOLIDATED TOTAL COMPREHENSIVE INCOME STATEMENT

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Profit / (loss) after taxes | 137 185 | 162 569 |
| Other elements of total comprehensive income that will be subsequently reclassified to profit or loss | **85 617** | **(105 726)** |
| Effect of valuation of available for sale debt securities | 22 855 | 18 169 |
| Effect of valuation of available for sale shares | 368 | 20 |
| Hedge accounting | 62 394 | (123 915) |
| Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | 0 | 0 |
| Actuarial gains (losses) | 0 | 0 |
| Other elements of total comprehensive income before taxes | **85 617** | **(105 726)** |
| Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss | (16 267) | 20 088 |
| Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | 0 | 0 |
| Other elements of total comprehensive income after taxes | **69 350** | **(85 638)** |
| | | |
| Total comprehensive income for the period | **206 535** | **76 931** |
| Attributable to: | | |
| Owners of the parent | 206 535 | 76 931 |
| Non-controlling interests | 0 | 0 |

## CONSOLIDATED BALANCE SHEET

### ASSETS

| *Amount '000 PLN* | Note | 31.03.2016 | 31.12.2015 |
|---|---|---|---|
| Cash, balances with the Central Bank | | 2 504 314 | 1 946 384 |
| Deposits, loans and advances to banks and other monetary institutions | 9 | 1 655 946 | 2 348 754 |
| Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge | 10 | 702 651 | 768 650 |
| Hedging derivatives | 11 | 128 594 | 70 833 |
| Loans and advances to customers | 12 | 46 085 236 | 46 369 381 |
| Investment financial assets | 13 | 13 212 877 | 13 874 320 |
| - available for sale | | 13 212 877 | 13 874 320 |
| - held to maturity | | 0 | 0 |
| Investments in associates | | 1 378 | 1 378 |
| Receivables from securities bought with sell-back clause (loans and advances) | | 216 140 | 0 |
| Property, plant and equipment | | 157 323 | 156 341 |
| Intangible assets | | 58 367 | 61 858 |
| Non-current assets held for sale | | 13 505 | 15 682 |
| Receivables from Tax Office resulting from current tax | | 35 354 | 41 880 |
| Deferred tax assets | 15 | 233 715 | 237 612 |
| Other assets | | 310 529 | 342 183 |
| **Total Assets** | | **65 315 929** | **66 235 256** |

LIABILITIES AND EQUITY

| *Amount '000 PLN* | Note | 31.03.2016 | 31.12.2015 |
|---|---|---|---|
| LIABILITIES | | | |
| Liabilities to banks and other monetary institutions | 16 | 1 488 173 | 1 443 921 |
| Financial liabilities valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge | 10 | 537 736 | 344 689 |
| Hedging derivatives | 11 | 1 611 079 | 2 132 053 |
| Liabilities to customers | 17 | 52 009 985 | 52 810 389 |
| Liabilities from securities sold with buy-back clause | | 0 | 0 |
| Debt securities | 18 | 1 279 090 | 1 134 250 |
| Provisions | 19 | 41 205 | 30 848 |
| Deferred income tax liabilities | 15 | 0 | 0 |
| Current tax liabilities | | 11 089 | 270 |
| Other liabilities | | 1 043 837 | 1 256 040 |
| Subordinated debt | | 644 035 | 639 631 |
| LIABILITIES | | 58 666 229 | 59 792 091 |
| EQUITY | | | |
| Share capital | | 1 213 117 | 1 213 117 |
| Share premium | | 1 147 502 | 1 147 502 |
| Revaluation reserve | | 87 600 | 18 250 |
| Retained earnings | | 4 201 481 | 4 064 296 |
| Total Equity | | 6 649 700 | 6 443 165 |
| Total equity attributable to owners of the parent | | 6 649 700 | 6 443 165 |
| Non-controlling interests | | 0 | 0 |
| | | | |
| **Total Liabilities and Equity** | | **65 315 929** | **66 235 256** |

| | | |
|---|---|---|
| Book value | 6 649 700 | 6 443 165 |
| Number of shares | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN) | 5.48 | 5.31 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 01.01.2016 - 31.03.2016 *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **6 443 165** | **1 213 117** | **1 147 502** | **18 250** | **679 929** | **3 384 367** |
| Total comprehensive income for I quarter 2016 (net) | 206 535 | 0 | 0 | 69 350 | 137 185 | 0 |
| net profit/ (loss) of the period | 137 185 | 0 | 0 | 0 | 137 185 | 0 |
| valuation of available for sale debt securities | 18 513 | 0 | 0 | 18 513 | 0 | 0 |
| valuation of available for sale shares | 298 | 0 | 0 | 298 | 0 | 0 |
| hedge accounting | 50 539 | 0 | 0 | 50 539 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | (814 411) | 814 411 |
| **Equity at the end of the period** | **6 649 700** | **1 213 117** | **1 147 502** | **87 600** | **2 703** | **4 198 778** |

| 01.01.2015 - 31.12.2015 *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **5 765 479** | **1 213 117** | **1 147 502** | **(112 911)** | **779 703** | **2 738 068** |
| Total comprehensive income for 2015 (net) | 677 686 | 0 | 0 | 131 161 | 546 525 | 0 |
| net profit/ (loss) of the period | 546 525 | 0 | 0 | 0 | 546 525 | 0 |
| valuation of available for sale debt securities | (25 626) | 0 | 0 | (25 626) | 0 | 0 |
| valuation of available for sale shares | 172 536 | 0 | 0 | 172 536 | 0 | 0 |
| hedge accounting | (16 373) | 0 | 0 | (16 373) | 0 | 0 |
| actuarial gains (losses) | 623 | 0 | 0 | 623 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | (646 299) | 646 299 |
| **Equity at the end of the period** | **6 443 165** | **1 213 117** | **1 147 502** | **18 250** | **679 929** | **3 384 367** |

| 01.01.2015 - 31.03.2015 *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **5 765 479** | **1 213 117** | **1 147 502** | **(112 911)** | **779 703** | **2 738 068** |
| Total comprehensive income for I quarter 2015 (net) | 76 931 | 0 | 0 | (85 638) | 162 569 | 0 |
| net profit/ (loss) of the period | 162 569 | 0 | 0 | 0 | 162 569 | 0 |
| valuation of available for sale debt securities | 14 717 | 0 | 0 | 14 717 | 0 | 0 |
| valuation of available for sale shares | 16 | 0 | 0 | 16 | 0 | 0 |
| hedge accounting | (100 371) | 0 | 0 | (100 371) | 0 | 0 |
| **Equity at the end of the period** | **5 842 410** | **1 213 117** | **1 147 502** | **(198 549)** | **942 272** | **2 738 068** |

## CONSOLIDATED CASH FLOWS

### A.CASH FLOWS FROM OPERATING ACTIVITIES

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Profit (loss) after taxes | 137 185 | 162 569 |
| Total adjustments: | (736 211) | (1 570 360) |
| Non-controlling interests profit (loss) | 0 | 0 |
| Interests in net income (loss) of associated companies | 0 | 1 426 |
| Depreciation and amortization | 13 467 | 11 912 |
| Foreign exchange (gains)/ losses | (8 117) | (37 657) |
| Dividends | 0 | 1 |
| Changes in provisions | 10 357 | (1 041) |
| Result on sale and liquidation of investing activity assets | (18 749) | (14 891) |
| Change in financial assets valued at fair value through profit and loss (held for trading) | 70 632 | (1 213 331) |
| Change in loans and advances to banks | 456 740 | (1 265 519) |
| Change in loans and advances to customers | 286 452 | (2 398 291) |
| Change in receivables from securities bought with sell-back clause (loans and advances) | (216 140) | 74 537 |
| Change in financial liabilities valued at fair value through profit and loss (held for trading) | (327 927) | 1 367 203 |
| Change in deposits from banks | (166 464) | 172 396 |
| Change in deposits from customers | (800 404) | 1 381 951 |
| Change in liabilities from securities sold with buy-back clause | 0 | 12 469 |
| Change in debt securities | 144 987 | (6 157) |
| Change in income tax settlements | 58 916 | 43 270 |
| Income tax paid | (48 107) | (48 348) |
| Change in other assets and liabilities | (186 383) | 346 145 |
| Other | (5 471) | 3 565 |
| **Net cash flows from operating activities** | **(599 026)** | **(1 407 791)** |

B. CASH FLOWS FROM INVESTING ACTIVITIES

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Inflows from investing activities: | 2 386 | 1 033 |
| Proceeds from sale of property. plant and equipment and intangible assets | 2 386 | 1 032 |
| Proceeds from sale of shares in associates | 0 | 0 |
| Proceeds from sale of investment financial assets | 0 | 0 |
| Other inflows from investing activities | 0 | 1 |
| Outflows from investing activities: | (2 229 380) | (15 763) |
| Acquisition of property, plant and equipment and intangible assets | (2 780) | (5 085) |
| Acquisition of shares in associates | 0 | 0 |
| Acquisition of investment financial assets | (2 226 600) | (10 678) |
| Other outflows from investing activities | 0 | 0 |
| **Net cash flows from investing activities** | **(2 226 994)** | **(14 730)** |

C. CASH FLOWS FROM FINANCING ACTIVITIES

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Inflows from financing activities: | 220 520 | 439 311 |
| Long-term bank loans | 220 520 | 108 488 |
| Issue of debt securities | 0 | 330 823 |
| Increase in subordinated debt | 0 | 0 |
| Net proceeds from issues of shares and additional capital paid-in | 0 | 0 |
| Other inflows from financing activities | 0 | 0 |
| Outflows from financing activities: | (871) | (524 452) |
| Repayment of long-term bank loans | 0 | (22 808) |
| Redemption of debt securities | (147) | (500 552) |
| Decrease in subordinated debt | 0 | 0 |
| Issue of shares expenses | 0 | 0 |
| Redemption of shares | 0 | 0 |
| Dividends paid and other payments to owners | 0 | 0 |
| Other outflows from financing activities | (724) | (1 092) |
| **Net cash flows from financing activities** | **219 649** | **(85 141)** |

| | | |
|---|---|---|
| D. NET CASH FLOWS. TOTAL (A + B + C) | **(2 606 371)** | **(1 507 662)** |
| E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD | **6 851 154** | **5 398 463** |
| F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E) | **4 244 783** | **3 890 801** |

## 4. NOTES TO CONSOLIDATED FINANCIAL DATA

Note (1) Interest income and other of similar nature, including:

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Balances with the Central Bank | 6 337 | 7 017 |
| Deposits. loans and advances to banks | 113 | 333 |
| Loans and advances to customers | 400 034 | 428 867 |
| Transactions with repurchase agreement | 1 761 | 2 976 |
| Hedging derivatives | 85 751 | 74 129 |
| Financial assets held for trading (debt securities) | 1 568 | 5 426 |
| Investment securities | 61 103 | 64 192 |
| Total | 556 667 | 582 940 |

Interest income for 1 quarter 2016 includes interest accrued on loans with recognized impairment of PLN 12,365 thousand (for the comparative data for 1 quarter 2015, such interest was PLN 13,654 thousand). This interest income is calculated based on net exposure amounts, which take into account the impairment charges made.

Note (2) Interest expense and other of similar nature, including:

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Banking deposits | (4 245) | (5 352) |
| Loans and advances | (2 707) | (13 345) |
| Transactions with repurchase agreement | (3 133) | (10 587) |
| Deposits from customers | (184 153) | (204 435) |
| Subordinated debt | (3 441) | (3 487) |
| Debt securities | (7 721) | (12 260) |
| Other | (131) | (165) |
| Total | (205 531) | (249 631) |

Note (3) Fee and commission income

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Resulting from accounts service | 19 973 | 21 938 |
| Resulting from money transfers. cash payments and withdrawals and other payment transactions | 12 558 | 11 661 |
| Resulting from loans granted | 35 420 | 28 398 |
| Resulting from guarantees and sureties granted | 3 748 | 3 576 |
| Resulting from payment and credit cards | 34 377 | 32 451 |
| Resulting from sale of insurance products | 11 666 | 27 072 |
| Resulting from distribution of investment funds units and other savings products | 14 266 | 22 217 |
| Resulting from brokerage and custody service | 4 387 | 6 544 |
| Resulting from investment funds managed by the Group | 19 587 | 20 487 |
| Other | 5 400 | 3 470 |
| Total | 161 382 | 177 814 |

Note (4) Fee and commission expense

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Resulting from accounts service | (269) | (253) |
| Resulting from money transfers. cash payments and withdrawals and other payment transactions | (495) | (431) |
| Resulting from loans granted | (4 394) | (3 165) |
| Resulting from payment and credit cards | (15 775) | (13 881) |
| Resulting from brokerage and custody service | (814) | (788) |
| Resulting from investment funds managed by the Group | (2 153) | (1 462) |
| Other | (3 130) | (1 084) |
| Total | (27 030) | (21 064) |

Note (5) Result on financial instruments valued at fair value through profit and loss and foreign exchange result

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Operations on securities | 3 364 | (720) |
| Operations on derivatives | 8 346 | 42 646 |
| Fair value hedge accounting operations including: | (44) | 108 |
| - result from hedging derivatives | 750 | 1 364 |
| - result from items subjected to hedging | (794) | (1 256) |
| Foreign exchange result | 32 863 | 5 558 |
| Costs of financial operations | (314) | (511) |
| **Total** | **44 215** | **47 081** |

Note (6) General and administrative expenses

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Staff costs: | (138 836) | (138 255) |
| Salaries | (114 333) | (113 389) |
| Surcharges on pay | (20 424) | (20 576) |
| Employee benefits, including: | (4 079) | (4 290) |
| - provisions for retirement benefits | 68 | (131) |
| - provisions for unused employee holiday | 0 | (9) |
| - other | (4 147) | (4 150) |
| General administrative costs: | (119 524) | (124 259) |
| Costs of advertising, promotion and representation | (8 328) | (15 614) |
| IT and communications costs | (18 217) | (17 403) |
| Costs of renting | (44 493) | (43 655) |
| Costs of buildings maintenance, equipment and materials | (6 477) | (6 703) |
| ATM and cash maintenance costs | (4 022) | (4 070) |
| Costs of consultancy, audit and legal advisory and translation | (3 751) | (1 804) |
| Taxes and fees | (4 118) | (3 984) |
| KIR clearing charges | (1 033) | (969) |
| PFRON costs | (1 243) | (1 186) |
| Banking Guarantee Fund costs | (15 346) | (16 365) |
| Financial Supervision costs | (1 340) | (841) |
| Other | (11 156) | (11 665) |
| **Total** | **(258 360)** | **(262 514)** |

Note (7) Impairment losses on financial assets

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Impairment losses on loans and advances to customers | (44 284) | (68 870) |
| Impairment charges on loans and advances to customers | (189 709) | (204 999) |
| Reversal of impairment charges on loans and advances to customers | 128 232 | 135 611 |
| Amounts recovered from loans written off | 11 411 | 477 |
| Sale of receivables | 5 782 | 41 |
| Impairment losses on securities | 7 | (7) |
| Impairment charges on securities | 0 | (7) |
| Reversal of impairment charges on securities | 7 | 0 |
| Impairment losses on off-balance sheet liabilities | 920 | 1 033 |
| Impairment charges on off-balance sheet liabilities | (2 402) | (3 030) |
| Reversal of impairment charges on off-balance sheet liabilities | 3 322 | 4 063 |
| **Total** | **(43 357)** | **(67 844)** |

Note (8a) Income tax reported in income statement

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Current tax | (65 849) | (48 857) |
| Deferred tax: | 12 347 | 9 581 |
| Recognition and reversal of temporary differences | 13 708 | 9 755 |
| Recognition / (Utilisation) of tax loss | (1 361) | (174) |
| **Total income tax reported in income statement** | **(53 502)** | **(39 276)** |

Note (8b) Effective tax rate

| | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Gross profit / (loss) | 190 687 | 201 845 |
| Statutory tax rate | 19% | 19% |
| Income tax according to obligatory income tax rate of 19% | (36 231) | (38 351) |
| **Impact of permanent differences on tax charges:** | **(18 096)** | **(925)** |
| Non taxable income | 88 | 1 163 |
| Dividend income | 0 | 0 |
| Release of other provisions | 87 | 915 |
| Other | 1 | 248 |
| Non tax-deductible costs | (18 184) | (2 088) |
| Loss on sale of receivables | (2 906) | 0 |
| PFRON fee | (236) | (225) |
| Prudential fee for Banking Guarantee Fund | (1 379) | (823) |
| Banking tax | (6 135) | 0 |
| Cost of provisions for factoring receivables | (1 718) | (197) |
| Receivables written off | (1 081) | (171) |
| Costs of litigations and contentious claims | (291) | (351) |
| Depreciation and insurance costs of cars (in excess of EUR 20.000) | (516) | (98) |
| Other | (3 922) | (223) |
| The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet | 825 | 0 |
| Adjustment resulted from Article 38a of CIT | 0 | 0 |
| **Total income tax reported in income statement** | **(53 502)** | **(39 276)** |

Note (8c) Deferred tax reported directly in equity

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Valuation of available for sale securities | (51 780) | (47 370) |
| Valuation of cash flow hedging instruments | 30 877 | 42 732 |
| Actuarial gains (losses) | 356 | 356 |
| Deferred tax reported directly in equity | (20 547) | (4 282) |

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

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

**Tax Inspection Office control procedures carried out in Bank Millennium S.A.**

As a result of the tax inspection carried out in the Bank in 2011, the Tax Inspection Office questioned the correctness of income tax calculation for 2005, having its consequences for subsequent tax years. The Bank fully supported the correctness of its tax calculation, nonetheless several procedural steps have been undertaken, such as: (i) adjusting tax settlements for the period 2005-2010; (ii) paying (in November 2011) the tax arrears of PLN 69 million (to avoid the risk of penalty interest burden); and (iii) raising a claim against the Tax Office for the above mentioned amount.

On 26 January 2016 the Supreme Administrative Court issued six judgments on the cassations proceedings filed by the Bank regarding the determination of the loss or income tax in the corporate income tax. In five judgments the Court dismissed the Bank's claims. In one, regarding 2006 tax year, it annulled the judgments of Regional Administrative Court (RAC) and passed the case back to RAC for reconsideration. The hearing has been scheduled on May 10, 2016.

Note (9) Deposits, loans and advances to banks and other monetary institutions

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Current accounts | 108 505 | 284 706 |
| Deposits granted | 1 545 044 | 2 061 664 |
| Loans | 0 | 0 |
| Interest | 2 406 | 2 393 |
| Total (gross) deposits, loans and advances | 1 655 955 | 2 348 763 |
| Impairment write-offs | (9) | (9) |
| **Total (net) deposits, loans and advances** | **1 655 946** | **2 348 754** |

Note (10a) Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| **Debt securities** | **391 892** | **408 572** |
| Issued by State Treasury | 391 892 | 408 572 |
| a) bills | 0 | 0 |
| b) bonds | 391 892 | 408 572 |
| **Equity instruments** | **1 177** | **1 682** |
| Quoted on the active market | 1 177 | 1 682 |
| a) financial institutions | 0 | 0 |
| b) non-financial institutions | 1 177 | 1 682 |
| Adjustment from fair value hedge | 15 975 | 22 152 |
| Positive valuation of derivatives | 293 607 | 336 244 |
| **Total** | **702 651** | **768 650** |

Note (10b) Valuation of derivatives. Adjustment from fair value hedge and Liabilities from short sale of securities as at 31.03.2016

| | Fair value | | |
|---|---|---|---|
| | Total | Assets | Liabilities |
| 1. Interest rate derivatives | 1 920 | 218 495 | 216 575 |
| Forward Rate Agreements (FRA) | 139 | 139 | 0 |
| Interest rate swaps (IRS) | 1 781 | 218 356 | 216 575 |
| Other interest rate contracts: options | 0 | 0 | 0 |
| 2. FX derivatives | (20 506) | 43 547 | 64 053 |
| FX contracts | (5 316) | 11 812 | 17 128 |
| FX swaps | (4 818) | 31 158 | 35 976 |
| Other FX contracts (CIRS) | (10 372) | 577 | 10 949 |
| FX options | 0 | 0 | 0 |
| 3. Embedded instruments | (28 873) | 7 | 28 880 |
| Options embedded in deposits | (23 673) | 0 | 23 673 |
| Options embedded in securities issued | (5 200) | 7 | 5 207 |
| 4. Indexes options | 28 554 | 31 558 | 3 004 |
| **Valuation of derivatives** | **(18 905)** | **293 607** | **312 512** |
| Valuation of hedged position in fair value hedge accounting | | 15 975 | 13 437 |
| Liabilities from short sale of securities | | | 211 787 |

Note (10c) Valuation of derivatives. Adjustment from fair value hedge and Liabilities from short sale of securities as at 31.12.2015

| | Fair value | | |
|---|---|---|---|
| | Total | Assets | Liabilities |
| 1. Interest rate derivatives | 17 828 | 254 288 | 236 460 |
| Forward Rate Agreements (FRA) | 417 | 452 | 35 |
| Interest rate swaps (IRS) | 17 411 | 253 835 | 236 424 |
| Other interest rate contracts: options | 0 | 1 | 1 |
| 2. FX derivatives | (7 491) | 39 667 | 47 158 |
| FX contracts | (5 358) | 6 628 | 11 986 |
| FX swaps | 8 442 | 30 997 | 22 555 |
| Other FX contracts (CIRS) | (10 575) | 2 042 | 12 617 |
| FX options | 0 | 0 | 0 |
| 3. Embedded instruments | (38 642) | 0 | 38 642 |
| Options embedded in deposits | (31 623) | 0 | 31 623 |
| Options embedded in securities issued | (7 019) | 0 | 7 019 |
| 4. Indexes options | 38 273 | 42 289 | 4 016 |
| **Valuation of derivatives** | **9 968** | **336 244** | **326 276** |
| Valuation of hedged position in fair value hedge accounting | | 22 152 | 18 413 |
| Liabilities from short sale of securities | | | 0 |

During the first quarter of 2016, there were following changes in the applied hedging relationships:

- expired hedging transactions that had been concluded in order to hedge the fair value of the portfolio of fixed-currency liabilities and portfolio of floating exchange rates receivables,

- a new relationship hedging the variability of cash flows from future revenues denominated in foreign currencies was established.

