



**Annual Financial Report
of the Bank Millennium S.A.
for the 12-month period ending
31st December 2019**



Financial Highlights

	Amount '000 PLN		Amount '000 EUR	
	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Interest income and other of similar nature	2 982 260	2 453 575	693 259	575 025
Fee and commission income	745 358	687 342	173 267	161 087
Profit (loss) before income tax	867 942	958 882	201 763	224 726
Profit (loss) after taxes	600 683	722 300	139 635	169 280
Total comprehensive income of the period	594 074	816 162	138 099	191 278
Net cash flows from operating activities	(693 707)	4 939 916	(161 260)	1 157 729
Net cash flows from investing activities	(799 002)	(7 958 410)	(185 737)	(1 865 150)
Net cash flows from financing activities	724 810	(869 071)	168 490	(203 677)
Net cash flows, total	(767 899)	(3 887 565)	(178 506)	(911 098)
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total Assets	96 824 788	79 279 034	22 736 829	18 436 985
Liabilities to banks and other monetary institutions	849 452	1 055 708	199 472	245 513
Liabilities to customers	81 637 517	66 399 771	19 170 487	15 441 807
Equity	8 690 087	8 135 969	2 040 645	1 892 086
Share capital	1 213 117	1 213 117	284 870	282 120
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	7.16	6.71	1.68	1.56
Diluted book value per share (in PLN/EUR)	7.16	6.71	1.68	1.56
Total Capital Ratio (TCR)	20.00%	21.49%	20.00%	21.49%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Exchange rates accepted to convert selected financial data into EUR

for items as at the balance sheet date	-	-	4.2585	4.3000
for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period)	-	-	4.3018	4.2669

Quarterly financial information

INCOME STATEMENT

<i>Amount '000 PLN</i>	1.01.2019 - 31.12.2019	1.10.2019 - 31.12.2019*	1.01.2018 - 31.12.2018	1.10.2018 - 31.12.2018*
Net interest income	2 100 231	666 536	1 716 672	458 738
Interest income and other of similar nature	2 982 260	917 509	2 453 575	650 419
Income calculated using the effective interest method	2 855 064	883 427	2 336 911	574 515
Interest income from Financial assets at amortised cost	2 470 441	782 519	1 984 670	480 444
Interest income from Financial assets at fair value through other comprehensive income	384 623	100 908	352 241	94 071
Income of similar nature to interest from Financial assets at fair value through profit or loss	127 196	34 082	116 664	75 904
Interest expenses	(882 029)	(250 973)	(736 903)	(191 681)
Net fee and commission income	593 174	160 205	558 144	132 189
Fee and commission income	745 358	207 395	687 342	166 782
Fee and commission expenses	(152 184)	(47 190)	(129 198)	(34 593)
Dividend income	45 244	275	56 440	196
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	37 729	3 618	18 897	3 220
Results on financial assets and liabilities held for trading	68 269	17 483	82 252	24 371
Result on non-trading financial assets mandatorily at fair value through profit or loss	63 683	13 176	(6 375)	(4 591)
Result on hedge accounting	(19 059)	(4 183)	(20 037)	(5 130)
Result on exchange differences	157 814	37 633	150 206	39 861
Other operating income	85 328	14 632	25 069	8 549
Other operating expenses	(71 752)	(12 511)	(32 885)	(10 517)
Administrative expenses	(1 375 232)	(425 541)	(1 154 086)	(287 799)
Impairment losses on financial assets	(198 919)	(36 844)	(171 016)	(41 725)
Impairment losses on non-financial assets	(1 153)	1 112	(509)	311
Provisions for legal risk connected with FX mortgage loans	(223 134)	(223 134)	0	0
Result on modification	(11 663)	(2 476)	(14 157)	(3 970)
Depreciation	(145 708)	(49 508)	(51 256)	(13 609)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(236 910)	(69 133)	(198 477)	(49 952)
Profit before income taxes	867 942	91 340	958 882	250 142
Corporate income tax	(267 259)	(71 144)	(236 582)	(59 815)
Profit after taxes	600 683	20 196	722 300	190 327

* quarterly financial information has not been audited by an independent auditor

STATEMENT OF TOTAL COMPREHENSIVE INCOME

<i>Amount '000 PLN</i>	1.01.2019 - 31.12.2019	1.10.2019 - 31.12.2019*	1.01.2018 - 31.12.2018	1.10.2018 - 31.12.2018*
Profit after taxes	600 683	20 196	722 300	190 327
Other comprehensive income items that may be (or were) reclassified to profit or loss	(7 823)	(7 973)	112 890	71 697
Result on debt securities at fair value through other comprehensive income	(47 508)	(5 901)	71 014	57 011
Hedge accounting	39 685	(2 072)	41 876	14 686
Other comprehensive income items that will not be reclassified to profit or loss	(337)	(337)	2 988	2 988
Actuarial gains (losses)	(509)	(509)	(106)	(106)
Result on equity instruments at fair value through other comprehensive income	172	172	3 094	3 094
Total comprehensive income items before taxes	(8 160)	(8 310)	115 878	74 685
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	1 487	1 515	(21 448)	(13 621)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	64	64	(568)	(568)
Total comprehensive income items after taxes	(6 609)	(6 731)	93 862	60 496
Total comprehensive income for the period	594 074	13 465	816 162	250 823

* quarterly financial information has not been audited by an independent auditor

**ANNUAL FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A.
FOR THE 12-MONTH PERIOD ENDING 31ST DECEMBER 2019**

TABLE OF CONTENT

1.	INCOME STATEMENT	7
2.	STATEMENT OF TOTAL COMPREHENSIVE INCOME.....	8
3.	BALANCE SHEET	9
4.	STATEMENT OF CHANGES IN EQUITY	11
5.	CASH FLOW STATEMENT	12
6.	GENERAL INFORMATION ABOUT ISSUER	14
7.	ACQUISITION OF SHARES AND MERGER WITH EURO BANK S.A.	15
8.	ACCOUNTING POLICY	23
8.1.	STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS	23
8.2.	STANDARDS AND INTERPRETATIONS APPLIED IN 2019 AND THOSE NOT BINDING AT THE BALANCE SHEET DATE	23
8.3.	ADOPTED ACCOUNTING PRINCIPLES.....	27
9.	FINANCIAL RISK MANAGEMENT.....	54
9.1.	RISK MANAGEMENT	54
9.2.	CAPITAL MANAGEMENT	57
9.3.	CREDIT RISK	62
9.4.	MARKET RISK AND INTEREST RATE RISK.....	82
9.5.	LIQUIDITY RISK	88
9.6.	OPERATIONAL RISK.....	92
10.	TRANSACTIONS WITH RELATED ENTITIES.....	94
10.1.	TRANSACTIONS WITH THE SUBSIDIARIES AND PARENT'S GROUP	94
10.2.	TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS.....	96
10.3.	INFORMATION ON COMPENSATIONS AND BENEFITS OF THE PERSONS SUPERVISING AND MANAGING THE BANK	97
11.	FAIR VALUE	98
12.	CONTINGENT LIABILITIES AND ASSETS	104
12.1.	LAWSUITS.....	104
12.2.	OFF BALANCE SHEET ITEMS.....	108
13.	NOTES TO THE FINANCIAL STATEMENTS	110
1.	INTEREST INCOME AND OTHER OF SIMILAR NATURE	110
2.	INTEREST EXPENSE	110
3.	FEE AND COMMISSION INCOME AND EXPENSE	111
4.	DIVIDEND INCOME.....	111
5.	RESULT ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	112
6.	RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING	112
7.	RESULTS NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS.....	112
8.	RESULT ON HEDGE ACCOUNTING	113

9.	OTHER OPERATING INCOME	113
10.	OTHER OPERATING EXPENSE	113
11.	ADMINISTRATIVE EXPENSES	114
12.	IMPAIRMENT LOSSES ON FINANCIAL ASSETS	115
13.	IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	115
14.	DEPRECIATION AND AMORTIZATION	115
15.	CORPORATE INCOME TAX	116
16.	EARNINGS PER SHARE	117
17.	CASH, BALANCES AT THE CENTRAL BANK	118
18.	FINANCIAL ASSETS HELD FOR TRADING	118
19.	NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, OTHER THAN LOANS AND ADVANCES TO CUSTOMERS	121
20.	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	121
21.	LOANS AND ADVANCES TO CUSTOMERS	122
22.	FINANCIAL ASSETS AT AMORTISED COST OTHER THAN LOANS AND ADVANCES TO CUSTOMERS	128
23.	DERIVATIVES – HEDGE ACCOUNTING	130
24.	INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	134
25.	TANGIBLE FIXED ASSETS	136
26.	INTANGIBLE FIXED ASSETS	139
27.	DEFERRED INCOME TAX ASSETS	141
28.	OTHER ASSETS	143
29.	NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	143
30.	FINANCIAL LIABILITIES HELD FOR TRADING	144
31.	LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS	144
32.	LIABILITIES TO CUSTOMERS	145
33.	SALE AND REPURCHASE AGREEMENTS	146
34.	DEBT SECURITIES ISSUED	146
35.	SUBORDINATED DEBT	149
36.	PROVISIONS	150
37.	DEFERRED INCOME TAX LIABILITIES	150
38.	OTHER LIABILITIES	151
39.	EQUITY	152
40.	FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY	156
14.	SUPPLEMENTARY INFORMATION	157
14.1.	2019 DIVIDEND	157
14.2.	DATA ABOUT ASSETS, WHICH SECURE LIABILITIES	157
14.3.	SECURITIES COVERED BY TRANSACTIONS WITH A BUY-BACK CLAUSE (SBB)	158
14.4.	OFFSETTING OF ASSETS AND LIABILITIES ON THE BASIS OF ISDA AGREEMENTS	159
14.5.	ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT	159
14.6.	INFORMATION ON CUSTODY ACTIVITY	160
14.7.	SHARE BASED PAYMENTS	160
14.8.	ADDITIONAL INFORMATION AND OTHER ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED AND ITS PUBLICATION DATE	162

1. Income Statement

<i>Amount '000 PLN</i>	Note	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Net interest income		2 100 231	1 716 672
Interest income and other of similar nature	1	2 982 260	2 453 575
Income calculated using the effective interest method		2 855 064	2 336 911
Interest income from Financial assets at amortised cost		2 470 441	1 984 670
Interest income from Financial assets at fair value through other comprehensive income		384 623	352 241
Income of similar nature to interest from Financial assets at fair value through profit or loss		127 196	116 664
Interest expenses	2	(882 029)	(736 903)
Net fee and commission income		593 174	558 144
Fee and commission income	3	745 358	687 342
Fee and commission expenses	3	(152 184)	(129 198)
Dividend income	4	45 244	56 440
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	37 729	18 897
Results on financial assets and liabilities held for trading	6	68 269	82 252
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	63 683	(6 375)
Result on hedge accounting	8	(19 059)	(20 037)
Result on exchange differences		157 814	150 206
Other operating income	9	85 328	25 069
Other operating expenses	10	(71 752)	(32 885)
Administrative expenses	11	(1 375 232)	(1 154 086)
Impairment losses on financial assets	12	(198 919)	(171 016)
Impairment losses on non-financial assets	13	(1 153)	(509)
Provisions for legal risk connected with FX mortgage loans		(223 134)	0
Result on modification		(11 663)	(14 157)
Depreciation	14	(145 708)	(51 256)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(236 910)	(198 477)
Profit before income taxes		867 942	958 882
Corporate income tax	15	(267 259)	(236 582)
Profit after taxes		600 683	722 300

Notes on pages 14-164 are integral part of these financial statements.

2. Statement of Total Comprehensive Income

<i>Amount '000 PLN</i>	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Profit after taxes	600 683	722 300
Other comprehensive income items that may be (or were) reclassified to profit or loss	(7 823)	112 890
Result on debt securities at fair value through other comprehensive income	(47 508)	71 014
Hedge accounting	39 685	41 876
Other comprehensive income items that will not be reclassified to profit or loss	(337)	2 988
Actuarial gains (losses)	(509)	(106)
Result on equity instruments at fair value through other comprehensive income	172	3 094
Total comprehensive income items before taxes	(8 160)	115 878
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	1 487	(21 448)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	64	(568)
Total comprehensive income items after taxes	(6 609)	93 862
Total comprehensive income for the period	594 074	816 162

Notes on pages 14-164 are integral part of these financial statements.

3. Balance Sheet

ASSETS

<i>Amount '000 PLN</i>	Note	31.12.2019	31.12.2018
Cash, cash balances at central banks	17	2 203 444	2 450 176
Financial assets held for trading	18	987 465	795 924
Derivatives		113 432	102 682
Equity instruments		0	0
Debt securities		874 033	693 242
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	19	169 610	64 796
Equity instruments		66 609	21 609
Debt securities		103 001	43 187
Financial assets at fair value through other comprehensive income	20	21 856 275	22 120 121
Equity instruments		29 367	29 042
Debt securities		21 826 908	22 091 079
Loans and advances to customers	21	68 828 777	51 786 756
Mandatorily at fair value through profit or loss		1 498 195	1 250 525
Valued at amortised cost		67 330 582	50 536 231
Financial assets at amortised cost other than Loans and advances to customers	22	1 037 840	1 026 400
Debt securities		48 153	44 884
Deposits, loans and advances to banks and other monetary institutions		784 248	731 232
Reverse sale and repurchase agreements		205 439	250 284
Derivatives - Hedge accounting	23	43 159	125 501
Investments in subsidiaries, joint ventures and associates	24	88 874	90 084
Tangible fixed assets	25	622 506	202 546
Intangible fixed assets	26	331 978	84 850
Income tax assets		405 412	217 863
Current income tax assets		0	0
Deferred income tax assets	27	405 412	217 863
Other assets	28	249 448	314 017
Non-current assets and disposal groups classified as held for sale	29	0	0
Total assets		96 824 788	79 279 034

LIABILITIES AND EQUITY

<i>Amount '000 PLN</i>	Note	31.12.2019	31.12.2018
LIABILITIES			
Financial liabilities held for trading	30	353 004	231 633
Derivatives		150 739	107 879
Liabilities from short sale of securities		202 265	123 754
Financial liabilities measured at amortised cost		85 127 543	68 827 643
Liabilities to banks and other monetary institutions	31	849 452	1 055 708
Liabilities to customers	32	81 637 517	66 399 771
Sale and repurchase agreements	33	90 712	50 324
Debt securities issued	34	1 003 657	619 957
Subordinated debt	35	1 546 205	701 883
Derivatives - Hedge accounting	23	426 847	376 811
Provisions	36	304 289	112 045
Pending legal issues		250 433	59 797
Commitments and guarantees given		53 856	52 248
Income tax liabilities		38 057	16 910
Current income tax liabilities		38 057	16 910
Deferred income tax liabilities	37	0	0
Other liabilities	38	1 884 961	1 578 023
Total Liabilities		88 134 701	71 143 065
EQUITY			
Share capital	39	1 213 117	1 213 117
Share premium		1 147 241	1 147 241
Accumulated other comprehensive income	39	66 848	73 457
Retained earnings	39	6 262 881	5 702 154
Total equity		8 690 087	8 135 969
Total equity and total liabilities		96 824 788	79 279 034
Book value of net assets		8 690 087	8 135 969
Number of shares (pcs.)		1 213 116 777	1 213 116 777
Book value per share (in PLN)		7.16	6.71

Notes on pages 14-164 are integral part of these financial statements.

4. Statement of Changes in Equity

Amount '000 PLN	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2019 - 31.12.2019						
Equity at the beginning of the period	8 135 969	1 213 117	1 147 241	73 457	486 887	5 215 267
Total comprehensive income for 2019 (net)	554 118	0	0	(6 609)	73 840	486 887
net profit/ (loss) of the period	600 683	0	0	0	600 683	0
Merger with Euro Bank*	(39 956)	0	0	0	(39 956)	0
valuation of debt securities at fair value through other comprehensive income	(38 481)	0	0	(38 481)	0	0
valuation of shares at fair value through other comprehensive income	139	0	0	139	0	0
hedge accounting	32 145	0	0	32 145	0	0
actuarial gains (losses)	(412)	0	0	(412)	0	0
Transfer between items of reserves	0	0	0	0	(486 887)	486 887
Equity at the end of the period	8 690 087	1 213 117	1 147 241	66 848	560 727	5 702 154

* the nature of the adjustment was described in Chapter 7 "Acquisition of shares and merger with Euro Bank"

Amount '000 PLN	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2018 - 31.12.2018						
Equity at the beginning of the period	7 540 548	1 213 117	1 147 241	(35 077)	648 945	4 566 322
adjustment of the opening balance due to the adoption of IFRS 9	(220 741)	0	0	14 672	(235 413)	0
Equity as at 01.01.2018	7 319 807	1 213 117	1 147 241	(20 405)	413 532	4 566 322
Total comprehensive income for 2018 (net)	816 162	0	0	93 862	722 300	0
net profit/ (loss) of the period	722 300	0	0	0	722 300	0
valuation of debt securities at fair value through other comprehensive income	57 522	0	0	57 522	0	0
valuation of shares at fair value through other comprehensive income	2 506	0	0	2 506	0	0
hedge accounting	33 920	0	0	33 920	0	0
actuarial gains (losses)	(86)	0	0	(86)	0	0
Transfer between items of reserves	0	0	0	0	(648 945)	648 945
Equity at the end of the period	8 135 969	1 213 117	1 147 241	73 457	486 887	5 215 267

Detailed information concerning changes in different equity items are presented in the note (39).

5. Cash Flow Statement

A. Cash flows from operating activities

<i>Amount '000 PLN</i>	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Profit (loss) after taxes	600 683	722 300
Total adjustments:	(1 294 390)	4 217 616
Interest received	2 732 676	2 483 950
Interest paid	(762 337)	(694 270)
Depreciation and amortization	145 708	51 256
Foreign exchange (gains)/ losses	(8 157)	34 620
Dividends	(45 244)	(56 440)
Changes in provisions	190 944	21 378
Result on sale and liquidation of investing activity assets	(33 976)	(19 748)
Change in financial assets held for trading	(437 256)	195 494
Change in loans and advances to banks	(15 858)	(133 794)
Change in loans and advances to customers	(6 585 541)	(6 727 549)
Change in receivables from securities bought with sell-back clause (loans and advances)	32 227	(255 869)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	165 707	241 334
Change in deposits from banks	(4 312 149)	(810 267)
Change in deposits from customers	7 986 293	9 656 428
Change in liabilities from securities sold with buy-back clause	46 385	61 908
Change in debt securities	(102 423)	86 614
Change in income tax settlements	274 995	251 534
Income tax paid	(290 232)	(250 881)
Change in other assets and liabilities	(295 732)	81 749
Other	19 580	170
Net cash flows from operating activities	(693 707)	4 939 916

B. Cash flows from investing activities

<i>Amount '000 PLN</i>	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Inflows:	141 749 356	193 262 380
Proceeds from sale of property, plant and equipment and intangible assets	24 104	3 183
Proceeds from sale of shares in related entities	1 210	0
Proceeds from sale of investment financial assets	141 678 798	193 202 757
Other	45 244	56 440
Outflows:	(142 548 358)	(201 220 790)
Acquisition of property, plant and equipment and intangible assets	(138 025)	(42 832)
Purchase of Euro Bank shares less cash acquired	(1 591 434)	0
Acquisition of investment financial assets	(140 818 899)	(201 177 958)
Other	0	0
Net cash flows from investing activities	(799 002)	(7 958 410)

C. Cash flows from financing activities

<i>Amount '000 PLN</i>	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Inflows from financing activities:	865 000	0
Long-term bank loans	35 000	0
Issue of debt securities	0	0
Increase in subordinated debt	830 000	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
Outflows from financing activities:	(140 190)	(869 071)
Repayment of long-term bank loans	(88 467)	(501 432)
Redemption of debt securities	0	(329 859)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other outflows from financing activities	(51 723)	(37 780)
Net cash flows from financing activities	724 810	(869 071)

D. Net cash flows. Total (A + B + C)	(767 899)	(3 887 565)
- including change resulting from FX differences	152	4 424
E. Cash and cash equivalents at the beginning of the reporting period	4 520 688	8 408 252
F. Cash and cash equivalents at the end of the reporting period (D + E)	3 752 789	4 520 687

Additional information regarding cash flows statement is presented in **point 5) of chapter 14 “Supplementary information”**. Information on liabilities classified as financing activities is presented in **points 31), 34), 35) of chapter 13 “Notes to the Financial Statements”**.

6. General Information about 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 mobile 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 8,400 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 2019

Composition of the Supervisory Board as at 31 December 2019 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,
- 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,
- Andrzej Koźmiński - Member of the Supervisory Board,
- Alojzy Nowak - Member of the Supervisory Board,
- Jose Miguel Bensliman Schorcht da Silva Pessanha - Member of the Supervisory Board
- Miguel Maya Dias Pinheiro - Member of the Supervisory Board,
- Lingjiang Xu - Member of the Supervisory Board.

Composition of the Management Board as at 31 December 2019 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,
- Wojciech Rybak - Member of the Management Board,
- Antonio Ferreira Pinto Junior - Member of the Management Board,
- Jarosław Hermann - Member of the Management Board.

7. Acquisition of shares and merger with Euro Bank S.A.

Description of the transaction

On 5 November 2018, Bank Millennium (acquiring entity) announced and signed the preliminary agreement related to the acquisition of 99.787% shares of Euro Bank S.A. (acquired entity) from SG Financial Services Holdings ("Seller"), a wholly owned subsidiary of Societe Generale S.A. The transaction specified in the agreement is the direct acquisition of the shares by Bank Millennium.

The strategic rationale for the transaction

As a result of the transaction related to the acquisition of Euro Bank shares, Bank Millennium strengthened its important position in the Polish banking sector. The transaction increased the number of the Bank's clients by 1.4 million (of which more around 494 thousand fulfil the classification of active client as per Bank's internal definition) and therefore allowed the Bank to become one of the largest Polish bank in terms of the number of retail clients.

The acquisition of Euro Bank allowed the Bank to increase the segment of consumer loans, as well as the importance of this segment for the entire Group.

The acquisition of Euro Bank enabled Millennium Bank to acquire competences in the franchise model and strengthen its presence in smaller cities, where Euro Bank was strongly located, and contributed to increase of the geographical coverage of the Bank's distribution network.

Price

The parties to the contract have determined the price for the purchase of Euro Bank SA shares in the amount of PLN 1,833,000,000, which is subject to the adjustment mechanism after closing the transaction (i.e. after transferring the legal title to the shares to Millennium Bank). At the date of preparation of the financial statements as at 31 December 2019 the preliminary price after adjustments amounted to 1,816,545,000 PLN and was calculated on the basis of audited net asset value of Euro Bank as at 31 May 2019.

The final price to be paid by Millennium Bank for the shares may differ from the price indicated above.

Bank Millennium did not increase the share capital in order to finance the Transaction.

Financing

The acquisition price (in the amount of PLN 1,833,000,000), according to the agreement, was paid with cash and was financed from the internal means of the Bank. Additionally, the Agreement specified that the financing for Euro Bank from Societe Generale (including subordinated debt to SG), would be paid or refinanced by Euro Bank or Bank Millennium.

Completion of the acquisition

On 3 January 2019, the Bank received information on issuing by the President of the Office of Competition and Consumer Protection the decision on the consent for the concentration consisting in the Bank's acquisition of control over Euro Bank S.A. The consent was issued on 28 December 2018.

On 28 May 2019 the Polish Financial Supervision Authority issued the consent specifying that there is no basis for the objection raising, and therefore Bank Millennium together with its parent entity, Banco Comercial Portugues, were allowed to acquire the shares of Euro Bank S.A. in the number resulting in exceeding 50% of the total number of votes on the general meeting of Euro Bank and of the share in the share capital. The number of acquired shares exceeding 50% results also in becoming a parent entity of Euro Bank.

On 31 May 2019, by executing the share purchase agreement between the Bank and SG Financial Services Holdings of 5 November 2018, the Bank has acquired the majority of shares, constituting 99.787% of Euro Bank S.A. share capital from the seller.

Additionally, on 31 May 2019, the Bank has repaid the unsubordinated financing granted to Euro Bank by Societe Generale S.A. ("SG") in the amount of ca. PLN 3,800,000.000. It was preceded by Euro Bank's repayment of a part of subordinated debt from SG in the amount of PLN 250,000,000, after obtaining appropriate agreements from the PFSA in this particular area. In October 2019, a final repayment of a subordinated loan of SG taken out by Euro Bank in the amount of PLN 100 million (fully collateralised by a cash deposit since 31 May 2019) took place.

In order to limit the risk associated with the Euro Bank's portfolio of mortgage loans denominated in CHF or denominated in PLN, but indexed to CHF, Euro Bank and SG signed on 31 May 2019 an "CHF Portfolio Indemnity and Guarantee Agreement" as it was planned in the Share Purchase Agreement. Euro Bank, Bank Millennium and SG also concluded an agreement related to the provision of certain limited transitional services by SG for Euro Bank.

Merger

On 6 June 2019, the Management Board of Bank Millennium and the Management Board of Euro Bank agreed and signed the merger plan of Bank Millennium and Euro Bank (the "Merger"). The merger was performed in accordance with art. 492 § 1 point 1 of the Commercial Companies Code (KSH) by transferring all assets and liabilities of Euro Bank (the acquired bank) to Bank Millennium (the acquiring bank), without increasing the share capital of Bank Millennium.

In accordance with the Merger, existing, dematerialized shares of Bank Millennium ("Merger Shares") were allocated to the minority shareholders of Euro Bank. The shares were purchased on Warsaw Stock Exchange S.A. in the secondary trading, by Millennium Dom Maklerski S.A. [Millennium Brokerage House], by the order of Bank Millennium, pursuant to art. 515 § 2 of the Commercial Companies Code.

The following share exchange parity has been determined in the Merger Plan: in exchange for 1 (one) share of Euro Bank, a minority shareholder of Euro Bank received 4.1 Merger Shares.

As a result of the Legal Merger performed 1st October 2019, Bank Millennium assumed all the rights and obligations of Euro Bank, and Euro Bank was dissolved without liquidation proceedings and its entire assets were transferred to Bank Millennium. The merger took place on the day of its entry into the register of entrepreneurs of the National Court Register of Bank Millennium.

The merged Bank operates under the name Bank Millennium S.A. based on the provisions of the Act of 15 September 2000 - Code of Commercial Companies ("KSH").

The merger was performed based on already obtained appropriate consents and permits required by law, i.e.:

- (i) permission of the Polish Financial Supervision Authority ("PFSA") for the Merger, pursuant to art. 124 paragraph 1 of the Act of 29 August 1997 - Banking Law ("Banking Law");
- (ii) permission of the PFSA to amend the Statute of Bank Millennium pursuant to art. 34 paragraph 2 of the Banking Law.

Provisional Transaction settlement

Transaction settlement was performed applying the purchase method, in accordance with the International Financial Reporting Standard 3 "Business combinations" ("IFRS"), which requires, among others, recognition and measurement of identifiable assets acquired, and liabilities assumed measured at fair value as at the acquisition date, and any non-controlling interest in the acquired entity (if any) and separate recognition and measurement of goodwill or gain on bargain purchase

Considering that acquiring control over Euro Bank S.A. occurred on 31 May 2019, the provisional settlement of the Transaction was based on the data from the acquired company as at that date, considering the adjustments required by IFRS 3.

As part of the transaction, the Bank identified non-controlling interests amounting to 0.2% of the total value of Euro Bank shares. Bank Millennium acquired 26,240 shares of the Bank, constituting 0.00216302% of its share capital, which were then offered as merging shares to authorized shareholders of Euro Bank other than the Bank. The average purchase price of one merger share was PLN 5.939842, and the total price, representing the total cost of purchasing the merger shares, was PLN 156.3 thousand.

In the case of mergers of the Capital Group companies (transaction under joint control), the Bank adopts the accounting principle consisting in the application of the "predecessor accounting" method. In the separate financial statements, the Bank recognized the carrying amounts of the assets and liabilities of the acquiree (Euro Bank) that is a subsidiary, according to the values included in the consolidated financial statements of the Capital Group in relation to this subsidiary, including also goodwill arising on the acquisition of this subsidiary.

The net financial result achieved by the company being acquired (Euro Bank) commencing from date of starting consolidation up to the day preceding the date of merger, together with all consolidation adjustments recorded in consolidated profit and loss account during this period, was recorded in the Bank's financial statements under equity as "Retained earnings" in the amount of minus PLN 39,956 thousand.

Payment transferred in the acquired entity

In PLN thousand	
Price transferred in accordance with the Agreement	1 833 000
Preliminary price adjustment	(16 455)
Price after adjustment	1 816 545

Payments for shares was a cash payment.

The preliminary price adjustment results from the changes and detailed arrangements made in accordance with the provisions of the Transaction Agreement, and has not been settled yet as at 31 December 2019.

The Bank made a provisional settlement of the merger and calculation of goodwill in connection with the purchase of Euro Bank S.A. shares. In accordance with the requirements of IFRS 3, Bank Millennium will perform the final settlement of the acquisition within a maximum period of one year from the date of acquiring the control. During this time, the acquirer may adjust retrospectively the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect any new information obtained in relation to facts and circumstances that existed as at the acquisition date and, if known, would affect the measurement of those assets and liabilities. Such adjustments refer to the recognized goodwill or gain on bargain purchase.

This provisional purchase price allocation has been prepared by the Bank's Management Board based on calculations resulting from the concluded Transaction Agreement. The final settlement in accordance with the terms of the Transaction Agreement will, however, be subject to final arrangements between Bank Millennium and SG Financial Services Holdings, disposing the shares of Euro Bank S.A.

