

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

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

Official Annual Consolidated Financial Report of the Bank Millennium S.A. Capital Group 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	2 842 093	3 126 579	620 883	698 802
Fee and commission income	1 012 250	947 414	221 136	211 750
Profit (loss) before income tax	(1 000 943)	210 935	(218 666)	47 145
Profit (loss) after taxes	(1 331 866)	22 817	(290 959)	5 100
Total comprehensive income of the period	(2 390 356)	152 581	(522 197)	34 102
Net cash flows from operating activities	2 787 342	(3 137 601)	608 922	(701 265)
Net cash flows from investing activities	(556 582)	2 035 786	(121 591)	455 006
Net cash flows from financing activities	(444 950)	(1 064 540)	(97 204)	(237 929)
Net cash flows, total	1 785 810	(2 166 355)	390 128	(484 188)
Earnings (losses) per ordinary share (in PLN/EUR)	(1.10)	0.02	(0.24)	0.00
Diluted earnings (losses) per ordinary share	(1.10)	0.02	(0.24)	0.00
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total Assets	103 913 908	97 322 785	22 592 927	21 089 275
Liabilities to banks and other monetary institutions	539 408	1 057 652	117 278	229 187
Liabilities to customers	91 447 515	81 510 540	19 882 488	17 662 854
Equity	6 697 246	9 090 976	1 456 113	1 969 961
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)	5.52	7.49	1.20	1.62
Diluted book value per share (in PLN/EUR)	5.52	7.49	1.20	1.62
Total Capital Ratio (TCR)	17.06%	19.49%	17.06%	19.49%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Exchange rates accepted to convert selected financial data into EUR

for items as at the balance sheet date	-	-	4.5994	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

CONSOLIDATED 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	2 713 143	767 099	2 583 060	624 635
Interest income and other of similar nature	2 842 093	805 787	3 126 579	665 243
Income calculated using the effective interest method	2 778 204	800 465	3 018 124	646 986
Interest income from Financial assets at amortised cost	2 620 651	749 737	2 704 672	597 735
Interest income from Financial assets at fair value through other comprehensive income	157 553	50 728	313 452	49 251
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	(128 950)	(38 688)	(543 519)	(40 608)
Net fee and commission income	830 612	214 960	746 056	192 730
Fee and commission income	1 012 250	260 504	947 414	240 546
Fee and commission expenses	(181 638)	(45 544)	(201 358)	(47 816)
Dividend income	3 761	323	3 678	136
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9 669	(569)	128 082	50 059
Results on financial assets and liabilities held for trading	(9 296)	(2 151)	13 436	4 637
Result on non-trading financial assets mandatorily at fair value through profit or loss	124 538	70 730	38 576	51 729
Result on hedge accounting	(3 185)	(1 431)	(10 259)	481
Result on exchange differences	(148 999)	(72 138)	120 521	14 285
Other operating income	317 295	106 606	160 766	72 191
Other operating expenses	(239 510)	(159 641)	(249 060)	(112 146)
Administrative expenses	(1 440 706)	(383 401)	(1 542 379)	(366 219)
Impairment losses on financial assets	(318 391)	(77 023)	(556 912)	(91 173)
Impairment losses on non-financial assets	(7 672)	(2 285)	(7 890)	(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	(201 595)	(50 725)	(210 411)	(51 455)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(312 611)	(82 012)	(279 147)	(70 120)
Profit before income taxes	(1 000 943)	(407 061)	210 935	(102 361)
Corporate income tax	(330 923)	(101 849)	(188 118)	(6 692)
Profit after taxes	(1 331 866)	(508 910)	22 817	(109 053)
Attributable to:				
Owners of the parent	(1 331 866)	(508 910)	22 817	(109 053)
Non-controlling interests	0	0	0	0
Weighted average number of outstanding ordinary shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)	(1.10)	(0.42)	0,02	(0,09)

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

CONSOLIDATED 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*
Result after taxes	(1 331 866)	(508 910)	22 817	(109 053)
Other comprehensive income items that may be (or were) reclassified to profit or loss	(1 312 027)	(959 115)	160 748	(26 634)
Result on debt securities at fair value through other comprehensive income	(977 534)	(698 843)	176 282	(28 073)
Hedge accounting	(334 493)	(260 272)	(15 534)	1 439
Other comprehensive income items that will not be reclassified to profit or loss	5 249	5 278	(547)	(589)
Actuarial gains (losses)	6 071	6 071	(417)	(417)
Result on equity instruments at fair value through other comprehensive income	(822)	(793)	(130)	(172)
Total comprehensive income items before taxes	(1 306 778)	(953 837)	160 201	(27 223)
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	249 285	182 232	(30 541)	5 062
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(997)	(1 003)	104	112
Total comprehensive income items after taxes	(1 058 490)	(772 608)	129 764	(22 049)
Total comprehensive income for the period	(2 390 356)	(1 281 518)	152 581	(131 102)
Attributable to:				
Owners of the parent	(2 390 356)	(1 281 518)	152 581	(131 102)
Non-controlling interests	0	0	0	0

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

**ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
OF THE BANK MILLENNIUM S.A. CAPITAL GROUP
FOR THE 12-MONTH PERIOD ENDING 31ST DECEMBER 2021**

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1. Consolidated Income Statement

Amount '000 PLN	Nota	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020*
Net interest income		2 713 143	2 583 060
Interest income and other of similar nature	1	2 842 093	3 126 579
Income calculated using the effective interest method		2 778 204	3 018 124
Interest income from Financial assets at amortised cost		2 620 651	2 704 672
Interest income from Financial assets at fair value through other comprehensive income		157 553	313 452
Income of similar nature to interest from Financial assets at fair value through profit or loss		63 889	108 455
Interest expenses	2	(128 950)	(543 519)
Net fee and commission income		830 612	746 056
Fee and commission income	3	1 012 250	947 414
Fee and commission expenses	3	(181 638)	(201 358)
Dividend income	4	3 761	3 678
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	9 669	128 082
Results on financial assets and liabilities held for trading	6	(9 296)	13 436
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		(148 999)	120 521
Other operating income	9	317 295	160 766
Other operating expenses	10	(239 510)	(249 060)
Administrative expenses	11	(1 440 706)	(1 542 379)
Impairment losses on financial assets	12	(318 391)	(556 912)
Impairment losses on non-financial assets	13	(7 672)	(7 890)
Provisions for legal risk connected with FX mortgage loans	14	(2 305 157)	(713 617)
Result on modification		(12 839)	(13 565)
Depreciation	15	(201 595)	(210 411)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(312 611)	(279 147)
Profit before income taxes		(1 000 943)	210 935
Corporate income tax	16	(330 923)	(188 118)
Profit after taxes		(1 331 866)	22 817
Attributable to:			
Owners of the parent		(1 331 866)	22 817
Non-controlling interests		0	0
Weighted average number of outstanding ordinary shares		1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)	17	(1.10)	0.02

* 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".

Notes on pages 13-178 are integral part of these consolidated financial statements.

2. Consolidated Statement of Total Comprehensive Income

Amount '000 PLN	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Profit after taxes	(1 331 866)	22 817
Other comprehensive income items that may be (or were) reclassified to profit or loss	(1 312 027)	160 748
Result on debt securities at fair value through other comprehensive income	(977 534)	176 282
Hedge accounting	(334 493)	(15 534)
Other comprehensive income items that will not be reclassified to profit or loss	5 249	(547)
Actuarial gains (losses)	6 071	(417)
Result on equity instruments at fair value through other comprehensive income	(822)	(130)
Total comprehensive income items before taxes	(1 306 778)	160 201
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	249 285	(30 541)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(997)	104
Total comprehensive income items after taxes	(1 058 490)	129 764
Total comprehensive income for the period	(2 390 356)	152 581
Attributable to:		
Owners of the parent	(2 390 356)	152 581
Non-controlling interests	0	0

Notes on pages 13-178 are integral part of these consolidated financial statements.

3. Consolidated Balance Sheet

ASSETS

Amount '000 PLN	Note	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	172 483	423 846	986 728
Derivatives		85 900	154 188	112 485
Equity instruments		145	245,1179	210
Debt securities		86 438	269 413	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	17 997 699	18 642 615	21 870 164
Equity instruments		28 727	29 538	29 643
Debt securities		17 968 972	18 613 077	21 840 521
Loans and advances to customers	22	78 603 326	73 639 342	69 541 667
Mandatorily at fair value through profit or loss		362 992	1 615 753	1 498 195
Valued at amortised cost		78 240 334	72 023 589	68 043 472
Financial assets at amortised cost other than Loans and advances to customers	23	1 076 456	730 598	1 037 869
Debt securities		37 088	38 818	48 153
Deposits, loans and advances to banks and other monetary institutions		770 531	625 430	784 277
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	0	0	0
Tangible fixed assets	26	549 788	571 813	666 330
Intangible fixed assets	27	392 438	384 781	342 653
Income tax assets		785 750	665 174	541 828
Current income tax assets		8 644	3 883	10 310
Deferred income tax assets	28	777 106	661 291	531 518
Other assets	29	857 650	509 035	399 778
Non-current assets and disposal groups classified as held for sale	30	18 294	22 390	39 441
Total assets		103 913 908	97 322 785	97 842 671

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2021	31.12.2020*	31.12.2019*
LIABILITIES				
Financial liabilities held for trading	31	143 016	168 553	353 000
Derivatives		126 402	103 775	150 735
Liabilities from short sale of securities		16 614	64 778	202 265
Financial liabilities measured at amortised cost		93 585 673	84 915 527	85 853 762
Liabilities to banks and other monetary institutions	32	539 408	1 057 652	1 578 848
Liabilities to customers	33	91 447 515	81 510 540	81 454 765
Sale and repurchase agreements	34	18 038	248 566	90 712
Debt securities issued	35	39 568	558 560	1 183 232
Subordinated debt	36	1 541 144	1 540 209	1 546 205
Derivatives - Hedge accounting	24	614 573	738 850	426 847
Provisions	37	595 530	158 650	91 455
Pending legal issues		551 176	106 922	38 062
Commitments and guarantees given		44 354	51 728	53 393
Income tax liabilities		1 496	30 843	38 590
Current income tax liabilities		1 496	30 843	38 590
Deferred income tax liabilities		0	0	0
Other liabilities	38	2 276 374	2 219 386	2 137 498
Total Liabilities		97 216 662	88 231 809	88 901 152
EQUITY				
Share capital	39	1 213 117	1 213 117	1 213 117
Own shares		(21)	(21)	0
Share premium		1 147 502	1 147 502	1 147 502
Accumulated other comprehensive income	39	(858 633)	199 857	70 093
Retained earnings, including:	39	5 195 281	6 530 521	6 510 807
- current profit /loss		(1 331 866)	22 817	560 732
- other		6 527 147	6 507 704	5 950 075
Total equity		6 697 246	9 090 976	8 941 519
Total equity and total liabilities		103 913 908	97 322 785	97 842 671
		31.12.2021	31.12.2020	31.12.2019
Book value of net assets		6 697 246	9 090 976	8 941 519
Number of shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)		5.52	7.49	7.37

* data for years 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 13-178 are integral part of these financial statements.

4. Consolidated Statement of Changes in Equity

Amount '000 PLN	Total consolidated 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	9 090 976	1 213 117	(21)	1 147 502	199 857	156 258	6 374 263
Total comprehensive income for 2021 (net)	(2 390 356)	0	0	0	(1 058 490)	(1 331 866)	0
current profit /loss	(1 331 866)	0	0	0	0	(1 331 866)	0
valuation of debt securities at fair value through other comprehensive income	(791 803)	0	0	0	(791 803)	0	0
valuation of shares at fair value through other comprehensive income	(666)	0	0	0	(666)	0	0
hedge accounting	(270 938)	0	0	0	(270 938)	0	0
actuarial gains (losses)	4 917	0	0	0	4 917	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	(22 817)	22 817
Equity at the end of the period	6 697 246	1 213 117	(21)	1 147 502	(858 633)	(1 198 425)	6 393 706
01.01.2020 - 31.12.2020							
Equity at the beginning of the period	8 941 519	1 213 117	0	1 147 502	70 093	692 065	5 818 742
Total comprehensive income for 2020 (net)	152 581	0	0	0	129 764	22 817	0
current profit /loss	22 817	0	0	0	0	22 817	0
valuation of debt securities at fair value through other comprehensive income	142 788	0	0	0	142 788	0	0
valuation of shares at fair value through other comprehensive income	(105)	0	0	0	(105)	0	0
hedge accounting	(12 582)	0	0	0	(12 582)	0	0
actuarial gains (losses)	(337)	0	0	0	(337)	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	(558 624)	558 624
Equity at the end of the period	9 090 976	1 213 117	(21)	1 147 502	199 857	156 258	6 374 263

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

5. Consolidated 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	(1 331 866)	22 817
Total adjustments:	4 119 208	(3 160 418)
Interest received	2 840 116	3 126 039
Interest paid	(117 173)	(552 884)
Depreciation and amortization	201 595	210 411
Foreign exchange (gains)/ losses	0	11 797
Dividends	(3 761)	(3 678)
Changes in provisions	436 880	67 195
Result on sale and liquidation of investing activity assets	(11 483)	(134 008)
Change in financial assets held for trading	(207 232)	277 616
Change in loans and advances to banks	(74 610)	(159 335)
Change in loans and advances to customers	(7 533 210)	(6 667 219)
Change in receivables from securities bought with sell-back clause (loans and advances)	(202 947)	132 653
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(149 815)	127 556
Change in deposits from banks	(364 842)	181 793
Change in deposits from customers	10 050 781	577 401
Change in liabilities from securities sold with buy-back clause	(228 737)	165 649
Change in debt securities	(265 008)	(308 893)
Change in income tax settlements	333 839	182 495
Income tax paid	(235 473)	(343 181)
Change in other assets and liabilities	(399 748)	(104 049)
Other	50 036	52 224
Net cash flows from operating activities	2 787 342	(3 137 601)

B. CASH FLOWS FROM INVESTING ACTIVITIES

<i>Amount '000 PLN</i>	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
Inflows:	223 396 042	94 157 770
Proceeds from sale of property, plant and equipment and intangible assets	13 323	25 855
Proceeds from sale of shares in related entities	0	0
Proceeds from sale of investment financial assets	223 378 958	94 128 237
Other	3 761	3 678
Outflows:	(223 952 624)	(92 121 984)
Acquisition of property, plant and equipment and intangible assets	(94 510)	(73 945)
Purchase of Euro Bank shares less cash acquired	0	0
Acquisition of investment financial assets	(223 858 114)	(92 048 039)
Other	0	0
Net cash flows from investing activities	(556 582)	2 035 786

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	13 000
Long-term bank loans	0	13 000
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:	(444 950)	(1 077 540)
Repayment of long-term bank loans	(147 960)	(706 806)
Redemption of debt securities	(250 000)	(299 440)
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	(46 990)	(71 294)
Net cash flows from financing activities	(444 950)	(1 064 540)

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 15. "Supplementary information". Information on liabilities classified as financing activities is presented in points 32), 35), 36) of chapter 14. "Notes to the Consolidated Financial Report".

6. General Information about Issuer and the Issuer's Capital Group

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 centres, 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.

Capital Group of Bank Millennium S.A.

The Group's parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium S.A. is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 31 December 2021, are presented by the table below:

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
MILLENNIUM BANK HIPOTECZNY S.A.	mortgage bank	Warsaw	100	100	full consolidation
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLECKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI S.A.	investment funds management	Warsaw	100	100	full consolidation
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warsaw	100	100	full consolidation
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	the company is not yet operating	Warsaw	100	100	full consolidation
Piast Expert Sp. z o.o. in liquidation	marketing services	Tychy	100	100	full consolidation
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	furniture manufacturer	Świebodzin	50 (+1 share)	50 (+1 share)	equity method valuation *

* Despite having a control over the Lubuskie Fabryki Mebli S.A., due to insignificant nature of this company from the realization of the primary goal of the consolidated financial statements point of view, which is the correct presentation of Group's financial situation, the Group does not consolidate capital involvement in aforementioned enterprise.

7. Accounting Policy

7.1. STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Group 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, the Bank (and in consequence - the Group) 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	423 846	0	423 846
Derivatives	154 188	0	154 188
Equity instruments	245	0	245
Debt securities	269 413	0	269 413
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	18 642 615	0	18 642 615
Equity instruments	29 538	0	29 538
Debt securities	18 613 077	0	18 613 077
Loans and advances to customers	74 088 342	(449 000)	73 639 342
Mandatorily at fair value through profit or loss	1 615 753	0	1 615 753
Valued at amortised cost	72 472 589	(449 000)	72 023 589
Financial assets at amortised cost other than Loans and advances to customers	730 598	0	730 598
Debt securities	38 818	0	38 818
Deposits, loans and advances to banks and other monetary institutions	625 430	0	625 430
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	0	0	0
Tangible fixed assets	571 813	0	571 813
Intangible fixed assets	384 781	0	384 781
Income tax assets	665 174	0	665 174
Current income tax assets	3 883	0	3 883
Deferred income tax assets	661 291	0	661 291
Other assets	509 035	0	509 035
Non-current assets and disposal groups classified as held for sale	22 390	0	22 390
Total assets	97 771 785	(449 000)	97 322 785

<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	168 553	0	168 553
Derivatives	103 775	0	103 775
Liabilities from short sale of securities	64 778	0	64 778
Financial liabilities measured at amortised cost	84 915 527	0	84 915 527
Liabilities to banks and other monetary institutions	1 057 652	0	1 057 652
Liabilities to customers	81 510 540	0	81 510 540
Sale and repurchase agreements	248 566	0	248 566
Debt securities issued	558 560	0	558 560
Subordinated debt	1 540 209	0	1 540 209
Derivatives - Hedge accounting	738 850	0	738 850
Provisions	607 650	(449 000)	158 650
Pending legal issues	555 922	(449 000)	106 922
Commitments and guarantees given	51 728	0	51 728
Income tax liabilities	30 843	0	30 843
Current income tax liabilities	30 843	0	30 843
Deferred income tax liabilities	0	0	0
Other liabilities	2 219 386	0	2 219 386
Total Liabilities	88 680 809	(449 000)	88 231 809
EQUITY		0	
Share capital	1 213 117	0	1 213 117
Own shares	(21)	0	(21)
Share premium	1 147 502	0	1 147 502
Accumulated other comprehensive income	199 857	0	199 857
Retained earnings	6 530 521	0	6 530 521
Total equity	9 090 976	0	9 090 976
Total equity and total liabilities	97 771 785	(449 000)	97 322 785

Amount '000 PLN	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	986 728	0	986 728
Derivatives	112 485	0	112 485
Equity instruments	210	0	210
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	21 870 164	0	21 870 164
Equity instruments	29 643	0	29 643
Debt securities	21 840 521	0	21 840 521
Loans and advances to customers	69 615 390	(73 723)	69 541 667
Mandatorily at fair value through profit or loss	1 498 195	0	1 498 195
Valued at amortised cost	68 117 195	(73 723)	68 043 472
Financial assets at amortised cost other than Loans and advances to customers	1 037 869	0	1 037 869
Debt securities	48 153	0	48 153
Deposits, loans and advances to banks and other monetary institutions	784 277	0	784 277
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	0	0	0
Tangible fixed assets	666 330	0	666 330
Intangible fixed assets	342 653	0	342 653
Income tax assets	541 828	0	541 828
Current income tax assets	10 310	0	10 310
Deferred income tax assets	531 518	0	531 518
Other assets	399 778	0	399 778
Non-current assets and disposal groups classified as held for sale	39 441	0	39 441
Total assets	97 916 394	(73 723)	97 842 671

Amount '000 PLN	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
LIABILITIES			
Financial liabilities held for trading	353 000	0	353 000
Derivatives	150 735	0	150 735
Liabilities from short sale of securities	202 265	0	202 265
Financial liabilities measured at amortised cost	85 853 762	0	85 853 762
Liabilities to banks and other monetary institutions	1 578 848	0	1 578 848
Liabilities to customers	81 454 765	0	81 454 765
Sale and repurchase agreements	90 712	0	90 712
Debt securities issued	1 183 232	0	1 183 232
Subordinated debt	1 546 205	0	1 546 205
Derivatives - Hedge accounting	426 847	0	426 847
Provisions	165 178	(73 723)	91 455
Pending legal issues	111 785	(73 723)	38 062
Commitments and guarantees given	53 393	0	53 393
Income tax liabilities	38 590	0	38 590
Current income tax liabilities	38 590	0	38 590
Deferred income tax liabilities	0	0	0
Other liabilities	2 137 498	0	2 137 498
Total Liabilities	88 974 875	(73 723)	88 901 152
EQUITY			
		0	
Share capital	1 213 117	0	1 213 117
Own shares	0	0	0
Share premium	1 147 502	0	1 147 502
Accumulated other comprehensive income	70 093	0	70 093
Retained earnings	6 510 807	0	6 510 807
Total equity	8 941 519	0	8 941 519
Total equity and total liabilities	97 916 394	(73 723)	97 842 671

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	22 817	0	22 817
Total adjustments:	(3 160 418)	0	(3 160 418)
Interest received	3 126 039	0	3 126 039
Interest paid	(552 884)	0	(552 884)
Depreciation and amortization	210 411	0	210 411
Foreign exchange (gains)/ losses	11 797	0	11 797
Dividends	(3 678)	0	(3 678)
Changes in provisions	442 472	(375 277)	67 195
Result on sale and liquidation of investing activity assets	(134 008)	0	(134 008)
Change in financial assets held for trading	277 616	0	277 616
Change in loans and advances to banks	(159 335)	0	(159 335)
Change in loans and advances to customers	(7 042 496)	375 277	(6 667 219)
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)	127 556	0	127 556
Change in deposits from banks	181 793	0	181 793
Change in deposits from customers	577 401	0	577 401
Change in liabilities from securities sold with buy-back clause	165 649	0	165 649
Change in debt securities	(308 893)	0	(308 893)
Change in income tax settlements	182 495	0	182 495
Income tax paid	(343 181)	0	(343 181)
Change in other assets and liabilities	(104 049)	0	(104 049)
Other	52 224	0	52 224
Net cash flows from operating activities	(3 137 601)	0	(3 137 601)

Changes of presentation introduced in 2021

The Group changed the presentation of interest on derivatives not covered by formal hedge accounting. According to the Group'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 Group, 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 Group 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	2 548 600	34 460	2 583 060
Interest income and other of similar nature	3 092 119	34 460	3 126 579
Income calculated using the effective interest method	3 018 124	0	3 018 124
Interest income from Financial assets at amortised cost	2 704 672	0	2 704 672
Interest income from Financial assets at fair value through other comprehensive income	313 452	0	313 452
Income of similar nature to interest from Financial assets at fair value through profit or loss	73 995	34 460	108 455
Interest expenses	(543 519)	0	(543 519)
Net fee and commission income	746 056	0	746 056
Fee and commission income	947 414	0	947 414
Fee and commission expenses	(201 358)	0	(201 358)
Dividend income	3 678	0	3 678
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	128 082	0	128 082
Results on financial assets and liabilities held for trading	47 896	(34 460)	13 436
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	120 521	0	120 521
Other operating income	160 766	0	160 766
Other operating expenses	(249 060)	0	(249 060)
Administrative expenses	(1 542 379)	0	(1 542 379)
Impairment losses on financial assets	(556 912)	0	(556 912)
Impairment losses on non-financial assets	(7 890)	0	(7 890)
Provisions for legal risk connected with FX mortgage loans	(713 617)	0	(713 617)
Result on modification	(13 565)	0	(13 565)
Depreciation	(210 411)	0	(210 411)
Share of the profit of investments in subsidiaries	0	0	0
Banking tax	(279 147)	0	(279 147)
Profit before income taxes	210 935	0	210 935
Corporate income tax	(188 118)	0	(188 118)
Profit after taxes	22 817	0	22 817

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

7.3. ADOPTED ACCOUNTING PRINCIPLES

Basis of Financial Statements Preparation

Consolidated financial statements of the Group prepared for the financial year from 1 January 2021 to 31 December 2021 include financial data of the Bank and its subsidiaries forming the Group.

These financial statements are prepared on the basis of the going concern assumption of the Group, 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 Group incurred a financial loss. The financial loss in the amount of PLN 1.332 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 Group 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 Group is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Group's management.

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

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

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

All the entities subject to consolidation prepare their financial statements in accordance with the same accounting standards applied by the whole Capital Group which is IFRS as adopted by the EU, at the same balance sheet date.

Basis of Consolidation

Merger method

The merger method is used to account for business combination in which the Group acts as an acquirer. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange excluding acquisition related costs such as advisory, legal, valuation and similar professional services.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of combination is lower than the Group's interest in net fair value of identifiable assets, liabilities, contingent liabilities of the acquired subsidiary, the Group reassesses identification and measures again the identifiable assets, liabilities and contingent liabilities of the entity being acquired as well as measurement of the cost of the combination. Any surplus remaining after the reassessment is immediately recognised in the Profit and Loss Account.

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

Subsidiaries are subject to consolidation from the date of taking over control by the Group until the date on which the parent ceases to control the subsidiary.

Transactions, settlements and unrealized profits resulting from transactions among Group's entities are eliminated. The unrealised losses are also subject to elimination, as long as the transaction does not provide evidence that the transferred asset is impaired.

Associates

Associates are any entities over which the Group has significant influence but do not control them, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are initially accounted at purchase price and then accounted for by using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit and loss, whereas its share in changes in other reserves since the date of acquisition - in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition. When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

Any unrealised profits on transactions between the Group and its associates shall be eliminated in proportion to the Group's shareholding in the associates. Also unrealised losses are subject to elimination, as long as the transaction does not deliver evidence that the transferred asset is impaired.

Functional currency and presentation currency

Functional currency and presentation currency

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

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.

Application of estimates in connection with Accounting Policies

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

The estimates and assumptions, revised by the Group 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 Group, the actual results may differ from the estimates. The major areas for which the Group makes estimates are presented below:

- Impairment of loans and advances

Impairment estimation model within the Group 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 Group'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 Group 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 Group,
 - Indexes options acquired/placed by the Group.

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

- Impairment of other non-current assets

The Group assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Group 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 Group may obtain from the given non-current asset (or cash generating unit). The Group 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 13 "Legal risk related to foreign currency mortgage loans"**.

- 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 Group 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 Group’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 Group

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 Group’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 Group in order to collect contract cash flows, while sales transactions occur infrequently.

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

Model characteristics:

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

Impact on classification and valuation:

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

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

Equity instruments (with the exception of related entities) are classified as valued at fair value through profit & loss (FVTPL), provided that entities which manage them do not intend to hold them as a strategic investment, or at fair value through other comprehensive income (FVTOCI) for instruments which are not held for trading purposes. The decision to use the option to value capital instruments at fair value through other comprehensive income is taken by the Group 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 analysed.

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, e.g. 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 Group performs an assessment based on the Benchmark Test, i.e. 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 Group'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 instrument 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 Group 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 Group 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 Group as POCI in all subsequent periods until they are derecognized from balance sheet, and expected credit loss is estimated based on ECL covering 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 Group 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 Group derecognizes a financial asset when: the contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset to third party. The transfer takes place when the Group:

- 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 Group.

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

- 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 Group 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 Group has not retained control, it derecognises the financial asset accordingly.

The Group 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 Group could conclude such transactions. If the market for the instruments is not active the Group 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 Group 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 Group 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 Group's risk (debit value adjustment - DVA).

Recognition of derivative instruments embedded in liabilities

The Group 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 Group uses derivative instruments in order to hedge against interest rate risk and FX risk arising from operating, financing and investing activities of the Group. 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 Group 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 Group'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 Group.

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 Group 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 Group) 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 Group 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 Group) 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 Group) 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 Group 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 Group) 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 Group 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 Group) 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 Group.

- FX and Index options

Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Group'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 Group) 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 Group 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 Group 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

Impairment

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 POCL (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 Group 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 Group 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 Group 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 Group 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 Group after the transfer.

When the Group 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 Group 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 Group 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 Group 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 Group uses the option of not recognizing leasing in the case of short-term contracts for space lease,
- the Group 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 Group.

Property, plant and equipment and Intangible Fixed 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 Group'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 Group 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 Group, 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 Fixed Assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form and will generate economic benefits for the Group 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 Group 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 Group. 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 Group 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 Group ceases to classify the assets as held for sale and makes reclassification to other assets category. The Group 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 Group assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Group estimates the recoverable amount of the asset and if the recoverable amount of an asset is less than its carrying amount, the Group 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 Group 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 Group, 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 Group 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 Group 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 Group (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 Group 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 Group employees are entitled is calculated as the sum of unused holidays to which particular Group employees are entitled.

Long-term employee benefits

The Group'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 Group'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 Group implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium Group, as amended, in accordance with the requirements described in Resolution of the Polish Financial Supervision Authority No. 258/2011, and then the Regulation of the Minister of Development and Finance of March 6, 2017 on the risk management system and the internal control system, remuneration policy and the detailed method of internal capital estimation in banks. In accordance with the policy, employees of the Group having a significant impact on the Group'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 Group introduced an incentive program to remuneration entitled persons previously identified as having a significant impact on the risk profile (Risk Taker). Under this framework, the Own Shares acquired by the Company will be, in accordance with the applicable Risk Taker's remuneration policy, intended for free acquisition in the appropriate number by the indicated Risk Takers during the Program Term. Policy details are presented in **Chapter 15, point 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 Group fulfils a programme of post - employment benefits called defined contribution plan. Under this plan the Group 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 Group 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.

Group'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 Group'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 Group 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 Group 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 Group'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 Group'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 Group 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 Group, such as:

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

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

Dividend Income

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

Result on 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 Group's banking and brokerage 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 Group offsets deferred tax assets and deferred tax liabilities within each individual companies of the Group, 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 Group 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 Group. It defines the framework for business development, profitability, and stability, by creating rules ensuring the Group'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 Group 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 Group's operations. Important principle of risk management is the optimization of the risk and profitability trade-off - the Group 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 Group's organizational structure.

Risk management is centralized for the Group 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.

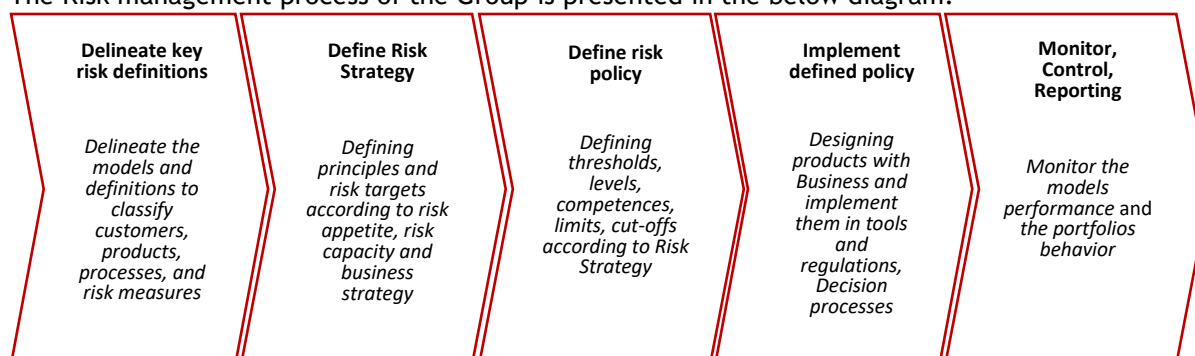
When defining the business and profitability targets, the Group considers the specified risk framework (Risk Appetite) to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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 Group'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 Group 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 Group's risk-taking policy with the Group'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 Group's Risk Strategy, including the Group'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 Group. 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 Underwriting Department, are responsible 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 Group 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 Group is currently exposed. The Group should also have a forward-looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk appetite,
2. Risk appetite - the maximum amount or type of risk the Group 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 Group 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 Group 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 Group 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 Group 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 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, the Group 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 tolerance.

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

Regulatory capital adequacy

The Group 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 pp (Bank) and 2.79 pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.11 pp in Bank and of 2.09 pp in Group, and which corresponds to capital requirements over CET 1 ratio of 1.58 pp in Bank and 1.56 pp in Group ¹;
- Combined buffer - defined in Act on macro prudential supervision over the financial system and crisis management - that consists of:
 - Capital conservation buffer at the level of 2.5%;
 - Other systemically important institution buffer (OSII) - at the level of 0.25%, and the value is set by KNF every 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.

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

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

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 Group 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 Group received another decision by Competent 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 Group 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 Group 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 Group in 2020 successfully implemented solutions for the new definition of default in the production environment. The Group 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 Group 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 Group 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 the Group over the last three years was as follows³:

Capital adequacy	31.12.2021	31.12.2020	31.12.2019
Risk-weighted assets	49 442.8	51 138.0	48 124.6
Own Funds requirements, including:	3 955.4	4 091.0	3 850.0
- Credit risk and counterparty credit risk	3 479.8	3 677.0	3 495.2
- Market risk	32.3	26.7	24.2
- Operational risk	433.0	382.6	326.9
- Credit Valuation Adjustment CVA	10.3	4.8	3.6
Own Funds, including:	8 436.3	9 969.0	9 668.5
Common Equity Tier 1 Capital	6 906.3	8 439.0	8 138.5
Tier 2 Capital	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	17.06%	19.49%	20.09%
Minimum required level	13.54%	14.10%	18.37%
Surplus (+) / Deficit(-) of TCR capital adequacy (p.p.)	3.52	5.39	1.72
Tier 1 Capital ratio (T1)	13.97%	16.50%	16.91%
Minimum required level	10.84%	11.27%	15.15%
Surplus (+) / Deficit(-) of T1 capital adequacy (p.p.)	3.13	5.23	1.76
Common Equity Tier 1 Capital ratio (CET1)	13.97%	16.50%	16.91%
Minimum required level	8.81%	9.13%	12.73%
Surplus (+) / Deficit(-) of CET1 capital adequacy (p.p.)	5.16	7.37	4.18
Leverage ratio	6.46%	8.30%	8.11%

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 2.53 pp and by ca 2.43 pp respectively.

In 2021, risk-weighted assets (RWA) went down by ca PLN 1.7 billion (by 3.3%). The biggest yearly change was credit risk RWA (fall by ca PLN 2.5 billion, by 5.4%). 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.

In 2021 Own Funds fell by ca PLN 1.5 billion (by 15.4%), mainly because of net financial loss caused by legal risk provisions.

³ Group 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: 15.84%
- T1: 12.74%
- CET1: 12.74%
- Leverage ratio: 5.90%

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

Leverage ratio stood at the safe level of 6.46%, 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 Group received a joint decision of the Single Resolution Board (SRB) and the Bank Guarantee Fund, obliging the Group to meet the minimum requirements for own funds and eligible liabilities (MREL). Pursuant to this decision, the Group is required to meet the minimum MREL_{tra} requirement of 21.41% and the MREL_{tem} requirement of 5.91% 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 Group 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 Group's regulatory environment.

The Group 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 Group 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 Group's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Group'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 Group 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 Group'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 Group's predictions will be the Group's receivables at the time of default against liabilities. Liabilities are understood by the Group 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 Group 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 across the Group

Since the implementation of IFRS 9, the Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group 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 Group 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 Group must make a payment).

Documentary and commercial letters of credit are a written, irrevocable, and final obligation of the Group 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 Group 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 Group 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 Group 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 Group from the point of view of punctual repayment of their principal and interest liabilities.

Collateral

The Group 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 Group, 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 Group as well as more detailed requirements that are to ensure the probability of selling collateral of respective types in the context of the Group's recovery experiences.

The Group 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 Group 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 Group 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 Group 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 Group 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 Group stipulates the possibility of taking additional collateral for the transaction.

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

Organization 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 documentary 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.

Supervision over the process of estimating impairment charges and provisions is exercised at the Group 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. Similarly organized is the impairment process at Millennium Leasing.

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 Group'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 Group in finance, risk and management information.

Expected credit loss measurement

Since implementation of IFRS9 in 2018, impairment estimation model within the Group 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 Group’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 Group 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 reorganizing 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 different enterprise reorganization.

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 Group 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 realization. The Group 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 realizing 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 Group 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 Group,
- 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 Group 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 realization 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 Group prepared guidelines for corporate segment with respect to the recommended parameters of the recovery rate and recovery period for selected collateral groups. Depending on the place of the exposure in the Bank's structure (business portfolio, restructuring-recovery portfolio) and type of exposure (credit, leasing) separate principles have been specified for portfolio types: business, restructuring-recovery, and leasing portfolio. 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 recognized impairment triggers because of an individual analysis.

For the purposes of collective analysis, the Group 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 Group 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 Group 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, leasing) 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 Group 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 Group 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 Group 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	98 387 882	93 680 610
Deposits, loans and advances to banks and other monetary institutions	770 531	625 430
Loans and advances to customers:	78 603 326	73 639 342
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 and public sector	40	13 002
Valued at amortized cost:	78 240 334	72 023 589
Loans to private individuals:	59 182 858	53 645 684
Receivables on account of payment cards	745 735	75 769
Cash loans and other loans to private individuals	14 724 155	13 617 103
Mortgage loans	43 712 968	39 952 812
Loans to companies	18 976 250	18 105 650
Loans to public entities	81 226	272 255
Financial derivatives and Adjustment from fair value hedge	100 285	175 983
Debt instruments held for trading	86 438	269 413
Debt instruments mandatorily at fair value through profit or loss	127 499	50 335
Debt instruments at fair value through other comprehensive income	17 968 973	18 613 077
Repurchase agreements	268 837	66 350
Other financial assets	461 993	240 680
Credit risk connected with off-balance sheet items	13 882 138	14 177 193
Financial guarantees	1 847 442	1 756 283
Credit commitments	12 034 696	12 420 910

The table above presents the structure of the Group'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

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	92 585 900	3 841 024	3 269 181	241 276	99 937 381
Balance impairment	340 172	296 298	1 722 517	15 259	2 374 246
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	770 770				770 770
Loans and advances to private individuals (according to Master Scale):	55 562 450	2 808 509	2 462 479	241 217	61 074 655
▪ 1-3 Highest quality	36 891 356	113 844	0	3 235	37 008 435
▪ 4-6 Good quality	10 534 893	416 400	0	6 736	10 958 029
▪ 7-9 Medium quality	6 564 080	952 980	0	8 223	7 525 283
▪ 10-12 Low quality	1 549 913	828 615	0	4 201	2 382 729
▪ 13-14 Watched	5 379	496 627	0	2 997	505 003
▪ 15 Default	0	0	2 462 254	215 817	2 678 071
▪ Without rating *	16 829	43	225	8	17 105
Impairment	224 192	250 421	1 401 696	15 490	1 891 799
Loans and advances to companies (according to Master Scale):	8 391 177	410 854	561 891	59	9 363 981
▪ 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 *	1 406 358	13 124	0	0	1 419 482
Impairment	68 447	18 872	216 026	(231)	303 114
Loans and advances to public entities (according to Master Scale):	76 675	1	0	0	76 676
▪ -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
Leasing (according to Master Scale):	6 191 046	539 048	219 439	0	6 949 533
▪ 1-3 Highest quality	75 221	475	67	0	75 763
▪ 4-6 Good quality	589 691	2 746	11	0	592 448
▪ 7-9 Medium quality	1 284 443	21 524	46	0	1 306 013
▪ 10-12 Low quality	548 894	103 782	809	0	653 485
▪ 13-14 Watched	0	2 156	0	0	2 156
▪ 15 Default	0	0	204 576	0	204 576
▪ Without rating *	3 692 797	408 365	13 930	0	4 115 092
Impairment	27 566	22 380	94 188	0	144 134

PLN'000, as of the end of 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Derivatives and adjustment from fair value hedge (according to Master Scale):	100 285	0	0	0	100 285
▪ 1-3 Highest quality	26 400				26 400
▪ 4-6 Good quality	41 574				41 574
▪ 7-9 Medium quality	6 906				6 906
▪ 10-12 Low quality	8 000				8 000
▪ 13-14 Watched	0				0
▪ 15 Default	0				0
▪ Without rating	3 020				3 020
▪ fair value adjustment due to hedge accounting	0				0
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	14 385				14 385
Trading debt securities (State Treasury** bonds)	86 438				86 438
Debt securities mandatorily at fair value through profit or loss	127 499				127 499
Investment debt securities (State Treasury **, Central Bank**, Local Government, EIB)	17 968 973				17 968 973
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	87 023 925	3 957 170	3 336 484	399 429	94 717 008
Balance impairment	365 159	292 937	1 688 178	26 361	2 372 635
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	625 430				625 430
Loans and advances to private individuals (according to Master Scale):	50 736 844	2 395 682	2 304 706	399 370	55 836 602
▪ 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 *	10 795	103	262	4	11 164
Impairment	245 403	251 526	1 218 373	26 616	1 741 918
Loans and advances to companies (according to Master Scale):	8 160 794	720 570	707 714	59	9 589 137
▪ 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 *	1 403 856	15 643	0	0	1 419 499
Impairment	75 776	19 185	313 000	(255)	407 706
Loans and advances to public entities (according to Master Scale):	89 005	1	33	0	89 039
▪ -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

PLN'000, as of the end of 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
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
Leasing (according to Master Scale):	5 557 900	624 453	289 478	0	6 471 831
▪ 1-3 Highest quality	85 887	347	62	0	86 296
▪ 4-6 Good quality	624 117	2 030	94	0	626 241
▪ 7-9 Medium quality	1 278 044	18 986	413	0	1 297 443
▪ 10-12 Low quality	462 950	146 846	843	0	610 639
▪ 13-14 Watched	0	2 839	15	0	2 854
▪ 15 Default	0	0	268 101	0	268 101
▪ Without rating *	3 106 902	453 405	19 950	0	3 580 257
Impairment	20 974	15 551	131 766	0	168 291
Derivatives and adjustment from fair value hedge (according to Master Scale):	297 514	0	0	0	297 514
▪ 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	35 633				35 633
▪ fair value adjustment due to hedge accounting	803				803
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	21 795				21 795
Trading debt securities (State Treasury** bonds)	269 413				269 413
Investment debt securities (State Treasury**, Central Bank**, Local Government, EIB)	18 613 077				18 613 077
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	598 790	217 799	3 873	0	820 462
Collective analysis	207 970	744 084	1 712 540	0	2 664 594
Total	806 760	961 883	1 716 413	0	3 485 056

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	765 463	246 375	3 527	0	1 015 365
Collective analysis	266 374	768 588	1 648 062	0	2 683 024
Total	1 031 837	1 014 963	1 651 589	0	3 698 389

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	580 700	70.8%	33.6%	772 004	76.0%	38.9%
CHF	133 501	16.3%	22.0%	162 121	16.0%	19.1%
EUR	105 991	12.9%	34.7%	80 539	7.9%	38.5%
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)	820 462	100.0%	31.8%	1 015 365	100.0%	35.7%

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%	386 840	47.2%	443 124	43.7%
20% - 40%	125 450	15.3%	162 226	16.0%
40% - 60%	153 655	18.7%	135 207	13.3%
60% - 80%	92 191	11.2%	132 817	13.0%
Above 80%	62 326	7.6%	141 991	14.0%
Total (Case by Case impaired)	820 462	100.0%	1 015 365	100.0%

At the end of 2021, the financial impact from the established collaterals securing the Group's receivables with impairment recognized under individual analysis (Case by Case) amounted to PLN 397.6 million (at the end of 2020 respectively PLN 424.7 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 Group 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 Group is exposed in connection with client transactions giving rise to the Group's off-balance sheet receivables or liabilities.

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

Recovery of retail receivables is a fully centralized 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 Group. 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 specialized 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 Group 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 recognized impairment managed by the Group's organizational 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	215 258	214 521
Total	1 318 175	1 317 955

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

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

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	
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	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	57 843	7 162 154		
Loans and advances subject to moratorium (granted)	57 609	6 707 973	10 334	6 707 973
of which: Households		5 748 299	10 334	5 748 299
of which: Collateralised by residential immovable property		4 270 399	8 792	4 270 399
of which: Non-financial corporations		959 673	0	959 673
of which: Small and Medium-sized Enterprises		480 569	0	480 569
of which: Collateralised by commercial immovable property		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: Collateralised by residential immovable property	0	0	0	0	0
of which: Non-financial corporations	0	0	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0	0	0
of which: Collateralised by commercial immovable property	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: Collateralised by residential immovable property	0		0
of which: Non-financial corporations	1 187 139	2 778	13 643
of which: Small and Medium-sized Enterprises	573 630		3 640
of which: Collateralised by commercial immovable property	0		0

(3f) Collateral transferred to the Group

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").

At the same time, a subsidiary of Bank - Millennium Leasing, takes control over some of assets leased and leads active measures aimed at their disposal. Data about the value of these assets and their changes during the reporting period are shown in **note (30) "Non-current assets held for sale"** of the consolidated balance sheet.

(3g) Policy for writing off receivables

Credit exposures, with respect to which the Group 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 Group 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	170 385	5 088	100 977	0	276 450
Total written-off	182 398	12 693	149 742	0	344 833

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	135 780	7 401	76 602	0	219 783
Total written-off	136 991	10 650	82 581	0	230 222

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

Economy sectors

The table below presents the Group'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	770 770	0	0	0	0	0	0	0	770 770
Loans and advances to customers (Amortized cost)	179 229	6 039 623	5 741 512	2 853 161	53 419	44 288 635	16 786 020	4 672 981	80 614 580
Loans and advances to customers (FAIR VALUE)	0	12	1	16	0	0	362 952	11	362 992
Trading securities	53	32	0	12	86 438	0	0	48	86 583
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	59 698	28 040	11 530	251	0	0	0	766	100 285
Investment securities	28 374	5 004	0	307	17 968 984	0	0	34	18 002 703
Repurchase agreements	268 837	0	0	0	0	0	0	0	268 837
Total	1 572 864	6 072 711	5 753 043	2 853 747	18 145 930	44 288 635	17 148 972	4 673 840	100 509 742

* 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	625 430	0	0	0	0	0	0	0	625 430
Loans and advances to customers (Amortized cost)	269 259	5 702 979	5 405 144	2 343 051	76 415	41 000 677	14 835 925	5 211 774	74 845 224
Loans and advances to customers (FAIR VALUE)	222	2 681	4 324	1 700	4	0	1 602 751	4 069	1 615 753
Trading securities	97	46	0	0	269 413	0	0	102	269 658
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	102 704	39 387	23 959	2 359	0	0	0	7 574	175 983
Investment securities	29 184	5 004	0	308	18 613 089	0	0	35	18 647 619
Repurchase agreements	66 350	0	0	0	0	0	0	0	66 350
Total	1 344 354	5 750 096	5 433 428	2 347 418	18 997 742	41 000 677	16 438 676	5 223 554	96 535 945

* 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 Group 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 (54.6%) and cash loans (18.3%). The portfolio of loans to companies (including leasing) from different sectors like industry, construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents almost 25% of the total portfolio.

Sector name	2021	Share (%)	2020	Share (%)
	Balance Exposure (PLN million)		Balance Exposure (PLN million)	
Credits for individual persons	61 503,7	75.9%	57 554,6	75.2%
Mortgage	44 288.6	54.6%	41 000.7	53.5%
Cash loan	14 831.6	18.3%	14 412.7	18.8%
Credit cards and other	2 383.5	2.9%	2 141.2	2.8%
Credit for companies*	19 540.2	24.1%	19 023.1	24.8%
Wholesale and retail trade; repair	5 741.5	7.1%	5 410.0	7.1%
Manufacturing	4 846.1	6.0%	4 596.0	6.0%
Construction	1 193.6	1.5%	1 109.8	1.4%
Transportation and storage	2 853.3	3.5%	2 344.9	3.1%
Public administration and defence	53.4	0.1%	76.5	0.1%
Information and communication	1 066.0	1.3%	1 305.5	1.7%
Other Services	1 245.2	1.5%	1 325.9	1.7%
Financial and insurance activities	179.2	0.2%	269.5	0.3%
Real estate activities	1 164.3	1.4%	1 058.6	1.4%
Professional, scientific, and technical services	285.2	0.3%	242.0	0.4%
Mining and quarrying	91.5	0.1%	78.2	0.1%
Water supply, sewage, and waste	164.2	0.2%	160.1	0.2%
Electricity, gas, water	137.2	0.2%	510.1	0.7%
Accommodation and food service activities	195.4	0.2%	197.3	0.3%
Education	64.3	0.1%	79.3	0.1%
Agriculture, forestry, and fishing	93.2	0.1%	102.0	0.1%
Human health and social work activities	130.3	0.2%	122.8	0.2%
Culture, recreation, and entertainment	36.3	0.0%	34.6	0.0%
Total (gross)	81 043.9	100.0%	76 577.7	100.0%

* incl. Microbusiness, annual turnover below PLN 5 million

Concentration ratio of the 20 largest customers in the Group's loan portfolio (considering groups of connected entities) at the end of 2021 equals 6.2% comparing with 6.9% at the end of 2020. Concentration ratio in 2021 also decreased for the 10 largest customers: to 4.5% from 5.0% 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 Group'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 Group'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 Group 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.

The framework of market risk and interest rate risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the BCP Group.

Market-risk evaluation measures

The Group'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 Group. The equity risk assumed to be irrelevant since the Group's engagement in equity instruments is immaterial.

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

The main measure used by the Group 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 Group (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 Group 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 Group.

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 Group continued to act very prudently. 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 Group that is jointly Trading Book and Banking Book, increased due to market volatility and in 4Q 2021 breached the 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 Group 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 low level of diversification effect relates to the fact that the Group's market risk is mainly the interest rate risk. The figures in the Table below also include the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level. The diversification effect applies to the generic risk and reflects correlation between its constituents.

The market risk in terms of VaR for the Group ('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)				31.12.2021
	31.12.2020	Average	Maximum	Minimum	
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)				31.12.2020
	31.12.2019	Average	Maximum	Minimum	
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 Group. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group 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 general 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 Group. 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 rate 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 primarily uses natural hedging between loans and deposits as well as fixed rate bonds and derivatives to manage interest rate risk with the main purpose of protecting the net interest income.

The variations in market interest rate have an influence on the Group's 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 Group 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 Banks' loan portfolios based on historical data. It should be noted that mortgage loans that are the Group'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. Taking into account 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 Group is now in a more balanced situation regarding the scenario of a decline or increase in interest rates. The supervisory outlier test 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 are 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	447 813	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 -6.0% of the Group'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 +5.9% of the Group'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 Group'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 Group's obligations.

There were no exposures to liquidity risk at a subsidiary level because the Bank manages liquidity risk centrally. 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 Group'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 Group continued to be characterized by solid liquidity position.

In 2021, in consequences of the increase of the deposits from Customers at the faster pace than loans, the Group's Loan-to-Deposit ratio decreased and was equalled to 86% at the end of December 2021 (comparing to level of 91% as of end of December 2020).

The liquid 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 Group'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 was at the level of approx. 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 Group. At the end of 2021 total Clients' deposits of the Group reached the level of PLN 91.4 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equalled to approx. 72.2% at the end of December 2021 (75.9% at the end of December 2020). The high share of funds from individuals had a positive impact on the Group'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 Group 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 Group, 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 369.3 million (at the end of December 2020 it was PLN 518.8 million). The decrease of the total amount of the medium-term loans from financial institutions was connected with standard repayment in accordance with the schedule.

With the exception of subordinated bonds, at the end of December 2021 the total balance sheet value of bonds and bank's securities issued by the Group (without subordinated bonds) amounted to PLN 39.6 million (PLN 558.6 million in nominal value in 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 Group 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 as a consequence 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 Group has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Group 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 Group 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 Group'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 Group's liquidity position in short-term horizons 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.

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 Group 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 take into account, inter alia, the change of the size of the consolidated own funds, current and expected balance sheet structure, historical limits' consumption, as well as current market conditions and supervisory requirements. According to rules in place, all eventual excesses of internal liquidity risk limits are always reported, documented, and ratified at the proper competence level.

According to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is calculating the liquidity coverage requirement (LCR). The regulatory minimum of 100% for LCR valid in 2021 was compiled by the Group (as of the end of December 2021 the LCR reached the level of 150%). 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 Group. In 2021, the Group 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% (supervisory minimum valid since June 2021).

Current Liquidity indicators PLN million

31.12.2021					
Indicator	Immediate liquidity ratio (%)*	Quarterly liquidity ratio (%)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
	22%	22%	19%	18 793	150%

31.12.2020					
Indicator	Immediate liquidity ratio (%)*	Quarterly liquidity ratio (%)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
	21%	21%	21%	18 250	161%

* - 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 Group monitors liquidity based on internal liquidity measures, considering the impact of FX rates on the liquidity situation.

Additionally, the Group 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 Group for the ratio of liquidity shortfall is established for each time bucket below 5 years.

In December 2021, liquidity gaps were maintained positive. 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	28 783	8 668	15 015	11 585	16 182	49 538
Adjusted balance liabilities	11 475	4 428	7 745	6 065	9 330	67 977
Balance-Sheet Gap	17 308	4 241	7 270	5 520	6 852	(18 439)
Cumulative Balance-Sheet Gap	17 308	21 549	28 819	34 339	41 190	22 752
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	15 923	4 213	7 443	5 503	6 844	(18 439)
Total Cumulative Gap	15 923	20 135	27 578	33 081	39 925	21 486

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	27 740	7 286	12 584	9 874	13 861	38 160
Adjusted balance liabilities	13 075	4 649	8 351	6 358	9 321	59 142
Balance-Sheet Gap	14 665	2 637	4 233	3 516	4 539	(20 982)
Cumulative Balance-Sheet Gap	14 665	17 303	21 536	25 052	29 591	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	13 347	2 641	4 225	3 521	4 528	(20 984)
Total Cumulative Gap	13 347	15 989	20 214	23 735	28 263	7 278

The Group 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 Group's liquidity-risk profile, to ensure that the Group 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, however still above the limit of 3 months.

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 Group'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 Group has also emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan (contingency plan in case the Group'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 Group 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 processes' performance.

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

9. Operational Segments

Information about operating segments has been prepared based on the reporting structure which is used by the Management Board of the Bank for evaluating the results and managing resources of operating segments. Group does not apply additional breakdown of activity by geographical areas because of the insignificant scale of operations performed outside the Poland, in result such complementary division is not presented.

The Group's activity is pursued on the basis of diverse business lines, which offer specific products and services targeted at the market segments listed below:

Retail Customer Segment

The Retail Customers Segment covers activity targeted at mass-market Customers, affluent Customers, small companies and individual entrepreneurs.

The activity of the above business lines is developed with use of the full offer of banking products and services as well as sales of specialised products offered by subsidiaries in the group. In the credit products area the key products are mortgage loans, retail credit products, credit card revolving credit as well as leasing products for small companies. Meanwhile key Customers funds include: current and saving accounts, term deposits, mutual funds and structured products. Additionally the offer comprises insurance products, mainly linked with loans and credit cards, as well as specialised savings products. The product offer for affluent customers was enriched to include selected mutual funds of other financial intermediaries, foreign funds and structured bonds issued by the Bank.

Corporate Customer Segment

The Corporate Customers Segment is based on activity targeted at Small and Medium sized Companies as well as Large Corporations. The offer is also addressed to Customers from the Public Sector.

Business in the Corporate Customers segment is pursued with use of a high quality offer of typical banking products (loans for day-to-day activity, investment loans, current accounts, term deposits) supplemented by a range of cash management products as well as treasury products (including derivatives) and leasing and factoring services.

Treasury, ALM (assets and liabilities management) and Other

This segment covers the Group's activity as regards investments by the Treasury Department, brokerage, inter-bank market transactions and taking positions in debt securities, which are not assigned to other segments.

This segment includes other assets and other liabilities, assets and liabilities connected with hedging derivatives, liabilities connected with external funding of the Group and deferred income tax assets not assigned to any of the segments.

For each segment the pre-tax profit is determined, comprising:

- Net interest income calculated on the basis of interest on external working assets and liabilities of the segment as well as allocated assets and liabilities generating internal interest income or cost. Internal income and costs are calculated based on market interest rates with internal valuation model applied;
- Net commission income;
- Other income from financial transactions and FX gains, such as: dividend income, result on investment and trading activity, FX gains/losses and result on other financial instruments;
- Other operating income and expenses;
- Costs on account of impairment of financial and non-financial assets;
- Segment share in operating costs, including personnel and administration costs;
- Segment share in depreciation costs;
- Operating profit calculated as a measure of segment profit differs from the IFRS financial result before tax due to: share in net profits of associates and charge of bank tax. These items and the income tax burden were presented only at the Group level.

The assets and liabilities of commercial segments are the operating assets and liabilities used by the segment in its operations, allocated on business grounds. The difference between operating assets and liabilities is covered by money market assets/liabilities and debt securities. The assets and liabilities of the Treasury, ALM & Other segment are money market assets/liabilities and debt securities not allocated to commercial segments.

Bank Millennium recent financial performance is significantly influenced by the costs related to managing legacy FX mortgage portfolio of loans. To isolate these costs and other financial results related to this portfolio Bank decided to isolate a new segment from Retail and present it in financial statements as “FX mortgage”. Such change impacts only results presentation and is not triggering any organizational changes in the Bank. New segment includes loans separated based on active FX mortgage contracts for a given period and is applying to portfolios of retail mortgages originated in Bank Millennium and Eurobank in foreign currencies. This portfolio is expected to run-off in line with repayments of FX loans and conversions to PLN loans. Following P&L categories are presented as part of financial performance of new segment:

1. Net Interest Income: Margin on FX loans (interest results less Fund Transfer Pricing).
2. FX results related to portfolio (mainly costs of amicable negotiations).
3. Cost of provisions for FX mortgage portfolio legal risk partially offset by valuation of SG Indemnity in other operating income line regarding ex-EB portfolio
4. Cost of Credit Risk related to current FX portfolio.
5. Other Costs that are directly related to FX mortgages including, but not limited to:
 - i. Legal chancellery costs (administrative costs)
 - ii. Court costs related to FX mortgage cases (other operating costs)

Income statement 1.01.2021 - 31.12.2021

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury. ALM & Other	Segments excluding FX mortgage	FX mortgage	TOTAL
Net interest income	1 847 076	335 342	431 001	2 613 419	99 724	2 713 143
Net fee and commission income	639 993	186 389	4 215	830 597	15	830 612
Dividends, other income from financial operations and foreign exchange profit	111 344	75 912	20 057	207 313	(355 363)	(148 050)
Result on non-trading financial assets mandatorily at fair value through profit or loss	39 881	0	84 657	124 538	0	124 538
Other operating income and cost	(19 673)	(5 884)	(105 813)	(131 370)	209 155	77 785
Operating income	2 618 621	591 759	434 117	3 644 497	(46 469)	3 598 028
Staff costs	(645 620)	(139 811)	(29 891)	(815 322)	0	(815 322)
Administrative costs	(429 410)	(70 042)	(76 257)	(575 709)	(49 675)	(625 384)
Depreciation and amortization	(171 352)	(25 528)	(4 715)	(201 595)	0	(201 595)
Operating expenses	(1 246 382)	(235 381)	(110 863)	(1 592 626)	(49 675)	(1 642 301)
Impairment losses on assets	(324 446)	(1 784)	(7 671)	(333 901)	7 838	(326 063)
Results on modification	(13 390)	551	0	(12 839)	0	(12 839)
Provisions for legal risk connected with FX mortgage loans	0	0	0	0	(2 305 157)	(2 305 157)
Total operating result	1 034 403	355 145	315 583	1 705 131	(2 393 463)	(688 332)
Share in net profit of associated companies						0
Banking tax						(312 611)
Profit / (loss) before income tax						(1 000 943)
Income taxes						(330 923)
Profit / (loss) after taxes						(1 331 866)

Balance sheet items as at 31.12.2021

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury. ALM & Other	Segments excluding FX mortgage	FX mortgage	TOTAL
Loans and advances to customers	52 364 612	16 441 570	0	68 806 182	9 797 144	78 603 326
Liabilities to customers	70 999 352	20 208 669	239 494	91 447 515	0	91 447 515

Income statement 1.01.2020 - 31.12.2020

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury. ALM & Other	Segments excluding FX mortgage	FX mortgage	TOTAL
Net interest income	1 534 859	305 674	642 014	2 482 547	100 513	2 583 060
Net fee and commission income	588 674	154 232	3 915	746 821	(765)	746 056
Dividends, other income from financial operations and foreign exchange profit	46 478	68 154	183 467	298 099	(42 641)	255 458
Result on non-trading financial assets mandatorily at fair value through profit or loss	(42 920)	0	81 496	38 576	0	38 576
Other operating income and cost	(16 246)	(8 063)	(100 367)	(124 676)	36 382	(88 294)
Operating income	2 110 845	519 997	810 525	3 441 367	93 489	3 534 856
Staff costs	(685 841)	(142 216)	(28 273)	(856 330)	0	(856 330)
Administrative costs	(509 273)	(64 414)	(87 072)	(660 759)	(25 290)	(686 049)
Depreciation and amortization	(190 088)	(17 242)	(3 081)	(210 411)	0	(210 411)
Operating expenses	(1 385 202)	(223 872)	(118 426)	(1 727 500)	(25 290)	(1 752 790)
Impairment losses on assets	(390 998)	(124 912)	(7 846)	(523 756)	(41 046)	(564 802)
Results on modification	(15 487)	1 922	0	(13 565)	0	(13 565)
Provisions for legal risk connected with FX mortgage loans	0	0	0	0	(713 617)	(713 617)
Total operating result	319 158	173 135	684 253	1 176 546	(686 464)	490 082
Share in net profit of associated companies						0
Banking tax						(279 147)
Profit / (loss) before income tax						210 935
Income taxes						(188 118)
Profit / (loss) after taxes						22 817

Balance sheet items as at 31.12.2020

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury. ALM & Other	Segments excluding FX mortgage	FX mortgage	TOTAL
Loans and advances to customers	43 885 739	16 268 373	0	60 154 112	13 485 230	73 639 342
Liabilities to customers	65 413 189	15 919 233	178 118	81 510 540	0	81 510 540

10. Transactions with Related Entities

All and any transactions between entities of the Group in 2021 resulted from the current operations.

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.

10.1. DESCRIPTION OF THE TRANSACTIONS WITH THE PARENT GROUP

The following are the amounts of transactions with the Capital Group of Bank's parent company - Banco Comercial Portugues (ultimate parent company), these transactions are mainly of banking nature (in '000 PLN):

	With parent company		With other entities from parent group	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
ASSETS				
Loans and advances to banks - accounts and deposits	611	1 237	0	0
Financial assets held for trading	0	0	0	0
Hedging derivatives	0	0	0	0
Other assets	0	0	0	0
LIABILITIES				
Loans and deposits from banks	100	23 601	0	127 903
Debt securities	0	0	0	0
Financial liabilities held for trading	159	333	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	65	122

	With parent company		With other entities from parent group	
	2021	2020	2021	2020
Income from:				
Interest	(325)	(232)	0	0
Commissions	101	102	0	0
Financial assets and liabilities held for trading	0	0	0	0
Expense from:				
Interest	161	3	(190)	(325)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	160	452	0	0
Other net operating	5	13	0	0
Administrative expenses	0	0	36	256

	With parent company		With other entities from parent group	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Conditional commitments	103 198	100 774	0	0
granted	101 500	100 000	0	0
obtained	1 698	774	0	0
Derivatives (par value)	14 675	15 938	0	0

10.2. 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 Group 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 Group'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

10.3. INFORMATION ON COMPENSATIONS AND BENEFITS OF THE PERSONS SUPERVISING AND MANAGING THE BANK

Salaries (including the balance of created and reversed provisions for payments of bonuses) and benefits of managing persons recognized in Profit and loss account of the Group 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).

11. Fair Value

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

According to IFRS 13 “Fair value measurement” in order to determinate fair value the Group 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 Group. 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 Group 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 Group 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 Group 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	770 531	770 446
Loans and advances to customers*	22	78 240 334	76 143 058
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	32	539 408	538 811
Liabilities to customers	33	91 447 515	91 385 178
Debt securities issued	35	39 568	40 148
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 Group'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	625 430	625 430
Loans and advances to customers*	22	72 023 589	70 543 415
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	32	1 057 652	1 057 991
Liabilities to customers	33	81 510 540	81 545 397
Debt securities issued	35	558 560	560 714
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 Level 1	Valuation techniques - observable inputs Level 2	Valuation techniques - significant unobservable inputs Level 3
ASSETS				
Financial assets held for trading	19			
Valuation of derivatives			56 892	29 008
Equity instruments		145		
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		290		28 437
Debt securities		17 933 983	34 990	
Derivatives - Hedge accounting	24		14 385	
LIABILITIES				
Financial liabilities held for trading	31			
Valuation of derivatives			96 918	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 Level 1	Valuation techniques - observable inputs Level 2	Valuation techniques - significant unobservable inputs Level 3
ASSETS				
Financial assets held for trading	19			
Valuation of derivatives			133 815	20 373
Equity instruments		245		
Debt securities		269 413		
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		320		29 218
Debt securities		18 613 077	0	
Derivatives - Hedge accounting	24		21 795	
LIABILITIES				
Financial liabilities held for trading	31			
Valuation of derivatives			83 754	20 021
Short positions		64 778		
Derivatives - Hedge accounting	24		738 850	

Using the criterion of valuation techniques as at 31.12.2021 Group 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 Group did not make transfers of financial instruments between the techniques of fair value measurement.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
Balance on 31.12.2020	19 911	(19 559)	95 827	50 335	1 615 753
Settlement/sell/purchase	4 158	(5 055)	3	0	(1 348 014)
Change of valuation recognized in equity	0	0	(785)	0	0
Interest income and other of similar nature	0	0	0	0	55 372
Results on financial assets and liabilities held for trading	4 328	(4 258)	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	77 164	39 881
Result on exchange differences	0	0	0	0	0
Balance on 31.12.2021	28 397	(28 872)	95 046	127 499	362 992

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

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

12. Contingent liabilities and assets

12.1. LAWSUITS

Below please find the data on the court cases pending, brought up by and against entities of the Group. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 14. note 16) "Corporate Income Tax"**.

Court cases brought up by the Group

Value of the court litigations, as at 31.12.2021, in which the companies of the Group were a plaintiff, totalled PLN 552.5 million.

Proceedings on infringement of collective consumer interests

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

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

The Bank lodged an appeal within the statutory time limit.

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

In the Bank's assessment, the Court should not assess the Bank's behaviour in 2015 from the perspective of today's case-law views on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the President of UOKiK was published), the more penalties for these behaviours should not be imposed using current policy. The above constitutes a significant argument against the validity of the judgment and supports the appeal which the Bank submitted to the Court of second instance.

According to current estimates of the risk of losing the dispute, the Bank has not created a provision.

Proceedings on competition-restricting practice

The Bank (along with other banks) is also a party to the dispute with UOKiK, in which the President of UOKiK recognized the practice of participating banks, including Bank Millennium, in an agreement aimed at jointly setting interchange fee rates charged on transactions made with Visa and Mastercard cards as restrictive of competition, and by decision of 29 December 2006 imposed a fine on the Bank in the amount of PLN 12.2 million. The Bank, along with other banks, appealed the decision.

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

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

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

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

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

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

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

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

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

Court cases against the Group

As at 31.12.2021, the most important proceedings, in the group of the court cases where the Group's companies were 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 Group appeared as defendant, stood at PLN 2,206.0 million (excluding the class actions described below and in the **Chapter 13**). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

The class action related to the LTV insurance:

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

Actual status:

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

By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff 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 13**. "Legal risk related to foreign currency mortgage loans".

12.2. OFF - BALANCE ITEMS

Amount '000 PLN	31.12.2021	31.12.2020
Off-balance conditional commitments granted and received	16 007 921	15 722 748
Commitments granted:	13 882 138	14 177 193
loan commitments	12 034 696	12 420 910
guarantee	1 847 442	1 756 283
Commitments received:	2 125 784	1 545 555
financial	40 000	0
guarantee	2 085 784	1 545 555

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 Group 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 Group, should the customers default on their obligations. The Group 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 Group considers that the values presented in the above table are similar to the fair value of contingent liabilities.

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

Customer - sector	31.12.2021	31.12.2020
financial sector	90 163	83 590
non-financial sector (companies)	1 755 666	1 671 080
public sector	1 613	1 613
Total	1 847 442	1 756 283

Guarantees and sureties granted to Clients

Commitments granted	31.12.2021	31.12.2020
Active guarantees and sureties	998 662	965 823
Lines for guarantees and sureties	854 763	794 752
Total	1 853 425	1 760 575
Provisions created	(5 983)	(4 292)
Commitments granted - guarantee after provisions	1 847 442	1 756 283

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	694 618	674 840
Other currencies	304 044	290 983
Total:	998 662	965 823

By type of commitment	31.12.2021		31.12.2020	
	Number	Amount	Number	Amount
Guarantee	3 429	983 461	3 420	943 304
Surety	0	0	0	0
Re-guarantee	48	15 201	44	22 519
Total:	3 477	998 662	3 464	965 823

By object of the commitment	31.12.2021			31.12.2020		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 750	529 664	53.03%	2 663	492 191	50.96%
punctual payment for goods or services	325	244 684	24.50%	298	229 175	23.73%
bid bond	90	13 483	1.35%	156	11 091	1.15%
rent payment	200	100 245	10.04%	222	99 120	10.26%
advance return	56	40 102	4.02%	47	53 738	5.56%
customs	39	49 159	4.92%	44	68 628	7.11%
other	3	13 262	1.33%	21	2 666	0.28%
payment of bank loan	14	8 063	0.81%	13	9 214	0.95%
Total:	3 477	998 662	100.00%	3 464	965 823	100.00%

13. Legal risk related to foreign currency mortgage loans

13.1. 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 if 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.

13.2. 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.

14. Notes to the Consolidated Financial Statements

Amounts presented in the notes to the consolidated 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	157 554	313 452
Debt securities	157 554	313 452
Interest income from Financial assets at amortised cost	2 620 651	2 704 672
Balances with the Central Bank	3 753	5 252
Loans and advances to customers	2 511 866	2 512 410
Debt securities	620	1 065
Deposits, loans and advances to banks	287	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	2 842 093	3 126 579

In the line „Hedging derivatives” the Group 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 Group is presented in **note (24)**.

Interest income for the year 2021 contains interest accrued on impaired loans in the amount of PLN 106,321 thous. (for corresponding data in the year 2020 the amount of such interest stood at PLN 119,260 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	(128 947)	(543 464)
Liabilities to banks and other monetary institutions	(6 619)	(18 043)
Liabilities to customers	(68 744)	(444 088)
Transactions with repurchase agreement	(1 791)	(7 795)
Debt securities issued	(3 769)	(13 790)
Subordinated debt	(40 076)	(51 441)
Liabilities due to leasing agreements	(7 948)	(8 307)
Hedging derivatives	0	0
Other	(3)	(55)
Total	(128 950)	(543 519)

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	131 476	102 246
Resulting from money transfers, cash payments and withdrawals and other payment transactions	78 916	67 738
Resulting from loans granted	212 472	191 340
Resulting from guarantees and sureties granted	13 425	13 799
Resulting from payment and credit cards	235 579	221 086
Resulting from sale of insurance products	156 824	169 721
Resulting from distribution of investment funds units and other savings products	63 876	65 959
Resulting from brokerage and custody service	17 259	19 159
Resulting from investment funds managed by the Group	72 690	66 941
Other	29 733	29 425
Total	1 012 250	947 414

3b. Fee and commission expense

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Resulting from accounts service	(6 029)	(20 022)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(4 671)	(4 610)
Resulting from loans granted	(28 165)	(33 374)
Resulting from payment and credit cards	(86 391)	(93 514)
Resulting from brokerage and custody service	(3 087)	(3 321)
Resulting from investment funds managed by the Group	(11 675)	(10 417)
Resulting from insurance activity	(15 036)	(16 440)
Other	(26 584)	(19 660)
Total	(181 638)	(201 358)

4. DIVIDEND INCOME

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Financial assets held for trading	2	0
Non-trading financial assets mandatorily at fair value through profit or loss	1 333	906
Financial assets at fair value through other comprehensive income	2 426	2 772
Total	3 761	3 678

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
Costs of financial operations	(3 227)	(2 685)
Total	9 669	128 082

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	(3 247)	518
Result on other financial operations	(6)	51
Total	(9 296)	13 436

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	(42 920)
Result on equity instruments	7 493	134 163
Result on debt instruments	77 164	(52 667)
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	(13 301)	6 588
Inefficiency in cash flow hedges	(3 697)	(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	22 189	19 121
Indemnifications, penalties and fines received	3 376	4 325
Income from sale of other services	42 072	22 434
Income from collection service	5 653	4 749
Income from leasing business	4 044	4 039
Other	239 962	106 098
Total	317 296	160 766

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	(20 375)	(13 195)
Indemnifications, penalties and fines paid	(15 992)	(10 624)
Costs of provisions for disputed claims	(113 173)	(17 223)
Costs of leasing business	(2 445)	(4 528)
Donations made	(900)	(849)
Costs of collection service	(52 620)	(25 870)
Provisions for potential returns to clients*	(1 941)	(142 431)
Other	(32 064)	(34 340)
Total	(239 510)	(249 060)

* 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 Group 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 Group 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:	(815 324)	(856 330)
Salaries	(672 585)	(720 734)
Surcharges on pay	(112 158)	(115 129)
Employee benefits, including:	(30 581)	(20 467)
provisions for retirement benefits	(7 124)	(3 470)
provisions for unused employee holiday	1 288	8 801
other	(24 745)	(25 798)
Other administrative expenses:	(625 382)	(686 049)
Costs of advertising, promotion and representation	(64 559)	(61 818)
IT and communications costs	(126 931)	(130 989)
Costs of renting	(54 214)	(78 055)
Costs of buildings maintenance, equipment and materials	(40 710)	(49 635)
ATM and cash maintenance costs	(27 536)	(27 322)
Costs of consultancy, audit and legal advisory and translation	(77 104)	(37 771)
Taxes and fees	(33 937)	(34 538)
KIR - clearing charges	(9 325)	(8 022)
PFRON costs	(7 147)	(8 183)
Banking Guarantee Fund costs	(118 217)	(167 190)
Financial Supervision costs	(12 776)	(10 283)
Other	(52 926)	(72 243)
Total	(1 440 706)	(1 542 379)

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	(325 829)	(558 966)
Impairment charges on loans and advances to customers	(1 607 589)	(1 667 611)
Reversal of impairment charges on loans and advances to customers	1 167 777	1 038 196
Amounts recovered from loans written off	57 421	50 818
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	7 437	2 002
Impairment charges on off-balance sheet liabilities	(55 368)	(73 355)
Reversal of impairment charges on off-balance sheet liabilities	62 805	75 357
Total	(318 391)	(556 912)

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	(7 672)	(7 890)
Total	(7 672)	(7 890)

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	(154 795)	(167 286)
Intangible assets	(46 800)	(43 125)
Total	(201 595)	(210 411)

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	(199 030)	(331 144)
Current year	(199 030)	(331 144)
Adjustment to previous years	0	0
Deferred tax:	(131 893)	143 026
Recognition and reversal of temporary differences	(129 643)	95 264
Recognition / (Utilisation) of tax loss	(2 250)	47 762
Total income tax reported in income statement	(330 923)	(188 118)

16b. Effective tax rate

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Profit before tax	(1 000 943)	210 935
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	190 179	(40 078)
Impact of permanent differences on tax charges:	(523 326)	(150 740)
- Non-taxable income	43 815	20 038
Dividend income	461	527
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	40
- Cost which is not a tax cost	(567 141)	(170 778)
Write-down of unrealized deferred tax assets	0	(171)
Loss on sale of receivables	(17)	(8)
PFRON fee	(1 357)	(1 541)
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	(21 535)	(2 324)
Costs of litigations and claims	(458 454)	(76 070)
Costs related to concluded agreements	(1 068)	0
Depreciation and insurance costs of cars (in excess of PLN 150,000)	(773)	(1 460)
Other	(2 757)	(3 070)
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	(330 923)	(188 118)
Effective tax rate	/-/*	89,18%

* For the year 2021, the Group 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	129 857	(56 027)
Valuation of cash flow hedging instruments	71 993	8 439
Actuarial gains (losses)	(444)	708
Deferred tax reported directly in equity	201 406	(46 880)

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

Earnings per share (PLN)

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Profit/loss after taxes	(1 331 866)	22 817
Weighted average number of shares in the period	1 213 116 777	1 213 116 777
Profit/loss per share - basic and diluted	(1.10)	0.02

Earnings per share have been calculated by dividing net profit for the period by the weighted average number of shares. At the same time due to the nature of the issue it was not necessary to make a separate calculation of diluted Earnings per Share (the calculation methodology in case of absence of diluting instruments is the same as in case of Earnings per Share; as a result diluted Earnings per Share equals basic Earnings Per Share).

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	269 413
Issued by State Treasury	86 438	269 413
a) bills	0	0
b) bonds	86 438	269 413
Other securities	0	0
a) quoted	0	0
b) non quoted	0	0
Equity instruments	145	245
Quoted on the active market	145	245
a) financial institutions	53	97
b) non-financial institutions	92	148
Adjustment from fair value hedge	0	0
Positive valuation of derivatives	85 900	154 188
Total	172 483	423 846

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

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	47 322
Total	86 438	269 413

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	203 785
above 5 years	14 507	53 032
Total	86 438	269 413

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	269 658	874 243
Increases (purchase and accrual of interest and discount)	9 575 937	23 887 648
Reductions (sale and redemption)	(9 758 399)	(24 493 562)
Differences from valuation at fair value	(613)	1 329
Balance at the end of the period	86 583	269 658

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	5 143 978	7 451 331	189 000	(15 497)	10 099	25 596
Forward Rate Agreements (FRA)	0	1 200 000	0	0	0	0	0
Interest rate swaps (IRS)	1 581 520	3 653 497	6 710 870	189 000	(15 511)	4 124	19 635
Other interest rate contracts: options	0	290 481	740 461	0	14	5 975	5 961
2. FX derivatives*	17 634 779	1 959 787	508 031	0	(24 530)	46 793	71 323
FX contracts	2 296 389	1 333 632	226 723	0	9 077	16 603	7 526
FX swaps	15 338 390	626 155	281 308	0	(33 607)	30 190	63 797
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	19 361 439	7 403 525	9 098 278	189 000	(40 502)	85 900	126 402
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	8 491 695	84 901	21 976	35 184	13 208
Forward Rate Agreements (FRA)	0	800 000	0	0	133	133	0
Interest rate swaps (IRS)	980 584	1 191 375	7 853 343	84 901	21 839	34 966	13 127
Other interest rate contracts: options	13 493	80 221	638 352	0	4	85	81
2. FX derivatives*	12 851 396	4 301 888	649 597	0	28 085	98 631	70 547
FX contracts	2 597 635	1 693 617	433 337	0	19 095	34 360	15 265
FX swaps	10 253 760	2 608 272	216 259	0	8 990	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	14 462 223	7 714 069	10 005 420	84 901	50 413	154 188	103 775
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 (split by category)

	31.12.2021	31.12.2020
Debt securities	17 968 972	18 613 077
Issued by State Treasury	17 498 704	18 235 189
a) bills	0	0
b) bonds	17 498 704	18 235 189
Issued by Central Bank	34 990	0
a) bills	34 990	0
b) bonds	0	0
Other securities	435 278	377 888
a) listed	435 278	377 888
b) not listed	0	0
Shares and interests in other entities	28 727	29 538
Other financial instruments	0	0
Total financial assets at fair value through other comprehensive income	17 997 699	18 642 615
Including		
Instrument listed on active market	17 934 272	18 613 396
Instrument not listed on active market	63 427	29 219

21b. Debt securities at fair value through other comprehensive income (split by interest rate applied)

	31.12.2021	31.12.2020
with fixed interest rate	17 934 272	14 759 536
with variable interest rate	63 427	3 853 541
Total	17 997 699	18 613 077

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

	31.12.2021	31.12.2020
to 1 month	34 990	15 930
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	12 617 995	17 483 598
above 5 years	423 494	1 031 830
Total	17 968 972	18 613 077

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	18 642 615	21 870 164
Increases (purchase and accrual of interest and discount)	222 310 958	92 045 405
Reductions (sale and redemption)	(221 977 525)	(95 450 018)
Difference from measurement at fair value	(978 348)	177 038
Impairment allowances	0	0
Other	(1)	26
Balance at the end of the period	17 997 699	18 642 615

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
Companies	40	12 889
Individuals	362 952	1 602 752
Public sector	0	112

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

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.

22b. 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	73 262 717	3 866 807	3 485 056	(340 177)	(234 353)	(1 799 716)	78 240 334
Companies	17 458 183	1 032 369	806 767	(114 852)	(45 876)	(320 591)	18 816 000
Individuals	55 561 933	2 834 434	2 678 289	(224 196)	(188 477)	(1 479 125)	59 182 858
Public sector	242 601	4	0	(1 129)	0	0	241 476

* including POCI

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	66 725 877	3 986 549	3 683 798	(365 159)	(230 339)	(1 777 137)	72 023 589
Companies	16 146 941	1 561 156	1 026 032	(118 205)	(41 408)	(468 866)	18 105 650
Individuals	50 309 936	2 425 215	2 652 451	(245 411)	(188 930)	(1 307 577)	53 645 684
Public sector	269 000	178	5 315	(1 543)	(1)	(694)	272 255

* including POCI

22c. Loans and advances to customers

	31.12.2021		31.12.2020	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	72 359 455	98 324	67 218 285	771 780
▪ to companies	12 356 995	0	12 188 367	0
▪ to private individuals	59 921 206	98 324	54 932 397	771 780
▪ to public sector	81 254	0	97 521	0
Receivables on account of payment cards	784 087	264 668	83 121	843 973
▪ due from companies	14 572	40	187	13 002
▪ due from private individuals	769 515	264 628	82 934	830 971
Purchased receivables	96 591		214 385	
▪ from companies	96 591		214 385	
▪ from public sector	0		0	
Guarantees and sureties realised	8 020		7 419	
Debt securities eligible for rediscount at Central Bank	103		2 748	
Financial leasing receivables	6 949 534		6 471 831	
Other	18 876		3 618	
Interest	397 914		394 817	
Total:	80 614 580	362 992	74 396 224	1 615 753
Impairment allowances	(2 374 246)	-	(2 372 635)	-
Total balance sheet value:	78 240 334	362 992	72 023 589	1 615 753

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

	31.12.2021	31.12.2020
Loans and advances to customers (gross)	80 614 580	74 396 224
impaird	3 485 056	3 683 798
not impaird	77 129 524	70 712 426
Impairment write-offs	(2 374 246)	(2 372 635)
for impaird exposures	(1 799 716)	(1 777 137)
for not impaird exposures	(574 530)	(595 498)
Loans and advances to customers (net)	78 240 334	72 023 589

22e. 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)	80 614 580	74 396 224
case by case analysis	820 462	1 015 366
collective analysis	79 794 118	73 380 858
Impairment allowances	(2 374 246)	(2 372 635)
on the basis of case by case analysis	(261 290)	(362 318)
on the basis of collective analysis	(2 112 956)	(2 010 317)
Loans and advances to customers (net)	78 240 334	72 023 589

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

	31.12.2021	31.12.2020
Loans and advances to customers (gross)	80 614 580	74 396 224
corporate customers	19 539 924	19 008 622
individuals	61 074 656	55 387 602
Impairment allowances	(2 374 246)	(2 372 635)
for receivables from corporate customers	(482 448)	(630 717)
for receivables from private individuals	(1 891 798)	(1 741 918)
Loans and advances to customers (net)	78 240 334	72 023 589

22g. 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	2 372 635	1 961 618
Change in value of provisions:	1 611	411 017
Impairment allowances created in the period	1 607 350	1 667 413
Amounts written off	(340 852)	(220 681)
Impairment allowances released in the period	(1 167 777)	(1 038 000)
Sale of receivables	(145 828)	(59 662)
KOIM created in the period*	35 850	37 798
Changes resulting from FX rates differences	9 287	20 250
Other	3 581	3 899
Balance at the end of the period	2 374 246	2 372 635

* In accordance with IFRS 9, the Group 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 Group records POCI assets in the balance sheet as a result of recognition of impaired loans after the merger with Euro Bank and takeover of SKOK Piast. At the time of the merger, the aforementioned assets included in the Bank's books at fair value.

The value of POCI assets is as follows:

	Gross balance sheet value	Accumulated impairment	Net balance sheet value
31.12.2021			
- 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

22h. 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	118 204	41 410	469 120	(255)	628 478
Transfers between stages	3 316	(26 554)	23 238	0	0
Increase due to granting or purchase	70 192	0	0	0	70 192
Changes in credit risk	(61 850)	33 604	27 310	24	(912)
Decrease due to derecognition (except exposures sold and written off)	(13 385)	(2 890)	(15 396)	0	(31 671)
Sale of loans and advances	(1 395)	0	(4 616)	0	(6 011)
Loans and advances written off	0	0	(182 382)	0	(182 382)
KOIM	0	0	3 712	0	3 712
Other (including FX differences)	(229)	306	(164)	0	(87)
Balance at the end of the period	114 852	45 876	320 822	(231)	481 319

Companies: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	16 146 941	1 561 155	1 025 974	59	18 734 129
Transfers between stages	(132 267)	(29 319)	161 586	0	0
Granted or purchased loans and advances	9 142 424	0	0	0	9 142 424
Repaid loans and advances	(7 396 680)	(504 923)	(238 622)	0	(8 140 225)
Loans and advances sold	(326 724)	0	(5 363)	0	(332 087)
Loans and advances written off	0	0	(192 909)	0	(192 909)
Other (including FX differences)	24 488	5 456	56 042	0	85 986
Balance at the end of the period	17 458 182	1 032 369	806 709	59	19 297 319

Individuals: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	245 411	188 930	1 280 970	26 607	1 741 918
Transfers between stages	184 638	(246 982)	62 343	0	0
Increase due to granting or purchase	183 399	0	0	0	183 399
Changes in credit risk	(348 060)	266 365	476 038	0	394 344
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	0	0	(139 817)	0	(139 817)
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)	(3 572)	5 882	10 648	0	12 958
Balance at the end of the period	224 196	188 477	1 463 637	15 488	1 891 798

Individuals: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	50 309 936	2 425 215	2 253 059	399 392	55 387 602
Transfers between stages	(1 583 891)	1 011 174	572 716	0	0
Granted or purchased loans and advances	13 507 559	0	0	0	13 507 559
Repaid loans and advances	(5 468 259)	(577 081)	(146 902)	(50 128)	(6 242 370)
Allocation of legal risk provisions to the loan portfolio	(1 888 437)	(41 201)	(102 386)	0	(2 032 024)
Loans and advances sold	0	0	(107 481)	(93 473)	(200 954)
Loans and advances written off	0	0	(131 240)	(16 704)	(147 944)
Other (including FX differences)	685 024	14 299	99 305	2 131	800 759
Balance at the end of the period	55 561 933	2 832 407	2 437 071	241 218	63 104 653

Public sector: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	1 543	0	695	0	2 238
Transfers between stages	0	0	0	0	0
Increase due to granting or purchase	25	0	0	0	25
Changes in credit risk	(415)	0	(695)	0	(1 110)
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	1 129	0	0	0	1 129

Public sector: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	269 000	178	5 315	0	274 492
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	(48 728)	(175)	(5 315)	0	(54 218)
Other (including FX differences)	0	0	0	0	0
Balance at the end of the period	242 600	4	0	0	242 604

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

	31.12.2021	31.12.2020
Current accounts	3 968 352	2 746 506
to 1 month	1 570 044	1 054 951
above 1 month to 3 months	2 759 234	2 472 040
above 3 months to 1 year	8 345 528	7 924 173
above 1 year to 5 years	25 530 917	24 964 128
above 5 years	36 043 346	32 733 697
past due	1 999 245	2 105 912
Interest	397 914	394 817
Total gross	80 614 580	74 396 224

22j. 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	66 605 331	(2 073 560)	64 531 771	56 794 474	(2 060 429)	54 734 045
in foreign currencies (after conversion to PLN)	14 009 249	(300 686)	13 708 563	17 601 750	(312 206)	17 289 544
currency: USD	116 213	(3 138)	113 075	115 866	(3 529)	112 337
currency: EUR	3 888 269	(78 771)	3 809 498	3 586 164	(71 339)	3 514 825
currency: CHF	9 998 378	(218 561)	9 779 817	13 895 610	(237 159)	13 658 451
currency: JPY	112	(111)	1	122	(121)	1
other currencies	6 277	(105)	6 172	3 988	(58)	3 930
Total	80 614 580	(2 374 246)	78 240 334	74 396 224	(2 372 635)	72 023 589

22k. Financial leasing receivables

	31.12.2021	31.12.2020
Financial leasing receivables (gross)	7 408 772	6 777 327
Unrealised financial income	(459 238)	(305 496)
Financial leasing receivables (net)	6 949 534	6 471 831
Financial leasing receivables (gross) by maturity		
Under 1 year	2 734 015	2 628 928
From 1 year to 2 years	1 909 331	1 719 645
From 2 year to 3 years	1 379 296	1 174 954
From 3 year to 4 years	744 956	665 775
From 4 year to 5 years	371 272	317 278
Above 5 years	269 902	270 747
Total	7 408 772	6 777 327
Financial leasing receivables (net) by maturity		
Under 1 year	2 537 130	2 495 703
From 1 year to 2 years	1 785 043	1 638 037
From 2 year to 3 years	1 308 550	1 128 753
From 3 year to 4 years	709 426	642 028
From 4 year to 5 years	354 657	306 500
Above 5 years	254 728	260 810
Total	6 949 534	6 471 831

The main groups of items financed through leasing are the means of transport (tractors, trailers, trucks, vans, cars, etc.), machinery and equipment, computers as well as industrial and commercial real estate. The leasing portfolio of the Group includes contracts in which fees are set in PLN or in EUR, based on floating or fixed interest rates.

Agreements with customers are concluded for term from 1 year to 10 years. Offered lease agreements provide a diverse client's own contribution and the residual value of the object, as well as a diverse amount of lease payments, e.g., depending on seasonality. After the end of the lease, a customer is obliged to buy the item at a final price specified at the time of the conclusion of the agreement. The object during the entire lease term is owned by the Group and constitutes a major collateral of lease payments.

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 allowances			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	770 770	0	0	(239)	0	0	770 531
Repurchase agreements	268 837	0	0	0	0	0	268 837

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	
Debt securities	38 821	0	0	(3)	0	0	38 818
Deposits, loans and advances to banks and other monetary institutions	625 430	0	0	0	0	0	625 430
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	152 661	102 748
Deposits	617 949	522 532
Interest	160	150
Total (gross) deposits, loans and advances	770 770	625 430
Impairment allowances	(239)	0
Total (net) deposits, loans and advances	770 531	625 430

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

	31.12.2021	31.12.2020
Current accounts	152 661	102 748
to 1 month	572 949	522 532
above 1 month to 3 months	40 000	0
above 3 months to 1 year	5 000	0
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	160	150
Total (gross) deposits, loans and advances	770 770	625 430

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

	31.12.2021	31.12.2020
in Polish currency	265 915	24 646
in foreign currencies (after conversion to PLN)	504 855	600 784
currency: USD	22 964	32 630
currency: EUR	364 048	488 671
currency: CNY	32 430	29 926
currency: GBP	4 390	7 397
currency: CHF	20 189	6 119
currency: JPY	29 031	7 301
other currencies	31 803	28 740
Total	770 770	625 430

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
budget	303	(1)
Total	268 836	66 350

24. DERIVATIVES - HEDGE ACCOUNTING

Starting from 1 January 2006 the Group 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 Group 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 Group 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 Group 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 Group 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 Group designates hedging instruments on their trade date and by this eliminates this source of ineffectiveness. Hedge ineffectiveness reported by the Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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	(316 584)	0	316 584
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	(600 189)	14 385	614 574

* 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 associates	0	0

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	0	0
sale	0	0
equity method valuation	0	0
Balance at the end of the period	0	0

26. TANGIBLE FIXED ASSETS

26a. Property, plant and equipment

	31.12.2021	31.12.2020
Land	2 434	2 434
Buildings and premises	67 944	67 073
Machines and equipment	89 749	88 121
Vehicles	9 664	9 490
Other fixed assets	23 077	23 872
Fixed assets under construction	63 315	59 257
Rights to use office space	293 605	321 566
Total	549 788	571 813

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	2 434	322 405	281 465	31 947	100 480	59 257	509 975	1 307 963
b) increases (on account of)	0	14 306	30 918	8 086	7 150	55 985	79 762	196 207
purchase	0	100	458	8 086	48	40 957	0	49 649
transfer from fixed assets under construction	0	14 206	30 460	0	7 102	368	0	52 136
unpaid investments	0	0	0	0	0	14 660	0	14 660
recognition of rights to use office space	0	0	0	0	0	0	79 762	79 762
c) reductions (on account of)	0	15 899	15 321	3 139	5 642	51 927	60 511	152 439
sale	0	4 116	9 231	3 139	2 699	0	0	19 185
liquidation	0	11 783	6 090	0	2 943	0	60 511	81 327
settlement of fixed assets under construction	0	0	0	0	0	51 768	0	51 768
other	0	0	0	0	0	159	0	159
d) gross value of property, plant and equipment at the end of the period	2 434	320 812	297 062	36 894	101 988	63 315	529 226	1 351 731
e) cumulated depreciation (amortization) at the beginning of the period	0	246 458	193 344	22 457	76 607	0	188 409	727 275
f) depreciation over the period (on account of)	0	(2 464)	13 969	4 773	2 303	0	47 212	65 793
current write-off (P&L)	0	10 269	28 554	8 007	6 950	0	101 015	154 795
reductions on account of sale	0	(3 766)	(8 736)	(2 928)	(2 618)	0	0	(18 048)
reductions on account of liquidation	0	(8 906)	(5 890)	0	(2 050)	0	(53 803)	(70 649)
transfer from impairment allowance	0	0	0	0	0	0	0	0
other	0	(61)	41	(306)	21	0	0	(306)
g) cumulated depreciation (amortization) at the end of the period	0	243 994	207 313	27 230	78 910	0	235 621	793 068
h) impairment allowances at the beginning of the period	0	8 874	0	0	1	0	0	8 875
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	8 874	0	0	1	0	0	8 875
j) net value of property, plant and equipment at the end of the period	2 434	67 944	89 749	9 664	23 077	63 315	293 605	549 788

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	2 434	318 739	264 913	30 547	89 762	63 324	499 873	1 269 592
b) increases (on account of)	0	10 801	25 649	2 063	12 970	44 834	45 505	141 822
purchase	0	0	731	2 063	0	25 847	0	28 641
transfer from fixed assets under construction	0	10 801	24 918	0	12 970	0	0	48 689
unpaid investments	0	0	0	0	0	18 987	0	18 987
recognition of rights to use office space	0	0	0	0	0	0	45 505	45 505
c) reductions (on account of)	0	7 135	9 097	663	2 252	48 901	35 403	103 451
sale	0	2 786	5 033	592	227	0	0	8 638
liquidation	0	4 349	4 064	71	2 025	0	35 186	45 695
settlement of fixed assets under construction	0	0	0	0	0	48 689	0	48 689
other	0	0	0	0	0	212	217	429
d) gross value of property, plant and equipment at the end of the period	2 434	322 405	281 465	31 947	100 480	59 257	509 975	1 307 963
e) cumulated depreciation (amortization) at the beginning of the period	0	239 616	171 816	15 265	71 117	0	96 573	594 387
f) depreciation over the period (on account of)	0	6 842	21 528	7 192	5 490	0	91 836	132 888
current write-off (P&L)	0	11 884	29 773	7 752	6 868	0	111 009	167 286
reductions on account of sale	0	(2 015)	(4 305)	(539)	(185)	0	0	(7 044)
reductions on account of liquidation	0	(3 089)	(3 900)	(21)	(1 171)	0	(19 173)	(27 354)
transfer from impairment allowance	0	0	0	0	0	0	0	0
other	0	62	(40)	0	(22)	0	0	0
g) cumulated depreciation (amortization) at the end of the period	0	246 458	193 344	22 457	76 607	0	188 409	727 275
h) impairment allowances at the beginning of the period	0	8 874	0	0	1	0	0	8 875
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	8 874	0	0	1	0	0	8 875
j) net value of property, plant and equipment at the end of the period	2 434	67 073	88 121	9 490	23 872	59 257	321 566	571 813

27. INTANGIBLE FIXED ASSETS

27a. Intangible fixed assets

	31.12.2021	31.12.2020
Goodwill due to merger with Euro Bank	192 126	192 126
Other intangible fixed assets:	200 312	192 655
concessions, patents, licenses, know-how and similar assets	35 600	31 929
computer software	96 638	58 113
other	12 867	17 883
advances for intangible assets	55 207	84 730
Total	392 438	384 781

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	65 645	366 492	28 171	84 730	545 038
b) increases (on account of)	17 328	70 519	0	58 740	146 587
purchase	0	39	0	44 239	44 278
unpaid investments	0	0	0	14 501	14 501
takeover from investments and advances	17 328	70 480	0	0	87 808
other	0	0	0	0	0
c) reductions (on account of)	248	7 871	1 306	88 263	97 688
liquidation	248	7 853	1 306	28	9 435
settlement of advances	0	0	0	88 175	88 175
other	0	18	0	60	78
d) gross value of intangible fixed assets at the end of the period	82 725	429 140	26 865	55 207	593 937
e) cumulated depreciation at the beginning of the period	33 716	304 391	10 288	0	348 395
f) depreciation over the period (on account of)	13 409	24 123	3 710	0	41 242
current write-off (P&L)	13 657	28 127	5 016	0	46 800
liquidation	(248)	(3 987)	(1 306)	0	(5 541)
other	0	(17)	0	0	(17)
g) cumulated depreciation at the end of the period	47 125	328 514	13 998	0	389 637
h) impairment allowances at the beginning of the period	0	3 988	0	0	3 988
i) impairment allowances at the end of the period	0	3 988	0	0	3 988
j) net value of intangible fixed assets at the end of the period	35 600	96 638	12 867	55 207	200 312

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	42 354	328 653	28 169	89 978	489 154
b) increases (on account of)	23 291	37 839	2	55 922	117 054
purchase	0	572	0	44 578	45 150
unpaid investments	0	0	0	11 344	11 344
takeover from investments and advances	23 291	37 267	2	0	60 560
other	0	0	0	0	0
c) reductions (on account of)	0	0	0	61 170	61 170
liquidation	0	0	0	16	16
settlement of advances	0	0	0	60 560	60 560
other	0	0	0	594	594
d) gross value of intangible fixed assets at the end of the period	65 645	366 492	28 171	84 730	545 038
e) cumulated depreciation at the beginning of the period	24 680	276 668	3 922	0	305 270
f) depreciation over the period (on account of)	9 036	27 723	6 366	0	43 125
current write-off (P&L)	8 901	27 857	6 367	0	43 125
other	135	(134)	(1)	0	0
g) cumulated depreciation at the end of the period	33 716	304 391	10 288	0	348 395
h) impairment allowances at the beginning of the period	0	3 988	0	0	3 988
i) impairment allowances at the end of the period	0	3 988	0	0	3 988
j) net value of intangible fixed assets at the end of the period	31 929	58 113	17 883	84 730	192 655

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	24 993	(26 214)	(1 221)	27 195	(19 806)	7 389
Balance sheet valuation of financial instruments	(8 231)	(2 131)	(10 362)	138 727	(150 000)	(11 273)
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	12 215	(77 358)	(65 143)	31 410	(33 021)	(1 611)
Interest and discount on loans and receivables	0	(75 831)	(75 831)	0	(77 272)	(77 272)
Income and cost settled at effective interest rate	147 394	(1 455)	145 939	188 794	(1 221)	187 573
Impairment of loans presented as temporary differences	445 223	0	445 223	454 771	0	454 771
Employee benefits	19 874	0	19 874	20 398	0	20 398
Rights to use	6 691	0	6 691	8 501	0	8 501
Provisions for future costs	93 345	0	93 345	87 013	0	87 013
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	258 220	(56 814)	201 406	9 315	(56 197)	(46 882)
Shares valuation	1 273	(36 440)	(35 167)	1 273	(24 790)	(23 517)
Tax loss deductible in the future	54 855	0	54 855	57 105	0	57 105
Other	657	(2 326)	(1 669)	1 078	219	1 297
Net deferred income tax asset	1 068 959	(291 853)	777 106	1 037 865	(376 574)	661 291
including long-term net deferred income tax asset			396 082			366 807

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	7 389		(8 610)		(1 221)
Balance sheet valuation of financial instruments	(11 273)		911		(10 362)
Unrealised receivables/ liabilities on account of derivatives	(2 201)		1 367		(834)
Interest on deposits and securities to be paid/ received	(1 611)		(63 532)		(65 143)
Interest and discount on loans and receivables	(77 272)		1 441		(75 831)
Income and cost settled at effective interest rate	187 573		(41 634)		145 939
Impairment of loans presented as temporary differences	454 771		(9 548)		445 223
Employee benefits	20 398		(524)		19 874
Rights to use	8 501		(1 810)		6 691
Provisions for future costs	87 013		6 332		93 345
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	(46 882)			248 288	201 406
Shares valuation	(23 517)		(11 650)		(35 167)
Tax loss deductible in the future	57 105		(2 250)		54 855
Other	1 296	(579)	(2 386)		(1 669)
Total	661 290	(579)	(131 893)	248 288	777 106

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	73 360	0	(65 971)	0	7 389
Balance sheet valuation of financial instruments	(23 263)	0	11 990	0	(11 273)
Unrealised receivables/ liabilities on account of derivatives	(6 364)	0	4 163	0	(2 201)
Interest on deposits and securities to be paid/ received	(3 204)	0	1 593	0	(1 611)
Interest and discount on loans and receivables	(74 140)	0	(3 132)	0	(77 272)
Income and cost settled at effective interest rate	179 054	0	8 519	0	187 573
Impairment of loans presented as temporary differences	363 612	0	91 159	0	454 771
Employee benefits	21 366	0	(968)	0	20 398
Rights to use	6 314	0	2 187	0	8 501
Provisions for future costs	22 361	0	64 652	0	87 013
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	(16 444)	0	0	(30 438)	(46 882)
Shares valuation	(22 415)		(1 102)		(23 517)
Tax loss deductible in the future	9 343	0	47 762	0	57 105
Other	1 938	17 186	(17 827)	0	1 297
Total	531 518	17 186	143 025	(30 438)	661 291

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	(8 610)	(65 971)
Balance sheet valuation of financial instruments	911	11 990
Unrealised receivables/ liabilities on account of derivatives	1 367	4 163
Interest on deposits and securities to be paid/ received	(63 532)	1 593
Interest and discount on loans and receivables	1 441	(3 132)
Income and cost settled at effective interest rate	(41 634)	8 519
Impairment of loans presented as temporary differences	(9 548)	91 159
Employee benefits	(524)	(968)
Rights to use	(1 810)	2 187
Provisions for future costs	6 332	64 652
Shares valuation	(11 650)	(1 102)
Tax loss deductible in the future	(2 250)	47 762
Other	(2 386)	(17 827)
Change of deferred income tax recognized in financial result	(131 893)	143 025
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	248 288	(30 438)

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 Group offset deferred income tax assets with deferred income tax liabilities

	31.12.2021	31.12.2020
Net deferred income tax assets	777 106	661 291
Net deferred income tax provision	-	-
TOTAL	777 106	661 291

29. OTHER ASSETS

	31.12.2021	31.12.2020
Expenses to be settled	116 040	95 556
Income to be received	34 688	27 290
Interbank settlements	0	12
Settlements of financial instruments transactions	23 469	0
Receivables from sundry debtors	411 022	222 208
Settlements with the State Treasury	57 701	13 813
Settlements for activities of Millennium Dom Maklerski S.A.	22 581	14 635
Other	221 916	158 220
Total other assets (gross)	887 417	531 734
Impairment allowances	(29 767)	(22 699)
Total other assets (net)	857 650	509 035
including other financial assets*	461 993	241 446
including long-term other assets	157	341

* - other financial assets includes all of the remaining other net assets excluding the Expenses to be settled and Settlements with the State Treasury 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

30a. Change of balance of non-current assets held for sale in the period 01.01.2021 - 31.12.2021

	land	buildings, premises, civil and hydro- engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	70	67	27	6	25 917	26 087
b) impairment allowances at the beginning of the period	(64)	(40)	(27)	(6)	(3 560)	(3 697)
c) net value of non-current assets held for sale at the beginning of the period	6	27	0	0	22 357	22 390
d) change of value in the period, including:	0	0	0	0	(7 656)	(7 656)
- sale of non-current assets held for sale	0	0	0	0	0	0
e) value at the end of the period	70	67	27	6	18 261	18 431
f) change of impairment allowances in the period, including:	0	0	0	0	3 560	3 560
- sale of non-current assets held for sale	0	0	0	0	0	0
g) impairment allowances at the end of the period	(64)	(40)	(27)	(6)	0	(137)
h) net value of non-current assets held for sale at the end of the period	6	27	0	0	18 261	18 294

30b. Change of balance of non-current assets held for sale in the period 01.01.2020 - 31.12.2020

	land	buildings, premises, civil and hydro- engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	70	67	27	6	39 408	39 578
b) impairment allowances at the beginning of the period	(64)	(40)	(27)	(6)	0	(137)
c) net value of non-current assets held for sale at the beginning of the period	6	27	0	0	39 408	39 441
d) change of value in the period, including:	0	0	0	0	(13 491)	(13 491)
- sale of non-current assets held for sale	0	0	0	0	0	0
e) value at the end of the period	70	67	27	6	25 917	26 087
f) change of impairment allowances in the period, including:	0	0	0	0	(3 560)	(3 560)
- sale of non-current assets held for sale	0	0	0	0	0	0
g) impairment allowances at the end of the period	(64)	(40)	(27)	(6)	(3 560)	(3 697)
h) net value of non-current assets held for sale at the end of the period	6	27	0	0	22 357	22 390

31. FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2021	31.12.2020
Negative valuation of derivatives	126 402	103 775
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	143 016	168 553

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	63 176	57 220
Term deposits	106 570	481 490
Loans and advances received	368 313	517 283
Interest	1 349	1 659
Total	539 408	1 057 652

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

	31.12.2021	31.12.2020
Current accounts	63 176	57 220
to 1 month	22 669	481 337
above 1 month to 3 months	93 900	50 000
above 3 months to 1 year	128 329	88 457
above 1 year to 5 years	229 985	378 979
above 5 years	0	0
Interest	1 349	1 659
Total	539 408	1 057 652

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

	31.12.2021	31.12.2020
in Polish currency	366 222	694 452
in foreign currencies (after conversion to PLN)	173 186	363 200
currency: USD	456	2 006
currency: EUR	172 730	233 291
currency: CHF	0	127 903
other currencies	0	0
Total	539 408	1 057 652

33. LIABILITIES TO CUSTOMERS

33a. Structure of liabilities to customers by type

	31.12.2021	31.12.2020
Amounts due to private individuals	66 022 086	61 874 920
Balances on current accounts	56 192 055	50 825 949
Term deposits	9 565 716	10 807 126
Other	237 776	188 369
Accrued interest	26 539	53 476
Amounts due to companies	21 814 451	16 802 448
Balances on current accounts	15 070 590	12 883 222
Term deposits	6 398 936	3 579 089
Other	342 618	327 586
Accrued interest	2 307	12 551
Amounts due to public sector	3 610 978	2 833 172
Balances on current accounts	3 385 597	2 707 625
Term deposits	215 889	105 079
Other	9 417	20 461
Accrued interest	75	7
Total	91 447 515	81 510 540

33b. Liabilities to customers by maturity

	31.12.2021	31.12.2020
Current accounts	74 408 748	66 416 796
to 1 month	7 004 091	4 681 105
above 1 month to 3 months	5 254 940	4 788 277
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	28 921	66 034
Total	91 447 515	81 510 540

33c. Liabilities to customers by currency

	31.12.2021	31.12.2020
in Polish currency	81 696 293	73 182 612
in foreign currencies (after conversion to PLN)	9 751 222	8 327 928
currency: USD	2 168 713	2 024 993
currency: EUR	6 986 586	5 770 991
currency: GBP	393 914	348 618
currency: CHF	182 307	162 427
other currencies	19 702	20 899
Total	91 447 515	81 510 540

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	39 450	323 800
Bank Securities	0	234 427
Interest	118	333
Total	39 568	558 560

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	102 442
above 3 months to 1 year	39 450	383 219
above 1 year to 5 years	0	39 650
above 5 years	0	0
Interest	118	333
Total	39 568	558 560

35c. Change of debt securities

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Balance at the beginning of the period	558 560	1 183 232
Increases, on account of:	3 769	43 339
issue of Banking Securities	0	29 549
Purchase of Euro Bank S.A. bonds	0	0
issue of bonds by the Bank	0	0
issue of bonds by the Millennium Leasing	0	0
interest accrual	3 769	13 790
Reductions, on account of:	(522 761)	(668 011)
repurchase of Banking Securities	(234 427)	(246 582)
repurchase of Euro Bank S.A. bonds	(250 000)	0
repurchase of bonds by the Bank	0	(299 440)
repurchase of bonds by the Millennium Leasing	(34 350)	(105 650)
interest payment	(3 984)	(16 339)
Balance at the end of the period	39 568	558 560

35d. Debt securities by type

As at December 31, 2021, the balance of issued debt securities for the Group comprised only of Millennium Leasing's bonds:

As at 31.12.2021	Balance sheet value	Final legal maturity	Market
Millennium Leasing - G13	39 568	2022-05-17	-
Razem	39 568		-

In the case of above bonds interest are accrued based on the notional value of bonds and paid quarterly. As at 31.12.2021 interests accrued amounted to PLN 118 thousand.

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	25 618	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	-
Razem	484 654		

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.

In addition, as at 31/12/2020, the Group, 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.

Debt securities issued by the Millennium Leasing:

As at 31.12.2020	Balance sheet value	Final legal maturity	Market
Millennium Leasing - G12	34 206	2021-02-04	-
Millennium Leasing - G13	39 700	2022-05-17	-
Total	73 906		-

In the case of bonds issued by Millennium Leasing interest are accrued based on the notional value of bonds and paid quarterly. As at 31.12.2020 interests accrued amounted to PLN 106 thousand.

36. SUBORDINATED DEBT

36a. Subordinated debt

	31.12.2021	31.12.2020
Amount of subordinated bonds in PLN - 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
Merger with Euro Bank S.A.	0	0
interest accrual	40 076	51 441
Reductions, on account of:	(39 141)	(57 437)
Settlement of subordinated debt of Euro Bank S.A.	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 Group 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	44 354	51 728
Provision for pending legal issues	551 176	106 922
Total	595 530	158 650

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	51 728	53 393
Charge of provision	55 368	73 356
Release of provision	(62 805)	(75 357)
FX rates differences	62	336
Balance at the end of the period	44 354	51 728

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	106 922	38 062
Charge of provision	113 173	17 223
Release of provision	(9 463)	(13 440)
Utilisation of provision	(24 059)	(489)
Creation of provisions for legal risk connected with FX mortgage loans *	2 305 157	713 617
Allocation to the loans portfolio**	(2 032 024)	(671 484)
Reclassification	0	138
FX differences	91 470	23 295
Balance at the end of the period	551 176	106 922

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

** In 2021, the Group 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 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	1 794 292	1 726 025
Accrued costs - bonuses, salaries	41 022	39 997
Accrued costs - other	199 379	201 084
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	300 503	348 213
Liabilities to public sector	42 624	30 688
Deferred income	45 613	55 028
Liabilities due to lease	97 886	101 562
Provisions for unused employee holiday	14 216	16 008
Provisions for retirement benefits	3 402	3 146
Settlement accounts for activities of Millennium Dom Maklerski S.A.	9 495	21 808
Other	127 545	105 303
Long-term	482 082	493 361
Provisions for retirement benefits	34 659	35 088
Liabilities due to lease	238 535	278 618
Accrued costs	9 173	13 339
Commitment to pay - BGF*	173 039	139 845
Other	26 676	26 471
Total	2 276 374	2 219 386
including other financial liabilities**	1 464 831	1 401 754

* - 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 due to lease

	31.12.2021	31.12.2020
Liabilities due to lease (gross)	352 353	399 595
Unrealised financial costs	(15 932)	(19 414)
Current value of minimum lease instalments	336 421	380 181
Liabilities due to lease (gross) by maturity		
Under 1 year	102 356	106 629
From 1 year to 5 years	170 682	186 670
Above 5 years	79 315	106 295
Total	352 353	399 594
Liabilities due to lease (net) by maturity		
Under 1 year	97 886	101 562
From 1 year to 5 years	161 337	175 569
Above 5 years	77 198	103 049
Total	336 421	380 180

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	15 951	24 981
Charge of provisions/ reversal of provisions	(1 288)	(8 801)
Utilisation of provisions	(447)	(172)
Balance at the end of the period	14 216	16 008

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	38 234	35 802
Charge of provisions/ reversal of provisions	7 124	3 470
Utilisation of provisions/ reclassification of provision	(1 233)	(1 454)
Actuarial gains (losses)	(6 064)	416
Balance at the end of the period	38 061	38 234

39. EQUITY

39a. Capital

The share capital of the Bank Millennium S.A. (equal to the Group's share capital) 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 Otworthy Fundusz Emerytalny	99 291 825	8.18	99 291 825	8.18
Aviva Otworthy Fundusz Emerytalny Aviva Santander	72 760 035	6.00	72 760 035	6.00
Otworthy 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 Otworthy Fundusz Emerytalny	109 924 704	9.06	109 924 704	9.06
Otworthy Fundusz Emerytalny PZU „Złota Jesień”	85 697 263	7.06	85 697 263	7.06
Aviva Otworthy 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 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)	(1 060 039)	246 737
Deferred income tax	201 406	(46 880)
Net effect of valuation	(858 633)	199 857

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	294 881	(56 027)	238 854
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	(963 979)	183 155	(780 824)
Profit/loss on revaluation of FVTOCI shares, recognized in equity	(814)	155	(659)
Revaluation reserve at the end of the period	(683 468)	129 858	(553 610)

Revaluation reserve on available for sale financial assets 1.01.2020 - 31.12.2020

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	118 729	(22 558)	96 171
Transfer to income statement of the period as a result of sale	(131 653)	25 014	(106 639)
Change connected with maturity of securities	(794)	151	(643)
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	308 729	(58 659)	250 070
Profit/loss on revaluation of FVTOCI shares, recognized in equity	(130)	25	(105)
Revaluation reserve at the end of the period	294 881	(56 027)	238 854

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	(44 420)	8 439	(35 981)
Gains or losses on valuation of financial instruments recognized in equity	(338 189)	64 256	(273 933)
Transfer to income statement during period	3 698	(703)	2 995
Revaluation reserve at the end of the period	(378 911)	71 992	(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	(28 886)	5 487	(23 399)
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	(44 420)	8 439	(35 981)

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	(3 724)	708	(3 016)
Change in the obligations arising from the provision for retirement benefits	6 064	(1 152)	4 912
Revaluation reserve at the end of the period	2 340	(444)	1 896

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	(3 308)	629	(2 679)
Change in the obligations arising from the provision for retirement benefits	(416)	79	(337)
Revaluation reserve at the end of the period	(3 724)	708	(3 016)

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	472 698	5 672 663	228 902	156 258	6 530 521
appropriation of profit, including:					
transfer to reserve capital		22 817		(22 817)	0
charge due to transfer of own shares to employees		(3 374)			(3 374)
net profit/ (loss) of the period				(1 331 866)	(1 331 866)
Retained earnings at the end of the period 31.12.2021	472 698	5 692 106	228 902	(1 198 425)	5 195 281

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2020	472 698	5 117 142	228 902	692 065	6 510 807
appropriation of profit, including:					
transfer to reserve capital		558 624		(558 624)	0
charge due to transfer of own shares to employees		(3 103)			(3 103)
net profit/ (loss) of the period				22 817	22 817
Retained earnings at the end of the period 31.12.2020	472 698	5 672 663	228 902	156 258	6 530 521

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	86 199	97 607	130 669	232 407	0	546 882
Deposits from customers	81 477 566	5 214 179	2 824 137	1 910 432	40 532	91 466 846
Liabilities from securities sold with buy-back clause	18 040	0	0	0	0	18 040
Debt securities	231	0	39 681	0	0	39 912
Subordinated debt	8 930	0	48 119	219 340	1 614 664	1 891 053
Liabilities from trading derivatives - notional value	6 573 344	2 815 476	3 585 701	4 675 899	116 999	17 767 419
Liabilities from hedging derivatives - notional value	444 840	556 050	1 556 228	11 347 744	0	13 904 862
Commitments granted - financial	12 034 696	0	0	0	0	12 034 696
Commitments granted - guarantee	1 847 442	0	0	0	0	1 847 442
TOTAL	102 491 288	8 683 312	8 184 535	18 385 822	1 772 195	139 517 152

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	538 846	54 332	131 282	542 933	0	1 267 393
Deposits from customers	71 112 816	4 803 627	3 791 886	1 805 710	26 402	81 540 441
Liabilities from securities sold with buy-back clause	248 566	0	0	0	0	248 566
Debt securities	33 231	68 292	420 745	462	39 650	562 380
Subordinated debt	9 035	1 174	29 055	157 056	1 640 903	1 837 223
Liabilities from trading derivatives - notional value	5 090 320	1 938 381	3 252 477	4 815 880	74 901	15 171 959
Liabilities from hedging derivatives - notional value	596 974	2 878 268	3 048 832	12 513 231	0	19 037 305
Commitments granted - financial	12 420 910	0	0	0	0	12 420 910
Commitments granted - guarantee	1 756 283	0	0	0	0	1 756 283
TOTAL	91 806 981	9 744 074	10 674 277	19 835 272	1 781 856	133 842 460

15. Supplementary Information

15.1. 2020 DIVIDEND

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

On December 16, 2020, the PFSA published its position on the dividend policy of commercial banks in 2021. Given the significant uncertainty about the further developments related to the COVID19 pandemic, the temporary nature of solutions used by banks to improve the capital situation during the pandemic, persistently cautious supervisory positions in the EU with regard to dividend restrictions and other forms of lowering capital resources and changing the EBA guidelines extending moratoria, the PFSA deemed it necessary for commercial banks to suspend dividends. On January 13, the Bank received a similar individual recommendation of the PFSA regarding the suspension of payments by the Bank in the first half of 2021.

Based on the above recommendations, uncertainty as to the operating conditions caused by the COVID-19 pandemic, the existing legal / operational risk, as well as taking into account the need to provide appropriate capital support to increase the scale of business operations, the Bank's Management Board 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.

15.2. 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
11.	Leasing receivables	Loans and advances	Loans granted to Millennium Leasing	215 120	215 120
TOTAL				1 615 696	1 584 394

Additionally, as at December 31, 2021, the Group had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 17,933 thousand (corresponding liabilities are presented in **Chapter 14, 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
11.	Leasing receivables	Loans and advances	Loans granted to Millennium Leasing	274 731	274 731
TOTAL				1 775 548	1 800 264

Additionally, as at December 31, 2020, the Group had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 248,429 thousand (corresponding liabilities are presented in **Chapter 14., note 34**).

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

As at 31 December 2021 following securities (presented in the Group'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 Group 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 Group'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

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

The majority of the Group'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	100 285	629 896
Amount of cash collaterals accepted/granted	(14 796)	(563 242)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	85 489	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	36 289	17 454

15.5. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

For the purpose of the cash flow statement the following financial assets are classified by the Group as cash or its equivalents (PLN'000):

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

15.6. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2021 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.

15.7. SHARE BASED PAYMENTS

In 2012, the Group implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium Group, as amended, in accordance with the requirements described in Resolution of the Polish Financial Supervision Authority No. 258/2011, and then the Regulation of the Minister of Development and Finance of March 6, 2017 on the risk management system and the internal control system, remuneration policy and the detailed method of internal capital estimation in banks. In accordance with the policy, employees of the Group having a significant impact on the Group'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 Group 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 Group 2021, results of the Group and individual performance	Employment in the Group 2020, results of the Group and individual performance	Employment in the Group 2019, results of the Group and individual performance	Employment in the Group 2018, results of the Group and individual performance
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 Group's employees who are not members of the Management Board of the Bank, for the year:	2021	2020	2020*	2019	2019*	2018
	-	Own shares	Phantom shares	Own shares	Phantom shares	Phantom shares
Date of shares assigning	-			03.07.2020	21.02.2020	23.01.2019
Number of shares	-	0	0	406 779	5 271	46 071
granted	-	0	0	0	0	0
deferred	-	0	0	406 779	5 271	46 071
Value as at assigning date (PLN)	-	0	0	1 296 323	48 210	423 028
granted	-	0	0	0	0	0
deferred	-	0	0	1 296 323	48 210	423 028
Fair value as at 31.12.2021 (PLN)	-	0	0	3 333 554	48 210	338 422

* Millennium TFI S.A. and Millennium Dom Maklerski S.A. continue to settle their programs on the basis of phantom shares in accordance with the Remuneration Policy of these Group entities.

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

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

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 Group). 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 (the Group) 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.

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

Mortgage Bank

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

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