Finally as at 31.03.2016 the Group applied hedge accounting to the following relationship:

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

| | Cash flow volatility hedge for the flow generated by future revenues denominated in foreign currency |
|---|---|
| Description of hedge transactions | The Group hedges FX risk resulting from future revenues denominated in foreign currency by exchange of aforementioned flows into PLN ones. |
| Hedged items | Cash flows resulting from future revenues denominated in foreign currency. |
| Hedging instruments | FX Forward transactions |
| Presentation of the result on the hedged and hedging transactions | Effective part of spot revaluation of hedging instruments is recognised in revaluation reserve; |

Note (11a) Hedge accounting as at 31.03.2016

| | Fair values | | |
|---|---|---|---|
| | Total | Assets | Liabilities |
| Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate | | | |
| CIRS contracts | (1 495 191) | 115 705 | 1 610 896 |
| IRS contracts | 10 540 | 10 723 | 183 |
| FX Forward contracts | 2 166 | 2 166 | 0 |
| Total | (1 482 485) | 128 594 | 1 611 079 |

As of 31.03.2016 r., there were no active fair value hedges

Note (11b) Hedge accounting as at 31.12.2015

| | Fair values | | | Adjustment to fair value of hedged items for hedged risk(*) |
|---|---|---|---|---|
| | Total | Assets | Liabilities | |
| Fair value hedging derivatives connected with interest rate risk | | | | |
| CIRS contracts | (140 909) | 0 | 140 909 | 794 |
| Cash flows hedging derivatives connected with interest rate and/or FX rate | | | | |
| CIRS contracts | (1 930 002) | 60 538 | 1 990 540 | x |
| IRS contracts | 9 691 | 10 295 | 604 | x |
| FX Forward contracts | 0 | 0 | 0 | x |
| Total | (2 061 220) | 70 833 | 2 132 053 | x |

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

Note (12a) Loans and advances to customers

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Loans and advances | 41 445 761 | 41 852 945 |
| - to companies | 8 585 986 | 8 705 526 |
| - to private individuals | 32 463 817 | 32 729 850 |
| - to public sector | 395 958 | 417 569 |
| Receivables on account of payment cards | 665 887 | 684 841 |
| - due from companies | 24 876 | 27 481 |
| - due from private individuals | 641 011 | 657 360 |
| Purchased receivables | 168 515 | 212 369 |
| - from companies | 168 515 | 212 369 |
| - from public sector | 0 | 0 |
| Guarantees and sureties realised | 21 012 | 12 551 |
| Debt securities eligible for rediscount at Central Bank | 5 347 | 5 217 |
| Financial leasing receivables | 4 870 723 | 4 777 112 |
| Other | 3 823 | 4 509 |
| Interest | 267 521 | 280 765 |
| **Total gross** | **47 448 589** | **47 830 309** |
| Impairment write-offs | (1 363 353) | (1 460 928) |
| **Total net** | **46 085 236** | **46 369 381** |

Note (12b) Quality of loans and advances to customers portfolio

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Loans and advances to customers (gross) | 47 448 589 | 47 830 309 |
| - impaired | 2 122 712 | 2 204 196 |
| - not impaired | 45 325 877 | 45 626 113 |
| Impairment write-offs | (1 363 353) | (1 460 928) |
| - for impaired exposures | (1 208 947) | (1 305 327) |
| - for incurred but not reported losses (IBNR) | (154 406) | (155 601) |
| **Loans and advances to customers (net)** | **46 085 236** | **46 369 381** |

Note (12c) Loans and advances to customers portfolio by methodology of impairment assessment

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Loans and advances to customers (gross) | 47 448 589 | 47 830 309 |
| - case by case analysis | 932 169 | 940 590 |
| - collective analysis | 46 516 420 | 46 889 719 |
| Impairment write-offs | (1 363 353) | (1 460 928) |
| - on the basis of case by case analysis | (518 741) | (561 994) |
| - on the basis of collective analysis | (844 612) | (898 934) |
| **Loans and advances to customers (net)** | **46 085 236** | **46 369 381** |

Note (12d) Loans and advances to customers portfolio by customers

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Loans and advances to customers (gross) | 47 448 589 | 47 830 309 |
| - corporate customers | 14 126 930 | 14 215 133 |
| - individuals | 33 321 659 | 33 615 176 |
| Impairment write-offs | (1 363 353) | (1 460 928) |
| - for receivables from corporate customers | (689 430) | (751 705) |
| - for receivables from private individuals | (673 923) | (709 223) |
| **Loans and advances to customers (net)** | **46 085 236** | **46 369 381** |

Note (12e) Change of impairment write-offs for loans and advances to customers

| | 01.01.2016 - 31.03.2016 | 01.01.2015 - 31.12.2015 |
|---|---|---|
| Balance at the beginning of the period | 1 460 928 | 1 358 255 |
| Change in value of provisions: | (97 575) | 102 673 |
| Impairment write-offs created in the period | 189 709 | 724 872 |
| Amounts written off | (12 510) | (73 430) |
| Impairment write-offs released in the period | (128 232) | (440 062) |
| Sale of receivables | (143 347) | (118 773) |
| Changes resulting from FX rates differences | (858) | 10 466 |
| Other | (2 337) | (400) |
| **Balance at the end of the period** | **1 363 353** | **1 460 928** |

Note (13) Investment financial assets available for sale

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| **Debt securities** | **12 985 903** | **13 647 734** |
| Issued by State Treasury | 11 313 621 | 9 375 707 |
| a) bills | 297 550 | 0 |
| b) bonds | 11 016 071 | 9 375 707 |
| Issued by Central Bank | 1 600 000 | 4 198 776 |
| a) bills | 1 600 000 | 4 198 776 |
| b) bonds | 0 | 0 |
| Other securities | 72 282 | 73 251 |
| a) listed | 0 | 0 |
| b) not listed | 72 282 | 73 251 |
| | | |
| Shares and interests in other entities | 226 954 | 226 586 |
| Other financial instruments | 20 | 0 |
| | | |
| **Total financial assets available for sale** | **13 212 877** | **13 874 320** |

Note (14) Impairment write-offs for selected assets

| Impairment write-offs: | Investment securities | Property. plant and equipment | Intangibles | Non-current assets held for sale | Other assets |
|---|---|---|---|---|---|
| Balance as at 01.01.2016 | 44 | 17 719 | 3 988 | 136 | 4 843 |
| - Write-offs created | 0 | 0 | 0 | 0 | 1 170 |
| - Write-offs released | (7) | (8 300) | 0 | 0 | (199) |
| - Utilisation | 0 | 0 | 0 | 0 | (310) |
| - Sale of assets | 0 | (665) | 0 | 0 | 0 |
| - Other | 0 | 0 | 0 | 0 | 0 |
| Balance as at 31.03.2016 | 37 | 8 754 | 3 988 | 136 | 5 504 |

| Impairment write-offs: | Investment securities | Property, plant and equipment | Intangibles | Non-current assets held for sale | Other assets |
|---|---|---|---|---|---|
| Balance as at 01.01.2015 | 29 | 19 519 | 3 988 | 142 | 4 803 |
| - Write-offs created | 33 | 0 | 0 | 0 | 2 424 |
| - Write-offs released | (18) | 0 | 0 | (6) | (3 668) |
| - Utilisation | 0 | 0 | 0 | 0 | (1 366) |
| - Sale of assets | 0 | 0 | 0 | 0 | 0 |
| - Other changes | 0 | (1 800) | 0 | 0 | 2 650 |
| Balance as at 31.12.2015 | 44 | 17 719 | 3 988 | 136 | 4 843 |

Note (15) Assets / Provision from deferred income tax

| | 31.03.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset |
| Difference between tax and balance sheet depreciation and amortisation | 75 160 | (11 352) | 63 808 | 78 207 | (11 957) | 66 250 |
| Balance sheet valuation of financial instruments | 362 179 | (380 228) | (18 049) | 470 859 | (487 732) | (16 873) |
| Unrealised receivables/ liabilities on account of derivatives | 19 271 | (29 324) | (10 053) | 27 570 | (41 924) | (14 354) |
| Interest on deposits and securities to be paid/received | 44 007 | (33 565) | 10 442 | 39 353 | (33 307) | 6 046 |
| Interest and discount on loans and receivables | 14 | (10 400) | (10 386) | 14 | (8 283) | (8 269) |
| Income and cost settled at effective interest rate | 78 291 | (1 267) | 77 024 | 73 086 | (1 385) | 71 701 |
| Provisions for loans presented as temporary differences | 106 002 | 0 | 106 002 | 105 466 | 0 | 105 466 |
| Employee benefits | 14 090 | 0 | 14 090 | 14 768 | 0 | 14 768 |
| Provisions for costs | 18 396 | 0 | 18 396 | 13 103 | 0 | 13 103 |
| Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve | 31 233 | (51 780) | (20 547) | 43 088 | (47 370) | (4 282) |
| Tax loss deductible in the future | 1 547 | 0 | 1 547 | 2 910 | 0 | 2 910 |
| Other | 5 221 | (3 780) | 1 441 | 5 069 | (3 924) | 1 145 |
| Net deferred income tax asset | 755 411 | (521 696) | 233 715 | 873 493 | (635 882) | 237 612 |

Note (16) Liabilities to banks and other monetary institutions

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| In current account | 153 526 | 114 518 |
| Term deposits | 290 635 | 498 235 |
| Loans and advances received | 1 041 232 | 829 770 |
| Interest | 2 780 | 1 398 |
| Total | 1 488 173 | 1 443 921 |

Note (17) Structure of liabilities to customers by type

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Amounts due to private individuals | 36 229 445 | 35 616 412 |
| Balances on current accounts | 17 617 964 | 17 014 894 |
| Term deposits | 18 428 799 | 18 396 274 |
| Other | 79 108 | 83 380 |
| Accrued interest | 103 574 | 121 864 |
| Amounts due to companies | 13 940 364 | 15 991 260 |
| Balances on current accounts | 5 037 782 | 4 799 248 |
| Term deposits | 8 680 838 | 10 938 440 |
| Other | 199 681 | 222 601 |
| Accrued interest | 22 063 | 30 971 |
| Amounts due to public sector | 1 840 176 | 1 202 717 |
| Balances on current accounts | 815 984 | 741 988 |
| Term deposits | 997 623 | 427 940 |
| Other | 24 796 | 31 761 |
| Accrued interest | 1 773 | 1 028 |
| **Total** | **52 009 985** | **52 810 389** |

Note (18) Change of debt securities

| | 01.01.2016 - 31.03.2016 | 01.01.2015 - 31.12.2015 |
|---|---|---|
| Balance at the beginning of the period | 1 134 250 | 1 739 460 |
| Increases, on account of: | 182 643 | 1 114 847 |
| - issue of bonds by the Bank | 0 | 961 499 |
| - issue of bonds by Millennium Leasing | 132 300 | 0 |
| - issue of Banking Securities | 42 622 | 109 790 |
| - interest accrual | 7 721 | 43 558 |
| Reductions, on account of: | (37 803) | (1 720 057) |
| - repurchase of Banking Securities | (28 256) | (140 708) |
| - repurchase of bonds by the Bank | (147) | (1 532 681) |
| - interest payment | (9 400) | (46 668) |
| **Balance at the end of the period** | **1 279 090** | **1 134 250** |

Note (19) Provisions

| | 01.01.2016 - 31.03.2016 | 01.01.2015 - 31.12.2015 |
|---|---|---|
| Provision for off-balance sheet commitments | | |
| Balance at the beginning of the period | 14 239 | 27 692 |
| Charge of provision | 2 402 | 5 052 |
| Release of provision | (3 322) | (18 506) |
| FX rates differences | (114) | 1 |
| Balance at the end of the period | 13 205 | 14 239 |
| Provision for contentious claims | | |
| Balance at the beginning of the period | 16 609 | 70 882 |
| Charge of provision | 12 833 | 28 748 |
| Release of provision | (459) | (2 516) |
| Utilisation of provision | (983) | (77 534) |
| Other/reclassification | 0 | (2 971) |
| Balance at the end of the period | 28 000 | 16 609 |
| **Total** | **41 205** | **30 848** |

## 5. CHANGES IN RISK MANAGEMENT PROCESS

Risk management performs a key role in the strategy of balanced and sustainable development of the Group, supporting optimisation of relationships between risk and returns within various business lines and maintenance of adequate risk profile relative to capital and liquidity.

**Credit risk**

In first quarter of 2016, in retail segment, the Group continued activities relating to optimization of methodology, tools and processes of credit risk management.

The Group conducted changes to credit methodology and processes relating to consumer loans, taking into account ongoing assessment of portfolio risk and quality. Bank among others modified the risk parameters in the process of granting consolidation loans and adjusted credit process to maximum fees defined in amendment to the Act of 11 May 2011. Consumer Credit.

Particular attention was paid to the implementation of changes to the mortgage loans relating to credit capacity methodology as well as tools and credit processes. The changes related to the issues arising from the Recommendation S.

On the other hand, in the corporate segment, the Group focused on improving the monitoring process as well as the development of used credit risk models. The Group further developed IT tools supporting credit and monitoring processes and management information system for the purpose of managing the loan portfolio.