Recognition and measurement of identifiable assets acquired liabilities assumed measured in accordance with IFRS

The following data regarding the fair value measurement of the acquired assets and assumed liabilities were based on the identification from the point of view of Bank Millennium and the adopted assumptions regarding the materiality threshold.

in PLN million	Euro Bank as at 31 May 2019	Fair value adjustments	Identifiable acquired assets and liabilities assumed measured at fair value
In PLN million			
Assets			
Cash and balances at Central Bank	241,6	0,0	241,6
Amounts due from banks	85,0	0,0	85,0
Loans and advances to customers	12 446,4	147,6	12 594,0
Financial assets held for trading/FVOCI/FVTPL	1 405,0	-3,1	1 401,9
Intangible assets	49,0	0,8	49,8
Fixed assets	127,2	-14,0	113,2
Deferred tax assets	169,0	-33,8	135,2
Other assets	42,0	30,2	72,2
Total assets	14 565,2	127,7	14 692,9
Liabilities and equity			
Amounts due to banks and financial institutions	4 086,5	0,0	4 086,5
Amounts due to customers	7 974,9	0,0	7 974,9
Debt securities	506,1	0,0	506,1
Provisions	1,3	0,0	1,3
Derivatives in hedge accounting	5,6	0,1	5,7
Other liabilities	340,6	23,9	364,5
Subordinated loan	100,1	0,0	100,1
Total liabilities	13 015,1	24,0	13 039,1
Net assets			1 653,8

Both the balance sheet amounts of Euro Bank S.A. as at 31 May 2019, as well as the amount of fair value adjustment of these items may change in the course of final Transaction settlement what may affect the value of goodwill recognized within the Transaction.

The adjustments to the fair value for temporary differences constituted the basis for the calculation of deferred tax.

The portfolio of loans and advances to customers acquired as part of the Transaction related to the purchase of shares of Euro Bank S.A. as at the acquisition date, measured at fair value, was presented in the financial statements in net value.

Fair value measurement methods

Performing loans and advances to customers

The portfolio of loans and advances to customers acquired as part of the Transaction related to the purchase of shares of Euro Bank S.A. was measured at fair value as at the acquisition date in accordance with the requirements of IFRS 3 and IFRS 13. The fair value was determined using the present value technique of discounting future cash flows resulting from the acquired assets, considering expectations on possible fluctuations in the amount and timing of cash flows, the time value of cash flows and other factors that market participants would consider in similar circumstances.

The measurement of portfolio components was based on the following assumptions:

1. For each asset, the parameterization of the valuation model was determined based on its individual characteristics. For assets included in stage 1, contractual future cash flows were subject to provision for the effect of prepayments. In the absence of contractual cash flows, future capital flows were estimated based on the pace of debt repayment resulting from the statistical-behavioural model. For the exposures in stage 1, the real capital and interest flows were subject to adjustment for the impact of credit risk parameters.
2. Future interest flows for performing loans were determined based on the curve of forward rates for components related to the variable rate. Future values of the variable rate were determined on the basis of a yield curve constructed from financial instruments indexed to a given reference rate.
3. For performing loans with a payment schedule in the valuation model, contractual cash flows were subject to adjustment for prepayment factors.
4. For performing loans without contractual maturity date, future cash flows were estimated in the behavioural life cycle of the product. This concerned the portfolio of credit cards and the portfolio of current account limits.
5. For performing loans, capital-interest cash flows determined in previous steps were subject to adjustment for the PD and LGD parameter vectors throughout the lifetime of the exposure. In this way, the impact of credit risk on fair value was taken into account in the valuation model for exposures included in stage 1.
6. The fair value of the exposure was determined by discounting the expected future cash flows. The discount rate components were the following: zero-coupon rate derived from the right yield curve, capital cost overhead and margin component, representing all cost-revenue elements for given product groups, not included under other parameters of the valuation model, e.g.: liquidity margin, administrative costs, residual profit margin required on the market.
7. The zero-coupon rate, being an element of the discount rate, was based on the swap curve appropriate for the currency of the contract.

8. The market cost of capital was determined using the CAPM model and the risk weights assigned to individual asset components.
9. The margin component was determined based on newly granted loans with similar characteristics on the market. The margin was determined numerically for each exposure group, homogeneous in terms of factors identified as affecting the valuation.

IT systems

Fair value of IT systems acquired as part of the Transaction related to the purchase of Euro Bank S.A. shares was determined as follows:

1. Assuming market depreciation rates (5 years for main systems and 3 years for other systems), the net value of systems was calculated. The calculation was based on the assumption that the market rates would be effective from the moment of acquisition of a particular IT system for use.
2. For the 20 systems that are the largest in terms of net values as at the acquisition date, an individual valuation was performed from the perspective of the average market participant.
3. IT systems that were classified as intangible assets under construction as at the acquisition date were measured from the market participant's perspective and their value was determined depending on the decision whether to continue individual projects. For projects that the market participant would have continued in similar circumstances, the capitalized cost was assumed as it accurately reflects the current value and progress of the work. In case of IT systems, which usage will not be continued and additionally due to the specificity of the systems there is no possibility of their sale, the fair value is considered to be 0.

Property, plant and equipment

For all fixed assets containing Euro Bank trademarks and logo the fair value was set to 0. Fair value of assets classified as leasehold improvements related to adaptation and modernization of space in premises aimed at adapting them to Euro Bank standards (logo etc.) were measured as value of the 10-month depreciation in accordance with market depreciation rates. The remaining fixed assets were measured at the net value, assuming market depreciation rates from the moment of accepting these assets for use.

Relations with clients in the area of deposits and loans

Relationships with clients holding a CDI (core deposit intangible) have been determined using the favourable source of funds method, as the current value of the difference between the lower cost of financing the acquired savings accounts and the higher alternative cost of financing operations (including interest costs and costs administrative burden) that the Bank would have to incur if it did not have a portfolio of such accounts. For each year of the cash flow forecast, considering the estimated rate of customer outflow, the difference between the alternative financing cost and the cost of the acquired accounts is calculated, and is discounted using an adequate discount rate.

Relations with customers who have credit accounts have been estimated using the Multi-Period Excess Earning Method (MEEM). The value of the relationship is determined based on the current value of discounted future cash flows resulting from additional income generated for the Bank having a given intangible asset, after taking into account the rate of departure customers, costs and encumbrances on capital assets.

The discount rate applied to value customer relationships takes into account the time value of money, the cost of equity and bonuses for specific risks identified in the relationship. The cost of the Bank's equity is determined in accordance with the CAPM model (Capital Asset Pricing Model).

The estimated value of CDI was considered irrelevant, mainly due to the relatively high interest rate on the acquired savings accounts and the possibility of alternative financing of the Bank at a relatively low margin. Due to the above, CDI did not meet the disclosure criterion as a separate asset related to the acquisition. With exception of cash loans there were also no significant relationships with customers having credit products, mainly due to the relatively low level of additional revenues generated by these products, in relation to the corresponding costs of risk, administrative costs and capital charges.

Lease/rental agreements

The conditions included in signed agreements regarding the rental of office space for the needs of branches and headquarters were compared to the conditions of the agreements currently concluded in the market with relation to office areas of a similar area and location. The difference between the rental rate of the acquired branches and headquarters and rental rate of similar areas available on the market was calculated. The amount of the difference was discounted by the discount rate of Bank Millennium, applied for the models of assets measurement under IFRS 16 for the period remaining until the completion of individual contracts. The value of unfavourable agreements adjusted the book value of lease assets' right of use.

Guarantee agreement regarding CHF Mortgage loans portfolio

Fair value of the guarantee determined using income method was estimated as present value of future cash flows expected to be received from Societe Generale S.A. to cover losses related to acquired CHF Mortgage loans portfolio resulting from the future defaults or from the cost of risk of already defaulted loans. In the valuation the value of market spread paid for the similar financial instruments was taken into account.

Other adjustments

Other adjustments to fair value and the so-called adjustments of net assets resulting from the adjustments to accounting principles concerned, among others, unification of bonds and derivatives measurement, as well as write-off of some other assets items.

The determination of the fair value of the assets and liabilities acquired and the identification and recognition of intangible assets resulting from the acquisition were based on the available information and the best estimates as at the date of preparation of the financial statements.

Calculation of goodwill

As at the date of the present report, the Bank did not complete the process of calculating goodwill as at 31 May 2019.

The purchase price allocation performed as at 31 May 2019 shall be considered as provisional and may be subject to changes if the Bank acquires new information as at 31 May 2019, which are not known at the date of preparation of the annual financial statements for 2019. In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expires after 12 months from the date of the acquisition, i.e. on 31 May 2020. Any changes will be made retrospectively (i.e. they will be recognized in other comprehensive income). The currently determined difference of the fair value of acquired assets and assumed liabilities at the acquisition date over the purchase price is recognized by the Bank in accordance with the provisions of IFRS 3.32 as goodwill in intangible assets, which resulted in a significant increase in this item in the balance sheet.

In PLN thousand

Price transferred in accordance with the Agreement	1 833 000
Preliminary price adjustment	(16 455)
Price after adjustment	1 816 545
Fair value of acquired net assets	1 653 788
Goodwill	162 757

As at the balance sheet date, no impairment allowances for goodwill were recognized in intangible assets.

The difference between the book value of the acquired assets and liabilities of Euro Bank S.A. and their fair value measurement will be subject to settlement through the profit or loss account - in the economic life of the individual components of the assets and liabilities acquired.

8. Accounting Policy

8.1. 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 (unified text - Official Journal from 2018, item 395, 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 Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

This financial report was approved for publication by the Management Board on 14 February 2020.

8.2. STANDARDS AND INTERPRETATIONS APPLIED IN 2019 AND THOSE NOT BINDING AT THE BALANCE SHEET DATE

APPLIED NEW AND REVISED STANDARDS AND INTERPRETATIONS

This financial report for the first time reflected provisions of following standards, which came into force on 1 January 2019:

IFRS 16 Leases

The International Accounting Standards Board has published the new International Financial Reporting Standard No. 16 (IFRS 16) concerning leases. IFRS 16 applies to reporting periods starting on 1 January 2019 and affects the Bank in the area of assets used under lease agreements. The new requirements eliminate the notion of operating lease and thus off-balance sheet recognition of assets used on this basis. All assets used as well as relevant rent payment liabilities are to be recognised in the balance sheet, with the exception of short-term contracts and contracts for low-value assets, where the new standard allows a simplified approach (recognition directly in the cost of the period).

The Bank analysed its agreements to establish which are leases, which aren't. An agreement is a lease or contains a lease if under it the right is conveyed to control the use of an identified asset for a particular irrevocable period in exchange for remuneration. Recognition of agreements on rental of office space (Head Office, branches) as leases have the biggest impact on financial statements. Also agreements were identified on small spaces (bin shelters, ATM space etc.) as well as agreements on minor equipment, which were classified as low value leases.

Transition period

In order to implement the new standard the Bank adopted a modified retrospective approach, which assumes not restating comparable data. On the day of first use of the new standard (1 January 2019) the Bank recognised lease liabilities equal to the current value of discounted and as yet unpaid lease payments as well as assets equal to liabilities. The weighted average marginal interest rate used for the calculation of liabilities is 1.445% for contracts denominated in EURO and 2.667% for contracts in PLN. In the case of contracts denominated in EURO, the assets were converted into Polish zlotys at the exchange rate as at the date of the first application of the standard.

Table below illustrates the effect of IFRS 16 implementation

Operational lease as at 31 December 2018	219 476
Agreements with a subordinate entity with the option of termination	199 061
Short-term lease contracts	(45 587)
Low-value assets lease contracts	(2 474)
Adjustments as a result of different treatment of extension and termination options	65 530
Other adjustments	(57 324)
Lease commitments, not discounted, as at 1 January 2019	378 682
Discount factor	(24 030)
Lease liabilities accordingly IFRS 16 as at 1 January 2019	354 652

The Bank has adopted the following assumptions, based on which lease agreements are carried in financial statements:

- calculation of liabilities and assets will use net values (VAT is excluded) of future cash flows,
- in case of agreements denominated in currency the liabilities will be carried in the original currency of the contract while assets in Polish zloty converted at the rate from date of signing the contract or an annex to the contract, which is also the day when the leasing starts,
- the right to use the asset will be depreciated according to the lease period,
- the Bank uses the option of not recognizing leasing in the case of short-term contracts for space lease and car leasing contracts,
- the Bank also uses the option of not recognizing leasing in the case of leasing assets with a low initial value, such as renting small areas, e.g. for garbage arbors, ramps, ATMs and devices such as coffee machines, water dispensers, audiomarketing and aromatamarketing devices,
- new contracts will be discounted according to the SWAP rate on the day of signing the contract / annex to the contract appropriate for the duration of the contract and applicable for the currency, increased by the margin determined and updated in relation to the risk premium for the financial liabilities incurred by the Bank.

Accounting schedules

The financial report shows, both assets under the right of use and liabilities under the lease, in separate items of the explanatory notes to the lines 'Tangible fixed assets' and 'Other liabilities' respectively. On the start date lease payments contained in the valuation of the lease liability shall comprise following payments for the right to use the underlying asset during the lease period, which remain due on that date:

- fixed lease payments less any and all due lease incentives,
- variable lease payments, which depend on the index or rate, initially valued with use of this index or this rate in accordance with their value on start date,
- amounts expected to be paid by the lessee under the guaranteed final value,
- the buy option strike price if it can be assumed with sufficient certainty that the lessee will exercise this option,
- monetary penalties for lease termination if the lease terms and conditions stipulated that the lessee may exercise the lease termination option.

A right to use asset comprises:

- amount of initial valuation of the lease liability,
- any and all lease payments paid on the start date or before it, less any and all lease incentives received.

Financial result reflects following items:

- depreciation of right to use,
- interest on lease liabilities,
- VAT on rent invoices reported in cost of rent.

Information on lease liabilities is presented in **note (38B)** and data on rights to use in **note (25)**.

Additional information on rental agreements is presented below

Amount of rents paid in 2019	82 064
Costs related with short-term lease contracts	9 790
Costs related with low-value lease contracts	1 747
Income from sub-location of assets under right of use	1 767

OTHER STANDARDS AND INTERPRETATIONS THAT ENTERED INTO FORCE FROM JANUARY 1, 2019:

- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation - adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement - adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures - adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 “Uncertainty over Income Tax Treatments”** - adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards (except IFS16), amendments to the existing standards and interpretation has not led to any material changes in the Bank’s financial statements.

PUBLISHED STANDARDS AND INTERPRETATIONS, WHICH ARE NOT IN FORCE YET AND WERE NOT APPLIED BY THE BANK EARLIER

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020),
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

8.3. ADOPTED ACCOUNTING PRINCIPLES

Basis of Financial Statements Preparation

Financial statements of the Bank are prepared for the financial year from 1 January 2019 to 31 December 2019 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 FVTPL including derivative instruments, and financial assets classified as FVTOCI. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost with effective interest rate applied less impairment charges (except loans which failed SPPI test), 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 management the use of estimates and assumptions that affect applied accounting principles and the amounts (assets, liabilities, incomes and costs) 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's 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 consolidated financial statements except changes reflected from IFRS16 implementation commencing from 1 January 2019.

Functional currency and presentation currency

Functional currency and presentation currency

The items contained in the financial statements of the Bank are presented in the currency of their basic economic environment, in which a given entity operates ('the functional currency'). The financial statements are presented in Polish zlotys, being the functional currency and the presentation currency for the Bank.

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 valued at fair value through other comprehensive income 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 valued at fair value through other comprehensive income, are included in Other comprehensive income.

Mergers under joint control

In the case of mergers of the Capital Group companies (transaction under joint control), the Bank adopts the accounting principle consisting in the application of the "predecessor accounting" method. In the separate financial statements, the Bank recognizes the carrying amounts of the assets and liabilities of the acquiree that is a subsidiary according to the values included in the consolidated financial statements of the Capital Group in relation to this subsidiary, including also goodwill arising on the acquisition of this subsidiary.

A possible difference between the carrying amount of the net assets acquired after the adjustments referred to above and the value of investments in a subsidiary disclosed in the separate financial statements of the Bank is recognized in equity as "Retained earnings".

The net financial result achieved by the company being acquired up to the day preceding the date of merger is disclosed in the Bank's financial statements under equity as "Retained earnings".

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, including expectations concerning future events, 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**

Impairment estimation model within the Bank has been based on the concept of "expected credit loss", (hereinafter: ECL). In result impairment charges are calculated based on expected credit losses and forecasts of expected future economic conditions have to be taken into account when conducting evaluation of credit risk of an exposure.

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), which results will be taken into account in order to improve the quality of the process.

Further details are presented in **Chapter 9. "Financial Risk Management"**.

- 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,

Loans and advances mandatorily at fair value through profit or loss,

Derivatives:

- FX Options acquired by the Bank,
- Indexes options acquired/placed by the Bank.

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

To estimate the fair value of loans, due to the lack of availability of the market value, an internal valuation model was used, taking into account the assumption that at the time of granting the loan the fair value is equal to transaction price.

The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date. The discounting rate is the sum of: the cost of risk, the cost of financing, the value of the expected return.

The fair value of impaired loans is equal to the sum of future expected recoveries discounted using the effective interest rate, recognizing that the average expected recoveries fully take into account the element of credit risk.

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.

- Provisions for legal risk connected with FX mortgage loans

Taking into consideration the increased legal risk related to FX mortgages, Bank creates dedicated provision for legal risk. The methodology developed by the Bank is based on the following main parameters: 1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

- Provisions for potential returns of costs associated with loans in case of early repayment

Taking into consideration The Court of Justice of the European Union verdict, in which it stated that consumer has rights to demand the reduction of the total loan cost corresponding to interest and costs for the remaining term of the agreement in case of early repayment of loan, Bank creates a provision for potential returns to the clients. The provision is estimated based on the maximum amount of potential returns and the probability of payment being made. The adequateness of such reserve will be checked through time and will depend on the clarification of the implications of the verdict and on the number of agreements and values to be returned.

- 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 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

In accordance with the IFRS 9 requirements financial assets are classified at the moment of their initial recognition (and the date of IFRS implementation) into one of three categories:

- 1) Financial assets valued at amortised cost (herein from „AC” - Amortised Cost),
- 2) Financial assets valued at fair value through profit & loss (herein from „FVTPL),
- 3) Financial assets valued at fair value through other comprehensive income (herein from „FVTOCI”).

The classification of financial instruments into one of the above categories is performed based on:

- 1) The business model of managing financial assets,
The assessment of the business model is aimed at determining whether the financial asset is held:
 - to collect contractual cash flows resulting from the contract,
 - both in order to collect contractual cash flows arising from the contract and the sale of a financial asset or
 - for other business purposes.
- 2) Test of contractual cash flow characteristics connected with financial assets (herein from „SPPI test”).
The purpose of the SPPI test (Solely Payment of Principal and Interest) is to assess the characteristics of contract cash flows in order to verify if:
 - The contractual terms trigger, at specific dates, certain cash flows which constitute solely a payment of principal and interest on such principal,
 - The principal constitutes the fair value of a loan at the moment of its recognition,
 - The interest reflects the value of money over time and credit risk, liquidity risk, the Bank’s margin and other administrative costs connected with the value of the principal outstanding at any given moment.

Financial instruments are classified at the moment of recognition or significant modification of the instrument. A change in the classification of financial assets is caused by a change in the business model. Reclassification is made prospectively, i.e. it does not affect fair value measurements, write-downs or accrued interests recorded to the date of reclassification.

Business Models of the Bank

In accordance with IFRS 9 the manner of assets management may be assigned to the following models:

- 1) Held To Collect (herein from „HTC”),
- 2) Both Held to Collect and for Sale (herein from “HTC&FS”),
- 3) Other models, e.g. trading activity, management of assets based on fair value fluctuations, maximising cash flows through sales.

Held To Collect Model (HTC)

Model characteristics:

- 1) The objective of the model is to hold financial assets in order to collect their contractual cash flows,
 - 2) Sales are infrequent,
 - 3) In principle, lower levels of sales compared to other models (in terms of frequency and volume).
- Conditions allowing sale in the HTC model:

- 1) Low frequency,
- 2) Low volume,
- 3) Sale connected with credit risk (sale caused by the deterioration of the credit quality of a given financial asset to a level at which it no longer meets the investment policy requirements).

A sale having at least one of the above features does not preclude qualifying a group of assets in the HTC module.

Impact on classification and valuation:

Instruments assigned to the HTC model are classified as valued at amortised cost (AC) on condition that the criteria of the SPPI Test are met. The value of instruments is calculated based on effective interest rate which is applied to determine interest income and then adjusted for impairment allowances reflecting expected credit losses. Consequently, subject to valuation at amortised cost is the Bank's credit portfolio (except loans not meeting the SPPI test) and debt securities issued by local government units (municipal bonds portfolio), because these instruments in principle are held by the Bank in order to collect contract cash flows, while sales transactions occur infrequently.

Both Held to Collect and for Sale Model (HTC&FS)

Model characteristics:

- 1) The integral objectives of the business model are both to collect contractual cash flows and sell assets (in particular the model meets the assumptions of HTC&FS, if its objective is to manage everyday liquidity needs, maintain an adopted interest yield profile and/or match the duration of the financial assets and liabilities),
- 2) The levels of sales are usually higher than in the HTC model.

Impact on classification and valuation:

In accordance with IFRS 9 instruments assigned to the HTC&FS model are classified as valued at fair value through other comprehensive income (FVTOCI) on condition that the contractual terms of these instruments trigger at particular moments cash flows constituting solely a payment of principal and interest on such principal (the SPPI test is met). These instruments are measured at fair value net of impairment allowances, the fair value result is recognised in other comprehensive income until financial assets is derecognised.

The HTC&FS model is applied mainly to the portfolio of debt government securities and money bills of the National Bank of Poland in particular the liquidity and investment portfolio.

Equity instruments (with the exception of related entities) are classified as valued at fair value through profit & loss (FVTPL), provided that entities which manage them do not intend to hold them as a strategic investment, or at fair value through other comprehensive income (FVTOCI) for instruments which are not held for trading purposes. The decision to use the option to value capital instruments at fair value through other comprehensive income is taken by the Bank on the day of the initial recognition of the instrument and constitute an irrevocable designation (even at the moment of selling, the profit/loss on the transaction shall not be recognised in the Profit and Loss Account).

Other models

Model characteristics:

- 1) The business model does not meet the assumptions of the HTC and HTC&FS models.
- 2) The collecting of cash flows on interest and principal is not the main objective of the business model (the SPPI test is not satisfied),

This category should include in particular:

- 1) Portfolios managed in order to collect cash flows from the sale of assets, in particular „held for trading”,
- 2) Portfolios whose management results are evaluated at fair value.

A financial asset should be considered as held for trading, if:

- 1) It was purchased mainly for the purpose of selling in a very short term,
- 2) At the moment of initial recognition it is part of a portfolio of financial instruments managed jointly for which there is evidence confirming a regularity that they have recently actually generated short-term profits, or
- 3) Is a derivative instrument, with the exclusion of derivative instruments included in hedge accounting and being effective hedging instruments.

The term „trading” means active and frequent purchases and sales of instruments. However, these features do not constitute a necessary condition in order to classify a financial instrument as held for trading.

Impact on classification and valuation:

Financial assets kept under models other than HTC or HTC&FS are valued at fair value through profit & loss (FVTPL).

A business model other than HTC or HTC&FS shall apply to portfolios of the following financial assets:

- 1) Derivative instruments,
- 2) Debt securities held for trading,
- 3) Capital instruments not appointed to be a strategic investment,
- 4) Financial assets irrevocably designated at initial recognition to be valued at fair value through profit & loss (even in case the asset does not meet criteria to be FVTPL) in order to eliminate or significantly mitigate accounting mismatch if would appear in case such designation is not made.

Test of characteristics of contractual cash flows (SPPI test)

The evaluation of the fulfilment of the SPPI Test is carried out in the following cases:

- granting a debt instrument;
- purchase of debt instrument;
- renegotiation of contractual terms.

The subject of the SPPI Test are the contractual terms of debt instruments recognised in the balance sheet, whereas the off-balance sheet products are not analyzed.

The SPPI test is carried out at the design stage of the product/loan agreement, which allows making approvals with taking into account the future method of exposure valuation.

As part of the SPPI Test, the impact of the modified element on the cash flows resulting from the concluded contract is assessed. Contract characteristics introducing volatility or cash flow risk not directly related to interest and capital interest payments may be assessed as having no impact on the classification (fulfilment of SPPI criteria) if they are defined as having negligible classification impact (existence of a "de minimis" characteristic) or such impact is not negligible (no "de minimis" character) but can only occur in extremely rare cases (existence of the "not genuine" attribute).

In cases where there is a modification of the time value of money, eg in case where a period of interest rate mismatch with the base rate tenor, in order to verify the fulfilment of the SPPI Test, the Bank performs an assessment based on the Benchmark Test, ie a comparison of the instrument resulting from the contract with the base instrument (which has the same contractual features as the instrument under analysis, with the exception of the time value of money element).

Non-recourse assets (products for which the Bank's claim is limited to certain debtor's assets or cash flows from specific assets), in particular "project finance" and "object finance" products (products in which the borrower, most often a special purpose vehicle is characterized by the minimum level of equity, and the only component of its assets is the credited asset), are assessed by comparing the value of the collateral in relation to the principal amount of the loan. Identification of the appropriate buffer to cover the risk of changes in the value of the collateral satisfies the SPPI Test conditions.

The negative result of the SPPI Test implies the valuation of the debt at FVTPL, causing a departure from the valuation at amortized cost or FVTOCI.

Modifications to the terms of the loan agreement

Modifications to the terms of the loan agreement during the loan period include:

- changing the dates of repayment of all or part of the receivables,
- changes in the amount of the repayment instalments,
- changing the interest or stop charging interest,
- capitalization of arrears or current interest,
- currency conversion (unless such a possibility results from the original contract),
- establishing, amending or abolishing the existing security for receivables.

Any mentioned above modification may result in the need to exclude from the balance sheet and re-classify the financial asset taking into account the SPPI test.

If the contractual terms of the loan are modified, the Bank performs a qualitative and quantitative assessment to determine whether a given modification should be considered significant and, consequently, derecognize the original financial asset from the balance sheet and recognize it as a new (modified) asset at fair value. A significant modification takes place if the following conditions are met:

- at least two times extension of the residual maturity (analyzed on the basis of the residual maturity at the time of extension), not shorter than 3 years and at the same time an increase in the amount of financing,
- conversion of exposures to another currency (if the conversion option was not included in the original contract),
- change in the SPPI test result.

Additionally, as part of backtesting, the Bank periodically verifies the adopted criteria of significant modification by performing the 10% test criterion (examining the amount of cash flow deviations before and after contract modification).

If the cash flows resulting from the agreement are subject to modification, which does not lead to derecognition of a given asset (so called 'insignificant modification'), the Bank adjusts the gross carrying amount of the financial asset and recognizes the profit or loss due to insignificant modification in the financial result (in a separate item of the Loss Profit Statement - "result on modification"). The adjustment of the gross carrying amount of a financial asset is the difference between the discounted cash flows before and after the contract modification. All costs and fees incurred adjust the carrying amount of the modified financial asset and are depreciated in the period remaining until the maturity date of the modified financial asset.

POCI assets

POCI assets ("purchased or originated credit-impaired") are financial assets that, upon initial recognition, have an identified impairment. Financial assets that were classified as POCI at the time of initial recognition are treated by the Bank as POCI in all subsequent periods until they are derecognized from balance sheet, and expected credit loss is estimated based on ECL covering the remaining life time of the financial asset, regardless of future changes in estimates of cash flows generated by them (possible improvement of assets quality).

POCI assets can be created in 3 different ways, i.e.:

- 1) through the acquisition of a contract that meets the definition of POCI (e.g. as a result of the purchase of the "bad credit" portfolio),
- 2) by entering into a contract that is POCI at the time of original granting (e.g. granting a loan to a client in bad financial condition with the hope of improving it in the future)
- 3) through a significant modification of the contract included in stage 3 leading to derecognition of the contract from the balance sheet, and then to its further recognition in the balance sheet as a contract meeting the definition of POCI.

Financial liabilities

Upon initial recognition a financial liability shall be classified as:

- 1) a financial liability measured at fair value through profit loss, or
- 2) other financial liability (measured at AC).

Additionally, financial liabilities shall not be reclassified subsequent to their initial recognition.

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. Standardized purchase and sale transactions of financial assets are recognized at the trade date.

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

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 from the financial asset, but assumes a contractual obligation to pay those 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 from the balance sheet;
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in the balance sheet;
- 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 in the balance sheet to the extent of its continuing involvement in the financial asset, and if the Bank has not retained control, it derecognises the financial asset accordingly.

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.

Hedge Accounting and 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 as 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 derivative instruments embedded in liabilities

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 stand-alone 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) financial 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. Some 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 following conditions 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 through 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 hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity through the other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument is recognised in Result on financial instruments valued at fair value through profit and loss.

The associated gains or losses that were recognised in other comprehensive income (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned hedged future transaction, are transferred into profit or loss in the same period or periods during which the asset acquired or liability assumed affects the profit or loss.

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

Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

Changes in the fair value of derivative instruments classified and eligible as fair value hedges are recognised in the Profit and Loss along with their corresponding changes of the hedged asset or liability relating to the risk hedged by the Bank.

It means that any gains or losses resulting from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss and the gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an FVOCI asset. The valuation of hedged financial assets classified as FVOCI, resulting from factors other than risk hedged, is recognized in other comprehensive income till the date of sale or maturity of this financial 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 amortized cost and effective interest rate, is linearly amortized through profit and loss account over the period ending on the maturity date. The value of hedged financial assets classified as FVOCI resulting from factors other than hedged risks is recognized in the revaluation reserve till the date of sale or maturity of this financial 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 held for trading are recognized in the profit and loss in item 'Results on financial assets and liabilities held for trading'/'Result on exchange differences', which was described below.

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 exchange differences' 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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading'.

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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading' 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 commodity market. Changes of fair value are reported in 'Results on financial assets and liabilities held for trading' 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 commodity market. Changes of fair value are reported in 'Results on financial assets and liabilities held for trading' of the Profit and Loss Account.

Impairment of financial assets

General assumptions of the model

Since 1 January 2018, impairment estimation model has been based on the concept of "expected credit loss", (hereinafter: ECL). As a direct result of this change, impairment charges now have to be calculated based on expected credit losses and forecasts and expected future economic conditions have to be taken into account when conducting evaluation of credit risk of an exposure.

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at amortized cost or at fair value through other comprehensive income, (except for equity instruments) and for off balance liabilities.

According to IFRS 9, credit exposures are classified in the following categories:

- Stage 1 - non-impaired exposures, for which expected credit loss is estimated for the 12-month period,
- Stage 2 - non-impaired exposures, for which a significant increase in risk has been identified and for which expected credit loss is estimated for the remaining life time of the financial asset,
- Stage 3 - exposures with identified signs of impairment, for which expected credit loss is estimated for the remaining life time of the financial asset.

In the case of exposures classified as POCI (purchased or originated credit impaired) which, upon their initial recognition in the balance sheet, are recognized as impaired, expected credit loss is estimated based on ECL covering the remaining life time of the financial asset.

Identification of a significant increase in credit risk

Assets, for which there has been identified a significant increase in credit risk compared to the initial recognition in the balance sheet, are classified in Stage 2. The significant increase in credit risk is recognized based on qualitative and quantitative criteria. The qualitative criteria include:

- repayment delays of more than 30 days,
- forbore exposures in non-default status,
- procedural rating, which is reflecting early delays in payments,
- taking a risk-mitigating decision for corporate clients, triggered by the early warning system,
- events related to an increase in credit risk, the so called “soft signs” of impairment, identified as part of an individual analysis involving individually significant customers.

The quantitative criterion involves a comparison of the lifetime PD value determined on initial recognition of an exposure in the balance sheet, with the lifetime PD value determined at the current reporting date. If an empirically determined threshold of the relative change in the lifetime PD value is exceeded then an exposure is automatically transferred to Stage 2. The quantitative assessment does not cover exposures analyzed individually.

Incorporation of forward looking information on economic conditions (FLI)

In the process of calculation of expected credit losses, the Bank uses forward looking information about macroeconomic events. The Macroeconomic Analysis Office prepares three macroeconomic scenarios (base, optimistic and pessimistic) and determines the probability of their occurrence. The forecasts translate directly or indirectly into the values of estimated parameters and exposures.

Unification of the default definition across the Bank

Based on the paragraph 5.5.37 of IFRS 9, on the application date of the new Standard, the impaired definition was adapted to a more conservative default definition used in the capital requirement calculation process (including in the IRB approach). The main difference in both definitions, before the change, was related to the approach to a quarantine for restructured exposures. The approach is more restrictive in respect to the default definition. Therefore, ever since it implemented IFRS 9, the Bank has used a uniform definition of default, both in the area of capital calculation and to determine impairment.

Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: PLN 500 retail and PLN 3,000 corporates,
- Restructured loans (annexes and agreements),
- Loans in vindication process,
- Qualitative triggers identified in the individual analysis.

Bank is using cross-default approach for all segments.

Starting from 1st of January 2020 Bank implemented new default definition for the IRB portfolios. The new Default definition was implemented based on the approval of supervisory Authority (KNF and ECB) and is compliant with the EBA Guidelines EBA/GL/2016/07 and Resolution of Ministry of Finance from 3 of October 2019.

PD Model

The PD model, created for the calculation of expected credit losses, is based on empirical data concerning 12-month default rates, which are then used to estimate lifetime PD values (including FLI) using appropriate statistical and econometric methods. The segmentation adopted for this purpose at the customer level is consistent with the segmentation used for capital requirement calculation purposes. Additionally, the Bank has been using rating information from internal rating models to calculate PDs.

LGD Models

The LGD models for the retail portfolio used by the Bank in the capital calculation process were adjusted to IFRS 9 requirements in the area of estimating impairment. The main components of these models are the probability of cure and the recovery rate estimated on the basis of discounted cash flows. The necessary adaptations to IFRS 9 include, among other things, exclusion of the conservatism buffer, indirect costs, adjustments for economic slowdown. In addition, adjustments have been made to reflect the current economic situation and to utilize forward looking information on macroeconomic events.

For the corporate portfolio, a completely new LGD model has been developed that fully satisfies the requirements of the new standard. The model is based on a component determining parameterized recovery for the key types of collateral and a component determining the recovery rate for the unsecured part. All the parameters were calculated on the basis of historical data, including discounted cash flows achieved by the corporate debt recovery unit.

EaD Model

The EaD model used in the Bank includes calculation of parameters such as: average limit utilization (LU), credit conversion factor (CCF), prepayment ratio, behavioural life expectancy. Segmentation is based on the type of customer (retail, corporate, leasing) and product (products with/without a schedule). Forecasts of foreign exchange rates are used as FLI adjustment.

Write-offs

The Bank directly reduces the gross carrying amount of a financial asset if there are no reasonable grounds to recover a given financial asset in whole or partially. As a result of write-off, a financial asset component ceases, in whole or partially, to be recognized in the financial statements.

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.

Receivables and liabilities from lease contracts

The Bank is a party to lease contracts, on the basis of which it grants for paid use or benefit of non-current assets or intangible assets for an agreed period of time.

In the case of lease contracts, which result in transferring substantially all risks and rewards incidental to ownership of the asset under lease, the subject of the lease is derecognized. A receivable amount is recognized instead, however, in an amount equal to the present value of minimum lease payments. Lease payments are accounted for (apportioned between the financial income and the reduction of the balance of receivables) to reach constant periodic rate of return from the outstanding receivables.

Lease payments for contracts, which do not fulfil qualifications of a finance lease, are recognized as income in the profit and loss, using the straight-line method, throughout the period of the lease.

The Bank is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period. These are mainly rental agreements. In case of these contracts the financial report shows, both assets under the right of use and liabilities under the lease, in separate items of the explanatory notes to the lines 'Tangible fixed assets' and 'Other liabilities' respectively. On the start date of the lease, lease payments contained in the valuation of the lease liability shall comprise following payments for the right to use the underlying asset during the lease period, which remain due on that date:

- fixed lease payments less any and all due lease incentives,
- variable lease payments, which depend on the index or rate, initially valued with use of this index or this rate in accordance with their value on start date,
- amounts expected to be paid by the lessee under the guaranteed final value,
- the buy option strike price if it can be assumed with sufficient certainty that the lessee will exercise this option,
- monetary penalties for lease termination if the lease terms and conditions stipulated that the lessee may exercise the lease termination option.

A right to use asset comprises:

- amount of initial valuation of the lease liability,
- any and all lease payments paid on the start date or before it, less any and all lease incentives received.

Financial result reflects following items:

- depreciation of right to use,
- interest on lease liabilities,
- VAT on rent invoices reported in cost of rent.

The Bank has adopted the following assumptions, based on which lease agreements are carried in financial statements:

- calculation of liabilities and assets will use net values (VAT is excluded) of future cash flows,
- in case of agreements denominated in currency the liabilities will be carried in the original currency of the contract while assets in Polish zloty converted at the rate from date of signing the contract or an annex to the contract, which is also the day when the leasing starts,
- the right to use the asset will be depreciated according to the lease period,
- the Bank uses the option of not recognizing leasing in the case of short-term contracts for space lease and car leasing contracts,
- the Bank also uses the option of not recognizing leasing in the case of leasing assets with a low initial value, such as renting small areas, e.g. for garbage arbors, ramps, ATMs and devices such as coffee machines, water dispensers, audiomarketing and aromata marketing devices,
- new contracts will be discounted according to the SWAP rate on the day of signing the contract / annex to the contract appropriate for the duration of the contract and applicable for the currency, increased by the margin determined and updated in relation to the risk premium for the financial liabilities incurred by the Bank.

Property, plant and equipment and Intangible Assets

Own property, plant and equipment

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, based on the lease contract or for administrative purposes.

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

Fixed assets under construction are disclosed at purchase price or production costs and are not subject to depreciation.

The Bank recognizes as a part of the asset's carrying value, the replacement costs as incurred, only when it is probable that future economic benefits associated with these items will flow to the Bank, and the cost of the item can be reliably measured. Other outlays are recognised in profit and loss.

Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss 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 licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Expenses attached to the development or maintenance of computer software is expensed when incurred.

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

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.

Land, an intangible asset with an unspecified useful life, outlays for tangible assets and intangible assets are not depreciated. At each balance sheet date intangible assets with indefinite useful life are regularly tested for impairment.

The following depreciation rates are applied to basic categories of tangible and intangible assets and for investment property:

Selected categories of property, plant and equipment:

- Bank buildings: 2.5%
- Lease holding improvements: usually for 10 years
- Computer hardware: 20%
- Network devices: 20%
- Vehicles as standard: 25%
- Telecommunication equipment: 10%
- Intangibles (software): expected useful life
- Main applications (systems): 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 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 is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets 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 makes reclassification to other assets category. The Bank measures a non-current asset that ceases to be 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-financial 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.

An impairment loss can be reversed only to the amount, where the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss would not be recognized.

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 work is completed) comprises of wages, salaries, bonuses 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 2019 has been set at 2.0%. 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 14., note 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 entity 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.

Accumulated other comprehensive income

Accumulated other comprehensive income consists of: the valuation of financial assets measured at fair value through other comprehensive income, the result of cash flow hedge valuation and actuarial gains (losses) regarding provisions for retirement benefits with deferred income tax effect applied. Accumulated other comprehensive income 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.

Net profit of the current year represents net profit adjusted by corporate income tax. Losses attributed to non-controlling interests and exceeding the value of equity attributed to them are charged to the Bank's equity.

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.

The financial guarantees granted are valued at the higher of the following values:

- amounts of write-offs for expected credit losses,
- the amount initially recognized less the cumulative amount of income recognized in accordance with IFRS 15.

Interest income and other of similar nature

Interest income includes interest on financial instruments measured at amortized cost and financial assets measured at fair value through other comprehensive income using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and the allocation of interest cost or interest income and certain commissions (constituting an integral part of the interest rate) to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash flows (in the period until the financial instrument expires) up to the gross carrying amount of the asset / amortised cost of the liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of a given financial instrument, without taking into account possible future losses due to unpaid loans. This calculation includes all fees paid or received between parties to the contract, which are an integral part of the effective interest rate, and transaction costs and all other differences due to the premium or discount.

Interest income includes interest and commissions (received or due) included in the calculation of the effective interest rate on: loans, interbank deposits and debt securities not classified into held for trading category. Interest income also includes costs directly related to the conclusion of a loan agreement borne by the Group (mainly commissions paid to external and own agents for concluding a mortgage agreement and related property valuation costs related to this type of contract) that are a component of the effective interest rate and are settled in time.

Upon recognizing the impairment of a financial instrument measured at amortized cost and financial assets measured at fair value through other comprehensive income, interest income is recognized in the Profit and Loss Account but is calculated on the newly established carrying amount of the financial instrument (that is, less impairment).

Interest income also includes net interest income on derivative instruments designated and being effective hedging instruments in hedge accounting (a detailed description of the existing hedging relationships is included in **note (23)**).

Interest income on derivatives classified as held for trading is shown under "Result on financial assets and liabilities held for trading" in the Profit and Loss Account. Interest income and the settlement of a discount or premium on debt financial instruments classified as held for trading are recognized under the item "Revenue similar to interest on assets valued at fair value through profit and loss" of the Profit and Loss Account. This item also includes interest income arising from assets that are measured at fair value through profit and loss.

Interest costs

Interest costs include in particular interest resulting from financial instruments measured at amortized cost using the effective interest rate method described above.

Interest costs on derivatives classified as held for trading are shown under "Result on financial assets and liabilities held for trading" in the Profit and Loss Account.

Fee and commission Income/ Fee and commission Costs

Fee and commission income and expenses received from banking operations on client accounts, from operations on payment cards and brokerage activity is recognized in the profit and loss at the time the service is rendered; other fees and commissions are deferred and recognized as revenue over time.

The basic types of commissions related to credit operations in the Bank include among others: loan origination fees and commissions, and commitment fees.

Fees and commissions (both income and expense) directly attributable to initial recognition of financial assets with established repayment schedules are recognized in profit and loss account as effective interest rate component and are part of interest income. Other, attributed to initial recognition of financial assets without established repayment schedules are amortized on a straight-line basis through the expected life of the financial instrument. Fees and commissions on pledge to grant a loan, which is probable to be drawn, are deferred and since initial recognition of financial assets are amortized as component of effective interest rate or on a straight-line basis based on above mentioned criteria. In the case of loans and advances with undetermined instalment payments and changes in interest, e.g. overdraft facilities and credit cards commissions are settled over the duration of the card or overdraft limit by the straight-line method and included in 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 allocate 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 2019 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 amounted to 5% in 2019 (the same level as in the year 2018).

As of 31 December 2019, 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 67%.

Remaining fees and commissions connected with financial services offered by the Bank, 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 derecognition of financial assets and liabilities not measured at fair value through profit or loss

The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss includes gains and losses arising from the sale of debt financial instruments classified to the portfolio measured at fair value through comprehensive income and other gains and losses resulting from investing activities.

Result on financial assets and liabilities held for trading

The result on financial assets and financial liabilities held for trading contains gains and losses on disposal of financial instruments classified as financial assets / liabilities measured held for trading and the effect of valuation of these instruments at fair value (incl. debt, equity and derivative instruments intended for trading).

Result on non-trading financial assets mandatorily at fair value through profit or loss

The result on non-trading financial assets mandatorily at fair value through profit or loss includes gains and losses on disposal and the effect of the measurement of financial instruments classified to this category of assets.

Result on hedge accounting

The result on hedge accounting includes in particular: changes in the fair value of the hedging instrument (including discontinuation), changes in the fair value of the hedged item resulting from the hedged risk and inefficiencies resulting from cash flow hedges recognized in profit or loss.

Result on exchange differences

Foreign exchange differences include: i) realized result and result from the valuation of FX spot and FX Forward transactions ii) positive and negative exchange rate differences, both realized and unrealized, resulting from the daily valuation of foreign currency assets and liabilities, valid as at the balance sheet day average NBP exchange rate and affecting income or expenses from the exchange position.

Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the banking 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).

An asset or a liability arising from temporary differences associated with investments in subsidiaries and associates are not included in calculation of deferred income tax assets or liabilities, unless the Bank is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will reverse in the foreseeable future.

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.

9. 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.

9.1. RISK MANAGEMENT

The mission of risk management in the Bank Millennium is to ensure that all types of risks are managed, monitored and controlled as required for the risk profile (risk appetite), nature and scale of the Bank's operations. 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.

The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, credit policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of employees as regards their responsibility for proper risk management at every level of the Bank's organizational structure.

Risk management is centralized for the Bank and takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk. Within risk management system, a broad range of methods is used, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

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:

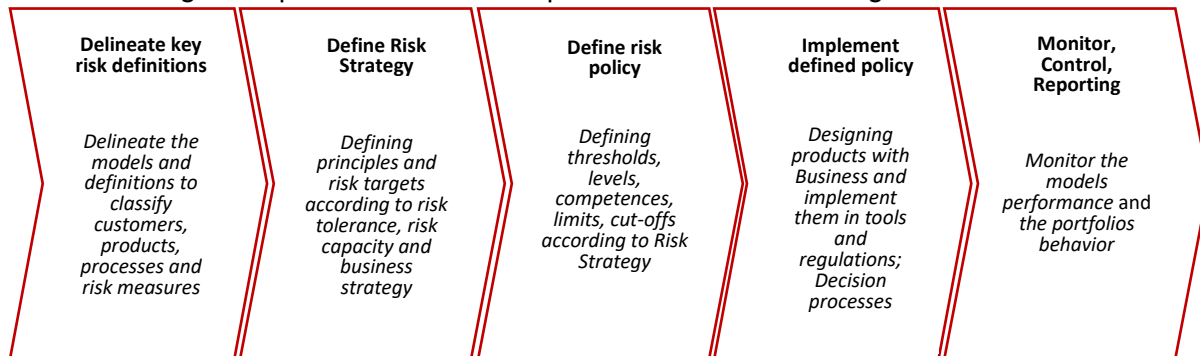
- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed.

The risk management and control model at the Bank's level is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;

- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the segregation of duties between risk origination, risk management and risk control.

The Risk management process of the Bank is presented in the below diagram:



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 Tolerance.
- 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, Mortgage Credit Underwriting Department and Consumer Finance 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 Monitoring and Collection Department and Retail Liabilities Restructuring and Recovery Department have 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 Group. 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 Group's limits, including counterparty and stop-loss limits, the Group'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 analysis and 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 Team has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence center for anti-fraud process.

The Bank has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2020-2022". The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

The Risk Strategy bases on the two concepts defined by the Group:

1. Risk profile - current risk profile in amount or type of risk the Bank is currently exposed. The Bank should also have a forward looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk tolerance,
2. Risk appetite - the maximum amount or type of risk the Bank is prepared to accept/tolerate to achieve its financial and strategic objective. Three zones are defined in accordance with warning / action required level.

Risk strategy is one of the crucial features that determines the risk profile of the Bank.

Risk appetite has to ensure that business structure and growth will respect the forward risk profile. Risk appetite was reflected through defined indicators in several key areas, such as:

- Solvency
- Liquidity and funding
- Earnings volatility and Business mix
- Franchise and reputation.

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

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

- Capital Management and Planning Framework
- Credit Principles and Guidelines
- Rules on Concentration Risk Management
- 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 Policy
- Principles and Guidelines for Management of Operational Risk
- Policy, Rules and Principles of the Model Risk Management
- Stress tests policy.

Within risk appetite, the Bank has defined tolerance zones for its measures (build up based on the “traffic lights” principle). As for all tolerance zones for risk appetite, it has been set:

- Risk appetite status - green zone means a measure within risk appetite, yellow zone means an increased risk of risk appetite breach, red zone means risk appetite breach
- Escalation process of actions/decisions taken - bodies/organizational entities responsible for decisions and actions in a particular zones
- Risk appetite monitoring process.

The Bank pays particular attention to continuous improvement of the risk management process. One measurable effect of this is a success of the received authorization to the further use of the IRB approach in the process of calculating capital requirements.

9.2. CAPITAL MANAGEMENT

Capital management and planning

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) meeting the requirements specified in external regulations (regulatory capital adequacy) and (b) ensuring the solvency in normal and stressed conditions (economic capital adequacy/internal capital). Completing that goal, Bank strives to achieve internal long-term capital limits (targets), defined in Risk Strategy.

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

In a scope of capital management process, there is also a capital planning process. The goal of capital planning is to designate the own funds (capital base that is risk-taking capacity) and capital usage (regulatory capital requirements and economic capital) in a way to ensure that capital targets/limits shall be met, given forecasted business strategy and risk profile - in normal and stressed macroeconomic conditions.

Regulatory capital adequacy

The Bank is obliged by law to meet minimum own funds requirements, set in art. 92 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms CRR. At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for particular banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in November 2019 in the level of 4.96 p.p. (Bank) and 4.87 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 3.72 p.p. in Bank and of 3.65 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 2.78 p.p. in Bank and 2.73 p.p. in Group¹;
- Combined buffer - defined in Act on macroprudential supervision over the financial system and crisis management - that consists of:
 - Capital conservation buffer at the level of 2.5%;
 - Other systemically important institution buffer (OSII) - at the level of 0%, and the value is set by KNF every year²;
 - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
 - Countercyclical buffer at the 0% level.

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), Bank defined minimum levels of capital ratios, being at the same time capital targets/limits. These are OCR (overall capital requirements) as for particular capital ratios.

¹ That recommendation replaces the previous one from 2018, to maintain own funds for the coverage of additional capital requirements at the level of 6.41 p.p. (Bank) and 6.27 p.p. (Group) as for TCR, which should have consisted of at least 4.81 p.p. (Bank) and 4.70 p.p. (Group) as for Tier 1 capital and which should have consisted of at least 3.57 p.p. (Bank) and 3.51 p.p. (Group) as for CET1 capital

² In August 2019 KNF informed the Bank was not identified as other systemically important institution in 2019

The below table presents these levels as at 31 December 2019. The Bank will inform on each change of required capital levels in accordance with regulations.

Capital ratio	31.12.2019	
	Bank	Group
CET1 ratio		
Minimum	4.50%	4.50%
Pillar II RRE FX	2.78%	2.73%
TSCR CET1 (Total SREP Capital Requirements)	7.28%	7.23%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	5.50%	5.50%
OCR CET1 (Overall Capital Requirements CET1)	12.78%	12.73%
T1 ratio		
Minimum	6.00%	6.00%
Pillar II RRE FX	3.72%	3.65%
TSCR T1 (Total SREP Capital Requirements)	9.72%	9.65%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	5.50%	5.50%
OCR T1 (Overall Capital Requirements T1)	15.22%	15.15%
TCR ratio		
Minimum	8.00%	8.00%
Pillar II RRE FX	4.96%	4.87%
TSCR TCR (Total SREP Capital Requirements)	12.96%	12.87%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	5.50%	5.50%
OCR TCR (Overall Capital Requirements TCR)	18.46%	18.37%

Capital risk, expressed in the above capital targets/limits, is measured and monitored in a regular manner. As for all capital targets, there are determined some minimum ranges for those values. Capital ratios in a given range cause a need to take an appropriate management decision or action. Regular monitoring of capital risk relies on classification of capital ratios to the right ranges and then performing the evaluation of trends and drivers influencing capital adequacy.

Own funds capital requirements

The Bank calculates its own funds requirements using standard methodologies, and is implementing at the same time 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 (KNF) 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 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 had to 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.

In July 2017 the Bank received the decision of Competent Authorities (ECB cooperating with KNF) on approval the material changes to IRB LGD models and revoking the “Regulatory floor”.

Internal capital

The Bank defines internal capital according to Polish Banking Act, as the estimated amount needed to cover all identified, material risks found in the 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. The Bank defined an internal (economic) capital estimation process. To this end, as for measureable risk types, mathematic and statistic models and methods are used.

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 Group’s capital targets/limits: economic capital buffer and economic capital buffer in stressed conditions.

In 2019, 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 utilized 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.

Capital adequacy - current state, evaluation and trends

Capital adequacy of Bank over the last three years was as follows³:

Capital adequacy	31.12.2019	31.12.2018	31.12.2017
Risk-weighted assets	47 267.6	36 012.8	31 927.7
Own Funds requirements, including:	3 781.4	2 881.0	2 554.2
▪ Credit risk and counterparty credit risk	3 455.8	2 570.6	2 260.4
▪ Market risk	24.2	20.3	18.3
▪ Operational risk	297.7	286.4	269.4
▪ Credit Valuation Adjustment CVA	3.7	3.6	6.2
Own Funds, including:	9 454.5	7 738.5	7 002.3
Common Equity Tier 1 Capital	7 924.5	7 038.5	6 360.5
Tier 2 Capital	1 530.0	700.0	641.8
Total Capital Ratio (TCR)	20.00%	21.49%	21.93%
Minimum required level	18.46%	19.29%	19.03%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	+1.54	+2.20	+2.90
Tier 1 Capital ratio (T1)	16.77%	19.54%	19.92%
Minimum required level	15.22%	15.69%	14.65%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	+1.55	+3.85	+5.27
Common Equity Tier 1 Capital ratio (CET1)	16.77%	19.54%	19.92%
Minimum required level	12.78%	12.97%	13.60%
Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.)	+3.99	+6.57	+6.32
Leverage ratio	7.94%	8.57%	8,74%

As at 2019 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, decreased in one year period by ca 2.8 p.p. and by ca 1.5 p.p. respectively.

In 2019, risk-weighted assets went up by ca PLN 11.3 billion (by 31%), mainly as a result of the Euro Bank takeover and loan portfolio growth.

Own Funds raised by ca PLN 1.7 billion in 2019, mainly as a result of retention of net earnings (total net earnings for 2018 and net earnings for first half of 2019), and subordinated debt issue.

Minimum capital levels required by KNF was achieved with a surplus.

Leverage ratio stood at the safe level of 8-9%, with a small quarterly changes and exceeds almost three times a value deemed as safe (3%).

In a long perspective, capital adequacy level of Bank and Group is evaluated as satisfactory.

³ Bank uses transitional arrangements for IFRS 9. As at 31.12.2019, if IFRS 9 transitional arrangements had not been applied, capital ratios were as follows:

- TCR: 19.80%
- T1: 16.55%
- CET1: 16.55%
- Leverage ratio: 7.83%

MREL requirements

The Bank received a letter from the Bank Guarantee Fund ("BFG") regarding the minimum level of own funds and liabilities subject to write down or conversion ("MREL").

In accordance with the regulation, the MREL requirement should be achieved by January 1, 2023 and maintained at all times from that date. BFG has determined a linear path to reach the required target. The MREL limit was set on the basis of data as at December 31, 2018 and the value of required buffers valid as at January 1, 2019. As of December 31, 2019, the Bank fulfils the MREL limits set up by BFG.

In order to fulfil and maintain required MREL limits, the Group may issue MREL eligible instruments that could cause increase of financing costs for the Group.

9.3. CREDIT RISK

The credit risk is one of the most important risk types for the Bank Millennium SA 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 and transactions, on account of granted loans is done with the consideration of three base 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 with help of 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 group.

Rating models are subject to regular reviews and whenever 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 analysing 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/Procedural
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.

Unification of the default definition in the Bank

Since the implementation of IFRS 9, the Bank has adopted a uniform definition of default, both in the calculation of capital requirements and for the purposes of estimating impairment.

Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: PLN 500 retail and PLN 3000 corporates
- Restructured loans (annexes and agreements)
- Loans in vindication process
- Qualitative triggers identified in the individual analysis

The Bank is using cross-default approach for all segments.

Debt Securities

Debt securities from State 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.

The Bank doesn't apply Low Credit Risk (LCR) exemption neither for State Treasury and Central Bank exposures nor for any other groups of exposures.

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 (mentioned above) 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 its 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 with IFRS9 application. The document defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating particular parameters.

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), which results will be taken into account in order to improve the quality of the process.

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 at the Bank, 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 an 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 role 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.

Expected credit loss measurement

Since implementation of IFRS9 in 2018, impairment estimation model within the Bank has been based on the concept of "expected credit loss", (hereinafter: ECL). As a direct result of using this approach, impairment charges now have to be calculated based on expected credit losses and forecasts of expected future economic conditions have to be taken into account when conducting evaluation of credit risk of an exposure.

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at amortized cost or at fair value through other comprehensive income, except for equity instruments.

According to IFRS 9, credit exposures are classified in the following categories:

- Stage 1 - non-impaired exposures, for which expected credit loss is estimated for the 12-month period,
- Stage 2 - non-impaired exposures, for which a significant increase in risk has been identified (SICR) and for which expected credit loss is estimated for the remaining life time of the financial asset,
- Stage 3 - credit impaired exposures, for which expected credit loss is estimated for the remaining life time of the financial asset.
- POCI (purchased or originated credit impaired) - exposures which, upon their initial recognition in the balance sheet, are recognized as impaired, expected losses are estimated for the remaining life of the financial asset.

Identification of a significant increase in credit risk (SICR)

Assets, for which there has been identified a significant increase in credit risk compared to the initial recognition in the balance sheet, are classified in Stage 2. The significant increase in credit risk is recognized based on qualitative and quantitative criteria. The qualitative criteria include:

- repayment delays of more than 30 days,
- forbore exposures in non-default status,
- procedural rating, which is reflecting early delays in payments,
- taking a risk-mitigating decision for corporate clients, triggered by the early warning system,
- events related to an increase in credit risk, the so called “soft signs” of impairment, identified as part of an individual analysis involving individually significant customers.

The quantitative criterion involves a comparison of the lifetime PD value determined on initial recognition of an exposure in the balance sheet, with the lifetime PD value determined at the current reporting date. If an empirically determined threshold of the relative change in the lifetime PD value is exceeded then an exposure is automatically transferred to Stage 2. The quantitative assessment does not cover exposures analyzed individually.

Individual analysis of impairment for credit receivables

Individual analysis contains customers identified as significantly important both for business portfolio and recovery portfolio. Credit exposures are selected for individual analysis on the basis of materiality criteria which ensure that case-by case analysis covers at least 50% 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 soft signs of impairment being one of qualitative triggers of Significant Increase of Credit Risk (SICR);

This process covers biggest business corporate customers, for which financial-economic situation is analysed on a quarterly basis based on: latest financial statement, events connected with company activities, information concerning related entities and economic environment, expectation about future changes, etc. There was defined catalogue of so called “soft signs of impairment”, identification of which means significant increase of credit risk (SICR) and causing classification of all exposures of such customer to Stage 2.

2) Identification of impairment triggers;

The Bank defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers is treated as qualitative part of default definition and contains among others following elements:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Breach of the contract, e.g. significant delays in payments of principal or interest
- 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 the Customer who has financial difficulties, facilities concerning financing conditions (restructuring).

Internal regulations allow to discover 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.

3) Scenario approach in calculation of impairment allowances for individually analysed customers; If at least one of impairment triggers has been identified during the individual analysis, all exposures of given customer are classified in Stage 3 and then detailed analysis of forecasted cash-flows should be performed. Since introducing IFRS9 the Bank is using scenario approach. It means that analyst should define at least two recovery scenarios which reflect described and approved recovery strategies: the main and alternative ones with assigned probabilities of realisation. Scenarios can be based on restructuring or vindication strategy, mixed solutions are also used. The whole process of individual analysis is supported by specially dedicated Case-By-Case IT Tool especially useful in terms of calculation impairment amount with usage of scenario approach.

Every scenario contains two general types of recoveries: direct cash-flows from customers and recovered amounts from collateral.

4) Estimating expected cash-flows;

One element of the impairment calculation process is the estimation of the probability of cash flows included in the timetable, pertaining to the following items: principal, interest and other cash flows. The probability of realising cash flows included in the timetable 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.

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,

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.

5) 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;

The inclusion of cash flows from realisation of 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 separate principles have been specified for particular portfolio types: business and restructuring-recovery. The recommended recovery rates and period of collateral recovery are verified in annual periods.

Collective analysis of the credit portfolio

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

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

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 expected credit loss in a collective analysis is calculated using Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) parameters, which are the outcome of the following models:

- The PD model, is based on empirical data concerning 12-month default rates, which are then used to estimate lifetime PD values using appropriate statistical and econometric methods. The segmentation adopted for this purpose at the customer level is consistent with the segmentation used for capital requirement calculation purposes. Additionally, the Bank has been using rating information from internal rating models to calculate PDs.
- The LGD models for the retail portfolio used by the Bank in the capital calculation process were adjusted to IFRS 9 requirements in the area of estimating impairment. The main components of these models are the probability of cure and the recovery rate estimated on the basis of discounted cash flows. The necessary adaptations to IFRS 9 include, among other things, exclusion of the conservatism buffer, indirect costs, adjustments for economic slowdown.
- For the corporate portfolio, a completely new LGD model has been developed that fully satisfies the requirements of the new standard. The model is based on a component determining parameterized recovery for the key types of collateral and a component determining the recovery rate for the unsecured part. All the parameters were calculated on the basis of historical data, including discounted cash flows achieved by the corporate debt recovery unit.
- The EAD model used in the Bank includes calculation of parameters such as: average limit utilization (LU), credit conversion factor (CCF), prepayment ratio and behavioural lifetime. Segmentation is based on the type of customer (retail, corporate) and product (products with/without a schedule).

The results of models employed in collective analysis are subject to periodical 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.

Forward-looking information incorporated in the ECL models

In the process of calculation of expected credit losses, the Bank uses forward-looking information (FLI) about future macroeconomic events. In particular FLI is used in PD, LGD, EAD as well as in the process of determination of SICR and allocation of exposures to Stage 2 (Transfer Logic). The Macroeconomic Analysis Office prepares three macroeconomic scenarios (base, optimistic and pessimistic) and determines the probability of their occurrence. Forecasts translate directly or indirectly into the values of estimated parameters and exposures and their impact vary by model, product type, rating-class etc. The Bank uses macroeconomic forecasts prepared only internally. Forecasts are provided on a quarterly basis for a 3-year time horizon.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 are set out below.

Macroeconomic variable	Scenario	2020	2021	2022
Gross Domestic Product	Base	103.9	103.5	103.2
	Optimistic	104.7	104.0	103.6
	Mild recession	102.4	102.4	102.7
Retail Sales	Base	106.6	105.4	104.5
	Optimistic	106.7	105.0	104.6
	Mild recession	105.1	104.6	105.6
Unemployment rate	Base	5.1	5.2	5.4
	Optimistic	4.6	4.4	4.6
	Mild recession	5.9	7.3	7.9

The weightings assigned to each economic scenario at 31 December 2019 were as follows:

	Base	Optimistic	Mild recession
Applied weighting	70%	15%	15%

ECL sensitivity to macroeconomic scenarios

For the purpose of assessing the sensitivity of ECL for future macroeconomic conditions, the Bank calculated unweighted ECL for each defined scenario separately. The impact for ECL of application of each of the scenario separately does not exceed 1,5%.

Reversal of impairment

Impairment Instruction being core document of Internal regulations, provides a detailed definition of the principle of reversing impairment losses. 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.

Sale of receivables

In 2019 in Bank there was noted a non-material sale of corporate receivables in trace amount of PLN 0,2 million of on-balance sheet Impaired receivables.

(3d) Maximum exposure to credit risk

	31.12.2019	31.12.2018
Exposures exposed to credit risk connected with balance sheet assets	92 935 081	76 066 866
Deposits, loans and advances to banks and other monetary institutions	784 248	731 232
Loans and advances to customers:	68 828 777	51 786 756
Mandatorily at fair value through profit or loss:	1 498 195	1 250 525
Loans to private individuals:	1 479 645	1 232 494
Receivables on account of payment cards	839 023	759 280
Credit in current account	640 622	473 214
Loans to companies	18 550	18 031
Valued at amortised cost:	67 330 582	50 536 231
Loans to private individuals:	49 657 878	34 015 349
Receivables on account of payment cards	94530	722 525
Cash loans and other loans to private individuals	13 490 168	6 208 042
Mortgage loans	36 073 180	27 806 782
Loans to companies and public sector	17 443 794	16 303 084
Loans to public entities	228 910	217 798
Financial derivatives and Adjustment from fair value hedge	156 591	228 183
Debt instruments held for trading	874 033	693 242
Debt instruments mandatorily at fair value through profit or loss	103 001	43 187
Debt instruments at fair value through other comprehensive income	21 826 908	22 091 079
Repurchase agreements	205 439	250 284
Other financial assets	156 084	242 903
Credit risk connected with off-balance sheet items	12 452 047	10 617 917
Financial guarantees	2 512 533	2 193 385
Credit commitments	9 939 514	8 424 532

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2019 and 31st December 2018, 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.

Loans and advances to customers mandatorily at fair value through profit or loss

	31.12.2019	31.12.2018
Mandatorily at fair value through profit or loss *	1 498 195	1 250 525
▪ Companies	18 633	17 944
▪ Individuals	1 479 446	1 232 494
▪ Public sector	116	87
* The above data includes the fair value adjustment, in the amount of:	(84 519)	(72 943)

The credit quality of financial assets

PLN'000, as of the end of 2019	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	87 517 821	2 487 102	2 449 905	524 096	92 978 924
Balance impairment	264 942	175 549	1 315 358	45 273	1 801 122
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	784 248				784 248
Loans and advances to private individuals (according to Master Scale):	46 874 766	1 745 489	1 872 366	523 995	51 016 616
▪ 1-3 Highest quality	21 510 529	23 537	0	19	21 534 085
▪ 4-6 Good quality	7 487 520	174 680	0	13	7 662 213
▪ 7-9 Medium quality	5 169 919	300 442	0	15	5 470 376
▪ 10-12 Low quality	1 357 717	510 268	0	0	1 867 985
▪ 13-14 Watched	37 165	718 784	0	8 812	764 761
▪ 15 Default	0	0	1 872 366	471 455	2 343 821
▪ Without rating (*)	11 311 916	17 778	0	43 681	11 373 375
Impairment	138 784	155 913	1 018 791	45 250	1 358 738
Loans and advances to companies (according to Master Scale):	8 519 498	595 386	533 560	101	9 648 545
▪ 1-3 Highest quality	27 493	438	0	0	27 931
▪ 4-6 Good quality	1 238 059	85 778	0	0	1 323 837
▪ 7-9 Medium quality	4 497 605	141 706	0	0	4 639 311
▪ 10-12 Low quality	1 553 721	298 173	0	0	1 851 894
▪ 13-14 Watched	0	23 238	0	0	23 238
▪ 15 Default	0	0	533 560	101	533 661
▪ Without rating (*)	1 202 620	46 053	0	0	1 248 673
Impairment	92 723	16 686	273 326	23	382 758
Loans and advances to public entities (according to Master Scale):	134 816	0	0	0	134 816
▪ 1-3 Highest quality	0	0	0	0	0
▪ 4-6 Good quality	0	0	0	0	0
▪ 7-9 Medium quality	0	0	0	0	0
▪ 10-12 Low quality	0	0	0	0	0
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	0	0	0
▪ Without rating (*)	134 816	0	0	0	134 816
Impairment	132	0	0	0	132

PLN'000, as of the end of 2019	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Factoring (according to Master Scale):	2 494 084	146 227	43 979	0	2 684 290
▪ 1-3 Highest quality	320	0	0	0	320
▪ 4-6 Good quality	685 415	482	0	0	685 896
▪ 7-9 Medium quality	870 636	82 935	0	0	953 571
▪ 10-12 Low quality	885 919	62 350	0	0	948 270
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	43 979	0	43 979
▪ Without rating (*)	51 793	460	0	0	52 253
Impairment	26 965	2 950	23 241	0	53 156
Repurchased receivables from Millennium Leasing (according to Master Scale):	5 647 437	0	0	0	5 647 437
▪ 1-3 Highest quality	54 495	0	0	0	54 495
▪ 4-6 Good quality	225 395	0	0	0	225 395
▪ 7-9 Medium quality	965 151	0	0	0	965 151
▪ 10-12 Low quality	569 535	0	0	0	569 535
▪ 13-14 Watched	1 113	0	0	0	1 113
▪ 15 Default	38 432	0	0	0	38 432
▪ Without rating (*)	3 793 316	0	0	0	3 793 316
Impairment	6 338	0	0	0	6 338
Derivatives and adjustment from fair value hedge (according to Master Scale):	156 592	0	0	0	156 592
▪ 1-3 Highest quality	5 767				5 767
▪ 4-6 Good quality	20 407				20 407
▪ 7-9 Medium quality	8 216				8 216
▪ 10-12 Low quality	11 602				11 602
▪ 13-14 Watched	0				0
▪ 15 Default	9				9
▪ Without rating	66 629				66 629
▪ fair value adjustment due to hedge accounting					
▪ Valuation of future FX payments	803				803
▪ Hedging derivative	0				0
Trading debt securities (State Treasury(**) bonds)	43 159				43 159
Investment debt securities (State Treasury (**), Central Bank(**), Local Government , EIB)	874 033				874 033
Receivables from securities bought with sell-back clause	21 826 908				21 826 908

PLN'000, as of the end of 2018	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	71 168 920	2 549 649	2 135 063	15 410	75 869 043
Balance impairment	201 655	160 746	1 228 223	(1 576)	1 589 048
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	731 248				731 248
Loans and advances to private individuals (according to Master Scale):	31 901 909	1 581 911	1 597 129	15 410	35 096 359
▪ 1-3 Highest quality	18 986 783	9 988	0	0	18 996 771
▪ 4-6 Good quality	6 422 656	171 289	0	4	6 593 948
▪ 7-9 Medium quality	5 192 651	282 731	0	8	5 475 390
▪ 10-12 Low quality	1 031 929	358 918	0	10	1 390 857
▪ 13-14 Watched	0	758 795	0	67	758 863
▪ 15 Default	0	0	1 597 129	15 321	1 612 450
▪ Without rating (*)	267 891	189	0	0	268 080
Impairment	73 640	121 530	887 106	(1 576)	1 080 700
Loans and advances to companies (according to Master Scale):	7 514 512	784 615	506 767	0	8 805 894
▪ 1-3 Highest quality	28 835	0	0	0	28 835
▪ 4-6 Good quality	1 598 962	39 852	0	0	1 638 814
▪ 7-9 Medium quality	3 587 730	293 248	0	0	3 880 978
▪ 10-12 Low quality	1 426 388	403 382	0	0	1 829 770
▪ 13-14 Watched	0	14 103	0	0	14 103
▪ 15 Default	0	0	506 767	0	506 767
▪ Without rating (*)	872 597	34 029	0	0	906 627
Impairment	98 116	31 829	313 617	0	443 561
Loans and advances to public entities (according to Master Scale):	198 803	1 937	0	0	200 741
▪ 1-3 Highest quality	0	0	0	0	0
▪ 4-6 Good quality	0	0	0	0	0
▪ 7-9 Medium quality	0	0	0	0	0
▪ 10-12 Low quality	0	0	0	0	0
▪ 13-14 Watched	0	498	0	0	498
▪ 15 Default	0	0	0	0	0
▪ Without rating (*)	198 803	1 439	0	0	200 242
Impairment	241	3	0	0	244
Factoring (according to Master Scale):	2 398 100	181 186	31 167	0	2 610 453
▪ 1-3 Highest quality	0	0	0	0	0
▪ 4-6 Good quality	580 470	71	0	0	580 541
▪ 7-9 Medium quality	1 252 918	40 992	0	0	1 293 909
▪ 10-12 Low quality	275 181	138 594	0	0	413 775
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	31 167	0	31 167
▪ Without rating (*)	289 531	1 529	0	0	291 060
Impairment	27 193	7 384	27 500	0	62 077
Repurchased receivables from Millennium Leasing (according to Master Scale):	5 411 832	0	0	0	5 411 832
▪ 1-3 Highest quality	5 200	0	0	0	5 200
▪ 4-6 Good quality	344 170	0	0	0	344 170
▪ 7-9 Medium quality	964 502	0	0	0	964 502
▪ 10-12 Low quality	589 670	0	0	0	589 670

PLN'000, as of the end of 2018	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
▪ 13-14 Watched	1 036	0	0	0	1 036
▪ 15 Default	55 471	0	0	0	55 471
▪ Without rating (*)	3 451 783	0	0	0	3 451 783
Impairment	2 466	0	0	0	2 466
Derivatives and adjustment from fair value hedge (according to Master Scale):	228 183	0	0	0	228 183
▪ 1-3 Highest quality	26 826				26 826
▪ 4-6 Good quality	38 235				38 235
▪ 7-9 Medium quality	4 399				4 399
▪ 10-12 Low quality	27 455				27 455
▪ 13-14 Watched	0				0
▪ 15 Default	0				0
▪ Without rating	1 474				1 474
▪ fair value adjustment due to hedge accounting	4 293				4 293
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	125 501				125 501
Trading debt securities (State Treasury(**) bonds)	693 242				693 242
Investment debt securities (State Treasury (**), Central Bank(**), Local Government , EIB)	22 091 091				22 091 091
Receivables from securities bought with sell-back clause	0				0

* the group of clients without an internal rating includes, among others, exposures related to loans to local government units as well as investment projects and some leasing clients;

** rating for Poland in 2018 A- (S&P), A2 (Moody's), A- (Fitch)

(3e) Loans

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	31.12.2019				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	482 786	218 359	2 986	0	704 131
Collective analysis	94 853	706 779	1 415 701	0	2 217 333
Total	577 639	925 138	1 418 687	0	2 921 464

Gross exposure in '000 PLN	31.12.2018				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	430 470	211 092	2 433	0	643 995
Collective analysis	107 546	585 885	813 048	0	1 506 479
Total	538 016	796 977	815 481	0	2 150 474

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 respectively charges) is presented in financial notes.

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

Case by Case loans and advances to customers - by currency

	31.12.2019			31.12.2018		
	Amount in '000 PLN	Share %	Coverage by impairment provisions	Amount in '000 PLN	Share %	Coverage by impairment provisions
PLN	507 602	72.1%	49.2%	482 612	75.0%	60.6%
CHF	136 680	19.4%	21.9%	128 734	20.0%	22.6%
EUR	57 774	8.2%	35.9%	31 777	4.9%	48.3%
USD	2 075	0.3%	5.1%	872	0.1%	20.5%
Total (Case by Case impaired)	704 131	100.0%	42.7%	643 995	100.0%	52.4%

Case by Case loans and advances to customers - by coverage ratio

	31.12.2019		31.12.2018	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	251 599	35.7%	177 830	27.6%
20% - 40%	109 816	15.6%	92 350	14.3%
40% - 60%	119 010	16.9%	90 375	14.0%
60% - 80%	66 666	9.5%	71 270	11.1%
Above 80%	157 040	22.3%	212 170	33.0%
Total (Case by Case impaired)	704 131	100.0%	643 995	100.0%

It should be noted that the decrease of coverage by impairment provisions from 2018 to 2019 was due to acquisition and consolidation of Euro Bank portfolio at fair value (net value) which automatically decreases that coverage as loans are shown at net book value.

At the end of 2019, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis (Case by Case) amounted to PLN 323,4 million (at the end of 2018 respectively PLN 245,8 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.

All restructured exposures are classified directly after signing sufficient annex/agreement to Stage 3. In terms of regular payments such exposure can be cured when fulfil internally defined quarantine rules. Cured restructured cases are classified to Stage 2 for at least following 2 years after cure in accordance to EBA technical standards for forbore exposures.

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	31.12.2019	31.12.2018
Loans and advances to private individuals	1 029 338	832 975
Loans and advances to companies	248 186	214 699
Total	1 277 524	1 047 674

(3f) Collateral transferred to the Bank

In 2019 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").

(3g) 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 overdue 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)

Gross exposure write-offs in '000 PLN	In 2019				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	1 627	333	4 045	0	6 005
Receivables written-off being subject to enforcement activity	106 798	15 476	125 975	0	248 249
Total written-off	108 425	15 809	130 020	0	254 254

Gross exposure write-offs in '000 PLN	In 2018				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	1 966	1 731	3 301	0	6 998
Receivables written-off being subject to enforcement activity	77 922	31 133	191 341	0	300 396
Total written-off	79 888	32 864	194 642	0	307 394

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

Economy sectors

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

31.12.2019	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	784 248	0	0	0	0	0	0	0	784 248
Loans and advances to customers (Amortized cost)	445 462	6 048 715	4 824 539	2 123 840	125 863	36 571 683	14 444 934	4 546 668	69 131 704
Loans and advances to customers (FAIR VALUE)	322	3 873	4 886	2 153	5	0	1 479 645	7 311	1 498 195
Trading securities	0	0	0	0	874 033	0	0	0	874 033
Instruments valued at amort. cost	0	0	0	0	48 187	0	0	0	48 187
Instruments mandatorily at fair value through P&L	169 610	0	0	0	0	0	0	0	169 610
Derivatives and adjustment due to fair value hedge	134 107	10 515	5 075	944	0	0	0	5 950	156 591
Investment securities	29 039	4 996	0	284	21 826 920	0	0	32	21 861 271
Repurchase agreements	205 439	0	0	0	0	0	0	0	205 439
Total	1 768 227	6 068 099	4 834 500	2 127 221	22 875 008	36 571 683	15 924 579	4 559 961	94 729 278

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

31.12.2018	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	731 248	0	0	0	0	0	0	0	731 248
Loans and advances to customers (Amortized cost)	227 321	5 890 776	4 712 541	2 350 780	184 935	28 319 185	6 777 096	3 662 645	52 125 279
Loans and advances to customers (FAIR VALUE)	291	4 011	4 981	2 141	5	0	1 232 494	6 601	1 250 524
Trading securities	0	0	0	0	693 242	0	0	0	693 242
Instruments valued at amort. cost	0	0	0	0	44 904	0	0	0	44 904
Instruments mandatorily at fair value through P&L	64 796	0	0	0	0	0	0	0	64 796
Derivatives and adjustment due to fair value hedge	203 322	11 212	4 175	773	0	0	0	8 701	228 183
Investment securities	28 711	4 996	0	287	22 091 091	0	0	32	22 125 117
Repurchase agreements	250 284	0	0	0	0	0	0	0	250 284
Total	1 505 973	5 910 995	4 721 697	2 353 981	23 014 177	28 319 185	8 009 590	3 677 979	77 513 577

Loans and advances to customers by economy sectors and segment

Taking into consideration segments and activity sectors concentration risk, the Bank defines internal concentration limits in accordance with the risk tolerance allowing it to keep well diversified loan portfolio.

The main items of loan book are mortgage loans (52%) and cash loans (20%). The portfolio of loans to companies from different sectors like industry, construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 26% of the total portfolio.

Sector name	2019 Balance Exposure (PLN million)	Share (%)	2018 Balance Exposure (PLN million)	Share (%)
Credits for individual persons	52 579.3	74.4%	36 399.7	68.1%
Mortgage	36 571.7	51.7%	28 319.2	53.0%
Cash loan	13 969.7	19.8%	6 450.2	12.1%
Credit cards and other	2 037.9	2.9%	1 630.3	3.0%
Credit for companies*	18 135.1	25.6%	17 049.0	31.9%
Wholesale and retail trade; repair	4 829.9	6.8%	4 712.6	8.8%
Manufacturing	4 903.3	6.9%	4 869.9	9.1%
Construction	1 149.6	1.6%	1 020.9	1.9%
Transportation and storage	2 126.1	3.0%	2 350.8	4.4%
Public administration and defence	126.0	0.2%	184.9	0.3%
Information and communication	826.1	1.2%	527.4	1.0%
Other Services	899.5	1.3%	718.3	1.4%
Financial and insurance activities	445.8	0.6%	227.3	0.4%
Real estate activities	1 022.4	1.4%	864.8	1.6%
Professional, scientific and technical services	678.8	1.0%	455.8	0.9%
Mining and quarrying	50.5	0.1%	50.4	0.1%
Water supply, sewage and waste	138.9	0.2%	96.9	0.2%
Electricity, gas, water	420.7	0.6%	461.6	0.9%
Accommodation and food service activities	164.1	0.2%	168.9	0.3%
Education	55.5	0.1%	73.6	0.1%
Agriculture, forestry and fishing	84.4	0.1%	93.0	0.2%
Human health and social work activities	177.4	0.3%	150.1	0.3%
Culture, recreation and entertainment	36.1	0.0%	21.8	0.0%
Total (gross)	70 714.4	100.0%	53 448.7	100.0%

* incl. Microbusiness, annual turnover below PLN 5 million

Concentration ratio of the 20 largest customers in the Bank's loan portfolio (considering groups of connected entities) at the end of 2019 is 6,0% comparing with 7,1% at the end of 2018. Concentration ratio in 2019 also decreased for the 10 largest customers: to 4.2% from 4,9% at the end of the previous year. This was the result of, among others, the purchase of Euro Bank by Bank Millennium which consist of only a retail portfolio.

9.4. MARKET RISK AND INTEREST RATE RISK

The 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.

The interest rate risk arising from Banking Book activities (IRRBB) encompasses current or prospective impact to both the earnings and the economic value of the Bank's portfolio arising from adverse movements in interest rates that affect interest rate sensitive instruments. The risk includes gap risk, basis risk and option risk.

Market-risk evaluation measures

The Bank's market risk measurement allows monitoring of all of the risk types, which are generic risk (including interest rate risk, foreign exchange risk, and equity risk), non-linear risk, specific risk and commodity risk. In 2019 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 models 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 line with 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 (intra-day and end-of-day), 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 sensitivity analysis and 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 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 Bank for 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 January 2019 and will be replaced by revised limits on 1st January 2020.

In 2019 the VaR indicators for the Bank remained on average at the level of PLN 27.3 million (12% of the limit) and PLN 33.2 million (15% of the limit) as of the end of December 2019. The VaR indicators presented in the table below reflect joint exposures to market risk in the Bank, which are 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 ('000 PLN)	VaR (2019)				
	31.12. 2018	Average	Maximum	Minimum	31.12. 2019
Total risk	29 098	27 259	34 247	18 513	33 225
Generic risk	27 337	25 324	31 925	16 646	31 039
Interest Rate Risk	27 349	25 322	31 923	16 648	31 038
FX Risk	78	76	607	7	12
Diversification Effect	0,3%				0,0%
Specific risk	1 761	1 935	2 767	1 591	2 186

The corresponding exposures as of 2018 respectively amounted to ('000 PLN):

VaR measures for market risk ('000 PLN)	VaR (2018)				
	31.12. 2017	Average	Maximum	Minimum	31.12. 2018
Total risk	17 540	22 037	30 610	15 654	29 098
Generic risk	15 666	20 126	28 757	13 786	27 337
Interest Rate Risk	15 651	20 155	28 757	13 850	27 349
FX Risk	97	144	3 353	8	78
Diversification Effect	0,5%				0,3%
Specific risk	1 874	1 911	2 871	1 761	1 761

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

Banking Book:

VaR measures for market risk ('000 PLN)	VaR (2019)				
	31.12 2018	Average	Maximum	Minimum	31.12 2019
Total risk	28 825	26 338	33 616	18 160	31 263
Generic risk	27 067	24 434	31 749	16 463	29 080
Interest Rate Risk	27 067	24 434	31 749	16 463	29 080
FX Risk	0	0	0	0	0
Diversification Effect	0,0%				0,0%
Specific risk	1 758	1 903	2 375	1 588	2 184

VaR measures for market risk ('000 PLN)	VaR (2018)				
	31.12 2017	Average	Maximum	Minimum	31.12 2018
Total risk	16 271	20 240	29 406	15 358	28 825
Generic risk	14 401	18 372	27 501	13 494	27 067
Interest Rate Risk	14 401	18 373	27 501	13 494	27 067
FX Risk	0	0	0	0	0
Diversification Effect	0,0%				0,0%
Specific risk	1 870	1 869	1 918	1 758	1 758

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2019)				
	31.12 2018	Average	Maximum	Minimum	31.12 2019
Total risk	478	1 785	5 464	446	2 455
Generic risk	475	1 754	5 461	443	2 452
Interest Rate Risk	470	1 746	5 435	359	2 451
FX Risk	81	77	620	7	11
Diversification Effect	16,0%				0,4%
Specific risk	3	31	1 070	2	2

VaR measures for market risk ('000 PLN)	VaR (2018)				31.12 2018
	31.12 2017	Average	Maximum	Minimum	
Total risk	1 614	2 698	7 238	474	478
Generic risk	1 610	2 656	6 999	471	475
Interest Rate Risk	1 598	2 555	6 984	469	470
FX Risk	97	143	3 351	8	81
Diversification Effect	5,3%				16,0%
Specific risk	4	42	1 007	2	3

In 2019, 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, 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 keeping FX open positions only in Trading Book.

In 2019, FX position generated in the Banking Book was fully transferred to the Trading Book where it was managed on a daily basis. During 2019 the FX open position remained on average at the level of PLN 7.6 million (9% of the limit) with maximum of PLN 39.0 million (45% of the limit). In 2019, the FX Total open position (Intraday as well as Overnight) remained below 2% of Own Funds and well below the maximum limits in place.

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
2019	7 557	1 760	38 983	7 181
2018	7 323	1 493	39 817	5 318

In addition to above mentioned market risk limits, the stop loss limits are introduced for the financial markets portfolios. The aim is to limit the maximum losses of the trading activity of the 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 in Global Bank, five 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 *
2019-12-31	31 039	3 324	5
2018-12-31	27 337	3 996	5

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

In 2019, the excesses in the process of VaR model back testing were caused mainly by unanticipated market movements, which are Polish government bonds yields and short term rates. 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 line 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 2019 the limits for market risk exposure under stress scenarios were not exceeded.

Interest rate risk in Banking Book (IRRBB)

In case of the Banking Book, the main component of the market risk is interest rate risk.

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 (it 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 depends 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 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, which are quarterly:

- the impact on the economic value of equity (EVE) resulting from different shocks with upward/downward yield curve movements, including scenarios defined by the supervisor (standard, supervisory test assuming sudden parallel +/-200 basis points shift of the yield curve as well as supervisory outlier test, SOT with set of six interest rate risk stress scenarios).

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 multiplied 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 interest rate risk measurement is carried for all the risk management areas in the Bank, with the particular attention on Banking Book.

In 2019, the further steps were taken in order to implement in the Bank the revised Guidelines on the management of interest rate risk arising from non-trading book activities (EBA IRRBB Guidelines, EBA/GL/2018/02) that came due on 30th June 2019. The following actions were taken:

- The IRRBB measurement tools were adjusted in order to monitor and report on regular basis the results of six stress tests scenarios under supervisory outlier test (SOT). According to the EBA IRRBB Guidelines, the principle was applied that aggregate value of EVE change for the same interest rate shock scenario is the sum of positive and negative value changes of each significant currency and positive changes are weighted by a factor of 50%,
- The internal policy and others procedures connected with the interest rate risk management were revised and adjusted to the provisions of EBA IRRBB Guidelines. The documents were supplemented, inter alia, by the introduction of rules and procedures for updating the assumptions of the IRRBB models and stress test scenarios to ensure that they are regularly reviewed and, if necessary, amended,
- In May 2019, the Capital, Assets and Liability Committee revised and approved the behavioural assumptions for measurement IRRBB (behaviour of customer with embedded customer optionality and accounts without specific repricing dates).

For the purpose of interest rate risk management for non-maturing assets and liabilities or for the instruments with Client's option embedded, the Bank is defining specific assumptions, including:

- Due date for balances and interest flows arising from non-maturing deposits are defined on the basis of historical data regarding customer behavior, taking into account the stability of the volumes and with assumption of a maximum maturity of 3 years,
- The tendency to faster repayment of receivables than contractually scheduled is taken under consideration by calculating a prepayment rate in respect to all relevant Bank's loan portfolios on the basis of historical data. It should be noted, that mortgage 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 that are assumed to have repricing period of 1 year. However to understand the impact of the chosen maturity profile the IRRBB measurement is carried out without inclusion of the equity capital to isolate the effects on both EVE and earnings perspectives.

The results of the above mentioned analysis as of the end of 2019 and 2018 did not exceed neither supervisory nor internally defined limits. The supervisory stress tests results of December 2019 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

The results of the sensitivity of the Banking Book to changes of interest rates in terms of BPVx100 is presented in Table below (PLN thousand).

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

	31.12.2019	31.12.2018
	BPVx100	BPVx100
PLN	(157 480)	(37 109)
CHF	11 099	10 469
EUR	44 677	36 099
USD	14 256	12 065
Other	3 359	4 010
TOTAL	(84 089)	25 533
Equity, fixed and other assets	73 352	73 117
TOTAL	(10 738)	98 650

Additionally, for position in Polish Zloty in Banking Book in a scenario of immediate parallel yield curve decrease by 100 bps, the impact on net interest income in the next 12 months after 31st December 2019 is negative and equal to -3.4% of the annualized 4Q 2019 net interest income (+1.2% 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 2019 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%.

Sensitivity of NII for PLN to changes of interest rates	31.12.2019	31.12.2018
Parallel yield curve increase by 100 b.p.	+1,2%	+3,4%
Parallel yield curve decrease by 100 b.p.	-3,4%	-4,6%

9.5. 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.

In 2019, the Bank was still characterized by solid liquidity position, despite deterioration of all the supervisory and internal liquidity indicators at the day of Euro Bank's acquisition. However, all ratios remained within limits in place (no excesses for both supervisory as well as internally defined limits).

Due to merge of Bank Millennium with Euro Bank, the Bank's Loan-to-Deposit ratio increased and was equalled to 84% at the end of December 2019 (comparing to level of 78% as of end of December

2018). Apart from the increase, the Bank kept its Loan-to-Deposit ratio well below 100% in line with its risk appetite defined for 2019.

Keeping the comfortable liquidity position was possible mainly due to actions planned by and taken by the Bank before the merge with Euro Bank. The Bank mainly increased stable deposit base from individuals and issued ten years subordinated bonds in total nominal amount of PLN 830.0 million with maturity date on 30 January 2029, so that in advance allowed to improve its liquidity buffer and as at Euro Bank's acquisition date enable to repay Euro Bank's external financing as well as completely covered the purchase price by liquidating part of accumulated liquidity surplus (liquidity assets portfolio). Thanks to this no additional sources of funding was required with simultaneous safe liquidity position kept.

The liquidity assets portfolio, that is portfolio of government debt securities, supplemented by the cash and exposures to the National Bank of Poland, is treated as the Bank's liquidity reserve, which will overcome crisis situations. After finalizing the transaction of Euro Bank's acquisition, any liquidity surplus was again invested in the portfolio of liquid assets in order to rebuild liquidity buffer. At the end of 2019, the share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 99% and allowed to reach the level of approx. PLN 22.5 billion (23% of total assets), that is the level observed at the end of December 2018 (PLN 22.7 billion, 28% of total assets).

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 2019 total Clients' deposits of the Bank reached the level of PLN 81.6 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equaled to approx. 74,7% at the end of December 2019 (71,7% at the end of December 2018). The high share of funds from individuals had a positive impact on the Bank's liquidity and supported the compliance and further grow of the supervisory liquidity measures.

Concentration of the deposits base, based on the share of top 5 and top 20 depositors, at the end of 2019 amounted respectively to 2.3% and 4.9 % (in December 2018 it was respectively 3.2 % and 6.5 %). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2019. 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, own bonds issue and bank's securities.

During 2019 the Bank continued to explore the possibility of rising additional funding from loans from financial institutions, bond issues and bank's securities in order to diversify the source of funding with particular attention to the cost of obtaining these funds. The total balance sheet value of medium-term loans from financial institutions at the end of 2019 amounted to PLN 436.7 million (at the end of December 2018 it was PLN 494.0 million).

In 2019, the Bank issued 10-year subordinated bonds with a nominal value of PLN 830 million and bank securities, in thirteen series, with a total nominal value of PLN 242.03 million, with 2 years maturity. At the end of December 2019 the total balance sheet value of bonds and bank's securities issued by the Bank (without subordinated bonds) amounted to PLN 1 003.7 million (PLN 620.0 million in December 2018). This amount also includes 4-year bonds issued by the Euro Bank S.A. (nominal value of PLN 250 million), maturing on 1st December 2021.

The Bank manages FX liquidity through the use of FX-denominated bilateral loans as well as 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 the use of both measures defined by the supervisory authorities and internally, for which exposure limits were 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 as well as presented in monthly and/or quarterly basis to the Bank's Management Board and Supervisory Board.

During 2019, all internal liquidity indicators were well above minimum limits. The liquidity risk limits are revised at least once a year in order to take into account, inter alia, the change of the size of the consolidated own funds, current and expected balance sheet structure, historical limits' consumption, as well as current market conditions and supervisory requirements. The current limits in place have been valid since 1st January 2019 and will be replaced by revised limits on 1st January 2020.

Current Liquidity indicators PLN million

31.12.2019				
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Liquid assets Portfolio (m PLN)**	LCR (%)
Indicator	18 795	18 795	22 795	158%
Minimum limit	957	(1 596)	12 000	100%
31.12.2018				
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Liquid assets Portfolio (m PLN)**	LCR (%)
Indicator	20 228	20 228	22 836	195%
Minimum limit	934	(2 336)	10 000	100%

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

** Liquid Assets Portfolio: The sum of cash, exposure to Central Bank (the surplus above the required obligatory reserve) and Polish Government debt securities, NBP-Bills and due from banks with maturity up to 1 month. The debt securities portfolio is reduced by NBP haircut for repo transactions and 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 Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Bank is calculating the liquidity coverage requirement (LCR). The regulatory minimum of 100% for LCR valid in 2019 was complied by the Bank (as of the end of December 2019 the LCR reached the level of 158%). 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 to the areas responsible for the management and control of the liquidity risk in the Bank. In 2019, the Bank complied also with supervisory measures imposed by KNF Resolution 386/2008 as well as regularly calculated net stable funding requirement (NSFR). In each of the quarter, the NSFR was above planned supervisory minimum of 100% (supervisory minimum will be valid in June 2021).

Additionally the Bank employs an internal structural liquidity analysis based on cumulative, behaviour 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 2019 liquidity gaps were maintained at levels significantly above the safe limits. The results of cumulative, behaviour liquidity gaps (normal conditions) are presented in tables below.

31.12.2019						
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	32 860	6 474	11 315	9 402	12 726	35 905
Adjusted balance liabilities	10 662	4 188	7 772	6 127	9 144	62 822
Balance-Sheet Gap	22 198	2 285	3 542	3 275	3 582	(26 918)
Cumulative Balance-Sheet Gap	22 198	24 483	28 026	31 300	34 882	7 965
Adjusted off-balance assets	216	249	80	37	32	4
Adjusted off-balance liabilities	(1 435)	(71)	(87)	(39)	(48)	(8)
Off-Balance Sheet Gap	(1 219)	178	(7)	(2)	(15)	(4)
Total Gap	20 979	2 463	3 536	3 272	3 567	(26 921)
Total Cumulative Gap	20 979	23 442	26 978	30 251	33 817	6 896

31.12.2018						
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	29 647	5 340	7 549	7 324	8 687	28 954
Adjusted balance liabilities	10 009	2 838	5 758	4 364	6 189	54 292
Balance-Sheet Gap	19 638	2 502	1 791	2 960	2 498	(25 338)
Cumulative Balance-Sheet Gap	19 638	22 140	23 931	26 891	29 389	4 051
Adjusted off-balance assets	77	64	410	53	33	4
Adjusted off-balance liabilities	(1 294)	(83)	(114)	(61)	(39)	(10)
Off-Balance Sheet Gap	(1 217)	(20)	296	(9)	(6)	(6)
Total Gap	18 422	2 482	2 087	2 951	2 492	(25 344)
Total Cumulative Gap	18 422	20 904	22 991	25 942	28 435	3 090

The Bank has developed a liquidity risk management tool defining sensitivity analysis and stress scenarios (internal, external and combination of both). For the purpose of stress tests, 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.

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. Additionally, stress test results are used for setting thresholds for early warning signals, which aim is to identify upcoming liquidity problems and to indicate to the Management Board the eventual necessity of launching Liquidity Contingency Plan.

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 2019 the Liquidity Contingency Plan was tested and revised in order to guarantee that it is operationally robust. The Plan also adapted revised warning thresholds for early warning indicators, taking into account scenarios and stress test results. The revised Plan was approved by the Supervisory Board in December 2019.

9.6. OPERATIONAL 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 organization and constitutes its intrinsic part.

In the year 2019 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, antifraud, security and business continuity as well as insurance and outsourcing. The third line of defence is the independent internal audit unit.

Every decision regarding optimizing 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:

- Gathering operational risk events,
- Self-assessment of operational risk in individual processes,
- 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 analyzed 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 realized 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 optimization. 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.

10. Transactions with Related Entities

10.1. TRANSACTIONS WITH THE SUBSIDIARIES AND PARENT'S GROUP

All transactions among members of the Group made in 2019 and 2018 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- EURO BANK,
- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLERSKI,
- MILLENNIUM TFI
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- MILLENNIUM GOODIE,
- PIAST EXPERT.

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 31.12.2019

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks - accounts and deposits	0	106 971	0
Loans and advances to customers	5 734 190	0	0
Investments in associates	88 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	948	0	0
Hedging derivatives		0	0
Other assets	43 052	0	0
LIABILITIES			
Deposits from banks	0	271	117 588
Deposits from customers	320 265	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	551	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	4	361	0
Subordinated debt	0	0	0
Other liabilities, including:	136 826	0	215
financial leasing liabilities	131 106	0	0

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2018

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks - accounts and deposits	0	921	0
Loans and advances to customers	5 409 655	0	0
Investments in associates	90 084	0	0
Financial assets valued at fair value through profit and loss (held for trading)	1 310	0	0
Hedging derivatives	0	0	0
Other assets	37 325	0	0
LIABILITIES			
Deposits from banks	0	199	114 449
Deposits from customers	290 453	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	432	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	0	307	0
Subordinated debt	0	0	0
Other liabilities, including:	91 445	0	135
financial leasing liabilities	84 632	0	0

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2019

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	140 919	(48)	0
Commissions	45 631	209	0
Financial instruments valued at fair value through profit and loss	642	0	0
Dividends	42 110	0	0
Other net operating	11 957	0	0
Expense from:			
Interest	4 956	69	(298)
Commissions	2	0	0
Financial instruments valued at fair value through profit and loss	0	488	0
Other net operating	0	13	0
General and administrative expenses	35 104	0	982

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2018

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	112 436	24	0
Commissions	52 152	204	0
Financial instruments valued at fair value through profit and loss	1 241	0	0
Dividends	53 858	0	0
Other net operating	3 490	0	0
Expense from:			
Interest	2 405	0	(290)
Commissions	4	0	0
Financial instruments valued at fair value through profit and loss	0	271	0
Other net operating	0	13	0
General and administrative expenses	84 585	0	722

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2019

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	825 371	101 101	0
granted	822 429	100 345	0
obtained	2 942	756	0
Derivatives (par value)	117 695	15 807	0

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2018

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	765 073	109 673	0
granted	762 252	104 643	0
obtained	2 821	5 030	0
Derivatives (par value)	134 929	33 577	0

10.2. TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

Information on total exposure towards the managing and supervising persons as at 31.12.2019 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	211.0	137.0
including an unutilized limit	158.4	125.0

The Bank provides standard financial 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.

Information on total exposure towards companies and groups personally related as at 31.12.2019 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	11 431	3 000	147	Personal with a supervising person

Information on total exposure towards the managing and supervising persons as at 31.12.2018 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	211.0	137.0
including an unutilized limit	144.9	121.0

Information on total exposure towards companies and groups personally related as at 31.12.2018 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	13 006	2 000	154	Personal with a supervising person

10.3. INFORMATION ON COMPENSATIONS AND BENEFITS OF THE PERSONS SUPERVISING AND MANAGING 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
2019	19 414.8	1 838.9	21 253.7
2018	18 653.1	1 941.1	20 594.2

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 2019 and 2018, the Members of the Management Board did not receive any salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2019	2 076.7
2018	1 926.6

In 2019 and 2018, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

11. Fair Value

The best reflection of fair value of financial instruments is the price which can be obtained for the sale of assets or paid for the transfer of liability in case of 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 cash 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.

According to 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:

Level 1 - valuation based on the data fully observable (active market quotations);

Level 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;

Level 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 Level 1 to 2 takes place when for the financial instruments measured according to Level 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from Level 2 to 3 takes place when for the financial instruments measured according to the Level 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 the 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 the future principal and interest flows with current rates, assuming that the flows arise on contractual dates.

Loans and advances granted to customers valued at amortised cost

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.

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

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

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

Liabilities to customers

The fair value of such instruments without maturity or with maturity 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 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 31.12.2019 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	22	48 153	46 875
Deposits, loans and advances to banks and other monetary institutions	22	784 248	784 091
Loans and advances to customers (*)	21	67 330 582	65 052 959
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	31	849 452	850 852
Liabilities to customers	32	81 637 517	81 646 570
Debt securities issued	34	1 003 657	1 008 580
Subordinated debt	35	1 546 205	1 548 362

* 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 spreads of new loans increase, 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 valuation.

The table below presents data as at 31.12.2018 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	22	44 884	45 631
Deposits, loans and advances to banks and other monetary institutions	22	731 232	731 143
Loans and advances to customers (*)	21	50 536 231	49 147 076
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	31	1 055 708	1 057 354
Liabilities to customers	32	66 399 771	66 401 867
Debt securities issued	34	619 957	621 208
Subordinated debt	35	701 883	695 468

Financial instruments recognized at fair value in the balance sheet

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

Data in PLN'000, as at 31.12.2019

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	18			
Valuation of derivatives			47 091	65 537
Debt securities		874 033		
Non-trading financial assets mandatorily at fair value through profit or loss	19			
Equity instruments				66 609
Debt securities				103 001
Loans and advances				1 498 195
Financial assets at fair value through other comprehensive income	20			
Equity instruments				29 367
Debt securities		20 826 992	999 917	
Derivatives - Hedge accounting	23		43 159	
LIABILITIES				
Financial liabilities held for trading	30			
Valuation of derivatives			84 776	65 187
Short positions		202 265		
Derivatives - Hedge accounting	23		426 847	

Data in '000 PLN, as at 31.12.2018

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	18			
Valuation of derivatives			60 381	38 008
Debt securities		693 242		
Non-trading financial assets mandatorily at fair value through profit or loss	19			
Equity instruments				21 609
Debt securities				43 187
Loans and advances				1 250 525
Financial assets at fair value through other comprehensive income	20			
Equity instruments				29 042
Debt securities		20 491 279	1 599 800	
Derivatives - Hedge accounting	23		125 501	
LIABILITIES				
Financial liabilities held for trading	30			
Valuation of derivatives			65 568	38 162
Short positions		123 754		
Derivatives - Hedge accounting	23		376 811	

Using the criterion of valuation techniques as at 31.12.2019 Bank classified into the third category following financial instruments:

- credit exposures with a leverage / multiplier feature inbuilt in the definition of interest rate (these are credit card exposures and overdraft limits for which the interest rate is based on a multiplier: 4 times the lombard rate). To estimate the fair value of loans, due to the lack of availability of the market value, an internal valuation model was used, taking into account the assumption that at the time of granting the loan the fair value is equal to the carrying value. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date. The discounting rate is the sum of: the cost of risk, the cost of financing, the value of the expected return. The fair value of impaired loans is equal to the sum of future expected recoveries discounted using the effective interest rate, recognizing that the average expected recoveries fully take into account the element of credit risk. In case of an increase in the discount rate by 1 p.p. valuation of the portfolio would have been reduced by -0.1% (sensitivity analysis: based on the FV model for the portfolio of credit cards);
- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- VISA Inc. engagement shares (classified as a debt instrument) in an amount of 23,847; the method of fair value calculation of this instrument considers 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;
- other equity instruments measured at fair value (unquoted on an active market).

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 are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
Balance as at 31.12.2018	35 430	(35 584)	50 651	43 187	1 250 525
Settlement/sell/purchase	17 357	(15 736)	147	15 710	156 406
Change of valuation recognized in equity	0	0	172	0	0
Interest income and other of similar nature	0	0	0	0	114 665
Results on financial assets and liabilities held for trading	8 507	(9 624)	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	45 000	44 104	(23 401)
Result on exchange differences	0	0	6	0	0
Balance as at 31 December 2019	61 294	(60 944)	95 976	103 001	1 498 195

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.

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
Balance as at 31 December 2017	43 159	(42 231)	29 632	47 976	0
Adjustments/reclassifications due to the implementation of IFRS 9	0	0	15 403	(18 344)	1 099 841
Balance on 1 January 2018	43 159	(42 231)	45 035	29 632	1 099 841
Settlement/sell/purchase	(6 287)	5 611	2 515	0	72 009
Change of valuation recognized in equity	0	0	3 095	0	0
Interest income and other of similar nature	0	0	0	0	98 605
Results on financial assets and liabilities held for trading	(1 442)	1 036	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	13 555	(19 930)
Result on exchange differences	0	0	6	0	0
Balance as at 31 December 2018	35 430	(35 584)	50 651	43 187	1 250 525

12. Contingent Liabilities and Assets

12.1. LAWSUITS

Below is presented the data on the court cases pending, brought up by and against entities of the Bank. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 13. note 15) "Corporate Income Tax"**.

Court cases brought up by the Bank

Value of the court litigations, as at 31.12.2019, in which the Bank was a plaintiff, totalled PLN 218.3million.

On January 3 2018, Bank Millennium received decision of the President of the Office of Competition and Consumer Protection (UOKiK), in which the President of UOKiK found infringement by the Bank of the rights of consumers. In the opinion of the President of UOKiK the essence of the violation is that the Bank informed consumers (it regards 78 agreements) in responses to their complaints, that the court verdict stating the abusiveness of the provisions of the loan agreement regarding exchange rates does not apply to them. According to the position of the President of UOKiK the abusiveness of contract's clauses determined by the court in the course of abstract control is constitutive and effective for every contract from the beginning. As a result of the decision, the Bank was obliged to:

- 1) send information on the UOKiK's decision to the said 78 clients,
- 2) place the information on decision and the decision itself on the website and on Twitter,
- 3) to pay a fine amounting to 20.7 mln PLN.

The decision of the President of UOKiK is not final. The Bank does not agree with this decision and lodged an appeal within the statutory time limit.

On January 7, 2020, the first instance court dismissed the Bank's appeal in its entirety. The court presented the view that the judgment issued in the course of the control of a contractual template (in the course of an abstract control), recognizing the provisions of the template as abusive, determines the abusiveness of similar provisions in previously concluded contracts. Therefore, the information provided to consumers was incorrect and misleading. As regards the penalty imposed by UOKiK, the court pointed out that the policy of imposing penalties by the Office had changed in the direction of tightening penalties and that the court agrees with this direction.

In the Bank's assessment, the Court should not assess the Bank's behaviour in 2015 from the perspective of today's case-law views on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the President of UOKiK was published), nor should it impose penalties for these behaviours using current policy. The above constitutes a significant argument against the validity of the judgment and supports the appeal which the Bank intends to make to the Court of second instance.

The verdict issued on January 7 is not final. The bank will appeal to the court of second instance. According to current estimates of the risk of losing the dispute, the Bank has not created a provision.

The Bank (along with other banks) is also a party to the dispute with UOKiK, in which the President of UOKiK recognized the practice of participating banks, including Bank Millennium, in an agreement aimed at jointly setting interchange fee rates charged on transactions made with Visa and Mastercard cards as restrictive of competition, and by decision of 29 December 2009 imposed a fine on the Bank in the amount of PLN 12.2 million. Case is pending, the Bank has created a reserve in the amount equal to the penalty imposed.

Court cases against the Bank

As at 31.12.2019, the most important proceeding, in the group of the court cases where the Bank was defendant, was a case brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 5.04.2016 until the day of payment.

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 plaintiff, the basis for the claim 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 concluded between the Bank and PCZ S.A., 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 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank. At present, the Court of first instance is conducting evidence proceedings.

Additionally, on 19 January 2018 the Bank has received the lawsuit petition of First Data Polska SA requesting the payment of 186.8 mln PLN. First Data claims a share in an amount which the Bank has received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its request on an agreement with the Bank on co-operation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. The Bank does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law. In accordance with the judgment of 13/06/2019, the Bank won the case before the Court of first instance. The case is currently pending before the Court of second instance. According to current estimates of the risk of losing the dispute, the Bank has not create a provision.

As at 31.12.2019, the total value of the subjects of the other litigations in which the Bank appeared as defendant, stood at PLN 496.2 million (excluding the class actions described below). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

FX mortgage loans legal risk

On 3 October 2019, the Court of Justice of the European Union ('the CJEU') issued the judgment in Case C-260/18 in connection with the preliminary questions formulated by the District Court of Warsaw in the case against Raiffeisen Bank International AG. The judgment of the CJEU, in

connection with the interpretation of European Union law made therein, is binding on domestic courts. The judgment in question interpreted Article 6 of Directive 93/13 in its answers to the preliminary questions. In the light of the subject matter judgment, Article 6 of Directive 93/13: must be interpreted as meaning that (i) the national court may, on the basis of national law, conclude that a credit agreement cannot continue to exist without unfair terms on the ground that the removal of those unfair terms would alter the nature of the main subject-matter of the contract; (ii) the effects for the consumer's situation resulting from the cancellation of the contract as a whole must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and that the will of the consumer is decisive as to whether he wishes to maintain the contract and avoid those effects; (iii) Article 6 of the Directive precludes the filling in of gaps in the contract caused by the removal of unfair terms from the contract (even if the non-filling of those gaps would result in detrimental for consumer falling of the contract), solely on the basis of national legislation of a general nature which provides that the effects expressed in the content of a legal act are to be supplemented, in particular, by principles arising from equity rules or established customs; (iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract (even if their removal would result in the contract being annulled to the detriment of the consumer) if the consumer has not consented to the maintenance of such terms.

The CJEU judgment concerns only the situation where the national court has previously found the contract term to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be regarded as abusive in the circumstances of the case. It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court may also be filed with potential impact on the outcome of the court cases.

As at the end of 2019, the Bank had 2010 loan agreements under individual litigations concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 203 million. Until 31.12.2019 only 19 cases were finally resolved and the vast majority of such judgments were in accordance with the Bank's interest. The claims formulated by the Clients in individual proceedings primarily concern the declaration of invalidity of the contract or payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domain to encourage claims against banks may lead to an increase of the number of future court disputes. In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3281. The case is still before its first hearing, which is scheduled for March 2020.

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved in favour of banks until 2019 year. However, after the Court of Justice of the European Union (CJEU) judgment issued on 3 October 2019 (Case C-260/18) there is a risk, that so far mostly positive for banks line of verdict in courts may change.

Taking into consideration the increased legal risk related to FX mortgages, Bank Millennium created PLN 223 million provision for legal risk. The methodology developed by the Bank is based on the following main parameters: 1) the number of current (including class action) and potential future

court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk as regard FX mortgage loans portfolio. The Bank is open to negotiate case by case favourable conditions for early repayment (partial or total) or conversion of loans to PLN. On the other hand, the Bank will continue to take all possible actions to protect its interests in courts while at the same time being open to find settlement with customers in the court under reasonable conditions.

Finally it should be mentioned, that the Bank has to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 4.96 p.p. (4.87 p.p. at the Group level), which corresponds to PLN 1.85 billion, part of which is allocated to operational/legal risk.

The class action related to the LTV insurance:

On the 3rd of December 2015 a class action was served on the Bank. A group of the Bank's debtors (454 borrowers party to 275 loan agreements) is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million, claiming that the clauses of the agreements, pertaining to the low down payment insurance, are unfair and thus not binding. Plaintiff extended the group in the court letter filed on the 4th of April 2018, therefore the claims increased from PLN 3.5 million to over PLN 5 million.

Actual status:

On the 1st of October 2018, the group's representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering the total of 697 borrowers - 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7,371,107.94.

The next stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the proceedings may participate in the group).

As at 31 December 2019, there were also 537 individual court cases regarding LTV insurance.

12.2. OFF BALANCE SHEET ITEMS

OFF-BALANCE ITEMS

<i>Amount '000 PLN</i>	31.12.2019	31.12.2018
Off-balance conditional commitments granted and received	12 995 272	10 994 626
Commitments granted:	12 452 047	10 617 917
Loan commitments	9 939 514	8 424 532
guarantee	2 512 533	2 193 385
Commitments received:	543 226	376 709
financial	0	0
guarantee	543 226	376 709

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 granted, reported in off-balance sheet items is presented in the table below:

Customer - sector, amount in PLN million	31.12.2019	31.12.2018
financial sector	810.8	807.9
non-financial sector (companies)	1 694.7	1 377.2
public sector	7.0	8.3
Total	2 512.5	2 193.4

As the parent company, the Bank granted a loan repayment guarantee to the subsidiary Millennium Leasing for the total amount of PLN 725.9 million. In addition, the Bank provided guarantees and sureties to external entities on behalf of Group companies. The total value of guarantee obligations from the above titles is presented in the table:

Subordinated company, amount in PLN million	31.12.2019	31.12.2018
Millennium Leasing Sp. z o.o.	753.5	748.7
Millennium Service Sp. z o.o.	12.9	12.8
Total	766.4	761.5

Guarantees and sureties granted to Clients

Commitments granted - guarantee in PLN million	31.12.2019	31.12.2018
Active guarantees and sureties	1 649.2	1 645.9
Lines for guarantees and sureties	869.3	555.7
Total	2 518.5	2 201.6
Provisions created	(6.0)	(8.2)
Commitments granted - guarantee after provisions	2 512.5	2 193.4

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

By currency	31.12.2019	31.12.2018
PLN	986 153	1 036 839
Other currencies	663 075	609 071
Total:	1 649 228	1 645 910

By type of commitment	31.12.2019		31.12.2018	
	Number	Amount	Number	Amount
Guarantee	3 464	1 618 473	3 334	1 615 006
Surety	0	0	0	0
Re-guarantee	43	30 755	21	30 904
Total:	3 507	1 649 228	3 355	1 645 910

By object of the commitment	31.12.2019			31.12.2018		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 632	476 237	28.88%	2 440	443 621	26.95%
rent payment	313	248 097	15.04%	303	284 159	17.26%
punctual payment for goods or services	185	21 987	1.33%	256	21 021	1.28%
bid bond	253	59 803	3.63%	255	55 001	3.34%
Other	44	35 011	2.12%	42	37 052	2.25%
advance return	41	66 698	4.04%	28	61 391	3.73%
Customs	18	736 508	44.66%	17	741 284	45.04%
payment of bank loan	21	4 887	0.30%	14	2 381	0.14%
Total:	3 507	1 649 228	100.00%	3 355	1 645 910	100.00%

13. Notes to the Financial Statements

Amounts presented in the notes to the financial statements are presented in PLN thousands.

1. INTEREST INCOME AND OTHER OF SIMILAR NATURE

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Interest income from Financial assets at fair value through other comprehensive income	384 623	352 241
Debt securities	384 623	352 241
Interest income from Financial assets at amortised cost	2 470 441	1 984 670
Balances with the Central Bank	12 347	10 528
Loans and advances to customers	2 148 990	1 698 817
Debt securities	1 528	1 493
Deposits, loans and advances to banks	25 056	1 778
Transactions with repurchase agreements	12 618	5 585
Hedging derivatives	269 902	266 469
Income of similar nature to interest, including:	127 196	116 664
Loans and advances to customers mandatorily at fair value through profit or loss	114 665	98 605
Financial assets held for trading - debt securities	12 531	18 059
Total	2 982 260	2 453 575

In the line „Hedging derivatives” the Bank presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Bank is presented in **note (23)**

Interest income for the year 2019 contains interest accrued on impaired loans in the amount of PLN 75,645 thous. (for corresponding data in the year 2018 the amount of such interest stood at PLN 53,097 thous.).

2. INTEREST EXPENSE

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Financial liabilities measured at amortised cost	(881 868)	(736 629)
Liabilities to banks and other monetary institutions	(19 250)	(18 342)
Liabilities to customers	(772 914)	(662 302)
Transactions with repurchase agreement	(5 997)	(11 584)
Debt securities issued	(16 513)	(15 745)
Subordinated debt	(59 880)	(28 656)
Leasing liabilities	(7 314)	0
Hedging derivatives	0	0
Other	(161)	(274)
Total	(882 029)	(736 903)

3. FEE AND COMMISSION INCOME AND EXPENSE

3a. Fee and commission income

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Resulting from accounts service	77 158	82 753
Resulting from money transfers, cash payments and withdrawals and other payment transactions	73 151	73 682
Resulting from loans granted	163 419	140 427
Resulting from guarantees and sureties granted	17 494	15 353
Resulting from payment and credit cards	208 414	177 745
Resulting from sale of insurance products	71 057	41 644
Resulting from distribution of investment funds units and other savings products	98 482	114 736
Resulting from brokerage and custody service	6 037	8 083
Other	30 146	32 919
Total	745 358	687 342

3b. Fee and commission expense

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Resulting from accounts service	(2 339)	(1 906)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(4 083)	(5 408)
Resulting from loans granted	(15 828)	(9 522)
Resulting from payment and credit cards	(106 047)	(89 298)
Other	(23 887)	(23 064)
Total	(152 184)	(129 198)

4. DIVIDEND INCOME

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Non-trading financial assets mandatorily at fair value through profit or loss	879	669
Financial assets at fair value through other comprehensive income	2 255	1 913
Investments in subordinated companies	42 110	53 858
Total	45 244	56 440

5. RESULT ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Operations on debt instruments	41 021	18 897
Costs of financial operations	(3 292)	0
Total	37 729	18 897

6. RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Result on debt instruments	(2 767)	13 494
Result on derivatives	71 036	71 237
Costs of financial operations	0	(2 479)
Total	68 269	82 252

7. RESULTS NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Loans and advances to customers	(23 401)	(19 930)
Result on equity instruments	45 000	0
Result on debt instruments	42 084	13 555
Total	63 683	(6 375)

The increase in the results on non-trading financial assets mandatorily at fair value through profit or loss results among others from positive evaluation of PSP shares amounted to +PLN 45 million (included discount factor). On 15 October 2019 the agreement on admission of a new shareholder of PSP, i.e. Mastercard was signed. Although the purchase of PSP shares has not been finalised yet, valuation was recorded based on already available market price.

8. RESULT ON HEDGE ACCOUNTING

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Changes in the fair value of the hedging instrument (including abandonment)	1 607	(117)
Changes in the fair value of the hedged item resulting from the hedged risk	(1 417)	0
Inefficiency in cash flow hedges	(19 249)	(19 920)
Inefficiencies due to net investment hedges in foreign operations	0	0
Total	(19 059)	(20 037)

9. OTHER OPERATING INCOME

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Gain on sale and liquidation of property, plant and equipment, intangible assets	0	921
Income from sale of other services	7 966	5 902
Income from collection service	6 217	2 772
Other	71 145	15 474
Total	85 328	25 069

10. OTHER OPERATING EXPENSE

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Loss on sale and liquidation of property, plant and equipment, intangible assets	(3 719)	(70)
Indemnifications, penalties and fines paid	(4 726)	(1 899)
Costs of provisions for disputed claims	(7 311)	(7 541)
Costs related with providing other services	(3 008)	(3 143)
Donations made	(794)	(1 239)
Costs of collection service	(15 395)	(14 030)
Other	(36 799)	(4 963)
Total	(71 752)	(32 885)

On 11 September 2019 The Court of Justice of the European Union ruled in the case of Lexitor against SKOK Stefczyka, Santander Consumer Bank and mBank (case C 383/18) in which it stated that consumer has rights to demand the reduction of the total loan cost corresponding to interest and costs for the remaining term of the agreement in case of early repayment of loan.

Taking into consideration this verdict, Bank Millennium Group created in 2019 a provision in the amount of PLN 66.4 million (split between Net Interest Income and Other Operating Costs), for potential returns to the clients. The provision was estimated based on the maximum amount of potential returns and the probability of payment being made. The adequateness of such reserve will be checked through time and will depend on the clarification of the implications of the verdict and on the number of agreements and values to be returned.

11. ADMINISTRATIVE EXPENSES

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Staff costs:	(715 299)	(592 192)
Salaries	(589 574)	(488 118)
Surcharges on pay	(95 645)	(80 583)
Employee benefits, including:	(30 080)	(23 491)
- provisions for retirement benefits	(8 996)	(3 607)
- provisions for unused employee holiday	(62)	(836)
- other	(21 022)	(19 048)
Other administrative expenses:	(659 933)	(561 894)
Costs of advertising, promotion and representation	(69 759)	(56 414)
IT and communications costs	(145 366)	(84 588)
Costs of renting	(64 580)	(137 021)
Costs of buildings maintenance, equipment and materials	(47 006)	(31 924)
ATM and cash maintenance costs	(21 814)	(20 421)
Costs of consultancy, audit and legal advisory and translation	(69 001)	(28 081)
Taxes and fees	(27 507)	(22 076)
KIR - clearing charges	(6 535)	(5 589)
PFRON costs	(6 204)	(4 602)
Banking Guarantee Fund costs	(121 417)	(105 498)
Financial Supervision costs	(10 207)	(6 841)
Other	(70 537)	(58 839)
Total	(1 375 232)	(1 154 086)

12. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Impairment losses on loans and advances to customers	(198 524)	(165 431)
Impairment charges on loans and advances to customers	(825 462)	(526 762)
Reversal of impairment charges on loans and advances to customers	592 629	356 013
Amounts recovered from loans written off	32 273	1 516
Sale of receivables	1 448	1 571
Other directly recognised in profit and loss	588	2 231
Impairment losses on securities	(34)	944
Impairment charges on securities	(34)	(20)
Reversal of impairment charges on securities	0	964
Impairment losses on off-balance sheet liabilities	(361)	(6 529)
Impairment charges on off-balance sheet liabilities	(70 581)	(61 333)
Reversal of impairment charges on off-balance sheet liabilities	70 220	54 804
Total	(198 919)	(171 016)

13. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Fixed assets	0	0
Other assets	(1 153)	(509)
Total	(1 153)	(509)

14. DEPRECIATION AND AMORTIZATION

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Property, plant and equipment	(119 133)	(34 419)
Intangible assets	(26 575)	(16 837)
Total	(145 708)	(51 256)

15. CORPORATE INCOME TAX

15a. Income tax reported in income statement

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Current tax	(300 563)	(245 742)
Current year	(300 563)	(245 742)
Deferred tax:	33 304	9 160
Recognition and reversal of temporary differences	33 304	9 160
Total income tax reported in income statement	(267 259)	(236 582)

15b. Effective tax rate

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Profit before tax / (loss)	867 942	958 882
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(164 909)	(182 188)
Impact of permanent differences on tax charges:	(102 588)	(54 576)
Non-taxable income	16 387	10 816
Dividend income	8 358	10 542
Release of other provisions	8 012	154
Other	17	120
Cost which is not a tax cost	(118 975)	(65 392)
Write-down of unrealized deferred tax assets	(2 635)	0
Loss on sale of receivables	0	(27)
PFRON fee	(1 179)	(874)
Fees for Banking Guarantee Fund	(23 069)	(20 045)
Banking tax	(45 015)	(37 711)
Income/cost of provisions for factoring and leasing receivables	(4 160)	1 438
Receivables written off	(1 441)	(1 314)
Costs of litigations and claims	(39 586)	(5 384)
Other	(1 890)	(1 475)
Deduction of the tax paid abroad	238	182
Total income tax reported in income statement	(267 259)	(236 582)
Effective tax rate	30.8%	24.7%

15c. Deferred tax reported in equity

	31.12.2019	31.12.2018
Valuation of securities at fair value through other comprehensive income	(21 762)	(30 756)
Valuation of cash flow hedging instruments	5 488	13 028
Actuarial gains (losses)	594	497
Deferred tax reported directly in equity	(15 680)	(17 231)

Changes in deferred tax recognized directly in equity are presented in **Note (39b)**.

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

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

Commencing from January 1, 2017, a new TCG is constituted, consisting of: Bank Millennium S.A (parent company), Millennium Service Sp. Z o.o. and Millennium Goodie Sp. z o.o. This TCG was created for three years period: from 1 January 2017 to 31 December 2019.

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

On June 24 2019 Bank received the control result issued by the Head of Mazovian Customs&Tax Office confirming the CIT overpayment of PLN 26.9 million for 2010. On July 5 2019 Tax Office transferred this amount on the Bank's account.

Withholding tax audit for years 2015-16

On 12 February 2019 the Head of Western Pomeranian Customs & Tax Office (Zachodniopomorski Urząd Celno-Skarbowy w Szczecinie, ZUCS) commenced tax audits regarding the correctness of withholding tax (WHT) settlements for years 2015 and 2016. On 17 December 2019 the Bank received audit results as of 13 December 2019, in which ZUCS questioned WHT-exemption on coupon interest from bonds paid to MB Finance AB with the seat in Sweden constituting a collateral to 10Y subordinated bonds with a par value of EUR 150 mio. issued by this company in December 2007 (fully amortized in December 2017). WHT arrear for these years is ca. PLN 6.7 mio. Bank does not agree with these findings, did not correct its WHT settlements for years 2015-16 and tax audits transformed by the virtue of law into tax proceedings, in which Bank intends to present additional argumentation for the correctness of its approach.

16. EARNINGS PER SHARE

In accordance with the requirements of IAS 33, the Bank calculates earnings per share based on consolidated data and presents it accordingly in the consolidated financial statements.

17. CASH, BALANCES AT THE CENTRAL BANK

17a. Cash, balances at the central bank

	31.12.2019	31.12.2018
Cash	758 545	625 897
Cash in Central Bank	1 444 899	1 824 279
Other funds	0	0
Total	2 203 444	2 450 176

In the period from 31 December 2019 to 30 January 2020 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 2,782,382 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

17b. Cash, balances at the Central Bank - by currency

	31.12.2019	31.12.2018
in Polish currency	2 001 379	2 272 807
in foreign currencies (after conversion to PLN)	202 065	177 369
▪ currency: USD	37 362	36 206
▪ currency: EUR	130 446	113 538
▪ currency: CHF	13 562	11 736
▪ currency: GBP	15 462	12 567
▪ other currencies	5 233	3 322
Total	2 203 444	2 450 176

18. FINANCIAL ASSETS HELD FOR TRADING

18a. Financial assets held for trading

	31.12.2019	31.12.2018
Debt securities	874 033	693 242
Issued by State Treasury	874 033	693 242
a) bills		0
b) bonds	874 033	693 242
Adjustment from fair value hedge	803	4 293
Positive valuation of derivatives	112 629	98 389
Total	987 465	795 924

Information on financial assets securing liabilities is presented in point 2) of Chapter 14.

18b. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

	31.12.2019	31.12.2018
▪ with fixed interest rate	603 690	149 016
▪ with variable interest rate	270 343	544 226
Total	874 033	693 242

18c. Debt securities valued at fair value through profit and loss (held for trading), by maturity

	31.12.2019	31.12.2018
to 1 month	22 386	8 388
above 1 month to 3 months	0	0
above 3 months to 1 year	55 413	3 617
above 1 year to 5 years	546 087	528 081
above 5 years	250 147	153 156
Total	874 033	693 242

18d. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	693 242	338 351
Increases (purchase and accrual of interest and discount)	21 249 853	18 596 115
Reductions (sale and redemption)	(21 066 511)	(18 242 349)
Differences from valuation at fair value	(2 551)	1 125
Balance at the end of the period	874 033	693 242

18e. Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at:

31.12.2019	Par value of instruments with future maturity				Fair value		
	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	649 552	1 068 646	5 472 226	174 669	10 517	28 984	18 467
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	649 552	1 028 690	5 220 758	174 669	10 514	28 903	18 389
Other interest rate contracts: options	0	39 956	251 468	0	3	81	78
2. FX derivatives*	8 225 112	2 116 434	508 826	0	(48 201)	18 108	66 309
FX contracts	2 041 066	720 150	200 038	0	(15 878)	3 200	19 078
FX swaps	6 184 046	961 812	308 788	0	(28 682)	14 241	42 923
Other FX contracts (CIRS)	0	434 472	0	0	(3 641)	667	4 308
FX options	0	0	0	0	0	0	0
3. Embedded instruments	170 881	1 050 773	812 187	0	(60 944)	1 284	62 228
Options embedded in deposits	164 966	927 283	677 865	0	(55 654)	0	55 654
Options embedded in securities issued	5 915	123 490	134 322	0	(5 290)	1 284	6 574
4. Indexes options	359 682	1 103 193	683 430	0	61 294	64 253	2 959
Total	9 405 227	5 339 046	7 476 669	174 669	(37 334)	112 629	149 963
Valuation of hedged position in fair value hedge accounting					-	803	776
Liabilities from short sale of debt securities					-	-	202 265

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

31.12.2018	Par value of instruments with future maturity				Fair value		
	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	415 000	694 342	4 273 459	203 290	8 942	41 193	32 251
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	415 000	544 457	4 170 783	203 290	8 942	41 193	32 251
Other interest rate contracts: options	0	149 885	102 676	0	0	0	0
2. FX derivatives*	8 450 071	1 381 800	1 022 994	0	(14 129)	19 188	33 317
FX contracts	1 681 856	789 439	152 985	0	(7 350)	1 927	9 277
FX swaps	6 768 215	592 361	358 245	0	(996)	15 197	16 193
Other FX contracts (CIRS)	0	0	511 764	0	(5 783)	2 064	7 847
FX options	0	0	0	0	0	0	0
3. Embedded instruments	257 886	929 048	789 479	0	(35 584)	15	35 599
Options embedded in deposits	245 526	894 520	645 872	0	(29 336)	0	29 336
Options embedded in securities issued	12 360	34 528	143 607	0	(6 248)	15	6 263
4. Indexes options	383 324	1 027 872	712 361	0	35 430	37 993	2 563
Total	9 506 281	4 033 062	6 798 293	203 290	(5 341)	98 389	103 730
Valuation of hedged position in fair value hedge accounting					-	4 293	4 149
Liabilities from short sale of debt securities					-	-	123 754

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

19. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	31.12.2019	31.12.2018
Equity instruments	66 609	21 609
credit institutions	0	0
other corporates	66 609	21 609
Debt securities	103 001	43 187
credit institutions	0	0
other corporates	103 001	43 187
Total	169 610	64 796

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

20a. Financial assets at fair value through other comprehensive income

	31.12.2019	31.12.2018
Debt securities	21 826 908	22 091 079
Issued by State Treasury	20 650 898	20 409 056
a) bills	0	0
b) bonds	20 650 898	20 409 056
Issued by Central Bank	999 917	1 599 800
a) bills	999 917	1 599 800
b) bonds	0	0
Other securities	176 094	82 223
a) listed	176 094	82 223
b) not listed	0	0
Shares and interests in other entities	29 367	29 042
Other financial instruments	0	0
Total financial assets at fair value through other comprehensive income	21 856 275	22 120 121
Including:		
Instruments listed on the active market	20 826 991	20 491 279
Instruments not listed on the active market	1 029 284	1 628 842

20b. Debt securities at fair value through other comprehensive income

	31.12.2019	31.12.2018
▪ with fixed interest rate	12 418 704	10 310 594
▪ with variable interest rate	9 408 204	11 780 485
Total	21 826 908	22 091 079

20c. Debt securities at fair value through other comprehensive income by maturity

	31.12.2019	31.12.2018
▪ to 1 month	1 086 797	1 599 800
▪ above 1 month to 3 months	0	0
▪ above 3 months to 1 year	133 436	192 859
▪ above 1 year to 5 years	19 224 896	19 179 817
▪ above 5 years	1 381 779	1 118 603
Total	21 826 908	22 091 079

20d. Change of financial assets at fair value through other comprehensive income

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	22 120 121	19 053 103
Adjustment of the opening balance due to the implementation of IFRS 9	0	(71 936)
Adjusted balance at the beginning of the period	22 120 121	18 981 167
Increases (purchase and accrual of interest and discount)	140 622 397	201 226 822
Reductions (sale and redemption)	(142 142 099)	(198 162 947)
Difference from measurement at fair value	(47 336)	74 109
Impairment write-offs	0	963
Merger with Euro Bank S.A.	1 303 195	0
Other	(4)	7
Balance at the end of the period	21 856 275	22 120 121

21. LOANS AND ADVANCES TO CUSTOMERS

21a. Loans and advances to customers mandatorily at fair value through profit or loss

Balance sheet value:	31.12.2019	31.12.2018
Mandatorily at fair value through profit or loss *	1 498 195	1 250 525
▪ Companies	18 435	17 944
▪ Individuals	1 479 645	1 232 494
▪ Public sector	115	87
	(84 519)	(72 943)

* The above data includes the fair value adjustment, in the amount of:

The Bank has separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presented aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost.

The Bank writes down the gross carrying amount of a financial asset when there is no reasonable probability that it will be fully (total writes off) or partially (partial writes off) recovered. Following the recorded partial writes off the Bank transferred to off-balance sheet evidence (deducting the carrying value of gross receivables) penalty interest amounting to PLN 597 million as at 31.12.2019.

21b. Loans and advances to customers valued at amortised cost

31.12.2019	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost	63 670 606	2 539 634	2 921 464	(264 616)	(172 915)	(1 363 591)	67 330 582
Companies	16 566 720	741 597	577 618	(125 915)	(19 636)	(296 590)	17 443 794
Individuals	46 874 746	1 798 024	2 343 846	(138 458)	(153 279)	(1 067 001)	49 657 878
Public sector	229 140	13	0	(243)	(0)	0	228 910

31.12.2018	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost	47 425 169	2 549 636	2 150 474	(201 656)	(160 746)	(1 226 646)	50 536 231
Companies	15 307 301	965 796	538 067	(127 880)	(39 213)	(340 987)	16 303 084
Individuals	31 901 749	1 581 890	1 612 407	(73 508)	(121 530)	(885 659)	34 015 349
Public sector	216 119	1 950	0	(268)	(3)	0	217 798

21c. Loans and advances to customers

	31.12.2019		31.12.2018	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	62 771 734	640 622	46 165 726	473 214
to companies	12 053 010	-	11 076 996	-
to private individuals	50 572 229	640 622	34 871 344	473 214
to public sector	146 495	-	217 386	-
Receivables on account of payment cards	98 848	857 573	2 795	777 311
due from companies	162	18 550	149	18 031
due from private individuals	98 686	839 023	2 646	759 280
Purchased receivables	5 877 419	-	5 687 711	-
from companies	5 794 971	-	5 687 305	-
from public sector	82 448	-	406	-
Guarantees and sureties realised	1 368	-	11 622	-
Debt securities eligible for rediscount at Central Bank	3 595	-	3 660	-
Other	1 521	-	2 763	-
Interest	377 219	-	251 002	-
Total:	69 131 704	1 498 195	52 125 279	1 250 525
Impairment allowances	(1 801 122)	-	(1 589 048)	-
Total balance sheet value:	67 330 582	1 498 195	50 536 231	1 250 525
* The above data includes the fair value adjustment in the amount of	-	(84 519)	-	(72 943)

21d. Quality of loans and advances to customers portfolio valued at amortised cost

	31.12.2019	31.12.2018
Loans and advances to customers (gross)	69 131 704	52 125 279
impaired	2 921 464	2 150 474
not impaired	66 210 240	49 974 805
Impairment allowances	(1 801 122)	(1 589 048)
for impaired exposures	(1 363 591)	(1 226 646)
for not impaired exposures	(437 531)	(362 402)
Loans and advances to customers (net)	67 330 582	50 536 231

21e. Loans and advances to customers portfolio valued at amortised cost by methodology of impairment assessment

	31.12.2019	31.12.2018
Loans and advances to customers (gross)	69 131 704	52 125 279
case by case analysis	704 131	644 000
collective analysis	68 427 573	51 481 279
Impairment allowances	(1 801 122)	(1 589 048)
on the basis of case by case analysis	(300 446)	(337 332)
on the basis of collective analysis	(1 500 676)	(1 251 716)
Loans and advances to customers (net)	67 330 582	50 536 231

21f. Loans and advances to customers portfolio valued at amortised cost by customers

	31.12.2019	31.12.2018
Loans and advances to customers (gross)	69 131 704	52 125 279
corporate customers	18 115 088	17 029 233
individuals	51 016 616	35 096 046
Impairment allowances	(1 801 122)	(1 589 048)
for receivables from corporate customers	(442 384)	(508 351)
for receivables from private individuals	(1 358 738)	(1 080 697)
Loans and advances to customers (net)	67 330 582	50 536 231

21g. Movements in impairment allowances for loans and advances to customers carried at amortised cost

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	1 589 048	1 362 016
Adjustment of the opening balance due to the implementation of IFRS 9	0	300 350
Adjusted balance at the beginning of the period	1 589 048	1 662 366
Change in value of provisions:	212 074	(73 318)
Impairment allowances created in the period	825 462	526 748
Amounts written off	(239 319)	(273 044)
Impairment allowances released in the period	(592 613)	(356 013)
Sale of receivables	0	(13 252)
KOIM created in the period(*)	25 312	25 558
Merger with Euro Bank S.A.	176 996	0
Changes resulting from FX rates differences	5 291	15 407
Other	10 945	1 278
Balance at the end of the period	1 801 122	1 589 048

* In accordance with IFRS 9, the Bank calculates interest on the loan portfolio with a recognized impairment based on the net exposure value. For this purpose, the so-called impaired interest adjustment ("KOIM") is calculated and recorded as a reduction of interest income. Aforementioned KOIM adjustment in the balance sheet is presented as an impairment allowances, and as a consequence the reconciliation of the change in impairment allowances requires consideration of the KOIM recognized in the interest income.

The Bank records POCI assets in the balance sheet as a result of recognition of impaired loans after the merger with Euro Bank S.A. and takeover of SKOK Piast. At the time of the merger, the aforementioned assets included in the Bank's books at fair value.

The value of POCI assets is as follows:

	Gross balance sheet value	Accumulated impairment	Net balance sheet value
31.12.2019			
- Companies	101	(23)	78
- Individuals	523 989	(45 236)	478 753
- Public sector	0	0	0
31.12.2018			
- Companies	139	(130)	9
- Individuals	15 271	(1 447)	13 824
- Public sector	0	0	0

21h. Changes in impairment allowances and gross carrying amount of loans and advances valued at amortised cost divided into stages and classes:

Companies: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	127 880	39 213	341 117	(130)	508 080
Transfers between stages	22 174	(37 013)	14 839	0	0
Increase due to granting or purchase	11 254	0	0	0	11 254
Changes in credit risk	(160)	22 480	72 076	153	94 548
Decrease due to derecognition (except exposures sold and written off)	(35 486)	(5 113)	(27 037)	0	(67 635)
Sale of loans and advances	0	0	0	0	0
Loans and advances written off	0	0	(107 668)	0	(107 668)
COIM	0	0	2 526	0	2 526
Other (including FX differences)	252	69	714	0	1 035
Balance at the end of the period	125 915	19 636	296 567	23	442 141

Companies: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	15 307 301	965 796	537 928	139	16 811 164
Transfers between stages	(256 972)	112 449	144 523	0	0
Granted or purchased loans and advances	4 937 030	0	0	0	4 937 030
Repaid loans and advances	(5 077 758)	(345 033)	(43 287)	(39)	(5 466 117)
Loans and advances sold	(2 057)	0	(240)	0	(2 297)
Loans and advances written off	0	0	(107 668)	0	(107 668)
Other (including FX differences)	1 659 176	8 385	46 262	0	1 713 823
Balance at the end of the period	16 566 720	741 597	577 517	101	17 885 935

Individuals: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	73 508	121 530	887 106	(1 447)	1 080 697
Transfers between stages	329 792	(389 538)	59 745	0	(0)
Merger with Euro Bank S.A.	86 714	0	0	90 281	176 996
Increase due to granting or purchase	41	0	0	0	41
Changes in credit risk	(336 946)	430 939	220 803	(41 619)	273 177
Decrease due to derecognition (except exposures sold and written off)	(15 403)	(8 004)	(55 060)	0	(78 467)
Loans and advances written off	(36)	(190)	(129 445)	(1 980)	(131 651)
COIM	0	0	22 786	0	22 786
Other (including FX differences)	786	1 175	13 196	0	15 158
Balance at the end of the period	138 457	155 913	1 019 131	45 236	1 358 737

Individuals: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	31 901 749	1 581 890	1 597 136	15 271	35 096 046
Transfers between stages	(740 026)	360 199	379 827	0	0
Granted or purchased loans and advances	17 914 971	0	0	541 980	18 456 951
Repaid loans and advances	(3 590 598)	(206 354)	(26 723)	(31 282)	(3 854 957)
Loans and advances sold	817	0	0	0	817
Loans and advances written off	(36)	(190)	(129 445)	(1 980)	(131 651)
Other (including FX differences)	1 387 868	9 942	51 600	0	1 449 410
Balance at the end of the period	46 874 746	1 745 487	1 872 394	523 989	51 016 616

Public sector: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	268	3	0	0	271
Transfers between stages	2	(2)	0	0	(0)
Increase due to granting or purchase	50	0	0	0	50
Changes in credit risk	(29)	(1)	0	0	(30)
Decrease due to derecognition (except exposures sold and written off)	(90)	0	0	0	(90)
Other (including FX differences)	0	0	0	0	0
Balance at the end of the period	0	0	0	0	0

Public sector: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	216 119	1 950	0	0	218 069
Transfers between stages	1 938	(1 938)	0	0	0
Granted or purchased loans and advances	23 773	0	0	0	23 773
Repaid loans and advances	(12 689)	(0)	0	0	(12 689)
Loans and advances sold	(1)	0	0	0	(1)
Loans and advances written off	0	0	0	0	0
Other (including FX differences)	0	1	0	0	1
Balance at the end of the period	229 140	13	0	0	229 153

21i. Loans and advances to customers portfolio valued at amortised cost by maturity

	31.12.2019	31.12.2018
Current accounts	3 866 397	3 773 798
to 1 month	739 587	345 536
above 1 month to 3 months	2 111 562	1 446 261
above 3 months to 1 year	5 758 161	4 626 466
above 1 year to 5 years	23 580 226	16 989 041
above 5 years	30 615 662	23 230 051
past due	2 082 890	1 463 124
Interest	377 219	251 002
Total gross	69 131 704	52 125 279

21j. Loans and advances to customers portfolio valued at amortised cost by currency

	31.12.2019	31.12.2018
in Polish currency	50 900 923	34 252 524
in foreign currencies (after conversion to PLN)	18 230 781	17 872 755
▪ currency: USD	106 107	204 962
▪ currency: EUR	3 353 085	3 155 100
▪ currency: CHF	14 763 038	14 502 677
▪ other currencies	8 551	10 016
Total gross	69 131 704	52 125 279

22. FINANCIAL ASSETS AT AMORTISED COST OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

22a. Financial assets at amortised cost other than Loans and advances to customers

31.12.2019	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	48 207	0	0	(54)	0	0	48 153
Deposits, loans and advances to banks and other monetary institutions	784 248	0	0	0	0	0	784 248
Repurchase agreements	205 439	0	0	0	0	0	205 439

31.12.2018	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	44 904	0	0	(20)	0	0	44 884
Deposits, loans and advances to banks and other monetary institutions	731 248	0	0	(16)	0	0	731 232
Repurchase agreements	250 284	0	0	0	0	0	250 284

22b. Debt securities

	31.12.2019	31.12.2018
credit institutions	0	0
other companies	0	0
public sector	48 153	44 884
Total	48 153	44 884

22c. Deposits, loans and advances to banks and other monetary institutions

	31.12.2019	31.12.2018
Current accounts	213 430	143 093
Deposits	570 036	586 666
Interest	782	1 489
Total (gross) deposits, loans and advances	784 248	731 248
Impairment allowances	0	(16)
Total (net) deposits, loans and advances	784 248	731 232

22d. Deposits, loans and advances to banks and other monetary institutions by maturity date

	31.12.2019	31.12.2018
Current accounts	213 430	143 093
to 1 month	570 036	581 666
above 1 month to 3 months	0	0
above 3 months to 1 year	0	5 000
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	782	1 489
Total (gross) deposits, loans and advances	784 248	731 248

22e. Deposits, loans and advances to banks and other monetary institutions by currency

	31.12.2019	31.12.2018
in Polish currency	5 307	133 579
in foreign currencies (after conversion to PLN)	778 941	597 669
▪ currency: USD	119 959	51 423
▪ currency: EUR	500 570	449 968
▪ currency: CNY	69 621	27 356
▪ currency: CHF	12 271	21 456
▪ currency: GBP	24 556	11 469
▪ currency: JPY	7 589	434
▪ other currencies	44 375	35 563
Total	784 248	731 248

22f. Change of impairment allowances for deposits, loans and advances to banks and other monetary institutions

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	16	0
Impairment allowances created in the period	0	16
Impairment allowances released in the period	(16)	0
Balance at the end of the period	0	16

22g. Reverse sale and repurchase agreements

	31.12.2019	31.12.2018
credit institutions	90 707	49 872
other customers	114 718	200 375
interest	14	37
Total	205 439	250 284

23. DERIVATIVES - HEDGE ACCOUNTING

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 IAS39 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 cash flow in foreign currencies, 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.

The Risk Strategy approved in the Bank defines a general rules for hedging of market risk generated by its commercial activity. External transactions eligible for hedge accounting are pointed in the Strategy just after the natural economic hedge. The Bank applied (as at 31.12.2019) Cash Flow Hedge relations to eliminate the variability of cash flows:

- ✓ on FX denominated mortgage loans and financing them PLN deposits,
- ✓ on PLN denominated mortgage loans,
- ✓ from the portfolio of issued liabilities in PLN,
- ✓ due to future income and interest costs denominated in foreign currencies,
- ✓ on the portfolio of floating-rate foreign currency mortgage loans,

attributable to interest rate risk and currency risk in the time horizon limited to maturity of hedging instruments, presented in **note (23b)**.

In addition, as a result of the merger with Euro Bank S.A. the Bank applied a fair value hedge for a fixed interest rate debt instrument.

The underlying of hedged and hedging items are economically related in a way that they respond in a similar way to the hedged risk, their fair value will offset in response to the market interest and FX rates movements.

The Bank performs the effectiveness tests on a monthly basis, calculates and compares the changes in fair value of hedged and hedging positions. Hedge effectiveness is tested using hypothetical derivative method, hedged items are presented as a hypothetical derivative, for which changes in the fair value are calculated and compared with changes in fair value of hedging instruments. Hedge ineffectiveness can arise from differences in repricing dates of hedged and hedging positions or from designation as hedging item the existing derivative instrument. The Bank designates hedging instruments on their trade date and by this eliminates this source of ineffectiveness. Hedge ineffectiveness reported by the Bank includes amortization of the fair value changes recognized as effective for derivatives classified on their termination date as hedging.

Detailed information on cash flow hedge relations applied by the Bank, items designated as hedged and hedging and presentation of the result (as at 31.12.2019) is shown in a table below:

	Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	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 PLN mortgages. The volatility of cash flows results from interest rate risk.	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 PLN mortgage loan portfolio	Cash flows resulting from the FX mortgage loan portfolio and PLN deposits together with issued debt PLN securities funding them.
Hedging instruments	IRS transactions	CIRS transactions
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.	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 exchange differences. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.
	Hedge of the volatility of cash flows generated by the portfolio of issued PLN liabilities	Cash flow volatility hedge due to future income and interest costs denominated in foreign currencies
Description of hedge transactions	The Bank hedges the risk of fluctuations in cash flows generated by issued PLN liabilities. The volatility of cash flows results from interest rate risk.	The Bank hedges the risk of the volatility of cash flows generated by income and interest costs denominated in foreign currencies. The volatility of cash flows results from the currency risk.
Hedged items	Cash flow resulting from the portfolio of issued zloty liabilities.	Cash flows resulting from income and interest costs denominated in foreign currencies.
Hedging instruments	IRS transactions	FX position resulting from recognized future leasing liabilities.
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. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.	The effective part of the spot revaluation of hedging instruments is recognized in the revaluation reserve. The ineffective part of the valuation of the hedging item is recognized in the income statement as a result on instruments measured at fair value through profit and loss.

	Hedge of the volatility of cash flows generated by the portfolio of floating-rate foreign currency mortgage loans	Fair value hedge of a fixed interest rate debt instrument
Description of hedge transactions	The Bank hedges the currency risk and interest rate risk of cash flows for a portion of the period - over the time horizon of hedging transactions - from floating-rate loans in a foreign currency by converting interest rate flows in foreign currency into zloty flows.	The Bank hedges part of the interest rate risk associated with the change in the fair value of a fixed-rate debt instrument recorded in other comprehensive income, resulting from fluctuations in market interest rate.
Hedged items	Cash flow resulting from the portfolio foreign currency mortgage loans	A portfolio of fixed coupon debt securities classified as financial assets measured at fair value through other comprehensive income denominated in PLN.
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 (swap points settled) are recognised in the interest margin. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.	The result on the change in the fair value measurement of hedged items in the hedged risk is referred to the result on hedge accounting. The remaining part of the change in fair value measurement is recognized in other comprehensive income. Interest on debt securities is recognized in net interest income. The change in fair value measurement of derivative instruments being a hedge is presented in the result on hedge accounting, and interest on these instruments is recognized in the interest result.

23a. Hedge accounting

As at 31.12.2019	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	4 056 194	8 053 048	13 103 887	741 250	(380 312)	37 641	417 953
IRS contracts	280 000	475 000	500 000	0	4 732	4 732	0
FXS contracts	706 197	0	0	0	56	786	730
2. Derivatives used as interest rate hedges related to interest rates							
IRS contracts	0	0	500 000	90 000	(8 164)	0	8 164
3. Total hedging derivatives	5 042 391	8 528 048	14 103 887	831 250	(383 688)	43 159	426 847

31.12.2018	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	2 916 461	4 903 815	18 582 101	912 570	(256 285)	120 526	376 811
IRS contracts	225 000	733 000	480 000	0	4 975	4 975	0
FXS contracts	0	0	0	0	0	0	0
2. Total hedging derivatives	3 141 461	5 636 815	19 062 101	912 570	(251 310)	125 501	376 811

23b. Hedge accounting for cash flow volatility

Hedge relationship	Maximum date of occurrence of cash flows whose value is hedged
Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	2020-11-09
Cash flow volatility hedge for the flows generated by FX mortgage portfolio and its underlying PLN liabilities	2025-01-07
Hedge of the volatility of cash flows generated by the portfolio of issued PLN liabilities	2021-09-02
Cash flow volatility hedge due to future income and interest costs denominated in foreign currencies	2030-04-30
Hedge of the volatility of cash flows generated by the portfolio of floating-rate foreign currency mortgage loans	2020-01-28

The inefficient part of the valuation of hedging instruments recognized in the Profit and Loss Account in 2019 amounted to PLN -19,878 thousand. (in 2018, it was PLN -19,920 thousand, respectively)

The inefficient part of the valuation of hedging instruments recognized in the Profit and loss account and losses was presented in note (8).

23c. Cash flow hedge - Hedged Instruments

Type of contract	Balance sheet item	Changes in fair value used in the calculation of the ineffectiveness in the period	Balance in cash flow hedge reserve for continuing hedges	Balance in cash flow hedge reserve for discontinued hedges
- CIRS	Loans and advances to customers	(17 089)	(21 901)	(11 048)
- IRS	Loans and advances to customers	550	166	0
- FX swap	Loans and advances to customers	(202)	202	0
- FX spot	Loans and advances to customers/liabilities to customers	(2 638)	2 638	0
- IRS	Issued debt securities	(1 155)	1 155	0
Total		(20 534)	(17 739)	(11 048)

23d. Cash flow hedge - Hedging instruments

Type of contract	Changes in fair value used in the calculation of the ineffectiveness in the period	Ineffectiveness recognized in P&L	Amounts reclassified from reserves to results
- CIRS	17 089	(19 191)	0
- IRS	(550)	0	0
- FX swap	202	0	0
- FX spot	2 638	0	0
- IRS	1 213	57	0
Total	20 592	(19 134)	0

23e. Fair value hedge - Hedged instruments

Type of contract	Balance sheet item	Changes in the fair value of the hedged instrument used in the calculation of the ineffectiveness in the period
IRS	Debt instruments valued in other comprehensive income	1 229
Total		1 229

23f. Fair value hedge - Hedging instruments

Type of contract	Changes in the fair value of the hedging instrument used in the calculation of the ineffectiveness in the period	Ineffectiveness recognized in P&L
IRS	(1 112)	117
Total	(1 112)	117

24. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

24a. Investments in related entities

	31.12.2019	31.12.2018
Investments in subsidiaries	88 874	90 084

24b. Change of investments in related entities

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	90 084	84 349
refund of the subsidy to the capital of the subsidiary	(1 000)	0
Liquidation of MB FINANCE AB	(210)	0
investments taken over	0	5 737
FX differences	0	(2)
Balance at the end of the period	88 874	90 084

24c. Investments in related entities as at 31.12.2019

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
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
PIAST EXPERT Sp. z o.o.	marketing services	Tychy	100	100
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50+1share	50+1share
BG LEASING S.A.	leasing services	Gdańsk	74	74

Name	Gross value of shares/ interests	Impairment allowances	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	7 118 434	6 924 848	48 195	142 221	2 505	subordinated
MILLENNIUM DOM MAKLESKI S.A.*	16 500	0	0	188 102	154 016	16 500	11 226	(2 969)	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	0	176 600	111 020	1 000	86 106	35 892	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	1 000	5 710	4 146	500	7 088	(205)	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	366	20	100	1 120	24	subordinated
PIAST EXPERT Sp. z o.o. in liquidation**	5 737	0	0	6 270	530	6 199	245	(459)	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	6 700	(6 700)	0	The company is under liquidation					subordinated
BG LEASING S.A.	900	(900)	0	The company is under bankruptcy					subordinated
TOTAL	95 474	(7 600)	1 000						

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

** data as at 30.09.2019

24d. Investments in related entities as at 31.12.2018

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 MAKLESKI 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
PIAST EXPERT Sp. z o.o.	marketing services	Tychy	100	100
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50+1share	50+1share
BG LEASING S.A.	leasing services	Gdańsk	74	74

Name	Gross value of shares/ interests	Impairment allowances	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	6 761 153	6 548 317	48 195	151 844	39 968	subordinated
MILLENNIUM DOM MAKLESKI S.A.*	16 500	0	0	197 788	154 525	16 500	25 426	10 712	subordinated
MB FINANCE AB **	210	0	0	402	71	210	0	(62)	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	0	88 436	39 428	1 000	127 277	38 171	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	2 000	4 178	1 704	500	4 170	(200)	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	332	13	100	1 016	51	subordinated
PIAST EXPERT Sp. z o.o. in liquidation***	5 737	0	0	6 288	32	100	397	(270)	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation**	6 700	(6 700)	0	The company is under liquidation					subordinated
BG LEASING S.A. bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
TOTAL	95 684	(7 600)	2 000						

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

** data as at 31.05.2018

*** data as at 30.11.2018

25. TANGIBLE FIXED ASSETS

25a. Property, plant and equipment

	31.12.2019	31.12.2018
Land	2 270	2 270
Buildings and premises	68 750	65 825
Machines and equipment	92 076	73 547
Vehicles	10 714	30 522
Other fixed assets	18 779	6 633
Fixed assets under construction	63 102	23 749
Rights to use office space	366 815	0
Total	622 506	202 546

25b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2019 - 31.12.2019

	Land	Buildings and premises	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Rights to use office space	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	2 270	293 964	202 619	37 977	73 234	23 749	0	633 813
a1) initial recognition of rights to use office space	0	0	0	0	0	0	354 652	354 652
b) increases (on account of)	0	14 441	39 891	6 369	15 731	77 418	92 870	246 720
purchase	0	0	0	0	0	65 580	0	65 580
transfer from fixed assets under construction	0	6 904	17 102	0	12 304	0	0	36 310
financial lease	0	897	466	6 369	388		30 396	38 516
unpaid investments	0	0	0	0	0	10 721	0	10 721
Merger with z Euro Bank S.A.	0	6 640	22 322	0	3 038	1 117	62 474	95 592
c) reductions (on account of)	0	7 546	12 195	22 539	9 518	38 065	3 295	93 158
sale	0	0	59	0	26	0	0	85
liquidation	0	3 828	8 451	0	8 509	0	3 295	24 083
settlement of fixed assets under construction	0	0	0	0	0	38 065	0	38 065
financial lease	0	3 718	3 685	22 539	983	0	0	30 926
d) gross value of property, plant and equipment at the end of the period	2 270	300 860	230 315	21 807	79 446	63 102	444 227	1 142 027
e) cumulated depreciation (amortization) at the beginning of the period	0	219 406	129 072	7 455	66 601	0	0	422 534
f) depreciation over the period (on account of)	0	3 848	9 167	3 638	(5 934)	0	77 412	88 131
current write-off (P&L)	0	11 305	21 166	4 605	3 538	0	78 519	119 133
reductions on account of sale	0	0	(4)	0	(26)	0	0	(30)
reductions on account of liquidation	0	(3 690)	(8 332)		(8 463)	0	(1 107)	(21 592)
financial lease	0	(3 768)	(3 663)	(967)	(983)	0	0	(9 381)
g) cumulated depreciation (amortization) at the end of the period	0	223 254	138 239	11 093	60 667	0	77 412	510 665
h) impairment allowances at the beginning of the period	0	8 733	0	0	0	0	0	8 733
creation of allowances	0	123	0	0	0	0	0	123
release of allowances	0	0	0	0	0	0	0	0
i) impairment allowances at the end of the period	0	8 856	0	0	0	0	0	8 856
j) net value of property, plant and equipment at the end of the period	2 270	68 750	92 076	10 714	18 779	63 102	366 815	622 506
including assets used based on leasing agreements	0	14 072	27 559	10 714	2 929	50	366 815	422 139

25c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2018 - 31.12.2018

	Land	Buildings and premises	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 261	290 357	190 549	38 177	74 500	15 502	610 346
b) increases (on account of)	1 009	14 728	28 990	5 136	2 942	48 394	101 199
purchase	0	0	0	0	0	37 781	37 781
transfer from fixed assets under construction	0	3 693	20 777	0	1 069	0	25 539
financial lease	0	5 264	7 478	5 022	1 837	0	19 601
unpaid investments	0	0	0	0	0	10 613	10 613
other (incl. SKOK Piast conveyance)	1 009	5 771	735	114	36	0	7 665
c) reductions (on account of)	0	11 121	16 920	5 336	4 208	40 147	77 732
sale	0	0	0	0	0	0	0
liquidation	0	7 364	12 452	0	2 709	0	22 525
settlement of fixed assets under construction	0	0	0	0	0	40 147	40 147
financial lease	0	3 757	4 468	5 336	1 499	0	15 060
other	0	0	0	0	0	0	0
d) gross value of property, plant and equipment at the end of the period	2 270	293 964	202 619	37 977	73 234	23 749	633 813
e) cumulated depreciation (amortization) at the beginning of the period	0	219 018	129 501	6 386	68 465	0	423 370
f) depreciation over the period (on account of)	0	388	(429)	1 069	(1 864)	0	(836)
current write-off (P&L)	0	11 502	16 512	4 070	2 334	0	34 418
reductions on account of sale	0	0	0	0	0	0	0
reductions on account of liquidation	0	(7 364)	(12 447)	0	(2 700)	0	(22 511)
financial lease	0	(3 750)	(4 494)	(3 001)	(1 498)	0	(12 743)
transfer	0	0	0	0	0	0	0
g) cumulated depreciation (amortization) at the end of the period	0	219 406	129 072	7 455	66 601	0	422 534
h) impairment allowances at the beginning of the period	0	8 733	0	0	0	0	8 733
creation of allowances	0	0	0	0	0	0	0
release of allowances	0	0	0	0	0	0	0
i) impairment allowances at the end of the period	0	8 733	0	0	0	0	8 733
j) net value of property, plant and equipment at the end of the period	2 270	65 825	73 547	30 522	6 633	23 749	202 546
including assets used based on financial leasing agreements	0	19 696	33 153	30 409	4 313	1 277	88 848

26. INTANGIBLE FIXED ASSETS

26a. Intangible fixed assets

	31.12.2019	31.12.2018
Goodwill due to merger with Euro Bank S.A.	162 757	0
Other intangible fixed assets:	169 221	84 850
concessions, patents, licenses, know-how and similar assets	17 673	12 325
computer software	37 913	72 525
other	24 247	0
advances for intangible assets	89 388	0
Total	331 978	84 850

26b. Change of balance of intangible fixed assets (by type groups) in the period 01.01.2019 - 31.12.2019

	concessions, patents, licenses, know-how and similar assets	computer software	other	advances for intangible assets	TOTAL
a) gross value of intangible fixed assets at the beginning of the period	30 606	296 153	0	0	326 759
b) increases (on account of)	11 770	26 924	27 986	113 086	179 767
purchase	0	0	0	57 121	57 121
unpaid investments	0	0	0	11 605	11 605
reclassification of outlays on advance payments software	0	0	0	41 833	41 833
Merger with Euro Bank S.A.	248	15 206	27 986	2 527	45 967
Investment settlement	11 522	11 718	0	0	23 240
c) reductions (on account of)	0	43 495	1 922	23 698	69 114
liquidation	0	1 659	1 922	0	3 581
reclassification of outlays on advance payments software	0	41 833	0	0	41 833
settlement of advances	0	0	0	23 290	23 290
other	0	2	0	408	410
d) gross value of intangible fixed assets at the end of the period	42 376	279 582	26 065	89 388	437 411
e) cumulated depreciation at the beginning of the period	18 281	223 628	0	0	241 909
f) depreciation over the period (on account of)	6 422	18 042	1 817	0	26 281
current write-off (P&L)	6 570	18 071	1 934	0	26 575
liquidation	0	(166)	(117)	0	(283)
other	(148)	137	0	0	(11)
g) cumulated depreciation at the end of the period	24 703	241 670	1 817	0	268 190
h) impairment allowances at the beginning of the period	0	0	0	0	0
i) impairment allowances at the end of the period	0	0	0	0	0
j) net value of intangible fixed assets at the end of the period	17 673	37 913	24 247	89 388	169 221

26c. Change of balance of intangible fixed assets (by type groups) in the period 01.01.2018 - 31.12.2018

	concessions, patents, licenses, know-how and similar assets	computer software	TOTAL
a) gross value of intangible fixed assets at the beginning of the period	23 503	269 856	293 359
b) increases (on account of)	7 103	26 297	33 400
purchase	7 079	11 285	18 364
unpaid investments	0	14 771	14 771
SKOK Piast conveyance	24	212	236
other	0	29	29
c) reductions (on account of)	0	0	0
liquidation	0	0	0
other	0	0	0
d) gross value of intangible fixed assets at the end of the period	30 606	296 153	326 759
e) cumulated depreciation at the beginning of the period	11 504	213 568	225 072
f) depreciation over the period (on account of)	6 777	10 060	16 837
current write-off (P&L)	6 777	10 060	16 837
liquidation	0	0	0
g) cumulated depreciation at the end of the period	18 281	223 628	241 909
h) impairment allowances at the beginning of the period	0	0	0
i) impairment allowances at the end of the period	0	0	0
j) net value of intangible fixed assets at the end of the period	12 325	72 525	84 850

27. DEFERRED INCOME TAX ASSETS

27a. Deferred income tax assets and liability

	31.12.2019			31.12.2018		
	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	1 659	(2 345)	(686)	1 726	0	1 726
Balance sheet valuation of financial instruments	84 191	(106 710)	(22 519)	75 827	(98 752)	(22 925)
Unrealised receivables/ liabilities on account of derivatives	13 753	(20 117)	(6 364)	10 395	(19 103)	(8 708)
Interest on deposits and securities to be paid/ received	33 268	(60 770)	(27 502)	19 969	(36 887)	(16 918)
Interest and discount on loans and receivables	0	(73 860)	(73 860)	0	(47 342)	(47 342)
Income and cost settled at effective interest rate	180 305	0	180 305	89 058	0	89 058
Impairment of loans presented as temporary differences	321 341	0	321 341	201 320	0	201 320
Employee benefits	20 140	0	20 140	14 946	0	14 946
Rights to use	5 971	0	5 971	0	0	0
Provisions for future costs	19 408	0	19 408	21 726	0	21 726
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	6 082	(21 762)	(15 680)	13 525	(30 756)	(17 231)
Other	6 123	(1 265)	4 858	5 825	(3 614)	2 211
Total	692 241	(286 829)	405 412	454 317	(236 454)	217 863
Net deferred income tax asset			91 745			53 013

27b. Change of temporary differences

	31.12.2018	Adjustments to previous years	Changes to financial result	Changes to equity	31.12.2019
Difference between tax and balance sheet depreciation	1 726		(2 412)		(686)
Balance sheet valuation of financial instruments	(22 925)		406		(22 519)
Unrealised receivables/ liabilities on account of derivatives	(8 708)		2 344		(6 364)
Interest on deposits and securities to be paid/received	(16 918)		(10 584)		(27 502)
Interest and discount on loans and receivables	(47 342)		(26 518)		(73 860)
Income and cost settled at effective interest rate	89 058		91 247		180 305
Impairment of loans presented as temporary differences	201 320		120 021		321 341
Employee benefits	14 946		5 194		20 140
Rights to use	0		5 971		5 971
Provisions for future costs	21 726		(2 318)		19 408
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	(17 231)			1 551	(15 680)
Other	2 211	152 694	(150 047)		4 858
Total	217 863	152 694	33 304	1 551	405 412

27c. Change of temporary differences

	31.12.2017	Impact of the implementation of IFRS9 and other previous years adjustment	Changes to financial result	Changes to equity	31.12.2018
Difference between tax and balance sheet depreciation	4 012	0	(2 286)	0	1 726
Balance sheet valuation of financial instruments	(23 108)	0	183	0	(22 925)
Unrealised receivables/ liabilities on account of derivatives	(11 771)	0	3 063	0	(8 708)
Interest on deposits and securities to be paid/ received	(7 543)	0	(9 375)	0	(16 918)
Interest and discount on loans and receivables	(28 062)	0	(19 280)	0	(47 342)
Income and cost settled at effective interest rate	82 892	0	6 166	0	89 058
Impairment of loans presented as temporary differences	133 150	0	68 170	0	201 320
Employee benefits	14 349	0	597	0	14 946
Provisions for future costs	16 883	0	4 843	0	21 726
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	8 228	(3 442)	0	(22 017)	(17 231)
Tax loss deductible in the future	1 672	43 460	(42 921)	0	2 211
Other	190 702	40 018	9 160	(22 017)	217 863

27d. Change of deferred income tax

	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Difference between tax and balance sheet depreciation	(2 412)	(2 286)
Balance sheet valuation of financial instruments	406	183
Unrealised receivables/ liabilities on account of derivatives	2 344	3 063
Interest on deposits and securities to be paid/ received	(10 584)	(9 375)
Interest and discount on loans and receivables	(26 518)	(19 280)
Income and cost settled at effective interest rate	91 247	6 166
Impairment of loans presented as temporary differences	120 021	68 170
Employee benefits	5 194	597
Rights to use	5 971	0
Provisions for future costs	(2 318)	4 843
Other	(150 047)	(42 921)
Change of deferred income tax recognized in financial result	33 304	9 160
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	1 551	(22 017)

27e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2019	31.12.2018
Unlimited	12 125	12 125
Total	12 125	12 125

The value of negative temporary differences presented in the above table was recalculated with the valid tax rate.

In accordance with IAS 12, the Bank offset deferred income tax assets with deferred income tax liabilities.

	31.12.2019	31.12.2018
Net deferred income tax assets	405 412	217 863
Net deferred income tax provision	-	-
TOTAL	405 412	217 863

28. OTHER ASSETS

	31.12.2019	31.12.2018
Expenses to be settled	84 062	71 168
Income to be received	26 204	34 483
Interbank settlements	173	3 355
Settlements of financial instruments transactions	6 484	94 272
Receivables from sundry debtors	137 505	118 430
Public and legal settlements	7 689	368
Total other assets (gross)	262 117	322 076
Impairment allowances	(12 669)	(8 059)
Total other assets (net)	249 448	314 017
▪ including other financial assets*	157 697	242 481
▪ including long-term other assets	5 591	19 932

* other financial assets includes all of the remaining other net assets excluding the Expenses to be settled and Public and legal settlements and Other items

29. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

As at December 31, 2019 and December 31, 2018, the Bank did not classify any assets to the Non-current asset held for sale.

30. FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2019	31.12.2018
Negative valuation of derivatives	149 963	103 730
Adjustment due to fair value hedge	776	4 149
Short sale of securities	202 265	123 754
Financial liabilities valued at fair value through profit and loss	353 004	231 633

The division of the negative valuation of derivatives into specific types of instruments is presented in note (18).

31. LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

31a. Liabilities to banks and other monetary institutions

	31.12.2019	31.12.2018
In current account	91 893	105 472
Term deposits	320 346	455 297
Loans and advances received	436 516	494 267
Interest	697	672
Total	849 452	1 055 708

31b. Liabilities to banks and other monetary institutions by maturity

	31.12.2019	31.12.2018
Current accounts	91 893	105 472
▪ to 1 month	245 614	259 320
▪ above 1 month to 3 months	64 614	183 289
▪ above 3 months to 1 year	411 634	40 098
▪ above 1 year to 5 years	35 000	466 857
▪ above 5 years	0	0
Interest	697	672
Total	849 452	1 055 708

31c. Liabilities to banks and other monetary institutions by currency

	31.12.2019	31.12.2018
in Polish currency	287 332	370 025
in foreign currencies (after conversion to PLN)	562 120	685 683
▪ currency: USD	1 697	26
▪ currency: EUR	442 835	543 781
▪ currency: CHF	117 588	141 876
▪ other currencies	0	0
Total	849 452	1 055 708

32. LIABILITIES TO CUSTOMERS

32a. Structure of liabilities to customers by type

	31.12.2019	31.12.2018
Amounts due to private individuals	60 954 586	47 595 833
Balances on current accounts	43 582 731	32 661 502
Term deposits	17 138 725	14 834 473
Other	125 991	30 342
Accrued interest	107 139	69 516
Amounts due to companies	18 570 199	15 880 094
Balances on current accounts	9 860 848	8 456 932
Term deposits	8 255 374	7 133 063
Other	426 172	275 096
Accrued interest	27 805	15 003
Amounts due to public sector	2 112 732	2 923 844
Balances on current accounts	1 776 811	1 374 010
Term deposits	327 891	1 546 384
Other	7 692	2 153
Accrued interest	338	1 297
Total	81 637 517	66 399 771

32b. Liabilities to customers by maturity

	31.12.2019	31.12.2018
Current accounts	55 220 390	42 492 444
to 1 month	8 882 679	8 527 402
above 1 month to 3 months	6 638 658	6 407 883
above 3 months to 1 year	8 790 982	7 502 247
above 1 year to 5 years	1 943 064	1 367 197
above 5 years	26 461	16 782
Interest	135 282	85 816
Total	81 637 517	66 399 771

32c. Liabilities to customers by currency

	31.12.2019	31.12.2018
in Polish currency	74 180 533	59 372 695
in foreign currencies (after conversion to PLN)	7 456 984	7 027 076
▪ currency: USD	1 606 003	1 711 930
▪ currency: EUR	5 260 787	4 712 873
▪ currency: GBP	313 169	309 252
▪ currency: CHF	118 301	115 415
▪ other currencies	158 724	177 606
Total	81 637 517	66 399 771

33. SALE AND REPURCHASE AGREEMENTS

Liabilities from securities sold with buy-back clause

	31.12.2019	31.12.2018
a) to the Central Bank	0	0
b) to banks	90 705	50 322
c) to customers	0	0
d) interest	7	2
Total	90 712	50 324

34. DEBT SECURITIES ISSUED

34a. Liabilities from debt securities

	31.12.2019	31.12.2018
Outstanding bonds and bills	550 000	300 000
Bank Securities	451 452	318 119
Interest	2 205	1 838
Total	1 003 657	619 957

34b. Liabilities from debt securities by final legal maturity

	31.12.2019	31.12.2018
▪ to 1 month	0	2 025
▪ above 1 month to 3 months	25 111	24 061
▪ above 3 months to 1 year	474 395	59 698
▪ above 1 year to 5 years	501 946	532 335
▪ above 5 years	0	0
Interest	2 205	1 838
Total	1 003 657	619 957

34c. Change of debt securities

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	619 957	879 019
Increases, on account of:	754 271	199 225
issue of Banking Securities	233 927	183 339
merger with Euro Bank S.A.	503 831	0
issue of bonds	0	141
interest accrual	16 513	15 745
Reductions, on account of:	(370 571)	(458 287)
repurchase of Banking Securities	(100 594)	(112 470)
repurchase of bonds	(250 000)	(330 000)
interest payment	(19 977)	(15 817)
Balance at the end of the period	1 003 657	619 957

34d. Debt securities by type

Banking securities and debt securities issued by the Bank

As at 31.12.2019	Balance sheet value	Final legal maturity	Market
BPW_2021/07	9 694	2021-07-22	-
BPW_2021/07A	12 253	2021-07-22	-
BPW_2021/06	12 255	2021-06-30	-
BPW_2021/06B	15 057	2021-06-30	-
BPW_2021/06A	11 806	2021-06-28	-
BPW_2021/05A	9 454	2021-05-31	-
BPW_2021/05B	26 616	2021-05-31	-
BPW_2021/05	6 477	2021-05-28	-
BPW_2021/04	7 515	2021-04-30	-
BPW_2021/04A	29 733	2021-04-30	-
BPW_2021/03B	8 627	2021-03-29	-
BPW_2021/03C	28 348	2021-03-29	-
BPW_2021/03	23 010	2021-03-01	-
BPW_2021/03A	15 536	2021-03-01	-
BPW_2021/01	35 565	2021-01-29	-
BPW_2020/12	3 682	2020-12-31	-
BPW_2020/12A	24 555	2020-12-31	-
BPW_2020/11	6 974	2020-11-30	-
BPW_2020/11A	14 945	2020-11-30	-
BPW_2020/11B	6 639	2020-11-30	-
BPW_2020/10A	17 610	2020-10-31	-
BPW_2020/10B	11 911	2020-10-31	-
BPW_2020/10	4 291	2020-10-30	-
BPW_2020/09	3 181	2020-09-29	-
BPW_2020/09A	18 816	2020-09-28	-
BPW_2020/09B	12 603	2020-09-28	-
BPW_2020/09C	7 939	2020-09-28	-
BPW_2020/08	1 039	2020-08-31	-
BPW_2020/07	3 138	2020-07-31	-
BPW_2020/07A	16 686	2020-07-31	-
BPW_2020/06	2 381	2020-06-30	-
BPW_2020/05	1 807	2020-05-29	-
BPW_2020/04A	15 498	2020-04-30	-
BPW_2020/04	701	2020-04-28	-
BPW_2020/03	4 764	2020-03-31	-
BPW_2020/03A	10 119	2020-03-30	-
BPW_2020/02	7 180	2020-02-28	-
BPW_2020/02A	3 047	2020-02-28	-
BKMO_210420T	301 651	2020-04-21	Catalyst (ASO BondSpot, ASO GPW)
EBK_011221C	250 554	2021-12-01	-
Total	1 003 657		

Redemption of Banking Securities (BPW) shall be made by means of payment on redemption date of the settlement amount, which is calculated on the date of determination of the settlement amount with use of formulas indicated in terms and conditions of the issue. Calculation of the settlement amount is made on the basis of financial or commodity market ratios.

Bond redemption (BKMO) will take place on the day of redemption by paying the nominal value of the bonds. Interest on coupon bonds of two series is calculated on their notional value and is payable semi-annually on interest payment dates. As at December 31, 2019, the interest balance was PLN 1,651 thousand.

Coupon bonds are, as at December 31, 2019, 3-year bonds of Bank Millennium T series (with a nominal value of PLN 300 million). These bonds are listed on the Catalyst platform in the alternative trading system operated by BondSpot S.A. (ASO BondSpot) and in the alternative trading system operated by the Warsaw Stock Exchange S.A. (ASO GPW).

In addition, as at 31/12/2019, the Bank, in connection with the merger with Euro Bank S.A., showed a liability under bonds issued by Euro Bank S.A. with a nominal value of PLN 250 million. The balance of interest accrued on these liabilities was PLN 554 thousand.

34d. Debt securities by type

Banking securities and debt securities issued by the Bank

As at 31.12.2018	Balance sheet value	Final legal maturity	Market
BPW_2019/01,A	2 212	2019-01-03,31	-
BPW_2019/03,A,B	24 061	2019-03-01,29	-
BPW_2019/04,A	13 089	2019-04-30	-
BPW_2019/05	11 625	2019-05-31	-
BPW_2019/06A	8 967	2019-06-28	-
BPW_2019/07	10 975	2019-07-31	-
BPW_2019/08	6 886	2019-08-30	-
BPW_2019/09	8 157	2019-09-30	-
BPW_2020/02	7 212	2020-02-28	-
BPW_2020/03	8 439	2020-03-31	-
BPW_2020/04	2 360	2020-04-28	-
BPW_2020/05	3 283	2020-05-29	-
BPW_2020/06	2 766	2020-06-30	-
BPW_2020/07	3 098	2020-07-31	-
BPW_2020/08	2 710	2020-08-31	-
BPW_2020/09	3 322	2020-09-29	-
BPW_2020/10	4 564	2020-10-30	-
BPW_2020/11	7 879	2020-11-30	-
BPW_2020/12	3 637	2020-12-31	-
BPW_2020/02A	3 116	2020-02-28	-
BPW_2020/03A	10 390	2020-03-30	-
BPW_2020/04A	15 634	2020-04-30	-
BPW_2021/05	6 490	2021-05-28	-
BPW_2021/06A	11 909	2021-06-28	-
BPW_2020/07A	17 039	2020-07-31	-
BPW_2020/09A,B,C	40 323	2020-09-28	-
BPW_2020/10A,B	30 784	2020-10-31	-
BPW_2020/11A,B	22 282	2020-11-30	-
BPW_2020/12A	25 097	2020-12-31	-
BKMO_210420T	301 651	2020-04-21	Catalyst (ASO BondSpot, ASO GPW)
Total	619 957		

Redemption of Banking Securities (BPW) shall be made by means of payment on redemption date of the settlement amount, which is calculated on the date of determination of the settlement amount with use of formulas indicated in terms and conditions of the issue. Calculation of the settlement amount is made on the basis of financial or commodity market ratios.

Bond redemption (BKMO) will take place on the day of redemption by paying the nominal value of the bonds. Interest on coupon bonds of two series is calculated on their notional value and is payable semi-annually on interest payment dates. As at December 31, 2018, the interest balance was PLN 1,651 thousand.

Coupon bonds are, as at 31/12/2018, 3-year bonds of Bank Millennium T series (with a nominal value of PLN 300 million) and 3-year bonds of Bank Millennium T series (with a nominal value of PLN 300 million). These bonds are listed on the Catalyst platform in the alternative trading system operated by BondSpot S.A. (ASO BondSpot) and in the alternative trading system operated by the Warsaw Stock Exchange S.A. (ASO GPW).

35. SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2019	31.12.2018
Amount of subordinated bonds inn - BKMO_071227R	700 000	700 000
Currency	PLN	PLN
Interest rate	4.090%	4.090%
Maturity	07.12.2027	07.12.2027
Interest	1 883	1 883
Amount of subordinated bonds PLN in PLN - BKMO_300129W	830 000	-
Currency	PLN	-
Interest rate	4.090%	-
Maturity	30.01.2029	-
Interest	14 322	-
Balance sheet value of subordinated debt	1 546 205	701 883

The Management Board of the Bank on 17 January 2019 took the decision in the matter of issue by Bank on 30 January 2019, under provisions of the Act of 15 January 2015 on bonds, subordinated bonds W-series. Bonds were issued by Bank under the existing Third Bond Issue Program, approved in 2015, with nominal value not greater than PLN 3,000,000,000 (or the equivalent of this amount in EUR, USD or CHF).

On 30th January 2019 the issue of 1,660 series W subordinated bonds of the Bank was settled. All bonds in the total amount of PLN 830,000,000 were acquired by bondholders.

Maturity of the bonds is on 30th January 2029. The issuer may decide to redeem the bonds on 31st January 2024 only after obtaining prior assent of Polish Financial Supervision Authority for earlier redemption of the bonds, if such assent is required. The interest rate on the bonds is variable, based on WIBOR 6M plus a margin of 2.30% per annum.

The bonds constitute instruments in the Bank's Tier 2 capital in the meaning of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

35b. Change of subordinated debt

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	701 883	701 971
Increases, on account of:	889 880	28 656
issue of subordinated bonds	830 000	0
interest accrual	59 880	28 656
FX rates differences	0	0
Reductions, on account of:	(45 558)	(28 744)
redemption of subordinated bonds	0	0
interest payment	(45 558)	(28 744)
FX rates differences	0	0
Balance at the end of the period	1 546 205	701 883

During 2019 and 2018 the Bank did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

36. PROVISIONS

36a. Provisions

	31.12.2019	31.12.2018
Provision for commitments and guarantees given	53 856	52 248
Provision for pending legal issues	250 433	59 797
Total	304 289	112 045

36b. Change of Provision for commitments and guarantees given

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	52 248	21 720
Adjustment of the opening balance due to the implementation of IFRS 9	0	23 829
Adjusted balance at the beginning of the period	52 248	45 549
Charge of provision	70 581	61 333
Release of provision	(70 220)	(54 804)
Merger with Euro Bank S.A.	1 281	0
FX rates differences	(34)	170
Balance at the end of the period	53 856	52 248

36c. Change of Provision for pending legal issues

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	59 797	45 118
Charge of provision	7 311	7 541
Release of provision	(14 318)	(808)
Utilisation of provision	(27 876)	(4 212)
Creation of provision for legal risk connected with FX mortgage loans	223 134	0
Merger with Euro Bank S.A.	602	0
Reclassification	1 783	12 158
Balance at the end of the period	250 433	59 797

37. DEFERRED INCOME TAX LIABILITIES

	31.12.2019	31.12.2018
Deferred income tax provision	0	0

38. OTHER LIABILITIES

38a. Other liabilities

	31.12.2019	31.12.2018
Short-term	1 385 929	1 419 455
Accrued costs - bonuses, salaries	49 501	37 770
Accrued costs - other	168 827	158 531
Provisions for return of insurance fees	354 416	233 907
Interbank settlements	247 285	271 435
Provisions for potential return of fees in the event of early repayment of the loan	63 918	0
Settlement of transactions on financial instruments	32 052	24 890
Other creditors	266 505	615 782
Liabilities due to leases	114 933	16 803
Liabilities to public sector	14 106	12 422
Deferred income	45 546	31 972
Provisions for unused employee holiday	24 212	12 520
Provisions for retirement benefits	3 103	2 898
Other	1 525	525
Long-term	499 032	158 568
Provisions for retirement benefits	29 625	21 298
Accrued costs	0	899
Commitment to pay - BGF*	90 727	55 961
Liabilities due to leases	362 527	73 618
Accrued costs	16 153	6 792
Total	1 884 961	1 578 023
including other financial liabilities**	1 314 723	1 242 337

* The Bank uses the option of contributing some of the fees paid to the BGF in the form of a payment obligation, which involves recognizing a commitment to pay and simultaneously recording encumbered assets in the form of debt securities held on a separate account created for this purpose.

** other financial liabilities includes all of the other liabilities excluding the Liabilities to public sector, Deferred income, Provisions for return, Commitment to pay - BGF, and other items

38b. Liabilities from lease

	31.12.2019	31.12.2018
Liabilities from lease (gross)	506 862	96 928
Unrealised financial costs	(29 402)	(6 507)
Current value of minimum lease instalments	477 460	90 421
Liabilities from lease (gross) by maturity		
Under 1 year	123 710	18 903
From 1 year to 5 years	250 995	61 672
Above 5 years	132 157	16 353
Total	506 862	96 928
Liabilities from lease (net) by maturity		
Under 1 year	114 933	16 803
From 1 year to 5 years	235 893	58 091
Above 5 years	126 634	15 527
Total	477 460	90 421

38c. Change of provisions for unused employee holiday

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	12 520	11 576
SKOK PIAST conveyance	0	405
Charge of provisions/ reversal of provisions	62	836
Merger with Euro Bank S.A.	12 330	0
Utilisation of provisions	(700)	(297)
Balance at the end of the period	24 212	12 520

38d. Change of provisions for retirement benefits

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	24 196	21 207
SKOK PIAST conveyance	0	83
Charge of provisions/ reversal of provisions	8 996	3 607
Merger with z Euro Bank S.A.	438	0
Utilisation of provisions/ reclassification of provision	(1 411)	(807)
Actuarial gains (losses)	509	106
Balance at the end of the period	32 728	24 196

39. EQUITY

39a. 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 (PLN)	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 a conversion of 200 registered shares into the bearer shares. As a consequence number of registered shares as of 31.12.2019 amounted to 107 840, of which 61 600 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, 2019. 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 27 August 2019.

In case of Nationale-Nederlanden OFE, PZU "Złota Jesień" OFE and AVIVA Santander OFE Aviva Santander 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 31 December 2019 (published on the websites, respectively: www.nn.pl, www.pzu.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 5.8339 PLN.

The largest shareholders of the Group's parent entity - the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

<i>Shareholder</i>	<i>Number of shares</i>	<i>% share in share capital</i>	<i>Number of votes</i>	<i>% share in votes at Shareholders' Meeting</i>
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	100 000 368	8.24	100 000 368	8.24
Aviva Otwarty Fundusz Emerytalny Aviva Santander	76 760 317	6.33	76 760 317	6.33
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	67 593 025	5.57	67 593 025	5.57

<i>Shareholder</i>	<i>Number of shares</i>	<i>% share in share capital</i>	<i>Number of votes</i>	<i>% share in votes at Shareholders' Meeting</i>
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	105 018 325	8.66	105 018 325	8.66
Aviva Otwarty Fundusz Emerytalny Aviva Santander	76 301 553	6.29	76 301 553	6.29
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	68 043 397	5.61	68 043 397	5.61

39b. Accumulated other comprehensive income

Other comprehensive income arises on the recognition of:

- effect of valuation (at fair value) of financial assets FVTOCI in the net amount, i.e. after having accounted for deferred tax. These values are taken off revaluation reserve at the moment of excluding the valued assets from the books of account - in full or in part or at the moment of recognising impairment (the effect of valuation is then put through the profit and loss account), the effect on capital instruments valuation is not transferred to the profit and loss account.

- effect of valuation (at fair value) of derivatives hedging cash flows in the net amount, i.e. having accounted for deferred tax. Revaluation reserve records such part of profits or losses connected with the derivatives hedging cash flows which is an effective hedge, while the ineffective part of the profits or losses connected with such hedging instrument is recognised 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) of employees, the discount rate, the rate of wage growth. These values are not reclassified to the profit and loss account.

Accumulated other comprehensive income

	31.12.2019	31.12.2018
Effect of valuation (gross)	82 529	90 689
Deferred income tax	(15 681)	(17 232)
Net effect of valuation	66 848	73 457

The sources of revaluation reserve are as follows (data in PLN thousand):

Revaluation reserve on FVTOCI assets 1.01.2019 - 31.12.2019

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	161 875	(30 756)	131 119
Transfer to income statement of the period as a result of sale	(39 741)	7 551	(32 190)
Change connected with maturity of securities	(1 674)	318	(1 356)
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	(6 093)	1 158	(4 935)
Profit/loss on revaluation of FVTOCI shares, recognized in equity	172	(33)	139
Revaluation reserve at the end of the period	114 539	(21 762)	92 777

Revaluation reserve on available for sale financial assets 1.01.2018 - 31.12.2018

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	69 651	(13 233)	56 418
Adjustment of the opening balance due to the implementation of IFRS 9	18 114	(3 442)	14 672
Adjusted balance at the beginning of the period	87 765	(16 675)	71 090
Transfer to income statement of the period as a result of sale	(18 897)	3 590	(15 307)
Change connected with maturity of securities	(5 188)	986	(4 202)
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	95 101	(18 069)	77 032
Profit/loss on revaluation of FVTOCI shares, recognized in equity	3 094	(588)	2 506
Revaluation reserve at the end of the period	161 875	(30 756)	131 119

Revaluation reserve on cash flows hedge financial instruments 1.01.2019 - 31.12.2019

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(68 570)	13 028	(55 542)
Gains or losses on valuation of financial instruments recognized in equity	20 494	(3 894)	16 600
Transfer to income statement during period	19 191	(3 646)	15 545
Revaluation reserve at the end of the period	(28 885)	5 488	(23 397)

Revaluation reserve on cash flows hedge financial instruments 1.01.2018 - 31.12.2018

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(110 446)	20 984	(89 462)
Gains or losses on valuation of financial instruments recognized in equity	21 956	(4 171)	17 785
Transfer to income statement during period	19 920	(3 785)	16 135
Revaluation reserve at the end of the period	(68 570)	13 028	(55 542)

Revaluation reserve due to actuarial gains (losses) 1.01.2019 - 31.12.2019

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(2 616)	496	(2 120)
Change in the obligations arising from the provision for retirement benefits	(509)	97	(412)
Revaluation reserve at the end of the period	(3 125)	593	(2 532)

Revaluation reserve due to actuarial gains (losses) 1.01.2018 - 31.12.2018

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(2 510)	476	(2 034)
Change in the obligations arising from the provision for retirement benefits	(106)	20	(86)
Revaluation reserve at the end of the period	(2 616)	496	(2 120)

39c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2019	374 957	4 611 408	228 902	486 887	5 702 154
Merger with Euro Bank S.A.	0	0	0	(39 956)	(39 956)
appropriation of profit, including:					
transfer to reserve capital	0	486 887	0	(486 887)	0
net profit/ (loss) of the period	0	0	0	600 683	600 683
Retained earnings at the end of the period 31.12.2019	374 957	5 098 295	228 902	560 727	6 262 881

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2018	374 957	3 962 463	228 902	648 945	5 215 267
adjustment of the opening balance due to the implementation of IFRS 9	0	0	0	(235 413)	(235 413)
Retained earnings at the beginning of the period after adjustment	374 957	3 962 463	228 902	413 532	4 979 854
appropriation of profit, including:					
transfer to reserve capital	0	648 945	0	(648 945)	0
net profit/ (loss) of the period	0	0	0	722 300	722 300
Retained earnings at the end of the period 31.12.2018	374 957	4 611 408	228 902	486 887	5 702 154

40. FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

31.12.2019	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	338 008	64 754	415 058	37 781	0	855 601
Deposits from customers	64 391 549	7 135 572	11 365 359	14 058 059	26 465	96 977 004
Liabilities from securities sold with buy-back clause	90 719	0	0	0	0	90 719
Debt securities	0	25 111	479 169	514 477	0	1 018 757
Subordinated debt	14 323	1 883	46 372	250 308	1 769 227	2 082 113
Liabilities from trading derivatives - notional value	2 736 887	2 031 288	3 736 975	4 266 598	54 197	12 825 945
Liabilities from hedging derivatives - notional value	825 047	1 866 553	4 573 856	6 625 395	392 130	14 282 981
Commitments granted - financial	9 939 514	0	0	0	0	9 939 514
Commitments granted - guarantee	2 512 533	0	0	0	0	2 512 533
TOTAL	80 848 580	11 125 161	20 616 789	25 752 618	2 242 019	140 585 167

31.12.2018	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	365 362	183 289	43 238	474 255	0	1 066 144
Deposits from customers	51 047 517	6 447 314	7 573 618	1 390 705	16 782	66 475 936
Liabilities from securities sold with buy-back clause	50 328	0	0	0	0	50 328
Debt securities	2 211	24 061	68 137	536 486	0	630 895
Subordinated debt	0	0	28 787	114 520	814 520	957 827
Liabilities from trading derivatives - notional value	3 073 790	1 702 979	3 523 023	1 755 409	148 751	10 203 952
Liabilities from hedging derivatives - notional value	1 082 316	612 075	9 869 905	3 185 710	477 075	15 227 081
Commitments granted - financial	8 424 532	0	0	0	0	8 424 532
Commitments granted - guarantee	2 193 385	0	0	0	0	2 193 385
TOTAL	66 239 441	8 969 718	21 106 708	7 457 085	1 457 128	105 230 080

14. Supplementary Information

14.1. 2019 DIVIDEND

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

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

Regardless of the above, taking into consideration the acquisition and subsequent merger with Euro Bank S.A. conducted in 2019 (without a share issue), the Bank intends to retain all of its 2019 net profit in own funds in order to strengthen capital ratios. Therefore, the Management Board of the Bank will submit to Annual General Meeting a proposal of full retention of 2019 net profit.

If the proposal to retain the entire net profit for 2019 is accepted by the General Meeting of Shareholders, the positive impact on the T1 and TCR ratio will be approximately 0.4-0.5 p.p. (to levels 17.4% and 20.6% for Group, respectively). It should be reminded that capital ratios as of end 2019 already incorporated the 1st half 2019 net profit, according to positive decision of KNF upon the Bank's request.

14.2. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2019 following assets of the Bank constituted collateral of liabilities (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0121	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 453
2.	Treasury bonds WZ0121	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	358 000	362 002
3.	Central Bank bills NBP_030120	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	51 750	51 746
4.	Central Bank bills NBP_030120	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	51 250	51 246
5.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	7 243	7 243
6.	Cash	receivables	Settlement on transactions concluded	1 518	1 518
7.	Deposits	Deposits in banks	Settlement on transactions concluded	345 035	345 035
TOTAL				944 796	950 243

Additionally, as at December 31, 2019, the Bank had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 90,453 thousand (corresponding liabilities are presented in **Chapter 13., note (33)**).

As at 31 December 2018 following assets of the Bank constituted collateral of liabilities (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0121	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 630
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	507
3.	Treasury bonds WZ0120	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	311 000	315 273
4.	Central Bank bills NBP_040119	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	35 600	35 600
5.	Central Bank bills NBP_040119	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	27 100	27 100
6.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
7.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	2 583	2 583
8.	Deposits	Deposits in banks	Settlement on transactions concluded	264 108	264 108
TOTAL				770 991	776 901

Additionally, as at December 31, 2018, the Group had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 50,290 thousand (corresponding liabilities are presented in **Chapter 13, note (33)**).

14.3. SECURITIES COVERED BY TRANSACTIONS WITH A BUY-BACK CLAUSE (SBB)

As at 31 December 2019 following securities (presented in the Bank's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

Type of security	Par value	Balance sheet value
Treasury bonds	85 221	90 453
TOTAL	85 221	90 453

In result of conclusion of Sell-Buy-Back transactions with the underlying securities presented in the table above, the Bank is exposed to risks, which are the same as in case of holding securities with the same characteristics in its treasury portfolio.

As at 31 December 2018 following securities (presented in the Bank's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

Type of security	Par value	Balance sheet value
Treasury bonds	49 667	50 290
TOTAL	49 667	50 290

14.4. OFFSETTING OF ASSETS AND LIABILITIES ON THE BASIS OF ISDA AGREEMENTS

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 base 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.

<i>PLN'000</i>	<i>Amounts to be received</i>	<i>Amounts to be paid</i>
Valuation of derivatives	114 661	471 700
Amount of cash collaterals accepted/granted	(30 061)	(335 281)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	84 600	136 419
Theoretical maximum amount of compensation	(81 971)	(81 971)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	2 629	54 448

14.5. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

For the purpose of the cash flow statement the following financial assets are classified by the Bank as cash or its equivalents:

	31.12.2019	31.12.2018
Cash and balances with the Central Bank	2 203 444	2 450 176
Receivables from interbank deposits*	440 162	462 324
Debt securities issued by the State Treasury*	1 109 183	1 608 188
of which FVTOCI	1 086 797	1 599 800
of which held for trading	22 386	8 388
Total	3 752 789	4 520 688

* *Financial assets with maturity below three months*

For the purpose of the cash flow statement the following classification of activity types was adopted:

1. Operating activities - cover the basic scope of operations connected with services provided by the Bank's units covering events whose purpose is to earn profit and not being investment or financial activity,

2. Investment activities cover operations connected with the purchasing and selling of fixed assets, in particular financial assets not included in the "for trading" category, shares and shares in subsidiaries, tangible and intangible fixed assets,
3. Financial activities cover activities connected with raising of funds in the form of capital or liabilities, as well as servicing sources of funding.

14.6. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2019 the Custody Department maintained 13,077 accounts in which Customers' assets were kept with the total value of PLN 37.7 billion. Net revenue from the custody business for 2019 amounted to PLN 6.8 million. The Custody Department serves as a depository bank for 25 mutual funds including 21 of Millennium TFI S.A.

14.7. SHARE BASED PAYMENTS

In 2012, the Bank implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium Group, as amended, in accordance with the requirements described in Resolution of the Polish Financial Supervision Authority No. 258/2011, and then the Regulation of the Minister of Development and Finance of March 6, 2017 on the risk management system and the internal control system, remuneration policy and the detailed method of internal capital estimation in banks. In accordance with the policy, employees of the Bank having a significant impact on the Bank's risk profile receive variable remuneration, part of which is paid in the form of financial instruments: the Bank's phantom shares in 2016-2018; Bank Millennium own shares: for 2019. Commencing from 2019, by the decision of the General Meeting of Shareholders of August 27, 2019, the Bank introduced an incentive program to remuneration entitled persons previously identified as having a significant impact on the risk profile (Risk Taker). Under this framework, the Own Shares acquired by the Company will be, in accordance with the applicable Risk Taker's remuneration policy, intended for free acquisition in the appropriate number by the indicated Risk Takers during the Program Term.

Variable remuneration - financial instruments for:	2019	2018	2017	2016
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments			
Commencement of vesting period	1 January 2019	1 January 2018	1 January 2017	1 January 2016
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 2019	31 December 2018	31 December 2017	31 December 2016
Vesting conditions	Employment in the Bank 2019, results of the Bank and individual performance	Employment in the Bank 2018, results of the Bank and individual performance	Employment in the Bank 2017, results of the Bank and individual performance	Employment in the Bank 2016, 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.

Financial instruments granted to Bank's employees who are not members of the Management Board of the Bank, for the year:	2019	2018	2017	2016
Date of shares assigning	-	23.01.2019	07.02.2018	02.02.2017
Number of shares	-	115 411	70 517	44 389
▪ granted	-	0	0	0
▪ deferred	-	115 411	70 517	44 389
Value as at assigning date (PLN)	-	1 059 700	674 355	256 700
▪ granted	-	0	0	0
▪ deferred	-	1 059 700	674 355	256 700
Fair value as at 31.12.2019 (PLN)	-	847 760	539 484	259 674

Profit and Loss Account for 2019 has been charged with the change in the value of the phantom shares assigned for the years 2016-2018, the provision created for phantom shares to be assigned for 2019 and the social insurance costs resulting from the above transactions.

At the balance sheet date, the Personnel Committee of the Supervisory Board has not taken a decision on the amount of variable remuneration for Bank's employees who are not members of the Management Board of the Bank for 2019. The estimated value of the Program for 2019 is PLN 4 467 thousand.

Financial instruments granted to members of the Management Board of the Bank, for the year::	2019	2018	2017	2016
Date of shares assigning	-	31.05.2019	09.04.2018	25.05.2017
Number of shares	-	234 389	181 870	88 420
▪ granted	-	0	0	0
▪ deferred	-	234 389	181 870	88 420
Value as at assigning date (PLN)	-	2 135 250	1 492 980	630 000
▪ granted	-	0	0	0
▪ deferred	-	2 135 250	1 492 980	630 000
Fair value as at 31.12.2019 (PLN)	-	1 708 227	1 194 340	517 257

At the publication date 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 2019.

PAYMENTS BASED ON THE FORMER EURO BANK SHARES

In the former Euro Bank, the "Remuneration Policy for Identified Persons" applied to employees having a significant impact on the risk profile. According to the aforementioned policy, employees of the bank covered by it, having a significant impact on the Bank's risk profile, received variable remuneration, part of which was paid in the form of shares of the former Euro Bank. On the day Euro Bank was taken over by Bank Millennium, these shares ceased to exist. Therefore, by decision of the Supervisory Board, Bank Millennium adopted the rules for converting non-existent Euro Bank shares with a value of PLN 4,773,969 into Bank Millennium shares. Deferred part of variable remuneration in cash for payment in 2020: PLN 230,559.

14.8. ADDITIONAL INFORMATION AND OTHER ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED AND ITS PUBLICATION DATE

FX mortgage loan portfolio

Regarding regulations on FX mortgage loans, which have been discussed in Poland during last 4 years, it was approved a Presidential Draft Bill of 2 August 2017 regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. The finally accepted Bill does not include the creation of a Conversion Fund. On the other hand, it increased availability of the PLN 600 million worth Borrowers' Support Fund originally created in 2015 and still waiting to be used for borrowers in need (both PLN and FX mortgages) and sets potential future contributions. The Bill came into force from 1 January 2020.

Mortgage Bank

Mortgage loans are an important element of the Bank's retail business. Therefore, in June 2018, the Bank filed to the Polish Financial Supervision Authority an application for granting permission to set up a mortgage bank called "Millennium Bank Hipoteczny" based in Warsaw, the sole shareholder of which will be Bank Millennium. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

SKOK Piast conveyance

On the basis of decision of the Polish Financial Supervision Authority on 17 October 2018 Bank Millennium took over management of the assets of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast (SKOK Piast) (Cooperative Credit Union SKOK Piast), until the moment of conveyance SKOK PIAST carried out standard operational activities. The conveyance accomplished in accordance with article 74c paragraph 4 of the Act on Credit Unions took place on 1 November 2018.

Bank Millennium is a consecutive bank to join the SKOK turnaround process supported by the Polish Financial Supervision Authority and the Bank Guarantee Fund (BFG). Conveyance of SKOK Piast fits well within efforts to ensure stability of the national financial system and to ensure safety for all clients of financial institutions in Poland.

In the Bank's accounting books the conveyance was settled in accordance with IFRS 3 in year 2018. The conveyance process was carried out with assumption of the support to be granted by BFG on the basis of art. 264 of the Bank Guarantee Fund Act and did not involve a transfer of the payment by the Bank. The BFG support consisted of transferring the subsidy and granting a guarantee to cover losses resulting from the risk related to the acquired property rights of SKOK Piast.

The BFG subsidy was granted to cover, fixed at a conveyance date, the difference between the value of the taken over property rights and liabilities from guaranteed funds in the accounts of depositors and as at 31 December 2018 its value was PLN 67 492 thousand.

Accordingly to IFRS 3 provisions the Bank recognized in its books fair values of taken over assets and liabilities, the fair value adjustments represents the difference between amounts of assets and liabilities recorded in SKOK Piast financial statements prepared accordingly Polish Accounting Standards as at 31 October 2018 and their fair value amounts calculated at the same date. The aforementioned differences are related with following balance sheet items:

1. Loan portfolio adjustments

Total fair value of loan portfolio of SKOK Piast was determined separately for performing and nonperforming (defaulted) loans. The default definition was determined based on 90 DPD and other qualitative triggers. Fair value of performing loan portfolio of SKOK Piast was determined using discounted cash flows model with application of current margin. For non-performing portion of loan portfolio the fair value was determined using estimation of expected self repayments and sales recoveries.

2. Deposit portfolio adjustment

Fair value adjustment on the deposit portfolio is mainly driven by slightly higher interest rates of SKOK's Piast term deposits as compared to the average market rates.

3. Real estates adjustments

The positive fair value adjustment consists of differences between the book value and market value of buildings resulting from external appraisals.

Additionally the Bank recorded deferred tax resulting from FV adjustments calculated by applying 19% to effect of the above adjustments.

Assets	SKOK Piast data as at 31.10.2018	Fair value adjustments	Fair value of taken over assets
Cash	18 630	-	18 630
Loans and advances to customers*	88 355	7 767	96 122
Investments in subsidiaries	5 738	-	5 738
Tangible assets	5 969	424	6 393
Other assets	12 632	-	12 632
Total assets	131 324	8 191	139 515

* gross value of credit portfolio amounted to PLN 157 833 thousand

Liabilities	SKOK Piast data as at 31.10.2018	Fair value adjustments	Fair value of taken over liabilities
Guaranteed deposits	198 816	239	199 055
Provisions	4 696	-	4 696
Deferred tax liability	2 042	1 511	3 553
Other liabilities	1 809	-	1 809
Total liabilities	207 363	1 750	209 113

As a result of the conveyance, the Bank recognized goodwill (being the difference between the net fair value of identifiable assets and liabilities and the amount of BFG subsidy) of PLN 2,105 thousand PLN, which was subsequently fully amortized in costs in year 2018.

Events after the date for which financial statements were prepared

Group layoffs

On January 24, 2020, an agreement was concluded between the Bank and trade unions regarding group layoffs (as part of the restructuring process after merging with Euro Bank). The parties agreed that the group layoffs will cover 260 employees and will take place in the first quarter of 2020.

As the above negotiations started after the balance sheet date (i.e. after December 31, 2019), the costs associated with this process will be charged to the result of 2020 and according to current estimates will amount to approximately PLN 13.5 million.

Date	Name and surname	Position/Function	Signature
14.02.2020	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
14.02.2020	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
14.02.2020	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
14.02.2020	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
14.02.2020	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
14.02.2020	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
14.02.2020	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature