

**Annual Financial Report
of the Bank Millennium S.A.
for the 12-month period
ending 31st December 2021**

This document is not the official version of the Annual Financial Report of the Bank Millennium S.A. for the 12-month period ending 31st December 2021.

Official Annual Financial Report of the Bank Millennium S.A. for the 12-month period ending 31st December 2021 was prepared in accordance with the ESEF requirements.

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	
	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Interest income and other of similar nature	2 739 464	3 024 189	598 463	675 917
Fee and commission income	867 384	809 267	189 489	180 874
Profit (loss) before income tax	(1 047 940)	193 716	(228 933)	43 296
Profit (loss) after taxes	(1 357 452)	18 579	(296 549)	4 153
Total comprehensive income of the period	(2 200 148)	148 740	(480 644)	33 244
Net cash flows from operating activities	2 564 242	(3 331 136)	560 184	(744 521)
Net cash flows from investing activities	(479 078)	1 952 784	(104 659)	436 454
Net cash flows from financing activities	(299 354)	(788 003)	(65 397)	(176 121)
Net cash flows, total	1 785 810	(2 166 355)	390 128	(484 188)
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total Assets	103 388 069	96 566 626	22 478 599	20 925 420
Liabilities to banks and other monetary institutions	186 247	563 882	40 494	122 190
Liabilities to customers	91 672 296	81 832 471	19 931 360	17 732 615
Equity	6 632 182	8 835 703	1 441 967	1 914 645
Share capital	1 213 117	1 213 117	263 755	262 875
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)	5.47	7.28	1.19	1.58
Diluted book value per share (in PLN/EUR)	5.47	7.28	1.19	1.58
Total Capital Ratio (TCR)	17.17%	19.16%	17.17%	19.16%
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	-	-	4.5994	4.6148
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)	-	-	4.5775	4.4742

Quarterly financial information
INCOME STATEMENT

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.10.2021 - 31.12.2021*	1.01.2020 - 31.12.2020	1.10.2020 - 31.12.2020*
Net interest income	2 614 214	736 726	2 490 329	600 618
Interest income and other of similar nature	2 739 464	774 756	3 024 189	639 932
Income calculated using the effective interest method	2 675 575	769 434	2 915 734	621 675
Interest income from Financial assets at amortised cost	2 381 845	657 665	2 602 344	572 415
Interest income from Financial assets at fair value through other comprehensive income	293 730	111 769	313 390	49 260
Income of similar nature to interest from Financial assets at fair value through profit or loss	63 889	5 322	108 455	18 257
Interest expenses	(125 250)	(38 030)	(533 860)	(39 314)
Net fee and commission income	716 125	184 007	639 738	163 620
Fee and commission income	867 384	221 455	809 267	204 627
Fee and commission expenses	(151 259)	(37 448)	(169 529)	(41 007)
Dividend income	52 397	316	39 326	136
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10 542	683	127 638	49 938
Results on financial assets and liabilities held for trading	(8 972)	(2 223)	12 919	4 710
Result on non-trading financial assets mandatorily at fair value through profit or loss	124 538	70 729	38 576	51 729
Result on hedge accounting	(3 185)	(1 431)	(10 259)	481
Result on exchange differences	(149 855)	(72 228)	119 268	13 093
Other operating income	283 481	96 265	140 865	69 674
Other operating expenses	(198 660)	(147 522)	(219 836)	(104 587)
Administrative expenses	(1 380 202)	(364 631)	(1 497 120)	(353 579)
Impairment losses on financial assets	(276 613)	(71 005)	(477 193)	(70 790)
Impairment losses on non-financial assets	(7 642)	(2 285)	(7 846)	(2 712)
Provisions for legal risk connected with FX mortgage loans	(2 305 157)	(732 000)	(713 617)	(415 944)
Result on modification	(12 839)	(3 403)	(13 565)	(3 475)
Depreciation	(193 501)	(49 033)	(196 359)	(48 389)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(312 611)	(82 012)	(279 148)	(70 121)
Profit before income taxes	(1 047 940)	(439 047)	193 716	(115 598)
Corporate income tax	(309 512)	(95 490)	(175 137)	(3 688)
Profit after taxes	(1 357 452)	(534 537)	18 579	(119 286)

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

STATEMENT OF TOTAL COMPREHENSIVE INCOME

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.10.2021 - 31.12.2021*	1.01.2020 - 31.12.2020	1.10.2020 - 31.12.2020*
Profit after taxes	(1 357 452)	(534 537)	18 579	(119 286)
Other comprehensive income items that may be (or were) reclassified to profit or loss	(1 044 799)	(808 741)	161 597	(26 644)
Result on debt securities at fair value through other comprehensive income	(977 385)	(698 708)	177 131	(28 083)
Result on credit portfolio at fair value through other comprehensive income	267 079	150 239	0	0
Hedge accounting	(334 493)	(260 272)	(15 534)	1 439
Other comprehensive income items that will not be reclassified to profit or loss	4 434	4 434	(905)	(905)
Actuarial gains (losses)	5 219	5 219	(730)	(730)
Result on equity instruments at fair value through other comprehensive income	(785)	(785)	(175)	(175)
Total comprehensive income items before taxes	(1 040 365)	(804 307)	160 692	(27 549)
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	198 512	153 661	(30 703)	5 062
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(842)	(842)	172	172
Total comprehensive income items after taxes	(842 696)	(651 489)	130 161	(22 315)
Total comprehensive income for the period	(2 200 148)	(1 186 026)	148 740	(141 600)

* 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 2021**

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1. Income Statement

Amount '000 PLN	Nota	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020*
Net interest income		2 614 214	2 490 329
Interest income and other of similar nature	1	2 739 464	3 024 189
Income calculated using the effective interest method		2 675 575	2 915 734
Interest income from Financial assets at amortised cost		2 381 845	2 602 344
Interest income from Financial assets at fair value through other comprehensive income		293 730	313 390
Income of similar nature to interest from Financial assets at fair value through profit or loss		63 889	108 455
Interest expenses	2	(125 250)	(533 860)
Net fee and commission income		716 125	639 738
Fee and commission income	3	867 384	809 267
Fee and commission expenses	3	(151 259)	(169 529)
Dividend income	4	52 397	39 326
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	10 542	127 638
Results on financial assets and liabilities held for trading	6	(8 972)	12 919
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	124 538	38 576
Result on hedge accounting	8	(3 185)	(10 259)
Result on exchange differences		(149 855)	119 268
Other operating income	9	283 481	140 865
Other operating expenses	10	(198 660)	(219 836)
Administrative expenses	11	(1 380 202)	(1 497 120)
Impairment losses on financial assets	12	(276 613)	(477 193)
Impairment losses on non-financial assets	13	(7 642)	(7 846)
Provisions for legal risk connected with FX mortgage loans	14	(2 305 157)	(713 617)
Result on modification		(12 839)	(13 565)
Depreciation	15	(193 501)	(196 359)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(312 611)	(279 148)
Profit before income taxes		(1 047 940)	193 716
Corporate income tax	16	(309 512)	(175 137)
Profit after taxes		(1 357 452)	18 579

* data for 2020 has been restated in relation to the information presented in the report for 2020, more information on this subject is presented in **Chapter 7 "Accounting policy"**.

Notes on pages 13-172 are integral part of these financial statements.

2. Statement of Total Comprehensive Income

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Profit after taxes	(1 357 452)	18 579
Other comprehensive income items that may be (or were) reclassified to profit or loss	(1 044 799)	161 597
Result on debt securities at fair value through other comprehensive income	(977 385)	177 131
Result on credit portfolio at fair value through other comprehensive income	267 079	0
Hedge accounting	(334 493)	(15 534)
Other comprehensive income items that will not be reclassified to profit or loss	4 434	(905)
Actuarial gains (losses)	5 219	(730)
Result on equity instruments at fair value through other comprehensive income	(785)	(175)
Total comprehensive income items before taxes	(1 040 365)	160 692
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	198 512	(30 703)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(842)	172
Total comprehensive income items after taxes	(842 696)	130 161
Total comprehensive income for the period	(2 200 148)	148 740

Notes on pages 13-172 are integral part of these financial statements.

3. Balance Sheet

ASSETS

Amount '000 PLN	Nota	31.12.2021	31.12.2020*	31.12.2019*
Cash, cash balances at central banks	18	3 179 736	1 460 289	2 203 444
Financial assets held for trading	19	173 089	424 777	987 465
Derivatives		86 651	155 365	113 432
Equity instruments		0	0	0
Debt securities		86 438	269 412	874 033
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	20	265 903	251 107	169 610
Equity instruments		138 404	200 772	66 609
Debt securities		127 499	50 335	103 001
Financial assets at fair value through other comprehensive income	21	17 952 492	18 626 366	21 856 275
Equity instruments		28 433	29 219	29 367
Debt securities		17 924 059	18 597 147	21 826 908
Loans and advances to customers	22	78 237 587	73 052 432	68 615 506
Mandatorily at fair value through profit or loss		362 992	1 615 753	1 498 195
Fair valued through other comprehensive income		11 485 351	0	0
Valued at amortised cost		66 389 244	71 436 679	67 117 311
Financial assets at amortised cost other than Loans and advances to customers	23	1 249 240	730 534	1 037 840
Debt securities		37 088	38 818	48 153
Deposits, loans and advances to banks and other monetary institutions		943 315	625 366	784 248
Reverse sale and repurchase agreements		268 837	66 350	205 439
Derivatives - Hedge accounting	24	14 385	21 795	43 159
Investments in subsidiaries, joint ventures and associates	25	208 889	208 874	88 874
Tangible fixed assets	26	528 565	541 326	622 506
Intangible fixed assets	27	385 199	373 720	331 978
Income tax assets		608 395	534 013	405 412
Current income tax assets		377	0	0
Deferred income tax assets	28	608 018	534 013	405 412
Other assets	29	584 589	341 393	249 448
Non-current assets and disposal groups classified as held for sale	30	0	0	0
Total assets		103 388 069	96 566 626	96 611 517

LIABILITIES AND EQUITY

Amount '000 PLN	Nota	31.12.2021	31.12.2020*	31.12.2019*
LIABILITIES				
Financial liabilities held for trading	31	143 409	168 559	353 004
Derivatives		126 795	103 781	150 739
Liabilities from short sale of securities		16 614	64 778	202 265
Financial liabilities measured at amortised cost		93 417 725	84 669 783	85 127 543
Liabilities to banks and other monetary institutions	32	186 247	563 882	849 452
Liabilities to customers	33	91 672 296	81 832 471	81 637 517
Sale and repurchase agreements	34	18 038	248 566	90 712
Debt securities issued	35	0	484 655	1 003 657
Subordinated debt	36	1 541 144	1 540 209	1 546 205
Derivatives - Hedge accounting	24	614 573	738 850	426 847
Provisions	37	594 405	158 371	91 018
Pending legal issues		549 450	105 643	37 162
Commitments and guarantees given		44 955	52 728	53 856
Income tax liabilities		0	28 704	38 057
Current income tax liabilities		0	28 704	38 057
Deferred income tax liabilities		0	0	0
Other liabilities	38	1 985 775	1 966 656	1 884 961
Total Liabilities		96 755 887	87 730 923	87 921 430
EQUITY				
Share capital	39	1 213 117	1 213 117	1 213 117
Own shares		(21)	(21)	0
Share premium		1 147 241	1 147 241	1 147 241
Accumulated other comprehensive income	39	(645 686)	197 009	66 848
Retained earnings, including:	39	4 917 531	6 278 357	6 262 881
- current profit /loss		(1 357 452)	18 579	600 683
- other		6 274 983	6 259 778	5 662 198
Total equity		6 632 182	8 835 703	8 690 087
Total equity and total liabilities		103 388 069	96 566 626	96 611 517
		31.12.2021	31.12.2020	31.12.2019
Book value of net assets		6 632 182	8 835 703	8 690 087
Number of shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)		5.47	7.28	7.16

* data for 2020 and 2019 has been restated in relation to the information presented in the report for 2020, more information on this subject is provided in **Chapter 7. "Accounting policy"**.

Notes on pages 13-172 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
01.01.2021 - 31.12.2021							
Equity at the beginning of the period	8 835 703	1 213 117	(21)	1 147 241	197 009	18 579	6 259 778
Total comprehensive income for 2021 (net)	(2 200 147)	0	0	0	(842 695)	(1 357 452)	0
current profit /loss	(1 357 452)	0	0	0	0	(1 357 452)	0
valuation of debt securities at fair value through other comprehensive income	(791 682)	0	0	0	(791 682)	0	0
valuation of shares at fair value through other comprehensive income	(636)	0	0	0	(636)	0	0
valuation of credit portfolio at fair value through other comprehensive income	216 334	0	0	0	216 334	0	0
hedge accounting	(270 938)	0	0	0	(270 938)	0	0
actuarial gains (losses)	4 227	0	0	0	4 227	0	0
Purchase and transfer of own shares to employees	(3 374)	0	0	0	0	0	(3 374)
Transfer between items of reserves	0	0	0	0	0	(18 579)	18 579
Equity at the end of the period	6 632 182	1 213 117	(21)	1 147 241	(645 686)	(1 357 452)	6 274 983
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)	148 740	0	0	0	130 161	18 579	0
current profit /loss	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

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

5. Cash Flow Statement

A. Cash flows from operating activities

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020*
Profit (loss) after taxes	(1 357 452)	18 579
Total adjustments:	3 921 694	(3 349 715)
Interest received	2 737 821	3 023 642
Interest paid	(122 313)	(542 356)
Depreciation and amortization	193 501	196 362
Foreign exchange (gains)/ losses	0	11 797
Dividends	(52 397)	(39 326)
Changes in provisions	436 034	67 353
Result on sale and liquidation of investing activity assets	(8 812)	(130 880)
Change in financial assets held for trading	(206 907)	277 422
Change in loans and advances to banks	(247 436)	(159 300)
Change in loans and advances to customers	(7 389 277)	(6 921 185)
Change in receivables from securities bought with sell-back clause (loans and advances)	(202 948)	132 653
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(149 427)	127 558
Change in deposits from banks	(364 108)	140 321
Change in deposits from customers	9 953 539	708 816
Change in liabilities from securities sold with buy-back clause	(228 737)	165 649
Change in debt securities	(231 161)	(205 425)
Change in income tax settlements	313 052	160 927
Income tax paid	(218 469)	(330 180)
Change in other assets and liabilities	(335 778)	(85 082)
Other	45 516	51 519
Net cash flows from operating activities	2 564 242	(3 331 136)

B. Cash flows from investing activities

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Inflows:	220 202 228	94 162 558
Proceeds from sale of property, plant and equipment and intangible assets	9 932	21 666
Proceeds from sale of shares in related entities	0	0
Proceeds from sale of investment financial assets	220 139 899	94 101 566
Other	52 397	39 326
Outflows:	(220 681 306)	(92 209 774)
Acquisition of property, plant and equipment and intangible assets	(92 404)	(71 188)
Purchase of shares in subordinated companies	(14)	(120 000)
Acquisition of investment financial assets	(220 588 888)	(92 018 586)
Other	0	0
Net cash flows from investing activities	(479 078)	1 952 784

C. Cash flows from financing activities

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Inflows from financing activities:	0	0
Long-term bank loans	0	0
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
Outflows from financing activities:	(299 354)	(788 003)
Repayment of long-term bank loans	(10 000)	(426 566)
Redemption of debt securities	(250 000)	(300 000)
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	(39 354)	(61 437)
Net cash flows from financing activities	(299 354)	(788 003)

D. Net cash flows. Total (A + B + C)	1 785 810	(2 166 355)
- including change resulting from FX differences	4 072	8 548
E. Cash and cash equivalents at the beginning of the reporting period	1 586 434	3 752 789
F. Cash and cash equivalents at the end of the reporting period (D + E)	3 372 244	1 586 434

* data for 2020 has been restated in relation to the information presented in the report for 2020, more information on this subject is provided in **Chapter 7. "Accounting policy"**.

Additional information regarding cash flows statement is presented in **point 5) of chapter 14. "Supplementary information"**. Information on liabilities classified as financing activities is presented in **points 32), 35), 36) of chapter 13. "Notes to the Financial Statements"**.

6. General Information about Issuer

Bank Millennium S.A. (the Bank) is a universal bank that operates in Poland, 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 (Poland), 13th Business Department of the National Court Register, is seated in Poland, Warsaw, Stanisława Żaryna 2A.

During the year, the name of the reporting entity and other identification data did not change.

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 almost 7,000 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 2021

Composition of the Supervisory Board as at 31 December 2021 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,
- Olga Grygier-Siddons - Member of the Supervisory Board,
- Anna Jakubowski - Member of the Supervisory Board,
- Grzegorz Jędryś - 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,
- Beata Stelmach - Member of the Supervisory Board
- Lingjiang Xu - Member of the Supervisory Board.

Composition of the Management Board as at 31 December 2021 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. Accounting Policy

7.1. 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 21 February 2022.

Change of applied accounting principles introduced in 2021

In 2021, in connection with the start of operations by the subsidiary Millennium Bank Hipoteczny S.A., the Bank created a new business model dedicated to mortgage loans intended for pooling (sale) to Bank Hipoteczny. The portfolio of these loans has been classified to the HTC&FS model and is measured at fair value with the measurement effect recognised in other comprehensive income.

In 2021, the Bank changed the accounting policy regarding the recognition of provisions for future claims related to active CHF mortgage loans in the balance sheet. As a result of changes in market conditions, such as the growing number of unfavourable court judgments declaring the entire agreement or certain provisions of these credits to be invalid, the Bank does not expect that all contractual cash flows related to these loans will be recovered. As a result, commencing from 2021, the Bank allocates provisions for future claims and recognizes them as a reduction of the gross carrying amount of loans for which a decrease in future cash flows is expected, in accordance with paragraph B5.4.6 of IFRS 9 "Financial Instruments" (previously provisions for future claims used to be recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"). As a result of the above change, the approach applied in accordance with IAS 37 will be continued only with regard to claims relating to already repaid (or almost fully repaid) receivables not recognised in the Bank's balance sheet.

In the opinion of the Bank, this way of presentation better reflects the risk related to FX mortgage loans and enables the users of the financial statements a better assessment of the Bank's balance sheet. Additionally, it is a change adjusting the Bank's accounting standards to the majority market practice applied by the banking sector in this area.

In order to ensure comparability, the Bank has made appropriate adjustments to comparable data in the balance sheet and cash flow as presented below, as well as in line with IAS1, point 39, an additional column was presented in the balance sheet as at the end of 2019, reflecting the effect of reclassification at the beginning of the earliest comparative period.

<i>Amount '000 PLN</i>	data as at 31.12.2020 published in annual 2020 report	impact of accounting principles change	restated data as at 31.12.2020, presented in hereby report
Cash, cash balances at central banks	1 460 289	0	1 460 289
Financial assets held for trading	424 777	0	424 777
Derivatives	155 365	0	155 365
Equity instruments	0	0	0
Debt securities	269 412	0	269 412
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	251 107	0	251 107
Equity instruments	200 772	0	200 772
Debt securities	50 335	0	50 335
Financial assets at fair value through other comprehensive income	18 626 366	0	18 626 366
Equity instruments	29 219	0	29 219
Debt securities	18 597 147	0	18 597 147
Loans and advances to customers	73 501 432	(449 000)	73 052 432
Mandatorily at fair value through profit or loss	1 615 753	0	1 615 753
Valued at fair value through other comprehensive income		0	0
Valued at amortised cost	71 885 679	(449 000)	71 436 679
Financial assets at amortised cost other than Loans and advances to customers	730 534	0	730 534
Debt securities	38 818	0	38 818
Deposits, loans and advances to banks and other monetary institutions	625 366	0	625 366
Reverse sale and repurchase agreements	66 350	0	66 350
Derivatives - Hedge accounting	21 795	0	21 795
Investments in subsidiaries, joint ventures and associates	208 874	0	208 874
Tangible fixed assets	541 326	0	541 326
Intangible fixed assets	373 720	0	373 720
Income tax assets	534 013	0	534 013
Current income tax assets	0	0	0
Deferred income tax assets	534 013	0	534 013
Other assets	341 393	0	341 393
Non-current assets and disposal groups classified as held for sale	0	0	0
Total assets	97 015 626	(449 000)	96 566 626

<i>Amount '000 PLN</i>	<i>data as at 31.12.2020 published in annual 2020 report</i>	<i>impact of accounting principles change</i>	<i>restated data as at 31.12.2020, presented in hereby report</i>
LIABILITIES			
Financial liabilities held for trading	168 559	0	168 559
Derivatives	103 781	0	103 781
Liabilities from short sale of securities	64 778	0	64 778
Financial liabilities measured at amortised cost	84 669 783	0	84 669 783
Liabilities to banks and other monetary institutions	563 882	0	563 882
Liabilities to customers	81 832 471	0	81 832 471
Sale and repurchase agreements	248 566	0	248 566
Debt securities issued	484 655	0	484 655
Subordinated debt	1 540 209	0	1 540 209
Derivatives - Hedge accounting	738 850	0	738 850
Provisions	607 371	(449 000)	158 371
Pending legal issues	554 643	(449 000)	105 643
Commitments and guarantees given	52 728	0	52 728
Income tax liabilities	28 704	0	28 704
Current income tax liabilities	28 704	0	28 704
Deferred income tax liabilities	0	0	0
Other liabilities	1 966 656	0	1 966 656
Total Liabilities	88 179 923	(449 000)	87 730 923
EQUITY			
		0	
Share capital	1 213 117	0	1 213 117
Own shares	(21)	0	(21)
Share premium	1 147 241	0	1 147 241
Accumulated other comprehensive income	197 009	0	197 009
Retained earnings	6 278 357	0	6 278 357
Total equity	8 835 703	0	8 835 703
Total equity and total liabilities	97 015 626	(449 000)	96 566 626

<i>Amount '000 PLN</i>	data as at 31.12.2019 published in annual 2020 report	impact of accounting principles change	restated data as at 31.12.2019, presented in hereby report
Cash, cash balances at central banks	2 203 444	0	2 203 444
Financial assets held for trading	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	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	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	68 689 229	(73 723)	68 615 506
Mandatorily at fair value through profit or loss	1 498 195	0	1 498 195
Valued at fair value through other comprehensive income	0	0	0
Valued at amortised cost	67 191 034	(73 723)	67 117 311
Financial assets at amortised cost other than Loans and advances to customers	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	43 159	0	43 159
Investments in subsidiaries, joint ventures and associates	88 874	0	88 874
Tangible fixed assets	622 506	0	622 506
Intangible fixed assets	331 978	0	331 978
Income tax assets	405 412	0	405 412
Current income tax assets	0	0	0
Deferred income tax assets	405 412	0	405 412
Other assets	249 448	0	249 448
Non-current assets and disposal groups classified as held for sale	0	0	0
Total assets	96 685 240	(73 723)	96 611 517

<i>Amount '000 PLN</i>	<i>data as at 31.12.2019 published in annual 2020 report</i>	<i>impact of accounting principles change</i>	<i>restated data as at 31.12.2019, presented in hereby report</i>
LIABILITIES			
Financial liabilities held for trading	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	849 452	0	849 452
Liabilities to customers	81 637 517	0	81 637 517
Sale and repurchase agreements	90 712	0	90 712
Debt securities issued	1 003 657	0	1 003 657
Subordinated debt	1 546 205	0	1 546 205
Derivatives - Hedge accounting	426 847	0	426 847
Provisions	164 741	(73 723)	91 018
Pending legal issues	110 885	(73 723)	37 162
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	0	0	0
Other liabilities	1 884 961	0	1 884 961
Total Liabilities	87 995 153	(73 723)	87 921 430
EQUITY			
		0	
Share capital	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	66 848	0	66 848
Retained earnings	6 262 881	0	6 262 881
Total equity	8 690 087	0	8 690 087
Total equity and total liabilities	96 685 240	(73 723)	96 611 517

Cash flow from operating activities

<i>Amount '000 PLN</i>	data for period 1.01.2020 - 31.12.2020 published in annual 2020 report	impact of accounting principles change	restated data for period 1.01.2020 - 31.12.2020, presented in hereby report
Profit (loss) after taxes	18 579	0	18 579
Total adjustments:	(3 349 715)	0	(3 349 715)
Interest received	3 023 642	0	3 023 642
Interest paid	(542 356)	0	(542 356)
Depreciation and amortization	196 362	0	196 362
Foreign exchange (gains)/ losses	11 797	0	11 797
Dividends	(39 326)	0	(39 326)
Changes in provisions	442 630	(375 277)	67 353
Result on sale and liquidation of investing activity assets	(130 880)	0	(130 880)
Change in financial assets held for trading	277 422	0	277 422
Change in loans and advances to banks	(159 300)	0	(159 300)
Change in loans and advances to customers	(7 296 462)	375 277	(6 921 185)
Change in receivables from securities bought with sell-back clause (loans and advances)	132 653	0	132 653
Change in financial liabilities valued at fair value through profit and loss (held for trading)	127 558	0	127 558
Change in deposits from banks	140 321	0	140 321
Change in deposits from customers	708 816	0	708 816
Change in liabilities from securities sold with buy-back clause	165 649	0	165 649
Change in debt securities	(205 425)	0	(205 425)
Change in income tax settlements	160 927	0	160 927
Income tax paid	(330 180)	0	(330 180)
Change in other assets and liabilities	(85 082)	0	(85 082)
Other	51 519	0	51 519
Net cash flows from operating activities	(3 331 136)	0	(3 331 136)

Changes of presentation introduced in 2021

The Bank changed the presentation of interest on derivatives not covered by formal hedge accounting. According to the Bank's verified assessment, these revenues, even though they are related with instruments included in the trading portfolio, but according to the economic sense of cash flows from these transactions, constitute interest income and should be an element of the interest margin, not one of the components of the financial instrument valuation, as it was previously the case. In view of the above, the Bank, starting from 2021, presents the interest in the Income statement as part of the "Net interest income", while previously this interest was included in the item "Results on financial assets and liabilities held for trading". In order to ensure comparability, the Bank has made appropriate adjustments to the comparable data in the Income statement as presented below.

Amount '000 PLN	data for period 1.01.2020 - 31.12.2020 published in annual 2020 report	impact of accounting principles change	restated data for period 1.01.2020 - 31.12.2020, presented in hereby report
Net interest income	2 455 869	34 460	2 490 329
Interest income and other of similar nature	2 989 729	34 460	3 024 189
Income calculated using the effective interest method	2 915 734	0	2 915 734
Interest income from Financial assets at amortised cost	2 602 344	0	2 602 344
Interest income from Financial assets at fair value through other comprehensive income	313 390	0	313 390
Income of similar nature to interest from Financial assets at fair value through profit or loss	73 995	34 460	108 455
Interest expenses	(533 860)	0	(533 860)
Net fee and commission income	639 738	0	639 738
Fee and commission income	809 267	0	809 267
Fee and commission expenses	(169 529)	0	(169 529)
Dividend income	39 326	0	39 326
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	127 638	0	127 638
Results on financial assets and liabilities held for trading	47 379	(34 460)	12 919
Result on non-trading financial assets mandatorily at fair value through profit or loss	38 576	0	38 576
Result on hedge accounting	(10 259)	0	(10 259)
Result on exchange differences	119 268	0	119 268
Other operating income	140 865	0	140 865
Other operating expenses	(219 836)	0	(219 836)
Administrative expenses	(1 497 120)	0	(1 497 120)
Impairment losses on financial assets	(477 193)	0	(477 193)
Impairment losses on non-financial assets	(7 846)	0	(7 846)
Provisions for legal risk connected with FX mortgage loans	(713 617)	0	(713 617)
Result on modification	(13 565)	0	(13 565)
Depreciation	(196 359)	0	(196 359)
Share of the profit of investments in subsidiaries	0	0	0
Banking tax	(279 148)	0	(279 148)
Profit before income taxes	193 716	0	193 716
Corporate income tax	(175 137)	0	(175 137)
Profit after taxes	18 579	0	18 579

7.2. STANDARDS AND INTERPRETATIONS APPLIED IN 2021 AND THOSE NOT BINDING AT THE BALANCE SHEET DATE

STANDARDS INITIALLY APPLIED IN CONSOLIDATED FINANCIAL STATEMENTS 2021

The following amendments to existing standards issued by the International Accounting Standards Board (IASB) and approved for use in the EU were first applied in the Bank's financial statements for 2021:

- **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 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 “Leases”** - Covid-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021),
- **Amendments to IFRS 4 Insurance Contracts “Extension of the Temporary Exemption from Applying IFRS 9”** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

The adoption of mentioned above amendments to the existing standards has not led to any material changes in the Bank's financial statements 2021.

INFORMATION REGARDING ISSUED STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY IASB AND ADOPTED BY THE EU BUT NOT YET EFFECTIVE

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective:

- **Amendments to IAS 16 “Property, Plant and Equipment”** - Proceeds before Intended Use adopted by the EU on 28 June 2021 (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 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 “Business Combinations”** - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 17 “Insurance Contracts”** including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **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 - adopted by the EU on 28 June 2021 (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.).

NEW STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS ISSUED BY IASB BUT NOT YET ADOPTED BY THE EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU (the effective dates stated below are valid for full versions of standards):

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **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 1 “Presentation of Financial Statements”** - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for 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 17 “Insurance contracts”** - Initial Application of IFRS 17 and IFRS 9 - Comparative Information (effective for annual periods beginning on or after 1 January 2023).

The Bank anticipates that the adoption of the aforementioned standard and amendments to existing standards will have no material impact on the financial statements of the Bank.

7.3. ADOPTED ACCOUNTING PRINCIPLES

Basis of Financial Statements Preparation

Financial statements of the Bank are prepared for the financial year from 1 January 2021 to 31 December 2021 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.

For the year ended December 31, 2021, the Bank incurred a financial loss. The financial loss in the amount of PLN 1.358 billion was caused by the creation of provisions for legal risk related to the portfolio of foreign currency mortgage loans (excluding Euro Bank) in the amount of PLN 2.086 billion, additional costs incurred with individual amicable settlements with FX mortgage borrowers and with legal costs. At same time the Bank achieved good operational and business results, while actively managing and mitigating the different risks related to the banking activity, what shows that there is no threat to going concern.

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 8. "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

A detailed description of the adopted valuation methodology is presented in Chapter 12 "Legal risk related to foreign currency mortgage loans".

• Valuation of the portfolio of loans dedicated to pooling to Mortgage Bank

In the case of the portfolio of mortgage loans in PLN, which will be subject to sale (pooling) to Mortgage Bank in the future, it is measured at fair value through other comprehensive income.

The fair value of the loans is calculated as the sum of discounted cash flows from principal repayments and interest payments on individual accounts.

Key assumptions:

- i) for loans, the starting point for determining the projected cash flows (interest and principal installments) are the schedules of principal and interest
- ii) the calculation of the discount rate adopted to estimate the value of cash flows takes into account: the WIBOR reference rate, the calibration margin determined on the basis of the latest production of the mortgage loan portfolio analogous to the valued portfolio, the cost of risk of the valued portfolio and the percentage of prepayment adjustment.

▪ 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 as well as to the portfolio of mortgage loans dedicated to pooling to Bank Hipoteczny.

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

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

Incorporation of forward looking information on economic conditions (FLI)

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

Unification of the default definition across the 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.

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

A right to use asset comprises:

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

Financial result reflects following items:

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

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

- calculation of liabilities and assets will use net values (VAT is excluded) of future cash flows,
- in case of agreements denominated in currency the liabilities will be carried in the original currency of the contract while assets in Polish zloty converted at the rate from date of signing the contract or an annex to the contract, which is also the day when the leasing starts,
- the right to use the asset will be depreciated according to the lease period,
- the Bank uses the option of not recognizing leasing in the case of short-term contracts for space lease and car leasing contracts,
- the Bank also uses the option of not recognizing leasing in the case of leasing assets with a low initial value, such as renting small areas, e.g. for garbage arbors, ramps, ATMs and devices such as coffee machines, water dispensers, audiomarketing and aromamarketing 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 2021 has been set at 3.1%. 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 14., 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 (24)**).

Interest income on derivatives classified as held for trading as well as 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 2021 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 7% whereas in 2020 it was 5%

As of 31 December 2021, 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 53%.

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.

8. Financial Risk Management

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

8.1. 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 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 considers 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.

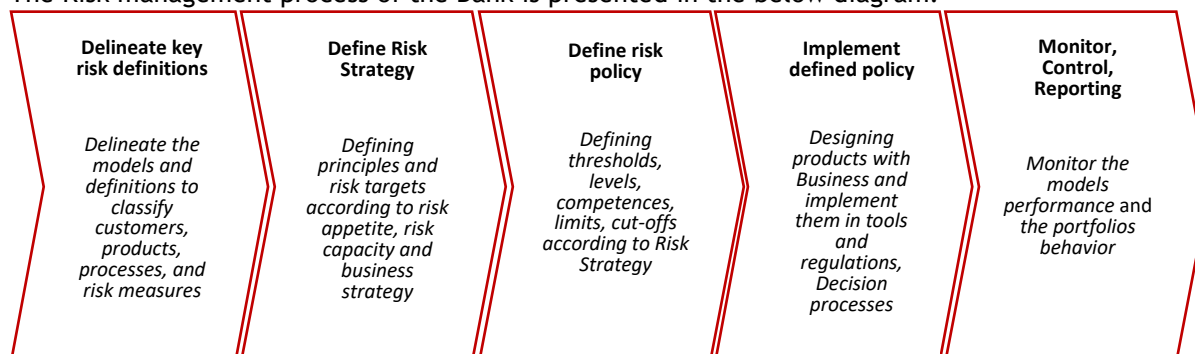
When defining the business and profitability targets, the Bank considers the specified risk framework (Risk Appetite) to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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 2022-2024". 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 must 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 zone
- 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.

8.2. 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, considering 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 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 banks by KNF every year because 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 the end of 2021 in the level of 2.82 p.p. (Bank) and 2.79 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.11 p.p. in Bank and of 2.09 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 1.58 p.p. in Bank and 1.56 p.p. in Group¹;
- 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 year²;
 - 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 2020, to maintain own funds for the coverage of additional capital requirements at the level of 3.41 pp (Bank) and 3.35 pp (Group) as for TCR, which should have consisted of at least 2.56 pp (Bank) and 2.52 pp (Group) as for Tier 1 capital and which should have consisted of at least 1.91 pp (Bank) and 1.88 pp (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 capital ratios.

The below table presents these levels as of 31 December 2021. The Bank will inform on each change of required capital levels in accordance with regulations.

Capital ratio	31.12.2021	
CET1 ratio	Bank	Group
Minimum	4.50%	4.50%
Pillar II RRE FX	1.58%	1.56%
TSCR CET1 (Total SREP Capital Requirements)	6.08%	6.06%
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)	8.83%	8.81%
T1 ratio	Bank	Group
Minimum	6.00%	6.00%
Pillar II RRE FX	2.11%	2.09%
TSCR T1 (Total SREP Capital Requirements)	8.11%	8.09%
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)	10.86%	10.84%
TCR ratio	Bank	Group
Minimum	8.00%	8.00%
Pillar II RRE FX	2.82%	2.79%
TSCR TCR (Total SREP Capital Requirements)	10.82%	10.79%
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)	13.57%	13.54%

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 each 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".

Since 2018, the Bank has been successively implementing a multi-stage process of implementing changes to the IRB method, related to the requirements regarding the new definition of default. In the first phase, in line with the "two-step approach" approved by Competent Authorities, the Bank in 2020 successfully implemented solutions for the new definition of default in the production environment. The Bank is obliged to include an additional conservative charge on the estimates of the RWA value for exposures classified under the IRB approach. The level of this add-on, calculated based on the supervisory algorithm, was set at 5% above the value resulting from the IRB method.

In 2021, all credit risk models included in the rating system subject to the current regulatory approval were recalibrated and rebuilt. In 2021 the Bank also obtained a decision from Competent Authorities to approve significant changes to the IRB models used (LGD, LGD in-default and ELBE) for rating systems subject to the IRB approval.

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, considering 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 measurable 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 2021, 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 areas with a higher risk-adjusted return.

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

Capital adequacy - current state, evaluation, and trends

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

Capital adequacy	31.12.2021	31.12.2020	31.12.2019
Risk-weighted assets	48 895.7	50 757.4	47 267.6
Own Funds requirements, including:	3 911.7	4 060.6	3 781.4
- Credit risk and counterparty credit risk	3 477.7	3 688.3	3 455.8
- Market risk	32.3	26.6	24.2
- Operational risk	391.4	340.7	297.7
- Credit Valuation Adjustment CVA	10.3	4.9	3.7
Own Funds, including:	8 397.1	9 726.6	9 454.5
Common Equity Tier 1 Capital	6 867.1	8 196.6	7 924.5
Tier 2 Capital	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	17.17%	19.16%	20.00%
Minimum required level	13.57%	14.16%	18.46%
Surplus (+) / Deficit (-) of TCR capital adequacy (pp)	3.60	5.00	1.54
Tier 1 Capital ratio (T1)	14.04%	16.15%	16.77%
Minimum required level	11.31%	11.31%	15.22%
Surplus (+) / Deficit (-) of T1 capital adequacy (pp)	2.73	4.84	1.55
Common Equity Tier 1 Capital ratio (CET1)	14.04%	16.15%	16.77%
Minimum required level	8.83%	9.16%	12.78%
Surplus (+) / Deficit (-) of CET1 capital adequacy (pp)	5.21	6.99	3.99
Leverage ratio	6.45%	8.06%	7.94%

As at 2021 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, decreased in one year period by ca 2.11 pp and by ca 1.99 pp respectively.

In 2021, risk-weighted assets (RWA) went down by ca PLN 1.9 billion (by 3.7%). The biggest yearly change was credit risk RWA (fall by ca PLN 2.6 billion, by 5.7%). The second material driver was an operational risk RWA rise (by ca PLN 0.6 billion), what stems from including in calculation higher financial results from the last three years. Changes of market risk and CVA (credit valuation adjustment) RWA were not material.

³ Bank uses transitional arrangements for IFRS 9 and considers a temporary treatment of unrealized gains and losses on bonds measured by fair value through other comprehensive income (FVOCI) in accordance with Art. 468 of the CRR. As at 31.12.2021, if IFRS 9 transitional arrangements and temporary treatment according to Art. 468 of the CRR had not been applied, capital ratios were as follows:

- TCR: 16.07%
- T1: 12.95%
- CET1: 12.95%
- Leverage ratio: 5.98%

In 2021 Own Funds fell by ca PLN 1.3 billion (by 13.7%), mainly because of net financial loss caused by legal risk provisions.

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

Leverage ratio stood at the safe level of 6.45%, and it significantly exceeds the regulatory minimum (3%).

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

MREL requirements

In November 2021, the Bank received a joint decision of the Single Resolution Board (SRB) and the Bank Guarantee Fund, obliging the Bank to meet the minimum requirements for own funds and eligible liabilities (MREL). Pursuant to this decision, the Bank is required to meet the minimum MREL_{tra} requirement of 21.13% and the MREL_{tem} requirement of 5.88% by December 31, 2023. The decision also sets out a gradual path towards reaching the minimum requirements. Their level will be updated annually.

In connection with the above decision, in January 2022, the Supervisory Board of the Bank approved the Eurobond Issue Program with a total nominal value of no more than EUR 3 billion.

8.3. 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 relates to 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 considering 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 amount 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 months 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 based on 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 based on verification of natural exposure and analysis of customer's financial situation, and 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 like 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 relate to 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 is 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, considering 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. 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 parameters.

The methodology and assumptions adopted for determining credit impairments are regularly reviewed to reduce discrepancies between the estimated and actual losses. 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 considered to improve the quality of the process.

The 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 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 must be calculated based on expected credit losses and forecasts of expected future economic conditions must be considered 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 lifetime of the financial asset,
- Stage 3 - credit impaired exposures, for which expected credit loss is estimated for the remaining lifetime of the financial asset.
- POCI (purchased or originated credit impaired) - exposures which, upon their initial recognition in the balance sheet, are recognized as impaired, expected losses are estimated for the remaining life of the financial asset.

Identification of a significant increase in credit risk (SICR)

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

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

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

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 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 because 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 based on 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 estimating impairment. The main components of these models are the probability of cure and the recovery rate estimated based on 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 based on 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. 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 of 31 December 2021 are set out below.

Macroeconomic variable	Scenario	2022	2023	2024
Gross Domestic Product	Base	104.8	103.5	103.9
	Optimistic	105.0	104.2	104.8
	Mild recession	104.3	103.7	103.8
Retail Sales	Base	107.6	105.0	105.2
	Optimistic	108.2	105.5	106.5
	Mild recession	106.8	104.6	104.8
Unemployment rate	Base	6.4	5.9	4.9
	Optimistic	5.7	5.5	4.5
	Mild recession	7.5	6.9	6.5

The weightings assigned to each economic scenario on 31 December 2021 were as follows:

	Base	Optimistic	Mild recession
Applied weighting	60%	20%	20%

ECL sensitivity to macroeconomic scenarios

For 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 1.3%.

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 2021, the Bank sold retail credit exposures classified as impaired, in the total gross amount of PLN 205.5 million.

(3d) Maximum exposure to credit risk

	31.12.2021	31.12.2020
Exposures exposed to credit risk connected with balance sheet assets	98 140 384	93 074 115
Deposits, loans and advances to banks and other monetary institutions	943 315	625 366
Loans and advances to customers:	78 237 586	73 052 432
Mandatorily at fair value through profit or loss:	362 992	1 615 753
Loans to private individuals:	362 952	1 602 751
Receivables on account of payment cards	264 628	830 971
Credit in current account	98 324	771 780
Loans to companies	40	13 002
Valued at fair value through other comprehensive income	11 485 351	0
Valued at amortised cost:	66 389 243	71 436 679
Loans to private individuals:	47 726 259	53 645 376
Receivables on account of payment cards	745 766	75 769
Cash loans and other loans to private individuals	14 723 782	13 616 795
Mortgage loans	32 256 711	39 952 812
Loans to companies and public sector	18 418 379	17 479 925
Loans to public entities	244 605	311 378
Financial derivatives and Adjustment from fair value hedge	101 036	177 160
Debt instruments held for trading	86 438	269 412
Debt instruments mandatorily at fair value through profit or loss	127 499	50 335
Debt instruments at fair value through other comprehensive income	17 924 059	18 597 147
Repurchase agreements	268 837	66 350
Other financial assets	451 614	235 913
Credit risk connected with off-balance sheet items	15 236 694	15 040 743
Financial guarantees	2 578 287	2 562 041
Credit commitments	12 658 407	12 478 702

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2021 and 31st December 2020, 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

	31.12.2021	31.12.2020
Mandatorily at fair value through profit or loss *	362 992	1 615 753
▪ Companies	40	12 889
▪ Individuals	362 952	1 602 751
▪ Public sector	0	112

Loans and advances to customers at fair value through other comprehensive income

Balance sheet value:	31.12.2021	31.12.2020
at fair value through other comprehensive income *	11 485 351	0
▪ Companies	0	0
▪ Individuals	11 485 351	0
▪ Public sector	0	0

The credit quality of financial assets

PLN'000, as of the end of 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	81 703 408	3 061 378	3 044 606	241 276	88 050 668
Balance impairment	301 100	266 359	1 627 282	15 259	2 210 000
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	943 555				943 555
Loans and advances to private individuals (according to Master Scale):	44 331 040	2 567 911	2 457 343	241 217	49 597 511
▪ 1-3 Highest quality	27 310 004	100 605	0	3 235	27 413 844
▪ 4-6 Good quality	9 285 120	380 922	0	6 736	9 672 778
▪ 7-9 Medium quality	6 209 483	818 005	0	8 223	7 035 711
▪ 10-12 Low quality	1 504 920	775 656	0	4 201	2 284 777
▪ 13-14 Watched	5 379	492 680	0	2 997	501 056
▪ 15 Default	0	0	2 457 343	215 817	2 673 160
▪ Without rating (*)	16 134	43	0	8	16 185
Impairment	212 250	242 862	1 400 649	15 490	1 871 251
Loans and advances to companies (according to Master Scale):	8 517 165	410 854	561 891	59	9 489 969
▪ 1-3 Highest quality	108 751	1 526	0	0	110 277
▪ 4-6 Good quality	2 056 585	19 171	0	0	2 075 756
▪ 7-9 Medium quality	3 683 368	69 822	0	0	3 753 190
▪ 10-12 Low quality	1 136 115	297 168	0	0	1 433 283
▪ 13-14 Watched	0	10 043	0	0	10 043
▪ 15 Default	0	0	561 891	59	561 950
▪ Without rating (*)	1 532 346	13 124	0	0	1 545 470
Impairment	68 710	18 872	216 026	-231	303 377

PLN'000, as of the end of 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Loans and advances to public entities (according to Master Scale):	76 675	1	0	0	76 676
▪ 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 (*)	76 675	1	0	0	76 676
Impairment	163	0	0	0	163
Factoring (according to Master Scale):	3 041 750	82 612	25 372	0	3 149 734
▪ 1-3 Highest quality	398	0	0	0	398
▪ 4-6 Good quality	872 113	1 833	0	0	873 946
▪ 7-9 Medium quality	1 537 127	16 037	0	0	1 553 164
▪ 10-12 Low quality	594 442	64 634	0	0	659 076
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	25 372	0	25 372
▪ Without rating (*)	37 670	108	0	0	37 778
Impairment	19 804	4 625	10 607	0	35 036
Repurchased receivables from Millennium Leasing (according to Master Scale):	6 285 354	0	0	0	6 285 354
▪ 1-3 Highest quality	72 186	0	0	0	72 186
▪ 4-6 Good quality	468 384	0	0	0	468 384
▪ 7-9 Medium quality	1 164 600	0	0	0	1 164 600
▪ 10-12 Low quality	670 851	0	0	0	670 851
▪ 13-14 Watched	2 109	0	0	0	2 109
▪ 15 Default	97 345	0	0	0	97 345
▪ Without rating (*)	3 809 879	0	0	0	3 809 879
Impairment	173	0	0	0	173
Derivatives and adjustment from fair value hedge (according to Master Scale):	101 036	0	0	0	101 036
▪ 1-3 Highest quality	26 897				26 897
▪ 4-6 Good quality	41 607				41 607
▪ 7-9 Medium quality	7 015				7 015
▪ 10-12 Low quality	8 064				8 064
▪ 13-14 Watched	0				0
▪ 15 Default	0				0
▪ Without rating	3 069				3 069
▪ fair value adjustment due to hedge accounting	0				0
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	14 385				14 385
Debt securities mandatorily at fair value through profit or loss	127 499				127 499
Trading debt securities (State Treasury** bonds)	86 438				86 438
Investment debt securities (State Treasury**, Central Bank**, Local Government, EIB)	17 924 059				17 924 059
Receivables from securities bought with sell-back clause	268 837				268 837

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 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	31.12.2021				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	499 440	217 799	3 873	0	721 112
Collective analysis	87 880	739 173	1 712 315	0	2 539 368
Total	587 320	956 972	1 716 188	0	3 260 480

Gross exposure in '000 PLN	31.12.2020				Total
	Loans and advances to customers			Loans and advances to banks	
	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

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

	31.12.2021			31.12.2020		
	Amount in '000 PLN	Share %	Coverage by impairment provisions	Amount in '000 PLN	Share %	Coverage by impairment provisions
PLN	515 319	71.5%	32.7%	677 403	75.6%	39.9%
CHF	133 501	18.5%	22.0%	162 121	18.1%	19.1%
EUR	72 022	10.0%	41.1%	55 570	6.2%	48.6%
USD	270	0.0%	39.2%	645	0.1%	21.0%
SEK	0	0.0%		56	0.0%	76.1%
Total (Case by Case impaired)	721 112	100.0%	31.6%	895 795	100.0%	36.7%

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

	31.12.2021		31.12.2020	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	341 584	47.4%	377 360	42.1%
20% - 40%	112 192	15.6%	141 413	15.8%
40% - 60%	135 702	18.8%	116 744	13.0%
60% - 80%	78 696	10.9%	127 375	14.2%
Above 80%	52 938	7.3%	132 903	14.9%
Total (Case by Case impaired)	721 112	100.0%	895 795	100.0%

At the end of 2021, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis (Case by Case) amounted to PLN 358.5 million (at the end of 2020 respectively PLN 369.5 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 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 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 with EBA technical standards for forbore exposures.

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

Gross exposure in '000 PLN	31.12.2021	31.12.2020
Loans and advances to private individuals	1 102 917	1 103 434
Loans and advances to companies	215 254	214 215
Total	1 318 171	1 317 649

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

Loans and advances subject to legislative and non-legislative moratoria	TOTAL	Performing Gross carrying amount	Performing	
			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)
Gross carrying amount				
Loans and advances subject to moratorium	0	0	0	0
of which: Households	0	0	0	0
of which: <i>Collateralised by residential immovable property</i>	0	0	0	0
of which: Non-financial corporations	0	0	0	0
of which: <i>Small and Medium-sized Enterprises</i>	0	0	0	0
of which: <i>Collateralised by commercial immovable property</i>	0	0	0	0

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

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	53 578	5 993 042		
Loans and advances subject to moratorium (granted)	53 578	5 993 042	10 334	5 993 042
of which: Households		5 748 299	10 334	5 748 299
of which: <i>Collateralised by residential immovable property</i>		4 270 399	8 792	4 270 399
of which: Non-financial corporations		244 742	0	244 742
of which: <i>Small and Medium-sized Enterprises</i>		196 373	0	196 373
of which: <i>Collateralised by commercial immovable property</i>		68 465	0	68 465

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	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances subject to moratorium (granted)	0	0	0	0	0
of which: Households	0	0	0	0	0
of which: <i>Collateralised by residential immovable property</i>	0	0	0	0	0
of which: Non-financial corporations	0	0	0	0	0
of which: <i>Small and Medium-sized Enterprises</i>	0	0	0	0	0
of which: <i>Collateralised by commercial immovable property</i>	0	0	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	1 187 139	2 778	13 643
of which: Households	0		0
of which: <i>Collateralised by residential immovable property</i>	0		0
of which: Non-financial corporations	1 187 139	2 778	13 643
of which: <i>Small and Medium-sized Enterprises</i>	573 630		3 640
of which: <i>Collateralised by commercial immovable property</i>	0		0

(3f) Collateral transferred to the Bank

In 2021 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 based on 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 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 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 2021				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	12 013	7 605	48 765	0	68 383
Receivables written-off being subject to enforcement activity	99 547	5 088	100 977	0	205 612
Total written-off	111 560	12 693	149 742	0	273 995

Gross exposure write-offs in '000 PLN	In 2020				Total
	Loans and advances to customers			Loans and advances to banks	
	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

(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.

31.12.2021	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	943 554	0	0	0	0	0	0	0	943 554
Loans and advances to customers (Amortized cost)	279 221	5 934 558	5 686 061	2 671 607	53 437	32 812 056	16 785 455	4 376 849	68 599 244
Loans and advances to customers (Fair value through OCI)	0	0	0	0	0	11 485 351	0	0	11 485 351
Loans and advances to customers (Fair value through P&L)	0	12	1	16	0	0	362 952	11	362 992
Trading securities	0	0	0	0	86 438	0	0	0	86 438
Instruments valued at amort. cost	0	0	0	0	37 089	0	0	0	37 089
Instruments mandatorily at fair value through P&L	265 903	0	0	0	0	0	0	0	265 903
Derivatives and adjustment due to fair value hedge	60 449	28 040	11 530	251	0	0	0	766	101 036
Investment securities	28 080	4 996	0	307	17 924 071	0	0	34	17 957 488
Repurchase agreements	268 837	0	0	0	0	0	0	0	268 837
Total	1 846 044	5 967 606	5 697 592	2 672 181	18 101 035	44 297 407	17 148 407	4 377 660	100 107 932

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

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 through P&L)	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

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 (54.9%) and cash loans (18.5%). 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	2021 Balance Exposure (PLN million)	Share (%)	2020 Balance Exposure (PLN million)	Share (%)
Credits for individual persons	61 265.1	76.3%	57 554.0	75.9%
Mortgage	44 050.5	54.9%	41 000.7	54.1%
Cash loan	14 831.6	18.5%	14 412.7	19.0%
Credit cards and other	2 383.0	2.9%	2 140.6	2.8%
Credit for companies*	19 001.8	23.7%	18 268.9	24.1%
Wholesale and retail trade; repair	5 686.1	7.1%	5 290.3	7.0%
Manufacturing	4 758.6	5.9%	4 441.9	5.9%
Construction	1 176.0	1.5%	1 075.0	1.4%
Transportation and storage	2 671.6	3.3%	2 124.2	2.8%
Public administration and defence	53.4	0.1%	76.5	0.1%
Information and communication	1 067.0	1.3%	1 303.9	1.7%
Other Services	982.8	1.2%	1 109.6	1.4%
Financial and insurance activities	279.2	0.3%	331.5	0.4%
Real estate activities	1 188.1	1.5%	1 069.2	1.4%
Professional, scientific, and technical services	266.4	0.3%	217.4	0.3%
Mining and quarrying	61.1	0.1%	48.1	0.1%
Water supply, sewage, and waste	164.4	0.2%	157.4	0.2%
Electricity, gas, water	137.2	0.2%	508.6	0.7%
Accommodation and food service activities	194.7	0.2%	192.2	0.2%
Education	63.1	0.1%	77.1	0.1%
Agriculture, forestry, and fishing	90.7	0.1%	95.6	0.1%
Human health and social work activities	127.2	0.2%	118.1	0.2%
Culture, recreation, and entertainment	34.2	0.0%	32.3	0.0%
Total (gross)	80 266.9	100.0%	75 822.9	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 2021 is 5.9% comparing with 7.0% at the end of 2020. Concentration ratio in 2021 also decreased for the 10 largest customers: to 4.5% from 5.1% at the end of the previous year.

This was the result of, among others, the repayment of revolving loans by several large entities and sale one big transaction.

8.4. 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.

In 2021, the Bank was preparing to fully adjust to implement statutory replacement rate for two interest rate benchmarks, the Swiss Franc London Interbank Offered Rate (CHF LIBOR) and the Euro Overnight Index Change (EONIA). As of 1 January 2022 (for CHF LIBOR) and 3 January 2022 (for EONIA), all references to these rates in contracts and financial instruments were statutorily and automatically replaced with references to new risk-free rates as per decision of the European Commission. For CHF LIBOR, the nominated replacement rate is the new Swiss Franc risk-free rate SARON and for EONIA - euro risk-free rate €STR.

Market-risk evaluation measures

The Bank's market risk measurement allows monitoring of all 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 2021 the 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 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 (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, 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. The EWMA method (exponentially weighted moving average method) with effectively shorter observation period is only justified by a significant upsurge in price volatility.

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 in consolidated terms for Global Bank, Trading and Banking Book considering the effect of the diversification that exists between the 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, 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. In 2021, the VaR limits were very conservative - set for Global Bank at no more than 2,6% and for Trading Book at 0,31% of Own Funds. The 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 to consider, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The market risk limits valid for 2021 reflected the assumptions and risk appetite defined under Risk Strategy 2021-2023.

Within the current market environment, the Bank continued to act very prudently. However, the strong market volatility in connection with the global COVID-19 pandemic and Monetary Policy Council's (MPC's) series of decisions to increase interest rates in Poland resulted in significant increase of the Group's market and interest rate risk.

In 2021, the VaR for the Bank that is jointly Trading Book and Banking Book, increased due to market volatility and in 4Q 2021 breached the VaR limits in place. All excesses of market risk limits are always reported, documented, and ratified at the proper competence level.

In 2021 the VaR indicators for the Bank remained on average at the level of PLN 161.7 million (63% of the limit) and PLN 391.3 million (150% of the limit) as of the end of December 2021. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect relates to the fact that the Bank's market risk is mainly the interest rate risk.

The figures in the Table also include 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 (2021)				
	31.12.2020	Average	Maximum	Minimum	31.12.2021
Total risk	96 894	161 704	586 186	63 847	391 280
Generic risk	95 256	160 151	584 728	62 220	389 833
Interest Rate Risk	95 227	160 153	584 748	62 224	389 761
FX Risk	190	149	2 917	8	232
Diversification Effect	0.2%				0.0%
Specific risk	1 638	1 542	1 641	1 445	1 445

The corresponding exposures as of 2020 respectively amounted to ('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 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 (2021)				
	31.12.2020	Average	Maximum	Minimum	31.12.2021
Total risk	95 897	161 824	585 895	63 897	390 289
Generic risk	94 261	160 285	584 441	62 273	388 846
Interest Rate Risk	94 261	160 290	584 441	62 276	388 846
FX Risk	0	72	249	0	0
Diversification Effect	0.0%				0.0%
Specific risk	1 636	1 539	1 639	1 443	1 443

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

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2021)				
	31.12.2020	Average	Maximum	Minimum	31.12.2021
Total risk	1 239	1 645	5 860	424	2 518
Generic risk	1 237	1 632	5 858	422	2 514
Interest Rate Risk	1 190	1 610	5 850	420	2 485
FX Risk	183	100	2 940	9	228
Diversification Effect	11.0%				7.9%
Specific risk	2	2	5	2	2

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

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 2021, as a rule FX position generated in the Banking Book was fully transferred to the Trading Book where it was managed daily. During 2021 the FX open position remained on average at the level of PLN 9.5 million with maximum of PLN 59.3 million. In 2021, 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
2021	9 464	3 153	59 313	10 021
2020	7 590	2 353	37 584	4 954

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, nineteen 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 *
2021-12-31	389 833	4 056	19
2020-12-31	95 256	34 824	9

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

In 2021, all excesses in the process of VaR model back testing were caused by unanticipated market movements caused by the COVID-19 pandemic uncertainty and MPC's decisions to increase interest rates in Poland, of which strong changes in Polish government bonds yields and short-term interest rates in second half of 2021 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 red zone: above 15 excesses. 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

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.

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 differences in repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. It is specifically affected by the unbalance between assets and liabilities that have fixed rate, especially by the liabilities which cannot have interest rate lower than 0. Consequently, the level of sensitivity to interest rate changes is influenced by the level of interest rates taken as a reference. Additionally, due to specificity of the polish legal system, the interest rate of 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. On the other hand, assumptions regarding the timing and size of deposits repricing are also very important when assessing the interest rate sensitivity and risk.

In the first 3 quarters of 2021, the interest rates in Poland stayed at its historical minimum (after three rate cuts in 2020 - reference rate decreased to 0.10%, deposit rate to 0.0% and the Lombard rate to 0.50%). The maximum interest rate for loan portfolio could not exceed 7.2% annually. In 4th quarter 2021, series of interest rates increases driven by MPC's decisions were reflected in change of interests for loans with gradual or immediate repricing. On the other side, the interest rates on deposits side still lagged increasing market rates.

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

- Due date for balances and interest flows arising from non-maturing deposits are defined based on historical data regarding customer behaviour, considering 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 based on 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 assets 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 were regularly monitored and reported to the Capital, Assets and Liabilities Committee, to Risk Committee, the Management Board and Supervisory Board. Considering the increase of interest rates that occurred in the 4th quarter 2021, the results of the IRRBB measurement as of the end of December 2021 indicate that the Bank is now in a more balanced situation regarding the scenario of a decline or increase in interest rates. The supervisory outlier tests results of December 2021 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

The results of the sensitivity of the Banking Book to changes of interest rates in terms of BPVx100 and EVE under supervisory stress tests is presented in Table below.

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

	31.12.2021	31.12.2020
	BPVx100	BPVx100
PLN	220 217	(24 537)
CHF	9 890	16 864
EUR	125 092	97 308
USD	33 099	29 892
Other	6 385	4 946
TOTAL	394 682	124 471
Equity, fixed and other assets	53 142	77 253
TOTAL	447 824	201 725

Sensitivity of EVE to changes of interest rates (*)	31.12.2021	31.12.2020
Standard, supervisory test (parallel yield curve +/-200 bp % Own Funds)	-7.29%	-0.28%
Supervisory outlier test (the most severe scenario, % CET1)	-10.64%	-1.94%

(*) The principles listed in section 115 of the EBA IRRBB Guidelines were applied to calculate the change in EVE. The most severe decline of EVE is presented.

The results of sensitivity of NII for the next 12 months after 31st December 2021 and for position in Polish Zloty in Banking Book are carried out under the following assumptions:

- static balance sheet structure as of that reference date (no change during the following 12 months),
- reference level of net interest income assuming that all assets and liabilities with variable interest rate already reflect market interest rates levels as of 31st December 2021 (for example, the NBP Reference rate at the end of 2021 was set at 1,75%),
- application of a parallel move of 100 bps in the yield curve up and down is an additional shock to all market interest rates levels as of 31st December 2021 and is set at the repricing date of the assets and liabilities that happens during the 12 following months.

In a scenario of parallel decrease of interest rates by 100 bps, the results are negative and equal to -162 mln or -6.2% of the Bank's NII reference level. In a scenario of parallel increase of interest rates by 100 bps, the results are positive and equal to 160 mln or +6.1% of the Bank's NII reference level. The level of asymmetry that existed in past reporting dates is now lower as interest rates were meaningfully above 0% on 31st December 2021 and the leverage impact of the maximum interest rate is now less strong than in previous years due to changes in the structure of portfolio and pricing of loans.

8.5. 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 considering costs of funding.

Liquidity risk reflects the possibility of incurring significant losses because 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 considering goals defined by the Management Board and the Capital, Assets and Liabilities Committee.

In 2021, the COVID-19 pandemic still had an impact on global financial markets, however 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 2021, the Bank's Loan-to-Deposit ratio decreased and was equalled to 85% at the end of December 2021 (comparing to level of 90% as of end of December 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 2021, 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 17.6 billion (17% of total assets), whereas at the end of December 2020 (PLN 18.4 billion, 19% 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 2021 total Clients' deposits of the Bank reached the level of PLN 91.7 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equalled to approx. 71.8% at the end of December 2021 (75.4% at the end of December 2020). The high share of funds from individuals had a positive impact on the Bank's liquidity and supported the compliance 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 2021 amounted respectively to 3.6% and 6.5% (in December 2020 it was respectively 2.8 % and 4.8 %). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2021. 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, 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. In 2021, the source of medium-term funding remains also medium-term loans, subordinated debt, own bonds issue and bank's securities.

During 2021, 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 2021 amounted to PLN 15.0 million (at the end of December 2020 it was PLN 25.0 million). The decrease of the total amount of the medium-term loans from financial institutions related to standard repayment in accordance with the schedule.

Except for subordinated bonds, at the end of December 2021, the Bank had no liabilities under bonds issued by the Bank and bank securities (PLN 484.7 million at the end of December 2020). The issue of bonds initially planned on the Polish market in Q4, 2021, the liabilities under which could be classified as eligible liabilities within the meaning of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee scheme and resolution, did not take place due to a gap in the Polish Bonds Act. In the first half of 2022, the Bank plans to issue international senior non-preferred bonds as part of the Eurobond issue program (EMTN), approved by the Bank's Supervisory Board on January 28, 2022. The total nominal value of issued and unredeemed bonds may not exceed amount of the EMTN program, i.e. EUR 3 billion at any time.

The Bank manages FX liquidity using FX-denominated bilateral loans as well as Cross Currency Swap and FX Swap transactions. The importance of swaps has been decreasing because of the reduction of the FX mortgage loan portfolio and the hedge in foreign currency of the provisions for legal risk. The swaps portfolio is diversified in term of counterparties and maturity dates. For most 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 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 based on 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.

The liquidity risk limits are revised at least once a year to consider, 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. According to rules in place, all eventual excesses of internal liquidity risk limits are always reported, documented, and ratified at the proper competence level.

Current Liquidity indicators

31.12.2021					
	Immediate liquidity ratio (%) *	Quarterly liquidity ratio (%)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
Indicator	22%	22%	19%	18 793	142%

31.12.2020					
	Immediate liquidity ratio (%)*	Quarterly liquidity ratio (%)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
Indicator	21%	21%	21%	18 250	144%

* - Immediate and Quarterly Liquidity Indicator: Ratio between value of the Central Bank Collateral that is the liquidity buffer available for discount with the Central Bank after applying haircuts for standard monetary transactions (including the obligatory reserve excess) 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) and the total deposits.

** - Central Bank Collateral / Total Deposits: Ratio between value of the Central Bank Collateral that is the liquidity buffer available for discount with the Central Bank after applying haircuts for standard monetary transactions (including the obligatory reserve excess) 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 based on internal liquidity measures, considering 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 2021 was met by the Bank (as of the end of December 2021 the LCR reached the level of 142%). 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 2021, the Bank complied also with supervisory measures imposed by KNF Resolution 386/2008 as well as regularly calculated net stable funding requirement (NSFR). Since 28th June 2021 the NSFR as obligatory supervisory long term liquidity measure replaced M3 and M4 supervisory measures defined by the KNF. In each of the quarter, the NSFR was above the supervisory minimum of 100%. At the end of December 2021, the NSFR was equal to 146%, at the end of December 2020 it was 125% (supervisory minimum valid since 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 2021, liquidity gaps were maintained positive and still at safe levels. The results of cumulative, behaviour liquidity gaps (normal conditions) are presented in tables below.

31.12.2021						
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	27 840	8 275	14 738	11 512	16 080	49 111
Adjusted balance liabilities	10 775	4 143	7 395	6 065	9 122	67 360
Balance-Sheet Gap	17 065	4 132	7 343	5 447	6 958	(18 249)
Cumulative Balance-Sheet Gap	17 065	21 197	28 540	33 988	40 945	22 696
Adjusted off-balance assets	89	61	309	24	14	1
Adjusted off-balance liabilities	(1 474)	(90)	(136)	(41)	(22)	(1)
Off-Balance Sheet Gap	(1 386)	(28)	173	(17)	(8)	(0)
Total Gap	15 680	4 104	7 516	5 430	6 950	(18 249)
Total Cumulative Gap	15 680	19 783	27 300	32 730	39 680	21 431

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

The Bank has developed a liquidity risk management tool defining sensitivity analysis and stress scenarios (idiosyncratic, systemic and combination of both). For 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 considering 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 can 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 2021, the results of the stress test analysis demonstrated that the most severe is run on Bank combined with rating downgrade scenario of which the survival period is 6 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 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 2021 the Liquidity Contingency Plan was tested and revised to guarantee that it is operationally robust. The Plan also adapted revised warning thresholds for early warning indicators, considering scenarios and stress test results. The revised Plan was approved by the Supervisory Board in December 2021.

8.6. 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 2021 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 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 each process, considering 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 process's performance.

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

9. Transactions with Related Entities

9.1. TRANSACTIONS WITH THE SUBSIDIARIES AND PARENT'S GROUP

All transactions among members of the Group made in 2021 and 2020 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM BANK HIPOTECZNY,
- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLESKI,
- 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 31.12.2021

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks - accounts and deposits	172 801	611	0
Loans and advances to customers	6 410 915	0	0
Investments in associates	208 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	751	0	0
Hedging derivatives	0	0	0
Other assets	34 361	0	0
LIABILITIES			
Deposits from banks	1 133	100	0
Deposits from customers	464 275	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)	394	159	0
Subordinated debt	0	0	0
Other liabilities, including:	64 085	0	65
financial leasing liabilities	60 956	0	0

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

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2021

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	74 804	(325)	0
Commissions	25 400	101	0
Financial instruments valued at fair value through other comprehensive income	1 398	0	0
Dividends	48 663	0	0
Other net operating	13 722	0	0
Expense from:			
Interest	1 887	161	(190)
Commissions	37	0	0
Financial instruments valued at fair value through profit and loss	2 202	160	0
Other net operating	0	5	0
General and administrative expenses	14 719	0	36

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2021

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	1 510 199	103 198	0
granted	1 506 920	101 500	0
obtained	3 278	1 698	0
Derivatives (par value)	72 276	14 675	0

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

9.2. TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

Information on total exposure towards the managing and supervising persons as at 31.12.2021 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	211.5	112.0
including an unutilized limit	145.2	64.2

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 31.12.2021 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	-	-	-	Personal with a supervising person

As a result of changes in the composition of the Supervisory Board, the personal relationship with the client ceased in 2021.

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

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

9.3. 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
2021	10 500.0	1 831.1	12 331.1
2020	16 103.3	1 927.4	18 030.7

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 2021 and 2020, 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
2021	2 167.3
2020	2 053.5

In 2021 the Members of the Bank's Supervisory Board received remuneration for performing their functions in subsidiaries in the amount of PLN 105.6 thousand, (in 2020 - PLN 17.5 thousand).

10. 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 31.12.2021 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	23	37 088	37 764
Deposits, loans and advances to banks and other monetary institutions	23	943 315	943 230
Loans and advances to customers (*)	22	66 389 244	64 295 912
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	32	186 247	185 787
Liabilities to customers	33	91 672 296	91 609 959
Debt securities issued	35	0	0
Subordinated debt	36	1 541 144	1 538 598

* 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 31.12.2020 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	23	38 818	39 559
Deposits, loans and advances to banks and other monetary institutions	23	625 366	625 366
Loans and advances to customers (*)	22	71 436 679	69 958 960
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	32	563 882	563 835
Liabilities to customers	33	81 832 471	81 867 328
Debt securities issued	35	484 655	485 527
Subordinated debt	36	1 540 209	1 540 491

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 31.12.2021

	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	19			
Valuation of derivatives			57 643	29 008
Debt securities		86 438		
Non-trading financial assets mandatorily at fair value through profit or loss	20			
Equity instruments			71 795	66 609
Debt securities				127 499
Loans and advances	22			362 992
Financial assets at fair value through other comprehensive income	21			
Equity instruments				28 433
Debt securities		17 924 059		
Loans and advances	22			11 485 351
Derivatives - Hedge accounting	24		14 385	
LIABILITIES				
Financial liabilities held for trading	31			
Valuation of derivatives			97 312	29 483
Short positions		16 614		
Derivatives - Hedge accounting	24		614 573	

Data in '000 PLN, 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	19			
Valuation of derivatives			134 992	20 373
Debt securities		269 412		
Non-trading financial assets mandatorily at fair value through profit or loss	20			
Equity instruments			134 163	66 609
Debt securities				50 335
Loans and advances	22			1 615 753
Financial assets at fair value through other comprehensive income	21			
Equity instruments				29 219
Debt securities		18 597 147		
Derivatives - Hedge accounting	24		21 795	
LIABILITIES				
Financial liabilities held for trading	31			
Valuation of derivatives			83 760	20 021
Short positions		64 778		
Derivatives - Hedge accounting	24		738 850	

Using the criterion of valuation techniques as at 31.12.2021 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; the method of fair value calculation of this instrument considers the time value of money and the time line for conversion of preferred stock in common stock of VISA.
- 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 FVP&L	Loans and advances FVOCI
Balance as at 31.12.2020	19 911	(19 559)	95 827	50 335	1 615 753	0
Settlement/sell/purchase/transfer	4 158	(5 055)	0	0	(1 348 014)	11 081 946
Change of valuation recognized in equity	0	0	(785)	0	0	267 079
Interest income and other of similar nature	0	0	0	0	55 372	136 326
Results on financial assets and liabilities held for trading	4 328	(4 258)	0	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	77 164	39 881	0
Result on exchange differences	0	0	0	0	0	0
Balance as at 31.12.2021	28 397	(28 872)	95 042	127 499	362 992	11 485 351

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 31.12.2019	61 294	(60 944)	95 976	103 001	1 498 195
Settlement/sell/purchase/transfer	(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

11. Contingent Liabilities and Assets

11.1. 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 13. note 16) "Corporate Income Tax".

Court cases brought up by the

Value of the court litigations, as at 31.12.2021, in which the Bank was a plaintiff, totalled PLN 498.3 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 Bank

As at 31.12.2021, the most important proceedings, in the group of the court cases where the Bank was a 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 729.6 million. The proceedings with the highest value of the submitted claim are brought by PKN Orlen SA, in which the plaintiff demands payment of PLN 635.7 million. 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 four 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.

As at 31.12.2021, the total value of the subjects of the other litigations in which the Bank appeared as defendant, stood at PLN 2,204.8 million (excluding the class actions described below and in the **Chapter 12**). 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 and decided to take witness evidence in writing and called on the parties to submit questions to the witnesses. The Bank submitted a pleading with questions to witnesses in July 2020. By the court's decision of September 9, 2021, the court called the witnesses to testify in writing. Witnesses will have two months for this operation from the service of the summons. In this case, the date of the hearing can also be expected - approximately - in the first half of 2022. However it should be noted, that the above forecast is conditioned by the result of the assessment of the impact of the latest amendments to the Code of Civil Procedure on group proceedings. In the event of difficulties with resolving doubts that have arisen as to which composition of the courts should currently conduct these proceedings (one-person composition or, as before, three-person composition), it may be necessary to clarify this issue by the Supreme Court in the form of a resolution, which will mean that the date of the hearing should be expected even at the end of 2022.

As at 31 December 2021, there were also 327 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 12. "Legal risk related to foreign currency mortgage loans".

11.2. OFF BALANCE SHEET ITEMS

OFF-BALANCE ITEMS

Amount '000 PLN	31.12.2021	31.12.2020
Off-balance conditional commitments granted and received	17 365 756	16 589 172
Commitments granted:	15 236 694	15 040 743
Loan commitments	12 658 407	12 478 702
guarantee	2 578 287	2 562 041
Commitments received:	2 129 062	1 548 429
financial	40 000	0
guarantee	2 089 062	1 548 429

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	31.12.2021	31.12.2020
financial sector	803 464	871 846
non-financial sector (companies)	1 773 210	1 688 582
public sector	1 613	1 613
Total	2 578 287	2 562 041

As the parent company, the Bank granted 3 loan repayment guarantees to the subsidiary Millennium Leasing for the total amount of PLN 430.0 million and a line for guarantees with a total value of PLN 283.1 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	31.12.2021	31.12.2020
Millennium Leasing Sp. z o.o.	713 831	789 138
Millennium Service Sp. z o.o.	12 551	12 509
Millennium Goodie Sp. z o.o.	5 000	5 000
Total	731 381	806 647

Guarantees and sureties granted to Clients

Commitments granted - guarantee, amount '000 PLN	31.12.2021	31.12.2020
Active guarantees and sureties	1 434 928	1 734 814
Lines for guarantees and sureties	1 149 877	832 408
Total	2 584 805	2 567 222
Provisions created	(6 519)	(5 181)
Commitments granted - guarantee after provisions	2 578 287	2 562 041

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

By currency	31.12.2021	31.12.2020
PLN	897 677	978 315
Other currencies	537 251	756 499
Total:	1 434 928	1 734 814

By type of commitment	31.12.2021		31.12.2020	
	Number	Amount	Number	Amount
Guarantee	3 475	1 419 727	3 483	1 712 295
Surety	0	0	0	0
Re-guarantee	48	15 201	44	22 519
Total:	3 523	1 434 928	3 527	1 734 814

By object of the commitment	31.12.2021			31.12.2020		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 776	532 730	37.13%	2 701	496 270	28.61%
rent payment	325	244 684	17.05%	298	229 175	13.21%
punctual payment for goods or services	107	16 713	1.16%	176	14 523	0.84%
bid bond	200	100 245	6.99%	222	99 120	5.71%
Other	56	40 102	2.79%	47	53 738	3.10%
advance return	39	49 159	3.43%	44	68 628	3.96%
Customs	17	438 033	30.53%	18	770 694	44.42%
payment of bank loan	3	13 262	0.92%	21	2 666	0.15%
Total:	3 523	1 434 928	100.00%	3 527	1 734 814	100.00%

12. Legal risk related to foreign currency mortgage loans

12.1. COURT CLAIMS AND CURRENT PROVISIONS ON LEGAL RISK

On December 31, 2021, the Bank had 11,070 loan agreements and additionally 913 loan agreements from former Euro Bank (94% loans agreements before the Court of first instance and 6% 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 1,512.4 million and CHF 121.3 million (Bank Millennium portfolio: PLN 1,391.9 million and CHF 119.0 million and former Euro Bank portfolio: PLN 120.4 million and CHF 2.3 million).

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses, or maintenance of the agreement in PLN with interest rate indexed to CHF Libor.

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. A decision on the admission of evidence will be taken by the court at a closed session. The next hearing will be scheduled ex officio.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,981 individual claims were filed against the Bank (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,007 (267) while in 2021 the number increased by 6,149 (417).

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 vast majority of court cases have been lost by banks, particularly in first instance proceedings. As far as the Bank itself is concerned, until 31 of December 2021 only 245 cases were finally resolved (210 in claims submitted by clients against the Bank and 35 in claims submitted by the Bank against clients i.e. debt collection cases). 60% of finalised individual lawsuits against the Bank were favourable for the Bank including remissions and settlements with plaintiffs. Unfavourable rulings (40%) included both invalidation of loan agreements as well as conversions into PLN+LIBOR. The Bank submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts. On the other hand, the statistics of first instance court decisions have been much more unfavourable in recent periods and its number has also increased. In general, the Bank submits appeals against 1st instance negative court rulings.

The outstanding gross balance of the loan agreements under individual court cases and class action against the Bank on 31.12.2021 was PLN 4,382 million (of which the outstanding amount of the loan agreements under the class action proceeding was 962 million PLN).

If all Bank Millennium's loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for the use of capital, the pre-tax cost could reach PLN 4,020 million. Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

In 2021 the Bank created PLN 2 086.0 million provisions and PLN 219.2 million for former Euro Bank originated portfolio. The final level of provisions for the Bank Millennium portfolio at the end of December 2021 was at the level of PLN 3,078.9 million, and PLN 253.7 million for former 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:

- invalidity of the agreement
- average NBP
- PLN + LIBOR

(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.

(4) in the case of a loan agreement invalidity scenario, a new component recognized in the methodology, taking legal assessments into consideration, is the calculation of the Bank's loss taking into account the assignment of a minimum probability of receiving the settlement of a remuneration for the cost of use of capital.

(5) new component recognized in the methodology is the amicable settlement with clients in or out of court. Notwithstanding the Bank's determination to continue taking all possible actions to protect its interests in courts, the Bank has been open to its customers in order to reach amicable solutions on negotiated terms, case by case, providing favourable conditions for conversion of loans to PLN and / or early repayment (partial or total). As a result of these negotiations the number of active FX mortgage loans was materially reduced in 2021. As the Bank is still conducting efforts to further signing of agreements which involved some costs, a scenario of further materialization of negotiations was added. However, it should be noted that:

- a. negotiations are conducted on a case-by-case basis and can be stopped at any time by the Bank
- b. as the effort was material in 2021, the probability of success is going down and at the same time, gradually most of the client base has had contact with the Bank regarding potential negotiation of the conversion of the loans to PLN, so the Bank is taking a conservative approach when calculating the potential future impact for the time being.

Legal risk from former 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 56 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 40 million
Change in estimated losses for each variant of the judgment	Increase in losses for each variant of the judgment by 1 p.p	PLN 32.5 million

The Bank is open to negotiate case by case favourable conditions for early repayment or conversion of loans to PLN. As a result of these negotiations the number of active FX mortgage loans decreased by 8,449 (including 69 confirmed in court) in 2021 compared to over 57,800 active loans agreements at the end of 2020. Cost incurred in conjunctions with these negotiations totalled PLN 364.3 million year to date and is presented mainly in 'Result on exchange differences' in the profit and loss statement.

Finally it should also be mentioned, that the Bank, as at 31.12.2021, 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 2.82 p.p. (2.79 p.p. at the Group level), part of which is allocated to operational/legal risk.

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

On 29th April 2021, the CJEU issued the judgement in the case C-19/20 in connection with the preliminary questions formulated by the District Court in Gdańsk in the case against of ex-BPH S.A., CJEU said that:

(i) it is for the national court to find that a term in a contract is unfair, even if it has been contractually amended by those parties. Such a finding leads to the restoration of the situation that the consumer would have been in in the absence of the term found to be unfair, except where the consumer, by means of amendment of the unfair term, has waived such restoration by free and informed consent. However, it does not follow from Council Directive 93/13 that a finding that the original term is unfair would, in principle, lead to annulment of the contract, since the amendment of that term made it possible to restore the balance between the obligations and rights of those parties arising under the contract and to remove the defect which vitiated it.

(ii) the national court may remove only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where the deterrent objective pursued by Council Directive 93/13 is ensured by national legislative provisions governing the use of that term, provided that that element consists of a separate contractual obligation, capable of being subject to an individual examination of its unfair nature. At the same time, provisions of the Directive preclude the referring court from removing only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where such removal would amount to revising the content of that term by altering its substance.

(iii) the consequences of a judicial finding that a term in a contract concluded between a seller or supplier and a consumer is unfair are covered by national law and the question of continuity of the contract should be assessed by the national court of its own motion in accordance with an objective approach on the basis of those provisions.

(iv) the national court, finding that a term in a contract concluded between a seller or supplier and a consumer is unfair, shall inform the consumer, in the context of the national procedural rules after both parties have been heard, of the legal consequences entailed by annulment of the contract, irrespective of whether the consumer is represented by a professional representative.

On 7th May 2021, the Supreme Court composed of 7 judges of the Supreme Court, issued a resolution for which the meaning of legal principle has been granted, stating that:

1. An abusive contractual clause (art. 3851 § 1 of the Civil Code), by force of the law itself, is ineffective to the benefit of the consumer who may consequently give conscious and free consent to this clause and thus restore its effectiveness retroactively.

2. If without the ineffective clause the loan agreement cannot bind, the consumer and the lender shall be eligible for separate claims for return of monetary performances made in exercising this agreement (art. 410 § 1 in relation to art. 405 of the Civil Code). The lender may demand return of the performance from the moment the loan agreement becomes permanently ineffective.

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.

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.

12.2. EVENTS THAT MAY IMPACT FX MORTGAGE LEGAL RISK AND RELATED PROVISION

On 29 January 2021 a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Supreme Court was published. This 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 conditions (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.

On 11 May the Civil Chamber of the Supreme Court requested opinions on Swiss franc mortgage loans from five institutions including the National Bank of Poland (NBP), the Polish Financial Supervision Authority (UKNF), the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

The positions of: the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman are in general favorable to consumers, while the National Bank of Poland and the Polish Financial Supervision Authority present a more balanced position, including fair principles of treatment of FX mortgage borrowers vis-à-vis PLN mortgage borrowers, as well as balanced economic aspects regarding solutions for the problem that could be considered by the Supreme Court.

In the next meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known. The Bank will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

In August 2021, the CJEU was asked for a preliminary ruling (C-520/21) whether, in the event that a loan agreement concluded by a bank and a consumer is deemed invalid from the beginning due to unfair contract terms, the parties, in addition to the reimbursement of the money paid in contracts (bank - loan capital, consumer - installments, fees, commissions and insurance premiums) and statutory interest for delay from the moment of calling for payment, may also claim any other benefits, including receivables in particular, remuneration, compensation, reimbursement of costs or valorization of the performance.

Notwithstanding the above there are a number of questions addressed by Polish courts to the European Court of Justice which may be relevant for the outcome of the court disputes in Poland.

The subject matter questions relate, in particular, to:

- the possibility of replacing of an abusive contractual clause with a dispositive law provision;
- the limitation period of a consumer claims concerning reimbursement of benefits made as performance of an agreement which has been declared to be invalid
- the possibility of declaration by the Court of abusiveness of only part of a contractual provision.

With the scope of settlements between the Bank and borrower following the fall of the loan agreement is also connected the legal issue directed to the seven-person composition of the Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

The Supreme Court was also presented with the issue of whether the loan agreement is a mutual agreement in the light of the regulations concerning retention right.

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.

As expressed in our previous financial reports, 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.

Based on current information some of the above mentioned aspects are not likely to be fully clarified and / or achieved.

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.

Bank Millennium conducted a survey among its customers in cooperation with an external reputed company regarding the willingness to accept settlement in the terms of the sector solution put forward by the Chairman of KNF. 49% of clients enquired were preliminarily interested in benefitting from the proposal, while 25% were not able to clearly express their opinion and 26% would not take such offer.

According to the current 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 existing portfolio would be converted) with a pre-tax impact between PLN 4,390 million to PLN 4,848 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.

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 or European Court of Justice 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.

13. Notes to the Financial Statements

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

1. INTEREST INCOME AND OTHER OF SIMILAR NATURE

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Interest income from Financial assets at fair value through other comprehensive income	293 731	313 390
Debt securities	157 405	313 390
Loans and advances	136 326	0
Interest income from Financial assets at amortised cost	2 381 845	2 602 344
Balances with the Central Bank	3 753	5 252
Loans and advances to customers	2 273 069	2 410 082
Debt securities	620	1 065
Deposits, loans and advances to banks	278	793
Transactions with repurchase agreements	461	6 436
Hedging derivatives	103 664	178 716
Income of similar nature to interest, including:	63 888	108 455
Loans and advances to customers mandatorily at fair value through profit or loss	55 372	69 934
Financial assets held for trading - derivatives	7 902	34 460
Financial assets held for trading - debt securities	614	4 061
Total	2 739 464	3 024 189

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 (24)**.

Interest income for the year 2021 contains interest accrued on impaired loans in the amount of PLN 100,927 thous. (for corresponding data in the year 2020 the amount of such interest stood at PLN 114,318 thous.).

2. INTEREST EXPENSE

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Interest expense from Financial liabilities measured at amortised cost	(125 247)	(533 813)
Liabilities to banks and other monetary institutions	(3 511)	(10 431)
Liabilities to customers	(68 970)	(444 615)
Transactions with repurchase agreement	(1 791)	(7 795)
Debt securities issued	(3 267)	(11 599)
Subordinated debt	(40 076)	(51 441)
Leasing liabilities	(7 632)	(7 932)
Hedging derivatives	0	0
Other	(3)	(47)
Total	(125 250)	(533 860)

3. FEE AND COMMISSION INCOME AND EXPENSE

3a. Fee and commission income

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Resulting from accounts service	131 838	102 572
Resulting from money transfers, cash payments and withdrawals and other payment transactions	78 916	67 738
Resulting from loans granted	177 771	165 850
Resulting from guarantees and sureties granted	16 157	17 530
Resulting from payment and credit cards	235 579	221 085
Resulting from sale of insurance products	106 247	118 340
Resulting from distribution of investment funds units and other savings products	81 398	79 041
Resulting from brokerage and custody service	6 166	6 640
Other	33 312	30 471
Total	867 384	809 267

3b. Fee and commission expense

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Resulting from accounts service	(6 054)	(20 132)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(4 671)	(4 610)
Resulting from loans granted	(12 525)	(15 172)
Resulting from payment and credit cards	(86 390)	(93 515)
Resulting from selling insurance products	(15 036)	(16 440)
Other	(26 583)	(19 660)
Total	(151 259)	(169 529)

4. DIVIDEND INCOME

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Non-trading financial assets mandatorily at fair value through profit or loss	1 333	906
Financial assets at fair value through other comprehensive income	2 401	2 755
Investments in subordinated companies	48 663	35 665
Total	52 397	39 326

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

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Operations on debt instruments	12 896	130 767
Sale of the FVTOCI portfolio	1 398	0
Costs of financial operations	(3 751)	(3 129)
Total	10 543	127 638

6. RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Result on debt instruments	(6 043)	12 867
Result on derivatives	(2 929)	52
Costs of financial operations	0	0
Total	(8 972)	12 919

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

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Loans and advances to customers	39 881	(42 921)
Result on equity instruments	7 494	134 163
Result on debt instruments	77 163	(52 666)
Total	124 538	38 576

The increase in the result on non-trading debt instruments mandatorily measured at fair value through profit or loss results from the positive valuation of part of VISA Incorporation shares not admitted to trading (which the Group presents as a debt instrument based on the interpretation of IAS 32, while VISA shares admitted to trading are recognized as equity instruments).

The main reason for the increase in the result on loans and advances mandatorily measured at fair value through profit or loss is described in Note 22a.

8. RESULT ON HEDGE ACCOUNTING

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Changes in the fair value of the hedging instrument (including abandonment)	13 813	(7 594)
Changes in the fair value of the hedged item resulting from the hedged risk	(13 302)	6 588
Inefficiency in cash flow hedges	(3 696)	(9 253)
Inefficiencies due to net investment hedges in foreign operations	0	0
Total	(3 185)	(10 259)

9. OTHER OPERATING INCOME

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Gain on sale and liquidation of property, plant and equipment, intangible assets	2 635	5 976
Income from sale of other services	17 098	11 893
Income from collection service	5 653	4 749
Other	258 095	118 247
Total	283 481	140 865

10. OTHER OPERATING EXPENSE

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Loss on sale and liquidation of property, plant and equipment, intangible assets	(4 366)	(2 733)
Indemnifications, penalties and fines paid	(11 966)	(7 307)
Costs of provisions for disputed claims	(112 726)	(16 874)
Costs related with providing other services	(2 588)	(3 643)
Donations made	(900)	(849)
Costs of collection service	(48 419)	(18 956)
Provision for potential returns to clients*	(1 941)	(142 431)
Other	(15 754)	(27 043)
Total	(198 660)	(219 836)

* 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”.

In 2021, the Bank did not create additional provisions on this account in the P&L, while the carrying amount of the unsettled provision for potential returns as at December 31, 2021 was PLN 89.1 million.

11. ADMINISTRATIVE EXPENSES

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Staff costs:	(767 923)	(813 783)
Salaries	(633 640)	(685 532)
Surcharges on pay	(105 774)	(109 254)
Employee benefits, including:	(28 509)	(18 997)
- provisions for retirement benefits	(6 159)	(2 984)
- provisions for unused employee holiday	1 382	8 750
- other	(23 732)	(24 763)
Other administrative expenses:	(612 279)	(683 337)
Costs of advertising, promotion and representation	(63 039)	(60 798)
IT and communications costs	(119 503)	(124 231)
Costs of renting	(51 570)	(80 165)
Costs of buildings maintenance, equipment and materials	(43 491)	(53 366)
ATM and cash maintenance costs	(28 013)	(27 891)
Costs of consultancy, audit and legal advisory and translation	(75 325)	(37 720)
Taxes and fees	(32 608)	(33 123)
KIR - clearing charges	(9 325)	(8 022)
PFRON costs	(6 705)	(7 704)
Banking Guarantee Fund costs	(118 210)	(167 185)
Financial Supervision costs	(12 713)	(10 203)
Other	(51 777)	(72 929)
Total	(1 380 202)	(1 497 120)

12. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Impairment losses on loans and advances to customers	(284 449)	(478 709)
Impairment charges on loans and advances to customers	(1 416 012)	(1 466 595)
Reversal of impairment charges on loans and advances to customers	1 023 062	919 006
Amounts recovered from loans written off	51 939	49 249
Sale of receivables	62 555	19 590
Other directly recognised in profit and loss	(5 993)	41
Impairment losses on securities	1	52
Impairment charges on securities	(6)	0
Reversal of impairment charges on securities	7	52
Impairment losses on off-balance sheet liabilities	7 835	1 464
Impairment charges on off-balance sheet liabilities	(54 970)	(73 893)
Reversal of impairment charges on off-balance sheet liabilities	62 805	75 357
Total	(276 613)	(477 193)

13. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Fixed assets	0	0
Other assets	(7 642)	(7 846)
Total	(7 642)	(7 846)

14. PROVISIONS FOR LEGAL RISK CONNECTED WITH FX MORTGAGE LOANS

01.01.2021 - 31.12.2021	TOTAL	Allocated for credit portfolio	Provisions for pending legal issues
Balance at the beginning of the period	960 046	884 755	75 291
Amounts written off	(24 059)	0	(24 059)
Costs of provisions for legal risk connected with FX mortgage loans	2 305 157	0	2 305 157
Change of accounting principles from IAS 37 to IFRS 9	0	2 032 024	(2 032 024)
Increase of provisions due to FX rates differences	91 470	0	91 470
Balance at the end of the period	3 332 614	2 916 779	415 835

01.01.2020 - 31.12.2020	TOTAL	Allocated for credit portfolio	Provisions for pending legal issues
Balance at the beginning of the period	223 134	213 271	9 863
Amounts written off	0	0	0
Costs of provisions for legal risk connected with FX mortgage loans	713 617	0	713 617
Change of accounting principles from IAS 37 to IFRS 9	0	671 484	(671 484)
Increase of provisions due to FX rates differences	23 295	0	23 295
Balance at the end of the period	960 046	884 755	75 291

15. DEPRECIATION AND AMORTIZATION

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Property, plant and equipment	(147 903)	(154 192)
Intangible assets	(45 598)	(42 167)
Total	(193 501)	(196 359)

16. CORPORATE INCOME TAX

16a. Income tax reported in income statement

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Current tax	(187 163)	(318 752)
Current year	(187 163)	(318 752)
Adjustment to prior periods	0	0
Deferred tax:	(122 349)	143 615
Recognition and reversal of temporary differences	(122 349)	143 615
Total income tax reported in income statement	(309 512)	(175 137)

16b. Effective tax rate

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Profit before tax / (loss)	-1 047 940	193 716
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	199 108	(36 806)
Impact of permanent differences on tax charges:	(510 845)	(141 031)
Non-taxable income	53 056	26 817
Dividend income	9 702	7 300
Release of other provisions	43 057	9 432
Settlement with SG due to adjustment of Euro Bank S.A. purchase price	0	10 039
Other	297	46
Cost which is not a tax cost	(563 900)	(167 848)
Write-down of unrealized deferred tax assets	0	(171)
Loss on sale of receivables	(17)	(8)
PFRON fee	(1 274)	(1 464)
Fees for Banking Guarantee Fund	(22 460)	(31 765)
Settlement of BFG SKOK PIAST	(397)	(1 824)
Banking tax	(59 396)	(53 038)
Income/cost of provisions for factoring and leasing receivables	1 073	492
Receivables written off	(19 667)	(2 324)
Costs of litigations and claims	(458 454)	(76 070)
Ccosts related to concluded agreements	(1 068)	
Other	(2 240)	(1 676)
Deduction of the tax paid abroad	0	246
Other differences between gross financial result and taxable income with income tax (including R&D relief)	2 224	2 454
Total income tax reported in income statement	(309 512)	(175 137)
Effective tax rate	/-/*	90.41%

* For the year 2021, the Bank recorded a negative gross financial result and at the same time a tax burden of a cost nature, therefore the Group did not calculate the effective tax rate.

16c. Deferred tax reported in equity

	31.12.2021	31.12.2020
Valuation of investment assets at fair value through other comprehensive income	130 468	(55 383)
Valuation of credit portfolio at fair value through other comprehensive income	(50 745)	0
Valuation of cash flow hedging instruments	71 993	8 439
Actuarial gains (losses)	(259)	732
Deferred tax reported directly in equity	151 457	(46 212)

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

Withholding tax audit for years 2015-17

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). On 11 June 2021 Bank received 2nd instance decisions of ZUCS decreasing the amount of WHT arrear from PLN 6.6 to 5.3 mio. This amount with penalty interests were paid by Bank on 18 June 2021. Bank lodged complaints on these decisions to the administrative court in Szczecin (WSA). WSA in its judgements as of 13 and 27 October 2021 wholly overruled both ZUCS's decisions. ZUCS appealed from these judgments to the Supreme Administrative Court.

On 13 April 2021 Head of ZUCS commenced a WHT audit for year 2017. As expected in the audit result ZUCS challenged WHT-exemption on coupon interests paid by Bank to MBF in this year as well (disputable WHT amount is ca. PLN 2.2 mio.). Bank does not agree with such findings as well and will continue a dispute with ZUCS. Currently, Bank awaits for commencing a tax proceeding in order to issue a decision by ZUCS.

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.

17. 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.

18. CASH, BALANCES AT THE CENTRAL BANK

18a. Cash, balances at the central bank

	31.12.2021	31.12.2020
Cash	874 739	785 357
Cash in Central Bank	2 304 997	674 932
Other funds	0	0
Total	3 179 736	1 460 289

In the period from 31 December 2021 to 30 January 2022 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,789,522 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

18b. Cash, balances at the Central Bank - by currency

	31.12.2021	31.12.2020
in Polish currency	2 918 689	1 203 776
in foreign currencies (after conversion to PLN)	261 047	256 513
▪ currency: USD	41 867	42 623
▪ currency: EUR	180 932	176 917
▪ currency: CHF	15 396	14 844
▪ currency: GBP	19 203	17 747
▪ other currencies	3 649	4 382
Total	3 179 736	1 460 289

19. FINANCIAL ASSETS HELD FOR TRADING

19a. Financial assets held for trading

	31.12.2021	31.12.2020
Debt securities	86 438	269 412
Issued by State Treasury	86 438	269 412
a) bills		
b) bonds	86 438	269 412
Adjustment from fair value hedge	0	0
Positive valuation of derivatives	86 651	155 365
Total	173 089	424 777

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

19b. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

	31.12.2021	31.12.2020
▪ with fixed interest rate	61 340	222 091
▪ with variable interest rate	25 098	47 321
Total	86 438	269 412

19c. Debt securities valued at fair value through profit and loss (held for trading), by maturity

	31.12.2021	31.12.2020
to 1 month	0	3 486
above 1 month to 3 months	0	0
above 3 months to 1 year	1 729	9 110
above 1 year to 5 years	70 202	203 783
above 5 years	14 507	53 033
Total	86 438	269 412

19d. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	269 412	874 033
Increases (purchase and accrual of interest and discount)	9 558 488	23 863 524
Reductions (sale and redemption)	(9 740 856)	(24 469 464)
Differences from valuation at fair value	(606)	1 319
Balance at the end of the period	86 438	269 412

19e. Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at:

31.12.2021	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	1 581 520	5 152 404	7 451 331	204 180	(15 062)	10 834	25 896
Forward Rate Agreements (FRA)	0	1 200 000	0	0	0	0	0
Interest rate swaps (IRS)	1 581 520	3 661 923	6 710 870	204 180	(15 076)	4 859	19 935
Other interest rate contracts: options	0	290 481	740 461	0	14	5 975	5 961
2. FX derivatives*	17 683 449	1 959 787	508 031	0	(24 607)	46 809	71 416
FX contracts	2 345 059	1 333 632	226 723	0	9 000	16 620	7 620
FX swaps	15 338 390	626 155	281 308	0	(33 607)	30 189	63 796
Other FX contracts (CIRS)	0	0	0	0	0	0	0
FX options	0	0	0	0	0	0	0
3. Embedded instruments	69 733	144 415	560 079	0	(28 872)	0	28 872
Options embedded in deposits	69 733	144 415	560 079	0	(28 872)	0	28 872
Options embedded in securities issued	0	0	0	0	0	0	0
4. Indexes options	75 407	155 345	578 837	0	28 397	29 008	611
Total	19 410 109	7 411 951	9 098 278	204 180	(40 144)	86 651	126 795
Valuation of hedged position in fair value hedge accounting					-	0	0
Liabilities from short sale of debt securities					-	-	16 614

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

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

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

	31.12.2021	31.12.2020
Equity instruments	138 404	200 772
credit institutions	0	0
other corporates	138 404	200 772
Debt securities	127 499	50 335
credit institutions	0	0
other corporates	127 499	50 335
Total	265 903	251 107

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

21a. Financial assets at fair value through other comprehensive income

	31.12.2021	31.12.2020
Debt securities	17 924 059	18 597 147
Issued by State Treasury	17 488 780	18 219 260
a) bills	0	0
b) bonds	17 488 780	18 219 260
Issued by Central Bank	0	0
a) bills	0	0
b) bonds	0	0
Other securities	435 279	377 887
a) listed	435 279	377 887
b) not listed	0	0
Shares and interests in other entities	28 433	29 219
Other financial instruments	0	0
Total financial assets at fair value through other comprehensive income	17 952 492	18 626 366
Including:		
Instruments listed on the active market	17 924 059	18 597 147
Instruments not listed on the active market	28 433	29 219

21b. Debt securities at fair value through other comprehensive income

	31.12.2021	31.12.2020
▪ with fixed interest rate	14 748 049	14 759 537
▪ with variable interest rate	3 176 010	3 837 610
Total	17 924 059	18 597 147

21c. Debt securities at fair value through other comprehensive income by maturity

	31.12.2021	31.12.2020
▪ to 1 month	0	0
▪ above 1 month to 3 months	0	0
▪ above 3 months to 1 year	4 892 493	81 719
▪ above 1 year to 5 years	12 608 072	17 483 598
▪ above 5 years	423 494	1 031 830
Total	17 924 059	18 597 147

21d. Change of financial assets at fair value through other comprehensive income

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	18 626 366	21 856 275
Increases (purchase and accrual of interest and discount)	220 431 922	92 015 953
Reductions (sale and redemption)	(220 127 625)	(95 422 844)
Difference from measurement at fair value	(978 170)	176 956
Impairment write-offs	0	0
Other	(1)	26
Balance at the end of the period	17 952 492	18 626 366

22. LOANS AND ADVANCES TO CUSTOMERS

22a. Loans and advances to customers mandatorily at fair value through profit or loss

Balance sheet value:	31.12.2021	31.12.2020
Mandatorily at fair value through profit or loss *	362 992	1 615 753
Loans and advances	98 324	771 780
- Individuals	98 324	771 780
Credit cards	264 668	843 973
- Companies	40	13 002
- Individuals	264 628	830 971

At the implementation of IFRS9 Group separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presents 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. In 2021, as a result of a change in contractual provisions (eliminating the multiplier feature), some of these exposures began to be re-measured at amortized cost. The change concerned loans where clients fully repaid their commitment, the interest on which was calculated based on the old formula containing a multiplier. Exposures recorded after that time under new contractual conditions (without a multiplier) are measured at amortized cost).

As a result, in 2021, the following changes were made to the financial statements:

1. in the Profit and loss account, approximately PLN 64 million of revenues was recognized in the item "Result from the non trading loans mandatorily at fair value" due to the reversal of the costs of previously recorded fair value adjustment. At the same time, in line with the credit portfolio risk assessment rules applied in the Bank, the Bank created appropriate impairment allowances for exposures measured at amortized cost, recognizing them as an expense in the Profit and loss account. Due to the nature of the affected exposures, both amounts were of a similar value.

2. In the balance sheet, the value of the loan portfolio mandatorily measured at fair value through the profit and loss account decreased by approximately PLN 1,280 million in net terms

22b. Loans and advances to customers at fair value through other comprehensive income

Balance sheet value:	31.12.2021	31.12.2020
at fair value through other comprehensive income *	11 485 351	0
▪ Companies	0	0
▪ Individuals	11 485 351	0
▪ Public sector	0	0

Balance sheet value - maturity	31.12.2021	31.12.2020
to 1 month	20 524	0
above 1 month to 3 months	40 323	0
above 3 months to 1 year	206 691	0
above 1 year to 5 years	1 432 742	0
above 5 years	9 785 071	0
Total	11 485 351	0

22c. Loans and advances to customers valued at amortised cost

31.12.2021	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	62 252 150	3 086 613	3 260 481	(301 099)	(204 420)	(1 704 481)	66 389 244
Companies	17 676 299	493 321	587 328	(88 670)	(23 496)	(226 403)	18 418 379
Individuals	44 331 071	2 593 288	2 673 153	(212 250)	(180 924)	(1 478 078)	47 726 260
Public sector	244 780	4	0	(179)	0	0	244 605

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	66 885 250	3 362 114	3 394 059	(344 844)	(214 789)	(1 645 111)	71 436 679
Companies	16 263 984	936 896	741 869	(99 169)	(25 859)	(337 795)	17 479 926
Individuals	50 309 628	2 425 215	2 652 190	(245 411)	(188 930)	(1 307 316)	53 645 376
Public sector	311 638	3	0	(264)	0	0	311 377

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 373 million as at 31.12.2021.

22d. Loans and advances to customers

	31.12.2021	31.12.2020
Loans and advances	61 026 591	67 310 576
to companies	12 483 399	12 280 659
to private individuals	48 461 938	54 932 396
to public sector	81 254	97 521
Receivables on account of payment cards	784 117	83 131
due from companies	14711	197
due from private individuals	769 406	82 934
Purchased receivables	6 381 501	5 839 676
from companies	6 218 121	5 625 600
from public sector	163 380	214 076
Guarantees and sureties realised	8 020	7 419
Debt securities eligible for rediscount at Central Bank	103	2 748
Other	18 311	3 049
Interest	380 601	394 823
Total:	68 599 244	73 641 422
Impairment allowances	(2 210 000)	(2 204 743)
Total balance sheet value	66 389 244	71 436 679

22e. Quality of loans and advances to customers portfolio valued at amortised cost

	31.12.2021	31.12.2020
Loans and advances to customers (gross)	68 599 244	73 641 422
impaired	3 260 481	3 394 059
not impaired	65 338 763	70 247 363
Impairment allowances	(2 210 000)	(2 204 743)
for impaired exposures	(1 704 481)	(1 645 111)
for not impaired exposures	(505 519)	(559 632)
Loans and advances to customers (net)	66 389 244	71 436 679

22f. Loans and advances to customers portfolio valued at amortised cost by methodology of impairment assessment

	31.12.2021	31.12.2020
Loans and advances to customers (gross)	68 599 244	73 641 422
case by case analysis	721 092	895 795
collective analysis	67 878 152	72 745 627
Impairment allowances	(2 210 000)	(2 204 743)
on the basis of case by case analysis	(227 756)	(328 561)
on the basis of collective analysis	(1 982 244)	(1 876 182)
Loans and advances to customers (net)	66 389 244	71 436 679

22g. Loans and advances to customers portfolio valued at amortised cost by customers

	31.12.2021	31.12.2020
Loans and advances to customers (gross)	68 599 244	73 641 422
corporate customers	19 001 733	18 254 390
individuals	49 597 511	55 387 032
Impairment allowances	(2 210 000)	(2 204 743)
for receivables from corporate customers	(338 749)	(463 086)
for receivables from private individuals	(1 871 251)	(1 741 657)
Loans and advances to customers (net)	66 389 244	71 436 679

22h. Movements in impairment allowances for loans and advances to customers carried at amortised cost

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	2 204 743	1 801 122
Change in value of provisions:	5 257	403 621
Impairment allowances created in the period	1 377 980	1 466 595
Amounts written off	(270 015)	(145 652)
Impairment allowances released in the period	(992 801)	(919 006)
Sale of receivables	(145 828)	(59 662)
KOIM created in the period(*)	35 850	37 798
Transfer to FVTOCI portfolio	(12 884)	0
Changes resulting from FX rates differences	9 372	19 510
Other	3 583	4 038
Balance at the end of the period	2 210 000	2 204 743

* 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
31.12.2021			
- Companies	59	231	290
- Individuals	241 218	(15 488)	225 730
- Public sector	0	0	0
31.12.2020			
- Companies	59	255	313
- Individuals	399 392	(26 607)	372 784
- Public sector	0	0	0

22i. 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	99 169	25 859	338 049	(255)	462 822
Transfers between stages	11 891	(30 153)	18 262	0	0
Increase due to granting or purchase	45 241	0	0	0	45 241
Changes in credit risk	(54 521)	29 218	(3 647)	24	(28 927)
Decrease due to derecognition (except exposures sold and written off)	(11 503)	(1 727)	(13 489)	0	(26 719)
Sale of loans and advances	(1 395)	0	(4 616)	0	(6 011)
Loans and advances written off	0	0	(111 545)	0	(111 545)
KOIM	0	0	3 712	0	3 712
Other (including FX differences)	(212)	299	(92)	0	(5)
Balance at the end of the period	88 670	23 496	226 634	(231)	338 569

Companies: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	16 263 983	936 896	741 811	59	17 942 749
Transfers between stages	74 219	(150 741)	76 523	0	0
Granted or purchased loans and advances	7 105 600	0	0	0	7 105 600
Repaid loans and advances	(5 464 882)	(298 576)	(154 499)	0	(5 917 957)
Loans and advances sold	(326 724)	0	(5 363)	0	(332 087)
Loans and advances written off	0	0	(122 071)	0	(122 071)
Other (including FX differences)	24 103	5 742	50 869	0	80 714
Balance at the end of the period	17 676 299	493 320	587 269	59	18 756 948

Individuals: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	245 411	188 930	1 280 709	26 607	1 741 657
Transfers between stages	163 947	(226 349)	62 402	0	0
Increase due to granting or purchase	183 399	0	0	0	183 399
Changes in credit risk	(331 219)	242 967	475 193	0	386 941
Decrease due to derecognition (except exposures sold and written off)	(37 415)	(23 797)	(102 540)	(10 919)	(174 671)
Sale of loans and advances	(12 884)	0	(139 817)	0	(152 701)
Loans and advances written off	(205)	(1 920)	(156 145)	(200)	(158 470)
KOIM	0	0	32 139	0	32 139
Other (including FX differences)	1 216	1 095	10 648	0	12 959
Balance at the end of the period	212 250	180 924	1 462 590	15 488	1 871 252

Individuals: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	50 309 628	2 425 215	2 252 798	399 392	55 387 033
Transfers between stages	(1 339 861)	772 055	567 806	0	0
Granted or purchased loans and advances	13 507 559	0	0	0	13 507 559
Repaid loans and advances	(5 468 291)	(577 081)	(146 867)	(50 128)	(6 242 366)
Transfer to FVTOCI portfolio	(11 243 351)	0	0	0	(11 243 351)
Allocation of legal risk provisions to the loan portfolio	(1 888 437)	(41 201)	(102 386)	0	(2 032 024)
Loans and advances sold	(242 000)	0	(107 481)	(93 473)	(442 954)
Loans and advances written off	0	0	(131 240)	(16 704)	(147 944)
Other (including FX differences)	695 824	14 299	99 305	2 131	811 559
Balance at the end of the period	44 331 071	2 593 288	2 431 935	241 218	49 597 512

Public sector: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	264	0	0	0	264
Transfers between stages	0	0	0	0	0
Increase due to granting or purchase	25	0	0	0	25
Changes in credit risk	(86)	0	0	0	(86)
Decrease due to derecognition (except exposures sold and written off)	(24)	0	0	0	(24)
Other (including FX differences)	0	0	0	0	0
Balance at the end of the period	179	0	0	0	179

Public sector: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	311 638	3	0	0	311 641
Transfers between stages	(1)	1	0	0	0
Granted or purchased loans and advances	22 330	0	0	0	22 330
Repaid loans and advances	(89 187)	0	0	0	(89 187)
Loans and advances sold	0	0	0	0	0
Loans and advances written off	0	0	0	0	0
Other (including FX differences)	0	0	0	0	0
Balance at the end of the period	244 780	4	0	0	244 784

22j. Loans and advances to customers portfolio valued at amortised cost by maturity

	31.12.2021	31.12.2020
Current accounts	3 968 352	2 746 516
to 1 month	1 164 838	675 546
above 1 month to 3 months	2 361 732	2 143 833
above 3 months to 1 year	6 965 830	6 744 223
above 1 year to 5 years	25 062 654	25 663 239
above 5 years	26 699 794	33 167 590
past due	1 995 443	2 105 652
Interest	380 601	394 823
Total gross	68 599 244	73 641 422

22k. Loans and advances to customers portfolio valued at amortised cost by currency

	31.12.2021			31.12.2020		
	Balance sheet value, gross	Impairment allowances	Balance sheet value	Balance sheet value, gross	Impairment allowances	Balance sheet value
in Polish currency	54 790 940	(1 942 281)	52 848 659	56 292 558	(1 919 247)	54 373 311
in foreign currencies (after conversion to PLN)	13 808 304	(267 719)	13 540 585	17 348 864	(285 496)	17 063 368
currency: USD	116 213	(3 138)	113 075	115 851	(3 524)	112 327
currency: EUR	3 687 714	(46 198)	3 641 516	3 333 690	(45 014)	3 288 676
currency: CHF	9 998 100	(218 279)	9 779 821	13 895 335	(236 900)	13 658 435
other currencies	6 277	(104)	6 173	3 988	(58)	3 930
Total	68 599 244	(2 210 000)	66 389 244	73 641 422	(2 204 743)	71 436 679

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

23a. Financial assets at amortised cost other than Loans and advances to customers

31.12.2021	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	37 089	0	0	(1)	0	0	37 088
Deposits, loans and advances to banks and other monetary institutions	943 555	0	0	(239)	0	0	943 316
Repurchase agreements	268 837	0	0	0	0	0	268 837

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

23b. Debt securities

	31.12.2021	31.12.2020
credit institutions	0	0
other companies	0	0
public sector	37 088	38 818
Total	37 088	38 818

23c. Deposits, loans and advances to banks and other monetary institutions

	31.12.2021	31.12.2020
Current accounts	152 645	102 684
Deposits	617 681	522 532
Loans and advances granted	173 055	0
Interest	173	150
Total (gross) deposits, loans and advances	943 554	625 366
Impairment allowances	(239)	0
Total (net) deposits, loans and advances	943 315	625 366

23d. Deposits, loans and advances to banks and other monetary institutions by maturity date

	31.12.2021	31.12.2020
Current accounts	152 645	102 684
to 1 month	572 951	522 532
above 1 month to 3 months	40 000	0
above 3 months to 1 year	5 037	0
above 1 year to 5 years	172 749	0
above 5 years	0	0
past due	0	0
Interest	173	150
Total (gross) deposits, loans and advances	943 555	625 366

23e. Deposits, loans and advances to banks and other monetary institutions by currency

	31.12.2021	31.12.2020
in Polish currency	438 699	24 582
in foreign currencies (after conversion to PLN)	504 856	600 784
▪ currency: USD	22 964	32 630
▪ currency: EUR	364 048	488 671
▪ currency: CNY	32 430	29 926
▪ currency: CHF	20 189	6 119
▪ currency: GBP	4 390	7 397
▪ currency: JPY	29 031	7 301
▪ other currencies	31 804	28 740
Total	943 555	625 366

23f. Change of impairment allowances for deposits, loans and advances to banks and other monetary institutions

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	0	0
Impairment allowances created in the period	(239)	0
Impairment allowances released in the period	0	0
Balance at the end of the period	(239)	0

23g. Reverse sale and repurchase agreements

	31.12.2021	31.12.2020
credit institutions	0	66 351
other customers	268 533	0
interest	303	(1)
Total	268 837	66 350

24. 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 31.12.2021) 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,
- ✓ due to future income and interest costs denominated in foreign currencies,

attributable to interest rate risk and currency risk in the time horizon limited to maturity of hedging instruments, presented in **note (24b)**.

In addition, 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 31.12.2021) 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.

	Fair value hedge of a fixed interest rate debt instrument	Cash flow volatility hedge due to future income and interest costs denominated in foreign currencies
Description of hedge transactions	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.	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	A portfolio of fixed coupon debt securities classified as financial assets measured at fair value through other comprehensive income denominated in PLN.	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	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.	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.

24a. Hedge accounting

As at 31.12.2021	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	1 963 585	1 491 326	12 328 234	0	(283 605)	14 385	297 990
IRS contracts	0	800 000	5 075 500	0	(316 583)	0	316 583
FXS contracts	0	0	0	0	0	0	0
2. Derivatives used as interest rate hedges related to interest rates							
IRS contracts	0	0	90 000	0	0	0	0
3. Total hedging derivatives	1 963 585	2 291 326	17 493 734	0	(600 188)	14 385	614 573

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

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 forward start 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.

24b. 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	2026-11-05
Cash flow volatility hedge for the flows generated by FX mortgage portfolio and its underlying PLN liabilities	2025-01-07
Fair value hedge of a fixed interest rate debt instrument	2026-08-26
Hedge of the volatility of cash flows generated by the portfolio of floating-rate foreign currency mortgage loans	2030-04-30

The inefficient part of the valuation of hedging instruments recognized in the Profit and Loss Account in 2021 amounted to PLN -3,696 thousand. (in 2020, it was PLN -9,253 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).

24c. 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	5 690	(26 914)	(1 304)
- IRS	Loans and advances to customers	158 382	(158 382)	0
- FX swap	Loans and advances to customers	3 643	0	0
- FX spot	Future interest income and costs	(444)	(16 944)	0
- IRS	Issued debt securities	(11 499)	0	(1 049)
- IRS	Debt securities	179 211	(174 318)	0
Total		334 983	(376 558)	(2 353)

24d. 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	(5 690)	(490)	0
- IRS	(158 382)	0	0
- FX swap	(3 643)	0	0
- FX spot	444	0	0
- IRS	11 499	(3 206)	0
- IRS	(179 211)	0	0
Total	(334 983)	(3 696)	0

24e. 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	(13 301)
Total		(13 301)

24f. 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	13 813	512
Total	13 813	512

25. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

25a. Investments in related entities

	31.12.2021	31.12.2020
Investments in subsidiaries	208 889	208 874

25b. Change of investments in related entities

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	208 874	88 874
Purchase of MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	15	0
Establishing of Millennium Bank Hipoteczny S.A.	0	120 000
Liquidation of BG Leasing S.A. (shares)	0	(900)
Liquidation of BG Leasing S.A. (impairment allowance)	0	900
Balance at the end of the period	208 889	208 874

25c. Investments in related entities as at 31.12.2021

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
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	the company is not yet operating	Warszawa	100	100
PIAST EXPERT Sp. z o.o. in liquidation	marketing services	Tychy	100	100
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	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	290 502	176 147	40 000	901	(5 230)	subordinated
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	7 331 012	7 122 396	48 195	123 024	26 124	subordinated
MILLENNIUM DOM MAKLESKI S.A.*	16 500	0	0	310 042	262 154	16 500	28 910	13 729	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	0	91 302	30 442	1 000	49 750	31 165	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	1 000	19 103	16 776	500	4 353	97	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	442	35	100	1 538	34	subordinated
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	14	0	0	the company is not yet operating					subordinated
PIAST EXPERT Sp. z o.o. in liquidation	5 737	0	0	6 050	115	5 757	2	(48)	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	6 700	(6 700)	0	The company is under liquidation					subordinated
TOTAL	214 589	(6 700)	1 000						

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

25d. 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 MAKLESKI 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. in liquidation	marketing services	Tychy	100	100
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	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 MAKLESKI 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

26. TANGIBLE FIXED ASSETS

26a. Property, plant and equipment

	31.12.2021	31.12.2020
Land	2 270	2 270
Buildings and premises	67 554	66 639
Machines and equipment	88 546	87 064
Vehicles	6 862	5 851
Other fixed assets	23 184	24 018
Fixed assets under construction	63 187	59 156
Rights to use office space	276 962	296 328
Total	528 565	541 326

26b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2021 - 31.12.2021

	Land	Buildings and premises	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Rights to use office space	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	2 270	305 447	246 557	22 714	90 165	59 156	454 477	1 180 786
b) increases (on account of)	0	14 206	30 438	7 691	7 102	55 936	83 336	198 709
purchase	0	0	0	0	0	40 908	0	40 908
transfer from fixed assets under construction	0	14 206	30 438	0	7 102	0	0	51 746
financial lease	0	0	0	7 691	0	0	83 336	91 027
unpaid investments	0	0	0	0	0	14 660	0	14 660
other	0	0	0	0	0	368	0	368
c) reductions (on account of)	0	15 899	15 161	2 764	5 643	51 905	47 220	138 592
sale	0	0	2 656	0	371	0	0	3 027
liquidation	0	11 783	6 090	0	2 943	0	47 220	68 036
settlement of fixed assets under construction	0	0	0	0	0	51 747	0	51 747
financial lease	0	4 116	6 415	2 764	2 329	0	0	15 624
other	0	0	0	0	0	158	0	158
d) gross value of property, plant and equipment at the end of the period	2 270	303 754	261 834	27 641	91 624	63 187	490 593	1 240 903
e) cumulated depreciation (amortization) at the beginning of the period	0	229 952	159 493	16 863	66 147	0	158 149	630 604
f) depreciation over the period (on account of)	0	(2 608)	13 795	3 916	2 293	0	55 482	72 878
current write-off (P&L)	0	10 125	28 221	6 541	6 941	0	96 075	147 903
reductions on account of sale	0	0	(2 531)	0	(341)	0	0	(2 872)
reductions on account of liquidation	0	(8 906)	(5 890)	0	(2 050)	0	(40 593)	(57 439)
financial lease	0	(3 766)	(6 045)	(2 625)	(2 277)	0	0	(14 713)
other	0	(61)	40	0	20	0	0	(1)
g) cumulated depreciation (amortization) at the end of the period	0	227 344	173 288	20 779	68 440	0	213 631	703 482
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	67 554	88 546	6 862	23 184	63 187	276 962	528 565
including assets used based on leasing agreements	0	6 695	17 698	6 862	706	50	276 962	308 973

26c. 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 construction	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

27. INTANGIBLE FIXED ASSETS

27a. Intangible fixed assets

	31.12.2021	31.12.2020
Goodwill due to merger with Euro Bank S.A.	192 126	192 126
Other intangible fixed assets:	193 073	181 594
concessions, patents, licenses, know-how and similar assets	35 470	31 924
computer software	90 876	48 419
other	12 866	17 883
advances for intangible assets	53 861	83 368
Total	385 199	373 720

27b. Change of balance of intangible fixed assets (by type groups) in the period 01.01.2021 - 31.12.2021

	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	65 668	316 849	26 067	83 368	491 952
b) increases (on account of)	17 089	69 496	0	57 506	144 091
purchase	0	0	0	43 806	43 806
unpaid investments	0	0	0	13 700	13 700
settlement of advances	17 089	69 496	0	0	86 585
c) reductions (on account of)	248	3 918	1 307	87 013	92 486
liquidation	248	3 901	1 307	0	5 456
settlement of advances	0	0	0	86 953	86 953
other	0	17	0	60	77
d) gross value of intangible fixed assets at the end of the period	82 509	382 427	24 760	53 861	543 557
e) cumulated depreciation at the beginning of the period	33 744	268 430	8 184	0	310 358
f) depreciation over the period (on account of)	13 295	23 121	3 710	0	40 126
current write-off (P&L)	13 543	27 039	5 016	0	45 598
liquidation	(248)	(3 901)	(1 306)	0	(5 455)
other	0	(17)	0	0	(17)
g) cumulated depreciation at the end of the period	47 039	291 551	11 894	0	350 484
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	35 470	90 876	12 866	53 861	193 073

27c. 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

28. DEFERRED INCOME TAX ASSETS

28a. Deferred income tax assets and liability

	31.12.2021			31.12.2020		
	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	(3 421)	(1 762)	1 659	(3 507)	(1 848)
Balance sheet valuation of financial instruments	(21 915)	(2 128)	(24 043)	128 219	(149 996)	(21 777)
Unrealised receivables/ liabilities on account of derivatives	12 450	(13 284)	(834)	12 285	(14 486)	(2 201)
Interest on deposits and securities to be paid/ received	10 742	(77 286)	(66 544)	30 241	(33 021)	(2 780)
Interest and discount on loans and receivables	0	(75 737)	(75 737)	0	(77 075)	(77 075)
Income and cost settled at effective interest rate	147 394	0	147 394	188 794	0	188 794
Impairment of loans presented as temporary differences	398 267	0	398 267	405 834	0	405 834
Employee benefits	18 687	0	18 687	19 420	0	19 420
Rights to use	6 620	0	6 620	8 432	0	8 432
Provisions for future costs	88 584	0	88 584	83 764	0	83 764
Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	207 631	(56 174)	151 457	9 172	(55 384)	(46 212)
Shares valuation	1 273	(36 440)	(35 167)	1 273	(24 790)	(23 517)
Other	2 332	(1 236)	1 096	3 054	125	3 179
Total	873 724	(265 706)	608 018	892 147	(358 134)	534 013
Net deferred income tax asset			313 432			279 894

28b. Change of temporary differences

	31.12.2020	Adjustments to previous years	Changes to financial result	Changes to equity	31.12.2021
Difference between tax and balance sheet depreciation	(1 848)		86		(1 762)
Balance sheet valuation of financial instruments	(21 777)		(2 266)		(24 043)
Unrealised receivables/ liabilities on account of derivatives	(2 201)		1 367		(834)
Interest on deposits and securities to be paid/ received	(2 780)		(63 764)		(66 544)
Interest and discount on loans and receivables	(77 075)		1 338		(75 737)
Income and cost settled at effective interest rate	188 794		(41 400)		147 394
Impairment of loans presented as temporary differences	405 834		(7 567)		398 267
Employee benefits	19 420		(733)		18 687
Rights to use	8 432		(1 812)		6 620
Provisions for future costs	83 764		4 820		88 584
Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	(46 212)			197 669	151 457
Shares valuation	(23 517)		(11 650)		(35 167)
Other	3 179	(1 315)	(768)		1 096
Total	534 013	(1 315)	(122 349)	197 669	608 018

28c. 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	(4 894)	0	2 114	0	(2 780)
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)
Shares valuation	(22 415)	0	(1 102)	0	(23 517)
Other	4 665	15 518	(17 004)	0	3 179
Total	405 412	15 518	143 615	(30 532)	534 013

28d. Change of deferred income tax

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Difference between tax and balance sheet depreciation	86	(1 162)
Balance sheet valuation of financial instruments	(2 266)	742
Unrealised receivables/ liabilities on account of derivatives	1 367	4 163
Interest on deposits and securities to be paid/ received	(63 764)	2 114
Interest and discount on loans and receivables	1 338	(3 215)
Income and cost settled at effective interest rate	(41 400)	8 489
Impairment of loans presented as temporary differences	(7 567)	84 493
Employee benefits	(733)	(720)
Rights to use	(1 812)	2 461
Provisions for future costs	4 820	64 356
Shares valuation	(11 650)	(1 102)
Other	(768)	(17 004)
Change of deferred income tax recognized in financial result	(122 349)	143 615
Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	197 669	(30 532)

28e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2021	31.12.2020
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.

	31.12.2021	31.12.2020
Net deferred income tax assets	608 018	534 013
Net deferred income tax provision	-	-
TOTAL	608 018	534 013

29. OTHER ASSETS

	31.12.2021	31.12.2020
Expenses to be settled	109 339	97 328
Income to be received	27 141	21 187
Interbank settlements	0	12
Settlements of financial instruments transactions	23 469	0
Receivables from sundry debtors	426 993	237 992
Public and legal settlements	23 638	7 387
Total other assets (gross)	610 580	363 906
Impairment allowances	(25 991)	(22 513)
Total other assets (net)	584 589	341 393
▪ including other financial assets*	451 612	236 678
▪ including long-term other assets	969	1 879

* 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

As at December 31, 2021, the item "Receivables from sundry debtors" includes receivables due from Société Générale S.A. under an "CHF Portfolio Indemnity and Guarantee Agreement" aimed at limiting the risk associated with mortgage loans of the former Euro Bank in the amount of PLN 257.5 million.

As at December 31, 2021, the item "Receivables from sundry debtors" includes receivables due to legally invalidated foreign currency mortgage loans in the amount of PLN 24.4 million.

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

As at December 31, 2021 and December 31, 2020, the Bank did not classify any assets to the Non-current asset held for sale.

31. FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2021	31.12.2020
Negative valuation of derivatives	126 795	103 781
Adjustment due to fair value hedge	0	0
Short sale of securities	16 614	64 778
Financial liabilities valued at fair value through profit and loss	143 409	168 559

The division of the negative valuation of derivatives into specific types of instruments is presented in note (19).

32. LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

32a. Liabilities to banks and other monetary institutions

	31.12.2021	31.12.2020
In current account	64 309	57 220
Term deposits	106 569	481 490
Loans and advances received	15 000	25 000
Interest	369	172
Total	186 247	563 882

32b. Liabilities to banks and other monetary institutions by maturity

	31.12.2021	31.12.2020
Current accounts	64 309	57 220
▪ to 1 month	22 669	481 338
▪ above 1 month to 3 months	43900	0
▪ above 3 months to 1 year	40000	0
▪ above 1 year to 5 years	15 000	25 152
▪ above 5 years	0	0
Interest	369	172
Total	186 247	563 882

32c. Liabilities to banks and other monetary institutions by currency

	31.12.2021	31.12.2020
in Polish currency	167 210	393 669
in foreign currencies (after conversion to PLN)	19 037	170 213
▪ currency: USD	456	2 006
▪ currency: EUR	18 581	40 304
▪ currency: CHF	0	127 903
▪ other currencies	0	0
Total	186 247	563 882

33. LIABILITIES TO CUSTOMERS

33a. Structure of liabilities to customers by type

	31.12.2021	31.12.2020
Amounts due to private individuals	65 783 239	61 696 895
Balances on current accounts	55 953 207	50 647 924
Term deposits	9 565 717	10 807 126
Other	237 776	188 369
Accrued interest	26 539	53 476
Amounts due to companies	22 278 081	17 302 406
Balances on current accounts	15 481 067	13 183 715
Term deposits	6 434 038	3 761 220
Other	360 665	344 918
Accrued interest	2 311	12 553
Amounts due to public sector	3 610 976	2 833 170
Balances on current accounts	3 385 595	2 707 623
Term deposits	215 889	105 079
Other	9 417	20 461
Accrued interest	75	7
Total	91 672 296	81 832 471

33b. Liabilities to customers by maturity

	31.12.2021	31.12.2020
Current accounts	74 819 869	66 539 262
to 1 month	6 817 747	4 763 568
above 1 month to 3 months	5 254 940	4 905 277
above 3 months to 1 year	2 803 883	3 759 671
above 1 year to 5 years	1 906 400	1 772 255
above 5 years	40 532	26 402
Interest	28 925	66 036
Total	91 672 296	81 832 471

33c. Liabilities to customers by currency

	31.12.2021	31.12.2020
in Polish currency	81 904 492	73 480 869
in foreign currencies (after conversion to PLN)	9 767 804	8 351 602
▪ currency: USD	2 169 222	2 025 275
▪ currency: EUR	7 002 313	5 793 962
▪ currency: GBP	393 989	348 677
▪ currency: CHF	182 569	162 659
▪ other currencies	19 711	21 029
Total	91 672 296	81 832 471

34. SALE AND REPURCHASE AGREEMENTS

Liabilities from securities sold with buy-back clause

	31.12.2021	31.12.2020
a) to the Central Bank	0	0
b) to banks	0	248 566
c) to customers	18 037	0
d) interest	1	0
Total	18 038	248 566

35. DEBT SECURITIES ISSUED

35a. Liabilities from debt securities

	31.12.2021	31.12.2020
Outstanding bonds and bills	0	250 000
Bank Securities	0	234 428
Interest	0	227
Total	0	484 655

35b. Liabilities from debt securities by final legal maturity

	31.12.2021	31.12.2020
▪ to 1 month	0	32 916
▪ above 1 month to 3 months	0	68 292
▪ above 3 months to 1 year	0	383 220
▪ above 1 year to 5 years	0	0
▪ above 5 years	0	0
Interest	0	227
Total	0	484 655

35c. Change of debt securities

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	484 655	1 003 657
Increases, on account of:	3 267	41 157
issue of Banking Securities	0	29 558
merger with Euro Bank S.A.	0	0
interest accrual	3 267	11 599
Reductions, on account of:	(487 922)	(560 159)
repurchase of Banking Securities	(234 428)	(246 582)
repurchase of bonds	(250 000)	(300 000)
interest payment	(3 494)	(13 577)
Balance at the end of the period	0	484 655

35d. Debt securities by type

As at December 31, 2021, the Bank did not have any liabilities related to issued securities.

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.

36. SUBORDINATED DEBT

36a. Subordinated debt

	31.12.2021	31.12.2020
Amount of subordinated bonds inn - BKMO_071227R	700 000	700 000
Currency	PLN	PLN
Interest rate	4.81%	2.55%
Maturity	07.12.2027	07.12.2027
Interest	2 214	1 174
Amount of subordinated bonds PLN in PLN - BKMO_300129W	830 000	830 000
Currency	PLN	PLN
Interest rate	2.55%	2.58%
Maturity	30.01.2029	30.01.2029
Interest	8 930	9 035
Balance sheet value of subordinated debt	1 541 144	1 540 209

36b. Change of subordinated debt

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	1 540 209	1 546 205
Increases, on account of:	40 076	51 441
issue of subordinated bonds	0	0
interest accrual	40 076	51 441
Reductions, on account of:	(39 141)	(57 437)
redemption of subordinated bonds	0	0
interest payment	(39 141)	(57 437)
Balance at the end of the period	1 541 144	1 540 209

During 2021 and 2020 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.

37. PROVISIONS

37a. Provisions

	31.12.2021	31.12.2020
Provision for commitments and guarantees given	44 955	52 728
Provision for pending legal issues	549 450	105 643
Total	594 405	158 371

37b. Change of Provision for commitments and guarantees given

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	52 728	53 856
Charge of provision	54 970	73 893
Release of provision	(62 805)	(75 357)
FX rates differences	62	336
Balance at the end of the period	44 955	52 728

37c. Change of Provision for pending legal issues

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	105 643	37 162
Charge of provision	112 726	16 874
Release of provision	(9 463)	(13 331)
Utilisation of provision	(24 059)	(489)
Creation of provision for legal risk connected with FX mortgage loans*	2 305 157	713 617
Allocation to the loans portfolio**	(2 032 024)	(671 484)
FX rates differences	91 470	23 294
Balance at the end of the period	549 450	105 643

* Creation of provisions for legal risk related to foreign currency mortgage loans is described in more detail in **Chapter 12 "Legal risk related to foreign currency mortgage loans"**.

** In 2021, 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, 2020 and as at December 31, 2019 presented in these financial statements has been introduced (more information on this topic is presented in **Chapter 7. "Accounting Policy"**).

38. OTHER LIABILITIES

38a. Other liabilities

	31.12.2021	31.12.2020
Short-term	1 496 886	1 476 954
Accrued costs - bonuses, salaries	39 347	38 520
Accrued costs - other	187 959	188 382
Provisions for return of insurance fees	306 955	346 567
Interbank settlements	484 728	341 353
Provisions for potential return of fees in the event of early repayment of the loan	89 091	113 731
Settlement of transactions on financial instruments	31 833	1 537
Other creditors	168 629	246 069
Liabilities due to leases	95 369	105 202
Liabilities to public sector	36 570	25 511
Deferred income	39 158	50 446
Provisions for unused employee holiday	13 626	15 364
Provisions for retirement benefits	3 182	3 006
Other	439	1 266
Long-term	488 889	489 702
Provisions for retirement benefits	31 527	31 995
Accrued costs	0	0
Commitment to pay - BGF*	173 039	139 845
Liabilities due to leases	275 251	304 916
Accrued costs	9 072	12 946
Total	1 985 775	1 966 656
including other financial liabilities**	1 340 523	1 289 290

* 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

As at December 31, 2021, the item "Other creditors" includes liabilities due to legally invalidated foreign currency mortgage loans in the amount of PLN 20.1 million.

38b. Liabilities from lease

	31.12.2021	31.12.2020
Liabilities from lease (gross)	389 434	432 741
Unrealised financial costs	(18 814)	(22 623)
Current value of minimum lease instalments	370 620	410 118
Liabilities from lease (gross) by maturity		
Under 1 year	101 072	111 588
From 1 year to 5 years	205 292	208 661
Above 5 years	83 070	112 492
Total	389 434	432 741
Liabilities from lease (net) by maturity		
Under 1 year	95 369	105 202
From 1 year to 5 years	194 389	196 260
Above 5 years	80 862	108 656
Total	370 620	410 118

38c. Change of provisions for unused employee holiday

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	15 364	24 212
Charge of provisions/ reversal of provisions	(1 382)	(8 750)
Utilisation of provisions	(356)	(98)
Balance at the end of the period	13 626	15 364

38d. Change of provisions for retirement benefits

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	35 001	32 728
Charge of provisions/ reversal of provisions	6 159	2 984
Utilisation of provisions/ reclassification of provision	(1 232)	(1 440)
Actuarial gains (losses)	(5 219)	729
Balance at the end of the period	34 709	35 001

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 were no conversions of ordinary registered shares into the bearer shares. As a consequence number of registered shares as of 31.12.2021 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, 2021. 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 24th March 2021.

In case of Nationale-Nederlanden Otwarty Fundusz Emerytalny, Aviva Otwarty Fundusz Emerytalny Aviva Santander i Otwarty Fundusz Emerytalny PZU „Złota Jesień” 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 2021 (published on the websites, respectively: www.nn.pl, www.aviva.pl and www.pzu.pl). For the purpose of the above calculation, the average Bank's share price was assumed to amount to 8.1658 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 31.12.2021	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	99 291 825	8.18	99 291 825	8.18
Aviva Otwarty Fundusz Emerytalny Aviva Santander	72 760 035	6.00	72 760 035	6.00
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	69 451 428	5.73	69 451 428	5.73

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

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 (related to debt securities and loans) 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

	31.12.2021	31.12.2020
Effect of valuation (gross)	(797 143)	243 221
Deferred income tax	151 457	(46 212)
Net effect of valuation	(645 686)	197 009

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

Revaluation reserve on FVTOCI assets 1.01.2021 - 31.12.2021

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	291 495	(55 383)	236 112
Transfer to income statement of the period as a result of sale	(12 896)	2 450	(10 446)
Change connected with maturity of securities	(660)	125	(535)
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	(963 829)	183 128	(780 701)
Profit/loss on revaluation of FVTOCI shares, recognized in equity	(785)	149	(636)
Revaluation reserve at the end of the period	(686 675)	130 469	(556 206)

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 cash flows hedge financial instruments 1.01.2021 - 31.12.2021

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(44 419)	8 439	(35 980)
Gains or losses on valuation of financial instruments recognized in equity	(338 189)	64 256	(273 933)
Transfer to income statement during period	3 696	(702)	2 994
Revaluation reserve at the end of the period	(378 912)	71 993	(306 919)

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 due to actuarial gains (losses) 1.01.2021 - 31.12.2021

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(3 854)	732	(3 122)
Change in the obligations arising from the provision for retirement benefits	5 219	(992)	4 227
Revaluation reserve at the end of the period	1 365	(260)	1 105

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 on FVTOCI credit portfolio 1.01.2021 - 31.12.2021

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	0	0	0
Gains or losses on valuation of financial instruments recognized in equity	259 546	(49 314)	210 232
Transfer to Profit and loss due to impairment calculation	7 533	(1 431)	6 102
Revaluation reserve at the end of the period	267 079	(50 745)	216 334

39c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2021	374 957	5 655 919	228 902	18 579	6 278 357
appropriation of profit, including:					
transfer to reserve capital	0	18 579	0	(18 579)	0
charge due to transfer of own shares to employees	0	(3 374)	0	0	(3 374)
net profit/ (loss) of the period	0	0	0	(1 357 452)	(1 357 452)
Retained earnings at the end of the period 31.12.2021	374 957	5 671 124	228 902	(1 357 452)	4 917 531

	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
Merger with Euro Bank S.A.					
appropriation of profit, including:	0	560 727	0	(560 727)	0
transfer to reserve capital		(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

40. FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

31.12.2021	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	87 332	44 813	40 142	15 000	0	187 287
Deposits from customers	81 643 636	5 267 328	2 824 137	1 910 432	40 532	91 686 065
Liabilities from securities sold with buy-back clause	18 040	0	0	0	0	18 040
Debt securities	0	0	0	0	0	0
Subordinated debt	8 930	0	48 119	219 340	1 614 664	1 891 053
Liabilities from trading derivatives - notional value	6 597 730	2 815 476	3 594 126	4 675 899	132 180	17 815 411
Liabilities from hedging derivatives - notional value	444 840	556 050	1 556 228	11 347 744	0	13 904 862
Commitments granted - financial	12 658 407	0	0	0	0	12 658 407
Commitments granted - guarantee	2 578 287	0	0	0	0	2 578 287
TOTAL	104 037 202	8 683 667	8 062 752	18 168 415	1 787 376	140 739 412

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

14. Supplementary Information

14.1. 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 presented a proposal and the Ordinary General Meeting of the Bank held on March 24, 2021 decided to retain the entire net profit generated during the year 2020 in the Bank's equity.

14.2. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2021 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 OK0423	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	124 254
2.	Treasury bonds OK0423	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	328 000	313 502
3.	Treasury bonds PS0425	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	7 000	6 399
4.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	130 100	124 350
5.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	106 500	101 793
6.	Cash	receivables	initial deposit in KDPW CCP (MAGB)	5 000	5 000
7.	Cash	receivables	ASO guarantee fund (PAGB)	398	398
8.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	8 989	8 989
9.	Cash	receivables	Settlement on transactions concluded	111 907	111 907
10.	Deposits	Deposits in banks	Settlement on transactions concluded	572 681	572 681
TOTAL				1 400 575	1 369 273

Additionally, as at December 31, 2021, 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 17,933 thousand (corresponding liabilities are presented in **Chapter 13., note (34)**).

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 13., note (34)**).

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

As at 31 December 2021 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	21 347	17 933
TOTAL	21 347	17 933

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 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

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

The majority of the Bank's derivatives portfolio arises due to conclusion by the Bank framework ISDA agreements (International Swaps and Derivatives Agreements). Provisions included in the agreements define comprehensive procedures in case of infringement (mainly difficulties in payments), and provide possibility to cancel a deal, making settlements with counterparty base on offset amount of mutual receivables and liabilities. To date, the Bank has not exercised that option, however, in order to meet information requirements as described in IFRS 7 the following table presents the fair values of derivative instruments (both classified as held for trading and dedicated to hedge accounting) as well as cash collaterals under ISDA framework agreements with a theoretical maximum amount resulting from the settlement on the basis of compensation.

PLN'000	Amounts to be received	Amounts to be paid
Valuation of derivatives	101 036	629 896
Amount of cash collaterals accepted/granted	(14 796)	(563 242)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	86 240	66 654
Theoretical maximum amount of compensation	(49 200)	(49 200)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	37 040	17 454

14.5. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

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

	31.12.2021	31.12.2020
Cash and balances with the Central Bank	3 179 735	1 460 289
Receivables from interbank deposits*	192 509	122 659
Debt securities issued by the State Treasury*	0	3 486
of which FVTOCI	0	0
of which held for trading	0	3 486
Total	3 372 244	1 586 434

* Financial assets with maturity below three months

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

1. Operating activities - cover the basic scope of operations connected with services provided by the Bank's units covering events whose purpose is to earn profit and not being investment or financial activity,
2. Investment activities cover operations connected with the purchasing and selling of fixed assets, in particular financial assets not included in the "for trading" category, shares and shares in subsidiaries, tangible and intangible fixed assets,
3. Financial activities cover activities connected with raising of funds in the form of capital or liabilities, as well as servicing sources of funding.

14.6. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2021 the Custody Department of Bank Millennium S.A. maintained 13,148 accounts in which Customers' assets were kept with the total value of PLN 32.7 billion. Net revenue from the custody business for 2021 amounted to PLN 6.2 million (including PLN 3.1 million from Capital Group entities). The Custody Department serves as a depositary bank for 22 mutual funds including 21 of Millennium TFI S.A.

14.7. SHARE BASED PAYMENTS

In 2012, the Bank implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium, 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 2018; Bank Millennium own shares: for 2019 - 2021. 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:	2021	2020	2019	2018
Kind of transactions in the light of IFRS 2	Share-based payment transactions			Cash-settled share-based payments
Commencement of vesting period	1 January 2021	1 January 2020	1 January 2019	1 January 2018
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 2021	31 December 2020	31 December 2019	31 December 2018
Vesting conditions	Employment in the Bank 2021, results of the Bank and individual performance	Employment in the Bank 2020, results of the Bank and individual performance	Employment in the Bank 2019, results of the Bank and individual performance	Employment in the Bank 2018, results of the Bank and individual performance
Program settlement	Programs 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 - 2021: 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:	2021	2020	2019	2018
	Own shares	Own shares	Own shares	Phantom shares
Date of shares assigning	-		03.07.2020	23.01.2019
Number of shares	-	0	387 774	39 240
granted	-	0	0	0
deferred	-	0	387 774	39 240
Value as at assigning date (PLN)	-	0	1 235 758	360 298
granted	-	0	0	0
deferred	-	0	1 235 758	360 298
Fair value as at 31.12.2021 (PLN)	-	0	3 177 808	288 238

At the balance sheet date, the Personnel Committee of the Management Board has not taken a decision on the amount of variable remuneration for Bank's employees who are not members of the Management Board of the Bank for 2021.

Financial instruments granted to members of the Management Board of the Bank, for the year:	2021	2020	2019	2018
	Own shares	Own shares	Own shares	Phantom shares
Date of shares assigning	-		03.07.2020	31.05.2019
Number of shares	-	0	322 599	78 753
granted	-	0	0,00	0,00
deferred	-	0	322 599	78 753
Value as at assigning date (PLN)	-	0	1 028 052	717 444
granted	-	0	0,00	0,00
deferred	-	0	1 028 052	717 444
Fair value as at 31.12.2021 (PLN)	-	0	2 643 698	645 381

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 2021.

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 2022: 237,848 shares of Bank Millennium, respectively, remain to be paid out.

14.8. 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 Group'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 Group.

As a part of customer support, the Group introduced a programme of credit moratoria. After the initial spike in late March/early April and in June 2020 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 2020, 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 2020 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%). The use of credit holidays practically ceased after the first quarter of 2021.

The 4th wave of COVID-19 pandemic caused significant increase of infections and hospitalizations at the end of year 2021. The increase of number of infections did not translate into increase of credit risk level of the Bank. The inflow of new applications for Public Moratoria remained at very low level - 28 requests in the Q4 2021 with exposure of PLN 6.9 million. All exposures with active moratoria as of end of 2021 were classified as defaults and provisioned accordingly. The Bank closely monitors quality of portfolio, in particular: early delays, demand for rescheduling offers, structure of new defaults. Taking into account the current observations, the Bank does not identify any significant risk in its portfolio related to the COVID-19 pandemic.

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

14.9. 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.

On May 20, 2021, the PFSA issued a permit to start operations by the Bank, which actually took place on June 14, 2021. From the beginning of its operations, the Bank focused on the first and subsequent transfers of mortgage loans granted by Bank Millennium, which will become the basis for the issue of mortgage bonds secured on these loans (which activity is in Poland restricted to mortgage banks only). The first transfer of mortgage loans from Bank Millennium was carried out on October 15, 2021. The transfer of the first pool of mortgage loans to the Bank's balance sheet means the commencement of earning interest income from clients. Preparatory work for the second transfer has also started, and its finalization is planned for the second quarter of 2022.

The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

IBOR reform

In March 2021, UK regulatory authority the FCA announced the discontinuation of publication of London interbank interest rates developed by the ICE Benchmark Administration - LIBOR CHF, EUR, GBP, JPY and USD (1W and 2M) at the end of 2021, as well as other USD LIBOR settings at the end of June 2023. In regards to the decision above, in 2021 the Bank worked on the implementation of solutions enabling a smooth transition to new rates. Furthermore, due to European Commission Regulations, from January 1, 2022 (for CHF LIBOR - London interbank interest rate for the Swiss franc) and January 3, 2022 (for EONIA - Euro Overnight index) all references to these rates in contracts and instruments financial statements were automatically replaced with references to the new rates - SARON and € STR respectively.

Eurobond Issue Programme

On 28 January 2022 the Bank's Supervisory Board approved the Eurobond Issue Programme („EMTN Programme”) of the total nominal value not higher than EUR 3 billion („Programme Amount”).

Notes issued under the EMTN Programme shall be issued in many series and the total nominal value of issued and not purchased notes shall not, at any time, exceed the Programme Amount.

Notes shall be offered and sold outside the territory of the United States of America to an account of or for persons other than US persons in accordance with Regulation S (Regulation S) issued under the US Securities Act 1933, as later amended (U.S. Securities Act of 1993) („U.S. Securities Act”), on the basis of a basic prospectus prepared by the Bank. The notes shall not be registered in accordance with the U.S. Securities Act nor any other US state regulations regarding securities.

The Bank may apply for admission of particular series of notes for trading on the regulated market of the Luxembourg Stock Exchange, the Warsaw Stock Exchange S.A. or any other market chosen by the Bank. The EMTN Programme permits also issues of notes which will not be admitted to trading by any relevant body, stock exchange or quotation system.

P2G buffer

On February 11, 2022, the Bank received a recommendation from the PFSA to limit the risk occurring in the Bank's operations by maintaining both at the standalone and at consolidated basis own funds to cover the additional capital add-on in order to absorb potential losses resulting from the occurrence of stress conditions under Pillar II (P2G). The required level of total capital ratio is described in the article 92 item 1 letter c of the regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending regulation (EU) No 648/2012 and equals to 0.89 p.p. on the top of total capital ratio, increased by the additional own funds requirement referred to in Article 138(2)(2) of the Banking Act and by the combined buffer requirement referred to in Article 55(4) of the Act on macro prudential supervision. The additional capital requirement should be made up of Common Equity Tier 1 capital only.

There were no other 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
21.02.2022	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
21.02.2022	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
21.02.2022	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
21.02.2022	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
21.02.2022	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
21.02.2022	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
21.02.2022	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature