Annual Financial Report of the Bank Millennium S.A. for the 12-month period ending 31st December 2020

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.

Financial Highlights

	Amount '000 PLN		Amount '000 EUR	
	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019
Interest income and other of similar nature	2 989 729	2 982 260	668 215	693 259
Fee and commission income	809 267	745 358	180 874	173 267
Profit (loss) before income tax	193 716	867 942	43 296	201 763
Profit (loss) after taxes	18 579	600 683	4 153	139 635
Total comprehensive income of the period	148 740	594 074	33 244	138 099
Net cash flows from operating activities	(3 331 136)	(693 707)	(744 521)	(161 260)
Net cash flows from investing activities	1 952 784	(799 002)	436 454	(185 737)
Net cash flows from financing activities	(788 003)	724 810	(176 121)	168 490
Net cash flows, total	(2 166 355)	(767 899)	(484 188)	(178 506)
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total Assets	97 015 626	96 685 240	21 022 715	22 704 060
Liabilities to banks and other monetary institutions	563 882	849 452	122 190	199 472
Liabilities to customers	81 832 471	81 637 517	17 732 615	19 170 487
Equity	8 835 703	8 690 087	1 914 645	2 040 645
Share capital	1 213 117	1 213 117	262 875	284 870
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)	7.28	7.16	1.58	1.68
Diluted book value per share (in PLN/EUR)	7.28	7.16	1.58	1.68
Total Capital Ratio (TCR)	19.16%	20.00%	19.16%	20.00%
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	-	-	4.6148	4.2585
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)	-	-	4.4742	4.3018

Quarterly financial information

INCOME STATEMENT

Amount '000 PLN	1.01.2020 - 31.12.2020	1.10.2020 - 31.12.2020*	1.01.2019 - 31.12.2019	1.10.2019 - 31.12.2019*
Net interest income	2 455 869	597 414	2 100 231	666 536
Interest income and other of similar nature	2 989 729	636 728	2 982 260	917 509
Income calculated using the effective interest method	2 915 734	621 675	2 855 064	883 427
Interest income from Financial assets at amortised cost	2 602 344	572 415	2 470 441	782 519
Interest income from Financial assets at fair value through other comprehensive income	313 390	49 260	384 623	100 908
Income of similar nature to interest from Financial assets at fair value through profit or loss	73 995	15 053	127 196	34 082
Interest expenses	(533 860)	(39 314)	(882 029)	(250 973)
Net fee and commission income	639 738	163 620	593 174	160 205
Fee and commission income	809 267	204 627	745 358	207 395
Fee and commission expenses	(169 529)	(41 007)	(152 184)	(47 190)
Dividend income	39 326	136	45 244	275
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	127 638	49 938	37 729	3 618
Results on financial assets and liabilities held for trading	47 379	7 914	68 269	17 483
Result on non-trading financial assets mandatorily at fair value through profit or loss	38 576	51 729	63 683	13 176
Result on hedge accounting	(10 259)	481	(19 059)	(4 183)
Result on exchange differences	119 268	13 093	157 814	37 633
Other operating income	140 865	69 674	85 328	14 632
Other operating expenses	(219 836)	(104 587)	(71 752)	(12 511)
Administrative expenses	(1 497 120)	(353 579)	(1 375 232)	(425 541)
Impairment losses on financial assets	(477 193)	(70 790)	(198 919)	(36 844)
Impairment losses on non-financial assets	(7 846)	(2 712)	(1 153)	1 112
Provisions for legal risk connected with FX mortgage loans	(713 617)	(415 944)	(223 134)	(223 134)
Result on modification	(13 565)	(3 475)	(11 663)	(2 476)
Depreciation	(196 359)	(48 389)	(145 708)	(49 508)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(279 148)	(70 121)	(236 910)	(69 133)
Profit before income taxes	**193 716**	**(115 598)**	**867 942**	**91 340**
Corporate income tax	(175 137)	(3 688)	(267 259)	(71 144)
Profit after taxes	**18 579**	**(119 286)**	**600 683**	**20 196**

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

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2020 - 31.12.2020	1.10.2020 - 31.12.2020*	1.01.2019 - 31.12.2019	1.10.2019 - 31.12.2019*
Profit after taxes	18 579	(119 286)	600 683	20 196
Other comprehensive income items that may be (or were) reclassified to profit or loss	161 597	(26 644)	(7 823)	(7 973)
Result on debt securities at fair value through other comprehensive income	177 131	(28 083)	(47 508)	(5 901)
Hedge accounting	(15 534)	1 439	39 685	(2 072)
Other comprehensive income items that will not be reclassified to profit or loss	(905)	(905)	(337)	(337)
Actuarial gains (losses)	(730)	(730)	(509)	(509)
Result on equity instruments at fair value through other comprehensive income	(175)	(175)	172	172
Total comprehensive income items before taxes	**160 692**	**(27 549)**	**(8 160)**	**(8 310)**
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	(30 703)	5 062	1 487	1 515
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	172	172	64	64
Total comprehensive income items after taxes	**130 161**	**(22 315)**	**(6 609)**	**(6 731)**
Total comprehensive income for the period	**148 740**	**(141 600)**	**594 074**	**13 465**

* *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 2020

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1. Income Statement

Amount '000 PLN	Note	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019
Net interest income		2 455 869	2 100 231
Interest income and other of similar nature	1	2 989 729	2 982 260
Income calculated using the effective interest method		2 915 734	2 855 064
Interest income from Financial assets at amortised cost		2 602 344	2 470 441
Interest income from Financial assets at fair value through other comprehensive income		313 390	384 623
Income of similar nature to interest from Financial assets at fair value through profit or loss		73 995	127 196
Interest expenses	2	(533 860)	(882 029)
Net fee and commission income		639 738	593 174
Fee and commission income	3	809 267	745 358
Fee and commission expenses	3	(169 529)	(152 184)
Dividend income	4	39 326	45 244
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	127 638	37 729
Results on financial assets and liabilities held for trading	6	47 379	68 269
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	38 576	63 683
Result on hedge accounting	8	(10 259)	(19 059)
Result on exchange differences		119 268	157 814
Other operating income	9	140 865	85 328
Other operating expenses	10	(219 836)	(71 752)
Administrative expenses	11	(1 497 120)	(1 375 232)
Impairment losses on financial assets	12	(477 193)	(198 919)
Impairment losses on non-financial assets	13	(7 846)	(1 153)
Provisions for legal risk connected with FX mortgage loans	36c	(713 617)	(223 134)
Result on modification		(13 565)	(11 663)
Depreciation	14	(196 359)	(145 708)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(279 148)	(236 910)
Profit before income taxes		**193 716**	**867 942**
Corporate income tax	15	(175 137)	(267 259)
Profit after taxes		**18 579**	**600 683**

Notes on pages 14-174 are integral part of these financial statements.

2. Statement of Total Comprehensive Income

Amount '000 PLN	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019
Profit after taxes	18 579	600 683
Other comprehensive income items that may be (or were) reclassified to profit or loss	161 597	(7 823)
Result on debt securities at fair value through other comprehensive income	177 131	(47 508)
Hedge accounting	(15 534)	39 685
Other comprehensive income items that will not be reclassified to profit or loss	(905)	(337)
Actuarial gains (losses)	(730)	(509)
Result on equity instruments at fair value through other comprehensive income	(175)	172
Total comprehensive income items before taxes	**160 692**	**(8 160)**
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	(30 703)	1 487
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	172	64
Total comprehensive income items after taxes	**130 161**	**(6 609)**
Total comprehensive income for the period	**148 740**	**594 074**

Notes on pages 14-174 are integral part of these financial statements.

3. Balance Sheet

ASSETS

Amount '000 PLN	Note	31.12.2020	31.12.2019*
Cash, cash balances at central banks	17	1 460 289	2 203 444
Financial assets held for trading	18	424 777	987 465
Derivatives		155 365	113 432
Equity instruments		0	0
Debt securities		269 412	874 033
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	19	251 107	169 610
Equity instruments		200 772	66 609
Debt securities		50 335	103 001
Financial assets at fair value through other comprehensive income	20	18 626 366	21 856 275
Equity instruments		29 219	29 367
Debt securities		18 597 147	21 826 908
Loans and advances to customers	21	73 501 432	68 689 229
Mandatorily at fair value through profit or loss		1 615 753	1 498 195
Valued at amortised cost		71 885 679	67 191 034
Financial assets at amortised cost other than Loans and advances to customers	22	730 534	1 037 840
Debt securities		38 818	48 153
Deposits, loans and advances to banks and other monetary institutions		625 366	784 248
Reverse sale and purchase agreements		66 350	205 439
Derivatives - Hedge accounting	23	21 795	43 159
Investments in subsidiaries, joint ventures and associates	24	208 874	88 874
Tangible fixed assets	25	541 326	622 506
Intangible fixed assets	26	373 720	331 978
Income tax assets		534 013	405 412
Current income tax assets		0	0
Deferred income tax assets	27	534 013	405 412
Other assets	28	341 393	249 448
Non-current assets and disposal groups classified as held for sale	29	0	0
Total assets		**97 015 626**	**96 685 240**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2020	31.12.2019*
LIABILITIES			
Financial liabilities held for trading	30	168 559	353 004
Derivatives		103 781	150 739
Liabilities from short sale of securities		64 778	202 265
Financial liabilities measured at amortised cost		84 669 783	85 127 543
Liabilities to banks and other monetary institutions	31	563 882	849 452
Liabilities to customers	32	81 832 471	81 637 517
Sale and repurchase agreements	33	248 566	90 712
Debt securities issued	34	484 655	1 003 657
Subordinated debt	35	1 540 209	1 546 205
Derivatives – Hedge accounting	23	738 850	426 847
Provisions	36	607 371	164 741
Pending legal issues		554 643	110 885
Commitments and guarantees given		52 728	53 856
Income tax liabilities		28 704	38 057
Current income tax liabilities		28 704	38 057
Deferred income tax liabilities	37	0	0
Other liabilities	38	1 966 656	1 884 961
Total Liabilities		**88 179 923**	**87 995 153**
EQUITY			
Share capital	39	1 213 117	1 213 117
Own shares		(21)	0
Share premium		1 147 241	1 147 241
Accumulated other comprehensive income	39	197 009	66 848
Retained earnings	39	6 278 357	6 262 881
Total equity		8 835 703	8 690 087
Total equity and total liabilities		**97 015 626**	**96 685 240**

	31.12.2020	31.12.2019
Book value of net assets	8 835 703	8 690 087
Number of shares (pcs.)	1 213 116 777	1 213 116 777
Book value per share (in PLN)	7.28	7.16

* data for 2019 has been restated in relation to the information presented in the report for 2019, more information on this subject is provided in **Chapter 8.** "Accounting policy".

Notes on pages 14-174 are integral part of these financial statements.

4. Statement of Changes in Equity

Amount '000 PLN	Total equity	Share capital	Own shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Other reserves
01.01.2020 - 31.12.2020							
Equity at the beginning of the period	8 690 087	1 213 117	0	1 147 241	66 848	560 727	5 702 154
Total comprehensive income for 2020 (net)	145 616	0	(21)	0	130 161	(542 148)	557 624
net profit/ (loss) of the period	18 579	0	0	0	0	18 579	0
valuation of debt securities at fair value through other comprehensive income	143 476	0	0	0	143 476	0	0
valuation of shares at fair value through other comprehensive income	(142)	0	0	0	(142)	0	0
hedge accounting	(12 582)	0	0	0	(12 582)	0	0
actuarial gains (losses)	(591)	0	0	0	(591)	0	0
Purchase and transfer of own shares to employees	(3 124)	0	(21)	0	0	0	(3 103)
Transfer between items of reserves	0	0	0	0	0	(560 727)	560 727
Equity at the end of the period	8 835 703	1 213 117	(21)	1 147 241	197 009	18 579	6 259 778
01.01.2019 - 31.12.2019							
Equity at the beginning of the period	8 135 969	1 213 117	0	1 147 241	73 457	486 887	5 215 267
Total comprehensive income for 2019 (net)	554 118	0	0	0	(6 609)	73 840	486 887
net profit/ (loss) of the period	600 683	0	0	0	0	600 683	0
Merger with Euro Bank*	(39 956)	0	0	0	0	(39 956)	0
valuation of debt securities at fair value through other comprehensive income	(38 481)	0	0	0	(38 481)	0	0
valuation of shares at fair value through other comprehensive income	139	0	0	0	139	0	0
hedge accounting	32 145	0	0	0	32 145	0	0
actuarial gains (losses)	(412)	0	0	0	(412)	0	0
Transfer between items of reserves	0	0	0	0	0	(486 887)	486 887
Equity at the end of the period	8 690 087	1 213 117	0	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"

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

5. Cash Flow Statement

A. Cash flows from operating activities

Amount '000 PLN	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019*
Profit (loss) after taxes	18 579	600 683
Total adjustments:	(3 349 715)	(1 294 390)
Interest received	3 023 642	2 732 676
Interest paid	(542 356)	(762 337)
Depreciation and amortization	196 362	145 708
Foreign exchange (gains)/ losses	11 797	(8 157)
Dividends	(39 326)	(45 244)
Changes in provisions	442 630	51 396
Result on sale and liquidation of investing activity assets	(130 880)	(33 976)
Change in financial assets held for trading	277 422	(437 256)
Change in loans and advances to banks	(159 300)	(15 858)
Change in loans and advances to customers	(7 296 462)	(6 445 993)
Change in receivables from securities bought with sell-back clause (loans and advances)	132 653	32 227
Change in financial liabilities valued at fair value through profit and loss (held for trading)	127 558	165 707
Change in deposits from banks	140 321	(4 312 149)
Change in deposits from customers	708 816	7 986 293
Change in liabilities from securities sold with buy-back clause	165 649	46 385
Change in debt securities	(205 425)	(102 423)
Change in income tax settlements	160 927	274 995
Income tax paid	(330 180)	(290 232)
Change in other assets and liabilities	(85 082)	(295 732)
Other	51 519	19 580
Net cash flows from operating activities	**(3 331 136)**	**(693 707)**

B. Cash flows from investing activities

Amount '000 PLN	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019*
Inflows:	94 162 558	141 749 356
Proceeds from sale of property, plant and equipment and intangible assets	21 666	24 104
Proceeds from sale of shares in related entities	0	1 210
Proceeds from sale of investment financial assets	94 101 566	141 678 798
Other	39 326	45 244
Outflows:	(92 209 774)	(142 548 358)
Acquisition of property, plant and equipment and intangible assets	(71 188)	(138 025)
Purchase of shares in subordinated companies	(120 000)	(1 591 434)
Acquisition of investment financial assets	(92 018 586)	(140 818 899)
Other	0	0
Net cash flows from investing activities	**1 952 784**	**(799 002)**

C. Cash flows from financing activities

Amount '000 PLN	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019*
Inflows from financing activities:	0	865 000
Long-term bank loans	0	35 000
Issue of debt securities	0	0
Increase in subordinated debt	0	830 000
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
Outflows from financing activities:	(788 003)	(140 190)
Repayment of long-term bank loans	(426 566)	(88 467)
Redemption of debt securities	(300 000)	0
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	(61 437)	(51 723)
Net cash flows from financing activities	**(788 003)**	**724 810**

D. Net cash flows. Total (A + B + C)	**(2 166 355)**	**(767 899)**
- including change resulting from FX differences	8 548	152
E. Cash and cash equivalents at the beginning of the reporting period	**3 752 789**	**4 520 688**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**1 586 434**	**3 752 789**

* data for 2019 has been restated in relation to the information presented in the report for 2019, more information on this subject is provided in **Chapter 8.** "Accounting policy".

Additional information regarding cash flows statement is presented in **point 5) of chapter 15. "Supplementary information".** Information on liabilities classified as financing activities is presented in **points 31), 34), 35) of chapter 14. "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 7,100 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 2020

Composition of the Supervisory Board as at 31 December 2020 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 2020 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 announced and signed the preliminary agreement related to the acquisition of 99.787% shares of Euro Bank S.A. from SG Financial Services Holdings 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.

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.

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.

Transaction settlement

Transaction settlement was performed applying the acquisition 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

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.

The Bank made a final settlement of the merger and calculation of goodwill in connection with the purchase of Euro Bank S.A. shares within a period of one year from the date of acquiring the control in accordance with the requirements of IFRS 3. 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.

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.

A detailed description of the fair value measurement of individual assets acquired and liabilities assumed was presented in annual report of the Millennium Bank for 2019.

Identifiable acquired assets and liabilities assumed measured at fair value	
	In PLN million
Assets	
Cash and balances at Central Bank	241.6
Amounts due from banks	85.0
Loans and advances to customers	12 557.7
Financial assets held for trading/FVOCI/FVTPL	1 401.9
Intangible assets	49.8
Fixed assets	113.2
Deferred tax assets	143.5
Other assets	72.2
Total assets	**14 664.9**
Liabilities and equity	
Amounts due to banks and financial institutions	4 086.5
Amounts due to customers	7 974.9
Debt securities	506.1
Provisions	1.3
Derivatives in hedge accounting	5.7
Other liabilities	375.0
Subordinated loan	100.1
Total liabilities	**13 049.6**
Net assets	**1 615.3**
Liabilities and equity	**14 664.9**

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

Calculation of goodwill

As at the date of the present report, the Bank has completed the process of calculating goodwill as at 31 May 2019.

In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expired after 12 months from the date of the acquisition, i.e. on 31 May 2020. The finally 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.

In PLN thousand	Identifiable assets acquired and liabilities assumed measured at fair value
Price transferred in accordance with the Agreement	1 833 000
Preliminary price adjustment	(25 529)
Price after adjustment	1 807 471
Fair value of acquired net assets	1 615 346
Goodwill	192 125

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.

Pursuant to IAS 36, as at December 31, 2020, the Bank conducted a test for impairment of goodwill arising from the acquisition of Euro Bank S.A. In principle, this test compares the carrying amount of a cash-generating unit ('CGU') with its recoverable amount (where the CGU is the smallest identifiable group of assets generating cash inflows largely independent of the cash inflows from other assets or groups of assets).

The Bank conducted an impairment test with regard to the portfolio of assets of the retail segment, constituting a set of CGUs, by comparing their carrying amount with the recoverable amount. The recoverable amount was estimated based on the value in use of the CGU, which was calculated as the present, estimated value of future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU was calculated by extrapolating the cash flow projections beyond the forecast period, using the growth rate assumed at 3.5%. Cash flow forecasts are based on the assumptions contained in the financial plan for the Bank Millennium Capital Group for 2021 and the projections for 2022-2023. The cash flows were discounted using a discount rate of 9.44%.