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

| | 31.03.2016 | | 31.12.2015 | |
|---|---|---|---|---|
| | Loans and advances to customers | Loans and advances to banks | Loans and advances to customers | Loans and advances to banks |
| Not overdue and without impairment | 43 904 067 | 1 655 955 | 44 189 366 | 2 348 763 |
| Overdue(*), but without impairment | 1 421 810 | 0 | 1 436 747 | 0 |
| Total without impairment (IBNR) | 45 325 877 | 1 655 955 | 45 626 113 | 2 348 763 |
| With impairment | 2 122 712 | 0 | 2 204 196 | 0 |
| **Loans and advances, gross** | **47 448 589** | **1 655 955** | **47 830 309** | **2 348 763** |
| Impairment write-offs together with IBNR | (1 363 353) | (9) | (1 460 928) | (9) |
| **Loans and advances, net** | **46 085 236** | **1 655 946** | **46 369 381** | **2 348 754** |
| Loans with impairment / Total loans | 4.47% | 0.00% | 4.61% | 0.00% |

(*) Loans overdue not more than 4 days the Group treats as technical and does not show in this category.

**Market risk**

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (10-days holding period) and with specified probability (99% confidence level) from an adverse market movement. The market risk measurement, monitoring and reporting is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios. All eventual excesses of market risk limits are reported, documented and ratified at the proper competence level.

In first quarter 2016, the market risk limits were kept unchanged.

Within the current market environment, the Group continued to act very prudently in first quarter 2016. The VaR indicators in the period under consideration for the Group, that is jointly Trading Book and Banking Book, remained on average at the level of approx. PLN 43.8 m (16 % of the limit) and approx. PLN 41.2 m (15% of the limit) as of the end of March 2016. The market risk exposure in 1Q2016 in terms of value at risk in the Group, together with risk type division, is presented in the table below (ths PLN).

VaR measures for market risk ('000 PLN)

| | 31.03.2016 | | VaR (1Q2016) | | | 31.12.2015 | |
|---|---|---|---|---|---|---|---|
| | Exposure | limit usage | Average | Maximum | Minimum | Exposure | limit usage |
| **Total risk** | 41 198 | 15% | 43 845 | 52 540 | 37 340 | 35 818 | 13% |
| Generic risk | 39 277 | 14% | 41 880 | 50 584 | 35 386 | 33 864 | 12% |
| Interest Rate VaR | 39 278 | 14% | 41 880 | 50 587 | 35 392 | 33 861 | 12% |
| FX Risk | 78 | 1% | 170 | 1 466 | 14 | 41 | 0% |
| Diversification Effect | 0,2% | | | | 0 | 0,2% | |
| Specific risk | 1 921 | 1% | 1 965 | 2 415 | 1 921 | 1 954 | 1% |

In I quarter 2016, global risk limits in terms of VaR were not breached - neither for the whole Group nor for the Banking Book and Trading Book, separately.

Open positions contain mainly interest rate and FX risk instruments. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows to keep FX open positions only in Trading Book. In the 1 quarter 2016, the FX Total open position (Intraday as well as Overnight) remained well below the maximum limits in place.

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

In case of the Banking Book, the main component of the market risk is interest rate risk. In order to manage this risk, the following principles are in place:

- The market risk that results from the commercial banking activity is hedged or transferred on the monthly basis to areas that actively manage market risk and that are measured in terms of risk and profit and loss,

- The Bank uses natural hedging between loans and deposits as well as fixed rate bonds and derivatives to manage interest rate risk with the main purpose of protecting the Net Interest Income.

The variations in market interest rate have an influence on the Group's net interest income, both under a short and medium-term perspective, affecting its economic value in the long term. The measurement of both is complementary in understanding the complete scope of interest rate risk in Banking Book. For this reason, apart from daily market risk measurement in terms of value at risk, the scope of the additional measurement of interest rate risk on monthly basis covers both earnings-based and economic value measures. Due to specificity of the polish legal system, the interest rate of consumer credits is limited by the cap and from January 2016 cannot exceed two times Reference Rate of the National Bank of Poland increased by 7 percentage points (the Bank adjusted its calculation to new formula).The Bank is subject to asymmetrical impacts on its Net Interest Income in case of interest rates change. In situation of decreasing interest rates (including NBP reference interest rate), the impact is negative and depend on the percentage of the loan portfolio that is affected by the new maximum rate. In I quarter 2016, the results of the impact on net interest income in the next 12 months for position in Polish Zloty, in Banking Book, in a scenario of immediate parallel yield curve decrease by 100 bps, was negative but stayed within internally defined limits.

**Liquidity risk**

The liquidity risk measurement, monitoring and reporting is carried out daily with the use of both measures defined by the supervisory authorities and internally, for which limits were established. In 1 quarter 2016, the Group was characterized by good liquidity position. All the supervisory and internal liquidity indicators remained significantly above minimum limits in place.

According to the Regulation of European Parlament and Council no 575/2013 on prudential requirements for credit insitutions and investment firms (CRR), the Group is calculating the liquidity coverage requirement (LCR). The regulator minimum of 70% for LCR valid in 1 quarter 2016 was complied by the Group. The measure is calculated daily and has been reported on the monthly basis to NBP since March 2014. Internally, the LCR is estimated daily and reported together with other internal liquidity measures to the areas responsible for the management and control of the liquidity risk in the Group on the daily basis.

The increase of the deposits from Customers at the faster pace than loans, allowed the Group to consistently maintain Loan-to-Deposit ratio below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, was equalled 88% at the end of March 2016 (similarly as at the end of December 2015). The Group continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of March 2016. During 1Q2016 this portfolio slightly decreased from PLN 14.0 billion at the end of December 2015 (21% of total assets) to approx. PLN 13.3 billion at the end of March 2016 (20% of total assets). Those assets are characterized with high liquidity and can be easily used as a collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which allows to overcome crisis situations.

The main source of financing remains deposits base, the large, diversified and stable funding from retail, corporate and public sectors. The deposit base is supplemented by the deposits from financial institutions and other money market operations. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 1 quarter 2016. However, in case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Group maintains the reserves of liquid assets in the form of securities portfolio as described above.

The Group manages FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as collateral from the counterparty.

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

Stress tests as regards structural liquidity are carried out every month to understand the Group's liquidity risk profile, to make sure that the Group is able to meet its commitments in the event of a liquidity crisis and to contribute to preparing a contingency plan regarding liquidity and management decisions. The Group has also contingency procedures for an increased liquidity risk situation – the Liquidity Contingency Plan, which is revised and tested at least once a year in order to ensure that it is operationally robust.

**Operational risk**

In the first quarter of 2016 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions.

The operational risk management model, implemented by Bank Millennium Group, is reviewed and accepted on a regular basis by the Management Board.

In keeping with the adopted solution, risk management is a process of continuous improvement as regards identification, assessment, monitoring, control/mitigating and reporting by complementary activities.

In the first quarter of 2016 the Group continued efforts to continuously improve business processes in the context of optimizing the exposure to operational risk through preventive measures to reduce the frequency, as well as actions taken to reduce the financial impact of losses.

**Capital management**

Capital management in the Group consists of the following subprocesses:

- capital adequacy management,
- capital allocation.

The purpose of capital adequacy management is to ensure solvency of the Group in the normal and stressed conditions (economic capital adequacy) and to meet the requirements specified in external regulations (regulatory capital adequacy).

Capital Adequacy Management is based on:

- measuring and monitoring of capital requirement for different risks and economic capital - both measures are monitored also in stressed conditions;
- measuring and monitoring of CAR, Tier 1 Ratio and Core Equity Tier 1 Ratio;
- measuring and monitoring of economic capital buffer and economic capital buffer in stressed conditions;
- monitoring the amount, structure and quality of own funds, to support business development, meet the recommendations of Supervisors and the expectations of other bodies (shareholders, depositors, rating agencies);
- initiating management actions aimed at increasing an amount and / or improve the quality of own funds and / or changes in the level of risk in the activity (control of capital adequacy).

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

The Bank has received from the Polish Financial Supervision Authority ("PFSA") a recommendation to maintain own funds for the coverage of additional capital requirement at the level of 3.83 p.p. for the Bank and 3.75 p.p. for the Group, in order to secure the risk resulting from FX mortgage loans for households, which should consist of at least 75% of Tier I capital (which corresponds to 2.87 p.p. for the Bank and respectively to 2.81 p.p. for the Group).

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

This means that the minimum required capital ratios of the Bank (and the Group), taking into account the aforementioned capital requirement and an additional capital conservation buffer of 1.25 p.p. obligatory for all banks commencing from 1st January 2016, are following:

For the Bank:

Tier I Capital Ratio (T1) = 9+2.87+1.25=13.12 %

Total Capital Ratio (TCR) = 12+3.83+1.25=17.08 %

For the Group:

Tier I Capital Ratio (T1) = 9+2.81+1.25=13.06 %

Total Capital Ratio (TCR) = 12+3.75+1.25=17.00 %

The above mentioned new capital buffers are to be fulfilled by the Bank (and the Group) until the end of June 2016.

The Group meets on regular basis its objectives for managing capital. Solvency is ensured in the normal and stressed conditions, both in terms of economic capital and regulatory capital requirements.

As what regards own funds, they consists mostly of high quality Core Tier 1 Capital. Concerning capital requirements, the Group uses internal ratings based method (IRB) of credit risk capital requirements calculation for retail residential real estate exposures and qualified revolving exposures, while for most of remaining portfolios corporate and other retail the Group is waiting for the consent from Supervisory Authorities for the use of IRB. Market and operational risk capital requirements are calculated along with standard methods.

# 6. OPERATIONAL SEGMENTS

Information about operating segments has been prepared based on the reporting structure which is used by the Management Board of the Bank for evaluating the results and managing resources of operating segments. Group does not apply additional breakdown of activity by geographical areas because of the insignificant scale of operations performed outside the Poland, in result such complementary division is not presented.

The Group's activity is pursued on the basis of diverse business lines, which offer specific products and services targeted at the market segments listed below:

**Retail Customer Segment**

The Retail Customers Segment covers activity targeted at mass-market Customers, affluent Customers, small companies and individual entrepreneurs.

The activity of the above business lines is developed with use of the full offer of banking products and services as well as sales of specialised products offered by subsidiaries in the group. In the credit products area the key products are mortgage loans, retail credit products, credit card revolving credit as well leasing products for small companies. Meanwhile key Customers funds include: current and saving accounts, term deposits, mutual funds and structured products. Additionally the offer comprises insurance products, mainly linked with loans and credit cards, as well as specialised savings products. The product offer for affluent customers was enriched to include selected mutual funds of other financial intermediaries, foreign funds and structured bonds issued by the Bank.

**Corporate Customer Segment**

The Corporate Customers Segment is based on activity targeted at Small and Medium sized Companies as well as Large Corporations. The offer is also addressed to Customers from the Public Sector.

Business in the Corporate Customers segment is pursued with use of a high quality offer of typical banking products (loans for day-to-day activity, investment loans, current accounts, term deposits) supplemented by a range of cash management products as well as treasury products (including derivatives) and leasing and factoring services.

**Treasury, ALM (assets and liabilities management) and Other**

This segment covers the Group's activity as regards investments by the Treasury Department, brokerage, inter-bank market transactions and taking positions in debt securities, which are not assigned to other segments.

This segment includes other assets and other liabilities, assets and liabilities connected with hedging derivatives, liabilities connected with external funding of the Group and deferred income tax assets not assigned to any of the segments.

Income tax and banking tax charges have been presented on Group level only.

For each segment the pre-tax profit is determined, comprising:

- Net interest income calculated on the basis of interest on external working assets and liabilities of the segment as well as allocated assets and liabilities generating internal interest income or cost. Internal income and costs are calculated based on market interest rates with internal valuation model applied;
- Net commission income;
- Other income from financial transactions and FX gains, such as: dividend income, result on investment and trading activity, FX gains/losses and result on other financial instruments;
- Other operating income and expenses;
- Costs on account of impairment of financial and non-financial assets;
- Segment share in operating costs, including personnel and administration costs;
- Segment share in depreciation costs.

The assets and liabilities of commercial segments are the operating assets and liabilities used by the segment in its operations, allocated on business grounds. The difference between operating assets and liabilities is covered by money market assets/liabilities and debt securities. The assets and liabilities of the Treasury, ALM & Other segment are money market assets/liabilities and debt securities not allocated to commercial segments.

In accordance with Recommendation P, the Group commencing from January 2016 allocates a liquidity premium to particular operating segments.

Income statement 1.01.2016 – 31.03.2016

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Net interest income | 246 430 | 63 390 | 41 316 | 351 136 |
| *Net interest income - excluding liquidity premium* | *278 395* | *64 791* | *7 950* | *351 136* |
| *Impact of liquidity premium* | *(31 965)* | *(1 401)* | *33 366* | *0* |
| Net fee and commission income | 96 466 | 38 231 | (345) | 134 352 |
| Dividends. other income from financial operations and foreign exchange profit | 16 881 | 16 090 | 28 341 | 61 312 |
| Other operating income and cost | (5 290) | (800) | (1 579) | (7 669) |
| **Operating income** | 354 487 | 116 911 | 67 733 | 539 131 |
| Staff costs | (99 507) | (32 550) | (6 779) | (138 836) |
| Administrative costs | (93 418) | (19 606) | (6 500) | (119 524) |
| Depreciation and amortization | (11 169) | (2 046) | (252) | (13 467) |
| **Operating expenses** | (204 094) | (54 202) | (13 531) | (271 827) |
| Impairment losses on assets | (40 876) | (2 493) | (959) | (44 328) |
| **Operating Profit** | **109 517** | **60 216** | **53 243** | **222 976** |
| Share in net profit of associated companies | 0 | 0 | 0 | 0 |
| Banking tax | | | | (32 289) |
| **Profit / (loss) before income tax** | **109 517** | **60 216** | **53 243** | **190 687** |
| Income taxes | | | | (53 502) |
| **Profit / (loss) after taxes** | | | | **137 185** |

Balance sheet items as at 31.03.2016

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Loans and advances to customers | 33 900 988 | 12 184 248 | 0 | 46 085 236 |
| Liabilities to customers | 38 276 908 | 13 634 150 | 98 928 | 52 009 986 |

Income statement 1.01.2015 – 31.03.2015

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Net interest income | 267 653 | 65 334 | 322 | 333 309 |
| Net fee and commission income | 117 318 | 35 961 | 3 470 | 156 750 |
| Dividends. other income from financial operations and foreign exchange profit | 15 884 | 14 220 | 31 296 | 61 400 |
| Other operating income and cost | (4 415) | (2 956) | 1 448 | (5 924) |
| Operating income | 396 440 | 112 559 | 36 536 | 545 535 |
| Staff costs | (101 461) | (30 304) | (6 490) | (138 254) |
| Administrative costs | (99 599) | (18 320) | (6 341) | (124 260) |
| Depreciation and amortization | (9 672) | (1 914) | (325) | (11 912) |
| Operating expenses | (210 732) | (50 538) | (13 156) | (274 426) |
| Impairment losses on assets | (46 965) | (20 866) | (7) | (67 838) |
| **Operating Profit** | **138 743** | **41 155** | **23 373** | **203 271** |
| Share in net profit of associated companies | | | (1 426) | (1 426) |
| **Profit / (loss) before taxes** | **138 743** | **41 155** | **21 947** | **201 845** |
| Income taxes | | | | (39 276) |
| **Profit / (loss) after taxes** | | | | **162 569** |

Balance sheet items as at 31.12.2015

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury, ALM & Other | Total |
|---|---|---|---|---|
| Loans and advances to customers | 34 069 756 | 12 299 625 | 0 | 46 369 381 |
| Liabilities to customers | 37 804 872 | 14 907 750 | 97 767 | 52 810 389 |

## 7. DESCRIPTION OF RELATED PARTY TRANSACTIONS

All and any transactions between entities of the Group during I quarter 2016 resulted from the current operations.

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

### 7.1. Description of transactions with the Parent Group

The following are the amounts of transactions with the Capital Group of Bank's parent company (the ultimate parent entity) - Banco Comercial Portugues (these transactions are mainly of banking nature).

| | With parent entity | | With other entities of parent Group | |
|---|---|---|---|---|
| | 31.03.2016 | 31.12.2015 | 31.03.2016 | 31.12.2015 |
| ASSETS | | | | |
| Loans and advances to banks – accounts and deposits | 437 | 2 615 | 0 | 0 |
| Financial assets valued at fair value through profit and loss (held for trading) | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 |
| LIABILITIES | | | | |
| Deposits from banks | 72 429 | 73 227 | 117 069 | 118 130 |
| Debt securities | 0 | 0 | 0 | 0 |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 2 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other liabilities | 0 | 0 | 170 | 0 |

| | With parent entity | | With other entities of parent Group | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| INCOME FROM: | | | | |
| Interest | 1 | 11 | 0 | 0 |
| Commissions | 34 | 1 308 | 0 | 0 |
| Other net operating income | 0 | 0 | 0 | 40 |
| EXPENSE FROM: | | | | |
| Interest | 202 | 32 | (74) | 1 |
| Commissions | 0 | 0 | 0 | 0 |
| Financial instruments valued at fair value | 2 | 42 | 0 | 0 |
| Other net operating costs | 18 | 0 | 0 | 0 |
| General and administrative expenses | 40 | 39 | 408 | (221) |

| | With parent entity | | With other entities of parent Group | |
|---|---|---|---|---|
| | 31.03.2016 | 31.12.2015 | 31.03.2016 | 31.12.2015 |
| Conditional commitments | 102 175 | 102 175 | 0 | 0 |
| - granted | 100 345 | 100 345 | 0 | 0 |
| - obtained | 1 830 | 1 830 | 0 | 0 |
| Derivatives (par value) | 4 202 | 0 | 0 | 0 |

### 7.2. Transactions with subordinated, not consolidated entities

A leasing agreement concluded by consolidated company with subordinated, not consolidated entity expired in 2015. The table below presents revenues resulting from this contract recognised in the year 2015.

| | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Loans and advances to customers | 0 | 0 |
| Interest income | 0 | 12 |

### 7.3. Balance of the Bank's shares held by the Bank's Supervisory and Management Board Members

| Name and surname | Function | Number of shares as of delivery date of quarterly report prepared as at 31.03.2016 | Number of shares as presented in annual report for 2015 |
|---|---|---|---|
| Joao Nuno Lima Bras Jorge | Chairman of the Management Board | 111 000 | 111 000 |
| Fernando Maria Cardoso Rodrigues Bicho | Deputy Chairman of the Management Board | 0 | 0 |
| Wojciech Haase | Member of the Management Board | 7 494 | 7 494 |
| Andrzej Gliński | Member of the Management Board | 0 | 0 |
| Maria Jose Henriques Barreto De Matos De Campos | Member of the Management Board | 0 | 0 |
| Michał Gajewski | Member of the Management Board | 0 | 0 |
| | | | |
| Bogusław Kott | Chairman of the Supervisory Board | 4 465 791 | 4 465 791 |
| Nuno Manuel da Silva Amado | Deputy Chairman of the Supervisory Board | 0 | 0 |
| Dariusz Rosati | Deputy Chairman and Secretary of the Supervisory Board | 0 | 0 |
| Julianna Boniuk-Gorzelańczyk | Member of the Supervisory Board | 492 248 | 492 248 |
| Miguel de Campos Pereira de Bragança | Member of the Supervisory Board | 0 | 0 |
| Agnieszka Hryniewicz-Bieniek | Member of the Supervisory Board | 0 | 0 |
| Anna Jakubowski | Member of the Supervisory Board | 0 | 0 |
| Grzegorz Jędrys | Member of the Supervisory Board | 0 | 0 |
| David Harris Klingensmith | Member of the Supervisory Board | 0 | 0 |
| Andrzej Koźmiński | Member of the Supervisory Board | 0 | 0 |
| Miguel Maya Dias Pinheiro | Member of the Supervisory Board | 0 | 0 |
| Rui Manuel da Silva Teixeira | Member of the Supervisory Board | 0 | 0 |

# 8. FAIR VALUE

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

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

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

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

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

### 8.1. Financial instruments not recognized at fair value in the balance sheet

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

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

*Receivables and liabilities with respect to banks (structured contract)*

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

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

*Other receivables and liabilities with respect to banks*

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

*Loans and advances granted to customers*

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

With respect to floating rate leasing products fair value was assessed by adjusting balance-sheet value with discounted cash flows resulting from difference of spreads.

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

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

*Liabilities to customers*

The fair value of such instruments without maturity or with maturity till 30 days is considered by the Group to be close to balance-sheet value.

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

*Liabilities from the issuance of structured debt securities*

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

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

*Subordinated liabilities and medium term loans*

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

The table below presents results of the above-described analyses as at 31.03.2016 (data in PLN thousand):

| ASSETS | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Loans and advances to banks | 9 | 1 655 946 | 1 655 606 |
| Loans and advances to customers (*) | 12 | 46 085 236 | 44 384 266 |

| LIABILITIES | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Amounts due to banks | 16 | 1 488 173 | 1 489 223 |
| Amounts due to customers | 17 | 52 009 985 | 52 014 865 |
| Debt securities | 18 | 1 279 090 | 1 287 790 |
| Subordinated debt | | 644 035 | 637 815 |

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

Models used for determination of the fair value of financial instruments presented in the above table and not recognized at fair value in Group's balance sheet, use techniques based on parameters not derived from the market. Therefore, they are considered as the third level of valuation.

The table below presents data as at 31.12.2015 (data in PLN thousand):

| ASSETS | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Loans and advances to banks | 9 | 2 348 754 | 2 349 004 |
| Loans and advances to customers | 12 | 46 369 381 | 44 424 947 |

| LIABILITIES | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Amounts due to banks | 16 | 1 443 921 | 1 445 700 |
| Amounts due to customers | 17 | 52 810 389 | 52 811 390 |
| Debt securities | 18 | 1 134 250 | 1 142 718 |
| Subordinated debt | | 639 631 | 633 781 |

### 8.2. Financial instruments recognized at fair value in the balance sheet

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in PLN'000, as at 31.03.2016

| | note | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets valued at fair value through profit and loss (held for trading) | 10 | | | |
| - derivatives | | | 262 042 | 31 565 |
| - debt securities | | 391 892 | | |
| - shares and interests | | 1 177 | | |
| Hedging derivatives | 11 | | 128 594 | |
| Financial assets available for sale | 13 | | | |
| - debt securities | | 11 313 621 | 1 600 000 | 72 282 |
| - shares and other financial instruments | | 295 | | 213 420 |
| LIABILITIES | | | | |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 10 | | | |
| - derivatives and short sale of securities | | 211 787 | 280 628 | 31 884 |
| Hedging derivatives | 11 | | 1 611 079 | |

Data in '000 PLN, as at 31.12.2015

| | note | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets valued at fair value through profit and loss (held for trading) | 10 | | | |
| - derivatives | | | 293 955 | 42 289 |
| - debt securities | | 408 572 | | |
| - shares and interests | | 1 682 | | |
| Hedging derivatives | 11 | | 70 833 | |
| Financial assets available for sale | 13 | | | |
| - debt securities | | 9 375 707 | 4 198 776 | 73 251 |
| - shares and interests | | 252 | | 213 075 |
| LIABILITIES | | | | |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 10 | | | |
| - derivatives and short sale of securities | | 0 | 283 618 | 42 658 |
| Hedging derivatives | 11 | | 2 132 053 | |

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

- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- municipal bonds, the fair value is calculated based on discounted cash flows with consideration of the impact of credit risk parameter;
- VISA shares - Bank recognized in its books as of March 31, 2016 valuation of VISA shares in the amount of 50 million EURO (details on this subject are presented in Chapter 13, Note 19 of the Group's consolidated financial statements for the year 2015).

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

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in the I quarter of 2016 are presented in the table below (in '000 PLN):

| | Indexes options | Options embedded in securities issued and deposits | Municipal bonds | Shares and interests |
|---|---|---|---|---|
| Balance on 1 January 2016 | 38 273 | (38 642) | 73 251 | 213 075 |
| Settlement/sell/purchase | (4 035) | 4 123 | (1 300) | 0 |
| Change of valuation recognized in equity | 0 | 0 | 0 | 345 |
| Change of valuation recognized in P&L account (including interests) | (5 684) | 5 646 | 331 | 0 |
| Balance on 31 March 2016 | 28 554 | (28 873) | 72 282 | 213 420 |

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

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

## 9. CONTINGENT ASSETS AND LIABILITIES

The total value of lawsuits as at 31 March 2016, in which Group companies acted as claimants or defendants before courts and arbitration bodies, was PLN 808.7 million (excluding group actions as described below). The total value of lawsuits, in which Group companies acted as defendants, was PLN 495.8 million and the total value of lawsuits, in which Group companies acted as claimants was PLN 312.9 million.

Below are presented the amount of claims in which the Group's companies appear as defendant in the division due to the risk of resources outflow as result of case loosing.

The proceedings associated with the Fiscal Control Office stands for separate category and are described in **Chapter 4 note (8).**

| The amount of claims for which: | PLN million |
|---|---|
| probability of resources outflow is negligible | 0.0 |
| outflow of resources is possible | 485.9 |
| outflow of resources is probable | 9.8 |
| TOTAL | 495.8 |

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

As at 31 March 2016 the volume of claims in the court proceedings for which outflow of resource is considered to be possible amounted to PLN 485.9 million. In the Group's opinion probability of winning cases included in this category is high, in effect the Group has not created provisions for these proceedings. The most important group of lawsuits for which an outflow of resources is possible are proceedings connected with derivatives with total value in dispute amounted to PLN 290.1 million.

In terms of lawsuits connected with derivatives, the Group, as a defendant, was present together in 24 such proceedings. The highest unit value of the dispute considering this group of proceedings was PLN 71.1 million. Whereas in the group of proceedings not connected with derivatives in which the Group acted as the defendant, the highest unit value of the dispute was PLN 150.0 million.

On 21 October 2014 a group action was delivered to the Bank in which a group of the Bank's borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that the Bank is liable towards the same for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that the Bank unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits. According to the statement of claim there are approx. 2,300 group members and the value of the subject matter of the dispute is defined at PLN 45.2 million. The Bank does not agree with the claims of the group members. On 31 December 2014 the Bank submitted a response to the statement of claim. On 4 March 2015 new members joined the group action and the Claimant extended the statement of claim accordingly. According to the Claimant after the extension there are approx. 3,400 group members (including the group members included in the statement of claim) and the value of the subject matter of the dispute is approx. PLN 81.5 million (including the value provided in the statement of claim). On 14 May 2015 the Regional Court in Warsaw held a hearing concerning the admissibility of the group action proceedings. On 28 May 2015 the Regional Court in Warsaw issued a decision rejecting the group action on the grounds that the case cannot be heard in group action proceedings. On 3 July 2015 the Claimant filed an appeal against this decision, and the Court of Appeal upheld the appeal by refusing rejection of the claim. On 31 March 2016 the Regional Court in Warsaw issued a decision dismissing Bank's motion for a security deposit to secure litigation costs. On 6 April 2016 the Bank filed an appeal against this decision.

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

OFF-BALANCE ITEMS

| *Amount '000 PLN* | 31.03.2016 | 31.12.2015 |
|---|---|---|
| **Off-balance conditional commitments granted and received** | **7 898 575** | **7 883 958** |
| Commitments granted: | 7 788 145 | 7 823 370 |
| - financial | 6 706 407 | 6 712 920 |
| - guarantee | 1 081 738 | 1 110 450 |
| Commitments received: | 110 430 | 60 588 |
| - financial | 89 026 | 3 963 |
| - guarantee | 21 404 | 56 625 |

## 10. ADDITIONAL INFORMATION

### 10.1. Data on assets securing liabilities

As at 31 March 2016, the Bank's following assets secured its liabilities (in '000 PLN):

| No. | Type of assets | Portfolio | Secured liability | Par value of assets | Balance sheet value of assets |
|---|---|---|---|---|---|
| 1. | Treasury bonds WZ0118 | available for sale | Lombard credit granted to the Bank by the NBP | 130 000 | 130 874 |
| 2. | Treasury bonds WZ0118 | available for sale | Initial security deposit for bond futures | 500 | 503 |
| 3. | Treasury bonds WZ0118 | available for sale | Loan agreement | 598 000 | 602 019 |
| 4. | Treasury bonds WZ0118 | available for sale | Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund | 310 000 | 312 083 |
| 5. | Cash | receivables | Payment to the Futures Settlement Guarantee Fund | 100 | 100 |
| 6. | Cash | receivables | Payment to the Security Fund OTC-KDPW_CCP | 2 850 | 2 850 |
| 7. | Deposits | Deposits in banks | Settlement on transactions concluded | 1 535 044 | 1 535 044 |
| | | TOTAL | | 2 576 494 | 2 583 473 |

As at 31 December 2015 following assets of the Bank constituted collateral of liabilities (PLN'000):

| No. | Type of assets | Portfolio | Secured liability | Par value of assets | Balance sheet value of assets |
|---|---|---|---|---|---|
| 1. | Treasury bonds WZ0118 | available for sale | Lombard credit granted to the Bank by the NBP | 130 000 | 131 063 |
| 2. | Treasury bonds WZ0118 | available for sale | Initial security deposit for bond futures | 500 | 504 |
| 3. | Treasury bonds WZ0117 | available for sale | Loan agreement | 554 000 | 558 920 |
| 4. | Treasury bonds WZ0118 | available for sale | Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund | 210 000 | 211 718 |
| 5. | Treasury bonds WZ0117 | available for sale | Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund | 89 000 | 89 790 |
| 6. | Cash | receivables | Payment to the Futures Settlement Guarantee Fund | 100 | 100 |
| 7. | Cash | receivables | Payment to the Security Fund OTC-KDPW_CCP | 3 752 | 3 752 |
| 8. | Deposits | deposits in other banks | Settlement on transactions concluded | 1 981 663 | 1 981 663 |
| | | Total | | 2 969 015 | 2 977 510 |

### 10.2. Dividend for 2015

Following received by the Bank recommendation issued by Financial Supervision Commission regarding banks' dividend policy in 2016, and taking into account the additional capital requirement in order to secure the risk resulting from FX mortgage loans for households, and the need to maintain capital conservation buffer for the Bank, the Annual General Meeting held on 31st March 2016 decided to retain the net profit for 2015 in the Bank by allocating it in full to reserve capital.

### 10.3. Earnings per share

Profit per share calculated for I quarter 2016 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.11.

### 10.4. Shareholders holding no less than 5% of the total number of votes at the General Shareholders Meeting of the Group's parent company – Bank Millennium S.A.

Information on the shareholders presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to attend the General Meeting of the Bank on 31 March 2016.

Data as at the delivery date of the report for 1st quarter 2016

| Shareholder | Number of shares | % share in share capital | Number of votes | % share in votes at Shareholders' Meeting |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 607 771 505 | 50.10 | 607 771 505 | 50.10 |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 105 000 000 | 8.66 | 105 000 000 | 8.65 |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK | 78 680 000 | 6.49 | 78 680 000 | 6.49 |

Shareholders structure according to consolidated annual report for 2015

| Shareholder | Number of shares | % share in share capital | Number of votes | % share in votes at Shareholders' Meeting |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 607 771 505 | 50.10 | 607 771 505 | 50.10 |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 115 615 810 | 9.53 | 115 615 810 | 9.53 |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK | 78 310 605 | 6.46 | 78 310 605 | 6.46 |

### 10.5. Information about loan sureties or guarantees extended by the Group

In the first quarter 2016, the Group did not grant any sureties or guarantees for a loan or bank loan to a single entity, which would cause the Group's exposure on this account to the Client as at 31 March 2016 to exceed 10% of the Group's equity as at the balance sheet date.

### 10.6. Seasonality and business cycles

In the Group's activity, there are no significant phenomena, which are cyclical or subject to seasonal variations.

### 10.7. Description of non-standard factors and events

Commencing from February 2016 a new special banking tax was introduced, with 0,44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount.

### 10.8. The proposed regulations relating to foreign currency loans

On January 15th 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however without an assessment of impact for the banking sector. According to estimations later announced by Polish Financial Supervision Authority, the overall direct costs for the polish banking sector may reach PLN 66.9 billion. In these circumstances, if implemented in the proposed version, this law could significantly deteriorate the Bank's profitability and capital position.

### 10.9. Other additional information and events after the balance sheet date

As at 31 March 2016, the Group has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed consolidated statements, Group did not:

- create substantial write-offs for inventories,
- conclude significant acquisitions and sales of property, plant and equipment,
- make correction of prior period errors,
- introduce significant changes in determining the fair value for financial instruments valued at fair value,
- make any reclassification of financial assets as a result of changes in purpose or use,
- change the method of determining the estimated values, which would exert a significant influence on the current interim period.

Between the date on which this report is drawn up and the date of its publication, there were no other events that could affect Group's future financial results.

# II. CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS OF BANK MILLENNIUM S.A. FOR THE THREE MONTHS ENDED 31 MARCH 2016

## CONTENTS

# 1. INTRODUCTION AND ACCOUNTING PRINCIPLES

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2015.

The accounting policies applied by the Bank in these condensed interim financial statements are the same as those applied by the Bank in the financial statements of Bank Millennium S.A. for the year ended 31 December 2015 with consideration of the specific requirements of IAS 34.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with later amendments) the Bank is required to publish the financial results for the three months ended 31 March 2016.

Condensed interim financial statements of the Bank:

- are prepared on the basis of the assumption of business continuity by the Bank, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;
- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

In addition to financial data these condensed interim financial statements of the Bank also presents information and data that is important for appropriate assessment of the Bank's economic and financial situation and its financial performance, and which was not included in the condensed interim consolidated statements of the Group for the three months period ended 31 march 2016. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the three months period ended 31 March 2016 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

The Board of Directors approved this condensed standalone interim financial statements on 28 April 2016.

## 2. STANDALONE FINANCIAL DATA (BANK)

INCOME STATEMENT

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Interest income | 532 900 | 562 019 |
| Interest expense | (205 970) | (250 333) |
| Net interest income | 326 930 | 311 686 |
| Fee and commission income | 144 149 | 160 858 |
| Fee and commission expense | (20 517) | (16 223) |
| Net fee and commission income | 123 632 | 144 635 |
| Dividend income | 11 716 | 0 |
| Result on investment financial assets | 17 097 | 14 318 |
| Result on financial instruments valued at fair value through profit and loss (held for trading) and Foreign exchange result | 43 667 | 45 654 |
| Other operating income | 6 307 | 6 471 |
| **Operating income** | **529 349** | **522 764** |
| General and administrative expenses | (244 450) | (248 937) |
| Impairment losses on financial assets | (38 090) | (65 043) |
| Impairment losses on non financial assets | (970) | 7 |
| Depreciation and amortization | (12 786) | (11 275) |
| Other operating expenses | (17 339) | (12 302) |
| **Operating expenses** | **(313 635)** | **(337 550)** |
| **Operating profit** | **215 714** | **185 214** |
| Banking tax | (32 289) | 0 |
| **Profit / (loss) before income tax** | **183 425** | **185 214** |
| Corporate income tax | (47 956) | (36 773) |
| **Profit / (loss) after taxes** | **135 469** | **148 441** |
| Weighted average number of ordinary shares | 1 213 116 777 | 1 213 116 777 |
| Earnings (losses) per ordinary share (in PLN) | 0.11 | 0.12 |

TOTAL COMPREHENSIVE INCOME STATEMENT

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Profit / (loss) after taxes | 135 469 | 148 441 |
| Other elements of total comprehensive income that will be subsequently reclassified to profit or loss | 85 594 | (105 746) |
| Effect of valuation of available for sale debt securities | 22 855 | 18 169 |
| Effect of valuation of available for sale shares | 345 | 0 |
| Hedge accounting | 62 394 | (123 915) |
| Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | 0 | 0 |
| Actuarial gains (losses) | 0 | 0 |
| **Other elements of total comprehensive income before taxes** | **85 594** | **(105 746)** |
| Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss | (16 263) | 20 092 |
| Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | 0 | 0 |
| **Other elements of total comprehensive income after taxes** | **69 331** | **(85 654)** |
| | | |
| **Total comprehensive income for the period** | **204 800** | **62 787** |

## BALANCE SHEET

### ASSETS

| *Amount '000 PLN* | 31.03.2016 | 31.12.2015 |
|---|---|---|
| Cash, balances with the Central Bank | 2 504 314 | 1 946 384 |
| Deposits, loans and advances to banks and other monetary institutions | 1 655 933 | 2 348 735 |
| Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge | 701 631 | 767 062 |
| Hedging derivatives | 128 594 | 70 833 |
| Loans and advances to customers | 45 705 977 | 46 070 719 |
| Investment financial assets | 13 212 582 | 13 862 060 |
| - available for sale | 13 212 582 | 13 862 060 |
| - held to maturity | 0 | 0 |
| Investments in associates | 226 372 | 226 373 |
| Receivables from securities bought with sell-back clause (loans and advances) | 216 140 | 0 |
| Property, plant and equipment | 153 630 | 152 207 |
| Intangible assets | 48 566 | 51 987 |
| Non-current assets held for sale | 0 | 0 |
| Receivables from Tax Office resulting from current tax | 24 287 | 32 562 |
| Deferred tax assets | 160 869 | 163 249 |
| Other assets | 338 394 | 373 079 |
| **Total Assets** | **65 077 289** | **66 065 250** |

LIABILITIES AND EQUITY

| *Amount '000 PLN* | 31.03.2016 | 31.12.2015 |
|---|---|---|
| LIABILITIES | | |
| Liabilities to banks and other monetary institutions | 1 488 172 | 1 443 921 |
| Financial liabilities valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge | 537 791 | 344 792 |
| Hedging derivatives | 1 611 079 | 2 132 053 |
| Liabilities to customers | 52 155 094 | 52 920 583 |
| Liabilities from securities sold with buy-back clause | 0 | 0 |
| Debt securities | 1 148 248 | 1 135 501 |
| Provisions | 40 624 | 30 267 |
| Deferred income tax liabilities | 0 | 0 |
| Current tax liabilities | 11 089 | 0 |
| Other liabilities | 944 276 | 1 126 421 |
| Subordinated debt | 644 035 | 639 631 |
| Total Liabilities | 58 580 408 | 59 773 169 |
| EQUITY | | |
| Share capital | 1 213 117 | 1 213 117 |
| Share premium | 1 147 241 | 1 147 241 |
| Revaluation reserve | 87 383 | 18 052 |
| Retained earnings | 4 049 140 | 3 913 671 |
| Total Equity | 6 496 881 | 6 292 081 |
| | | |
| **Total Liabilities and Equity** | **65 077 289** | **66 065 250** |

| | | |
|---|---|---|
| Book value | 6 496 881 | 6 292 081 |
| Number of shares | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN) | 5.36 | 5.19 |

STATEMENT OF CHANGES IN EQUITY

| 01.01.2016 - 31.03.2016, *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **6 292 081** | **1 213 117** | **1 147 241** | **18 052** | **814 157** | **3 099 514** |
| Total comprehensive income for I quarter of 2016 (net) | 204 800 | 0 | 0 | 69 331 | 135 469 | 0 |
| net profit/ (loss) of the period | 135 469 | 0 | 0 | 0 | 135 469 | 0 |
| valuation of available for sale debt securities | 18 513 | 0 | 0 | 18 513 | 0 | 0 |
| valuation of available for sale shares | 279 | 0 | 0 | 279 | 0 | 0 |
| hedge accounting | 50 539 | 0 | 0 | 50 539 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | (814 157) | 814 157 |
| **Equity at the end of the period** | **6 496 881** | **1 213 117** | **1 147 241** | **87 383** | **135 469** | **3 913 671** |

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

| 01.01.2015 - 31.03.2015, *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **5 346 709** | **1 213 117** | **1 147 241** | (113 163) | **619 511** | **2 480 003** |
| Total comprehensive income for I quarter of 2015 (net) | 62 787 | 0 | 0 | (85 654) | 148 441 | 0 |
| net profit/ (loss) of the period | 148 441 | 0 | 0 | 0 | 148 441 | 0 |
| valuation of available for sale debt securities | 14 717 | 0 | 0 | 14 717 | 0 | 0 |
| hedge accounting | (100 371) | 0 | 0 | (100 371) | 0 | 0 |
| **Equity at the end of the period** | **5 409 496** | **1 213 117** | **1 147 241** | **(198 817)** | **767 952** | **2 480 003** |

A. CASH FLOWS FROM OPERATING ACTIVITIES

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Profit (loss) after taxes | 135 469 | 148 441 |
| Total adjustments: | (734 057) | (1 580 926) |
| Interests in net income (loss) of associated companies | 0 | 0 |
| Depreciation and amortization | 12 786 | 11 275 |
| Foreign exchange (gains) losses | (8 116) | (35 949) |
| Dividends | (11 716) | 0 |
| Changes in provisions | 10 357 | (1 041) |
| Result on sale and liquidation of investing activity assets | (18 413) | (12 817) |
| Change in financial assets valued at fair value through profit and loss (held for trading) | 70 064 | (1 211 465) |
| Change in loans and advances to banks | 456 734 | (1 265 519) |
| Change in loans and advances to customers | 364 872 | (2 396 447) |
| Change in receivables from securities bought with sell-back clause (loans and advances) | (216 140) | 74 537 |
| Change in financial liabilities valued at fair value through profit and loss (held for trading) | (327 975) | 1 367 487 |
| Change in deposits from banks | (166 465) | 173 683 |
| Change in deposits from customers | (765 489) | 1 367 626 |
| Change in liabilities from securities sold with buy-back clause | 0 | 12 495 |
| Change in debt securities | 12 894 | (6 157) |
| Change in income tax settlements | 42 680 | 40 377 |
| Income tax paid | (42 454) | (40 649) |
| Change in other assets and liabilities | (142 205) | 338 151 |
| Other | (5 471) | 3 487 |
| **Net cash flows from operating activities** | **(598 588)** | **(1 432 485)** |

B. CASH FLOWS FROM INVESTING ACTIVITIES

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Inflows from investing activities: | 13 768 | 364 |
| Proceeds from sale of property. plant and equipment and intangible assets | 2 052 | 364 |
| Proceeds from sale of shares in associates | 0 | 0 |
| Proceeds from sale of investment financial assets | 0 | 0 |
| Other investing inflows | 11 716 | 0 |
| Outflows from investing activities: | (2 241 200) | (13 273) |
| Acquisition of property, plant and equipment and intangible assets | (2 612) | (2 595) |
| Acquisition of shares in associates | 0 | 0 |
| Acquisition of investment financial assets | (2 238 588) | (10 678) |
| Other investing outflows | 0 | 0 |
| **Net cash flows from investing activities** | **(2 227 432)** | **(12 909)** |

C. CASH FLOWS FROM FINANCING ACTIVITIES

| *Amount '000 PLN* | 1.01.2016 - 31.03.2016 | 1.01.2015 - 31.03.2015 |
|---|---|---|
| Inflows from financial activities: | 220 520 | 439 311 |
| Long-term bank loans | 220 520 | 108 488 |
| Issue of debt securities | 0 | 330 823 |
| Increase in subordinated debt | 0 | 0 |
| Net proceeds from issues of shares and additional capital paid-in | 0 | 0 |
| Other financial inflows | 0 | 0 |
| Outflows from financial activities: | (871) | (501 573) |
| Repayment of long-term bank loans | 0 | 0 |
| Redemption of debt securities | (147) | (500 665) |
| Decrease in subordinated debt | 0 | 0 |
| Issue of shares expenses | 0 | 0 |
| Redemption of shares | 0 | 0 |
| Dividends paid and other payments to owners | 0 | 0 |
| Other financial outflows | (724) | (908) |
| **Net cash flows from financing activities** | **219 649** | **(62 262)** |

| | | |
|---|---|---|
| D. NET CASH FLOWS. TOTAL (A + B + C) | (2 606 371) | (1 507 656) |
| E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD | 6 851 154 | 5 398 236 |
| F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E) | 4 244 783 | 3 890 580 |

## 3. SUPPLEMENTARY INFORMATION FOR STANDALONE FINANCIAL DATA

As at 31 March 2016, the Bank has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed statements, Bank did not:
- create substantial write-offs for inventories,
- conclude significant acquisitions and sales of property, plant and equipment,
- make correction of prior period errors,
- introduce significant changes in determining the fair value for financial instruments valued at fair value,
- make any reclassification of financial assets as a result of changes in purpose or use,
- change the method of determining the estimated values, which would exert a significant influence on the current interim period.

The proposed regulations relating to foreign currency loans

On January 15th 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however without an assessment of impact for the banking sector. According to estimations later announced by Polish Financial Supervision Authority, the overall direct costs for the polish banking sector may reach PLN 66.9 billion. In these circumstances, if implemented in the proposed version, this law could significantly deteriorate the Bank's profitability and capital position.

Commencing from February 2016 a new special banking tax was introduced, with 0,44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount.

There are no significant phenomena, in Bank's activity which are cyclical or subject to seasonal variations.

Between the date on which this report is drawn up and the date of its publication, there were no other events that could significantly affect Bank's future financial results.

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

| | 01.01.2016 - 31.03.2016 | 01.01.2015 - 31.12.2015 |
|---|---|---|
| Balance at the beginning of the period | 1 325 089 | 1 225 637 |
| Change in value of provisions: | (97 785) | 99 452 |
| Write-offs in the period | 161 710 | 592 269 |
| Amounts written off | (9 860) | (63 899) |
| Reversal of write-offs in the period | (105 400) | (320 816) |
| Write-offs decrease due to sale of receivables | (143 347) | (118 773) |
| Changes resulting from FX rates differences | (888) | 10 394 |
| Other | 0 | 277 |
| **Balance at the end of the period** | **1 227 304** | **1 325 089** |

Impairment write-offs for selected assets

| Impairment write-offs: | Investment securities | Investments in associates | Property. plant and equipment | Intangibles | Other assets |
|---|---|---|---|---|---|
| Balance as at 01.01.2016 | 44 | 6 224 | 17 698 | 0 | 4 788 |
| - Write-offs created | 0 | 0 | 0 | 0 | 1 170 |
| - Write-offs released | (7) | 0 | (8 300) | 0 | (199) |
| - Utilisation | 0 | 0 | 0 | 0 | (295) |
| - Other changes | 0 | 0 | (665) | 0 | 0 |
| Balance as at 31.03.2016 | 37 | 6 224 | 8 733 | 0 | 5 464 |

| Impairment write-offs: | Investment securities | Investments in associates | Property. plant and equipment | Intangibles | Other assets |
|---|---|---|---|---|---|
| Balance as at 01.01.2015 | 29 | 4 839 | 19 498 | 0 | 4 551 |
| - Write-offs created | 33 | 1 385 | 0 | 0 | 2 424 |
| - Write-offs released | (18) | 0 | 0 | 0 | (1 018) |
| - Utilisation | 0 | 0 | 0 | 0 | (1 169) |
| - Sale of assets | 0 | 0 | 0 | 0 | 0 |
| - Other changes | 0 | 0 | (1 800) | 0 | 0 |
| Balance as at 31.12.2015 | 44 | 6 224 | 17 698 | 0 | 4 788 |

Impairment losses on financial assets

| | 01.01.2016 - 31.03.2016 | 01.01.2015 - 31.03.2015 |
|---|---|---|
| Impairment losses on loans and advances to customers | (39 017) | (64 643) |
| - Impairment charges on loans and advances to customers | (161 710) | (165 668) |
| - Reversal of impairment charges on loans and advances to customers | 105 400 | 100 507 |
| - Amounts recovered from loans written off | 11 511 | 477 |
| - Result from sale of receivables portfolio | 5 782 | 41 |
| | | |
| Impairment losses on investment securities | 7 | (7) |
| - Impairment write-offs for investment securities | 0 | (7) |
| - Reversal of impairment write-offs for investment securities | 7 | 0 |
| | | |
| Impairment losses on investments in associates | 0 | (1 426) |
| - Impairment write-offs for investments in associates | 0 | (1 426) |
| - Reversal of impairment write-offs for investments in associates | 0 | 0 |
| | | |
| Impairment losses on off-balance sheet liabilities | 920 | 1 033 |
| - Impairment write-offs for off-balance sheet liabilities | (2 402) | (3 030) |
| - Reversal of impairment write-offs for off-balance sheet liabilities | 3 322 | 4 063 |
| **Total** | **(38 090)** | **(65 043)** |

Creation, charge, utilisation and release of provisions

| | 01.01.2016 - 31.03.2016 | 01.01.2015 - 31.12.2015 |
|---|---|---|
| Provision for off-balance sheet commitments | | |
| Balance at the beginning of the period | 14 239 | 27 692 |
| Charge of provision | 2 402 | 5 052 |
| Release of provision | (3 322) | (18 506) |
| FX rates differences | (114) | 1 |
| Balance at the end of the period | 13 205 | 14 239 |
| Provision for contentious claims | | |
| Balance at the beginning of the period | 16 028 | 67 331 |
| Charge of provision | 12 833 | 28 748 |
| Release of provision | (459) | (2 516) |
| Utilisation of provision | (984) | (77 535) |
| Balance at the end of the period | 27 419 | 16 028 |
| **Total** | **40 624** | **30 267** |

Assets and provision from deferred income tax

| | 31.03.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset |
| Difference between tax and balance sheet depreciation and amortisation | 3 225 | 0 | 3 225 | 4 802 | 0 | 4 802 |
| Balance sheet valuation of financial instruments | 353 955 | (380 214) | (26 259) | 461 964 | (487 718) | (25 754) |
| Unrealised receivables/ liabilities on account of derivatives | 19 271 | (29 324) | (10 053) | 27 570 | (41 924) | (14 354) |
| Interest on deposits and securities to be paid/ received | 42 873 | (33 022) | 9 851 | 38 468 | (33 022) | 5 446 |
| Interest and discount on loans and receivables | 0 | (9 991) | (9 991) | 0 | (7 874) | (7 874) |
| Income and cost settled at effective interest rate | 78 228 | (17) | 78 211 | 73 009 | (34) | 72 975 |
| Provisions for loans presented as temporary differences | 106 003 | 0 | 106 003 | 105 466 | 0 | 105 466 |
| Employee benefits | 13 108 | 0 | 13 108 | 13 723 | 0 | 13 723 |
| Provisions for future costs | 16 065 | 0 | 16 065 | 11 653 | 0 | 11 653 |
| Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve | 31 233 | (51 730) | (20 497) | 43 087 | (47 322) | (4 235) |
| Other | 2 688 | (1 482) | 1 206 | 2 968 | (1 567) | 1 401 |
| Net deferred income tax asset | 666 649 | (505 780) | 160 869 | 782 710 | (619 461) | 163 249 |

## 4. STATEMENT OF RELATED PARTY TRANSACTIONS

All the transactions concluded between the Group entities in the period from 1 January to 31 March 2016 resulted from their ongoing activity. Below, we are presenting amounts of the most important intra-group transactions concluded between the following entities:

- MILLENNIUM LEASING Sp. z o.o.,
- MILLENNIUM DOM MAKLERSKI S.A.,
- MILLENNIUM TFI S.A.,
- MB FINANCE A.B.,
- MILLENNIUM SERVICE Sp. z o.o.,
- MILLENNIUM TELECOMMUNICATION SERVICES.,
- TBM Sp. z o.o.

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

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

Assets and liabilities from transactions with related parties (data in '000 PLN) as at 31.03.2016

| | With subsidiaries | With parent entity | With other entities of parent Group |
|---|---|---|---|
| ASSETS | | | |
| Loans and advances to banks – accounts and deposits | 0 | 437 | 0 |
| Loans and advances to customers | 4 354 822 | 0 | 0 |
| Investments in associates | 224 996 | 0 | 0 |
| Financial assets valued at fair value through profit and loss (held for trading) | 162 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 |
| Other assets | 194 677 | 0 | 0 |
| LIABILITIES | | | |
| Deposits from banks | 0 | 72 429 | 117 069 |
| Deposits from customers | 244 179 | 0 | 0 |
| Liabilities from securities sold with buy-back clause | 0 | 0 | 0 |
| Liabilities from debt securities | 1 545 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 55 | 2 | 0 |
| Subordinated debt | 644 035 | 0 | 0 |
| Other liabilities | 87 817 | 0 | 170 |
| - including liabilities from financial leasing | 73 788 | 0 | 0 |

Assets and liabilities from transactions with related parties (data in '000 PLN) as at 31.12.2015

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

Profit and loss on transactions with related parties (data in '000 PLN) for the period of 1.01-31.03.2016

| | With subsidiaries | With parent entity | With other entities of parent Group |
|---|---|---|---|
| INCOME FROM: | | | |
| Interest | 21 191 | 1 | 0 |
| Commissions | 11 850 | 34 | 0 |
| Financial instruments valued at fair value | 105 | 0 | 0 |
| Dividends | 11 716 | 0 | 0 |
| Other net operating income | 734 | 0 | 0 |
| EXPENSE FROM: | | | |
| Interest | 3 982 | 202 | (74) |
| Commissions | 25 | 0 | 0 |
| Financial instruments valued at fair value | 0 | 2 | 0 |
| Other net operating costs | 0 | 18 | 0 |
| General and administrative expenses | 23 465 | 0 | 408 |

Profit and loss on transactions with related parties (data in '000 PLN) for the period of 1.01-31.03.2015

| | With subsidiaries | With parent entity | With other entities of parent Group |
|---|---|---|---|
| INCOME FROM: | | | |
| Interest | 20 114 | 11 | 0 |
| Commissions | 12 927 | 64 | 0 |
| Financial instruments valued at fair value | 0 | 3 | 0 |
| Dividends | 0 | 0 | 0 |
| Other net operating income | 669 | 0 | 40 |
| EXPENSE FROM: | | | |
| Interest | 4 509 | 32 | 1 |
| Commissions | 15 | 0 | 0 |
| Financial instruments valued at fair value | 425 | 45 | 0 |
| General and administrative expenses | 23 646 | 0 | (221) |

Off-balance transactions with related parties (data in '000 PLN) as at 31.03.2016

| | With subsidiaries | With parent entity | With other entities of parent Group |
|---|---|---|---|
| Conditional commitments | 39 867 | 102 175 | 0 |
| - granted | 37 611 | 100 345 | 0 |
| - received | 2 256 | 1 830 | 0 |
| Derivatives (par value) | 119 808 | 4 202 | 0 |

Off-balance transactions with related parties (data in '000 PLN) as at 31.12.2015

| | With subsidiaries | With parent entity | With other entities of parent Group |
|---|---|---|---|
| Conditional commitments | 39 863 | 102 175 | 0 |
| - granted | 37 609 | 100 345 | 0 |
| - received | 2 254 | 1 830 | 0 |
| Derivatives (par value) | 112 944 | 0 | 0 |

# 5. FAIR VALUE

The methodology used by the Bank for valuation of assets and liabilities at fair value is described in detail in Chapter 8. Condensed interim consolidated financial statements of Bank Millennium SA for the 3 months ended 31 March 2016.

The following tables show the figures for Bank Millennium SA.

## 5.1. Financial instruments not recognized at fair value in the balance sheet

ASSETS

| 31.03.2016 | Balance sheet value | Fair value |
|---|---|---|
| Loans and advances to banks | 1 655 933 | 1 655 593 |
| Loans and advances to customers * | 45 705 977 | 43 999 447 |

LIABILITIES

| 31.03.2016 | Balance sheet value | Fair value |
|---|---|---|
| Amounts due to banks | 1 488 172 | 1 489 222 |
| Amounts due to customers | 52 155 094 | 52 159 974 |
| Debt securities | 1 148 248 | 1 156 328 |
| Subordinated debt | 644 035 | 637 815 |

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

ASSETS

| 31.12.2015 | Balance sheet value | Fair value |
|---|---|---|
| Loans and advances to banks | 2 348 735 | 2 348 985 |
| Loans and advances to customers | 46 070 719 | 44 120 233 |

LIABILITIES

| 31.12.2015 | Balance sheet value | Fair value |
|---|---|---|
| Amounts due to banks | 1 443 921 | 1 445 700 |
| Amounts due to customers | 52 920 583 | 52 921 584 |
| Debt securities | 1 135 501 | 1 143 969 |
| Subordinated debt | 639 631 | 633 781 |

### 5.2. Financial instruments recognized at fair value in the balance sheet

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in PLN'000, as at 31.03.2016

| | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|
| ASSETS | | | |
| Financial assets valued at fair value through profit and loss (held for trading) | | | |
| - derivatives | | 262 199 | 31 565 |
| - debt securities | 391 892 | | |
| Hedging derivatives | | 128 594 | |
| Financial assets available for sale | | | |
| - debt securities | 11 313 621 | 1 600 000 | 72 282 |
| - shares and other financial instruments | | | 213 420 |
| LIABILITIES | | | |
| Financial liabilities valued at fair value through profit and loss (held for trading) | | | |
| - derivatives and short sale of securities | 211 787 | 280 683 | 31 884 |
| Hedging derivatives | | 1 611 079 | |

Data in '000 PLN, as at 31.12.2015

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

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in the I quarter of 2016 are presented in the table below (in '000 PLN):

| | Indexes options | Options embedded in securities issued and deposits | Municipal bonds | Shares and interests |
|---|---|---|---|---|
| Balance on 1 January 2016 | 38 272 | (38 642) | 73 251 | 213 075 |
| Settlement/sell/purchase | (4 035) | 4 123 | (1 300) | 0 |
| Change of valuation recognized in equity | 0 | 0 | 0 | 345 |
| Change of valuation recognized in P&L account (including interests) | (5 684) | 5 646 | 331 | 0 |
| Balance on 31 March 2016 | 28 553 | (28 873) | 72 282 | 213 420 |

## 6. ADDITIONAL INFORMATION

### 6.1. Issue, redemption or repayment of debt or equity instruments

During the three months ended 31 March 2016 the Bank's liabilities arising from debt securities grew by PLN 13 million, which was caused mainly by the fact that during the reporting period the Bank issued slightly larger amount of bank securities than redeemed. The Bank also maintained during this period, practically constant level of bond floating, (unprotected) issued as part of an ongoing Second Bonds' Issue Programme, initiated in 2012, with total nominal value not exceeding PLN 2.000 million (or the equivalent of this amount in EUR, USD, CHF).

### 6.2. Off-balance sheet liabilities

As at 31 March 2016 and 31 December 2015, the structure of off-balance sheet liabilities was as follows:

| *Amount '000 PLN* | 31.03.2016 | 31.12.2015 |
|---|---|---|
| **Off-balance conditional commitments granted and received** | **7 938 442** | **7 923 821** |
| Commitments granted: | 7 825 756 | 7 860 979 |
| - financial | 6 706 463 | 6 712 976 |
| - guarantee | 1 119 293 | 1 148 003 |
| Commitments received: | 112 686 | 62 842 |
| - financial | 89 026 | 3 963 |
| - guarantee | 23 660 | 58 879 |