Capital Adequacy, Risk, Remuneration Policy Report of Bank Millennium Capital Group

as at 31 December 2016

Warszawa, on the 2nd March, 2017

Update on the 12th July, 2017

CAPITAL ADEQUACY, RISK, REMUNERATION POLICY REPORT OF THE BANK MILLENNIUM CAPITAL GROUP AS AT 31 DECEMBER 2016

CONTENTS

1. INTRODUCTION

Pursuant to the requirements set forth in Part Eight of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012 ("CRR"), this material ("Disclosures") presents qualitative and quantitative information pertaining to the comprehensive image of the risk profile of the Bank Millennium S.A. (the "Bank") Capital Group ("the Group") as at 31 December 2016.

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

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

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

- Report of the Bank Millennium SA Capital Group for 12 months ended 31 December 2016,
- Report of Bank Millennium SA for 12 months ended 31 December 2016,
  hereinafter referred to as "Yearly Financial Reports",
- Management Board Report on the Activity of the Bank Millennium Capital Group for 12 months ended 31 December 2016,
- Management Board Report on the Activity of Bank Millennium for 12 months ended 31 December 2016,
  hereinafter referred to as: "Management Board Reports".

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

The information presented has been prepared on the basis of the top domestic consolidation level (Bank Millennium SA Group). In some cases data was presented for Bank Millennium SA solo as well.

The update of the document, approved by the Bank's Management Board on the 22nd March, 2017, regards changes in the point 2, Table no 3 and in the point 4 and stemms from the Polish Financial Supervision Authority (KNF) letter on i.a. guidelines on minimum recommended by KNF level of total capital ratio (TCR) on individual and consolidated level.

The update of the document, approved by the Bank's Management Board on the 12th July 2017, relates to tables from number 31 to 33 in Chapter 12 „Remuneration Policy", with data on variable remuneration granted to Management Board as for year 2016.

2. CAPITAL ADEQUACY

Capital adequacy of Bank Millennium Group and Bank Millennium SA over the last three years was as follows:

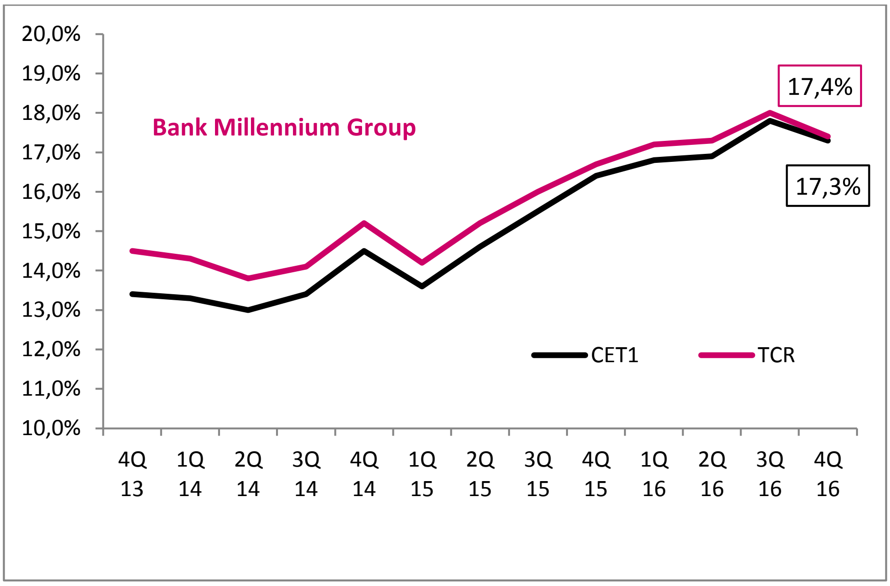
Table 1 Capital adequacy of Bank Millennium Group (PLN mln, %)

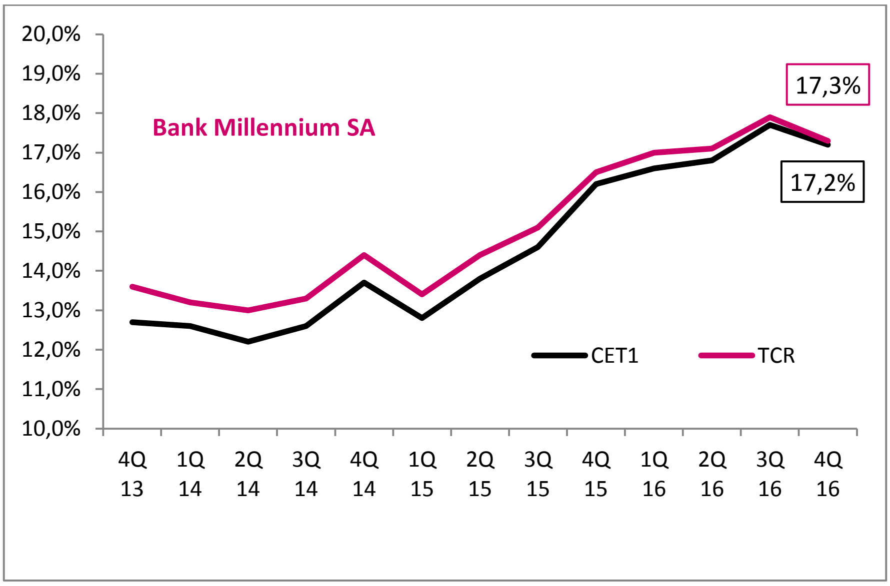
Capital ratios	31.12.2016	31.12.2015	31.12.2014
Own Funds	6 390.7	6 208.9	5 368.9
Own Funds requirements	2 938.4	2 970.4	2 820.5
Risk-weighted assets	36 730.6	37 129.6	35 257.0
Total Capital Ratio (TCR)	17.40%	16.72%	15.23%
Tier 1 Capital ratio (T1)	17.31%	16.35%	14.53%
Common Equity Tier 1 Capital ratio (CET1)	17.31%	16.35%	14.53%
Leverage ratio	9.0%	9.1%	8.3%

Table 2 Capital adequacy of Bank Millennium (PLN mln, %)

Capital ratios	31.12.2016	31.12.2015	31.12.2014
Own Funds	6 252.4	6 081.3	4 988.4
Own Funds requirements	2 895.9	2 940.5	2 770.8
Risk-weighted assets	36 198.7	36 755.7	34 634.5
Total Capital Ratio (TCR)	17.27%	16.55%	14.40%
Tier 1 Capital ratio (T1)	17.18%	16.17%	13.69%
Common Equity Tier 1 Capital ratio (CET1)	17.18%	16.17%	13.69%
Leverage ratio	8.9%	9.2%	7.8%

Capital adequacy level of Bank and Group is evaluated as satisfactory. Capital ratios are in long-term increasing trend, and their levels significantly exceed values defined in regulations (CRR) and these expected by Polish Financial Supervisory Authority (KNF). CET1 and TCR ratios over the last 3 years are showed on the below graphs.





As at the 2016 end, the Group and the Bank have to comply with the following expected by KNF capital ratios[1]:

- Tier 1 Capital Ratio (T1)[2] = 12.79% (for the Bank: 12.82%)
- Total Capital Ratio (TCR) = 16.55 % (for the Bank: 16.59%).

[1] Discussion of required and expected levels of capital adequacy is presented in point 4.

[2] As for Bank and Group, Common Equity Tier 1 Capital Ratio (CET1 Ratio) equals Tier 1 Capital Ratio (T1 Ratio).

The Group and the Bank meet with a surplus capital adequacy levels required by CRR and expected by KNF. These surpluses, calculated as a difference between required/expected values and reported values as at 31st December 2016, are showed in the below table.

Table 3 Surplus / deficit of capital adequacy of Group and Bank (p.p.)

Bank Millennium SA Group Surplus (+) / Deficit (-) of capital adequacy	CET1	T1	TCR
Against levels expected by KNF	n.a.	4.52	0.85
Against levels required by CRR	10.10	9.02	6.35
Bank Millennium SA Surplus (+) / Deficit (-) of capital adequacy	**CET1**	**T1**	**TCR**
Against levels expected by KNF	n.a.	4.36	0.68
Against levels required by CRR	9.95	8.86	6.18

3. RISK MANAGEMENT OBJECTIVES AND STRATEGY

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2017-2019" (2016-2018 version was in force previously). The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, Capital Plan.

The Risk Strategy bases on the three concepts defined by the Bank and the Group:

1. Risk profile – current risk profile in amount or type of risk Bank and Group are currently exposed. Bank and Group should also have a forward looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk appetite and risk tolerance,
2. Risk appetite – how much and what type of risks Bank and Group are generally prepared to accept to achieve its financial and strategic objectives,
3. Risk tolerance – the maximum amount or type of risk Bank and Group are prepared to tolerate above its risk appetite.

Goal of Risk Strategy is to define a risk profile and to maintain a risk profile for all risk types within the limits set in the risk appetite and tolerance.

Risk appetite and risk tolerance measures consider both the current and forecasted target risk profile. They have been defined in the key areas, listed below:

1. Solvency (including assets quality)
2. Liquidity and funding
3. Earnings volatility and business mix
4. Franchise and reputation.

Bank and Group have a clear risk strategy, covering retail credit, corporate credit, markets activity and liquidity, operational and capital management. For each risk type and overall Bank and Group clearly define the risk appetite.

The Risk Appetite of Bank and Group is mainly defined through the principles and targets defined in Risk Strategy and complemented in more detail by the principles and qualitative guidelines defined in the following documents:

a. Capital Management and Planning Framework
b. Credit Principles and Guidelines

c. Rules on Concentration Risk Management
d. Principles and Rules of Liquidity Risk Management
e. Principles and Guidelines on Market Risk Management on Financial Markets
f. Principles and Guidelines for Market Risk Management in Banking Book
g. Investment Policy
h. Principles and Guidelines for Management of Operational Risk
i. Stress tests policy.

Within risk tolerance, Bank and Group have defined tolerance zones (build up based on the “traffic lights” principle). As for all tolerance zones, Bank and Group have been set:

- Escalation process of taken decisions/actions (bodies/organizational entities responsible for decisions and actions)
- Catalogue of decisions/actions on risk controls and mitigation
- Risk appetite monitoring procedures.

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

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

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

The declarations on the adequacy of risk management arrangements providing assurance that the risk management systems put in place are adequate with regard to the profile and strategy are presented at the end of this document. (CRR 435.1.e)

Discussion of the overall risk profile, with key indicators and figures, have been included in the Yearly Financial Reports and the Management Board Reports, in the chapters on risk management. (CRR 435.1.f)

Every Board Member holds 1 directorship. (CRR 435.2.a)

The Bank has established a separate risk committee: Bank Millennium SA Risk Committee. In 2016, the Committee held 16 meetings. (CRR 435.2.d)

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

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

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

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

Risk exposure reports for management purposes are addressed to:

- Supervisory Board (reports approved by the Bank's Management Board)
- Bank’s Management Board

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

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

- Information content (e.g. synthetic information about the credit portfolio, including key risk parameters, change in revaluation charges in the profit and loss account. etc.).
- Information format
- Information frequency (CRR 435.2.e).

4. REGULATORY CAPITAL BUFFERS

Bank, similarly to other banks in Poland, is obliged to maintain the capital conservation buffer of 1.25% from 2016.

Bank received in October 2016 the decision of Polish Financial Supervision Authority (KNF), regarding identification of the Bank as other systematically important institution and imposing on the Bank and on the Group the other systematically important institution buffer in the equivalent of 0.25% of total amount of the risk exposure.

In October and December 2016, Bank and Group received from Polish Financial Supervision Authority a recommendation to maintain own funds for the coverage of additional capital requirements at the level of 3.09 p.p. (Bank) and 3.05 p.p. (Group) in order to secure the risk resulting from FX mortgage loans granted to households, which should consists of at least 75% of Tier 1 capital (which corresponds to 2.32 p.p. in Bank and 2.29 p.p. in Group), and should consists of at least 56% of common equity Tier 1 capital (which corresponds to 1.73 p.p. in Bank and 1.71 p.p. in Group)[3].

Bank and Group are not subjected to the additional own funds requirements based on the supervisory review process as referred to in point (a) of article 104(1) of Directive 2013/36/EU. (CRR 438.b)

As a result of the above decisions and recommendations, and another requirements defined in CRR, as well as KNF recommendation for Polish banks (TCR of 12% and Tier 1 Capital Ratio of 9% as the expected minimum base in Poland), the Group has to comply with the following minimum capital ratios:

- Tier 1 Capital Ratio (T1) = 9+1.25+0.25+2.29 = 12.79% (for the Bank 12.82%)
- Total Capital Ratio (TCR) = 12+0.25+1.25+3.05 =16.55 % (for the Bank 16.59%).

It needs to be emphasized that presented above expected by KNF levels of capital ratios are significantly higher than these required by CRR (European regulation).

The Bank and The Group are not obliged to maintain own funds requirements in scope of systemic risk buffer and anticyclical buffer (Art. 440).

[3] That recommendation replaces the previous one, to maintain the Bank's own funds for the coverage of additional capital requirements at the level of 3.83 p.p., which should have consisted of at least 75% of Tier 1 capital (which corresponded to 2.87 p.p.).

5. CRR SCOPE OF APPLICATION AND OWN FUNDS

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

Companies included in consolidation as at 31.12.2016 are presented in the following table:

Table no 4 Companies of Bank Millennium Group included in consolidation as at 31.12.2016

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
BANK MILLENNIUM SA	banking services	Warsaw	Parent company		full consolidation
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI SA	investment funds management	Warsaw	100	100	full consolidation
MB FINANCE AB	funding companies from Millennium Group	Stockholm	100	100	full consolidation
MILLENNIUM SERVICE Sp. z o.o.	Rent and property management. insurance brokerage	Warsaw	100	100	full consolidation
MILLENNIUM GOODIE Sp. z o.o.	Internet portals activity	Warszawa	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations on equity markets, advisory services	Warsaw	100	100	full consolidation

As at 31 December 2016 none of the Group's companies disclosed the capital shortage in relation to existing capital requirements.

Group considers that there are no current or foreseen material or legal impediment to the prompt transfer of own funds or repayment of liabilities among parent undertaking and its subsidiaries. (Art. 436.c)

Group did not receive from competent authorities waiver from application of prudential requirements on an individual basis, based on CRR art. 7. Group did not receive a permission of competent authorities, based on CRR art. 9. (art. 436.e)

The below table presents own funds components of Group as at 31.12.2016.

Table no 5 Bank Millennium Group Own Funds as at 31.12.2016 (in PLN thous.)

ID	Item	Amount
1	**OWN FUNDS**	**6 390 664**
1.1	TIER 1 CAPITAL	6 356 800
1.1.1	COMMON EQUITY TIER 1 CAPITAL	6 356 800
1.1.1.1	Capital instruments eligible as CET1 Capital	2 360 619
1.1.1.1.1	Paid up capital instruments	1 213 117
1.1.1.1.2	Memorandum item: Capital instruments not eligible	0
1.1.1.1.3	Share premium	1 147 502
1.1.1.1.4	(-) Own CET1 instruments	0
1.1.1.1.4.1	(-) Direct holdings of CET1 instruments	0
1.1.1.1.4.2	(-) Indirect holdings of CET1 instruments	0
1.1.1.1.4.3	(-) Synthetic holdings of CET1 instruments	0
1.1.1.1.5	(-) Actual or contingent obligations to purchase own CET1 instruments	0
1.1.1.2	Retained earnings	430 949
1.1.1.2.1	Previous years retained earnings	0
1.1.1.2.2	Profit or loss eligible	430 949
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	701 252
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-270 303
1.1.1.3	Accumulated other comprehensive income	-184 962
1.1.1.4	Other reserves	3 835 395
1.1.1.5	Funds for general banking risk	228 902
1.1.1.6	Transitional adjustments due to grandfathered CET1 Capital instruments	0
1.1.1.7	Minority interest given recognition in CET1 capital	0
1.1.1.8	Transitional adjustments due to additional minority interests	0
1.1.1.9	Adjustments to CET1 due to prudential filters	130 354
1.1.1.9.1	(-) Increases in equity resulting from securitised assets	0
1.1.1.9.2	Cash flow hedge reserve	146 305
1.1.1.9.3	Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	0
1.1.1.9.4	Fair value gains and losses arising from the institution's own	0

	credit risk related to derivative liabilities	
1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-15 951
1.1.1.10	(-) Goodwill	0
1.1.1.10.1	(-) Goodwill accounted for as intangible asset	0
1.1.1.10.2	(-) Goodwill included in the valuation of significant investments	0
1.1.1.10.3	Deferred tax liabilities associated to goodwill	0
1.1.1.11	(-) Other intangible assets	-62 314
1.1.1.11.1	(-) Other intangible assets gross amount	-62 314
1.1.1.11.2	Deferred tax liabilities associated to other intangible assets	0
1.1.1.12	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	0
1.1.1.13	(-) IRB shortfall of credit risk adjustments to expected losses	-474 280
1.1.1.14	(-)Defined benefit pension fund assets	0
1.1.1.14.1	(-)Defined benefit pension fund assets gross amount	0
1.1.1.14.2	Deferred tax liabilities associated to defined benefit pension fund assets	0
1.1.1.14.3	Defined benefit pension fund assets which the institution has an unrestricted ability to use	0
1.1.1.15	(-) Reciprocal cross holdings in CET1 Capital	0
1.1.1.16	(-) Excess of deduction from AT1 items over AT1 Capital	0
1.1.1.17	(-) Qualifying holdings outside the financial sector which can alternatively be subject to a 1250% risk weight	0
1.1.1.18	(-) Securitisation positions which can alternatively be subject to a 1250% risk weight	0
1.1.1.19	(-) Free deliveries which can alternatively be subject to a 1250% risk weight	0
1.1.1.20	(-) Positions in a basket for which an institution cannot determine the risk weight under the IRB approach. and can alternatively be subject to a 1250% risk weight	0
1.1.1.21	(-) Equity exposures under an internal models approach which can alternatively be subject to a 1250% risk weight	0
1.1.1.22	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	0
1.1.1.23	(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	0

1.1.1.24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	0
1.1.1.25	(-) Amount exceeding the 17.65% threshold	0
1.1.1.26	Other transitional adjustments to CET1 Capital	92 137
1.1.1.27	(-) Additional deductions of CET1 Capital due to Article 3 CRR	0
1.1.1.28	CET1 capital elements or deductions - other	0
1.1.2	ADDITIONAL TIER 1 CAPITAL	0
1.1.2.1	Capital instruments eligible as AT1 Capital	0
1.1.2.1.1	Paid up capital instruments	0
1.1.2.1.2*	Memorandum item: Capital instruments not eligible	0
1.1.2.1.3	Share premium	0
1.1.2.1.4	(-) Own AT1 instruments	0
1.1.2.1.4.1	(-) Direct holdings of AT1 instruments	0
1.1.2.1.4.2	(-) Indirect holdings of AT1 instruments	0
1.1.2.1.4.3	(-) Synthetic holdings of AT1 instruments	0
1.1.2.1.5	(-) Actual or contingent obligations to purchase own AT1 instruments	0
1.1.2.2	Transitional adjustments due to grandfathered AT1 Capital instruments	0
1.1.2.3	Instruments issued by subsidiaries that are given recognition in AT1 Capital	0
1.1.2.4	Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	0
1.1.2.5	(-) Reciprocal cross holdings in AT1 Capital	0
1.1.2.6	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	0
1.1.2.7	(-) AT1 instruments of financial sector entities where the institution has a significant investment	0
1.1.2.8	(-) Excess of deduction from T2 items over T2 Capital	0
1.1.2.9	Other transitional adjustments to AT1 Capital	0
1.1.2.10	Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	0
1.1.2.11	(-) Additional deductions of AT1 Capital due to Article 3 CRR	0
1.1.2.12	AT1 capital elements or deductions - other	0
1.2	TIER 2 CAPITAL	33 864

1.2.1	Capital instruments and subordinated loans eligible as T2 Capital	128 720
1.2.1.1	Paid up capital instruments and subordinated loans	128 720
1.2.1.1	Memorandum item: Capital instruments and subordinated loans not eligible	0
1.2.1.3	Share premium	0
1.2.1.4	(-) Own T2 instruments	0
1.2.1.4.1	(-) Direct holdings of T2 instruments	0
1.2.1.4.2	(-) Indirect holdings of T2 instruments	0
1.2.1.4.3	(-) Synthetic holdings of T2 instruments	0
1.2.1.5	(-) Actual or contingent obligations to purchase own T2 instruments	0
1.2.2	Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	0
1.2.3	Instruments issued by subsidiaries that are given recognition in T2 Capital	0
1.2.4	Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	0
1.2.5	IRB Excess of provisions over expected losses eligible	0
1.2.6	SA General credit risk adjustments	0
1.2.7	(-) Reciprocal cross holdings in T2 Capital	0
1.2.8	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	0
1.2.9	(-) T2 instruments of financial sector entities where the institution has a significant investment	0
1.2.10	Other transitional adjustments to T2 Capital	-94 856
1.2.11	Excess of deduction from T2 items over T2 Capital (deducted in AT1)	0
1.2.12	(-) Additional deductions of T2 Capital due to Article 3 CRR	0
1.2.13	T2 capital elements or deductions - other	0
	Common Equity Tier1 Ratio (CET1)	**17.31%**
	Total Capital Ratio (TCR)	**17.40%**

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

Table no. 6 Reconciliation of items of own funds and equity reported in the Yearly Financial Report (in PLN thous.)

Item	Note of financial report	Value in financial report	Item in Table No. 5
Subordinated liabilities	34	664 004	1.2.1.1
Share capital	35a	1 213 117	1.1.1.1.1
Capital from sale of shares over nominal value	List of equity items page 10	1 147 502	1.1.1.1.3
Revaluation capital	35b	-184 962	1.1.1.3
Retained earnings	35c	4 765 548	1.1.1.4 1.1.1.5 1.1.1.2.2.1
Total equity and subordinated liabilities reported in the audited financial report		**7 605 209**	
Part of net result. which cannot be included in own funds as of reporting date for purposes of calculation of prudential standards		-270 303	1.1.1.2.2.2
Gross amount of other intangible assets		-62 314	1.1.1.11.1
Shortage of credit risk corrections in view of expected losses according to IRB approach		-474 280	1.1.1.13
Correction by 40% of unrealised gains		-2 719	1.1.1.26 and 1.2.10
Value correction due to requirements on prudential valuation		-15 951	1.1.1.9.5
Correction by part of principal of subordinated liability. which cannot be included in own funds		-534 880	1.2.1.1
Correction by interest accrued on subordinated liability		-403	1.2.1.1
Provision for instruments hedging cash flows		146 305	1.1.1.9.2
Total own funds		**6 390 662**	**1**

Items non deducted from own funds

As at 31 December 2016 the Group did not make significant investments in financial sector entities, as mentioned in article 43 CRR.

In case of deferred tax assets, mentioned in article 38 CRR, their value constitutes 4.4% of adjusted Tier I and in consequence it is exempted from deductions in keeping with article 48 CRR. At the same time this amount was assigned a risk weight of 250% for purposes of calculation of capital requirements.

6. CAPITAL REQUIREMENTS AND INTERNAL CAPITAL

6.1 Capital requirements by exposure classes and risk types

Group and Bank calculate total risk exposure amount and maintain own funds requirements in accordance with CRR article 92.

As at the 31st December, 2016. total risk exposure amount was calculated as the sum of the following items:

- Risk weighted exposure amounts for credit risk and dilution risk according to internal rating based method for retail exposures for individual customers secured on residential real estates (RRE) and revolving retail exposures (QRRE) and these calculated according the standard method as for other portfolios
- Own funds requirements to settlement/delivery risk and free deliveries
- Own funds requirements to trading book business for position risk and large exposures exceeding the limits specified in articles 395-401 CRR
- Own funds requirements to market risk as for foreign-exchange risk, settlement risk and commodities risk
- Own funds requirements to credit valuation adjustment risk
- Own funds requirements to operational risk
- Own funds requirements to counterparty credit risk.

Amounts of risk exposures and capital requirements, disclosed according to CRR art. 438.c-f. are showed in the below table.

Table no 7 Review of risk-weighted assets and capital requirements (PLN thous.)

			RWA (Risk-weighted assets)		Own funds requirements
			2016	2015	2016
	1	Credit risk (excluding CCR)	23 842 589	23 952 732	1 907 407
Art. 438cd	2	*of which the standardized approach*	16 606 159	16 264 035	1 328 493
Art. 438cd	3	*of which the foundation IRB (FIRB) approach*	0	0	0
Art. 438cd	4	*of which the advanced IRB (AIRB) approach*	7 236 430	7 688 697	578 914
Art. 438d	5	*of which equity IRB under the simple risk-weighted approach or the IMA (Internal Model Approach)*	0	0	0
Art. 107 Art. 438cd	6	CCR (Counterparty Credit Risk)	400 413	523 136	32 033
Art. 438cd	7	*of which mark-to-market*	222 283	275 923	17 783
Art. 438cd	8	*of which original exposure*	0	0	0
	9	*of which standardized approach*	0	0	0
	10	*of which internal model method (IMM - Internal Models Method))*	0	0	0
Art. 438cd	11	*of which risk exposure amount for contributions to the default fund of a CCP (Central Counterparty)*	0	0	0
Art. 438cd	12	*of which CVA (Credit Valuation Adjustment)*	178 130	247 213	14 250
Art. 438e	13	Settlement risk	0	0	0

Art. 449oi	14	Securitization exposures in the banking book (after the cap)	0	0	0
	15	*of which IRB approach*	0	0	0
	16	*of which IRB supervisory formula approach (SFA - Supervisory Formula Approach)*	0	0	0
	17	*of which internal assessment approach (IAA - Internal Assessment Approach)*	0	0	0
	18	*of which standardized approach*	0	0	0
Art. 438e	19	Market risk	292 788	363 793	23 423
	20	*of which standardized approach*	292 788	363 793	23 423
	21	*of which IMA (Internal Model Approach)*	0	0	0
Art. 438e	22	Large exposures	0	0	0
Art. 438f	23	Operational risk	3 487 204	3 389 071	278 976
	24	*of which basic indicator approach*	0	0	0
	25	*of which standardized approach*	3 487 204	3 389 071	278 976
	26	*of which advanced measurement approach*	0	0	0
Art. 437.2, Art. 48, Art. 60	27	Other items (subject to 250% risk weight)	697 842	243 446	55 827
	28	Other items (subject to 100% risk weight)	506 657	685 484	40 533
	29	Floor adjustment	7 503 110	7 606 055	600 249
	30	Total	36 730 604	36 763 716	2 938 448

6.2 Internal capital

The Group and the Bank calculate and maintain on an ongoing basis internal capital amount, that is considered to cover adequately the nature and level of the risk to which they are or might be exposed, according to art. 73 od Directive 2013/36/UE.

Group and Bank carry out the internal capital adequacy assessment process (ICAAP) in reliance on the models of internal (economic) capital.

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

Internal capital is calculated and maintained as to every risk type evaluated as a material one and as to risk types, to which own funds requirements are maintained, according to CRR.

Those are the following risk types, presented together with methods of internal capital estimation:

Table no 8 Methodologies to estimate internal capital to risk types

Risk type	Internal capital estimation method
Credit risk and counterparty credit risk	VaR for credit risk – modified Credit Risk + model
Market risk – trading portfolio	Modified VaR model
Market risk – interest rate in banking portfolio	Modified VaR model
Risk of equities in banking portfolio	Own funds requirements to equities
Credit valuation adjustment risk	Own funds requirements to credit valuation adjustment risk
Additional internal capital stemming from decision of the competent authority on maintaining own funds to cover risk of retail exposures denominated in FX secured on residential real estates	Modified methodology of calculation of additional own funds requirements to cover risk of retail exposures denominated in FX secured on residential real estates
Operational risk	Modified standard method

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

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

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

1. Classification and assessment of materiality of risk types, to determine the method for incorporating them in the risk management process and in the ICAAP process,

2. Measurement (quantification) of risk,

3. Aggregation of internal capital to secure material risk of operations, while taking into account the effect of correlation between risk types,

4. Assessment of capital adequacy by comparing the Bank’s economic risk (internal capital) to its capacity to cover the risk,

5. Allocation of internal capital to business lines/areas of operation,

6. Use of allocated internal capital to measure risk-based efficiency, set risk limits, reallocate capital while taking into account risk-weighted returns,

7. Control and monitoring of the risk level, available financial resources, capital limits and objectives.

Capital adequacy assessment carried out at the end of 2016 indicates a high level of this adequacy, which is shown in a significant surplus of capital resources (equivalent to regulatory own funds) as compared to economic risk (internal capital value) and risk calculated on the basis of supervisory regulations (the value of minimum capital requirements to cover risk). Internal capital at the end of 2016 is lower than the capital requirements in the 1st Pillar, both in the Standardized Approach and the IRB Approach (taking into account the following additional requirement resulting from a temporary supervisory restriction) for credit risk.

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

7. CREDIT RISK

7.1 Capital requirements to credit risk

Calculating risk-weighted exposures in scope of credit risk, Group and Bank use standard method and internal rating based method as for portfolios described in the point 6, according to the approval of the competent authorities described in the point 11.1.

Exposure to securitization positions are not present (Explanations in the additional information to the Yearly Financial Report). (Art. 449)

The below table presents risk-weighted assets amounts and own funds requirements in scope of credit risk (without counterparty credit risk).

Table no 9 Credit risk - risk-weighted assets and capital requirements (PLN thous.)

		Risk Weighted Assets 2016	Own funds requirements 2016
1	Central governments or central banks	0	0
2	Institutions	0	0
3	Corporates	0	0
4	*of which: Specialized lending*	0	0
5	*of which: SMEs*	0	0
6	Retail	7 236 430	578 914
7	*Secured by real estate property*	6 287 171	502 974
8	** SME's*	11 867	949
9	** Non-SME's*	6 275 304	502 024
10	*Qualifying revolving*	949 259	75 941
11	*Other retail*	0	0
12	** SMEs*	0	0
13	** Non-SMEs*	0	0
14	Equity	0	0
15	**Total IRB approach**	7 236 430	578 914
16	Central governments or central banks	6	0
17	Regional governments or local authorities	75	5 978
18	Public sector entities	13	1 016
19	Multilateral development banks	0	0
20	International organizations	0	0
21	Institutions	437	34 934
22	Corporates	10 284 611	822 769
23	*of which: SMEs*	5 416 372	433 310
24	Retail	4 434 959	354 797
25	*of which: SMEs*	1 018 829	81 506

26	Secured by mortgages on immovable property	1 385	111
27	*of which: SMEs*	1 385	111
28	Exposures in default	1 361 093	108 887
29	Items associated with particularly high risk	45	4
30	Covered bonds	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0
32	Collective investments undertakings	0	0
33	Equity exposures	43 154	3 453
34	Other exposures	742 572	92 903
35	**Total standarized approach and other items** (Table no 7 = lines 2+27+28	**17 391 930**	**1 424 853**
36	**Total credit risk and other items** (Table no 7 = lines 2+4+27+28)	**24 628 361**	**2 003 767**

The below table shows the breakdown of exposures under the standardised method by asset class and risk weight (without counterparty credit risk).

Table no 10 Exposure (EAD) as for asset classes under the standardised method with the breakdown by risk weight - without counterparty credit risk (PLN thous.)

	Exposure classes	Risk weight										
		0%	20%	35%	50%	70%	75%	100%	150%	250%	Other	Total
1	Central governments or central banks	18 439 332	29	0	0	0	0	0	0	0	0	18 439 361
2	Regional governments or local authorities	0	373 653	0	0	0	0	0	0	0	0	373 653
3	Public sector entities	10 172	8	0	24 474	0	0	461	0	0	0	35 115
4	Multilateral development banks	79 246	0	0	0	0	0	0	0	0	0	79 246
5	International organizations	0	0	0	0	0	0	0	0	0	0	0
6	Institutions	5 799	1 307 364	0	357 396	0	0	0	0	0	0	1 670 559
7	Corporates	55 426	209 015	180 243	280 773	0	4 416	10 740 210	0	0	0	11 470 083
8	Retail	6 973	28 525	28 407	38 783	0	5 918 149	279 266	0	0	0	6 300 104
9	Secured by mortgages on immovable property	0	1 024	0	2 743	0	0	241	0	0	0	4 008
10	Exposures in default	26 188	0	0	0	0	0	666 079	437 840	0	0	1 130 107
11	Items associated with particularly high risk	0	0	0	0	0	0	0	45	0	0	45
12	Covered bonds	0	0	0	0	0	0	0	0	0	0	0
13	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0
14	Collective investments	0	0	0	0	0	0	0	0	0	0	0

	undertakings											
15	Equity exposures	0	0	0	0	0	0	43 154	0	0	0	43 154
16	Other exposures	675 749	99 571	0	0	0	0	463 435	0	279 137	0	1 517 892
17	**Total**	**19 298 884**	**2 019 190**	**208 650**	**704 169**	**0**	**5 922 565**	**12 192 846**	**437 885**	**279 137**	**0**	**41 063 326**

7.2 Counterparty credit risk

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

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

At the end of 2016, the Group had derivatives and repurchase transactions, and there were no transactions regarding securities or commodities lending or borrowing transactions, long settlement transactions or margin lending transactions.

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

Table no 11 Counterparty credit risk - risk-weighted assets and capital requirements - (PLN thous)

Exposure type	Portfel	RWA 2016	Own funds requirements 2016
Derivatives	Institution	156 251	12 500
Derivatives	Corporates	63 497	5 080
Derivatives	Retail	526	42
Repos	Institution	904	72
Repos	Corporates	1 104	88
Total		**222 282**	**17 783**

Internal capital (Article 439.a)

In respect to the approaches used to assign internal capital to counterparty credit risk exposures, a modified Credit Risk+[4] approach is used, taking into account counterparty risk parameters: PD, LGD & EAD.

Credit limits

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

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

The Group also concludes derivatives contracts upon orders from its customers. With respect to treasury transaction limits (including derivatives) concluded with non-bank customers, granting such limits to a customer is a pre-requisite[5] for the Bank to perform a derivative transaction for the customer. The Bank requires a customer applying for a treasury limit to have credit capacity for its current exposure and additionally for the amount equal to a specific portion of the requested treasury limit, to have a risk rating and natural exposure, that is cash flows under sales and purchases in a convertible currency other than PLN.

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

Collateral (Article 439.b)

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

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

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

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

Wrong way-way risk exposures (Article 439.c)

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

The impact of the amount of collateral the Bank would have to provide given a downgrade in its credit rating (Article 439.d)

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

At the end of 2016, the loan is secured by State Treasury bonds WZ0118 with a nominal value of PLN 623 million.

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

Articles 439.e. 439.f. 439.g. 439.h. 439.i CRR

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

Amounts of counterparty credit risk by approach is presented in the below table.

Table no 12 Counterparty credit risk by approach (PLN thous.)

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE (Effective Expected Exposure Profile)	Multiplier	EAD post CRM (EAD post Credit Risk Mitigation)	RWAs
Mark to market		372 261			0	478 523	222 282

Amounts of risk of credit valuation adjustment is showed in the below table.

Table no 13 Risk of credit valuation adjustment (PLN thous.)

	Exposure value	RWAs
Total portfolios subject to the advanced method	0	0
(i) VaR component (including the 3x multiplier)		0
(ii) SVaR component (including the 3x multiplier)		0
All portfolios subject to the standardized method	556 060	178 130
based on the original exposure method	0	0
Total subject to the CVA capital charge	556 060	178 130

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

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

7.3 Credit risk adjustments (impairment and impairment charges)

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

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

Total exposure amount and quarterly average amount of exposure in a given period[6] divided by exposure classes are showed in the below table. (Art. 442.c)

Table no 14 Exposures as at the end of 2016 and average amount in 2016 - without counterparty credit risk (PLN thous)

		Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	0	0
2	Institutions	0	0
3	Corporates	0	0
4	*of which: Specialized lending*	0	0
5	*of which: SMEs*	0	0
6	Retail	30 770 420	30 575 330
7	*Secured by real estate property*	27 836 378	27 729 745
8	** SME's*	20 602	5 627
9	** Non-SME's*	27 815 776	27 724 118

6 1, 2, 3 and 4 quarters 2016

10	*Qualifying revolving*	2 934 042	2 845 585
11	*Other retail*	0	0
12	** SMEs*	0	0
13	** Non-SMEs*	0	0
14	Equity	0	0
15	**Total IRB approach**	30 770 420	30 575 330
16	Central governments or central banks	18 439 361	16 591 112
17	Regional governments or local authorities	373 653	424 813
18	Public sector entities	35 115	47 103
19	Multilateral development banks	79 246	59 996
20	International organizations	0	0
21	Institutions	1 670 559	2 147 263
22	Corporates	11 470 083	11 427 228
23	*of which: SMEs*	6 441 870	6 726 445
24	Retail	6 300 104	6 122 750
25	*of which: SMEs*	1 744 972	1 662 329
26	Secured by mortgages on immovable property	4 008	4 870
27	*of which: SMEs*	4 008	4 870
28	Exposures in default	1 130 107	821 629
29	Items associated with particularly high risk	45	1 077
30	Covered bonds	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0
32	Collective investments undertakings	0	0
33	Equity exposures	43 154	136 161
34	Other exposures	1 517 892	1 436 848
35	**Total standarized approach**	**41 063 326**	**39 220 849**
36	**Total**	**71 833 747**	**69 796 179**

The geographic distribution of the exposures, broken down by in significant areas by material exposure classes (European Union. Poland and others) is presented in the below table. (Art. 442.d)

Table no 15 *Exposures broken down in significant areas by material exposure classes - without counterparty credit risk (PLN thous.)*

		European Union (EU)	Poland	Other EU countries	Other geographic al areas	Total
1	Central governments or central banks	0	0	0	0	0
2	Institutions	0	0	0	0	0

3	Corporates	0	0	0	0	0
4	Retail	30 590 009	30 461 664	128 344	180 411	30 770 420
5	Equity	0	0	0	0	0
6	**Total IRB approach**	**30 590 009**	**30 461 664**	**128 344**	**180 411**	**30 770 420**
7	Central governments or central banks	18 439 361	18 236 928	202 432	0	18 439 361
8	Regional governments or local authorities	373 653	373 653	0	0	373 653
9	Public sector entities	35 115	35 115	0	0	35 115
10	Multilateral development banks	79 246	0	79 246	0	79 246
11	International organizations	0	0	0	0	0
12	Institutions	799 029	148 941	650 088	871 531	1 670 559
13	Corporates	11 470 083	11 469 773	309	0	11 470 083
14	Retail	6 216 949	6 207 557	9 393	83 154	6 300 104
15	Secured by mortgages on immovable property	4 008	4 008	0	0	4 008
16	Exposures in default	1 119 346	1 117 245	2 101	10 760	1 130 107
17	Items associated with particularly high risk	45	45	0	0	45
18	Covered bonds	0	0	0	0	0
19	Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0
21	Equity exposures	43 154	43 154	0	0	43 154
22	Other exposures	1 517 892	1 517 892	0	0	1 517 892
23	**Total standarized approach**	**40 097 882**	**39 154 312**	**943 570**	**965 445**	**41 063 326**
24	**Total**	**70 687 890**	**69 615 977**	**1 071 914**	**1 145 856**	**71 833 747**

The distribution of the exposures by industry is showed in the below table. (Art. 442.e)

Table no 16 Loan receivables and off-balance sheet exposures broken down by industries - without counterparty credit risk (PLN thous.)

	Industry	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
A	Agriculture	103 555	22 093	125 648
B	Mining	118 451	11 573	130 024
C	Processing industry	3 967 205	1 944 230	5 911 435
D	Generation and supply of electricity. gas. water	111 944	48 606	160 550
E	Supply of water; sewage and waste	99 006	31 580	130 586
F	Construction	914 176	713 737	1 627 913
G	Commerce and repairs	3 706 759	1 915 277	5 622 036
H	Transportation and warehousing	2 293 059	137 980	2 431 039
I	Hotels and restaurants	157 047	8 869	165 916
J	Information and communication	408 886	122 720	531 606
K	Financial and insurance business	144 745	115 805	260 550
L	Real estate administration	715 728	90 750	806 478
M	Other professional. scientific and technical activity	337 875	144 482	482 357
O	Public administration	308 447	80 810	389 257
P	Education	31 780	29 732	61 512
Q	Health care	161 927	62 784	224 711
R	Culture. recreation and entertainment	23 402	3 056	26 458
N+S	Other services	696 747	150 367	847 114
	Total	**14 300 739**	**5 634 451**	**19 935 190**

The Group has presented the distribution of the key receivables portfolio by the residual maturity for main exposure types: deposits and loans granted to banks and other monetary institutions (Note 15b to the Yearly Financial Report), loans and borrowings granted to customers (Note 18e to the Yearly Financial Report). (Art. 442.f).

Impaired and past-due exposures to significant industries, specific and general credit risk adjustments, and amounts written down from the balance sheet in connection with revaluation charges in 2016 are presented in the below table. (Art. 442.g)

Table no 17 *Impaired and past-due exposures to significant industries, amounts written down from the balance sheet in connection with impaired charges in 2016 – without counterparty credit risk (PLN thous.)*

	Industry	Impaired balance-sheet exposures	Balance-sheet exposures > 4 days past due	Adjustments for general credit risk (IBNR)	Adjustments for specific credit risk (impaired)	Amounts written off from the balance sheet in 2015
A	Agriculture	16 413	18 053	452	12 779	227
B	Mining	2 211	5 036	728	1 005	527
C	Processing industry	179 440	206 198	26 961	95 870	12 361
D	Generation and supply of electricity. gas. water	707	1 008	500	428	97
E	Supply of water; sewage and waste	2 757	4 261	412	2 070	202
F	Construction	165 546	168 128	5 083	116 551	23 604
G	Commerce and repairs	170 916	270 536	19 111	92 898	9 418
H	Transportation and warehousing	52 286	189 231	10 394	28 951	6 592
I	Hotels and restaurants	35 898	15 025	815	13 596	121
J	Information and communication	12 477	13 986	1 902	9 057	115
K	Financial and insurance business	6 722	7 989	792	4 268	410
L	Real estate administration	67 670	88 187	4 285	13 751	104
M	Other professional. scientific and technical activity	37 077	17 054	1 447	31 337	570
O	Public administration	0	0	12	0	0
P	Education	2 033	4 912	527	1 236	59
Q	Health care	2 444	3 872	865	1 600	25
R	Culture. recreation and entertainment	2 511	3 282	192	1 747	80
N+S	Other services	43 743	59 209	2 373	18 329	6 647
	Total	**800 851**	**1 075 967**	**76 851**	**445 473**	**61 159**

At the same time, chapter VII.3 “Credit risk” of the Management Board Report on the Activity of the Bank/Group presents a general assessment of the credit risk level and assessment of changes in this respect observed during 2016 year, along with key asset quality indicators. It also presents an assessment of concentration levels in the credit portfolio, broken down into product types and industries.

The Group does not present information on impaired and past-due exposures broken down by significant geographical areas, due to immaterial exposures to counterparties having site in countries other than Poland. (Art. 442.h)

The agreed changes in the impairment and impairment charges are presented in the Notes (18.g) to the Yearly Financial Report. (Art. 442.i)

7.4 Use of external ratings

When calculating requirements for own funds for entities other than financial institutions or government entities, the Group does not use ratings awarded by eligible credit assessment institutions (ECAIs). This is justified by the immaterial number of borrowers and counterparties who have a rating awarded by an ECAI. (Art. 444)

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

Table no 18 Bank's Master Scale vs. ratings used by external rating agencies

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

7.5 Encumbered assets

The following table presents information about the encumbered assets of the Group. For purposes of this Disclosure, an asset should be treated as encumbered if it has been pledged or if it is a subject to any form of arrangement to secure, collateralise or credit-support any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Additionally, to consider a given asset as the encumbered one, it should exists a possibility to assign it to a certain transaction (as an effect, e.g., securities being a coverage of Deposits' Guarantee Fund in Banking Guarantee Funds, although may not be freely withdraw, are not considered as encumbered assets, because they are not assigned to any transaction. (Art. 443)

As at 31 December 2016 the Group's used assets in order to secure obligations from following transactions:

- Lombard credit.
- loan agreement
- derivatives transactions.

Table no 19 Encumbered assets, as at 31.12.2016 (PLN thous)

Assets of the Group	Balance sheet value of encumbered assets	Fair value of encumbered securities	Balance sheet value of unencumbered assets	Fair value of unencumbered securities
Total assets	1 831 039	0	66 961 747	
Loans on demand	0	0	1 360 883	
Equity instruments	0	0	43 199	43 199
Debt securities	759 837	759 837	16 646 897	16 646 897
Other loans and advances	1 071 202	0	47 112 708	
Other assets	0	0	1 798 060	

8. OPERATIONAL RISK

The capital requirements for operational risk are calculated using the standardized approach (CRR Article 317-320). They represented about 12% of the total amount of capital requirements (without the regulatory floor) as at 31 December 2016. (Art. 446)

Losses stemming from operational risk events

The below table presents operational risk events registered in the operational risk database in 2016. In the table are not included operational risk events related to credit risk, which are treated as credit risk events for the purpose of calculating credit requirements.

Table no 20 Operational risk events (the amount of losses), divided by events categories and kind of loss (in PLN million)

Event category	Net loss	Gross loss
Internal fraud	10.2*)	26.0
External fraud	0.1	0.7
Execution, delivery and process management	0.2	1.8
Damage to physical assets	0.0	0.4
TOTAL	10.5	28.9

**) it includes PLN 7.7 m during the recovery process*

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

In terms of the risk of internal fraud, internal procedures, used by the Bank, have been thoroughly analysed in terms of resistance to this type of risk. The result of this analysis was to strengthen and establish additional points of internal control across all lines of defence in the processes of carrying out transactions and the execution orders of the Customers.

In 2016 Bank Millennium Group reported no material operational risk events. i.e. those for which gross loss exceeds 10% of capital requirements for operational risk.

9. MARKET RISK AND OTHER RISK TYPES

The Group uses standardized approaches to calculate its capital requirements for various types of market risk. The Group had requirements for own funds for specific risk of debt instruments and the general interest rate risk. The exposure to market risk was not material. Capital requirements for this risk represented about 1% of the total amount of capital requirements (without the regulatory floor) as at 31 December 2016.

Risk weighted exposure and own funds requirements to market risk are showed in the below table.

Table nr 21 Risk-weighted exposures and capital requirements to market risk (PLN thous.)

		RWA	Capital requirements
1	Interest rate risk (general and specific)	292 788	23 423
2	Equity risk (general and specific)	0	0
3	Foreign exchange risk	0	0
4	Commodity risk	0	0
	Options	0	0
5	Simplified approach	0	0
6	Delta-plus method	0	0
7	Scenario approach	0	0
8	Securitization (specific risk)	0	0
9	**Total**	**292 788**	**23 423**

Own funds requirements to settlement risk, delivery risk, large exposures limits excess were not reported as at 31.12.2016.

Exposure to market risk

Information on exposures to market risk are presented in the Yearly Financial Report, in the market risk management section of the financial risk management chapter (8.4). (Art. 445)

Exposures in equities not included in the trading book

As at 31 December 2016 the Group had exposures in equities not included in the trading book with total balance-sheet value of PLN 42,890 thousand. The adopted methods of valuation, balance-sheet classification and effect of measurement at fair value are presented in the table below. (Art. 447)

Table no 22 Exposures in equities not included in the trading book (in PLN thous.)

Balance-sheet classification	Measurement method	Balance-sheet value	Effect of pricing carried in revaluation capital
Shares and stock available for sale	Valuation models in case of stock and shares not quoted on the active market	42 611	1 603
Shares and stock available for sale	Fair value measured on the basis of active market quotations	279	270

Below are presented the most important from the point of view of the balance sheet, equity exposures of the Group as at 31 December 2016, including the assignment of strategic goals of connected with these equities:

1. Visa Europe Ltd.; balance sheet value PLN 24.445 thous. – equity exposure is connected with banking activity; As member of Visa Europe Ltd the Bank is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. As a result of the conversion, Bank received EUR 59.2 m in cash, 21.493 preference shares and is entitled to receive a deferred payment in amount of ca EUR 5 m. deducted by a potential adjustments.

2. Polski Standard Płatności sp. z o.o.; balance-sheet value PLN 17.232 thous. – the purpose of the equity exposure is to introduce into the Bank's offering new products and services for the Bank's customers.

3. Biuro Informacji Kredytowej S.A.; balance-sheet value PLN 400 thous. – the equity exposure is connected with the banking activity;

4. Krajowa Izba Rozliczeniowa S.A.; balance-sheet value PLN 313 thous. - the equity exposure is connected with the banking activity;

5. Giełda Papierów Wartościowych SA; balance-sheet value PLN 279 thous. – the equity exposure is connected with activity on the capital market.

In the analysed period (2016) the Group:

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

- did not realise profit on sale of shares from the "available for sale" book, nevertheless as a result of the settlement of the transaction described in the above point 1) the Group reported gross revenues of PLN 305.641 thous. (that settlement has been broadly described in the Yearly Financial Report for 2016)

- in calculating own funds as at 31.12.2016 the positive effect of pricing of shares (ne t amount with account of deferred tax) from the "available for sale" book, presented in the balance-sheet in revaluation capital was taken in amount of PLN 1.517 thous.

Exposure to interest rate risk on positions not included in the trading book

Information on exposures to interest rate risk on positions not included in the trading book are presented in the Yearly Financial Report, in the market risk management section of the financial risk management chapter (8.4). (Art.448)

10. FINANCIAL LEVERAGE

Bank completed calculation of leverage ratio on consolidated base, as at 31 December 2016, based on CRR and Regulatory Technical Standards (EU) 2015/62 from 10 October 2014 on leverage ratio.

As at 31 December 2016, the leverage ratio at the Group level was 8.97% using temporary definition of Tier 1 Capital and 8.85% using fully implemented definition of Tier 1 Capital.

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

The distribution of the total exposure measure used in the leverage ratio and leverage levels as at 31 December 2016 are presented in the table below:

Table no 23 Distribution of total exposure measure and leverage ratios as at 31 December 2016, (in PLN thous. %).

The amount and distribution of total exposure used in the leverage ratio	Value
Exposure to equity financing transactions. exposure in accordance to Article 429.5 and 429.8 of CRR	90 512
Derivatives: current replacement cost	248 138
Derivatives: amount calculated with market value method	315 073
Off-balance sheet items with CCF 10% according to Article 429.10 of CRR	721 753
Off-balance sheet items with CCF 20% according to Article 429.10 of CRR	103 571
Off-balance sheet items with CCF 50% according to Article 429.10 of CRR	124 478
Off-balance sheet items with CCF 100% according to Article 429.10 of CRR	327 593
Other assets	69 241 702
Deducted amount of assets – Tier I Capital – fully implemented definition	- 406 240
Deducted amount of assets – Tier I Capital – temporary definition	- 314 102
Total exposure of leverage ratio – using fully implemented definition of Tier I Capital	70 766 581
Total exposure of leverage ratio – using temporary definition of Tier I Capital	70 858 718
Tier I Capital – fully implemented definition	6 264 662
Tier I Capital – temporary definition	6 356 800
Leverage ratio - using the fully implemented Tier 1 Capital definition	8.85%
Leverage ratio - using the temporary Tier 1 Capital definition	8.97%

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

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

The table below presents the leverage ratio levels in 2016; its level is satisfactory, with slight changes, and therefore a description of factors that had an impact on its levels is not justified.

Table no 24 Leverage ratios of the Groups in quarters of 2016 year (in %)

Leverage ratio	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Leverage ratio - using the fully implemented Tier 1 Capital definition	9.46%	9.28%	9.30%	8.85%
Leverage ratio - using the temporary Tier 1 Capital definition	9.44%	9.36%	9.39%	8.97%

11. IRB METHOD

Bank and Group calculate own funds requirements to credit risk with internal rating based approach (IRB) for retail exposures to individual customers secured on residential mortgages (RRE portfolio) and for retail revolving exposures (QRRE). As for other loan portfolios. IRB roll-out plan proceeds according to arrangements made with competent authorities. The exceptions are portfolios of exposures to central banks and governments, institutions, leasing and capital exposures, which are included in the permanent exclusions from the IRB approach implementation.

11.1 Approval to use the IRB Approach

As at 31 December 2016. the Banco Comercial Portugues Group (the parent owner of Bank Millennium SA) has obtained the described below approvals of the competent authority pertaining to the use of the IRB Approach by the Group and Bank Millennium SA ("IRB Decisions"). Both approvals were issued by Banco de Portugal (the consolidating regulator of the Banco Comercial Portugues Group) in cooperation with the Polish Financial Supervision Commission.

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

The approval issued at the end of 2014 entails:

1) reduction of the "regulatory floor" for RRE and QRRE portfolios from 80% to 70% of the relevant capital requirements calculated using the Standardized Approach. The regulatory floor shall be applied portfolio by portfolio. and should be adjusted up or downwards in case of any difference between expected losses and provisions so that the impact in the solvency ratios is exactly the same of considering only 70% of the capital requirements calculated under the standard method. According to the position of Competent Authorities (European Central Bank and KNF) presented in December 2015. regulatory validation regarding removal of the regulatory floor will be continuing in 2017.

2) commencement of use of the IRB Approach for the other retail exposures class is conditional upon meeting certain conditions by 30 June 2015.

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

4) the permission to make changes to models applicable to RRE and QRRE portfolios is conditional upon meeting certain conditions. while the new application to use the IRB Approach to these portfolios should be submitted until 30 June 2015.

Regulatory validation on the use of the IRB Approach for other retail exposures. changes in RRE and QRRE models and the use of the IRB Approach for corporate exposures will be continuing in 2017.

11.2 Internal rating systems and processes

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

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

The Master Scale (MS) consists of 15 rating grades. where the given ratings are as follows:

1) Maximum security – only for sovereigns
2) Superior quality
3) Very high quality
4) High quality
5) Very good quality
6) Good quality
7) Average high quality
8) Average quality
9) Average low quality
10) Low quality
11) Very low quality
12) Restricted crediting
13) Soft signs of impairment
14) String signs of impairment
15) Default.

Ratings 13 – 15 are procedural ones, reserved to exposures with deteriorated quality.

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

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

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

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

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

The table showing relationships between internal and external risk grades is presented in chapter 7.3 of the Disclosures. The Bank recognizes the following external rating agencies for comparison purposes: Fitch, Moody’s, Standard & Poor’s.

In case of retail customers, rating awarded through a behavioral model (behavioral rating) by default takes precedence over a rating awarded through an application model (application rating) if behavioral rating only is awarded. In case of corporate customers, awarded rating comes from a combination of a quantitative model based on an analysis of data from financial statements and on a qualitative model of customer including wages for each of components. Currently Bank is in a course of an implementation of an additional module in corporate models that is based on behavioral variables.

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

Procedural ratings by default take precedence over application ratings.

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

Description of the internal ratings process

1. Central governments and central banks

This exposure class is excluded permanently from the IRB approach.

2. Institutions

This exposure class is excluded permanently from the IRB approach.

3. Corporates. including SMEs. specialized lending and purchased corporate receivables

Exposure classes subject to the plan of gradual implementation of the IRB approach.

4. Retail exposures

- PD models

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

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

The presented rating principles apply to all categories of retail exposures: retail exposures to individuals secured by residential real estate, qualifying revolving retail exposures and other retail exposures.
The class of retail exposures to individuals secured by residential real estate include exposures which are mortgage loans or home equity loans granted to retail clients (small businesses and private individuals) and secured by mortgage.

The class of qualifying revolving retail exposures includes exposures to natural persons which are unsecured, renewable, with total exposure not exceeding EUR 100.000 and which meet the requirement of low volatility of loss rates.

All the retail exposures that do not qualify to the above categories are treated as other retail exposures. They are covered by the IRB roll-out plan, and according to the last IRB permission, IRB Approval Pack regarding these exposures was delivered on the 30th June, 2015 (update of that Approval Pack will be submitted at the turn of 2017 and 2018).

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

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

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

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

- internal sources (Bank’s IT systems);

- external sources (Biuro Informacji Kredytowej S.A.);

- data received from customers.

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

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

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

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

- LGD models

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

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

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

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

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

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

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

Loss given default is estimated at a transaction level.

- Exposure at Default (EAD) models

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

5. Equity exposures

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

6. Exposure values and adjustments

The below table presents the basic aggregates and parameters used in calculation of own funds requirements in IRB method. As for exposure classes under IRB method, exposure amounts, CCF's, average PD's, debtors amount, average LGD's, risk-weighted assets, risk density, expected loss and specific credit risk adjustments, break downed by probability of default (PD) brackets are showed.

Table no 25 Exposures to credit risk by exposure classes and PD brackets

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	RWAs	RWA density	EL	Value adjustments and provisions
QRRE	0.00 do <0.15	206 297	1 133 041	77.65%	1 086 081	0.08%	148 249	81.98%	47 145	4.34%	712	386
QRRE	0.15 do <0.25	112 053	262 370	82.57%	328 702	0.20%	58 807	77.48%	28 710	8.73%	509	234
QRRE	0.25 to <0.50	119 677	168 826	84.23%	261 874	0.39%	45 961	74.69%	37 965	14.50%	763	244
QRRE	0.50 to <0.75	162 764	138 751	84.10%	279 457	0.71%	46 869	75.49%	65 714	23.51%	1 498	367
QRRE	0.75 to <2.50	324 395	172 099	86.63%	473 478	1.67%	70 133	73.70%	205 915	43.49%	5 816	794
QRRE	2.50 to <10.00	215 105	64 265	85.36%	269 959	5.73%	38 415	75.31%	280 717	103.99%	11 735	944
QRRE	10.00 to <100.00	114 049	19 350	85.31%	130 556	27.84%	18 425	78.54%	278 716	213.48%	28 238	1 357
QRRE	100.00 (default)	103 936	3 866	0.00%	103 936	100.00%	17 095	97.98%	4 378	4.21%	101 840	48 117
QRRE	**Total**	**1 358 277**	**1 962 569**	**80.29%**	**2 934 042**	**5.73%**	**443 954**	**78.67%**	**949 259**	**32.35%**	**151 112**	**52 442**
Residential Retail	0.00 do <0.15	17 418 586	66 358	0.00%	17 418 586	0.08%	80 660	31.40%	1 159 233	6.66%	4 375	14 327
Residential Retail	0.15 do <0.25	2 807 693	13 864	0.14%	2 807 712	0.19%	11 769	32.14%	369 272	13.15%	1 725	2 901
Residential Retail	0.25 to <0.50	1 811 681	10 440	1.96%	1 811 886	0.39%	7 602	32.25%	404 818	22.34%	2 279	2 708
Residential Retail	0.50 to <0.75	1 365 964	6 827	0.00%	1 365 964	0.71%	5 384	32.52%	468 281	34.28%	3 154	2 641

Residential Retail	0.75 to <2.50	1 722 193	12 784	0.00%	1 722 193	1.66%	6 946	32.54%	1 022 123	59.35%	9 324	4 456
Residential Retail	2.50 to <10.00	1 045 814	5 343	0.02%	1 045 815	5.79%	4 079	32.40%	1 235 080	118.10%	19 576	5 340
Residential Retail	10.00 to <100.00	809 295	647	0.00%	809 295	19.97%	2 895	33.14%	1 501 917	185.58%	53 956	9 294
Residential Retail	100.00 (default)	854 927		0.00%	854 927	100.00%	2 640	64.07%	126 447	14.79%	547 748	224 861
Residential Retail	**Total**	**27 836 153**	**116 262**	**0.19%**	**27 836 378**	**4.10%**	**121 975**	**32.75%**	**6 287 171**	**22.59%**	**642 138**	**266 528**
Total (all classes)		**29 194 430**	**2 078 831**	**75.81%**	**30 770 420**	**4.26%**	**16 058**	**37.12%**	**7 236 430**	**23.52%**	**793 250**	**318 969**

7. Drivers that impacted on the loss experience, in conjunction with the actual results in a longer term

Comparison of actual and modeled PD

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

Table no 26 Actual and estimated default rates for the QRRE portfolio (in %)

Term	Estimated default rate	Actual default rate
2012	3.12%	2.16%
2013	2.74%	2.16%
2014	2.68%	1.99%
2015	2.69%	1.82%
2016	2.47%	1.59%

Table nr 27 Actual and estimated default rates for the portfolio of loans secured by residential property (in %)

Term	Estimated default rate	Actual default rate
2012	1.12%	0.49%
2013	0.80%	0.49%
2014	0.78%	0.48%
2015	0.82%	0.55%
2016	0.88%	0.60%

In case of QRRE portfolio, actual default rates have been decreased in the last years and are lower than estimated. The observed decrease in actual default rates in recent years is consistent with the observed market trends and may be explained by the following:

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

In case of RRE portfolio, actual default rates are slightly higher in the last years. (however they remains on a visible lower level than estimated values); that increase regards the portfolio denominated in foreign currencies (mostly CHF) and stems from an increase of exchange rate and increase of an installments paid by customers.

The actual default rates were also lower than the average probability of default (PD) mainly because of consideration in estimation of long-term PD an additional conservative buffer, connected with estimation errors, that increases PD values.

Comparison of actual and modeled CCF

The analysis of actual CCF has been conducted for QRRE portfolio cases defaulted during the calendar year 2016 (reporting period) and 2015 (comparative period) which, at the end of the preceding year (31 December 2015 and 31 December 2014, respectively) were not defaulted and had a positive off-balance sheet exposure. The analysis involved a comparison of the average actual conversion factors with average modeled levels (average weighed by the amount of off-balance sheet exposure was applied in both cases). The modeled factors include a number of conservative haircuts and should be higher than the actual figures. The results are presented in the table below.

Table no 28 Comparison of actual and modeled CCF (in %)

CCF	2016	2015
Modeled CCF	86.1%	86.1%
Actual CCF	61.0%	61.6%

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

Comparison of actual and modeled LGD

The analysis of actual LGD was carried out for cases from RRE and QRRE portfolios. Calculation of actual LGD figures requires a longer time horizon, because recoveries may occur only after the exposure achieves the default status. Accordingly. the calculation of actual LGDs was based on the cases, which defaulted by December 2014. The average LGD calculated on the basis of these cases (average weighed by the exposure size) was compared with the average LGD level obtained from the model used (average weighed by the exposure size was applied in both cases). The modeled values include a number of conservative haircuts and should be higher than the actual losses. The results are presented in the table below.

Table no 29 Comparison of actual and modeled LGD (in %)

LGD	Portfolio	
	RRE	QRRE
Modeled LGD	31.9%	82.2%
Actual LGD	23.1%	49.4%

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

The Group does not have companies conducting credit activity abroad. (CRR 452.j)

11.3 Use of internal estimates

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

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

- Management information system

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

- Risk Appetite

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

- Concentration limits

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

- Decision-making powers

Credit decision-making powers are an important area where internal estimates are applied. The limits for decision-making powers rely on the client's MS risk grade and the total exposure to its economic group.

- Evaluation of borrowing capacity and creditworthiness

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

- Loan prices and pricing policy

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

- Economic capital

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

11.4 Credit risk mitigation

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

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

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

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

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

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

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

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

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

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

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

Use of credit risk mitigation techniques

The Group does not make use of on- and off-balance sheet netting (CRR 453.a).

Policies and processes for collateral valuation and management

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

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

Real estate collateral (revaluation)

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

The Group monitors collateral in order to:

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

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

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

Update of the base value of financial collateral

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

Update of the base value of material collateral

The base value of material collateral should be updated, when based on a local vision, a material amortization of collateral, collateral deficiency or lack of collateral will be reported. The value of material collateral is assessed once a 12 months.

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

The table below presents the types, kinds and legal forms of collateral accepted by the Bank. The collateral acceptance process is regulated by special procedures. Other collateral types may be accepted if they meet certain specified requirements. (CRR 453.c)

Table no 30 Types and kinds of collateral used by the Group

Type	Kind	Legal form
Financial	Term deposit in the Bank in PLN/foreign currency with a 100% principal guarantee	Ownership transfer
	Superduet Deposit in PLN/foreign currency with a 100% principal guarantee in the deposit part	For a deposit: - Ownership transfer For participation units in mutual funds: Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
	Prestige Investment Program in PLN/foreign currency	Transfer of receivables.
	Guarantee policy	Transfer of receivables
	Megazysk insurance agreement	Transfer of receivables
	Term deposit in another bank in PLN/foreign currency with a 100% principal guarantee	Transfer of receivables
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
	Participation units in mutual funds, being in sale by entities belonging to the Group, managed by Millennium TFI, ING TFI, Investors, Legg Mason TFI	Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
	WSE-listed shares included in WIG 20 stock index, deposited in Millennium Brokerage House	Ownership transfer
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge

Type	Kind	Legal form
	Treasury bills deposited in the Bank	Ownership transfer
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
	Dematerialized State Treasury bonds admitted to organized trading, deposited in the Bank or in Millennium Brokerage House	Ownership transfer
		Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
	Dematerialized State Treasury bonds not admitted to organized trading, deposited in the Bank or in Millennium Brokerage House	Registered pledge (ultimately) and Ordinary pledge (as temporary collateral)
		Ordinary pledge
Mortgage	Residential properties (used by an owner to inhabitancy or to rent excluding business activity: residential flats, housing buildings, grounds with a purpose of building of the above immovable)	Mortgage and Registered pledge and Ownership transfer (conditionally) – if collateral is established on parts of real property [e.g. devices, specialized equipment, machinery, production lines permanently connected to land or to a building which, if dismantled, will compromise the building's structure or materially reduce the value of collateral being dismantled (e.g. utilities, elevators)]
	Commercial real estate (offices, storage space, stores, service facilities, hotels, with a purpose of sale or rent in the course of business activity, residential flats, housing buildings one- or multi families grounds with a purpose of building of the above immovable other grounds)	
Material	Vehicles, including cars, construction equipment built on car chassis, other vehicles (e.g. semi-trailers and trailers and truck tractors)	Registered pledge and ownership transfer (temporary)
		Registered pledge for future collateral and ownership transfer (temporary)
	Fleet consisting of cars	Registered pledge and ownership transfer (temporary)
	Independent specialized hardware and machinery	Registered pledge and ownership transfer (temporary)
		Ownership transfer
	Production lines	Registered pledge and ownership transfer (temporary)
		Ownership transfer

Type	Kind	Legal form
	Collection of fixed assets including specialized equipment and machinery	Registered pledge and ownership transfer (temporary)
	Airplanes, helicopters, boat/ship	Registered pledge and ownership transfer (temporary)
	Inventory	Registered pledge and ownership transfer (temporary)
Receivables	Receivables under contracts pertaining to the client's business activity and lease.	Assignment of contractual receivables
	Receivables from permanent cooperation with specified business partners	Assignment of receivables from permanent cooperation with specified business partners
Guarantees and sureties	Bank guarantee	Bank guarantee
	Surety	Surety under Civil Law
		Promissory note surety

The Group does not use any guarantees and credit derivatives as risk protection instruments in the capital requirement calculation process. (CRR 453.d)

The Group notices concentration related to credit risk mitigation with respect to collaterals for loans in the form of a mortgage. The main risk factor associated with this protection are:

1) an increase in the exchange rate of CHF / PLN,

2) a decrease in the value of mortgage.

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

The Group identifies, measures, monitors and controls continuously above risk factors. Conservative liquidity strategy is used, which provides for the maintenance of liquid assets buffer for unexpected changes in exchange rates. Capital plan provides for the maintenance of capital adequacy at a satisfactory level in the coming years. Both plans - Liquidity and Capital –account for stress tests assuming a significant appreciation of the exchange rate of CHF / PLN. The level of non-performing loans is regularly monitored and in case of potential problems with debt repayment customer is contacted in order to apply the right solution, suitable to his financial capability. The quality of loans secured by real estate remains at a high level. (CRR 453.e)

Group does use own estimates of LGD or conversion factors for exposures under the current IRB approval, and as for portfolios under IRB roll-out plan, own estimates of the above parameters will be not used. Therefore information defined in CRR art. 453.f are not presented.

Group does not use guarantees or credit derivatives as credit risk mitigation instruments by calculation of risk-weighted exposure amounts (CRR art. 453.g).

Group does not use Advanced Measurement Approaches to operational risk. (CRR art. 454).

Group does not use Internal Market Risk Models (CRR art. 455).

11.5 Rating systems control and review

The Group has implemented the principle of strict separation of commercial functions generating credit risk (which are performed in the Business Area) and client risk and exposure evaluation functions (which are performed by units in the Risk Area). In the area of retail exposures, the final risk grade (rating) is awarded automatically. In respect to corporate exposures, risk grades are awarded to clients and ratings monitored and changed when necessary during their term by the specialized Ratings Department.
Management of rating models, including the performance of control functions, is regulated in internal procedures pertaining to model development, model calibration and model monitoring. Responsibility for these actions has been assigned to designated model owners.
In order to ensure the appropriate control and review of the rating systems (adequate estimation of risk parameters and correct course of the rating and credit decision process), a validation and monitoring process has been introduced.
The monitoring process is performed by the unit responsible for model development.
The validation process is performed by a unit independent from the organizational units responsible for model development.

The following units handle the monitoring and validation process:

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

Reports and recommendations from model monitoring are approved by the Head of the Risk Department.

Reports and recommendations of the Model Validation Bureau are approved by the Validation Committee.

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

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

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

12. REMUNERATION POLICY

Decision-making processes regarding remuneration policy

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

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

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

In 2016, the Policy was supplemented with more detailed description of the way of an annual process of identifying persons holding managerial positions and influencing the risk profile of the Bank Millennium Group. On the 22nd July 2016, changes were approved by Bank Millennium Supervisory Board. Process of identifying staff for the 2017 bonus program was carried out already by these rules. In addition, in 2016 a distinct "Policy of remuneration in Millennium TFI" has been developed that entered into force on the 29 November 2016. The document refers to the requirements of Regulation of the Ministry of Finance dated 30 August 2016. That remuneration policy is consistent in its assumptions with the Policy of remuneration of Bank Millennium Group, which has referred to Members of the Management Board of Millennium TFI since 2012. The rule to defer part of the variable remuneration or to convert its part into units of managed funds does not apply to other persons covered by TFI remuneration policy. This is due to the fact that Millennium TFI did not meet the criteria of significant investment fund company which at the end of 2016.

Composition, scope of tasks and procedure of work of the Supervisory Board Personnel Committee in 2016

In 2016, supervision of remuneration of persons holding managerial posts in Bank Millennium Group was held by Personnel Committee of the Supervisory Board, composed of:

1. Andrzej Koźmiński – President
2. Nuno Manuel da Silva Amado
3. Miguel de Campos Pereira de Bragança
4. Bogusław Kott

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

The Supervisory Board Personnel Committee met three times in 2016; during the meetings the members of the Management Board were re-evaluated and rules of payment were established for deferred bonus of 2012, 2013, 2014. The personnel Committee assessed also the results of the work of individual members of the Management Board in 2015 and granted to individual members of the Board a bonus for year 2015 on the principles set out in the "Policy of remuneration of employees holding managerial posts in Bank Millennium Group". In addition, the Personnel Committee has evaluated and recommended choice of candidate for a member of the Management Board, as well as assessed the performance of duties by a Member of the Management Board, who resigned from his function.

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

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

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

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

Bonus pool vs. results

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

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

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

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

Risk ratios regarding the Bank's liquidity in the evaluated period cannot fall below levels accepted by KNF.

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

Payments deferral policy

Management Board Members of Bank Millennium

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

Other persons

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

Criteria of eligibility

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

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

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

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

Members of the Bank's Management Board:

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

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

And non-financial criteria, in particular:

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

Other persons

The Personnel Committee of the Management Board of Bank Millennium evaluates work in the given settlement period looking at quantitative criteria for the particular area of responsibility (results of banking activity of business lines) as well as discretionary evaluation of personal work quality with particular consideration of the quality of decision affecting the bank's risk profile in an at least three-year perspective. The each employee identified as Risk Taker had un measure in performance evaluation system assigned, tied to her/his scope of responsibility and related to influence on risk profile.

On this basis it determines the value of annual discretionary bonus.

Quantitative information regarding remuneration

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

Table no 31 Aggregate quantitative information on remuneration per 2016, broken down by areas of the company's activity and by senior management and members of staff whose actions have a material impact on the risk profile of the institution (PLN thous.)

Business lines	Total remuneration		
	Management Board	Risk Takers (without Management Board Members)	Total
Retail Banking	0	1 077	1 077
Corporate Banking	0	4 743	4 743
Overall Bank Management	18 187	6 848	25 035
Total	**18 187**	**12 668**	**30 855**

Table no 32 The amounts of remuneration for 2016 the financial year, split into fixed and variable remuneration. and the number of beneficiaries; the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; the amounts of outstanding deferred remuneration, split into vested and unvested portions; broken down by Management Board Members, persons reporting directly to Management Board Members and other persons in management positions in Bank Millennium Group, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board Members	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
Number of persons	7	26	6
Fixed remuneration	10 687	9 230	1 598
Variable remuneration (*)	7 500	1 555	285
Total cash	3 750	778	143
Cash paid	1 875	778	143
Cash deferred	1 875	0	0
Total financial instrument	3 750	778	143
Vested financial instrument	1 875	0	0
Paid financial instrument	0	0	0
Deferred financial instrument	1 875	778	143

(*) *Variable remuneration of Management Board Members for 2016 was granted by Personal Committee in 25th May, 2017.*

Table no 33 The amounts of outstanding deferred remuneration for 2016 the financial year, split into vested and unvested portions; broken down by Management Board Members, persons reporting directly to Management Board Members holding function in 2016 and other persons in management positions in Bank Millennium Group in 2016, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board Members	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
Variable remuneration with deferred payment – part already awarded	0	0	0
Variable remuneration with deferred payment – part not yet awarded	3 750	778	143
Total deferred variable remuneration	3 750	778	143

Table no 34 The amounts of deferred remuneration awarded during 2016 year, paid out and reduced through performance adjustments for persons in management positions (including former employees), broken down by Management Board Members, persons reporting directly to Management Board Members and other persons in management positions in Bank Millennium Group, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board Members	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
Number of persons	*8*	*28*	*6*
Employed as of end of year	5	21	5
Former employees	3	7	1
Deferred remuneration paid out during the financial year, subject to adjustment for performance in previous financial years (**)	2 965	754	83
Employed as of end of year	1 982	528	75
Former employees	983	226	8

(**) Deferred remuneration for 2012, 2013, 2014 and 2015 programmes

Table no 35 New sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments among persons in management positions, broken down by Management Board Members, persons reporting directly to Management Board Members and other persons in management positions in Bank Millennium Group, whose actions have a material impact on the risk profile of the institution (PLN thous.)

	Management Board Members	Persons in management positions - reporting directly to Management Board Members	Other persons in management positions
New sign-on and severance payments	1 677	90	0
Highest such payment	1 017	90	0
Number of persons receiving such payments	*2*	*1*	*0*

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

1 person – remuneration in band 1-1,5 mln EUR.

Detail information concerning remuneration of Management Board Members are presented in chapter VIII.3 of Management Board Report on Activity of Bank Millennium S.A. for 2016.

13. STATEMENT OF THE MANAGEMENT BOARD

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

SIGNATURES

Date	Name and Surname	Position/Function	Signature
12.07.2017	Joao Bras Jorge	Chairman of the Management Board	………………………..
12.07.2017	Fernando Bicho	Deputy Chairman of the Management Board	………………………
12.07.2017	Wojciech Haase	Member of the Management Board	………………………
12.07.2017	Andrzej Gliński	Member of the Management Board	………………………
12.07.2017	Maria Jose Campos	Member of the Management Board	………………………
12.07.2017	Wojciech Rybak	Member of the Management Board	………………………

APPENDIX 1 OWN FUNDS IN ACCORDANCE WITH THE EU COMMISSION IMPLEMENTING REGULATION NO 1423/2013 OF 20.12.2013

Main features of capital instruments

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

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

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

9	1.00	1.00	1.00	1.00	1.00	1.00	1.00
9a	1.00	1.00	1.00	1.00	1.00	1.00	1.00
9b	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	equity	equity	equity	equity	equity	equity	equity
11	30.06.1989	13.06.1990	13.12.1990	17.05.1991	31.12.1991	31.01.1992	10.03.1992
12	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual
13	N/A	N/A	N/A	N/A	N/A	N/A	N/A
14	N/A	N/A	N/A	N/A	N/A	N/A	N/A
15	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16	N/A	N/A	N/A	N/A	N/A	N/A	N/A
17	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate
18	N/A	N/A	N/A	N/A	N/A	N/A	N/A
19	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20a	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary
20b	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary	fully discretionary
21	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	N/A	N/A	N/A	N/A	N/A	N/A	N/A
23	N/A	N/A	N/A	N/A	N/A	N/A	N/A
24	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	N/A	N/A	N/A	N/A	N/A	N/A	N/A
31	GSM. statutory approach	GSM. statutory approach	GSM. statutory approach	GSM. statutory approach	GSM. statutory approach	GSM. statutory approach	GSM. statutory approach

32	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial	full or partial
33	N/A	N/A	N/A	N/A	N/A	N/A	N/A
34	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution	GSM's resolution
35	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Transitional Own Funds (PLN thousand)

	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	2 360 619	26 (1). 27. 28. 29. EBA list 26 (3)	0
Retained earnings	3 835 395	26 (1) (c)	0
Accumulated other comprehensive income (and other reserves. to include unrealised gains and losses under the applicable accounting standards)	-184 962	26 (1)	0
Funds for general banking risk	228 902	26 (1) (f)	0
Independently reviewed interim profits net of any foreseeable charge or dividend	430 949	26 (2)	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**6 670 903**		0
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments (negative amount)	-15 951	34. 105	0
Intangible assets (net of related tax liability) (negative amount)	-62 314	36 (1) (b). 37. 472 (4)	0
Fair value reserves related to gains or losses on cash flow hedges	146 305	33 (a)	0
Negative amounts resulting from the calculation of expected loss amounts	-379 424	36 (1) (d). 40. 159. 472 (6)	0
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-2 719		0
Of which: …filter for unrealised loss 1	-	467	0
Of which: …filter for unrealised loss 2	-	467	0
Of which: …filter for unrealised gain 1	-2 200	468	0
Of which: …filter for unrealised gain 2	-519	468	0

Total regulatory adjustments to Common equity Tier 1 (CET1)	-314 103		0
Common Equity Tier 1 (CET1) capital	**6 356 800**		0
Additional Tier 1 (AT1) capital: instruments			
Additional Tier 1 (AT1) capital before regulatory adjustments	-		0
Additional Tier 1 (AT1) capital: regulatory adjustments			
Additional Tier 1 (AT1) capital	-		0
Tier 1 capital (T1 = CET1 + AT1)	6 356 800		0
Tier 2 (T2) capital: instruments and provisions			
Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	128 720	486 (4)	0
Tier 2 (T2) capital before regulatory adjustments	128 720		0
Tier 2 (T2) capital: regulatory adjustments			
Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-94 856	472. 472(3)(a). 472 (4). 472 (6). 472 (8) (a). 472 (9). 472 (10) (a). 472 (11) (a)	0
Total regulatory adjustments to Tier 2 (T2) capital	-94 856		0
Tier 2 (T2) capital	33 864		0
Total capital (TC = T1 + T2)	6 390 662		0
Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts)	-		0
Of which: …items not deducted from CET1 (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line. e.g. Deferred tax assets that rely on future profitability net of related tax liablity. indirect holdings of own CET1. etc)	-	472. 472 (5). 472 (8) (b). 472 (10) (b). 472 (11) (b)	0

Of which: …items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line. e.g. Reciprocal cross holdings in T2 instruments. direct holdings of non-significant investments in the capital of other financial sector entities. etc)	-	475. 475 (2) (b). 475 (2) (c). 475 (4) (b)	0
Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line. e.g. Indirect holdings of own t2 instruments. indirect holdings of non significant investments in the capital of other financial sector entities. indirect holdings of significant investments in the capital of other financial sector entities etc)	-	477. 477 (2) (b). 477 (2) (c). 477 (4) (b)	0
Total risk weighted assets	36 730 604		0
Capital ratios and buffers	-		0
Common Equity Tier 1 (as a percentage of risk exposure amount)	17.31%	92 (2) (a). 465	0
Tier 1 (as a percentage of risk exposure amount)	17.31%	92 (2) (b). 465	0
Total capital (as a percentage of risk exposure amount)	17.40%	92 (2) (c)	0
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements. plus systemic risk buffer. plus the systemically important institution buffer (G-SII or O-SII buffer). expressed as a percentage of risk exposure amount)	-	CRD 128. 129. 130	0
of which: capital conservation buffer requirement	-		0
of which: countercyclical buffer requirement	-		0
of which: systemic risk buffer requirement	-		0
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131	0
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	-	CRD 128	0

Description of key components of own funds

Details of items from Table no. 5 (in PLN thous.)

1.1.1.1.1	**Paid-for capital instruments**	**1 213 117**
This item is equal to the company's share capital, which comprises the following components (nominal value of one share = PLN 1):		

Series / issue	Share type	Privilege type	Number of shares	Series / issue value	Payment of capital	Registration date	Right to dividend
A	registered founding	x2 voting rights	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increase of nominal share value from PLN 1 to 4				122 603 154	Reserve capital	24.11.1994	
1:4 share split			122 603 154			05.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	Capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total stock capital				1 213 116 777			

1.1.1.1.3	**Agio**	**1 147 502**
Agio is the capital from sale of shares above their nominal value. It is created with the issue premium generated from an issue of shares less direct related costs incurred.		
1.1.1.2.2.1	**Profit or loss attributable to owners of the parent entity**	**701 252**
This item is equal to 2016 consolidated net result.		
1.1.1.2.2.2	**(-) Part of not recognised current profit or not recognised annual profit**	**-270 303**
This is the amount of net result. which cannot be included in own funds for purposes of calculation of prudential standards as of reporting date. As for the remaining amount (PLN 430 94 t) the Bank obtained consent of the Polish Financial Supervision Authority for its inclusion in Tier I. This amount constitutes net profit of the Group for 6 months of 2016.		
1.1.1.3	**Accumulated other total income**	**-184 962**
This item comprises revaluation capital. which arose in result of recognition of: - Effect of measurement (at fair value) of financial assets available for sale in the net amount i.e. after deduction of deferred tax. These amounts are removed from revaluation capital is done when all or part of the valuated assets are taken out of the books or when impairment is recognised (the valuation effect is then taken to the P&L Account). Amount of PLN (-) 38 312 thous. - Effect of measurement (at fair value) of derivative instruments hedging cash flows in the net amount i.e. after deduction of deferred tax. Revaluation capital carries part of profit or loss involved with the instrument hedging cash flows, which constitutes an effective hedge, while the ineffective part of profit or loss involved with this hedging instrument is carried in P&L. Amount of PLN (-) 146 305 thous. - Actuarial profit / (loss) in the net amount i.e. after deferred tax. Revaluation capital carries profit or loss resulting from discounting of future liabilities arisen on account of a provision created for retirement severance pay. These values are not eligible for moving to P&L. the amount is PLN (-) 345 thous.		
1.1.1.4	**Additional reserve capital**	**3 835 395**

This capital arose in result of annual resolutions of the Shareholders' Meeting on distribution of profit. These resolutions decided to retain part of profit generated in the Bank and in Companies of the Group. According to the Articles of Association the GSM decides about use of additional reserve capital and it may be used in particular to cover any future losses or for payment of dividend.		
1.1.1.5	**General banking risk fund**	**228 902**
The General Banking Risk Fund in the Bank was created with profit after tax in keeping with provisions of Banking Law of 29 August 1997 as amended.		
1.1.1.9.2	**Provision for instruments hedging cash flows**	**146 305**
This amount with a negative mark is a component of item 1.1.1.3 and in accordance with article 33 of Regulation No. 575/2013 the Bank does not include it in own funds.		
1.1.1.9.5	**Value adjustments coming from requirements on prudent valuation**	**-15 951**
That adjustment concerns: - debt securities (trading portfolio): PLN (-) 314 thous. - debt securities (available for sale): PLN (-) 13 792 thous. - shares (available for sale): PLN (-) 15 thous. - balance sheet value of derivatives (trading portfolio): PLN (-) 482 thous. - balance sheet value of derivatives (hedging): PLN (-) 1 168 thous.		
1.1.1.11.1	**(-) Gross amount of other intangible assets**	**-62 314**
This amount comprises mainly the value of software purchased by the Bank and companies of the Group.		
1.1.1.13	**(-) Shortage of credit risk corrections in view of expected losses according to IRB approach**	**-474 280**
Deductions under art. 36 CRR concern portfolios of retail residential real estate (RRE) mortgages and renewable retail exposures (QRRE). with respect to which the Group has permission to apply the IRB approach. The method of carrying the amounts of expected losses is consistent with CRR art. 128 and 159.		
1.1.1.26	**Other interim corrections in Tier I**	**92 137**

These corrections comprise following amounts: - Transfer of 20% of item 1.1.1.13 to item 1.2.10 in keeping with article 472 and 478 of Regulation No. 575/2013. Correction amount PLN +94 856 thous. - Correction of measurement (at fair value) of financial assets available for sale. reported in item 1.1.1.3 by 40% of unrealised gains in keeping with article 468 of Regulation No. 575/2013. Correction amount PLN (-) 2 719 thous.		
1.2.1.1	**Paid-for equity instruments and subordinated loans**	**128 720**
The Bank (and Group) includes in supplementary funds the liabilities from issue of securities with maturities in December 2017. The nominal amount of the liability is EUR 150 000 000. After using daily depreciation the amount included in Tier II is EUR 29 096 thous. i.e. PLN 128 720 thous.		
1.2.10	**Other interim corrections in Tier II**	**-94 856**
Correction for transfer of 20% of the item 1.1.1.13 in keeping with article 472 and 478 of Regulation No. 575/2013.		

APPENDIX 2 REPORT AND CRR (CAPITAL REQUIREMENTS REGULATION)

CRR article (Part VIII)	CRR provision	Point in the Report / in another document
435.1.a	1. Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to under this Title. These disclosures shall include: (a) the strategies and processes to manage those risks;	3 8 Yearly Report VII Management Board Report
435.1.b	(b) the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements;	8 Yearly Report VII Management Board Report
435.1.c	(c) the scope and nature of risk reporting and measurement systems;	8 Yearly Report VII Management Board Report

435.1.d	(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	8 Yearly Report VII Management Board Report
435.1.e	(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;	13
435.1.f	(f) a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	8 Yearly Report VII Management Board Report
435.2.a	2. Institutions shall disclose the following information, including regular, at least annual updates, regarding governance arrangements: (a) the number of directorships held by members of the management body;	3
435.2.b	(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;	12
435.2.c	(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;	12
435.2.d	(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	3
435.2.e	(e) the description of the information flow on risk to the management body.	3
436.a-b	Institutions shall disclose the following information regarding the scope of application of the requirements of this Regulation in accordance with Directive 2013/36/EU: (a) the name of the institution to which the requirements of this Regulation apply; (b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; (iv) neither consolidated nor deducted;	5
436.c	(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	5
436.d	(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;	5

436.e	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	5
437.1.a	1. Institutions shall disclose the following information regarding their own funds: (a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	5 Attachment 1
437.1.b	(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	5 Attachment 1
437.1.c	(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	5 Attachment 1
437.1.d	(d) separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) each deduction made pursuant to Articles 36, 56 and 66; (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	5 Attachment 1
437.1.e	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	5
437.1.f	(f) where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	n.d.
438.a	Institutions shall disclose the following information regarding the compliance by the institution with the requirements laid down in Article 92 of this Regulation and in Article 73 of Directive 2013/36/EU: (a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	6.2
438.b	(b) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU;	4
438.c	(c) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112;	6.1
438.d	(d) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond. For the equity exposure class, this requirement applies to: (i) each of the approaches provided in Article 155; (ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures; (iii) exposures subject to supervisory transition regarding own funds requirements; (iv) exposures subject to grandfathering provisions regarding own funds requirements;	6.1

438.e	(e) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3);	6.1
438.f	(f) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	6.1
439.a	Institutions shall disclose the following information regarding the institution's exposure to counterparty credit risk as referred to in Part Three, Title II, Chapter 6: (a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	7.2
439.b	(b) a discussion of policies for securing collateral and establishing credit reserves;	7.2
439.c	(c) a discussion of policies with respect to wrong-way risk exposures;	7.2
439.d	(d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	7.2
439.e	(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;	7.2
439.f	(f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable;	7.2
439.g	(g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;	7.2
439.h	(h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;	7.2
439.i	(i) the estimate of α if the institution has received the permission of the competent authorities to estimate α.	7.2
440	An institution shall disclose the following information in relation to its compliance with the requirement for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU:	4
441	1. Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	n.a.
442.a	Institutions shall disclose the following information regarding the institution's exposure to credit risk and dilution risk: (a) the definitions for accounting purposes of 'past due' and 'impaired';	7.3 8 Yearly Report
442.b	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;	7.3 8 Yearly Report
442.c	(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;	7.3
442.d	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further	7.3

	detailed if appropriate;	
442.e	(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;	7.3
442.f	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	15.b Yearly Report 18.e Yearly Report
442.g	(g) by significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period;	7.3 VII.3 Yearly Report
442.h	(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;	7.3
442.i	(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: (i) a description of the type of specific and general credit risk adjustments; (ii) the opening balances; (iii) the amounts taken against the credit risk adjustments during the reporting period; (iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; (v) the closing balances.	7.3
443	Unencumbered assets	7.5
444.a	For institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2, the following information shall be disclosed for each of the exposure classes specified in Article 112: (a) the names of the nominated ECAIs and ECAs and the reasons for any changes;	7.4
444.b	(b) the exposure classes for which each ECAI or ECA is used;	7.4
444.c	(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	7.4
444.d	(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA;	7.4
444.e	(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.	7.4
445	Exposure to market risk	9 8.4 Yearly Report

446	Operational risk	8
447.a	Institutions shall disclose the following information regarding the exposures in equities not included in the trading book: (a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;	9
447.b	(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;	9
447.c	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	9
447.d	(d) the cumulative realised gains or losses arising from sales and liquidations in the period; and	9
447.e	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	9
448.a	Institutions shall disclose the following information on their exposure to interest rate risk on positions not included in the trading book: (a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;	9 8.4 Yearly Report
448.b	(b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	9 8.4 Yearly Report
449	Exposure to securitisation positions	7.1
450.a	1. Institutions shall disclose at least the following information, regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile: (a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	12
450.b	(b) information on link between pay and performance;	12
450.c	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	12
450.d	(d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	12
450.e	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	12
450.f	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits;	12

450.g	(g) aggregate quantitative information on remuneration, broken down by business area;	12
450.h	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions; (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;	12
450.i	(i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	12
451.a	1. Institutions shall disclose the following information regarding their leverage ratio calculated in accordance with Article 429 and their management of the risk of excessive leverage: (a) the leverage ratio and how the institution applies Article 499(2) and (3);	10
451.b	(b) a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	10
451.c	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	10
451.d	(d) a description of the processes used to manage the risk of excessive leverage;	10
451.e	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	10
452.a	under the IRB Approach shall disclose the following information: (a) the competent authority's permission of the approach or approved transition;	11.1
452.b	(b) an explanation and review of: (i) the structure of internal rating systems and relation between internal and external ratings; (ii) the use of internal estimates other than for calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 3; (iii) the process for managing and recognising credit risk mitigation; (iv) the control mechanisms for rating systems including a description of independence, accountability, and rating systems review;	11.2 11.3 11.4

452.c	a description of the internal ratings process, provided separately for the following exposure classes: (i) central governments and central banks; (ii) institutions; (iii) corporate, including SMEs, specialised lending and purchased corporate receivables; (iv) retail, for each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond; (v) equities;	11.2
452.d	(d) the exposure values for each of the exposure classes specified in Article 147. Exposures to central governments and central banks, institutions and corporates where institutions use own estimates of LGDs or conversion factors for the calculation of risk-weighted exposure amounts shall be disclosed separately from exposures for which the institutions do not use such estimates;	11.2
452.e	(e) for each of the exposure classes central governments and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk, institutions shall disclose: (i) the total exposures, including for the exposure classes central governments and central banks, institutions and corporate, the sum of outstanding loans and exposure values for undrawn commitments; and for equities the outstanding amount; (ii) the exposure-weighted average risk weight; (iii) for the institutions using own estimates of conversion factors for the calculation of risk-weighted exposure amounts, the amount of undrawn commitments and exposure-weighted average exposure values for each exposure class;	11.2
452.f	(f) For the retail exposure class and for each of the categories set out in point (c)(iv), either the disclosures outlined in point (e) (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and exposure values for undrawn commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);	11.2
452.g	(g) the actual specific credit risk adjustments in the preceding period for each exposure class (for retail, for each of the categories as set out in point (c)(iv)) and how they differ from past experience;	11.2
452.h	(h) a description of the factors that impacted on the loss experience in the preceding period (for example, has the institution experienced higher than average default rates, or higher than average LGDs and conversion factors);	11.2
452.i	(i) the institution's estimates against actual outcomes over a longer period. At a minimum, this shall include information on estimates of losses against actual losses in each exposure class (for retail, for each of the categories as set out in point (c)(iv) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail for each of the categories as set out in point (c)(iv). Where appropriate, the institutions shall further decompose this to provide analysis of PD and, for the institutions using own estimates of LGDs and/or conversion factors, LGD and conversion factor outcomes against estimates provided in the quantitative risk assessment disclosures set out in this Article;	11.2
452.j	(j) for all exposure classes specified in Article 147 and for each category of exposure to which the different correlations in Article 154 (1) to (4) correspond: (i) for the institutions using own LGD estimates for the calculation of risk-weighted exposure amounts, the exposure-weighted average LGD and PD in percentage for each relevant geographical location of credit exposures; (ii) for the institutions that do not use own LGD estimates, the exposure-weighted average PD in percentage for each relevant geographical location of credit exposures.	n.a.

453.a	The institutions applying credit risk mitigation techniques shall disclose the following information: (a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting;	11.4
453.b	(b) the policies and processes for collateral valuation and management;	11.4
453.c	(c) a description of the main types of collateral taken by the institution;	11.4
453.d	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;	11.4
453.e	(e) information about market or credit risk concentrations within the credit mitigation taken;	11.4
453.f	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral;	11.4
453.g	(g) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	11.4
454	Use of the Advanced Measurement Approaches to operational risk	11.4
455	Use of Internal Market Risk Models	11.4