The impairment test performed as at December 31, 2020 showed a surplus of the recoverable amount over the carrying amount of individual CGUs, and therefore no impairment of goodwill was identified.

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 2021, item 217) 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 22 February 2021.

Change of apllied accounting principles introduced in 2020

In the course of 2020, the Bank changed the presentation of provisions for legal risk connected with FX mortgage loans which in the financial statements for year 2019 were recognized as provisions for pending legal issues. Having in mind that part of these provisions relates to the new estimation of cash flows from the mortgage loan portfolio, the Bank allocated these provisions to individual credit exposures and presented in these financial statements as a decrease in the gross value of mortgage loans for which contractual cash flow are expected to reduce according to IFRS9. In order to ensure comparability, the Bank made appropriate balance sheet and cash flow adjustments to the data presented in annual financial statements 2019 as illustrated in the tables below.

In accordance with IAS 1, an entity additionally presents a third balance sheet at the beginning of the previous period if it applied the change in accounting policy retrospectively. In this case, it is not necessary (in accordance with the provisions of IAS 1) because the retrospective restatement did not affect the information in the balance sheet prepared at the beginning of the previous period (i.e. as at December 31, 2018).

ASSETS

Amount '000 PLN	Note	data as at 31.12.2019 published in annual 2019 report	impact of accounting principles change	restated data as at 31.12.2019, presented in hereby report
Cash, cash balances at central banks	17	2 203 444	0	2 203 444
Financial assets held for trading	18	987 465	0	987 465
Derivatives		113 432	0	113 432
Equity instruments		0	0	0
Debt securities		874 033	0	874 033
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	19	169 610	0	169 610
Equity instruments		66 609	0	66 609
Debt securities		103 001	0	103 001
Financial assets at fair value through other comprehensive income	20	21 856 275	0	21 856 275
Equity instruments		29 367	0	29 367
Debt securities		21 826 908	0	21 826 908
Loans and advances to customers	21	68 828 777	(139 548)	68 689 229
Mandatorily at fair value through profit or loss		1 498 195	0	1 498 195
Valued at amortised cost		67 330 582	(139 548)	67 191 034
Financial assets at amortised cost other than Loans and advances to customers	22	1 037 840	0	1 037 840
Debt securities		48 153	0	48 153
Deposits, loans and advances to banks and other monetary institutions		784 248	0	784 248
Reverse sale and repurchase agreements		205 439	0	205 439
Derivatives – Hedge accounting	23	43 159	0	43 159
Investments in subsidiaries, joint ventures and associates	24	88 874	0	88 874
Tangible fixed assets	25	622 506	0	622 506
Intangible fixed assets	26	331 978	0	331 978
Income tax assets		405 412	0	405 412
Current income tax assets		0	0	0
Deferred income tax assets	27	405 412	0	405 412
Other assets	28	249 448	0	249 448
Non-current assets and disposal groups classified as held for sale	29	0	0	0
Total assets		**96 824 788**	**(139 548)**	**96 685 240**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	data as at 31.12.2019 published in annual 2019 report	impact of accounting principles change	restated data as at 31.12.2019, presented in hereby report
LIABILITIES				
Financial liabilities held for trading	30	353 004	0	353 004
Derivatives		150 739	0	150 739
Liabilities from short sale of securities		202 265	0	202 265
Financial liabilities measured at amortised cost		85 127 543	0	85 127 543
Liabilities to banks and other monetary institutions	31	849 452	0	849 452
Liabilities to customers	32	81 637 517	0	81 637 517
Sale and repurchase agreements	33	90 712	0	90 712
Debt securities issued	34	1 003 657	0	1 003 657
Subordinated debt	35	1 546 205	0	1 546 205
Derivatives – Hedge accounting	23	426 847	0	426 847
Provisions	36	304 289	(139 548)	164 741
Pending legal issues		250 433	(139 548)	110 885
Commitments and guarantees given		53 856	0	53 856
Income tax liabilities		38 057	0	38 057
Current income tax liabilities		38 057	0	38 057
Deferred income tax liabilities	37	0	0	0
Other liabilities	38	1 884 961	0	1 884 961
Total Liabilities		**88 134 701**	**(139 548)**	**87 995 153**
EQUITY				
Share capital	39	1 213 117	0	1 213 117
Own shares		0	0	0
Share premium		1 147 241	0	1 147 241
Accumulated other comprehensive income	39	66 848	0	66 848
Retained earnings	39	6 262 881	0	6 262 881
Total equity		**8 690 087**	**0**	**8 690 087**
Total equity and total liabilities		**96 824 788**	**(139 548)**	**96 685 240**

A. Cash flows from operating activities

Amount '000 PLN	data for period 1.01.2019 - 31.12.2019 published in annual 2019 report	impact of accounting principles change	restated data for period 1.01.2019 - 31.12.2019, presented in hereby report
Profit (loss) after taxes	600 683	0	600 683
Total adjustments:	(1 294 390)	0	(1 294 390)
Interest received	2 732 676	0	2 732 676
Interest paid	(762 337)	0	(762 337)
Depreciation and amortization	145 708	0	145 708
Foreign exchange (gains)/ losses	(8 157)	0	(8 157)
Dividends	(45 244)	0	(45 244)
Changes in provisions	190 944	(139 548)	51 396
Result on sale and liquidation of investing activity assets	(33 976)	0	(33 976)
Change in financial assets held for trading	(437 256)	0	(437 256)
Change in loans and advances to banks	(15 858)	0	(15 858)
Change in loans and advances to customers	(6 585 541)	139 548	(6 445 993)
Change in receivables from securities bought with sell-back clause (loans and advances)	32 227	0	32 227
Change in financial liabilities valued at fair value through profit and loss (held for trading)	165 707	0	165 707
Change in deposits from banks	(4 312 149)	0	(4 312 149)
Change in deposits from customers	7 986 293	0	7 986 293
Change in liabilities from securities sold with buy-back clause	46 385	0	46 385
Change in debt securities	(102 423)	0	(102 423)
Change in income tax settlements	274 995	0	274 995
Income tax paid	(290 232)	0	(290 232)
Change in other assets and liabilities	(295 732)	0	(295 732)
Other	19 580	0	19 580
Net cash flows from operating activities	**(693 707)**	**0**	**(693 707)**

B. Cash flows from investing activities

Amount '000 PLN	data for period 1.01.2019 - 31.12.2019 published in annual 2019 report	impact of accounting principles change	restated data for period 1.01.2019 - 31.12.2019, presented in hereby report
Inflows:	141 749 356	0	141 749 356
Proceeds from sale of property, plant and equipment and intangible assets	24 104	0	24 104
Proceeds from sale of shares in related entities	1210	0	1210
Proceeds from sale of investment financial assets	141 678 798	0	141 678 798
Other	45 244	0	45 244
Outflows:	(142 548 358)	0	(142 548 358)
Acquisition of property, plant and equipment and intangible assets	(138 025)	0	(138 025)
Purchase of Euro Bank shares less cash acquired	(1 591 434)	0	(1 591 434)
Acquisition of investment financial assets	(140 818 899)	0	(140 818 899)
Other	0	0	0
Net cash flows from investing activities	**(799 002)**	**0**	**(799 002)**

C. Cash flows from financing activities

Amount '000 PLN	data for period 1.01.2019 - 31.12.2019 published in annual 2019 report	impact of accounting principles change	restated data for period 1.01.2019 - 31.12.2019, presented in hereby report
Inflows from financing activities:	865 000	0	865 000
Long-term bank loans	35 000	0	35 000
Issue of debt securities	0	0	0
Increase in subordinated debt	830 000	0	830 000
Net proceeds from issues of shares and additional capital paid-in	0	0	0
Other inflows from financing activities	0	0	0
Outflows from financing activities:	(140 190)	0	(140 190)
Repayment of long-term bank loans	(88 467)	0	(88 467)
Redemption of debt securities	0	0	0
Decrease in subordinated debt	0	0	0
Issue of shares expenses	0	0	0
Redemption of shares	0	0	0
Dividends paid and other payments to owners	0	0	0
Other outflows from financing activities	(51 723)	0	(51 723)
Net cash flows from financing activities	**724 810**	**0**	**724 810**

D. Net cash flows. Total (a + b + c)	**(767 899)**	**0**	**(767 899)**
- including change resulting from FX differences	152	0	152
E. Cash and cash equivalents at the beginning of the reporting period	**4 520 688**	**0**	**4 520 688**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**3 752 789**	**0**	**3 752 789**

8.2. STANDARDS AND INTERPRETATIONS APPLIED IN 2020 AND THOSE NOT BINDING AT THE BALANCE SHEET DATE

AMENDMENTS TO THE EXISTING STANDARDS EFFECTIVE FROM THE FINANCIAL STATEMENTS FOR 2020

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **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 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).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS WHICH ARE ALREADY RELEASED BY THE IASB BUT HAVE NOT BEEN EFFECTED YET

At the date of authorisation of these financial statements, the following new standard and amendments to existing standards were in issue, but not yet effective:

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023),

- **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),

- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.).

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (the amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022, the amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

The Bank has elected not to adopt the new standard and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of the standard and amendments to 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 2020 to 31 December 2020 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 financial statements.

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.

- 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:

- quantitative criterion: increase of the debtor's involvement, understood as the increase in the capital of each individual credit exposure above 10% in relation to the capital before the increase. If the quantitative criterion is above 10%, the modification is considered significant, while the occurrence of the quantitative criterion up to 10% results in considering the modification as insignificant. The quantitative criterion does not apply to loans under restructuring, i.e. in the case of such exposures, any change in the debtor's involvement results in the recognition of a non-material modification due to the fact that the settlement or restructuring agreement is intended to recover the debt and does not constitute a new transaction concluded on different terms.
- qualitative criteria: conversion of the exposure to a different currency (unless the possibility of conversion was included in the original contract), change in the SPPI test result. The occurrence of the qualitative criterion results in considering the modification as significant..

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,
- forborne 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 Group

Since the implementation of IFRS 9, the Group has adopted an uniform definition of default, both for the purpose of calculation of capital requirements and for the estimation of impairment. Starting from 2020, for the retail portfolio, the Group uses the definition of default, which is in line with the EBA Guidelines (EBA/GL/2016/07), the so-called New Definition of Default. Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: absolute PLN 400 retail and PLN 2000 corporates and relative threshold of 1% in relation to total exposure,
- Restructured loans (forborne),
- Loans in vindication process,
- Other triggers defined in EBA Guidelines,
- Qualitative triggers identified in the individual analysis.

Bank is using cross-default approach for all segments.

In case of support measures related to the negative impact of the Covid-19 pandemic, the Group adopted a sectoral approach, being in line with the EBA guidelines, according to which exposures with credit holidays granted under private moratoria shouldn't be treated as forborne exposures. However, if there is a delay of more than 60 days on the customer's accounts after 3 month since expiration of credit holidays, it was conservatively assumed that the customer should be classified in Stage 3.

Customers with credit holidays granted under public moratoria (under the Shield 4.0 government program) were classified in Stage 3 (unless specific exclusion criteria specified by the Supervisor were met).

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, LGD 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 valuated 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 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.

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 2020 has been set at 1.4%. 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, the Bank implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium, 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 2017-2018; Bank Millennium own shares: for 2019 and 2020. Commencing from 2019, by the decision of the General Meeting of Bank's 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. Policy details are presented in **Chapter 15., note 7).**

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 2020 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 2020 (the same level as in the year 2019).

As of 31 December 2020, 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 57%.

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:

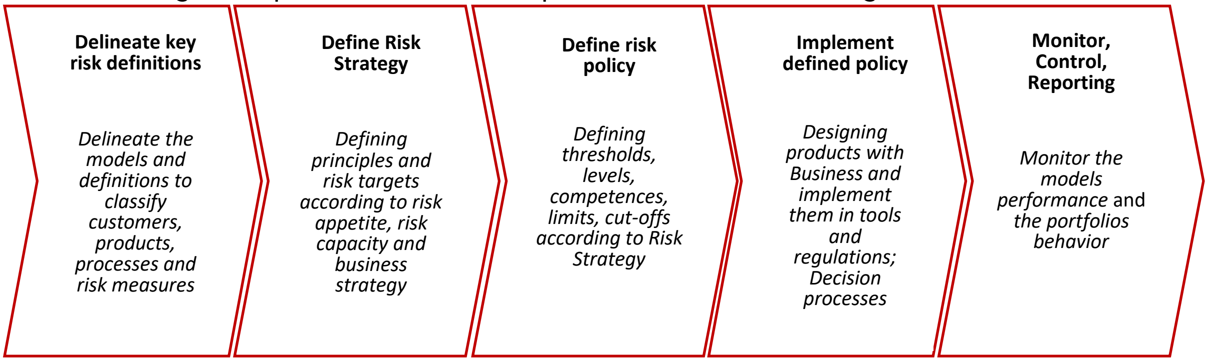
- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed.

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, legal and litigation risk also are subject to specific attention;

- 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 Appetite.
- 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 Sub-Committee for Court Cases is responsible for expressing opinions and taking decisions in matters regarding court proceedings, for the cases when value of the dispute or direct effect for assets value as a consequence of court verdict exceeds 1 mln PLN or as result of multiple cases with the same nature, excluding cases belonging to the restructuring and recovery portfolio of Bank's receivables managed by the Corporate Recovery Department and Retail Restructuring and Debt Collection Department. The Sub-Committee for Court Cases is also competent for disputes in the portfolio of the Retail Restructuring and Debt Collection Department, which the nature of the dispute corresponds to the nature of court disputes supervised by the Court Cases Risk Sub-committee referred to in the first sentence above and matters relating to the determination of terms of settlement as to the effects of legal relationships at the pre-trial stage or in circumstances indicating a significant likelihood of litigation, and if materialized, would fall within the competence of the Court Cases Risk Sub-committee, excluding cases managed by Corporate Recovery Department;

- The Risk Department is responsible for risk management, including identifying, measuring, analysing, 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 analysing 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;
- The Anti-fraud Sub-unit has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. The Sub-unit constitutes a competence centre for anti-fraud process;
- The Compliance Department has the responsibility to ensure compliance with legal regulations, related regulatory standards, market principles and standards as well as internal organization regulations and codes of conduct;
- The Legal Department has responsibility for handling the litigation cases of the Bank, with support of external legal offices and legal experts whenever necessary.

The Bank has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2021-2023". 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 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
- Regulations of Bank Millennium SA - Program of counteracting Anti-Money Laundering and financing terrorism.

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 appetite.

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 and December 2020 in the level of 3.41 p.p. (Bank) and 3.35 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.56 p.p. in Bank and of 2.52 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 1.91 p.p. in Bank and 1.88 p.p. in Group [1];
- Combined buffer – defined in Act on macro prudential 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 0.25%, and the value is set by KNF every year[2];
    - Systemic risk buffer at the level of 0% in force from March 2020, in line with Regulation of Ministry of Development and Finance;
    - Countercyclical buffer at the 0% level.

[1] That recommendation replaces the previous one from 2019, to maintain own funds for the coverage of additional capital requirements at the level of 4.96 p.p. (Bank) and 4.87 p.p. (Group) as for TCR, which should have consisted of at least 3.72 p.p. (Bank) and 3.65 p.p. (Group) as for Tier 1 capital and which should have consisted of at least 2.78 p.p. (Bank) and 2.73 p.p. (Group) as for CET1 capital

[2] In November 2020 KNF issued the decision on identification the Bank as other systemically important institution and imposing OSII Buffer

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.

The below table presents these levels as at 31 December 2020. The Bank will inform on each change of required capital levels in accordance with regulations.

Capital ratio	31.12.2020	
CET1 ratio	Bank	Group
Minimum	4.50%	4.50%
Pillar II RRE FX	1.91%	1.88%
TSCR CET1 (Total SREP Capital Requirements)	6.41%	6.38%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR CET1 (Overall Capital Requirements CET1)	9.16%	9.13%
T1 ratio	Bank	Group
Minimum	6.00%	6.00%
Pillar II RRE FX	2.56%	2.52%
TSCR T1 (Total SREP Capital Requirements)	8.56%	8.52%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR T1 (Overall Capital Requirements T1)	11.31%	11.27%
TCR ratio	Bank	Group
Minimum	8.00%	8.00%
Pillar II RRE FX	3.41%	3.35%
TSCR TCR (Total SREP Capital Requirements)	11.41%	11.35%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR TCR (Overall Capital Requirements TCR)	14.16%	14.10%

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 2020, 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 follows[3]:

Capital adequacy	31.12.2020	31.12.2019	31.12.2018
Risk-weighted assets	50 757.4	47 267.6	36 012.8
Own Funds requirements, including:	4 060.6	3 781.4	2 881.0
▪ Credit risk and counterparty credit risk	3 686.2	3 455.8	2 570.6
▪ Market risk	26.6	24.2	20.3
▪ Operational risk	340.7	297.7	286.4
▪ Credit Valuation Adjustment CVA	4.9	3.7	3.6
Own Funds, including:	9 726.6	9 454.5	7 738.5
Common Equity Tier 1 Capital	8 196.6	7 924.5	7 038.5
Tier 2 Capital	1 530.0	1 530.0	700.0
Total Capital Ratio (TCR)	**19.16%**	**20.00%**	**21.49%**
Minimum required level	14.16%	18.46%	19.29%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	+5.00	+1.54	+2.20
Tier 1 Capital ratio (T1)	**16.15%**	**16.77%**	**19.54%**
Minimum required level	11.31%	15.22%	15.69%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	+4.84	+1.55	+3.85
Common Equity Tier 1 Capital ratio (CET1)	**16.15%**	**16.77%**	**19.54%**
Minimum required level	9.16%	12.78%	12.97%
Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.)	+6.99	+3.99	+6.57
Leverage ratio	**8.06%**	**7.94%**	**8.57%**

As at 2020 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, decreased in one year period by ca 0.6 p.p. and by ca 0.8 p.p. respectively.

In 2020, risk-weighted assets (RWA) went up by ca PLN 3.49 billion (by 7.4%). The main driver of the RWA growth was credit risk RWA (by PLN 2.92 billion, almost 84% share in total yearly growth), what resulted mostly from increase of loan portfolio. The second material driver was an operational risk RWA rise (by ca PLN 539 million, above 15% share in total yearly growth), what stems from including in calculation higher financial results from the last three years.

Own Funds raised by ca PLN 272 million in 2020 (by 3.4%), mainly as a result of retention of net earnings (net earnings for the second half of 2019 amounted to ca PLN 198 million), and as result of few another factors, of which the increase of revaluation reserve was the most important.

