

## 60. Acquisition/Merger of Euro Bank, S.A.

### Description of the transaction

On 5 November 2018, Bank Millennium announced and signed the preliminary agreement related to the acquisition of 99.787% shares of Euro Bank S.A. from SG Financial Services Holdings a wholly owned subsidiary of Societe Generale S.A. The transaction specified in the agreement is the direct acquisition of the shares by Bank Millennium.

### The strategic logic of the transaction

As a result of the transaction related to the acquisition of Euro Bank shares, Bank Millennium strengthened its important position in the Polish banking sector. The transaction increased the number of the Bank's clients by 1.4 million (of which more around 494 thousand fulfil the classification of active client as per Bank's internal definition) and therefore allowed the Bank to become one of the largest Polish bank in terms of the number of retail clients.

The acquisition of Euro Bank allowed the Bank to increase the segment of consumer loans, as well as the importance of this segment for the entire Group. The acquisition of Euro Bank enabled Millennium Bank to acquire competences in the franchise model and strengthen its presence in smaller cities, where Euro Bank was strongly located, and contributed to increase of the geographical coverage of the Bank's distribution network.

### Completion of the acquisition

On 3 January 2019, the Bank received information on issuing by the President of the Office of Competition and Consumer Protection the decision on the consent for the concentration consisting in the Bank's acquisition of control over Euro Bank S.A. The consent was issued on 28 December 2018.

On 28 May 2019 the Polish Financial Supervision Authority issued the consent specifying that there is no basis for the objection raising, and therefore Bank Millennium together with its parent entity, Banco Comercial Português, were allowed to acquire the shares of Euro Bank S.A. in the number resulting in exceeding 50% of the total number of votes on the general meeting of Euro Bank and of the share in the share capital. The number of acquired shares exceeding 50% results also in becoming a parent entity of Euro Bank.

On 31 May 2019, by executing the share purchase agreement between the Bank and SG Financial Services Holdings of 5 November 2018, the Bank has acquired the majority of shares, constituting 99.787% of Euro Bank S.A. share capital. Additionally, on 31 May 2019, the Bank has repaid the non-subordinated financing granted to Euro Bank by Societe Generale S.A. ("SG") in the amount of ca. PLN 3.800.000.000. It was preceded by Euro Bank's repayment of a part of subordinated debt from SG in the amount of PLN 250.000.000, after obtaining appropriate agreements from the PFSA in this particular area. In October 2019, a final repayment of a subordinated loan of SG taken out by Euro Bank in the amount of PLN 100 million (fully collateralised by a cash deposit since 31 May 2019) took place.

In order to limit the risk associated with the Euro Bank's portfolio of mortgage loans denominated in CHF or denominated in PLN, but indexed to CHF, Euro Bank and SG signed on 31 May 2019 an "CHF Portfolio Indemnity and Guarantee Agreement" as it was planned in the Share Purchase Agreement. Euro Bank, Bank Millennium and SG also concluded an agreement related to the provision of certain limited transitional services by SG for Euro Bank.

### Merger

On 6 June 2019, the Management Board of Bank Millennium and the Management Board of Euro Bank agreed and signed the merger plan of Bank Millennium and Euro Bank (the "Merger"). The merger was performed in accordance with art. 492 § 1 point 1 of the Commercial Companies Code (KSH) by transferring all assets and liabilities of Euro Bank (the acquired bank) to Bank Millennium (the acquiring bank), without increasing the share capital of Bank Millennium.

In accordance with the Merger, existing, dematerialized shares of Bank Millennium ("Merger Shares") were allocated to the minority shareholders of Euro Bank. The shares were purchased on Warsaw Stock Exchange S.A. in the secondary trading, by Millennium Dom Maklerski S.A. [Millennium Brokerage House], by the order of Bank Millennium, pursuant to art. 515 paragraph 2 of the Commercial Companies Code.

The following share exchange parity has been determined in the Merger Plan: in exchange for 1 (one) share of Euro Bank, a minority shareholder of Euro Bank received 4.1 Merger Shares.

As a result of the Legal Merger performed 1st October 2019, Bank Millennium assumed all the rights and obligations of Euro Bank, and Euro Bank was dissolved without liquidation proceedings and its entire assets were transferred to Bank Millennium. The merger took place on the day of its entry into the register of entrepreneurs of the National Court Register of Bank Millennium. The merged Bank operates under the name Bank Millennium S.A. based on the provisions of the Act of 15 September 2000 - Code of Commercial Companies ("KSH").

The merger was performed based on already obtained appropriate consents and permits required by law, i.e.:

(i) - permission of the Polish Financial Supervision Authority ("PFSA") for the Merger, pursuant to art. 124 paragraph 1 of the Act of 29 August 1997 - Banking Law ("Banking Law"); (ii) - permission of the PFSA to amend the Statute of Bank Millennium pursuant to art. 34 paragraph 2 of the Banking Law.

#### Transaction settlement

Transaction settlement was performed applying the acquisition method, in accordance with the International Financial Reporting Standard 3 "Business combinations" ("IFRS"), which requires, among others, recognition and measurement of identifiable assets acquired, and liabilities assumed measured at fair value as at the acquisition date, and any non-controlling interest in the acquired entity (if any) and separate recognition and measurement of goodwill or gain on bargain purchase.

As part of the transaction, the Group identified non-controlling interests amounting to 0.2% of the total value of Euro Bank shares. Bank Millennium acquired 26,240 shares of the Bank, constituting 0.00216302% of its share capital, which were then offered as merging shares to authorized shareholders of Euro Bank other than the Bank. The average purchase price of one merger share was PLN 5.939842, and the total price, representing the total cost of purchasing the merger shares, was PLN 156 thousand.

The Group made a final settlement of the merger and calculation of goodwill in connection with the purchase of Euro Bank S.A. shares within a period of one year from the date of acquiring the control in accordance with the requirements of IFRS 3. During this time, the acquirer may adjust retrospectively the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect any new information obtained in relation to facts and circumstances that existed as at the acquisition date and, if known, would affect the measurement of those assets and liabilities. Such adjustments refer to the recognized goodwill or gain on bargain purchase.

#### Recognition and measurement of identifiable assets acquired liabilities assumed measured in accordance with IFRS

The following data regarding the fair value measurement of the acquired assets and assumed liabilities were based on the identification from the point of view of Bank Millennium and the adopted assumptions regarding the materiality threshold. A detailed description of the fair value measurement of individual assets acquired and liabilities assumed was presented in the consolidated annual report of the Millennium Group for 2019.

	Identifiable assets acquired and liabilities assumed measured at fair value	
	millions of zloty	millions of euros
<b>Assets</b>		
Cash and deposits at Central Banks	242	57
Loans and advances to credit institutions repayable on demand	85	20
Financial assets at amortised cost		
Loans and advances to customers	12,558	2,933
Financial assets at fair value through profit or loss		
Financial assets not held for trading mandatorily at fair value through profit or loss	17	4
Financial assets at fair value through other comprehensive income	1,385	324
Other tangible assets	113	26
Goodwill and intangible assets	50	12
Deferred tax assets	143	33
Other assets	72	16
<b>Total Assets</b>	<b>14,665</b>	<b>3,425</b>
<b>Liabilities</b>		
Financial liabilities at amortised cost		
Resources from credit institutions	4,087	955
Resources from customers	7,975	1,863
Non subordinated debt securities issued	506	118
Subordinated debt	100	23
Hedging derivatives	6	1
Provisions	1	–
Other liabilities	375	88
<b>Total Liabilities</b>	<b>13,050</b>	<b>3,048</b>
	<b>1,615</b>	<b>377</b>

The adjustments to the fair value for temporary differences constituted the basis for the calculation of deferred tax.

### Calculation of goodwill

As at the date of the present report, the Group has completed the process of calculating goodwill as at 31 May 2019.

In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expired after 12 months from the date of the acquisition, i.e. on 31 May 2020. The finally determined difference of the fair value of acquired assets and assumed liabilities at the acquisition date over the purchase price is recognized by the Group in accordance with the provisions of IFRS 3.32 as goodwill in intangible assets.

	Identifiable assets acquired and liabilities assumed measured at fair value	
	thousands zloty	thousands euros
Price transferred in accordance with the Agreement	1,833,000	428,151
Preliminary price adjustment	(25,529)	(5,963)
Price after adjustment	1,807,471	422,188
Fair value of acquired net assets	1,615,346	377,312
Exchange differences	—	(2,746)
Goodwill	192,125	42,130

The difference between the book value of the acquired assets and liabilities of Euro Bank S.A. and their fair value measurement will be subject to settlement through the profit or loss account - in the economic life of the individual components of the assets and liabilities acquired.

Pursuant to IAS 36, as at 31 December 2020, the Bank conducted a test for impairment of goodwill arising from the acquisition of Euro Bank S.A. In principle, this test compares the carrying amount of a cash-generating unit ('CGU') with its recoverable amount (where the CGU is the smallest identifiable group of assets generating cash inflows largely independent of the cash inflows from other assets or groups of assets). The Bank conducted an impairment test with regard to the portfolio of assets of the retail segment, constituting a set of CGUs, by comparing their carrying amount with the recoverable amount. The recoverable amount was estimated based on the value in use of the CGU, which was calculated as the present, estimated value of future cash flows for the period of 5 years, taking into account the residual value of the CGU. The residual value of the CGU was calculated by extrapolating the cash flow projections beyond the forecast period, using the growth rate assumed at 3.5%. Cash flow forecasts are based on the assumptions contained in the financial plan for the Bank Millennium Capital Group for 2021 and the projections for 2022-2023. The cash flows were discounted using a discount rate of 9.44%. The impairment test performed as at 31 December 2020 showed a surplus of the recoverable amount over the carrying amount of individual CGUs, and therefore no impairment of goodwill was identified.