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

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

At the time of publishing Bank's report, neither its Management Board nor any other corporate body of the Bank took any decision regarding the implementation of such program. For this reason, the potential effects of this matter were not reflected in the determination of the provision. If, or when, a recommendation regarding the program is be ready, Bank Millennium's Management Board will submit it to the Supervisory Board and General Shareholders' meeting, taking into consideration the relevance of such decision and its implications.

According to preliminary calculations, implementation of a solution whereby loans would be voluntarily converted to PLN as if they had been a PLN loan from the very beginning, bearing interest at an appropriate WIBOR rate, increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the current portfolio would be converted) with a pre-tax impact between PLN 4.100 million (Euros 899.06 million) to PLN 5.100 million (Euros 1,118.35 million) (non-audited data). The impacts can significantly change in case of variation of the exchange rate and other assumptions of diverse nature. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk-weighted assets and the decrease or elimination of Pillar 2 buffer. The above mentioned impact would be substantially higher than the estimated impact of PLN 500 million (Euros 109.64 million) to PLN 600 million (Euros 131.57 million) (non-audited data) in the scenario of replacing the exchange rate applied in the contracts by the average NBP exchange rate. Finally, it should be mentioned that Bank Millennium, as at 31 December 2020, maintained additional own funds for the coverage of additional capital requirements related to FX-indexed mortgage portfolio risks (Pillar II buffer), in the amount of 3.41 p.p. (3.36 p.p. at the BCP Group level), part of which is allocated to operational/legal risk.

Due to the complexity and uncertainty regarding the final verdict of those lawsuits, as well as the possible implementation of the solution suggested by the Chairman of PFSA still under analysis, as well as the uncertainty of the awaited decisions of the Supreme Court, it is difficult to safely estimate the potential impacts of such outcomes and their influence on the date of publication of the Bank's financial statements.

51. Recently issued accounting standards

1 - Recently issued accounting standards and interpretations that came into force in 2020

At the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions were endorsed by the European Union (EU) with mandatory application for the financial year of the Bank started on 1 January 2020:

Amendment to IFRS 3: Definition of a business

Corresponds to amendments in the definition of a business and clarifies the identification of the acquisition of a business or an acquired set of activities and assets. The revised definition also clarifies the definition of a business output by focusing on goods and services provided to customers. The changes also add guidance and illustrative examples to help entities assess an acquisition of a business.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform – Phase I

Corresponds to amendments to IFRS 9, IAS 39 and IFRS 7 relative to the interest rate benchmark reform (known as 'IBOR reform'), with the purpose of diminishing the potential impact of reference interest rate changes in financial reporting, namely in hedge accounting.

There were no material impacts on the application of these amendments in the Bank's financial statements.

Amendments to IAS 1 and IAS 8: Definition of material

Corresponds to amendments to clarify the definition of material in IAS 1. The definition of material in IAS 8 now refers to IAS 1. The amendment changes the definition of material in other standards to ensure consistency. The information is material if its omission, distortion or concealment is reasonably expected to influence the decisions of the primary users of the financial statements based on the financial statements.

There were no material impacts on the application of these amendments in the Bank's financial statements.

Amendments to references to the conceptual framework in IFRS standards

Corresponds to amendments in several standards (IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32) related to references to the Conceptual Framework revised in March 2018. The revised Conceptual Framework includes revised definitions of an asset and liability and new guidance on measurement, derecognition, presentation and disclosure.

There were no material impacts on the application of these amendments in the Bank's financial statements.

Amendment to IFRS 16: COVID-19-Related Rent Concessions

This amendment allows lessees, as a practical expedient, to have the option of not considering a rent concession that occurs as a direct consequence of the pandemic COVID-19 as a lease modification. A lessee who uses this option must account for any concession that occurs at the rent level in the same way that would be done under IFRS 16 – Leases if that change did not constitute a lease modification. This amendment does not affect lessors.

There were no material impacts on the application of this amendment in the Bank's financial statements.

2 - Standards, interpretations, amendments and revisions that will take effect in future exercises

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have been endorsed by the European Union until the date of approval of these financial statements:

Amendment to IFRS 4: Extension of the temporary exemption from applying IFRS 9 - Financial instruments (applicable for years beginning on or after 1 January 2021)

This amendment aims to extend the exemption date from applying IFRS 9 – Financial instruments from 1 January 2021 to 1 January 2023, in order to be aligned with the effective date of adoption of IFRS 17 – Insurance contracts.

This amendment, although endorsed by the European Union, was not adopted by the Bank in 2020 as its application is not mandatory yet.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform - Phase II (applicable for years beginning on or after 1 January 2021)

These amendments aim to answer to the effects on financial reporting of replacing the current reference interest rates with alternative reference rates, providing an accounting treatment that allows the phased distribution of changes in the value of financial instruments or lease contracts, mitigating the impact on profit or loss and avoiding consequences in terms of hedge accounting.

These amendments, although endorsed by the European Union, were not adopted by the Bank in 2020 as their application is not mandatory yet.

3 - Standards, interpretations, amendments and revisions not adopted by the European Union yet

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have not been endorsed by the European Union until the date of approval of these financial statements, and, therefore, have not been applied by the Bank:

IFRS 17 – Insurance contracts (applicable for years beginning on or after 1 January 2023)

This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 – Insurance contracts.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (applicable for years beginning on or after 1 January 2016)

These amendments clarify a conflict between the requirements in IAS 28 and those in IFRS 10, being the aim of its implementation that, in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This way, these amendments define that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not) and, on the other hand, a partial gain or loss is recognized when a transaction involves assets that do not constitute a business (even if these assets are housed in a subsidiary).

Amendment to IAS 1: Classification of liabilities as current or non-current and Classification of liabilities as current or non-current – Deferral of effective date (applicable for years beginning on or after 1 January 2023)

On 23 January 2020, the Amendment to IAS 1: Classification of liabilities as current or non-current was issued, which aims to clarify that the classification of liabilities as current or non-current should be made based on the existing rights at the end of the financial reporting period, not being affected by expectations related to the exercise of the right to defer the settlement of a liability and, additionally, that the settlement corresponds to the extinction of a liability by transferring cash, equity instruments, other assets or services to a counterparty.

On 15 July 2020, it was decided to postpone by a year the effective date of the referred amendment, thus becoming applicable for years beginning on or after 1 January 2023.

Amendment to IFRS 3: Reference to the conceptual framework (applicable for years beginning on or after 1 January 2022)

This amendment aims to update IFRS 3 so that it corresponds to the conceptual framework of 2018, not occurring significant changes in the requirements of this standard.

Amendment to IAS 16: Property, Plant and Equipment – Proceeds before intended use (applicable for years beginning on or after 1 January 2022)

This amendment prohibits an entity from deducting from the cost of a property, plant or equipment any proceeds arising from the sale of items produced while the entity prepares the asset to operate as intended, at the location and necessary conditions. The entity shall recognize any proceeds arising from those sales and the respective costs of production in the income statement.

Amendment to IAS 37: Onerous contracts – Cost of fulfilling a contract (applicable for years beginning on or after 1 January 2022)

This amendment aims to clarify what costs an entity should consider as related to the fulfilling of a contract when assessing whether a contract is onerous. It also specifies that the costs of fulfilling a contract correspond only to the costs directly related to it, which may take the form of incremental costs or of an allocation of other costs directly related to the fulfilling of the contract.

Improvements to international financial reporting standards (cycle 2018-2020) (applicable for years beginning on or after 1 January 2022)

These improvements comprise the clarification of some aspects related to: IFRS 1 – First-time adoption of International Financial Reporting Standards: allows a subsidiary that adopts IFRS for the first time to measure cumulative translation differences based on the amounts presented in the consolidated financial statements of its parent company, according to the transition date of the parent company to IFRS; IFRS 9 – Financial instruments: clarifies that, when assessing the derecognition of a financial liability, an entity should only consider fees paid or received between the entity and the lender, including fees paid or received by one on behalf of the other; IFRS 16 – Leases: amendment to illustrative example 13 presented in the standard, in order to avoid the emergence of doubts regarding the treatment of lease incentives; IAS 41 – Agriculture: removal of the requirement to exclude taxation cash flows when measuring the fair value of a biological asset, thus ensuring consistency with IFRS 13 – Fair value measurement.