# Annual Consolidated Report

# of the Bank Millennium S.A. Capital Group

## for the 12-month period ending 31st December 2015

Millennium bank

## FINANCIAL HIGHLIGHTS

| | Amount '000 PLN | | Amount '000 EUR | |
|---|---|---|---|---|
| | period from 1.01.2015 to 31.12.2015 | period from 1.01.2014 to 31.12.2014 | period from 1.01.2015 to 31.12.2015 | period from 1.01.2014 to 31.12.2014 |
| Interest income | 2 313 205 | 2 583 219 | 552 764 | 616 623 |
| Fee and commission income | 696 280 | 695 321 | 166 383 | 165 975 |
| Operating income | 2 239 201 | 2 308 366 | 535 080 | 551 015 |
| Operating profit / (loss) | 688 892 | 838 705 | 164 618 | 200 202 |
| Profit /(loss) before taxes | 687 507 | 838 459 | 164 287 | 200 143 |
| Profit /(loss) after taxes | 546 525 | 650 920 | 130 598 | 155 377 |
| Total comprehensive income for the period | 677 686 | 669 232 | 161 940 | 159 748 |
| Net cash flows from operating activities | 4 413 224 | (477 552) | 1 054 584 | (113 993) |
| Net cash flows from investing activities | (2 313 903) | (1 549 021) | (552 930) | (369 757) |
| Net cash flows from financing activities | (646 630) | 672 262 | (154 519) | 160 471 |
| Net cash flows, total | 1 452 691 | (1 354 311) | 347 135 | (323 279) |
| Total assets | 66 235 256 | 60 740 482 | 15 542 709 | 14 250 635 |
| Liabilities to banks and other monetary institutions | 1 443 921 | 2 037 269 | 338 829 | 477 974 |
| Liabilities to customers | 52 810 389 | 47 591 244 | 12 392 441 | 11 165 625 |
| Total equity | 6 443 165 | 5 765 479 | 1 511 948 | 1 352 669 |
| Share capital | 1 213 117 | 1 213 117 | 284 669 | 284 616 |
| Number of shares | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN/EUR) | 5.31 | 4.75 | 1.25 | 1.12 |
| Diluted book value per share (in PLN/EUR) | 5.31 | 4.75 | 1.25 | 1.12 |
| Capital adequacy ratio | 16.72% | 15.23% | 16.72% | 15.23% |
| Basic earnings (losses) per ordinary share (in PLN/EUR) | 0.45 | 0.54 | 0.11 | 0.13 |
| Diluted earnings (losses) per ordinary share | 0.45 | 0.54 | 0.11 | 0.13 |
| Pledged or paid dividend per share (in PLN/EUR) | - | 0.22 | - | 0.05 |

**Rates used for conversion of financial data to EURO**

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.2615 EUR/PLN rate of 31 December 2015 (for comparable data as of 31 December 2014: 4.2623 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2015 – 4.1848 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data for the period 1 January – 31 December 2014: 4.1893 EUR/PLN).

## QUARTERLY FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENT

| *Amount '000 PLN* | 1.01.2015 - 31.12.2015 | 1.10.2015 - 31.12.2015* | 1.01.2014 - 31.12.2014 | 1.10.2014 - 31.12.2014* |
|---|---|---|---|---|
| Interest income | 2 313 205 | 576 771 | 2 583 219 | 620 379 |
| Interest expense | (947 958) | (227 259) | (1 129 100) | (271 705) |
| Net interest income | 1 365 247 | 349 512 | 1 454 119 | 348 674 |
| Fee and commission income | 696 280 | 168 912 | 695 321 | 164 086 |
| Fee and commission expense | (100 107) | (28 465) | (83 648) | (21 887) |
| Net fee and commission income | 596 173 | 140 447 | 611 673 | 142 199 |
| Dividend income | 2 271 | 1 | 1 851 | 0 |
| Result on investment financial assets | 41 852 | 2 715 | 18 447 | 3 542 |
| Result on financial instruments valued at fair value through profit and loss and foreign exchange result | 175 384 | 50 087 | 182 836 | 53 251 |
| Other operating income | 58 274 | 7 027 | 39 440 | 9 817 |
| Operating income | 2 239 201 | 549 789 | 2 308 366 | 557 483 |
| General and administrative expenses | (1 036 614) | (261 985) | (1 056 053) | (263 566) |
| Impairment losses on financial assets | (239 833) | (44 430) | (265 041) | (63 904) |
| Impairment losses on non-financial assets | (1 400) | (790) | (430) | (79) |
| Depreciation and amortization | (50 435) | (13 395) | (55 326) | (15 508) |
| Other operating expenses | (222 027) | (162 517) | (92 811) | (16 698) |
| Operating expenses | (1 550 309) | (483 117) | (1 469 661) | (359 755) |
| **Operating profit / (loss)** | **688 892** | **66 672** | **838 705** | **197 728** |
| Share in net profit of related entities | (1 385) | 0 | (246) | (246) |
| **Profit / (loss) before taxes** | **687 507** | **66 672** | **838 459** | **197 482** |
| Corporate income tax | (140 982) | (13 629) | (187 539) | (39 810) |
| **Profit / (loss) after taxes** | **546 525** | **53 043** | **650 920** | **157 672** |
| Attributable to: | | | | |
| Owners of the parent | 546 525 | 53 043 | 650 920 | 157 672 |
| Non-controlling interests | 0 | 0 | 0 | 0 |

* quarterly financial information has not been audited

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

| *Amount '000 PLN* | 1.01.2015 - 31.12.2015 | 1.10.2015 - 31.12.2015* | 1.01.2014 - 31.12.2014 | 1.10.2014 - 31.12.2014* |
|---|---|---|---|---|
| Profit / (loss) after taxes | 546 525 | 53 043 | 650 920 | 157 672 |
| Other elements of total comprehensive income that will be subsequently reclassified to profit or loss | 161 159 | 299 765 | 25 250 | (56 854) |
| Effect of valuation of available for sale debt securities | (31 637) | 14 746 | 69 491 | 4 994 |
| Effect of valuation of available for sale shares | 213 009 | 213 061 | 29 | 55 |
| Hedge accounting | (20 213) | 71 958 | (44 270) | (61 903) |
| Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | 769 | 769 | (2 643) | (2 643) |
| Actuarial gains (losses) | 769 | 769 | (2 643) | (2 643) |
| Other elements of total comprehensive income before taxes | **161 928** | **300 534** | **22 607** | **(59 497)** |
| Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss | (30 621) | (56 955) | (4 798) | 10 802 |
| Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | (146) | (146) | 502 | 502 |
| Other elements of total comprehensive income after taxes | **131 161** | **243 433** | **18 312** | **(48 193)** |
| | | | | |
| Total comprehensive income for the period | **677 686** | **296 476** | **669 232** | **109 479** |
| Attributable to: | | | | |
| Owners of the parent | 677 686 | 296 476 | 669 232 | 109 479 |
| Non-controlling interests | 0 | 0 | 0 | 0 |

* quarterly financial information has not been audited

# Annual Consolidated Financial Statements of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2015

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# 1. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

| *Amount ‘000 PLN* | Note | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|---|
| Interest income | 1 | 2 313 205 | 2 583 219 |
| Interest expense | 2 | (947 958) | (1 129 100) |
| Net interest income | | 1 365 247 | 1 454 119 |
| Fee and commission income | | 696 280 | 695 321 |
| Fee and commission expense | | (100 107) | (83 648) |
| Net fee and commission income | 3 | 596 173 | 611 673 |
| Dividend income | 4 | 2 271 | 1 851 |
| Result on investment financial assets | 5 | 41 852 | 18 447 |
| Result on financial instruments valued at fair value through profit and loss and foreign exchange result | 5 | 175 384 | 182 836 |
| Other operating income | 6 | 58 274 | 39 440 |
| Operating income | | 2 239 201 | 2 308 366 |
| General and administrative expenses | 7 | (1 036 614) | (1 056 053) |
| Impairment losses on financial assets | 8 | (239 833) | (265 041) |
| Impairment losses on non financial assets | 9 | (1 400) | (430) |
| Depreciation and amortization | 10 | (50 435) | (55 326) |
| Other operating expenses | 11 | (222 027) | (92 811) |
| Operating expenses | | (1 550 309) | (1 469 661) |
| **Operating profit / (loss)** | | **688 892** | **838 705** |
| Share in net profit of related entities | | (1 385) | (246) |
| **Profit / (loss) before taxes** | | **687 507** | **838 459** |
| Corporate income tax | 12 | (140 982) | (187 539) |
| **Profit / (loss) after taxes** | | **546 525** | **650 920** |
| Attributable to: | | | |
| Owners of the parent | | 546 525 | 650 920 |
| Non-controlling interests | | 0 | 0 |
| Basic earnings per ordinary share (in PLN) | 13 | 0.45 | 0.54 |
| Diluted earnings (losses) per ordinary share (in PLN) | 13 | 0.45 | 0.54 |

Notes on pages 13-125 are integral part of these financial statements.

## 2. CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

| *Amount '000 PLN* | 1.01.2015 - 31.12.2015 | 1.01.2014 - 31.12.2014 |
|---|---|---|
| Profit / (loss) after taxes | 546 525 | 650 920 |
| Other elements of total comprehensive income that will be subsequently reclassified to profit or loss: | 161 159 | 25 250 |
| Effect of valuation of available for sale debt securities | (31 637) | 69 491 |
| Effect of valuation of available for sale shares | 213 009 | 29 |
| Hedge accounting | (20 213) | (44 270) |
| Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss: | 769 | (2 643) |
| Actuarial gains (losses) | 769 | (2 643) |
| Other elements of total comprehensive income before taxes | **161 928** | **22 607** |
| Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss | (30 621) | (4 798) |
| Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss | (146) | 502 |
| Other elements of total comprehensive income after taxes | **131 161** | **18 312** |
| | | |
| Total comprehensive income for the period | **677 686** | **669 232** |
| Attributable to: | | |
| Owners of the parent | 677 686 | 669 232 |
| Non-controlling interests | 0 | 0 |

Notes on pages 13-125 are integral part of these financial statements.

## 3. CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET

ASSETS

| *Amount '000 PLN* | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| Cash, balances with the Central Bank | 14 | 1 946 384 | 2 612 242 |
| Deposits, loans and advances to banks and other monetary institutions | 15 | 2 348 754 | 2 384 744 |
| Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge | 16 | 768 650 | 1 417 276 |
| Hedging derivatives | 17 | 70 833 | 18 999 |
| Loans and advances to customers | 18 | 46 369 381 | 44 142 699 |
| Investment financial assets | 19 | 13 874 320 | 9 249 537 |
| - available for sale | | 13 874 320 | 9 249 537 |
| - held to maturity | | 0 | 0 |
| Investments in related entities | 19 | 1 378 | 2 762 |
| Receivables from securities bought with sell-back clause (loans and advances) | 20 | 0 | 155 642 |
| Property, plant and equipment | 21 | 156 341 | 153 449 |
| Intangible assets | 22 | 61 858 | 59 119 |
| Non-current assets held for sale | 23 | 15 682 | 5 646 |
| Receivables from Tax Office resulting from current tax | | 41 880 | 77 776 |
| Deferred income tax assets | 24 | 237 612 | 196 276 |
| Other assets | 25 | 342 183 | 264 315 |
| **Total Assets** | | **66 235 256** | **60 740 482** |

LIABILITIES AND EQUITY

| *Amount '000 PLN* | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| LIABILITIES | | | |
| Liabilities to banks and other monetary institutions | 26 | 1 443 921 | 2 037 269 |
| Financial liabilities valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge | 27 | 344 689 | 629 790 |
| Hedging derivatives | 17 | 2 132 053 | 1 390 225 |
| Liabilities to customers | 28 | 52 810 389 | 47 591 244 |
| Liabilities from securities sold with buy-back clause | 29 | 0 | 59 765 |
| Debt securities | 30 | 1 134 250 | 1 739 461 |
| Provisions | 31 | 30 848 | 98 574 |
| Deferred income tax liabilities | 32 | 0 | 0 |
| Current tax liabilities | | 270 | 8 080 |
| Other liabilities | 33 | 1 256 040 | 780 856 |
| Subordinated debt | 34 | 639 631 | 639 739 |
| Total Liabilities | | 59 792 091 | 54 975 003 |
| EQUITY | | | |
| Share capital | 35 | 1 213 117 | 1 213 117 |
| Share premium | 35 | 1 147 502 | 1 147 502 |
| Revaluation reserve | 35 | 18 250 | (112 911) |
| Retained earnings | 35 | 4 064 296 | 3 517 771 |
| Total Equity | | 6 443 165 | 5 765 479 |
| Total equity attributable to owners of the parent | | 6 443 165 | 5 765 479 |
| Non-controlling interests | | 0 | 0 |
| | | | |
| **Total Liabilities and Equity** | | **66 235 256** | **60 740 482** |

Notes on pages 13-125 are integral part of these financial statements.

## 4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| 01.01.2015 - 31.12.2015 *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **5 765 479** | **1 213 117** | **1 147 502** | **(112 911)** | **779 703** | **2 738 068** |
| Total comprehensive income for 2015 (net) | 677 686 | 0 | 0 | 131 161 | 546 525 | 0 |
| net profit/ (loss) of the period | 546 525 | 0 | 0 | 0 | 546 525 | 0 |
| valuation of available for sale debt securities | (25 626) | 0 | 0 | (25 626) | 0 | 0 |
| valuation of available for sale shares | 172 536 | 0 | 0 | 172 536 | 0 | 0 |
| hedge accounting | (16 373) | 0 | 0 | (16 373) | 0 | 0 |
| actuarial gains (losses) | 623 | 0 | 0 | 623 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | (646 299) | 646 299 |
| **Equity at the end of the period** | **6 443 165** | **1 213 117** | **1 147 502** | **18 250** | **679 929** | **3 384 367** |

| 01.01.2014 - 31.12.2014 *Amount '000 PLN* | Total consolidated equity | Share capital | Share premium | Revaluation reserve | Retained earnings | |
|---|---|---|---|---|---|---|
| | | | | | Unappropriated result | Other reserves |
| **Equity at the beginning of the period** | **5 363 133** | **1 213 117** | **1 147 502** | **(131 223)** | **664 338** | **2 469 399** |
| Total comprehensive income for 2014 (net) | 669 232 | 0 | 0 | 18 312 | 650 920 | 0 |
| net profit/ (loss) of the period | 650 920 | 0 | 0 | 0 | 650 920 | 0 |
| valuation of available for sale debt securities | 56 288 | 0 | 0 | 56 288 | 0 | 0 |
| valuation of available for sale shares | 24 | 0 | 0 | 24 | 0 | 0 |
| hedge accounting | (35 859) | 0 | 0 | (35 859) | 0 | 0 |
| actuarial gains (losses) | (2 141) | 0 | 0 | (2 141) | 0 | 0 |
| Dividend payment | (266 886) | 0 | 0 | 0 | (266 886) | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | (268 669) | 268 669 |
| **Equity at the end of the period** | **5 765 479** | **1 213 117** | **1 147 502** | **(112 911)** | **779 703** | **2 738 068** |

Detailed information concerning changes in different equity items are presented in the **note (35).**

# 5. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

| *Amount '000 PLN* | 1.01.2015 - 31.12.2015 | 1.01.2014 - 31.12.2014 |
|---|---|---|
| Profit (loss) after taxes | 546 525 | 650 920 |
| Adjustments for: | 3 866 699 | (1 128 472) |
| Non-controlling interests | 0 | 0 |
| Interests in net profit /(loss) of associated companies | 1 385 | 246 |
| Depreciation and amortization | 50 435 | 55 326 |
| Foreign exchange gains /(losses) | 14 312 | 41 956 |
| Dividends | (2 271) | (1 851) |
| Changes in provisions | (64 756) | 31 958 |
| Result on sale and liquidation of investment financial assets | (45 203) | (29 047) |
| Change in financial assets valued at fair value through profit and loss (held for trading) | 576 578 | (420 230) |
| Change in loans and advances to banks | 21 379 | (819 519) |
| Change in loans and advances to customers | (2 244 322) | (2 382 222) |
| Change in receivables from securities bought with sell-back clause | 155 642 | 86 419 |
| Change in liabilities valued at fair value through profit and loss (held for trading) | 456 727 | 514 572 |
| Change in liabilities to banks | (546 232) | (242 784) |
| Change in deposits from customers | 5 219 145 | 2 286 123 |
| Change in liabilities from securities sold with buy-back clause | (59 765) | (55 036) |
| Change in debt securities | (34 034) | (11 405) |
| Change in income tax settlements | 183 665 | 187 557 |
| Income tax paid | (224 026) | (219 688) |
| Change in other assets and liabilities | 389 777 | (164 949) |
| Other | 18 263 | 14 102 |
| **Net cash flows from operating activities** | **4 413 224** | **(477 552)** |

B. CASH FLOWS FROM INVESTING ACTIVITIES

| *Amount '000 PLN* | 1.01.2015 - 31.12.2015 | 1.01.2014 - 31.12.2014 |
|---|---|---|
| Inflows: | 219 269 873 | 275 999 757 |
| Proceeds from sale of property, plant and equipment and intangible assets | 5 033 | 16 907 |
| Proceeds from sale of shares in related entities | 0 | 0 |
| Proceeds from sale of investment financial assets | 219 262 569 | 275 980 999 |
| Other | 2 271 | 1 851 |
| Outflows: | (221 583 776) | (277 548 778) |
| Acquisition of property, plant and equipment and intangible assets | (57 439) | (52 611) |
| Acquisition of shares in related entities | 0 | 0 |
| Acquisition of investment financial assets | (221 526 337) | (277 496 167) |
| Other | 0 | 0 |
| **Net cash flows from investing activities** | **(2 313 903)** | **(1 549 021)** |

C. CASH FLOWS FROM FINANCING ACTIVITIES

| *Amount '000 PLN* | 1.01.2015 - 31.12.2015 | 1.01.2014 - 31.12.2014 |
|---|---|---|
| Inflows: | 1 069 986 | 1 842 407 |
| Long-term bank loans | 108 488 | 211 328 |
| Issue of debt securities | 961 498 | 1 631 079 |
| Increase in subordinated debt | 0 | 0 |
| Net proceeds from issues of shares and additional capital paid-in | 0 | 0 |
| Other | 0 | 0 |
| Outflows: | (1 716 616) | (1 170 145) |
| Repayment of long-term bank loans | (159 237) | (290 200) |
| Redemption of debt securities | (1 532 681) | (581 565) |
| 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 | (266 886) |
| Other | (24 698) | (31 494) |
| **Net cash flows from financing activities** | **(646 630)** | **672 262** |

| | | |
|---|---|---|
| D. NET CASH FLOWS, TOTAL (A+B+C) | 1 452 691 | (1 354 311) |
| E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD | 5 398 464 | 6 752 775 |
| F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E) | 6 851 155 | 5 398 464 |

Additional information regarding cash flows is presented in **point 5 of chapter 14 "Supplementary information".**

## 6. GENERAL INFORMATION ABOUT ISSUER AND THE ISSUER'S CAPITAL GROUP

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

The Bank, entered under the number KRS 0000010186 in the National Court Register kept by the Local Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, is seated in Warsaw, ul. Stanisława Żaryna 2A.

The Bank is listed on the Warsaw Stock Exchange since 1992, first Bank ever to float its shares on the WSE.

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 5,900 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, and investment fund management.

**Supervisory Board and Management Board of Bank Millennium S.A. as at 31 December 2015**

Composition of the Supervisory Board as at 31 December 2015 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,
- Julianna Boniuk-Gorzelańczyk – Member of the Supervisory Board,
- Miguel de Campos Pereira de Bragança – Member of the Supervisory Board,
- Agnieszka Hryniewicz-Bieniek – Member of the Supervisory Board,
- Anna Jakubowski – Member of the Supervisory Board,
- Grzegorz Jędrys – Member of the Supervisory Board,
- David Harris Klingensmith – Member of the Supervisory Board,
- Andrzej Koźmiński – Member of the Supervisory Board,
- Miguel Maya Dias Pinheiro – Member of the Supervisory Board,
- Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

Composition of the Management Board as at 31 December 2015 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,
- Maria Jose Henriques Barreto De Matos De Campos – Member of the Management Board.
- Michał Gajewski - Member of the Management Board.

**Capital Group of Bank Millennium S.A.**

The Group's parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium SA is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 31 December 2015, are presented by the table below:

| Company | Activity domain | Head office | % of the Group's capital share | % of the Group's voting share | Recognition in financial statements |
|---|---|---|---|---|---|
| MILLENNIUM LEASING Sp. z o.o. | leasing services | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM DOM MAKLERSKI S.A. | brokerage services | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM TFI SA | investment funds management | Warsaw | 100 | 100 | full consolidation |
| MB FINANCE AB | funding companies from the Group | Stockholm | 100 | 100 | full consolidation |
| MILLENNIUM SERVICE Sp. z o.o. | leasing and property management | Warsaw | 100 | 100 | full consolidation |
| TBM Sp. z o.o. | financial operations - equity markets, advisory services | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o. | financial operations - equity markets, advisory services | Warsaw | 100 | 100 | full consolidation |
| LUBUSKIE FABRYKI MEBLI S.A. in liquidation | furniture manufacturer | Świebodzin | 50 (+1 share) | 50 (+1 share) | equity method valuation (*) |
| BG LEASING S.A. in bankruptcy | leasing services | Gdańsk | 74 | 74 | historical cost (*) |

(*) Despite having a control over the companies Lubuskie Fabryki Mebli S.A. and BG Leasing S.A., due to insignificant nature of these companies from the realization of the primary goal of the consolidated financial statements point of view, which is the correct presentation of Group's financial situation, the Group does not consolidate capital involvement in aforementioned enterpises.

In February 2015, Extraordinary general Assembly of Lubuskie Fabryki Mebli SA adopted resolution of dissolution of the company and opening of its liquidation process.

As a result of the completion of securitization transactions and the related financial instruments in the second quarter 2015, the Group ceased to consolidate the special purpose vehicle Orchis Sp. z o.o., which was created for the needs of a securitisation transaction conducted by the Group in 2007. In accordance with the provisions of IFRS 10 the Company used to be consolidated, even though the Group had no capital commitment.

# 7. ACCOUNTING POLICY

## 1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330, with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These financial statements meet the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).

This financial report was approved for publication by the Management Board on 25 February 2016.

## 2) STANDARDS AND INTERPRETATIONS APPLIED IN 2015 AND NOT BINDING AS OF THE BALANCE SHEET DAY

*Applied new and revised standards and interpretations*

Preparing consolidated financial statements the Group applied for the first time following new and revised standards and interpretations, which came into force on 1 January 2015:

**Improvements to IFRSs 2011-2013**

IAS Board issued in December 2013 "Improvements to IFRSs 2011-2013" which consist of changes to four standards.

The amendments include changes in presentation, recognition and valuation as well terminology and editorial changes.

**IFRIC 21 - Levies**

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

***Published standards and interpretations that are not yet effective and have not been early adopted by the Group***

Preparing consolidated financial statements the Group did not decide to early adopt the following published standards, interpretations and amendments before their date of entry into force.

**IFRS 16 "Leases"**

IFRS 16 "Leases" was issued in on 13 January 2016 by the International Accounting Standards Board and is effective for annual periods beginning on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements set out in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The impact of the application of the new rules by the Group has not yet been estimated.

As at the day of preparation of these consolidated financial statements, IFRS 16 was not endorsed by the European Union.

**IFRS 9 “Financial Instruments: Classification and Measurement”**

IFRS 9 replaces IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018.

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). The classification is made at initial recognition and depends on the entity's business model applied to manage financial instrument and the contractual cash flow characteristics of these instruments. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

In terms of hedge accounting changes were designed to more closely match the hedge accounting to risk management.

The Group has analyzed the new standard. The most important changes arising from the implementation of IFRS 9 will result in amendments in the classification and measurement of financial assets, including the methodology of calculation of the impairment. Having in mind the scale of possible changes, the real impact of the application of the new rules by the Group is currently not possible to estimate.

At the date of these consolidated financial statements, IFRS 9 has not yet been endorsed by the European Union.

**Defined Benefit Plans: Employee Contributions - Amendments to IAS 19**

Amendments to IAS 19 “Employee benefits” were published by IAS Board in November 2013 and become effective for annual periods beginning 1 February 2015 or after that date.

The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

**Improvements to IFRSs 2010-2012**

IAS Board issued in December 2013 "Improvements to IFRSs 2010-2012" which consist of changes to seven standards.

The amendments include changes in presentation, recognition and valuation as well terminology and editorial changes. The amendments are effective in the majority for annual periods beginning on or after 1 February 2015.

The Group believes that the application of the standards will not have a material impact on the consolidated financial statements.

**IFRS 14, Regulatory Deferral Accounts**

IFRS 14 comes into force for annual periods beginning on or after 1 January 2016. The standard permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previously binding accounting standards. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, IFRS 14 requires that the effect of rate regulation must be presented separately from other items both in statement of financial position as well as in the income statement and statement of other comprehensive income.

The Group believes that the application of the standards will not have an impact on the consolidated financial statements.

At the date of these consolidated financial statements, IFRS 14 has not yet been endorsed by the European Union.

**Amendments to IFRS 11 regarding acquisitions of interests in Joint Operations**

This amendment to IFRS 11 requires the investor when he acquires an interest in a joint operation that constitutes a business as defined in IFRS 3 to apply accounting rules on businesses connections in accordance with IFRS 3 and the rules under other standards, unless they are contrary to the guidelines set out in IFRS 11.

Aforementioned changes are effective for the periods beginning on or after 1 January 2016.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

**Amendments to IAS 16 and IAS 38 regarding depreciation**

Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Aforementioned changes are effective for the periods beginning on or after 1 January 2016

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

**IFRS 15, Revenue from Contracts with Customers**

IFRS 15 "Revenue from Contracts with Customers" was issued by IAS Board on 28 May 2014 and is effective for the periods beginning on or after 1 January 2018.

The principles set out in IFRS 15 will apply to all contracts resulting in revenue. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the value of revenues varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Additionally accordingly IFRS 15 costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

At the moment the real impact of the implementation of the new standards by the Group is not possible to estimate.

At the date of these consolidated financial statements, IFRS 15 has not yet been endorsed by the European Union.

**Amendments to IAS 27 concerning equity method in separate financial statements**

The amendments of IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendments were issued on 12 August 2014 and are effective for annual periods beginning on or after 1 January 2016.

Application of the standard will not have an impact on the consolidated financial statements.

**Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture**

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28. The accounting recognition depends on whether non-monetary assets sold or contributed to an associate or joint venture involves a business. If the non-monetary assets meet the definition of a business the investor will show the full gain or loss on the transaction. In case a transaction involves assets that do not constitute a business a partial gain or loss is recognised (excluding the part representing the interests of other investors).

The amendments were published on 11 September 2014, but effective data has not ben set.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

At the date of these consolidated financial statements, aforementioned amendments have not yet been endorsed by the European Union.

**Improvements to IFRSs 2012-2014**

IAS Board issued on 25 September 2014 “Improvements to IFRSs 2012-2014” which impact 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Group believes that the application of the standards will not have a material impact on the consolidated financial statements.

**Amendments to IAS 16 and IAS 41 concerning agriculture (bearer plants)**

These changes do not apply to the activities of the Group's companies.

**Amendments to IAS 1**

In December 2014, in the framework of so-called initiative on disclosure, the IAS Board issued an amendment to IAS 1. The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. Amended Standard also provides new guidance on subtotals in financial statements depending on materiality.

The amendments are effective for annual periods beginning on or after 1 January 2016.

The Group believes that the application of the standards will not have a material impact on the consolidated financial statements.

**Amendments to IFRS 10, IFRS 12 and IAS 28 concerning exclusion of investment entities from consolidation**

In December, 2014. IAS Board has published so called an amendment of limited scope Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity’s ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent’s financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2016.

The Group believes that the application of the standards will not have a material impact on the consolidated financial statements.

## 3) ADOPTED ACCOUNTING PRINCIPLES

### Basis of Financial Statements Preparation

Consolidated financial statements of the Group prepared for the financial year from 1 January 2015 to 31 December 2015 include financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method.

These financial statements are prepared on the basis of the going concern assumption of Group, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date.

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 fair value through profit and loss account including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost with effective interest rate applied less impairment charges, 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 the amounts (assets, liabilities, incomes and costs) reported in the financial statements and notes thereto. The respective unit of the Group is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Group's management.

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

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

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

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

### Basis of Consolidation

*Acquisition method*

The acquisition method is used to account for business combination in which the Group acts as an acquirer. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of combination is lower than the Group's interest in net fair value of identifiable assets, liabilities, contingent liabilities of the acquired subsidiary, the Group reassesses identification and measures again the identifiable assets, liabilities and contingent liabilities of the entity being acquired as well as measurement of the cost of the combination. Any surplus remaining after the reassessment is immediately recognised in the Profit and Loss Account.

*Subsidiaries*

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

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

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

*Associates*

Associates are any entities over which the Group has significant influence but do not control them, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are initially accounted at purchase price and then accounted for by using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit and loss, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition. When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

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

**Functional currency and presentation currency**

*Functional currency and presentation currency*

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

*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 classified as available for sale or held to maturity 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 classified to financial assets available for sale, are included in Other comprehensive income.

**Application of estimates in connection with Accounting Policies**

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

The estimates and assumptions, revised by the Group management on a regular basis, are made on basis of historical experience and other factors considered being relevant in given circumstances.

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

- Impairment of loans and advances

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Group assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio, before the decrease can be assigned to a particular loan in order to assess impairment.

The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current market conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be recovered are regularly reviewed and updated, in order to estimate the difference between the actual loss results and estimations of impairment.

The effect of increase / decrease of cash flows for the impaired credit or either PI or LGI parameter for IBNR portfolio at the end of 2015 for the Group is presented in the following table (in PLN million):

| Type of analysis | | Change of provision amount considering : Scenario 1 (improvement 10%) | Scenario 2 (deterioration 10%) |
|---|---|---|---|
| **1.** | **Individual Analysis (Impaired)** | **-32.95** | **37.29** |
| a) | Change in cash flows from debtors business activity | -12.52 | 13.76 |
| b) | Change in cash flows from collateral | -20.43 | 23.53 |
| **2.** | **Collective Analysis** | **-89.46** | **81.43** |
| a) | Change in LGI parameter (Impaired) | -74.19 | 66.16 |
| b) | Change in LGI or PI parameter (IBNR) | -15.27 | 15.27 |
| **Total Group** | | **-122.41** | **118.72** |

- Fair value of financial instruments

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

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

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

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

  *Bills issued by the Central Bank;*
- Techniques of measurement with use of significant parameters not coming from the market:
  *Debt securities of other issuers (e.g. municipalities),*
  *Derivatives:*
    - FX Options acquired by the Group,
    - Indexes options acquired/placed by the Group.

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

- Impairment of other non-current assets

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

- Other Estimate Values

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

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

**Financial assets and liabilities**

*Classification*

The Group classifies financial instruments (as defined in IAS 39) into the following categories: financial assets and liabilities valued at fair value through profit and loss, investments held to maturity, loans and receivables, financial assets available for sale, other financial liabilities. The classification of financial instruments is determined by the authorised staff at the time of their initial recognition.

- Financial instruments valued at fair value through the profit and loss

These are financial assets or financial liabilities that are either held for trading (those that are acquired or incurred principally for the purpose of selling it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking). Derivatives are also classified as held for trading, other than those that are designated as effective hedging instruments or those that were designated as at fair value through profit and loss.

Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting mismatch due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Group's investment strategy.

- Held to maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than: (1) those that the Group upon initial recognition designates as at fair value through profit or loss; (2) those that the entity designates as available for sale; and (3) those that meet the definition of loans and receivables.

Held to maturity investments cannot be reclassified to other category of financial instruments or sold. The Group cannot classify any financial assets as held to maturity during two financial years (any remaining held to maturity investments have to be reclassified as available for sale), if the Group, during the current financial year, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. This does not apply if the sale or reclassification described above took place, so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; the event occurs after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or the event is result of an isolated event that is beyond the Group's control, is nonrecurring and could not have been reasonably anticipated by the Group.

- Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: 1) those that are designated as at fair value through profit or loss 2) those that the entity upon initial recognition designates as available for sale; or 3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Receivables resulting from factoring without recourse are presented as Purchased receivables.

- Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

- Other financial liabilities

As other financial liabilities, the Group classifies all financial liabilities not classified as financial liability valued at fair value through the profit and loss, including especially received deposits and loans.

*Recognition of financial instruments in the balance sheet*

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

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

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

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

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

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

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

The Group removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expired.

*Valuation of financial instruments after the initial recognition in the balance sheet*

After the initial recognition, financial instruments are valued as follows:

- Financial instruments valued at fair value through the profit and loss

  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Group.

- Held to maturity investments and loans and advances

  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- Financial assets available for sale

  Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized in Other comprehensive income until the de-recognition of the respective financial asset from the balance sheet or until its impairment: at such time the aggregate net gain or loss is recognised in the profit and loss.
  Interests calculated using the effective interest rate is recognized in interest income.
  If there is any objective evidence of impairment, the Group recognizes impairment loss as described in the **point: 'Impairment of financial assets'**.

- Other financial liabilities

  Financial instruments classified as other financial liabilities are valued at amortized cost using the effective interest rate.

In the first place the measurement at fair value is based on prices quoted for a given instrument on the active market. If the valued instrument is not quoted on an active market, the Group determines the fair value using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of other instruments, discounted cash flow analysis and option pricing models, as well as other valuation methods generally applied by market participants.

**Hedge Accounting and Financial Derivatives**

*Valuation at fair value*

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

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

*Recognition of embedded derivative instruments*

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

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

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

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

*Derivative instruments designated as hedging instruments – hedge accounting*

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

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

*Hedge accounting criteria*

The Group uses hedge accounting, if the conditions established in IAS 39 are met:

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

*Cash flow hedge*

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

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

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

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

*Fair value hedge*

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

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

It means that any gains or losses resulting from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss and the gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset. The valuation of hedged financial assets classified as available for sale, 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 available for sale 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 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result', which was described below.

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

- FX forward

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

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

- FX SWAP

  FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of FX SWAP transactions are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ in the Profit and Loss Account.

- Interest Rate SWAP (IRS)

  IRS transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of IRS transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

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

- Cross – Currency Swap (CCS)

  CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of CCS transactions are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’.

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

- IRS transactions with embedded options

  The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Group.

- FX and Index options

  Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Group’s counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of options are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ line of the Profit and Loss Account.

- Forward Rate Agreement (FRA)

  FRA transactions are valued at fair value on discounted future cash flows basis and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FRA transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

- Commodity futures

  Commodity futures are measured at fair value based on the discounted future cash flow methodology, using reference prices set at the LME reference market (London Metal Exchange), whereas the Group does not keep own positions on the commodity market. Changes of fair value are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

- Commodity options

  Commodity options are measured at fair value with use of option valuation models as well as reference prices set at the LME reference market (London Metal Exchange), whereas the Group does not keep own positions on the commodity market. Changes of fair value are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

**Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assessment of impairment of financial assets takes place in the framework of individual and collective analysis. Subject of individual analysis are significant assets according to the criteria of significance adopted by the Group, based primarily on the size of the exposure using early warning signals. As regards collective analysis the process includes assets not individually significant, and individually significant, for which as a result of individual analysis, impairment has not been identified.

The Group has defined a list of evidence of impairment, adapted to the profile of the Group, based on the requirements of IAS 39 Financial Instruments: Recognition and Measurement and recommendations provided by Financial Supervision in Recommendation R. The list of evidence of impairment was defined separately for the assets covered by individual and collective analysis.

*Assets valued at amortized cost*

The Group assesses in the first place, whether evidence of impairment exists both for individually significant assets and assets that are not individually significant. If the Group determines that no evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective analysis.

If there is evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Impairment is presented as reduction of the balance-sheet value of an asset, while the amount of loss (of the impairment charge posted in the period) is charged against profit or loss for the period.

If in the next period the amount of impairment loss is reduced in result of an event, which occurred after the impairment (e.g. improvement of the debtor's debt capacity assessment) then the previously made impairment charge is reversed. The amount of the made reversal is reported in the Profit and Loss Account.

Financial assets are written off against the related provision for impairment in case when collection of receivables becomes not possible. Recoveries subsequent to write – offs are recognised in the Profit and Loss Account as a decrease of the amount of created provisions.

*Financial assets available for sale*

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of instrument below its cost is considered in determining whether the assets are impaired.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

Detailed accounting policy regarding write-offs due to impairment of loan receivables is described in **Chapter 8. Financial Risk Management.**

**Offsetting of financial instruments**

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

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

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

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

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

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

**Receivables from lease contracts**

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

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

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

The Group is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period. These are agreements (mainly rent or lease), which do not meet the conditions of the finance lease contract (operating leasing). Lease payments for contracts, which do not fulfil qualifications of a finance lease agreement are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

**Property, plant and equipment and Intangible Assets**

*Own property, plant and equipment and intangible assets*

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

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

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

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

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

*Intangible Assets*

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

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

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

Other intangibles purchased by the Group are recognized at cost less accumulated amortization and accumulated impairment write-offs.

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

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

*Depreciation and amortization charges*

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

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

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

Selected categories of property, plant and equipment:

| | |
|---|---|
| Bank buildings | 2.5% |
| Lease holding improvements | period of the lease, hire purchase |
| Computer hardware | 30% |
| Network devices | 30% |
| Vehicles | as standard 25% |
| Telecommunication equipment: | 10% |
| Intangibles (software): | |
| Main applications (systems) | 10% |

For other computer software the Group applies the rate not higher than 50%, which depends on the expected useful life.

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

**Non-current assets held for sale**

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

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

When criteria for classification to non-current assets held for sale are not met, the Group ceases to classify the assets as held for sale and makes reclassification to other assets category. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group 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-current assets**

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

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

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

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

**Prepayments, Accruals and Deferred Income**

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet.

Accruals are liabilities for costs arising from services provided to the Group, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities" in the balance sheet.

Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities' in the balance sheet.

### Provisions

Provisions are established when (1) the Group has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

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

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented. A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The restructuring provision does not cover future operating expenses.

### Employee Benefits

*Short-term employee benefits*

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

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

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

*Long-term employee benefits*

The Group’s liabilities on long-term employee benefits are equal to the amount of future benefits, which the employee will receive in return for providing his services in the current and earlier periods, which are not fully due within 12 months from carrying out the work.

In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Group’s future liabilities due to employees according to the headcount and wages as at the date of revaluation. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2015 has been set at 2.5%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

In 2012, Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. Capital Group in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

The benefits of the program are realized partially in cash payments and partially by granting phantom shares entitling to receive cash in the amount that depends on the share price of Bank Millennium in the relevant period. Part of the scheme payable in cash is accounted for in the period employees acquire rights to such benefits. In the case of benefits granted in the form of phantom shares a 3-year term of holding shares is applied. During this period the employee cannot perform the rights attaching to the allocated phantom shares. The fair value of the phantom shares is determined in accordance with accepted principles and allocated over the vesting period. The value of the provision is recognized as a liability to employees in correspondence with the Profit and Loss Account.

Policy details are presented in **Chapter 14.8).**

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

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

**Group's Equity**

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

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

*Share Capital*

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

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

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

*Share Premium*

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

*Revaluation Reserve*

Revaluation reserve consists of: revaluation of financial assets available for sale and result of cash flow hedge valuation with deferred income tax effect applied. Revaluation reserve is not subject to distribution.

*Retained Earnings*

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

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

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

**Financial guarantee**

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

Financial guarantees granted are measured at the higher of:

- The amount being the best estimate of the expenditure required to settle the present obligation resulting from this financial guarantee, considering the probability of its realization;
- the amount initially recognised less amortized amount of commission received for guarantee granting.

**Interest result**

Interest income and expenses on financial instruments measured at amortized cost using effective interest rate and available for sale financial assets are recognized in the profit and loss.

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.

Net interest income comprises of interest income and costs on designated derivatives being a result of effective hedge instruments in hedge accounting (detailed information on active hedge accounting relationships is presented in **note (17)**.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

Interest income comprises interest and commissions (received or due) captured in the calculation of effective interest rate on account of: loans, interbank deposits and securities held to maturity and available for sale, measured at fair value in the Profit and Loss Account. Additionally, interest income includes the directly attributable incremental costs to the conclusion loan agreement incurred by the Group (mainly commissions paid to external and own agents for concluding mortgage loan agreements, and costs of property valuation connected with this type of agreements) that are an integral part of the effective interest rate calculation and subject to amortization over time.

Following the recognition of an impairment loss on a financial instrument carried at amortized cost and available for sale financial assets, interest income is recognised in the profit and loss calculated on a net asset value basis (gross carrying amount less impairment amount). In this case interest income is calculated using the interest rate applied for discounting future cash flows for the purpose of impairment valuation.

**Fee and commission income/ Fee and Commission Costs**

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

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

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

In connection with the 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.

In the second group (where there is a direct link to a financial instrument) 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 2015 Bank has again 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 act has been set at 9% whereas in 2014 the rate of 14% used to be applied.

As of 31 December 2015, 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 54%.

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

- Asset management services;
- Services connected with cash management;
- Income from participation system of remuneration of the Bank from participation in insuring bank products (the Bank is paid part of the earnings generated by the insurer in cooperation with the Bank).
- 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 Investment Financial Instruments**

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.

**Result on Financial Instruments Valued at Fair Value through the Profit and Loss Account and foreign exchange result**

Result on financial instruments valued at fair value through profit and loss and foreign exchange result' includes profits and losses generated as a result of selling financial instruments from the trading portfolio and the effect of their valuation to fair value (debt securities and derivatives held for trading) as well as foreign exchange profit.

Foreign exchange profit includes: i) realised result and result of valuation of FX spot and FX forward transactions ii) exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency at the average rate established as at the balance sheet date for a given currency by National Bank of Poland.

**Other Operating Income and Expenses**

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

**Income Tax**

Corporate income tax comprises current and deferred tax.

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

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

Provision for deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Group offsets deferred tax assets and deferred tax liabilities within each individual companies of the Group, because it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes (levied by the same taxation authority).

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

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

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

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

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

# 8. FINANCIAL RISK MANAGEMENT

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

## 1) GROUP'S RISK MANAGEMENT RULES

Risk Management is one of the crucial features that determines the risk profile of a financial institution. Efficient risk management requires a consistent risk management system, which is a collection of rules and mechanisms that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such rules also include a broad range of methods, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems (see also "*Risk management framework*" in part of Management Board Report).

The results of risk measurement are regularly reported within the management information system.

Important principle of risk management is the optimization of the risk and profitability trade-off – the Group pays special attention to ensure that its business decisions balance risk and profit adequately.

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

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

The Risk Appetite of the Group is mainly defined through the principles and targets defined in the Group internal document *"Risk Strategy 2015-2017"*, approved by the Management Board and Supervisory Board, and complemented in more detail by the principles and qualitative guidelines defined in the following internal documents, approved by the Management Board:

- Capital Management and Planning Framework
- Credit Principles and Guidelines
- Credit Concentration Risk Management Principles
- 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 Securities Policy
- Principles and Guidelines for the Management of Operational Risk

Another major rule on the risk management framework in the Group is the segregation of duties between risk origination, risk management and risk control.

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

- The Supervisory Board is responsible for overseeing the compliance of the Group's risk-taking policy with the Group's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Group's Risk Strategy, including the Group's Risk Appetite and verifying the assets and liabilities prices offered to customers.

- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board;
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee and the Management Board to make decisions with respect to risk management;
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models analysis and validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs.
- Fraud Risk Management Office has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Bureau constitutes a competence centre for anti-fraud process.

## 2) CAPITAL MANAGEMENT

**Capital management process**

Group's capital management is based on the high-level document „Capital Management and Planning Framework", approved by the Bank's Management Board and Supervisory Board.

Group's 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) ensuring the solvency of the Group in the normal and stressed conditions (economic capital adequacy) and (b) meeting the requirements specified in external regulations (regulatory capital adequacy).

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

**Own Funds requirements**

Group is obliged by law to meet minimum own funds requirements, set in art. 92 of Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and Polish Banking Act. At the same time, maintaining regulatory capital adequacy on a higher level than required minimum is one of a goal of capital management. Calculating own funds requirements, local solutions and interpretations are used (issued by Polish Financial Supervisory Authority - PFSA). During 2015 the Group complied with requirements specified in external regulations.

Group is implementing 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 (PFSA) 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.

During 2014, the Bank submitted to Regulatory Authorities an IRB approval pack regarding the remaining loan portfolios under the IRB roll-out plan – "other retail" and "corporate" portfolios.

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. The IRB approval for the remaining portfolios under roll-out plan shall be possible after meeting a list of conditions defined by Regulatory Authorities.

Data on regulatory capital adequacy (own funds requirements and capital ratios) are shown in the below table.

| Bank Millennium Group - capital adequacy | 31.12.2015 | 31.12.2014 |
|---|---|---|
| (PLN mn) | IRB with regulatory floor[1] | IRB with regulatory floor[1] |
| Risk-weighted assets (RWA) | 37 129.6 | 35 257.0 |
| Own funds requirements, including: | 2 970.4 | 2 820.5 |
| - Credit risk and counterparty credit risk | 2 650.4 | 2 514.4 |
| - Market risk | 29.1 | 24.8 |
| - Operational risk | 271.1 | 257.5 |
| - Credit Valuation Adjustment CVA | 19.8 | 23.8 |
| Own Funds including: | 6 208.9 | 5 368.9 |
| Common Equity Tier 1 Capital, including: | 6 071.0 | 5 123.1 |
| - paid up capital instruments | 1 213.1 | 1 213.1 |
| - share premium | 1 147.5 | 1 147.5 |
| - recognised part of current profit | 451.9 | 160.0 |
| - other retained earnings | 3 517.8 | 2 866.9 |
| - recognised part of revaluation reserve | 78.2 | (3.8) |
| - regulatory adjustments | (337.5) | (260.6) |
| Tier II Capital, including: | 137.9 | 245.8 |
| - subordinated debt | 252.1 | 380.1 |
| - regulatory adjustments | (114.2) | (134.3) |
| Total Capital Ratio (TCR) | 16.72% | 15.23% |
| Common Equity Tier 1 Capital ratio (CET1 ratio)[2] | 16.35% | 14.53% |

*1) Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor"*

*2) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio*

The capital adequacy, measured by Total Capital Ratio and Common Equity Tier 1 Capital ratio, improved in 2015 (yearly increase by 1.49 and 1.82 p.p., respectively).

Total risk-weighted assets went up by ca. 5% and that was influenced mainly by the increase of business activity. Own Funds raised by almost 16% in effect from retaining the full net earnings from 2014 and consideration of full net earnings for first ten months of 2015 after deducting the extra charge to Banking Guarantee Fund (BFG) for the bankrupt SK Bank (according to the decision of PFSA ).

The Bank has received from the Polish Financial Supervision Authority ("PFSA") a recommendation to maintain own funds for the coverage of additional capital requirement at the level of 3.83 p.p. in order to secure the risk resulting from FX mortgage loans for households, which should consist of at least 75% of Tier I capital (which corresponds to 2.87 p.p.).

The abovementioned recommendation should be respected by the Bank from the date of receipt until further notice, i.e. until the PFSA determines, based on the analysis and supervisory assessment, that the risk associated with FX mortgage loans, being the reason for imposing the additional capital requirement on the Bank, has significantly changed.

This means that the minimum required capital ratios of the Bank (and the Group), taking into account the additional capital requirement recommended by the PFSA as at 31 December 2015 were:

Tier I Capital Ratio (T1) = 9+2.87=11.87 %

Total Capital Ratio (TCR) = 12+3.83=15.83 %

PFSA also announced an additional capital conservation buffer of 1.25 p.p. for all banks to be valid from 1st January 2016. The above mentioned new capital buffers are applicable on top of previous applicable base of 12% Total and 9% Tier 1 capital minimum ratios valid in Poland and are to be fulfilled by the Bank (and the Group) until the end of June 2016.

**Internal capital**

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

Internal capital is used in capital management in following processes: economic capital adequacy management and capital allocation.

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 2015, both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

At the same time internal capital is utilised 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.

## 3) CREDIT RISK

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

The credit policy is subject to periodic reviews and verification process taking into account the prevailing market conditions and changes in the group's regulatory environment.

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

### (3a) Measurement of Credit Risk

#### Loans and advances

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

(i) Probability of Default (PD) of a customer or counterparty as regards their liability;
(ii) amount of Exposure At Default (EAD) and
(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

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

The Group's internal rating scale

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

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

#### Debt Securities

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

#### Derivatives

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

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

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

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

Credit risk-based off-balance sheet liabilities include guarantees, letters of credit as well as granted credit lines. The main purpose of these instruments is to enable the customer to use the funds granted by the Group in a specific way.

Guarantees and letters of credit of standby type (liability similar to guarantee) bears at least the same credit risk as loans (in the case of guarantees and stand-by letters of credit type when valid claim appears, the Group must make a payment).

Documentary and commercial letters of credit are a written, irrevocable and final obligation of the Group to accept payments based on compliant documents within the time limits specified in the letters of credit and are connected with a guarantee-like risk.

The available credit line balance is the non-utilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters of credit. Considering the credit risk of undertakings to grant credit, the Group is potentially exposed to a loss in an amount equal to the sum of non-utilised liabilities. However the probable loss amount is usually lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on customers' particular credit conditions.

The Group monitors the period remaining to maturity of off-balance liabilities because long-term liabilities usually involve a higher degree of credit risk than short-term liabilities.

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

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

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

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

**Collateral**

The Group accepts collateral to mitigate its credit risk exposure; the main role of collateral is to minimize loss in the event of customers' default in repayment of credit transactions in contractual amounts and on contractual dates by ensuring an alternative source of repayment of due and payable amounts.

Collateral is accepted in accordance with the credit policy principles defined for each customer segment. The key principle is that collateral for credit transaction should correspond to the credit risk incurred by the Group, taking into account the specific nature of the transaction (i.e. its type, amount, repayment period and the customer's rating).

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

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

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the corporate segment, in addition to all types of real property (residential, commercial, land), physical collateral is also accepted (vehicles, construction equipment, technical equipment, machinery) as well as assignment of contractual receivables.

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

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

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

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

**Organisation of the Process**

The process of impairment identification and measurement with respect to loan exposures is regulated in the internal instruction introduced by a Management Note of the Bank's Management Board Member. Moreover, the principles of receivables classification and estimation of impairment charges and provisions in the bank's management system are laid down in the document „Management System at Bank Millennium S.A." adopted by resolution of the Management Board and approved by the Supervisory Board.

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, as well as collective analysis. In addition to DMR the process also involves recovery and restructuring units. These are the Corporate Recovery Department – DNG (individual analysis for the recovery-restructuring portfolio for corporate customers) and the Retail Liabilities Collection Department - DDN (individual analysis of individually significant retail impairments, mainly mortgages). DMR is a unit not connected with the process of lending; it is supervised by the Management Board Member responsible for risk management. Similarly organised is the impairment process at Millennium Leasing.

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

In monthly periods detailed reports are prepared presenting information about the Group's retail portfolio in various cross-sections, including the level of impairment charges and provisions, their dynamics and structure.

The recipients of these reports are Members of the Management Board supervising the activity of the Group in the area of finance, risk and management information.

The process of determining impairment charges and provisions in the Group is formalised and described in the above-mentioned regulation, which defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating particular parameters.

The Audit Department assesses the correctness of estimating the impairment and provisions at least twice a year.

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

**Individual analysis of impairment for credit receivables**

Credit exposures are selected for individual analysis on the basis of materiality criteria which ensure that case-by case analysis covers at least 55% of the Group's business corporate portfolio and 80% of the portfolio managed by entities responsible for the recovery and restructuring of corporate receivables.

Principal elements of the process of individual analysis:

(1) Identification of impairment triggers;
The Group defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers incorporates in some more detail the triggers specified in IAS 39 and recommendation R, which pertain among others to:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Breach of the contract, e.g. delay in payments of principal or interest exceeding 90 days,
- 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 by the Bank, for economic and legal reasons, resulting from the client's financial problems, facilities in conditions of financing (restructuring)

The internal regulation contains a fine-tuning of the above-mentioned triggers by indicating specific cases and situations corresponding to them, in particular with respect to triggers resulting from the Customer's considerable financial problems, violating the critical terms of the agreement and high probability of a bankruptcy or a different enterprise reorganisation. Additionally, the Bank has an extended monitoring process which identifies in monthly periods various types of early warning signals subject to additional assessment by credit analysts.

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

If at least one of impairment triggers has been identified in the individual analysis, we have the so-called base impairment, i.e. probability of full repayments of liabilities by the customer from his current activity is estimated at a level lower than 100%. Internal instructions define specific parameters determining the minimum value of base impairment for the business portfolio of corporate customers and for the retail.

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

- Operational strategy with respect to the Customer adopted by the Group,
- Results of negotiations with the customer and his attitude, i.e. willingness to settle his arrears,
- Improvement/deterioration of his economic and financial situation,
- Possibility of settling liabilities from the borrower's own funds, or perhaps the necessity to seize the collateral, e.g. through its selling.

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

(3) 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;
If base impairment has occurred with respect to a given credit exposure, then one should estimate the cash flows from realising collateral including the dates of its realisation. The inclusion of cash flows from realising collateral must be preceded by an analysis of how realistically it can be sold and estimation of its fair value after recovery costs.

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

If the total discounted value of the expected cash flows from the customer's current activity, collateral recoveries and other documented sources is lower than the on-balance value of the credit exposure, then an impairment is recognised and a revaluation charge posted. If an impairment has been recognised with respect to at least one of the customer's exposure in an individual analysis, then all the remaining exposures of the customer are estimated in the process of an individual analysis irrespective of the exposure level and are classified in the impaired portfolio (cross default).

Internal regulations define the principles of reversing impairment losses. In the case of a customer in an individual analysis after finding that the consequences of the triggers no longer occur and the exposures are being properly repaid in a defined period (which is different for corporate and retail customers), the Bank may decide that the trigger no longer exists/persists and reverse the loss.

**Collective analysis of the credit portfolio**

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

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

The former group includes exposures for which as a result of a collective analysis impairment triggers have been defined and for which there has been created a revaluation charge/ provision (the so-called *collective impairment*), as well as exposures for which no impairment triggers have been identified with respect to an individual exposure, but there has been created a group charge for an incurred but not reported loss (IBNR). The latter group includes exposures for which there have not been identified impairment triggers as a result of an individual analysis and, moreover, exposures for which there have been identified impairment triggers, but there has not been created an individual revaluation charge/ provision due to full coverage of the exposure with the discounted value of the expected cash flows from collateral or other documented sources. For this group an IBNR charge is created.

The Group has defined among others the following catalogue of impairment triggers used in collective analysis for individually insignificant exposures:

- Delay in the repayment of principal or interest in excess of 90 days,
- Exposure restructuring
- Inclusion of receivables in the recovery process,
- The Customer's having a product earlier written off.

In its impairment estimation process the Group employs for many years the *cross-default* rule, which consists in a transfer to the impairment portfolio of the value of all exposures to the customer (irrespective of the segment) for whom there has been detected the occurrence of at least one of the impairment triggers with respect to at least one receivable.

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

The calculation of impairment charges and provisions by the collective method employs model parameters determined on the basis of historical observations of credit losses for particular homogenous portfolios. The Group employs the following parameters:

- PI (*probability of being impaired*),
- LIP (*loss identification period*),
- LGI (*loss given impairment*),
- PU (*probability of utilization*), which is the ratio/probability of implementing an off-balance sheet commitment.

The parameters employed in collective analysis are determined in monthly periods based on historical statistical data. The period of observing historical data is defined in the Group's internal regulations, taking into account the tendency to adjusting impairment charges to the market and internal situation of the Group with a simultaneous observance of the statistical correctness of the calculated parameters.

The PI parameter is determined on the basis of the historical impairment ratio, the so-called „impaired rate”. For the purposes of PI calculation data samples are collected whose length corresponds to the loss identification period (LIP) adopted for a given homogenous portfolio. The samples are collected with monthly frequency. These samples are given weights, so that any observations coming from the most current period have the highest rate, and the least current ones – the lowest. The period of historical data observation for determining PI covers the last 36 months from the balance sheet day and takes into account the shift of the observation time window corresponding to the LIP length. Exposures covered by collective analysis for which at least one impairment trigger has been identified receive PI =1.

The Loss Identification Period (LIP) is determined to each homogeneous portfolio by statistical analysis of historical events for the time that the Group took between the event that lead to the default and the moment the Group recognized the impairment.

The Loss Identification Period (LIP) in the retail and corporate segment is verified at least once a year based on data obtained from customers who have a problem with timely repayment.

Since October 2014, for mortgage exposures the Bank uses new LGI model, which is an adaptation of LGD model developed for the capital calculation, based on the IRB approach. Similar model was adapted for other retail exposures (including Microbusiness) in September 2015. The models are based on a discounted cash flow analysis. In case of corporate exposures the Bank uses simplified LGI model based on comparison of balances.

The LGI models use a deep and statistically driven segmentation based on: product type, amount of exposure, LTV, currency, restructuring flag, etc. In addition, all models differentiate LGI depending on the number of months from impaired date.

The PU parameter denoting the ratio of using an off-balance exposure during LIP months before going impaired, is calculated for credit cards, revolving loans and overdraft limits. In case of guarantees the PU is the probability of guarantee realisation in the event of submitting by beneficiary of the guarantee, an application for guarantee payment. The period of observing historical data for PU determination covers the last 36 months from the balance sheet day. Data samples coming from the observation period are assigned appropriate weights whose levels are calculated similarly as in the case of the PI parameter. The PU parameter is updated every month.

Internal regulations provide a detailed definition of the principle of reversing impairment losses determined by the collective method. In principle, reversing a loss and elimination of a revaluation charge is possible in the case of cessation of the impairment triggers, including the repayment of arrears or exclusion from the recovery portfolio (reclassification to the Non-Impaired category) or in the case of selling receivables. Reclassification to the Non-Impaired category in the case of exposures subject to restructuring is possible only when the customer has successfully passed the „quarantine” period, during which he will not show delay in the repayment of principal or interest above 30 days. The quarantine period only starts counting after any eventual grace period that may be granted on the restructuring. The above does not pertain to the Corporate Recovery restructuring portfolio, for which there have been defined separate objective and subjective conditions of transfer to the Non-Impaired category. For leasing transactions the quarantine period is equal to the period of staying in the restructuring portfolio, plus an additionally defined period. Within its duration delays in repayments must not exceed 30 days.

The results of models employed in collective analysis are subject to periodical historical 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. The validation of models and parameters and historical verification of revaluation charges/ provisions determined by the collective method is conducted at least once a year.

If as a result of the validation and analysis of cyclicity of credit models and historical verification of revaluation charges and provisions the Bank comes to the conclusion that the parameters employed as of a given balance sheet day deviate from the actual trend of the data being the basis for their determination, then the Bank may adjust the period of observing historical data to the current economic conditions.

In 2015 the Group reviewed its impairment classification criteria and, as a consequence, adopted in 3rd quarter a more restrictive classification of impaired retail exposures that went under restructuring. This adjustment translated in the amount of recognized impaired receivables PLN 144 million in mortgage and other retail exposures.

In September 2015 in Bank there was a sale of PLN 104 million of on balance sheet NPL receivables, with higher than average coverage ratio. The sale included mainly other retail receivables (ca PLN 83 million) and mortgage receivables (ca PLN 21 million).

**IFRS 9 implementation**

The Bank continues to work on the implementation of IFRS 9. The preliminary analysis of the needs and the resources required for the proper and timely implementation of the Standard had already been carried out. In order to achieve the highest quality solutions, take advantage of international experience and to assure efficient and timely implementation of the Standard, a working team has been established, in liaison with Millennium bcp Group. The implementation of the Standard will take place on 1 January 2018. However the Bank assumes that in the year 2017 will simultaneously apply two methods of estimating impairment provisions, i.e. current and according to the standards IFRS 9.

**(3d) Maximum exposure to credit risk**

| *PLN '000* | Maximum exposure | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| **Exposures exposed to credit risk connected with balance sheet assets** | **63 331 938** | **57 485 080** |
| Loans and advances to banks | 2 348 754 | 2 384 744 |
| Loans and advances to customers: | 46 369 381 | 44 142 699 |
| Loans to private individuals: | 32 905 953 | 31 435 346 |
| - Credit cards | 645 325 | 665 462 |
| - Cash loans and other loans to private individuals | 4 577 232 | 3 863 260 |
| - Mortgage loans | 27 683 396 | 26 906 624 |
| Loans to companies | 13 043 835 | 12 189 838 |
| Loans to public entities | 419 593 | 517 515 |
| Trading debt securities | 408 572 | 933 482 |
| Derivatives and adjustment due to fair value hedge | 429 229 | 502 040 |
| Financial assets valued at fair value | 0 | 0 |
| Investment debt securities | 13 647 734 | 9 242 575 |
| Receivables from securities bought with sell-back clause | 0 | 155 642 |
| Other financial assets | 128 268 | 123 898 |
| **Credit risk connected with off-balance sheet items** | **7 823 370** | **7 757 464** |
| Financial guarantees | 1 110 450 | 1 066 034 |
| Credit commitments and other commitments connected with loans | 6 712 920 | 6 691 430 |

The table above presents the structure of the Group's exposures to credit risk as at 31st December 2015 and 31st December 2014, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

The quality of financial assets, which were neither past-due(*), nor impaired.

| *PLN'000* | Maximum exposure | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| **Balance exposures exposed to credit risk not past due and not impaired:** | **61 023 664** | **55 153 785** |
| Loans and advances for banks (external rating Fitch: from BB+ to AA-; Moody's: from B1 to Aa3; S&P: from B+ to AA- ) | 2 348 763 | 2 384 754 |
| Loans and advances for clients (according to Master Scale): | 44 189 366 | 41 935 274 |
| • 1-3 Highest quality | 18 020 387 | 17 883 762 |
| • 4-6 Good quality | 7 081 114 | 6 364 193 |
| • 7-9 Medium quality | 10 583 330 | 9 578 724 |
| • 10-12 Low quality | 4 057 034 | 4 189 676 |
| • 13-14 Watched | 219 268 | 229 708 |
| • 15 Default (**) | 103 013 | 498 966 |
| • Without rating (***) | 4 125 220 | 3 190 245 |
| Trading debt securities (State Treasury(****) bonds) | 408 572 | 933 482 |
| Derivatives and adjustment from fair value hedge (according to Master Scale): | 429 229 | 502 040 |
| • 1-3 Highest quality | 139 764 | 218 158 |
| • 4-6 Good quality | 138 610 | 204 850 |
| • 7-9 Medium quality | 14 719 | 9 263 |
| • 10-12 Low quality | 9 515 | 5 671 |
| • 15 Default | 0 | 0 |
| • Without rating | 33 622 | 18 002 |
| • fair value adjustment due to hedge accounting | 22 152 | 27 097 |
| • Valuation of future FX payments | 14 | 0 |
| • Hedging derivative | 70 833 | 18 999 |
| Investment debt securities (State Treasury (****), Central Bank(****), Local Government ) | 13 647 734 | 9 242 593 |
| Receivables from securities bought with sell-back clause | 0 | 155 642 |

(*) – Loans overdue not more than 4 days are treated as technical delay and are shown in this category.

(**) - Receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure.

(***) - The group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and some leasing clients .

(****) - Rating of Poland in 2015 A - (S&P).

The quality of loans and advances for clients (according to Master Scale) divided by customer segments, which were neither past-due(*), nor impaired:

| Gross exposure in '000 PLN | 31.12.2015 | | | |
|---|---|---|---|---|
| | Loans and advances to customers | | | Total |
| | Companies | Mortgages | Other retail | |
| 1-3 Highest quality | 62 810 | 17 618 958 | 338 619 | 18 020 387 |
| 4-6 Good quality | 713 062 | 5 212 406 | 1 155 646 | 7 081 114 |
| 7-9 Medium quality | 5 274 037 | 2 986 769 | 2 322 524 | 10 583 330 |
| 10-12 Low quality | 2 355 737 | 770 355 | 930 942 | 4 057 034 |
| 13-14 Watched | 17 102 | 161 433 | 40 733 | 219 268 |
| 15 Default (**) | 24 275 | 60 297 | 18 441 | 103 013 |
| Without rating (***) | 4 121 082 | 1 898 | 2 240 | 4 125 220 |
| Total | 12 568 105 | 26 812 116 | 4 809 145 | 44 189 366 |

(*) – Loans overdue not more than 4 days are treated as technical delay and are shown in this category.

(**) - Receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure.

(***) - The group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and particular leasing clients

**(3e) Loans**

The structure of loans granted to customers and to banks as well as key loans portfolio ratios are as follows:

Gross exposure in '000 PLN

| | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Loans and advances to customers | Loans and advances to banks | Loans and advances to customers | Loans and advances to banks |
| Not overdue and without impairment | 44 189 366 | 2 348 763 | 41 935 274 | 2 384 754 |
| Overdue(*), but without impairment | 1 436 747 | 0 | 1 642 431 | 0 |
| Total without impairment (IBNR) | 45 626 113 | 2 348 763 | 43 577 705 | 2 384 754 |
| With impairment | 2 204 196 | 0 | 1 923 249 | 0 |
| **Loans and advances, gross** | **47 830 309** | **2 348 763** | **45 500 954** | **2 384 754** |
| Impairment write-offs together with IBNR | (1 460 928) | (9) | (1 358 255) | (10) |
| **Loans and advances, net** | **46 369 381** | **2 348 754** | **44 142 699** | **2 384 744** |
| Loans with impairment / total loans | 4.61% | 0.00% | 4.23% | 0.00% |

(*) Loans overdue not more than 4 days are treated as technical delay and are not shown in this category.

**Loans and advances without impairment** in '000 PLN

| | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Loans and advances to customers | Loans and advances to banks | Loans and advances to customers | Loans and advances to banks |
| Without identified triggers | 45 590 082 | 2 348 763 | 43 151 201 | 2 384 754 |
| With identified triggers, incl. | 36 031 | 0 | 426 504 | 0 |
| - expected cash flows from collateral, incl. | 36 031 | 0 | 426 504 | 0 |
| - overdue(*) | 12 116 | 0 | 17 890 | 0 |
| **Loans and advances without impairment, gross** | **45 626 113** | **2 348 763** | **43 577 705** | **2 384 754** |
| Impairment for IBNR portfolio | (155 601) | (9) | (161 724) | (10) |
| **Loans and advances without impairment, net** | **45 470 512** | **2 348 754** | **43 415 981** | **2 384 744** |

(*) Loans overdue not more than 4 days are treated as technical delay and are not shown in this category.

**Loans and advances past due but without impairment**

Loans past due below 90 days are not considered as impaired exposures, unless other impairment triggers are identified. The gross amount of loans past due but without impairment, divided between customer segments, is as follows:

| Gross exposure in '000 PLN | 31.12.2015 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to customers | | | Loans and advances to banks | Total |
| | Companies | Mortgages | Other retail | | |
| Delay 5-30 days(*) | 538 451 | 434 325 | 179 875 | 0 | 1 152 651 |
| Delay 31-60 days | 75 705 | 86 599 | 50 196 | 0 | 212 500 |
| Delay 61-90 days | 13 227 | 25 686 | 21 632 | 0 | 60 545 |
| Delay above 90 days(**) | 8 094 | 1 389 | 1 568 | 0 | 11 051 |
| Total | 635 477 | 547 999 | 253 271 | 0 | 1 436 747 |

| Gross exposure in '000 PLN | 31.12.2014 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to customers | | | Loans and advances to banks | Total |
| | Companies | Mortgages | Other retail | | |
| Delay 5-30 days(*) | 616 327 | 505 793 | 177 498 | 0 | 1 299 618 |
| Delay 31-60 days | 104 973 | 92 026 | 48 783 | 0 | 245 782 |
| Delay 61-90 days | 34 789 | 32 676 | 21 166 | 0 | 88 631 |
| Delay above 90 days(**) | 6 611 | 11 | 1 778 | 0 | 8 400 |
| Total | 762 700 | 630 506 | 249 225 | 0 | 1 642 431 |

(*) Loans overdue not more than 4 days are treated as technical delay and are not shown in this category.

(**) - receivables past due over 90 days, but not included in the impaired portfolio, displaying impairment triggers but not demonstrating impairment due to estimated cash flows or below the minimum threshold

**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 | 31.12.2015 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to customers | | | Loans and advances to banks | Total |
| | Companies | Mortgages | Other retail | | |
| By type of analysis | | | | | |
| Case by case analysis | 769 882 | 168 096 | 2 612 | 0 | 940 590 |
| Collective analysis | 241 669 | 426 418 | 595 519 | 0 | 1 263 606 |
| Total | 1 011 551 | 594 514 | 598 131 | 0 | 2 204 196 |

| Gross exposure in '000 PLN | 31.12.2014 | | | | |
|---|---|---|---|---|---|
| | Loans and advances to customers | | | Loans and advances to banks | Total |
| | Companies | Mortgages | Other retail | | |
| By type of analysis | | | | | |
| Case by case analysis | 800 358 | 109 360 | 2 117 | 0 | 911 835 |
| Collective analysis | 245 827 | 314 044 | 451 543 | 0 | 1 011 414 |
| Total | 1 046 185 | 423 404 | 453 660 | 0 | 1 923 249 |

**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 the IBNR portfolio (and respectively charges) is presented in financial notes.

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

Loans and advances to customers - by currency

| | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Amount in '000 PLN | Share % | Coverage by impairment write-offs | Amount in '000 PLN | Share % | Coverage by impairment write-offs |
| PLN | 781 531 | 83.1% | 67.1% | 804 791 | 88.2% | 65.4% |
| CHF | 117 209 | 12.5% | 23.4% | 64 687 | 7.1% | 21.8% |
| EUR | 41 579 | 4.4% | 23.4% | 29 990 | 3.3% | 51.8% |
| USD | 271 | 0.0% | 49.8% | 5 434 | 0.6% | 10.0% |
| JPY | 0 | - | - | 6 933 | 0.8% | 3.4% |
| GBP | 0 | - | - | 0 | - | - |
| Total (Case by Case impaired) | 940 590 | 100.0% | 59.7% | 911 835 | 100.0% | 61.1% |

Loans and advances to customers - by coverage ratio

| | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Amount in '000 PLN | Share % | Amount in '000 PLN | Share % |
| Up to 20% | 217 469 | 23.1% | 179 917 | 19.7% |
| 20% - 40% | 113 816 | 12.1% | 118 237 | 13.0% |
| 40% - 60% | 98 851 | 10.5% | 97 007 | 10.6% |
| 60% - 80% | 156 429 | 16.6% | 138 226 | 15.2% |
| Above 80% | 354 025 | 37.7% | 378 448 | 41.5% |
| Total (Case by Case impaired) | 940 590 | 100.0% | 911 835 | 100.0% |

At the end of 2015, the financial impact from the established collaterals securing the Group's receivables with impairment recognised under individual analysis amounted to PLN 236 million (in 31/12/2014: PLN 195 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

**Restructured loans and advances**

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

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

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

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

- warning process - conducted by Direct Banking Department,
- restructuring and execution proceedings – implemented by Retail Liabilities Collection Department.

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

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

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

The restructuring and recovery process applicable to corporate receivables (i.e. 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 in the shortest possible periods of time and to mitigate risk incurred by the Group 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, 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.

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

| Gross exposure in '000 PLN | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances to private individuals | 601 521 | 434 483 |
| Loans and advances to companies | 339 437 | 195 806 |
| Total | 940 958 | 630 289 |

**Bank execution titles**

In 2015, the Bank issued for corporate receivables 87 bank execution titles for the aggregated amount of PLN 76.8 million (based on the average NBP exchange rate of 31 December 2015), including:

- 85 bank execution titles for the aggregated amount of PLN 75.6 million,
- 2 bank execution titles for the aggregated amount of EUR 0.3 million.

Additionally, in 2015 the Bank issued 10 558 bank execution titles for retail and small business receivables for the aggregated amount of PLN 156.4 million. In addition, in 2015, the Bank sent to the courts 7 328 lawsuit for a payment order in the amount of PLN 84 million.

**(3f) Debt and equity securities**

The table below presents the structure of securities in the Group's portfolio as at 31 December 2015.

| Issued by | Trading debt securities | Investment debt securities | Shares | Total |
|---|---|---|---|---|
| State Treasury | 408 572 | 9 375 707 | 0 | 9 784 279 |
| Central Bank | 0 | 4 198 776 | 0 | 4 198 776 |
| Other | 0 | 73 283 | 229 656 | 302 939 |
| - listed | 0 | 0 | 1 934 | 1 934 |
| - not listed | 0 | 73 283 | 227 722 | 301 005 |
| **Total** | **408 572** | **13 647 766** | **229 656** | **14 285 994** |

The table below presents the structure of securities in the Group's portfolio as at 31 December 2014.

| Issued by | Trading debt securities | Investment debt securities | Shares | Total |
|---|---|---|---|---|
| State Treasury | 933 482 | 6 749 204 | 0 | 7 682 686 |
| Central Bank | 0 | 2 400 000 | 0 | 2 400 000 |
| Other | 0 | 93 388 | 10 486 | 103 874 |
| - listed | 0 | 0 | 1 073 | 1 073 |
| - not listed | 0 | 93 388 | 9 413 | 102 801 |
| **Total** | **933 482** | **9 242 592** | **10 486** | **10 186 560** |

**(3g) Collateral transferred to the Group**

In 2015 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from lien or transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (also as part of selling organized parts of the debtor's whole enterprise). Funds obtained in such a way are allocated directly for repayment of the Bank's receivables (such debt-collection procedure is implemented without recording transferred collateral on the so-called "Fixed Assets for Sale").

At the same time, a subsidiary of Bank - Millennium Leasing, takes control over some of assets leased and leads active measures aimed at their disposal. Data about the value of these assets and their changes during the reporting period are shown in note **(23) "Non-current assets held for sale" of the consolidated balance sheet.**

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

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

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

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

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

Industry sectors

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

| 31.12.2015 | 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 | 2 348 763 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 348 763 |
| Loans and advances to customers | 73 583 | 4 857 564 | 3 900 771 | 2 137 820 | 394 854 | 27 954 629 | 5 660 547 | 2 850 541 | 47 830 309 |
| Trading securities | 14 | 77 | 1 474 | 0 | 408 572 | 0 | 0 | 117 | 410 254 |
| Derivatives and adjustment due to fair value hedge | 395 565 | 19 791 | 2 725 | 0 | 0 | 0 | 0 | 11 148 | 429 229 |
| Investment securities | 226 397 | 0 | 0 | 145 | 13 647 788 | 0 | 0 | 1 410 | 13 875 740 |
| Receivables from securities bought with sell-back clause | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 3 044 322 | 4 877 432 | 3 904 970 | 2 137 965 | 14 451 214 | 27 954 629 | 5 660 547 | 2 863 216 | 64 894 295 |

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

| 31.12.2014 | 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 | 2 384 754 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 384 754 |
| Loans and advances to customers | 164 161 | 4 536 347 | 3 448 222 | 1 870 621 | 473 688 | 27 138 443 | 4 879 755 | 2 989 717 | 45 500 954 |
| Trading securities | 17 | 69 | 542 | 0 | 933 483 | 0 | 0 | 124 | 934 235 |
| Derivatives and adjustment due to fair value hedge | 473 674 | 22 739 | 1 939 | 124 | 0 | 0 | 0 | 3 564 | 502 040 |
| Investment securities | 6 890 | 0 | 0 | 28 | 9 242 616 | 0 | 0 | 2 793 | 9 252 327 |
| Receivables from securities bought with sell-back clause | 155 642 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 155 642 |
| **Total** | 3 185 138 | 4 559 155 | 3 450 703 | 1 870 773 | 10 649 787 | 27 138 443 | 4 879 755 | 2 996 198 | 58 729 952 |

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

## 4) Market Risk

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

**Market-risk evaluation measures**

The Group's market risk measurement allows monitoring of all of the risk types, that is generic risk (including interest rate risk, foreign exchange risk, equity risk), non-linear risk, specific risk and commodity risk. In 2015 the nonlinear risk and commodities risk did not exist in the Group. The equity risk assumed to be irrelevant since the Group's engagement in equity instruments is immaterial.

Each market risk type is measured individually using an appropriate risk 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 Group to evaluate market risks (interest rate risk, foreign exchange risk, equity risk) is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement.

The Value at Risk in the Group (VaR) is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). In order to adapt to regulatory requirements of CRDIV / CRR, since April 2014 the volatility associated with each market risk vertex considered in the VaR model (and respective correlation between them) has been estimated by the equally weighted changes of market parameters using the effective observation period of historical data of last year. Previously applied EWMA method (exponentially weighted moving average method) with effectively shorter observation period is now only justified by a significant upsurge in price volatility.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear risk, commodity risk and specific risk), the appropriate assessment rules were defined. The non-linear risk is measured according to internally developed methodology which is in line with the VaR methodology – the same time horizon and significant level is used. Specific and commodities' risks are measured through standard approach defined in supervisory regulations, with a corresponding change of the time horizon considered.

The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.

All reported excesses are documented. This includes an explanation of their causes and their incorporation in one of the three classes of excess explanation: adequacy of the model, insufficient model accuracy or unanticipated market movements.

Parallel to the VaR calculation the portfolios are subject to a set of stress scenarios, in order to:

- Estimate the potential economic loss resulting from extreme variations in market risk factors,
- Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- Identify the actions that can be taken to reduce the impact of extreme variations in the risk factors.

The following types of market scenarios are being applied:

- Parallel shifts of the yield curves;
- More steep or flat shape of the yield curves;
- Variations of the exchange rates;
- Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows having on-line access to the risk exposures in terms of VaR in all market risk management areas (intra-day and end-of-day).

The VaR is used as a measure in assessing the risks incurred by the positions in consolidated terms and separately for the Trading and Banking Book. In addition, each Book is divided into the risk management areas. The global limit is expressed as a fraction of the consolidated Own Funds and then limit is divided into the books, risk management areas and various types of risk, which enables the Group for full measurement, monitoring and control of market risk. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Group.

The market risk limits are revised at least once a year and in order to take into account, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 1st June 2015.

In 2015 the VaR indicators for the Group remained on average at the level of PLN 42.1 million (15% of the limit) and PLN 35.8 million (13% of the limit) as of the end of December 2015. The VaR indicators presented in the table below reflect joint exposures to market risk in the Group, that is Trading Book and the Banking Book. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect is connected with the fact that the Group's market risk is mainly the interest rate risk. The figures in the Table include also the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

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

| VaR measures for market risk ('000 PLN) | VaR (2015) | | | | |
|---|---|---|---|---|---|
| | 31.12. 2014 | Average | Maximum | Minimum | 31.12. 2015 |
| Total risk | 61 005 | 42 071 | 68 401 | 18 377 | 35 818 |
| Generic risk | 58 499 | 39 690 | 65 916 | 16 155 | 33 864 |
| Interest Rate VaR | 58 492 | 39 698 | 65 788 | 16 144 | 33 861 |
| FX Risk | 107 | 249 | 3 090 | 8 | 41 |
| Diversification Effect | 0.2% | | | | 0.1% |
| Specific risk | 2 497 | 2 381 | 2 498 | 1 954 | 1 954 |

The corresponding exposures as of 2014 respectively amounted to (‘000 PLN):

| VaR measures for market risk (‘000 PLN) | VaR (2014) | | | | |
|---|---|---|---|---|---|
| | 31.12. 2013 | Average | Maximum | Minimum | 31.12.2014 |
| Total risk | 17 316 | 29 084 | 62 717 | 13 215 | 61 005 |
| Generic risk | 14 506 | 26 363 | 60 232 | 10 416 | 58 499 |
| Interest Rate VaR | 14 503 | 26 376 | 60 254 | 10 404 | 58 492 |
| FX Risk | 132 | 159 | 1 471 | 12 | 107 |
| Diversification Effect | 0.9% | | | | 0.2% |
| Specific risk | 2 810 | 2 721 | 2 814 | 2 485 | 2 497 |

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 (2015) | | | | |
|---|---|---|---|---|---|
| | 31.12 2014 | Average | Maximum | Minimum | 31.12 2015 |
| Total risk | 58 442 | 40 179 | 65 235 | 17 128 | 33 957 |
| Generic risk | 55 962 | 37 806 | 62 755 | 14 912 | 32 010 |
| Interest Rate VaR | 55 962 | 37 806 | 62 755 | 14 912 | 32 010 |
| FX Risk | 0 | 0 | 0 | 0 | 0 |
| Diversification Effect | 0.0% | | | | 0.0% |
| Specific risk | 2 480 | | | | 1 947 |

| VaR measures for market risk (‘000 PLN) | VaR (2014) | | | | |
|---|---|---|---|---|---|
| | 31.12.2013 | Average | Maximum | Minimum | 31.12. 2014 |
| Total risk | 17 232 | 27 433 | 58 808 | 11 376 | 58 442 |
| Generic risk | 14 422 | 24 715 | 56 328 | 8 579 | 55 962 |
| Interest Rate VaR | 14 422 | 24 720 | 56 328 | 8 579 | 55 962 |
| FX Risk | 0 | 22 | 136 | 0 | 0 |
| Diversification Effect | 0.0% | | | | 0.0% |
| Specific risk | 2 810 | | | | 2 480 |

Trading Book:

| VaR measures for market risk (‘000 PLN) | VaR (2015) | | | | |
|---|---|---|---|---|---|
| | 31.12. 2014 | Average | Maximum | Minimum | 31.12. 2015 |
| Total risk | 5 350 | 5 321 | 12 358 | 1 747 | 3 245 |
| Generic risk | 5 323 | 5 314 | 12 353 | 1 740 | 3 238 |
| Interest Rate VaR | 5 316 | 5 299 | 12 398 | 1 721 | 3 236 |
| FX Risk | 107 | 251 | 3 090 | 8 | 41 |
| Diversification Effect | 1.9% | | | | 1.2% |
| Specific risk | 18 | | | | 7 |

| VaR measures for market risk ('000 PLN) | VaR (2014) | | | | |
|---|---|---|---|---|---|
| | 31.12. 2013 | Average | Maximum | Minimum | 31.12. 2014 |
| Total risk | 1 124 | 3 708 | 8 651 | 500 | 5 350 |
| Generic risk | 1 124 | 3 705 | 8 649 | 498 | 5 323 |
| Interest Rate VaR | 1 118 | 3 705 | 8 699 | 434 | 5 316 |
| FX Risk | 132 | 147 | 1 471 | 12 | 107 |
| Diversification Effect | 11.2% | | | | 1.9% |
| Specific risk | 0 | | | | 18 |

In 2015, risk limits in terms of VaR were not breached - neither for the whole Group nor for the Banking Book and Trading Book, separately.

All eventual excesses of market risk limits are always reported, documented and ratified at the proper competence level.

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

In 2015, the FX Total open position (Intraday as well Overnight) remained below the maximum limits in place and was kept only in Trading Book.

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 |
|---|---|---|---|---|
| 2015 | 7 945 | 1 685 | 40 100 | 4 421 |
| 2014 | 7 075 | 1 727 | 34 258 | 6 598 |

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

In the back-testing calculation for VaR model, three 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 * |
|---|---|---|---|
| 2015-12-31 | 33 864 | 2 593 | 3 |
| 2014-12-31 | 58 499 | 659 | 0 |

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

The excesses in the process of VaR model back testing were caused by unanticipated market movements, that is a rapid movements of PLN swap and PLN bond yield curves in December 2015. The number of excesses proves the model adequacy (green zone: 1 - 8 excesses acceptable).

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

The results of stress tests for market risk were reported on monthly basis to the Capital, Assets and Liabilities Committee. In keeping with principles adopted by the Group the limits for stress test results based on the probability of the scenario materialization are triple as high as limits for daily management of market risk. In 2015 the limits for market risk exposure under stress scenarios were not exceeded. In 4Q2015, the stress tests scenario were revised taking under consideration recently observed volatilities and correlation between market risk parameters. The new scenarios will be implemented in 2016.

**Interest rate risk in Banking Book**

In case of the Banking Book, the main component of the market risk is interest rate risk. As a rule, FX position generated in the Banking Book is fully transferred to the Trading Book where is managed on a daily basis. Conservative limits applied to FX position guarantees that the market risk generated by open FX positions is residual in the Group and does not occur in the Banking Book (see table above).

Exposure to interest rate risk in the Banking Book are primarily generated by the unbalance between assets and liabilities (including equity) that have fixed rate (or zero rate) and also, to a lower extent, by the different repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. Additionally, due to specificity of the polish legal system, the interest rate of consumer credits is limited (cannot exceed four times the Lombard interest rate of the National Bank of Poland and from January 2016 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 depend on the percentage of the loan portfolio that is affected by the new maximum rate.

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

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

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

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

- the economic value of equity that measures the theoretical change in the net present value of all Group’s positions resulting from different upward/downward parallel basis points shocks applied to market interest rates curves (0% floor in a low interest rate environment is assumed[1]). Therefore, the results shows the impact on the Group’s economic value resulting from the interest rate change ,

and monthly:

- the interest rate sensitivity in terms of BPVx100, that is the change of the portfolio’s value for the parallel movement in the yield curve by 1 basis point multiply 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 measurement is carried for all the risk management areas in the Bank, with the particular attention on Banking Book. For the purpose of above mentioned analysis for non-maturing assets and liabilities or for the instruments with Client’s option embedded, the Group is defining specific assumptions, including:

- Due date for non-maturing deposits is defined on the basis of historical data regarding customer behaviour, taking into account the stability of the volumes and with assumption of a maximum maturity of 3 years,
- In the interest rate risk measurement process a tendency to faster repayment of receivables than contractually scheduled is taken under consideration. On the basis of historical data a prepayment rate is determined in respect to all relevant Bank's loan portfolios. It should be noted, that mortgages loans that are the Group's loan product with a dominant share, are indexed to floating interest rate. This causes that the tendency to early repayment is less important for the interest rate risk.
- The equity, fixed and other assets are assumed to have repricing period of 1 year.

The results of the above mentioned analysis as of the end of 2015 and 2014 are presented in Table below (PLN thousand). The internally defined limits were not exceeded.

[1] According to *EBA guidelines on the management of interest rate risk arising from non-trading activities (IRRBB) (EBA/GL/2015/08)*.

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

| | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | BPVx100 | -200 bps | +200 bps | BPVx100 | -200 bps | +200 bps |
| PLN | (70 893) | 148 098 | (128 566) | (85 511) | 177 203 | (164 136) |
| CHF | 17 151 | 13 086 | 44 059 | 15 536 | (228) | 30 712 |
| EUR | 16 340 | 524 | 32 484 | 13 755 | (2 443) | 26 741 |
| USD | 7 806 | (10 407) | 15 098 | 4 528 | (5 594) | 8 733 |
| Other | 2 128 | (1 991) | 4 108 | 1 282 | (1 187) | 2 479 |
| TOTAL | (27 468) | 149 310 | (32 817) | (50 410) | 167 751 | (95 471) |
| Equity, fixed and other assets | 53 622 | (85 790) | 105 181 | 50 914 | (92 616) | 99 875 |
| **TOTAL** | **26 154** | **63 520** | **72 364** | **504** | **75 134** | **4 404** |

Additionally, for position in Polish Zloty, in Banking Book, in a scenario of immediate parallel yield curve decrease by 100 bps, the impact on net interest income in the next 12 months after 31st December 2015 is negative and equal to -7.3% of the annualized 4Q2015 net interest income (+5,5% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the polish legal system mentioned above (the formula for maximum rate valid in 2016 was applied). The NBP Reference rate is currently set at 1.5%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 8% annually in comparison to currently valid 10%.

## 5) Liquidity risk

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

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

There were no exposures to liquidity risk at a subsidiary level, because the Bank manages liquidity risk centrally. Both the financing requirements and any liquidity surplus of subsidiaries are managed by transactions with the Bank, unless specific market transactions are previously decided and agreed. The Treasury Department is responsible for the day-to-day management of the Group's liquidity position in accordance with the adopted rules and procedures taking into account goals defined by the Management Board and the Capital, Assets and Liabilities Committee.

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. At the end of 2015 total Clients' deposits of the Group reached the level of PLN 52.8 billion. The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grow to approx. 67.4% at the end of December 2015 from 62.6% at the end of December 2014. The increasing share of funds from individuals had a positive impact on the Group's liquidity and supported the compliance of the supervisory measures.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2015 was lower in comparison to the end of 2014, amounting respectively to 3.7 % and 7.4 % (in December 2014 it was respectively 4.7 % and 9.8 %). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2015. In case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Group maintains the reserves of liquid assets in the form of securities portfolio.

The deposit base is supplemented by the deposits from financial institutions and other money market operations. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

During 2015 the Bank continued to explore the possibility of raising additional funding from loans from financial institutions and bond issue in order to diversify the source of funding. In January 2015 was received the second tranche of 5-year loan from the EBRD in the amount of CHF 25.1 million (the loan was originally signed in December 2013). In June 2015, the Bank issued PLN 300 million of 3-year bonds. At the end of December 2015, the value of bonds placed in institutional investors was kept at relatively high level of 833 million (PLN 1 407 million in December 2014 and PLN 353 million at the end of December 2013).

In 2015, the increase of the deposits from Customers at the faster pace than loans, allowed Group to maintain Loan-to-Deposit ratio below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, decreased at the end of December 2015 and was equalled to 88% (comparing to level of 92% as of end of December 2014). The Group continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of December 2015. During 2015 this portfolio grew by 39% from PLN 10.1 billion at the end of December 2014 (16.6% of total assets) to approx. PLN 14.0 billion at the end of December 2015 (21.2% of total assets). Those assets are characterized with high liquidity and can be easily used as a collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which can overcome crisis situations.

The Group manages FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Group has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Group is obliged to place deposits as a collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as a collateral from the counterparties. In none of signed ISDA Schedules and Credit Support Annex (both international and domestic) there exists a relationship between level of the Bank's ratings and parameters of collateral. The potential downgrade of any of the ratings will not have impact on method of calculation and collateral exchange.

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

**Liquidity risk evaluation measures**

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

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

These figures are compared with the exposure limits in force and reported daily to the areas responsible for the management and control of the liquidity risk in the Group. During 2015, all internal liquidity indicators were well above minimum limits. In 2Q 2015, the internal limits were revised. The revision of the limits took into account the size of the consolidated own funds, current and expected balance sheet structure, historical consumption limits, as well as current market conditions. The new limits are effective from 1st June, 2015.

Current Liquidity indicators PLN million

| | 31.12.2015 | | |
|---|---|---|---|
| | Immediate liquidity ratio* | Quarterly liquidity ratio* | Liquid assets for coverage of sources of financing volatility** |
| Exposure | 10 369 | 9 093 | 12 900 |
| Minimum limit | (790) | (3 160) | 2 000 |

| | 31.12.2014 | | |
|---|---|---|---|
| | Immediate liquidity ratio* | Quarterly liquidity ratio* | Liquid assets for coverage of sources of financing volatility** |
| Exposure | 6 008 | 5 468 | 9 268 |
| Minimum limit | (768) | (3 072) | 2 000 |

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

** - Liquid Assets Portfolio: The sum of Polish goverenment debt securities, NBP-Bills and due from banks (up to 1 month). The debt securities portfolio is reduced by securities encumbered for non liquidity purposes.

The Group monitors liquidity on the basis of internal liquidity measures, taking into account in particular the impact of FX rates on the liquidity situation.

According to the Regulation of European Parlament and Council no 575/2013 on prudential requirements for credit insitutions and investment firms (CRR), the Group is calculating the liquidity coverage requirement (LCR). The regulator minimum of 60% for LCR valid in December 2015 was complied by the Group. 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 daily to the areas responsible for the management and control of the liquidity risk in the Group.

Additionally the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on a real basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted by the Group for the ratio of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets.

In 2015 liquidity gaps in both normal and under stress scenarios were maintained at levels significantly above the safe limits.

The Group has developed a liquidity risk management tool defining stress scenarios under which liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence (among others taking into account a reduction of deposits, delays of loans repayment, deteriorated liquidity of the secondary securities market, the highest cost of funding - the assumption of the worst observed margins on deposits in the Bank, parallel shift of the yield curve and PLN depreciation).

| | 31.12.2015 | | | | | |
|---|---|---|---|---|---|---|
| Adjusted Liquidity Gap (PLN million) | up to 6M | 6M to 12M | 1Y to 2Y | 2Y to 3Y | 3Y to 5Y | over 5Y |
| Adjusted balance assets | 26 811 | 4 830 | 6 343 | 5 683 | 7 323 | 27 177 |
| Adjusted balance liabilities | 10 092 | 3 505 | 6 217 | 4 845 | 6 769 | 42 767 |
| Balance-Sheet Gap | 16 719 | 1 325 | 127 | 838 | 555 | (15 590) |
| Cumulative Balance-Sheet Gap | 16 719 | 18 045 | 18 171 | 19 010 | 19 564 | 3 974 |
| Adjusted off-balance assets | 146 | 113 | 165 | 123 | 433 | 53 |
| Adjusted off-balance liabilities | (920) | (92) | (120) | (93) | (139) | (50) |
| Off-Balance Sheet Gap | (774) | 21 | 45 | 30 | 294 | 3 |
| Total Gap | 15 945 | 1 346 | 172 | 868 | 848 | (15 588) |
| Total Cumulative Gap | 15 945 | 17 291 | 17 463 | 18 331 | 19 180 | 3 592 |

| | 31.12.2014 | | | | | |
|---|---|---|---|---|---|---|
| Adjusted Liquidity Gap (PLN million) | up to 6M | 6M to 12M | 1Y to 2Y | 2Y to 3Y | 3Y to 5Y | over 5Y |
| Adjusted balance assets | 22 083 | 4 076 | 6 262 | 4 952 | 6 475 | 27 870 |
| Adjusted balance liabilities | 11 194 | 3 104 | 4 976 | 3 947 | 6 090 | 37 082 |
| Balance-Sheet Gap | 10 889 | 971 | 1 285 | 1 005 | 385 | (9 213) |
| Cumulative Balance-Sheet Gap | 10 889 | 11 860 | 13 145 | 14 150 | 14 535 | 5 322 |
| Adjusted off-balance assets | 173 | 140 | 230 | 168 | 260 | 126 |
| Adjusted off-balance liabilities | (906) | (101) | (172) | (111) | (175) | (106) |
| Off-Balance Sheet Gap | (733) | 39 | 58 | 58 | 85 | 20 |
| Total Gap | 10 156 | 1 010 | 1 344 | 1 062 | 470 | (9 193) |
| Total Cumulative Gap | 10 156 | 11 166 | 12 510 | 13 572 | 14 043 | 4 850 |

Stress tests are performed at least quarterly, to determine the Group's liquidity-risk profile, to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the liquidity contingency plan and management decisions.

The results of the stress test analysis demonstrated that the liquidity indicators will be maintained above the established limits.

The information regarding the liquidity risk management, including the utilization of the established limits for internal and supervisory measures, is reported monthly to the Capital, Assets and Liabilities Committee and quarterly to the Management Board and Supervisory Board.

The process of the Group's planning and budgeting covers the preparation of the Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In order to complied with the Recommendation P regarding financial liquidity risk management in banks that was issued by the PFSA in March 2015, the Capital, Assets and Liabilities Committee's decided to assemble dedicated Team to guarantee the fulfilment of the Recommendation P until 31st December 2015. The Team was composed of representative from different departments of the Bank, including Risk Department and Treasury Department as well as the Board Members supervising those departments. The internal policy and others procedures connected with the liquidity risk management were revised and adjusted to the provisions of recommendation. The documents were supplemented, inter alia, by the rules for concentration of the source of funding, the intraday liquidity and collateral management.

The Group has also emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Group's financial liquidity deteriorates). The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least once a year. In 2015, the Liquidity Contingency Plan was tested and revised in order to guarantee that it is operationally robust as well as it complies with provisions of the amended Recommendation P. The Plan was approved by the Supervisory Board in December 2015.

## 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. Operational risk is demonstrated in every aspect of activity of the organisation and constitutes its intrinsic part.

In the year 2015 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions. The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Group. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks. Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

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

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

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

The Group gathers operational risk events in an IT tool, which is being continuously improved. 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 realised 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 optimisation. Approved operational risk and control methodology allowed assessment of risk level in a given process, taking into account existing controls and basing on accepted scenarios. Mitigation actions were proposed, implemented and are monitored for purposes of assessment of risk levels above the accepted tolerance threshold.

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

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

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

## 9. OPERATIONAL SEGMENTS

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

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

**Retail Customer Segment**

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

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

**Corporate Customer Segment**

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

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

**Treasury, ALM (assets and liabilities management) and Other**

This segment covers the Group's activity as investments in debt securities in the trading, funding and investments books as well as interbank market transactions not assigned to other segments.

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

Income tax charge has been presented on Group level only.

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

- Net interest income calculated on the basis of interest on external working assets and liabilities of the segment as well as allocated assets and liabilities generating internal interest income or cost. Internal income and costs are calculated based on market interest rates with internal valuation model applied;
- Net commission income;
- Other income from financial transactions and FX gains, such as: dividend income, result on investment and trading activity, FX gains/losses and result on other financial instruments;
- Other operating income and expenses;
- Costs on account of impairment of financial and non-financial assets;
- Segment share in operating costs, including personnel and administration costs;
- Segment share in depreciation costs.

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

Following a review of the methodology executed in 2015, the Group has made changes in the allocation of operating costs between operational segments. As a result, comparable results were adjusted accordingly.

Income statement 1.01.2015 – 31.12.2015

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Net interest income | 1 069 760 | 261 357 | 34 130 | 1 365 247 |
| Net fee and commission income | 448 547 | 139 435 | 8 191 | 596 173 |
| Dividends, other income from financial operations and foreign exchange profit | 64 145 | 63 394 | 91 968 | 219 507 |
| Other operating income and cost | (16 820) | (21 907) | (125 026) | (163 753) |
| Operating income | 1 565 632 | 442 279 | 9 263 | 2 017 174 |
| Staff costs | (398 749) | (121 690) | (26 466) | (546 905) |
| Administrative costs | (383 291) | (80 620) | (25 798) | (489 709) |
| Depreciation and amortization | (41 135) | (7 993) | (1 307) | (50 435) |
| Operating expenses | (823 175) | (210 303) | (53 571) | (1 087 049) |
| Impairment losses on assets | (197 982) | (41 845) | (1 406) | (241 233) |
| **Operating Profit** | **544 475** | **190 131** | **(45 714)** | **688 892** |
| Share in net profit of associated companies | 0 | 0 | (1 385) | (1 385) |
| **Profit / (loss) before taxes** | **544 475** | **190 131** | **(47 099)** | **687 507** |
| Income taxes | | | | (140 982) |
| **Profit / (loss) after taxes** | | | | **546 525** |

Balance sheet items as at 31.12.2015

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Loans and advances to customers | 34 069 756 | 12 299 625 | 0 | 46 369 381 |
| Liabilities to customers | 37 804 872 | 14 907 750 | 97 767 | 52 810 389 |

Income statement 1.01.2014 – 31.12.2014

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Net interest income | 1 138 492 | 320 952 | (5 325) | 1 454 119 |
| Net fee and commission income | 475 865 | 132 318 | 3 490 | 611 673 |
| Dividends, other income from financial operations and foreign exchange profit | 94 195 | 55 656 | 53 283 | 203 134 |
| Other operating income and cost | (13 335) | (8 252) | (31 784) | (53 371) |
| Operating income | 1 695 216 | 500 674 | 19 665 | 2 215 555 |
| Staff costs | (394 565) | (126 872) | (25 577) | (547 014) |
| Administrative costs | (409 163) | (72 889) | (26 987) | (509 039) |
| Depreciation and amortization | (46 732) | (7 432) | (1 162) | (55 326) |
| Operating expenses | (850 460) | (207 193) | (53 726) | (1 111 379) |
| Impairment losses on assets | (126 033) | (139 052) | (386) | (265 471) |
| **Operating Profit** | **718 723** | **154 429** | **(34 447)** | **838 705** |
| Share in net profit of associated companies | 0 | 0 | (246) | (246) |
| **Profit / (loss) before taxes** | **718 723** | **154 429** | **(34 693)** | **838 459** |
| Income taxes | | | | (187 539) |
| **Profit / (loss) after taxes** | | | | **650 920** |

Balance sheet items as at 31.12.2014

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Total |
|---|---|---|---|---|
| Loans and advances to customers | 32 214 664 | 11 928 035 | 0 | 44 142 699 |
| Liabilities to customers | 31 583 420 | 15 871 556 | 136 268 | 47 591 244 |

## 10. TRANSACTIONS WITH RELATED ENTITIES

All and any transactions between entities of the Group in 2015 and 2014 resulted from the current operations.

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

### 1) Description of the transactions with the Parent Group

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

| | With parent company | | With other entities from parent group | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| ASSETS | | | | |
| Loans and advances to banks – accounts and deposits | 2 615 | 28 705 | 0 | 10 699 |
| Financial assets valued at fair value through profit and loss (held for trading) | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 |
| LIABILITIES | | | | |
| Deposits from banks | 73 227 | 72 327 | 118 130 | 147 859 |
| Debt securities | 0 | 0 | 0 | 0 |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other liabilities | 0 | 0 | 0 | 272 |

| | With parent company | | With other entities from parent group | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Income from: | | | | |
| Interest | 18 | 10 448 | 0 | 0 |
| Commissions | 1 444 | 256 | 0 | 0 |
| Other net operating income | 0 | 0 | 95 | 188 |
| Expense from: | | | | |
| Interest | 827 | 2 160 | (201) | 214 |
| Commissions | 0 | 178 | 0 | 0 |
| Derivatives net | 125 | 195 | 0 | 3 |
| General and administrative expenses | 154 | 155 | 1 638 | 3 718 |

| | With parent company | | With other entities from parent group | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Conditional commitments | 102 175 | 103 952 | 0 | 0 |
| - granted | 100 345 | 100 345 | 0 | 0 |
| - obtained | 1 830 | 3 607 | 0 | 0 |
| Derivatives (par value) | 0 | 0 | 0 | 0 |

## 2) Transactions with not consolidated subsidiary

Group's Company has concluded lease agreement with a subsidiary not included in the consolidation which has already been finished. The table below presents the value of the contract and related revenues (in '000 PLN):

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances to customers | 0 | 1 314 |
| Interest income | 12 | 139 |

## 3) Transactions with the Managing and Supervising Persons

Information on total exposure towards the managing and supervising persons as at 31.12.2015 (in '000 PLN):

| | The managing persons | The supervising persons |
|---|---|---|
| Total debt limit | 181.0 | 188.0 |
| - including an unutilized limit | 128.0 | 160.1 |
| Mortgage loans and credits | - | - |
| Active guarantees | - | - |

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

Information on total exposure towards companies and groups personally related as at 31.12.2015 (in '000 PLN):

| Entity | Loans granted | Guarantees provided | Open credit lines | Relationship |
|---|---|---|---|---|
| Client 1 | 27 | 2 000 | 110 | Personal with a supervising person |

Information on total exposure towards the managing and supervising persons as at 31.12.2014 (in ‘000 PLN):

| | The managing persons | The supervising persons |
|---|---|---|
| Total debt limit | 336.0 | 158.0 |
| - including an unutilized limit | 289.8 | 109.3 |
| Mortgage loans and credits | 2 796.6 | - |
| Active guarantees | - | - |

Information on total exposure towards companies and groups personally related as at 31.12.2014 (in ‘000 PLN) :

| Entity | Loans granted | Guarantees provided | Open credit lines | Relationship |
|---|---|---|---|---|
| Client 1 | 23 | 2 000 | 114 | Personal with a supervising person |
| Client 2 | 0 | 0 | 20 | Personal with a supervising person |
| Group 1 | 68 065 | 0 | 0 | Personal with a supervising person |
| Group 2 | 5 364 | 0 | 0 | Personal with a supervising person |

### 4) Information on compensations and benefits of the persons supervising and managing the Bank

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

| Year | Salaries and bonuses | Benefits | Total |
|---|---|---|---|
| 2015 | 11 565.4 | 1 857.2 | 13 422.6 |
| 2014 | 16 660.7 | 1 795.7 | 18 456.4 |

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 2015 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 |
|---|---|
| 2015 | 2 048.9 |
| 2014 | 2 113.1 |

In 2015, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

## 11. FAIR VALUE

The best reflection of fair value of financial instruments is their market value which can be obtained for the sale of assets or paid for the transfer of liability in case of mutually beneficial 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 flows for the various instruments are determined according to their individual characteristics, and discounting factors include changes in time both in market interest rates and margins.

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

1 - valuation based on the data fully observable (active market quotations);
2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;
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 method 1 to 2 takes place when for the financial instruments measured according to method 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from method 2 to 3 takes place when for the financial instruments measured according to the method 2 value of parameters not derived from the market has become significant at the balance sheet day (and previously used to be irrelevant).

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

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

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

Receivables and liabilities with respect to banks (structured contract)

This is a transaction, which comprises the simultaneous purchase of a long-term zero-coupon bond and the taking-out of a long-term fixed-rate loan from the issuer of the bond.

The fair value of both sides of the transaction is estimated by discounting the related cash flows on maturity/due date with use of the current zero-coupon rate and the margin, which was rescaled to adjust it to the current level of market rates.

Other 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

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

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

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities - bank's securities (BPW) are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond.

The fair value of other liabilities arising from debt securities issued by the Bank (bonds (BKMO)) was estimated based on the expected cash flows using current interest rates taking into account the margin for credit risk. The current level of margins was appointed on the basis of recent transactions of similar credit risk.

Subordinated liabilities and medium term loans

The fair value of these financial instruments is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and credit risk margin based on 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 31.12.2015 (data in PLN thousand):

ASSETS

| | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Loans and advances to banks | 15 | 2 348 754 | 2 349 004 |
| Loans and advances to customers * | 18 | 46 369 381 | 44 424 947 |

LIABILITIES

| | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Amounts due to banks | 26 | 1 443 921 | 1 445 700 |
| Amounts due to customers | 28 | 52 810 389 | 52 811 390 |
| Debt securities | 30 | 1 134 250 | 1 142 718 |
| Subordinated debt | 34 | 639 631 | 633 781 |

* 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 Bank raises spreads, fair value of the "old" loans portfolio falls.

Models used for determination of the fair value of financial instruments presented in the above table and not recognized at fair value in Group's balance sheet, use techniques based on parameters not derived from the market. Therefore, they are considered as the third level of fair value hierarchy. The significant unobservable inputs to the fair value measurement are current credit and deposit spreads applied by the Group.

For balance sheet items not measured at fair value in financial statements and not disclosed in the above table, it has been assumed that their fair value is approximately equal to carrying amount.

The table below presents data as at 31 December 2014 (data in PLN thousand):

ASSETS

| | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Loans and advances to banks | 15 | 2 384 744 | 2 412 196 |
| Loans and advances to customers | 18 | 44 142 699 | 42 412 993 |

LIABILITIES

| | Note | Balance sheet value | Fair value |
|---|---|---|---|
| Amounts due to banks | 26 | 2 037 269 | 2 067 403 |
| Amounts due to customers | 28 | 47 591 244 | 47 599 483 |
| Debt securities | 30 | 1 739 461 | 1 752 825 |
| Subordinated debt | 34 | 639 739 | 633 950 |

**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 ‘000PLN, as at 31.12.2015

| | note | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets valued at fair value through profit and loss (held for trading) | 16 | | | |
| - derivatives | | | 293 955 | 42 289 |
| - debt securities | | 408 572 | | |
| - shares and interests | | 1 682 | | |
| Hedging derivatives | 17 | | 70 833 | |
| Financial assets available for sale | 19 | | | |
| - debt securities | | 9 375 707 | 4 198 776 | 73 251 |
| - shares and interests | | 252 | | 213 075 |
| LIABILITIES | | | | |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 27 | | | |
| - derivatives and short sale of securities | | | 283 618 | 42 658 |
| Hedging derivatives | 17 | | 2 132 053 | |

Data in '000PLN, as at 31.12.2014

| | note | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets valued at fair value through profit and loss (held for trading) | 16 | | | |
| - derivatives | | | 381 159 | 74 785 |
| - debt securities | | 933 482 | | |
| - shares and interests | | 753 | | |
| Hedging derivatives | 17 | | 18 999 | |
| Financial assets available for sale | 19 | | | |
| - debt securities | | 6 749 204 | 2 400 000 | 93 371 |
| - shares and interests | | 320 | | |
| LIABILITIES | | | | |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 27 | | | |
| - derivatives and short sale of securities | | 162 254 | 373 510 | 73 979 |
| Hedging derivatives | 17 | | 1 390 225 | |

Using the criterion of valuation techniques Group classified into the third category following financial instruments:

- 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;
- municipal bonds, the fair value is calculated based on discounted cash flows with consideration of the impact of credit risk parameter;
- VISA shares; fair value is calculated in accordance with the information presented in **Chapter 13, note 19).**

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

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2014 are presented in the table below:

| | Indexes options | Options embedded in securities issued and deposits | Municipal bonds | Shares and interests |
|---|---|---|---|---|
| Balance on 1 January 2015 | 68 745 | (67 939) | 93 371 | 0 |
| Settlement/sell/purchase | (24 686) | 24 150 | (19 123) | 0 |
| Change of valuation recognized in equity | 0 | 0 | 0 | 213 075 |
| Change of valuation recognized in P&L account (including interests) | (5 786) | 5 147 | (997) | 0 |
| Balance on 31 December 2015 | 38 273 | (38 642) | 73 251 | 213 075 |

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

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

## 12. CONTINGENT LIABILITIES AND ASSETS

The total value of lawsuits as at 31 December 2015, in which Group companies acted as claimants or defendants before courts and arbitration bodies, was PLN 833.0 million (excluding class actions as described below). The total value of lawsuits, in which Group companies acted as defendants, was PLN 520.7 million and the total value of lawsuits, in which Group companies acted as claimants was PLN 312.3 million.

Below are presented the amount of claims in which the Group's companies appear as defendant in the division due to the risk of resources outflow as result of case loosing. Data in table includes also proceedings with participation of the Chairman of UOKiK with total value of claims PLN 2.8 million, in which the Group formally acts as the plaintiff, though there is a risk associated with the resources outflow.

The proceedings associated with the Fiscal Control Office stands for separate category and are described in **Chapter 13. Section 12 "Income Taxes"**.

| The amount of claims for which: | PLN million |
|---|---|
| probability of resources outflow is negligible | 0.0 |
| outflow of resources is possible | 514.1 |
| outflow of resources is probable | 9.4 |
| TOTAL | 523.5 |

The Group assesses that the risk of adverse financial consequences in the event of losing the claim is fully covered by the value created provisions for contentious claims.

As at 31 December 2015 the volume of claims in the court proceedings for which outflow of resource is considered to be possible amounted to PLN 514.1 million. In the Group's opinion probability of winning cases included in this category is high, in effect the Group has not created provisions for these proceedings. The most important group of lawsuits for which an outflow of resources is possible are proceedings connected with derivatives with total value in dispute amounted to PLN 318.3 million.

In terms of lawsuits connected with derivatives, the Group, as a defendant, was present together in 25 such proceedings. The highest unit value of the dispute considering this group of proceedings was PLN 71.1 million. Whereas in the group of proceedings not connected with derivatives in which the Group acted as the defendant, the highest unit value of the dispute was PLN 150.0 million.

On 21 October 2014 a group action was delivered to the Bank in which a group of the Bank's borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that the Bank is liable towards the same for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that the Bank unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits. According to the statement of claim there are approx. 2,300 group members and the value of the subject matter of the dispute is defined at PLN 45.2 million. The Bank does not agree with the claims of the group members. On 31 December 2014 the Bank submitted a response to the statement of claim. On 4 March 2015 new members joined the group action and the Claimant extended the statement of claim accordingly. According to the Claimant after the extension there are approx. 3,400 group members (including the group members included in the statement of claim) and the value of the subject matter of the dispute is approx. PLN 81.5 million (including the value provided in the statement of claim). On 14 May 2015 the Regional Court in Warsaw held a hearing concerning the admissibility of the group action proceedings. On 28 May 2015 the Regional Court in Warsaw issued a decision rejecting the group action on the grounds that the case cannot be heard in group action proceedings. On 3 July 2015 the Claimant filed an appeal against this decision, and the Court of Appeal upheld the appeal by refusing rejection of the claim. Currently, the Bank awaits setting a date for the next hearing.

On 3 December 2015 the Bank received a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million PLN claiming that the clauses of the agreements pertaining to low down payment insurance are prohibited and thus null and void. The Bank shall file by the 3rd of March 2016 the response to the lawsuit demanding its dismissal.

CONSOLIDATED OFF-BALANCE ITEMS

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Off-balance conditional commitments granted and received** | **7 883 959** | **7 889 947** |
| Commitments granted: | 7 823 371 | 7 757 464 |
| a) financial | 6 712 920 | 6 691 430 |
| b) guarantee | 1 110 450 | 1 066 034 |
| Commitments received: | 60 588 | 132 484 |
| a) financial | 3 963 | 60 459 |
| b) guarantee | 56 625 | 72 025 |

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

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

| Customer - sector, amount in PLN million | 31.12.2015 | 31.12.2014 |
|---|---|---|
| financial sector | 59.7 | 101.9 |
| non-financial sector (companies) | 1 042.4 | 953.7 |
| public sector | 7.4 | 7.8 |
| private individuals | 1.0 | 2.6 |
| Total | 1 110.5 | 1 066.0 |

**Guarantees and sureties granted to Clients**

| Liabilities granted - guarantee in PLN million | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Active guarantees and sureties | 668.9 | 724.9 |
| Sureties for loans granted through EFRWP* | 1.2 | 1.6 |
| Lines for guarantees and sureties | 445.7 | 357.7 |
| Total gross | 1 115.8 | 1 084.2 |
| Impairment write offs | (5.3) | (18.2) |
| **Total net** | **1 110.5** | **1 066.0** |

* European Development Fund of the Polish countryside

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

| By currency | 31.12.2015 | 31.12.2014 |
|---|---|---|
| PLN | 530 144 | 573 507 |
| Other currencies | 138 772 | 151 351 |
| Total: | 668 916 | 724 858 |

| By type of commitment | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount in |
| Guarantee | 2 869 | 652 800 | 3 024 | 708 233 |
| Surety | 0 | 0 | 0 | 0 |
| Re-guarantee | 28 | 16 116 | 32 | 16 625 |
| Total: | 2 897 | 668 916 | 3 056 | 724 858 |

| By object of the commitment | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | Number | % share | Amount | Number | % share | Amount |
| good performance of contract | 2 137 | 56.83% | 380 221 | 2 224 | 58.61% | 424 794 |
| rent payment | 287 | 7.20% | 48 135 | 254 | 5.65% | 40 955 |
| punctual payment for goods or services | 251 | 22.78% | 152 415 | 248 | 20.22% | 146 562 |
| bid bond | 126 | 2.44% | 16 302 | 221 | 7.97% | 57 795 |
| other | 30 | 0.59% | 3 935 | 36 | 1.09% | 7 930 |
| advance return | 24 | 5.50% | 36 768 | 41 | 3.72% | 26 930 |
| customs | 32 | 3.10% | 20 707 | 25 | 1.51% | 10 945 |
| payment of bank loan | 10 | 1.56% | 10 433 | 7 | 1.23% | 8 947 |
| Total: | 2 897 | 100.00% | 668 916 | 3 056 | 100.00% | 724 858 |

# 13. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 1) INTEREST INCOME

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balances with the Central Bank | 25 188 | 37 903 |
| Loans and advances to banks | 1 017 | 2 206 |
| Loans and advances to customers | 1 637 246 | 1 874 001 |
| Transactions with repurchase agreement | 22 976 | 29 137 |
| Hedging derivatives | 343 332 | 333 478 |
| Financial assets held for trading (debt securities) | 32 810 | 7 562 |
| Investment securities | 250 636 | 298 932 |
| Total | 2 313 205 | 2 583 219 |

In the line „Hedging derivatives" the Group presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Group is presented **in note (17)**

Interest income for the year 2015 contains interest accrued on impaired loans in the amount of PLN 77,362 thous. (for corresponding data in the year 2014 the amount of such interest stood at PLN 70,922 thous.).

## 2) INTEREST EXPENSE

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Banking deposits | (20 884) | (16 871) |
| Loans and advances from banks | (50 401) | (56 089) |
| Transactions with repurchase agreement | (46 985) | (43 262) |
| Deposits from customers | (771 730) | (950 632) |
| Subordinated debt | (13 668) | (15 177) |
| Debt securities | (43 558) | (46 251) |
| Other | (732) | (818) |
| Total | (947 958) | (1 129 100) |

## 3) Fee and commission income

3a. Fee and commission income

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Resulting from accounts service | 86 103 | 92 947 |
| Resulting from money transfers, cash payments and withdrawals and other payment transactions | 49 650 | 46 836 |
| Resulting from granted credits and loans | 118 365 | 86 409 |
| Resulting from guarantees and sureties granted | 12 517 | 12 779 |
| Resulting from payment and credit cards | 135 059 | 183 017 |
| Resulting from sale of insurance products | 83 397 | 76 166 |
| Resulting from distribution of investment funds units and other savings products | 87 383 | 83 788 |
| Resulting from brokerage and custody service | 20 465 | 19 614 |
| Resulting from investment funds managed by the Group | 86 955 | 82 433 |
| Other | 16 386 | 11 332 |
| Total | 696 280 | 695 321 |

3b. Fee and commission expense

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Resulting from accounts service | (1 322) | (1 457) |
| Resulting from money transfers, cash payments and withdrawals and other payment transactions | (1 951) | (1 505) |
| Resulting from granted credits and loans | (18 485) | (14 536) |
| Resulting from payment and credit cards | (60 350) | (54 635) |
| Resulting from brokerage and custody service | (3 386) | (3 366) |
| Resulting from investment funds managed by the Group | (7 599) | (4 939) |
| Other | (7 014) | (3 210) |
| Total | (100 107) | (83 648) |

## 4) Dividend income

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Securities valued at fair value through profit and loss (held for trading) | 4 | 1 |
| Investment securities | 2 267 | 1 850 |
| Total | 2 271 | 1 851 |

## 5) Result on financial instruments and foreign exchange result

5a. Result on investment financial assets

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Operations on debt instruments | 41 852 | 8 622 |
| Operations on equity instruments | 0 | 9 825 |
| Total | 41 852 | 18 447 |

5b. Result on financial instruments measured at fair value through profit and loss account and foreign exchange result

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Operations on securities | (7 269) | 8 069 |
| Operations on derivatives | 78 816 | 26 827 |
| Fair value hedge accounting operations, including: | 7 | (567) |
| - result from hedging derivatives | 330 | 237 |
| - result from items subjected to hedging | (323) | (803) |
| Foreign exchange result | 106 072 | 150 457 |
| Costs of financial operations | (2 242) | (1 950) |
| **Total** | **175 384** | **182 836** |

The Result on financial instruments valued at fair value through profit and loss and foreign exchange result account comprises profits and losses generated as a result of selling financial instruments allocated to financial assets/liabilities measured at fair value through the profit and loss account and the effect of their fair value valuation.

This category includes the instruments qualified as "held for trading" – at the moment the Group does not use the capacity to assign other instruments as valued at fair value through the profit and loss account at the initial booking (so-called fair value option).

## 6) Other operating income

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Profit on sale and liquidation of property, plant and equipment, intangible assets | 10 008 | 18 719 |
| Profit on sale of non current assets held for sale | 35 | 238 |
| Indemnifications, penalties and fines received | 8 343 | 2 586 |
| Income from adjustments of value added tax charge | 4 542 | 0 |
| Income from sale of other services | 451 | 444 |
| Income from collection service | 2 562 | 2 327 |
| Income from leasing business | 4 203 | 3 934 |
| Other | 28 130 | 11 192 |
| Total | 58 274 | 39 440 |

## 7) GENERAL AND ADMINISTRATIVE EXPENSES

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Staff costs: | (546 905) | (547 014) |
| Salaries (including bonuses) | (452 317) | (454 783) |
| Social security contributions | (73 833) | (72 995) |
| Employee benefits, including: | (20 755) | (19 236) |
| - provisions for retirement benefits | (2 982) | (2 175) |
| - provisions for unused employee holiday | (564) | (904) |
| - other | (17 209) | (16 157) |
| General administrative costs | (489 709) | (509 039) |
| Costs of advertising, promotion and representation | (44 416) | (63 693) |
| Costs of IT and communications | (69 760) | (70 487) |
| Costs of renting | (174 425) | (181 763) |
| Costs of buildings maintenance, equipment and materials | (26 914) | (25 349) |
| Costs of ATMs and cash handling | (16 501) | (16 668) |
| Costs of consultancy, audit and legal advisory and translation | (11 921) | (24 037) |
| Taxes and fees | (15 856) | (18 018) |
| Costs of National Clearing House | (4 092) | (4 016) |
| Costs of National Fund for the Rehabilitation of Disabled | (5 008) | (5 252) |
| Costs of Banking Guarantee Fund | (65 459) | (35 604) |
| Financial Supervision costs | (4 578) | (4 351) |
| Other | (50 779) | (59 801) |
| **Total** | **(1 036 614)** | **(1 056 053)** |

## 8) Impairment losses on financial assets

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Impairment losses on loans and advances to customers | (253 272) | (271 128) |
| - Impairment charges on loans and advances to customers | (724 891) | (616 849) |
| - Reversal of impairment charges on loans and advances to customers | 440 082 | 333 618 |
| - Amounts recovered from previously loans written off | 2 193 | 4 060 |
| - Result on sale of receivables | 29 344 | 8 043 |
| | | |
| Impairment losses on investments securities | (15) | 38 |
| - Impairment charges on investments securities | (33) | (27) |
| - Reversal of impairment write-offs for investment securities | 18 | 65 |
| | | |
| Impairment losses on off-balance sheet liabilities | 13 454 | 6 049 |
| - Impairment charges on off-balance sheet liabilities | (5 052) | (21 795) |
| - Reversal of impairment charges on off-balance sheet liabilities | 18 506 | 27 844 |
| | | |
| **Total** | **(239 833)** | **(265 041)** |

## 9) Impairment losses on non-financial assets

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Fixed assets | 6 | (6) |
| Other assets | (1 406) | (424) |
| Total | (1 400) | (430) |

## 10) Depreciation and amortization

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Property, plant and equipment | (37 570) | (43 236) |
| Intangible assets | (12 865) | (12 090) |
| Total | (50 435) | (55 326) |

## 11) OTHER OPERATING EXPENSE

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Loss on sale and liquidation of property, plant and equipment, intangible assets | (6 692) | (9 376) |
| Contribution to Banking Guarantee Fund dedicated for the repayment of guaranteed deposits for clients of SBRiR Wołomin | (102 540) | 0 |
| Indemnifications, penalties and fines paid | (28 299) | (6 215) |
| Costs of provisions for disputed claims | (28 748) | (39 839) |
| Costs of the provision created for the Borrowers Supporting Fund | (15 622) | 0 |
| Costs of leasing business | (2 468) | (1 489) |
| Donations made | (281) | (334) |
| Costs of collection service | (13 969) | (15 507) |
| Prudential fee for Banking Guarantee Fund | (17 317) | (13 173) |
| Costs of payments to compensation system | (154) | (267) |
| Other | (5 937) | (6 611) |
| Total | (222 027) | (92 811) |

**One offs**

Based on the resolution No. 87/DGD/2015 issued by the Management Board of Banking Guarantee Fund, the Bank paid in November 2015 a mandatory fee of PLN 102.5 million which was allocated to the payment of the funds guaranteed for the deposits in the Co-operative Crafts and Agriculture Bank in Wołomin.

On 6 October 2015, the Warsaw Court of Appeal delivered a judgment in a case concerning the interchange, which reimposed the amount of fines imposed on banks by the President of the Office of Competition and Consumer Protection on 29 December 2006. Banks participating in the proceedings were obliged to pay penalties until 20 October 2015. The Bank has paid aforementioned penalty in the amount of PLN 12.2 million.

In December 2015 the Bank created a provision in the amount of PLN 15.6 million dedicated for contribution to the newly created Distressed Mortgage Support Fund, according to the Act on Support of Housing Borrowers in a Difficult Financial Situation, which was passed by the Polish Parliament on 9th October 2015.

## 12) INCOME TAX

12a. Income tax reported in income statement

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Current tax | (216 307) | (202 898) |
| Current year | (217 740) | (202 898) |
| Adjustment of previous years | 1 433 | 0 |
| Deferred tax | 76 699 | 15 361 |
| Appearance and reversal of temporary differences | 76 510 | 14 348 |
| Appearance and utilisation of tax loss | 189 | 1 013 |
| Adjustment resulted from Article 38a of CIT | (1 374) | (2) |
| Total income tax reported in income statement | **(140 982)** | **(187 539)** |

12b. Effective tax rate

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Gross profit / (loss) | 687 507 | 838 459 |
| Statutory tax rate | 19% | 19% |
| Income tax according to obligatory income tax rate of 19% | (130 626) | (159 307) |
| **Impact of permanent differences on tax charges:** | **(15 802)** | **(22 264)** |
| - Non-taxable income | 1 194 | 759 |
| Dividend income | 430 | 353 |
| Release of other provisions | 477 | 283 |
| Other | 287 | 123 |
| - Cost which is not a tax cost | (16 996) | (23 023) |
| Loss on sale of receivables | (1 625) | (3 175) |
| PFRON fee | (951) | (998) |
| Prudential fee for Banking Guarantee Fund | (3 290) | (2 503) |
| Receivables written off | (877) | (456) |
| Costs of litigations | (4 085) | (7 505) |
| Depreciation and insurance costs of cars (in excess of EUR 20,000) | (1 334) | (1 322) |
| Cost of provisions for factoring receivables | (2 121) | (2 261) |
| Other | (2 713) | (4 803) |
| Amendments in declaration CIT 8 for previous years | 1 433 | 0 |
| Adjustment resulted from Article 38a of CIT | (1 374) | (2) |
| The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet | 5 387 | (5 966) |
| **Total income tax reported in income statement** | **(140 982)** | **(187 539)** |

12c. Deferred tax reported in equity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Valuation of available for sale securities | (47 370) | (12 908) |
| Valuation of cash flow hedging instruments | 42 732 | 38 891 |
| Actuarial gains (losses) | 356 | 502 |
| Deferred tax reported directly in equity | (4 282) | 26 485 |

Changes in deferred tax recognized directly in equity are presented in Note (35b).

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

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

**Tax Inspection Office control procedures**

*Millennium Leasing Sp. z o.o. tax control*

As a result of findings of the Tax Inspection carried out in 2011 in Millennium Leasing Sp. z o.o. the correctness of income tax settlements for 2006 has been challenged in the total amount of PLN 11.4 million, including namely; PLN 4.8 million due to underestimation of tax liability for the period 01.01 - 31.08.2006 and PLN 6.6 million due to an overestimation of tax loss for the period 01.09 - 31.12.2006. Company paid the tax arrears of PLN 16.7 million to the Tax Office. Of that amount the Tax Office returned PLN 9.8 million to the Company until completion of proceedings. The Company did not agree with the decision and appealed to the Administrative Court. In Q2'2012 the Company created a provision of PLN 2.97 million to cover potential tax liabilities. On 13 November 2012, the Regional Administrative Court ruling upheld the application of the company and annulled the contested decisions about tax period 01.01 - 31.08.2006. On 15 March 2013, the Regional Administrative Court ruling upheld the application of the company and annulled the contested decisions about tax period 01.09 -31.12.2006. At 4 October 2013 the Company received a letter from the Director of the Tax Chamber in Warsaw of the repeal the contested decision (in connection with the judgment of the Regional Administrative Court of 13 November 2012 mentioned above) and returning the case to the Tax Inspection Office for reconsideration. 19.11.2013 the Tax Office returned PLN 8.97 million (tax paid with interest). On 10.03.2015 according to Tax Inspection Office recommendation the Company made an adjustments to 2006 CIT declaration in terms of overstatement of deductible costs from the sale of real estate Bochnia in the amount of PLN 1.04 million and in the amount of PLN 0.16 million as relating to expenditures in 2005. There was also made an adjustment of income in the amount of PLN 8.53 million considering that only the claim received by the Company can be recognised as the taxable income based on cash basis rule. On 31.03.2015 Millennium Leasing has received the final decision of tax inspection for the period 01.01-31.08.2006r. The proceedings have been completed in accordance with the CIT adjustments made by the Company on 10.03.2015. Thus, the Millennium Leasing fulfilled conclusions of Tax Inspection Office. The Company is not entitled to appeal against the results of the inspection. On 31.03.2015 Millennium Leasing has also received the Tax Inspection Office decision for the period 01.09.-31.12.2006. Director of the Tax Inspection Office discontinued the proceedings due to the expiry of the limitation period, therefore sanctioning tax base declared by the Company.

*Bank Millennium S.A. tax control procedures*

As a result of the tax inspection carried out in the Bank in 2011 the Tax Inspection Office questioned the correctness of income tax calculation for 2005, having its consequences for subsequent tax years. The Bank fully supported the correctness of its tax calculation, nonetheless several procedural steps have been undertaken, such as: (i) adjusting tax settlements for the period 2005-2010; (ii) paying (in November 2011) the tax arrears of PLN 69 million (to avoid the risk of penalty interest burden); and (iii) raising a claim against the Tax Office for the above mentioned amount. As a result of these proceedings on 30 January 2012 the Tax Office returned to the Bank a substantial part of the amount paid (PLN 66 million). At the same time the tax authority sustained a negative opinion in the proceedings. In 2013, the Bank re-paid to the account of the Tax Office an amount of PLN 58.6 million (based on the decision of the Tax Chamber in Warsaw, on which see below), and part of that amount has been paid to the Bank in the amount of PLN 1.8 million.

As a result of the different positions of the Bank and tax authorities, there were appeals against the decision, in particular:

1) Proceedings in front of the Tax Chamber in Warsaw resulting from the Bank's appealing against the decision of the Director of the Tax Control Office (first instance) determining a tax loss in the CIT for 2005. On 27.06.2013 the Director of the Tax Chamber in Warsaw issued a decision upholding the decision of the first instance. On 22 July 2013 the Bank submitted a complaint to the Regional Administrative Court in Warsaw. Originally the court ordered a hearing on February 6, 2014 and then postponed it to 8th April, 2014. A hearing was held on the scheduled date. The court delivered judgment on 28 April 2014 dismissing the complaint of the Bank. On 23 July 2014 the Bank filed a cassation complaint to the Supreme Administrative Court.
2) Appeal proceedings against the decision of the Head of Second Mazovian Tax Office determining CIT for the year 2006. On the 22nd of August 2013 the appellate authority – the Director of the Tax Chamber in Warsaw issued the decision which upheld the decision of the tax office and determined the Bank's income which did not cause the obligation to pay additional tax burden from CIT 2006 to the tax office. On the 25th of September 2013 Bank lodged the complaint to the Regional Administrative Court in Warsaw. The hearing was held on 14th of April 2014. The court dismissed the Bank's complaint. On 1 July 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.

3) Appeal proceedings against the decisions of the Head of Second Mazovian Tax Office – determining tax liabilities for 2007 and 2008, and refusing confirmation of tax overpayment for 2007 and 2008.

   a. Year 2007

   On the 27th of August 2013 the Director of Tax Chamber in Warsaw issued the decision which upheld the decision of the tax office and determined the Bank's CIT liability for 2007. On the 30th of September 2013 the Bank lodged the complaint to the Regional Administrative Court in Warsaw. Court set the trial date 19 March 2014. A hearing was held on the scheduled date but the judgment was delivered on 21 March 2014. The court dismissed the Bank's complaint. On 25 June 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.

   On the 29th of August 2013 Director of the Tax Chamber in Warsaw issued a decision setting new deadline for examining an appeal regarding refusing the statement of overpayment in CIT for the year 2007 for 31st of October 2013. On the 18th of September 2013 the Director of the Tax Chamber in Warsaw issued the decision which upheld the decision of The Head of Second Mazovian Tax Office refusing the statement of overpayment in CIT for 2007. On 23 October 2013 the Bank submitted a complaint to the Regional Administrative Court in Warsaw. The hearing was held on 14th of April 2014. The court dismissed the Bank's complaint. On 1 July 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.

   b. Year 2008

   On the 29th of August 2013 Director of the Tax Chamber in Warsaw issued a decision setting new deadline for examining an appeal regarding determining liability and refusing the statement of overpayment in CIT for the year 2008 till 31st of October 2013. On the 18th of September 2013 the Director of Tax Chamber issued the decision which upheld the decision of The Head of Second Mazovian Tax Office and determine Bank's income for 2008. On 23 October 2013 Bank submitted a complaint to the Regional Administrative Court in Warsaw. The Court set the hearing date on the 9th of April 2014. The court dismissed the Bank's complaint. On 27 June 2014 the Bank filed a cassation complaint to the Supreme Administrative Court. On the 30th of September 2013 the Director of Tax Chamber in Warsaw issued the decision which upheld the decision of The Head of Second Mazovian Tax Office refusing the statement of overpayment in CIT for 2008. Then on 25 October 2013 the Bank submitted a complaint to the Regional Administrative Court in Warsaw. The hearing was held on 9th of April 2014. The court dismissed the Bank's complaint. On 1 July 2014, the Bank filed a cassation complaint to the Supreme Administrative Court.

On the 26th of January 2016 the Supreme Administrative Court issued the six judgements. In five judgements the Court dismissed the Banks' claims. In one, regarding 2006 tax year, it annulled the judgement of Local Administrative Court. The judgements are final. The Bank has already allocated provisions to uncertain tax position in order to cover risk that resulted from aforementioned verdicts.

## 13) EARNINGS PER SHARE

Earnings per share (PLN)

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Earnings after taxes | 546 525 | 650 920 |
| Weighted average number of shares in the period | 1 213 116 777 | 1 213 116 777 |
| Earnings per share | 0.45 | 0.54 |

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

## 14) CASH, BALANCES WITH THE CENTRAL BANK

14a. Cash, balances with the central bank

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash | 532 467 | 534 891 |
| Cash in Central Bank | 1 413 877 | 2 077 084 |
| Other funds | 40 | 267 |
| Total | 1 946 384 | 2 612 242 |

In the period from 31 December 2015 to 31 of January 2016 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,891,624 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

14b. Cash, balances with the Central Bank – by currency

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Polish currency | 1 780 085 | 2 495 805 |
| in foreign currencies (after conversion to PLN) | 166 299 | 116 437 |
| - currency: USD | 33 450 | 25 003 |
| - currency: EUR | 95 713 | 62 645 |
| - currency: CHF | 13 665 | 10 842 |
| - currency: GBP | 18 064 | 13 255 |
| - other currencies | 5 407 | 4 692 |
| **Total** | **1 946 384** | **2 612 242** |

## 15) DEPOSITS, LOANS AND ADVANCES TO BANKS AND OTHER MONETARY INSTITUTIONS

15a. Deposits, loans and advances to banks and other monetary institutions

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current accounts | 284 706 | 359 258 |
| Deposits granted | 2 061 664 | 1 511 094 |
| Loans | 0 | 511 194 |
| Interest | 2 393 | 3 208 |
| Total (gross) deposits, loans and advances | 2 348 763 | 2 384 754 |
| Impairment write-offs | (9) | (10) |
| **Total (net) deposits, loans and advances** | **2 348 754** | **2 384 744** |

15b. Deposits, loans and advances to banks and other monetary institutions by maturity date

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current accounts | 284 706 | 359 258 |
| to 1 month | 2 051 664 | 1 501 094 |
| above 1 month to 3 months | 0 | 10 000 |
| above 3 months to 1 year | 10 000 | 511 194 |
| above 1 year to 5 years | 0 | 0 |
| above 5 years | 0 | 0 |
| past due | 0 | 0 |
| Interest | 2 393 | 3 208 |
| Total (gross) deposits, loans and advances | 2 348 763 | 2 384 754 |

15c. Deposits, loans and advances to banks and other monetary institutions by currency

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Polish currency | 91 457 | 709 417 |
| in foreign currencies (after conversion to PLN) | 2 257 306 | 1 675 337 |
| - currency: USD | 176 164 | 84 575 |
| - currency: EUR | 1 948 890 | 1 504 861 |
| - currency: CHF | 14 344 | 27 166 |
| - currency: JPY | 12 261 | 12 978 |
| - currency: GBP | 55 821 | 4 133 |
| - other currencies | 49 826 | 41 624 |
| **Total** | **2 348 763** | **2 384 754** |

15d. Change of impairment write-offs for deposits, loans and advances to banks and other monetary institutions

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 10 | 16 |
| Impairment write-offs created in the period | 19 | 10 |
| Impairment write-offs released in the period | (20) | (16) |
| Balance at the end of the period | 9 | 10 |

## 16) Financial assets measured at fair value through the Profit and Loss Account (held for trading) and adjustment due to fair value hedge accounting

16a. Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Debt securities** | **408 572** | **933 482** |
| Issued by State Treasury | 408 572 | 933 482 |
| a) bills | 0 | 0 |
| b) bonds | 408 572 | 933 482 |
| | | |
| Equity instruments | **1 682** | **753** |
| Quoted on the active market | 1 682 | 753 |
| a) financial institutions | 0 | 0 |
| b) non-financial institutions | 1 682 | 753 |
| | | |
| Adjustment due to fair value hedge | 22 152 | 27 097 |
| | | |
| Positive valuation of derivatives | 336 244 | 455 944 |
| | | |
| **Total** | **768 650** | **1 417 276** |

16b. Financial assets valued at fair value through profit and loss (held for trading)

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Trading financial assets | 746 498 | 1 390 179 |
| Adjustment due to fair value hedge | 22 152 | 27 097 |
| Financial assets valued at fair value when initially recognized | 0 | 0 |
| Total | 768 650 | 1 417 276 |

Information on financial assets securing liabilities is presented in Chapter 14.2).

16c. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - with fixed interest rate | 348 262 | 761 373 |
| - with variable interest rate | 60 310 | 172 109 |
| Total | 408 572 | 933 482 |

16d. Debt securities valued at fair value through profit and loss (held for trading), by maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| to 1 month | 0 | 0 |
| above 1 month to 3 months | 0 | 0 |
| above 3 months to 1 year | 57 912 | 2 294 |
| above 1 year to 5 years | 299 092 | 727 622 |
| above 5 years | 51 568 | 203 566 |
| Total | 408 572 | 933 482 |

16e. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 934 234 | 433 049 |
| Increases (purchase and accrual of interest and discount) | 46 381 367 | 44 634 317 |
| Reductions (sale and redemption) | (46 906 460) | (44 132 898) |
| Differences from valuation at fair value | 1 113 | (234) |
| Balance at the end of the period | 410 254 | 934 234 |

Note 16f. Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2015

| | 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. Interest rate derivatives | 5 793 902 | 3 843 867 | 8 053 556 | 505 959 | 17 828 | 254 288 | 236 460 |
| Forward Rate Agreements (FRA) | 2 500 000 | 750 000 | 0 | 0 | 417 | 452 | 35 |
| Interest rate swaps (IRS) | 3 293 902 | 3 093 867 | 7 968 054 | 505 959 | 17 411 | 253 835 | 236 424 |
| Other interest rate contracts: options | 0 | 0 | 85 502 | 0 | 0 | 1 | 1 |
| 2. FX derivatives * | 12 091 708 | 2 261 527 | 855 008 | 0 | (7 491) | 39 667 | 47 158 |
| FX contracts | 2 021 293 | 999 949 | 250 256 | 0 | (5 358) | 6 628 | 11 986 |
| FX swaps | 7 517 015 | 410 928 | 20 480 | 0 | 8 442 | 30 997 | 22 555 |
| Other FX contracts (CIRS) | 2 553 400 | 850 650 | 584 272 | 0 | (10 575) | 2 042 | 12 617 |
| FX options | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Embedded instruments | 281 321 | 1 499 753 | 906 470 | 0 | (38 642) | 0 | 38 642 |
| Options embedded in deposits | 258 949 | 1 409 228 | 752 722 | 0 | (31 623) | 0 | 31 623 |
| Options embedded in securities issued | 22 372 | 90 525 | 153 748 | 0 | (7 019) | 0 | 7 019 |
| 4. Indexes options | 463 854 | 1 581 024 | 900 776 | 0 | 38 273 | 42 289 | 4 016 |
| **Valuation of derivatives, TOTAL** | **18 630 785** | **9 186 171** | **10 715 810** | **505 959** | **9 968** | **336 244** | **326 276** |
| Valuation of balance sheet items designated to fair value hedge accounting | | | | | | 22 152 | 18 413 |
| Liabilities from short sale of securities | | | | | | | 0 |

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

Note 16g. Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2014

| | 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. Interest rate derivatives | 2 294 000 | 8 693 288 | 8 202 118 | 587 498 | 11 817 | 348 052 | 336 235 |
| Forward Rate Agreements (FRA) | 0 | 2 600 000 | 0 | 0 | 493 | 493 | 0 |
| Interest rate swaps (IRS) | 2 294 000 | 5 993 288 | 8 166 747 | 587 498 | 11 324 | 346 147 | 334 823 |
| Other interest rate contracts: options | 0 | 100 000 | 35 371 | 0 | 0 | 1 412 | 1 412 |
| 2. FX derivatives * | 8 700 636 | 891 710 | 366 639 | 83 123 | (4 168) | 33 107 | 37 275 |
| FX contracts | 1 488 022 | 717 142 | 231 060 | 0 | 1 240 | 8 187 | 6 947 |
| FX swaps | 7 212 614 | 174 568 | 135 579 | 0 | 5 665 | 24 920 | 19 255 |
| Other FX contracts (CIRS) | 0 | 0 | 0 | 83 123 | (11 073) | 0 | 11 073 |
| FX options | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Embedded instruments | 710 872 | 1 120 475 | 1 047 861 | 0 | (67 939) | 0 | 67 939 |
| Options embedded in deposits | 697 923 | 1 061 796 | 798 219 | 0 | (55 790) | 0 | 55 790 |
| Options embedded in securities issued | 12 949 | 58 679 | 249 642 | 0 | (12 149) | 0 | 12 149 |
| 4. Indexes options | 1 077 077 | 1 219 083 | 1 005 862 | 0 | 68 745 | 74 785 | 6 040 |
| **Valuation of derivatives, TOTAL** | **12 782 585** | **11 924 556** | **10 622 480** | **670 621** | **8 454** | **455 944** | **447 489** |
| Valuation of balance sheet items designated to fair value hedge accounting | | | | | | 27 097 | 20 047 |
| Liabilities from short sale of securities | | | | | | | 162 254 |

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

## 17) DERIVATIVE HEDGING INSTRUMENTS

The Group as at the end of 2015 uses the following types of hedge accounting:
1. Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate;
2. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
3. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;

Starting from 1 January 2006 the Group established first formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding resulting from the zloty deposit portfolio). Implementation of formal hedge accounting permitted presentation of the transactions in the Profit and Loss Account in accordance with their economic meaning.

At the end of each month the Bank performs an assessment of effectiveness of the hedge used by analysing changes of fair value of the hedged instrument and the hedging instrument.

During year 2015 expired hedging transactions concluded in order to hedge the variability of cash flows due to future revenues and expenses denominated in foreign currencies. As at 31.12.2015 the Group continues to apply hedge accounting to the following relationship:

| | Hedging fair value of the fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables | Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans |
|---|---|---|
| Description of hedge transactions | The Group hedges the risk related to changes in fair value of the fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables resulting from variation in interest rate component (margin). | The Group hedges the risk of the volatility of cash flows generated by PLN mortgages. The volatility of cash flows results from interest rate risk. |
| Hedged items | Fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables. | Cash flows resulting from the PLN mortgage loan portfolio |
| Hedging instruments | CIRS transactions | IRS transactions |
| Presentation of the result on the hedged and hedging transactions | Adjustment to fair value of hedged and hedging instruments are recognised in profit and loss as result on financial instruments valued at fair value through profit and loss and FX result; interest on hedging and hedged instruments are recognised in net interest income. | Effective part of the valuation of hedging instruments is recognised in other comprehensive income;<br>interest on both the hedged and the hedging instruments are recognised in net interest income; |

| | Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN liabilities |
|---|---|
| Description of hedge transactions | The Group hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN liabilities financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk. |
| Hedged items | Cash flows resulting from the mortgage loan portfolio and PLN deposits together with issued debt PLN securities funding them. |
| Hedging instruments | CIRS transactions |
| Presentation of the result on the hedged and hedging transactions | Effective part of the valuation of hedging instruments is recognised in other comprehensive income;<br>interest on both the hedged and the hedging instruments are recognised in net interest income;<br>valuation of hedging and hedged instruments on FX differences is recognised in result on financial instruments valued at fair value through profit and loss and foreign exchange result |

17a. Hedge accounting

| As at 31.12.2015 | 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. Fair value hedging derivatives connected with interest rate risk | | | | | | | |
| CIRS contracts | 0 | 0 | 992 439 | 0 | (140 909) | 0 | 140 909 |
| 2. Cash flows hedging derivatives connected with interest rate and/or FX rate | | | | | | | |
| CIRS contracts | 6 837 099 | 11 547 021 | 11 761 589 | 3 537 254 | (1 930 002) | 60 538 | 1 990 540 |
| IRS contracts | 200 000 | 1 275 000 | 650 000 | 0 | 9 691 | 10 295 | 604 |
| Forward contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Total hedging derivatives | 7 037 099 | 12 822 021 | 13 404 028 | 3 537 254 | (2 061 220) | 70 833 | 2 132 053 |

Adjustment to fair value of hedged items due to hedged risk for active hedging relationships, for the year 2015 amounted to PLN 794 thousand, of which PLN 5,782 thousand related to hedged assets, and PLN 4,988 thousand related to hedged liabilities.

| As at 31.12.2014 | 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. Fair value hedging derivatives connected with interest rate risk | | | | | | | |
| CIRS contracts | 0 | 0 | 0 | 935 781 | (84 493) | 0 | 84 493 |
| 2. Cash flows hedging derivatives connected with interest rate and/or FX rate | | | | | | | |
| CIRS contracts | 7 344 731 | 1 565 423 | 17 318 411 | 9 876 006 | (1 295 832) | 4 777 | 1 300 609 |
| IRS contracts | 330 000 | 555 000 | 435 000 | 0 | 13 512 | 13 760 | 248 |
| Forward contracts | 65 307 | 30 672 | 0 | 0 | (4 414) | 462 | 4 876 |
| 3. Total hedging derivatives | 7 740 038 | 2 151 095 | 17 753 411 | 10 811 787 | (1 371 226) | 18 999 | 1 390 225 |

Adjustment to fair value of hedged items due to hedged risk for active hedging relationships, for the year 2014 amounted to PLN 1,117 thousand, of which PLN 4,568 thousand related to hedged assets, and PLN 3,451 thousand related to hedged liabilities.

17b. Hedge accounting - cash flow hedge

| Hedge relationship | Maximum period in which cash flows with hedged value are expected to occur |
|---|---|
| Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate | 24.03.2020 |
| Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans | 30.06.2017 |
| Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them | 07.01.2025 |

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2015 amounted to PLN – 4.34 million (respectively in 2014 amounted to PLN – 9.95 million).

## 18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances | 41 852 945 | 40 192 825 |
| - to companies | 8 705 526 | 8 547 052 |
| - to private individuals | 32 729 850 | 31 135 265 |
| - to public sector | 417 569 | 510 508 |
| Receivables on account of payment cards | 684 841 | 685 431 |
| - due from companies | 27 481 | 32 824 |
| - due from private individuals | 657 360 | 652 607 |
| Purchased receivables | 212 369 | 162 453 |
| - from companies | 212 369 | 159 993 |
| - from public sector | 0 | 2 460 |
| Guarantees and sureties realised | 12 551 | 12 011 |
| Debt securities eligible for rediscount at Central Bank | 5 217 | 9 851 |
| Financial leasing receivables | 4 777 112 | 4 107 136 |
| Other | 4 509 | 1 105 |
| Interest | 280 765 | 330 142 |
| **Total gross** | **47 830 309** | **45 500 954** |
| Impairment write-offs | (1 460 928) | (1 358 255) |
| **Total net** | **46 369 381** | **44 142 699** |

18b. Quality of loans and advances to customers portfolio

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances to customers (gross) | 47 830 309 | 45 500 954 |
| - impaired | 2 204 196 | 1 923 249 |
| - not impaired | 45 626 113 | 43 577 705 |
| Impairment write-offs | (1 460 928) | (1 358 255) |
| - for impaired exposures | (1 305 327) | (1 196 531) |
| - for incurred but not reported losses (IBNR) | (155 601) | (161 724) |
| **Loans and advances to customers (net)** | **46 369 381** | **44 142 699** |

18c. Loans and advances to customers portfolio by methodology of impairment assessment

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances to customers (gross) | 47 830 309 | 45 500 954 |
| - case by case analysis | 940 590 | 911 835 |
| - collective analysis | 46 889 719 | 44 589 119 |
| Impairment write-offs | (1 460 928) | (1 358 255) |
| - on the basis of case by case analysis | (561 994) | (556 879) |
| - on the basis of collective analysis | (898 934) | (801 376) |
| **Loans and advances to customers (net)** | **46 369 381** | **44 142 699** |

18d. Loans and advances to customers portfolio by customers

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loans and advances to customers (gross) | 47 830 309 | 45 500 954 |
| - corporate customers | 14 215 133 | 13 482 755 |
| - private individuals | 33 615 176 | 32 018 199 |
| Impairment write-offs | (1 460 928) | (1 358 255) |
| - for receivables from corporate customers | (751 705) | (775 403) |
| - for receivables from private individuals | (709 223) | (582 852) |
| **Loans and advances to customers (net)** | **46 369 381** | **44 142 699** |

18e. Loans and advances to customers by maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current accounts | 3 545 751 | 3 371 727 |
| to 1 month | 903 158 | 301 198 |
| above 1 month to 3 months | 1 840 100 | 1 422 716 |
| above 3 months to 1 year | 4 265 324 | 4 207 915 |
| above 1 year to 5 years | 13 360 948 | 12 410 292 |
| above 5 years | 22 630 875 | 22 442 413 |
| past due | 1 003 388 | 1 014 551 |
| Interest | 280 765 | 330 142 |
| Total gross | 47 830 309 | 45 500 954 |

18f. Loans and advances to customers by currency

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Polish currency | 26 345 721 | 25 076 426 |
| in foreign currencies (after conversion to PLN) | 21 484 588 | 20 424 528 |
| - currency: USD | 69 546 | 334 433 |
| - currency: EUR | 2 770 764 | 2 233 722 |
| - currency: CHF | 18 630 638 | 17 836 963 |
| - currency: JPY | 8 520 | 14 984 |
| - other currencies | 5 120 | 4 426 |
| **Total gross** | **47 830 309** | **45 500 954** |

18g. Change of impairment write-offs for loans and advances to customers

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 1 358 255 | 1 312 331 |
| Change in value of provisions: | 102 673 | 45 924 |
| Impairment write-offs created in the period | 724 872 | 616 838 |
| Amounts written off | (73 430) | (182 507) |
| Impairment write-offs released in the period | (440 062) | (333 602) |
| Sale of receivables | (118 773) | (63 902) |
| Changes resulting from FX rates differences | 10 466 | 8 315 |
| Other | (400) | 782 |
| **Balance at the end of the period** | **1 460 928** | **1 358 255** |

18h. Financial leasing receivables

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Financial leasing receivables (gross) | 5 139 729 | 4 469 233 |
| Unrealised financial income | (362 617) | (362 097) |
| Financial leasing receivables (net) | 4 777 112 | 4 107 136 |
| | | |
| Financial leasing receivables (gross) by maturity | | |
| Under 1 year | 1 873 276 | 1 546 031 |
| From 1 year to 5 years | 2 937 151 | 2 593 318 |
| Above 5 years | 329 302 | 329 884 |
| Total | 5 139 729 | 4 469 233 |
| | | |
| Financial leasing receivables (net) by maturity | | |
| Under 1 year | 1 731 487 | 1 406 281 |
| From 1 year to 5 years | 2 740 614 | 2 399 923 |
| Above 5 years | 305 011 | 300 932 |
| Total | 4 777 112 | 4 107 136 |

The main groups of items financed through leasing are the means of transport (tractors, trailers, trucks, vans, cars, etc.), machinery and equipment, computers as well as industrial and commercial real estate. The leasing portfolio of the Group includes contracts in which fees are set in PLN or are linked to EUR exchange rate (foreign exchange contracts denominated in EUR) as well as associated with market interest rates (floating-products), or independent from them (fixed rate products). Agreements with customers are concluded for term from 1 year to 10 years. Offered lease agreements provide a diverse client's own contribution and the final value of the object, as well as a diverse amount of lease payments, e.g., depending on seasonality. After the end of the lease, a customer is obliged to buy the item at a final price specified at the time of the conclusion of the agreement. The object during the entire lease term is owned by the Group and constitutes a major collateral of lease payments.

## 19) Investment financial assets

19a. Investment financial assets available for sale

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Debt securities** | **13 647 734** | **9 242 575** |
| Issued by State Treasury | 9 375 707 | 6 749 204 |
| a) bills | 0 | 0 |
| b) bonds | 9 375 707 | 6 749 204 |
| Issued by Central Bank | 4 198 776 | 2 400 000 |
| a) bills | 4 198 776 | 2 400 000 |
| b) bonds | 0 | 0 |
| Other securities | 73 251 | 93 371 |
| a) listed | 0 | 0 |
| b) not listed | 73 251 | 93 371 |
| | | |
| Shares and interests in other entities | 226 586 | 6 962 |
| | | |
| **Total financial assets available for sale** | **13 874 320** | **9 249 537** |
| | | |
| Available for sale instruments listed on the stock exchange | 9 375 959 | 6 749 204 |
| Available for sale instruments not listed on the stock exchange | 4 498 361 | 2 500 333 |

Shares and interests in other entities include investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which value amounted to as at 31.12.2015 and 31.12.2014 PLN 13,259 thousand and PLN 6,642 thousand, respectively. Due to the nature of those instruments, the variability in the range of reasonable fair value measurements is significant and probabilities of the various estimates within the range cannot be reasonably assessed. Currently the Group does not intend to dispose of these investments.

As member of Visa Europe Ltd the Bank is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. In accordance with the information published by Visa Inc. the transaction value includes 16.5 billion euros paid upfront to the beneficiaries and in addition potentially up to 4.7 billion euros, contingent on the financial results, in payouts after the fourth anniversary of the transaction's completion, giving the total transaction amount up to 21.2 billion euros. The upfront sum covers a cash payment of 11.5 billion euros and preference shares convertible to ordinary Visa Inc. class A shares valued at 5 billion euros.

Bank Millennium has received the preliminary initial estimates of the amount of payments under the transaction calculated on the basis of the Bank's share in Visa's business in Europe:

- 55.5 million euros in cash,
- shares valued at 19 million euros (at the exchange rates as of 18.10.2015).

In accordance with the proposed time-table the above payments will be settled by 30 June 2016.

The terms and implementation of the payment time-table are subject to acceptance by the regulatory authorities in particular European markets.

The amounts payable by 30 June 2016 are to be finally confirmed by 1 March 2016.

Based on the received information the Bank re-estimated the fair value of VISA shares in the Bank's books as at 31 December 2015 and the effect was recognized in other comprehensive income. Having in mind that the Bank still awaits final confirmation of the amounts to be received (they may change due to transaction costs or possible objections of members Visa Europe for their participation in the settlement) as well as wide time horizon of the transaction (uncertainty and discount factors), the Bank following the principle of prudent valuation recognised in its books as at 31 December 2015 VISA shares at value of EUR 50 million.

19b. Debt securities available for sale

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - with fixed interest rate | 10 107 323 | 7 320 712 |
| - with variable interest rate | 3 540 411 | 1 921 863 |
| Total | 13 647 734 | 9 242 575 |

19c. Debt securities available for sale by maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - to 1 month | 4 544 850 | 2 407 056 |
| - above 1 month to 3 months | 0 | 0 |
| - above 3 months to 1 year | 1 560 316 | 159 234 |
| - above 1 year to 5 years | 6 843 247 | 6 212 925 |
| - above 5 years | 699 321 | 463 360 |
| Total | 13 647 734 | 9 242 575 |

19d. Change of investment financial assets available for sale

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 9 249 537 | 8 241 517 |
| Increases (purchase and accrual of interest and discount) | 221 526 337 | 277 496 167 |
| Reductions (sale and redemption) | (217 082 909) | (276 557 707) |
| Difference from measurement at fair value | 181 370 | 69 520 |
| Impairment write-offs | (15) | 38 |
| Other | 0 | 2 |
| Balance at the end of the period | 13 874 320 | 9 249 537 |

19e. Investments in related entities

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Investments in associates | 1 378 | 2 762 |

19f. Change of investments in related entities

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 2 762 | 3 009 |
| - sale | 0 | 0 |
| - equity method valuation | (1 385) | (246) |
| Balance at the end of the period | **1 378** | **2 762** |

## 20) Receivables from securities bought with sell-back clause

Receivables from securities bought with sell-back clause

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) from banks | 0 | 155 583 |
| b) from customers | 0 | 0 |
| c) interest | 0 | 59 |
| Total | **0** | **155 642** |

## 21) Property, plant and equipment

21a. Property, plant and equipment

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Land | 1 275 | 1 275 |
| Buildings, premises, civil and hydro-engineering structures | 67 344 | 69 687 |
| Machines and equipment | 43 569 | 36 250 |
| Vehicles | 23 082 | 27 208 |
| Other fixed assets | 5 183 | 4 939 |
| Fixed assets under construction | 15 888 | 14 090 |
| **Total** | **156 341** | **153 449** |

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2015 - 31.12.2015

| | land | buildings, premises, civil and hydro-engineering structures | machines and equipment | vehicles | other fixed assets | fixed assets under construction and advances | TOTAL |
|---|---|---|---|---|---|---|---|
| a) gross value of property, plant and equipment at the beginning of the period | 1 275 | 340 377 | 206 998 | 38 453 | 97 213 | 14 090 | 698 407 |
| b) increases (on account of) | 0 | 13 072 | 22 136 | 2 290 | 3 164 | 39 752 | 80 414 |
| - purchase | 0 | 0 | 729 | 2 290 | 19 | 35 891 | 38 929 |
| - transfer from fixed assets under construction | 0 | 13 072 | 21 407 | 0 | 3 135 | 0 | 37 614 |
| - unpaid investments | 0 | 0 | 0 | 0 | 0 | 3 861 | 3 861 |
| - other | 0 | 0 | 0 | 0 | 10 | 0 | 10 |
| c) reductions (on account of) | 0 | 16 753 | 21 618 | 1 797 | 9 303 | 37 954 | 87 425 |
| - sale | 0 | 2 600 | 3 091 | 1 777 | 1 690 | 0 | 9 158 |
| - liquidation | 0 | 13 839 | 18 525 | 20 | 7 613 | 0 | 39 997 |
| - settlement of fixed assets under construction | 0 | 0 | 0 | 0 | 0 | 37 614 | 37 614 |
| - other | 0 | 314 | 2 | 0 | 0 | 340 | 656 |
| **d) gross value of property, plant and equipment at the end of the period** | **1 275** | **336 696** | **207 516** | **38 946** | **91 074** | **15 888** | **691 396** |
| e) cumulated depreciation (amortization) at the beginning of the period | 0 | 251 172 | 170 748 | 11 245 | 92 273 | 0 | 525 439 |
| f) depreciation over the period (on account of) | 0 | 462 | (6 801) | 4 619 | (6 383) | 0 | (8 103) |
| - current write-off (P&L) | 0 | 14 893 | 14 394 | 5 635 | 2 648 | 0 | 37 570 |
| - reductions on account of sale | 0 | (2 539) | (2 720) | (1 016) | (1 680) | 0 | (7 955) |
| - reductions on account of liquidation | 0 | (13 692) | (18 475) | 0 | (7 351) | 0 | (39 518) |
| - transfer from impairment write-offs | 0 | 1 800 | 0 | 0 | 0 | 0 | 1 800 |
| - other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **g) cumulated depreciation (amortization) at the end of the period** | **0** | **251 634** | **163 947** | **15 864** | **85 890** | **0** | **517 336** |
| h) impairment write-offs at the beginning of the period | 0 | 19 518 | 0 | 0 | 1 | 0 | 19 519 |
| - increase | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - reduction - transfer to depreciation | 0 | 1 800 | 0 | 0 | 0 | 0 | 1 800 |
| i) impairment write-offs at the end of the period | **0** | **17 718** | **0** | **0** | **1** | **0** | **17 719** |
| **j) net value of property, plant and equipment at** the end of the period | **1 275** | **67 344** | **43 569** | **23 082** | **5 183** | **15 888** | **156 341** |

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2014 – 31.12.2014

| | land | buildings, premises, civil and hydro-engineering structures | machines and equipment | vehicles | other fixed assets | fixed assets under construction and advances | TOTAL |
|---|---|---|---|---|---|---|---|
| a) gross value of property, plant and equipment at the beginning of the period | 1 275 | 349 312 | 210 808 | 35 162 | 98 167 | 11 334 | 706 058 |
| b) increases (on account of) | 0 | 11 748 | 11 647 | 10 196 | 3 847 | 29 549 | 66 987 |
| - purchase | 0 | 0 | 240 | 9 901 | 70 | 20 233 | 30 444 |
| - transfer from fixed assets under construction | 0 | 11 748 | 11 408 | 0 | 3 608 | 0 | 26 764 |
| - unpaid investments | 0 | 0 | 0 | 0 | 0 | 9 316 | 9 316 |
| - other | 0 | 0 | 0 | 296 | 169 | 0 | 464 |
| c) reductions (on account of) | 0 | 20 683 | 15 457 | 6 905 | 4 800 | 26 793 | 74 638 |
| - sale | 0 | 11 480 | 2 563 | 6 706 | 647 | 0 | 21 396 |
| - liquidation | 0 | 9 200 | 12 728 | 147 | 4 130 | 0 | 26 204 |
| - settlement of fixed assets under construction | 0 | 0 | 0 | 0 | 0 | 26 782 | 26 782 |
| - other | 0 | 3 | 167 | 52 | 24 | 11 | 256 |
| **d) gross value of property, plant and equipment at the end of the period** | **1 275** | **340 377** | **206 998** | **38 453** | **97 213** | **14 090** | **698 407** |
| e) cumulated depreciation (amortization) at the beginning of the period | 0 | 247 039 | 172 063 | 10 547 | 93 682 | 0 | 523 332 |
| f) depreciation over the period (on account of) | 0 | 4 133 | (1 315) | 698 | (1 409) | 0 | 2 108 |
| - current write-off (P&L) | 0 | 20 972 | 13 587 | 5 379 | 3 298 | 0 | 43 236 |
| - reductions on account of sale | 0 | (6 210) | (2 349) | (4 650) | (645) | 0 | (13 853) |
| - reductions on account of liquidation | 0 | (8 829) | (12 553) | (107) | (4 062) | 0 | (25 552) |
| - transfer to impairment write-offs | 0 | (1 800) | 0 | 0 | 0 | 0 | (1 800) |
| - other | 0 | 0 | 0 | 76 | 0 | 0 | 76 |
| **g) cumulated depreciation (amortization) at the end of the period** | **0** | **251 172** | **170 748** | **11 245** | **92 273** | **0** | **525 439** |
| h) impairment write-offs at the beginning of the period | 0 | 19 568 | 0 | 0 | 1 | 0 | 19 569 |
| - increase - transfer from depreciation | 0 | 1 800 | 0 | 0 | 0 | 0 | 1 800 |
| - reduction | 0 | 1 850 | 0 | 0 | 0 | 0 | 1 850 |
| i) impairment write-offs at the end of the period | **0** | **19 518** | **0** | **0** | **1** | **0** | **19 519** |
| **j) net value of property, plant and equipment at** the end of the period | **1 275** | **69 687** | **36 250** | **27 208** | **4 939** | **14 090** | **153 449** |

## 22) INTANGIBLE ASSETS

22a. Intangible assets

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - concessions, patents, licenses, know-how and similar assets, including: | 61 858 | 59 096 |
| - computer software | 54 737 | 56 383 |
| - other intangible assets | 0 | 0 |
| - advances for intangible assets | 0 | 23 |
| Total intangible assets | 61 858 | 59 119 |

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2015 – 31.12.2015

| | costs of completed development work | concessions, patents, licenses, know-how and similar assets, including: | computer software | other intangible assets | advances for intangible assets | TOTAL |
|---|---|---|---|---|---|---|
| a) gross value of intangible assets at the beginning of the period | 23 | 274 979 | 270 725 | 4 | 23 | 275 029 |
| b) increases (on account of) | 0 | 17 450 | 11 333 | 0 | 0 | 17 450 |
| - purchase | 0 | 1 751 | 1 751 | 0 | 0 | 1 751 |
| - unpaid investments | 0 | 0 | 0 | 0 | 0 | 0 |
| - expenditures on intangible assets | 0 | 15 676 | 9 559 | 0 | 0 | 15 676 |
| - transfer from investments and advances | 0 | 23 | 23 | 0 | 0 | 23 |
| c) reductions (on account of) | 0 | 1 827 | 1 827 | 0 | 23 | 1 850 |
| - liquidation | 0 | 4 | 4 | 0 | 0 | 4 |
| - settlement of investments and advances | 0 | 0 | 0 | 0 | 23 | 23 |
| - settlement of unpaid investments | 0 | 1 814 | 1 814 | 0 | 0 | 1 814 |
| - other | 0 | 9 | 9 | 0 | 0 | 9 |
| **d) gross value of intangible assets at the end of the period** | **23** | **290 602** | **280 231** | **4** | **0** | **290 629** |
| e) cumulated depreciation (amortization) at the beginning of the period | 23 | 211 895 | 210 354 | 4 | 0 | 211 922 |
| f) depreciation over the period (on account of) | 0 | 12 861 | 11 152 | 0 | 0 | 12 861 |
| - current write-off (P&L) | 0 | 12 865 | 11 156 | 0 | 0 | 12 865 |
| - liquidation | 0 | (4) | (4) | 0 | 0 | (4) |
| **g) cumulated depreciation (amortization) at the end of the period** | **23** | **224 756** | **221 506** | **4** | **0** | **224 783** |
| h) impairment write-offs at the beginning of the period | 0 | 3 988 | 3 988 | 0 | 0 | 3 988 |
| i) impairment write-offs at the end of the period | 0 | 3 988 | 3 988 | 0 | 0 | 3 988 |
| **j) net value of intangible assets at the end of the period** | **0** | **61 858** | **54 737** | **0** | **0** | **61 858** |

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2014 – 31.12.2014

| | costs of completed development work | concessions, patents, licenses, know-how and similar assets, including: | computer software | other intangible assets | advances for intangible assets | TOTAL |
|---|---|---|---|---|---|---|
| a) gross value of intangible assets at the beginning of the period | 23 | 248 618 | 247 624 | 4 | 5 | 248 650 |
| b) increases (on account of) | 0 | 30 371 | 27 101 | 0 | 23 | 30 394 |
| - purchase | 0 | 3 693 | 3 693 | 0 | 23 | 3 716 |
| - unpaid investments | 0 | 7 838 | 7 838 | 0 | 0 | 7 838 |
| - expenditures on intangible assets | 0 | 18 817 | 15 547 | 0 | 0 | 18 817 |
| - transfer from investments and advances | 0 | 23 | 23 | 0 | 0 | 23 |
| c) reductions (on account of) | 0 | 4 010 | 4 000 | 0 | 5 | 4 015 |
| - liquidation | 0 | 3 646 | 3 636 | 0 | 0 | 3 646 |
| - settlement of investments and advances | 0 | 0 | 0 | 0 | 5 | 5 |
| - transfer to costs | 0 | 186 | 186 | 0 | 0 | 186 |
| - other | 0 | 178 | 178 | 0 | 0 | 178 |
| **d) gross value of intangible assets at the end of the period** | **23** | **274 979** | **270 725** | **4** | **23** | **275 029** |
| e) cumulated depreciation (amortization) at the beginning of the period | 23 | 203 629 | 203 248 | 4 | 0 | 203 656 |
| f) depreciation over the period (on account of) | 0 | 8 266 | 7 106 | 0 | 0 | 8 266 |
| - current write-off (P&L) | 0 | 12 090 | 10 920 | 0 | 0 | 12 090 |
| - liquidation | 0 | (3 824) | (3 814) | 0 | 0 | (3 824) |
| **g) cumulated depreciation (amortization) at the end of the period** | **23** | **211 895** | **210 354** | **4** | **0** | **211 922** |
| h) impairment write-offs at the beginning of the period | 0 | 3 988 | 3 988 | 0 | 0 | 3 988 |
| i) impairment write-offs at the end of the period | 0 | 3 988 | 3 988 | 0 | 0 | 3 988 |
| **j) net value of intangible assets at the end of the period** | **0** | **59 096** | **56 383** | **0** | **23** | **59 119** |

## 23) Non-current assets held for sale

23a. Change of balance of non current assets held for sale in the period 01.01.2015 – 31.12.2015

| | land | buildings, premises, civil and hydro-engineering structures | machines and equipment | vehicles | other fixed assets | TOTAL |
|---|---|---|---|---|---|---|
| a) value at the beginning of the period | 1 394 | 4 333 | 33 | 0 | 28 | 5 788 |
| b) impairment write-offs at the beginning of the period | (64) | (39) | (33) | 0 | (6) | (142) |
| c) net value of non current assets held for sale at the beginning of the period | 1 330 | 4 294 | 0 | 0 | 22 | 5 646 |
| d) change of value in the period, including: | (833) | (1 509) | 0 | 0 | 12 372 | 10 030 |
| - sale of non current assets held for sale | (833) | (1 509) | 0 | 0 | (16 036) | (18 378) |
| e) value at the end of the period | 561 | 2 825 | 33 | 0 | 12 400 | 15 818 |
| f) change of impairment write-offs in the period, including: | 0 | 0 | 0 | 0 | 6 | 6 |
| - sale of non current assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 |
| g) impairment write-offs at the end of the period | (64) | (39) | (33) | 0 | 0 | (136) |
| **h) net value of non current assets held for sale at the end of the period** | **497** | **2 785** | **0** | **0** | **12 400** | **15 682** |

23b. Change of balance of non current assets held for sale in the period 01.01.2014 – 31.12.2014

| | land | buildings, premises, civil and hydro-engineering structures | machines and equipment | vehicles | other fixed assets | TOTAL |
|---|---|---|---|---|---|---|
| a) value at the beginning of the period | 1 063 | 2 506 | 33 | 0 | 0 | 3 602 |
| b) impairment write-offs at the beginning of the period | (64) | (39) | (33) | 0 | 0 | (136) |
| c) net value of non current assets held for sale at the beginning of the period | 999 | 2 467 | 0 | 0 | 0 | 3 466 |
| d) change of value in the period, including: | 331 | 1 827 | 0 | 0 | 28 | 2 186 |
| - sale of non current assets held for sale | (6) | (28) | 0 | 0 | 0 | (34) |
| e) value at the end of the period | 1 394 | 4 333 | 33 | 0 | 28 | 5 788 |
| f) change of impairment write-offs in the period, including: | 0 | 0 | 0 | 0 | (6) | (6) |
| - sale of non current assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 |
| g) impairment write-offs at the end of the period | (64) | (39) | (33) | 0 | (6) | (142) |
| **h) net value of non current assets held for sale at the end of the period** | **1 330** | **4 294** | **0** | **0** | **22** | **5 646** |

## 24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets and provision

| | 31.12.2015 | | | 31.12.2014 | | |
|---|---|---|---|---|---|---|
| | 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 | 78 207 | (11 957) | 66 250 | 76 704 | (10 398) | 66 306 |
| Balance sheet valuation of financial instruments | 470 859 | (487 732) | (16 873) | 314 667 | (307 690) | 6 977 |
| Unrealised receivables/ liabilities on account of derivatives | 27 570 | (41 924) | (14 354) | 44 652 | (52 463) | (7 811) |
| Interest on deposits and securities to be paid/ received | 39 353 | (33 307) | 6 046 | 35 472 | (91 058) | (55 586) |
| Interest and discount on loans and receivables | 14 | (8 283) | (8 269) | 74 | (27 403) | (27 329) |
| Income and cost settled at effective interest rate | 73 086 | (1 385) | 71 701 | 61 522 | (1 371) | 60 151 |
| Provisions for loans presented as temporary differences | 105 466 | 0 | 105 466 | 93 050 | 0 | 93 050 |
| Employee benefits | 14 768 | 0 | 14 768 | 15 954 | 0 | 15 954 |
| Provisions for future costs | 13 103 | 0 | 13 103 | 16 203 | (11) | 16 192 |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve | 43 088 | (47 370) | (4 282) | 39 393 | (12 908) | 26 485 |
| Tax loss deductible in the future | 2 910 | 0 | 2 910 | 2 721 | 0 | 2 721 |
| Other | 5 069 | (3 924) | 1 145 | 3 453 | (4 287) | (834) |
| Net deferred income tax asset | 873 493 | (635 882) | 237 612 | 703 865 | (507 589) | 196 276 |
| - including long-term net deferred income tax asset | | | 168 236 | | | 157 462 |

24b. Change of temporary differences

| | 31.12.2014 | Previous years adjustment | Changes to financial result | Changes to equity | 31.12.2015 |
|---|---|---|---|---|---|
| Difference between tax and balance sheet depreciation | 66 306 | 0 | (56) | 0 | 66 250 |
| Balance sheet valuation of financial instruments | 6 977 | (1 611) | (22 239) | 0 | (16 873) |
| Unrealised receivables/ liabilities on account of derivatives | (7 811) | 0 | (6 543) | 0 | (14 354) |
| Interest on deposits and securities to be paid/ received | (55 586) | (3 009) | 64 641 | 0 | 6 046 |
| Interest and discount on loans and receivables | (27 329) | 246 | 18 814 | 0 | (8 269) |
| Income and cost settled at effective interest rate | 60 151 | 0 | 11 550 | 0 | 71 701 |
| Provisions for loans presented as temporary differences | 93 050 | (223) | 12 639 | 0 | 105 466 |
| Employee benefits | 15 954 | 0 | (1 186) | 0 | 14 768 |
| Provisions for future costs | 16 192 | 0 | (3 089) | 0 | 13 103 |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve | 26 485 | 0 | 0 | (30 767) | (4 282) |
| Tax loss deductible in the future | 2 721 | 0 | 189 | 0 | 2 910 |
| Other | (834) | 0 | 1 979 | | 1 145 |
| Total | 196 276 | (4 597) | 76 699 | (30 767) | 237 612 |

24c. Change of temporary differences

| | 31.12.2013 | Changes to financial result | Changes to equity | 31.12.2014 |
|---|---|---|---|---|
| Difference between tax and balance sheet depreciation | 71 942 | (5 636) | | 66 306 |
| Balance sheet valuation of financial instruments | 5 567 | 1 410 | | 6 977 |
| Unrealised receivables/ liabilities on account of derivatives | (7 982) | 171 | | (7 811) |
| Interest on deposits and securities to be paid/ received | (53 609) | (1 977) | | (55 586) |
| Interest and discount on loans and receivables | (27 271) | (58) | | (27 329) |
| Income and cost settled at effective interest rate | 22 319 | 37 832 | | 60 151 |
| Provisions for loans presented as temporary differences | 102 916 | (9 866) | | 93 050 |
| Employee benefits | 15 080 | 874 | | 15 954 |
| Provisions for future costs | 21 663 | (5 471) | | 16 192 |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve | 30 780 | | (4 295) | 26 485 |
| Tax loss deductible in the future | 1 708 | 1 013 | | 2 721 |
| Other | 2 343 | (3 177) | | (834) |
| Total | 185 456 | 15 115 | (4 295) | 196 276 |

24d. Change of deferred income tax

| | 1.01.2015 - 31.12.2015 | 1.01.2014 - 31.12.2014 |
|---|---|---|
| Difference between tax and balance sheet depreciation | (56) | (5 636) |
| Balance sheet valuation of financial instruments | (22 239) | 1 410 |
| Unrealised receivables/ liabilities on account of derivatives | (6 543) | 171 |
| Interest on deposits and securities to be paid/ received | 64 641 | (1 977) |
| Interest and discount on loans and receivables | 18 814 | (58) |
| Income and cost settled at effective interest rate | 11 550 | 37 832 |
| Provisions for loans presented as temporary differences | 12 639 | (9 866) |
| Employee benefits | (1 186) | 874 |
| Provisions for future costs | (3 089) | (5 471) |
| Tax loss deductible in the future | 189 | 1 013 |
| Other | 1 979 | (3 177) |
| Change of deferred income tax recognized in financial result | 76 699 | 15 115 |
| | | |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve | (30 767) | (4 295) |

24e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

| Temporary differences expiry year | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Unlimited | 11 749 | 17 136 |
| Total | 11 749 | 17 136 |

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

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Net deferred income tax assets | 237 612 | 196 276 |
| Net deferred income tax provision | - | - |
| TOTAL | 237 612 | 196 276 |

## 25) OTHER ASSETS

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Expenses to be settled | 53 173 | 60 700 |
| Income to be received | 24 719 | 26 794 |
| Interbank settlements | 1 428 | 1 801 |
| Settlements of financial instruments transactions | 0 | 8 200 |
| Receivables from sundry debtors | 82 376 | 84 445 |
| Settlements with the State Treasury | 39 106 | 51 477 |
| Settlements for activities of Millennium Dom Maklerski S.A. | 23 970 | 6 844 |
| Other | 121 636 | 28 239 |
| Total other assets (gross) | 346 408 | 268 500 |
| Provisions | (4 225) | (4 185) |
| **Total other assets (net)** | **342 183** | **264 315** |
| - including other financial assets* | 128 268 | 123 898 |
| - including long-term other assets | 20 804 | 15 829 |

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

## 26) Liabilities to banks and other monetary institutions

26a. Liabilities to banks and other monetary institutions

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| In current account | 114 518 | 288 967 |
| Term deposits | 498 235 | 369 684 |
| Loans and advances received | 829 770 | 1 377 245 |
| Interest | 1 398 | 1 373 |
| Total | 1 443 921 | 2 037 269 |

26b. Liabilities to banks and other monetary institutions by maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current accounts | 114 518 | 288 967 |
| - to 1 month | 274 743 | 277 495 |
| - above 1 month to 3 months | 204 215 | 115 951 |
| - above 3 months to 1 year | 115 450 | 588 268 |
| - above 1 year to 5 years | 733 597 | 765 215 |
| - above 5 years | 0 | 0 |
| Interest | 1 398 | 1 373 |
| Total | 1 443 921 | 2 037 269 |

26c. Liabilities to banks and other monetary institutions by currency

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Polish currency | 458 758 | 1 050 326 |
| in foreign currencies (after conversion to PLN) | 985 163 | 986 943 |
| - currency: USD | 881 | 9 636 |
| - currency: EUR | 558 290 | 610 355 |
| - currency: CHF | 425 767 | 343 053 |
| - other currencies | 225 | 23 899 |
| **Total** | **1 443 921** | **2 037 269** |

## 27) Financial liabilities measured at fair value through the Profit and Loss Account (held for trading)

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Negative valuation of derivatives | 326 276 | 447 489 |
| Adjustment due to fair value hedge | 18 413 | 20 047 |
| Short sale of securities | 0 | 162 254 |
| Financial liabilities valued at fair value through profit and loss | 344 689 | 629 790 |

The division of the negative valuation of derivatives into specific types of instruments is presented in **note (16).**

## 28) Liabilities to customers

28a. Structure of liabilities to customers by type

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amounts due to private individuals | 35 616 412 | 29 779 950 |
| Balances on current accounts | 17 014 894 | 14 043 380 |
| Term deposits | 18 396 274 | 15 538 947 |
| Other | 83 380 | 99 074 |
| Accrued interest | 121 864 | 98 549 |
| Amounts due to companies | 15 991 260 | 15 738 732 |
| Balances on current accounts | 4 799 248 | 3 939 693 |
| Term deposits | 10 938 440 | 11 543 060 |
| Other | 222 601 | 215 228 |
| Accrued interest | 30 971 | 40 751 |
| Amounts due to public sector | 1 202 717 | 2 072 562 |
| Balances on current accounts | 741 988 | 789 182 |
| Term deposits | 427 940 | 1 247 485 |
| Other | 31 761 | 34 100 |
| Accrued interest | 1 028 | 1 795 |
| **Total** | **52 810 389** | **47 591 244** |

28b. Liabilities to customers by maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current accounts | 22 458 363 | 18 772 254 |
| to 1 month | 11 295 912 | 12 269 228 |
| above 1 month to 3 months | 10 248 045 | 9 439 557 |
| above 3 months to 1 year | 7 535 009 | 5 227 782 |
| above 1 year to 5 years | 1 089 197 | 1 741 328 |
| above 5 years | 30 000 | 0 |
| Interest | 153 863 | 141 095 |
| Total | 52 810 389 | 47 591 244 |

28c. Liabilities to customers by currency

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| in Polish currency | 48 808 291 | 44 312 804 |
| in foreign currencies (after conversion to PLN) | 4 002 098 | 3 278 440 |
| - currency: USD | 1 347 710 | 944 398 |
| - currency: EUR | 2 366 595 | 2 116 159 |
| - currency: GBP | 182 820 | 138 959 |
| - currency: CHF | 75 603 | 60 336 |
| - other currencies | 29 370 | 18 588 |
| **Total** | **52 810 389** | **47 591 244** |

## 29) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| a) to the Central Bank | 0 | 0 |
| b) to banks | 0 | 0 |
| c) to customers | 0 | 59 619 |
| d) interest | 0 | 146 |
| Total | 0 | 59 765 |

## 30) LIABILITIES FROM DEBT SECURITIES

30a. Debt securities

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Outstanding bonds and bills | 828 331 | 1 399 514 |
| Bank Securities | 301 527 | 332 443 |
| Interest | 4 392 | 7 503 |
| Total | 1 134 250 | 1 739 460 |

30b. Debt securities by final legal maturity

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - to 1 month | 0 | 400 015 |
| - above 1 month to 3 months | 22 288 | 104 898 |
| - above 3 months to 1 year | 124 992 | 469 737 |
| - above 1 year to 5 years | 982 578 | 757 307 |
| - above 5 years | 0 | 0 |
| Interest | 4 392 | 7 503 |
| Total | 1 134 250 | 1 739 460 |

30c. Change of debt securities

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 1 739 460 | 701 352 |
| Increases, on account of: | 1 114 847 | 1 793 185 |
| - issue of Banking Securities | 109 790 | 115 844 |
| - issue of bonds by the Bank | 961 499 | 1 631 080 |
| - interest accrual | 43 558 | 46 261 |
| Reductions, on account of: | (1 720 057) | (755 077) |
| - repurchase of Banking Securities | (140 708) | (122 752) |
| - repurchase of bonds by the Bank | (1 532 681) | (590 679) |
| - interest payment | (46 668) | (41 646) |
| **Balance at the end of the period** | **1 134 250** | **1 739 460** |

30d. Debt securities by type

| As at 31.12.2015 | Balance sheet value | Final legal maturity | Market |
|---|---|---|---|
| BPW_2016/02,A | 5 085 | 2016-02-03 | - |
| BPW_2016/03,A | 17 203 | 2016-03-02,30 | - |
| BPW_2016/04,A | 15 587 | 2016-04-29 | - |
| BPW_2016/05,A | 3 548 | 2016-05-31 | - |
| BPW_2016/06,A | 5 534 | 2016-06-29 | - |
| BPW_2016/07 | 6 003 | 2016-07-29 | - |
| BPW_2016/08,A | 16 840 | 2016-08-31,29 | - |
| BPW_2016/09,A,B | 23 916 | 2016-09-29,30 | - |
| BPW_2016/10,A | 14 069 | 2016-10-31 | - |
| BPW_2016/12,A,B | 9 929 | 2016-12-02,30 | - |
| BPW_2017/01,A | 11 731 | 2017-01-31 | - |
| BPW_2017/02,A | 6 946 | 2017-02-28 | - |
| BPW_2017/03,A | 12 774 | 2017-03-30 | - |
| BPW_2017/04,A,C | 16 573 | 2017-04-28 | - |
| BPW_2017/05 | 5 220 | 2017-05-30 | - |
| BPW_2017/06 | 4 485 | 2017-06-30 | - |
| BPW_2017/07 | 3 895 | 2017-07-31 | - |
| BPW_2017/11 | 5 778 | 2017-11-30 | - |
| BPW_2017/12,A | 6 688 | 2017-12-29 | - |
| BPW_2018/01 | 5 404 | 2018-01-31 | - |
| BPW_2018/02 | 5 707 | 2018-02-27 | - |
| BPW_2018/03 | 7 021 | 2018-03-30 | - |
| BPW_2018/04 | 9 243 | 2018-04-30 | - |
| BPW_2018/06,A | 20 152 | 2018-06-01,29 | - |
| BPW_2018/07 | 11 507 | 2018-07-31 | - |
| BPW_2018/08 | 14 950 | 2018-08-31 | - |
| BPW_2018/09 | 15 616 | 2018-09-28 | - |
| BPW_2018/10 | 6 326 | 2018-10-31 | - |
| BPW_2018/11 | 9 435 | 2018-11-30 | - |
| BPW_2019/01 | 4 362 | 2019-01-03 | - |
| BKMO_280317C | 503 405 | 2017-03-28 | Catalyst (ASO BondSpot) |
| BKMO_220618N | 299 752 | 2018-06-22 | - |
| BKMO_150916P | 29 566 | 2016-09-15 | - |
| TOTAL | 1 134 250 | | |

In the case of Banking Securities (BPW) issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date. For the remaining bonds (BKMO) interest shall be calculated from the value of bonds and paid semi-annually. As of 31.12.2015 the interest balance amounted to PLN 4,392 thousand.

As at 31.12.2015, 3-year bonds Millennium Series C with a total nominal value of PLN 500 million were listed on the wholesale debt market Catalyst (ASO BondSpot).

30e. Debt securities by type

| As at 31.12.2014 | Balance sheet value | Final legal maturity | Market |
|---|---|---|---|
| BPW_2015/01 | 283 | 2015-01-05 | - |
| BPW_2015/03 | 4 031 | 2015-03-04 | - |
| BPW_2015/04,A,B,C,D | 17 041 | 2015-04-01,29 | - |
| BPW_2015/06,A | 2 011 | 2015-06-03 | - |
| BPW_2015/07 | 14 545 | 2015-07-01 | - |
| BPW_2015/09,A | 8 487 | 2015-09-30 | - |
| BPW_2015/11 | 3 505 | 2015-11-30 | - |
| BPW_2015/12,A,B,C | 24 148 | 2015-12-31 | - |
| BPW_2016/02,A | 9 112 | 2016-02-03 | - |
| BPW_2016/03,A | 24 236 | 2016-03-02 | - |
| BPW_2016/04,A | 16 934 | 2016-04-29 | - |
| BPW_2016/05,A | 4 324 | 2016-05-31 | - |
| BPW_2016/06,A | 7 905 | 2016-06-29 | - |
| BPW_2016/07 | 10 434 | 2016-07-29 | - |
| BPW_2016/08,A | 22 860 | 2016-08-29,31 | - |
| BPW_2016/09,A,B | 34 405 | 2016-09-29,30 | - |
| BPW_2016/10,A | 21 194 | 2016-10-31 | - |
| BPW_2016/12,A,B | 18 140 | 2016-12-02,30 | - |
| BPW_2017/01,A | 14 347 | 2017-01-31 | - |
| BPW_2017/02,A | 11 277 | 2017-02-28 | - |
| BPW_2017/03,A | 14 937 | 2017-03-30 | - |
| BPW_2017/04,A,C | 19 359 | 2017-04-28 | - |
| BPW_2017/05 | 6 352 | 2017-05-30 | - |
| BPW_2017/06 | 4 586 | 2017-06-30 | - |
| BPW_2017/07 | 5 273 | 2017-07-31 | - |
| BPW_2017/11 | 5 754 | 2017-11-30 | - |
| BPW_2017/12,A | 7 027 | 2017-12-29 | - |
| BKMO_080115G | 399 797 | 2015-01-08 | - |
| BKMO_100315H | 100 868 | 2015-03-10 | - |
| BKMO_051015B | 252 550 | 2015-10-05 | Catalyst (ASO BondSpot) |
| BKMO_151215I | 50 056 | 2015-12-15 | - |
| BKMO_281215A | 100 040 | 2015-12-28 | |
| BKMO_280317C | 503 642 | 2017-03-28 | Catalyst (ASO BondSpot) |
| TOTAL | 1 739 460 | | |

In the case of Banking Securities (BPW) issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date. For the remaining bonds (BKMO) interest shall be calculated from the value of bonds and paid semi-annually. As of 31.12.2014 the interest balance amounted to PLN 7,503 thousand.

As at 31.12.2014, 3-year bonds Millennium Series B and C with a total nominal value of PLN 750 million were listed on the wholesale debt market Catalyst (ASO BondSpot).

## 31) Provisions

31a. Provisions

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provision for off-balance sheet commitments | 14 239 | 27 692 |
| Provision for disputed claims and others | 16 609 | 70 882 |
| Total | 30 848 | 98 574 |

31b. Change of provisions

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| **Provision for off-balance sheet commitments** | | |
| Balance at the beginning of the period | 27 692 | 33 738 |
| Charge of provision | 5 052 | 21 795 |
| Release of provision | (18 506) | (27 844) |
| FX rates differences | 1 | 3 |
| Balance at the end of the period | 14 239 | 27 692 |
| | | |
| **Provision for disputed claims and others** | | |
| Balance at the beginning of the period | 70 882 | 32 878 |
| Charge of provision | 28 748 | 39 838 |
| Release of provision | (2 516) | (1 398) |
| Utilisation of provision | (77 534) | (436) |
| Reclassification | (2 971) | 0 |
| Balance at the end of the period | 16 609 | 70 882 |

## 32) Provision for deferred income tax

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Deferred income tax provision | 0 | 0 |

## 33) Other liabilities

33a. Other liabilities

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Short-term | 1 207 188 | 733 776 |
| Accrued costs - bonuses, salaries | 46 712 | 56 124 |
| Accrued costs - other | 81 159 | 90 155 |
| Interbank settlements | 159 558 | 137 397 |
| Settlements due to financial instruments | 388 751 | 37 878 |
| Other creditors | 236 740 | 167 215 |
| Liabilities to public sector | 23 480 | 45 729 |
| Deferred income | 178 329 | 142 067 |
| Provisions for unused employee holiday | 10 159 | 9 852 |
| Provisions for retirement benefits | 1 125 | 1 354 |
| Settlement accounts for activities of Millennium Dom Maklerski S.A. | 31 452 | 9 575 |
| Other | 49 723 | 36 430 |
| Long-term | 48 852 | 47 080 |
| Provisions for retirement benefits | 16 852 | 15 148 |
| Accrued costs | 5 301 | 4 980 |
| Other | 26 699 | 26 952 |
| **Total** | **1 256 040** | **780 856** |
| - including other financial liabilities* | 977 809 | 529 676 |

* - other financial liabilities includes all of the other liabilities excluding the Liabilities to public sector, Deferred income and other items

33b. Change of provisions for unused employee holiday

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 9 852 | 9 149 |
| Charge of provisions/ reversal of provisions | 564 | 904 |
| Utilisation of provisions | (257) | (201) |
| Balance at the end of the period | 10 159 | 9 852 |

33c. Change of provisions for retirement benefits

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 16 502 | 11 911 |
| Charge of provisions/ reversal of provisions | 2 982 | 2 175 |
| Utilisation of provisions/ reclassification of provision | (738) | (227) |
| Actuarial gains (losses) | (769) | 2 643 |
| Balance at the end of the period | 17 977 | 16 502 |

## 34) SUBORDINATED DEBT

34a. Subordinated debt

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Currency of the liability | EUR | EUR |
| Value of the liability in foreign currency | 150 000 | 150 000 |
| Value of the liability in PLN | 639 225 | 639 345 |
| Interest rate | 1.959% | 2.176% |
| Maturity | 20.12.2017 | 20.12.2017 |
| Interest | 406 | 394 |
| Balance sheet value of subordinated debt | 639 631 | 639 739 |

34b. Change of subordinated debt

| | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Balance at the beginning of the period | 639 739 | 622 585 |
| Increases, on account of: | 13 668 | 32 442 |
| - FX rates differences | 0 | 17 265 |
| - interest accrual | 13 668 | 15 177 |
| Reductions, on account of: | (13 776) | (15 288) |
| - interest payment | (13 656) | (15 288) |
| - FX rates differences | (120) | 0 |
| **Balance at the end of the period** | **639 631** | **639 739** |

During 2015 and 2014 the Group did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

## 35) Shareholders' Equity

35a. Share capital

The share capital of the Bank Millennium S.A. (equal to the Group's share capital) is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

**SHARE CAPITAL** Par value of one share = 1 PLN.

| Series/ issue | Share type | Type of preference | Number of shares | Value of series/issue | Manner of capital coverage | Registration date | Right to dividend |
|---|---|---|---|---|---|---|---|
| A | registered founder | x2 as to voting | 106 850 | 106 850 | cash | 30.06.1989 | 30.06.1989 |
| B1 | registered ordinary | | 150 000 | 150 000 | cash | 13.06.1990 | 01.01.1990 |
| B2 | registered ordinary | | 150 000 | 150 000 | cash | 13.12.1990 | 01.01.1990 |
| C | bearer ordinary | | 4 693 150 | 4 693 150 | cash | 17.05.1991 | 01.01.1991 |
| D1 | bearer ordinary | | 1 700 002 | 1 700 002 | cash | 31.12.1991 | 01.01.1992 |
| D2 | bearer ordinary | | 2 611 366 | 2 611 366 | cash | 31.01.1992 | 01.01.1992 |
| D3 | bearer ordinary | | 1 001 500 | 1 001 500 | cash | 10.03.1992 | 01.01.1992 |
| E | bearer ordinary | | 6 000 000 | 6 000 000 | cash | 28.05.1993 | 01.01.1992 |
| F | bearer ordinary | | 9 372 721 | 9 372 721 | cash | 10.12.1993 | 01.01.1993 |
| G | bearer ordinary | | 8 000 000 | 8 000 000 | cash | 30.05.1994 | 01.10.1993 |
| H | bearer ordinary | | 7 082 129 | 7 082 129 | cash | 24.10.1994 | 01.10.1994 |
| Increasing of par value of shares from 1 to 4 PLN | | | | 122 603 154 | surplus | 24.11.1994 | |
| 1:4 split | | | 122 603 154 | | | 05.12.1994 | |
| I | bearer ordinary | | 65 000 000 | 65 000 000 | cash | 12.08.1997 | 01.10.1996 |
| J | bearer ordinary | | 196 120 000 | 196 120 000 | capitals of Bank Gdański S.A. | 12.09.1997 | 01.10.1996 |
| K | bearer ordinary | | 424 590 872 | 424 590 872 | cash | 31.12.2001 | 01.01.2001 |
| L | bearer ordinary | | 363 935 033 | 363 935 033 | cash | 26.02.2010 | 01.01.2009 |
| Total number of shares | | | 1 213 116 777 | | | | |
| Total share capital | | | | 1 213 116 777 | | | |

In the reporting period there was conversion of 596 registered shares into the bearer shares. As a consequence number of registered shares decreased and as of 31.12.2015 amounted to 108 640, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2015. Information on the ultimate parent company - Banco Comercial Portugues S.A. presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Bank's General Shareholders Meeting held on 21 May 2015. In case of Nationale-Nederlanden OFE (former ING OFE) and AVIVA OFE BZ WBK the number of shares and their participation in the Bank's share capital were calculated on the basis of annual asset structure, published as at 31 December 2014 and 31 December 2015 (published on the websites, respectively: www.nn.pl and www.aviva.pl). For the purpose of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 8.25 PLN for 2014 and 5.6468 PLN for 2015.

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

Shareholders as at 31.12.2015

| *Shareholder* | Number of shares | % share in share capital | Number of votes | % share in votes at Shareholders' Meeting |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 607 771 505 | 50.1 | 607 771 505 | 50.1 |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 115 615 810 | 9.53 | 115 615 810 | 9.53 |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK | 78 310 605 | 6.46 | 78 310 605 | 6.46 |

Shareholders as at 31.12.2014

| *Shareholder* | Number of shares | % share in share capital | Number of votes | % share in votes at Shareholders' Meeting |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 794 751 136 | 65.51 | 794 751 136 | 65.51 |
| ING Otwarty Fundusz Emerytalny | 95 521 053 | 7.87 | 95 521 053 | 7.87 |

35b. Revaluation reserve

Revaluation reserve arises on the recognition of:

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

Revaluation reserve

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Effect of valuation (gross) | 22 532 | (139 396) |
| Deferred income tax | (4 282) | 26 485 |
| Net effect of valuation | 18 250 | (112 911) |

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

Revaluation reserve on available for sale financial assets 1.01.2015 - 31.12.2015

| | Gross value | Deferred tax | Total |
|---|---|---|---|
| Revaluation reserve at the beginning of the period | 67 937 | (12 908) | 55 029 |
| Transfer to income statement of the period as a result of sale | (41 852) | 7 953 | (33 899) |
| Change connected with maturity of securities | (301) | 57 | (244) |
| Profit/loss on revaluation of available for sale financial assets, recognized in equity | 223 525 | (42 472) | 181 053 |
| Revaluation reserve at the end of the period | 249 309 | (47 370) | 201 939 |

Revaluation reserve on available for sale financial assets 1.01.2014 - 31.12.2014

| | Gross value | Deferred tax | Total |
|---|---|---|---|
| Revaluation reserve at the beginning of the period | (1 584) | 301 | (1 283) |
| Transfer to income statement of the period as a result of sale | (8 622) | 1 638 | (6 984) |
| Change connected with maturity of securities | (997) | 189 | (807) |
| Profit/loss on revaluation of available for sale financial assets, recognized in equity | 79 139 | (15 036) | 64 102 |
| Revaluation reserve at the end of the period | 67 937 | (12 908) | 55 029 |

Revaluation reserve on cash flows hedge financial instruments 1.01.2015 - 31.12.2015

| | Gross value | Deferred tax | Total |
|---|---|---|---|
| Revaluation reserve at the beginning of the period | (204 690) | 38 891 | (165 799) |
| Gains or losses on valuation of financial instruments recognized in equity | (24 556) | 4 665 | (19 891) |
| Transfer to income statement during period | 4 343 | (824) | 3 519 |
| Revaluation reserve at the end of the period | (224 903) | 42 732 | (182 171) |

Revaluation reserve on cash flows hedge financial instruments 1.01.2014 - 31.12.2014

| | Gross value | Deferred tax | Total |
|---|---|---|---|
| Revaluation reserve at the beginning of the period | (160 420) | 30 480 | (129 940) |
| Gains or losses on valuation of financial instruments recognized in equity | (54 220) | 10 302 | (43 918) |
| Transfer to income statement during period | 9 950 | (1 891) | 8 060 |
| Revaluation reserve at the end of the period | (204 690) | 38 891 | (165 799) |

Revaluation reserve due to actuarial gains (losses) 1.01.2015 - 31.12.2015

| | Gross value | Deferred tax | Total |
|---|---|---|---|
| Revaluation reserve at the beginning of the period | (2 643) | 502 | (2 141) |
| Discounting the obligations arising from the provision for retirement benefits | 769 | (146) | 623 |
| Revaluation reserve at the end of the period | (1 874) | 356 | (1 518) |

Revaluation reserve due to actuarial gains (losses) 1.01.2014 - 31.12.2014

| | Gross value | Deferred tax | Total |
|---|---|---|---|
| Revaluation reserve at the beginning of the period | 0 | 0 | 0 |
| Discounting the obligations arising from the provision for retirement benefits | (2 643) | 502 | (2 141) |
| Revaluation reserve at the end of the period | (2 643) | 502 | (2 141) |

35c. Retained earnings

| | Supplementary capital | Reserve capital | General banking risk fund | Retained earnings | TOTAL |
|---|---|---|---|---|---|
| Retained earnings at the beginning of the period 01.01.2015 | 506 599 | 2 002 567 | 228 902 | 779 703 | 3 517 771 |
| appropriation of profit, including: | | | | | 0 |
| - transfer to supplementary capital | 3 014 | | | (3 014) | 0 |
| - transfer to reserve capital | (36 916) | 680 201 | | (643 285) | 0 |
| net profit/ (loss) of the period | | | | 546 525 | 546 525 |
| Retained earnings at the end of the period 31.12.2015 | 472 697 | 2 682 768 | 228 902 | 679 929 | 4 064 296 |

35d. Retained earnings

| | Supplementary capital | Reserve capital | General banking risk fund | Retained earnings | TOTAL |
|---|---|---|---|---|---|
| Retained earnings at the beginning of the period 01.01.2014 | 504 422 | 1 736 075 | 228 902 | 664 338 | 3 133 737 |
| appropriation of profit, including: | | | | | |
| - transfer to supplementary capital | 2 177 | | | (2 177) | 0 |
| - transfer to reserve capital | | 266 492 | | (266 492) | 0 |
| - dividend payment | | | | (266 886) | (266 886) |
| net profit/ (loss) of the period | | | | 650 920 | 650 920 |
| Retained earnings at the end of the period 31.12.2014 | 506 599 | 2 002 567 | 228 902 | 779 703 | 3 517 771 |

## 36) Financial liabilities by legal maturity

| 2015 | 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 | 389 652 | 204 886 | 116 680 | 757 774 | 0 | 1 468 992 |
| Deposits from customers | 33 807 895 | 10 330 641 | 7 622 429 | 1 093 139 | 30 812 | 52 884 916 |
| Liabilities from securities sold with buy-back clause | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt securities | 0 | 26 521 | 126 957 | 1 030 149 | 0 | 1 183 627 |
| Subordinated debt | 0 | 0 | 406 | 665 452 | 0 | 665 858 |
| Liabilities from trading derivatives - notional value | 2 874 057 | 5 812 701 | 4 414 557 | 5 184 452 | 286 429 | 18 572 196 |
| Liabilities from hedging derivatives - notional value | 1 537 578 | 2 148 791 | 7 321 979 | 7 525 079 | 1 910 609 | 20 444 036 |
| Commitments granted - financial | 6 712 920 | 0 | 0 | 0 | 0 | 6 712 920 |
| Commitments granted - guarantee | 1 110 450 | 0 | 0 | 0 | 0 | 1 110 450 |
| TOTAL | 46 432 552 | 18 523 540 | 19 603 008 | 16 256 045 | 2 227 850 | 103 042 995 |

| 2014 | 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 | 566 982 | 116 695 | 628 411 | 797 811 | 0 | 2 109 899 |
| Deposits from customers | 31 115 838 | 9 518 804 | 5 305 184 | 1 792 527 | 0 | 47 732 353 |
| Liabilities from securities sold with buy-back clause | 59 805 | 0 | 0 | 0 | 0 | 59 805 |
| Debt securities | 400 283 | 122 166 | 474 499 | 808 792 | 0 | 1 805 740 |
| Subordinated debt | 0 | 0 | 394 | 681 537 | 0 | 681 931 |
| Liabilities from trading derivatives - notional value | 3 145 654 | 3 161 856 | 5 630 475 | 4 841 381 | 370 285 | 17 149 651 |
| Liabilities from hedging derivatives - notional value | 1 429 259 | 2 719 377 | 1 368 544 | 9 266 477 | 5 720 260 | 20 503 917 |
| Commitments granted - financial | 6 691 430 | 0 | 0 | 0 | 0 | 6 691 430 |
| Commitments granted - guarantee | 1 066 034 | 0 | 0 | 0 | 0 | 1 066 034 |
| TOTAL | 44 475 285 | 15 638 898 | 13 407 507 | 18 188 525 | 6 090 545 | 97 800 760 |

## 14. SUPPLEMENTARY INFORMATION

### 1) 2015 DIVIDEND

The Management Board of the Bank will submit to the Annual General Shareholders Meeting a proposal to retain 100% of the net profit of 2015 in equity.

### 2) DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2015 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 WZ0118 | available for sale | Lombard credit granted to the Bank by the NBP | 130 000 | 131 063 |
| 2. | Treasury bonds WZ0118 | available for sale | Initial security deposit for bond futures | 500 | 504 |
| 3. | Treasury bonds WZ0117 | available for sale | Loan agreement | 554 000 | 558 920 |
| 4. | Treasury bonds WZ0118 | available for sale | Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund | 210 000 | 211 718 |
| 5. | Treasury bonds WZ0117 | available for sale | Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund | 89 000 | 89 790 |
| 6. | Cash | receivables | Payment to the Futures Settlement Guarantee Fund | 100 | 100 |
| 7. | Cash | receivables | Payment to the Security Fund OTC-KDPW_CCP | 3 752 | 3 752 |
| 8. | Deposits | deposits in other banks | Settlement on transactions concluded | 1 981 663 | 1 981 663 |
| | | Total | | 2 969 015 | 2 977 510 |

As at 31 December 2014 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 WZ0118 | available for sale | Lombard credit granted to the Bank by the NBP | 130 000 | 131 209 |
| 2. | Treasury bonds WZ0118 | available for sale | Initial security deposit for bond futures | 500 | 505 |
| 3. | Treasury bonds WZ0117 | available for sale | Loan agreement | 589 000 | 589 683 |
| 4. | Treasury bonds WZ0118 | available for sale | Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund | 200 000 | 201 860 |
| 5. | Treasury bonds WZ0117 | available for sale | Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund | 74 000 | 74 858 |
| 6. | Cash | | Payment to the Futures Settlement Guarantee Fund | 100 | 100 |
| 7. | Deposits | Deposits in other banks | Settlement on transactions concluded | 1 501 094 | 1 501 094 |
| | | Total | | 2 494 694 | 2 499 309 |

### 3) Securities covered by transactions with a buy-back clause (SBB)

As at 31 December 2015 the Group did not have any repo transactions concluded.

As at 31 December 2014 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

| Type of security | Par value | Balance sheet value |
|---|---|---|
| Treasury bonds | 59 589 | 59 733 |
| TOTAL | 59 589 | 59 733 |

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

### 4) Offsetting of assets and liabilities on the basis of ISDA agreements

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

| | Amounts to be received | Amounts to be paid |
|---|---|---|
| Valuation of derivatives | 339 200 | 2 301 504 |
| Amount of cash collaterals accepted/granted | (44 651) | (1 908 473) |
| Financial assets and liabilities covered by framework ISDA agreements allowing compensation | 294 549 | 393 031 |
| Theoretical maximum amount of compensation | (268 558) | (268 558) |
| **Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical maximum amount of compensation** | **25 991** | **124 473** |

### 5) Additional explanations to the cash flow statement

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash and balances with the Central Bank | 1 946 385 | 2 612 242 |
| Receivables from interbank deposits (*) | 359 920 | 379 165 |
| Debt securities issued by the State Treasury (*) | 4 544 850 | 2 407 056 |
| of which available for sale | 4 544 850 | 2 407 056 |
| of which trading | 0 | 0 |
| **Total** | **6 851 155** | **5 398 463** |
| The impact of changes in currency exchange rates during the financial year on cash and cash equivalents | 4 098 | 6 582 |

(*) Financial assets with maturity below three months

In the periods presented in the financial statements the Group has received and made interest payments in the following amounts:

| Data in PLN thous. | 01.01.2015 - 31.12.2015 | 01.01.2014 - 31.12.2014 |
|---|---|---|
| Interests received, including: | 2 324 948 | 2 521 940 |
| - operating activities | 2 117 526 | 2 275 075 |
| - investing activities | 207 422 | 246 865 |
| Interests paid, including: | 898 455 | 1 170 929 |
| - operating activities | 873 757 | 1 139 435 |
| - financing activities | 24 698 | 31 494 |

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

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

### 6) Information on custody activity

As of 31.12.2015 the Custody Department maintained 11,554 accounts in which Customers' assets were kept with the total value of PLN 46.40 billion (including assets of the Group's companies in the amount of PLN 0.32 billion). Net revenue from the custody business for 2015 amounted to PLN 7.81 million (of which PLN 0.01 million falls on Group's companies). The Custody Department serves as a depositary bank for 85 mutual funds including 11 of Millennium TFI S.A.

### 7) Operating lease

The Group has lease agreements for office space, which according to IAS 17 are posted under operating leasing. As a standard, the Group's companies usually make agreements of lease of commercial property for a specified period of maximum 5 years' time, with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The Bank (parent company) made in the past also other agreements with no time limitation, which may be terminated with adequate notice, usually 3 to 6 months.

| Balance as at: | 31.12.2015 | 31.12.2014 |
|---|---|---|
| - to 1 year | 180 760 | 172 273 |
| - above 1 year to 5 years | 322 649 | 399 393 |
| - above 5 years | 15 594 | 13 415 |
| TOTAL | 519 003 | 585 081 |

## 8) Share based payments

In 2012 the Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. Group in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

According to the mentioned Policy, Bank's and Group's employees who are covered by this Policy, who have significant impact on Group's risk profile, will be paid variable remuneration on the basis of individual results and on the basis of unit / department and the entire Bank and Group results.

Part of the variable remunerations for employees of the Bank and Group will be paid in the form of Bank's phantom shares. Those payments fulfil definition of the cash-settled share-based payments.

| Variable Remuneration – Phantom Shares for: | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Kind of transactions in the light of IFRS 2 | Cash-settled share-based payments | | | |
| Commencement of vesting period | 1 January 2015 | 1 January 2014 | 1 January 2013 | 1 January 2012 |
| The date of announcing the program | 30 July 2012 | | | |
| Starting date of the program in accordance with the definition of IFRS 2 | Date of the Personnel Committee meeting taking place after closing of financial year | | | |
| Number of granted instruments | Determined at the grant date of the program in accordance with the definition of IFRS 2 | | | |
| Maturity date | 3 years since the date of granting program | | | |
| Vesting date | 31 December 2015 | 31 December 2014 | 31 December 2013 | 31 December 2012 |
| Vesting conditions | Employment in the Group 2015, results of the Group and individual performance | Employment in the Group 2014, results of the Group and individual performance | Employment in the Group 2013, results of the Group and individual performance | Employment in the Group 2012, results of the Group and individual performance |
| Program settlement | On the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw, preceding the settlement date. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment. | | | |
| Program valuation | The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date. | | | |

| Phantom shares granted to Group's employees who are not members of the Management Board of the Bank, for the year: | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Date of shares assigning | 12.02.2016 | 05.02.2015 | 13.02.2014 | 15.02.2013 |
| Number of shares | 167 211 | 128 343 | 84 649 | 54 974 |
| - granted | 0 | 0 | 0 | 0 |
| - deferred | 167 211 | 128 343 | 84 649 | 54 974 |
| Value as at assigning date (PLN) | 902 102 | 933 436 | 751 004 | 259 805 |
| - granted | 0 | 0 | 0 | 0 |
| - deferred | 902 102 | 933 436 | 751 004 | 259 805 |
| Fair value as at 31.12.2015 (PLN) | - | 746 749 | 600 803 | 311 766 |

Profit and Loss Account for 2015 has been charged with the change in the value of the phantom shares assigned for the years 2012, 2013 and 2014, and the provision for phantom shares to be assigned for 2015.

| Phantom shares granted to members of the Management Board of the Bank, for the year: | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Date of shares assigning | - | 21.05.2015 | 24.04.2014 | 03.07.2013 |
| Number of shares | - | 246 258 | 137 780 | 74 401 |
| - granted | - | 0 | 0 | 0 |
| - deferred | - | 246 258 | 137 780 | 74 401 |
| Value as at assigning date (PLN) | - | 1 925 000 | 1 206 000 | 390 159 |
| - granted | - | 0 | 0 | 0 |
| - deferred | - | 1 925 000 | 1 206 000 | 390 159 |
| Fair value as at 31.12.2015 (PLN) | - | 1 540 098 | 964 736 | 411 438 |

Until the publication 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 2015.

## 9) ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED AND ITS PUBLICATION DATE

**Banking tax**

Commencing from February 2016 a new special banking tax will be valid, with 0,44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount. Accordingly Bank's understanding of methodology to be applied for the tax computation, the preliminary estimation based on balance sheet positions and own funds as of 31/12/2015, for all monthly calculations, would amount to PLN 186 million of charge for entire 2016 year. This tax will be implemented on top of other taxes, which the Bank, as each bank in Poland, is regularly paying.

The amount of banking tax which will actually be paid in 2016 may ultimately differ from aforementioned estimation mainly due to variable tax basis which will be used for monthly tax calculation.

**CHF loan portfolio**

On January 15th 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however without an assessment of impact for the banking sector. In these circumstances, it is still difficult for the Bank to assess the impact, but if implemented in the proposed version, this law could significantly deteriorate the Bank’s profitability and capital position. According to the Financial Stability Report published by the National Bank of Poland on 10th February 2016, the overall direct costs for the polish banking sector may reach PLN 44 billion, in addition, in case of compulsory restructuring, a further impact of PLN 21 billion has been estimated. In these estimations are not included neither the costs of closing the currency position nor operational costs. Further estimations are expected to be announced by Polish Financial Supervision Authority.

| Date | Name and surname | Position/Function | Signature |
|---|---|---|---|
| 25.02.2016 | Joao Bras Jorge | Chairman of the Management Board | |
| 25.02.2016 | Fernando Bicho | Deputy Chairman of the Management Board | |
| 25.02.2016 | Wojciech Haase | Member of the Management Board | |
| 25.02.2016 | Andrzej Gliński | Member of the Management Board | |
| 25.02.2016 | Maria Jose Campos | Member of the Management Board | |
| 25.02.2016 | Michał Gajewski | Member of the Management Board | |