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

Leverage ratio stood at the safe level of 8-9%, with a small quarterly changes and it significantly exceeds 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 31.12.2020, if IFRS 9 transitional arrangements had not been applied, capital ratios were as follows:
- TCR: 18.83%
- T1: 15.80%
- CET1: 15.80%
- Leverage ratio: 7.89%

MREL requirements

According to the announcement of the Bank Guarantee Fund, the mid-term MREL targets set for the end of 2020 are not considered obligatory by the Fund, and in the next planning cycle the Fund will apply both the extended target date, i.e. January 1, 2024, as well as indicate the date of meeting the first binding mid-term target - January 1, 2022. The Bank expects to receive updated MREL requirements in the 2nd quarter of 2021.

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 (for Corporates performed by Rating Department independently from credit decision process and transactions) is 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. Starting from 2020, for the retail portfolio, the Group uses the definition of default in line with the EBA Guidelines, the so-called New Definition of Default.

Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: absolute PLN 400 retail and PLN 2000 corporates and relative threshold of 1% in relation to total exposure,
- Restructured loans (forborne)
- Loans in vindication process
- Other triggers defined in EBA Guidelines
- Qualitative triggers identified in the individual analysis

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

In case of support measures related to the negative impact of the Covid-19 pandemic, the Group adopted a sectoral approach, being in line with the EBA guidelines, according to which exposures with credit holidays granted under private moratoria shouldn't be treated as forborne exposures. However, if there is a delay of more than 60 days on the customer's accounts after 3 month since expiration of credit holidays, it was conservatively assumed that the customer should be classified in Stage 3.

Customers with credit holidays granted under public moratoria (under the Shield 4.0 government program) were classified in Stage 3 (unless specific exclusion criteria specified by the Supervisor were met).

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, the Committee for Risk Matters 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 Restructuring and Recovery Department - DRW (individual analysis of individually significant retail impairments, mainly mortgages). DMR is a unit not connected with the process of lending; it is supervised by the Management Board Member responsible for risk management.

The Management Board of the Bank plays an active 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,
- forborne 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 analysed 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 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 discovering 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. The Bank has defined guidelines regarding the weights used for individual scenarios. Scenarios can be based on restructuring or vindication strategy, mixed solutions are also used. The whole process of individual analysis is supported by especially 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, and adjustments for economic slowdown.

- For the corporate portfolio, LGD 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, and 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 2020 are set out below.

Macroeconomic variable	Scenario	2021	2022	2023
Gross Domestic Product	Base	107.5	104.8	103.5
	Optimistic	108.4	105.0	104.2
	Mild recession	106.3	104.3	103.7
Retail Sales	Base	109.5	107.6	105,0
	Optimistic	110.9	108.2	105.5
	Mild recession	107.6	106.8	104.6
Unemployment rate	Base	7.1	6.4	5.9
	Optimistic	6.1	5.7	5.5
	Mild recession	8.3	7.5	6.9

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

	Base	Optimistic	Mild recession
Applied weighting	60%	15%	25%

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 in the case of selling receivables. Reclassification to the Non-Impaired category 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.
Detailed rules regarding the applicable quarantine periods (at least 3 or 12 months for forced restructuring) and reclassification from default are in line with the EBA guidelines regarding the definition of default

Sale of receivables

In 2020, the Bank sold retail credit exposures classified as impaired, in the total balance sheet amount of PLN 95.1 million.

(3d) Maximum exposure to credit risk

	31.12.2020	31.12.2019
Exposures exposed to credit risk connected with balance sheet assets	**93 523 880**	**92 795 533**
Deposits, loans and advances to banks and other monetary institutions	625 366	784 248
Loans and advances to customers:	73 501 432	68 689 229
Mandatorily at fair value through profit or loss:	1 615 753	1 498 195
Loans to private individuals:	1 602 751	1 479 645
Receivables on account of payment cards	830 971	839 023
Credit in current account	771 780	640 622
Loans to companies	13 002	18 550
Valued at amortised cost:	71 885 679	67 191 034
Loans to private individuals:	54 094 376	49 518 330
Receivables on account of payment cards	75 769	94 530
Cash loans and other loans to private individuals	13 616 795	13 490 168
Mortgage loans	40 401 812	35 933 632
Loans to companies and public sector	17 479 925	17 443 794
Loans to public entities	311 378	228 910
Financial derivatives and Adjustment from fair value hedge	177 160	156 591
Debt instruments held for trading	269 412	874 033
Debt instruments mandatorily at fair value through profit or loss	50 335	103 001
Debt instruments at fair value through other comprehensive income	18 597 147	21 826 908
Repurchase agreements	66 350	205 439
Other financial assets	236 678	156 084
Credit risk connected with off-balance sheet items	**15 040 743**	**12 452 047**
Financial guarantees	2 562 041	2 512 533
Credit commitments	12 478 702	9 939 514

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2020 and 31st December 2019, 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

	31.12.2020	31.12.2019
Mandatorily at fair value through profit or loss *	1 615 753	1 498 195
▪ Companies	12 889	18 633
▪ Individuals	1 602 751	1 479 446
▪ Public sector	112	116
* The above data includes the fair value adjustment, in the amount of:	(116 761)	(84 519)

The credit quality of financial assets

PLN'000, as of the end of 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	**87 167 039**	**3 332 717**	**3 046 745**	**399 429**	**93 945 930**
Balance impairment	**344 584**	**277 386**	**1 556 412**	**26 361**	**2 204 743**
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	625 366				625 366
Loans and advances to private individuals (according to Master Scale):	50 736 536	2 395 682	2 304 445	399 370	55 836 033
▪ 1-3 Highest quality	29 968 500	24 559	0	3 872	29 996 931
▪ 4-6 Good quality	10 586 928	257 412	0	8 498	10 852 838
▪ 7-9 Medium quality	8 030 642	809 947	0	13 772	8 854 361
▪ 10-12 Low quality	2 130 299	827 538	0	7 998	2 965 835
▪ 13-14 Watched	9 680	476 123	0	3 379	489 182
▪ 15 Default	0	0	2 304 444	361 847	2 666 291
▪ Without rating (*)	10 487	103	1	4	10 595
Impairment	245 142	251 526	1 218 373	26 616	1 741 657
Loans and advances to companies (according to Master Scale):	8 253 101	720 570	707 714	59	9 681 444
▪ 1-3 Highest quality	59 626	822	0	0	60 448
▪ 4-6 Good quality	1 711 520	86 777	0	0	1 798 297
▪ 7-9 Medium quality	3 818 823	243 449	0	0	4 062 272
▪ 10-12 Low quality	1 166 969	364 993	0	0	1 531 962
▪ 13-14 Watched	0	8 886	0	0	8 886
▪ 15 Default	0	0	707 714	59	707 773
▪ Without rating (*)	1 496 163	15 643	0	0	1 511 806
Impairment	76 046	19 185	313 000	(255)	407 976
Loans and advances to public entities (according to Master Scale):	89 005	1	33	0	89 039
▪ 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 (*)	89 005	1	33	0	89 039
Impairment	225	0	27	0	252
Factoring (according to Master Scale):	2 607 598	216 464	34 553	0	2 858 615
▪ 1-3 Highest quality	6	0	0	0	6
▪ 4-6 Good quality	763 822	214	0	0	764 036
▪ 7-9 Medium quality	1 074 958	21 465	0	0	1 096 423
▪ 10-12 Low quality	738 390	194 677	0	0	933 067
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	34 553	0	34 553
▪ Without rating (*)	30 423	108	0	0	30 530
Impairment	22 781	6 675	25 012	0	54 468

PLN'000, as of the end of 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Repurchased receivables from Millennium Leasing (according to Master Scale):	5 625 291	0	0	0	5 625 291
▪ 1-3 Highest quality	78 275	0	0	0	78 275
▪ 4-6 Good quality	449 159	0	0	0	449 159
▪ 7-9 Medium quality	1 076 171	0	0	0	1 076 171
▪ 10-12 Low quality	608 914	0	0	0	608 914
▪ 13-14 Watched	2 691	0	0	0	2 691
▪ 15 Default	64 329	0	0	0	64 329
▪ Without rating (*)	3 345 752	0	0	0	3 345 752
Impairment	390	0	0	0	390
Derivatives and adjustment from fair value hedge (according to Master Scale):	297 233	0	0	0	297 233
▪ 1-3 Highest quality	52 505				52 505
▪ 4-6 Good quality	135 150				135 150
▪ 7-9 Medium quality	24 376				24 376
▪ 10-12 Low quality	18 173				18 173
▪ 13-14 Watched	3 625				3 625
▪ 15 Default	5 454				5 454
▪ Without rating	36 155				36 155
▪ fair value adjustment due to hedge accounting	0				0
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	21 795				21 795
Trading debt securities (State Treasury(**) bonds)	269 412				269 412
Investment debt securities (State Treasury (**), Central Bank(**), Local Government , EIB)	18 597 147				18 597 147
Receivables from securities bought with sell-back clause	66 350				66 350

** 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 2020 A- (S&P), A2 (Moody's), A- (Fitch);*

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

PLN'000, as of the end of 2019	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
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
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

PLN'000, as of the end of 2019	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
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

** 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 2019 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	31.12.2020				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	645 893	246 375	3 527	0	895 795
Collective analysis	96 466	768 588	1 647 801	0	2 512 855
Total	742 359	1 014 963	1 651 328	0	3 408 650

Gross exposure in '000 PLN	31.12.2019				
	Loans and advances to customers			Loans and advances to banks	Total
	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

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

	31.12.2020			31.12.2019		
	Amount in '000 PLN	Share %	Coverage by impairment provisions	Amount in '000 PLN	Share %	Coverage by impairment provisions
PLN	677 403	75.6%	39.9%	507 602	72.1%	49.2%
CHF	162 121	18.1%	19.1%	136 680	19.4%	21.9%
EUR	55 570	6.2%	48.6%	57 774	8.2%	35.9%
USD	645	0.1%	21.0%	2 075	0.3%	5.1%
SEK	56	0.0%	76.1%	0	0.0%	
Total (Case by Case impaired)	895 795	100.0%	36.7%	704 131	100.0%	42.7%

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

	31.12.2020		31.12.2019	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	377 360	42.1%	251 599	35.7%
20% - 40%	141 413	15.8%	109 816	15.6%
40% - 60%	116 744	13.0%	119 010	16.9%
60% - 80%	127 375	14.2%	66 666	9.5%
Above 80%	132 903	14.9%	157 040	22.3%
Total (Case by Case impaired)	895 795	100.0%	704 131	100.0%

At the end of 2020, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis (Case by Case) amounted to PLN 369.5 million (at the end of 2019 respectively PLN 323.4 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:

- monitoring and amicable debt collection proceedings - conducted by Retail Liabilities Monitoring and Collection Department,
- restructuring and execution proceedings – implemented by Retail Liabilities Restructuring and Recovery Department.

Process performed by Retail Liabilities Monitoring and Collection 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 Restructuring and Recovery 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 in accordance with EBA Guidelines concerning New Definition of Default. Cured restructured cases are classified to Stage 2 for at least following 2 years after cure in accordance to EBA technical standards for forborne 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	31.12.2020	31.12.2019
Loans and advances to private individuals	1 103 434	1 029 338
Loans and advances to companies	214 215	248 186
Total	1 317 649	1 277 524

Exposures subject to measures applied in response to the COVID-19 crisis (in '000 PLN)

The outbreak of coronavirus pandemic in 1Q20 resulted in rapid changes in the dynamics of the Bank's business and enforced changes of its strategic priorities.
In the face of the unprecedented health, economic and social crisis the most important issue for the Bank was to ensure the safety of employees and customers maintaining the continuity and high quality of business and services. Clients remained the priority for the Bank through this crisis and a range of comprehensive measures to support our retail and business customers were implemented.

Key solutions implemented at the early stage of the COVID-19 epidemic included:

Retail clients:

- Credit holidays – temporary deferral of principal and interest instalments
- Contactless card transactions up to PLN 100 without PIN confirmation
- Most transactions can be done safely and remotely from home
- Fully online current account opening with the use of selfie
- Dedicated website and banner communication on the portal

Micro-companies and corporate customers:

- Application for PFR financial support (subsidy with redemption possibility) in Millenet for micro business and SME
- Temporary suspension of loan instalments, including factoring and charge cards for all companies (as above)
- Quick and simplified mode of credit renewal for SME and large companies
- BGK guarantees under new, more favourable conditions for micro business and SME (*de minimis* guarantee)
- Launching loans supported by BGK Liquidity Guaranties Fund for medium and large companies
- Remote signing of all agreements for SME and large companies

At the later stage, the Bank continued to facilitate multichannel access to its services and products and to limit paper documents.

As a part of customer support, the Bank introduced a programme of credit moratoria.

From the perspective of year 2020 overall, the impact of the pandemic on results of the Bank was significant despite lower than initially expected negative impact on economic growth and key economic parameters. More details on solutions taken by the Bank to counteract the effects of the Covid-19 pandemic and its impact on the financial results are presented in the Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium.

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Number of obligors	TOTAL	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	64 012	7 724 738		
Loans and advances subject to moratorium (granted)	64 012	7 724 738	15 707	7 258 087
of which: Households		7 364 964	15 707	6 904 195
of which: Collateralised by residential immovable property		5 289 620	13 675	5 085 866
of which: Non-financial corporations		359 774	0	353 893
of which: Small and Medium-sized Enterprises		283 358	0	278 085
of which: Collateralised by commercial immovable property		90 003	0	89 858

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Residual maturity of moratoria				
	<= 3 months	> 3 months <= 6 months	<= 3 months	> 9 months <= 12 months	<= 3 months
Loans and advances subject to moratorium (granted)	442 386	24 265	0	0	0
of which: Households	436 532	24 237	0	0	0
of which: Collateralised by residential immovable property	191 234	12 520	0	0	0
of which: Non-financial corporations	5 854	27	0	0	0
of which: Small and Medium-sized Enterprises	5 272	0	0	0	0
of which: Collateralised by commercial immovable property	145	0	0	0	0

Loans and advances subject to legislative and non-legislative moratoria Gross carrying amount	TOTAL	Performing		
		Performing Gross carrying amount	Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	466 651	460 561	455 489	30 063
of which: Households	460 769	454 679	454 679	30 063
of which: Collateralised by residential immovable property	203 754	200 440	200 440	10 077
of which: Non-financial corporations	5 881	5 881	810	0
of which: Small and Medium-sized Enterprises	5 272	5 272	201	0
of which: Collateralised by commercial immovable property	145	145	145	0

Loans and advances subject to legislative and non-legislative moratoria Gross carrying amount	Non-performing		Inflows to non-performing exposures
	Non-performing Gross carrying amount	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
Loans and advances subject to moratorium	6 090	6 090	2 142
of which: Households	6 090	6 090	2 142
of which: Collateralised by residential immovable property	3 314	3 314	862
of which: Non-financial corporations	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0
of which: Collateralised by commercial immovable property	0	0	0

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	TOTAL	Performing		
		Performing Accumulated impairment	Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	(15 499)	(12 393)	(12 356)	(3 060)
of which: Households	(15 441)	(12 334)	(12 334)	(3 060)
of which: Collateralised by residential immovable property	(4 161)	(2 346)	(2 346)	(836)
of which: Non-financial corporations	(58)	(58)	(22)	0
of which: Small and Medium-sized Enterprises	(49)	(49)	(13)	0
of which: Collateralised by commercial immovable property	(0.3)	(0.3)	(0.3)	0

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	Non-performing		
	Non-performing Accumulated impairment	Of which: grace period of capital and interest	Non-performing Accumulated impairment
Loans and advances subject to moratorium	(3 107)	(3 107)	(3 107)
of which: Households	(3 107)	(3 107)	(3 107)
of which: Collateralised by residential immovable property	(1 815)	(1 815)	(1 815)
of which: Non-financial corporations	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0
of which: Collateralised by commercial immovable property	0	0	0

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Gross carrying amount		Gross carrying amount
	TOTAL	of which: forborne	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	520 974	0	138
of which: Households	0		0
of which: Collateralised by residential immovable property	0		0
of which: Non-financial corporations	520 974	0	138
of which: Small and Medium-sized Enterprises	205 476		138
of which: Collateralised by commercial immovable property	0		0

(3f) Collateral transferred to the Bank

In 2020 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 2020				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	1 211	3 249	5 979	0	10 439
Receivables written-off being subject to enforcement activity	60 751	7 401	76 602	0	144 754
Total written-off	61 962	10 650	82 581	0	155 193

Gross exposure write-offs in '000 PLN	In 2019				
	Loans and advances to customers			Loans and advances to banks	Total
	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

(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.

31.12.2020	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	625 366	0	0	0	0	0	0	0	625 366
Loans and advances to customers (Amortized cost)	331 200	5 514 079	5 285 491	2 122 368	76 419	41 000 677	14 835 356	4 924 832	74 090 422
Loans and advances to customers (FAIR VALUE)	222	2 681	4 324	1 700	4	0	1 602 751	4 069	1 615 751
Trading securities	0	0	0	0	269 412	0	0	0	269 412
Instruments valued at amort. cost	0	0	0	0	38 821	0	0	0	38 821
Instruments mandatorily at fair value through P&L	251 107	0	0	0	0	0	0	0	251 107
Derivatives and adjustment due to fair value hedge	103 881	39 387	23 959	2359	0	0	0	7574	177 160
Investment securities	28 865	4 996	0	308	18 597 159	0	0	35	18 631 363
Repurchase agreements	66 350	0	0	0	0	0	0	0	66 350
Total	1 406 991	5 561 143	5 313 774	2 126 735	18 981 815	41 000 677	16 438 107	4 936 510	95 765 752

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

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	36 432 135	14 444 934	4 546 668	68 992 156
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	36 432 135	15 924 579	4 559 961	94 589 730

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

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 (54.2%) and cash loans (19%). 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 24% of the total portfolio.

Sector name	2020 Balance Exposure (PLN million)	Share (%)	2019 Balance Exposure (PLN million)	Share (%)
Credits for individual persons	**57 554.0**	**75.9%**	**52 579.3**	**74.4%**
Mortgage	41 000.7	54.1%	36 571.7	51.7%
Cash loan	14 412.7	19.0%	13 969.7	19.8%
Credit cards and other	2 140.6	2.8%	2 037.9	2.9%
Credit for companies*	**18 268.9**	**24.1%**	**18 135.1**	**25.6%**
Wholesale and retail trade; repair	5 290.3	7.0%	4 829.9	6.8%
Manufacturing	4 441.9	5.9%	4 903.3	6.9%
Construction	1 075.0	1.4%	1 149.6	1.6%
Transportation and storage	2 124.2	2.8%	2 126.1	3.0%
Public administration and defence	76.5	0.1%	126.0	0.2%
Information and communication	1 303.9	1.7%	826.1	1.2%
Other Services	1 109.6	1.4%	899.5	1.3%
Financial and insurance activities	331.5	0.4%	445.8	0.6%
Real estate activities	1 069.2	1.4%	1 022.4	1.4%
Professional, scientific and technical services	217.4	0.3%	678.8	1.0%
Mining and quarrying	48.1	0.1%	50.5	0.1%
Water supply, sewage and waste	157.4	0.2%	138.9	0.2%
Electricity, gas, water	508.6	0.7%	420.7	0.6%
Accommodation and food service activities	192.2	0.2%	164.1	0.2%
Education	77.1	0.1%	55.5	0.1%
Agriculture, forestry and fishing	95.6	0.1%	84.4	0.1%
Human health and social work activities	118.1	0.2%	177.4	0.3%
Culture, recreation and entertainment	32.3	0.0%	36.1	0.0%
Total (gross)	**75 822.9**	**100.0%**	**70 714.4**	**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 2020 is 7.0% comparing with 6.0% at the end of 2019. Concentration ratio in 2020 also increased for the 10 largest customers: to 5.1% from 4.2% at the end of the previous year. This was the result of, among others, the granting financing to several large entities.

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 2020 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 c for Global Bank, Trading and Banking Book considering the effect of the diversification that exists between the particular portfolios. In addition, each Book is divided into the risk management areas.

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;
- Customized scenarios based on observed, adverse changes of market risk parameters.

The global VaR 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 2020 and the nominal levels were confirmed to be valid also in 2021 by the annual revision carried out and approved by the Risk Committee in December 2020.

Within the current market environment, the Bank continued to act very prudently. In 2020, the VaR for the Bank that is jointly Trading Book and Banking Book, increased due to market volatility caused by the COVID-19 pandemic but still were below maximum limits in place.

In 2020 the VaR indicators for the Bank remained on average at the level of PLN 72.5 million (29% of the limit) and PLN 96.9 million (39% of the limit) as of the end of December 2020. 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 (2020)				
	31.12.2019	Average	Maximum	Minimum	31.12.2020
Total risk	33 225	72 530	130 866	30 776	96 894
Generic risk	31 039	70 533	128 701	28 593	95 256
Interest Rate Risk	31 038	70 537	128 744	28 588	95 227
FX Risk	12	133	1 522	15	190
Diversification Effect	0.0%				0.2%
Specific risk	2 186	0	0	0	1 638

The corresponding exposures as of 2019 respectively amounted to ('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 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 (2020)				
	31.12.2019	Average	Maximum	Minimum	31.12.2020
Total risk	31 263	71 467	132 279	29 842	95 897
Generic risk	29 080	69 472	130 116	27 659	94 261
Interest Rate Risk	29 080	69 472	130 116	27 659	94 261
FX Risk	0	0	0	0	0
Diversification Effect	0.0%				0.0%
Specific risk	2 184	0	0	0	1 636

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

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2020)				
	31.12.2019	Average	Maximum	Minimum	31.12.2020
Total risk	2 455	2 514	6 162	762	1 239
Generic risk	2 452	2 511	6 160	759	1 237
Interest Rate Risk	2 451	2 497	6 118	758	1 190
FX Risk	11	132	1 524	11	183
Diversification Effect	0.4%				11.0%
Specific risk	2	0	6	0	2

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

In 2020, 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 2020, FX position generated in the Banking Book was fully transferred to the Trading Book where it was managed on a daily basis. During 2020 the FX open position remained on average at the level of PLN 7.6 million (8.5% of the limit) with maximum of PLN 37.6 million (44.1% of the limit). In 2020, 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
2020	7 590	2 353	37 584	4 954
2019	7 557	1 760	38 983	7 181

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, nine 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 *
2020-12-31	94 903	44 353	9
2019-12-31	31 039	3 324	5

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

In 2020, all excesses in the process of VaR model back testing were caused by unanticipated market movements caused by the COVID-19 pandemic uncertainty, of which strong changes in Polish government bonds yields and short term interest rates in March 2020 had the most impact on VaR model performance. In consequences, due to the number of excesses detected, the assessment of VaR model performance felt into yellow zone: 9 - 14 excesses acceptable. It forced immediate action in VaR calculations, including model parameters calibration to most recent market observation and temporary volatility method changed from equal weights to EWMA method, which is better suited during periods of significant upsurge in price volatility. It allowed stopping further excesses in VaR back testing. Due to one year monitoring period, higher number of excesses will be present for foreseeable future (yellow zone is expected at least in 1Q 2021 reporting).

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

The results of market risk sensitivity and customized stress tests were regularly reported to the Capital, Assets and Liabilities Committee. After a series of interest rate cuts in Poland, the thresholds for market risk exposure under customized stress scenarios were temporary exceeded, in particular under stress test scenario that assumes strong Polish government bonds yield increase (2-years by more than 222 bps). In the low interest rate environment in Poland, the probability of scenario occurrence was assessed as very low. The Capital, Assets and Liabilities Committee has approved the breach and carried out revision of customized scenarios. In December 2020, the market stress tests scenarios were adjusted to the most recent changes of the market risk parameters. It allowed adopting new set of market risk stress scenarios that are severe but still possible to occur. Results under revised scenarios are again kept under defined boundaries.

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 share of the loan portfolio that is affected by the new maximum rate.

The results of COVID-19 pandemic and its negative impact on the economic environment, as well as the reductions of the reference rates by the Monetary Policy Council at its meetings on 17th March 2020, 8th April 2020 and 28th May 2020 had a negative impact on the activity and financial results of the Bank. Before above mentioned three interest rate cuts, the NBP Reference rate was set at 1.5%, so that the maximum interest rate for loan portfolio could not exceed 10% annually. On March the maximum interest rate dropped immediately to 9%, in April to 8% and then in May to 7.2%.

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 primarily 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.

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 recently revised in December 2020, including:

- Due date for balances and interest flows arising from non-maturing deposits are defined on the basis of historical data regarding customer behaviour, taking into account the stability of the volumes and with assumption of a maximum maturity of 3 years,
- 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 for BPVx100 and economic value measures as of the end of 2020 and 2019 did not exceed neither supervisory nor internally defined limits. The supervisory stress tests results of December 2020 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.

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

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

	31.12.2020	31.12.2019
	BPVx100	BPVx100
PLN	(24 537)	(157 480)
CHF	16 864	11 099
EUR	97 308	44 677
USD	29 892	14 256
Other	4 946	3 359
TOTAL	124 471	(84 089)
Equity, fixed and other assets	77 253	73 352
TOTAL	**201 725**	**(10 738)**

The above-mentioned decisions of the Monetary Policy Council to reduce interest rates to its historical minimum (decrease reference rate to 0.10% and the Lombard rate to 0,50%) as well as the decision regarding change in the parameters of the obligatory requirement, had altogether a significant negative impact on the Bank's net interest income.

In such a low interest rate environment in Poland, the results of sensitivity of NII for the next 12 months after 31st December 2020 and for position in Polish Zloty in Banking Book in a scenario of further decrease of interest rates by 100 bps, is negative and equal to -16.7% of the annualized 4Q 2020 net interest income (+9.9% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the polish legal system mentioned above with simultaneous limitation on further decrease on deposits side (minimum interest rate set at 0%).The NBP Reference rate is currently set at 0.10%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 5.2% annually in comparison to currently valid 7.2%. In order to limit negative impact on NII sensitivity in case of further interest rate decrease, the interest rate swaps were concluded in 4Q 2020.

Sensitivity of NII for PLN to changes of interest rates	31.12.2020	31.12.2019
Parallel yield curve increase by 100 b.p.	+9.9%	+1.2%
Parallel yield curve decrease by 100 b.p.	-16.7%	-3.4%

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 2020, the COVID-19 pandemic had an impact on global financial markets resulting in depreciation of Polish Zloty, limited confidence among market participants through lower possibilities of financing as well as a temporary, sharp decline in activity on the treasury securities market. Despite COVID-19’s implications observed in the market mentioned above, the Bank did not observe any threat to its liquidity position due to the spread of COVID-19. The Bank continued to be characterized by solid liquidity position.

In 2020, due to loan increase in faster pace than deposits, the Bank’s Loan-to-Deposit ratio also increased and was equalled to 91% at the end of December 2020 (comparing to level of 84% as of end of December 2019). Apart from the increase, the Bank kept its Loan-to-Deposit ratio well below 100% in line with its risk appetite defined for 2020. 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. At the end of 2020, the share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 98% and allowed to reach the level of approx. PLN 18.4 billion (19% of total assets), whereas at the end of December 2019 (PLN 22.5 billion, 23% 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 2020 total Clients' deposits of the Bank reached the level of PLN 81.8 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equalled to approx. 75.4% at the end of December 2020 (74.7% at the end of December 2019). The high share of funds from individuals had a positive impact on the Bank's liquidity and supported the compliance and further grows 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 2020 amounted respectively to 2.8% and 4.8% (in December 2019 it was respectively 2.3% and 4.9%). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2020. 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 2020, no new bonds and bank's securities were issued within the Bank, and no new loans were taken from financial institutions. The total balance sheet value of medium-term loans from financial institutions at the end of 2020 amounted to PLN 25.0 million (at the end of December 2019 it was PLN 436.7 million). The decrease of the total amount of the medium-term loans from financial institutions was mainly connected with final repayment of 3 year, senior unsecured loan of 80 million EUR from Industrial and Commercial Bank of China (Europe) S.A., Branch in Poland (ICBC Europe) as well as the last payment was made to repay loan granted to the Bank in 2016 from European Bank for Reconstruction and Development (EBRD) in original amount of 50 million EUR.

At the end of December 2020 the total balance sheet value of bonds and bank's securities issued by the Bank (without subordinated bonds) amounted to PLN 484.7 million (PLN 1 003.7 million in December 2019). 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.

In 2020 the Bank redeemed bank securities with a nominal value of PLN 221.2 million and in April 2020, in line with the maturity date, 3-year bonds of series T with a nominal value of PLN 300 million.

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 liquid asset portfolio, Central Bank's eligible collateral for standard monetary operation and two internally defined indicators: immediate liquidity and quarterly liquidity. The last two 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 2020, 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 2020 and will be replaced by revised limits on 1st January 2021.

Current Liquidity indicators PLN million

			31.12.2020		
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
Indicator	17 235	17 289	21%	18 250	144%
Indicator (% of total assets)	21%	21%	21%	-	-
Minimum limit	10%	10%	15%	12 000	100%
			31.12.2019		
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
Indicator	18 795	18 795	-	22 795	158%
Minimum limit	957	(1 596)	-	12 000	100%

** - Immediate and Quarterly Liquidity Indicator: The value of the liquidity buffer available for discount with the Central Bank minus the net outflows (projected for the next 3 working days for Immediate Liquidity Indicator and for the next 3 months for Quarterly Liquidity Indicator in all convertible currencies).*
*** - Central Bank Collateral / Total Deposits: The ratio between the value after haircuts of the eligible collateral for European Central Banks and the total deposits. This ratio is calculated based on the face amount of the referred products.*
**** - 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 2020 was met by the Bank (as of the end of December 2020 the LCR reached the level of 144%). 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 2020, 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 December 2020, liquidity gaps were maintained positive and still at safe levels, however decreased during the year 2020. The lowering of short-term liquidity gaps in December 2020 was temporary and was mainly the result of decrease of liquid assets, due to considerable outflow of deposits from corporate and financial customers at the end of year. Starting from 2021, the liquidity buffer has been again rebuilt and gaps were increased together with inflows of funds coming back from corporate Clients. The results of cumulative, behaviour liquidity gaps (normal conditions) are presented in tables below.

31.12.2020						
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	27 041	6 852	12 159	9 597	13 777	38 057
Adjusted balance liabilities	12 492	4 403	7 885	6 079	9 180	58 835
Balance-Sheet Gap	14 549	2 450	4 273	3 518	4 597	(20 778)
Cumulative Balance-Sheet Gap	14 549	16 999	21 273	24 790	29 387	8 609
Adjusted off-balance assets	82	53	75	70	23	2
Adjusted off-balance liabilities	(1 400)	(49)	(83)	(65)	(35)	(4)
Off-Balance Sheet Gap	(1 318)	4	(8)	5	(12)	(2)
Total Gap	13 231	2 454	4 266	3 523	4 585	(20 781)
Total Cumulative Gap	**13 231**	**15 685**	**19 951**	**23 474**	**28 059**	**7 278**

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**

The Bank has developed a liquidity risk management tool defining sensitivity analysis and stress scenarios (idiosyncratic, systemic 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.

As of December 2020, the results of the stress test analysis demonstrated that the most severe is combined scenario (joined idiosyncratic and systemic shocks) of which the survival period is slightly above 3 months. The stress tests results indicated that Bank has sufficient time to execute emergency procedures, in case of eventual scenario materialization.

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 2020 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 October 2020.

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 2020 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 solutions adopted also proved successful in the situation related to the COVID-19 pandemic. 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 analysed in what concerns the source of event and possibility of mitigating the effects and apply appropriate preventive actions. In the IT tool, events are being ascribed to a certain risk category and proper process type, which is later used as a part of reporting and risk self-assessment validation. The internal database of risk events additionally meets qualitative and quantitative requirements for following the advanced approach in calculating capital requirements on account of operational risk.

The risk self-assessment was being 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 2020 and 2019 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM BANK HIPOTECZNY,
- 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 31.12.2020

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks – accounts and deposits	0	1 237	0
Loans and advances to customers	5 716 908	0	0
Investments in associates	208 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	1 177	0	0
Hedging derivatives	0	0	0
Other assets	34 168	0	0
LIABILITIES			
Deposits from banks	0	23 601	127 903
Deposits from customers	500 049	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	5	333	0
Subordinated debt	0	0	0
Other liabilities, including:	96 801	0	122
financial leasing liabilities	88 675	0	0

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

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2020

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	89 131	(232)	0
Commissions	21 012	102	0
Financial instruments valued at fair value through profit and loss	1 544	0	0
Dividends	35 665	0	0
Other net operating	7 225	0	0
Expense from:			
Interest	2 514	3	(325)
Commissions	119	0	0
Financial instruments valued at fair value through profit and loss	0	452	0
Other net operating	0	13	0
General and administrative expenses	24 114	0	256

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2020

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	866 424	100 774	0
granted	863 550	100 000	0
obtained	2 874	774	0
Derivatives (par value)	100 662	15 938	0

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

10.2. Transactions with the Managing and Supervising Persons

Information on total exposure towards the managing and supervising persons as at 31.12.2020 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	211.5	137.0
including an unutilized limit	179.7	111.3

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 31.12.2020 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	9 976	3 000	161	Personal with a supervising person

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

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

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
2020	16 103.3	1 927.4	18 030.7
2019	19 414.8	1 838.9	21 253.7

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 2020 and 2019, 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
2020	2 053.5
2019	2 076.7

In 2020 the Members of the Bank's Supervisory Board received remuneration for performing their functions in subsidiaries in the amount of PLN 17.5 thousand, whereas in 2019 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 31.12.2020 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	22	38 818	39 559
Deposits, loans and advances to banks and other monetary institutions	22	625 366	625 366
Loans and advances to customers (*)	21	71 885 679	70 407 960
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	31	563 882	563 835
Liabilities to customers	32	81 832 471	81 867 328
Debt securities issued	34	484 655	485 527
Subordinated debt	35	1 540 209	1 540 491

** 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 31.12.2019 (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	67 191 034	64 913 411
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

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 31.12.2020

	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			134 992	20 373
Debt securities		269 412		
Non-trading financial assets mandatorily at fair value through profit or loss	19			
Equity instruments			134 163	66 609
Debt securities				50 335
Loans and advances				1 615 753
Financial assets at fair value through other comprehensive income	20			
Equity instruments				29 219
Debt securities		18 597 147		
Derivatives – Hedge accounting	23		21 795	
LIABILITIES				
Financial liabilities held for trading	30			
Valuation of derivatives			83 760	20 021
Short positions		64 778		
Derivatives – Hedge accounting	23		738 850	

Data in '000 PLN, 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	

Using the criterion of valuation techniques as at 31.12.2020 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 in the number of 23,798; 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 31.12.2019	**61 294**	**(60 944)**	**95 976**	**103 001**	**1 498 195**
Settlement/sell/purchase	(34 996)	34 697	0	0	90 544
Change of valuation recognized in equity	0	0	(175)	0	0
Interest income and other of similar nature	0	0	0	0	69 934
Results on financial assets and liabilities held for trading	(6 387)	6 688	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	(52 666)	(42 920)
Result on exchange differences	0	0	26	0	0
Balance as at 31.12.2020	**19 911**	**(19 559)**	**95 827**	**50 335**	**1 615 753**

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 31.12.2018	**35 430**	**(35 584)**	**50 651**	**43 187**	**1 250 525**
Settlement/sell/purchase	17 357	(15 736)	147	17 730	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	42 084	(23 401)
Result on exchange differences	0	0	6	0	0
Balance as at 31.12.2019	**61 294**	**(60 944)**	**95 976**	**103 001**	**1 498 195**

12. Contingent Liabilities and Assets

12.1. Lawsuits

Below please find the data on the court cases pending, brought up by and against the Bank. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 14. note 15) "Corporate Income Tax"**.

Court cases brought up by the Bank

Value of the court litigations, as at 31.12.2020, in which the Bank was a plaintiff, totalled PLN 263.3 million.

Proceedings on infringement of collective consumer interests

On January 3 2018, the Bank 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 PLN 20.7 mln.

The Bank 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 bank appealed against the judgment within the statutory deadline. 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), the more penalties for these behaviours should not be imposed using current policy. The above constitutes a significant argument against the validity of the judgment and supports the appeal which the Bank submitted to the Court of second instance.
According to current estimates of the risk of losing the dispute, the Bank has not created a provision.

Proceedings on competition-restricting practice

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 2006 imposed a fine on the Bank in the amount of PLN 12.2 million. The Bank, along with other banks, appealed the decision.

In connection with the judgment of the Supreme Court and the judgment of the Court of Appeal in Warsaw of November 23, 2020, the case is currently pending before the court of first instance - the Court of Competition and Consumer Protection. The Bank has created a provision in the amount equal to the imposed penalty.

Proceedings in the matter of recognition of provisions of the agreement format as abusive

On 22 September 2020 The Bank received decision of the Chairman of the Office for Protection of Competition and Consumers (OPCC Chairman) recognising clauses stipulating principles of currency exchange applied in the so-called anti-spread annex as abusive and prohibited the use thereof.

Penalty was imposed upon the Bank in the amount of 10.5 million PLN. Penalty amount takes account of two mitigating circumstances: cooperation with the Office for Protection of Competition and Consumers and discontinuation of the use of provisions in question.

The Bank was also requested, after the decision becomes final and binding, to inform consumers, by registered mail, to the effect that the said clauses were deemed to be abusive and therefore not binding upon them (without need to obtain court's decision confirming this circumstance) and publish the decision in the case on the Bank's web site.

In the decision justification delivered in writing the OPCC Chairman stated that FX rates determined by the Bank were determined at Bank's discretion (on the basis of a concept, not specified in any regulations, of average inter-bank market rate). Moreover, client had no precise knowledge on where to look for said rates since provision referred to Reuters, without precisely defining the relevant site.

Provisions relating to FX rates in Bank's tables were challenged since the Bank failed to define when and how many times a day these tables were prepared and published.

In justification of the decision, the OPCC Chairman also indicated that in the course of the proceeding, Bank Millennium presented various proposed solutions, which the OPCC Chairman deemed to be insufficient.

The decision is not final and binding. The Bank appealed against the said decision within statutory term. The Bank believes that chances for it to win the case are positive.

Court cases against the Bank

As at 31.12.2020, the most important proceedings, in the group of the court cases where the Bank was defendant, were following:

- The Bank is a defendant in three court proceedings in which the subject of the dispute is the amount of the interchange fee. In two of the abovementioned cases, the Bank was sued jointly and severally with another bank, and in one with another bank and card organizations. The total value of claims submitted in these cases is PLN 729,580,027. The proceedings with the highest value of the submitted claim are brought by PKN Orlen SA, in which the plaintiff demands payment of PLN 635,681,381. The plaintiff in this proceeding alleges that the banks acted under an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2006-2014. In the other two cases, the charges are similar to those raised in the case brought by PKN Orlen SA, while the period of the alleged agreement is indicated for the years 2008-2014. According to current estimates of the risk of losing a dispute in these matters, the Bank did not create a provision. In addition, we point out that the Bank participates as a side intervener in three other proceedings regarding the interchange fee. Other banks are the defendant. Plaintiffs in these cases also accuse banks of acting as part of an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2008-2014.
- A lawsuit 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 05.04.2016 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 created a specific provision.

As at 31.12.2020, the total value of the subjects of the other litigations in which the Bank appeared as defendant, stood at PLN 815.3 million (excluding the class actions described below and in the **Chapter 13.**). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

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.
By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff. Bank submitted an appeal against the resolution on 14 July 2020. The appeal has not yet been decided.

As at 31 December 2020, there were also 386 individual court cases regarding LTV insurance (cases in which only a claim for the reimbursement of the commission or LTV insurance fee is presented).

Lawsuits filed by Financial Ombudsman for discontinuation of unfair market practices

On 13 August 2020 the Bank received lawsuit from the Financial Ombudsman. The Financial Ombudsman, in the lawsuit, demands that the Bank and the Insurer (TU Europa) be ordered to discontinue performing unfair market practices involving, as follows:

- presenting the offered loan repayment insurance as protecting interests of the insured in case when insurance structure indicates that it protects the Bank's interests;
- use of clauses linking the value of insurance benefit with the amount of borrower's debt;
- use of clauses determining the amount of insurance premium without prior risk assessment (underwriting);
- use of clauses excluding insurer's liability for insurance accidents resulting from earlier causes.

Furthermore, the Ombudsman requires the Bank to be ordered to publish, on its web site, information on use of unfair market practices.
The lawsuit does not include any demand for payment, by the Bank, of any specified amounts. Nonetheless, if the practice is deemed to be abusive it may constitute grounds for future claims to be filed by individual clients.
The case is being examined by the court of first instance.

FX mortgage loans legal risk

FX mortgage loans legal risk is described in the **Chapter 13.** "Costs of provisions for legal risk related to foreign currency mortgage loans".

12.2. OFF BALANCE SHEET ITEMS

OFF-BALANCE ITEMS

Amount '000 PLN	31.12.2020	31.12.2019
Off-balance conditional commitments granted and received	**16 589 172**	**12 995 272**
Commitments granted:	15 040 743	12 452 047
Loan commitments	12 478 702	9 939 514
guarantee	2 562 041	2 512 533
Commitments received:	1 548 429	543 226
financial	0	0
guarantee	1 548 429	543 226

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 '000 PLN	31.12.2020	31.12.2019
financial sector	871 846	810 793
non-financial sector (companies)	1 688 582	1 694 707
public sector	1 613	7 033
Total	2 562 041	2 512 533

As the parent company, the Bank granted 5 loan repayment guarantees to the subsidiary Millennium Leasing for the total amount of PLN 761.5 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 '000 PLN	31.12.2020	31.12.2019
Millennium Leasing Sp. z o.o.	789 138	753 491
Millennium Service Sp. z o.o.	12 509	12 865
Millennium Goodie Sp. z o.o.	5 000	0
Total	806 647	766 357

Guarantees and sureties granted to Clients

Commitments granted - guarantee, amount '000 PLN	31.12.2020	31.12.2019
Active guarantees and sureties	1 734 814	1 649 228
Lines for guarantees and sureties	832 408	869 258
Total	2 567 222	2 518 486
Provisions created	(5 181)	(5 953)
Commitments granted - guarantee after provisions	**2 562 041**	**2 512 533**

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

By currency	31.12.2020	31.12.2019
PLN	978 315	986 153
Other currencies	756 499	663 075
Total:	1 734 814	1 649 228

By type of commitment	31.12.2020		31.12.2019	
	Number	Amount	Number	Amount
Guarantee	3 483	1 712 295	3 464	1 618 473
Surety	0	0	0	0
Re-guarantee	44	22 519	43	30 755
Total:	3 527	1 734 814	3 507	1 649 228

By object of the commitment	31.12.2020			31.12.2019		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 701	496 270	28.61%	2 632	476 237	28.88%
rent payment	298	229 175	13.21%	313	248 097	15.04%
punctual payment for goods or services	176	14 523	0.84%	185	21 987	1.33%
bid bond	222	99 120	5.71%	253	59 803	3.63%
Other	47	53 738	3.10%	44	35 011	2.12%
advance return	44	68 628	3.96%	41	66 698	4.04%
Customs	18	770 694	44.42%	18	736 508	44.66%
payment of bank loan	21	2 666	0.15%	21	4 887	0.30%
Total:	3 527	1 734 814	100.00%	3 507	1 649 228	100.00%

13. Costs of provisions for legal risk related to foreign currency mortgage loans

13.1. CURRENT PROVISIONS ON LEGAL RISK

As of 31st of December 2020, the Bank had 5 018 loan agreements and additionally 496 loan agreements from former Euro Bank (98% loans agreements before the Court of first instance and 2% loans agreements before the court of second instance) under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 562.4 million and CHF 34.3 million (Bank Millennium portfolio: PLN 508.2 million and CHF 33.4 million and former Euro Bank portfolio: PLN 54.1 million and CHF 0.9 million). The outstanding amount of the loan agreements under individual court cases as of 31.12.2020 was PLN 1 794 million.

Until 31.12.2020 only 69 cases were finally resolved (49 in claims submitted by clients against the Bank and 20 in claims submitted by the Bank against clients i.e. debt collection cases)

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 affects the number of 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 3 281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. On 11 August 2020, the claimant requested granting interim measures to secure the claims against the Bank. In a decision of 18 August 2020, the request for granting interim measures was dismissed. On 26 October 2020, the claimant filed another application for granting interim measures to secure claims against the Bank concerning two group members. By decision of 6 November 2020, the application was rejected. The court’s decision dismissing the request for interim measures with a justification has not yet been served. During the session on 26 of October 2020 the Court conducted a hearing of parties' position and afterwards postponed the session without setting the next term. The outstanding amount of the loan agreements under the class action proceeding was 1 000 million PLN as of 31.12.2020.

The Bank continues to be open to its customers in order to reach amicable solutions on negotiated terms. 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. The Bank has already reached agreement and settlement with 117 borrowers that participated in the class action.

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) the proportion have adversely changed and majority of court cases have been lost by banks.

Taking into consideration the increased legal risk related to FX mortgages, in 2019 Bank Millennium created PLN 223 million provisions while in year 2020 PLN 713 million worth of provisions in total which included PLN 677 million provision for legal risk for Bank Millennium originated portfolio and PLN 36.4 million for ex-Euro Bank originated portfolio. 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.

As of 31 December 2020, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 924 million, and PLN 36.4 million for the portfolio originated by ex-Euro Bank. Legal risk from ex-Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

The Bank analyzed the sensitivity of the methodology for calculating provisions, for which a change in the parameters would affect the value of the estimated loss to the legal risk of litigation:

Parameter	Scenario	Impact on loss due to legal risk related to the portfolio of mortgage loans in convertible currencies
Change in the number of lawsuits	Additionally, 1 p.p. of active clients file a lawsuit against the Bank	PLN 33 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 25 million

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, as regards 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 the light of the subject matter judgment the said provision must be interpreted in such a way that (i) the national court may invalidate a credit agreement if the removal of unfair terms detected in this agreement 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 must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and the will of the consumer is decisive as to whether he wishes to maintain the contract; (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 solely on the basis of national legislation of a general nature or established customs; (iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract if the consumer has not consented to the maintenance of such terms. It can be noticed the CJEU found doubtful the possibility of a credit agreement being performed further in PLN while keeping interest calculated according to LIBOR.

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 have already been filed and may still be filed with potential impact on the outcome of the court cases.

In this context, taking into consideration the recent negative evolution in the court verdicts regarding FX mortgage loans, and if such trend continues, the Bank will have to regularly review and may need to continue to increase the balance of provisions allocated to court litigations.

Invalidity of the Bank Millennium loan agreements currently under individual court and class action cases could have a pre-tax cost up to PLN 2 385 million.

13.2. EVENTS THAT MAY IMPACT PROVISION FOR LEGAL RISK

On 29 January 2021 it was published a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Supreme Court which may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court has been requested for answering the questions concerning key matters related to FX mortgage agreements: (i) is it permissible to replace - with the law provisions or with a custom - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/denominated credit agreement - is it permissible to keep the agreement still valid in its remaining scope; as well as (iii) if in case of invalidity of the CHF credit there would be applicable the theory of balance (i.e. does arise a single claim which is equal to the difference between value of claims of bank and the customer) or the theory of two condictions (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court has also been requested for answering the question on (iv) from which point in time there shall be starting the limitation period in case of bank's claim for repayment of amounts paid as a loan and (v) whether banks and consumers may receive remuneration for using their pecuniary means by another party. The date of the meeting of the Supreme Court is scheduled for 25 March 2021. The Bank will assess in due time the implications of the potential decisions of the Supreme Court on the level of provisions for the legal risk.

On December 8, 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority (‘PFSA’) proposed a ‘sector’ solution to address the sector risks related to FX mortgages. The solution would consist in offering by banks to their clients a voluntary possibility of concluding arrangements based on which a client would conclude with the bank a settlement as if his/her loan from the very beginning had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loan.

Following that public announcement, the idea has been subject of consultations between banks under the auspices of the PFSA and Polish Banking Association. Banks in general have been assessing the conditions under which such solution could be implemented and consequent impacts.

In the view of the Management Board of the Bank, important aspects to take into consideration when deciding on potential implementation of such program are : a) favourable opinion or at least non-objection from important public institutions; b) support from National Bank of Poland to the implementation; c) level of legal certainty of the settlement agreements to be signed with the borrowers; d) level of the financial impact on a pre- and after tax basis; e) capital consequences including regulatory adjustments in the level of capital requirements associated with FX mortgage loans.

At the time of publishing this report, neither the Management Board nor any other corporate body of the Bank took any decision regarding implementation of such program. If / when a recommendation regarding the program would be ready, the Management Board would submit it to the Supervisory Board and General Shareholders meeting taking into consideration the relevance of such decision and its implications.

According to preliminary calculations, implementation of a solution whereby loans would be voluntarily converted to Polish zloty as if from the very beginning they had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the current portfolio would be converted) with a pre-tax impact between PLN 4 100 million to PLN 5 100 million (not audited data). The impacts can significantly change in case of variation of the exchange rate and several assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk weighted assets and the decrease or elimination of Pillar 2 buffer. The above mentioned impact would be substantially higher than the estimated impact of PLN 500 million to PLN 600 million (not audited data) in the scenario of replacing the exchange rate applied in the contracts by the average NBP exchange rate. Finally it should be mentioned, that the Bank, as at 31.12.2020, had 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 3.41 p.p. (3.36 p.p. at the Group level), part of which is allocated to operational/legal risk.

Due to the complexity and uncertainty regarding the outcome of court cases, as well as from potential implementation of KNF Chairman solution or from potential Supreme Court decisions, it is difficult to reliably estimate potential impacts of such different outcomes and their interaction as at the date of publication of the financial statements.

14. 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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Interest income from Financial assets at fair value through other comprehensive income	313 390	384 623
Debt securities	313 390	384 623
Interest income from Financial assets at amortised cost	2 602 344	2 470 441
Balances with the Central Bank	5 252	12 347
Loans and advances to customers	2 410 082	2 148 990
Debt securities	1 065	1 528
Deposits, loans and advances to banks	793	25 056
Transactions with repurchase agreements	6 436	12 618
Hedging derivatives	178 716	269 902
Income of similar nature to interest, including:	73 995	127 196
Loans and advances to customers mandatorily at fair value through profit or loss	69 934	114 665
Financial assets held for trading - debt securities	4 061	12 531
Total	**2 989 729**	**2 982 260**

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 2020 contains interest accrued on impaired loans in the amount of PLN 114,318 thous. (for corresponding data in the year 2019 the amount of such interest stood at PLN 75,645 thous.).

2. INTEREST EXPENSE

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Interest expense from Financial liabilities measured at amortised cost	(533 813)	(881 868)
Liabilities to banks and other monetary institutions	(10 431)	(19 250)
Liabilities to customers	(444 615)	(772 914)
Transactions with repurchase agreement	(7 795)	(5 997)
Debt securities issued	(11 599)	(16 513)
Subordinated debt	(51 441)	(59 880)
Leasing liabilities	(7 932)	(7 314)
Hedging derivatives	0	0
Other	(47)	(161)
Total	(533 860)	(882 029)

3. FEE AND COMMISSION INCOME AND EXPENSE

3a. Fee and commission income

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Resulting from accounts service	102 572	92 753
Resulting from money transfers, cash payments and withdrawals and other payment transactions	67 738	72 606
Resulting from loans granted	165 850	151 812
Resulting from guarantees and sureties granted	17 530	17 486
Resulting from payment and credit cards	221 085	200 185
Resulting from sale of insurance products	118 340	81 105
Resulting from distribution of investment funds units and other savings products	79 041	98 484
Resulting from brokerage and custody service	6 640	6 038
Other	30 471	24 889
Total	809 267	745 358

In 2020, as a result of updating the source data, which made it possible to determine the turnover in the accounts, a new methodology for presenting data in the field of income and commission expense notes was implemented. The current grouping of values to individual items is carried out at the transaction level, taking into account the division into revenues and costs. Relevant adjustments were made to the comparative data for 2019, but the net values of individual items of the commission result were not significantly adjusted.

3b. Fee and commission expense

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Resulting from accounts service	(20 132)	(17 936)
Resulting from money transfers. cash payments and withdrawals and other payment transactions	(4 610)	(3 537)
Resulting from loans granted	(15 172)	0
Resulting from payment and credit cards	(93 515)	(97 819)
Resulting from selling insurance products	(16 440)	(14 493)
Other	(19 660)	(18 399)
Total	(169 529)	(152 184)

4. DIVIDEND INCOME

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Non-trading financial assets mandatorily at fair value through profit or loss	906	879
Financial assets at fair value through other comprehensive income	2 755	2 255
Investments in subordinated companies	35 665	42 110
Total	39 326	45 244

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Operations on debt instruments	130 767	41 021
Costs of financial operations	(3 129)	(3 292)
Total	127 638	37 729

6. RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Result on debt instruments	12 867	(2 767)
Result on derivatives	34 512	71 036
Costs of financial operations	0	0
Total	47 379	68 269

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Loans and advances to customers	(42 921)	(23 401)
Result on equity instruments	134 163	45 000
Result on debt instruments	(52 666)	42 084
Total	38 576	63 683

The increase in the result on non-trading equity instruments that are mandatorily measured at fair value through profit or loss, results from the positive valuation of some VISA Incorporation shares admitted to trading. At the same time, the decrease in the result on debt instruments is caused by the reclassification of the previously recognized profit, also on the valuation of VISA Incorporation securities, to the result on equity instruments, which was caused by the admission of these securities to trading (in accordance with the interpretation adopted by the Bank, VISA Incorporation securities in the part not allowed for trading constitute a debt instrument).

8. RESULT ON HEDGE ACCOUNTING

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Changes in the fair value of the hedging instrument (including abandonment)	(7 594)	1 607
Changes in the fair value of the hedged item resulting from the hedged risk	6 588	(1 417)
Inefficiency in cash flow hedges	(9 253)	(19 249)
Inefficiencies due to net investment hedges in foreign operations	0	0
Total	(10 259)	(19 059)

9. OTHER OPERATING INCOME

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Gain on sale and liquidation of property, plant and equipment, intangible assets	5 976	0
Income from sale of other services	11 893	7 966
Income from collection service	4 749	6 217
Other	118 247	71 145
Total	140 865	85 328

10. OTHER OPERATING EXPENSE

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Loss on sale and liquidation of property, plant and equipment, intangible assets	(2 733)	(3 719)
Indemnifications, penalties and fines paid	(7 307)	(4 726)
Costs of provisions for disputed claims	(16 874)	(7 311)
Costs related with providing other services	(3 643)	(3 008)
Donations made	(849)	(794)
Costs of collection service	(18 956)	(15 395)
Provision for potential returns to clients*	(142 431)	(30 981)
Other	(27 043)	(5 818)
Total	(219 836)	(71 752)

* 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, in 2020 the Bank recorded in the P&L provision amounting to PLN 142.4 million. Part of this provision (PLN 88.5 million) was an accounting loss of Y2020 resulting from ex-Euro Bank's clients early repayments made before Euro Bank purchase date and was partially compensated by positive valuation of indemnity agreement signed with Societe Generale S.A. (PLN 35.8 million) – this effect was recognised as „other operating income". The provision was estimated based on the amount of potential returns and the probability of payment.
The balance sheet value of outstanding provision for potential returns as of 31.12.2020 was 113.7 million.

11. Administrative expenses

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Staff costs:	(813 783)	(715 299)
Salaries	(685 532)	(589 574)
Surcharges on pay	(109 254)	(95 645)
Employee benefits, including:	(18 997)	(30 080)
- provisions for retirement benefits	(2 984)	(8 996)
- provisions for unused employee holiday	8 750	(62)
- other	(24 763)	(21 022)
Other administrative expenses:	(683 337)	(659 933)
Costs of advertising, promotion and representation	(60 798)	(69 759)
IT and communications costs	(124 231)	(145 366)
Costs of renting	(80 165)	(64 580)
Costs of buildings maintenance, equipment and materials	(53 366)	(47 006)
ATM and cash maintenance costs	(27 891)	(21 814)
Costs of consultancy, audit and legal advisory and translation	(37 720)	(69 001)
Taxes and fees	(33 123)	(27 507)
KIR - clearing charges	(8 022)	(6 535)
PFRON costs	(7 704)	(6 204)
Banking Guarantee Fund costs	(167 185)	(121 417)
Financial Supervision costs	(10 203)	(10 207)
Other	(72 929)	(70 537)
Total	**(1 497 120)**	**(1 375 232)**

12. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Impairment losses on loans and advances to customers	(478 709)	(198 524)
Impairment charges on loans and advances to customers	(1 466 595)	(825 462)
Reversal of impairment charges on loans and advances to customers	919 006	592 629
Amounts recovered from loans written off	49 249	32 273
Sale of receivables	19 590	1 448
Other directly recognised in profit and loss	41	588
Impairment losses on securities	52	(34)
Impairment charges on securities	0	(34)
Reversal of impairment charges on securities	52	0
Impairment losses on off-balance sheet liabilities	1 464	(361)
Impairment charges on off-balance sheet liabilities	(73 893)	(70 581)
Reversal of impairment charges on off-balance sheet liabilities	75 357	70 220
Total	**(477 193)**	**(198 919)**

13. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Fixed assets	0	0
Other assets	(7 846)	(1 153)
Total	(7 846)	(1 153)

14. DEPRECIATION AND AMORTIZATION

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Property, plant and equipment	(154 192)	(119 133)
Intangible assets	(42 167)	(26 575)
Total	(196 359)	(145 708)

15. CORPORATE INCOME TAX

15a. Income tax reported in income statement

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Current tax	(318 752)	(300 563)
Current year	(321 206)	(300 563)
Adjustment to prior periods	2 454	0
Deferred tax:	143 615	33 304
Recognition and reversal of temporary differences	143 615	33 304
Total income tax reported in income statement	**(175 137)**	**(267 259)**

15b. Effective tax rate

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Profit before tax / (loss)	193 716	867 942
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(36 806)	(164 909)
Impact of permanent differences on tax charges:	**(141 031)**	**(102 588)**
Non-taxable income	26 817	16 387
Dividend income	7 300	8 358
Release of other provisions	9 432	8 012
Settlement with SG due to adjustment of Euro Bank S.A. purchase price	10 039	0
Other	46	17
Cost which is not a tax cost	(167 848)	(118 975)
Write-down of unrealized deferred tax assets	(171)	(2 635)
Loss on sale of receivables	(8)	0
PFRON fee	(1 464)	(1 179)
Fees for Banking Guarantee Fund	(31 765)	(23 069)
Settlement of BFG SKOK PIAST	(1 824)	0
Banking tax	(53 038)	(45 015)
Income/cost of provisions for factoring and leasing receivables	492	(4 160)
Receivables written off	(2 324)	(1 441)
Costs of litigations and claims	(76 070)	(39 586)
Other	(1 676)	(1 890)
Deduction of the tax paid abroad	246	238
Adjustments of CIT-8 statements for previous years	2 454	0
Total income tax reported in income statement	**(175 137)**	**(267 259)**
Effective tax rate	90.41%	30.79%

15c. Deferred tax reported in equity

	31.12.2020	31.12.2019
Valuation of securities at fair value through other comprehensive income	(55 383)	(21 762)
Valuation of cash flow hedging instruments	8 439	5 488
Actuarial gains (losses)	732	594
Deferred tax reported directly in equity	(46 212)	(15 680)

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

On December 31, 2019, the Tax Capital Group of Bank Millennium (PGK) ended its legal existence. PGK participants (Bank Millennium S.A., Millennium Service Sp.z o.o. and Millennium Goodie Sp. z o.o.) did not extend the contract for the following years. This means that for 2020 each of the companies settles the corporate income tax individually..

Withholding tax audit for years 2015-16

On 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. On 13 October 2020 the Bank received negative decisions issued by Head of ZUCS "sustaining" adverse audit's findings. Total withholding tax arrear determined for years 2015-16 is PLN 6,580,618 to be increased by penalty interests (8% p.a.). Bank does not agree with decisions and will appeal and lodge complaints to the administrative court, if sustained in the second instance. Bank received an expert opinion as of January 29, 2020 of tax professors from the Public Finances Law Department of the Faculty of Law and Administration at Nicolaus Copernicus University in Torun, according to which ZUCS's statement violates binding tax law provisions.

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

	31.12.2020	31.12.2019
Cash	785 357	758 545
Cash in Central Bank	674 932	1 444 899
Other funds	0	0
Total	1 460 289	2 203 444

In the period from 31 December 2020 to 31 January 2021 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 410,142 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

	31.12.2020	31.12.2019
in Polish currency	1 203 776	2 001 379
in foreign currencies (after conversion to PLN)	256 513	202 065
▪ currency: USD	42 623	37 362
▪ currency: EUR	176 917	130 446
▪ currency: CHF	14 844	13 562
▪ currency: GBP	17 747	15 462
▪ other currencies	4 382	5 233
Total	**1 460 289**	**2 203 444**

18. Financial assets held for trading

18a. Financial assets held for trading

	31.12.2020	31.12.2019
Debt securities	**269 412**	**874 033**
Issued by State Treasury	269 412	874 033
a) bills		
b) bonds	269 412	874 033
Adjustment from fair value hedge	0	803
Positive valuation of derivatives	155 365	112 629
Total	**424 777**	**987 465**

Information on financial assets securing liabilities is presented in **point 2) of Chapter 15.**

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

	31.12.2020	31.12.2019
▪ with fixed interest rate	222 091	603 690
▪ with variable interest rate	47 321	270 343
Total	269 412	874 033

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

	31.12.2020	31.12.2019
to 1 month	3 486	22 386
above 1 month to 3 months	0	0
above 3 months to 1 year	9 110	55 413
above 1 year to 5 years	203 783	546 087
above 5 years	53 033	250 147
Total	269 412	874 033

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	874 033	693 242
Increases (purchase and accrual of interest and discount)	23 863 524	21 249 853
Reductions (sale and redemption)	(24 469 464)	(21 066 511)
Differences from valuation at fair value	1 319	(2 551)
Balance at the end of the period	269 412	874 033

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

31.12.2020	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	994 077	2 071 597	8 534 566	101 867	22 631	35 839	13 208
Forward Rate Agreements (FRA)	0	800 000	0	0	133	133	0
Interest rate swaps (IRS)	980 584	1 191 375	7 896 214	101 867	22 494	35 621	13 127
Other interest rate contracts: options	13 493	80 222	638 352	0	4	85	81
2. FX derivatives*	12 892 220	4 301 888	649 596	0	28 601	99 153	70 552
FX contracts	2 638 460	1 693 617	433 337	0	19 612	34 882	15 270
FX swaps	10 253 760	2 608 271	216 259	0	8 989	64 271	55 282
Other FX contracts (CIRS)	0	0	0	0	0	0	0
FX options	0	0	0	0	0	0	0
3. Embedded instruments	252 018	707 315	408 113	0	(19 559)	0	19 559
Options embedded in deposits	201 333	625 428	408 113	0	(17 815)	0	17 815
Options embedded in securities issued	50 685	81 887	0	0	(1 744)	0	1 744
4. Indexes options	364 733	633 269	456 015	0	19 911	20 373	462
Total	**14 503 048**	**7 714 069**	**10 048 290**	**101 867**	**51 584**	**155 365**	**103 781**
Valuation of hedged position in fair value hedge accounting					-	0	0
Liabilities from short sale of debt securities					-	-	64 778

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

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	434472	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

19. Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers

	31.12.2020	31.12.2019
Equity instruments	200 772	66 609
credit institutions	0	0
other corporates	200 772	66 609
Debt securities	50 335	103 001
credit institutions	0	0
other corporates	50 335	103 001
Total	**251 107**	**169 610**

20. Financial assets at fair value through other comprehensive income

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

	31.12.2020	31.12.2019
Debt securities	**18 597 147**	**21 826 908**
Issued by State Treasury	18 219 260	20 650 898
a) bills	0	0
b) bonds	18 219 260	20 650 898
Issued by Central Bank	0	999 917
a) bills	0	999 917
b) bonds	0	0
Other securities	377 887	176 094
a) listed	377 887	176 094
b) not listed	0	0
Shares and interests in other entities	29 219	29 367
Other financial instruments	0	0
Total financial assets at fair value through other comprehensive income	**18 626 366**	**21 856 275**
Including:		
Instruments listed on the active market	18 597 147	20 826 991
Instruments not listed on the active market	29 219	1 029 284

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

	31.12.2020	31.12.2019
▪ with fixed interest rate	14 759 537	12 418 704
▪ with variable interest rate	3 837 610	9 408 204
Total	18 597 147	21 826 908

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

	31.12.2020	31.12.2019
▪ to 1 month	0	1 086 797
▪ above 1 month to 3 months	0	0
▪ above 3 months to 1 year	81 719	133 436
▪ above 1 year to 5 years	17 483 598	19 224 896
▪ above 5 years	1 031 830	1 381 779
Total	18 597 147	21 826 908

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	21 856 275	22 120 121
Increases (purchase and accrual of interest and discount)	92 015 953	140 622 397
Reductions (sale and redemption)	(95 422 844)	(142 142 099)
Difference from measurement at fair value	176 956	(47 336)
Impairment write-offs	0	0
Merger with Euro Bank S.A.	0	1 303 195
Other	26	(4)
Balance at the end of the period	18 626 366	21 856 275

21. LOANS AND ADVANCES TO CUSTOMERS

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

Balance sheet value:	31.12.2020	31.12.2019
Mandatorily at fair value through profit or loss *	1 615 753	1 498 195
▪ Companies	12 889	18 435
▪ Individuals	1 602 752	1 479 645
▪ Public sector	112	115
* The above data includes the fair value adjustment, in the amount of:	(116 761)	(84 519)

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 514 million as at 31.12.2020.

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

31.12.2020	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	67 311 681	3 370 092	3 408 650	(344 844)	(214 789)	(1 645 111)	71 885 679
Companies	16 263 984	936 896	741 869	(99 169)	(25 859)	(337 795)	17 479 926
Individuals	50 736 059	2 433 193	2 666 781	(245 411)	(188 930)	(1 307 316)	54 094 376
Public sector	311 638	3	0	(264)	0	0	311 377

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

21c. Loans and advances to customers

	31.12.2020		31.12.2019	
	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	67 759 576	771 780	62 771 734	640 622
to companies	12 280 659	0	12 053 010	0
to private individuals	55 381 396	771 780	50 572 229	640 622
to public sector	97 521	0	146 495	0
Receivables on account of payment cards	83 131	843 973	98 848	857 573
due from companies	197	13 002	162	18 550
due from private individuals	82 934	830 971	98 686	839 023
Purchased receivables	5 839 676	-	5 877 419	-
from companies	5 625 600	-	5 794 971	-
from public sector	214 076	-	82 448	-
Guarantees and sureties realised	7 419	-	1 368	-
Debt securities eligible for rediscount at Central Bank	2 748	-	3 595	-
Other	3 049	-	1 521	-
Interest	394 823	-	377 219	-
Total:	**74 090 422**	**1 615 753**	**69 131 704**	**1 498 195**
Impairment allowances	(2 204 743)	-	(1 801 122)	-
Total balance sheet value:	**71 885 679**	**1 615 753**	**67 330 582**	**1 498 195**
* The above data includes the fair value adjustment in the amount of	-	(116 761)	-	(84 519)

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

	31.12.2020	31.12.2019
Loans and advances to customers (gross)	74 090 422	69 131 704
impaired	3 408 650	2 921 464
not impaired	70 681 772	66 210 240
Impairment allowances	(2 204 743)	(1 801 122)
for impaired exposures	(1 645 111)	(1 363 591)
for not impaired exposures	(559 632)	(437 531)
Loans and advances to customers (net)	**71 885 679**	**67 330 582**

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

	31.12.2020	31.12.2019
Loans and advances to customers (gross)	74 090 422	69 131 704
case by case analysis	895 795	704 131
collective analysis	73 194 627	68 427 573
Impairment allowances	(2 204 743)	(1 801 122)
on the basis of case by case analysis	(328 561)	(300 446)
on the basis of collective analysis	(1 876 182)	(1 500 676)
Loans and advances to customers (net)	**71 885 679**	**67 330 582**

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

	31.12.2020	31.12.2019
Loans and advances to customers (gross)	74 090 422	69 131 704
corporate customers	18 254 390	18 115 088
individuals	55 836 032	51 016 616
Impairment allowances	(2 204 743)	(1 801 122)
for receivables from corporate customers	(463 086)	(442 384)
for receivables from private individuals	(1 741 657)	(1 358 738)
Loans and advances to customers (net)	**71 885 679**	**67 330 582**

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	1 801 122	1 589 048
Change in value of provisions:	403 621	212 074
Impairment allowances created in the period	1 466 595	825 462
Amounts written off	(145 652)	(239 319)
Impairment allowances released in the period	(919 006)	(592 613)
Sale of receivables	(59 662)	0
KOIM created in the period(*)	37 798	25 312
Merger with Euro Bank S.A.	0	176 996
Changes resulting from FX rates differences	19 510	5 291
Other	4 038	10 945
Balance at the end of the period	**2 204 743**	**1 801 122**

** 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 were 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
31.12.2020			
- Companies	59	255	313
- Individuals	399 392	(26 607)	372 784
- Public sector	0	0	0
31.12.2019			
- Companies	101	(23)	78
- Individuals	523 989	(45 236)	478 753
- 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	125 915	19 636	296 567	23	442 141
Transfers between stages	(5 437)	(956)	6 393	0	0
Increase due to granting or purchase	100 715	0	0	0	100 715
Changes in credit risk	(107 756)	9 030	135 468	(278)	36 464
Decrease due to derecognition (except exposures sold and written off)	(15 927)	(1 758)	(38 965)	0	(56 650)
Sale of loans and advances	0	0	(5 150)	0	(5 150)
Loans and advances written off	0	0	(61 836)	0	(61 836)
KOIM	0	0	3 397	0	3 397
Other (including FX differences)	1 659	(92)	2 174	0	3 741
Balance at the end of the period	99 169	25 860	338 049	(255)	462 823

Companies: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	16 566 720	741 597	577 517	101	17 885 935
Transfers between stages	(783 536)	468 851	314 684	0	0
Granted or purchased loans and advances	6 145 531	0	0	0	6 145 531
Repaid loans and advances	(5 973 908)	(283 196)	(124 157)	(42)	(6 381 303)
Loans and advances sold	0	0	(5 688)	0	(5 688)
Loans and advances written off	(28)	0	(70 846)	0	(70 873)
Other (including FX differences)	309 203	9 643	50 300	0	369 147
Balance at the end of the period	16 263 983	936 896	741 811	59	17 942 749

Individuals: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	138 457	155 913	1 019 131	45 236	1 358 737
Transfers between stages	104 155	(63 724)	(40 431)	0	0
Increase due to granting or purchase	118 639	0	0	0	118 639
Changes in credit risk	(96 388)	168 869	412 348	(18 629)	466 200
Decrease due to derecognition (except exposures sold and written off)	(20 503)	(11 418)	(85 880)	0	(117 801)
Sale of loans and advances	0	0	(54 513)	0	(54 513)
Loans and advances written off	(176)	(278)	(83 362)	0	(83 816)
KOIM	0	0	34 400	0	34 400
Other (including FX differences)	1 228	2 164	16 419	0	19 811
Balance at the end of the period	245 411	251 527	1 218 112	26 607	1 741 657

Individuals: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	46 874 746	1 745 487	1 872 394	523 989	51 016 616
Transfers between stages	(1 528 402)	939 828	588 574	0	0
Granted or purchased loans and advances	10 557 405	0	0	0	10 557 405
Repaid loans and advances	(6 209 512)	(314 359)	(164 639)	(124 597)	(6 813 107)
Loans and advances sold	0	(7)	(86 095)	0	(86 102)
Loans and advances written off	(343)	(1 334)	(81 478)	0	(83 155)
Other (including FX differences)	1 042 164	26 049	176 162	0	1 244 376
Balance at the end of the period	50 736 059	2 395 665	2 304 918	399 392	55 836 033

Public sector: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	243	0	0	0	243
Transfers between stages	0	0	0	0	0
Increase due to granting or purchase	14	0	0	0	14
Changes in credit risk	38	0	4	0	42
Decrease due to derecognition (except exposures sold and written off)	(31)	0	(4)	0	(35)
Other (including FX differences)	0	0	0	0	0
Balance at the end of the period	264	0	0	0	264

Public sector: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	229 140	13	0	0	229 153
Transfers between stages	(64)	64	0	0	0
Granted or purchased loans and advances	93 148	0	0	0	93 148
Repaid loans and advances	(10 588)	(74)	0	0	(10 662)
Loans and advances sold	0	0	0	0	0
Loans and advances written off	0	0	0	0	0
Other (including FX differences)	2	(0)	0	0	2
Balance at the end of the period	311 638	3	0	0	311 641

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

	31.12.2020	31.12.2019
Current accounts	2 746 516	3 866 397
to 1 month	675 546	739 587
above 1 month to 3 months	2 143 833	2 111 562
above 3 months to 1 year	6 744 223	5 758 161
above 1 year to 5 years	25 663 239	23 580 226
above 5 years	33 616 590	30 615 662
past due	2 105 652	2 082 890
Interest	394 823	377 219
Total gross	74 090 422	69 131 704

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

	31.12.2020	31.12.2019
in Polish currency	56 292 558	50 900 923
in foreign currencies (after conversion to PLN)	17 797 864	18 230 781
▪ currency: USD	115 851	106 107
▪ currency: EUR	3 333 690	3 353 085
▪ currency: CHF	14 344 335	14 763 038
▪ other currencies	3 988	8 551
Total gross	**74 090 422**	**69 131 704**

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

31.12.2020	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	38 821	0	0	(3)	0	0	38 818
Deposits, loans and advances to banks and other monetary institutions	625 366	0	0	0	0	0	625 366
Repurchase agreements	66 350	0	0	0	0	0	66 350

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

22b. Debt securities

	31.12.2020	31.12.2019
credit institutions	0	0
other companies	0	0
public sector	38 818	48 153
Total	38 818	48 153

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

	31.12.2020	31.12.2019
Current accounts	102 684	213 430
Deposits	522 532	570 036
Interest	150	782
Total (gross) deposits, loans and advances	625 366	784 248
Impairment allowances	0	0
Total (net) deposits, loans and advances	**625 366**	**784 248**

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

	31.12.2020	31.12.2019
Current accounts	102 684	213 430
to 1 month	522 532	570 036
above 1 month to 3 months	0	0
above 3 months to 1 year	0	0
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	150	782
Total (gross) deposits, loans and advances	625 366	784 248

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

	31.12.2020	31.12.2019
in Polish currency	24 582	5 307
in foreign currencies (after conversion to PLN)	600 784	778 941
▪ currency: USD	32 630	119 959
▪ currency: EUR	488 671	500 570
▪ currency: CNY	29 926	69 621
▪ currency: CHF	6 119	12 271
▪ currency: GBP	7 397	24 556
▪ currency: JPY	7 301	7 589
▪ other currencies	28 740	44 375
Total	**625 366**	**784 248**

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	0	16
Impairment allowances created in the period	0	0
Impairment allowances released in the period	0	(16)
Balance at the end of the period	0	0

22g. Reverse sale and repurchase agreements

	31.12.2020	31.12.2019
credit institutions	66 351	90 707
other customers	0	114 718
interest	(1)	14
Total	66 350	205 439

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 31.12.2020) Cash Flow Hedge relations to eliminate the variability of cash flows:

- ✓ on FX denominated mortgage loans and financing them PLN deposits,
- ✓ on PLN denominated financial assets,
- ✓ 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 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 31.12.2020) is shown in a table below:

	Hedge of volatility of the cash flows generated by PLN denominated financial assets	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 denominated financial assets. 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 PLN denominated financial assets.	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 31.12.2020	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 **	4 214 237	5 833 452	20 482 303	0	(632 447)	21 795	654 242
IRS contracts	0	500 000	2 680 000	0	(45 903)	0	45 903
FXS contracts	2 531 417	0	0	0	(29 116)	0	29 116
2. Derivatives used as interest rate hedges related to interest rates							
IRS contracts	0	50 000	0	90 000	(9 588)	0	9 588
3. Total hedging derivatives	6 745 653	6 383 452	23 162 303	90 000	(717 055)	21 795	738 850

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

** The item contains transactions with future settlement date of the value of PLN 10 645 826 thousand, concluded in order to ensure the continuity of the financing portfolio of CHF after the settlement of currently active contracts.

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

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

** The item contains transactions with future settlement date of the value of PLN 2 741 705 thousand, concluded in order to ensure the continuity of the financing portfolio of CHF after the settlement of currently active contracts.

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 PLN denominated financial assets	2025-11-05
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	2022-03-03
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	2021-03-30

The inefficient part of the valuation of hedging instruments recognized in the Profit and Loss Account in 2020 amounted to PLN -9,253 thousand. (in 2019, it was PLN -19,249 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	(677)	(21 224)	(1 795)
- IRS	Loans and advances to customers	166	0	0
- FX swap	Loans and advances to customers	(3 441)	3 643	0
- FX spot	Future interest income and costs	20 026	(17 388)	0
- IRS	Issued debt securities	13 606	(12 548)	0
- IRS	Debt securities	(4 893)	4 893	
Total		24 787	(42 624)	(1 795)

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	677	(9 253)	0
- IRS	(166)	0	0
- FX swap	3 441	0	0
- FX spot	(20 026)	0	0
- IRS	(13 606)	57	0
- IRS	4 893	0	0
Total	(24 787)	(9 196)	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	5 744
Total		5 744

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	(5 220)	524
Total	(5 220)	524

24. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

24a. Investments in related entities

	31.12.2020	31.12.2019
Investments in subsidiaries	208 874	88 874

24b. Change of investments in related entities

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	88 874	90 084
Refund of the subsidy to the capital of the subsidiary	0	(1 000)
Liquidation of MB FINANCE AB	0	(210)
Establishing of Millennium Bank Hipoteczny S.A.	120 000	0
Liquidation of BG Leasing S.A. (shares)	(900)	0
Liquidation of BG Leasing S.A. (impairment allowance)	900	0
Balance at the end of the period	208 874	88 874

24c. Investments in related entities as at 31.12.2020

Name	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM BANK HIPOTECZNY S.A.	Mortgage bank	Warszawa	100	100
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

Name	Gross value of shares/ interests	Impairment allowances	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM BANK HIPOTECZNY S.A.	120 000	0	0	120 421	720	40 000	18	(299)	subordinated
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	6 731 488	6 549 118	48 195	110 203	(9 660)	subordinated
MILLENNIUM DOM MAKLERSKI S.A.*	16 500	0	0	260 773	210 496	16 500	30 448	16 162	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	0	127 511	65 175	1 000	57 636	32 648	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	1 000	12 642	9 078	500	7 181	1 475	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	405	33	100	1 195	26	subordinated
PIAST EXPERT Sp. z o.o. in liquidation**	5 737	0	0	6 122	137	5 771	273	153	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	6 700	(6 700)	0	The company is under liquidation					subordinated
TOTAL	214 574	(6 700)	1 000						

** Millennium Dom Maklerski S.A., subsidiary of the Bank, is a 100% holder of Millennium TFI S.A. shares*
*** data as at 30.09.2020*

24d. 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 MAKLERSKI 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. bankruptcy	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*

25. TANGIBLE FIXED ASSETS

25a. Property, plant and equipment

	31.12.2020	31.12.2019
Land	2 270	2 270
Buildings and premises	66 639	68 750
Machines and equipment	87 064	92 076
Vehicles	5 851	10 714
Other fixed assets	24 018	18 779
Fixed assets under construction	59 156	63 102
Rights to use office space	296 328	366 815
Total	541 326	622 506

25b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2020 – 31.12.2020

	Land	Buildings and premises	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construc-tion	Rights to use office space	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	2 270	300 860	230 315	21 807	79 446	63 102	444 227	1 142 027
b) increases (on account of)	0	10 801	24 843	1 501	12 970	44 730	45 269	140 114
purchase	0	0	0	0	0	25 743	0	25 743
transfer from fixed assets under construction	0	10 801	24 843	0	12 970	0	0	48 614
financial lease	0	0	0	1 501	0	0	45 269	46 770
unpaid investments	0	0	0	0	0	18 987	0	18 987
c) reductions (on account of)	0	6 214	8 601	594	2 251	48 676	35 019	101 355
sale	0	2 375	1 273	0	63	0	0	3 711
liquidation	0	3 428	4 064	0	2 024	0	35 019	44 535
settlement of fixed assets under construction	0	0	0	0	0	48 614	0	48 614
financial lease	0	411	3 264	594	164	0	0	4 433
other	0	0	0	0	0	62	0	62
d) gross value of property, plant and equipment at the end of the period	**2 270**	**305 447**	**246 557**	**22 714**	**90 165**	**59 156**	**454 477**	**1 180 786**
e) cumulated depreciation (amortization) at the beginning of the period	0	223 254	138 239	11 093	60 667	0	77 412	510 665
f) depreciation over the period (on account of)	0	6 698	21 254	5 770	5 480	0	80 737	119 939
current write-off (P&L)	0	11 740	29 498	6 309	6 858	0	99 787	154 192
reductions on account of sale	0	(1 851)	(1 127)	0	(42)	0	0	(3 020)
reductions on account of liquidation	0	(3 089)	(3 900)	0	(1 171)	0	(19 050)	(27 210)
financial lease	0	(164)	(3 177)	(539)	(143)	0	0	(4 023)
other	0	62	(40)	0	(22)	0	0	0
g) cumulated depreciation (amortization) at the end of the period	**0**	**229 952**	**159 493**	**16 863**	**66 147**	**0**	**158 149**	**630 604**
h) impairment allowances at the beginning of the period	0	8 856	0	0	0	0	0	8 856
creation of allowances	0	0	0	0	0	0	0	0
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**	**66 639**	**87 064**	**5 851**	**24 018**	**59 156**	**296 328**	**541 326**
including assets used based on leasing agreements	0	10 075	22 427	5 851	1 652	50	296 328	336 382

25c. 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 construc-tion	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

26. INTANGIBLE FIXED ASSETS

26a. Intangible fixed assets

	31.12.2020	31.12.2019
Goodwill due to merger with Euro Bank S.A.	192 126	162 757
Other intangible fixed assets:	181 594	169 221
concessions, patents, licenses, know-how and similar assets	31 924	17 673
computer software	48 419	37 913
other	17 883	24 247
advances for intangible assets	83 368	89 388
Total	**373 720**	**331 978**

26b. Change of balance of intangible fixed assets (by type groups) in the period 01.01.2020 – 31.12.2020

	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	42 376	279 582	26 065	89 388	437 411
b) increases (on account of)	23 292	37 267	2	55 134	115 695
purchase	0	0	0	43 790	43 790
unpaid investments	0	0	0	11 344	11 344
settlement of advances	23 292	37 267	2	0	60 561
c) reductions (on account of)	0	0	0	61 154	61 154
liquidation	0	0	0	0	0
settlement of advances	0	0	0	60 561	60 561
other	0	0	0	593	593
d) gross value of intangible fixed assets at the end of the period	**65 668**	**316 849**	**26 067**	**83 368**	**491 952**
e) cumulated depreciation at the beginning of the period	24 703	241 670	1 817	0	268 190
f) depreciation over the period (on account of)	9 041	26 760	6 367	0	42 168
current write-off (P&L)	8 893	26 908	6 367	0	42 168
liquidation	0	0	0	0	0
other	148	(148)	0	0	0
g) cumulated depreciation at the end of the period	**33 744**	**268 430**	**8 184**	**0**	**310 358**
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	**31 924**	**48 419**	**17 883**	**83 368**	**181 594**

26c. 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**

27. DEFERRED INCOME TAX ASSETS

27a. Deferred income tax assets and liability

	31.12.2020			31.12.2019		
	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	(3 507)	(1 848)	1 659	(2 345)	(686)
Balance sheet valuation of financial instruments	128 219	(149 996)	(21 777)	84 191	(106 710)	(22 519)
Unrealised receivables/ liabilities on account of derivatives	12 285	(14 486)	(2 201)	13 753	(20 117)	(6 364)
Interest on deposits and securities to be paid/ received	30 241	(56 731)	(26 490)	33 268	(60 770)	(27 502)
Interest and discount on loans and receivables	0	(77 075)	(77 075)	0	(73 860)	(73 860)
Income and cost settled at effective interest rate	188 794	0	188 794	180 305	0	180 305
Impairment of loans presented as temporary differences	405 834	0	405 834	321 341	0	321 341
Employee benefits	19 420	0	19 420	20 140	0	20 140
Rights to use	8 432	0	8 432	5 971	0	5 971
Provisions for future costs	83 764	0	83 764	19 408	0	19 408
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	9 172	(55 384)	(46 212)	6 082	(21 762)	(15 680)
Other	4 327	(955)	3 372	6 123	(1 265)	4 858
Total	892 147	(358 134)	534 013	692 241	(286 829)	405 412
Net deferred income tax asset			279 894			91 745

27b. Change of temporary differences

	31.12.2019	Adjustments to previous years	Changes to financial result	Changes to equity	31.12.2020
Difference between tax and balance sheet depreciation	(686)	0	(1 162)	0	(1 848)
Balance sheet valuation of financial instruments	(22 519)	0	742	0	(21 777)
Unrealised receivables/ liabilities on account of derivatives	(6 364)	0	4 163	0	(2 201)
Interest on deposits and securities to be paid/received	(27 502)	0	1 012	0	(26 490)
Interest and discount on loans and receivables	(73 860)	0	(3 215)	0	(77 075)
Income and cost settled at effective interest rate	180 305	0	8 489	0	188 794
Impairment of loans presented as temporary differences	321 341	0	84 493	0	405 834
Employee benefits	20 140	0	(720)	0	19 420
Rights to use	5 971	0	2 461	0	8 432
Provisions for future costs	19 408	0	64 356	0	83 764
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	(15 680)	0	0	(30 532)	(46 212)
Other	4 858	15 518	(17 004)	0	3 372
Total	405 412	15 518	143 615	(30 532)	534 013

27c. 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

27d. Change of deferred income tax

	1.01.2020 - 31.12.2020	1.01.2019 - 31.12.2019
Difference between tax and balance sheet depreciation	(1 162)	(2 412)
Balance sheet valuation of financial instruments	742	406
Unrealised receivables/ liabilities on account of derivatives	4 163	2 344
Interest on deposits and securities to be paid/ received	1 012	(10 584)
Interest and discount on loans and receivables	(3 215)	(26 518)
Income and cost settled at effective interest rate	8 489	91 247
Impairment of loans presented as temporary differences	84 493	120 021
Employee benefits	(720)	5 194
Rights to use	2 461	5 971
Provisions for future costs	64 356	(2 318)
Other	(17 004)	(150 047)
Change of deferred income tax recognized in financial result	143 615	33 304
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	(30 532)	1 551

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

Temporary differences expiry year	31.12.2020	31.12.2019
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.

	31.12.2020	31.12.2019
Net deferred income tax assets	534 013	405 412
Net deferred income tax provision	-	-
TOTAL	534 013	405 412

28. OTHER ASSETS

	31.12.2020	31.12.2019
Expenses to be settled	97 328	84 062
Income to be received	21 187	26 204
Interbank settlements	12	173
Settlements of financial instruments transactions	0	6 484
Receivables from sundry debtors	237 992	137 505
Public and legal settlements	7 387	7 689
Total other assets (gross)	363 906	262 117
Impairment allowances	(22 513)	(12 669)
Total other assets (net)	**341 393**	**249 448**
▪ including other financial assets*	236 678	157 697
▪ including long-term other assets	1 879	5 591

** 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, 2020 and December 31, 2019, the Bank did not classify any assets to the Non-current asset held for sale.

30. FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2020	31.12.2019
Negative valuation of derivatives	103 781	149 963
Adjustment due to fair value hedge	0	776
Short sale of securities	64 778	202 265
Financial liabilities valued at fair value through profit and loss	168 559	353 004

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

	31.12.2020	31.12.2019
In current account	57 220	91 893
Term deposits	481 490	320 346
Loans and advances received	25 000	436 516
Interest	172	697
Total	563 882	849 452

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

	31.12.2020	31.12.2019
Current accounts	57 220	91 893
▪ to 1 month	481 338	245 614
▪ above 1 month to 3 months	0	64 614
▪ above 3 months to 1 year	0	411 634
▪ above 1 year to 5 years	25 152	35 000
▪ above 5 years	0	0
Interest	172	697
Total	563 882	849 452

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

	31.12.2020	31.12.2019
in Polish currency	393 669	287 332
in foreign currencies (after conversion to PLN)	170 213	562 120
▪ currency: USD	2 006	1 697
▪ currency: EUR	40 304	442 835
▪ currency: CHF	127 903	117 588
▪ other currencies	0	0
Total	**563 882**	**849 452**

32. Liabilities to customers

32a. Structure of liabilities to customers by type

	31.12.2020	31.12.2019
Amounts due to private individuals	61 696 895	60 954 586
Balances on current accounts	50 647 924	43 582 731
Term deposits	10 807 126	17 138 725
Other	188 369	125 991
Accrued interest	53 476	107 139
Amounts due to companies	17 302 406	18 570 199
Balances on current accounts	13 183 715	9 860 848
Term deposits	3 761 220	8 255 374
Other	344 918	426 172
Accrued interest	12 553	27 805
Amounts due to public sector	2 833 170	2 112 732
Balances on current accounts	2 707 623	1 776 811
Term deposits	105 079	327 891
Other	20 461	7 692
Accrued interest	7	338
Total	**81 832 471**	**81 637 517**

32b. Liabilities to customers by maturity

	31.12.2020	31.12.2019
Current accounts	66 539 262	55 220 390
to 1 month	4 763 568	8 882 679
above 1 month to 3 months	4 905 277	6 638 658
above 3 months to 1 year	3 759 671	8 790 982
above 1 year to 5 years	1 772 255	1 943 064
above 5 years	26 402	26 461
Interest	66 036	135 282
Total	81 832 471	81 637 517

32c. Liabilities to customers by currency

	31.12.2020	31.12.2019
in Polish currency	73 480 869	74 180 533
in foreign currencies (after conversion to PLN)	8 351 602	7 456 984
▪ currency: USD	2 025 275	1 606 003
▪ currency: EUR	5 793 962	5 260 787
▪ currency: GBP	348 677	313 169
▪ currency: CHF	162 659	118 301
▪ other currencies	21 029	158 724
Total	**81 832 471**	**81 637 517**

33. SALE AND REPURCHASE AGREEMENTS

Liabilities from securities sold with buy-back clause

	31.12.2020	31.12.2019
a) to the Central Bank	0	0
b) to banks	248 566	90 705
c) to customers	0	0
d) interest	0	7
Total	248 566	90 712

34. DEBT SECURITIES ISSUED

34a. Liabilities from debt securities

	31.12.2020	31.12.2019
Outstanding bonds and bills	250 000	550 000
Bank Securities	234 428	451 452
Interest	227	2 205
Total	484 655	1 003 657

34b. Liabilities from debt securities by final legal maturity

	31.12.2020	31.12.2019
▪ to 1 month	32 916	0
▪ above 1 month to 3 months	68 292	25 111
▪ above 3 months to 1 year	383 220	474 395
▪ above 1 year to 5 years	0	501 946
▪ above 5 years	0	0
Interest	227	2 205
Total	484 655	1 003 657

34c. Change of debt securities

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	1 003 657	619 957
Increases, on account of:	41 157	754 271
issue of Banking Securities	29 558	233 927
merger with Euro Bank S.A.	0	503 831
interest accrual	11 599	16 513
Reductions, on account of:	(560 159)	(370 571)
repurchase of Banking Securities	(246 582)	(100 594)
repurchase of bonds	(300 000)	(250 000)
interest payment	(13 577)	(19 977)
Balance at the end of the period	**484 655**	**1 003 657**

34d. Debt securities by type

Banking securities and debt securities issued by the Bank

As at 31.12.2020	Balance sheet value	Final legal maturity)	Market
BPW_2021/01	32 916	2021-01-29	-
BPW_2021/03	20 635	2021-03-01	-
BPW_2021/03A	14 004	2021-03-01	-
BPW_2021/03B	8 035	2021-03-29	-
BPW_2021/03C	25 619	2021-03-29	-
BPW_2021/04	7 365	2021-04-30	-
BPW_2021/04A	28 109	2021-04-30	-
BPW_2021/05	5 083	2021-05-28	-
BPW_2021/05A	9 292	2021-05-31	-
BPW_2021/05B	24 747	2021-05-31	-
BPW_2021/06A	11 593	2021-06-28	-
BPW_2021/06	11 198	2021-06-30	-
BPW_2021/06B	14 771	2021-06-30	-
BPW_2021/07	9 206	2021-07-22	-
BPW_2021/07A	11 855	2021-07-22	-
EBK_011221C	250 227	2021-12-01	-
Total	484 655		

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.

As at 31/12/2020, 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 227 thousand.

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) took 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.

35. SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2020	31.12.2019
Amount of subordinated bonds inn - BKMO_071227R	700 000	700 000
Currency	PLN	PLN
Interest rate	2.55%	4.09%
Maturity	07.12.2027	07.12.2027
Interest	1 174	1 883
Amount of subordinated bonds PLN in PLN - BKMO_300129W	830 000	830 000
Currency	PLN	PLN
Interest rate	2.58%	4.09%
Maturity	30.01.2029	30.01.2029
Interest	9 035	14 322
Balance sheet value of subordinated debt	1 540 209	1 546 205

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	1 546 205	701 883
Increases, on account of:	51 441	889 880
issue of subordinated bonds	0	830 000
interest accrual	51 441	59 880
Reductions, on account of:	(57 437)	(45 558)
redemption of subordinated bonds	0	0
interest payment	(57 437)	(45 558)
Balance at the end of the period	**1 540 209**	**1 546 205**

During 2020 and 2019 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

	31.12.2020	31.12.2019
Provision for commitments and guarantees given	52 728	53 856
Provision for pending legal issues	554 643	110 885
Total	607 371	164 741

36b. Change of Provision for commitments and guarantees given

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	53 856	52 248
Charge of provision	73 893	70 581
Release of provision	(75 357)	(70 220)
Merger with Euro Bank S.A.	0	1 281
FX rates differences	336	(34)
Balance at the end of the period	**52 728**	**53 856**

36c. Change of Provision for pending legal issues

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	110 885	59 797
Charge of provision	16 874	7 311
Release of provision	(13 331)	(14 318)
Utilisation of provision	(489)	(27 876)
Creation of provision for legal risk connected with FX mortgage loans*	713 617	223 134
Allocation to the loans portfolio**	(296 207)	(139 548)
Merger with Euro Bank S.A.	0	602
Reclassification	0	1 783
FX rates differences	23 294	0
Balance at the end of the period	554 643	110 885

* Creation of provisions for legal risk related to foreign currency mortgage loans is described in more detail in **Chapter 13 Costs of provisions for legal risk related to foreign currency mortgage loans.**

** In 2020, the Bank changed its accounting policy and allocated a part of provisions created for legal risk connected with FX mortgage loans to the loans portfolio, and an appropriate adjustment of comparable data as at December 31, 2019 presented in these financial statements has been introduced (more information on this topic is presented in **Chapter 8. "Accounting Policy"**).

37. DEFERRED INCOME TAX LIABILITIES

	31.12.2020	31.12.2019
Deferred income tax provision	0*	0*

* Provisions for deferred tax in the amount of PLN 358 134 thousand as at December 31, 2020 and PLN 286 829 thousand as at December 31, 2019 are presented in the balance sheet on a net basis, offsetting deferred tax assets, which is presented in more detail in **Note 27. Deferred income tax assets**.

38. OTHER LIABILITIES

38a. Other liabilities

	31.12.2020	31.12.2019
Short-term	1 476 954	1 385 929
Accrued costs - bonuses, salaries	38 520	49 501
Accrued costs - other	188 382	168 827
Provisions for return of insurance fees	346 567	354 416
Interbank settlements	341 353	247 285
Provisions for potential return of fees in the event of early repayment of the loan	113 731	63 918
Settlement of transactions on financial instruments	1 537	32 052
Other creditors	246 069	266 505
Liabilities due to leases	105 202	114 933
Liabilities to public sector	25 511	14 106
Deferred income	50 446	45 546
Provisions for unused employee holiday	15 364	24 212
Provisions for retirement benefits	3 006	3 103
Other	1 266	1 525
Long-term	489 702	499 032
Provisions for retirement benefits	31 995	29 625
Accrued costs	0	0
Commitment to pay – BGF*	139 845	90 727
Liabilities due to leases	304 916	362 527
Accrued costs	12 946	16 153
Total	**1 966 656**	**1 884 961**
including other financial liabilities**	1 289 290	1 314 723

** 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

	31.12.2020	31.12.2019
Liabilities from lease (gross)	432 741	506 862
Unrealised financial costs	(22 623)	(29 402)
Current value of minimum lease instalments	410 118	477 460
Liabilities from lease (gross) by maturity		
Under 1 year	111 588	123 710
From 1 year to 5 years	208 661	250 995
Above 5 years	112 492	132 157
Total	432 741	506 862
Liabilities from lease (net) by maturity		
Under 1 year	105 202	114 933
From 1 year to 5 years	196 260	235 893
Above 5 years	108 656	126 634
Total	410 118	477 460

38c. Change of provisions for unused employee holiday

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	24 212	12 520
Charge of provisions/ reversal of provisions	(8 750)	62
Merger with Euro Bank S.A.	0	12 330
Utilisation of provisions	(98)	(700)
Balance at the end of the period	15 364	24 212

38d. Change of provisions for retirement benefits

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Balance at the beginning of the period	32 728	24 196
Charge of provisions/ reversal of provisions	2 984	8 996
Merger with z Euro Bank S.A.	0	438
Utilisation of provisions/ reclassification of provision	(1 440)	(1 411)
Actuarial gains (losses)	729	509
Balance at the end of the period	35 001	32 728

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 conversions of 232 ordinary registered shares into the bearer shares. As a consequence number of registered shares as of 31.12.2020 amounted to 107,608, 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, 2020. 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 3rd July 2020.

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 2020 (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 was assumed to amount to 3.3088 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:

Shareholder 31.12.2020	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	109 924 704	9.06	109 924 704	9.06
Otwarty Fundusz Emerytalny PZU „Złota Jesień"	85 697 263	7.06	85 697 263	7.06
Aviva Otwarty Fundusz Emerytalny Aviva Santander	76 760 035	6.33	76 760 035	6.33

Shareholder 31.12.2019	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	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

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

	31.12.2020	31.12.2019
Effect of valuation (gross)	243 221	82 529
Deferred income tax	(46 212)	(15 681)
Net effect of valuation	197 009	66 848

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

Revaluation reserve on FVTOCI assets 1.01.2020 - 31.12.2020

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	114 539	(21 762)	92 777
Transfer to income statement of the period as a result of sale	(130 767)	24 846	(105 921)
Change connected with maturity of securities	(794)	151	(643)
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	308 692	(58 651)	250 041
Profit/loss on revaluation of FVTOCI shares, recognized in equity	(175)	33	(142)
Revaluation reserve at the end of the period	291 495	(55 384)	236 111

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 cash flows hedge financial instruments 1.01.2020 - 31.12.2020

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(28 885)	5 488	(23 397)
Gains or losses on valuation of financial instruments recognized in equity	(24 787)	4 710	(20 077)
Transfer to income statement during period	9 253	(1 758)	7 495
Revaluation reserve at the end of the period	(44 419)	8 439	(35 980)

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 due to actuarial gains (losses) 1.01.2020 - 31.12.2020

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(3 125)	593	(2 532)
Change in the obligations arising from the provision for retirement benefits	(729)	139	(590)
Revaluation reserve at the end of the period	(3 854)	732	(3 122)

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)

39c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2020	374 957	5 098 295	228 902	560 727	6 262 881
appropriation of profit, including:					
transfer to reserve capital	0	560 727	0	(560 727)	0
charge due to transfer of own shares to employees		(3 103)			(3 103)
net profit/ (loss) of the period	0	0	0	18 579	18 579
Retained earnings at the end of the period 31.12.2020	374 957	5 655 919	228 902	18 579	6 278 357

	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

40. FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

31.12.2020	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	538 663	42	0	25 714	0	564 419
Deposits from customers	71 312 381	4 920 627	3 791 886	1 805 710	26 402	81 857 006
Liabilities from securities sold with buy-back clause	248 566	0	0	0	0	248 566
Debt securities	32 916	68 292	385 902	0	0	487 110
Subordinated debt	9 035	1 174	29 055	157 056	1 640 903	1 837 223
Liabilities from trading derivatives - notional value	5 110 475	1 938 381	3 252 477	4 858 752	91 867	15 251 952
Liabilities from hedging derivatives - notional value	596 974	2 878 268	3 048 832	12 513 231	0	19 037 305
Commitments granted - financial	12 478 702	0	0	0	0	12 478 702
Commitments granted - guarantee	2 562 041	0	0	0	0	2 562 041
TOTAL	92 889 753	9 806 784	10 508 152	19 360 463	1 759 172	134 324 324

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	64 134 494	6 683 768	8 893 215	2 015 450	26 465	81 753 392
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	80 591 525	10 673 357	18 144 645	13 710 009	2 242 019	125 361 555

15. Supplementary Information

15.1. 2020 DIVIDEND

Bank Millennium has a dividend policy of distributing between 35% to 50% of the Bank's net profit, assuming that the recommendations of the Polish Financial Supervision Authority (PFSA) regarding the payment of dividends will be implemented.
On December 16, 2020, the PFSA published its position on the dividend policy of commercial banks in 2021. Given the significant uncertainty about the further developments related to the COVID19 pandemic, the temporary nature of solutions used by banks to improve the capital situation during the pandemic, persistently cautious supervisory positions in the EU with regard to dividend restrictions and other forms of lowering capital resources and changing the EBA guidelines extending moratoria, the PFSA deemed it necessary for commercial banks to suspend dividends. On January 13, the Bank received a similar individual recommendation of the PFSA regarding the suspension of payments by the Bank in the first half of 2021.
Based on the above recommendations, uncertainty as to the operating conditions caused by the COVID-19 pandemic, the existing legal / operational risk, as well as taking into account the need to provide appropriate capital support to increase the scale of business operations, the Bank's Management Board will present to the General Meeting a proposal to retain the entire net profit generated during the year 2020 in the Bank's equit.

15.2. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2020 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 OK0722	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	129 922
2.	Treasury bonds OK0722	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	355 000	354 787
3.	Treasury bonds PS0123	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	88 000	94 473
4.	Treasury bonds PS0123	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	71 000	76 223
5.	Treasury bonds PS0422	Held to Collect and for Sale	initial settlement deposit in KDPW CCP (MARI)	300 000	313 311
6.	Cash	receivables	initial settlement deposit in KDPW CCP (MARI)	100	100
7.	Cash	receivables	ASO guarantee fund (PAGB)	2 415	2 415
8.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	5 617	5 617
9.	Cash	receivables	Settlement on transactions concluded	45 153	45 153
10.	Deposits	Deposits in banks	Settlement on transactions concluded	503 532	503 532
		TOTAL		1 500 817	1 525 533

Additionally, as at December 31, 2020, 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 248,429 thousand (corresponding liabilities are presented in **Chapter 14., note 33).**

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 14., note (33).**

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

As at 31 December 2020 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	233 004	248 429
TOTAL	233 004	248 429

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 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

15.4. 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.

PLN'000	Amounts to be received	Amounts to be paid
Valuation of derivatives	94 540	747 113
Amount of cash collaterals accepted/granted	(28 758)	(470 846)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	65 782	276 267
Theoretical maximum amount of compensation	(65 782)	(65 782)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	**0**	**210 485**

15.5. 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:

	31.12.2020	31.12.2019
Cash and balances with the Central Bank	1 460 289	2 203 444
Receivables from interbank deposits*	122 659	440 162
Debt securities issued by the State Treasury*	3 486	1 109 183
of which FVTOCI	0	1 086 797
of which held for trading	3 486	22 386
Total	**1 586 434**	**3 752 789**

** 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.

15.6. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2020 the Custody Department of Bank Millennium S.A. maintained 13,440 accounts in which Customers' assets were kept with the total value of PLN 32.5 billion. Net revenue from the custody business for 2020 amounted to PLN 6.8 million (including PLN 2.8 million from Capital Group entities). The Custody Department serves as a depositary bank for 24 mutual funds including 21 of Millennium TFI S.A.

15.7. 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, 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 2017-2018; Bank Millennium own shares: for 2019 and 2020. Commencing from 2019, by the decision of the General Meeting of Bank's 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:	2020	2019	2018	2017
Kind of transactions in the light of IFRS 2	Share-based payment transactions		Cash-settled share-based payments	
Commencement of vesting period	1 January 2020	1 January 2019	1 January 2018	1 January 2017
The date of announcing the program	27 August 2019		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 2020	31 December 2019	31 December 2018	31 December 2017
Vesting conditions	Employment in the Group 2020, results of the Group and individual performance	Employment in the Group 2019, results of the Group and individual performance	Employment in the Group 2018, results of the Group and individual performance	Employment in the Group 2017, results of the Group and individual performance
Program settlement	Programs 2017-2018: 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. Programs 2019 – 2020: on the program settlement date, the participant will receive the allocated treasury shares			
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:	2020	2019 own shares	2018 phantom shares	2017 phantom shares
Date of shares assigning	-	03.07.2020	23.01.2019	07.02.2018
Number of shares	-	723 517	77 325	35 785
▪ granted	-	144 705	0	0
▪ deferred	-	578 812	77 325	35 785
Value as at assigning date (PLN)	-	2 305 704	709 999	342 210
▪ granted	-	461 146	0	0
▪ deferred	-	1 844 558	709 999	342 210
Fair value as at 31.12.2020 (PLN)	-	1 892 715	567 999	273 768

At the balance sheet date, the Personnel Committee of the Supervisory Board has not taken a decision on the amount of variable remuneration for Group's employees who are not members of the Management Board of the Bank for 2020.

Financial instruments granted to members of the Management Board of the Bank, for the year:	2020 own shares	2019 own shares	2018 phantom shares	2017 phantom shares
Date of shares assigning	-	03.07.2020	31.05.2019	09.04.2018
Number of shares	-	965 862	156 571	91 480
▪ granted	-	482 928	0	0
▪ deferred	-	482 934	156 571	91 480
Value as at assigning date (PLN)	-	3 078 000	1 426 347	750 960
▪ granted	-	1 539 000	0	0
▪ deferred	-	1 539 000	1 426 347	750 960
Fair value as at 31.12.2020 (PLN)	-	3 128 939	1 028 202	666 706

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 2020.

PAYMENTS BASED ON THE FORMER EURO BANK SHARES

Bank Millennium took over the liabilities of Euro Bank to employees who were identified as having a significant impact on the risk profile and received variable remuneration, part of which was paid in the form of shares of the former Euro Bank in the years preceding the merger. On the day Euro Bank was taken over by Bank Millennium, these shares ceased to exist. Therefore, Bank Millennium adopted by decision of the Supervisory Board the rules of converting nonexistent Euro Bank shares into Bank Millennium shares. In 2021 and 2022, 306,726 and 237,848 shares of Bank Millennium, respectively, remain to be paid out.

15.8. IMPACT OF COVID-19 PANDEMIC ON ACTIVITY OF BANK MILLENNIUM

The outbreak of coronavirus pandemic in 1Q20 resulted in rapid changes in the dynamics of the Bank's business and enforced changes of its strategic priorities. Business dynamics saw significant volatility during the year reflecting the level of the pandemic, anti-pandemic regulations introduced by the government and their impact of activity of customers of the Bank.

As a part of customer support, the Bank introduced a programme of credit moratoria. After the initial spike in late March/early April and in June when a part of retail customers applied for extensions of credit holidays to six months, the number of applications for credit holidays in the retail segment declined significantly. At the end of June, loans with active and approved credit holidays represented 10% of total loan portfolio, less than 12% of retail portfolio, less than 3% of retail portfolio and around 12% of leasing portfolio. On December 31, 2020 there were 9,367 active 'Covid-19 credit holidays' schemes relating to outstanding cash loans and 892 active holidays schemes on mortgage loans with respective loan volumes of PLN 267 million and PLN 250 million. The public credit moratoria introduced in June by the so called 'Anti-crisis shield 4.0' enjoyed little take up so far with merely 444 applications filed by the end of the year (outstanding balance of PLN 53 million). The number of credit holidays for corporate customers also fell significantly (to c50) from levels observed at the end of September with value of loans with deferred exposures totalling PLN 44 million. The quality of PLN 7.6 billion worth of exposures that had been subject to credit moratoria was solid with c2.5% delayed over 30 days or with default triggers identified. Cash loans were at YE20 the segment where the proportion was the highest (5.1%), while PLN mortgages showed least quality problems (1.1%).

Detailed information on exposures that are subject to credit moratorium is presented in section 9.3 point (3e) in this financial report.

The impact of pandemic on financial results of Bank Millennium

From the perspective of year 2020 overall, the impact of the pandemic on results of the Bank was significant despite lower than initially expected negative impact on economic growth and key economic parameters, particularly the unemployment rate. The 2020 net profit was well below our aspirations. Itself, the cumulative NII drop in 2020 compared to the annualised 4Q19 level totalled PLN 223 million or 8%. Owing to mitigating actions the negative impact was eventually smaller than our estimates made in 2Q20 (PLN 240 million to PLN 285 million) but nonetheless it, ceteris paribus, resulted in lower NII than would otherwise have been achieved.

Other significant matters relating to the impact of the pandemic are presented in the Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium for 2020.

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

Mortgage Bank

Mortgage loans are an important element of the Bank’s retail business. Therefore, in June 2018, the Bank submitted a request to the Polish Financial Supervision Authority (“PFSA”) for permission to establish a mortgage bank. On June 16, 2020, PFSA issued a permission to establish a mortgage bank under the name of “Millennium Bank Hipoteczny Spółka Akcyjna” with its head office in Warsaw. Shareholders’ equity of Millennium Bank Hipoteczny Spółka Akcyjna shall be PLN 40,000,000 and has been wholly covered by Bank Millennium S.A. with a cash contribution of PLN 120,000,000. Registered ordinary shares in the number of 40,000,000 with nominal value of PLN 1 per share have been taken-up by the Bank with the issue price of PLN 3 per share. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

Group layoffs (as part of the restructuring process after the merger with Euro Bank)

In the period between February 1 and March 31, 2020, approximately 211 employees were made redundant. The costs of severance pay and damages in this respect did not exceed PLN 13 million. The layoffs resulted from mergers of organizational structures, namely: liquidation of duplicate organizational units, standardization and optimization of processes. The Bank's branches were also reviewed - based on the conducted economic and market analyzes, decisions were made to close some of them. The rules for carrying out these layoffs, the criteria and the amount of severance pay have been developed and agreed with the trade unions operating at the Bank.

There were no significant events affecting the financial statements and future results of the Group between the date on which the report was prepared and the date of its publication.

Date	Name and surname	Position/Function	Signature
22.02.2021	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
22.02.2021	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
22.02.2021	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
22.02.2021	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
22.02.2021	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
22.02.2021	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
22.02.2021	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature