



**Annual Financial Report  
of the Bank Millennium S.A.  
for the 12-month period  
ending 31<sup>st</sup> December 2022**

*This document is not the official version of the Annual Financial Report of the Bank Millennium S.A. for the 12-month period ending 31<sup>st</sup> December 2022.*

*Official Annual Financial Report of the Bank Millennium S.A. for the 12-month period ending 31<sup>st</sup> December 2022 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	
	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
Interest income and other of similar nature	4 900 722	2 739 464	1 045 309	598 463
Fee and commission income	906 708	867 384	193 398	189 489
Profit (loss) before income tax	(764 694)	(1 047 940)	(163 107)	(228 933)
Profit (loss) after taxes	(1 029 899)	(1 357 452)	(219 674)	(296 549)
Total comprehensive income of the period	(1 223 066)	(2 200 148)	(260 876)	(480 644)
Net cash flows from operating activities	9 697 560	2 564 242	2 068 460	560 184
Net cash flows from investing activities	1 254 962	(479 078)	267 680	(104 659)
Net cash flows from financing activities	(93 677)	(299 354)	(19 981)	(65 397)
Net cash flows, total	10 858 845	1 785 810	2 316 158	390 128
	<b>31.12.2022</b>	<b>31.12.2021</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Total Assets	110 643 322	103 388 069	23 591 830	22 478 599
Liabilities to banks and other monetary institutions	625 144	186 247	133 296	40 494
Liabilities to customers	98 264 816	91 672 296	20 952 433	19 931 360
Equity	5 404 493	6 632 182	1 152 368	1 441 967
Share capital	1 213 117	1 213 117	258 666	263 755
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)	4.46	5.47	0.95	1.19
Diluted book value per share (in PLN/EUR)	4.46	5.47	0.95	1.19
Total Capital Ratio (TCR)	14.53%	17.17%	14.53%	17.17%
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	-	-	4.6899	4.5994
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)	-	-	4.6883	4.5775

**Quarterly financial information**
**INCOME STATEMENT**

<i>Amount '000 PLN</i>	<b>1.01.2022 - 31.12.2022</b>	<b>1.10.2022 - 31.12.2022*</b>	<b>1.01.2021 - 31.12.2021</b>	<b>1.10.2021 - 31.12.2021*</b>
Net interest income	3 237 781	1 312 562	2 614 214	736 726
Interest income and other of similar nature	4 900 722	2 005 149	2 739 464	774 756
Income calculated using the effective interest method	4 929 519	1 987 369	2 675 575	769 434
Interest income from Financial assets at amortised cost, including:	3 696 751	1 604 806	2 381 845	657 665
- the impact of the adjustment to the gross carrying amount of loans due to credit holidays	(1 291 600)	93 000	0	0
Interest income from Financial assets at fair value through other comprehensive income	1 232 768	382 563	293 730	111 769
Result of similar nature to interest from Financial assets at fair value through profit or loss	(28 797)	17 780	63 889	5 322
Interest expenses	(1 662 941)	(692 587)	(125 250)	(38 030)
Net fee and commission income	714 957	180 056	716 125	184 007
Fee and commission income	906 708	231 501	867 384	221 455
Fee and commission expenses	(191 751)	(51 445)	(151 259)	(37 448)
Dividend income	45 592	384	52 397	316
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(2 377)	(638)	10 542	683
Results on financial assets and liabilities held for trading	(528)	(1 828)	(8 972)	(2 223)
Result on non-trading financial assets mandatorily at fair value through profit or loss	25 696	14 670	124 538	70 729
Result on hedge accounting	(7 130)	(1 551)	(3 185)	(1 431)
Result on exchange differences	(203 746)	(18 692)	(149 855)	(72 228)
Other operating income	239 141	56 033	283 481	96 265
Other operating expenses	(176 977)	(73 658)	(198 660)	(147 522)
Administrative expenses	(1 817 488)	(399 928)	(1 380 202)	(364 631)
Impairment losses on financial assets	(300 641)	(70 255)	(276 613)	(71 005)
Impairment losses on non-financial assets	(3 515)	(770)	(7 642)	(2 285)
Provisions for legal risk connected with FX mortgage loans	(2 017 320)	(504 540)	(2 305 157)	(732 000)
Result on modification	(126 664)	(61 253)	(12 839)	(3 403)
Depreciation	(202 412)	(50 534)	(193 501)	(49 033)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(169 063)	0	(312 611)	(82 012)
<b>Profit before income taxes</b>	<b>(764 694)</b>	<b>380 058</b>	<b>(1 047 940)</b>	<b>(439 047)</b>
Corporate income tax	(265 205)	(157 309)	(309 512)	(95 490)
<b>Profit after taxes</b>	<b>(1 029 899)</b>	<b>222 749</b>	<b>(1 357 452)</b>	<b>(534 537)</b>

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

**STATEMENT OF TOTAL COMPREHENSIVE INCOME**

<i>Amount '000 PLN</i>	<b>1.01.2022 - 31.12.2022</b>	<b>1.10.2022 - 31.12.2022*</b>	<b>1.01.2021 - 31.12.2021</b>	<b>1.10.2021 - 31.12.2021*</b>
Profit after taxes	(1 029 899)	222 749	(1 357 452)	(534 537)
Other comprehensive income items that may be (or were) reclassified to profit or loss	(242 703)	562 767	(1 044 799)	(808 741)
Result on debt securities at fair value through other comprehensive income	(204 299)	278 172	(977 385)	(698 708)
Result on credit portfolio at fair value through other comprehensive income	(11 255)	99 034	267 079	150 239
Hedge accounting	(27 149)	185 561	(334 493)	(260 272)
Other comprehensive income items that will not be reclassified to profit or loss	4 225	4 097	4 434	4 434
Actuarial gains (losses)	8 367	8 477	5 219	5 219
Result on equity instruments at fair value through other comprehensive income	(4 142)	(4 380)	(785)	(785)
<b>Total comprehensive income items before taxes</b>	<b>(238 478)</b>	<b>566 864</b>	<b>(1 040 365)</b>	<b>(804 307)</b>
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	46 114	(106 926)	198 512	153 661
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(803)	(779)	(842)	(842)
<b>Total comprehensive income items after taxes</b>	<b>(193 167)</b>	<b>459 160</b>	<b>(842 696)</b>	<b>(651 489)</b>
<b>Total comprehensive income for the period</b>	<b>(1 223 066)</b>	<b>681 909</b>	<b>(2 200 148)</b>	<b>(1 186 026)</b>

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

**ANNUAL FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A.  
FOR THE 12-MONTH PERIOD ENDING 31<sup>ST</sup> DECEMBER 2022**

**TABLE OF CONTENT**

<b>1.</b>	<b>INCOME STATEMENT .....</b>	<b>6</b>
<b>2.</b>	<b>STATEMENT OF TOTAL COMPREHENSIVE INCOME .....</b>	<b>7</b>
<b>3.</b>	<b>BALANCE SHEET .....</b>	<b>8</b>
<b>4.</b>	<b>STATEMENT OF CHANGES IN EQUITY .....</b>	<b>10</b>
<b>5.</b>	<b>CASH FLOW STATEMENT .....</b>	<b>11</b>
<b>6.</b>	<b>GENERAL INFORMATION ABOUT ISSUER .....</b>	<b>13</b>
<b>7.</b>	<b>ACCOUNTING POLICY .....</b>	<b>14</b>
7.1.	STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS .....	14
7.2.	STANDARDS AND INTERPRETATIONS APPLIED IN 2022 AND THOSE NOT BINDING AT THE BALANCE SHEET DATE ..	16
7.3.	ADOPTED ACCOUNTING PRINCIPLES .....	18
<b>8.</b>	<b>FINANCIAL RISK MANAGEMENT .....</b>	<b>47</b>
8.1.	RISK MANAGEMENT .....	47
8.2.	CAPITAL MANAGEMENT .....	51
8.3.	CREDIT RISK .....	58
8.4.	MARKET RISK AND INTEREST RATE RISK .....	81
8.5.	LIQUIDITY RISK .....	88
8.6.	OPERATIONAL RISK .....	92
8.7.	RISK OF NEGATIVE IMPACT ON THE NATURAL ENVIRONMENT .....	93
<b>9.</b>	<b>TRANSACTIONS WITH RELATED ENTITIES .....</b>	<b>94</b>
9.1.	TRANSACTIONS WITH THE SUBSIDIARIES AND PARENT'S GROUP .....	94
9.2.	TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS .....	97
9.3.	INFORMATION ON COMPENSATIONS AND BENEFITS OF THE PERSONS SUPERVISING AND MANAGING THE BANK ...	98
<b>10.</b>	<b>FAIR VALUE .....</b>	<b>99</b>
<b>11.</b>	<b>CONTINGENT LIABILITIES AND ASSETS .....</b>	<b>104</b>
11.1.	LAWSUITS .....	104
11.2.	OFF BALANCE SHEET ITEMS .....	108
<b>12.</b>	<b>LEGAL RISK RELATED TO FOREIGN CURRENCY MORTGAGE LOANS .....</b>	<b>110</b>
12.1.	COURT CLAIMS AND CURRENT PROVISIONS ON LEGAL RISK .....	110
12.2.	EVENTS THAT MAY IMPACT FX MORTGAGE LEGAL RISK AND RELATED PROVISION .....	115
<b>13.</b>	<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>118</b>
1.	INTEREST INCOME AND OTHER OF SIMILAR NATURE .....	118
2.	INTEREST EXPENSE .....	118
3.	FEE AND COMMISSION INCOME AND EXPENSE .....	119
4.	DIVIDEND INCOME .....	119
5.	RESULT ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS .....	120
6.	RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING .....	120
7.	RESULTS ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS ....	120
8.	RESULT ON HEDGE ACCOUNTING .....	120
9.	OTHER OPERATING INCOME .....	121
10.	OTHER OPERATING EXPENSE .....	121
11.	ADMINISTRATIVE EXPENSES .....	122
12.	IMPAIRMENT LOSSES ON FINANCIAL ASSETS .....	122

13.	IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS .....	123
14.	PROVISIONS FOR LEGAL RISK CONNECTED WITH FX MORTGAGE LOANS.....	123
15.	DEPRECIATION AND AMORTIZATION .....	123
16.	CORPORATE INCOME TAX.....	124
17.	EARNINGS PER SHARE .....	125
18.	CASH, BALANCES AT THE CENTRAL BANK.....	126
19.	FINANCIAL ASSETS HELD FOR TRADING .....	126
20.	NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, OTHER THAN LOANS AND ADVANCES TO CUSTOMERS .....	129
21.	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME.....	129
22.	LOANS AND ADVANCES TO CUSTOMERS .....	130
23.	FINANCIAL ASSETS AT AMORTISED COST OTHER THAN LOANS AND ADVANCES TO CUSTOMERS .....	136
24.	DERIVATIVES - HEDGE ACCOUNTING .....	139
25.	INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES.....	143
26.	TANGIBLE FIXED ASSETS .....	145
27.	INTANGIBLE FIXED ASSETS .....	148
28.	DEFERRED INCOME TAX ASSETS.....	150
29.	OTHER ASSETS.....	152
30.	NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE .....	153
31.	FINANCIAL LIABILITIES HELD FOR TRADING .....	153
32.	LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS .....	153
33.	LIABILITIES TO CUSTOMERS .....	154
34.	SALE AND REPURCHASE AGREEMENTS .....	155
35.	DEBT SECURITIES ISSUED .....	155
36.	SUBORDINATED DEBT.....	157
37.	PROVISIONS .....	157
38.	OTHER LIABILITIES .....	158
39.	EQUITY.....	160
40.	FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY .....	164
<b>14.</b>	<b>SUPPLEMENTARY INFORMATION .....</b>	<b>165</b>
14.1.	2021 DIVIDEND .....	165
14.2.	DATA ABOUT ASSETS, WHICH SECURE LIABILITIES .....	165
14.3.	SECURITIES COVERED BY TRANSACTIONS WITH A BUY-BACK CLAUSE (SBB) .....	166
14.4.	OFFSETTING OF ASSETS AND LIABILITIES ON THE BASIS OF ISDA AGREEMENTS .....	167
14.5.	ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT .....	167
14.6.	INFORMATION ON CUSTODY ACTIVITY .....	168
14.7.	SHARE BASED PAYMENTS .....	168
14.8.	ADDITIONAL INFORMATION AND OTHER ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED AND ITS PUBLICATION DATE .....	170

# 1. Income Statement

Amount '000 PLN	Nota	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
Net interest income		3 237 781	2 614 214
Interest income and other of similar nature	1	4 900 722	2 739 464
Income calculated using the effective interest method		4 929 519	2 675 575
Interest income from Financial assets at amortised cost, including:		3 696 751	2 381 845
- the impact of the adjustment to the gross carrying amount of loans due to credit holidays		(1 291 600)	0
Interest income from Financial assets at fair value through other comprehensive income		1 232 768	293 730
Result of similar nature to interest from Financial assets at fair value through profit or loss		(28 797)	63 889
Interest expenses	2	(1 662 941)	(125 250)
Net fee and commission income		714 957	716 125
Fee and commission income	3	906 708	867 384
Fee and commission expenses	3	(191 751)	(151 259)
Dividend income	4	45 592	52 397
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	(2 377)	10 542
Results on financial assets and liabilities held for trading	6	(528)	(8 972)
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	25 696	124 538
Result on hedge accounting	8	(7 130)	(3 185)
Result on exchange differences, including:		(203 746)	(149 855)
- costs of settlements on foreign currency mortgage loans	14	(382 239)	(364 525)
Other operating income	9	239 141	283 481
Other operating expenses	10	(176 977)	(198 660)
Administrative expenses	11	(1 817 488)	(1 380 202)
Impairment losses on financial assets	12	(300 641)	(276 613)
Impairment losses on non-financial assets	13	(3 515)	(7 642)
Provisions for legal risk connected with FX mortgage loans	14	(2 017 320)	(2 305 157)
Result on modification, including:		(126 664)	(12 839)
- costs of settlements on foreign currency mortgage loans	14	(102 153)	0
Depreciation	15	(202 412)	(193 501)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(169 063)	(312 611)
<b>Profit before income taxes</b>		<b>(764 694)</b>	<b>(1 047 940)</b>
Corporate income tax	16	(265 205)	(309 512)
<b>Profit after taxes</b>		<b>(1 029 899)</b>	<b>(1 357 452)</b>

Notes on pages 13-175 are integral part of these financial statements.



## 2. Statement of Total Comprehensive Income

<i>Amount '000 PLN</i>	<b>1.01.2022 - 31.12.2022</b>	<b>1.01.2021 - 31.12.2021</b>
Profit after taxes	(1 029 899)	(1 357 452)
Other comprehensive income items that may be (or were) reclassified to profit or loss	(242 703)	(1 044 799)
Result on debt securities at fair value through other comprehensive income	(204 299)	(977 385)
Result on credit portfolio at fair value through other comprehensive income	(11 255)	267 079
Hedge accounting	(27 149)	(334 493)
Other comprehensive income items that will not be reclassified to profit or loss	4 225	4 434
Actuarial gains (losses)	8 367	5 219
Result on equity instruments at fair value through other comprehensive income	(4 142)	(785)
<b>Other comprehensive income items before taxes</b>	<b>(238 478)</b>	<b>(1 040 365)</b>
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	46 114	198 512
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(803)	(842)
<b>Other comprehensive income items after taxes</b>	<b>(193 167)</b>	<b>(842 696)</b>
<b>Total comprehensive income for the period</b>	<b>(1 223 066)</b>	<b>(2 200 148)</b>

Notes on pages 13-175 are integral part of these financial statements.



### 3. Balance Sheet

#### ASSETS

<i>Amount '000 PLN</i>	<i>Nota</i>	<b>31.12.2022</b>	<b>31.12.2021</b>
Cash, cash balances at central banks	18	9 536 090	3 179 736
Financial assets held for trading	19	363 618	173 089
Derivatives		339 295	86 651
Equity instruments		113	0
Debt securities		24 210	86 438
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	20	201 036	265 903
Equity instruments		128 979	138 404
Debt securities		72 057	127 499
Financial assets at fair value through other comprehensive income	21	16 438 458	17 952 492
Equity instruments		24 393	28 433
Debt securities		16 414 065	17 924 059
Loans and advances to customers	22	75 855 606	78 237 587
Mandatorily at fair value through profit or loss		97 982	362 992
Fair valued through other comprehensive income		11 221 252	11 485 351
Valued at amortised cost		64 536 372	66 389 244
Financial assets at amortised cost other than Loans and advances to customers	23	5 308 320	1 249 240
Debt securities		3 893 212	37 088
Deposits, loans and advances to banks and other monetary institutions		1 410 245	943 315
Reverse sale and repurchase agreements		4 863	268 837
Derivatives - Hedge accounting	24	135 804	14 385
Investments in subsidiaries, joint ventures and associates	25	247 823	208 889
Tangible fixed assets	26	557 542	528 565
Intangible fixed assets	27	432 820	385 199
Income tax assets		643 196	608 395
Current income tax assets		0	377
Deferred income tax assets	28	643 196	608 018
Other assets	29	923 009	584 589
Non-current assets and disposal groups classified as held for sale	30	0	0
<b>Total assets</b>		<b>110 643 322</b>	<b>103 388 069</b>

## LIABILITIES AND EQUITY

Amount '000 PLN	Nota	31.12.2022	31.12.2021
<b>LIABILITIES</b>			
Financial liabilities held for trading	31	384 928	143 409
Derivatives		380 144	126 795
Liabilities from short sale of securities		4 784	16 614
Financial liabilities measured at amortised cost		100 701 796	93 417 725
Liabilities to banks and other monetary institutions	32	625 144	186 247
Liabilities to customers	33	98 264 816	91 672 296
Sale and repurchase agreements	34	0	18 038
Debt securities issued	35	243 753	0
Subordinated debt	36	1 568 083	1 541 144
Derivatives - Hedge accounting	24	554 544	614 573
Provisions	37	1 015 266	594 405
Pending legal issues		975 092	549 450
Commitments and guarantees given		40 174	44 955
Income tax liabilities		31 662	0
Current income tax liabilities		31 662	0
Deferred income tax liabilities		0	0
Other liabilities	38	2 550 633	1 985 775
<b>Total Liabilities</b>		<b>105 238 829</b>	<b>96 755 887</b>
<b>EQUITY</b>			
Share capital	39	1 213 117	1 213 117
Own shares		(21)	(21)
Share premium		1 147 241	1 147 241
Accumulated other comprehensive income	39	(838 853)	(645 686)
Retained earnings, including:	39	3 883 009	4 917 531
- current profit /loss		(1 029 899)	(1 357 452)
- other		4 912 908	6 274 983
<b>Total equity</b>		<b>5 404 493</b>	<b>6 632 182</b>
<b>Total equity and total liabilities</b>		<b>110 643 322</b>	<b>103 388 069</b>
		<b>31.12.2022</b>	<b>31.12.2021</b>
Book value of net assets		5 404 493	6 632 182
Number of shares (pcs.)		1 213 116 777	1 213 116 777
Book value per share (in PLN)		4.46	5.47

Notes on pages 13-175 are integral part of these financial statements.

## 4. Statement of Changes in Equity

<i>Amount '000 PLN</i>	Total equity	Share capital	Own shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Other reserves
<b>01.01.2022 - 31.12.2022</b>							
Equity at the beginning of the period	6 632 182	1 213 117	(21)	1 147 241	(645 686)	(1 357 452)	6 274 983
Total comprehensive income for 2022 (net)	(1 223 066)	0	0	0	(193 167)	(1 029 899)	0
current profit /loss	(1 029 899)	0	0	0	0	(1 029 899)	0
other comprehensive income items after taxes	(193 167)	0	0	0	(193 167)	0	0
Purchase and transfer of own shares to employees	(4 623)	0	0	0	0	0	(4 623)
Transfer between items of reserves	0	0	0	0	0	1 357 452	(1 357 452)
Equity at the end of the period	5 404 493	1 213 117	(21)	1 147 241	(838 853)	(1 029 899)	4 912 908

<i>Amount '000 PLN</i>	Total equity	Share capital	Own shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Other reserves
<b>01.01.2021 - 31.12.2021</b>							
Equity at the beginning of the period	8 835 703	1 213 117	(21)	1 147 241	197 009	18 579	6 259 778
Total comprehensive income for 2021 (net)	(2 200 147)	0	0	0	(842 695)	(1 357 452)	0
current profit /loss	(1 357 452)	0	0	0	0	(1 357 452)	0
other comprehensive income items after taxes	(842 695)	0	0	0	(842 695)	0	0
Purchase and transfer of own shares to employees	(3 374)	0	0	0	0	0	(3 374)
Transfer between items of reserves	0	0	0	0	0	(18 579)	18 579
Equity at the end of the period	6 632 182	1 213 117	(21)	1 147 241	(645 686)	(1 357 452)	6 274 983

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

## 5. Cash Flow Statement

### A. Cash flows from operating activities

<i>Amount '000 PLN</i>	<b>1.01.2022 - 31.12.2022</b>	<b>1.01.2021 - 31.12.2021</b>
Profit (loss) after taxes	(1 029 899)	(1 357 452)
Total adjustments:	10 727 459	3 921 694
Interest received	4 533 681	2 737 821
Interest paid	(1 318 210)	(122 313)
Depreciation and amortization	202 412	193 501
Foreign exchange (gains)/ losses	0	0
Dividends	(45 592)	(52 397)
Changes in provisions	420 861	436 034
Result on sale and liquidation of investing activity assets	3 030	(8 812)
Change in financial assets held for trading	(306 034)	(206 907)
Change in loans and advances to banks	(394 536)	(247 436)
Change in loans and advances to customers	(1 615 669)	(7 389 277)
Change in receivables from securities bought with sell-back clause (loans and advances)	237 879	(202 948)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	181 490	(149 427)
Change in deposits from banks	471 373	(364 108)
Change in deposits from customers	7 835 818	9 953 539
Change in liabilities from securities sold with buy-back clause	34 833	(228 737)
Change in debt securities	243 753	(231 161)
Change in income tax settlements	265 139	313 052
Income tax paid	(222 967)	(218 469)
Change in other assets and liabilities	84 995	(335 778)
Other	115 203	45 516
<b>Net cash flows from operating activities</b>	<b>9 697 560</b>	<b>2 564 242</b>

## B. Cash flows from investing activities

<i>Amount '000 PLN</i>	<b>1.01.2022 - 31.12.2022</b>	<b>1.01.2021 - 31.12.2021</b>
<b>Inflows:</b>	<b>157 367 900</b>	<b>220 202 228</b>
Proceeds from sale of property, plant and equipment and intangible assets	3 204	9 932
Proceeds from sale of shares in related entities	12 161	0
Proceeds from sale of investment financial assets	157 306 943	220 139 899
Other	45 592	52 397
<b>Outflows:</b>	<b>(156 112 938)</b>	<b>(220 681 306)</b>
Acquisition of property, plant and equipment and intangible assets	(138 079)	(92 404)
Purchase of shares in subordinated companies	(51 095)	(14)
Acquisition of investment financial assets	(155 923 764)	(220 588 888)
Other	0	0
<b>Net cash flows from investing activities</b>	<b>1 254 962</b>	<b>(479 078)</b>

## C. Cash flows from financing activities

<i>Amount '000 PLN</i>	<b>1.01.2022 - 31.12.2022</b>	<b>1.01.2021 - 31.12.2021</b>
<b>Inflows from financing activities:</b>	<b>0</b>	<b>0</b>
Long-term bank loans	0	0
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
<b>Outflows from financing activities:</b>	<b>(93 677)</b>	<b>(299 354)</b>
Repayment of long-term bank loans	(10 000)	(10 000)
Redemption of debt securities	0	(250 000)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other outflows from financing activities	(83 677)	(39 354)
<b>Net cash flows from financing activities</b>	<b>(93 677)</b>	<b>(299 354)</b>

<b>D. Net cash flows. Total (A + B + C)</b>	<b>10 858 845</b>	<b>1 785 810</b>
- including change resulting from FX differences	4 630	4 072
<b>E. Cash and cash equivalents at the beginning of the reporting period</b>	<b>3 372 244</b>	<b>1 586 434</b>
<b>F. Cash and cash equivalents at the end of the reporting period (D + E)</b>	<b>14 231 089</b>	<b>3 372 244</b>

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

## 6. General Information about Issuer

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

The Bank, entered under the number KRS 0000010186 in the National Court Register kept by the Local Court for the Capital City of Warsaw (Poland), 13th Business Department of the National Court Register, with its registered office in Warsaw, ul. Stanisława Żaryna 2A, 02-593 Warsaw, Poland.

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 6,900 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 2022**

Composition of the Supervisory Board as at 31 December 2022 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 2022 was as follows:

- Joao Nuno Lima Bras Jorge - Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board,
- Wojciech Haase - Member of the Management Board,
- Andrzej Gliński - Member of the Management Board,
- Wojciech Rybak - Member of the Management Board,
- Antonio Ferreira Pinto Junior - Member of the Management Board,
- Jarosław Hermann - Member of the Management Board.

## 7. Accounting Policy

### 7.1. STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (unified text - Official Journal from 2023, item 120) 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 15 February 2023.

Following the signing by the President of the Republic of Poland and announcement in the Journal of Laws of the Republic of Poland on the same day of the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers ('the Act'), introducing, among others, a possibility of up to 8 months of Credit Holidays in 2022-2023 for PLN mortgage borrowers, the Group recorded in 2022 a pre-tax cost of PLN 1,324.2 million (PLN 1,072.6 million after tax), of which PLN 1,291.6 million related to the Bank, and PLN 32.6 million related to Millennium Bank Hipoteczny S.A. (more information on the method of recognizing the adjustment in the financial statements is presented in this Chapter in point 7.3 Adopted accounting principles).

In 2022 the Group incurred a financial loss. The financial loss of the Group in the amount of PLN 1,014.6 million was caused by the above mentioned Act. If not the above mentioned cost, the Group (the Bank) would have shown a positive result, even after the creation of provisions for legal risk related to the portfolio of foreign currency mortgage loans (excluding Euro Bank) in the amount of PLN 1,844.1 million, additional costs incurred with individual amicable settlements with FX mortgage borrowers and with legal costs (more information on the issue is presented in Chapter 10 "Legal risk related to foreign currency mortgage loans"). Beside of aforementioned costs the Bank incurred single-row costs of the reserve related to the establishment of the Institutional Protection Scheme amounting to PLN 276.1 million.

Due to costs generated as a result of the above mentioned Act, and as informed by the Bank by current report published on 15 July 2022, it could be reasonably assumed that the Bank would record a negative net result for the 3rd quarter of 2022 and as a result its capital ratios could fall below the current minimum requirements set by Polish Financial Supervision Authority ('PFSa'). As the emergence of risk of a breach of respective capital ratios represents a prerequisite stipulated in the art. 142 sec. 1 and 2 of the Banking Act of 29 August 1997 (Journal of Laws 2021, item 2439, i.e. 28 December 2021, as amended), on July 15<sup>th</sup> the Management Board of the Bank took a decision to launch the Recovery Plan, notifying of the fact both PFSa and Bank Guarantee Fund.



Additionally, the Bank has also submitted to PFSA the Capital Protection Plan, pursuant to the Article 60 sec. 1 of the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial system (Journal of Laws of 2022, item 963, i.e. of 6 May 2022, as amended). PFSA approved this plan on 28th October 2022 and communicated this fact to the Bank on 14th November 2022.

The Plan foresees the increase of capital ratios comfortably above the minimum required levels through a combination of further improvement of operational profitability and capital optimisation initiatives such as management of risk weighted assets (including securitisations).

The Bank/Group managed in the 4th quarter 2022 to significantly improve its capital ratios, bringing them clearly above the new regulatory requirements (without P2G): Tier 1 ratio stood 115 bps (Bank) and 107 bps (Group) above minimum requirement and Total Capital Ratio stood 183 bps (Bank) and 173 bps (Group) above minimum requirement, detailed information on this subject is presented in tabular form in Chapter 8.2 Capital Management. Assuming no other extraordinary factors, the Bank plans to keep capital ratios above the minimum required levels throughout the year of 2023.

The Bank monitors, on the current basis, the financial situation and, if needed, will undertake actions to launch additional remedial activities. In particular, the Bank is aware of potential risks connected with potential extension of so-called Credit Holidays for 2024. If such risk would materialize, it could imply additional provisions that would decrease the net result of the Bank/Group. Additionally, further negative developments regarding the legal risk of FX mortgage loans could imply the need to increase the level of provisions for such risk apart from the provisions that might result from current trends. In the Bank's view, these events, if materialized, would adversely affect the results of the Bank/Group in 2023-2024, and would reduce the organic generation of capital that is envisaged, but would not prevent the Bank/Group from continuing to implement its strategy and the generation of results that would mitigate the impact of such events.

The liquidity situation of the Bank/Group is strong, as illustrated by indicators as of 31/12/2022: loan-to-deposit ratio reached [78%] and LCR 223%. During the year 2022, total deposits grew more than total loans.

The Bank would like to emphasise that the only reason for forecasted exceeding of the leading indicators of the Recovery Plan in the area of capital were external factors independent from the Bank, in the form of the announcement of the Act on Crowdfunding and the need to recognise the cost of Credit Holidays.

At same time the Bank achieved good operational and business results, while actively managing and mitigating the different risks related to the banking activity. Taking into account the above circumstances and identified uncertainties, in particular, the Bank's possible failure to meet capital solvency ratios in subsequent reporting periods - the Bank's Management Board based on the analyzes of all aspects of the Bank's operations and its current and forecast financial position, concluded that the application of the going concern assumption in the preparation of these financial statements is appropriate.

### **Change of applied accounting principles introduced in 2021**

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

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

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

### Changes of presentation introduced in 2021

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

## 7.2. STANDARDS AND INTERPRETATIONS APPLIED IN 2022 AND THOSE NOT BINDING AT THE BALANCE SHEET DATE

### STANDARDS INITIALLY APPLIED IN FINANCIAL STATEMENTS 2022

The following amendments to existing standards issued by the International Accounting Standards Board (IASB) and approved for use in the EU were first applied in the Bank's financial statements for 2022:

- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions beyond 30 June 2021 (effective for annual reporting periods beginning on or after 1 April 2021. Earlier application permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IAS 16 “Property, Plant and Equipment”** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** - Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2018 - 2020)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

The adoption of mentioned above amendments to the existing standards has not led to any material changes in the Bank’s financial statements 2022.

#### 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:

- **IFRS 17 “Insurance Contracts”** including amendments to IFRS 17 issued by IASB on 25 June 2020 - adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 “Insurance contracts”** - Initial Application of IFRS 17 and IFRS 9 - Comparative Information, adopted by the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Disclosure of Accounting Policies adopted by the EU on 2 March 2022 (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 adopted by the EU on 2 March 2022 (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 adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023).

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

#### 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:

- **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”** - Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024),
- **Amendments to IFRS 16 “Leases”** - Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024),
- **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 IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

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

## 7.3. ADOPTED ACCOUNTING PRINCIPLES

### Basis of Financial Statements Preparation

Financial statements of the Bank are prepared for the financial year from 1 January 2022 to 31 December 2022 on the basis of the going concern assumption of the Bank, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date.

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

The financial statements, have been prepared based on the fair value principle for financial assets and liabilities recognised at FVTPL including derivative instruments, and financial assets classified as FVTOCI. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost with effective interest rate applied less impairment charges (except loans which failed SPPI test), or at their purchase price less impairment charges.

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

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

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

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

## **Functional currency and presentation currency**

### *Functional currency and presentation currency*

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

### *Transactions and balances*

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

Exchange rate differences on monetary items, both those valued at fair value through the profit and loss account or valued at fair value through other comprehensive income are disclosed in the profit and loss account.

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

## **Mergers under joint control**

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

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

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

## Application of estimates in connection with Accounting Policies

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

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

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

- Impairment of loans and advances

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

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

Further details are presented in **Chapter 8. “Financial Risk Management”**.

- Fair value of financial instruments

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

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

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

- Prices quoted on the active market for identical instruments for following financial instruments:  
*Treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;*
- Techniques of measurement based on parameters coming from the market for following financial instruments:  
*Treasury floating interest debt securities,*  
*Derivatives:*
  - FRA, IRS, CIRS,
  - FX Swap, FX Forward,
  - Embedded derivatives,*Bills issued by the Central Bank;*

- Techniques of measurement with use of significant parameters not coming from the market:  
*Debt securities of other issuers (e.g. municipalities),*  
*Shares of VISA Incorporation,*  
*Loans and advances mandatorily at fair value through profit or loss,*  
*Derivatives:*

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

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

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

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

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

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

- Impairment of other non-current assets

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

- Provisions for legal risk connected with FX mortgage loans

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

- Adjustment due to credit holidays

The way the adjustment has been recognised is presented later in this Chapter.

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

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

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

Key assumptions:

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



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

Taking into consideration The Court of Justice of the European Union verdict, in which it stated that consumer has rights to demand the reduction of the total loan cost corresponding to interest and costs for the remaining term of the agreement in case of early repayment of loan, Bank creates a provision for potential returns to the clients. The provision is estimated based on the maximum amount of potential returns and the probability of payment being made.

- Other Estimate Values

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

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

## Financial assets and liabilities

### *Classification*

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

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

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

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

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

### *Business Models of the Bank*

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

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

### *Held To Collect Model (HTC)*

Model characteristics:

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

Conditions allowing sale in the HTC model:

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

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

Impact on classification and valuation:

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

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

Model characteristics:

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

#### Impact on classification and valuation:

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

The HTC&FS model is applied mainly to the portfolio of debt government securities and money bills of the National Bank of Poland in particular the liquidity and investment portfolio as well as to the portfolio of mortgage loans dedicated to pooling to Bank Hipoteczny.

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

#### *Other models*

##### Model characteristics:

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

This category should include in particular:

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

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

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

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

#### Impact on classification and valuation:

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

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

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

#### *Test of characteristics of contractual cash flows (SPPI test)*

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

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

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

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

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

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

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

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

#### *Modifications to the terms of the loan agreement*

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

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

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

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

- quantitative criteria:
  - increase in the debtor's exposure, understood as an increase in the capital of each single credit exposure above 10% compared to the capital before the increase. If the quantitative criterion exceeds 10%, the modification is considered significant, while the occurrence of the quantitative criterion up to 10% results in the modification being considered insignificant.
  - extending the financing period, understood as extending the maturity date of the current agreement. The modification is considered significant if the financing period is extended by: 8 years for mortgage loans, 5 years for other credit exposures in the retail segment, 3 years for exposures in the corporate segment.
- qualitative criteria: conversion of the exposure to another currency (unless the possibility of conversion was included in the original agreement), change of SPPI test result, change of debtor, change of legal form or type of financial instrument. The occurrence of a qualitative criterion results in recognizing the modification as significant.

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

### *Credit holidays*

Following the signing by the President of the Republic of Poland and announcement in the Journal of Laws of the Republic of Poland on the same day of the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers ('the Act'), introducing, among others, a possibility of up to 8 months of credit holidays (suspension of instalment payments up to 8 monthly instalments) in 2022-2023 ('credit holidays') for PLN mortgage borrowers, the Bank initially recognized a one-off cost in the third quarter in the amount of PLN 1,384,6 million. The adjustment was calculated and recognized in accordance with IFRS 9, reducing interest income on assets measured at amortized cost and, on the other hand, the gross value of mortgage loans in PLN. The amount of the adjustment was originally initially calculated as the difference between the gross value of the loan portfolio as at the calculation date and the current value of estimated cash flows under loan agreements, taking into account the assumption that 80% of eligible loan principals that will suspend the repayment instalment. As a result of the analysis of customer behaviour carried out in December 2022, the Bank adjusted the estimates of the percentage of eligible loan principals that will suspend repayment instalments to 68%. As a result of the above and the currently expected costs, the value of the adjustment recognized as a reduction of the Bank's interest income in 2022 was reduced to PLN 1,291.6 million.

### *POCI assets*

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

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

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

### *Receivables and liabilities from lease contracts*

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

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

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

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

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

A right to use asset comprises:

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

Financial result reflects following items:

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

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

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

#### *Financial liabilities*

Upon initial recognition a financial liability shall be classified as:

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

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

#### *Recognition of financial instruments in the balance sheet*

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

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

#### *De-recognition of financial instruments from the balance sheet*

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

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



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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset from the balance sheet;
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in the balance sheet;
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognise the financial asset in the balance sheet to the extent of its continuing involvement in the financial asset, and if the Bank has not retained control, it derecognises the financial asset accordingly.

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

## Hedge Accounting and Derivatives

### *Valuation at fair value*

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

An additional element of the valuation of derivatives is a component of credit risk including both the risk of the counterparty (credit value adjustment - CVA) and own Bank's risk (debit value adjustment - DVA).

### *Recognition of derivative instruments embedded in liabilities*

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

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

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

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

#### *Derivative instruments designated as hedging instruments - hedge accounting*

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

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

#### *Hedge accounting criteria*

The Bank uses hedge accounting, if the following conditions are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and through the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

#### *Cash flow hedge*

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

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

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

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

### *Fair value hedge*

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

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

It means that any gains or losses resulting from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss and the gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an FVOCI asset. The valuation of hedged financial assets classified as FVOCI, resulting from factors other than risk hedged, is recognized in other comprehensive income till the date of sale or maturity of this financial asset.

### *Termination of hedge accounting*

If the fair value hedge no longer meets the criteria for applying hedge accounting, the carrying value adjustment of the hedged instrument valued at amortized cost and effective interest rate, is linearly amortized through profit and loss account over the period ending on the maturity date. The value of hedged financial assets classified as FVOCI resulting from factors other than hedged risks is recognized in the revaluation reserve till the date of sale or maturity of this financial asset.

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

### *Derivative instruments not qualifying as hedging instruments*

Derivative instruments that are not subject to hedge accounting principles are classified as instruments held for trading, and valued at fair value. The changes in fair value of derivative instruments held for trading are recognized in the profit and loss in item "Results on financial assets and liabilities held for trading"/"Result on exchange differences", which was described below.

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

- FX forward

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

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

- FX SWAP

FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of FX SWAP transactions are reported in “Results on financial assets and liabilities held for trading” in the Profit and Loss Account.

- Interest Rate SWAP (IRS)

IRS transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of IRS transactions are recorded in “Results on financial assets and liabilities held for trading” of the Profit and Loss Account.

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

- Cross - Currency Swap (CCS)

CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of CCS transactions are reported in “Results on financial assets and liabilities held for trading”.

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

- IRS transactions with embedded options

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in “Results on financial assets and liabilities held for trading” of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Bank.

- FX and Index options

Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Bank’s counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of options are reported in “Results on financial assets and liabilities held for trading” line of the Profit and Loss Account.

- Forward Rate Agreement (FRA)

FRA transactions are valued at fair value on discounted future cash flows basis and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FRA transactions are recorded in “Results on financial assets and liabilities held for trading” of the Profit and Loss Account.

- **Commodity futures**

Commodity futures are measured at fair value based on the discounted future cash flow methodology, using reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodity market. Changes of fair value are reported in “Results on financial assets and liabilities held for trading” of the Profit and Loss Account.

- **Commodity options**

Commodity options are measured at fair value with use of option valuation models as well as reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodity market. Changes of fair value are reported in “Results on financial assets and liabilities held for trading” of the Profit and Loss Account.

## **Impairment of financial assets**

### *General assumptions of the model*

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

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

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

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

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

### *Identification of a significant increase in credit risk*

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

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

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

#### *Incorporation of forward looking information on economic conditions (FLI)*

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

#### *Unification of the default definition across the Group*

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

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

Bank is using cross-default approach for all segments.

#### *PD Model*

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

#### *LGD Models*

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

For the corporate portfolio, LGD model is based on a component determining parameterized recovery for the key types of collateral and a component determining the recovery rate for the unsecured part. All the parameters were calculated on the basis of historical data, including discounted cash flows achieved by the corporate debt recovery unit.

#### *EaD Model*

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

#### **Write-offs**

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

#### **Offsetting of financial instruments**

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

#### **Transactions with sell/buy-back clauses**

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

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

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

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



## Property, plant and equipment and Intangible Assets

### *Own property, plant and equipment*

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

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

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

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

Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss in the reporting period in which they were incurred.

### *Intangible Assets*

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

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

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Expenses attached to the development or maintenance of computer software is expensed when incurred.

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

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

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

### *Depreciation and amortization charges*

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

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

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

Selected categories of property, plant and equipment:

- Bank buildings: 2.5%
- Lease holding improvements: usually for 10 years
- Computer hardware: 20%
- Network devices: 20%
- Vehicles as standard: 25%
- Telecommunication equipment: 10%
- Intangibles (software): expected useful life
- Main applications (systems): expected useful life

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

### **Non-current assets held for sale**

The Bank classifies a non-current asset as held for sale, if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated. Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

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

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and makes reclassification to other assets category. The Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:

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

### **Impairment of non-financial non-current assets**

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

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

If such indications exist, the Bank performs an estimation of recoverable value. If, and only if, the recoverable value of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value.

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

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

### Prepayments

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 and Deferred Income

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

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

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

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

## Employee Benefits

### *Short-term employee benefits*

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

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

### *Long-term employee benefits*

The Bank's liabilities on long-term employee benefits are equal to the amount of future benefits, which the employee will receive in return for providing his services in the current and earlier periods, which are not fully due within 12 months from carrying out the work. In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Bank's future liabilities due to employees according to the headcount and wages as at the date of revaluation. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2022 has been set at 7.33%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

In 2012, the Bank implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium, as amended, in accordance with the requirements described in Resolution of the Polish Financial Supervision Authority No. 258/2011, and then the Regulation of the Minister of Development and Finance of March 6, 2017 on the risk management system and the internal control system, remuneration policy and the detailed method of internal capital estimation in banks. In accordance with the policy, employees of the Bank having a significant impact on the Bank's risk profile receive variable remuneration, part of which is paid in the form of financial instruments: the Bank's phantom shares in 2017-2018; Bank Millennium own shares: for 2019 and 2020. Commencing from 2019, by the decision of the General Meeting of Bank's Shareholders of August 27, 2019, the Bank introduced an incentive program to remuneration entitled persons previously identified as having a significant impact on the risk profile (Risk Taker). Under this framework, the Own Shares acquired by the Company will be, in accordance with the applicable Risk Taker's remuneration policy, intended for free acquisition in the appropriate number by the indicated Risk Takers during the Program Term. Policy details are presented in **Chapter 14., note (7)**.

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

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

### **Bank's Equity**

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

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

#### *Share Capital*

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

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

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

#### *Share Premium*

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

#### *Accumulated other comprehensive income*

Accumulated other comprehensive income consists of: the valuation of financial assets measured at fair value through other comprehensive income, the result of cash flow hedge valuation and actuarial gains (losses) regarding provisions for retirement benefits with deferred income tax effect applied. Accumulated other comprehensive income is not subject to distribution.

#### *Retained Earnings*

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

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

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

### Financial guarantee

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

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

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

### Interest income and other of similar nature

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

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

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

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

Interest income also includes net interest income on derivative instruments designated and being effective hedging instruments in hedge accounting (a detailed description of the existing hedging relationships is included in **note (24)**).

Interest income and costs 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 "Result of similar nature to interest from financial assets 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.

## Fee and commission Income/ Fee and commission Costs

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

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

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

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

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

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

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



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

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

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

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

In 2022 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% (in 2021 it was also 7%).

As of 31 December 2022, with respect to insurance products linked with cash loans, the Bank estimated provisions against refunds of premiums, expressed as percentage ratio of refunds to the level of gross fees, at 53%.

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

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

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

## Dividend Income

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

## Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss

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

**Result on financial assets and liabilities held for trading**

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

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

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

**Result on hedge accounting**

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

**Result on exchange differences**

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

**Other Operating Income and Expenses**

Other operating income and expenses include expenses and incomes not associated directly with the banking activity. In particular, this is result on sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines and provisions for litigations issues.

**Franchise fees**

Franchise is a model of cooperation between the Bank and independent entrepreneurs who, based on concluded agreements of the nature of agency agreements, defined by law, perform agency activities in the sale of products and services from the Bank's offer to the Bank's clients and potential clients. The cooperating franchisees use the Bank's trademarks and know-how when performing the agreement, and franchise outlets are almost as functional for customers as Bank's own outlets (excluding investment products). For cooperation, the Bank charges a franchise fee for the use of trademarks and fees for renting IT equipment from the Bank necessary to perform activities in a given branch and pays franchisees commissions on banking products and services sold.

### Banking tax

The tax on certain financial institutions ("banking tax") is the tax presented in the Income Statement under "Banking tax" levied on bank's assets (it is not an income tax). In accordance with the Polish Act of January 15, 2016 on the tax on certain financial institutions (Journal of Laws 2022, item 1685, as amended), domestic banks are the taxpayers and the tax base is defined as a surplus of the total value of the bank's assets resulting from the trial balance, determined as at the last day of the month, based on entries in the general ledger accounts, over the amount of PLN 4 billion. The banking tax is 0.0366% of the tax base per month. As a result of the implementation of the Recovery Plan from July 2022, Bank Millennium S.A. benefited from the exemption from the banking tax starting from that month.

### Other taxes

The Bank is also taxpayer of the following taxes:

- 1) value added tax (VAT) performing activities both taxable (e.g. leasing, factoring services) and exempt from VAT (e.g. banking services, brokerage);
- 2) real estate tax;
- 3) tax on means of transport;
- 4) other taxes occasionally charged to them (e.g. tax on civil law transactions, excise duty, foreign withholding tax not subject to deduction).

In addition, the Bank is required to pay various fees (e.g. stamp duty, fees for perpetual usufruct of land). Costs related to these taxes and fees are presented in the Administrative Expenses Note under "Taxes and fees".

Revenues, costs and assets are recognized in the amount less VAT, tax on civil law transactions and other sales taxes, except when the sales tax paid on the purchase of goods and services is not recoverable from tax authorities; then VAT is recognized as an expense or as part of the cost of acquiring an asset, respectively. The amount of tax recoverable or payable to the tax authorities is presented in the financial statement as part of receivables or liabilities.

### Income Tax

Corporate income tax comprises current and deferred tax.

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

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

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

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

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

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

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

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

## 8. Financial Risk Management

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

### 8.1. RISK MANAGEMENT

The mission of risk management in the Bank Millennium is to ensure that all types of risks are managed, monitored, and controlled as required for the risk profile (risk appetite), nature and scale of the Bank's operations. Important principle of risk management is the optimization of the risk and profitability trade-off - the Bank pays special attention to ensure that its business decisions balance risk and profit adequately.

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

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

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

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

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

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

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

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

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



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

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Bank's Risk Strategy, including the Bank's Risk Appetite.
- The Management Board is responsible for the effectiveness of the risk management system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems.
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board.
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board.
- The AML Committee is responsible for supervision of anti-money laundering and terrorism financing in the Bank and cooperation in the area of combating financial crime.
- 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 Sustainability Committee is responsible for making key decisions regarding sustainable development in the Bank Millennium S.A. Group, in relation to environmental, social and governance factors.
- 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 (such as in the process of FX mortgage negotiations and amicable settlements with borrowers), and if materialized, would fall within the competence of the Court Cases Risk Sub-committee, excluding cases managed by Corporate Recovery Department.

- The Risk Department is responsible for risk management, including identifying, measuring, analysing, monitoring, and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee, and the Management Board to make decisions with respect to risk management.
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process.
- The Corporate Credit Underwriting Department, Mortgage Credit Underwriting Department and Consumer Finance Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analysing customers' financial situation, preparing credit proposals for the decision-making levels, and making credit decisions within specified limits.
- The Retail Liabilities Monitoring and Collection Department and Retail Liabilities Restructuring and Recovery Department have responsibility for monitoring repayment of overdue debts by retail customers and their collection.
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts.
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment.
- The Models Validation Office has responsibility for qualitative and quantitative models' analysis and validation, independent from the function of models' development; development of the models' validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs.
- The purpose of the Sustainability Office is to supervise and coordinate the process of implementing the principles of sustainable development in the Bank and the Group.
- 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, and in anti-money laundering process.
- The Legal Department has responsibility for handling the litigation cases of the Bank, with support of external legal offices and legal experts whenever necessary.

The Bank has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2023-2025". The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

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

1. Risk profile - current risk profile in amount or type of risk the Bank is currently exposed. The Bank should also have a forward-looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk tolerance.



2. Risk appetite - the maximum amount or type of risk the Bank is prepared to accept/tolerate to achieve its financial and strategic objective. Three zones are defined in accordance with warning/action required level.

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

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

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

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

- Capital Management and Planning Framework
- Credit Principles and Guidelines
- Rules on Concentration Risk Management
- Principles and Rules of Liquidity Risk Management
- Principles and Guidelines on Market Risk Management on Financial Markets
- Principles and Guidelines for Market Risk Management in Banking Book
- Investment Policy
- Principles and Guidelines for Management of Operational Risk
- Policy, Rules, and Principles of the Model Risk Management
- Stress tests policy
- Sustainability Policy
- Regulations of Bank Millennium SA - Program of counteracting Anti-Money Laundering and financing terrorism.

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

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

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

## 8.2. CAPITAL MANAGEMENT

### Capital management and planning

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

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

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

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

### Regulatory capital adequacy

The Bank is obliged by law to meet minimum own funds requirements, set in art. 92 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (CRR). At the same time, the following buffers were included in capital targets/limits:

- Pillar II FX mortgage loans buffer (P2R buffer) - KNF decision regarding order to maintain additional own funds to secure risk resulting from FX mortgage loans granted to households, under the art. 138.2.2 of Banking Act. A value of that buffer is defined for particular banks by KNF every year as a result of Supervisory Review and Evaluation Process (SREP) and relates to risk that is in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in the decisions issued in the end of 2022 in the level of 1.95 p.p. (Bank) and 1.94 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 1.47 p.p. in Bank and of 1.46 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 1.10 p.p. in Bank and 1.09 p.p. in Group<sup>1</sup>;
- 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 each year<sup>2</sup>;
  - 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.

<sup>1</sup> That decision replaces the previous recommendation from 2021, to maintain own funds for the coverage of additional capital requirements at the level of 2.82 pp (Bank) and 2.79 pp (Group) as for TCR, which should have consisted of at least 2.11 pp (Bank) and 2.09 pp (Group) as for Tier 1 capital and which should have consisted of at least 1.58 pp (Bank) and 1.56 pp (Group) as for CET1 capital.

<sup>2</sup> In November 2020 KNF issued the decision on identification the Bank as other systemically important institution and imposing OSII Buffer of 0.25%

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), the Bank defined regulatory minimum levels of capital ratios, being at the same time the base of defining capital limits.

The below table presents these levels as of 31 December 2022. The Bank will inform on each change of required capital levels in accordance with regulations.

Capital ratio	31.12.2022	
	Bank	Group
CET1 ratio		
Minimum	4.50%	4.50%
P2R Buffer	1.10%	1.09%
TSCR CET1 (Total SREP Capital Requirements)	5.60%	5.59%
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)	8.35%	8.34%
T1 ratio	Bank	Group
Minimum	6.00%	6.00%
P2R Buffer	1.47%	1.46%
TSCR T1 (Total SREP Capital Requirements)	7.47%	7.46%
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)	10.22%	10.21%
TCR ratio	Bank	Group
Minimum	8.00%	8.00%
P2R Buffer	1.95%	1.94%
TSCR TCR (Total SREP Capital Requirements)	9.95%	9.94%
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)	12.70%	12.69%

In December 2022, the Bank received a recommendation to maintain, own funds to cover an additional capital charge ("P2G") to absorb potential losses resulting from the occurrence of stresses, at the level of 1.72 pp and 1.75 (on an individual and consolidated level) over the OCR value. According to the recommendation, the additional capital charge should consist fully of common equity Tier 1 capital (CET1 capital).

Capital risk, expressed in the above capital targets/limits, is measured, and monitored in a regular manner. Capital limits were defined based on the minimum regulatory capital levels. They are the basis of setting safety zones and risk appetite. Capital ratios in each zone determine the need to make appropriate decisions or management actions. Regular monitoring of capital risk is based on the classification of capital ratios into appropriate zones, and then the assessment of trends and factors influencing the level of capital adequacy is carried out.

### **Own funds capital requirements**

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

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

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

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

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

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

In 2022, further work was carried out on credit risk models for the remaining credit portfolios covered by the IRB method roll-out plan: other retail exposures and corporate exposures.

### **Internal capital**

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

Internal capital is used in capital management in following processes: economic capital adequacy management and capital allocation. The Bank defined an internal (economic) capital estimation process. To this end, as for measurable risk types, mathematic and statistic models and methods are used.

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

In 2022, both above capital targets were met with a surplus.

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 ratios and capital adequacy - current state, evaluation, and trends

Capital ratios of the Bank over the last three years was as follows<sup>3</sup>:

	31.12.2022	31.12.2021	31.12.2020
Risk-weighted assets	48 046.0	48 895.7	50 757.4
Own Funds requirements, including:	3 843.7	3 911.7	4 060.6
- Credit risk and counterparty credit risk	3 386.7	3 477.7	3 688.3
- Market risk	18.0	32.3	26.6
- Operational risk	432.3	391.4	340.7
- Credit Valuation Adjustment CVA	6.7	10.3	4.9
Own Funds, including:	6 980.1	8 397.1	9 726.6
Common Equity Tier 1 Capital	5 458.9	6 867.1	8 196.6
Tier 2 Capital	1 521.2	1 530.0	1 530.0
<b>Total Capital Ratio (TCR)</b>	<b>14.53%</b>	<b>17.17%</b>	<b>19.16%</b>
<b>Tier 1 Capital ratio (T1)</b>	<b>11.36%</b>	<b>14.04%</b>	<b>16.15%</b>
<b>Common Equity Tier 1 Capital ratio (CET1)</b>	<b>11.36%</b>	<b>14.04%</b>	<b>16.15%</b>
<b>MREL ratio <sup>(1)</sup></b>	<b>14.45%</b>	<b>17.17%</b>	<b>19.16%</b>
<b>Leverage ratio</b>	<b>4.74%</b>	<b>6.45%</b>	<b>8.06%</b>

(1) MREL ratio for Group

<sup>3</sup> Bank uses transitional arrangements for IFRS 9 and considers a temporary treatment of unrealized gains and losses on bonds measured by fair value through other comprehensive income (FVOCI) in accordance with Art. 468 of the CRR. As at 31.12.2022, 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: 13.48%
- T1: 10.31%
- CET1: 10.31%
- Leverage ratio: 4.32%

The impact of transitional arrangements caused the improvement of capital ratios TCR, T1, CET1 by ca 105 bps, including the impact of art. 468 CRR (FVOCI) which brought about an increase of capital ratios TCR, T1, CET1 by ca 70 bps, and impact of IFRS9 transitional arrangements was an increase by ca 35 bps.

Capital adequacy showed as surpluses/deficits on required or recommended levels is presented in the below table.

Capital adequacy	31.12.2022	31.12.2021	31.12.2020
<b>Total Capital Ratio (TCR)</b>	<b>14.53%</b>	<b>17.17%</b>	<b>19.16%</b>
Minimum required level (OCR)	12.70%	13.57%	14.16%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	1.83	3.60	5.00
Minimum recommended level TCR (OCR+P2G)	14.42%	13.57%	14.16%
Surplus(+) / Deficit(-) on recommended level (p.p.)	0.11	3.60	5.00
<b>Tier 1 Capital ratio (T1)</b>	<b>11.36%</b>	<b>14.04%</b>	<b>16.15%</b>
Minimum required level (OCR)	10.22%	11.31%	11.31%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	1.14	2.73	4.84
Minimum recommended level T1 (OCR+P2G)	11.94%	11.31%	11.31%
Surplus(+) / Deficit(-) on recommended level (p.p.)	-0.58	2.73	4.84
<b>Common Equity Tier 1 Capital ratio (CET1)</b>	<b>11.36%</b>	<b>14.04%</b>	<b>16.15%</b>
Minimum required level (OCR)	8.35%	8.83%	9.16%
Minimum recommended level CET1 (OCR+P2G)	10.07%	8.83%	9.16%
Surplus(+) / Deficit(-) on recommended level (p.p.)	1.29	5.21	6.99
<b>MREL ratio</b>	<b>14.45%</b>	<b>17.17%</b>	<b>19.16%</b>
Minimum required level	15.55%	15.55%	
Surplus(+) / Deficit(-) of MREL (p.p.)	-1.10	1.62	
<b>Leverage ratio</b>	<b>4.74%</b>	<b>6.45%</b>	<b>8.06%</b>
Minimum required level	3.00%	3.00%	3.00%
Surplus(+) / Deficit(-) of Leverage ratio (p.p.)	1.74	3.45	5.06

As at 2022 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, decreased in one year period by ca 2.68 pp and by ca 2.64 pp respectively.

In 2022, risk-weighted assets (RWA) went down by almost PLN 850 million (by 1.7%). The biggest yearly change was credit risk RWA (fall by ca PLN 1.137 million, by 2.6%). One of the drivers of that fall were completed loans securitisation transactions. This was partially offset by an operational risk RWA rise (by ca PLN 511 million), what stems from including in calculation higher operational results from the last three years (without provisions). Changes of market risk and CVA (credit valuation adjustment) RWA were not so material.

In 2022 Own Funds fell by ca PLN 1.417 million (by 16.9%), mainly because of net financial loss caused by legal risk and assistance program "Credit holidays" provisions, and a decrease of revaluation reserve - a value of securities valued at fair value through Other Comprehensive Income and affecting Own Funds.

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

Minimum required by KNF capital ratios in terms of overall capital requirements were achieved at the end of 2022.

Leverage ratio stood at the safe level of 4.74%, and it significantly exceeds the regulatory minimum (3%).

Bank and Group did not meet in the second half of 2022 (until December) some of the capital limits in terms of combined buffer requirements what was announced in the current report no 21/2022. In accordance with the regulations, Bank developed the Capital Protection Plan, which was delivered to KNF and approved on 28<sup>th</sup> October 2022. The Plan assumed a restoration of capital adequacy until the 2nd half of 2023.

### Securitization transaction

In March 2022, Bank conclude synthetic securitization transaction with the participation of European Investment Bank (EIB) and European Investment Fund (EIF). The portfolio covered by the transaction concerned receivables from small and medium-sized enterprises (SME) worth ca PLN 1.5 billion. PLN. The Bank obtained the EIF guarantee for the senior tranche (ca PLN 1.2 billion) and the junior tranche (ca PLN 300 million), which is unfunded credit protection within the meaning of the CRR. The selected loan portfolio covered by the securitization remained in the Bank's balance sheet.

On 23 December 2022, Bank Millennium settled another synthetic securitisation transaction executed on a portfolio of corporate and SME receivables. The selected loan portfolio securitised remained on the bank's balance sheet. The risk transfer was achieved by a recognised credit protection instrument in the form of Credit Linked Notes (CLNs). The issued bonds with a total nominal value of 242.5 mln PLN were acquired by the Christofferson Robb & Company, LLC fund.

The CLN bonds marked with ISIN code XS2569449791 were introduced to trading in the alternative trading system on the Vienna MTF organised by the Vienna Stock Exchange, which admitted them to trading on December 22, 2022. The bonds are listed from December 27, 2022.

At the same time, collateral is provided to the investor in the form of qualified debt securities (and/or cash), blocked in an independent trust institution - Bank of New York Mellon.

The role of the organiser and agent placing the transaction was performed by UniCredit Bank AG. The transaction meets the requirements for the transfer of a material part of the risk, set out in the CRR Regulation (Regulation of the European Parliament and of the Council No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms).

### MREL requirements

The Bank received the joint decision of the resolution authorities obliging to meet MREL requirements. At the moment of communication of the decision, the Bank at the consolidated level is obliged to meet the minimum MRELTrea requirements of 15.60% and MRELtem of 3.00%. At the individual level, the minimum MRELTrea was set at 15.55% and MRELtem 3.00%. Additionally, the above-mentioned decision sets updated minimum requirements that must be met by December 31, 2023, along with mid-term objectives.



The Bank is still to meet MREL requirements due to the net loss booked in recent periods and the fact that an issue of senior non-preferred bonds on the Polish market initially planned for 4Q21 was not possible to execute due to a gap in the Polish bond law and later due to the combination of unfavourable market conditions (markets were effectively shut for issuers of SNP bonds from the CEE region) and looming risk of Poland's government enforcement of costly extraordinary measures on the banking sector (credit holidays and replacement of WIBOR, among others). Following the changes in the Polish bond law in May, the Bank also started preparations for a domestic issue, but due to the above-mentioned external factors, the decision to officially start the domestic offering was also put on hold.

The Bank prepared a Eurobond Issue Programme of the total nominal value not higher than EUR 3 billion, what was communicated in a current report in January 2022.

The Bank monitors the developments on the bond market that will allow for the issue.

Restoring capital ratios to minimum required ratios is currently the Bank's priority and once this is achieved the Bank will take the further needed steps aimed at meeting the MREL requirements.

In particular, as far as MREL requirements are concerned, the Bank intends to close the gap by year-end 2023 through a combination of organic capital generation and issuance of debt instruments, if required and market conditions allow.

## 8.3. CREDIT RISK

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

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

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

In 2022, due to the outbreak of war in Ukraine and increased uncertainty in the macroeconomic environment, the Bank took additional measures to monitor the level of credit risk. In the corporate segment, the Group focused on analysis of the loan portfolio and borrowers' industries in order to monitor risk, with particular emphasis on customers directly affected by the negative effects of the conflict in Ukraine, as well as customers with low profitability, potentially most exposed to negative changes in the macroeconomic environment. In the retail segment, the Bank focused on adaptation its lending policy to the changing macroeconomic environment, in particular, changes were implemented to mitigate the potential increase in risk related to rising credit costs and inflation. In addition, the frequency of monitoring the loan portfolio granted to Polish residents with Ukrainian citizenship was increased.

### (3a) Measurement of Credit Risk

#### Loans and advances

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

- (i) Probability of Default (PD) of a customer or counterparty as regards their liability;
  - (ii) amount of Exposure At Default (EAD) and
  - (iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.
- (i) The Bank assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed in-house or at the level of the BCP Group, or with help of external providers, and combine statistical analysis with assessment by a credit professional. The Bank's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Bank's Master Ratings Scale, presented below, also contains the scale of probabilities of non-compliance with the liabilities specified for a given class/rating group. Rating models are subject to regular reviews and whenever necessary to relevant modification. Modifications of models are confirmed by Validation Committee.
- The Bank regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments (for Corporates performed by Rating Department independently from credit decision process and transactions) is supported by IT systems, obtaining, and analysing information from internal and external databases.

### The Bank's internal rating scale

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

- (ii) EAD - amount of exposure at default - concerns amount which according to the Bank's predictions will be the Bank's receivables at the time of default against liabilities. Liabilities are understood by the Bank to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.
- (iii) LGD - loss given default is what the Bank expects will be its losses resulting from actual cases of default, with the consideration of internal and external costs of recovery and the discount effect.

### Unification of the default definition in the Bank

Since the implementation of IFRS 9, the Bank has adopted a uniform definition of default, both in the calculation of capital requirements and for the purposes of estimating impairment. 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 for retail and PLN 2000 for corporates and relative threshold of 1% in relation to total exposure,
- Restructured loans (forborne),
- Loans in vindication process,
- Other triggers defined in EBA Guidelines,
- Qualitative triggers identified in the individual analysis.

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

### Debt Securities

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

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

### Derivatives

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

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

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

### **Credit risk-based off-balance sheet liabilities**

Credit risk-based off-balance sheet liabilities include granted guarantees and letters of credit, granted and unused limits (credit, factoring, guarantees and letters of credit and cards) as well as granted and unpaid tranches of non-renewable loans. The primary purpose of these instruments is to enable the customer to manage in a specific manner the funds allocated by the Group.

Granted guarantees and letters of credit granted are unconditional and irrevocable - after the receipt of a claim compliant with the terms of the guarantee or letter of credit, the Group must make a payment. Typically, guarantees and letters of credit are related to commercial transactions.

In the case of most of the granted and unused limits, the Group has the option of refusing to execute the client's instruction regarding the use of funds from these limits - either unconditionally or upon meeting the conditions set out in the documents and by-laws applicable to a given limit.

In the case of granted and undisbursed tranches of non-revolving loans, their disbursement depends on the fulfilment of the conditions set out in the documents and by-laws applicable to a given non-revolving loan.

### **(3b) Limits control and risk mitigation policy**

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

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

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

### **Collateral**

The Bank accepts collateral to mitigate its credit risk exposure; the main role of collateral is to minimize loss in the event of customers' default in repayment of credit transactions in contractual amounts and on contractual dates by ensuring an alternative source of repayment of due and payable amounts. Collateral is accepted in accordance with the credit policy principles defined for each customer segment. The key principle is that collateral for credit transaction should correspond to the credit risk incurred by the Bank, considering the specific nature of the transaction (i.e., its type, amount, repayment period and the customer's rating).

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

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

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the case of the corporate segment, all types of real estate (residential, commercial, land) are accepted, as well as assignments of receivables under contracts.

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

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

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

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

#### Organisation of the Process

The process of impairment identification and measurement with respect to loan exposures is regulated in the internal instruction introduced with IFRS9 application. The document defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating parameters.

The methodology and assumptions adopted for determining credit impairments are regularly reviewed to reduce discrepancies between the estimated and actual losses. To assess the adequacy of the impairment determined both in individual analysis and collective analysis a historical verification (back testing) is conducted from time to time (at least once a quarter), which results will be considered to improve the quality of the process.

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

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

In monthly periods detailed reports are prepared presenting information about the Bank's retail portfolio in various cross-sections, including the level of impairment charges and provisions, their dynamics and structure. The recipients of these reports are Members of the Management Board, supervising the activity of the Bank in finance, risk, and management information.

### **Expected credit loss measurement**

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

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

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

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

### **Identification of a significant increase in credit risk (SICR)**

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

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

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

## Individual analysis of impairment for credit receivables

Individual analysis contains customers identified as significantly important both for business portfolio and recovery portfolio. Credit exposures are selected for individual analysis based on materiality criteria which ensure that case-by case analysis covers at least 50% of the Bank's business corporate portfolio and 80% of the portfolio managed by entities responsible for the recovery and restructuring of corporate receivables.

Principal elements of the process of individual analysis:

- 1) Identification of soft signs of impairment being one of qualitative triggers of Significant Increase of Credit Risk (SICR).

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

- 2) Identification of impairment triggers.

The Bank defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers contains among others following elements:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Breach of the contract, e.g., significant delays in payments of principal or interest
- Stating the customer's unreliability in communicating information about his economic and financial situation,
- Permanent lack of possibility of establishing contact with the customer in the case of violating the terms of the agreement,
- High probability of bankruptcy or a different type of reorganising the Customer's enterprise/business,
- Declaring bankruptcy or opening a recovery plan with respect to the Customer,
- Granting the Customer who has financial difficulties, facilities concerning financing conditions (restructuring).

Internal regulations allow discovering above-mentioned triggers by indicating specific cases and situations corresponding to them, with respect to triggers resulting from the Customer's considerable financial problems, violating the critical terms of the agreement and high probability of a bankruptcy or a different enterprise reorganisation.

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

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



#### 4) Estimating expected cash-flows.

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

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

- Operational strategy with respect to the Customer adopted by the Bank,
- Results of negotiations with the customer and his attitude, i.e., willingness to settle his arrears,
- Improvement/deterioration of his economic and financial situation.

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

#### 5) Estimation of the fair value of collateral, specifying the expected date of sale and estimation of expected revenues from the sale after deduction of the costs of the recovery process.

The inclusion of cash flows from realisation of collateral must be preceded by an analysis of how realistically it can be sold and estimation of its fair value after recovery costs.

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

### **Collective analysis of the credit portfolio**

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

- Individually insignificant exposures.
- Individually significant exposures for which there has not been recognised impairment triggers because of an individual analysis.

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

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

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

The results of models employed in collective analysis are subject to periodical verification. The parameters and models are also covered by the process of models' management governed by the document „Principles of Managing Credit Risk Models”, which specifies, among others, the principles of creating, approving, monitoring and validation, and historical verification of models.

#### **Forward-looking information incorporated in the ECL models**

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

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

### Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as of 31 December 2022 are set out below.

Macroeconomic variable	Scenario	2023	2024	2025
Gross Domestic Product	Base	100.7	102.6	103.4
	Optimistic	101.7	103.6	103.9
	Mild recession	99.2	101.2	103.2
Retail Sales	Base	102.1	103.0	104.3
	Optimistic	103.3	104.1	105.2
	Mild recession	100.2	101.5	104.2
Unemployment rate	Base	5.8	6.0	5.9
	Optimistic	5.2	5.0	4.9
	Mild recession	7.4	7.9	7.8

The weightings assigned to each economic scenario on 31 December 2022 were as follows:

	Base	Optimistic	Mild recession
Applied weighting	65%	10%	25%

### ECL sensitivity to macroeconomic scenarios

For assessing the sensitivity of ECL for future macroeconomic conditions, the Bank calculated unweighted ECL for each defined scenario separately. The impact for ECL of application of each of the scenario separately does not exceed 2.0 %.

### 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 2022, the Bank sold credit exposures classified as impaired, in the total value of PLN 338 million.

### 3d) Maximum exposure to credit risk

	31.12.2022	31.12.2021
<b>Exposures exposed to credit risk connected with balance sheet assets</b>	<b>95 050 049</b>	<b>98 140 384</b>
Deposits, loans and advances to banks and other monetary institutions	1 410 245	943 315
Loans and advances to customers:	75 855 607	78 237 586
Mandatorily at fair value through profit or loss:	97 982	362 992
Loans to private individuals:	97 916	362 952
Receivables on account of payment cards	74 208	264 628
Credit in current account	23 708	98 324
Loans to companies	66	40
Valued at fair value through other comprehensive income	11 221 252	11 485 351
Valued at amortised cost:	64 536 373	66 389 243
Loans to private individuals:	46 059 185	47 726 259
Receivables on account of payment cards	977 645	745 766
Cash loans and other loans to private individuals	14 835 620	14 723 782
Mortgage loans	30 245 920	32 256 711
Loans to companies and public sector	18 275 638	18 418 379
Loans to public entities	201 550	244 605
Financial derivatives and Adjustment from fair value hedge	475 099	101 036
Debt instruments held for trading	24 210	86 438
Debt instruments mandatorily at fair value through profit or loss	72 057	127 499
Debt instruments at fair value through other comprehensive income	16 414 065	17 924 059
Repurchase agreements	4 863	268 837
Other financial assets	793 903	451 614
<b>Credit risk connected with off-balance sheet items</b>	<b>14 030 294</b>	<b>15 236 694</b>
Financial guarantees	2 419 611	2 578 287
Credit commitments	11 610 683	12 658 407

The table above presents the structure of the Bank's exposures to credit risk as of 31<sup>st</sup> December 2022 and 31<sup>st</sup> December 2021, not considering 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

	31.12.2022	31.12.2021
Mandatorily at fair value through profit or loss *	97 982	362 992
▪ Companies	66	40
▪ Individuals	97 916	362 952
▪ Public sector	0	0
* The above data includes the fair value adjustment, in the amount of:	(38 999)	(66 349)

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

Balance sheet value:	31.12.2022	31.12.2021
at fair value through other comprehensive income *	11 221 252	11 485 351
▪ Companies	0	0
▪ Individuals	11 221 252	11 485 351
▪ Public sector	0	0
* The above data includes the fair value adjustment, in the amount of:	255 824	246 989

## The credit quality of financial assets

PLN'000, as of the end of 2022	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	76 706 082	5 388 250	2 932 656	152 407	85 179 394
Balance impairment	330 475	369 400	1 529 098	13 163	2 242 135
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	1 410 526				1 410 526
Loans and advances to private individuals (according to Master Scale):	40 776 086	4 510 648	2 590 354	137 197	48 014 285
▪ 1-3 Highest quality	23 697 845	130 532	0	2 811	23 831 188
▪ 4-6 Good quality	8 352 277	1 154 450	0	4 272	9 510 999
▪ 7-9 Medium quality	6 552 017	1 359 188	0	5 196	7 916 401
▪ 10-12 Low quality	2 167 401	1 217 930	0	3 241	3 388 572
▪ 13-14 Watched	1 904	648 529	0	1 131	651 564
▪ 15 Default	0	0	2 590 354	120 546	2 710 899
▪ Without rating (*)	4 642	18	0	0	4 661
Impairment	244 528	337 581	1 359 855	13 137	1 955 100
Loans and advances to companies (according to Master Scale):	8 430 850	730 350	325 835	15 209	9 502 244
▪ 1-3 Highest quality	129 205	11 777	0	0	101 568
▪ 4-6 Good quality	1 972 706	84 885	0	0	2 057 591
▪ 7-9 Medium quality	3 571 405	209 531	0	0	3 780 936
▪ 10-12 Low quality	1 056 509	380 069	0	0	1 436 579
▪ 13-14 Watched	0	19 992	0	0	19 992
▪ 15 Default	0	0	325 574	15 209	340 783
▪ Without rating (*)	1 701 024	24 095	261	0	1 725 380
Impairment	64 827	28 950	159 697	26	253 500
Loans and advances to public entities (according to Master Scale):	54 186	0	0	0	54 186
▪ 1-3 Highest quality	0	0	0	0	0
▪ 4-6 Good quality	0	0	0	0	0
▪ 7-9 Medium quality	0	0	0	0	0
▪ 10-12 Low quality	0	0	0	0	0
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	0	0	0
▪ Without rating (*)	54 186	0	0	0	54 186
Impairment	115	0	0	0	115

PLN'000, as of the end of 2022	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Factoring (according to Master Scale):	2 822 857	147 251	16 467	0	2 986 576
▪ 1-3 Highest quality	2 126	0	0	0	2 126
▪ 4-6 Good quality	1 090 884	3 729	0	0	1 094 613
▪ 7-9 Medium quality	1 286 389	99 826	0	0	1 386 215
▪ 10-12 Low quality	409 431	43 673	0	0	453 104
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	16 467	0	16 467
▪ Without rating (*)	34 027	23	0	0	34 050
Impairment	20 014	2 869	9 546	0	32 429
Repurchased receivables from Millennium Leasing (according to Master Scale):	6 221 283	0	0	0	6 221 283
▪ 1-3 Highest quality	109 240	0	0	0	109 240
▪ 4-6 Good quality	509 803	0	0	0	509 803
▪ 7-9 Medium quality	1 086 666	0	0	0	1 086 666
▪ 10-12 Low quality	497 792	0	0	0	497 792
▪ 13-14 Watched	3 620	0	0	0	3 620
▪ 15 Default	216 763	0	0	0	216 763
▪ Without rating (*)	3 797 399	0	0	0	3 797 399
Impairment	991	0	0	0	991
Derivatives and adjustment from fair value hedge (according to Master Scale):	475 099	0	0	0	475 099
▪ 1-3 Highest quality	179 635				179 635
▪ 4-6 Good quality	63 791				63 791
▪ 7-9 Medium quality	18 068				18 068
▪ 10-12 Low quality	5 261				5 261
▪ 13-14 Watched	0				0
▪ 15 Default	0				0
▪ Without rating	72 540				72 540
▪ fair value adjustment due to hedge accounting	0				0
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	135 804				135 804
Trading debt securities (State Treasury** bonds)	24 210				24 210
Debt securities mandatorily at fair value through profit or loss	72 057				72 057
Investment debt securities (State Treasury**, Central Bank**, Local Government, EIB)	16 414 065				16 414 065
Receivables from securities bought with sell-back clause	4 863				4 863

\* 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 2022 A- (S&P), A2 (Moody's), A- (Fitch).

PLN'000, as of the end of 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	81 703 408	3 061 378	3 044 606	241 276	88 050 668
Balance impairment	301 100	266 359	1 627 282	15 259	2 210 000
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	943 555				943 555
Loans and advances to private individuals (according to Master Scale):	44 331 040	2 567 911	2 457 343	241 217	49 597 511
▪ 1-3 Highest quality	27 310 004	100 605	0	3 235	27 413 844
▪ 4-6 Good quality	9 285 120	380 922	0	6 736	9 672 778
▪ 7-9 Medium quality	6 209 483	818 005	0	8 223	7 035 711
▪ 10-12 Low quality	1 504 920	775 656	0	4 201	2 284 777
▪ 13-14 Watched	5 379	492 680	0	2 997	501 056
▪ 15 Default	0	0	2 457 343	215 817	2 673 160
▪ Without rating (*)	16 134	43	0	8	16 185
Impairment	212 250	242 862	1 400 649	15 490	1 871 251
Loans and advances to companies (according to Master Scale):	8 517 165	410 854	561 891	59	9 489 969
▪ 1-3 Highest quality	108 751	1 526	0	0	110 277
▪ 4-6 Good quality	2 056 585	19 171	0	0	2 075 756
▪ 7-9 Medium quality	3 683 368	69 822	0	0	3 753 190
▪ 10-12 Low quality	1 136 115	297 168	0	0	1 433 283
▪ 13-14 Watched	0	10 043	0	0	10 043
▪ 15 Default	0	0	561 891	59	561 950
▪ Without rating (*)	1 532 346	13 124	0	0	1 545 470
Impairment	68 710	18 872	216 026	(231)	303 377
Loans and advances to public entities (according to Master Scale):	76 675	1	0	0	76 676
▪ 1-3 Highest quality	0	0	0	0	0
▪ 4-6 Good quality	0	0	0	0	0
▪ 7-9 Medium quality	0	0	0	0	0
▪ 10-12 Low quality	0	0	0	0	0
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	0	0	0
▪ Without rating (*)	76 675	1	0	0	76 676
Impairment	163	0	0	0	163
Factoring (according to Master Scale):	3 041 750	82 612	25 372	0	3 149 734
▪ 1-3 Highest quality	398	0	0	0	398
▪ 4-6 Good quality	872 113	1 833	0	0	873 946
▪ 7-9 Medium quality	1 537 127	16 037	0	0	1 553 164
▪ 10-12 Low quality	594 442	64 634	0	0	659 076
▪ 13-14 Watched	0	0	0	0	0
▪ 15 Default	0	0	25 372	0	25 372
▪ Without rating (*)	37 670	108	0	0	37 778
Impairment	19 804	4 625	10 607	0	35 036



PLN'000, as of the end of 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Repurchased receivables from Millennium Leasing (according to Master Scale):	6 285 354	0	0	0	6 285 354
▪ 1-3 Highest quality	72 186	0	0	0	72 186
▪ 4-6 Good quality	468 384	0	0	0	468 384
▪ 7-9 Medium quality	1 164 600	0	0	0	1 164 600
▪ 10-12 Low quality	670 851	0	0	0	670 851
▪ 13-14 Watched	2 109	0	0	0	2 109
▪ 15 Default	97 345	0	0	0	97 345
▪ Without rating (*)	3 809 879	0	0	0	3 809 879
Impairment	173	0	0	0	173
Derivatives and adjustment from fair value hedge (according to Master Scale):	101 036	0	0	0	101 036
▪ 1-3 Highest quality	26 897				26 897
▪ 4-6 Good quality	41 607				41 607
▪ 7-9 Medium quality	7 015				7 015
▪ 10-12 Low quality	8 064				8 064
▪ 13-14 Watched	0				0
▪ 15 Default	0				0
▪ Without rating	3 069				3 069
▪ fair value adjustment due to hedge accounting	0				0
▪ Valuation of future FX payments	0				0
▪ Hedging derivative	14 385				14 385
Debt securities mandatorily at fair value through profit or loss	127 499				127 499
Trading debt securities (State Treasury** bonds)	86 438				86 438
Investment debt securities (State Treasury**, Central Bank**, Local Government, EIB)	17 924 059				17 924 059
Receivables from securities bought with sell-back clause	268 837				268 837

\* 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 2021 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	31.12.2022				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	265 382	144 728	1 988	0	412 098
Collective analysis	91 867	870 298	1 693 885	0	2 656 050
Total	357 248	1 015 027	1 695 873	0	3 068 148

Gross exposure in '000 PLN	31.12.2021				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	499 440	217 799	3 873	0	721 112
Collective analysis	87 880	739 173	1 712 315	0	2 539 368
Total	587 320	956 972	1 716 188	0	3 260 480

### 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

	31.12.2022			31.12.2021		
	Amount in '000 PLN	Share %	Coverage by impairment provisions	Amount in '000 PLN	Share %	Coverage by impairment provisions
PLN	299 501	72.7%	37.4%	515 319	71.5%	32.7%
CHF	74 311	18.0%	17.3%	133 501	18.5%	22.0%
EUR	38 287	9.3%	68.4%	72 022	10.0%	41.1%
USD	0	0.0%		270	0.0%	39.2%
SEK	0	0.0%		0	0.0%	
Total (Case by Case impaired)	412 098	100.0%	36.6%	721 112	100.0%	31.6%

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

	31.12.2022		31.12.2021	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	151 870	36.9%	341 584	47.4%
20% - 40%	84 240	20.4%	112 192	15.6%
40% - 60%	55 748	13.5%	135 702	18.8%
60% - 80%	87 632	21.3%	78 696	10.9%
Above 80%	32 609	7.9%	52 938	7.3%
Total (Case by Case impaired)	412 098	100.0%	721 112	100.0%

At the end of 2022, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis (Case by Case) amounted to PLN 200.6 million (at the end of 2021 respectively PLN 358.5 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

## Restructured loans and advances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross exposure in '000 PLN	31.12.2022	31.12.2021
Loans and advances to private individuals	1 379 028	1 102 917
Loans and advances to companies	206 328	215 254
<b>Total</b>	<b>1 585 355</b>	<b>1 318 171</b>

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

Loans and advances subject to legislative and non-legislative moratoria	TOTAL	Performing Gross carrying amount	Performing	
			Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Gross carrying amount				
Loans and advances subject to moratorium	0	0	0	0
of which: Households	0	0	0	0
of which: <i>Collateralised by residential immovable property</i>	0	0	0	0
of which: Non-financial corporations	0	0	0	0
of which: <i>Small and Medium-sized Enterprises</i>	0	0	0	0
of which: <i>Collateralised by commercial immovable property</i>	0	0	0	0

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

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	TOTAL	Performing		
		Performing Accumulated impairment	Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	0	0	0	0
of which: Households	0	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0
of which: Non-financial corporations	0	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	Non-performing		
	Non-performing Accumulated impairment	Of which: grace period of capital and interest	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	0	0	0
of which: Households	0	0	0
of which: Collateralised by residential immovable property	0	0	0
of which: Non-financial corporations	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0
of which: Collateralised by commercial immovable property	0	0	0

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Number of obligors	TOTAL	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	45 144	4 776 139		
Loans and advances subject to moratorium (granted)	45 144	4 776 139	8 920	4 776 139
of which: Households		4 607 391	8 920	4 607 391
of which: <i>Collateralised by residential immovable property</i>		3 540 138	7 735	3 540 138
of which: Non-financial corporations		168 748	0	168 748
of which: <i>Small and Medium-sized Enterprises</i>		131 452	0	131 452
of which: <i>Collateralised by commercial immovable property</i>		56 739	0	56 739

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Residual maturity of moratoria				
	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances subject to moratorium (granted)	0	0	0	0	0
of which: Households	0	0	0	0	0
of which: <i>Collateralised by residential immovable property</i>	0	0	0	0	0
of which: Non-financial corporations	0	0	0	0	0
of which: <i>Small and Medium-sized Enterprises</i>	0	0	0	0	0
of which: <i>Collateralised by commercial immovable property</i>	0	0	0	0	0

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Gross carrying amount		Gross carrying amount
	TOTAL	of which: forborne	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	1 667 104	2 573	33 202
of which: Households	0		0
of which: <i>Collateralised by residential immovable property</i>	0		0
of which: Non-financial corporations	1 667 104	2 573	33 202
of which: <i>Small and Medium-sized Enterprises</i>	831 381		11 179
of which: <i>Collateralised by commercial immovable property</i>	0		0

### (3f) Collateral transferred to the Bank

In 2022 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from lien or transfers of title (more effective in terms of time and money with the limitation of costs), i.e., leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers based on which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and sells them (also as part of selling organized parts or the debtor's whole enterprise). Funds obtained in such a way are allocated directly for repayment of the Bank's receivables (such debt-collection procedure is implemented without recording transferred collateral on the so-called "Fixed Assets for Sale").

### (3g) Policy for writing off receivables

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

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

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

Gross exposure write-offs in '000 PLN	In 2022				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	10 807	8 485	27 356	0	46 648
Receivables written-off being subject to enforcement activity	16 801	0	173 496	0	190 297
Total written-off	27 609	8 485	200 852	0	236 945

Gross exposure write-offs in '000 PLN	In 2021				Total
	Loans and advances to customers			Loans and advances to banks	
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	12 013	7 605	48 765	0	68 383
Receivables written-off being subject to enforcement activity	99 547	5 088	100 977	0	205 612
Total written-off	111 560	12 693	149 742	0	273 995



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

#### Economy sectors

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

31.12.2022	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	1 410 526	0	0	0	0	0	0	0	1 410 526
Loans and advances to customers (Amortized cost)	784 926	5 724 949	5 560 871	2 708 668	33 159	30 845 153	17 169 580	3 951 201	66 778 507
Loans and advances to customers (Fair value through OCI)	0	0	0	0	0	11 221 252	0	0	11 221 252
Loans and advances to customers (Fair value through P&L)	0	6	4	50	0	0	97 916	6	97 982
Trading securities	27	69	8	8	24 210	0	0	1	24 323
Instruments valued at amort. cost	398 828	0	0	0	3 494 390	0	0	0	3 893 218
Instruments mandatorily at fair value through P&L	201 036	0	0	0	0	0	0	0	201 036
Derivatives and adjustment due to fair value hedge	447 219	17 209	8 339	223	0	0	0	2 109	475 099
Investment securities	24 033	4 996	0	313	16 414 077	0	0	35	16 443 454
Repurchase agreements	4 863	0	0	0	0	0	0	0	4 863
<b>Total</b>	<b>3 271 458</b>	<b>5 747 229</b>	<b>5 569 222</b>	<b>2 709 262</b>	<b>19 965 836</b>	<b>42 066 405</b>	<b>17 267 496</b>	<b>3 953 352</b>	<b>100 550 260</b>

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

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

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

### Loans and advances to customers by economy sectors and segment

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

The main items of loan book are mortgage loans (53.7%) and cash loans (19.1%). The portfolio of loans to companies from different sectors like industry, construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 24% of the total portfolio.

Sector name	2022 Balance Exposure (PLN million)	Share (%)	2021 Balance Exposure (PLN million)	Share (%)
<b>Credits for individual persons</b>	<b>59 165.0</b>	<b>75.9%</b>	<b>61 265.1</b>	<b>76.3%</b>
Mortgage	41 858.5	53.7%	44 050.5	54.9%
Cash loan	14 893.9	19.1%	14 831.6	18.5%
Credit cards and other	2 412.5	3.1%	2 383.0	2.9%
<b>Credit for companies*</b>	<b>18 763.9</b>	<b>24.1%</b>	<b>19 001.8</b>	<b>23.7%</b>
Wholesale and retail trade; repair	5 560.9	7.1%	5 686.1	7.1%
Manufacturing	4 572.9	5.9%	4 758.6	5.9%
Construction	1 152.0	1.5%	1 176.0	1.5%
Transportation and storage	2 708.7	3.5%	2 671.6	3.3%
Public administration and defence	33.2	0.0%	53.4	0.1%
Information and communication	1 077.1	1.4%	1 067.0	1.3%
Other Services	874.9	1.1%	982.8	1.2%
Financial and insurance activities	784.9	1.0%	279.2	0.3%
Real estate activities	792.2	1.0%	1 188.1	1.5%
Professional, scientific, and technical services	345.7	0.4%	266.4	0.3%
Mining and quarrying	61.0	0.1%	61.1	0.1%
Water supply, sewage, and waste	157.6	0.2%	164.4	0.2%
Electricity, gas, water	100.6	0.1%	137.2	0.2%
Accommodation and food service activities	206.8	0.3%	194.7	0.2%
Education	68.2	0.1%	63.1	0.1%
Agriculture, forestry, and fishing	101.8	0.1%	90.7	0.1%
Human health and social work activities	128.0	0.2%	127.2	0.2%
Culture, recreation, and entertainment	37.3	0.0%	34.2	0.0%
<b>Total (gross)</b>	<b>77 928.9</b>	<b>100.0%</b>	<b>80 266.9</b>	<b>100.0%</b>

\* incl. Microbusiness, annual turnover below PLN 5 million

Concentration ratio of the 20 largest customers in the Bank's loan portfolio (considering groups of connected entities) at the end of 2022 is 5.7% comparing with 5.9% at the end of 2021. Concentration ratio in 2022 also decreased for the 10 largest customers: to 4.4% from 4.5% at the end of the previous year.

## 8.4. MARKET RISK AND INTEREST RATE RISK

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

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

### Market risk

The Bank's market risk measurement allows monitoring of all the risk types, which are generic risk (including interest rate risk, foreign exchange risk, and equity risk), non-linear risk, specific risk, and commodity risk. In 2022 the commodities risk did not exist in the Bank. The equity risk assumed to be irrelevant since the Bank's engagement in equity instruments is immaterial.

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

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

The Value at Risk in the Bank (VaR) is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). In line with regulatory requirements of CRD / 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. The limit is divided into the books, risk management areas and various types of risk, which enables the Bank for full measurement, monitoring and control of market risk. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Bank.

The market risk limits are revised at least once a year and to consider, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The market risk limits valid for 2022 reflected the assumptions and risk appetite defined under Risk Strategy 2022-2024. The current limits in place have been valid since 1<sup>st</sup> June 2022 and remains conservative - nominal level for Global Bank is equivalent to no more than 7.9% and for Trading Book at 0.3% of Own Funds.

Within the current market environment, the Bank continued to act very prudently. The strong market volatility in connection with the war in Ukraine as well as with Monetary Policy Council's (MPC's) series of decisions to increase interest rates in Poland resulted in increased Group's market risk.

The VaR limits were not breached for Trading Book. However, due to high market volatility and relatively low levels of internal limits, the VaR in Banking Book and in consequences for the Group (jointly Trading Book and Banking Book) remained above limits in place between January 2022 and August 2022. It should be noted that the value at risk in Banking Book is only complementary risk measurement tool as positions are expected to be held to maturity and are normally not marked to market (see next section - Interest rate risk in Banking Book, IRRBB). All excesses of market risk limits are always reported, documented, and ratified at the proper competence level.

In 2022 the VaR indicators for the Bank remained on average at the level of PLN 456.6 million (124% of the limit) and PLN 372.7 million (67% of the limit) as of the end of December 2022. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect relates to the fact that the Bank's market risk is mainly the interest rate risk. The figures in the Table also include the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

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

VaR measures for market risk ('000 PLN)	VaR (2022)				
	31.12.2021	Average	Maximum	Minimum	31.12.2022
Total risk	391 280	456 628	736 729	270 212	372 712
Generic risk	389 833	451 590	735 324	257 021	359 279
Interest Rate Risk	389 761	451 587	735 219	257 020	359 270
FX Risk	232	113	2 958	13	229
Diversification Effect	0.0%				0.1%
Specific risk	1 445	5 035	13 465	1 375	13 432

The corresponding exposures as of 2021 respectively amounted to ('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 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 (2022)				
	31.12.2021	Average	Maximum	Minimum	31.12.2022
Total risk	390 289	455 758	731 045	270 331	372 708
Generic risk	388 846	450 725	729 643	257 143	359 277
Interest Rate Risk	388 846	450 725	729 643	257 143	359 277
FX Risk	0	0	0	0	0
Diversification Effect	0.0%				0.0%
Specific risk	1 443	5 033	13 463	1 373	13 430

VaR measures for market risk ('000 PLN)	VaR (2021)				
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	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

**Trading Book:**

VaR measures for market risk ('000 PLN)	VaR (2022)				
	31.12.2021	Average	Maximum	Minimum	31.12.2022
Total risk	2 518	3 111	9 532	743	1 336
Generic risk	2 514	3 106	9 528	741	1 334
Interest Rate Risk	2 485	3 090	9 507	734	1 310
FX Risk	228	113	2 961	13	240
Diversification Effect	7.9%				16.2%
Specific risk	2	2	18	2	2

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

Open positions mostly included interest-rate instruments and FX risk instruments. The FX risk covers all the foreign exchange exposures of the Bank. According to the Risk Strategy, the FX open position is allowed, however should be kept at low levels. For this purpose, the Bank has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows keeping FX open positions only in Trading Book.

In 2022, as a rule FX position generated in the Banking Book was fully transferred to the Trading Book where it was managed daily. During 2022 the FX open position remained on average at the level of PLN 10.5 million with maximum of PLN 42.3 million. In 2022, 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
2022	10 549	2 126	42 300	6 202
2021	9 464	3 153	59 313	10 021

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



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

Reporting Date	VaR (generic risk)	Theoretical change in the value of the portfolio (absolute values)	Number of excesses in last 12 months *
2022-12-31	359 279	100 072	4
2021-12-31	389 833	4 056	19

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

In 2022, all excesses in the process of VaR model back testing were caused by unanticipated market movements caused by the war in Ukraine 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 had the most impact on VaR model performance. The number of excesses proves the model adequacy (green zone: 1 - 8 excesses acceptable).

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

The results of market risk sensitivity and customized stress tests were regularly reported to the Capital, Assets and Liabilities Committee.

### Interest rate risk in Banking Book (IRRBB)

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

Exposure to interest rate risk in the Banking Book are primarily generated by the differences in repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. It is specifically affected by the unbalance between assets and liabilities that have fixed rate, especially by the liabilities which cannot have interest rate lower than 0. Consequently, the level of sensitivity to interest rate changes is influenced by the level of interest rates taken as a reference. Additionally, due to specificity of the Polish legal system, the interest rate of credits is limited (it cannot exceed two times Reference Rate of the National Bank of Poland increased by 7 percentage points). In situations of decreasing interest rates, the impact on Net Interest Income is negative and depends on the share of the fixed rate 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.

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

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

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

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

- the impact on the economic value of equity (EVE) resulting from 200 bps 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 impact on the economic value of equity (EVE) resulting from 100 bps upward/downward yield curve movements,
- the interest rate sensitivity in terms of BPVx100, that is the change of the portfolio's value for the parallel movement in the yield curve by 1 basis point multiplied by 100,
- the impact on net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of 100 basis points.

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

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

- Due date for balances and interest flows arising from non-maturing deposits are defined based on historical data regarding customer behaviour, considering the stability of the volumes and with assumption of a maximum maturity of 3 years for Polish Zlotys and 1 year for other currencies,
- The tendency to faster repayment of receivables than contractually scheduled is taken under consideration by calculating a prepayment rate in respect to all relevant Bank's loan portfolios based on historical data. It should be noted that mortgage loans that are the Bank's loan product with a dominant share, are mostly indexed to floating interest rate. This causes that the tendency to early repayment is less important for the interest rate risk. It should be however noted that in recent periods the share of temporarily fixed rate mortgage loans has increased.
- 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. The results of the IRRBB measurement as of the end of December 2022 indicate that the Bank is still most exposed to the scenario of interest rate decrease. The supervisory outlier tests results of December 2022 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

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

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

	31.12.2022	31.12.2021
	BPVx100	BPVx100
PLN	164 145	220 217
CHF	(6 573)	9 890
EUR	28 615	125 092
USD	19 695	33 099
Other	3 751	6 385
<b>TOTAL</b>	<b>209 632</b>	<b>394 682</b>
Equity, fixed and other assets	28 570	53 142
<b>TOTAL</b>	<b>238 203</b>	<b>447 824</b>

Sensitivity of EVE to changes of interest rates (*)	31.12.2022	31.12.2021
Standard, supervisory test (parallel yield curve +/-200 bp % Own Funds)	-6.05%	-7.29%
Supervisory outlier test (the most severe scenario, % CET1)	-9.33%	-10.64%

(\*) 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 2022 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 if all assets and liabilities with variable interest rate already reflect market interest rates levels as of 31st December 2022 (for example, the NBP Reference rate at the end of 2022 was set at 6.75%),
- 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 2022 and is set at the repricing date of the assets and liabilities that happens during the twelve following months.

In a scenario of parallel decrease of interest rates by 100 bps, the results are negative and equal to -192 million or 4.2% of the Bank's NII reference level. In a scenario of parallel increase of interest rates by 100 bps, the results are positive and equal to 192 million or +4.2% of the Bank's NII reference level. The results show that the Bank is now in balanced situation regarding impacts in the scenario of a decline or increase in interest rates. The degree of asymmetry that existed in previous reporting dates is not observable as interest rates were significantly above 0% as of 31<sup>st</sup> December 2022.

Sensitivity of NII for PLN to changes of interest rates	31.12.2022	31.12.2021
Parallel yield curve increase by 100bp	+4.2%	+6.1%
Parallel yield curve decrease by 100bp	-4.2%	-6.2%

## 8.5. LIQUIDITY RISK

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

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

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

In 2022, the war in Ukraine had an impact on global financial markets, however the Bank did not observe any threat to its liquidity position. The Bank continued to be characterized by solid liquidity position.

In 2022, the Bank's Loan-to-Deposit ratio decreased and was equalled to 77% at the end of December 2022 (comparing to level of 85% as of end of December 2021).

The liquidity assets portfolio is treated by the Bank's as liquidity reserve, which will overcome crisis situations. The liquidity assets portfolio consists of liquid debt securities issued or guaranteed by Polish government, other EU's sovereigns and multilateral development banks. It is additionally supplemented by the cash and exposures to the National Bank of Poland. At the end of 2022, the share of above mentioned liquid debt securities (including NBP Bills) in total securities portfolio amounted to 99% and allowed to reach the level of approx. PLN 20.3 billion (18% of total assets), whereas at the end of December 2021 (PLN 18.0 billion, 17% of total assets).

Consequently, the large, diversified, and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Bank. At the end of 2022 total Clients' deposits of the Bank reached the level of PLN 98.3 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equalled to approx. 70.0% at the end of December 2022 (71.8% at the end of December 2021). The high share of funds from individuals had a positive impact on the Bank's liquidity and supported the compliance of the supervisory liquidity measures.

Concentration of the deposits base, based on the share of top 5 and top 20 depositors, at the end of 2022 amounted respectively to 4.0% and 7.3% (in December 2021 it was respectively 3.6% and 6.5%). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2022. In case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, to prevent deposit base fluctuations, the Bank maintains the reserves of liquid assets in the form of securities portfolio.

The deposit base is supplemented by the deposits from financial institutions and other money market operations. At the end of 2022, the source of medium-term funding remained also subordinated debt and medium-term loans.

During 2022, the Bank issued Credit Link Notes amounted to PLN 242.5 million in the framework of synthetic securitisation transaction. No new loans were taken from financial institutions. The total balance sheet value of medium-term loans from financial institutions at the end of 2022 amounted to PLN 5.0 million (at the end of December 2021 it was PLN 15.0 million). The decrease of the total amount of the medium-term loans from financial institutions related to standard repayment in accordance with the schedule.

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

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

#### Liquidity risk evaluation measures

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

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

These figures are compared with the exposure limits in force and reported daily to the areas responsible for the management and control of the liquidity risk in the Bank as well as presented in monthly and/or quarterly basis to the Bank's Management Board and Supervisory Board.

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

According to the final provisions of CRD V/CRR II package, the Bank is calculating the liquidity coverage requirement (LCR) and the net stable funding ratio (NSFR). The regulatory minimum of 100% for both LCR and NSFR was complied by the Bank. LCR reached the level of 218% at the end of December 2022 (142% as of the end of December 2021). The increase was mainly connected with increase of deposit from Clients, which was invested in liquid assets portfolio. The measure is calculated daily and has been reported on the monthly basis to NBP since March 2014. Internally, the LCR is estimated daily and reported to the areas responsible for the management and control of the liquidity risk in the Bank. NSFR is monitored and reported quarterly. In each of the quarter, the NSFR was above the supervisory minimum of 100% (supervisory minimum valid since June 2021). NSFR reached the level of 160% at the end of December 2022 (146% as of the end of December 2021).

## Current Liquidity indicators

31.12.2022					
	Immediate liquidity ratio (%) *	Quarterly liquidity ratio (%)*	Central Bank Collateral / Total Deposits (%)**	Liquid assets Portfolio (m PLN)***	LCR (%)
Indicator	28%	28%	25%	24 349	218%

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

\* - 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, plus the cash and deposits in the Central Bank deducted of the minimum reserve requirement and the total deposits. This ratio is calculated based on the face amount of the referred products.

\*\*\* - Liquid Assets Portfolio: The sum of cash, exposure to Central Bank (the surplus above the required obligatory reserve) and Polish Government debt securities, NBP-Bills and due from banks with maturity up to 1 month. The debt securities portfolio is reduced by NBP haircut for repo transactions and securities encumbered for non-liquidity purposes.

The Bank monitors liquidity based on internal liquidity measures, considering the impact of FX rates on the liquidity situation.

Additionally, the Bank employs an internal structural liquidity analysis based on cumulative, behaviour liquidity gaps calculated. The safe level adopted by the Bank for the ratio of liquidity shortfall is established for each time bucket below 5 years.

In December 2022, liquidity gaps were maintained positive and still at safe levels. The results of cumulative, behaviour liquidity gaps (normal conditions) are presented in tables below.

2022-12-31				
Adjusted Liquidity Gap (PLN mln)	Up to 6M	Up to 1Y	Up to 2Y	Up to 5Y
Counterbalancing capacity	25 068	25 068	25 068	25 068
Outflows	12 099	4 670	3 726	6 734
Outflows Cumulated	12 099	16 769	20 495	27 229
Inflows	12 588	5 192	11 325	13 561
Inflows Cumulated	12 588	17 779	29 105	42 666
Liquidity Gap	25 556	522	7 599	6 827
Liquidity Gap Cumulated	25 556	26 078	33 677	40 504

2021-12-31*				
Adjusted Liquidity Gap (PLN mln)	Up to 6M	Up to 1Y	Up to 2Y	Up to 5Y
Counterbalancing capacity	18 429	18 429	18 429	18 429
Outflows	21 645	4 940	11 065	18 003
Outflows Cumulated	21 645	26 586	37 651	55 654
Inflows	21 581	8 663	16 564	27 141
Inflows Cumulated	21 581	30 243	46 808	73 949
Liquidity Gap	18 364	3 722	5 499	9 138
Liquidity Gap Cumulated	18 364	22 086	27 585	36 723

(\*) For comparative purposes, the results as of December 2021 were recalculated taking under consideration assumptions valid for internal structural liquidity analysis as of December 2022 (e.g., FX swaps maturing are presented separately in outflows and inflows in total amounts, which increased both symmetrically comparing to approach valid in 2021).

The Bank has developed a liquidity risk management tool defining sensitivity analysis and stress scenarios (idiosyncratic, systemic and combination of both). For stress tests, liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence among others considering increased deposits outflows, decreased or delayed loans repayment inflows, deteriorated liquidity of the secondary securities market, the highest cost of funding - the assumption of the worst observed margins on deposits in the Bank, parallel shift of the yield curve and PLN depreciation.

Stress tests are performed at least quarterly, to determine the Bank's liquidity-risk profile, to ensure that the Bank can fulfil its obligations in the event of a liquidity crisis and to update the liquidity contingency plan and management decisions. Additionally, stress test results are used for setting thresholds for early warning signals, which aim is to identify upcoming liquidity problems and to indicate to the Management Board the eventual necessity of launching Liquidity Contingency Plan.

The assumptions for both internal structural liquidity analysis and stress tests are annually revised. The last revision was carried out in December 2022. The current approach is based on additional liquidity monitoring metrics' maturity ladder for supervisory liquidity reporting, however, includes internal adjustments according to behavioural assumptions on balance and off-balance outflows and inflows. As the maturity ladder is a contractual liquidity gap that assumes static balance sheet, the internal assumptions regarding roll-over of funding and future interests cash flows were aligned and eliminated. Additionally, the way of presentation of internal structural liquidity analysis was changed in line with categories defined in supervisor's maturity ladder report. In December 2022 cumulative liquidity gap was positive and significantly better than in December 2021, mainly due to increase on deposits, which was reflected in liquid assets portfolio (counterbalancing capacity). The internally defined limit of 12% total assets was not breached and the liquidity position was confirmed as solid. As of December 2022, also the results of the stress test analysis demonstrated that liquidity position is not threatened as even in the most severe scenario the survival period is 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 Bank's planning and budgeting covers the preparation of the Liquidity Plan to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

The Bank has also emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan (contingency plan in case the Bank's financial liquidity deteriorates). The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities, and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least once a year. In 2022 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 2022.

## 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 2022 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 and the war in Ukraine. 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, anti-money laundering, antifraud, security and business continuity as well as insurance and outsourcing. The third line of defence is the independent internal audit unit.

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

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

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

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

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

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

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

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

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

## 8.7. RISK OF NEGATIVE IMPACT ON THE NATURAL ENVIRONMENT

The risk of impact on the natural environment is associated mainly with the possible negative impact of the Group on the environment and climate through its own operations, banking products and services offered, including project finance, and managing climate, transformation and physical risks to the Group. The Group prevents this risk by submitting to legal regulations, monitoring its own environmental impact and implementing environmentally-friendly actions and observing the "Environmental Policy of the Bank Millennium Group" and the "Responsible Financing Principles". The Group has incorporated environmental and social risks in the client assessment, lending and project financing processes or offering investment products (including Millennium TFI), taking into account not only the risks related to the business sectors in which the clients operate, but also their approach to environmental, social and corporate governance issues.

More information on managing the Group's impact on the environment and climate is presented in the ESG report of the Bank and the Group.

## 9. Transactions with Related Entities

### 9.1. TRANSACTIONS WITH THE SUBSIDIARIES AND PARENT'S GROUP

All transactions among members of the Group made in 2022 and 2021 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM BANK HIPOTECZNY,
- MILLENNIUM LEASING,
- MILLENNIUM CONSULTING,
- MILLENNIUM TFI
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- MILLENNIUM GOODIE,
- MILLENNIUM FINANCIAL SERVICES,
- PIAST EXPERT.

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

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

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2022

	With subsidiaries	With parent company	With other entities from parent group
<b>ASSETS</b>			
Loans and advances to banks - accounts and deposits	677 151	2 575	0
Loans and advances to customers	7 056 501	0	0
Investments in associates	247 823	0	0
Financial assets valued at fair value through profit and loss (held for trading)	99	32	0
Hedging derivatives	0	0	0
Other assets	29 259	0	0
<b>LIABILITIES</b>			
Deposits from banks	974	434	0
Deposits from customers	226 300	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	0	0	0
Subordinated debt	1 332	0	0
Other liabilities, including:	0	0	0
financial leasing liabilities	48 264	0	68

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2021

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

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2022

	With subsidiaries	With parent company	With other entities from parent group
<b>Income from:</b>			
Interest	328 439	1 008	0
Commissions	25 296	149	0
Financial instruments valued at fair value through other comprehensive income	0	30	0
Dividends	41 796	0	0
Other net operating	19 507	0	0
<b>Expense from:</b>			
Interest	11 780	75	0
Commissions	2	0	0
Financial instruments valued at fair value through profit and loss	346	0	0
Other net operating	0	0	0
General and administrative expenses	11 240	0	138

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

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2022

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	1 203 256	141 185	0
granted	1 199 836	120 593	0
obtained	3 420	20 593	0
Derivatives (par value)	139 897	13 705	0

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

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

## 9.2. TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

Information on total exposure towards the managing and supervising persons as at 31.12.2022 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	236.0	111.0
including an unutilized limit	178.5	106.0

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

Information on total exposure towards companies and groups personally related as at 31.12.2022 (in '000 PLN):

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

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

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, in 2021 the personal relationship with the Client ceased.

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

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

Year	Salaries and bonuses	Benefits	Total
2022	9 937.5	1 962.4	11 899.9
2021	10 500.0	1 831.1	12 331.1

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 2022 and 2021, 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
2022	2 051.1
2021	2 167.3

In 2022 the Members of the Bank's Supervisory Board received remuneration for performing their functions in subsidiaries in the amount of PLN 140.0 thousand, (in 2021 - PLN 105.6 thousand).



## 10. Fair Value

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

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

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

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

Level 3 - valuation models using unobservable data (not derived from an active market).

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

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

### Financial instruments not recognized at fair value in the balance sheet

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

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

#### *Receivables and liabilities with respect to banks*

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

#### *Loans and advances granted to customers valued at amortised cost*

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

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

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

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

#### Liabilities to customers

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

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

#### Subordinated liabilities, debt securities issued (synthetic securitisation) 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 31.12.2022 (data in PLN thousand):

	Note	Balance sheet value	Fair value
<b>ASSETS MEASURED AT AMORTISED COST</b>			
Debt securities	23	3 893 212	3 811 648
Deposits, loans and advances to banks and other monetary institutions	23	1 410 245	1 410 166
Loans and advances to customers (*)	22	64 536 372	62 166 022
<b>LIABILITIES MEASURED AT AMORTISED COST</b>			
Liabilities to banks and other monetary institutions	32	625 144	625 163
Liabilities to customers	33	98 264 816	98 289 469
Debt securities issued	35	243 753	244 519
Subordinated debt	36	1 568 083	1 568 949

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

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

The table below presents data as at 31.12.2021 (data in PLN thousand):

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

## 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 31.12.2022

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
<b>ASSETS</b>				
Financial assets held for trading	19			
Valuation of derivatives			87 859	251 436
Equity instruments		113		
Debt securities		24 210		
Non-trading financial assets mandatorily at fair value through profit or loss	20			
Equity instruments			62 370	66 609
Debt securities				72 057
Loans and advances	22			97 982
Financial assets at fair value through other comprehensive income	21			
Equity instruments		247		24 146
Debt securities		13 914 533	2 499 532	
Loans and advances	22			11 221 252
Derivatives - Hedge accounting	24		135 804	
<b>LIABILITIES</b>				
Financial liabilities held for trading	31			
Valuation of derivatives			125 722	254 422
Short positions		4 784		
Derivatives - Hedge accounting	24		554 544	

Data in '000 PLN, as at 31.12.2021

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
<b>ASSETS</b>				
Financial assets held for trading	19			
Valuation of derivatives			57 643	29 008
Debt securities		86 438		
Non-trading financial assets mandatorily at fair value through profit or loss	20			
Equity instruments			71 795	66 609
Debt securities				127 499
Loans and advances	22			362 992
Financial assets at fair value through other comprehensive income	21			
Equity instruments				28 433
Debt securities		17 924 059		
Loans and advances				11 485 351
Derivatives - Hedge accounting	24		14 385	
<b>LIABILITIES</b>				
Financial liabilities held for trading	31			
Valuation of derivatives			97 312	29 483
Short positions		16 614		
Derivatives - Hedge accounting	24		614 573	

Using the criterion of valuation techniques as at 31.12.2022 Bank classified into the third category following financial instruments:

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

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances FVP&L	Loans and advances FVOCI
Balance as at 31.12.2021	28 397	(28 872)	95 042	127 499	362 992	11 485 351
Settlement/sell/purchase/transfer	214 404	(216 420)	85	(60 296)	(306 117)	(1 021 563)
Change of valuation recognized in equity	0	0	(4 380)	0	0	(11 255)
Interest income and other of similar nature	0	0	0	0	28 604	768 719
Results on financial assets and liabilities held for trading	4 613	(5 109)	0	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	4 854	12 503	0
Result on exchange differences	0	0	8	0	0	0
Balance as at 31.12.2022	247 414	(250 400)	90 755	72 057	97 982	11 221 252

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances FVP&L	Loans and advances FVOCI
<b>Balance as at 31.12.2020</b>	<b>19 911</b>	<b>(19 559)</b>	<b>95 827</b>	<b>50 335</b>	<b>1 615 753</b>	<b>0</b>
Settlement/sell/purchase/transfer	4 158	(5 055)	0	0	(1 348 014)	11 081 946
Change of valuation recognized in equity	0	0	(785)	0	0	267 079
Interest income and other of similar nature	0	0	0	0	55 372	136 326
Results on financial assets and liabilities held for trading	4 328	(4 258)	0	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	77 164	39 881	0
Result on exchange differences	0	0	0	0	0	0
<b>Balance as at 31.12.2021</b>	<b>28 397</b>	<b>(28 872)</b>	<b>95 042</b>	<b>127 499</b>	<b>362 992</b>	<b>11 485 351</b>

# 11. Contingent Liabilities and Assets

## 11.1. LAWSUITS

Below please find the data on the court cases pending, brought up by and against the Bank. A separate category are the proceedings related to the activities of the Tax Control Authority described in Chapter 13. note 16) "Corporate Income Tax".

### Court cases brought up by the Bank

Value of the court litigations, as at 31.12.2022, in which the Bank was a plaintiff, totalled PLN 666.1 million. The increase in the value of the subject of litigation in cases brought by the Bank in relation to previous periods results from the fact of filing lawsuits against FX mortgage loan customers.

#### *Proceedings on infringement of collective consumer interests*

On January 3 2018, the Bank received decision of the Chairman of the Office for Protection of Competition and Consumers (OPCC Chairman) , in which the OPCC Chairman found infringement by the Bank of the rights of consumers. In the opinion of the OPCC Chairman 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 OPCC Chairman 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 OPCC, 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 OPCC Chairman 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.

The second instance court, in its judgment of February 24, 2022, completely revoked the decision of the OPCC Chairman. On August 31, 2022, the OPCC Chairman lodged a cassation appeal to the Supreme Court. The Bank believes that the prognosis regarding the litigation chances of winning the case before the Supreme Court is positive.

### *Proceedings on competition-restricting practice*

The Bank (along with other banks) is also a party to the dispute with OPCC, in which the OPCC Chairman 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.

On March 31, 2022, the first instance court revoked the entire decision of the Chairman of the OPCC. On May 23, 2022, the Chairman of the OPCC filed an appeal. On October 26, 2022, the Court of Appeal changed the judgment of the court of first instance and shared the position of the Chairman of the OPCC as to the abusiveness of the provisions regarding the determination of exchange rates in the annexes concluded with foreign currency borrowers. On November 21, 2022, the Court of Appeals, at the request of the Bank, suspended the execution of the judgment until the end of the cassation proceedings. The Bank filled a cassation appeal to the Supreme Court.



## Court cases against the Bank

As at 31.12.2022, the most important proceedings, in the group of the court cases where the Bank was defendant, were following:

- The Bank is a defendant in three court proceedings in which the subject of the dispute is the amount of the interchange fee. In two of the abovementioned cases, the Bank was sued jointly and severally with another bank, and in one with another bank and card organizations. The total value of claims submitted in these cases is PLN 729.6 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 31.12.2022, the total value of the subjects of the other litigations in which the Bank appeared as defendant, stood at PLN 3,875.2 million (excluding the class actions described below and in the **Chapter 12**). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

### The class action related to the LTV insurance:

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

#### Actual status:

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

By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff and decided to take witness evidence in writing and called on the parties to submit questions to the witnesses. The Bank submitted a pleading with questions to witnesses in July 2020. Currently, the court is collecting written testimony from witnesses. The date of the hearing has not been set at the moment.

As at 31 December 2022, there were also 218 individual court cases regarding LTV insurance (cases in which only a claim for the reimbursement of the commission or LTV insurance fee is presented).

#### Lawsuits filed by Financial Ombudsman for discontinuation of unfair market practices

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

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

Furthermore, the Ombudsman requires the Bank to be ordered to publish, on its web site, information on use of unfair market practices.

The lawsuit does not include any demand for payment, by the Bank, of any specified amounts. Nonetheless, if the practice is deemed to be abusive it may constitute grounds for future claims to be filed by individual clients.

The case is being examined by the court of first instance.

#### FX mortgage loans legal risk

FX mortgage loans legal risk is described in the **Chapter 12**. "Legal risk related to foreign currency mortgage loans".

## 11.2. OFF BALANCE SHEET ITEMS

### OFF-BALANCE ITEMS

Amount '000 PLN	31.12.2022	31.12.2021
<b>Off-balance conditional commitments granted and received</b>	<b>16 365 564</b>	<b>17 365 756</b>
Commitments granted:	14 030 294	15 236 694
Loan commitments	11 610 683	12 658 407
guarantee	2 419 611	2 578 287
Commitments received:	2 335 270	2 129 062
financial	6 884	40 000
guarantee	2 328 386	2 089 062

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

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

Customer - sector, amount '000 PLN	31.12.2022	31.12.2021
financial sector	465 503	803 464
non-financial sector (companies)	1 949 877	1 773 210
public sector	4 238	1 613
<b>Total</b>	<b>2 419 618</b>	<b>2 578 287</b>

As the parent company, the Bank granted 3 loan repayment guarantees to the subsidiary Millennium Leasing for the total amount of PLN 334.5 million and a line for guarantees with a total value of PLN 19.3 million. In addition, the Bank provided guarantees and sureties to external entities on behalf of Group companies. The total value of guarantee obligations from the above titles is presented in the table:

Subordinated company, amount '000 PLN	31.12.2022	31.12.2021
Millennium Leasing Sp. z o.o.	354 495	713 831
Millennium Service Sp. z o.o.	12 722	12 551
Millennium Goodie Sp. z o.o.	5 000	5 000
<b>Total</b>	<b>372 217</b>	<b>731 381</b>

## Guarantees and sureties granted to Clients

Commitments granted - guarantee, amount '000 PLN	31.12.2022	31.12.2021
Active guarantees and sureties	1 472 187	1 434 928
Lines for guarantees and sureties	954 066	1 149 877
Total	2 426 252	2 584 805
Provisions created	(6 634)	(6 519)
Commitments granted - guarantee after provisions	2 419 618	2 578 287

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

By currency	31.12.2022	31.12.2021
PLN	857 171	897 677
Other currencies	615 016	537 251
Total:	1 472 187	1 434 928

By type of commitment	31.12.2022		31.12.2021	
	Number	Amount	Number	Amount
Guarantee	3 417	1 456 797	3 475	1 419 727
Surety	0	0	0	0
Re-guarantee	58	15 391	48	15 201
Total:	3 475	1 472 187	3 523	1 434 928

By object of the commitment	31.12.2022			31.12.2021		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 780	555 850	37.76%	2 776	532 730	37.13%
rent payment	287	339 003	23.03%	325	244 684	17.05%
punctual payment for goods or services	85	13 441	0.91%	107	16 713	1.16%
bid bond	185	83 118	5.65%	200	100 245	6.99%
Other	52	48 423	3.29%	56	40 102	2.79%
advance return	36	53 251	3.62%	39	49 159	3.43%
Customs	17	343 501	23.32%	17	438 033	30.53%
payment of bank loan	33	35 600	2.42%	3	13 262	0.92%
Total:	3 475	1 472 187	100.00%	3 523	1 434 928	100.00%

## 12. Legal risk related to foreign currency mortgage loans

### 12.1. COURT CLAIMS AND CURRENT PROVISIONS ON LEGAL RISK

On December 31, 2022, the Bank had 16,008 loan agreements and additionally 1,272 loan agreements from former Euro Bank 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 (78% loans agreements before the courts of first instance and 22% loans agreements before the courts of second instance) with the total value of claims filed by the plaintiffs amounting to PLN 2,758.4 million and CHF 201.9 million (Bank Millennium portfolio: PLN 2,536 million and CHF 197.3 million and former Euro Bank portfolio: PLN 222.5 million and CHF 4.6 million).

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of paid principal and interest instalments as 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 directly grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3 273. On 24 May 2022 the court issued a judgment on the merits, dismissing the claim in full. Both parties requested a written justification of the judgment. On 13 December 2022 the claimant filed on appeal against the judgment of 24 May 2022. The appeal has not been served yet to the Bank's counsel.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,982 individual claims were filed against the Bank (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,006 (265), in 2021 the number increased by 6,153 (422), while in 2022 the number increased by 5,750 (408).

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. As far as the Bank itself is concerned, since from 2015 and until the end of 2022, 1,173 cases were finally resolved (1,111 in claims submitted by clients against the Bank and 62 in claims submitted by the Bank against clients i.e. debt collection cases) out of which 354 were settlements, 46 were remissions, 53 rulings were favorable for the Bank and 720 were unfavorable including both invalidation of loan agreements as well as conversions into PLN+LIBOR. The Bank files appeals against negative judgements of the courts of 1<sup>st</sup> instance as well as submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts. Currently, the statistics of first and second instance court decisions are much more unfavourable and its number is also increasing.

The outstanding gross balance of the loan agreements under individual court cases and class action against the Bank on 31.12.2022 was PLN 5,576 million (of which the outstanding amount of the loan agreements under the class action proceeding was 897 million PLN).

If all Bank Millennium's originated 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 5,499 million. Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

During 2022 the Bank created PLN 1,844 million provisions and PLN 173 million for former Euro Bank originated portfolio. The balance sheet value of provisions for the Bank Millennium portfolio at the end of December 2022 was at the level of PLN 4,986 million, and PLN 409 million for former Euro Bank originated portfolio.

The methodology developed by the Bank of calculating provisions for legal risk involved with indexed loans is based on the following main parameters:

- (1) the number of current cases (including class actions) and potential future lawsuits, that arise within a specified (three-year) time horizon,
- (2) the amount of the Bank's potential loss in the event of a specific court judgment,
- (3) the probability of obtaining a specific court judgment calculated on the basis of statistics of decisions of the banking sector in Poland and legal opinions obtained.
- (4) in the case of the scenario of cancellation of the loan agreement, the element taken into account, with a view to legal assessments, is the calculation of the Bank's loss, taking into account the assignment of a minimum probability of obtaining remuneration for the use of capital.
- (5) estimates involved with amicable settlements with clients, concluded in court or out of court.
  - a. negotiations are conducted on a case-by-case basis and can be stopped at any time by the Bank
  - b. as the negotiations efforts have already been material in the past, the probability of success may be lower in the future 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 35 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 41 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 40 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 and other natural drivers, the number of active FX mortgage loans decreased by 8,449 in 2021 and 7,943 in 2022. As of end 2022, the Bank had 38,011 active FX mortgage loans. Cost incurred in conjunctions with these negotiations totalled PLN 364.5 million in 2021 and PLN 515.2 million in 2022 is presented mainly in “Result on exchange differences” in the profit and loss statement, and in 2022 also in “Result on modification” (the values of costs charged to particular items of the Income Statement due to settlements are presented in **Note (14) in Chapter 13 of the Notes to the Financial Statements**).

Finally it should also be mentioned, that the Bank, as at 31.12.2022, 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 1.95 p.p. (1.94 p.p. at the Group level), part of which is allocated to operational/legal risk.

#### CJEU and Supreme Court rulings relevant to risk assessment

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 November 18, 2021, the Court of Justice of the European Union (CJEU) issued a judgment in case C-212/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Raiffeisen Bank International AG. The CJEU stated that:

(i) The content of the clause of the loan agreement concluded between the entrepreneur and the consumer fixing the purchase and sale price of the foreign currency to which the loan is indexed should, on the basis of clear and comprehensible criteria, enable the consumer who is reasonably well informed and sufficiently observant and rational to understand how the exchange rate of the foreign currency used to calculate the amount of the loan instalments is determined, so that the consumer is able to determine himself at any time the exchange rate used by the entrepreneur.

(ii) A national court which has found that a term of the agreement concluded between an entrepreneur and a consumer is unfair cannot interpret that term in order to mitigate its unfairness, even if such an interpretation would correspond to the common will of the parties.

On 10 June 2021, the Court of Justice of the European Union (CJEU) issued an order in case C-198/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Santander Bank Polska SA. The CJEU stated that the protection provided for in Council Directive 93/13/EEC is granted to all consumers, not just those who can be considered to be "duly informed and reasonably observant and circumspect average consumer".

On 8 September 2022, the Court of Justice of the European Union (CJEU) issued a judgment in joined cases C-80/21, C-81/21, C-82/21 in connection with questions submitted by the District Court for Warsaw Śródmieście in Warsaw in cases against Deutsche Bank SA and mBank SA. The CJEU stated that:

(i) A national court may find that the parts of a contractual term of the agreement concluded between a consumer and an entrepreneur which render it unfair are unfair, if such a deletion would not amount to a change in the content of that term that affects its substance, which is for the referring court to verify.

(ii) A national court cannot, after annulling an unfair term contained in an agreement concluded between a consumer and an entrepreneur which does not render the agreement invalid in its entirety, replace that term with a supplementary provision of the national law.

(iii) A national court may not, after having declared invalid an unfair term contained in an agreement concluded between a consumer and an entrepreneur which entails the invalidity of that agreement in its entirety, replace the contractual term which has been declared invalid either by interpretation of the parties' declaration of intent in order to avoid the cancellation of that agreement or by a provision of national law of a supplementary nature, even if the consumer has been informed of the effects of the invalidity of that agreement, and accepted them.

(iv) The ten-year limitation period for a consumer's claim seeking reimbursement of sums unduly paid to the entrepreneur in performance of an unfair term of a loan agreement does not start to run on the date of each performance made by the consumer if the consumer was not able on that date to assess on his own the unfairness of the contractual term or if he had not become aware of the unfair nature of that term and without taking into account the circumstances that the agreement provided for a repayment period - in this case thirty years - well in excess of the ten-year statutory limitation period.

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.

On April 28, 2022 the Supreme Court issued a resolution (III CZP 40/22) in which it indicated that in disputes with consumers, the provision of Article 358<sup>1</sup> of the Civil Code is a special provision to Article 353<sup>1</sup> of the Civil Code, which means that if the prerequisites for the application of both provisions exist, the court should apply the special provision and declare the contractual provision permanently ineffective, rather than invalid. This decision of the Supreme Court should be perceived as significantly limiting the risk of the bank's claims for return of capital being time-barred.

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

It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court have already been filed and may still be filed with potential impact on the outcome of the court cases.

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

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

On 11 May 2021 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.

On 12 August 2021, in the case for payment brought by a consumer against Bank Millennium SA, 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. The hearing was held on October 12, 2022. The hearing was attended by representatives of the Bank, the consumer's representative, representatives of the European Commission, the Polish government, the Financial Ombudsman, the Commissioner for Human Rights, the Polish Financial Supervision Authority and the prosecutor. In its position, the European Commission opposed granting banks the right to an additional financial benefit for the consumer's use of the capital provided. At the same time, the Commission concluded that granting consumers the right to an additional financial benefit will not be contrary to the EU law. The representatives of the Polish government, the Financial Ombudsman, the Commissioner for Human Rights and the prosecutor also objected to granting banks the right to an additional benefit. The Chairman of the Polish Financial Supervision Authority pointed out that the essence of the problem is not the abusiveness of contractual clauses, but the appreciation of the Swiss franc (CHF) against the zloty (PLN). In the opinion of the Chairman of the Polish Financial Supervision Authority, banks are entitled to economic compensation for allowing another entity to use the capital.

The next stage in the case will be the issuance of an opinion by the Advocate General in the case. The opinion is scheduled for February 16, 2023.

On 9 December 2022, in the case brought by the Bank against the borrower for payment - return of the capital made available to the borrower on the basis of an invalid capital contract and the equivalent value of the benefit related to the borrower's use of capital, the court referred a question to the CJEU for a preliminary ruling whether, if it is found that the loan contract concluded by the bank and the consumer is invalid from the beginning due to the conclusion of unfair contractual terms, in addition to the return of money paid in the performance of this contract (loan principal) and statutory late payment interest from the moment of the request for payment, the bank may also demand any other benefits, including receivables, in particular remuneration, compensation, reimbursement of costs or valorisation of the benefit. The case was registered under the reference number C-756/22. Referring the question, the court asked the CJEU to join the case with the above-mentioned ongoing proceedings under ref. C-520/21. The Court has decided not to join the cases.

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 was subject of consultations between banks under the auspices of the PFSa and Polish Banking Association. Banks in general have assessed the conditions under which such solution could be implemented and consequent impacts.

As expressed in our previous financial reports, when that assessment was done, in the view of the Management Board of the Bank, important aspects to take into consideration when deciding on potential implementation of such program were: a) favorable 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.

Any decision regarding implementation of such program would require the Management Board to submit it to the Supervisory Board and General Shareholders meeting taking into consideration the relevance of such decision and its implications.

Despite the fact that not all of those aspects have been possible to clarify, the Bank in practice has been using elements of such solution on several individual negotiations with FX mortgage borrowers, including in the course of court proceedings.

The effect of the Supreme Court's resolution of 7 May 2021 is that the bank is entitled to a refund of the cash benefit provided by the bank in performance of a permanently ineffective contract. Taking into account the uncertainty as to the starting point of the limitation period for the bank's claims, the Bank, in order to protect its interests, files lawsuits for payment against borrowers in a court dispute with the bank. The bank's demand consists of: a claim for return of the capital made available to the borrower under the contract and a claim for reimbursement of the equivalent of the benefit obtained by the borrower in connection with the use of the capital made available (equivalent to the financial service). By 31 December 2022 the bank filed over 3,000 lawsuits against the borrowers. Due to the ongoing proceedings on questions referred for a preliminary ruling (C-520/21, C-756/22) concerning the scope of claims of the parties to an invalid contract, no final decision has yet been issued in the Bank's cases containing a substantive assessment of the Bank's claims for reimbursement of benefits related to the use of capital.

Due to the complexity and uncertainty regarding the outcome of court cases, including counter-claims, as well as from potential implementation of KNF Chairman solution or other negotiation solutions or from potential Supreme Court decisions or European Court of Justice decisions, it is difficult to reliably estimate final impacts from different potential outcomes as at the date of publication of the financial statements.

## 13. Notes to the Financial Statements

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

### 1. INTEREST INCOME AND OTHER OF SIMILAR NATURE

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Interest income from Financial assets at fair value through other comprehensive income	1 232 768	293 731
Debt securities	464 049	157 405
Loans and advances	768 719	136 326
Interest income from Financial assets at amortised cost	3 696 751	2 381 845
Balances with the Central Bank	166 369	3 753
Loans and advances to customers, including:	3 302 440	2 273 069
- the impact of the adjustment to the gross carrying amount of loans due to credit holidays	(1 291 600)	0
Debt securities	85 566	620
Deposits, loans and advances to banks	26 151	278
Transactions with repurchase agreements	26 095	461
Hedging derivatives	90 130	103 664
Result of similar nature to interest, including:	(28 797)	63 888
Loans and advances to customers mandatorily at fair value through profit or loss	28 604	55 372
Financial assets held for trading - derivatives	(61 492)	7 902
Financial assets held for trading - debt securities	4 091	614
<b>Total</b>	<b>4 900 722</b>	<b>2 739 464</b>

In the line „Hedging derivatives” the Bank presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Bank is presented in **note (24)**.

Interest income from instruments measured at amortized cost for 2022 includes an adjustment for credit holidays (reducing income) in the amount of PLN 1,291.6 million, more information on this subject is presented in **Chapter 7.3 Adopted accounting principles**.

Interest income for the year 2022 contains interest accrued on impaired loans in the amount of PLN 163,046 thous. (for corresponding data in the year 2021 the amount of such interest stood at PLN 100,927 thous.).

### 2. INTEREST EXPENSE

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Interest expense from Financial liabilities measured at amortised cost	(1 662 941)	(125 247)
Liabilities to banks and other monetary institutions	(26 945)	(3 511)
Liabilities to customers	(1 464 489)	(68 970)
Transactions with repurchase agreement	(52 871)	(1 791)
Debt securities issued	(1 253)	(3 267)
Subordinated debt	(110 181)	(40 076)
Leasing liabilities	(7 202)	(7 632)
Hedging derivatives	0	0
Other	0	(3)
<b>Total</b>	<b>(1 662 941)</b>	<b>(125 250)</b>

### 3. FEE AND COMMISSION INCOME AND EXPENSE

#### 3a. Fee and commission income

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Resulting from accounts service	138 040	131 838
Resulting from money transfers, cash payments and withdrawals and other payment transactions	91 496	78 916
Resulting from loans granted	166 554	177 771
Resulting from guarantees and sureties granted	16 609	16 157
Resulting from payment and credit cards	268 501	235 579
Resulting from sale of insurance products	127 141	106 247
Resulting from distribution of investment funds units and other savings products	52 525	81 398
Resulting from brokerage and custody service	10 374	6 166
Other	35 468	33 312
Total	906 708	867 384

#### 3b. Fee and commission expense

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Resulting from accounts service	(22 858)	(6 054)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(5 480)	(4 671)
Resulting from loans granted	(10 898)	(12 525)
Resulting from payment and credit cards	(105 252)	(86 390)
Resulting from brokerage and fiduciary services	(1 383)	0
Resulting from selling insurance products	(11 546)	(15 036)
Other	(34 334)	(26 583)
Total	(191 751)	(151 259)

### 4. DIVIDEND INCOME

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Trading financial assets	17	0
Non-trading financial assets mandatorily at fair value through profit or loss	1 322	1 333
Financial assets at fair value through other comprehensive income	2 457	2 401
Investments in subordinated companies	41 796	48 663
Total	45 592	52 397



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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Operations on debt instruments	(166)	12 896
Sale of the FVTOCI portfolio	515	1 398
Costs of financial operations	(2 726)	(3 751)
Total	(2 377)	10 543

## 6. RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Result on debt instruments	(13 179)	12 896
Result on derivatives	12 646	1 398
Costs of financial operations	5	(3 752)
Total	(528)	10 542

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Loans and advances to customers	12 503	39 881
Result on equity instruments	8 339	7 494
Result on debt instruments	4 854	77 163
Total	25 696	124 538

The decrease in the result on non-trading debt instruments mandatorily measured at fair value through profit or loss recorded in 2022 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) which took place in 2021.

## 8. RESULT ON HEDGE ACCOUNTING

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Changes in the fair value of the hedging instrument (including abandonment)	5 230	13 813
Changes in the fair value of the hedged item resulting from the hedged risk	(6 119)	(13 302)
Inefficiency in cash flow hedges	(6 241)	(3 696)
Inefficiencies due to net investment hedges in foreign operations	0	0
Total	(7 130)	(3 185)

## 9. OTHER OPERATING INCOME

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Gain on sale and liquidation of property, plant and equipment, intangible assets	1 371	2 635
Income from sale of other services	12 167	17 098
Income from collection service	4 552	5 653
Other	221 051	258 095
<b>Total</b>	<b>239 141</b>	<b>283 481</b>

## 10. OTHER OPERATING EXPENSE

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Loss on sale and liquidation of property, plant and equipment, intangible assets	(2 024)	(4 366)
Indemnifications, penalties and fines paid	(18 454)	(11 966)
Costs of provisions for disputed claims	(27 325)	(112 726)
Costs related with providing other services	(2 269)	(2 588)
Donations made	(1 673)	(900)
Costs of collection service	(98 347)	(48 419)
Provision for potential returns to clients*	5 009	(1 941)
Other	(31 894)	(15 754)
<b>Total</b>	<b>(176 977)</b>	<b>(198 660)</b>

\* 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, the Group creates provisions for potential reeturns which as at December 31, 2022 amounted to PLN 78.9 million..

## 11. ADMINISTRATIVE EXPENSES

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Staff costs:	(865 074)	(767 923)
Salaries	(710 949)	(633 640)
Surcharges on pay	(120 201)	(105 774)
Employee benefits, including:	(33 924)	(28 509)
- provisions for retirement benefits	(5 609)	(6 159)
- provisions for unused employee holiday	(90)	1 382
- other	(28 225)	(23 732)
Other administrative expenses:	(952 414)	(612 279)
Costs of advertising, promotion and representation	(64 201)	(63 039)
IT and communications costs	(131 011)	(119 503)
Costs of renting	(46 486)	(51 570)
Costs of buildings maintenance, equipment and materials	(47 224)	(43 491)
ATM and cash maintenance costs	(32 957)	(28 013)
Costs of consultancy, audit and legal advisory and translation	(95 474)	(75 325)
Taxes and fees	(36 976)	(32 608)
KIR - clearing charges	(11 305)	(9 325)
PFRON costs	(6 098)	(6 705)
Banking Guarantee Fund costs	(121 101)	(118 210)
Financial Supervision costs	(12 648)	(12 713)
Cost of payments to IPS	(276 120)	0
Other	(70 813)	(51 777)
<b>Total</b>	<b>(1 817 488)</b>	<b>(1 380 202)</b>

## 12. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Impairment losses on loans and advances to customers	(305 490)	(284 449)
Impairment charges on loans and advances to customers	(1 417 533)	(1 416 012)
Reversal of impairment charges on loans and advances to customers	979 345	1 023 062
Amounts recovered from loans written off	47 278	51 939
Sale of receivables	85 416	62 555
Other directly recognised in profit and loss	4	(5 993)
Impairment losses on securities	(5)	1
Impairment charges on securities	(5)	(6)
Reversal of impairment charges on securities	0	7
Impairment losses on off-balance sheet liabilities	4 854	7 835
Impairment charges on off-balance sheet liabilities	(42 130)	(54 970)
Reversal of impairment charges on off-balance sheet liabilities	46 984	62 805
<b>Total</b>	<b>(300 641)</b>	<b>(276 613)</b>

### 13. IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Fixed assets	0	0
Other assets	(3 515)	(7 642)
Total	(3 515)	(7 642)

### 14. PROVISIONS FOR LEGAL RISK CONNECTED WITH FX MORTGAGE LOANS

01.01.2022 - 31.12.2022	TOTAL	Allocated for credit portfolio	Provisions for pending legal issues
Balance at the beginning of the period	3 332 614	2 916 779	415 835
Amounts written off	(223 036)	(223 036)	0
Costs of provisions for legal risk connected with FX mortgage loans	2 017 320	0	2 017 320
Allocation to the loans portfolio	0	1 610 712	(1 610 712)
Increase of provisions due to FX rates differences	268 445	268 445	0
Balance at the end of the period	5 395 344	4 572 901	822 443

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)	(24 059)	0
Costs of provisions for legal risk connected with FX mortgage loans	2 305 157	0	2 305 157
Allocation to the loans portfolio	0	1 964 613	(1 964 613)
Increase of provisions due to FX rates differences	91 470	91 470	0
Balance at the end of the period	3 332 614	2 916 779	415 835

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Costs of settlements recognized in the profit and loss account, including:	(484 392)	(364 525)
- included in the "Result on exchange differences"	(382 239)	(364 525)
- included in the "Result on modification"	(102 153)	0
Costs of settlements charged to previously created provisions	(30 774)	0

### 15. DEPRECIATION AND AMORTIZATION

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Property, plant and equipment	(149 679)	(147 903)
Intangible assets	(52 733)	(45 598)
Total	(202 412)	(193 501)

## 16. CORPORATE INCOME TAX

### 16a. Income tax reported in income statement

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Current tax	(254 175)	(187 163)
Current year	(254 175)	(187 163)
Adjustment to prior periods	0	0
Deferred tax:	(11 030)	(122 349)
Recognition and reversal of temporary differences	(11 030)	(122 349)
<b>Total income tax reported in income statement</b>	<b>(265 205)</b>	<b>(309 512)</b>

### 16b. Effective tax rate

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Profit before tax / (loss)	(764 694)	(1 047 940)
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	145 292	199 108
<b>Impact of permanent differences on tax charges:</b>	<b>(413 301)</b>	<b>(510 845)</b>
Non-taxable income	41 596	53 056
Dividend income	8 411	9 702
Release of other provisions	32 027	43 057
Settlement with SG due to adjustment of Euro Bank S.A. purchase price	0	0
Other	1 158	297
Cost which is not a tax cost	(454 897)	(563 900)
Write-down of unrealized deferred tax assets	0	0
Loss on sale of receivables	(4 425)	(17)
PFRON fee	(1 158)	(1 274)
Fees for Banking Guarantee Fund	(23 009)	(22 460)
Settlement of BFG SKOK PIAST	(142)	(397)
Banking tax	(32 122)	(59 396)
Income/cost of provisions for factoring and leasing receivables	469	1 073
Receivables written off	(4 830)	(19 667)
Costs of litigations and claims	(393 575)	(458 454)
Ccosts related to concluded agreements	5 310	(1 068)
Other	(1 415)	(2 240)
Amount of deductible temporary differences for which no deferred tax asset was recognized in the balance sheet	2 116	0
Deduction of the tax paid abroad	234	0
Other differences between gross financial result and taxable income with income tax (including R&D relief)	454	2 224
<b>Total income tax reported in income statement</b>	<b>(265 205)</b>	<b>(309 512)</b>
Effective tax rate	/-/*	/-/*

\* For the years 2022 and 2021, the Bank recorded a negative gross financial result and at the same time a tax burden of a cost nature, therefore the Group did not calculate the effective tax rate.

#### 16c. Deferred tax reported in equity

	31.12.2022	31.12.2021
Valuation of investment assets at fair value through other comprehensive income	170 072	130 468
Valuation of credit portfolio at fair value through other comprehensive income	(48 607)	(50 745)
Valuation of cash flow hedging instruments	77 151	71 993
Actuarial gains (losses)	(1 849)	(259)
Deferred tax reported directly in equity	196 767	151 457

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 2<sup>nd</sup> 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. On 21 March 2022 Bank received the ZUCS's decision on WHT audit transformation into a tax proceeding. On 30 June 2022 Bank received the ZUCS's decision determining WHT arrear of ca. PLN 2.2 mio. Bank appealed from this decision.

Bank received an expert opinion as of January 29, 2020 of tax professors from the Public Finances Law Department of the Faculty of Law and Administration at Nicolaus Copernicus University in Torun, according to which ZUCS's statement violates binding tax law provisions.

## 17. EARNINGS PER SHARE

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

## 18. CASH, BALANCES AT THE CENTRAL BANK

### 18a. Cash, balances at the central bank

	31.12.2022	31.12.2021
Cash	935 916	874 739
Cash in Central Bank	8 600 174	2 304 997
Other funds	0	0
<b>Total</b>	<b>9 536 090</b>	<b>3 179 736</b>

In the period from 30 November 2022 to 2 January 2023 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 3,270,802 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

	31.12.2022	31.12.2021
in Polish currency	4 406 496	2 918 689
in foreign currencies (after conversion to PLN)	5 129 594	261 047
▪ currency: USD	100 673	41 867
▪ currency: EUR	4 991 057	180 932
▪ currency: CHF	15 756	15 396
▪ currency: GBP	17 508	19 203
▪ other currencies	4 600	3 649
<b>Total</b>	<b>9 536 090</b>	<b>3 179 736</b>

## 19. FINANCIAL ASSETS HELD FOR TRADING

### 19a. Financial assets held for trading

	31.12.2022	31.12.2021
<b>Debt securities</b>	<b>24 210</b>	<b>86 438</b>
Issued by State Treasury	24 210	86 438
a) bills	0	0
b) bonds	24 210	86 438
Equity instruments	113	0
Positive valuation of derivatives	339 295	86 651
<b>Total</b>	<b>363 618</b>	<b>173 089</b>

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

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

	31.12.2022	31.12.2021
▪ with fixed interest rate	18 353	61 340
▪ with variable interest rate	5 857	25 098
<b>Total</b>	<b>24 210</b>	<b>86 438</b>

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

	31.12.2022	31.12.2021
to 1 month	912	0
above 1 month to 3 months	0	0
above 3 months to 1 year	2 050	1 729
above 1 year to 5 years	15 995	70 202
above 5 years	5 253	14 507
<b>Total</b>	<b>24 210</b>	<b>86 438</b>

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	86 438	269 412
Increases (purchase, takeover and accrual of interest and discount)	5 891 243	9 558 488
Reductions (sale and redemption)	(5 954 084)	(9 740 856)
Differences from valuation at fair value	726	(606)
<b>Balance at the end of the period</b>	<b>24 323</b>	<b>86 438</b>



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

31.12.2022	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	1 039 534	1 664 741	9 507 306	257 449	(28 540)	29 235	57 775
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	1 039 534	1 526 317	8 751 790	233 297	(29 042)	1 293	30 335
Other interest rate contracts: options	0	138 424	755 516	24 152	502	27 942	27 440
2. FX derivatives*	12 135 778	1 648 761	160 657	0	(9 323)	58 624	67 947
FX contracts	1 995 563	1 023 642	85 933	0	(12 358)	11 939	24 297
FX swaps	9 203 270	625 119	74 724	0	1 436	44 663	43 227
Other FX contracts (CIRS)	936 945	0	0	0	1 599	2 022	423
FX options	0	0	0	0	0	0	0
3. Embedded instruments	0	0	257 952	2 439 784	(250 400)	0	250 400
Options embedded in deposits	0	0	257 952	2 439 784	(250 400)	0	250 400
Options embedded in securities issued	0	0	0	0	0	0	0
4. Indexes options	0	301 357	2 551 648	0	247 414	251 436	4 022
<b>Total</b>	<b>13 175 312</b>	<b>3 614 859</b>	<b>12 477 563</b>	<b>2 697 233</b>	<b>(40 849)</b>	<b>339 295</b>	<b>380 144</b>
Valuation of hedged position in fair value hedge accounting					-	0	0
Liabilities from short sale of debt securities					-	-	4 784

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

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

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

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

	31.12.2022	31.12.2021
Equity instruments	128 979	138 404
credit institutions	0	0
other corporates	128 979	138 404
Debt securities	72 057	127 499
credit institutions	0	0
other corporates	72 057	127 499
<b>Total</b>	<b>201 036</b>	<b>265 903</b>

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	31.12.2022	31.12.2021
<b>Debt securities</b>	<b>16 414 065</b>	<b>17 924 059</b>
Issued by State Treasury	13 515 705	17 488 780
a) bills	0	0
b) bonds	13 515 705	17 488 780
Issued by Central Bank	2 499 532	0
a) bills	2 499 532	0
b) bonds	0	0
Other securities	398 828	435 279
a) listed	398 828	435 279
b) not listed	0	0
Shares and interests in other entities	24 393	28 433
Other financial instruments	0	0
<b>Total financial assets at fair value through other comprehensive income</b>	<b>16 438 458</b>	<b>17 952 492</b>
Including:		
Instruments listed on the active market	13 914 781	17 924 059
Instruments not listed on the active market	2 523 677	28 433

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

	31.12.2022	31.12.2021
▪ with fixed interest rate	13 528 878	14 748 049
▪ with variable interest rate	2 885 187	3 176 010
<b>Total</b>	<b>16 414 065</b>	<b>17 924 059</b>

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

	31.12.2022	31.12.2021
▪ to 1 month	4 405 868	0
▪ above 1 month to 3 months	0	0
▪ above 3 months to 1 year	2 305 894	4 892 493
▪ above 1 year to 5 years	9 031 705	12 608 072
▪ above 5 years	670 598	423 494
<b>Total</b>	<b>16 414 065</b>	<b>17 924 059</b>

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	17 952 492	18 626 366
Increases (purchase and accrual of interest and discount)	152 066 625	220 431 922
Reductions (sale and redemption)	(153 372 234)	(220 127 625)
Difference from measurement at fair value	(208 680)	(978 170)
Impairment write-offs	248	0
Other	7	(1)
<b>Balance at the end of the period</b>	<b>16 438 458</b>	<b>17 952 492</b>

## 22. LOANS AND ADVANCES TO CUSTOMERS

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

<b>Balance sheet value:</b>	31.12.2022	31.12.2021
<b>Mandatorily at fair value through profit or loss</b>	<b>97 982</b>	<b>362 992</b>
<b>Loans and advances</b>	<b>23 708</b>	<b>98 324</b>
- Individuals	23 708	98 324
<b>Credit cards</b>	<b>74 274</b>	<b>264 668</b>
- Companies	66	40
- Individuals	74 208	264 628

At the implementation of IFRS9 Group separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presents aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost. In 2021, as a result of a change in contractual provisions (eliminating the multiplier feature), some of these exposures began to be re-measured at amortized cost. The change concerned loans where clients fully repaid their commitment, the interest on which was calculated based on the old formula containing a multiplier. Exposures recorded after that time under new contractual conditions (without a multiplier) are measured at amortized cost.

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

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

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

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

Balance sheet value:	31.12.2022	31.12.2021
at fair value through other comprehensive income *	11 221 252	11 485 351
▪ Companies	0	0
▪ Individuals	11 221 252	11 485 351
▪ Public sector	0	0

Balance sheet value - maturity	31.12.2022	31.12.2021
to 1 month	14 754	20 524
above 1 month to 3 months	21 983	40 323
above 3 months to 1 year	114 540	206 691
above 1 year to 5 years	865 280	1 432 742
above 5 years	10 204 695	9 785 071
Total	11 221 252	11 485 351

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

31.12.2022	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	58 305 453	5 404 906	3 068 148	(330 571)	(317 975)	(1 593 590)	64 536 372
Companies	17 329 382	877 603	355 548	(86 060)	(31 819)	(169 016)	18 275 637
Individuals	40 774 383	4 527 301	2 712 600	(244 370)	(286 156)	(1 424 574)	46 059 185
Public sector	201 688	3	0	(141)	0	0	201 550

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

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 379 million as at 31.12.2022.

#### 22d. Loans and advances to customers

	31.12.2022	31.12.2021
Loans and advances	58 778 633	61 026 591
to companies	12 224 434	12 483 399
to private individuals	46 499 190	48 461 938
to public sector	55 009	81 254
Receivables on account of payment cards	1 034 413	784 117
due from companies	13 974	14 711
due from private individuals	1 020 439	769 406
Purchased receivables	6 416 938	6 381 501
from companies	6 270 448	6 218 121
from public sector	146 490	163 380
Guarantees and sureties realised	7 203	8 020
Debt securities eligible for rediscount at Central Bank	76	103
Other	30 276	18 311
Interest	510 968	380 601
<b>Total:</b>	<b>66 778 507</b>	<b>68 599 244</b>
Impairment allowances	(2 242 135)	(2 210 000)
<b>Total balance sheet value</b>	<b>64 536 372</b>	<b>66 389 244</b>

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

	31.12.2022	31.12.2021
Loans and advances to customers (gross)	66 778 507	68 599 244
impaired	3 068 148	3 260 481
not impaired	63 710 359	65 338 763
Impairment allowances	(2 242 135)	(2 210 000)
for impaired exposures	(1 593 590)	(1 704 481)
for not impaired exposures	(648 545)	(505 519)
Loans and advances to customers (net)	64 536 372	66 389 244

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

	31.12.2022	31.12.2021
Loans and advances to customers (gross)	66 778 507	68 599 244
case by case analysis	411 999	721 092
collective analysis	66 366 508	67 878 152
Impairment allowances	(2 242 135)	(2 210 000)
on the basis of case by case analysis	(150 983)	(227 756)
on the basis of collective analysis	(2 091 152)	(1 982 244)
Loans and advances to customers (net)	64 536 372	66 389 244

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

	31.12.2022	31.12.2021
Loans and advances to customers (gross)	66 778 507	68 599 244
corporate customers	18 764 223	19 001 733
individuals	48 014 284	49 597 511
Impairment allowances	(2 242 135)	(2 210 000)
for receivables from corporate customers	(287 036)	(338 749)
for receivables from private individuals	(1 955 099)	(1 871 251)
Loans and advances to customers (net)	64 536 372	66 389 244

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	2 210 000	2 204 743
Change in value of provisions:	32 135	5 257
Impairment allowances created in the period	1 343 349	1 377 980
Amounts written off	(226 188)	(270 015)
Impairment allowances released in the period	(933 664)	(992 801)
Sale of receivables	(241 148)	(145 828)
KOIM created in the period(*)	71 224	35 850
Transfer to FVTOCI portfolio	0	(12 884)
Changes resulting from FX rates differences	19 286	9 372
Other	(724)	3 583
<b>Balance at the end of the period</b>	<b>2 242 135</b>	<b>2 210 000</b>

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

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

The value of POCI assets is as follows:

	Gross balance sheet value	Accumulated impairment	Net balance sheet value
<b>31.12.2022</b>			
- Companies	15 216	(26)	15 190
- Individuals	137 235	(13 150)	124 085
- Public sector	0	0	0
<b>31.12.2021</b>			
- Companies	59	231	290
- Individuals	241 218	(15 488)	225 730
- Public sector	0	0	0

22i. Changes in impairment allowances and gross carrying amount of loans and advances valued at amortised cost divided into stages and classes:

Companies: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	88 670	23 496	226 634	(231)	338 569
Transfers between stages	8 440	(20 043)	11 603	0	0
Increase due to granting or purchase	25 013	0	0	0	25 013
Changes in credit risk	(27 543)	31 873	31 964	257	36 551
Decrease due to derecognition (except exposures sold and written off)	(8 679)	(3 818)	(30 528)	0	(43 024)
Sale of loans and advances	0	0	(45 077)	0	(45 077)
Loans and advances written off	0	0	(30 668)	0	(30 668)
KOIM	0	0	6 997	0	6 997
Other (including FX differences)	158	311	(1 935)	0	(1 466)
Balance at the end of the period	86 060	31 819	168 990	26	286 895

Companies: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	17 676 299	493 320	587 269	59	18 756 948
Transfers between stages	(657 413)	561 397	80 859	15 157	0
Granted or purchased loans and advances	7 100 033	0	0	0	7 100 033
Repaid loans and advances	(6 865 653)	(180 824)	(219 037)	0	(7 265 514)
Loans and advances sold	0	0	(78 758)	0	(78 758)
Loans and advances written off	0	0	(30 668)	0	(30 668)
Other (including FX differences)	76 116	3 709	667	0	80 492
Balance at the end of the period	17 329 382	877 603	340 331	15 216	18 562 532

Individuals: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	212 250	180 924	1 462 590	15 488	1 871 252
Transfers between stages	400 571	(509 022)	108 451	0	(0)
Increase due to granting or purchase	76 142	0	0	0	76 142
Changes in credit risk	(408 031)	684 985	151 319	74 856	503 130
Decrease due to derecognition (except exposures sold and written off)	(38 013)	(24 093)	(125 983)	0	(188 089)
Sale of loans and advances	0	0	(181 453)	(14 618)	(196 071)
Loans and advances written off	0	0	(132 944)	(62 576)	(195 520)
KOIM	0	0	64 227	0	64 227
Other (including FX differences)	1 451	4 787	13 792	0	20 030
Balance at the end of the period	244 370	337 581	1 359 999	13 150	1 955 100

Individuals: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	44 331 071	2 593 288	2 431 935	241 218	49 597 512
Transfers between stages	(3 044 660)	2 363 296	681 364	0	0
Granted or purchased loans and advances	8 870 875	0	0	0	8 870 875
Repaid loans and advances	(8 364 386)	(294 774)	(203 924)	(38 858)	(8 901 941)
Allocation of credit holidays adjustment	(483 579)	(43 642)	(13 009)	0	(540 230)
Allocation of legal risk provisions to the loan portfolio	(1 407 888)	(124 378)	(78 445)	0	(1 610 712)
Loans and advances sold	0	0	(240 918)	(18 808)	(259 726)
Loans and advances written off	0	0	(149 202)	(46 318)	(195 520)
Other (including FX differences)	872 949	16 859	164 219	0	1 054 027
Balance at the end of the period	40 774 383	4 510 649	2 592 018	137 235	48 014 284

Public sector: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	179	0	0	0	179
Transfers between stages	0	0	0	0	0
Increase due to granting or purchase	0	0	0	0	0
Changes in credit risk	(38)	0	0	0	(38)
Decrease due to derecognition (except exposures sold and written off)	0	0	0	0	0
Other (including FX differences)	0	0	0	0	0
Balance at the end of the period	141	0	0	0	141

Public sector: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	244 780	4	0	0	244 784
Transfers between stages	0	0	0	0	0
Granted or purchased loans and advances	57 030	0	0	0	57 030
Repaid loans and advances	(100 122)	0	0	0	(100 122)
Loans and advances sold	0	0	0	0	0
Loans and advances written off	0	0	0	0	0
Other (including FX differences)	0	(1)	0	0	(1)
Balance at the end of the period	201 688	3	0	0	201 691



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

	31.12.2022	31.12.2021
Current accounts	3 874 004	3 968 352
to 1 month	1 828 952	1 164 838
above 1 month to 3 months	1 891 670	2 361 732
above 3 months to 1 year	6 959 469	6 965 830
above 1 year to 5 years	24 194 396	25 062 654
above 5 years	25 462 674	26 699 794
past due	2 056 374	1 995 443
Interest	510 968	380 601
<b>Total gross</b>	<b>66 778 507</b>	<b>68 599 244</b>

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

	31.12.2022			31.12.2021		
	Balance sheet value, gross	Impairment allowances	Balance sheet value	Balance sheet value, gross	Impairment allowances	Balance sheet value
in Polish currency	55 601 404	(1 996 926)	53 604 478	54 790 940	(1 942 281)	52 848 659
in foreign currencies (after conversion to PLN)	11 177 103	(245 209)	10 931 894	13 808 304	(267 719)	13 540 585
currency: USD	67 654	(1 560)	66 094	116 213	(3 138)	113 075
currency: EUR	4 078 658	(43 556)	4 035 102	3 687 714	(46 198)	3 641 516
currency: CHF*	7 027 391	(200 072)	6 827 319	9 998 100	(218 279)	9 779 821
other currencies	3 400	(21)	3 379	6 277	(104)	6 173
<b>Total</b>	<b>66 778 507</b>	<b>(2 242 135)</b>	<b>64 536 372</b>	<b>68 599 244</b>	<b>(2 210 000)</b>	<b>66 389 244</b>

\* gross carrying amount of mortgage is decreased by the change in expected cash flows resulting from the issue of legal risk of CHF mortgage loans, the adjustment is presented in note 14.

## 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

31.12.2022	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	3 893 218	0	0	(6)	0	0	3 893 212
Deposits, loans and advances to banks and other monetary institutions	1 410 526	0	0	(281)	0	0	1 410 245
Repurchase agreements	4 863	0	0	0	0	0	4 863

31.12.2021	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	37 089	0	0	(1)	0	0	37 088
Deposits, loans and advances to banks and other monetary institutions	943 555	0	0	(239)	0	0	943 316
Repurchase agreements	268 837	0	0	0	0	0	268 837

### 23b. Debt securities

	31.12.2022	31.12.2021
credit institutions	458 624	0
other companies	0	0
public sector	3 434 588	37 088
<b>Total</b>	<b>3 893 212</b>	<b>37 088</b>

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

	31.12.2022	31.12.2021
Current accounts	181 896	152 645
Deposits	548 647	617 681
Loans and advances granted	677 001	173 055
Interest	2 982	173
<b>Total (gross) deposits, loans and advances</b>	<b>1 410 526</b>	<b>943 554</b>
Impairment allowances	(281)	(239)
<b>Total (net) deposits, loans and advances</b>	<b>1 410 245</b>	<b>943 315</b>

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

	31.12.2022	31.12.2021
Current accounts	181 896	152 645
to 1 month	498 648	572 951
above 1 month to 3 months	10 000	40 000
above 3 months to 1 year	40 000	5 037
above 1 year to 5 years	677 000	172 749
above 5 years	0	0
past due	0	0
Interest	2 982	173
<b>Total (gross) deposits, loans and advances</b>	<b>1 410 526</b>	<b>943 555</b>

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

	31.12.2022	31.12.2021
in Polish currency	1 086 166	438 699
in foreign currencies (after conversion to PLN)	324 360	504 856
▪ currency: USD	33 063	22 964
▪ currency: EUR	151 707	364 048
▪ currency: CNY	35 119	32 430
▪ currency: CHF	8 709	20 189
▪ currency: GBP	25 328	4 390
▪ currency: JPY	4 428	29 031
▪ other currencies	66 006	31 804
<b>Total</b>	<b>1 410 526</b>	<b>943 555</b>

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	239	0
Impairment allowances created in the period	603	239
Impairment allowances released in the period	(561)	0
Balance at the end of the period	281	239

## 23g. Reverse sale and repurchase agreements

	31.12.2022	31.12.2021
credit institutions	0	0
other customers	4 854	268 533
interest	9	303
<b>Total</b>	<b>4 863</b>	<b>268 837</b>

## 24. DERIVATIVES - HEDGE ACCOUNTING

Starting from 1 January 2006 the Bank established first formal hedging relationship against cash flow volatility.

The Risk Strategy approved in the Bank defines a general rules for hedging of market risk generated by its commercial activity. External transactions eligible for hedge accounting are pointed in the Strategy just after the natural economic hedge. The Bank applied (as at 31.12.2022) Cash Flow Hedge relations to eliminate the variability of cash flows:

- ✓ on FX denominated mortgage loans and financing them PLN deposits,
- ✓ on PLN denominated financial assets,
- ✓ due to future income and interest costs denominated in foreign currencies,

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

In addition, the Bank applied a fair value hedge for a fixed interest rate debt instrument.

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

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

Detailed information on cash flow hedge relations applied by the Bank, items designated as hedged and hedging and presentation of the result (as at 31.12.2022) is shown in a table below:

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

  

	<b>Fair value hedge of a fixed interest rate debt instrument</b>	<b>Cash flow volatility hedge due to future income and interest costs denominated in foreign currencies</b>
Description of hedge transactions	The Bank hedges part of the interest rate risk associated with the change in the fair value of a fixed-rate debt instrument recorded in other comprehensive income, resulting from fluctuations in market interest rate.	The Bank hedges the risk of the volatility of cash flows generated by income and interest costs denominated in foreign currencies. The volatility of cash flows results from the currency risk.
Hedged items	A portfolio of fixed coupon debt securities classified as financial assets measured at fair value through other comprehensive income denominated in PLN.	Cash flows resulting from income and interest costs denominated in foreign currencies.
Hedging instruments	IRS transactions	FX position resulting from recognized future leasing liabilities.
Presentation of the result on the hedged and hedging transactions	The result on the change in the fair value measurement of hedged items in the hedged risk is referred to the result on hedge accounting. The remaining part of the change in fair value measurement is recognized in other comprehensive income. Interest on debt securities is recognized in net interest income. The change in fair value measurement of derivative instruments being a hedge is presented in the result on hedge accounting, and interest on these instruments is recognized in the interest result.	The effective part of the spot revaluation of hedging instruments is recognized in the revaluation reserve. The ineffective part of the valuation of the hedging item is recognized in the income statement as a result on instruments measured at fair value through profit and loss.

## 24a. Hedge accounting

As at 31.12.2022	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	1 434 840	6 331 579	4 203 916	0	(60 707)	135 804	196 511
IRS contracts	1 125 500	1 305 000	2 645 000	0	(358 033)	0	358 033
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	2 560 340	7 636 579	6 938 916	0	(418 740)	135 804	554 544

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

As at 31.12.2021	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate *							
CIRS contracts	1 963 585	1 491 326	12 328 234	0	(283 605)	14 385	297 990
IRS contracts	0	800 000	5 075 500	0	(316 583)	0	316 583
FXS contracts	0	0	0	0	0	0	0
2. Derivatives used as interest rate hedges related to interest rates							
IRS contracts	0	0	90 000	0	0	0	0
3. Total hedging derivatives	1 963 585	2 291 326	17 493 734	0	(600 188)	14 385	614 573

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

## 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 2022 amounted to PLN -7,130 thousand. (in 2021, it was PLN -3,696 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	49 282	(72 833)	(1 312)
- IRS	Loans and advances to customers	(1 049)	0	0
- FX spot	Future interest income and costs	4 428	(21 372)	0
- IRS	Issued debt securities	2 193	(176 511)	0
- IRS	Debt securities	(24 351)	(134 031)	0
Total		30 504	(404 748)	(1 312)

## 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	(49 282)	(6 241)	0
- IRS	1 049	(1 112)	0
- FX spot	(4 428)	0	0
- IRS	(2 193)	0	0
- IRS	24 351	0	0
Total	(30 504)	(7 353)	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	(6 119)
Total		(6 119)

## 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	6 342	223
Total	6 342	223

## 25. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

### 25a. Investments in related entities

	31.12.2022	31.12.2021
Investments in subsidiaries	247 823	208 889

### 25b. Change of investments in related entities

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	208 889	208 874
Increase of share in Millennium Financial Services Sp. z o. o.	95	15
Increase of share in Millennium Bank Hipoteczny S.A.	51 000	0
Takeover of the brokerage activities of the former Millennium Dom Maklerski S.A.	(12 161)	0
Balance at the end of the period	247 823	208 889

### 25c. Investments in related entities as at 31.12.2022

Name	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM BANK HIPOTECZNY S.A.	Mortgage bank	Warszawa	100	100
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM CONSULTING S.A.*	advisory services	Warszawa	100	100
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warszawa	100	100
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warszawa	100	100
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	the company is not yet operating	Warszawa	100	100
PIAST EXPERT Sp. z o.o. in liquidation	marketing services	Tychy	100	100
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	furniture manufacturer	Świebodzin	50+1share	50+1share



Name	Gross value of shares/ interests	Impairment allowances	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM BANK HIPOTECZNY S.A.	171 000	0	0	817 744	681 959	57 000	(21 872)	(29 749)	subordinated
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	7 513 717	7 263 291	48 195	146 567	42 215	subordinated
MILLENNIUM CONSULTING S.A.*	4 340	0	0	48 008	96	4 340	36 863	26 051	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	0	74 273	15 711	1 000	42 493	28 867	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	1 000	14 168	11 770	500	4 017	49	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	457	20	100	1 530	30	subordinated
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	109	0	0	spółka jeszcze nie prowadzi działalności operacyjnej					
PIAST EXPERT Sp. z o.o. in liquidation	5 737	0	0	6 005	105	5 984	61	(36)	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	6 700	(6 700)	0	spółka w likwidacji					
<b>TOTAL</b>	<b>253 523</b>	<b>(6 700)</b>	<b>1 000</b>						

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

## 25d. Investments in related entities as at 31.12.2021

Name	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM BANK HIPOTECZNY S.A.	Mortgage bank	Warszawa	100	100
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warszawa	100	100
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warszawa	100	100
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warszawa	100	100
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	the company is not yet operating	Warszawa	100	100
PIAST EXPERT Sp. z o.o. in liquidation	marketing services	Tychy	100	100
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	furniture manufacturer	Świebodzin	50+1share	50+1share

Name	Gross value of shares/ interests	Impairment allowances	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM BANK HIPOTECZNY S.A.	120 000	0	0	290 502	176 147	40 000	901	(5 230)	subordinated
MILLENNIUM LEASING Sp. z o.o.	63 942	0	0	7 331 012	7 122 396	48 195	123 024	26 124	subordinated
MILLENNIUM DOM MAKLESKI S.A.*	16 500	0	0	310 042	262 154	16 500	28 910	13 729	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	0	91 302	30 442	1 000	49 750	31 165	subordinated
MILLENNIUM GOODIE Sp. z o.o.	597	0	1 000	19 103	16 776	500	4 353	97	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	442	35	100	1 538	34	subordinated
MILLENNIUM FINANCIAL SERVICES Sp. z o.o.	14	0	0	the company is not yet operating					subordinated
PIAST EXPERT Sp. z o.o. in liquidation	5 737	0	0	6 050	115	5 757	2	(48)	subordinated
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	6 700	(6 700)	0	The company is under liquidation					subordinated
<b>TOTAL</b>	<b>214 589</b>	<b>(6 700)</b>	<b>1 000</b>						

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

## 26. TANGIBLE FIXED ASSETS

### 26a. Property, plant and equipment

	31.12.2022	31.12.2021
Land	2 219	2 270
Buildings and premises	71 055	67 554
Machines and equipment	104 992	88 546
Vehicles	14 208	6 862
Other fixed assets	24 170	23 184
Fixed assets under construction	74 030	63 187
Rights to use office space	266 868	276 962
<b>Total</b>	<b>557 542</b>	<b>528 565</b>

## 26b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2022 - 31.12.2022

	Land	Buildings and premises	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Rights to use office space	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	2 270	303 754	261 834	27 641	91 624	63 187	490 593	1 240 903
b) increases (on account of)	0	8 617	52 336	14 680	9 264	76 964	90 924	252 785
purchase	0	0	789	0	0	49 730	0	50 519
transfer from fixed assets under construction	0	8 617	48 171	0	9 264	0	0	66 052
financial lease	0	0	0	14 680	0	0	90 924	105 604
unpaid investments	0	0	0	0	0	27 234	0	27 234
other	0	0	3 376	0	0	0	0	3 376
c) reductions (on account of)	51	18 923	49 293	8 497	19 956	66 121	58 579	221 420
sale	6	3 480	110	764	616	0	376	5 352
liquidation	45	12 405	41 373	49	14 720	0	58 203	126 795
settlement of fixed assets under construction	0	0	0	0	0	66 051	0	66 051
financial lease	0	3 038	7 810	7 684	4 620	0	0	23 152
other	0	0	0	0	0	70	0	70
d) gross value of property, plant and equipment at the end of the period	2 219	293 448	264 877	33 824	80 932	74 030	522 938	1 272 268
e) cumulated depreciation (amortization) at the beginning of the period	0	227 344	173 288	20 779	68 440	0	213 631	703 482
f) depreciation over the period (on account of)	0	(5 748)	(13 403)	(1 163)	(11 678)	0	42 439	10 447
current write-off (P&L)	0	10 197	32 271	6 518	7 918	0	92 775	149 679
reductions on account of sale	0	(1 438)	(110)	(691)	(611)	0	(376)	(3 226)
reductions on account of liquidation	0	(11 742)	(40 902)	(49)	(14 348)	0	(49 960)	(117 001)
financial lease	0	(2 765)	(8 038)	(6 941)	(4 637)	0	0	(22 381)
other	0	0	3 376	0	0	0	0	3 376
g) cumulated depreciation (amortization) at the end of the period	0	221 596	159 885	19 616	56 762	0	256 070	713 929
h) impairment allowances at the beginning of the period	0	8 856	0	0	0	0	0	8 856
creation of allowances	0	0	0	0	0	0	0	0
release of allowances	0	8 059	0	0	0	0	0	8 059
i) impairment allowances at the end of the period	0	797	0	0	0	0	0	797
j) net value of property, plant and equipment at the end of the period	2 219	71 055	104 992	14 208	24 170	74 030	266 868	557 542
including assets used based on leasing agreements	0	8 003	13 720	14 208	325	50	266 868	303 174

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

	Land	Buildings and premises	Machines and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Rights to use office space	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	2 270	305 447	246 557	22 714	90 165	59 156	454 477	1 180 786
b) increases (on account of)	0	14 206	30 438	7 691	7 102	55 936	83 336	198 709
purchase	0	0	0	0	0	40 908	0	40 908
transfer from fixed assets under construction	0	14 206	30 438	0	7 102	0	0	51 746
financial lease	0	0	0	7 691	0	0	83 336	91 027
unpaid investments	0	0	0	0	0	14 660	0	14 660
other	0	0	0	0	0	368	0	368
c) reductions (on account of)	0	15 899	15 161	2 764	5 643	51 905	47 220	138 592
sale	0	0	2 656	0	371	0	0	3 027
liquidation	0	11 783	6 090	0	2 943	0	47 220	68 036
settlement of fixed assets under construction	0	0	0	0	0	51 747	0	51 747
financial lease	0	4 116	6 415	2 764	2 329	0	0	15 624
other	0	0	0	0	0	158	0	158
d) gross value of property, plant and equipment at the end of the period	2 270	303 754	261 834	27 641	91 624	63 187	490 593	1 240 903
e) cumulated depreciation (amortization) at the beginning of the period	0	229 952	159 493	16 863	66 147	0	158 149	630 604
f) depreciation over the period (on account of)	0	(2 608)	13 795	3 916	2 293	0	55 482	72 878
current write-off (P&L)	0	10 125	28 221	6 541	6 941	0	96 075	147 903
reductions on account of sale	0	0	(2 531)	0	(341)	0	0	(2 872)
reductions on account of liquidation	0	(8 906)	(5 890)	0	(2 050)	0	(40 593)	(57 439)
financial lease	0	(3 766)	(6 045)	(2 625)	(2 277)	0	0	(14 713)
other	0	(61)	40	0	20	0	0	(1)
g) cumulated depreciation (amortization) at the end of the period	0	227 344	173 288	20 779	68 440	0	213 631	703 482
h) impairment allowances at the beginning of the period	0	8 856	0	0	0	0	0	8 856
creation of allowances	0	0	0	0	0	0	0	0
release of allowances	0	0	0	0	0	0	0	0
i) impairment allowances at the end of the period	0	8 856	0	0	0	0	0	8 856
j) net value of property, plant and equipment at the end of the period	2 270	67 554	88 546	6 862	23 184	63 187	276 962	528 565
including assets used based on leasing agreements	0	6 695	17 698	6 862	706	50	276 962	308 973

## 27. INTANGIBLE FIXED ASSETS

### 27a. Intangible fixed assets

	31.12.2022	31.12.2021
Goodwill due to merger with Euro Bank S.A.	192 126	192 126
Other intangible fixed assets:	240 694	193 073
concessions, patents, licenses, know-how and similar assets	34 759	35 470
computer software	89 210	90 876
other	9 524	12 866
advances for intangible assets	107 201	53 861
<b>Total</b>	<b>432 820</b>	<b>385 199</b>

### 27b. Change of balance of intangible fixed assets (by type groups) in the period 01.01.2022 - 31.12.2022

	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	82 509	382 427	24 760	53 861	543 557
b) increases (on account of)	17 157	33 880	261	100 317	151 615
purchase	0	0	0	87 561	87 561
unpaid investments	0	0	0	12 756	12 756
settlement of advances	17 157	29 532	261	0	46 950
other	0	4 348	0	0	4 348
c) reductions (on account of)	4 810	114 595	0	46 977	166 382
liquidation	4 810	114 116	0	0	118 926
settlement of advances	0	0	0	46 950	46 950
other	0	479	0	27	506
d) gross value of intangible fixed assets at the end of the period	94 856	301 712	25 021	107 201	528 790
e) cumulated depreciation at the beginning of the period	47 039	291 551	11 894	0	350 484
f) depreciation over the period (on account of)	13 058	(79 049)	3 603	0	(62 388)
current write-off (P&L)	17 868	31 262	3 603	0	52 733
liquidation	(4 810)	(114 116)	0	0	(118 926)
other	0	3 805	0	0	3 805
g) cumulated depreciation at the end of the period	60 097	212 502	15 497	0	288 096
h) impairment allowances at the beginning of the period	0	0	0	0	0
i) impairment allowances at the end of the period	0	0	0	0	0
j) net value of intangible fixed assets at the end of the period	34 759	89 210	9 524	107 201	240 694

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

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

## 28. DEFERRED INCOME TAX ASSETS

### 28a. Deferred income tax assets and liability

	31.12.2022			31.12.2021		
	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	128	(2 208)	(2 080)	1 659	(3 421)	(1 762)
Balance sheet valuation of financial instruments	20 322	(47 466)	(27 144)	(21 915)	(2 128)	(24 043)
Unrealised receivables/ liabilities on account of derivatives	73 405	(59 804)	13 601	12 450	(13 284)	(834)
Interest on deposits and securities to be paid/ received	72 317	(290 124)	(217 807)	10 742	(77 286)	(66 544)
Interest and discount on loans and receivables	0	(108 723)	(108 723)	0	(75 737)	(75 737)
Income and cost settled at effective interest rate	236 022	0	236 022	147 394	0	147 394
Impairment of loans presented as temporary differences	465 901	0	465 901	398 267	0	398 267
Employee benefits	19 604	0	19 604	18 687	0	18 687
Rights to use	4 719	0	4 719	6 620	0	6 620
Provisions for future costs	79 551	0	79 551	88 584	0	88 584
Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	251 607	(54 839)	196 768	207 631	(56 174)	151 457
Shares valuation	1 273	(19 420)	(18 147)	1 273	(36 440)	(35 167)
Other	931	0	931	2 332	(1 236)	1 096
<b>Total</b>	<b>1 225 780</b>	<b>(582 584)</b>	<b>643 196</b>	<b>873 724</b>	<b>(265 706)</b>	<b>608 018</b>
Net deferred income tax asset			171 658			313 432

### 28b. Change of temporary differences

	31.12.2021	Adjustments to previous years	Changes to financial result	Changes to equity	31.12.2022
Difference between tax and balance sheet depreciation	(1 762)		(318)		(2 080)
Balance sheet valuation of financial instruments	(24 043)		(3 101)		(27 144)
Unrealised receivables/ liabilities on account of derivatives	(834)		14 435		13 601
Interest on deposits and securities to be paid/ received	(66 544)		(151 263)		(217 807)
Interest and discount on loans and receivables	(75 737)		(32 986)		(108 723)
Income and cost settled at effective interest rate	147 394		88 628		236 022
Impairment of loans presented as temporary differences	398 267		67 634		465 901
Employee benefits	18 687		917		19 604
Rights to use	6 620		(1 901)		4 719
Provisions for future costs	88 584		(9 033)		79 551
Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	151 457	(24)		45 335	196 768
Shares valuation	(35 167)		17 020		(18 147)
Other	1 096	897	(1 062)		931
<b>Total</b>	<b>608 018</b>	<b>873</b>	<b>(11 030)</b>	<b>45 335</b>	<b>643 196</b>



## 28c. Change of temporary differences

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

## 28d. Change of deferred income tax

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
Difference between tax and balance sheet depreciation	(318)	86
Balance sheet valuation of financial instruments	(3 101)	(2 266)
Unrealised receivables/ liabilities on account of derivatives	14 435	1 367
Interest on deposits and securities to be paid/ received	(151 263)	(63 764)
Interest and discount on loans and receivables	(32 986)	1 338
Income and cost settled at effective interest rate	88 628	(41 400)
Impairment of loans presented as temporary differences	67 634	(7 567)
Employee benefits	917	(733)
Rights to use	(1 901)	(1 812)
Provisions for future costs	(9 033)	4 820
Shares valuation	17 020	(11 650)
Other	(1 062)	(768)
<b>Change of deferred income tax recognized in financial result</b>	<b>(11 030)</b>	<b>(122 349)</b>
Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	45 335	197 669

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

Temporary differences expiry year	31.12.2022	31.12.2021
Unlimited	10 009	12 125
<b>Total</b>	<b>10 009</b>	<b>12 125</b>

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

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

	31.12.2022	31.12.2021
Net deferred income tax assets	643 196	608 018
Net deferred income tax provision	-	-
<b>TOTAL</b>	<b>643 196</b>	<b>608 018</b>

## 29. OTHER ASSETS

	31.12.2022	31.12.2021
Expenses to be settled	114 577	109 339
Income to be received	34 104	27 141
Interbank settlements	0	0
Settlements of financial instruments transactions	539	23 469
Receivables from sundry debtors	785 105	426 993
Public and legal settlements	14 529	23 638
<b>Total other assets (gross)</b>	<b>948 854</b>	<b>610 580</b>
Impairment allowances	(25 845)	(25 991)
<b>Total other assets (net)</b>	<b>923 009</b>	<b>584 589</b>
▪ including other financial assets*	793 903	451 612
▪ including long-term other assets	587	969

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

As at December 31, 2022, 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 411.3 million.

As at December 31, 2022, the item "Receivables from sundry debtors" includes receivables due to legally invalidated foreign currency mortgage loans in the amount of PLN 179.6 million.

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

As at December 31, 2022 and December 31, 2021, the Bank did not classify any assets to the Non-current asset held for sale.

### 31. FINANCIAL LIABILITIES HELD FOR TRADING

	31.12.2022	31.12.2021
Negative valuation of derivatives	380 144	126 795
Adjustment due to fair value hedge	0	0
Short sale of securities	4 784	16 614
Financial liabilities valued at fair value through profit and loss	384 928	143 409

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

	31.12.2022	31.12.2021
In current account	26 262	64 309
Term deposits	589 044	106 569
Loans and advances received	5 000	15 000
Interest	4 838	369
Total	625 144	186 247

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

	31.12.2022	31.12.2021
Current accounts	26 262	64 309
▪ to 1 month	472 072	22 669
▪ above 1 month to 3 months	69 972	43 900
▪ above 3 months to 1 year	52 000	40 000
▪ above 1 year to 5 years	0	15 000
▪ above 5 years	0	0
Interest	4 838	369
Total	625 144	186 247

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

	31.12.2022	31.12.2021
in Polish currency	318 111	167 210
in foreign currencies (after conversion to PLN)	307 033	19 037
▪ currency: USD	10	456
▪ currency: EUR	307 023	18 581
▪ currency: CHF	0	0
▪ other currencies	0	0
<b>Total</b>	<b>625 144</b>	<b>186 247</b>

## 33. LIABILITIES TO CUSTOMERS

### 33a. Structure of liabilities to customers by type

	31.12.2022	31.12.2021
Amounts due to private individuals	68 787 007	65 783 239
Balances on current accounts	49 106 928	55 953 207
Term deposits	19 247 973	9 565 717
Other	248 573	237 776
Accrued interest	183 533	26 539
Amounts due to companies	23 842 527	22 278 081
Balances on current accounts	13 379 634	15 481 067
Term deposits	9 996 536	6 434 038
Other	405 854	360 665
Accrued interest	60 503	2 311
Amounts due to public sector	5 635 282	3 610 976
Balances on current accounts	3 195 080	3 385 595
Term deposits	2 418 727	215 889
Other	8 193	9 417
Accrued interest	13 282	75
<b>Total</b>	<b>98 264 816</b>	<b>91 672 296</b>

### 33b. Liabilities to customers by maturity

	31.12.2022	31.12.2021
Current accounts	65 681 642	74 819 869
to 1 month	12 975 850	6 817 747
above 1 month to 3 months	7 520 540	5 254 940
above 3 months to 1 year	7 574 732	2 803 883
above 1 year to 5 years	4 213 399	1 906 400
above 5 years	41 336	40 532
Interest	257 317	28 925
<b>Total</b>	<b>98 264 816</b>	<b>91 672 296</b>

### 33c. Liabilities to customers by currency

	31.12.2022	31.12.2021
in Polish currency	86 587 558	81 904 492
in foreign currencies (after conversion to PLN)	11 677 258	9 767 804
▪ currency: USD	3 015 110	2 169 222
▪ currency: EUR	7 889 980	7 002 313
▪ currency: GBP	441 197	393 989
▪ currency: CHF	238 002	182 569
▪ other currencies	92 969	19 711
<b>Total</b>	<b>98 264 816</b>	<b>91 672 296</b>

## 34. SALE AND REPURCHASE AGREEMENTS

### Liabilities from securities sold with buy-back clause

	31.12.2022	31.12.2021
a) to the Central Bank	0	0
b) to banks	0	0
c) to customers	0	18 037
d) interest	0	1
<b>Total</b>	<b>0</b>	<b>18 038</b>

## 35. DEBT SECURITIES ISSUED

### 35a. Liabilities from debt securities

	31.12.2022	31.12.2021
Outstanding bonds and bills	242 500	0
Bank Securities	0	0
Interest	1 253	0
<b>Total</b>	<b>243 753</b>	<b>0</b>

### 35b. Liabilities from debt securities by final legal maturity

	31.12.2022	31.12.2021
▪ to 1 month	0	0
▪ above 1 month to 3 months	0	0
▪ above 3 months to 1 year	0	0
▪ above 1 year to 5 years	0	0
▪ above 5 years	242 500	0
Interest	1 253	0
<b>Total</b>	<b>243 753</b>	<b>0</b>

### 35c. Change of debt securities

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	0	484 655
Increases, on account of:	243 753	3 267
Issue of bonds	242 500	0
interest accrual	1 253	3 267
Reductions, on account of:	0	(487 922)
repurchase of Banking Securities	0	(234 428)
repurchase of bonds	0	(250 000)
interest payment	0	(3 494)
<b>Balance at the end of the period</b>	<b>243 753</b>	<b>0</b>

### 35d. Debt securities by type

As at 31.12.2022	Balance sheet value	Final legal maturity)	Market
BMCN_012040	243 753	2040-01-25	Vienna MTF

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

Redemption of Banking Securities (BPW) was 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.

## 36. SUBORDINATED DEBT

### 36a. Subordinated debt

	31.12.2022	31.12.2021
Amount of subordinated bonds inn - BKMO_071227R	700 000	700 000
Currency	PLN	PLN
Interest rate	9.70%	4.81%
Maturity	2027-12-07	2027-12-07
Interest	4 465	2 214
Amount of subordinated bonds PLN in PLN - BKMO_300129W	830 000	830 000
Currency	PLN	PLN
Interest rate	9.60%	2.55%
Maturity	2029-01-30	2029-01-30
Interest	33 618	8 930
Balance sheet value of subordinated debt	1 568 083	1 541 144

### 36b. Change of subordinated debt

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	1 541 144	1 540 209
Increases, on account of:	110 181	40 076
issue of subordinated bonds	0	0
interest accrual	110 181	40 076
Reductions, on account of:	(83 242)	(39 141)
redemption of subordinated bonds	0	0
interest payment	(83 242)	(39 141)
Balance at the end of the period	1 568 083	1 541 144

During 2022 and 2021 the Bank did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

## 37. PROVISIONS

### 37a. Provisions

	31.12.2022	31.12.2021
Provision for commitments and guarantees given	40 174	44 955
Provision for pending legal issues	975 092	549 450
Total	1 015 266	594 405

### 37b. Change of Provision for commitments and guarantees given

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	44 955	52 728
Charge of provision	42 130	54 970
Release of provision	(46 984)	(62 805)
FX rates differences	73	62
Balance at the end of the period	40 174	44 955

### 37c. Change of Provision for pending legal issues

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	549 450	105 643
Charge of provision	27 325	112 726
Release of provision	(8 116)	(9 463)
Utilisation of provision	(175)	0
Creation of provision for legal risk connected with FX mortgage loans*	2 017 320	2 305 157
Allocation to the loans portfolio	(1 610 712)	(1 964 613)
FX rates differences	0	0
Balance at the end of the period	975 092	549 450

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

## 38. OTHER LIABILITIES

### 38a. Other liabilities

	31.12.2022	31.12.2021
<b>Short-term</b>	<b>2 051 796</b>	<b>1 496 886</b>
Accrued costs - bonuses, salaries	43 689	39 347
Accrued costs - other	163 713	187 959
Provisions for return of insurance fees	271 420	306 955
Interbank settlements	814 674	484 728
Provisions for potential return of fees in the event of early repayment of the loan	78 923	89 091
Settlement of transactions on financial instruments	3 338	31 833
Other creditors	466 902	168 629
Liabilities due to leases	95 759	95 369
Liabilities to public sector	42 303	36 570
Deferred income	53 819	39 158
Provisions for unused employee holiday	13 863	13 626
Provisions for retirement benefits	2 832	3 182
Other	561	439
<b>Long-term</b>	<b>498 838</b>	<b>488 889</b>
Provisions for retirement benefits	28 709	31 527
Accrued costs	0	0
Commitment to pay - BGF*	209 209	173 039
Liabilities due to leases	256 724	275 251
Accrued costs	4 196	9 072
<b>Total</b>	<b>2 550 634</b>	<b>1 985 775</b>
including other financial liabilities**	1 894 398	1 340 523

\* 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, 2022, the item "Other creditors" includes liabilities due to legally invalidated foreign currency mortgage loans in the amount of PLN 146 million.



### 38b. Liabilities from lease

	31.12.2022	31.12.2021
Liabilities from lease (gross)	377 749	389 434
Unrealised financial costs	(25 266)	(18 814)
Current value of minimum lease instalments	352 483	370 620
Liabilities from lease (gross) by maturity		
Under 1 year	104 883	101 072
From 1 year to 5 years	215 916	205 292
Above 5 years	56 950	83 070
Total	377 749	389 434
Liabilities from lease (net) by maturity		
Under 1 year	95 759	95 369
From 1 year to 5 years	200 859	194 389
Above 5 years	55 865	80 862
Total	352 483	370 620

### 38c. Change of provisions for unused employee holiday

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	13 626	15 364
Charge of provisions/ reversal of provisions	90	(1 382)
Utilisation of provisions	0	(356)
Takeover of the brokerage activities of the former Millennium Dom Maklerski S.A.	146	0
Balance at the end of the period	13 862	13 626

### 38d. Change of provisions for retirement benefits

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at the beginning of the period	34 709	35 001
Charge of provisions/ reversal of provisions	5 609	6 159
Utilisation of provisions/ reclassification of provision	(1 477)	(1 232)
Actuarial gains (losses)	(8 367)	(5 219)
Takeover of the brokerage activities of the former Millennium Dom Maklerski S.A.	1 067	0
Balance at the end of the period	31 541	34 709

## 39. EQUITY

### 39a. Capital

The share capital of the Bank Millennium S.A. is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

#### SHARE CAPITAL

Par value of one share = 1 PLN.

Series/ issue	Share type	Type of preference	Number of shares	Value of series/issue (PLN)	Manner of capital coverage	Registration date	Right to dividend
A	registered founder	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			05.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

In the reporting period there were no conversions of ordinary registered shares into the bearer shares. As a consequence number of registered shares as of 31.12.2022 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.

Information presented below, according to the data held by the Bank, on shareholders holding directly or indirectly significant blocks of shares, together with an indication of the number of shares held by these entities, their share in the share capital and in the total number of votes at the General Meeting of the Bank. According to the information available to the Bank, with regard to shareholders holding over 5% of votes at the General Meeting, as at 31 December 2022, the Bank's shareholders were the following entities:

Shareholder 31.12.2022	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	107 970 039	8.90	107 970 039	8.90
Allianz Polska OFE + Drugi Allianz Polska OFE (*)	96 792 815(*)	7.98(*)	96 792 815(*)	7.98(*)
Otworthy Fundusz Emerytalny PZU „Złota Jesień”	67 417 542	5.56	67 417 542	5.56

(\*) Additionally, PTE Allianz Polska S.A. manages the , Allianz Polska Dobrowolny Fundusz Emerytalny. Pursuant to the notification of PTE Allianz Polska S.A., published by the Bank in Current Report No. 3/2023, Allianz Polska Dobrowolny Fundusz Emerytalny, Allianz Polska OFE and Drugi Allianz Polska OFE held jointly 96,810,815 shares in the Bank (7.98% of votes), including Second Allianz Polska OFE 80,760,035 shares of the Bank (6.66% of votes).

The data contained in the table have been determined according to the rules described below. With regard to Banco Comercial Portugues S.A. these are data collected in connection with the registration of shareholders entitled to participate in the Ordinary General Meeting of Shareholders held on March 30, 2022. However, in the scope of Nationale-Nederlanden Otwarty Fundusz Emerytalny, Allianz Polska Otwarty Fundusz Emerytalny and Drugi Allianz Polska Otwarty Fundusz Emerytalny and Otwarty Fundusz Emerytalny PZU "Złota Jesień", the number of shares and their participation in the share capital of the Bank were calculated on the basis of the annual structure of assets of the above mentioned Funds as at 30 December 2022 (announced on the websites respectively: [www.nn.pl](http://www.nn.pl), [www.allianz.pl](http://www.allianz.pl) and [www.pzu.pl](http://www.pzu.pl)) and notifications from PTE Allianz Polska S.A. (Bank's current report No. 3/2023). In terms of the calculations made on the basis of the annual structures of the above mentioned funds, the volume-weighted average price (VWAP) of the Bank's shares was assumed at PLN 4.6013.

Shareholder 31.12.2021	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	99 291 825	8.18	99 291 825	8.18
Aviva Otwarty Fundusz Emerytalny Aviva Santander	72 760 035	6.00	72 760 035	6.00
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	69 451 428	5.73	69 451 428	5.73

### 39b. Accumulated other comprehensive income

Other comprehensive income arises on the recognition of:

- effect of valuation (at fair value) of financial assets FVTOCI in the net amount, i.e. after having accounted for deferred tax. These values (related to debt securities and loans) are taken off revaluation reserve at the moment of excluding the valued assets from the books of account - in full or in part or at the moment of recognising impairment (the effect of valuation is then put through the profit and loss account), the effect on capital instruments valuation is not transferred to the profit and loss account.
- effect of valuation (at fair value) of derivatives hedging cash flows in the net amount, i.e. having accounted for deferred tax. Revaluation reserve records such part of profits or losses connected with the derivatives hedging cash flows which is an effective hedge, while the ineffective part of the profits or losses connected with such hedging instrument is recognised in the profit and loss account.
- actuarial gains (losses) at their net value, i.e. after deferred tax. Aforementioned gains or losses result from the discounting of future liabilities arising from a provision created for retirement benefits. Valuation is done using the projected unit cost method. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation) of employees, the discount rate, the rate of wage growth. These values are not reclassified to the profit and loss account.

### Accumulated other comprehensive income

	31.12.2022	31.12.2021
Effect of valuation (gross)	(1 035 621)	(797 143)
Deferred income tax	196 768	151 457
Net effect of valuation	(838 853)	(645 686)

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

Revaluation reserve on FVTOCI assets 1.01.2022 - 31.12.2022

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(686 675)	130 469	(556 206)
Transfer to income statement of the period as a result of sale	(166)	32	(134)
Change connected with maturity of securities	41 231	(7 834)	33 397
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	(245 365)	46 619	(198 746)
Profit/loss on revaluation of FVTOCI shares, recognized in equity	(4 141)	787	(3 354)
Revaluation reserve at the end of the period	(895 116)	170 073	(725 043)

Revaluation reserve on FVTOCI assets 1.01.2021 - 31.12.2021

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

Revaluation reserve on cash flows hedge financial instruments 1.01.2022 - 31.12.2022

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(378 912)	71 993	(306 919)
Gains or losses on valuation of financial instruments recognized in equity	(34 502)	6 555	(27 947)
Transfer to income statement during period	7 353	(1 397)	5 956
Revaluation reserve at the end of the period	(406 061)	77 151	(328 910)

Revaluation reserve on cash flows hedge financial instruments 1.01.2021 - 31.12.2021

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

Revaluation reserve due to actuarial gains (losses) 1.01.2022 - 31.12.2022

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	1 365	(260)	1 105
Change in the obligations arising from the provision for retirement benefits	8 367	(1 590)	6 777
Revaluation reserve at the end of the period	9 732	(1 850)	7 882

Revaluation reserve due to actuarial gains (losses) 1.01.2021 - 31.12.2021

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

**Revaluation reserve on FVTOCI credit portfolio 1.01.2022 - 31.12.2022**

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	267 079	(50 745)	216 334
Gains or losses on valuation of financial instruments recognized in equity	17 208	(3 270)	13 938
Transfer to Profit and loss due to impairment calculation	(28 463)	5 408	(23 055)
Revaluation reserve at the end of the period	255 824	(48 607)	207 217

**Revaluation reserve on FVTOCI credit portfolio 1.01.2021 - 31.12.2021**

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

**39c. Retained earnings**

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2022	374 957	5 671 124	228 902	(1 357 452)	4 917 531
appropriation of profit, including:					
transfer to reserve capital	0	(1 357 452)	0	1 357 452	0
charge due to transfer of own shares to employees	0	(4 623)	0	0	(4 623)
net profit/ (loss) of the period	0	0	0	(1 029 899)	(1 029 899)
Retained earnings at the end of the period 31.12.2022	374 957	4 309 049	228 902	(1 029 899)	3 883 009

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

## 40. FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

31.12.2022	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	501 555	71 217	54 321	0	0	627 093
Deposits from customers	78 774 884	7 662 298	7 838 875	4 235 695	41 336	98 553 088
Liabilities from securities sold with buy-back clause	0	0	0	0	0	0
Debt securities	0	0	52 056	203 215	856 181	1 111 452
Subordinated debt	33 618	0	118 426	590 320	1 646 005	2 388 369
Liabilities from trading derivatives - notional value	4 676 237	1 921 948	1 751 535	5 118 184	2 581 157	16 049 061
Liabilities from hedging derivatives - notional value	0	1 840 685	4 427 975	4 814 395	0	11 083 055
Commitments granted - financial	11 610 683	0	0	0	0	11 610 683
Commitments granted - guarantee	2 419 611	0	0	0	0	2 419 611
<b>TOTAL</b>	<b>98 016 588</b>	<b>11 496 148</b>	<b>14 243 188</b>	<b>14 961 809</b>	<b>5 124 679</b>	<b>143 842 412</b>

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

## 14. Supplementary Information

### 14.1. 2021 DIVIDEND

Bank Millennium has a dividend policy of distribution between 35% and 50% of net profit, taking into account supervisory recommendations. The Bank recorded a net loss in 2021, resulting from the creation of provisions for legal risk related to FX mortgage loans, hence there was no basis for the payment of dividends. The Management Board of the Bank presented a proposal and the Ordinary General Meeting of the Bank, held on March 30, 2022, decided to allocate the amount of PLN 1,357,451,533.94 from the reserve capital to cover the loss incurred in 2021.

### 14.2. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2022 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	127 582
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	314 000	308 160
3.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	134 100	131 606
4.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	124 000	121 694
5.	Cash	receivables	initial settlement deposit in KDPW CCP (MAGB)	5 000	5 000
6.	Cash	receivables	ASO guarantee fund (PAGB)	172	172
7.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	304	304
8.	Cash	receivables	Settlement on transactions concluded	106 797	106 797
9.	Deposits	Deposits in banks	Settlement on transactions concluded	403 647	403 647
TOTAL				1 218 020	1 204 962

As at 31 December 2022, the Bank did not have concluded transactions of sale of treasury securities with repurchase agreements.

As at 31 December 2021 following assets of the Bank constituted collateral of liabilities (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds OK0423	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	124 254
2.	Treasury bonds OK0423	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	328 000	313 502
3.	Treasury bonds PS0425	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	7 000	6 399
4.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	130 100	124 350
5.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	106 500	101 793
6.	Cash	receivables	initial deposit in KDPW CCP (MAGB)	5 000	5 000
7.	Cash	receivables	ASO guarantee fund (PAGB)	398	398
8.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	8 989	8 989
9.	Cash	receivables	Settlement on transactions concluded	111 907	111 907
10.	Deposits	Deposits in banks	Settlement on transactions concluded	572 681	572 681
TOTAL				1 400 575	1 369 273

Additionally, as at December 31, 2021, the Bank had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 17,933 thousand (corresponding liabilities are presented in **Chapter 13.**, **note (34)**).

The Bank is also obliged to maintain the obligatory reserve on the current account with the NBP, the amount of which depends on the average balance of funds of customer deposit accounts and the reserve rate set by the NBP. From the Bank's point of view, the funds held as part of the obligatory reserve constitute restricted assets. The value of the provision maintained at the end of the financial year is presented in **note (18)**.

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

As at 31 December 2022, the Bank did not have any repurchase agreements (SBB) involving securities presented in the Bank's balance sheet.

As at 31 December 2021 following securities (presented in the Bank's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

Type of security	Par value	Balance sheet value
Treasury bonds	21 347	17 933
TOTAL	21 347	17 933



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

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

PLN'000	Amounts to be received	Amounts to be paid
Valuation of derivatives	329 095	483 779
Amount of cash collaterals accepted/granted	(267 089)	(403 863)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	62 006	79 916
Theoretical maximum amount of compensation	(62 006)	(62 006)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	0	17 910

## 14.5. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

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

	31.12.2022	31.12.2021
Cash and balances with the Central Bank	9 536 090	3 179 735
Receivables from interbank deposits*	288 219	192 509
Debt securities issued by the State Treasury*	4 406 780	0
of which FVTOCI and HTC	4 405 868	0
of which held for trading	912	0
<b>Total</b>	<b>14 231 089</b>	<b>3 372 244</b>

\* Financial assets with maturity below three months

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

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

## 14.6. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2022 the Custody Department of Bank Millennium S.A. maintained 12,954 accounts in which Customers' assets were kept with the total value of PLN 31.7 billion. Net revenue from the custody business for 2022 amounted to PLN 5.1 million (including PLN 2.9 million from Capital Group entities). The Custody Department serves as a depositary bank for 22 mutual funds including 21 of Millennium TFI S.A.

## 14.7. SHARE BASED PAYMENTS

In 2012, the Bank implemented a policy specifying the principles of remuneration for persons having a material impact on the risk profile of Bank Millennium, as amended, in accordance with the requirements described in Resolution of the Polish Financial Supervision Authority No. 258/2011, and then the Regulation of the Minister of Development and Finance of March 6, 2017 on the risk management system and the internal control system, remuneration policy and the detailed method of internal capital estimation in banks. In accordance with the policy, employees of the Bank having a significant impact on the Bank's risk profile receive variable remuneration, part of which is paid in the form of financial instruments: the Bank's phantom shares in 2018; Bank Millennium own shares: for 2019 - 2021. Commencing from 2019, by the decision of the General Meeting of Bank's Shareholders of August 27, 2019, the Bank introduced an incentive program to remuneration entitled persons previously identified as having a significant impact on the risk profile (Risk Taker). Under this framework, the Own Shares acquired by the Company will be, in accordance with the applicable Risk Taker's remuneration policy, intended for free acquisition in the appropriate number by the indicated Risk Takers during the Program Term.

Variable remuneration - financial instruments for:	2021	2020	2019	2018
Kind of transactions in the light of IFRS 2	Share-based payment transactions			Cash-settled share-based payments
Commencement of vesting period	1 January 2021	1 January 2020	1 January 2019	1 January 2018
The date of announcing the program	27 August 2019			30 July 2012
Starting date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after closing of financial year			
Number of granted instruments	Determined at the grant date of the program in accordance with the definition of IFRS 2			
Maturity date	3 years since the date of granting program			
Vesting date*	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Vesting conditions	Employment in the Bank 2021, results of the Bank and individual performance	Employment in the Bank 2020, results of the Bank and individual performance	Employment in the Bank 2019, results of the Bank and individual performance	Employment in the Bank 2018, results of the Bank and individual performance
Program settlement	Programs 2018: on the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw, preceding the settlement date. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment. Programs 2019 - 2021: on the program settlement date, the participant will receive the allocated treasury shares.			
Program valuation	The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date.			

\* Confirmed by decisions of the Bank's Personnel Committees assessing the work of eligible employee

Financial instruments granted to Bank's employees who are not members of the Management Board of the Bank, for the year:	2022	2021	2020	2019
	-	Own shares	Own shares	Phantom shares
Date of shares assigning	-	-	-	03.07.2020
Number of shares granted	-	-	-	196 736
deferred	-	-	-	0
Value as at assigning date (PLN)	-	-	-	196 736
granted	-	-	-	626 958
deferred	-	-	-	0
Fair value as at 31.12.2022 (PLN)	-	-	-	626 958
	-	-	-	901 051

At the balance sheet date, the Personnel Committee of the Management Board has not taken a decision on the amount of variable remuneration for Bank's employees who are not members of the Management Board of the Bank for 2022.

Financial instruments granted to members of the Management Board of the Bank, for the year:	2022	2021	2020	2019
	-	Own shares	Own shares	Phantom shares
Date of shares assigning	-	13.04.2022	-	03.07.2020
Number of shares	-	319 978	-	162 264
granted	-	0,00	-	0
deferred	-	319 978	-	162 264
Value as at assigning date (PLN)	-	2 100 000	-	517 104
granted	-	0,00	-	0
deferred	-	2 100 000	-	517 104
Fair value as at 31.12.2022 (PLN)	-	1 465 499	-	743 169

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 2022.

#### 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, the last part of Bank Millennium shares was paid out.

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

#### CREATION OF INSTITUTIONAL PROTECTION SCHEME

Management Board of the Bank informed that on 7 June 2022 it received information that the Management Boards and Supervisory Boards Alior Bank S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Santander Bank Polska S.A. (Member Banks) had passed resolutions on consenting to submitting an application to the Polish Financial Supervision Authority for approval and recognition of the Institutional Protection Scheme, the members of which are banks operating in the form of a joint-stock company together with the draft agreement on the Institutional Protection Scheme, i.e. Member Bank's participation in the creation of the Institutional Protection Scheme referred to in Article 4(1)(9a) of the Banking Law Act of 29 August 1997 (Banking Law).

The objective of the Institutional Protection Scheme is to:

1. ensure liquidity and solvency of the Member Banks on the terms and conditions and to the extent set out in the agreement on the protection scheme; and
2. support:
  - a) the resolution procedure pursued by the Bank Guarantee Fund for the bank being a joint-stock company; and
  - b) acquisition of the bank being a joint-stock company under Article 146b.1 of the Banking Law.

As a result of the above, the Bank recognized in the administrative costs of 2022 a contribution to the Institutional Protection Scheme in the amount of PLN 276.1 million, at the same time, starting from the second quarter of 2022, the Bank does not recognize contributions to the Banking Guarantee Fund.

## DEMERGER OF MILLENNIUM DOM MAKLESKI

The Bank and Millennium Dom Maklerski (100% subsidiary of the Bank, “MDM”) made a decision on the Demerger by way of the inclusion of the Brokerage Activity in the Bank’s structures in order to integrate within a single entity the brokerage services so far provided through the Demerged Company. The decision to effectuate the Demerger is dictated by:

- an interest in improving the efficiency of the operation of the brokerage activity in the Bank’s Group both in the area of institutional and retail client services;
- efforts to increase the quality and comprehensiveness of the brokerage service offer addressed to both individual and institutional clients.

The MDM division plan (the “MDM Division Plan”) has been made available pursuant to Article 535 § 3 of the CCC by being posted on the Bank’s website at:

[https://www.bankmillennium.pl/plan\\_podzialu\\_MDM](https://www.bankmillennium.pl/plan_podzialu_MDM)

The MDM Division has been carried out (in accordance with the procedure specified in Article 529 § 1.4 of the CCC, i.e. through:

- a) a transfer to the Bank of a part of the property (assets and liabilities) and the rights and obligations of the Company Being Divided in the form of an organised part of the enterprise of MDM connected with the provision of brokerage services (the “**Brokerage Business**”); and
- b) the retaining by MDM of a part of the property (assets and liabilities) and the rights and obligations of the Company Being Divided in the form of an organised part of the enterprise of MDM connected with the remaining business activity (the “**Non-Regulated Business**”).

On 29 July 2022, the Bank became aware of the registration of the decrease of the share capital of MDM, the registration of amendments to the articles of association of MDM and the registration of the information on the MDM Division in the registration files of MDM in the National Court Register by the District Court for the City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register. Thus, the division of MDM, as a result of which the Bank took over the Brokerage Business, took place and was registered by the competent registry court on 29 July 2022.

## REFORM OF BENCHMARKS

### 1. WIBOR

In May 2022, the Polish government announced that WIBOR would be replaced by a different (lower) rate from 1 January 2023. In June 2022, a Working Group was established, including commercial banks, GPW Benchmark (Administrator of WIBOR), KNF.

In July 2022, the National Working Group on Reference Rate Reform (NGR) was established in connection with the planned reform of reference rates in Poland. The objective of the NGR's work is to introduce a new interest rate benchmark and replace the currently used WIBOR index with it while ensuring the compliance with BMR, including in particular ensuring credibility, transparency and reliability in the development and application of the new benchmark.

The National Working Group involves representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the GPW Benchmark, as well as representatives of credit institutions, i.e. in particular, banks, financial institutions, including investment funds, insurance companies, factoring and leasing companies, entities that are bond issuers, including corporate and municipal bonds, clearing houses.

The work of the National Working Group is coordinated and supervised by a Steering Committee including representatives of key institutions: Financial Supervision Authority, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, as well as the GPW Benchmark - the administrator of the reference rates - and the Polish Bank Association (Polish: Związek Banków Polskich).

The NGR's activities are executed in a project formula, where project streams have been identified and where Bank Millennium representatives are actively contributing to the work.

The National Working Group selected the WIRON index to become the key interest rate benchmark under the BMR and to be used in financial contracts, financial instruments.

In connection with this, Bank Millennium S.A. established, by resolution of the Bank's Management Board of 24 August 2022, an internal project reporting to the Management Board (Deputy Chairman of the Management Board - CFO and Member of the Management Board overseeing the areas of retail and corporate products), in order to duly manage the WIBOR to WIRON transition process and to implement the work in accordance with the roadmap. This work involves representatives from a significant number of the Bank's business units, including, in particular, representatives responsible for product areas and risk management issues, including, in particular, interest rate risk and operational risk. The structure of the project includes the division into streams covering products and processes where the WIBOR benchmark is applied, the management of the project by a dedicated project manager and the periodical reporting of statuses on the individual streams. In the current phase of the project, intensive work is underway at the Bank to adjust the technological infrastructure, as well as including the preparation of internal processes and documentation.

The Bank uses the WIBOR reference rate in the following products (in million PLN):

- mortgage loans: 28 614,32 only mortgage loans based on WIBOR (excluding loans currently with temporary fixed rate);
- loan products, factoring and corporate discounting products: 19 699,53;
- debt instruments (4 810,73);
  - Assets: 2 938,23
  - Liabilities: 1 872,50
- derivative instruments: 23 384,66.

The Bank also applies instruments based on WIBOR benchmarks in hedge accounting, details of the hedging relationships used by the Group, the items designated as hedged and hedging and the presentation of the result on these transactions are presented in Note 23 "Derivatives - Hedge accounting" in Chapter 14 "Notes to the Consolidated Financial Statements."

Bank Millennium S.A. is working on the analysis of the risks and monitors them on a regular basis, however, due to the early stage of the reform, more detailed information on the transition process will be provided as the work on the WIBOR reform progresses. In addition, due to the lack of formal information regarding the potential regulatory event referred to in Article 23c(1) of the BMR, the lack of a regulation of the Minister of Finance referred to in Article 61c of the Act of 5 August 2015. on macro-prudential supervision of the financial system and crisis management in the financial system concerning a substitute or at least a draft of such a regulation, the lack of information on the amount of the adjustment spread or the method of calculating this spread as well as the lack of a market for hedging instruments and given the current stage of the work of the National Working Group and the implementation of the Roadmap, it is currently not possible to estimate the financial impact of the WIBOR reform.

## 2. LIBOR USD

The Bank applies the USD LIBOR benchmark to the following products (in million PLN):

- Retail banking/mortgage portfolio: 5,72;
- Corporate banking: 245,08.

In the case of the products offered by the Bank within Corporate banking, each contract with a term longer than 30 June 2023 has a so-called contingency clause indicating an alternative RFR (risk free rate).

In the case of the products offered by Bank within Retail Banking, the mortgage loan agreements with interest rates based on the 3M or 6M LIBOR USD index, the term of which is longer than 30 June 2023, were concluded prior to the entry into force of the BMR. For the time being, the Bank, in accordance with the applicable Plan in the event of a material change or cessation of the development of benchmarks, is conducting analyses on the impact and effects of the absence of the fallback clauses indicating an alternative benchmark to USD LIBOR on the concluded contracts. Considering the marginal, number of such contracts in the Bank's portfolio, the possibility of applying an individual approach to each of these contracts is also being analyzed.

It should be noted that the Bank has a Plan in the event of a material change or discontinuation of the development of benchmarks covering retail banking products including financial contracts within the meaning of the BMR, corporate banking products and financial instruments within the meaning of the BMR specifying the actions it will take in the event of a material change or discontinuation of the applicable benchmark.

## **SIGNING OF CONDITIONAL AGREEMENT CONCERNING THE SALE OF MILLENNIUM FINANCIAL SERVICES SP. Z O.O. AND STRATEGIC INSURANCE COOPERATION**

The Management Board of Bank Millennium S.A. (the "Bank") on February 13, 2023 informed in the form of a current report, that following necessary corporate approvals, on February 13, 2023, the Bank executed the agreement (the "Agreement") for the sale of 80% of the shares (the "Shares") in Millennium Financial Services sp. z o.o. (the "Company") to Towarzystwo Ubezpieczeń na Życie Europa S.A. which acquires 72% of the Company's shares and Towarzystwo Ubezpieczeń Europa S.A. which acquires 8% of the Company's shares (collectively the "Buyers").

Bank Millennium concluded also with the Buyers and the Company certain agreements concerning exclusive insurance distribution model, including a cooperation agreement, distribution agreements and agency agreements (the "Strategic Insurance Cooperation"). The Strategic Insurance Cooperation provides for long term (10 years) bancassurance liaison in relation specified insurance products linked to loans offered by Bank Millennium.

The essence of the transaction contemplated by the Agreement is the direct acquisition of the Shares by the Buyers from Bank Millennium for a pre-defined initial price which may be subject to a price adjustment mechanism after the Transaction is closed, (i.e. after transfer of legal title to the Shares to the Buyers and payment of the Price, "Closing") and establishment of the Strategic Insurance Cooperation (the "Transaction"). If the Transaction will close successfully, the Bank expects to recognize an upfront pre-tax gain on the transaction of approximately PLN 500 million.

The Closing of the Transaction is subject to the fulfilment of a condition precedent - obtaining the relevant consent of the relevant antimonopoly authority (the "Condition").

Bank Millennium will publish information on the fulfilment or non-fulfilment of the Condition in relevant current reports. The Parties may also withdraw from the Agreement in certain situations indicated therein and penalties may apply in case of failure of one of the Parties to fulfil its obligations under the Transaction documentation.

The Transaction documentation contains a certain catalogue of representations and warranties from Bank Millennium and the Buyers with respect to the Shares and Strategic Insurance Cooperation, as well as sets out the principles of the Parties' liability thereunder.



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
15.02.2023	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
15.02.2023	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
15.02.2023	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
15.02.2023	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
15.02.2023	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
15.02.2023	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
15.02.2023	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature