

Information about the preliminary (non-audited) results of Bank Millennium Capital Group in 2018

Bank Millennium Group (the “Group”) consolidated net profit in 2018 financial year amounted to PLN 760.7 million and was 11.7% higher versus net profit of 2017. This was the highest yearly profit in the Bank’s history.

Net profit for 4Q 2018 amounted to PLN 212.5 million and was 6.2% higher than net profit of the previous quarter and 18.3% higher than in 4Q 2017. Interest income was the main driver of the growth: 8.1% yearly and 4.7% quarterly.

Main financial and business highlights of 2018 are as follows:

Record net profit; improvement of main ratios

- Net profit of 2018 reached 761 million PLN, which means 12% yearly growth
- Net profit of 4Q 2018 reached 213 million PLN, +6% vs. 3Q 2018, +18% vs. 4Q 2017
- ROE at 9.6%, i.e. 0.3 p.p. higher than in 2017
- Cost/income at 46.5% i.e. 0.3 p.p. lower vs. 2017
- High tax & regulatory burden: 40% effective tax rate on operating profit (or 45% if adding BFG/KNF costs)

Interest income drives the growth; costs under wage inflation pressure and digital related projects

- Net interest income grew 8.1% y/y and 4.7% q/q
- Commissions flat yearly due to adverse capital markets impact
- Operating income grew by 6.1% y/y while costs grew by 5.4% y/y (of which staff costs by 7% y/y)

High asset quality and low cost of risk maintained

- Cost of Risk at 48 b.p. yearly - the lowest level in the last 5 years
- Impaired loans (stage 3) ratio improvement to 4.5% (from 5.2% after IFRS9 introduction on 1.1.2018)

Strong capital and liquidity ratios

- Group’s Total Capital Ratio (TCR) at 21.7%, and CET1 (= T1) at 19.8% (without net profit of 2018)
- Further improvement to be achieved after KNF approval of subordinated bond issued in January 2019
- Loans to Deposits ratio at a very low level of 80%

Retail business

- +202 ths in number of active customer acquisition - in line with 600 ths target for 3 years
- 18% growth of customer deposits to reach 47.7 bn PLN
- 3.2 bn PLN new cash loans sold (+39% y/y) and 3.3 bn PLN of mortgages (+31% y/y)
- Almost 1 million active mobile users (+36% y/y)

Companies business

- Strongest pace of loans to companies increase in the last 5 years: +14% y/y
- Maintained double-digit growth in factoring and leasing sales: +15% and +18% y/y
- High growth kept of current account balances: +22% y/y
- Double-digit yearly growth of transfers (domestic and foreign), trade finance and FX transactions

Quality and innovations

- Bank Millennium achieved again very high position in the ranking „Newsweek Friendly Bank 2018”, including top position in „Mobile banking” competition

- ARC Rynek i Opinia recognized the Bank as the best in many quality rankings, including the highest NPS score (61)
- 900 ths apps downloads by Goodie (smartshopping platform developed within Bank's Group)

These achievements of 2018 year indicate, that Bank Millennium Group began successfully fulfilling its 3-year organic growth strategy. Moreover, on 5 November 2018 the Bank announced the agreement on the transaction to buy 99.8% of the shares in Euro Bank S.A., which should be finalized in 1st half of 2019. The planned acquisition of Euro Bank, holding as of June 2018 11,9 bn PLN in loans and 7 bn PLN in deposits, will be followed by a full merger into Bank's structure and systems. This transaction will enable Bank Millennium to become bank no 6 in the attractive segment of retail non-mortgage loans and become no 6 in terms of retail customers in Poland, thanks to adding 1,4 million new customers. The process of finalizing this acquisition is on course: in the end of December the Bank got consent from antimonopoly authority (UOKiK) for the transaction.

The planned acquisition cause that the Bank intends to retain entire net profit of 2018 year in its equity in order to strengthen capital ratios.

Bank Millennium Group Profit and Loss Account in 2018 (non-audited)

Operating Income (PLN million)	2018	2017	Change y/y	4Q 2018	3Q 2018	Change q/q
Net Interest Income *	1 877.9	1 736.9	8.1%	503.8	481.1	4.7%
Net Commission Income	661.1	663.6	-0.4%	161.6	162.9	-0.8%
Core Income	2 539.0	2 400.4	5.8%	665.4	644.0	3.3%
Other Non-Interest Income */**	188.7	171.2	10.2%	47.3	45.6	3.9%
Total Operating Income **	2 727.6	2 571.6	6.1%	712.7	689.6	3.4%

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date, the margin from these operations is reflected in Net Interest Income. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 60.4 million in 2018 and PLN 40.4 million in 2017) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

(**) Excludes fair value adjustment of credit portfolio (PLN 19.9 million in 2018), which is moved to pro-forma cost of risk

Net Interest Income (pro-forma) in 2018 reached PLN 1,877.9 million and presented a considerable increase by 8.1% versus the previous year. This increase was driven by growth of business volumes combined with slight improvement of Net Interest Margin to 2.59% y-t-d compared to 2.56% one year ago.

In 4Q 2018 Net Interest Income crossed PLN 500 million after increasing by 4.7% vs 3Q 2018 confirming strong upward quarterly trend.

Net Commission Income in 2018 amounted to PLN 661.1 million and decreased slightly by 0.4% year-on-year. The transactional commissions (including loans and guarantees) together with bancassurance commissions presented considerable growth by PLN 26.7 million. On the other hand, fees from distribution of investment products and capital markets related decreased versus 2017 by PLN 27.9 million.

In 4Q 2018 Net Commission Income decreased slightly by 0.8% vs 3Q 2018. Just in 4Q 2018 the entire mutual fund market in Poland (total assets under management) decreased strongly by more than PLN 18 bn.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 2,539.0 million for 2018 which means a considerable growth of 5.8% yearly. The value of Core Income for 4Q 2018 increased by 3.3% vs. the previous quarter, mainly thanks to positive dynamics of Net Interest Income.

Other Non-interest Income, which comprise FX Result, Results on Financial Assets and Liabilities (without interest margin on derivatives and fair value adjustment of credit portfolio) and net Other Operating Income and Costs, amounted to PLN 188.7 million in 2018 and increased by 10.2% yearly.

Total operating income (pro-forma) of the Group reached PLN 2,727.6 million in 2018 and recorded robust increase by 6.1% year-on-year. In 4Q 2018, Total operating income grew by 3.4% vs 3Q 2018.

Operating Costs (PLN million)	2018	2017	Change y/y	4Q 2018	3Q 2018	Change q/q
Personnel Costs	(638.1)	(596.5)	7.0%	(160.9)	(161.0)	0.0%
Other Administrative Costs *	(629.9)	(606.2)	3.9%	(158.8)	(155.1)	2.4%
- of which Banking Guarantee Fund (BFG) fees	(105.5)	(99.3)	6.2%	(18.1)	(17.8)	1.3%
- of which financial supervision charges	(6.9)	(2.4)	191.5%	(1.6)	(2.6)	-37.8%
Total Operating Costs	(1 268.0)	(1 202.7)	5.4%	(319.8)	(316.0)	1.2%
Cost/Income	46.5%	46.8%	-0.3 p.p.	44.9%	45.8%	-0.9 p.p.

(*) including depreciation

Total costs in 2018 amounted to PLN 1,268.0 million, which means an increase by 5.4% versus the previous year. In 4Q 2018 total operating costs grew by 1.2% vs 3Q 2018.

Personnel costs in 2018 amounted to PLN 638.1 million and grew by 7.0% compared to 2017 year as a result of increase of staff remuneration and employment. The total number of employees in the Group increased by 302 employees compared to the end of 2017, of which 143 persons (FTE) due to incorporation of SKOK Piast (credit union undergoing restructuring) executed in November 2018. Moreover, employment grew in such sale channels as direct and electronic banking. Total number of employees at the end of the year reached 6,132 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	31.12.2018	30.09.2018	Change q/q	31.12.2017	Change y/y
Bank Millennium S.A.	5 785	5 605	3.2%	5 492	5.3%
Subsidiaries	347	346	0.3%	338	2.7%
Total Bank Millennium Group	6 132	5 950	3.1%	5 830	5.2%

Other administrative costs (including depreciation) in 2018 reached PLN 629.9 million and grew by 3.9% year-on-year. The biggest increase was registered in IT & telecom cost, mostly driven by spending on transaction infrastructure and client related services as well as some higher other taxes and charges as well as marketing costs. Also charges to Banking Guarantee Fund and banking supervision cost increased more visibly, i.e. by PLN 10.8 million altogether compared to the previous year's level. The contribution to BFG funds is a significant item of other administrative cost and amounted to PLN 105.5 million for 2018, including PLN 34.7 million of yearly fee for resolution fund. On the other hand, some positive impact had the decrease in rental costs bringing the annual savings of PLN 11.7 million.

Total number of Bank Millennium branches increased from 355 to 361 during last 12 months, which is a result of opening 14 "mini-branches", located in shopping centers, and closure of some other branches (net increase by 6 outlets). Moreover, within the process of incorporation of SKOK Piast, the Bank acquired its branches, the number of which at the end of 2018 was 41. The Bank, after performing detailed analysis of those outlets, will decide about their future utilization within the whole network.

Cost efficiency of the Group improved slightly in 2018: **Cost-to-Income ratio** reached 46.5% i.e. lower by 0.3 p.p. versus the level recorded one year ago.

Total cost of risk (pro-forma), which comprises net impairment provisions, fair value adjustment (of part of credit portfolio) and result on modifications, bore by the Group in 2018, amounted to PLN 236.6 million and were 7.4% lower than this cost recognized in 2017. The charges for retail segment stood at PLN 176.9 million and were slightly higher than in the previous year while for corporate segment and other amounted to PLN 59.7 million and decreased yearly by PLN 23.3 million. In relative terms, cost of risk (i.e. net charges to average net loans) in 2018 reached 48 bps level (i.e. 6 bps lower when compared to 2017).

The cost of risk level in 4Q 2018 amounted to PLN 62.4 million and was higher by 2.7% vs. 3Q 2018 level.

Net Profit (PLN million)	2018	2017	Change y/y	4Q 2018	3Q 2018	Change q/q
Operating Income	2 727.6	2 571.6	6.1%	712.7	689.6	3.4%
Operating Costs *	(1 268.0)	(1 202.7)	5.4%	(319.8)	(316.0)	1.2%
Impairment provisions and other cost of risk **	(236.6)	(255.4)	-7.4%	(62.4)	(60.8)	2.7%
Operating Profit	1 223.1	1 113.5	9.8%	330.6	312.8	5.7%
Banking tax	(198.5)	(188.3)	5.4%	(50.0)	(47.9)	4.4%
Pre-income tax Profit	1 024.6	925.2	10.7%	280.6	264.9	5.9%
Income tax	(264.0)	(244.0)	8.2%	(68.1)	(64.7)	5.2%
Net Profit	760.7	681.2	11.7%	212.5	200.2	6.2%

(*) without impairment provisions for financial and non-financial assets

(**) includes fair value adjustment of loans presented at fair value through profit and loss (PLN 19.9 million) and result from modification (PLN 14.2 million) in 2018

Operating profit, as the difference between operating income and costs (including costs of risk), reached PLN 1,223.1 million and increased by 9.8% compared to the previous year, as a consequence of evolution of all described above elements. Then banking tax grew by 5.4% yearly (higher assets) and income tax grew by 8.2% (higher income). When summing both taxes (PLN 463 million) and VAT paid by the Bank (PLN 30 million), effective tax rate reached 40% of operating profit. Additionally, if adding other obligatory payments for public purpose (BFG contribution and KNF costs), effective tax rate increases to 45%. It is also worth mentioning, that the cut of obligatory reserve remuneration, done by NBP since January 2018, decreased operating profit of the Bank in 2018 by PLN 17 million.

Gross profit before income tax in 2018 amounted to PLN 1,024.6 million and increased by 10.7% yearly.

Net Profit reported in 2018 amounted to PLN 760.7 million and was 11.7% higher than an year ago. This was the highest yearly profit in Bank's entire history.

The Net Profit for 4Q 2018 reached PLN 212.5 million and was higher by 6.2% compared to the previous quarter level.

Business results in 2018

As at the end of 2018 the Bank had 1,838 thousand active retail customers, which means an increase by 202 thousand during the year. This result shows strong start of achieving one of the main 2020 Strategic target to double customer acquisition pace to 600 thousand during 3 years. The pace of acquisition has accelerated in the last two quarters: in 4Q 2018 the number of active clients increased by 67 thousand. Electronic banking had 1,364 thousand active users (growth by 19% y/y), including 963 thousand (growth by 34% y/y) active users of the mobile application and mobile Milenet. The record-breaking acquisition of new customers was supported by the sale of accounts through online channels and continuation of the popular "Like it? Share it!" referral programme. By the end of December c.a. 377 thousand satisfied customers registered in it.

Customer Funds (PLN million)	31.12.2018	30.09.2018	Change q/q	31.12.2017	Change y/y
Deposits of individuals	47 730.3	44 186.5	8.0%	40 343.6	18.3%
Deposits of Companies and public sector	18 513.5	16 036.2	15.4%	16 929.7	9.4%
Total Deposits	66 243.8	60 222.7	10.0%	57 273.3	15.7%
Investment products *	8 479.1	9 095.5	-6.8%	9 339.1	-9.2%
Total Customer Funds	74 722.9	69 318.2	7.8%	66 612.3	12.2%

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

Deposits of Bank Millennium Group grew strongly by 15.7% yearly reaching total balance of PLN 66,244 million as at 31 December 2018. The growth vs. the end of the previous quarter was also high recording 10%.

Deposits of households reached PLN 47,730 million as at 31 December 2018, after remarkable growth of 18.3% yearly, which has accelerated in the last quarter: PLN 3,5 billion and 8% growth. Strong growth in number of customers and accounts caused a visible increase of current and saving accounts volume by c.a. 31% year on year and their share in total deposits of individuals extended to the level of c.a. 69%.

Deposits from companies and public sector increased visibly by 9.4% during the year to 18,514 million PLN, with especially high growth rate in 4Q 2018: +15.4% q/q. Currents accounts were the main driver growing by c.a. 22% year-on-year.

In the same time **non-deposit investment products** recorded strong decrease by 9.2% y/y to PLN 8,479 million level at the end of reported year as a consequence of general negative trends on the Polish capital market and high outflow of funds from mutual funds, especially visible in 4Q 2018. The volumes of investment products possessed by the Group's clients decreased in 4Q 2018 by 6.8%.

Total **customer funds** of Bank Millennium Group, comprising clients' deposits and investment products, reached PLN 74,723 million as at 31 December 2018 showing the considerable growth of 12.2% vs. the end of December 2017, with the strong performance in 4Q 2018 presenting the increase of 7.8% vs. the end of September 2018.

Total net **loans** of Bank Millennium Group reached PLN 52,712 million as at the end of December 2018, which means a considerable growth of 10.1% growth year-on-year.

The growth of loans without foreign currency mortgage portfolio presented strong pace of 16.9% year-on-year reflecting dynamic increase in all key groups of lending activity (PLN mortgage, consumer loans and companies), whereas FX mortgage portfolio continues its gradual amortisation (a yearly decrease by 1.7% or 7,6% in currency) limited by strengthening CHF to PLN in 2nd half of the year.

The net value of **loans granted to households** as at the end of December 2018 totalled PLN 35,248 million and grew by 10.1% compared to the balance recorded a year ago. But when excluding amortising FX mortgage loans, all other segments presented strong annual growth rates: PLN mortgages +20.7% year-on-year and consumer loans +18.9% year-on-year. Annual sale of new cash loans and PLN mortgages presents high dynamics well exceeding the rate of 30% and achieving the levels of PLN 3.2 bn and PLN 3.3 bn respectively.

Net value of **loans to companies** amounted to PLN 17,464 million as at the end of December 2018 and grew strongly by 13.4% year-on-year, recording the fastest growth of companies loans in the last 5 years.

The growth was well balanced, at high pace in all main product groups (gross): factoring (+22% y/y), leasing (+13% y/y) and other loans (+12% y/y). Leasing and factoring maintained double-digit growth in sales ytd: +15% y/y and +18% y/y respectively.

Loans and Advances to clients (PLN million)	31.12.2018	30.09.2018	Change q/q	31.12.2017	Change y/y
Loans to households	35 247.8	34 375.3	2.5%	32 012.8	10.1%
- PLN mortgage loans	13 485.8	12 870.6	4.8%	11 176.9	20.7%
- FX mortgage loans	14 321.0	14 403.9	-0.6%	14 575.9	-1.7%
- consumer loans	7 441.1	7 100.9	4.8%	6 260.0	18.9%
Loans to companies	17 463.8	16 539.9	5.6%	15 398.3	13.4%
- leasing	6 333.6	5 966.4	6.2%	5 605.8	13.0%
- other loans to companies and factoring	11 130.2	10 573.5	5.3%	9 792.5	13.7%
Net Loans & Advances to clients	52 711.7	50 915.2	3.5%	47 411.1	11.2%
Net Loans and Advances to clients excluding FX mortgage loans	38 390.7	36 511.3	5.1%	32 835.2	16.9%
Provisions and adjustments for credit risk*	1 831.8	1 848.6	-0.9%	1 497.2	22.3%
Gross* Loans and Advances to clients	54 543.5	52 763.8	3.4%	48 908.3	11.5%

(*) Including, besides provisions for credit risk, also fair value adjustment of loan portfolio presented in fair value as well as modification. Includes also IFRS9 initial adjustment. Gross loan portfolio in this case presents value of loans and advances before mentioned provisions and adjustments.

Liquidity, asset quality and solvency

Main **liquidity ratios** of Bank Millennium Group remain at the end of 2018 on very comfortable levels. Loan-to-deposit ratio stay at low 80% level, supported by very strong growth of deposits in the last quarter of the year. Share of liquid securities (mainly treasury bonds and NBP bills) in Group's total assets also remained at high 28.4% level and LCR ratio grew strongly during the year from 153% to high 212%.

The year 2018 brought the new reporting standard IFRS9, which caused not only change of **balance sheet volumes**, but also required a **change of definition of some asset quality ratios**. Share of impaired loans in total loan portfolio, now based on stage 3 portfolio, was at the end of December 2018 on the level of 4,52%. This means a decrease from 4.57% a year ago, but when looking into its evolution during this year using the same accounting standard, the ratio decreased from 5.17% at the beginning of 2018 and from 4.68% quarter before, which means a consequent improvement of the quality of the loan portfolio during 2018 year.

Share of **loans past-due** more than 90 days in total portfolio is lower both compared to the previous year as well as previous quarter and amounts to 2.52%.

Coverage ratio of impaired loans, now defined as all risk provisions over stage 3 loans, improved during the year from 67% in December 2017 to 74% now, partially thanks to the effect of increasing provisions after implementation of IFRS9 reporting standard. Coverage by total provisions of loans past-due more than 90 days also increased from 107% one year ago to 133% now.

Impaired loans ratios (stage 3) in particular product segments in December 2018 versus year ago showed the following evolution (partially affected by change of the standard): in non-mortgage retail portfolio (with microbusiness) decrease of the ratio to 11,3% from 12,2%; in mortgage portfolio increase to 2,81% from 2,52% year ago; in corporate portfolio improvement of the ratio to 3.92% from 4.33% year ago, including leasing portfolio at 3.89% vs. 4.57% last year.

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

Group loans quality indicators	31.12.2018 under IFRS9	30.09.2018 under IFRS9	01.01.2018** Under IFRS9	31.12.2017 under IAS39
Total impaired/stage 3 loans (PLN million)	2 463.0	2 467.7	2 533.8	2 232.7
Provisions and adjustments for credit risk* (PLN million)	1 831.8	1 848.6	1 908.4	1 497.2
Impaired/stage 3 over total loans ratio (%)	4.52%	4.68%	5.17%	4.57%
Loans past-due over 90 days /total loans (%)	2.52%	2.66%	2.95%	2.87%
Total provisions*/impaired loans (%)	74.4%	74.9%	75.3%	67.1%
Total provisions*/loans past-due (>90d) (%)	133.1%	131.8%	131.9%	106.9%

(*) Including, besides provisions for credit risk, also fair value adjustment of loan portfolio presented in fair value as well as modification.

(**) data estimated by the Bank.

Consolidated equity of Bank Millennium increased by 7.9% yearly to the level of PLN 8,384 million as on 31 December 2018, and Own Funds used for calculation of Capital Adequacy grew in the same time by 10.5% to PLN 7,943 million.

During 2018 year, Total Capital Ratio (TCR) for the Group decreased slightly by 0.31 p.p. and remained at the end of 2018 year on very high 21.68% level. In 4Q 2018, compared to 3Q, capital ratios of Group decreased: TCR went down by 1.23 p.p. and CET1 ratio by 1.13 p.p. The most important driver of that fall was the rise of risk-weighted assets by 5.2%, accompanying by an immaterial fall of own funds by 0.4%.

In capital adequacy management, the Group has the following recommendations and decisions of Competent Authorities (ECB and KNF) regarding minimum capital levels, as of 31 December 2018:

- Minimum own funds requirements, set in art. 92 of the EU Regulation No. 575/2013 (CRR) at the level of 8% of total capital, 6% of Tier 1 capital and 4.5% of common equity Tier 1 capital,
- Pillar II RRE FX Buffer - additional capital buffer in order to cover risks resulting from FX mortgage loans granted to households - at the level of 6.41 p.p. (Bank) and 6.27 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 4.81 p.p. (the Bank) and 4.70 p.p. (the Group), and which corresponds to capital requirements for CET1 ratio of 3.59 p.p. (the Bank) and 3.51 p.p. (the Group). These recommendations were issued in November and December 2018 and replaced the previous ones from 2017.
- Combined buffer - defined in Act on macroprudential supervision over the financial system and crisis management - that consists of:
 - ✓ Capital conservation buffer at the level of 1.875% (to reach 2.5% since January 2019);
 - ✓ Other systemically important institution buffer (OSII) - at the level of 0% (the value is set by KNF every year);
 - ✓ Systemic risk buffer at the level of 3% in force from the beginning of 2018;
 - ✓ Countercyclical buffer at the 0% level.

As a result of the above recommendations and decisions, the Group had to comply at the end of 2018 year with the following minimum capital ratios:

- Tier 1 Capital Ratio (T1) = $6+4.70+1.875+3 = 15.58\%$ (for the Bank 15.69%)
- Total Capital Ratio (TCR) = $8+6.27+1.875+3 = 19.15\%$ (for the Bank 19.29%).

Capital ratios of the Bank and the Group are comfortably above all the required regulatory thresholds, which can be seen in the table below, presenting main solvency and liquidity ratios:

Main capital and liquidity indicators	31.12.2018 ^{*)}	30.09.2018	31.12.2017
(PLN million)			
Risk-weighted assets (RWA) for Group	36 635.5	34 822.1	32 693.6
Risk-weighted assets (RWA) for Bank	36 012.8	34 177.7	31 927.7
Own funds requirements for Group	2 930.8	2 785.8	2 615.5
Own funds requirements for Bank	2 881.0	2 734.2	2 554.2
Own Funds for Group	7 943.0	7 978.2	7 190.6
Own Funds for Bank	7 738.5	7 774.9	7 002.3
Total Capital Ratio (TCR) for Group	21.68%	22.91%	21.99%
Minimum required level TCR	19.15%	18.285%	18.91%
Total Capital Ratio (TCR) for Bank	21.49%	22.75%	21.93%
Tier 1 ratio for Group	19.77%	20.90%	20.03%
Minimum required level T1	15.58%	14.94%	14.56%
Tier 1 ratio for Bank	19.54%	20.70%	19.92%
Common Equity Tier 1 (=T1) ratio for Group^{**)}	19.77%	20.90%	20.03%
Minimum required level CET1	12.89%	12.41%	13.53%
Common Equity Tier 1 (=T1) ratio for Bank ^{**)}	19.54%	20.70%	19.92%
Loans to Deposits ratio	79.6%	84.5%	82.8%
Liquidity Coverage Ratio (LCR)	212%	181%	153%

(*) Capital ratios are calculated according to transitional arrangements mitigating the impact of IFRS9 implementation on CET 1 capital.

(**) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio both for the Bank and the Group

Bank Millennium has a dividend policy of distributing between 35% to 50% of net profit, assuming that the recommendations of the Polish Financial Supervision Authority (KNF) regarding the payment of dividends will be met.

In January 2019 the Bank was informed by KNF on the criteria for the dividend policy rules for commercial banks in 2019. KNF communicated the individual “stress-test add-on” for the Bank to be taken into account in the consideration of dividend pay-out more than 75% and up to 100% of earned net profit. The individual stress-test add-on for Bank Millennium was set at 3.14%.

That add-on was measured as the Bank's sensitivity to an adverse macroeconomic scenario and was set at 5.64% on the top of TCR, including regulatory adjustments, deducted by 2.5% (correspondent to the conservation buffer) due to the assumption of stable balance sheet, which makes unable the response to stress-test negative developments in the external environment.

The high capital ratios at the end of 2018 would allow to pay 75% if not additional K1 and K2 criteria for banks with FX mortgage loan portfolio, which KNF maintained when announcing in January 2019 a recommendation on the banks' dividend policy. K1 criterion is based on FX mortgage share in total portfolio and K2 criterion is based on share of 2007-2008 vintages in total FX mortgage portfolio.

In connection with the above, and having in mind the planned acquisition of Euro Bank S.A., the Bank intends to retain entire net profit of 2018 year in its Own Funds in order to strengthen capital ratios. This should result in the increase of Group's T1 and TCR ratios (to the level of 21.9% and 23.8% respectively as on 31 December 2018).

After the reporting period, the Bank issued on 30 January 2019 PLN 830 million of subordinated bonds. The bonds, after approval of the Polish Financial Supervision Authority (KNF), will constitute the Bank's Tier 2 instruments and will result in further increase of Group's TCR by c.a 2.3 p.p. (based on the data as on 31 December 2018).