Annual Report
of the Bank Millennium S.A.
for the 12-month period ending 31st December 2016

Millennium bank

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2016 to 31.12.2016	period from 1.01.2015 to 31.12.2015	period from 1.01.2016 to 31.12.2016	period from 1.01.2015 to 31.12.2015
Interest income	2 177 315	2 220 978	497 592	530 725
Fee and commission income	580 226	622 325	132 602	148 711
Operating income	2 456 372	2 411 823	561 367	576 329
Operating profit / (loss)	1 052 185	939 144	240 461	224 418
Profit /(loss) before income tax	878 116	939 144	200 680	224 418
Profit /(loss) after taxes	652 651	814 157	149 154	194 551
Total comprehensive income for the period	449 423	945 372	102 709	225 906
Net cash flows from operating activities	2 839 450	4 017 543	648 913	960 032
Net cash flows from investing activities	(4 321 822)	(1 969 466)	(987 687)	(470 624)
Net cash flows from financing activities	13 200	(595 159)	3 017	(142 219)
Net cash flows, total	(1 469 172)	1 452 918	(335 757)	347 189
Total assets	68 394 601	66 065 250	15 459 901	15 502 816
Liabilities to banks and other monetary institutions	1 270 745	1 443 921	287 239	338 829
Liabilities to customers	55 988 198	52 920 583	12 655 560	12 418 299
Total equity	6 741 504	6 292 081	1 523 848	1 476 494
Share capital	1 213 117	1 213 117	274 213	284 669
Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	5.56	5.19	1.26	1.22
Diluted book value per share	5.56	5.19	1.26	1.22
Capital adequacy ratio	17.27%	16.55%	17.27%	16.55%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.4240 EUR/PLN rate of 31 December 2016 (for comparable data as of 31 December 2015: 4.2615 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2016 – 4.3757 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data for the period 1 January – 31 December 2015: 4.1848 EUR/PLN).

Main quarterly Financial Information

INCOME STATEMENT

Amount '000 PLN	1.01.2016-31.12.2016	1.10.2016-31.12.2016*	1.01.2015-31.12.2015	1.10.2015-31.12.2015*
Interest income	2 177 315	549 352	2 220 978	552 318
Interest expense	(773 453)	(184 829)	(950 570)	(227 936)
Net interest income	1 403 862	364 523	1 270 408	324 382
Fee and commission income	580 226	154 633	622 325	148 600
Fee and commission expense	(89 963)	(25 324)	(74 682)	(21 808)
Net fee and commission income	490 263	129 309	547 643	126 792
Dividend income	46 072	2	334 049	300 000
Result on investment financial assets	314 689	9 675	41 852	2 715
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	175 748	48 985	174 863	49 445
Other operating income	25 738	8 004	43 008	5 553
Operating income	2 456 372	560 498	2 411 823	808 887
General and administrative expenses	(999 598)	(252 625)	(982 111)	(247 823)
Impairment losses on financial assets	(206 093)	(66 618)	(228 479)	(43 488)
Impairment losses on non-financial assets	(3 390)	(748)	(1 406)	(790)
Depreciation and amortization	(52 204)	(12 836)	(47 432)	(12 673)
Other operating expenses	(142 902)	(33 447)	(213 251)	(162 443)
Operating expenses	(1 404 187)	(366 274)	(1 472 679)	(467 217)
Operating profit / (loss)	**1 052 185**	**194 224**	**939 144**	**341 670**
Banking tax	(174 069)	(46 127)	0	0
Profit / (loss) before income tax	**878 116**	**148 097**	**939 144**	**341 670**
Corporate income tax	(225 465)	(41 239)	(124 987)	(8 732)
Profit / (loss) after taxes	**652 651**	**106 858**	**814 157**	**332 938**

* quarterly financial information has not been audited

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	1.01.2016- 31.12.2016	1.10.2016- 31.12.2016*	1.01.2015- 31.12.2015	1.10.2015- 31.12.2015*
Profit / (loss) after taxes	652 651	106 858	814 157	332 938
Other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss	(252 355)	(53 780)	161 225	299 779
Effect of valuation of debt securities from available for sale portfolio	(85 162)	(65 377)	(31 637)	14 746
Effect of valuation of shares from available for sale portfolio	(211 472)	254	213 075	213 075
Hedge accounting	44 279	11 343	(20 213)	71 958
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	1 456	1 456	769	769
Actuarial gains (losses)	1 456	1 456	769	769
Other elements of total comprehensive income before taxes, total	**(250 899)**	**(52 324)**	**161 994**	**300 548**
Corporate income tax on other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss	47 948	10 219	(30 633)	(56 958)
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	(277)	(277)	(146)	(146)
Other elements of total comprehensive income after taxes	**(203 228)**	**(42 382)**	**131 215**	**243 444**
Total comprehensive income for the period	**449 423**	**64 476**	**945 372**	**576 382**

* quarterly financial information has not been audited

ANNUAL FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. FOR THE 12-MONTHS PERIOD ENDING 31 DECEMBER 2016

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1. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	Note	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Interest income	1	2 177 315	2 220 978
Interest expense	2	(773 453)	(950 570)
Net interest income		1 403 862	1 270 408
Fee and commission income		580 226	622 325
Fee and commission expense		(89 963)	(74 682)
Net fee and commission income	3	490 263	547 643
Dividend income	4	46 072	334 049
Result on investment financial assets	5	314 689	41 852
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	175 748	174 863
Other operating income	6	25 738	43 008
Operating income		2 456 372	2 411 823
General and administrative expenses	7	(999 598)	(982 111)
Impairment losses on financial assets	8	(206 093)	(228 479)
Impairment losses on non-financial assets	9	(3 390)	(1 406)
Depreciation and amortization	10	(52 204)	(47 432)
Other operating expenses	11	(142 902)	(213 251)
Operating expenses		(1 404 187)	(1 472 679)
Operating profit / (loss)		**1 052 185**	**939 144**
Banking tax		(174 069)	0
Profit / (loss) before income tax		**878 116**	**939 144**
Corporate income tax	12	(225 465)	(124 987)
Profit / (loss) after taxes		**652 651**	**814 157**

Notes on pages 13-124 are integral part of these financial statements.

2. TOTAL COMPREHENSIVE INCOME STATEMENT

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Profit / (loss) after taxes	652 651	814 157
Other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss:	(252 355)	161 225
Effect of valuation of debt securities from available for sale portfolio	(85 162)	(31 637)
Effect of valuation of shares from available for sale portfolio	(211 472)	213 075
Hedge accounting	44 279	(20 213)
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss:	1 456	769
Actuarial gains (losses)	1 456	769
Other elements of total comprehensive income before taxes, total	**(250 899)**	**161 994**
Corporate income tax on other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss	47 948	(30 633)
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	(277)	(146)
Other elements of total comprehensive income after taxes	**(203 228)**	**131 215**
Total comprehensive income for the period	**449 423**	**945 372**

Notes on pages 13-124 are integral part of these financial statements.

3. BALANCE SHEET

BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2016	31.12.2015
Cash, balances with the Central Bank	14	1 778 768	1 946 384
Deposits, loans and advances to banks and other monetary institutions	15	1 267 805	2 348 735
Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge	16	564 585	767 062
Hedging derivatives	17	17 934	70 833
Loans and advances to customers	18	46 593 429	46 070 719
Investment financial assets	19	17 118 811	13 862 060
- available for sale		17 118 811	13 862 060
- held to maturity		0	0
Investments in related entities	19	212 368	226 373
Receivables from securities bought with sell-back clause	20	90 520	0
Property, plant and equipment	21	159 742	152 207
Intangible assets	22	53 195	51 987
Non-current assets held for sale	23	0	0
Receivables resulting from current tax		5 370	32 562
Deferred income tax assets	24	190 641	163 249
Other assets	25	341 433	373 079
Total Assets		**68 394 601**	**66 065 250**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2016	31.12.2015
LIABILITIES			
Liabilities to banks and other monetary institutions	26	1 270 745	1 443 921
Financial liabilities valued at fair value through profit and loss and adjustment due to fair value hedge	27	339 018	344 792
Hedging derivatives	17	1 149 654	2 132 053
Liabilities to customers	28	55 988 198	52 920 583
Liabilities from securities sold with buy-back clause	29	0	0
Debt securities	30	1 113 223	1 135 501
Provisions	31	48 621	30 267
Liabilities resulting from current tax		9 964	0
Deferred income tax liabilities	32	0	0
Other liabilities	33	1 069 670	1 126 421
Subordinated debt	34	664 004	639 631
Total Liabilities		61 653 097	59 773 169
EQUITY			
Share capital	35	1 213 117	1 213 117
Share premium	35	1 147 241	1 147 241
Revaluation reserve	35	(185 176)	18 052
Retained earnings	35	4 566 322	3 913 671
Total Equity		6 741 504	6 292 081
Total Liabilities and Equity		**68 394 601**	**66 065 250**

Notes on pages 13-124 are integral part of these financial statements.

4. STATEMENT OF CHANGES IN EQUITY

01.01.2016 - 31.12.2016 *Amount '000 PLN*	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	**6 292 081**	**1 213 117**	**1 147 241**	**18 052**	**814 157**	**3 099 514**
Total comprehensive income for 2016 (net)	449 423	0	0	(203 228)	652 651	0
net profit/ (loss)	652 651	0	0	0	652 651	0
valuation of debt securities from available for sale portfolio	(68 981)	0	0	(68 981)	0	0
valuation of shares from available for sale portfolio	(171 292)	0	0	(171 292)	0	0
hedge accounting	35 866	0	0	35 866	0	0
actuarial gains (losses)	1 179	0	0	1 179	0	0
Transfer between items of reserves	0	0	0	0	(814 157)	814 157
Equity at the end of the period	**6 741 504**	**1 213 117**	**1 147 241**	**(185 176)**	**652 651**	**3 913 671**

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

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

5. CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
Profit (loss) after taxes	652 651	814 157
Adjustments for:	2 186 799	3 203 386
Interests in net profit/(loss) of associated companies	0	0
Depreciation and amortization	52 204	47 432
Foreign exchange (gains) /losses	56 386	14 307
Dividends	(46 072)	(334 049)
Changes in provisions	18 354	(64 756)
Result on sale and liquidation of investment financial assets	(316 574)	(40 754)
Change in financial assets valued at fair value through profit and loss	300 864	580 124
Change in loans and advances to banks	881 617	21 398
Change in loans and advances to customers	(523 503)	(2 441 029)
Change in receivables from securities bought with sell-back clause	(90 520)	155 642
Change in liabilities valued at fair value through profit and loss	(988 173)	456 750
Change in liabilities to banks	(231 072)	(546 232)
Change in deposits from customers	3 067 615	5 112 721
Change in liabilities from securities sold with buy-back clause	0	(66 774)
Change in debt securities	(22 438)	(34 034)
Change in income tax settlements	266 455	169 149
Income tax paid	(203 186)	(209 231)
Change in other assets and liabilities	(41 732)	368 260
Other	6 574	14 462
Net cash flows from operating activities	**2 839 450**	**4 017 543**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
Inflows:	102 296 858	219 597 381
Proceeds from sale of property, plant and equipment and intangible assets	4 914	778
Proceeds from sale of shares in related entities	13 000	0
Proceeds from sale of investment financial assets	102 232 872	219 262 554
Other	46 072	334 049
Outflows:	(106 618 680)	(221 566 847)
Acquisition of property, plant and equipment and intangible assets	(44 158)	(52 518)
Acquisition of shares in related entities	(372)	0
Acquisition of investment financial assets	(106 574 150)	(221 514 329)
Other	0	0
Net cash flows from investing activities	**(4 321 822)**	**(1 969 466)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
Inflows:	250 246	1 070 071
Long-term bank loans	220 520	108 488
Issue of debt securities	29 726	961 583
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other	0	0
Outflows:	(237 046)	(1 665 230)
Repayment of long-term bank loans	(184 636)	(108 094)
Redemption of debt securities	(29 566)	(1 532 681)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other	(22 844)	(24 455)
Net cash flows from financing activities	**13 200**	**(595 159)**

D. NET CASH FLOWS, TOTAL (A+B+C)	(1 469 172)	1 452 918
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	6 851 154	5 398 236
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	5 381 982	6 851 154

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

6. GENERAL INFORMATION ON THE ISSUER

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

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

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

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 5,800 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

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

Composition of the Supervisory Board as at 31 December 2016 was as follows:

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

Composition of the Management Board as at 31 December 2016 was as follows:

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

On May 13, 2016, Mr. Michał Gajewski tendered his resignation from the function of Member of the Management Board of the Bank, effective as of above date.

On June 6, 2016, the Supervisory Board of Bank Millennium appointed Mr. Wojciech Rybak to the position of Member of the Management Board.

7. ACCOUNTING POLICY

1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047, with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These financial statements meet the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).

This financial report was approved for publication by the Management Board on 2nd March 2016.

2) STANDARDS AND INTERPRETATIONS APPLIED IN 2016 AND NOT BINDING AS OF THE BALANCE SHEET DAY

Applied new and revised standards and interpretations

In these Bank's financial statements, the following new and revised standards and interpretations, which came into force from 1 January 2016, have been applied:

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19

Amendments to IAS 19 "Employee benefits" were published by IAS Board in November 2013. The amendments allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

Application of the standard did not have a material impact on the Bank's financial statements.

Improvements to IFRSs 2010-2012

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

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

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

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

Amendments to IFRS 11 regarding acquisitions of interests in Joint Operations

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

Application of the standard did not have an impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 38 regarding depreciation

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

Application of the standard did not have an impact on the Bank's financial statements.

Improvements to IFRSs 2012-2014

IAS Board issued on 25 September 2014 "Improvements to IFRSs 2012-2014" which impact 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

Application of the standard did not have a material impact on the Bank's financial statements.

Amendments to IAS 1

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

Application of the standard did not have a material impact on the Bank's financial statements.

Amendments to IAS 27 concerning equity method in separate financial statements

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

At present the Bank does not use aforementioned option.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28

Amendment to IFRS 10, IFRS 12 and IAS 28 published as Investment Entities: the consolidation exception specifies requirements for investment entities and introduces some facilities.

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

Application of the standard did not have an impact on the Bank's financial statements.

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

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

IFRS 9: „Financial instruments"

On 24th July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9: „Financial instruments" effective for annual periods beginning on or after 1st January 2018, which replaces the existing International Accounting Standard 39 „Financial instruments: recognition and measurement". The European Commission adopted the Standard as published by the IASB on 24th July 2014 in the Resolution No. 2016/2067 issued on 22nd November 2016.

IFRS 9 introduces a new standard in the impairment process. New model is based on the concept of „expected credit losses", estimated with the use of predictions and introduces modifications regarding the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

In March 2016 the Bank launched an IFRS 9 implementation project which actively engages various the Bank's organizational units responsible for accounting, financial reporting and risk management as well as business and IT departments and external consultants.

Work on the project has been planned in two stages:

- gap analysis - Phase I
- Implementation of the concept of IFRS 9 Bank - Phase II.

The Bank is currently designing and testing necessary solutions regarding the implementation of IFRS 9, based on the gap analysis and defined key methodological assumptions. The Bank intends to complete design works in the II quarter 2017.

Summary of key IFRS 9 requirements

Classification and measurement

Financial assets

In accordance with IFRS 9, on initial recognition a financial asset may be classified as subsequently measured at:

- amortised cost,
- fair value through other comprehensive income,
- fair value through profit or loss.

A financial asset shall be classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- the Bank's business model for managing the financial assets which is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective; and
- the contractual cash flow characteristics of the financial asset by verifying if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (so called SPPI criterion).

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss if:

- the financial asset does not meet the conditions of being classified as subsequently measured at amortised cost or at fair value through other comprehensive income (the business model the asset is held in is managed on a fair value basis or the contractual terms of the financial asset give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding);
- at initial recognition, the Bank has irrevocably designated the financial asset as measured at fair value through profit or loss because doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

On the initial recognition the Bank is required to determine if a financial instrument contains an embedded derivative. Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. However, derivatives embedded in contracts where the host is not a financial asset in the scope of IFRS 9 shall be analysed in order to determine whether it should be bifurcated.

A financial asset shall be reclassified if, and only if, the Bank changes its business model for managing financial assets. In such a case, all financial assets affected by the business model change are subject to reclassification.

Financial liabilities

IFRS 9 does not introduce significant changes with regard to classification and measurement of financial liabilities requirements existing in IAS 39 – on initial recognition a financial liability shall be classified as:

- a financial liability measured at fair value through profit loss, or
- other financial liability (measured at amortised cost).

Additionally in accordance with IFRS 9, financial liabilities shall not be reclassified subsequent to their initial recognition.

Impairment

IFRS 9 replaces the „incurred loss" model in IAS 39 with a forward-looking „expected credit loss" (ECL) model. Because of the aforementioned change the Bank will be obliged to calculated loss allowances based on the expected credit loss, taking into consideration forecasts of future economic conditions with regard to the measurement of the credit risk of an exposure, which is unacceptable under IAS 39.

The implemented impairment model will be applied to financial instruments measured, in accordance with IFRS 9, at amortised cost or at fair value through other comprehensive income, except for equity instruments.

Accordingly the Bank, replacing the concept of „incurred loss" with the concept of „expected credit loss" will influence significantly the way of modelling credit risk parameters and the final amount of loss allowance. The currently applied loss identification period will not be used anymore, therefore the IBNR (incurred but not reported) category of loss allowance will be eliminated. In accordance with IFRS 9, the loss allowance will be calculated in the following categories (instead of the IBNR loss allowance and the loss allowance for exposures with impairment triggers):

- Stage 1 – 12-month expected credit losses – the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date;
- Stage 2 and 3 – lifetime expected credit losses – The expected credit losses that result from all possible default events over the expected life of a financial instrument.

The measurement of lifetime expected credit losses will be applied to all exposures for which during the period between the initial recognition and the reporting date the Bank has identified a significant increase in credit risk (Stage 2) or has identified impairment (Stage 3). The measurement of 12-month expected credit losses (Stage 1) will be applied to all exposures for which the Bank has not identified a significant increase in credit risk or impairment during the period between the initial recognition and the reporting date.

The new approach to calculating the impairment of the financial assets will also have an impact on the interest income recognition. In particular, interest income on financial assets allocated to Stages 1 and 2 will be calculated based on the gross carrying amount of the exposure, whereas interest income on financial assets allocated to Stage 3 will be calculated based on the net carrying amount of the exposure (similarly to impaired financial assets under the requirements of IAS 39).

Hedge accounting

In accordance with standard, when initially applying IFRS 9 the Bank may choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Bank to ensure that its hedging relationships are compliant with the risk management strategy applied by the Bank and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting.

Potential impact of IFRS 9 on the Bank's financial situation and own funds

Quantitative estimation of the impact of IFRS 9 on the Bank's financial situation and own funds

As of 31st December 2016, it is not possible to reliable estimate the complete impact of IFRS 9 implementation on the Bank's financial situation and own funds. Therefore, the Bank has chosen to disclose solely qualitative information on the Bank's approach to the IFRS 9 implementation, which in the Bank up's opinion will enable the users of the financial statement to understand the impact of IFRS 9 on the financial situation and capital management of the Bank.

Qualitative data enabling the users of the financial statement to understand the impact of IFRS 9 on the Bank's financial situation

Classification and measurement

Financial assets

In order to be able to classify the financial assets in accordance with IFRS 9 on 1st January 2018, the Bank, in the course of the ongoing IFRS 9 implementation project, is reviewing the financial assets in the Bank's portfolio, which are going to a part of the portfolio after 31st December 2017. The objectives of the review are:

- determining and allocating groups of financial assets to the appropriate business model on the basis of the assessment of the applied way of managing the financial asset portfolios by:
  - reviewing and assessing relevant and objective qualitative data which may have an impact on allocating financial asset portfolios to the appropriate business model, (such as, e.g.: how the performance of the business model and the financial assets held within that business model are evaluated; the risks that affect the performance of the business model in particular, the way in which those risks are managed; the justification of the sales of the financial assets from certain portfolios that occurred in the past);

  - reviewing and assessing relevant and objective quantitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (e.g. the value of sales of the financial assets from certain portfolios that occurred in previous reporting periods and the frequency of those sales);
  - analysis of expectations regarding the value and frequency of future sales from certain portfolios.
- identifying and analysing the contractual terms of financial assets that may cause the financial assets to fail the SPPI criterion.

As a result of the IFRS 9 implementation, the Bank expects changes in classification of certain loans granted to clients, measured at amortised cost under IAS 39, which will have to be measured at fair value through profit or loss because the contractual terms of the loan give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding. Based on the current stage of analysis, the Bank expects that these changes will apply to a small percentage of the loan portfolio estimated at approx. 2% of value of total loan portfolio as at 31.12.2016.

Regarding the portfolio of debt securities the Bank does not expect significant changes in the applied method of the classification and measurement of financial assets that could have a significant impact on the balance sheet and / or the Bank's financial result.

Quantitative data regarding classification and measurement of financial assets (comprising the estimated impact on the financial position and/or the profit or loss of the Bank) will be available after completing the review of the financial assets held by the Bank.

As of 31st December 2016 the Bank holds equity instruments (stocks and shares) which, in accordance with IAS 39, are categorized as financial assets “available for sale”. In accordance with IFRS 9, the Bank will be able to classify them as financial assets measured at fair value through profit or loss (provided that they do not constitute a strategic investment in the view of the entities which manage them) or irrevocably choose to measure them at fair value through other comprehensive income. If the Bank chooses to measure the equity instruments at fair value through other comprehensive income, the fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. At the moment of preparation of these financial statement the Bank has not yet made a decision in this regard.

Financial liabilities

As a result of implementing IFRS 9, the Bank does not expects changes in classification of financial liabilities in comparison to existing requirements in IAS 39, which could have a significant impact on the financial position / profit or loss of the Bank.

Impairment

The Bank assumes that the implementation of the new impairment model based on the concept of ECL will have a significant impact on the level of the Bank’s loss allowance, particularly with regard to exposures allocated to Stage 2. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment events in order to estimate lifetime credit losses in Stage 2. Instead, the Bank is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Bank will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowance and therefore it will also affect profit or loss. It needs to be emphasized that as of the date of implementation of IFRS 9, this specific change in the level of loss allowance stemming from the adoption of new impairment model will be recognized in retained earnings, not in profit or loss.

Within the scope of the IFRS 9 implementation project, the Bank is working on implementing a new methodology of loss allowance calculation as well as on implementing appropriate modifications in IT systems and processes used by the Bank. In particular work are focused on the foundations of the impairment model, acquiring appropriate data as well as designing the processes and tools and performing a detailed estimation of the impact of IFRS 9 on the level of loss allowance. Methodological tasks are focused on both redevelopment of currently applied solutions as well as implementation of the brand new solutions. In terms of the redevelopment of existing solutions, the Bank is currently adjusting PD, LGD, EAD and CCF models so that they may be used to estimate expected credit losses. In terms of brand new solutions, the scope of the IFRS 9 project is focused mainly on defining the Stage allocation criteria and including expectations regarding future macroeconomic outlook in the estimation of loss allowance levels.

It should be underlined that, the implementation of the new Standard requires the application of more complex credit risk models of greater predictive abilities which require a significantly broader set of source data than the currently applied models.

The impact assessment of IFRS 9 on the financial position of the Bank and its capital management is currently difficult. The difficulties stem from the ongoing methodological works regarding adjustments of credit risk models to IFRS 9 requirements which are still in progress as well as from the lack of unambiguous interpretations of the new Standard and uniform market practice. From the legislative standpoint, the supervisory and regulatory authorities are working on updating prudential requirements which will be binding for the Bank. However, it needs to be noted that these works are not advanced enough to enable Bank to unambiguously determine the impact of the IFRS 9 on the financial position and capital adequacy indicators. It should also be noted that, in terms of capital impact, the potential increase of impairment loss allowances in the implementation moment of IFRS9 may be partially offset by improvement of own funds through reduction of deductions connected with the difference between expected credit loss and incurred loss (this situation applies to IRB banks such as Bank Millennium).

Hedge accounting

Based on the paragraph 7.2.21 of IFRS 9, on the 1st January 2018 the Bank is going to choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9, the decision will constitute an element of the Bank's accounting policy. The decision will be applied to every hedging relationship that the Bank applies and is going to apply in the future. Changing the decision is possible solely by introducing appropriate changes to the accounting policy which will be associated with all the consequences resulting from IAS 8.

Due to the aforementioned decision, the adoption of IFRS 9 will not have an impact on the financial position of the Bank.

IFRS 14, Regulatory Deferral Accounts

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

Accordingly to European Union decision, IFRS 14 will not be endorsed.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" is effective for the periods beginning on or after 1 January 2018.

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

Real impact of the implementation of the new standards by the Bank has not been estimated yet.

Clarifications to IFRS 15, Revenue from Contracts with Customers

Clarifications to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments clarify main assumptions provided by the IFRS 15, among others: how to identify a separate obligation; how to determine whether a company is a principal (the provider of a good or service) or an agent; and how the revenue from granting a licence should be recognised. In addition to the clarifications, the amendments include additional reliefs for a company when it first applies the new Standard.

Real impact of the implementation of the new standards by the Bank has not been estimated yet.

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

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

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

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

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

At the date of these financial statements, endorsement of aforementioned amendments have been postponed by the European Union.

IFRS 16 "Leases"

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

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

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

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

Amendments to IAS 12 - recognition of Deferred Tax Assets for Unrealised Losses

The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

The Amendment is effective for annual periods beginning on or after 1 January 2017

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

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

Disclosure Initiative - Amendments to IAS 7

Amendments to IAS 7 are effective for annual periods beginning on or after 1 January 2017. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

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

Amendments to IFRS 2: S Classification and measurement of Share-based Payment

The amendments are effective for annual periods beginning on or after 1 January 2018. The amendments introduce, among others, rules for recognition of liability due to cash-settled share-based payment transactions, clarify accounting for cash-settled share based payments that are modified to become equity-settled, as far as rules for recognition employee tax liability due to share based payments.

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

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

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

Annual Improvements to IFRSs 2014-2016

International Accounting Standards Board issued in December 2016 Annual Improvements to IFRSs 2014-2016 effective for covering improvements impact three standards: IFRS 12, IFRS 1 and IAS 28.

The amendments include clarifications and changes to the scope of standards, recognition and valuation and include terminology and editorial changes.

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

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

Transfers of Investment Property - Amendments to IAS 40

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

IFRIC 22 - Foreign Currency Transactions and Advance Consideration.

IFRIC 22 provides accounting for transactions in which the entity receives or transmits advance payment in foreign currency. The guidelines are effective for annual periods beginning on or after 1 January 2018.

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

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

3) ADOPTED ACCOUNTING STANDARDS

Basis of Financial Statements Preparation

These financial statements are prepared for the financial year from 1 January 2016 to 31 December 2016, on the basis of the going concern assumption of the Bank, namely scale of business is not to be reduced substantially, in a period of not less than one year from the balance sheet date.

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

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

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

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances. Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on basis of other sources. The actual results may differ from those estimates.

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

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

Functional and presentation currency

Functional and presentation currency

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

Transactions and balances

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

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

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

Application of Estimates in connection with Accounting Policies

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

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

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

- Impairment of loans and advances

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

The effect of increase / decrease of cash flows for the impaired credit or either PI or LGI parameter for IBNR portfolio at the end of 2016 for the Bank is presented in the following table (in PLN million):

Type of analysis	Change of provision amount considering : Scenario 1 (improvement by 10%)	Scenario 2 (deterioration by 10%)
1. Individual Analysis (Impaired)	**-28.00**	**35.00**
a) Change in cash flows from debtors business activity	-6.50	8.20
b) Change in cash flows from collateral	-21.50	26.80
2. Collective Analysis	**-89.77**	**85.36**
a) Change in LGI parameter (Impaired)	-74.76	70.35
b) Change in LGI or PI parameter (IBNR)	-15.01	15.01
Total Bank	**-117.77**	**120.36**

- Fair value of financial instruments

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

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

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

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

  In order to determine the fair value of preferred shares, the time value of money and the time line for conversion of preferred stock in common stock of VISA.

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

- Impairment of other non-current assets

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

- Other Estimate Values

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

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

Financial assets and liabilities

Classification

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

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

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

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

- Held to maturity investments

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

- Loans and receivables

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

- Financial assets available for sale

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

- Other financial liabilities

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

Recognition of financial instruments in the balance sheet

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

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

De-recognition of financial instruments from the balance sheet

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

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

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

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

the Bank removes a financial liability (or a part of a financial liability) from its balance sheet when the obligation specified in the contract is discharged or cancelled or expired.

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

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

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

  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Bank.

- Held to maturity investments and loans and receivables

  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- Financial asset available for sale

  Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized in Other comprehensive income until the derecognition of the respective financial asset from the balance sheet: at such time the aggregate net gain or loss is recognised in the profit and loss.

  Interests calculated using the effective interest rate is recognized in interest income.

  If there are objective triggers that such asset has become impaired, then the Bank recognises the revaluation charge in the manner described in item **Impairment of Financial Assets**.

- Other financial liabilities

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

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

Capital investments in subsidiary and associated entities

Subsidiary entities

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

Associated entities

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

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

Hedge Accounting and Financial Derivatives

Valuation at fair value

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

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

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

Cash flow hedge

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

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

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

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

Fair value hedge

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

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

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

Termination of hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

- FX forward

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

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

- FX SWAP

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

- Interest Rate SWAP (IRS)

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

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

- Cross – Currency Swap (CCS)

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

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

- IRS transactions with embedded options

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

- FX and Index options

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

- Forward Rate Agreement (FRA)

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

- Commodity futures

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

- Commodity options

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

Impairment of financial assets

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

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

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

Financial assets valued at amortized cost

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

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

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

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

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

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

Financial assets available for sale

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

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

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

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

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

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

Offsetting of financial instruments

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

Transactions with sell/buy-back clauses

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

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

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

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

Settlement of lease agreements

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

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

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

Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

Depreciation and amortization charges

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

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

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

Selected categories of property, plant and equipment:	
Bank buildings	2.5%
Lease holding improvements	period of the lease
Computer hardware	30%
Network devices	30%
Vehicles	as standard 25%
Telecommunication equipment:	10%
Intangibles (software):	
Main applications (systems)	20%

For other computer software the Bank applies the rate not higher than 50%, which depends on the expected useful life.

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

Non-current assets held for sale

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

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

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

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

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

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

Impairment of non-current assets

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

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

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

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

Prepayments, Accruals and Deferred Income

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

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

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

Provisions

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

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

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

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

Employee Benefits

Short-term employee benefits

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

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

Long-term employee benefits

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

In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Bank's future liabilities due to employees according to the headcount and wages as at the date of revaluation. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2016 has been set at 3.6%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

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

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

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

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

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

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

Bank's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

Interest income

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

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

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

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

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

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

Fee and commission income/ Fee and commission Costs

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

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

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

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

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

In the second group (where there is a direct link to a financial instrument, particularly when the insurance product is offered to the customer only with credit product, i.e. there is not possibility to buy from the bank separately, without a credit product, the same insurance product in terms of form, legal and economic conditions) two sub-groups can be identified:

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

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

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

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

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

In 2016 Bank has reviewed the assumptions of the model applied for recognition of revenue from bancassurance. In consequence in the field of insurance of cash loans the part of revenue recognized on a one-off basis as commission for the execution of significant act has varied from 5% to 7% whereas in 2015 the rate of 9% used to be applied.

As of 31 December 2016, with respect to insurance products linked with cash loans, the Bank estimated provisions against refunds of premiums, expressed as percentage ratio of refunds to the level of gross fees, at 66%.

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

- Asset management services;
- Services connected with cash management;
- Brokerage services;

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

Dividend Income

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

Result on Investment Financial Instruments

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

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

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

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

Other Operating Income and Expenses

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

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

Income tax

Corporate income tax comprises current and deferred tax.

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

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

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

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

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

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

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

8. FINANCIAL RISK MANAGEMENT

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

1) BANK'S RISK MANAGEMENT RULES

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

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

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

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

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

The Risk Appetite of the Bank is mainly defined through the principles and targets defined in the Bank internal document "Risk Strategy 2016-2018", approved by the Management Board and Supervisory Board, and complemented in more detail by the principles and qualitative guidelines defined in the following internal documents, approved by the Management Board:

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

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

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

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Bank's Risk Strategy, including the Bank's Risk Appetite and verifying the assets and liabilities prices offered to customers;
- The Management Board is responsible for the effectiveness of the risk management system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;

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

2) Capital Management

Capital management process

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

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

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

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

Own Funds requirements

Bank is obliged by law to meet minimum own funds requirements, set in art. 92 of Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and Polish Banking Act. At the same time, maintaining regulatory capital adequacy on a higher level than required minimum is one of a goal of capital management. Calculating own funds requirements, local solutions and interpretations are used (issued by Polish Financial Supervisory Authority - PFSA). During 2016 the Bank complied with requirements specified in external regulations.

Bank calculates its own funds requirements using standard methodologies, and is implementing at the same a project of an implementation of internal ratings based method (IRB) for calculation of own funds requirements for credit risk and obtaining of approval decisions from Regulatory Authorities on that matter.

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

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

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

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

Capital buffers and required capital

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, 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 (only on common equity Tier 1 capital).

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)[1].

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

Tier 1 Capital Ratio (T1) = 9%+1.25%+0.25%+2.32% = 12.82%

Total Capital Ratio (TCR) = 12%+1.25%+3.09% = 16.34%

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

[1] That recommendation replaces the previous one, to maintain 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.).

Capital adequacy

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

Bank Millennium – capital adequacy (PLN million)	31.12.2016 IRB with regulatory floor[1)]	31.12.2015 IRB with regulatory floor[1)]
Risk-weighted assets (RWA)	36 198.7	36 755.7
Own funds requirements, including:	2 895.9	2 940.5
- Credit risk and counterparty credit risk	2 601.2	2 643.6
- Market risk	23.4	29.1
- Operational risk	257.0	248.0
- Credit Valuation Adjustement CVA	14.3	19.8
Own Funds including:	6 252.4	6 081.3
Common Equity Tier 1 Capital, including:	6 218.5	5 943.4
- paid up capital instruments	1 213.1	1 213.1
- share premium	1 147.2	1 147.2
- recognised part of current profit	434.6	732.9
- other retained earnings	3 913.8	3 099.5
- recognised part of revaluation reserve	(41.6)	78.2
- regulatory adjustments	(448.6)	(327.5)
Tier II Capital, including:	33.9	137.9
- subordinated debt	128.7	252.1
- regulatory adjustments	(94.8)	(114.2)
Total Capital Ratio (TCR)	**17.27%**	**16.55%**
Common Equity Tier 1 Capital ratio (CET1 ratio)[2)]	17.18%	16.17%

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

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

The capital adequacy, measured by Total Capital Ratio and Common Equity Tier 1 Capital ratio, improved in 2016 (yearly increase by 0.72 p.p. and 1.01 p.p., respectively).

Capital levels expected by PFSA have been achieved with a surplus (4.36 p.p. for CET1/T1 capital ratio and 0.93 p.p. for TCR).

Total risk-weighted assets went down by ca. 1.5%, what was influenced by reduction of risk exposure in almost all risk categories (rise of operational risk capital requirements is effect of higher last 3-years average of profits and is not connected to increase of operational risk level itself). Own Funds raised by almost 3% in effect from retaining the net earnings reported since November 2015 to June 2016.

Internal capital

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

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

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

In 2016, both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

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

3) CREDIT RISK

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

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

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

(3A) Measurement of Credit Risk

Loans and advances

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

(i) Probability of Default (PD) of a customer or counterparty as regards their liability;

(ii) amount of Exposure At Default (EAD) and

(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

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

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

The Bank's internal rating scale

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

(ii) EAD – amount of exposure at default – concerns amounts which according to the Bank's predictions will be the Bank's receivables at the time of default against liabilities. Liabilities are understood by the Bank to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.

(iii) LGD – loss given default is what the Bank expects will be its losses resulting from actual cases of default, with the consideration of internal and external costs of recovery and the discount effect.

Debt Securities

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

Derivatives

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

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

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

Credit risk-based off-balance sheet liabilities

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

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

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

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

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

(3B) Limits control and risk mitigation policy

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

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

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

Collateral

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

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

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

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

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the corporate segment, are taken primarily all types of property (residential, commercial, land) as well as the assignment of receivables from contracts.

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

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

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

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

Organisation of the Process

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

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

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

In monthly periods detailed reports are prepared presenting information about the Bank’s retail portfolio in various cross-sections, including the level of impairment charges and provisions, their dynamics and structure.

The recipients of these reports are Members of the Management Board supervising the activity of the Bank in the area of finance, risk and management information.

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

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

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

Individual analysis of impairment for credit receivables

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

Principal elements of the process of individual analysis:

(1) Identification of impairment triggers;

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

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

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

(2) Estimating future flows;

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

If at least one of impairment triggers has been identified in the individual analysis then detailed analysis of forecasted cashflows should be performed in terms of all exposures. There are estimated expected future cash-flows from current activity of the Customer, from sources other than the current activity and recoveries received from established collaterals.

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

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

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

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

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

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

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

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

Collective analysis of the credit portfolio

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

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

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

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

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

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

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

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

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

The parameters employed in collective analysis are determined cyclically, based on historical statistical data and – in case of PI parameter – forecasted values of impaired rate. The period of observing historical data is defined in the Bank's internal regulations, taking into account the tendency to adjusting impairment charges to the market and internal situation of the Bank with a simultaneous observance of the statistical correctness of the calculated parameters.

The PI parameter is calculated as a weighted average of historical and projected impaired rates, whereby the projected rates are calculated based on the relationship between historical data and macroeconomic variable.

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

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

Since October 2014, for mortgage exposures the Bank uses new LGI model, which is an adaptation of LGD model developed for the capital calculation, based on the IRB approach. Similar model was adapted for other retail exposures (including Microbusiness) in September 2015. The models are based on a discounted cash flow analysis. In case of corporate exposures the Bank uses simplified LGI model based on comparison of balances.

The LGI models use a deep and statistically driven segmentation based on: product type, amount of exposure, LTV, currency, restructuring flag, etc. In addition, all models differentiate LGI depending on the number of months from impaired date.

The PU parameter denoting the ratio of using an off-balance exposure during LIP months before going impaired, is calculated for credit cards, revolving loans and overdraft limits (separately for retail and corporate customers). In case of guarantees the PU is the probability of guarantee realisation in the event of submitting by beneficiary of the guarantee, an application for guarantee payment.

The PW parameter is the probability of submitting an application by the beneficiary of the guarantee

The period of observing historical data for PU and PW determination covers the last 36 months from the balance sheet day. Data samples coming from the observation period are assigned appropriate weights so that the most recent observations receive higher weights than the oldest one

Internal regulations provide a detailed definition of the principle of reversing impairment losses determined by the collective method. In principle, reversing a loss and elimination of a revaluation charge is possible in the case of cessation of the impairment triggers, including the repayment of arrears or exclusion from the recovery portfolio (reclassification to the Non-Impaired category) or in the case of selling receivables. Reclassification to the Non-Impaired category in the case of exposures subject to restructuring is possible only when the customer has successfully passed the „quarantine" period, during which he will not show delay in the repayment of principal or interest above 30 days. The quarantine period only starts counting after any eventual grace period that may be granted on the restructuring.

The above does not pertain to the Corporate Recovery restructuring portfolio, for which there have been defined separate conditions of transfer to the Non-Impaired category.

For leasing transactions the quarantine period is equal to the period of staying in the restructuring portfolio, plus an additionally defined period. Within its duration delays in repayments must not exceed 30 days.

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

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

In the 3Q 2016 Bank performed the process of monitoring of impairment collective model (including backtesting of IBNR provisions). In a consequence in 4Q 2016 appropriate model improvements had been taken resulting in increase of provisions (for the under provisioned portfolios) and decrease of provisions (for over provisioned portfolios). After improvements, the overall level of collective IBNR provisions is more adequate compared to the utilization.

In 2016 in Bank there was a sale of PLN 315 million of on-balance sheet Impaired receivables and off balance sheet portfolio (receivables written off against provisions) amounted to PLN 110 million, with higher than average coverage ratio. The balance sale included corporate portfolio (PLN 187 million) and retail portfolio (PLN 128 million).

(3D) Maximum exposure to credit risk

PLN'000	Maximum exposure	
	31.12.2016	31.12.2015
Exposures exposed to credit risk connected with balance sheet assets	**65 778 675**	**63 008 176**
Loans and advances to banks	1 267 805	2 348 735
Loans and advances to customers:	46 593 429	46 070 719
Loans to private individuals:	33 241 628	32 905 953
- Credit cards	670 429	645 325
- Cash loans and other loans to private individuals	5 079 163	4 577 232
- Mortgage loans	27 492 036	27 683 396
Loans to companies	13 033 147	12 746 420
Loans to public entities	318 654	418 346
Trading debt securities	314 466	408 572
Derivatives and adjustment due to fair value hedge	268 053	429 323
Financial assets valued at fair value	0	0
Investment debt securities	17 076 201	13 635 726
Receivables from securities bought with sell-back clause	90 520	0
Other financial assets	168 201	115 101
Credit risk connected with off-balance sheet items	**8 134 323**	**7 860 979**
Financial guarantees	1 120 170	1 148 003
Credit commitments and other commitments connected with loans	7 014 153	6 712 976

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2016 and 31st December 2015, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

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

PLN'000	Exposure	
	31.12.2016	31.12.2015
Balance exposures exposed to credit risk not past due and not impaired:	**63 871 410**	**61 367 924**
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	1 267 805	2 348 744
Loans and advances to clients (according to Master Scale):	44 854 365	44 545 559
• 1-3 Highest quality	19 335 503	18 024 538
• 4-6 Good quality	6 921 537	7 060 219
• 7-9 Medium quality	11 141 491	10 766 935
• 10-12 Low quality	2 915 916	4 077 011
• 13-14 Watched	244 359	220 781
• 15 Default (**)	308 845	101 693
• Without rating (***)	3 986 714	4 294 382
Trading debt securities (State Treasury(****) bonds)	314 466	408 572
Derivatives and adjustment from fair value hedge (according to Master Scale):	268 053	429 323
• 1-3 Highest quality	99 804	139 765
• 4-6 Good quality	83 648	138 611
• 7-9 Medium quality	26 169	14 719
• 10-12 Low quality	25 463	9 515
• 13-14 Watched	32	0
• 15 Default	28	0
• Without rating	3 084	33 728
• Fair value adjustment due to hedge accounting	11 889	22 152
• Valuation of future FX payments	2	0
• Hedging derivative	17 934	70 833
Investment debt securities (State Treasury(****), Central Bank(****), Local Government, EIB)	17 076 201	13 635 726
Receivables from securities bought with sell-back clause	90 520	0

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

(**) - receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure and exposures that used to be classified as impaired in the past but are cured now but according to default definition used in IRB process are still presented as Rating 15. In addition in this category there are presented purchased leasing receivables having originally Rating 15 which are treated as non-impaired and not delayed due to taking all the risk by Millennium Leasing

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

(****) - rating of Poland in 2016 BBB+ (S&P), A2 (Moody's), A- (Fitch)

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

Gross exposure in '000 PLN	31.12.2016			
	Loans and advances to customers			Total
	Companies	Mortgages	Other retail	
1-3 Highest quality	84 373	18 808 749	442 381	19 335 503
4-6 Good quality	1 134 563	4 516 697	1 270 277	6 921 537
7-9 Medium quality	6 362 593	2 120 467	2 658 431	11 141 491
10-12 Low quality	1 302 011	748 118	865 787	2 915 916
13-14 Watched	20 916	173 837	49 606	244 359
15 Default (**)	207 625	80 703	20 517	308 845
Without rating (***)	3 986 041	617	56	3 986 714
Total	13 098 122	26 449 188	5 307 055	44 854 365

(*) – loans overdue not more than 4 days are treated as technical delay and are shown in this category
(**) - receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure and exposures that used to be classified as impaired in the past but are cured now but according to default definition used in IRB process are still presented as Rating 15. In addition in this category there are presented purchased leasing receivables having originally Rating 15 which are treated as non-impaired and not delayed due to taking all the risk by Millennium Leasing.
(***) - the group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and particular leasing clients

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

(*) – loans overdue not more than 4 days are treated as technical delay and are shown in this category
(**) - receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure and exposures that used to be classified as impaired in the past but are cured now but according to default definition used in IRB process are still presented as Rating 15. In addition in this category there are presented purchased leasing receivables having originally Rating 15 which are treated as non-impaired and not delayed due to taking all the risk by Millennium Leasing.
(***) - the group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and particular leasing clients

(3E) Loans

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

Gross exposure in '000 PLN	31.12.2016		31.12.2015	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	44 854 365	1 267 805	44 545 559	2 348 744
Overdue(*), but without impairment	1 029 819	0	869 164	0
Total without impairment (IBNR)	45 884 184	1 267 805	45 414 723	2 348 744
With impairment	1 945 035	0	1 981 085	0
Loans and advances, gross	**47 829 219**	**1 267 805**	**47 395 808**	**2 348 744**
Impairment write-offs together with IBNR	(1 235 790)	0	(1 325 089)	(9)
Loans and advances, net	**46 593 429**	**1 267 805**	**46 070 719**	**2 348 735**
Loans with impairment / total loans	4.07%	0.00%	4.18%	0.00%

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

Loans and advances without impairment in '000 PLN

	31.12.2016		31.12.2015	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without identified impairment triggers	45 794 007	1 267 805	45 378 692	2 348 744
With identified impairment triggers, incl.	90 177	0	36 031	0
- expected cah flows from collateral, incl.	90 177	0	36 031	0
- overdue(*)	14 442	0	12 116	0
Loans and advances without impairment, gross	**45 884 184**	**1 267 805**	**45 414 723**	**2 348 744**
Impairment for IBNR portfolio	(158 232)	(0)	(127 340)	(9)
Loans and advances without impairment, net	**45 725 952**	**1 267 805**	**45 287 383**	**2 348 735**

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

Loans and advances past due but without impairment

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

Gross exposure in '000 PLN	31.12.2016				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5 - 30 days (*)	53 189	519 228	192 467	0	764 884
Delay 31 - 60 days	12 286	115 019	53 822	0	181 127
Delay 61 - 90 days	8 695	38 841	21 300	0	68 836
Delay above 90 days(**)	6 281	7 049	1 642	0	14 972
Total	80 451	680 137	269 231	0	1 029 819

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

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

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

Impaired loans and advances

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

Gross exposure in '000 PLN	31.12.2016				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	440 888	245 632	4 032	0	690 552
Collective analysis	125 541	440 755	688 187	0	1 254 483
Total	566 429	686 387	692 219	0	1 945 035

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

Loans and advances covered by case-by-case analysis

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

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

Loans and advances to customers, gross exposure - by currency

	31.12.2016			31.12.2015		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	480 690	69.6%	59.1%	648 862	81.5%	71.6%
CHF	179 254	26.0%	19.2%	117 209	14.7%	23.4%
EUR	30 327	4.4%	35.2%	30 416	3.8%	27.3%
USD	281	0.0%	44.1%	271	0.0%	49.8%
Total (Case by Case impaired)	690 552	100.0%	47.7%	796 758	100.0%	62.8%

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

	31.12.2016		31.12.2015	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	218 947	31.8%	150 675	18.9%
20% to 40%	134 760	19.5%	102 304	12.8%
40% to 60%	63 751	9.2%	81 931	10.3%
60% to 80%	91 313	13.2%	142 255	17.9%
Above 80%	181 781	26.3%	319 593	40.1%
Total (Case by Case impaired)	690 552	100.0%	796 758	100.0%

At the end of 2016, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis (Case by Case) amounted to PLN 268 million (in 31/12/2015: PLN 226 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

Restructured loans and advances

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross exposure in '000 PLN	31.12.2016	31.12.2015
Loans and advances to private individuals	657 806	601 521
Loans and advances to companies	214 447	302 210
Total	872 253	903 731

(3F) Debt and equity securities

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2016 (gross, PLN'000).

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	314 466	14 273 576	12	14 588 054
Central Bank	0	2 669 700	0	2 669 700
Other	0	139 900	262 731	402 631
- listed	0	79 236	0	79 236
- not listed	0	60 664	262 731	323 395
Total	**314 466**	**17 083 176**	**262 743**	**17 660 385**

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2015 (gross, PLN'000).

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

(3G) Collateral transferred to the Bank

In 2016 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from lien or transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (also as part of selling organized parts or the debtor's whole enterprise). Funds obtained in such a way are allocated directly for repayment of the Bank's receivables (such debt-collection procedure is implemented without recording transferred collateral on the so-called "Fixed Assets for Sale").

(3H) Policy for writing off receivables

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

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

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

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

Economy sectors

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

31.12.2016	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 267 805	0	0	0	0	0	0	0	1 267 805
Loans and advances to customers	124 154	4 747 615	3 612 876	2 202 335	308 422	27 815 712	6 268 505	2 749 600	47 829 219
Trading securities	0	0	0	0	314 466	0	0	0	314 466
Derivatives and adjustment due to fair value hedge	225 729	4 744	183	188	0	0	0	37 209	268 053
Investment securities	203 919	138 140	0	151	16 996 977	0	0	6 733	17 345 920
Receivables from securities bought with sell-back clause	90 520	0	0	0	0	0	0	0	90 520
Total	1 912 127	4 890 499	3 613 059	2 202 674	17 619 865	27 815 712	6 268 505	2 793 542	67 115 983

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

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

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

4) MARKET RISK

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

Market-risk evaluation measures

The Bank's market risk measurement allows monitoring of all of the risk types, that is generic risk (including interest rate risk, foreign exchange risk, equity risk), non-linear risk, specific risk and commodity risk. In 2016 the nonlinear risk and commodities risk did not exist in the Bank. The equity risk assumed to be irrelevant since the Bank's engagement in equity instruments is immaterial.

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

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

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

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

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

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

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

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

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

The following types of market scenarios are being applied:

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

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

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

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

The market risk limits are revised at least once a year and in order to take into account, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 1st October 2016.

In 2016 the VaR indicators for the Bank remained on average at the level of PLN 44.0 million (15% of the limit) and PLN 38.7 million (12% of the limit) as of the end of December 2016. The VaR indicators presented in the table below reflect joint exposures to market risk in the Bank, that is Trading Book and the Banking Book. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect is connected with the fact that the Bank's market risk is mainly the interest rate risk. The figures in the Table include also the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

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

VaR measures for market risk	VaR (2016)				
	31.12.2015	Average	Maximum	Minimum	31.12.2016
Total risk	35 818	43 997	60 779	24 223	38 738
Generic risk	33 864	41 865	58 556	22 186	36 702
Interest Rate VaR	33 861	41 873	58 510	22 109	36 692
FX Risk	41	149	3 844	7	32
Diversification Effect	0.1%				0.1%
Specific risk	1 954	2 132	3 334	1 921	2 036

The corresponding exposures as of 2015 respectively amounted to:

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

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

Banking Book:

VaR measures for market risk ('000 PLN)	VaR (2016)				
	31.12.2015	Average	Maximum	Minimum	31.12.2016
Total risk	33 957	43 920	61 222	24 660	38 638
Generic risk	32 010	41 836	59 008	22 627	36 607
Interest Rate VaR	32 010	41 835	59 002	22 626	36 606
FX Risk	0	2	8	0	3
Diversification Effect	0.0%				0.0%
Specific risk	1 947	2 085	2 339	1 913	2 031

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

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2016)				
	31.12.2015	Average	Maximum	Minimum	31.12.2016
Total risk	3 245	1 759	8 361	194	741
Generic risk	3 238	1 711	8 245	189	736
Interest Rate VaR	3 236	1 673	8 267	190	729
FX Risk	41	148	3 848	7	32
Diversification Effect	1.2%				3.4%
Specific risk	7	47	995	4	4

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

In 2016 total market risk limits in terms of VaR were not breached - neither for the whole Bank nor for the Banking Book and Trading Book, separately.

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

Open positions mostly included interest-rate instruments and FX risk instruments. The FX risk covers all the foreign exchange exposures of the Bank. According to the Risk Strategy approved in the Bank, the FX open position is allowed, however should be kept at low levels. For this purpose, the Bank has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows to keep FX open positions mainly in Trading Book. In June 2016, due to extraordinary cash payment in EUR connected with being a beneficiary of the transaction between Visa Inc. and Visa Europe Ltd, the Bank's Management Board approved the temporary FX open position above the established limits. The FX open position reached temporarily the level of PLN 111.2 million and was closed to the levels well below maximum limits in place within four working days after receiving the payment on 21st June 2016.

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

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2016	7 151	1 501	111 170	25 199
2015	7 945	1 685	40 100	4 421

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

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

Reporting Date	VaR (generic risk)	Theoretical change in the value of the portfolio (absolute values)	Number of excesses in last 12 months *
2016-12-31	36 702	35 150	4
2015-12-31	33 864	2 593	3

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

The excesses in the process of VaR model back testing were caused by unanticipated market movements, that is mainly PLN bond yield curves in January, June and December 2016. The number of excesses proves the model adequacy (green zone: 1 - 8 excesses acceptable).

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

The results of stress tests for market risk were reported to the Capital, Assets and Liabilities Committee. In keeping with principles adopted by the Bank the limits for stress test results based on the probability of the scenario materialization are triple as high as limits for daily management of market risk. In 2016 the limits for market risk exposure under stress scenarios were not exceeded.

Interest rate risk in Banking Book

In case of the Banking Book, the main component of the market risk is interest rate risk. As a rule, FX position generated in the Banking Book is fully transferred to the Trading Book where it is managed on a daily basis. Conservative limits applied to FX position guarantees that the market risk generated by open FX positions is residual (see table above).

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

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

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

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

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

- the Economic value of Equity that measures the theoretical change in the net present value of all Bank's positions resulting from different upward/downward parallel basis points shocks applied to market interest rates curves (0% floor in a low interest rate environment is assumed[2]). Therefore, the results shows the impact on the Bank's economic value resulting from the interest rate change,

and monthly:

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

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

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

The results of the above mentioned analysis as of the end of 2016 and 2015 did not exceed internally defined limits. The results for interest rate sensitivity in terms of BPVx100 are presented in Table below (PLN thousand). The internally defined limits were not exceeded.

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

	31.12.2016	31.12.2015
	BPVx100	BPVx100
PLN	(42 537)	(70 893)
CHF	20 468	17 151
EUR	21 075	16 340
USD	7 354	7 806
Other	2 758	2 128
TOTAL	9 117	(27 468)
Equity, fixed and other assets	60 085	53 622
TOTAL	**69 203**	**26 154**

Additionally, for position in Polish Zloty in Banking Book in a scenario of immediate parallel yield curve decreased by 100 bps, the impact on net interest income in the next 12 months after 31st December 2016 is negative and equal to -5.9% of the annualized 4Q2016 net interest income (+4.4% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the polish legal system mentioned above (the formula for maximum rate valid in 2016 was applied). The NBP Reference rate is currently set at 1.5%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 8% annually in comparison to currently valid 10%.

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

5) LIQUIDITY RISK

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

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

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

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Bank. At the end of 2016 total Clients' deposits of the Bank reached the level of PLN 56.0 billion. The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grow to approx. 70.1% at the end of December 2016 from 67.1% at the end of December 2015. The increasing share of funds from individuals had a positive impact on the Bank's liquidity and supported the compliance of the supervisory measures.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2016 , amounted respectively to 4.1 % and 7.2 (in December 2015 it was respectively 3.7 % and 7.4 %). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2016. In case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Bank maintains the reserves of liquid assets in the form of securities portfolio.

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

During 2016 the Bank continued to explore the possibility of raising additional funding from loans from financial institutions, bond issue and bank's securities in order to diversify the source of funding. In February 2016 a 5-year loan from the EBRD in the amount of EUR 50.0 million was disbursed (the loan was originally signed in December 2015).The total balance sheet value of medium-term loans from financial institutions at the end of 2016 amounted to PLN 898 million (at the end of December 2015 it was PLN 830 million). In 2016 the Bank issued PLN 118 million of 3-year bank's securities. At the end of December 2016 the total nominal value of bonds issued by the Bank and bank's securities (placed in both institutional and individual investors) amounted to PLN 1 115 million (PLN 1 139 million in nominal value in December 2015).

In 2016 the increase of the deposits from Customers at the faster pace than loans, allowed Bank to maintain Loan-to-Deposit ratio well below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, decreased at the end of December 2016 and was equal to 83% (comparing to level of 87% as of end of December 2015). The Bank continued the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of December 2016. During 2016 this portfolio grew by 23% from PLN 14.0 billion at the end of December 2015 (21% of total assets) to approx. PLN 17.3 billion at the end of December 2016 (25% of total assets). Those assets are characterized with high liquidity and can be easily used as a collateral or sold without material loss on its value. The portfolio supplemented by the cash and exposures to the National Bank of Poland, is treated as the Bank's liquidity reserve, which can overcome crisis situations.

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

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

Liquidity risk evaluation measures

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

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

These figures are compared with the exposure limits in force and reported daily to the areas responsible for the management and control of the liquidity risk in the Bank. During 2016 all internal as well as supervisory liquidity indicators were well above minimum limits. In 3Q2016 the internal limits were revised. The revision of the limits took into account the size of the consolidated own funds, current and expected balance sheet structure, historical consumption limits, as well as current market conditions. The new limits are effective from 1st October, 2016.

Current Liquidity indicators PLN million

	31.12.2016		
	Immediate liquidity ratio*	Quarterly liquidity ratio*	Liquid assets for coverage of sources of financing volatility**
Exposure	14 131	14 113	16 950
Minimum limit	900	(2 249)	8 000

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

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

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

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

According to the Regulation of European Parlament and Council no 575/2013 on prudential requirements for credit insitutions and investment firms (CRR), the Bank is calculating the liquidity coverage requirement (LCR). The regulatory minimum of 70% for LCR valid in December 2016 was complied by the Bank (as of the end of December 2016 the LCR reached the level of 122%). The measure is calculated daily and has been reported on the monthly basis to NBP since March 2014. Internally, the LCR is estimated daily and reported daily to the areas responsible for the management and control of the liquidity risk in the Bank.

For the purpose of management of supervisory liquidity measures imposed by the PFSA resolution 386/2008, the Bank developed a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. Keeping the indicators above the minimum buffer ensures the safe level of the measures even in face of strong PLN depreciation. In 2016 the supervisory liquidity measured remained well above the minimum, supervisory limits.

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

In 2016 liquidity gaps in both normal and under stress scenarios were maintained at levels significantly above the safe limits.

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

31.12.2016 Adjusted Liquidity Gap (PLN million)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	23 626	4 318	6 205	6 234	7 720	26 855
Adjusted balance liabilities	9 157	3 100	4 653	3 845	6 323	44 158
Balance-Sheet Gap	14 469	1 218	1 552	2 389	1 397	(17 303)
Cumulative Balance-Sheet Gap	14 469	15 687	17 239	19 628	21 025	3 722
Adjusted off-balance assets	133	71	115	88	542	15
Adjusted off-balance liabilities	(1 040)	(83)	(121)	(107)	(113)	(35)
Off-Balance Sheet Gap	(907)	(12)	(6)	(19)	429	(20)
Total Gap	13 562	1 206	1 546	2 370	1 826	(17 323)
Total Cumulative Gap	13 562	14 768	16 314	18 684	20 510	3 187

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

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

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

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

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

The Bank has also emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Bank's financial liquidity deteriorates). The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least once a year. In 2016 the Liquidity Contingency Plan was tested and revised in order to guarantee that it is operationally robust as well as it comply with provisions of the amended Recommendation P. The revised Plan was approved by the Supervisory Board in December 2016.

6) OPERATING RISK

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

In the year 2016 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions. The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Bank. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks, , thus constituting the first line of defence. The second line of defence is the level of specialized units dealing with the organization of the management and control of an acceptable level of risk, with particular consideration of the areas such as: compliance, antifrauds, security and business continuity as well as insurance and outsourcing. The third line of defence is the independent internal audit unit.

Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

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

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

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

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

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

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

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

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

9. TRANSACTIONS WITH RELATED ENTITIES

1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 2016 and 2015 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLERSKI,
- MILLENNIUM TFI
- MB FINANCE AB,
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- MILLENNIUM GOODIE

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

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

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) AS AT 31.12.2016

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks – accounts and deposits	0	625	0
Loans and advances to customers	4 706 329	0	0
Investments in associates	223 130	0	0
Financial assets valued at fair value through profit and loss (held for trading)	133	0	0
Hedging derivatives	0	0	0
Other assets	138 531	0	0
LIABILITIES			
Deposits from banks	0	913	123 466
Deposits from customers	229 544	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	1 132	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	3	109	0
Subordinated debt	664 004	0	0
Other liabilities, including:	89 544	0	0
- financial leasing liabilities	78 910	0	0

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

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

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2016

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	84 484	(7)	0
Commissions	49 917	129	0
Financial instruments valued at fair value through profit and loss	128	0	0
Dividends	44 182	0	0
Other net operating	2 802	0	0
Expense from:			
Interest	18 791	628	(314)
Commissions	66	0	0
Financial instruments valued at fair value through profit and loss	0	110	0
Other net operating	0	44	0
General and administrative expenses	91 860	0	1 436

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

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2016

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	39 062	102 183	0
- granted	36 622	100 345	0
- obtained	2 440	1 838	0
Derivatives (par value)	54 066	99 891	0

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

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

2) TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

Information on total exposure towards the managing and supervising persons as at 31.12.2016 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	196.0	208.0
- including an unutilized limit	162.2	196.5

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

Data about total exposure to entities related personally, as at 31.12.2016 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	35	2 000	132	Personal with a supervising person

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

	The management	The supervising persons
Total debt limit	181.0	188.0
- including an unutilized limit	128.0	160.1

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

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

3) Information on remunerations and benefits of persons managing and supervising the Bank

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

Year	Salaries and bonuses	Benefits	Total
2016	14 679.4	1 602.8	16 282.2
2015	11 565.4	1 857.2	13 422.6

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

In 2016 the Members of the Management Board did not receive any salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2016	2 041.6
2015	2 048.9

In 2016, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

10. FAIR VALUE

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

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

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

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

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

Financial instruments not recognized at fair value in the balance sheet

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

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

Receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

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

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

Subordinated liabilities and medium term loans

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

The table below presents results of the above-described analyses as at 31 December 2016:

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 267 805	1 267 557
Loans and advances to customers *	18	46 593 429	44 810 792

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	1 270 745	1 271 762
Amounts due to customers	28	55 988 198	55 988 718
Debt securities	30	1 113 223	1 117 989
Subordinated debt	34	664 004	657 787

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

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

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

ASSETS

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

LIABILITIES

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

Financial instruments recognized at fair value in the balance sheet

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

In PLN ths., as at 31.12.2016

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			210 597	27 633
- debt securities		314 466		
Hedging derivatives	17		17 934	
Financial assets available for sale	19			
- debt securities		14 352 812	2 669 700	53 688
- shares and interests				24 445
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities		106 853	193 720	27 550
Hedging derivatives	17		1 149 653	

In PLN ths., as at 31.12.2015

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

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

- index options and FX options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- municipal bonds, the fair value is calculated based on discounted cash flows with consideration of the impact of credit risk parameter;
- VISA Inc. preferred shares in an amount of 21,493, the method of fair value calculation of these shares is described in **Chapter 12, note 19).**

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

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2016 are presented in the table below:

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 1 January 2016	38 272	(38 642)	0	73 251	213 075
Settlement/sell/purchase	(4 087)	4 373	0	(19 719)	(190 233)
Change of valuation recognized in equity	0	0	0	0	1 603
Change of valuation recognized in P&L account (including interests)	(7 986)	8 153	0	157	0
Balance on 31 December 2016	26 199	(26 116)	0	53 689	24 445

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

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

11. CONTINGENT LIABILITIES AND ASSETS

Below please find the data on the court cases pending, brought up by and against the Bank. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 12. Section 12 "Income Taxes"**.

Court cases brought up by the Bank

Value of the court litigations, as at 31.12.2016, in which the Bank was a plaintiff, totalled PLN 199.7 million.

Court cases against the Bank

As at 31.12.2016, the most important proceedings, in the group of the court cases where the Bank appeared as defendant, were two cases bought up by PCZ S.A. and Europejska Fundacja Współpracy Polsko – Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute PLN 150.0 million with statutory interest from 29.12.2015 until the day of payment, and PLN 521.9 million with statutory interest from 05.04.2016 until the day of payment.

The lawsuit in the first case, dated 09.07.2015, was filed to the Regional Court in Wrocław and served personally to the Bank on 28.12.2015. In the second case, the plaintiff filed the suit dated 23.10.2015 to the Regional Court in Warsaw; the suit was served to the Bank on 04.04.2016. According to the plaintiffs, the basis for both claims is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan, which resulted in placing the loan on demand. In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of PLN 250.0 million. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. An exchange of pleadings is under way; the case is before the first hearing. As regards the lawsuit filed by PCZ – the case is in the final stage of hearing of evidence in the first instance.

In both cases, the Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claims. Favourable forecasts for the Bank, as regards dismissal of both suits, have been confirmed by a renowned law firm representing the Bank in both proceedings.

As at 31.12.2016, the total value of the subjects of the other litigations in which the Bank appeared as defendant, stood at PLN 211.8 million (excluding the class actions described below). In this group the most important category are cases related to forward transactions (option cases) with total value in dispute of PLN 197.5 million.

The Bank evaluates that the risk of negative financial effects in case of a lost litigation has been fully covered by the value of the provisions established for the pending litigations.

Class actions

On 21 October 2014 a group action was delivered to the Bank in which a group of the Bank's borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that the Bank is liable towards the same for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that the Bank unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits. According to the statement of claim there are approx. 2,300 group members and the value of the subject matter of the dispute is defined at PLN 45.2 million. The Bank does not agree with the claims of the group members. On 31 December 2014 the Bank submitted a response to the statement of claim. On 4 March 2015 new members joined the group action and the Claimant extended the statement of claim accordingly. According to the Claimant after the extension there are approx. 3,400 group members (including the group members included in the statement of claim) and the value of the subject matter of the dispute is approx. PLN 81.5 million (including the value provided in the statement of claim). On 14 May 2015 the Regional Court in Warsaw held a hearing concerning the admissibility of the group action proceedings. On 28 May 2015 the Regional Court in Warsaw issued a decision rejecting the group action on the grounds that the case cannot be heard in group action proceedings. On 3 July 2015 the Claimant filed an appeal against this decision, and the Court of Appeal upheld the appeal by refusing rejection of the claim. On 31 March 2016 the Regional Court in Warsaw issued a decision dismissing Bank's motion for a security deposit to secure litigation costs. On 6 April 2016 the Bank filed an appeal against this decision; on 13 July 2016 Bank's appeal in this regard was dismissed by the Court of Appeal. On 17 February 2016 the Claimant filed a submission with the Regional Court in Warsaw, extending the claim again by a further 1,041 group members. The new value of the subject matter of the dispute was indicated as approx. PLN 109.8 million (including the values provided in the statement of claim and the submission dated 4 March 2015). The submission dated 17 February 2016 extending the claim has not yet been served on the Bank's counsel. On 2 August 2016 the Regional Court in Warsaw issued a decision ordering the publication of an announcement in the press concerning the commencement of group action proceedings. Following the Bank's motion to repeal this decision, the Court suspended its execution, but, on 8 August 2016, it issued another decision for the case to be heard in group action proceedings. On 31 August 2016 the Bank appealed against this decision. On 16 December 2016 the Court of Appeal in Warsaw overruled decision of the Regional Court for the case to be heard in group action proceedings and referred the request for the case to be heard in group action proceedings to the Regional Court for re-examination.

On 3 December 2015 the Bank received a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million claiming that the clauses of the agreements pertaining to low down payment insurance are prohibited and thus null and void. On 3 March 2016 the Bank filed the response to the lawsuit demanding its dismissal. The first court hearing took place on 13 September 2016 and the court issued the decision on the admissibility of the class action in this case. On 16 February 2017 the Court of Appeal in Warsaw dismissed the complaint of the Bank. The decision on taking over the case for consideration in class action is therefore final.

OFF-BALANCE SHEET ITEMS

	31.12.2016	31.12.2015
Off-balance sheet conditional commitments granted and received	**8 241 371**	**7 923 821**
Commitments granted:	8 134 323	7 860 979
a) financial	7 014 153	6 712 976
b) guarantee	1 120 170	1 148 003
Commitments received:	107 048	62 842
a) financial	0	3 963
b) guarantee	107 048	58 879

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

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

Customer – sector, amount in PLN million	31.12.2016	31.12.2015
financial sector	99.9	79.7
non-financial sector (companies)	1 012.8	1 059.9
public sector	7.5	7.4
private individuals	0.0	1.0
Total	1 120.2	1 148.0

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

Subsidiary, amount in PLN million	31.12.2016	31.12.2015
Millennium Leasing Sp. z o.o.	19.9	20.0
Millennium Service Sp. z o.o.	16.6	17.6
Total	36.5	37.6

Guarantees and sureties granted to Clients

Commitments granted - guarantee in PLN million	31.12.2016	31.12.2015
Active guarantees and sureties	686.6	683.8
Sureties for loans granted through EFRWP*	0.7	1.2
Lines for guarantees and sureties	437.9	468.3
Total	1 125.2	1 153.3
Provisions created	(5.0)	(5.3)
Commitments granted - guarantee after provisions	**1 120.2**	**1 148.0**

* European Development Fund of the Polish countryside

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

By currency	31.12.2016	31.12.2015
PLN	535 487	540 365
Other currencies	151 156	143 398
Total	686 643	683 763

By type of commitment	31.12.2016		31.12.2015	
	Number	Amount	Number	Amount
Guarantee	2 912	661 763	2 950	662 647
Surety	1	4 000	1	5 000
Re-guarantee	26	20 880	28	16 116
Total	2 939	686 643	2 979	683 763

By object of the commitment	31.12.2016			31.12.2015		
	Number	% share	Amount	Number	% share	Amount
good performance of contract	2 192	74.58%	386 012	2 204	57.45%	392 836
rent payment	288	9.80%	47 988	288	7.05%	48 198
punctual payment for goods or services	268	9.12%	153 925	265	22.61%	154 585
bid bond	116	3.95%	14 679	126	2.38%	16 302
other	16	0.54%	25 011	30	0.58%	3 935
advance return	25	0.85%	22 333	24	5.38%	36 768
customs	20	0.68%	17 140	32	3.03%	20 707
payment of bank loan	14	0.48%	19 555	10	1.52%	10 432
Total	2 939	100.00%	686 643	2 979	100.00%	683 763

12. NOTES TO FINANCIAL REPORT

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

1) INTEREST INCOME

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balances with the Central Bank	25 970	25 188
Loans and advances to banks	609	1 017
Loans and advances to customers	1 533 711	1 545 026
Transactions with repurchase agreement	10 170	22 976
Hedging derivatives	333 914	343 332
Financial assets held for trading (debt securities)	5 675	32 811
Investment securities	267 266	250 628
Total	2 177 315	2 220 978

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

Interest income for the year 2016 contains interest accrued on impaired loans in the amount of PLN 69,413 thous. (for corresponding data in the year 2015 the amount of such interest stood at PLN 70,786 thous.).

2) INTEREST EXPENSE

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Banking deposits	(12 909)	(20 884)
Loans and advances from banks	(10 536)	(50 158)
Transactions with repurchase agreement	(10 816)	(47 132)
Deposits from customers	(695 590)	(774 487)
Subordinated debt	(12 844)	(13 668)
Debt securities	(30 244)	(43 591)
Other	(514)	(650)
Total	(773 453)	(950 570)

3) Fee and commission income and expense

3a. Fee and commission income

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Resulting from accounts service	81 542	86 285
Resulting from loan activity	120 522	101 978
Resulting from payments service	53 854	49 650
Resulting from payment and credit cards	147 816	135 059
Resulting from sale of insurance products	14 853	74 083
Resulting from distribution of investment funds units and other savings products	118 795	138 030
Resulting from guarantees and sureties granted	12 452	12 693
Resulting from brokerage and custody service	8 967	7 815
Other	21 425	16 732
Total	580 226	622 325

3b. Fee and commission expense

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Resulting from accounts service	(1 491)	(1 314)
Resulting from loan activity	(4 523)	(4 024)
Resulting from payments service	(2 323)	(1 951)
Resulting from payment and credit cards	(69 186)	(60 351)
Other	(12 440)	(7 042)
Total	(89 963)	(74 682)

4) Dividend income

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Dividend income from related parties	44 182	331 799
Dividend income from other entities	1 890	2 250
Total	46 072	334 049

Income from dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in financial years 2016 and 2015 to PLN 44,182 thousand, and PLN 331,799 thousand, respectively.

5) RESULT ON FINANCIAL INSTRUMENTS AND FOREIGN EXCHANGE RESULT

5a. Result on investment financial assets

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Operations on debt instruments	9 048	41 852
Operations on equity instruments	305 641	0
Total	314 689	41 852

As previously reported, as member of Visa Europe Ltd the Bank is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. In result of the conversion the Bank received EUR 59.2 million in cash, 21 493 preference shares and is entitled to a deferred payment of approx. EUR 5 million minus adjustments.

The closing of the Visa transaction took place on 21st June 2016, and had a significant positive influence on the results of the Bank in the 1st half 2016: the gross impact on revenues totalled PLN 283 million. In order to determine the fair value of deferred payments and preferred shares, the time value of money, the time line for conversion of preferred stock in common stock of VISA and adjustments resulting from litigations (on-going or potential) against VISA and the Bank were considered.

In the fourth quarter of 2016, taking into account the practice adopted by the banking sector, as well as probability of potential litigations, the Bank reassessed the fair value of VISA transaction settlement. As a result deferred payment component was adjusted by PLN 22.6 million. Following the above, the Bank recognized income from the change in fair value of a deferred payment component which increased gross revenue on VISA settlement recognized in the first half of the year by additional amount of PLN 22.6 million.

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

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Operations on securities	(509)	(7 154)
Operations on derivatives	43 887	76 292
Fair value hedge accounting operations, including:	71	7
- result from hedging derivatives	865	330
- result from items subjected to hedging	(794)	(323)
Foreign exchange result	134 557	108 280
Costs of financial operations	(2 258)	(2 562)
Total	**175 748**	**174 863**

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

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

6) Other operating income

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Profit on sale and liquidation of property, plant and equipment, intangible assets	3 261	287
Income from sale of other services	9 270	10 637
Income from adjustments of value added tax charge	0	4 542
Income from collection service	2 230	2 407
Other	10 977	25 135
Total	25 738	43 008

7) General and administrative expenses

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Staff costs:	(516 999)	(507 065)
Salaries (including bonuses)	(428 000)	(418 869)
Social security contributions	(69 371)	(68 659)
Employee benefits, including:	(19 628)	(19 537)
- provisions for retirement benefits	(2 853)	(2 755)
- provisions for unused employee holiday	(563)	(651)
- other	(16 212)	(16 131)
General administrative costs	(482 599)	(475 046)
Costs of advertising, promotion and representation	(42 743)	(42 594)
Costs of IT and communications	(70 905)	(65 677)
Costs of renting	(165 201)	(166 239)
Costs of buildings maintenance, equipment and materials	(29 481)	(29 766)
Costs of ATMs and cash handling	(17 391)	(17 356)
Costs of consultancy, audit and legal advisory and translation	(21 635)	(11 904)
Taxes and fees	(16 052)	(14 932)
Costs of National Clearing House	(4 595)	(4 092)
Costs of National Fund for the Rehabilitation of Disabled	(4 449)	(4 662)
Costs of Banking Guarantee Fund	(60 921)	(65 459)
Financial Supervision costs	(4 682)	(4 578)
Other	(44 544)	(47 787)
Total	**(999 598)**	**(982 111)**

8) Impairment losses on financial assets

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Impairment losses on loans and advances to customers	(194 302)	(240 533)
- Impairment charges on loans and advances to customers	(486 922)	(592 288)
- Reversal of impairment charges on loans and advances to customers	256 197	320 836
- Amounts recovered from loans previously written off	11 882	1 575
- Result from sale of receivables portfolio	24 541	29 344
Impairment losses on investment securities	60	(15)
- Impairment write-offs for investment securities	0	(33)
- Reversal of impairment write-offs for investment securities	60	18
Impairment losses on investments in associates	(1 376)	(1 385)
- Impairment write-offs for investments in associates	(1 376)	(1 385)
- Reversal of impairment write-offs for investments in associates	0	0
Impairment losses on off-balance sheet liabilities	(10 475)	13 454
- Impairment write-offs for off-balance sheet liabilities	(15 279)	(5 052)
- Reversal of impairment write-offs for off-balance sheet liabilities	4 804	18 506
Total	**(206 093)**	**(228 479)**

9) Impairment losses on non-financial assets

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Fixed assets	0	0
Other assets	(3 390)	(1 406)
Total	(3 390)	(1 406)

10) Depreciation and amortization

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Property, plant and equipment	(38 369)	(35 643)
Intangible assets	(13 835)	(11 789)
Total	(52 204)	(47 432)

11) Other operating costs

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Reversal of impairment charges on property, plant and equipment	8 300	0
Contribution to Banking Guarantee Fund dedicated for the repayment of guaranteed deposits for clients of BS Nadarzyn/SBRiR Wołomin	(7 065)	(102 540)
Indemnifications, penalties and fines paid	(25 785)	(24 847)
Costs of provisions for disputed claims	(37 073)	(28 748)
Write-off for disputed receivables from tax settlements	(26 933)	0
Costs of the provision created for the Borrowers Supporting Fund	0	(15 622)
Costs of sale of other services	(6 954)	(7 753)
Donations made	(2 589)	(281)
Costs of collection service	(12 877)	(11 187)
Prudential fee for Banking Guarantee Fund	(28 819)	(17 317)
Other	(3 107)	(4 956)
Total	(142 902)	(213 251)

12) Income tax

12a. Income tax reported in income statement

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Current tax	(218 104)	(197 279)
Current year	(218 104)	(197 279)
Adjustment of previous years	0	0
Deferred tax	(7 361)	73 666
Appearance and reversal of temporary differences	(7 361)	73 666
Appearance and utilisation of tax loss	0	0
Adjustment resulted from Article 38a of CIT	0	(1 374)
Total income tax reported in income statement	**(225 465)**	**(124 987)**

12b. Effective tax rate

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Gross profit / (loss)	878 116	939 144
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(166 842)	(178 437)
Impact of permanent differences on tax charges:	**(58 247)**	**49 437**
- Non-taxable income	9 783	63 946
Dividend income	8 722	63 469
Release of other provision	1 061	477
Other	0	0
- Cost which is not a tax cost	(68 030)	(14 509)
Loss on sale of receivables	(12 459)	(1 624)
PFRON fee	(845)	(886)
Prudential fee for Banking Guarantee Fund	(5 476)	(3 290)
Banking tax	(33 073)	0
Receivables written off	(3 885)	(877)
Costs of litigations	(6 641)	(4 085)
Write-off for disputed receivables from tax settlements	(5 117)	0
Cost of provisions for factoring receivables	(2 616)	(2 121)
Other	2 082	(1 626)
Amendments in declaration CIT 8 for previous years	0	0
Adjustment resulted from Article 38a of CIT	0	(1 374)
The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet	(376)	5 387
Total income tax reported in income statement	**(225 465)**	**(124 987)**

12c. Deferred tax reported in equity

	31.12.2016	31.12.2015
Valuation of available for sale securities	9 038	(47 322)
Valuation of cash flow hedging instruments	34 319	42 731
Actuarial gains (losses)	79	356
Deferred tax reported directly in equity	43 436	(4 235)

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

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

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

Bank Millennium S.A. tax control procedures

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

On 26 January 2016 the Supreme Administrative Court issued six judgments on the cassations proceedings filed by the Bank regarding the determination of the loss or income tax in the corporate income tax. In five judgments the Court dismissed the Bank's claims. In one, regarding 2006 tax year, it annulled the judgments of Regional Administrative Court (RAC) and passed the case back to RAC for reconsideration. On the 10th of May 2016 RAC issued the judgement in which it cancelled the decision of the Tax Chamber and preceding it decision of the II Mazovian Tax Office and dismissed the case regarding CIT for 2006 tax year. The written justification of the verdict mentioned above was received on 19 July 2016.

13) Earnings per share

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

14) Cash, balances with the Central Bank

14a. Cash, balances with the Central Bank

	31.12.2016	31.12.2015
Cash	612 349	532 467
Cash in Central Bank	1 166 419	1 413 877
Other funds	0	40
Total	1 778 768	1 946 384

In the period from 30 November 2016 to 1 of January 2017 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,951,198 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

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

	31.12.2016	31.12.2015
in Polish currency	1 444 527	1 780 085
in foreign currencies (after conversion to PLN)	334 241	166 299
- currency: USD	41 925	33 450
- currency: EUR	256 109	95 713
- currency: CHF	15 447	13 665
- currency: GBP	16 289	18 064
- other currencies	4 471	5 407
Total	**1 778 768**	**1 946 384**

15) Deposits, loans and advances to banks and other monetary institutions

15a. Deposits, loans and advances to banks and other monetary institutions

	31.12.2016	31.12.2015
Current accounts	194 458	284 687
Deposits granted	1 071 205	2 061 664
Loans	1	0
Interest	2 141	2 393
Total (gross) deposits, loans and advances	1 267 805	2 348 744
Impairment write-offs	0	(9)
Total (net) deposits, loans and advances	**1 267 805**	**2 348 735**

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

	31.12.2016	31.12.2015
Current accounts	194 458	284 687
to 1 month	1 032 138	2 051 664
above 1 month to 3 months	0	0
above 3 months to 1 year	39 068	10 000
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	2 141	2 393
Total (gross) deposits, loans and advances	1 267 805	2 348 744

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

	31.12.2016	31.12.2015
in Polish currency	73 968	91 439
in foreign currencies (after conversion to PLN)	1 193 837	2 257 305
- currency: USD	35 586	176 164
- currency: EUR	1 058 581	1 948 889
- currency: CHF	34 877	14 344
- currency: JPY	7 109	12 261
- currency: GBP	30 518	55 821
- other currencies	27 166	49 826
Total	**1 267 805**	**2 348 744**

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

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	9	10
Impairment write-offs created in the period	0	19
Impairment write-offs released in the period	(9)	(20)
Balance at the end of the period	0	9

16) Financial assets valued to fair value through the profit and loss (held for trading) and adjustment due to fair value hedge accounting

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

	31.12.2016	31.12.2015
Debt securities	**314 466**	**408 572**
Issued by State Treasury	314 466	408 572
a) bills	0	0
b) bonds	314 466	408 572
Adjustment due to fair value hedge	11 889	22 152
Positive valuation of derivatives	238 230	336 338
Total	**564 585**	**767 062**

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

	31.12.2016	31.12.2015
Trading financial assets	552 696	744 910
Adjustment due to fair value hedge	11 889	22 152
Financial assets valued at fair value when initially recognized	0	0
Total	564 585	767 062

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

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

	31.12.2016	31.12.2015
- with fixed interest rate	310 095	348 262
- with variable interest rate	4 371	60 310
Total	314 466	408 572

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

	31.12.2016	31.12.2015
to 1 month	1 209	0
above 1 month to 3 months	0	0
above 3 months to 1 year	120 261	57 912
above 1 year to 5 years	110 656	299 092
above 5 years	82 340	51 568
Total	314 466	408 572

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

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	408 572	933 482
Increases (purchase and accrual of interest and discount)	42 836 149	45 851 440
Reductions (sale and redemption)	(42 929 498)	(46 377 394)
Differences from valuation at fair value	(757)	1 044
Balance at the end of the period	314 466	408 572

Note 16 f / Note 27 Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2016

	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Interest rate derivatives	1 351 240	2 149 931	6 119 325	359 232	(5 481)	134 128	139 609
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	1 331 240	2 087 921	5 895 471	359 232	(5 481)	134 128	139 609
Other interest rate contracts: options	20 000	62 010	223 854	0	0	0	0
2. FX derivatives *	10 216 729	3 746 721	833 573	0	22 359	76 634	54 275
FX contracts	1 675 433	1 110 527	204 180	0	(4 414)	12 633	17 047
FX swaps	8 108 396	1 528 591	33 921	0	53 113	58 023	4 910
Other FX contracts (CIRS)	432 900	1 091 360	595 472	0	(26 340)	5 813	32 153
FX options	0	16 243	0	0	0	165	165
3. Embedded instruments	431 398	851 227	975 897	0	(26 116)	237	26 353
Options embedded in deposits	404 327	821 702	828 129	0	(22 128)	0	22 128
Options embedded in securities issued	27 071	29 525	147 768	0	(3 988)	237	4 225
4. Indexes options	487 246	893 226	950 131	0	26 199	27 231	1 032
Valuation of derivatives, TOTAL	**12 486 613**	**7 641 105**	**8 878 926**	**359 232**	**16 961**	**238 230**	**221 269**
Valuation of balance sheet items designated to fair value hedge accounting						11 889	10 896
Liabilities from short sale of securities							106 853

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

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

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

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

17) DERIVATIVE HEDGING INSTRUMENTS

The Bank as at the end of 2016 uses the following types of hedge accounting:
1. Hedges of volatility of the cash flows generated by the portfolio of floating FX mortgage loans;
2. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
3. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;

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

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

During the year 2016, there were following changes in the applied hedging relationships:

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

- a new relationship hedging the variability of cash flows generated by the portfolio of floating FX mortgage loans was established,

- during first quarter of 2016 a new relationship hedging the variability of cash flows from future revenues denominated in foreign currencies was established, which was completed in June 2016 in result of receiving cash flows from hedged item.

	Hedge of the volatility of cash flows generated by the portfolio of floating FX mortgage loans	Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans
Description of hedge transactions	The Bank hedges currency risk and interest rate risk of the cash flows - during the time horizon of the transaction – linked to floating FX loans exchanging interest cash flows in foreign currency into flows in PLN.	The Bank hedges the risk of the volatility of cash flows generated by PLN mortgages. The volatility of cash flows results from interest rate risk.
Hedged items	Cash flows resulting from portfolio of floating FX mortgage loans.	Cash flows resulting from the PLN mortgage loan portfolio
Hedging instruments	FX SWAP transactions	IRS transactions
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on hedging instruments (settled swap points) are recognised in net interest income.	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income.

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

17a. Hedge accounting

As at 31.12.2016	Par value of instruments with future maturity					Fair values	
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate							
CIRS contracts	7 041 681	7 961 146	18 450 775	950 158	(1 139 740)	391	1 140 131
IRS contracts	340 000	700 000	782 000	0	6 063	7 070	1 007
FXS contracts	816 390	1 241 180	0	0	1 957	10 473	8 516
2. Total hedging derivatives	8 198 071	9 902 326	19 232 775	950 158	(1 131 720)	17 934	1 149 654

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

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

17b. Hedge accounting - cash flow hedge

Hedge relationship	Maximum period in which cash flows with hedged value are expected to occur
Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	04.10.2018
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	07.01.2025
Hedge of the volatility of cash flows generated by the portfolio of floating FX mortgage loans	20.12.2017

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2016 amounted to PLN – 18,402 thousand (respectively in 2015 amounted to PLN – 4,343 thousand).

18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2016	31.12.2015
Loans and advances	41 972 241	41 852 946
- to companies	8 494 802	8 705 527
- to private individuals	33 159 578	32 729 850
- to public sector	317 861	417 569
Receivables on account of payment cards	712 011	684 845
- due from companies	22 813	27 486
- due from private individuals	689 198	657 359
Purchased receivables	4 848 036	4 555 599
- from companies	4 847 933	4 555 393
- from public sector	103	206
Guarantees and sureties realised	11 506	12 551
Debt securities eligible for rediscount at Central Bank	4 424	5 217
Other	4 262	3 885
Interest	276 739	280 765
Total gross	**47 829 219**	**47 395 808**
Impairment write-offs	(1 235 790)	(1 325 089)
Total net	**46 593 429**	**46 070 719**

18b. Quality of loans and advances to customers portfolio

	31.12.2016	31.12.2015
Loans and advances to customers (gross)	47 829 219	47 395 808
- impaired	1 945 035	1 981 085
- not impaired	45 884 184	45 414 723
Impairment write-offs	(1 235 790)	(1 325 089)
- for impaired exposures	(1 077 558)	(1 197 749)
- for incurred but not reported losses (IBNR)	(158 232)	(127 340)
Loans and advances to customers (net)	**46 593 429**	**46 070 719**

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

	31.12.2016	31.12.2015
Loans and advances to customers (gross)	47 829 219	47 395 808
- case by case analysis	690 552	796 758
- collective analysis	47 138 667	46 599 050
Impairment write-offs	(1 235 790)	(1 325 089)
- on the basis of case by case analysis	(329 297)	(500 441)
- on the basis of collective analysis	(906 493)	(824 648)
Loans and advances to customers (net)	**46 593 429**	**46 070 719**

18d. Loans and advances to customers portfolio by customers

	31.12.2016	31.12.2015
Loans and advances to customers (gross)	47 829 219	47 395 808
- corporate customers	13 745 002	13 780 632
- individuals	34 084 217	33 615 176
Impairment write-offs	(1 235 790)	(1 325 089)
- for receivables from corporate customers	(393 201)	(615 866)
- for receivables from individuals	(842 589)	(709 223)
Loans and advances to customers (net)	**46 593 429**	**46 070 719**

18e. Loans and advances to customers by maturity

	31.12.2016	31.12.2015
Current accounts	3 619 962	3 545 837
to 1 month	558 016	468 726
above 1 month to 3 months	1 431 331	1 620 570
above 3 months to 1 year	3 553 965	3 491 261
above 1 year to 5 years	14 821 964	14 029 356
above 5 years	22 597 705	22 956 325
past due	969 537	1 002 968
Interest	276 739	280 765
Total gross	47 829 219	47 395 808

18f. Loans and advances to customers by currency

	31.12.2016	31.12.2015
in Polish currency	26 379 318	26 026 278
in foreign currencies (after conversion to PLN)	21 449 901	21 369 530
- currency: USD	80 098	66 603
- currency: EUR	3 112 952	2 671 405
- currency: CHF	18 250 188	18 626 108
- currency: JPY	0	294
- other currencies	6 663	5 120
Total gross	**47 829 219**	**47 395 808**

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

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	1 325 089	1 225 637
Change in value of provisions:	(89 299)	99 452
Write-offs in the period	486 922	592 269
Amounts written off	(35 029)	(63 899)
Reversal of write-offs in the period	(256 188)	(320 816)
Write-offs decrease due to sale of receivables	(283 375)	(118 773)
Changes resulting from FX rates differences	5 540	10 394
Other	(7 169)	277
Balance at the end of the period	**1 235 790**	**1 325 089**

19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2016	31.12.2015
Debt securities	**17 076 201**	**13 635 726**
Issued by State Treasury	14 273 576	9 363 699
a) bills	0	0
b) bonds	14 273 576	9 363 699
Issued by Central Bank	2 669 700	4 198 776
a) bills	2 669 700	4 198 776
b) bonds	0	0
Other securities	132 925	73 251
a) listed	79 236	0
b) not listed	53 689	73 251
Shares and interests in other entities	42 610	226 334
Total financial assets available for sale	**17 118 811**	**13 862 060**
Available for sale instruments listed on the active market	14 352 813	9 363 699
Available for sale instruments not listed on the active market	2 765 998	4 498 361

Shares and interests in other entities include investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which value amounted to as at 31.12.2016 and 31.12.2015 PLN 18,166 thousand and PLN 13,259 thousand, respectively. Due to the nature of those instruments, the variability in the range of reasonable fair value measurements is significant and probabilities of the various estimates within the range cannot be reasonably assessed. Currently the Bank does not intend to dispose of these investments.

19b. Debt securities available for sale

	31.12.2016	31.12.2015
- with fixed interest rate	10 927 083	10 095 315
- with variable interest rate	6 149 118	3 540 411
Total	17 076 201	13 635 726

19c. Debt securities available for sale by maturity

	31.12.2016	31.12.2015
to 1 month	3 442 191	4 544 850
above 1 month to 3 months	1 008	0
above 3 months to 1 year	2 611 643	1 548 308
above 1 year to 5 years	10 890 038	6 843 247
above 5 years	131 321	699 321
Total	17 076 201	13 635 726

19d. Change of investment financial assets available for sale

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	13 862 060	9 249 216
Increases (purchase and accrual of interest and discount)	105 471 491	221 514 329
Reductions (sale and redemption)	(101 918 183)	(217 082 908)
Difference from measurement at fair value	(296 634)	181 438
Impairment write-offs	70	(15)
Other	7	0
Balance at the end of the period	17 118 811	13 862 060

19e. Investments in related entities

	31.12.2016	31.12.2015
Investments in related entities	212 368	226 373

19f. Investments in related entities as at 31.12.2016

Name	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warszawa	100	100
MB FINANCE AB	funding companies from the Group	Sztokholm	100	100
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warszawa	100	100
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warszawa	100	100
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50+1 share	50+1 share
BG LEASING	leasing services	Gdańsk	74	74

19f. Investments in related entities as at 31.12.2016

Name	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	5 464 797	5 126 774	48 195	144 219	48 009	subordinated
MILLENNIUM DOM MAKLERSKI S.A.*	16 500	0	0	186 991	117 041	16 500	31 047	15 617	subordinated
MB FINANCE AB	231	0	0	663 031	661 831	231	267	3	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	130 000	315 783	0	1 000	138 832	33 218	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	0	669	0	500	332	(102)	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation **	6 700	(6 700)	0	4 089	4 053	525	364	(817)	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	276	0	100	974	2	subordinated
BG LEASING S.A. under bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates	89 968	(7 600)	130 000						

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

** data as at 30.11.2016;

19g. Investments in related entities as at 31.12.2015

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

19g. Investments in related entities as at 31.12.2015

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

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

** data as at 31.08.2015;

19h. Change of investments in related entities

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	226 373	227 752
Purchase	373	0
Impairment write-offs in the period	(1 376)	(1 385)
Return of additional capital paid in	(13 000)	0
Differences in valuation of shares expressed in foreign currencies	(2)	6
Balance at the end of the period	212 368	226 373

20) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

	31.12.2016	31.12.2015
a) from banks	6 545	0
b) from clients	83 968	0
c) interest	7	0
Total	90 520	0

21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2016	31.12.2015
Land	1 261	1 261
Buildings, premises, civil and hydro-engineering structures	69 473	67 091
Machines and equipment	52 254	42 526
Vehicles	16 092	19 878
Other fixed assets	6 655	5 599
Fixed assets under construction	14 007	15 852
Total	159 742	152 207

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2016 - 31.12.2016

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 261	321 571	175 614	32 215	80 479	15 852	626 992
b) increases (on account of)	0	12 795	23 677	1 360	3 645	38 286	79 763
- purchase	0	0	0	0	0	31 637	31 637
- transfer from fixed assets under construction	0	6 267	12 810	0	1 762	0	20 839
- transfer from financial leasing	0	6 528	10 867	1 360	1 883	0	20 638
- unpaid investments	0	0	0	0	0	6 649	6 649
- other	0	0	0	0	0	0	0
c) reductions (on account of)	0	17 390	15 019	2 055	7 089	40 131	81 684
- sale	0	2 193	651	0	28	0	2 872
- liquidation	0	8 587	7 396	0	4 075	0	20 058
- settlement of fixed assets under construction	0	0	0	0	0	40 117	40 117
- settlement of financial leasing agreement	0	6 610	6 972	2 055	2 986	0	18 623
- other	0	0	0	0	0	14	14
d) gross value of property, plant and equipment at the end of the period	**1 261**	**316 976**	**184 272**	**31 520**	**77 035**	**14 007**	**625 071**
e) cumulated depreciation (amortization) at the beginning of the period	0	236 782	133 088	12 337	74 880	0	457 087
f) depreciation over the period (on account of)	0	934	(1 070)	3 091	(4 500)	0	(1 545)
- current write-off (P&L)	0	18 588	13 040	4 177	2 564	0	38 369
- reductions on account of sale	0	(1 514)	(627)	0	(27)	0	(2 168)
- reductions on account of liquidation	0	(8 587)	(7 364)	0	(4 058)	0	(20 009)
- settlement of financial leasing	0	(6 499)	(6 119)	(1 086)	(2 979)	0	(16 683)
- transfer to impairment write-offs	0	(1 054)	0	0	0	0	(1 054)
g) cumulated depreciation (amortization) at the end of the period	**0**	**237 716**	**132 018**	**15 428**	**70 380**	**0**	**455 542**
h) impairment write-offs at the beginning of the period	0	17 698	0	0	0	0	17 698
- transfer from depreciation	0	1 054	0	0	0	0	1 054
- release of write offs	0	(8 300)	0	0	0	0	(8 300)
- reduction due to sale	0	(665)	0	0	0	0	(665)
i) impairment write-offs at the end of the period	0	9 787	0	0	0	0	9 787
j) net value of property, plant and equipment at the end of the period	**1 261**	**69 473**	**52 254**	**16 092**	**6 655**	**14 007**	**159 742**
including finance lease	0	24 684	25 288	16 092	3 601	2 768	72 433

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

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

22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2016	31.12.2015
- concessions, patents, licenses, know-how and similar assets, including:	53 195	51 987
- computer software	41 874	44 866
Total intangible assets	53 195	51 987

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2016 - 31.12.2016

	concessions, patents, licenses, know-how and similar assets, including:		TOTAL
		computer software	
a) gross value of intangible assets at the beginning of the period	249 433	239 041	249 433
b) increases (on account of)	23 010	15 305	23 010
- expenditures on intangible assets	11 161	11 161	11 161
- unpaid investments	4 144	4 144	4 144
- transfer of computer software to copyrights	7 705	0	7 705
c) reductions (on account of)	7 971	7 971	7 971
- liquidation	4	4	4
- transfer of computer software to copyrights	7 705	7 705	7 705
- other	262	262	262
d) gross value of intangible assets at the end of the period	**264 472**	**246 375**	**264 472**
e) cumulated depreciation (amortization) at the beginning of the period	197 446	194 175	197 446
f) depreciation over the period (on account of)	13 831	10 326	13 831
- current write-off (P&L)	13 835	10 330	13 835
- liquidation	(4)	(4)	(4)
- other	0	0	0
g) cumulated depreciation (amortization) at the end of the period	**211 277**	**204 501**	**211 277**
h) impairment write-offs at the beginning of the period	0	0	0
i) impairment write-offs at the end of the period	0	0	0
j) net value of intangible assets at the end of the period	**53 195**	**41 874**	**53 195**

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

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

23) NON-CURRENT ASSETS HELD FOR SALE

As of 31.12.2016 and 31.12.2015 the Bank did not classify any assets in the Fixed Assets for Sale category.

24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets and liability

	31.12.2016			31.12.2015		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	3 365	0	3 365	4 802	0	4 802
Balance sheet valuation of financial instruments	293 434	(320 892)	(27 458)	461 964	(487 718)	(25 754)
Unrealised receivables/ liabilities on account of derivatives	20 583	(33 779)	(13 196)	27 570	(41 924)	(14 354)
Interest on deposits and securities to be paid/ received	20 249	(38 863)	(18 614)	38 468	(33 022)	5 446
Interest and discount on loans and receivables	0	(24 046)	(24 046)	0	(7 874)	(7 874)
Income and cost settled at effective interest rate	82 195	(1)	82 194	73 009	(34)	72 975
Provisions for loans presented as temporary differences	119 270	0	119 270	105 466	0	105 466
Employee benefits	12 787	0	12 787	13 723	0	13 723
Provisions for future costs	10 802	0	10 802	11 653	0	11 653
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	43 436	0	43 436	43 087	(47 322)	(4 235)
Other	3 360	(1 259)	2 101	2 968	(1 567)	1 401
Net deferred income tax asset	609 481	(418 840)	190 641	782 710	(619 461)	163 249
- including long-term net deferred income tax asset			103 614			131 288

24b. Change of temporary differences

	31.12.2015	Adjustment to previous years	Changes to financial result	Changes to equity	31.12.2016
Difference between tax and balance sheet depreciation	4 802	0	(1 437)	0	3 365
Balance sheet valuation of financial instruments	(25 754)	0	(1 704)	0	(27 458)
Unrealised receivables/ liabilities on account of derivatives	(14 354)	0	1 158	0	(13 196)
Interest on deposits and securities to be paid/ received	5 446	0	(24 060)	0	(18 614)
Interest and discount on loans and receivables	(7 874)	0	(16 172)	0	(24 046)
Income and cost settled at effective interest rate	72 975	0	9 219	0	82 194
Provisions for loans presented as temporary differences	105 466	0	13 804	0	119 270
Employee benefits	13 723	0	(936)	0	12 787
Provisions for future costs	11 653	0	(850)	0	10 802
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	(4 235)	0	0	47 670	43 436
Other	1 401	(12 917)	13 617		2 101
Total	163 249	(12 917)	(7 361)	47 670	190 641

24c. Change of temporary differences

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

24d. Change of deferred income tax

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
Difference between tax and balance sheet depreciation	(1 437)	(319)
Balance sheet valuation of financial instruments	(1 704)	(23 846)
Unrealised receivables/ liabilities on account of derivatives	1 158	(6 543)
Interest on deposits and securities to be paid/ received	(24 060)	64 605
Interest and discount on loans and receivables	(16 172)	18 613
Income and cost settled at effective interest rate	9 219	11 689
Provisions for loans presented as temporary differences	13 804	12 639
Employee benefits	(936)	(1 208)
Provisions for future costs	(850)	(2 858)
Other	13 617	894
Change of deferred income tax recognized in financial result	(7 361)	73 666
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	47 670	(30 779)

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

Temporary differences expiry year	31.12.2016	31.12.2015
Unlimited	12 125	11 749
Total	12 125	11 749

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

	31.12.2016	31.12.2015
Net deferred income tax assets	190 641	163 249
Net deferred income tax provision	-	-
Total	190 641	163 249

25) OTHER ASSETS

	31.12.2016	31.12.2015
Expenses to be settled	172 147	255 328
Income to be received	43 178	21 567
Interbank settlements	1 885	1 428
Settlements of financial instruments transactions	39 867	0
Receivables from sundry debtors	90 376	96 276
Settlements with the State Treasury	1 085	2 650
Total other assets (gross)	348 538	377 249
Impairment allowances	(7 105)	(4 170)
Total other assets (net)	**341 433**	**373 079**
- including other financial assets*	168 201	115 101
- including long-term other assets	84 480	146 398

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

26) LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

26a. Liabilities to banks and other monetary institutions

	31.12.2016	31.12.2015
In current account	115 567	114 518
Term deposits	256 776	498 235
Loans and advances received	897 532	829 770
Interest	870	1 398
Total	1 270 745	1 443 921

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

	31.12.2016	31.12.2015
Current accounts	115 567	114 518
to 1 month	226 155	274 742
above 1 month to 3 months	19 748	204 216
above 3 months to 1 year	98 467	115 450
above 1 year to 5 years	809 938	733 597
above 5 years	0	0
Interest	870	1 398
Total	1 270 745	1 443 921

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

	31.12.2016	31.12.2015
in Polish currency	235 856	458 796
in foreign currencies (after conversion to PLN)	1 034 889	985 125
- currency: USD	102	881
- currency: EUR	677 263	558 251
- currency: CHF	357 524	425 767
- other currencies	0	226
Total	**1 270 745**	**1 443 921**

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

	31.12.2016	31.12.2015
Negative valuation of derivatives	221 269	326 379
Adjustment due to fair value hedge	10 896	18 413
Short sale of securities	106 853	0
Financial liabilities valued at fair value through profit and loss	339 018	344 792

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

28) Deposits from customers

28a. Structure of liabilities to customers by type

	31.12.2016	31.12.2015
Amounts due to private individuals	39 564 935	35 518 684
Balances on current accounts	22 906 853	16 917 166
Term deposits	16 502 023	18 396 274
Other	84 811	83 380
Accrued interest	71 248	121 864
Amounts due to companies	14 102 977	16 199 185
Balances on current accounts	5 911 096	4 823 754
Term deposits	7 923 350	11 106 364
Other	254 198	238 231
Accrued interest	14 333	30 836
Amounts due to public sector	2 320 286	1 202 714
Balances on current accounts	979 693	741 985
Term deposits	1 311 250	427 940
Other	27 348	31 761
Accrued interest	1 995	1 028
Total	**55 988 198**	**52 920 583**

28b. Liabilities to customers by maturity

	31.12.2016	31.12.2015
Current accounts	29 797 642	22 482 905
to 1 month	10 055 467	11 381 219
above 1 month to 3 months	7 644 188	10 248 046
above 3 months to 1 year	7 129 095	7 535 488
above 1 year to 5 years	1 274 230	1 089 197
above 5 years	0	30 000
Interest	87 576	153 728
Total	55 988 198	52 920 583

28c. Liabilities to customers by currency

	31.12.2016	31.12.2015
in Polish currency	51 276 414	48 908 801
in foreign currencies (after conversion to PLN)	4 711 784	4 011 782
- currency: USD	1 377 562	1 347 815
- currency: EUR	2 968 899	2 375 445
- currency: GBP	234 698	182 820
- currency: CHF	95 959	76 234
- other currencies	34 666	29 468
Total	**55 988 198**	**52 920 583**

29) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

	31.12.2016	31.12.2015
a) to the Central Bank	0	0
b) to banks	0	0
c) to customers	0	0
d) interest	0	0
Total	0	0

30) LIABILITIES FROM DEBT SECURITIES

30a. Debt securities

	31.12.2016	31.12.2015
Outstanding bonds and bills	829 726	829 566
Bank Securities	279 101	301 527
Interest	4 396	4 408
Total	1 113 223	1 135 501

30b. Debt securities

	31.12.2016	31.12.2015
to 1 month	10 073	0
above 1 month to 3 months	516 907	22 288
above 3 months to 1 year	66 526	124 992
above 1 year to 5 years	515 321	983 813
above 5 years	0	0
Interest	4 396	4 408
Total	1 113 223	1 135 501

30c. Change of debt securities

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	1 135 501	1 740 633
Increases, on account of:	172 294	1 114 965
- issue of bonds	29 726	961 583
- issue of Bank Securities	112 324	109 791
- interest accrual	30 244	43 591
Reductions, on account of:	(194 572)	(1 720 097)
- repurchase of bonds	(29 566)	(1 532 681)
- repurchase of Bank Securities	(134 750)	(140 708)
- interest payment	(30 256)	(46 708)
Balance at the end of the period	**1 113 223**	**1 135 501**

30d. Debt securities by type

As at 31.12.2016	Balance sheet value	Final legal maturity	Market
BPW_2017/01,A	10 072	2017-01-31	-
BPW_2017/02,A	6 670	2017-02-28	-
BPW_2017/03,A	10 238	2017-03-30	-
BPW_2017/04,A,C	15 567	2017-04-28	-
BPW_2017/05	5 129	2017-05-30	-
BPW_2017/06	3 947	2017-06-30	-
BPW_2017/07	3 467	2017-07-31	-
BPW_2017/11	5 439	2017-11-30	-
BPW_2017/12	3 250	2017-12-29	-
BPW_2018/01	5 141	2018-01-31	-
BPW_2018/02	5 431	2018-02-27	-
BPW_2018/03	5 831	2018-03-30	-
BPW_2018/04	9 021	2018-04-30	-
BPW_2018/06,A	18 642	2018-06-01,29	-
BPW_2018/07	10 515	2018-07-31	-
BPW_2018/08	14 886	2018-08-31	-
BPW_2018/09	14 535	2018-09-28	-
BPW_2018/10	6 301	2018-10-31	-
BPW_2018/11	8 403	2018-11-30	-
BPW_2019/01,A	8 221	2019-01-03,31	-
BPW_2019/03,A,B	36 685	2019-03-01,29	-
BPW_2019/04,A	18 376	2019-04-30	-
BPW_2019/05	12 805	2019-05-31	-
BPW_2019/06A	12 996	2019-06-28	-
BPW_2019/07	11 501	2019-07-31	-
BPW_2019/08	7 470	2019-08-30	-
BPW_2019/09	8 561	2019-09-30	-
BKMO_280317C	504 150	2017-03-28	Catalyst (ASO BondSpot)
BKMO_220618N	300 246	2018-06-22	Catalyst (ASO BondSpot, ASO GPW)
BKMO_190617S	29 727	2017-06-19	-
TOTAL	1 113 223		

Redemption of Banking Securities (BPW) shall be made by means of payment on redemption date of the settlement amount, which shall be determined on the date of settlement amount and is calculated with use of formulas indicated in terms and conditions of the issue. Calculation of the settlement amount is made on the basis financial or commodity market ratios. As regards bonds (BKMO) quoted in the BondSpot alternative trading system (ASO BondSpot) and in the WSE alternative trading system (ASO WSE) interest is accrued on the nominal value of the bonds and is payable semi-annually. As of 31.12.2016 the interest balance was PLN 4,396 thousand.

On the Catalyst wholesale market of debt financial instruments (ASO BondSpot), as of 31.12.2016, quotations were made of 3-year C-series and N-series Bank Millennium's bonds with nominal value of PLN 500 and 300 million respectively. Additionally N-series bonds were quoted on the Catalyst retail market of debt financial instruments (ASO GPW). S-series Millennium bonds are zero-coupon bonds.

30e. Debt securities by type

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

In case of Bank Securities (BPW) issued by the Bank the interest calculation formula assumes that interest will be calculated on the basis of underlying indexes on maturity date. As regards bonds (BKMO) quoted in the BondSpot alternative trading system (ASO BondSpot) and in the WSE alternative trading system (ASO WSE) interest is accrued on the nominal value of the bonds and is payable semi-annually. As of 31.12.2015 the interest balance was PLN 4,408 thousand.

On the Catalyst wholesale market of debt financial instruments (ASO BondSpot), as of 31.12.2015, quotations were made of 3-year C-series and N-series Bank Millennium's bonds with nominal value of PLN 500 and 300 million respectively. Additionally N-series bonds were quoted on the Catalyst retail market of debt financial instruments (ASO GPW). P-series Millennium bonds are zero-coupon bonds.

31) Provisions

31a. Provisions

	31.12.2016	31.12.2015
Provision for off-balance sheet commitments	24 633	14 239
Provision for disputed claims and others	23 988	16 028
Total	48 621	30 267

31b. Change of provisions

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Provision for off-balance sheet commitments		
Balance at the beginning of the period	14 239	27 692
Charge of provision	15 279	5 052
Release of provision	(4 804)	(18 506)
FX rates differences	(81)	1
Balance at the end of the period	24 633	14 239
Provision for disputed claims and others		
Balance at the beginning of the period	16 028	67 331
Charge of provision	37 073	28 748
Release of provision	(5 579)	(2 516)
Utilisation of provision	(25 973)	(77 535)
Other	2 439	0
Balance at the end of the period	23 988	16 028

32) Deferred income tax provision

	31.12.2016	31.12.2015
Deferred income tax provision	0	0

33) OTHER LIABILITIES

33a. Other liabilities

	31.12.2016	31.12.2015
Short-term	991 237	1 048 326
Accrued costs - bonuses, salaries	35 951	43 360
Accrued costs - other	88 188	79 103
Interbank settlements	390 107	159 558
Settlements due to financial instruments	0	388 751
Other creditors	191 448	140 347
Liabilities from financial lease	26 886	25 189
Liabilities to public sector	10 230	21 706
Deferred income	236 047	179 130
Provisions for unused employee holiday	9 604	9 522
Provisions for retirement benefits	2 435	1 125
Other	341	535
Long-term	78 433	78 095
Provisions for retirement benefits	14 606	15 118
Deferred income	3 652	3 912
Liabilities from financial lease	55 055	54 091
Accrued costs	5 120	4 974
Total	**1 069 670**	**1 126 421**
- including other financial liabilities*	819 400	921 138

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

The Bank is a lessee in financial lease agreements concerning the car fleet as well as office space and equipment, signed with the Bank's subsidiaries - Millennium Leasing Sp. z o.o. and Millennium Service Sp. z o.o. The Bank carries the property in the financial lease as fixed assets.

33b. Liabilities from financial lease

	31.12.2016	31.12.2015
Liabilities from financial lease (gross)	86 983	85 465
Unrealised financial costs	(5 042)	(6 185)
Current value of minimum lease instalments	81 941	79 280
Liabilities from financial lease (gross) by maturity		
Under 1 year	28 901	27 862
From 1 year to 5 years	45 531	49 027
Above 5 years	12 551	8 576
Total	86 983	85 465
Liabilities from financial lease (net) by maturity		
Under 1 year	26 886	25 189
From 1 year to 5 years	43 026	45 898
Above 5 years	12 029	8 193
Total	81 941	79 280

33c. Change of provisions for unused employee holiday

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	9 522	9 100
Charge of provisions/ reversal of provisions	563	651
Utilization of provisions	(481)	(229)
Balance at the end of the period	9 604	9 522

33d. Change of provisions for retirement benefits

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	16 243	14 950
Charge of provisions/ reversal of provisions	2 853	2 755
Utilization of provisions	(601)	(693)
Actuarial gains (losses)	(1 456)	(769)
Balance at the end of the period	17 041	16 243

34) SUBORDINATED DEBT

34a. Subordinated debt

	31.12.2016	31.12.2015
Name of entity	MB FINANCE A.B.	MB FINANCE A.B.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	663 600	639 225
Interest rate	1.824%	1.999%
Maturity	20.12.2017	20.12.2017
Interest	404	406
Balance sheet value of subordinated debt	**664 004**	639 631

34b. Change of subordinated debt

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Balance at the beginning of the period	639 631	639 739
Increases, on account of:	37 219	13 668
- FX rates differences	24 375	0
- interest accrual	12 844	13 668
Reductions, on account of:	(12 846)	(13 776)
- interest payment	(12 846)	(13 656)
- FX rates differences	0	(120)
Balance at the end of the period	**664 004**	**639 631**

In the course of 2016 and 2015 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

35) SHAREHOLDERS' EQUITY

35a. Share capital

The share capital of the Bank Millennium S.A. is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

SHARE CAPITAL — Par value of one share = 1 PLN

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

In the reporting period there was conversion of 600 registered shares into the bearer shares. As a consequence number of registered shares decreased and as of 31.12.2016 amounted to 108 040, of which 61 800 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2016. Information on the ultimate parent company - Banco Comercial Portugues S.A. presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Bank's General Shareholders Meeting held on 31 March 2016. In case of Nationale-Nederlanden OFE (former ING OFE) and AVIVA OFE BZ WBK the number of shares and their participation in the Bank's share capital were calculated on the basis of annual asset structure, published as at 30 December 2016 (published on the websites, respectively: www.nn.pl and www.aviva.pl). For the purpose of the above calculation, the average Bank's share price as at the above date was assumed to amount to 5.1481 PLN.

The largest shareholders of the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2016

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	120 634 080	9.94	120 634 080	9.94
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	66 136 567	5.45	66 136 567	5.45

Shareholders as at 31.12.2015

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

35b. Revaluation capital

The revaluation capital of the Bank is generated in result of recognizing:

- result of valuation (at fair value) of financial assets available for sale at their net value, i.e. after deferred tax. The above items are deducted from the revaluation capital when all or some of the valued assets are taken out of the books or at the moment of recognising impairment (the result of the valuation is then recognized in the profit and loss account),
- result of valuation (at fair value) of derivative instruments hedging cash flows at their net value, i.e. after deferred tax. The revaluation capital contains the part of profits or losses related to the instrument hedging the cash flows, which is an effective hedge, while the ineffective part of profits or losses on the hedging instrument is posted in the profit and loss account,
- actuarial gains (losses) at their net value, i.e. after deferred tax. Aforementioned gains or losses result from the discounting of future liabilities arising from a provision created for retirement benefits. Valuation is done using the projected unit cost method. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. These values are not reclassified to the profit and loss account.

Revaluation reserve

	31.12.2016	31.12.2015
Effect of valuation (gross)	(228 612)	22 287
Deferred income tax	43 436	(4 235)
Net effect of valuation	(185 176)	18 052

Sources of the revaluation capital evolution are as follows (data in PLN thousands):

Revaluation reserve on available for sale financial assets 1.01.2016 - 31.12.2016

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	249 064	(47 322)	201 742
Transfer to income statement of the period as a result of sale	(222 096)	42 199	(179 897)
Change connected with maturity of securities	(3 915)	744	(3 171)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	(70 623)	13 418	(57 205)
Revaluation reserve at the end of the period	(47 570)	9 039	(38 531)

Revaluation reserve on available for sale financial assets 1.01.2015 - 31.12.2015

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	67 626	(12 849)	54 777
Transfer to income statement of the period as a result of sale	(41 852)	7 952	(33 900)
Change connected with maturity of securities	(301)	57	(244)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	223 591	(42 482)	181 109
Revaluation reserve at the end of the period	**249 064**	**(47 322)**	201 742

Revaluation reserve on cash flows hedge financial instruments 1.01.2016 - 31.12.2016

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(224 903)	42 731	(182 172)
Gains or losses on valuation of financial instruments recognized in equity	25 877	(4 917)	20 960
Transfer to income statement during period	18 402	(3 496)	14 906
Revaluation reserve at the end of the period	(180 624)	34 318	(146 306)

Revaluation reserve on cash flows hedge financial instruments 1.01.2015 - 31.12.2015

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(204 690)	38 891	(165 799)
Gains or losses on valuation of financial instruments recognized in equity	(24 556)	4 665	(19 891)
Transfer to income statement during period	4 343	(825)	3 518
Revaluation reserve at the end of the period	(224 903)	42 731	(182 172)

Revaluation reserve due to actuarial gains (losses) 1.01.2016 - 31.12.2016

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(1 874)	356	(1 518)
Discounting the obligations arising from the provision for retirement benefits	1 456	(277)	1 179
Revaluation reserve at the end of the period	(418)	79	(339)

Revaluation reserve due to actuarial gains (losses) 1.01.2015 - 31.12.2015

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(2 643)	502	(2 141)
Discounting the obligations arising from the provision for retirement benefits	769	(146)	623
Revaluation reserve at the end of the period	(1 874)	356	(1 518)

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2016	374 957	2 495 655	228 902	814 157	3 913 671
appropriation of profit, including:	0	814 157	0	(814 157)	0
- transfer to reserve capital	0	814 157	0	(814 157)	0
net profit/ (loss) of the period	0	0	0	652 651	652 651
Retained earnings at the end of the period 31.12.2016	**374 957**	**3 309 812**	**228 902**	**652 651**	**4 566 322**

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2015	374 957	1 876 144	228 902	619 511	3 099 514
appropriation of profit, including:	0	619 511	0	(619 511)	0
- transfer to reserve capital	0	619 511	0	(619 511)	0
net profit/ (loss) of the period	0	0	0	814 157	814 157
Retained earnings at the end of the period 31.12.2015	**374 957**	**2 495 655**	**228 902**	**814 157**	**3 913 671**

36) Financial liabilities by contractual maturity

2016	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	TOTAL
Deposits from banks	342 135	19 748	98 467	833 631	0	1 293 981
Deposits from customers	39 888 032	7 690 173	7 193 504	1 279 470	0	56 051 180
Liabilities from securities sold with buy-back clause	0	0	0	0	0	0
Debt securities	10 073	524 860	66 772	528 631	0	1 130 335
Subordinated debt	0	0	675 717	0	0	675 717
Liabilities from trading derivatives - notional value	3 446 852	2 687 233	3 522 503	4 478 039	196 803	14 331 430
Liabilities from hedging derivatives - notional value	1 605 747	2 777 009	5 394 566	10 324 430	514 663	20 616 415
Commitments granted - financial	7 014 153	0	0	0	0	7 014 153
Commitments granted - guarantee	1 120 170	0	0	0	0	1 120 170
TOTAL	53 427 161	13 699 024	16 951 528	17 444 201	711 466	102 233 380

2015	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	TOTAL
Deposits from banks	389 652	204 886	116 680	757 774	0	1 468 992
Deposits from customers	33 917 611	10 330 641	7 622 908	1 093 139	30 812	52 995 111
Liabilities from securities sold with buy-back clause	0	0	0	0	0	0
Debt securities	0	26 537	126 957	1 031 384	0	1 184 878
Subordinated debt	0	0	406	665 452	0	665 858
Liabilities from trading derivatives - notional value	2 930 444	5 812 895	4 414 557	5 184 452	286 429	18 628 777
Liabilities from hedging derivatives - notional value	1 537 578	2 148 791	7 321 979	7 525 079	1 910 609	20 444 036
Commitments granted - financial	6 712 976	0	0	0	0	6 712 976
Commitments granted - guarantee	1 148 003	0	0	0	0	1 148 003
TOTAL	46 636 264	18 523 750	19 603 487	16 257 280	2 227 850	103 248 631

13. SUPPLEMENTARY INFORMATION

1) 2015 AND 2016 DIVIDEND

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

On 6th December 2016, KNF issued its position in the matter of the dividend policy of banks (among other entities) in 2017. Based on this recommendations, the Management Board of the Bank will submit to the General shareholders meeting a proposal to retain in own funds the full net profit of 2016.

2) INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

As at 31 December 2016 following assets of the Bank constituted collateral of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	131 180
2.	Treasury bonds WZ0118	available for sale	Initial security deposit for bond futures	500	505
3.	Treasury bonds WZ0118	available for sale	Loan agreement	623 000	628 657
4.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	310 000	312 815
5.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
6.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	4117	4117
7.	Deposits	Deposits in other banks	Settlement on transactions concluded	1 071 202	1 071 202
			Total	2 138 919	2 148 576

As at 31 December 2015 following assets of the Bank constituted collateral of liabilities:

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

3) Securities subject to transactions with buy-back clause

As at 31 December 2016 and 31 December 2015 the Bank did not have any repo transactions concluded.

4) Offsetting of assets and liabilities on the basis of ISDA agreement

The majority of the Bank's derivatives portfolio arises due to conclusion by the Bank framework ISDA agreements (International Swaps and Derivatives Agreements). Provisions included in the agreements define comprehensive procedures in case of infringement (mainly difficulties in payments), and provide possibility to cancel a deal, making settlements with counterparty based on offset amount of mutual receivables and liabilities. To date, the Bank has not exercised that option, however, in order to meet information requirements as described in IFRS 7 the following table presents the fair values of derivative instruments (both classified as held for trading and dedicated to hedge accounting) as well as cash collaterals under ISDA framework agreements with a theoretical maximum amount resulting from the settlement on the basis of compensation.

	Amounts to be received	Amounts to be paid
Valuation of derivatives	191 135	1 251 266
Amount of cash collaterals accepted/granted	(13 305)	(1 025 510)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	177 830	225 756
Theoretical maximum amount of compensation	(169 009)	(169 009)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	**8 821**	**56 747**

5) Additional explanations to the cash flow statement

The following assets are recognized by the Bank as cash and cash equivalents for the application in the cash flow statement:

Data in PLN thous.	31.12.2016	31.12.2015
Cash and balances with the Central Bank	1 778 768	1 946 384
Receivables from interbank deposits (*)	159 814	359 920
Debt securities issued by the State Treasury (*)	3 443 400	4 544 850
of which available for sale	3 442 191	4 544 850
of which held for trading	1 209	0
Total	**5 381 982**	**6 851 154**
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	640	4 098

(*) financial assets of maturity below 3 months

In the periods presented in the financial statements the Bank has received and made interest payments in the following amounts:

Data in PLN thous.	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Interests received, including:	2 147 023	2 232 500
- operating activities	1 913 072	2 025 079
- investing activities	233 951	207 421
Interests paid, including:	834 855	899 196
- operating activities	812 011	874 741
- financing activities	22 844	24 455

The following activity categories have been adopted for the cash flow account report:

1. operating activity – covers core scope of activities related to provision of the Bank's services, covering any efforts to generate profits, other than investment or financial ones,
2. investment activity – covers actions related to purchase and sale of fixed assets, in particular financial assets not classified as „held for trading" or stocks and shares in subsidiaries, and material fixed assets and intangibles,
3. financial activity – covers actions related to acquisition of funds in form of capitals or liabilities, as well as the servicing the sources of financing.

6) Information on custody activity

As of 31.12.2016 the Custody Department maintained 12,583 accounts in which Customers' assets were kept with the total value of PLN 41.47 billion (including assets of the Group's companies in the amount of PLN 0.22 billion). Net revenue from the custody business for 2016 amounted to PLN 8.96 million (of which PLN 0.10 million falls on Group's companies). The Custody Department serves as a depositary bank for 85 mutual funds including 11 of Millennium TFI S.A.

7) Operating lease

The Bank has lease agreements for office space, which according to IAS 17 are posted under operating leasing. As a standard, the Bank usually makes agreements of lease of commercial property for a specified period of maximum 5 years' time, with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The other agreements are made with no time limitation, and may be terminated with adequate notice, usually 3 to 6 months.

Total liabilities under the operating leasing are as follows (data in PLN thousands):

Balance of liabilities as at:	31.12.2016	31.12.2015
to 1 year	43 016	52 576
above 1 year to 5 years	83 740	120 783
above 5 years	2 622	6 344
TOTAL	129 378	179 703

8) SHARE BASED PAYMENTS

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

According to the mentioned Policy, Bank's employees who are covered by this Policy, who have significant impact on Bank's risk profile, will be paid variable remuneration on the basis of individual results and on the basis of unit / department and the entire Bank results.

Part of the variable remunerations for employees of the Bank will be paid in the form of Bank's phantom shares. Those payments fulfil definition of the cash-settled share-based payments.

Variable Remuneration - Phantom Shares for:	2016	2015	2014	2013
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments			
Commencement of vesting period	1 January 2016	1 January 2015	1 January 2014	1 January 2013
The date of announcing the program	30 July 2012			
Starting date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after closing of financial year			
Number of granted instruments	Determined at the grant date of the program in accordance with the definition of IFRS 2			
Maturity date	3 years since the date of granting program			
Vesting date	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Vesting conditions	Employment in the Bank 2016, results of the Bank and individual performance	Employment in the Bank 2015, results of the Bank and individual performance	Employment in the Bank 2014, results of the Bank and individual performance	Employment in the Bank 2013, results of the Bank and individual performance
Program settlement	On the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw, preceding the settlement date. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment.			
Program valuation	The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date.			

Phantom shares granted to Bank's employees who are not members of the Management Board of the Bank, for the year:	2016	2015	2014	2013
Date of shares assigning	02.02.2017	12.02.2016	05.02.2015	13.02.2014
Number of shares	130 555	134 004	73 233	37 282
- granted	0	0	0	0
- deferred	130 555	134 004	73 233	37 282
Value as at assigning date (PLN)	755 000	722 952	532 622	330 768
- granted	0	0	0	0
- deferred	755 000	722 952	532 622	330 768
Fair value as at 31.12.2016 (PLN)	-	695 481	426 098	264 614

Profit and Loss Account for 2016 has been charged with the change in the value of the phantom shares assigned for the years 2013, 2014 and 2015, and the provision for phantom shares to be assigned for 2016.

Phantom shares granted to members of the Management Board of the Bank, for the year:	2016	2015	2014	2013
Date of shares assigning	-	13.05.2016	21.05.2015	24.04.2014
Number of shares	-	311 204	164 512	69 916
- granted	-	0	0	0
- deferred	-	311 204	164 512	69 916
Value as at assigning date (PLN)	-	1 500 000	1 285 900	612 000
- granted	-	0	0	0
- deferred	-	1 500 000	1 285 900	612 000
Fair value as at 31.12.2016 (PLN)	-	1 615 149	1 028 858	489 552

Until the publication of the Annual Report, the Personnel Committee of the Supervisory Board has not taken a decision on the amount of variable remuneration for the members of the Management Board for 2016.

9) Additional information and essential events between the date, for which the financial report was prepared and its publication date

Banking tax

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

FX mortgage loan portfolio

On August 2nd 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward. The draft Act covers all foreign currency loans concluded from 1st July 2000 to 26th August 2011 (date of entry into force so called anti-spread Act). Aforementioned draft Act envisages reimbursement of part of fx spread applied by banks. It was also announced that further capital requirements may be imposed for the banks in order to restructure fx mortgage loans.

Including the above mentioned draft Act, there are currently three different draft acts submitted to the polish parliament and as a consequence it is not possible to estimate the impact of this potential regulation on the banking sector. However, announced legislative intentions on spread return, if implemented and made mandatory for banks, could significantly deteriorate the Bank's profitability and capital position.

On 10th of August 2016, the Financial Stability Committee („FSC") (composed by the governor of NBP, Minister of Finance, Head of Polish Financial Supervision Authority and Head of Banking Guarantee Fund), upon the initiative of the Chairman of the National Bank of Poland, appointed the Working Group for the Risk of Currency Housing Loans, which included representatives of institutions represented in the Financial Stability Committee.

On 13th of Jan 2017 a Resolution no 14/2017 in the matter of the recommendation pertaining to the restructuring of the housing loan portfolio in foreign currencies was issued by FSC.

Following the analysis and evaluation of risk related to the still significant portfolio of FX mortgage loans, the FSC believes that it would be justified to start restructuring the portfolio.

Nevertheless, the FX loan restructuring measures must be implemented gradually, must be voluntary and first of all take into account the need to protect the stability of the financial system.

The possible currency conversion (or a different form of restructuring) should be implemented gradually and by negotiation between the bank and the customer; in every case it must consider all the circumstances, such as the borrower's current situation or the features of the loan.

It is not possible with the available information to analyse the impacts of the recommendations, but implementation of part or all recommendations may have influence on the results and capital ratios of the banks, including Bank Millennium, although it is possible that there will be some offsetting effects.

Date	Name and surname	Position/Function	Signature
02.03.2017	Joao Bras Jorge	Chairman of the Management Board	
02.03.2017	Fernando Bicho	Deputy Chairman of the Management Board	
02.03.2017	Wojciech Haase	Member of the Management Board	
02.03.2017	Andrzej Gliński	Member of the Management Board	
02.03.2017	Maria Jose Campos	Member of the Management Board	
02.03.2017	Wojciech Rybak	Member of the Management Board	