REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP

FOR 1ST QUARTER 2018

MAIN CONSOLIDATED FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017 *	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017 *
Interest income	609 595	576 350	145 892	134 376
Fee and commission income	209 202	196 098	50 067	45 720
Operating income	656 427	622 865	157 100	145 220
Operating profit	271 072	248 684	64 875	57 980
Profit (loss) before income tax	218 894	201 454	52 387	46 969
Profit (loss) after taxes	155 276	140 498	37 162	32 757
Total comprehensive income of the period	202 017	202 325	48 348	47 172
Net cash flows from operating activities	18 939	299 045	4 533	69 722
Net cash flows from investing activities	(2 281 527)	(1 858 555)	(546 029)	(433 321)
Net cash flows from financing activities	(450)	(500 331)	(108)	(116 652)
Net cash flows, total	(2 263 038)	(2 059 841)	(541 604)	(480 250)
Total Assets	73 009 283	71 141 415	17 348 053	17 056 610
Liabilities to banks and other monetary institutions	1 981 886	2 353 131	470 925	564 178
Liabilities to customers	59 473 880	57 273 255	14 131 847	13 731 630
Equity	7 731 937	7 772 599	1 837 219	1 863 530
Share capital	1 213 117	1 213 117	288 254	290 853
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)	6.37	6.41	1.51	1.52
Diluted book value per share (in PLN/EUR)	6.37	6.41	1.51	1.52
Total Capital Ratio (TCR)	24.43%	21.99%	24.43%	21.99%
Earnings (losses) per ordinary share (in PLN/EUR)	0.13	0.12	0.03	0.03
Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.13	0.12	0.03	0.03
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

* - Comparative balance sheet data was presented, in compliance with IFRS requirements, as at 31.12.2017. Other comparative data is presented for the period from 1.01.2017 to 31.03.2017.

Exchange rates accepted to convert selected financial data into EURO				
for items as at the balance sheet date	-	-	4.2085	4.1709
for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period)	-	-	4.1784	4.2891

BANK MILLENNIUM CAPITAL GROUP RESULTS IN 1Q 2018

Bank Millennium Group consolidated net profit in 1Q 2018 amounted to PLN 155.3 million and was higher by 10.5% than in 1Q 2017. In both periods there was the impact of annual BFG resolution fund fee booked in the first quarter, which increased significantly administrative costs. When accruing equally over the year the resolution fee, adjusted Group net profit of 1Q 2018 (PLN 183.6 million) would be higher by 9.2% than adjusted net profit of 4Q 2017 (PLN 168 million).

In 1Q 2018 Bank Millennium demonstrated further improvement of profitability and extremely high capital ratios, after retaining entire 2017 profit in the equity (as was decided by AGM in March). 1Q 2018 showed also promising business results, both in retail and companies segments, which bode well for the new strategic perspective of 2018-2020 years.

Main financial and business highlights of 1Q 2018 Group's results are as follows:

Profitability increase

- Net profit of 1Q 2018 reached 155 million PLN, which means 11% yearly growth (in both periods impact of entire year BFG resolution fund fee)
- ROE at 9.7% and cost/income at 46.0% (BFG fee adjusted)

Interest income still driving yearly core income growth

- Net interest income grew by 6.2% y/y; drop in quarterly terms due to shorter quarter, lower remuneration of obligatory NBP reserves and IFRS9 impact
- Continued growth of net Commission Income to +1.8% q/q and +3.8% y/y

High asset quality kept (new definition of ratios under IFRS9)

- Impaired loans (stage 3) ratio at 4.9% level with its coverage by all provisions at 76%
- Cost of Risk at 44 b.p.
- Loans to Deposits ratio at low level of 81%

Extremely high capital ratios after AGM decision of retaining 2017 profit

- Group's Total Capital Ratio (TCR) at 24.4%, and CET1 (=T1) ratio at 22.3% after adding entire 2017 year profit
- TCR is 6 p.p., and Tier1 ratio 7 p.p. above new minimum thresholds [1]

Retail business

- Net growth of 40 ths. active customers in 1Q, to 1 675 ths. (+152 ths. y/y)
- All customers' savings reached 52.7 bn PLN thanks to strong deposits growth (+7% q/q)
- Record sale of cash loans at 769 million PLN in 1Q (+38% y/y)
- New mortgage loans sale at high 748 million PLN in 1Q (+75% y/y)
- 1.2 million active users of on-line and mobile – continuation of solid growth

Companies business

- Record quarterly factoring sale of 4.6 bn PLN (+22% y/y)
- Leasing sale at 802 million PLN in 1 quarter (growth +16% y/y)
- Total loans to companies grew by 9% yearly
- Volume of FX transactions grew by 21% and volume of guaranties and LC granted grew by 19% yearly

Innovations/Quality

- Gaining of the first position in Net Promoter Score ranking (52 pkt [2])
- The most innovative Bank 2017 in Leaders of the World of Banking and Insurance Competition
- Website without barriers Award for adjusting the website to the needs of people with disabilities, awarded by the "Widzialni" Foundation

[1] Group's minimum capital thresholds are currently at 18.5% (TCR) and 15.2% (T1)

[2] By ARC Rynek i Opinia research for 4Q 2017

During this year great Gala, for the seventh time awards were given in the Leaders of the World of Banking and Insurance Competition. Bank Millennium was acclaimed as the Most Innovative Bank of 2017. The competition jury consists of representatives of the world of science, finances, insurance, business and media. The Bank has been recognized for innovative mind-set and state-of-the-art projects developed in-house by a strong IT team. Among innovative solutions were distinguished: insurance and buying city transport tickets in the mobile app, as well as shopping assistance. The goodie shopping platform – the Bank's internal start-up – needed little more than a year from its launch to clock 150,000 downloads.

Bank Millennium won in the "Website without Barriers" competition, which promotes access to digital information for persons who are disabled, elderly, impoverished and threatened with digital exclusion. The "Website without Barriers" competition organised by Fundacja Widzialni (Visible) and Szerokie Porozumienie na Rzecz Umiejętności Cyfrowych (digital capabilities association) is the only such initiative in Poland. It aims to promote deliberate development of websites in order to counteract discrimination in access to information.

Macroeconomic situation and factors influencing results in the next quarters

In the last months of 2017 and at the beginning of 2018, Polish economy has experienced a period of significant expansion. Growth in Gross Domestic Product accelerated from 4.9% y/y in 3Q 2017 to 5.1% y/y in 4Q 2017, which is the highest result in six years. For the first time in three years, the main driver of economic growth were investments. Their growth rate shot up to 11.3% y/y from 3.3% y/y in 3Q 2017. A significant rebound in investments was supported by a very good situation in construction sector which is related to infrastructural spending co-financed with funds of the European Union, as well as to expenditure of public sector enterprises. Private consumption also boosted GDP growth with an increase of 4.9% y/y in 4Q 2017. The favorable income situation of households, including transfers from the Family 500+ program, very low unemployment and subsequent improvement in consumer sentiment continued to underpin very solid consumer spending.

Available data indicate that the peak of the current business cycle was achieved in 4Q 2017. However GDP growth in 1Q 2018 should be only slightly lower as deceleration of output's growth in industry is accompanied by a stronger improvement in the construction sector, which is partly related to the inflow of funds from the European Union.

The continuation of very good economic situation on the domestic labor market is still conducive to high growth in individual consumption. Although the growth rate of nominal wages in the enterprise sector decreased in 1Q 2018, in real terms it was close to that recorded for 4Q 2017. This is accompanied by still growing number of employees, despite low unemployment. According to the estimates of the Ministry of Family, Labour and Social Policy, at the end of Q1 2018, registered unemployment rate amounted to 6.6% (4.5% according to EU criteria), which was close to the lowest reading in the history of available data - 6.5%.

CPI inflation in 1Q 2018 slowed down to 1.5% y/y, from 2.2% y/y recorded in the previous quarter. Both in February and March, the consumer price index was below 1.5% y/y, i.e. the lower limit of admissible deviations from the NBP's inflation target. The drop in growth of CPI inflation resulted from the high base effect of food prices at the beginning of last year, as well as from the decline in core inflation. This index (excluding food and energy prices) was calculated for March 2018 at 0.7% y/y, which is the lowest value for almost a year. This confirms currently low inflationary pressure despite economic expansion, growing wages and low unemployment rate. Therefore, the Monetary Policy Council maintains a loose monetary policy stance and the reference rate has been at a historically low level of 1.5% for over 3 years. In the Bank's opinion, official NBP interest rates will remain at current levels for a long time.

Leading indicators point out to the continuation of heightened activity in the Polish economy in the nearest future, although the yearly GDP growth rate will be slowly declining. Individual consumption will remain a very strong pillar of economic growth supported by the expected good situation on the labour market and favorable consumer sentiment. Investments should also be contributory to the GDP growth, although maintaining current high activity in the construction sector in the coming quarters will be very difficult. Coincident and leading business cycle indicators signal a certain slowdown in economy of the euro area. This suggests that exports will support the Polish GDP to a lesser extent as compared to the last year.

In the first two months of 2018, the annual growth rate of deposits in the banking system increased slightly from 4.0% y/y in December 2017 to 4.4% y/y in February 2018, mainly due to the acceleration of growth in corporate deposits related to their good financial situation. Growth rate of loans increased as well: to 4.1% y/y in February 2018 from 3.5% y/y in the last month of the previous year, however as a result of the increase in lending to households which may result from consolidation of expectations regarding their good income situation.

In coming quarters the activity of banking sector, including Bank Millennium, can be influenced by the following external factors:

- On 2 August 2016 the President's Bill on support for FX mortgage borrowers was submitted to the Parliament. The proposed law is to apply to FX (all currencies) loan agreements signed from 1 July 2000 to 26 August 2011 (when the "Anti-spread Act" came into force). This Bill concerns the return of part of FX spreads applied by banks. On 2 August 2017 a new Presidential Bill appeared in Parliament regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. On 13 October 2017 the first reading of the Bill took place in the Sejm and it was sent to a Parliamentary Committee. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Restructuring Fund. As regards the Supporting Fund, the Bill aims to increase availability of money from the fund by means of: relaxing criteria, which must be satisfied by a borrower applying for support; increasing the maximum amount of support; extending the period, for which the support is granted; forgiving part of the support granted conditional on punctual repayment to the fund. The Restructuring Fund is to be used for currency conversion of FX mortgages to PLN. The Bill contains very general regulations and does not specify criteria of eligibility for such currency conversion and its rules. Quarterly payments to the Restructuring Fund made by lenders are not to exceed the equivalent of the FX mortgage portfolio and the rate of 0.5%. The maximum costs for the entire sector, estimated by KNF, are up to PLN 2.8bn in the first year of operation of the Restructuring Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables for restructuring with consideration of stability of the financial system and effective use of money in the Restructuring Fund. The two above Bills included, so far four draft Acts have been submitted to Parliament and in consequence it is not possible to estimate the impact of the proposed legislation on the banking sector and the Group. However if any of the Bills is adopted and begins to bind banks, this may lead to significant reduction of the Group's profitability and its capital position.

- The materialization of risk factors related to the geopolitical situation, in particular to the possible escalation of protectionist measures in international trade, may have an impact on economic activity in Poland. Due to the links within global production chains, events in the external environment may have a negative impact on Polish exports and thus on the income situation of domestic enterprises and households. At the same time, as a result of the escalation of geopolitical tensions, the volatility in global financial markets could increase, which would affect the valuation of the bank's assets and liabilities denominated in foreign currencies.

- The sustained fast growth of corporate investments could contribute to a stronger growth in investment loans. However, good financial results and high liquidity of Polish companies may limit demand for external financing from corporate sector.

- Still good situation in labour market and growing households' income should support demand for households' credit and quality of loans portfolio. The increase in labour costs may, on the other hand, cause deterioration of financial situation of some enterprises.

- Prolonged period of negative real interest rates in Poland might result in possible outflow or slower growth of banks' deposits, especially from households' sector. Possible further reallocation of households' savings toward assets with potentially higher profitability (e.g. mutual funds, real estates).

Bank Millennium Group Profit and Loss Account in 1Q 2018

Operating Income *(PLN million)*	1Q 2018	1Q 2017	Change y/y
Net Interest Income *	436.7	411.2	6.2%
Net Commission Income	172.5	166.1	3.8%
Core Income	609.2	577.3	5.5%
Other Non-Interest Income **	47.2	45.6	3.6%
Total Operating Income	656.4	622.9	5.4%

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 8.4 million in Q1 2018 and PLN 17.7 million in Q1 2017) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

(**) Includes FX results, income from valuation and operations in financial instruments and net other operating income and costs.

Net Interest Income (pro-forma) for Q1 2018 reached PLN 436.7 million and increased by 6.2% in line with the growth of business volumes. The loans other than FX mortgage keep high annual growth of about 13% in March 2018, which enable to improve loan yield compared to Q1 2017 from 4.03% to 4.19%. On deposits side, continued change of mix towards current and saving accounts was also visible: this group increased by 16% year-on-year and their share in total deposits grew to 60%. The Net Interest Margin (over average interest earning assets) for Q1 2018 improved slightly by 4 bps to 2.51% from 2.47% in Q1 2017, although a little higher deposits cost vs. the previous quarter could be noticed due to the success of the promotional campaign of savings account carried out in recent months.

Net Commission Income in Q1 2018 amounted to PLN 172.5 million, which means an increase by 3.8% vs. Q1 2017. Accounts service and insurance were the main drivers of the growth, whereas investment products related fees decreased year-on-year, partially affected by the implementation of MiFID2 and market volatility in the beginning of the year.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 609.2 million for Q1 2011 which means an increase of 5.5% yearly.

Other Non-interest Income, which comprise FX Result, income from valuation and operations in financial instruments and net other operating income and costs, amounted to PLN 47.2 million in Q1 2018 and was slightly higher (by 3.6% year-on-year) compared to Q1 2017.

Total operating income of the Group reached PLN 656.4 million in Q1 2018 and increased by 5.4% year-on-year.

Operating Costs *(PLN million)*	1Q 2018	1Q 2017	Change y/y
Personnel Costs	(157.7)	(145.1)	8.7%
Other Administrative Costs *	(117.8)	(112.3)	4.9%
Banking Guarantee Fund (BFG) cost	(54.7)	(57.1)	-4.2%
Total Operating Costs	(330.2)	(314.5)	5.0%
Cost/Income - reported	**50.3%**	**50.5%**	***-0.2 p.p.***
*Cost/Income - adjusted with equal quarterly distribution of resolution fee ***	46.0%	45.3%	*+0.7 p.p.*

(*) including depreciation
(**) only ¼ of total annual BFG resolution fund fee of PLN 37.7 million (booked in the whole amount in Q1 2018) is treated as recurrent assuming equal distribution among all the quarters of the financial year

Total costs in Q1 2018 amounted to PLN 330.2 million, which means an increase by 5.0% when compared to Q1 2017. The reason of the increase is mostly growing personnel costs.

Personnel costs for Q1 2018 amounted to PLN 157.7 million and grew by 8.7% compared to the corresponding period of the previous year as a result of increase of average remuneration of the staff, in line with market trends and partly correlated with growing business volumes and total assets. The total number of employees in the Group at the end of March 2018 amounted to 5,848 persons (in Full Time Equivalents) and stayed on the comparable level compared to the end of March 2017.

The structure of employment of Bank Millennium Group is presented in the table below:

Employment structure (in FTEs)	31.03.2018	31.03.2017	Change y/y
Bank Millennium S.A.	5 513	5 506	*0.1%*
Subsidiaries	335	348	*-3.7%*
Total Bank Millennium Group	**5 848**	**5 854**	***-0.1%***

Other administrative costs (including depreciation) both in Q1 2018 and Q1 2017 included upfront recognition of the yearly amount of BFG resolution fund fee. When deducting this and other BFG guarantee fund fee, Other administrative costs reached PLN 117.8 million and increased by 4.9% year-on-year. The increase was mainly driven by higher marketing and IT & telecom and some other cost groups, which altogether was partly offset by lower rental costs (-11.2% year-on-year). Total number of branches fell during last 12 months from 365 to 356.

Cost-to-Income ratio for Q1 2018, calculated without ¾ of BFG resolution fee booked in Q1, reached low level of 46%.

Net Profit *(PLN million)*	1Q 2018	1Q 2017	Change y/y
Operating Income	656.4	622.9	5.4%
Operating Costs *	(330.2)	(314.5)	5.0%
Impairment provisions **	(55.1)	(59.7)	-7.7%
Banking tax	(52.2)	(47.2)	10.5%
Pre-income tax Profit	218.9	201.5	8.7%
Income tax	(63.6)	(61.0)	4.4%
Net Profit	**155.3**	**140.5**	**10.5%**
Net Profit (adjusted)***	***183.6***	***172.8***	***6.2%***

(*) without impairment provisions for financial and non-financial assets
(**) including PLN -4.3 million of loans modification effect in 1Q2018 under new IFRS standard
(***) only ¼ of total annual BFG resolution fund fee booked in Q1 is treated as recurrent

Total net impairment provisions created by the Group in Q1 2018 already under new IFRS9 reporting standards, amounted to PLN 55.1 million and were 7.7% lower than provisions created in Q1 2017.

Net provisions created for retail segment decreased slightly from PLN 39.1 million in Q1 2017 to PLN 32.9 million in Q1 2018. On the other hand, the provisions for corporate segment and other only slightly increased from PLN 20.6 million in Q1 2017 to PLN 22.2 million level in Q1 2018. In relative terms, cost of risk (i.e. net provisions created to the average net customers' loans) in Q1 2018 reached 44 bps level (i.e. 7 bps lower compared to Q1 2017).

Pre-income tax profit in Q1 2018 amounted to PLN 218.9 million and increased by 8.7% compared to the previous year, as a consequence of evolution of all described above elements and negative impact of the increase of banking tax (by 10.5% as a result of higher business volumes growth and higher value of NBP Bills versus Polish government bonds).

Net Profit reported in Q1 2018 amounted to PLN 155.3 million and was 10.5% higher than Q1 2017. When adjusting for above mentioned BFG resolution fee, net profit of the Group would reach PLN 183.6 million in Q1 2018, which would result in 6.2% growth versus adjusted net profit of Q1 2017 and 9.2% growth versus net profit of Q4 2017 (also adjusted for BFG resolution fee).

Business results in 1Q 2018

Total assets of the Group reached PLN 73,009 million as at 31 March 2018, which means a considerable annual growth by 6.9%. The main source of the growth were debt securities (T-bonds and NBP bills), which increased by 10.7% year-on-year.

Loans and advances to Clients *(PLN million)*	31.03.2018	31.03.2017	Change y/y
Loans to households	**32 381,4**	**32 523,9**	**-0,4%**
- PLN mortgage loans	*11 659,5*	*9 613,0*	*21,3%*
- FX mortgage loans	*14 244,0*	*17 075,2*	*-16,6%*
- consumer loans	*6 477,9*	*5 835,7*	*11,0%*
Loans to companies	**15 618,3**	**14 468,6**	**7,9%**
- leasing	*5 729,0*	*5 181,7*	*10,6%*
- other loans to companies and factoring	*9 889,3*	*9 286,8*	*6,5%*
Net Loans & Advances to Clients	**47 999,7**	**46 992,4**	**2,1%**
Net Loans & Advances to Clients excluding FX mortgage loans	*33 755,6*	*29 917,2*	*12,8%*
Impairment write-offs	1 834,1	1 410,1	30,1%
Gross loans and advances to Clients	**49 833,7**	**48 402,5**	**3,0%**

Total net **loans** of Bank Millennium Group reached PLN 48,000 million as at the end of March 2018, which means 2.1% growth year-on-year, however when excluding fast decreasing FX mortgage loans, the core loan portfolio grew by 12.8%. The growth would be even higher if not adjustments resulting from implementation IFRS 9 standard (a decrease of net loans value by PLN 292 million at opening balance as on 1 January 2018).

The net value of loans granted to households as at the end of March 2018 totalled PLN 32,381 million and was slightly lower (by 0.4%) compared to the balance recorded in March of the previous year. But without taking into consideration mentioned above quickly decreasing FX mortgage loans (-16.6% year-on-year), all other segments presented strong annual growth rates: PLN mortgages, exceptionally high, +21.3% year-on-year, and consumer loans of +11% year-on-year. The sale of new PLN mortgages, which strongly accelerated during 2017 year, kept high growth ratio of +75% vs. the end of March 2017 reaching the robust level of PLN 748 million in Q1 2018. The Group continues the preparatory works to submit an application to launch a mortgage bank. The sale of new cash loans was record high in Q1 2018 and amounted to PLN 769 million, recording the annual growth of 38%.

Loans to companies amounted to PLN 15,618 million as at the end of March 2018 and grew by 7.9% year-on-year. The growth was well balanced, at high pace in all main product groups: loans and factoring (+6.5%) and leasing (+10.6%). Leasing and factoring sale show longer period of continuous growth and started the new financial year with high rates of growth of quarterly new sales: +22% year-on-year in factoring turnover (PLN 4.6 billion in Q1 2018) and +21% year-on-year in leasing (PLN 802 million in Q1 2018).

Total **customer funds** of Bank Millennium Group reached PLN 69,080 million as at 31 March 2018 showing the growth of 7.6% vs. the end of March 2017.

The Group's **deposits** grew 5.5% yearly and their total balance reached PLN 59,474 million as at 31 March 2018.

Deposits from individual Customers amounted to PLN 43,146 million and grew by 5.2% year-on-year. Non-deposit investment products sold to this group of Customers reached PLN 9,606 million recording strong growth of 22.4% yearly. Within this product balance, PLN 4,959 million was under management of Millennium TFI, PLN 4,187 million was managed by third party providers and PLN 461 million was an outstanding balance of the Bank's own debt securities placed to retail customers (mainly as structured instruments). Total retail customers' funds including deposits and investment products reached PLN 52,752 million as at 31 March 2017, recording considerable growth of 8% yearly.

Strong growth in number of customers and accounts together with promotions of savings accounts allowed for visible increase of current and saving accounts volume by 15% year-on-year and their share in total deposits of individuals exceeded 65%.

The dynamic growth of the number of active retail customers (by 152 thousand vs. the end of March 2017) supported the growth of business volumes. Total number of active individual clients reached 1,675 thousands as at the end of March 2018 year with almost 1 million of successfully promoted current accounts branded "Konto 360° ". At the same date the Bank's Clients used 1,923 thousand debit cards and 347 thousand credit cards, which altogether grew by 284 thousand vs. the end of March 2017 .

Deposits of companies and public sector amounted to PLN 16,328 million as at 31 March 2018 and increased by 6.3% year-on-year. Like in retail segment, current accounts remain as the main driver of growth: +19.7% versus balances as at the end of March 2017.

Customer Funds *(PLN million)*	31.03.2018	31.03.2017	Change y/y
Deposits of individuals	43 146.1	41 008.9	5.2%
Deposits of Companies and public sector	16 327.8	15 366.6	6.3%
Total Deposits	**59 473.9**	**56 375.6**	**5.5%**
Investment products *	9 606.3	7 845.9	22.4%
Total Customer Funds	**69 080.2**	**64 221.4**	**7.6%**

(*) This category includes Bank's securities sold to retail customers, Millennium TFI mutual funds and other investment products of third parties sold to Group's clients

Liquidity, asset quality and solvency

Faster growth of customer deposits than loans observed in 1Q 2018 brought Group's loan-to-deposit ratio down to 81% level. Also LCR liquidity ratio improved significantly during 1Q 2018 from 153% to 174% level. The share of liquid securities (treasury bonds and NBP bills) in Group's total assets stood at high 27% level at the end of March 2018.

1Q 2018 brought the new reporting standard IFRS 9, which caused not only change of balance sheet volumes, but also requires a change of definition of some asset quality ratios. Share of impaired loans in total loan portfolio, now based on stage 3 portfolio, was at end of March 2018 on the level 4,86%. The ratio is not fully comparable with the impaired loan ration under IAS 39, which stood at 4.50% a year ago. When looking into its evolution this year (under the IFRS 9 standard), the ratio improved by 0.3 p.p. . Share of loans past-due more than 90 days in total portfolio was stable during last year at the level of c.a. 2.7%.

The evolution of main indicators of the Group's loan portfolio quality is presented below:

Group loans quality indicators	31.03.2018 under IFRS9	31.12.2017 under IAS39	31.03.2017 under IAS39
Total impaired loans (PLN million)	2 424	2 233	2 180
Total provisions (PLN million)	1 834	1 497	1 410
Impaired over total loans ratio (%)	**4.86%**	**4.57%**	**4.50%**
Loans past-due over 90 days /total loans (%)	2.69%	2.87%	2.72%
Total provisions/impaired loans (%)	**75.7%**	**67.1%**	**64.7%**
Total provisions/loans past-due (>90d) (%)	136.6%	106.9%	107.2%

Coverage ratio of impaired loans by provisions, now defined as all risk provisions over stage 3 loans, improved during the year from 65% in March 2017 to 76%, partially thanks to the effect of increasing provisions after implementation of the new reporting standard. Coverage by total provisions of loans past-due more than 90 days also increased from 107% one year ago to 137% now.

Impaired loans ratios in particular product segments in March 2018 versus year ago showed the following evolution (affected by change of the standard): In retail portfolio increase of ratios to 5.09% from 4.52%, of which mortgage portfolio at 2.89% vs. 2.55% year ago. In the corporate portfolio a drop of the ratios to 4.37% from 4.47% year ago, including leasing portfolio at 4.31% vs. 4.37% last year.

Capital position of the Group improved remarkably as at 31 March 2018. Consolidated equity increased by 8.2% yearly to the level of PLN 7,732 million. Regulatory Own Funds amounted to PLN 8,080 million and increased by PLN 890 million, mainly because of including the full 2017 net profit therein, in accordance to the decision of General Shareholders Meeting taken in March 2018.

Thus, capital ratios both of the Group and the Bank, reached extremely high levels as at the end of March 2018: Group's Total Capital Ratio stood at 24.4% whereas Tier 1 and Common Equity Tier 1 ratios reached 22.3%.

In the first quarter 2018 compared to the end of 2017, capital ratios of Group visibly increased – TCR went up by 2.44 p.p. and CET1 ratio by 2.29 p.p. The most important driver of that improvement was the increase of own funds by 12.4%, stemming mainly from the decision of general shareholders meeting regarding retention in own funds full amount of 2017 net profit. At the same time, rise of risk-weighted assets was rather small – by 1.2%.

As at 31st March 2018, in capital adequacy management, the Group considers as necessary complying with recommendations and decisions of Competent Authorities (ECB and KNF) regarding capital levels:

- Minimum own funds requirements, set in art. 92 of the EU Regulation No. 575/2013 (CRR) at the level of 8% of total capital, 6% of Tier 1 capital and 4.5% of common equity Tier 1 capital,
- Pillar II RRE FX Buffer - additional capital buffer in order to cover risks resulting from FX mortgage loans granted to households - at the level of 5.53 p.p. (Bank) and 5.41 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 4.15 p.p. (the Bank) and 4.06 p.p. (the Group), and which corresponds to capital requirements for CET1 ratio of 3.10 p.p. (the Bank) and 3.03 p.p. (the Group). These recommendations were issued in November and December 2017 and replaced the previous ones from 2016,
- Combined buffer – defined in Act on macroprudential supervision over the financial system and crisis management – that consists of:
  - Capital conservation buffer at the level of 1.875;
  - Other systemically important institution buffer (OSII) – at the level of 0.25% (the value is set by KNF every year);
  - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
  - Countercyclical buffer at the 0% level.

As a result of the above recommendations and decisions, the Group has to comply with the following minimum capital ratios:

- Tier 1 Capital Ratio (T1) = 6+4.06+1.875+0.25+3 = 15.19% (for the Bank 15.28%)
- Total Capital Ratio (TCR) = 8+5.41+1.875+0.25+3 = 18.54%% (for the Bank 18.66%).

Capital ratios of the Bank and the Group are comfortably above all the required regulatory thresholds, which can be seen in the table below, presenting main solvency and liquidity ratios:

Main capital and liquidity indicators	31.03.2018[1)]	31.12.2017	31.03.2017
(PLN million)	IRB	IRB	IRB with regulatory floor[2)]
Risk-weighted assets (RWA) for Group	33 070.3	32 693.6	31 198.0
Risk-weighted assets (RWA) for Bank	32 322.9	31 927.7	36 527.4
Own funds requirements for Group	2 645.6	2 615.5	2 975.8
Own funds requirements for Bank	2 585,8	2 554.2	2 922.2
Own Funds for Group	8 079.9	7 190.6	6 704.1
Own Funds for Bank	7 876.7	7 002.3	6 514.8
Total Capital Ratio (TCR) for Group	**24.43%**	**21.99%**	**18.02%**
Minimum required level	18.54%	18.91%	16.55%
Surplus(+) / Deficit(-) in p.p.	+5.89	+3.08	+1.47
Total Capital Ratio (TCR) for Bank	**24.37%**	**21.93%**	17.84%
Common Equity Tier 1 (=T1) ratio for Group[3)]	**22.32%**	**20.03%**	**17.89%**
Minimum required level T1	15.19%	14.56%	12.79%
Surplus(+) / Deficit(-) in p.p.	+7.13	+5.47	+5.10
Common Equity Tier 1 (=T1) ratio for Bank [3)]	**22.20%**	**19.92%**	**17.70%**
Loans to Deposits ratio	**81%**	**83%**	**83%**
Leverage Ratio	**9.83%** [4)]	**8.88%**	**9.38%**

1) Capital ratios are calculated according to transitional arrangements mitigating the impact of IFRS9 implementation on CET 1 capital. Assuming full implementation of this standard, TCR for Group is 24.14%, T1 and CET1 ratio: 22.01%.
2) RWAs and own funds requirements calculated with 70% „Regulatory floor" set in the 2nd IRB decision in 2014
3) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio
4) Estimation, using fully implemented definition of Tier 1 Capital

Share price, main indicators and ratings

First quarter of 2018 on Warsaw Stock Exchange ended in red. Main index WIG fell by 8.4% and banking index WIG Banki dropped by 7.6%. In the same time Bank Millennium shares fell by 8.2%.

However, on an annual basis, the Bank's shares increased by 27.3% much above the entire banking sector. In the same time banking index WIG Banki increased by 12.2%.

In comparison to last year, the average daily trading increased by 52.1%.

Market ratios	29.03.2018	29.12.2017*	Change (%) YTD	31.03.2017	Change (%) Yearly
Number of shares of the Bank (in ths.)	1 213 117	1 213 117	0.00%	1 213 117	0.00%
Daily trading (PLN ths. avg. ytd)	9 697			6 374	52.10%
Bank's share price (PLN)	8.21	8.94	-8.2%	6.45	27.3%
Market cap. (PLN million)	9 960	10 845	-8.2%	7 825	27.3%
WIG Banki	7 841	8 482	-7.6%	6 992	12.2%
WIG20	2 210	2 461	-10.2%	2 176	1.6%
WIG30	2 557	2 825	-9.5%	2 516	1.6%
WIG	58 377	63 746	-8.4%	57 911	0.8%

(*) last day of quotation in 2017

In the first quarter of 2018 there was one change in rating outlook of Bank Millennium: on 22nd of March 2018 rating agency Moody's increased Bank's rating outlook from stable to positive.

Ratings	FITCH	MOODY'S
Long-term deposit rating/IDR	**BBB- (stable outlook)**	**Baa3 (positive outlook)**
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	Prime-3
Individual (Viability rating / standalone BCA*)	bbb-	ba2
Counterparty Risk Assessment (CR)		Baa2/Prime-2
Support	4	

CONTENTS

I. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE THREE MONTHS ENDED 31 MARCH 2018

CONTENTS

1. GENERAL INFORMATION ON THE ISSUER

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, 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 5,800 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

Supervisory Board and Management Board of Bank Millennium S.A. as at 31 March 2018

Composition of the Supervisory Board as at 31 March 2018 was as follows:

- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado – Deputy Chairman of the Supervisory Board,
- Dariusz Rosati – Deputy Chairman and Secretary of the Supervisory Board,
- Miguel de Campos Pereira de Bragança – Member of the Supervisory Board,
- Agnieszka Hryniewicz-Bieniek – Member of the Supervisory Board,
- Anna Jakubowski – Member of the Supervisory Board,
- Grzegorz Jędrys – Member of the Supervisory Board,
- Andrzej Koźmiński – Member of the Supervisory Board,
- Alojzy Nowak – Member of the Supervisory Board,
- Jose Miguel Bensliman Schorcht da Silva Pessanha – Member of the Supervisory Board
- Miguel Maya Dias Pinheiro – Member of the Supervisory Board,
- Lingjiang Xu – Member of the Supervisory Board.

Composition of the Management Board as at 31 March 2018 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.
- Wojciech Rybak – Member of the Management Board.

On April 20, 2018, Ms. Maria Jose Henriques Barreto De Matos De Campos gave her resignation from the function of the Bank’s Management Board member, effective with above date. Ms. Maria Jose Henriques Barreto De Matos De Campos motivated her resignation with new professional plans in BCP Group.

On its meeting held on April 20, 2018 the Supervisory Board of the Bank, appointed as members of the Management Board of the Bank, Mr António Ferreira Pinto Júnior as of April 20, 2018, and Mr Jarosław Hermann as of August 1, 2018.

Bank Millennium S.A. Capital Group

The Group's parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium S.A. is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 31 March 2018, 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 S.A.	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.	rental and management of real estate, insurance and brokers activity	Warsaw	100	100	full consolidation
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
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 enterprises.

2. INTRODUCTION AND ACCOUNTING PRINCIPLES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

The accounting principles applied in the preparation of this report are compliant with the requirements of IAS 34 and the principles used in the preparation of the consolidated financial statements of the Bank Millennium SA Capital Group for the year ended on December 31, 2017, taking into account changes introduced as a result of the IFRS 9 implementation on January 1, 2018, which are described below. Pursuant to the provisions of IFRS 9, the Bank decided not to convert comparative data for reporting periods ended before January 1, 2018.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with later amendments) the Bank is required to publish the financial results for the three months ended 31 March 2018.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2018 to 31 March 2018:

- include financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method;
- are prepared on the basis of the assumption of business continuity by the Group, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;
- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

The Management Board approved these condensed consolidated interim financial statements on 23rd April 2018.

IFRS 9: „Financial instruments”

On 24th July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9: „Financial instruments” effective for annual periods beginning on or after 1st January 2018, which replaced the existing International Accounting Standard 39 „Financial instruments: recognition and measurement”.

In March 2016 the Group launched an IFRS 9 implementation project which actively engaged various the Group’s organizational units responsible for accounting, financial reporting and risk management as well as business and IT departments and external consultants.

IFRS 9 introduced modifications regarding the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting, and introduced a new standard in the impairment process.

Description of business models and accounting standards regarding financial instruments and hedge accounting applicable at the Group in accordance with IFRS 9.

Valuation Models

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

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

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

1) The business model of managing financial assets,
2) Test of contractual cash flow characteristics connected with financial assets (hereinfrom „SPPI test”).

The purpose of the SPPI test (Solely Payment of Principal and Interest) is to assess the characteristics of contract cash flows in order to verify if:

1) The contractual terms trigger, at specific dates, certain cash flows which constitute solely a payment of principal and interest on such principal,
2) The principal constitutes the fair value of a loan at the moment of its recognition,
3) The interest reflects the value of money over time and credit risk, liquidity risk, the Group's margin and other administrative costs connected with the value of the principal outstanding at any given moment.

Business Models of the Group

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

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

Held To Collect Model (HTC)

Model characteristics:

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

Conditions allowing sale in the HTC model:

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

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

Impact on classification and valuation:

Instruments assigned to the HTC model are classified as valued at amortised cost (AC) on condition that the criteria of the SPPI Test are met. Consequently, subject to valuation at amortised cost will be the Group's credit portfolio (except loans not meeting the SPPI test) and debt securities issued by local government units (municipal bonds portfolio), previously classified (according to IAS39) as available for sale (AFS), because these instruments in principle are held by the Group in order to collect contract cash flows, while sales transactions occur sporadically.

Given the existing discrepancies in interpretation, at the moment, the Group has not decided to apply FVTP&L valuation model to loans for which the interest rate formula is based on a multiplier. Loans with such characteristics account for approximately 2% of the Group's receivables portfolio and consist mainly of credit card exposures and overdrafts. The Group estimates that the possible effect of valuation of these portfolios at fair value would not have a material impact on the Group's financial position whereas main change would be the method of presenting these loans in the financial statements.

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

Model characteristics:

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

Impact on classification and valuation:

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

The HTC&FS model will apply to the portfolio of government securities and money bills of the National Bank of Poland (in particular the liquidity and investment portfolio) and other debt securities classified as available for sale (AFS) according to IAS39 (except municipal bonds reclassified in the HTC portfolio). This means that the classification of these instruments has not changed after the entry into force of IFRS 9.

Capital instruments (with the exception of related entities not covered by the provisions of IFRS9) are classified as valued at fair value through profit & loss (FVTPL), provided that entities which manage them do not intend to hold them as a strategic investment, or at fair value through other comprehensive income (FVTOCI) for instruments which are not held for trading purposes. The decision to use the option to value capital instruments at fair value through other comprehensive income shall be taken by the Group on the day of the initial recognition of the instrument and constitute an irrevocable designation (even at the moment of selling, the profit/loss on the transaction shall not be recognised in the Profit and Loss Account). At the moment of implementation of IFRS9, the Group designated some equity investments from the strategic investment portfolio for which it is not planned to realize profits from sales in the medium-term horizon to the category of fair value measurement with the effect of valuation through other comprehensive income.

Other models

Characteristics:

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

This category should include in particular:

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

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

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

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

Impact on classification and valuation:

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

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

1) Derivative instruments,
2) Securities held for trading.

The classification of such instruments has not changed after the entry into force of IFRS 9 (Fair Value Through Profit & Loss).

Impairment

General assumptions of the model

Since 1 January 2018, IFRS 9 has replaced the existing model of impairment under IAS 39 based on the concept of "incurred loss" with a new model based on the concept of "expected credit loss", (hereinafter: ECL). As a direct result of this change, impairment charges will now have to be calculated based on expected credit losses and forecasts and expected future economic conditions will have to be taken into account when conducting evaluation of credit risk of an exposure.

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

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

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

Identification of a significant increase in credit risk

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

– repayment delays of more than 30 days – back-stop measure,
– facility granted to a client in a difficult financial standing,
– awarding a procedural rating,
– taking a risk-mitigating decision for corporate clients covered by the early warning system,
– events related to an increase in risk, the so called "soft signs" of impairment, identified as part of an individual analysis involving individually significant customers.

The quantitative criterion involves a comparison of the lifetime PD value determined on initial recognition of an exposure in the balance sheet with the lifetime PD value determined at the current reporting date. If an empirically determined threshold of the relative change in the lifetime PD value is exceeded then an exposure is automatically transferred to Stage 2. Clients with the total exposure at the group level > PLN 10 million, local government units and the Group's subsidiaries are excluded from the quantitative criterion.

Incorporation of forward looking information on economic conditions (FLI)

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

Unification of the default definition across the Group

Based on the paragraph 5.5.37 of IFRS 9, on the application date of the new Standard, the impaired definition was adapted to a more conservative default definition used in the capital requirement calculation process (including in the IRB approach). The main difference in both definitions, before the change, was related to the approach to a quarantine for restructured exposures. The approach is more restrictive in respect to the default definition. Therefore, ever since it implemented IFRS 9, the Group has used a uniform definition of default, both in the area of capital calculation and to determine impairment.

PD Model

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

LGD Models

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

For the corporate portfolio, a completely new LGD model has been developed that fully satisfies the requirements of the new standard. The model is based on a component determining parameterized recovery for the key types of collateral and a component determining the recovery rate for the unsecured part. All the parameters were calculated on the basis of historical data, including discounted cash flows achieved by the corporate debt recovery unit.

EaD Model

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

Impact on the amount of impairment charges

There were multiple factors that contributed to the increase in the amount of impairment charges following the application of IFRS 9. The most important factors included:

– Identification of exposures with a significant risk increase (Stage 2) and the related need to estimate impairment charges on a lifetime basis.
– Extension of the Loss Identification Period (LIP) for exposures in Stage 1, to 12 months. So far, the Group has calculated PD parameters on the basis of LIP determined empirically, which was shorter than 12 months for all the observed segments.
– Unification of the default definition in the Group.

Financial liabilities

IFRS 9 has not introduced significant changes with regard to classification and measurement of financial liabilities requirements existing in IAS 39 – on initial recognition a financial liability shall be classified as:

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

Additionally in accordance with IFRS 9, financial liabilities shall not be reclassified subsequent to their initial recognition.

Hedge accounting

Based on the paragraph 7.2.21 of IFRS 9, the Group decided to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The decision will be applied to every hedging relationship that the Group applies and is going to apply in the future.

In view of the above, as regards hedge accounting, the adoption of IFRS 9 will have no impact on the financial position of the Group.

Pursuant to the provisions of IFRS 9, the Group decided not to convert comparative data due to the implementation of changes from the classification and valuation area and impairment. As a result, differences in the carrying amount of financial assets and liabilities resulting from the implementation of IFRS 9 were recognized as an adjustment to own equity as at 1 January 2018.

Below an impact of the implementation of IFRS 9 on the financial position of the Group is presented.

ASSETS

Amount '000 PLN	IAS 39 31.12.2017	Adj. 1	Adj. 2	Adj. 3	IFRS 9 01.01.2018
Cash, cash balances at central banks	2 080 151	0	0	0	2 080 151
Financial assets held for trading	531 125	0	0	0	531 125
Derivatives	192 664	0	0	0	192 664
Equity instruments	102	0	0	0	102
Debt securities	338 359	0	0	0	338 359
Non-trading financial assets mandatorily at fair value through profit or loss	0	48 864	0	0	48 864
Equity instruments	0	48 864	0	0	48 864
Loans and advances	0	0	0	0	0
Financial assets available for sale	19 066 946	(19 066 946)	0	0	0
Equity instruments	50 091	(50 091)	0	0	0
Debt securities	19 016 855	(19 016 855)	0	0	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	0	18 970 106	0	24 904	18 995 010
Equity instruments	0	1 227	0	24 904	26 131
Debt securities	0	18 968 879	0	0	18 968 879
Financial assets at amortised cost	47 665 283	47 976	(291 909)	0	47 421 350
Debt securities	0	47 976	0	0	47 976
Deposits, loans and advances to banks and other monetary institutions	254 205	0	0	0	254 205
Loans and advances to customers	47 411 078	0	(291 909)	0	47 119 169
Repurchase agreements	0	0	0	0	0
Derivatives – Hedge accounting	885 880	0	0	0	885 880
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0
Tangible assets	185 880	0	0	0	185 880
Intangible assets	79 756	0	0	0	79 756
Tax assets	288 178	0	52 887	(4 732)	336 333
Current tax assets	1 625	0	0	0	1 625
Deferred tax assets	286 553	0	52 887	(4 732)	334 708
Other assets	338 659	0	0	0	338 659
Non-current assets and disposal groups classified as held for sale	19 557	0	0	0	19 557
Total assets	**71 141 415**	**0**	**(239 022)**	**20 172**	**70 922 565**

LIABILITIES AND EQUITY

Amount '000 PLN	IAS 39 31.12.2017	Adj. 1	Adj. 2	Adj. 3	IFRS 9 01.01.2018
LIABILITIES					
Financial liabilities held for trading	190 111	0	0	0	190 111
Derivatives	190 111	0	0	0	190 111
Short positions	0	0	0	0	0
Financial liabilities measured at amortised cost	61 484 830	0	0	0	61 484 830
Liablities to banks and other monetary other monetary institutions	2 353 131	0	0	0	2 353 131
Liabilities to customers	57 273 255	0	0	0	57 273 255
Repurchase agreements	0	0	0	0	0
Debt securities issued	1 156 473	0	0	0	1 156 473
Subordinated debt	701 971	0	0	0	701 971
Derivatives – Hedge accounting	176 853	0	0	0	176 853
Provisions	67 752	0	23 829	0	91 581
Pending legal issues and tax litigation	46 032	0	0	0	46 032
Commitments and guarantees given	21 720	0	23 829	0	45 549
Tax liabilities	26 988	0	0	0	26 988
Current tax liabilities	26 988	0	0	0	26 988
Deferred tax liabilities	0	0	0	0	0
Other liabilities	1 422 282	0	0	0	1 422 282
Total Liabilities	**63 368 816**	**0**	**23 829**	**0**	**63 392 645**
EQUITY					
Capital	1 213 117	0	0	0	1 213 117
Share premium	1 147 502	0	0	0	1 147 502
Accumulated other comprehensive income	(34 795)	(5 500)	0	20 172	(20 123)
Retained earnings	5 446 775	5 500	(262 851)	0	5 189 424
Total equity	7 772 599	0	(262 851)	20 172	7 529 920
Total equity and total liabilities	**71 141 415**	**0**	**(239 022)**	**20 172**	**70 922 565**

Adj. 1 – change in the classification of financial assets,

Adj. 2 - change in the value of allowances and other credit risk adjustments,

Adj. 3 - valuation of minority shares.

Impact of IFRS9 implementation on capital adequacy ratios

The Group assessed the negative impact of IFRS9 implementation on capital adequacy ratios to not more than 25 bps.

The Group decided to use the phase-in rules in accordance with Regulation (EU) 2017/2395 of the European Parliament And of the council. The Group informed the Supervisory Authority about its plans.

3. CONSOLIDATED FINANCIAL DATA (GROUP)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Amount '000 PLN	Note	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Net interest income		428 291	393 488
Interest income	1	609 595	576 350
Interest expenses	2	(181 304)	(182 862)
Net fee and commission income		172 504	166 117
Fee and commission income	3	209 202	196 098
Fee and commission expenses	4	(36 698)	(29 981)
Dividend income		149	285
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	3 160	332
Results on financial assets and liabilities held for trading	6	17 177	16 655
Result on non-trading financial assets mandatorily at fair value through profit or loss		853	0
Result on hedge accounting		(5 429)	(4 072)
Result on exchange differences		36 975	40 068
Other operating income		13 733	25 458
Other operating expenses		(10 986)	(15 466)
Operating income		**656 427**	**622 865**
Administrative expenses	7	(316 822)	(301 331)
Impairment losses on financial assets	8	(50 787)	(59 501)
Impairment losses on non-financial assets		(38)	(230)
Result on modification		(4 299)	0
Depreciation		(13 409)	(13 119)
Operating expenses		**(385 355)**	**(374 181)**
Result on operating activity		**271 072**	**248 684**
Share of the profit of investments in subsidiaries		0	0
Banking tax		(52 178)	(47 230)
Result before income taxes		**218 894**	**201 454**
Corporate income tax	9	(63 618)	(60 956)
Result after taxes		**155 276**	**140 498**
Attributable to:			
Owners of the parent		155 276	140 498
Non-controlling interests		0	0
Weighted average number of ordinary shares		1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)		0.13	0.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Result after taxes	155 276	140 498
Other comprehensive income items that may be reclassified to profit or loss	57 705	76 330
Result on debt securities at fair value through other comprehensive income	46 393	39 323
Result on equity instruments at fair value through other comprehensive income	(40)	1 864
Hedge accounting	11 352	35 143
Other comprehensive income items that will not be reclassified to profit or loss	0	0
Actuarial gains (losses)	0	0
Total comprehensive income items before taxes	**57 705**	**76 330**
Corporate income tax on other comprehensive income items that may be reclassified to profit or loss	(10 964)	(14 503)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	0	0
Total comprehensive income items after taxes	**46 741**	**61 827**
Total comprehensive income for the period	**202 017**	**202 325**
Attributable to:		
Owners of the parent	202 017	202 325
Non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.03.2018	31.12.2017
Cash, cash balances at central banks		2 881 456	2 080 151
Financial assets held for trading	10	1 800 461	531 125
Derivatives		133 929	192 664
Equity instruments		156	102
Debt securities		1 666 376	338 359
Non-trading financial assets mandatorily at fair value through profit or loss		49 717	0
Equity instruments		49 717	0
Loans and advances		0	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	11	18 052 112	19 066 946
Equity instruments		26 093	50 091
Debt securities		18 026 019	19 016 855
Financial assets at amortised cost	12	48 636 934	47 665 283
Debt securities		48 166	0
Deposits, loans and advances to banks and other monetary institutions		448 155	254 205
Loans and advances to customers		47 999 657	47 411 078
Repurchase agreements		140 956	0
Derivatives – Hedge accounting	13	516 107	885 880
Investments in subsidiaries, joint ventures and associates		0	0
Tangible assets		183 506	185 880
Intangible assets		76 007	79 756
Tax assets		321 885	288 178
Current tax assets		697	1 625
Deferred tax assets	15	321 188	286 553
Other assets		470 004	338 659
Non-current assets and disposal groups classified as held for sale		21 094	19 557
Total assets		**73 009 283**	**71 141 415**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.03.2018	31.12.2017
LIABILITIES			
Financial liabilities held for trading	10	256 708	190 111
Derivatives		148 399	190 111
Short positions		108 309	0
Financial liabilities measured at amortised cost		63 329 416	61 484 830
Liablities to banks and other monetary other monetary institutions	16	1 981 886	2 353 131
Liabilities to customers	17	59 473 880	57 273 255
Repurchase agreements		0	0
Debt securities issued	18	1 164 585	1 156 473
Subordinated debt		709 065	701 971
Derivatives – Hedge accounting	13	193 014	176 853
Provisions	19	103 718	67 752
Pending legal issues and tax litigation		56 061	46 032
Commitments and guarantees given		47 657	21 720
Tax liabilities		43 845	26 988
Current tax liabilities		43 845	26 988
Deferred tax liabilities	15	0	0
Other liabilities		1 350 645	1 422 282
Total Liabilities		**65 277 346**	**63 368 816**
EQUITY			
Capital		1 213 117	1 213 117
Share premium		1 147 502	1 147 502
Accumulated other comprehensive income		26 618	(34 795)
Retained earnings		5 344 700	5 446 775
Total equity		7 731 937	7 772 599
Total equity and total liabilities		**73 009 283**	**71 141 415**
Book value		7 731 937	7 772 599
Number of shares		1 213 116 777	1 213 116 777
Book value per share (in PLN)		6.37	6.41

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01.01.2018 - 31.03.2018 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity as at 31.12.2017	7 772 599	1 213 117	1 147 502	(34 795)	863 313	4 583 462
adjustment of the opening balance due to the implementation of IFRS 9	(242 679)	0	0	14 672	(257 351)	0
Equity as at 01.01.2018	7 529 920	1 213 117	1 147 502	(20 123)	605 962	4 583 462
Total comprehensive income for 1quarter 2018 (net)	202 017	0	0	46 741	155 276	0
net profit/ (loss) of the period	155 276	0	0	0	155 276	0
valuation of debt securities at fair value through other comprehensive income	37 578	0	0	37 578	0	0
valuation of shares at fair value through other comprehensive income	(32)	0	0	(32)	0	0
hedge accounting	9 195	0	0	9 195	0	0
Transfer between items of reserves	0	0	0	0	(695 290)	695 290
Equity at the end of the period	7 731 937	1 213 117	1 147 502	26 618	65 948	5 278 752

01.01.2017 - 31.12.2017 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 941 205	1 213 117	1 147 502	(184 962)	851 770	3 913 778
Total comprehensive income for 2017 (net)	831 394	0	0	150 167	681 227	0
net profit/ (loss) of the period		0	0	0	681 227	0
valuation of debt securities at fair value through other comprehensive income	90 754	0	0	90 754	0	0
valuation of shares at fair value through other comprehensive income	4 241	0	0	4 241	0	0
hedge accounting	56 844	0	0	56 844	0	0
actuarial gains (losses)	(1 672)	0	0	(1 672)	0	0
Transfer between items of reserves	0	0	0	0	(669 684)	669 684
Equity at the end of the period	7 772 599	1 213 117	1 147 502	(34 795)	863 313	4 583 462

01.01.2017 - 31.03.2017 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 941 205	1 213 117	1 147 502	(184 962)	851 770	3 913 778
Total comprehensive income for 1quarter 2017 (net)	202 325	0	0	61 827	140 498	0
net profit/ (loss) of the period	140 498	0	0	0	140 498	0
valuation of debt securities at fair value through other comprehensive income	31 851	0	0	31 851	0	0
valuation of shares at fair value through other comprehensive income	1 510	0	0	1 510	0	0
hedge accounting	28 466	0	0	28 466	0	0
Transfer between items of reserves	0	0	0	0	(669 786)	669 786
Equity at the end of the period	7 143 530	1 213 117	1 147 502	(123 135)	322 482	4 583 564

CONSOLIDATED CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Profit (loss) after taxes	155 276	140 498
Total adjustments:	(136 337)	158 547
Non-controlling interests profit (loss)	0	0
Interests in net income (loss) of associated companies	0	0
Depreciation and amortization	13 409	13 119
Foreign exchange (gains)/ losses	8 087	(71 120)
Dividends	(149)	(285)
Changes in provisions	12 137	(2 841)
Result on sale and liquidation of investing activity assets	(5 132)	(8 104)
Change in financial assets valued at fair value through profit and loss (held for trading)	(873 861)	(228 191)
Change in loans and advances to banks	(5 391)	612 122
Change in loans and advances to customers	(881 719)	27 522
Change in receivables from securities bought with sell-back clause (loans and advances)	(140 956)	(37 743)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	82 758	(718 934)
Change in deposits from banks	(378 882)	175 311
Change in deposits from customers	2 200 625	499 944
Change in liabilities from securities sold with buy-back clause	0	0
Change in debt securities	8 112	7 803
Change in income tax settlements	64 335	65 869
Income tax paid	(43 305)	(67 893)
Change in other assets and liabilities	(203 671)	(111 576)
Other	7 266	3 544
Net cash flows from operating activities	**18 939**	**299 045**

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Inflows from investing activities:	3 094	9 361
Proceeds from sale of property. plant and equipment and intangible assets	2 945	9 076
Proceeds from sale of shares in associates	0	0
Change in value of investment financial assets due to purchase/sale	0	0
Other inflows from investing activities	149	285
Outflows from investing activities:	(2 284 621)	(1 867 916)
Acquisition of property, plant and equipment and intangible assets	(8 431)	(7 873)
Acquisition of shares in associates	0	0
Change in value of investment financial assets due to purchase/sale	(2 276 190)	(1 860 043)
Other outflows from investing activities	0	0
Net cash flows from investing activities	(2 281 527)	(1 858 555)

C. Cash flows from financing activities

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Inflows from financing activities:	0	0
Long-term bank loans	0	0
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
Outflows from financing activities:	(450)	(500 331)
Repayment of long-term bank loans	0	0
Redemption of debt securities	0	(499 853)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other outflows from financing activities	(450)	(478)
Net cash flows from financing activities	(450)	(500 331)

D. Net cash flows. Total (A + B + C)	(2 263 038)	(2 059 841)
E. Cash and cash equivalents at the beginning of the reporting period	8 408 252	5 381 982
F. Cash and cash equivalents at the end of the reporting period (D + E)	6 145 214	3 322 141

4. NOTES TO CONSOLIDATED FINANCIAL DATA

Note (1) Interest income and other of similar nature, including:

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Balances with the Central Bank	2 589	6 492
Deposits, loans and advances to banks	537	151
Loans and advances to customers	444 680	406 659
Transactions with repurchase agreement	939	1 895
Hedging derivatives	67 934	77 787
Financial assets held for trading (debt securities)	4 216	2 077
Investment securities	88 700	81 289
Total	609 595	576 350

Interest income for 1 quarter 2018 includes interest accrued on loans with recognized impairment of PLN 13,146 thousand (for the comparative data for 1 quarters 2017, such interest was PLN 12,926 thousand). This interest income is calculated based on net exposure amounts, which take into account the impairment charges made.

Note (2) Interest expense and other of similar nature, including:

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Banking deposits	(3 816)	(4 440)
Loans and advances from banks and other monetary institutions	(2 497)	(1 953)
Transactions with repurchase agreement	(2 117)	(4 225)
Deposits from customers	(158 741)	(160 720)
Subordinated debt	(7 094)	(2 958)
Debt securities	(6 969)	(8 467)
Other	(70)	(99)
Total	(181 304)	(182 862)

Note (3) Fee and commission income

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Resulting from accounts service	20 547	19 682
Resulting from money transfers, cash payments and withdrawals and other payment transactions	18 594	13 952
Resulting from loans granted	41 547	38 715
Resulting from guarantees and sureties granted	3 810	3 640
Resulting from payment and credit cards	40 386	38 042
Resulting from sale of insurance products	29 978	24 736
Resulting from distribution of investment funds units and other savings products	17 636	23 562
Resulting from brokerage and custody service	4 884	5 847
Resulting from investment funds managed by the Group	24 013	21 030
Other	7 807	6 892
Total	209 202	196 098

Note (4) Fee and commission expense

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Resulting from accounts service	(389)	(328)
Resulting from money transfers. cash payments and withdrawals and other payment transactions	(1 189)	(680)
Resulting from loans granted	(6 925)	(4 081)
Resulting from payment and credit cards	(20 515)	(17 380)
Resulting from brokerage and custody service	(905)	(1 054)
Resulting from investment funds managed by the Group	(2 635)	(2 238)
Other	(4 140)	(4 220)
Total	(36 698)	(29 981)

Note (5) Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Operations on debt instruments	3 160	331
Operations on equity instruments	0	1
Total	3 160	332

Note (6) Results on financial assets and liabilities held for trading

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Operations on securities	7 307	159
Operations on derivatives	10 212	16 741
Costs of financial operations	(342)	(245)
Total	**17 177**	**16 655**

Note (7) Administrative expenses

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Staff costs:	(157 699)	(145 054)
Salaries	(128 607)	(118 542)
Surcharges on pay	(23 371)	(21 343)
Employee benefits, including:	(5 721)	(5 169)
- provisions for retirement benefits	(892)	(480)
- provisions for unused employee holiday	13	(6)
- other	(4 842)	(4 683)
Other administrative expenses:	(159 123)	(156 277)
Costs of advertising, promotion and representation	(7 583)	(6 089)
IT and communications costs	(20 701)	(18 972)
Costs of renting	(36 375)	(40 960)
Costs of buildings maintenance, equipment and materials	(6 590)	(6 213)
ATM and cash maintenance costs	(4 652)	(4 360)
Costs of consultancy, audit and legal advisory and translation	(4 641)	(5 139)
Taxes and fees	(5 092)	(4 098)
KIR clearing charges	(1 294)	(1 155)
PFRON costs	(1 126)	(1 393)
Banking Guarantee Fund costs	(54 704)	(57 069)
Financial Supervision costs	(1 337)	(1 257)
Other	(15 028)	(9 572)
Total	**(316 822)**	**(301 331)**

Starting from January 1, 2018, the Group has changed the way in which the fees for the banks resolution fund collected by the Banking Guarantee Fund are presented in the profit and loss account. This contribution was previously presented in other operating expenses, while since 2018 this fee is recognized as a component of other administrative expenses (together with fees fro BFG guarantee fund). The comparative data for the first quarter of 2017 have been adjusted accordingly.

The fee for the banks resolution fund recognized in the first quarter of 2018 amounted to PLN 37.7 million and is the Bank's estimate as the final contribution value has not yet been announced by the BGF.

Note (8) Impairment losses on financial assets

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Impairment losses on loans and advances to customers	(48 679)	(61 521)
Impairment charges on loans and advances to customers	(314 950)	(211 578)
Reversal of impairment charges on loans and advances to customers	265 124	149 764
Amounts recovered from loans written off	1 147	293
Sale of receivables	0	0
Impairment losses on securities	(18)	30
Impairment charges on securities	(18)	0
Reversal of impairment charges on securities	0	30
Impairment losses on off-balance sheet liabilities	(2 090)	1 990
Impairment charges on off-balance sheet liabilities	(19 223)	(9 215)
Reversal of impairment charges on off-balance sheet liabilities	17 133	11 205
Total	**(50 787)**	**(59 501)**

Note (9a) Income tax reported in income statement

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Current tax	(59 715)	(80 268)
Deferred tax:	(3 903)	19 312
Recognition and reversal of temporary differences	(4 122)	19 289
Recognition / (Utilisation) of tax loss	219	23
Total income tax reported in income statement	**(63 618)**	**(60 956)**

Note (9b) Effective tax rate

	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Gross profit / (loss)	218 894	201 454
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(41 590)	(38 276)
Impact of permanent differences on tax charges:	**(22 028)**	**(22 680)**
Non taxable income	8	(16)
Dividend income	0	(23)
Release of other provisions	8	7
Other	0	0
Non tax-deductible costs	(22 036)	(22 664)
Loss on sale of receivables	0	0
PFRON fee	(214)	(266)
Banking Guarantee Fund costs	(10 394)	(10 843)
Banking tax	(9 914)	(8 974)
Cost of provisions for factoring receivables	(224)	(1 166)
Receivables written off	243	(701)
Costs of litigations and contentious claims	(583)	(96)
Depreciation and insurance costs of cars (in excess of EUR 20.000)	(151)	(326)
Other	(799)	(292)
The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet	0	0
Total income tax reported in income statement	**(63 618)**	**(60 956)**
Effective tax rate	29,06%	30,26%

Note (9c) Deferred tax reported directly in equity

	31.03.2018	31.12.2017
Valuation of securities at fair value through other comprehensive income	(25 544)	(13 296)
Valuation of cash flow hedging instruments	18 828	20 985
Actuarial gains (losses)	473	473
Deferred tax reported directly in equity	(6 243)	8 162

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).

Commencing from January 1, 2017, a new TCG is constituted, consisting of: Bank Millennium S.A (parent company), Millennium Service Sp. Z o.o. and Millennium Goodie Sp. z o.o. This TCG was created for three years period: from 1 January 2017 to 31 December 2019.

Tax Inspection Office control procedures carried out in Bank Millennium S.A.

By a decision of 19 November 2014, the Director of the Treasury Control Office (UKS) commenced the tax audit procedure for the accuracy of the declared tax basis and the correctness of calculation and payment of Corporate Income Tax (CIT) for 2010. As a result of the procedure issued the decision of 19 December 2016, in which he increased the CIT due by the amount of PLN 1.7 million On 3 January 2017 an appeal has been lodged against this decision issued to the second instance. As a consequence of the appeal on 19 May 2017, the Director of the Tax Chamber Office in Warsaw revoked entirely the above decision of the first instance and referred back to this authority. Based on decision of 27 February 2018 the Head of Mazovian Customs&Tax Office (formerly UKS) prolonged the date of completing its proceeding until 7 May 2018.

Within the ongoing UKS audit procedure, in the decision of 24 November 2016 the Director of The Treasury Control Office indicated the possibility of submitting the CIT return self-correction during the proceeding. The bank took advantage of this opportunity and on 1 December 2016 submitted an adjustment of CIT-8 for 2010 together with explanations of the reasons for this adjustment, concluding the request for CIT overpayment. By decision of 1 March 2017, Head of the Second Mazovian Tax Office rejected the Bank's reclaim, stating that the adjustment of the declaration was effective, but was displaced by the above mentioned UKS Director's decision of 19 December 2016. On 13 March 2017, Bank appealed from that decision to the second instance (the Director of the Tax Chamber Office in Warsaw), which on 19 June 2017 issued a decision remaining in force the contested decision. On 19 July 2017 Bank lodged a complaint on this decision to the Regional Administrative Court in Warsaw.

Note (10a) Financial assets held for trading

	31.03.2018	31.12.2017
Debt securities	**1 666 376**	**338 359**
Issued by State Treasury	1 666 376	338 351
a) bills	0	0
b) bonds	1 666 376	338 351
Other securities	6	8
a) quoted	6	8
b) non quoted	0	0
Equity instruments	**156**	**102**
Quoted on the active market	156	102
a) financial institutions	0	0
b) non-financial institutions	156	102
Adjustment from fair value hedge	6 923	7 784
Positive valuation of derivatives	127 006	184 880
Total	**1 800 461**	**531 125**

Note (10b) Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at 31.03.2018

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(2 231)	52 865	55 096
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(2 231)	52 865	55 096
Other interest rate contracts: options	0	0	0
2. FX derivatives	(17 894)	32 590	50 484
FX contracts	(2 167)	8 529	10 696
FX swaps	(9 546)	22 764	32 310
Other FX contracts (CIRS)	(6 181)	1 297	7 478
FX options	0	0	0
3. Embedded instruments	(29 223)	5 039	34 262
Options embedded in deposits	(28 037)	0	28 037
Options embedded in securities issued	(1 186)	5 039	6 225
4. Indexes options	34 646	36 512	1 866
Valuation of derivatives	(14 702)	**127 006**	**141 708**
Valuation of hedged position in fair value hedge accounting		6 923	6 691
Liabilities from short sale of debt securities			108 309

Note (10c) Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at 31.12.2017

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(983)	78 219	79 202
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(983)	78 219	79 202
Other interest rate contracts: options	0	0	0
2. FX derivatives	2 346	61 515	59 169
FX contracts	(4 263)	18 777	23 040
FX swaps	12 523	40 856	28 333
Other FX contracts (CIRS)	(5 914)	1 882	7 796
FX options	0	0	0
3. Embedded instruments	(42 231)	7	42 238
Options embedded in deposits	(36 306)	0	36 306
Options embedded in securities issued	(5 925)	7	5 932
4. Indexes options	43 159	45 139	1 980
Valuation of derivatives	**2 291**	**184 880**	**182 589**
Valuation of hedged position in fair value hedge accounting		7 784	7 522
Liabilities from short sale of debt securities			0

Note (11) Financial assets at fair value through other comprehensive income

	31.03.2018	31.12.2017
Debt securities	**18 026 019**	**19 016 855**
Issued by State Treasury	15 053 801	12 810 462
a) bills	0	0
b) bonds	15 053 801	12 810 462
Issued by Central Bank	2 889 638	6 077 287
a) bills	2 889 638	6 077 287
b) bonds	0	0
Other securities	82 580	129 106
a) listed	82 580	81 130
b) not listed	0	47 976
Shares and interests in other entities	26 093	50 091
Other financial instruments	0	0
Total financial assets available for sale	**18 052 112**	**19 066 946**

Note (12) Financial assets at amortised cost as at 31.03.2018

	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	48 187	0	0	(21)	0	0	48 166
Deposits, loans and advances to banks and other monetary institutions	448 155	0	0	0	0	0	448 155
Loans and advances to customers	43 852 430	3 556 939	2 424 373	(219 518)	(213 208)	(1 401 359)	47 999 657
- Companies	13 221 982	2 030 484	802 464	(146 695)	(87 095)	(460 675)	15 360 465
- Individuals	30 373 765	1 525 003	1 621 909	(72 505)	(126 111)	(940 684)	32 381 377
- Public sector	256 683	1 452	0	(318)	(2)	0	257 815
Repurchase agreements	140 956	0	0	0	0	0	140 956

Given the existing discrepancies in interpretation, at the moment, the Group has not decided to apply fair value through profit and loss valuation model to loans for which the interest rate formula is based on a multiplier. Loans with such characteristics account for approximately 2% of the Group's receivables portfolio and consist of credit card exposures and overdrafts. The Group estimates that the possible effect of valuation of these portfolios at fair value would not have a material impact on the Group's financial position whereas main change would be the method of presenting these loans in the financial statements.

Note (12a) Deposits, loans and advances to banks and other monetary institutions

	31.03.2018	31.12.2017
Current accounts	169 034	136 853
Deposits granted	277 017	115 174
Interest	2 104	2 178
Total (gross) deposits, loans and advances	448 155	254 205
Impairment write-offs	0	0
Total (net) deposits, loans and advances	**448 155**	**254 205**

Note (12b) Loans and advances to customers

	31.03.2018	31.12.2017
Loans and advances	42 646 644	41 850 883
- to companies	9 842 927	9 610 098
- to private individuals	32 550 316	31 977 162
- to public sector	253 401	263 623
Receivables on account of payment cards	763 822	763 964
- due from companies	22 051	20 770
- due from private individuals	741 771	743 194
Purchased receivables	239 508	259 373
- from companies	235 746	255 342
- from public sector	3 762	4 031
Guarantees and sureties realised	10 165	10 893
Debt securities eligible for rediscount at Central Bank	5 896	5 590
Financial leasing receivables	5 897 577	5 741 101
Other	4 380	5 028
Interest	265 750	271 474
Total gross	**49 833 742**	**48 908 306**
Impairment write-offs	(1 834 085)	(1 497 228)
Total net	**47 999 657**	**47 411 078**

Note (12c) Quality of loans and advances to customers portfolio

	31.03.2018	31.12.2017
Loans and advances to customers (gross)	49 833 742	48 908 306
- impaired	2 424 373	2 232 666
- not impaired	47 409 369	46 675 640
Impairment write-offs	(1 834 085)	(1 497 228)
- for impaired exposures	(1 401 359)	(1 315 256)
- for not impaired exposures	(432 726)	(181 972)
Loans and advances to customers (net)	**47 999 657**	**47 411 078**

Note (12d) Loans and advances to customers portfolio by methodology of impairment assessment

	31.03.2018	31.12.2017
Loans and advances to customers (gross)	49 833 742	48 908 306
- case by case analysis	759 298	721 524
- collective analysis	49 074 444	48 186 782
Impairment write-offs	(1 834 085)	(1 497 228)
- on the basis of case by case analysis	(390 817)	(410 445)
- on the basis of collective analysis	(1 443 268)	(1 086 783)
Loans and advances to customers (net)	**47 999 657**	**47 411 078**

Note (12e) Loans and advances to customers portfolio by customers

	31.03.2018	31.12.2017
Loans and advances to customers (gross)	49 833 742	48 908 306
- corporate customers	16 313 065	15 955 226
- individuals	33 520 677	32 953 080
Impairment write-offs	(1 834 085)	(1 497 228)
- for receivables from corporate customers	(694 785)	(556 972)
- for receivables from private individuals	(1 139 300)	(940 256)
Loans and advances to customers (net)	**47 999 657**	**47 411 078**

Note (12f) Change of impairment write-offs for loans and advances to customers

	01.01.2018 - 31.03.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 497 228	1 364 913
Adjustment of the opening balance due to the implementation of IFRS 9	411 223	0
Adjusted balance at the beginning of the period	1 908 451	1 364 913
Change in value of provisions:	(74 366)	132 315
Impairment write-offs created in the period	314 950	627 978
Amounts written off	(133 015)	(105 093)
Impairment write-offs released in the period	(265 124)	(365 600)
Sale of receivables	0	(5 897)
KOIM created in the period(*)	7 265	0
Changes resulting from FX rates differences	1 459	(19 073)
Other	99	0
Balance at the end of the period	**1 834 085**	**1 497 228**

(*) In accordance with IFRS 9, the Group calculates interest on the loan portfolio with a recognized impairment based on the net exposure value. For this purpose, the so-called impaired interest adjustment ("KOIM") is calculated and recorded as a reduction of interest income. Aforementioned KOIM adjustment in the balance sheet is presented as an impairment allowances, and as a consequence the reconciliation of the change in impairment allowances requires consideration of the KOIM recognized in the interest income.

Note (13) Hedge accounting

As at 31.03.2018 the Group applied hedge accounting to the following relationship:

	Hedge of the volatility of cash flows generated by the portfolio of floating FX mortgage loans	Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans
Description of hedge transactions	The Group hedges currency risk and interest rate risk of the cash flows - during the time horizon of the transaction – linked to floating FX loans exchanging interest cash flows in foreign currency into flows in PLN.	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	Cash flows resulting from portfolio of floating FX mortgage loans.	Cash flows resulting from the PLN mortgage loan portfolio
Hedging instruments	FX SWAP transactions	IRS transactions
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on hedging instruments (settled swap points) are recognised in net interest income.	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income.

	Cash flow volatility hedge for the flows generated by FX mortgage portfolio and its underlying PLN liabilities
Description of hedge transactions	The Group hedges the risk of the volatility of cash flows generated by 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 FX 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 revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in Result on exchange differences

Note (13a) Hedge accounting as at 31.03.2018

	Fair values		
	Total	Assets	Liabilities
Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate			
CIRS contracts	313 907	505 623	191 716
IRS contracts	7 423	7 423	0
FXS contracts	1 763	3 061	1 298
Total	323 093	516 107	193 014

As of 31.03.2018 there were no active fair value hedges.

Note (13b) Hedge accounting as at 31.12.2017

	Fair values		
	Total	Assets	Liabilities
Cash flows hedging derivatives connected with interest rate and/or FX rate			
CIRS contracts	648 435	825 280	176 845
IRS contracts	8 393	8 401	8
FXS contracts	52 199	52 199	0
Total	709 027	885 880	176 853

As of 31.12.2017 there were no active fair value hedges.

Note (14) Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Property. plant and equipment	Intangibles	Non-current assets held for sale	Other assets
Balance as at 01.01.2018	5 963	8 754	3 988	136	7 944
- Write-offs created	18	0	0	0	1 244
- Write-offs released	0	0	0	0	(1 206)
- Utilisation	0	0	0	0	(11)
- Sale of assets	0	0	0	0	0
Balance as at 31.03.2018	5 981	8 754	3 988	136	7 971

Impairment write-offs:	Investment securities	Property, plant and equipment	Intangibles	Non-current assets held for sale	Other assets
Balance as at 01.01.2017	7 142	9 808	3 988	136	7 145
- Write-offs created	0	358	0	0	3 795
- Write-offs released	(1 016)	(1 412)	0	0	(2 596)
- Utilisation	0	0	0	0	(400)
- Sale of assets	(163)	0	0	0	0
Balance as at 31.12.2017	5 963	8 754	3 988	136	7 944

Note (15) Assets / Liabilities from deferred income tax

	31.03.2018			31.12.2017		
	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets
Difference between tax and balance sheet depreciation and amortisation	75 080	(2 966)	72 114	73 799	(4 973)	68 826
Balance sheet valuation of financial instruments	8 028	(29 318)	(21 290)	7 182	(29 383)	(22 201)
Unrealised receivables/ liabilities on account of derivatives	10 497	(20 489)	(9 992)	16 766	(28 537)	(11 771)
Interest on deposits and securities to be paid/received	33 229	(34 612)	(1 383)	26 513	(33 114)	(6 601)
Interest and discount on loans and receivables	6	(49 644)	(49 638)	7	(28 471)	(28 464)
Income and cost settled at effective interest rate	83 742	(1 498)	82 244	82 892	(1 514)	81 378
Provisions for loans presented as temporary differences	220 692	0	220 692	163 093	0	163 093
Employee benefits	15 557	0	15 557	15 420	0	15 420
Provisions for costs	19 675	0	19 675	19 214	0	19 214
Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	19 306	(25 549)	(6 243)	21 463	(13 301)	8 162
Tax loss deductible in the future	606	0	606	387	0	387
Other	(260)	(894)	(1 154)	(14)	(876)	(890)
Net deferred income tax asset	486 158	(164 970)	321 188	426 722	(140 169)	286 553

Note (16) Liabilities to banks and other monetary institutions

	31.03.2018	31.12.2017
In current account	125 519	97 235
Term deposits	883 936	1 293 678
Loans and advances received	969 162	961 079
Interest	3 269	1 139
Total	1 981 886	2 353 131

Note (17) Structure of liabilities to customers by type

	31.03.2018	31.12.2017
Amounts due to private individuals	43 146 054	40 343 597
Balances on current accounts	28 166 089	25 108 948
Term deposits	14 818 264	14 993 961
Other	93 387	176 728
Accrued interest	68 314	63 960
Amounts due to companies	14 084 661	14 363 117
Balances on current accounts	6 468 131	6 710 128
Term deposits	7 427 783	7 354 951
Other	171 262	284 150
Accrued interest	17 485	13 888
Amounts due to public sector	2 243 165	2 566 541
Balances on current accounts	1 106 117	1 185 444
Term deposits	1 126 621	1 346 597
Other	8 189	32 331
Accrued interest	2 238	2 169
Total	**59 473 880**	**57 273 255**

Note (18) Change of debt securities

	01.01.2018 - 31.03.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 156 473	1 313 836
Increases, on account of:	72 474	754 779
- issue of bonds by the Bank	132	329 434
- issue of bonds by Millennium Leasing	51 500	343 200
- issue of Banking Securities	13 872	52 468
- interest accrual	6 970	29 677
Reductions, on account of:	(64 362)	(912 142)
- repurchase of bonds by the Bank	0	(529 076)
- repurchase of bonds by Millennium Leasing	(43 000)	(266 900)
- repurchase of Banking Securities	(18 628)	(84 318)
- interest payment	(2 734)	(31 848)
Balance at the end of the period	**1 164 585**	**1 156 473**

Note (19) Provisions

	01.01.2018 - 31.03.2018	01.01.2017 - 31.12.2017
Pending legal issues and tax litigation		
Balance at the beginning of the period	46 032	24 782
Charge of provision	998	23 236
Release of provision	(44)	(1 233)
Utilisation of provision	(3 083)	(753)
Other/reclassification	12 158	0
Balance at the end of the period	56 061	46 032
Commitments and guarantees given		
Balance at the beginning of the period	21 720	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	0
Adjusted balance at the beginning of the period	45 549	24 633
Charge of provision	19 223	13 771
Release of provision	(17 133)	(16 577)
FX rates differences	18	(107)
Balance at the end of the period	47 657	21 720
Total	**103 718**	**67 752**

5. CHANGES IN RISK MANAGEMENT PROCESS

Risk management performs a key role in the strategy of balanced and sustainable development of the Bank Millennium Group, supporting optimisation of relationships between risk and returns within various business lines and maintenance of adequate risk profile relative to capital and liquidity.

Credit risk

In the first quarter of 2018 in retail segment, the Bank Millennium Group continued the process of optimizing the methodology, tools and processes of credit risk management in the retail segment. The attention was focused on the analysis of the effectiveness of the applied solutions in the field of credit worthiness methodology. In particular, the effectiveness of the algorithms for determining the maximum value of the DTI (Debt to Income) parameter in the field of consumer loans and mortgage loans. In this area decisions regarding further reduce the credit risk with its use were made. In addition, the pilot of the new approach in rules of credit competences were positively verified and a decision was made to implement them in standard proceedings. Changes in this area have made it possible to improve the credit process.

In the corporate segment, the Group focused on activities aimed at streamlining and accelerating credit processes, in particular regarding the forms used and documentary requirements. As in previous periods, work continued on improving IT tools supporting these processes.

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	31.03.2018		31.12.2017	
	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	45 924 748	448 155	45 178 599	254 205
Overdue(*), but without impairment	1 484 621	0	1 497 041	0
Total without impairment	47 409 369	448 155	46 675 640	254 205
With impairment	2 424 373	0	2 232 666	0
Loans and advances, gross	**49 833 742**	**448 155**	**48 908 306**	**254 205**
Impairment write-offs total	(1 834 085)	0	(1 497 228)	0
Loans and advances, net	**47 999 657**	**448 155**	**47 411 078**	**254 205**
Loans with impairment / total loans	4,86%	0,00%	4.57%	0.00%

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

Market risk

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (10-days holding period) and with specified probability (99% confidence level) from an adverse market movement. The market risk measurement, monitoring and reporting 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. All eventual excesses of market risk limits are reported, documented and ratified at the proper competence level.

In 1Q 2018, the market risk limits were kept unchanged.

The VaR indicators in the period under consideration for the Group, that is jointly Trading Book and Banking Book, remained on average at the level of approx. PLN 18.8 m (9 % of the limit). Similary, the market risk exposure was approx. PLN 18.8 m (9% of the limit) as of the end of March 2018. The market risk exposure in 1Q 2018 in terms of value at risk in the Group, together with risk type division, is presented in the table below (ths PLN).

VaR measures for market risk ('000 PLN)

	31.03.2018		VaR (1Q 2018)			31.12.2017	
	Exposure	limit usage	Average	Maximum	Minimum	Exposure	limit usage
Total risk	18 827	9%	18 765	22 897	16 706	17 540	8%
Generic risk	16 957	8%	16 837	20 792	14 842	15 666	7%
Interest Rate VaR	16 961	8%	16 853	20 850	14 902	15 651	7%
FX Risk	49	0%	214	3 353	12	97	1%
Diversification Effect	0.3%					0.5%	
Specific risk	1 870	1%	1 928	2 871	1 863	1 874	1%

In 1Q 2018, total market risk limits in terms of VaR were not breached - neither for the total Group nor for the Banking Book and Trading Book, separately.

Open positions contain mainly interest rate and FX risk instruments. 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 to keep FX open positions only in Trading Book. In the 1Q 2018, the FX Total open position (Intraday as well as Overnight) remained well below the maximum limits in place.

In addition to above mention 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 of the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

In case of the Banking Book, the main component of the market risk is interest rate risk. In order to manage this risk, 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 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 on monthly basis covers both earnings-based and on quarterly basis economic value measures, in particular:

– the impact on net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of upward/downward shift by 100 basis points,
– 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. Therefore, the results shows the impact on the Group's economic value resulting from the interest rate change.

In 1Q 2018, the results of the above mentioned analysis for Banking Book stayed witing internally defined limits.

Liquidity risk

The liquidity risk measurement, monitoring and reporting is carried out daily with the use of both measures defined by the supervisory authorities and internally, for which limits were established. In 1Q 2018, the Group was characterized by good liquidity position. All the supervisory and internal liquidity indicators remained significantly above minimum limits in place.

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 100% for LCR valid in 2018 was complied by the Group. The LCR Group reached the level of 174% at the end of March 2018 (153% at the end of December 2017). Internally, the LCR is estimated daily and reported together with other internal liquidity measures to the areas responsible for the management and control of the liquidity risk in the Group on the daily basis.

In 1Q 2018, the Group has consistently maintained Loan-to-Deposit ratio well below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, was equalled 80% at the end of March 2018 (83% at the end of December 2017). 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 March 2018. During 2018 this portfolio slightly increased from PLN 19.2 billion at the end of December 2017 (27% of total assets) to approx. PLN 19.6 billion at the end of March 2018 (27% 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 main source of financing remains deposits base, the large, diversified and stable funding from retail, corporate and public sectors. The deposit base is supplemented by the deposits from financial institiutions and other money market operations. The source of medium-term funding remain also medium-term loans, subordinated debt and own bonds issue.

The level of deposit concentration is regulary monitored and did not have any negative impact on the stability of the deposit base in 1Q2018. However, 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 as described above.

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 Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as 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 collateral from the counterparty.

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.

Stress tests as regards structural liquidity are carried out at least quarterly to understand the Group's liquidity risk profile, to make sure that the Group is able to meet its commitments in the event of a liquidity crisis and to contribute to preparing a contingency plan regarding liquidity and management decisions.

The Group has also contingency procedures for an increased liquidity risk situation – the Liquidity Contingency Plan, which is revised and tested at least once a year in order to ensure that it is operationally robust.

Operational risk

In the first quarter of 2018 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 operational risk management model, implemented by Bank Millennium Group, is reviewed and accepted on a regular basis by the Management Board.

In keeping with the adopted solution, risk management is a process of continuous improvement as regards identification, assessment, monitoring, control/mitigating and reporting by complementary activities.

In the first quarter of 2018 the Group continued efforts to continuously improve business processes in the context of optimizing the exposure to operational risk through preventive measures to reduce the frequency, as well as actions taken to reduce the financial impact of losses.

Capital management

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

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

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

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

The Bank and the Group are obliged by law to meet minimum own funds requirements, set in art. 92 of the EU Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending EU Regulation No. 648/2012 (CRR). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

– Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. At present, the buffer was set by KNF in recommendations issued in November and December 2017 in the level of 5.53 p.p. (for the Bank) and 5.41 p.p. (for the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 4.15 p.p. (the Bank) and of 4.06 p.p. (the Group), and which corresponds to capital requirements for CET 1 ratio of 3.10 p.p. (the Bank) and 3.03 p.p. (the Group) [3];
– Combined buffer – defined in Act on macroprudential supervision over the financial system and crisis management – that consists of:
  – Capital conservation buffer at the level of 1.875%;
  – Other systemically important institution buffer (OSII) – at the level of 0.25%, and the value is set by KNF every year;
  – Systemic risk buffer at the level of 3%;
  – Countercyclical buffer at the 0% level.

[3] These recommendations replaced the previous ones from 2016: 3.09 p.p. (Bank) and 3.05 p.p. (Group) for Total Capital Ratio; 2.32 p.p. (Bank) and 2,29 p.p. (Group) for Tier 1 capital and 1,73 p.p. (Bank) and 1,71 p.p. (Group) for CET1 capital

Minimum levels of capital ratios from 2018, being at the same time capital targets/limits, are presented in the below table. These are OCR (overall capital requirements) as for particular capital ratios.

Capital ratio minimum requirements		
CET1	**Bank**	**Group**
Minimum	4.50%	4.50%
Pillar II FX mortgage (RRE FX)	3.10%	3.03%
CET1 Total SREP Capital Requirements (TSCR)	*7.60%*	*7.53%*
Capital Conservation Buffer	1.875%	1.875%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0%	0%
Combined buffer	*5.125%*	*5.125%*
CET 1 Overall Capital Requirements (OCR)	**12.725%**	**12.655%**
T1	**Bank**	**Group**
Minimum	6.00%	6.00%
Pillar II FX mortgage (RRE FX)	4.15%	4.06%
T1 TSCR	*10.15%*	*10.06%*
Capital Conservation Buffer	1.875%	1.875%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0%	0%
Combined buffer	*5.125%*	*5.125%*
T1 OCR	**15.275%**	**15.185%**
TCR	**Bank**	**Group**
Minimum	8.00%	8.00%
Pillar II FX mortgage (RRE FX)	5.53%	5.41%
TCR TSCR	*13.53%*	*13.41%*
Capital Conservation Buffer	1.875%	1.875%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0%	0%
Combined buffer	*5.125%*	*5.125%*
TCR OCR	**18.655%**	**18.535%**

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

Bank Millennium Group – capital adequacy (PLN mn)	31.03.2018[1)]	31.12.2017
Risk-weighted assets (RWA)	33 070.3	32 693.6
Own funds requirements, including:	2 645.6	2 615.5
- Credit risk and counterparty credit risk	2 299.2	2 297.7
- Market risk	31.7	18.3
- Operational risk	310.8	293.4
- Credit Valuation Adjustment CVA	3.9	6.1
Own Funds including:	8 079.9	7 190.6
Common Equity Tier 1 Capital, including:	7 379.9	6 548.8
- paid up capital instruments	1 213.1	1 213.1
- share premium	1 147.5	1 147.5
- recognised part of current profit	0.0	0.0
- other retained earnings	5 189.4	4 765.6
- recognised part of revaluation reserve	106.9	43.4
- regulatory adjustments	(277.0)	(620.8)
Tier II Capital, including:	700.0	641.8
- subordinated debt	700.0	700.0
- regulatory adjustments	0.0	(58.2)
Total Capital Ratio (TCR)	**24.43%**	**21.99%**
Minimum required level	18.54%	18.91%
Surplus(+) / Deficit(-) of TCR ratio (p.p.)	+5.89	+3.08
Tier 1 Capital ratio (T1 ratio)	**22.32%**	**20.03%**
Minimum required level	15.19%	14.56%
Surplus(+) / Deficit(-) of T1 ratio (p.p.)	+7.13	+5.47
Common Equity Tier 1 Capital ratio (CET1 ratio)	**22.32%**	**20.03%**
Minimum required level	12.66%	13.53%
Surplus(+) / Deficit(-) of CET1 ratio (p.p.)	+9.66	+6.50

1) Capital ratios are calculated according to transitional arrangements mitigating the impact of IFRS9 implementation on common equity Tier 1 capital. Assuming full implementation of this standard, TCR for Group is 24.14%, T1 and CET1 ratio: 22.01%.

In first quarter 2018 compared to the end of 2017, capital ratios of Group visibly increased – TCR went up by 2.44 p.p. and CET1 ratio by 2.29 p.p. The most important driver of that improvement was the increase of own funds by 12.4%, stemming mainly from the decision of general shareholders meeting regarding retention in own funds full amount of 2017 net profit. At the same time, rise of risk-weighted assets was rather small – by 1.2%.

6. OPERATIONAL SEGMENTS

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

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

Retail Customer Segment

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

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

Corporate Customer Segment

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

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

Treasury, ALM (assets and liabilities management) and Other

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

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

Income tax and banking tax charges have been presented on Group level only.

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

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

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.

Commencing from January 1, 2018, the Group has changed the way a fee for the bank restructuring fund charged by the Bank Guarantee Fund is allocated to particular operating segments. This contribution was previously presented in other operating expenses, while since 2018 this fee is recognized as a component of other administrative expenses and in the segment "Treasury, ALM and Other“ (previously the results of commercial segments were charged). Comparative data for the first quarter of 2017 have been adjusted accordingly.

Income statement 1.01.2018 – 31.03.2018

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	290 087	68 734	69 470	428 291
Net fee and commission income	128 135	44 497	(128)	172 504
Dividends other income from financial operations and foreign exchange profit	15 207	19 235	18 443	52 885
Other operating income and cost	(2 022)	(396)	5 165	2 747
Operating income	431 407	132 070	92 950	656 427
Staff costs	(114 907)	(35 078)	(7 714)	(157 699)
Administrative costs	(100 816)	(14 817)	(43 490)	(159 123)
Depreciation and amortization	(10 788)	(2 252)	(369)	(13 409)
Operating expenses	(226 511)	(52 147)	(51 573)	(330 231)
Impairment losses on assets	(32 684)	(18 105)	(36)	(50 825)
Results on modification	(4 552)	253	0	(4 299)
Operating Profit	**167 660**	**62 071**	**41 341**	**271 072**
Share in net profit of associated companies	0	0	0	0
Banking tax				(52 178)
Profit / (loss) before income tax				**218 894**
Income taxes				(63 618)
Profit / (loss) after taxes				**155 276**

Balance sheet items as at 31.03.2018

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Loans and advances to customers	34 601 879	13 397 778		47 999 657
Liabilities to customers	45 080 223	14 264 547	129 110	59 473 880

Income statement 1.01.2017 – 31.03.2017

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	263 969	63 857	65 662	393 488
Net fee and commission income	123 727	40 221	2 169	166 117
Dividends other income from financial operations and foreign exchange profit	16 223	16 512	20 533	53 268
Other operating income and cost	(2 392)	(944)	13 328	9 992
Operating income	401 527	119 646	101 692	622 865
Staff costs	(104 617)	(33 081)	(7 356)	(145 054)
Administrative costs	(91 228)	(14 575)	(50 474)	(156 277)
Depreciation and amortization	(10 794)	(2 028)	(297)	(13 119)
Operating expenses	(206 639)	(49 684)	(58 127)	(314 450)
Impairment losses on assets	(39 101)	(20 402)	(228)	(59 731)
Operating Profit	**155 787**	**49 560**	**43 337**	**248 684**
Share in net profit of associated companies	0	0	0	0
Banking tax				(47 230)
Profit / (loss) before income tax				**201 454**
Income taxes				(60 956)
Profit / (loss) after taxes				**140 498**

Balance sheet items as at 31.12.2017

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	33 944 580	13 466 498	0	47 411 078
Liabilities to customers	42 132 753	14 971 419	169 083	57 273 255

7. DESCRIPTION OF RELATED PARTY TRANSACTIONS

All and any transactions between entities of the Group during I quarter 2018 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 were concluded under terms significantly different than market conditions.

7.1. Description of transactions with the Parent Group

The following are the amounts of transactions with the Capital Group of Bank's parent company (the ultimate parent entity) - Banco Comercial Portugues (these transactions are mainly of banking nature).

	With parent entity		With other entities of parent Group	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017
ASSETS				
Loans and advances to banks – accounts and deposits	2 263	263	0	0
Financial held for trading	0	0	0	0
Hedging derivatives	0	0	0	0
Other assets	0	0	0	0
LIABILITIES				
Loans and deposits from banks	409	1 252	107 391	106 970
Debt securities	0	0	0	0
Financial liabilities held for trading	95	0	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	9	0

	With parent entity		With other entities of parent Group	
	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
INCOME FROM:				
Interest	5	3	0	0
Commissions	49	33	0	0
Financial assets and liabilities held for trading	0	13	0	0
EXPENSE FROM:				
Interest	0	0	(67)	(74)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	95	0	0	0
Other net operating costs	4	5	0	0
Administrative expenses	0	40	112	98

	With parent entity		With other entities of parent Group	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017
Conditional commitments	161 072	101 962	0	0
- granted	160 345	100 345	0	0
- obtained	727	1 617	0	0
Derivatives (par value)	16 686	0	0	0

7.2. Balance of the Bank's shares held by the Bank's Supervisory and Management Board Members

Name and surname	Function	Number of shares as of delivery date of quarterly report prepared as at 31.03.2018	Number of shares as presented in annual report for 2017
Joao Nuno Lima Bras Jorge	Chairman of the Management Board	111 000	111 000
Fernando Maria Cardoso Rodrigues Bicho	Deputy Chairman of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	7 494
Andrzej Gliński	Member of the Management Board	0	0
Maria Jose Henriques Barreto De Matos De Campos	Member of the Management Board	0	0
Wojciech Rybak	Member of the Management Board	0	0
Bogusław Kott	Chairman of the Supervisory Board	1 000	1 000
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Dariusz Rosati	Deputy Chairman and Secretary of the Supervisory Board	0	0
Miguel de Campos Pereira de Bragança	Member of the Supervisory Board	0	0
Agnieszka Hryniewicz-Bieniek	Member of the Supervisory Board	0	0
Anna Jakubowski	Member of the Supervisory Board	0	0
Grzegorz Jędrys	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Alojzy Nowak	Member of the Supervisory Board	0	0
José Miguel Bensliman Schorcht da Silva Pessanha	Member of the Supervisory Board	0	0
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	0
Lingjiang Xu	Member of the Supervisory Board	0	0

8. 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).

8.1. Financial instruments not recognized at fair value in the balance sheet

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

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

Receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

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

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

Subordinated liabilities and medium term loans

The fair value of these financial instruments is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and historical margin for credit risk. Similar as in loan portfolio the Bank includes the level of the original margin as a part of mid-term cost of financing obtained in the past in relation to the current margin level for the comparable instruments, as long as reliable assessment is possible. Due to lack of the mid-term loans liquid market as a reference to estimate current level of margins, the Bank used the original margin.

The table below presents results of the above-described analyses as at 31.03.2018 (data in PLN thousand):

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	12	448 155	448 085
Loans and advances to customers (*)	12	47 999 657	46 433 887

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	16	1 981 886	1 982 576
Amounts due to customers	17	59 473 880	59 468 040
Debt securities	18	1 164 585	1 169 795
Subordinated debt		709 065	712 035

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

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

The table below presents data as at 31.12.2017 (data in PLN thousand):

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	12	254 205	254 152
Loans and advances to customers	12	47 411 078	45 818 564

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	16	2 353 131	2 355 464
Amounts due to customers	17	57 273 255	57 270 753
Debt securities	18	1 156 473	1 161 524
Subordinated debt		701 971	701 956

8.2. Financial instruments recognized at fair value in the balance sheet

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in PLN'000, as at 31.03.2018

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets held for trading	10			
Valuation of derivatives			85 455	41 551
Equity instruments		156		
Debt securities		1 666 376		
Non-trading financial assets mandatorily at fair value through profit or loss				
Equity instruments				49 717
Financial assets at fair value through other comprehensive income	11			
Equity instruments		290		25 803
Debt securities		15 136 381	2 889 638	
Derivatives - Hedge accounting	13		516 107	
LIABILITIES				
Financial liabilities held for trading	10			
Valuation of derivatives			105 580	36 128
Short positions		108 309		
Derivatives - Hedge accounting	13		193 014	

Data in '000 PLN, as at 31.12.2017

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets held for trading	10			
Valuation of derivatives			139 734	45 146
Equity instruments		102		
Debt securities		338 359		
Financial assets at fair value through other comprehensive income	11			
Equity instruments		329	0	29 632
Debt securities		12 891 592	6 077 287	47 976
Derivatives - Hedge accounting	13		885 880	
LIABILITIES				
Financial liabilities held for trading	10			
Valuation of derivatives			138 371	44 218
Short positions		0		
Derivatives - Hedge accounting	13		176 853	

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

- index options and FX options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- VISA Inc. preferred shares in an amount of 21,493; the method of fair value calculation of these shares considers the time value of money, the time line for conversion of preferred stock in common stock of VISA and adjustments resulting from litigations (on-going or potential) against VISA and the Bank.;
- other equity instruments measured at fair value (unquoted on an active market).

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

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in the 1 quarter 2018 are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 31 December 2017	43 159	(42 231)	0	47 976	29 632
Adjusments/reclassifications due to the implementation of IFRS 9	0	0	0	(47 976)	45 035
Balance on 1 January 2018	43 159	(42 231)	0	0	74 667
Settlement/sell/purchase	(8 058)	12 807	0	0	0
Change of valuation recognized in equity	0	0	0	0	0
Change of valuation recognized in P&L account (including interests)	(455)	201	0	0	853
Balance on 31 March 2018	34 646	(29 223)	0	0	75 520

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

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

9. CONTINGENT ASSETS AND LIABILITIES

Below please find the data on the court cases pending, brought up by and against entities of the Group. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 4, Note (9)**.

Court cases brought up by the Group

Value of the court litigations, as at 31.03.2018, in which the companies of the Group were a plaintiff, totalled 223.7 million PLN.

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

1) send information on the UOKiK's decision to the said 78 clients,

2) place the information on decision and the decision itself on the website and on Twitter,

3) to pay a fine amounting to 20.7 mln PLN. The decision on the fine is not immediately enforceable.

The decision of the President of UOKIK is not final. The Bank does not agree with this decision and lodged an appeal within the statutory time limit.

Court cases against the Group

As at 31 March 2018, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were two cases brought up by PCZ S.A. and Europejska Fundacja Współpracy Polsko–Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 150.0 million PLN with statutory interest from 29 December 2015 until the day of payment, and 521.9 million PLN with statutory interest from 5 April 2016 until the day of payment.

The lawsuit in the first case, dated 9 July 2015, was filed to the Regional Court in Wrocław and served personally to the Bank on 28 December 2015. In the second case, the plaintiff filed the suit dated 23 October 2015 to the Regional Court in Warsaw; the suit was served to the Bank on 4 April 2016. According to the plaintiffs, the basis for both claims is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan concluded between the Bank and PCZ S.A., which resulted in placing the loan on demand.

As regards the lawsuit filed by PCZ the Regional Court in Wrocław (1st Instance) on 7 April 2017 has issued a verdict favourable to the Bank by dismissing the suit. The plaintiff has lodged an appeal. The Court of Appeal in Wrocław (II instance) dismissed the plaintiff's appeal on 21 December 2017. The verdict is valid, the deadline to lodge a cassation appeal to the Supreme Court has passed on 18 March 2018, according to Bank's knowledge the cassation appeal has not been lodged.

In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5 September 2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. After prior exchange of pleadings, the Court on the first hearing on 10 October 2017 has started the evidentiary hearings. The date of the next hearing was set on 24 April 2018.

Favourable forecast for the Bank, as regards dismissal of the suit in the pending proceedings, have been confirmed by a renowned law firm representing the Bank in the proceedings.

Additionaly, on 19 January 2018 the Bank has received the lawsuit petition of First Data Polska SA requesting the payment of 186.8 mln PLN. First Data claims a share in an amount which the Bank has received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its request on an agreement with the Bank on co-operation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. The Bank does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law.

As at 31.03.2018, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 203.0 million (excluding the class actions described below). In this group the most important category are cases related to forward transactions (option cases) with total value in dispute of PLN 163.0 million.

The Group evaluates that the risk of negative financial effects in case of a lost litigation has been fully covered by the value of the provisions established for the pending litigations.

Class actions

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.

On 31 March 2016 the Regional Court in Warsaw issued a decision dismissing Bank's motion for a security deposit to secure litigation costs. On 6 April 2016 the Bank filed an appeal against this decision; on 13 July 2016 Bank's appeal in this regard was dismissed by the Court of Appeal. On 17 February 2016 the Claimant filed a submission with the Regional Court in Warsaw, extending the claim again by a further 1,041 group members. The new value of the subject matter of the dispute was indicated as approx. PLN 109.8 million (including the values provided in the statement of claim and the submission dated 4 March 2015).

On 2 August 2016 the Regional Court in Warsaw issued a decision ordering the publication of an announcement in the press concerning the commencement of group action proceedings. Following the Bank's motion to rescind this decision, the Court suspended its execution, but, on 8 August 2016, it issued another decision for the case to be heard in group action proceedings. On 31 August 2016 the Bank appealed against this decision. On 16 December 2016 the Court of Appeal in Warsaw overruled decision of the Regional Court for the case to be heard in group action proceedings and referred the request for the case to be heard in group action proceedings to the Regional Court for re-examination. At a hearing on 15 March 2017 the Regional Court issued decision for the case to be heard in group action proceedings. On 18 April 2017 the Bank filed an appeal against the above decision. On 30 June 2017 the Claimant filed a submission with the Regional Court in Warsaw, extending the claim again by further 676 group members. The new value of the subject matter of the dispute was indicated as approx. PLN 132.7 million (including the values provided in the statement of claim and the previous submissions concerning extension of the claim dated 4 March 2015 and 17 February 2016).

The submission dated 30 June 2017 extending the claim has not yet been served on the Bank's counsel. On 28 September 2017 the Court of Appeal in Warsaw issued a decision dismissing the Bank's appeal against the decision the Regional Court in Warsaw dated 15 March 2017; thus, the decision for the case to be heard in group action proceedings became final. On 20 November 2017, the Regional Court in Warsaw ordered the publication in the newspaper “Rzeczpospolita” that group proceedings had been initiated. The above announcement was published on 23 January 2018. The deadline for any further borrowers to join the proceedings is 23 April 2018.

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. On 3 March 2016 the Bank filed the response to the lawsuit demanding its dismissal. The first court hearing took place on 13 September 2016 and the court issued the decision on the admissibility of the class action in this case. On 16 February 2017 the Court of Appeal dismissed the appeal against the decision on the admissibility of the class action in this case. This decision is final. On 30 March 2017 the Regional Court in Warsaw dismissed Bank's motion to oblige the plaintiff to provide security for costs of proceedings. On 10 April 2017 Bank filed a complaint to the Court of Appeal in Warsaw against the decision dismissing the motion to provide security. On 13 September 2017 the Court of Appeal in Warsaw dismissed the complaint against the decision of the Regional Court in Warsaw of 30 March 2017 on dismissal of the motion to provide security. The decision is final. Pursuant to the decision of 10 October 2017, the Regional Court in Warsaw announced the initiation of group proceedings in the daily newspaper "Rzeczpospolita", thus setting a period of three months for submitting statements on joining the group by the interested parties. On 29 March 2018, the period for submitting statements on joining the group expired. To date, the group's representative has not provided the Court with a list of all the group's members, including those who might have joined the group as a result of the announcement.

OFF-BALANCE ITEMS

Amount '000 PLN	31.03.2018	31.12.2017
Off-balance conditional commitments granted and received	**9 518 893**	**9 166 626**
Commitments granted:	9 309 294	9 121 526
- financial	7 947 321	7 899 290
- guarantee	1 361 973	1 222 236
Commitments received:	209 600	45 100
- financial	165 515	0
- guarantee	44 085	45 100

10. ADDITIONAL INFORMATION

10.1. Data on assets securing liabilities

As at 31 March 2018, the Bank's following assets secured its liabilities (in '000 PLN):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0119	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	130 923
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	505
3.	Treasury bonds WZ0120	Held to Collect and for Sale	Loan agreement	450 000	454 140
4.	Treasury bonds WZ0119	Held to Collect and for Sale	Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund	295 000	297 095
5.	Central Bank bills NBP_060418	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	23 700	23 697
5.	Central Bank bills NBP_060418	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	15 500	15 498
6.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
7.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	2 666	2 666
8.	Deposits	Deposits in banks	Settlement on transactions concluded	142 693	142 693
			TOTAL	1 060 159	1 067 316

As at 31 December 2017 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 WZ0119	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 537
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	506
3.	Treasury bonds WZ0119	Held to Collect and for Sale	Loan agreement	120 000	121 418
4.	Treasury bonds WZ0120	Held to Collect and for Sale	Loan agreement	503 000	509 298
5.	Treasury bonds WZ0119	Held to Collect and for Sale	Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund	325 000	328 842
6.	Central Bank bills NBP_050118	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	18 000	17 998
7.	Central Bank bills NBP_050118	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	15 500	15 498
8.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
9.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	3 377	3 377
10.	Deposits	Deposits in banks	Settlement on transactions concluded	115 173	115 173
			TOTAL	1 230 650	1 243 747

10.2. Dividend for 2017

KNF dividend policy recommendation for banks (announced in November 2017) set the following additional buffers above minimum required for TCR for dividend distribution: +1.5% to pay 50%; additional 0.625% (full conservation buffer 2.5%) to pay 75%; + Stress test add-on (3.47% for the Bank/Group) to pay 100%. KNF kept additional criteria for banks with FX mortgage portfolio (K1 based on FX mortgage share in total portfolio and K2 based on share of 2007-2008 vintages in total FX mortgage portfolio).

Bank Millennium has a dividend policy of distributing between 35% to 50% of net profit, subject to regulatory recommendations. The high capital ratios (as at 2017 year-end) would allow to pay 75% if not additional K1/K2 criteria. Therefore, the Management Board of the Bank submitted to Annual General Meeting a proposal of full retention of 2017 net profit in Bank's equity. The Annual General Meeting held on 26th March 2018 decided to retain the net profit for 2017 in the Bank by allocating it in full to reserve capital.

10.3. Earnings per share

Profit per share calculated for I quarter 2018 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.13.

10.4. Shareholders holding no less than 5% of the total number of votes at the General Shareholders Meeting of the Group's parent company – Bank Millennium S.A.

Information on the shareholders presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to attend the General Meeting of the Bank on 26 March 2018.

Data as at the delivery date of the report for 1st quarter 2018

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	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	108 963 373	8.98	108 963 373	8.98
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	65 984 000	5.44	65 984 000	5.44

Shareholders structure according to consolidated annual report for 2017

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	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	109 020 881	8.99	109 020 881	8.99
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	66 018 868	5.44	66 018 868	5.44

10.5. Information about loan sureties or guarantees extended by the Group

In the three months 2018, the Group did not grant any sureties or guarantees for a loan or bank loan to a single entity, which would cause the Group's exposure on this account to the Client as at 31 march 2018 to exceed 10% of the Group's equity as at the balance sheet date.

10.6. Seasonality and business cycles

In the Group's activity, there are no significant phenomena, which are cyclical or subject to seasonal variations.

10.7. Other additional information and events after the balance sheet date

As at 31 March 2018, the Group has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed consolidated statements, Group did not:

- create substantial write-offs for inventories,
- conclude significant acquisitions and sales of property, plant and equipment,
- make correction of prior period errors,
- introduce significant changes in determining the fair value for financial instruments valued at fair value,
- make any reclassification of financial assets as a result of changes in purpose or use,
- change the method of determining the estimated values, which would exert a significant influence on the current interim period.

Between the date on which this report is drawn up and the date of its publication, there were no other events that could affect Group's future financial results.

FX mortgage loan portfolio

On 2 August 2016 the President's Bill on support for FX mortgage borrowers was submitted to the Parliament. The proposed law is to apply to FX (all currencies) loan agreements signed from 1 July 2000 to 26 August 2011 (when the "Anti-spread Act" came into force). This Bill concerns the return of part of FX spreads applied by banks.

On 2 August 2017 a new Presidential Bill appeared in Parliament regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. On 13 October 2017 the first reading of the Bill took place in the Sejm and it was sent to a Parliamentary Committee. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Restructuring Fund. As regards the Supporting Fund, the Bill aims to increase availability of money from the fund by means of: relaxing criteria, which must be satisfied by a borrower applying for support; increasing the maximum amount of support; extending the period, for which the support is granted; forgiving part of the support granted conditional on punctual repayment to the fund. The Restructuring Fund is to be used for currency conversion of FX mortgages to PLN. The Bill contains very general regulations and does not specify criteria of eligibility for such currency conversion and its rules.

Quarterly payments to the Restructuring Fund made by lenders are not to exceed the equivalent of the FX mortgage portfolio and the rate of 0.5%. The maximum costs for the entire sector, estimated by KNF, are up to PLN 2.8bn in the first year of operation of the Restructuring Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables for restructuring with consideration of stability of the financial system and effective use of money in the Restructuring Fund.

Including the two above Bills, so far four draft Acts have been submitted to Parliament and in consequence it is not possible to estimate the impact of the proposed legislation on the banking sector and the Bank. However, if any of the Bills is adopted and begins to bind banks, this may lead to significant reduction of the Bank's profitability and its capital position.

II. CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS OF BANK MILLENNIUM S.A. FOR THE THREE MONTHS ENDED 31 MARCH 2018

CONTENTS

1. INTRODUCTION AND ACCOUNTING PRINCIPLES

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2017.

The accounting principles applied in the preparation of this report are compliant with the requirements of IAS 34 and the principles used in the preparation of the consolidated financial statements of the Bank Millennium for the year ended on December 31, 2017, taking into account changes introduced as a result of the IFRS 9 implementation on January 1, 2018, which are described below. Pursuant to the provisions of IFRS 9, the Bank decided not to convert comparative data for reporting periods ended before January 1, 2018.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with later amendments) the Bank is required to publish the financial results for the nine months ended 31 March 2018.

Condensed interim financial statements of the Bank:

- are prepared on the basis of the assumption of business continuity by the Bank, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;
- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

In addition to financial data these condensed interim financial statements of the Bank also presents information and data that is important for appropriate assessment of the Bank’s economic and financial situation and its financial performance, and which was not included in the condensed interim consolidated statements of the Group for the three months period ended 31 March 2018. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the three months period ended 31 March 2018 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

The Board of Directors approved this condensed standalone interim financial statements on 23rd April 2018.

IFRS 9: „Financial instruments”

On 24th July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9: „Financial instruments” effective for annual periods beginning on or after 1st January 2018, which replaced the existing International Accounting Standard 39 „Financial instruments: recognition and measurement”.

In March 2016 the Bank launched an IFRS 9 implementation project which actively engaged various the Bank’s organizational units responsible for accounting, financial reporting and risk management as well as business and IT departments and external consultants.

IFRS 9 introduced modifications regarding the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting, and introduced a new standard in the impairment process.

Description of business models and accounting standards regarding financial instruments and hedge accounting applicable at the Bank in accordance with IFRS 9.

Valuation Models

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

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

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

1) The business model of managing financial assets,
2) Test of contractual cash flow characteristics connected with financial assets (hereinfrom „SPPI test”).

The purpose of the SPPI test (Solely Payment of Principal and Interest) is to assess the characteristics of contract cash flows in order to verify if:

1) The contractual terms trigger, at specific dates, certain cash flows which constitute solely a payment of principal and interest on such principal,
2) The principal constitutes the fair value of a loan at the moment of its recognition,
3) The interest reflects the value of money over time and credit risk, liquidity risk, the Bank’s margin and other administrative costs connected with the value of the principal outstanding at any given moment.

Business Models of the Bank

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

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

Held To Collect Model (HTC)

Model characteristics:

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

Conditions allowing sale in the HTC model:

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

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

Impact on classification and valuation:

Instruments assigned to the HTC model are classified as valued at amortised cost (AC) on condition that the criteria of the SPPI Test are met. Consequently, subject to valuation at amortised cost will be the Bank’s credit portfolio (except loans not meeting the SPPI test) and debt securities issued by local government units (municipal bonds portfolio), previously classified (according to IAS39) as available for sale (AFS), because these instruments in principle are held by the Bank in order to collect contract cash flows, while sales transactions occur sporadically.

Given the existing discrepancies in interpretation, at the moment, the Bank has not decided to apply FVTP&L valuation model to loans for which the interest rate formula is based on a multiplier. Loans with such characteristics account for approximately 2% of the Bank's receivables portfolio and consist mainly of credit card exposures and overdrafts. The Bank estimates that the possible effect of valuation of these portfolios at fair value would not have a material impact on the Bank's financial position whereas main change would be the method of presenting these loans in the financial statements.

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

Model characteristics:

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

Impact on classification and valuation:

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

The HTC&FS model will apply to the portfolio of government securities and money bills of the National Bank of Poland (in particular the liquidity and investment portfolio) and other debt securities classified as available for sale (AFS) according to IAS39 (except municipal bonds reclassified in the HTC portfolio). This means that the classification of these instruments has not changed after the entry into force of IFRS 9.

Capital instruments (with the exception of related entities not covered by the provisions of IFRS9) are classified as valued at fair value through profit & loss (FVTPL), provided that entities which manage them do not intend to hold them as a strategic investment, or at fair value through other comprehensive income (FVTOCI) for instruments which are not held for trading purposes. The decision to use the option to value capital instruments at fair value through other comprehensive income shall be taken by the Bank on the day of the initial recognition of the instrument and constitute an irrevocable designation (even at the moment of selling, the profit/loss on the transaction shall not be recognised in the Profit and Loss Account). At the moment of implementation of IFRS9, the Bank designated some equity investments from the strategic investment portfolio for which it is not planned to realize profits from sales in the medium-term horizon to the category of fair value measurement with the effect of valuation through other comprehensive income.

Other models

Characteristics:

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

This category should include in particular:

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

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

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

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

Impact on classification and valuation:

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

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

1) Derivative instruments,
2) Securities held for trading.

The classification of such instruments has not changed after the entry into force of IFRS 9 (Fair Value Through Profit & Loss).

Impairment

General assumptions of the model

Since 1 January 2018, IFRS 9 has replaced the existing model of impairment under IAS 39 based on the concept of "incurred loss" with a new model based on the concept of "expected credit loss", (hereinafter: ECL). As a direct result of this change, impairment charges will now have to be calculated based on expected credit losses and forecasts and expected future economic conditions will have to be taken into account when conducting evaluation of credit risk of an exposure.

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

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

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

Identification of a significant increase in credit risk

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

- repayment delays of more than 30 days – back-stop measure,
- facility granted to a client in a difficult financial standing,
- awarding a procedural rating,
- taking a risk-mitigating decision for corporate clients covered by the early warning system,
- events related to an increase in risk, the so called “soft signs” of impairment, identified as part of an individual analysis involving individually significant customers.

The quantitative criterion involves a comparison of the lifetime PD value determined on initial recognition of an exposure in the balance sheet with the lifetime PD value determined at the current reporting date. If an empirically determined threshold of the relative change in the lifetime PD value is exceeded then an exposure is automatically transferred to Stage 2. Clients with the total exposure at the group level > PLN 10 million, local government units and the Bank's subsidiaries are excluded from the quantitative criterion.

Incorporation of forward looking information on economic conditions (FLI)

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

Unification of the default definition across the Bank

Based on the paragraph 5.5.37 of IFRS 9, on the application date of the new Standard, the impaired definition was adapted to a more conservative default definition used in the capital requirement calculation process (including in the IRB approach). The main difference in both definitions, before the change, was related to the approach to a quarantine for restructured exposures. The approach is more restrictive in respect to the default definition. Therefore, ever since it implemented IFRS 9, the Bank has used a uniform definition of default, both in the area of capital calculation and to determine impairment.

PD Model

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

LGD Models

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

For the corporate portfolio, a completely new LGD model has been developed that fully satisfies the requirements of the new standard. The model is based on a component determining parameterized recovery for the key types of collateral and a component determining the recovery rate for the unsecured part. All the parameters were calculated on the basis of historical data, including discounted cash flows achieved by the corporate debt recovery unit.

EaD Model

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

Impact on the amount of impairment charges

There were multiple factors that contributed to the increase in the amount of impairment charges following the application of IFRS 9. The most important factors included:

- Identification of exposures with a significant risk increase (Stage 2) and the related need to estimate impairment charges on a lifetime basis.
- Extension of the Loss Identification Period (LIP) for exposures in Stage 1, to 12 months. So far, the Bank has calculated PD parameters on the basis of LIP determined empirically, which was shorter than 12 months for all the observed segments.
- Unification of the default definition in the Bank.

Financial liabilities

IFRS 9 has not introduced significant changes with regard to classification and measurement of financial liabilities requirements existing in IAS 39 – on initial recognition a financial liability shall be classified as:

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

Additionally in accordance with IFRS 9, financial liabilities shall not be reclassified subsequent to their initial recognition.

Hedge accounting

Based on the paragraph 7.2.21 of IFRS 9, the Bank decided to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The decision will be applied to every hedging relationship that the Bank applies and is going to apply in the future.

In view of the above, as regards hedge accounting, the adoption of IFRS 9 will have no impact on the financial position of the Bank.

Pursuant to the provisions of IFRS 9, the Bank decided not to convert comparative data due to the implementation of changes from the classification and valuation area and impairment. As a result, differences in the carrying amount of financial assets and liabilities resulting from the implementation of IFRS 9 were recognized as an adjustment to own equity as at 1 January 2018.

Below an impact of the implementation of IFRS 9 on the financial position of the Bank is presented.

ASSETS

Amount '000 PLN	IAS 39 31.12.2017	Adj. 1	Adj. 2	Adj. 3	IFRS 9 01.01.2018
Cash, cash balances at central banks	2 080 151	0	0	0	2 080 151
Financial assets held for trading	531 452	0	0	0	531 452
Derivatives	193 101	0	0	0	193 101
Equity instruments	0	0	0	0	0
Debt securities	338 351	0	0	0	338 351
Non-trading financial assets mandatorily at fair value through profit or loss	0	48 864	0	0	48 864
Equity instruments	0	48 864	0	0	48 864
Loans and advances	0	0	0	0	0
Financial assets available for sale	19 053 103	(19 053 103)	0	0	0
Equity instruments	49 761	(49 761)	0	0	0
Debt securities	19 003 342	(19 003 342)	0	0	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	0	18 956 263	0	24 904	18 981 167
Equity instruments	0	897	0	24 904	25 801
Debt securities	0	18 955 366	0	0	18 955 366
Financial assets at amortised cost	47 398 722	47 976	(264 825)	0	47 181 873
Debt securities	0	47 976	0	0	47 976
Deposits, loans and advances to banks and other monetary institutions	254 191	0	0	0	254 191
Loans and advances to customers	47 144 531	0	(264 825)	0	46 879 706
Repurchase agreements	0	0	0	0	0
Derivatives – Hedge accounting	885 880	0	0	0	885 880
Investments in subsidiaries, joint ventures and associates	84 349	0	0	0	84 349
Tangible assets	178 243	0	0	0	178 243
Intangible assets	68 287	0	0	0	68 287
Tax assets	191 391	0	47 741	(4 732)	234 400
Current tax assets	689	0	0	0	689
Deferred tax assets	190 702	0	47 741	(4 732)	233 711
Other assets	165 456	0	0	0	165 456
Non-current assets and disposal groups classified as held for sale	0	0	0	0	0
Total assets	**70 637 034**	**0**	**(217 084)**	**20 172**	**70 440 122**

LIABILITIES AND EQUITY

Amount '000 PLN	IAS 39 31.12.2017	Adj. 1	Adj. 2	Adj. 3	IFRS 9 01.01.2018
LIABILITIES					
Financial liabilities held for trading	190 257	0	0	0	190 257
Derivatives	190 257				190 257
Short positions	0				0
Financial liabilities measured at amortised cost	61 333 025	0	0	0	61 333 025
Liablities to banks and other monetary other monetary institutions	2 353 131	0	0	0	2 353 131
Liabilities to customers	57 398 904	0	0	0	57 398 904
Repurchase agreements	0	0	0	0	0
Debt securities issued	879 019	0	0	0	879 019
Subordinated debt	701 971	0	0	0	701 971
Derivatives – Hedge accounting	176 853	0	0	0	176 853
Provisions	66 838	0	23 829	0	90 667
Pending legal issues and tax litigation	45 118	0	0	0	45 118
Commitments and guarantees given	21 720	0	23 829	0	45 549
Tax liabilities	11 893	0	0	0	11 893
Current tax liabilities	11 893	0	0	0	11 893
Deferred tax liabilities	0	0	0	0	0
Other liabilities	1 317 620	0	0	0	1 317 620
Total Liabilities	**63 096 486**	**0**	**23 829**	**0**	**63 120 315**
EQUITY					
Capital	1 213 117	0	0	0	1 213 117
Share premium	1 147 241	0	0	0	1 147 241
Accumulated other comprehensive income	(35 077)	(5 500)	0	20 172	(20 405)
Retained earnings	5 215 267	5 500	(240 913)	0	4 979 854
Total equity	7 540 548	0	(240 913)	20 172	7 319 807
Total equity and total liabilities	**70 637 034**	**0**	**(217 084)**	**20 172**	**70 440 122**

Adj. 1 – change in the classification of financial assets,

Adj. 2 - change in the value of allowances and other credit risk adjustments,

Adj. 3 - valuation of minority shares.

Impact of IFRS9 implementation on capital adequacy ratios

The Bank assessed the negative impact of IFRS9 implementation on capital adequacy ratios to not more than 25 bps.

The Bank decided to use the phase-in rules in accordance with Regulation (EU) 2017/2395 of the European Parliament And of the council. The Bank informed the Supervisory Authority about its plans.

2. STANDALONE FINANCIAL DATA (BANK)

STATEMENT OF PROFIT OR LOSS

Amount ‘000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Net interest income	404 071	368 503
Interest income	584 065	550 400
Interest expenses	(179 994)	(181 897)
Net fee and commission income	145 854	138 919
Fee and commission income	173 979	161 810
Fee and commission expenses	(28 125)	(22 891)
Dividend income	53 726	72 286
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	3 160	332
Results on financial assets and liabilities held for trading	17 235	16 512
Result on non-trading financial assets mandatorily at fair value through profit or loss	853	0
Result on hedge accounting	(5 429)	(4 072)
Result on exchange differences	36 608	39 854
Other operating income	8 452	18 828
Other operating expenses	(5 704)	(9 135)
Operating income	**658 826**	**642 027**
Administrative expenses	(302 836)	(286 733)
Impairment losses on financial assets	(43 930)	(53 578)
Impairment losses on non-financial assets	(38)	(230)
Result on modification	(4 299)	0
Depreciation	(12 676)	(12 441)
Operating expenses	**(363 779)**	**(352 982)**
Result on operating activity	**295 047**	**289 045**
Share of the profit of investments in subsidiaries	0	0
Banking tax	(52 178)	(47 230)
Result before income taxes	**242 869**	**241 815**
Corporate income tax	(57 259)	(54 608)
Result after taxes	**185 610**	**187 207**

STATEMENT OF COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Result after taxes	185 610	187 207
Other comprehensive income items that may be reclassified to profit or loss	57 747	76 295
Result on debt securities at fair value through other comprehensive income	46 395	39 318
Result on equity instruments at fair value through other comprehensive income	0	1 834
Hedge accounting	11 352	35 143
Other comprehensive income items that will not be reclassified to profit or loss	0	0
Actuarial gains (losses)	0	0
Total comprehensive income items before taxes	**57 747**	**76 295**
Corporate income tax on other comprehensive income items that may be reclassified to profit or loss	(10 972)	(14 496)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	0	0
Total comprehensive income items after taxes	**46 775**	**61 799**
Total comprehensive income for the period	**232 385**	**249 006**

BALANCE SHEET

ASSETS

Amount '000 PLN	31.03.2018	31.12.2017
Cash, cash balances at central banks	2 881 456	2 080 151
Financial assets held for trading	1 800 986	531 452
Derivatives	134 618	193 101
Equity instruments	0	0
Debt securities	1 666 368	338 351
Non-trading financial assets mandatorily at fair value through profit or loss	49 717	0
Equity instruments	49 717	0
Loans and advances	0	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	18 038 214	19 053 103
Equity instruments	25 803	49 761
Debt securities	18 012 411	19 003 342
Financial assets at amortised cost	48 376 167	47 398 722
Debt securities	48 166	0
Deposits, loans and advances to banks and other monetary institutions	448 116	254 191
Loans and advances to customers	47 738 929	47 144 531
Repurchase agreements	140 956	0
Derivatives – Hedge accounting	516 107	885 880
Investments in subsidiaries, joint ventures and associates	84 342	84 349
Tangible assets	175 393	178 243
Intangible assets	64 949	68 287
Tax assets	215 670	191 391
Current tax assets	0	689
Deferred tax assets	215 670	190 702
Other assets	344 817	165 456
Non-current assets and disposal groups classified as held for sale	0	0
Total assets	**72 547 818**	**70 637 034**

LIABILITIES AND EQUITY

Amount '000 PLN	31.03.2018	31.12.2017
LIABILITIES		
Financial liabilities held for trading	256 710	190 257
Derivatives	148 401	190 257
Short positions	108 309	0
Financial liabilities measured at amortised cost	63 162 641	61 333 025
Liablities to banks and other monetary other monetary institutions	1 981 886	2 353 131
Liabilities to customers	59 592 982	57 398 904
Repurchase agreements	0	0
Debt securities issued	878 708	879 019
Subordinated debt	709 065	701 971
Derivatives – Hedge accounting	193 014	176 853
Provisions	102 804	66 838
Pending legal issues and tax litigation	55 147	45 118
Commitments and guarantees given	47 657	21 720
Tax liabilities	26 868	11 893
Current tax liabilities	26 868	11 893
Deferred tax liabilities	0	0
Other liabilities	1 253 589	1 317 620
Total Liabilities	**64 995 626**	**63 096 486**
EQUITY		
Capital	1 213 117	1 213 117
Share premium	1 147 241	1 147 241
Accumulated other comprehensive income	26 370	(35 077)
Retained earnings	5 165 464	5 215 267
Total equity	7 552 192	7 540 548
Total equity and total liabilities	**72 547 818**	**70 637 034**

Book value	7 552 192	7 540 548
Number of shares	1 213 116 777	1 213 116 777
Book value per share (in PLN)	6.23	6.22

STATEMENT OF CHANGES IN EQUITY

01.01.2018 - 31.03.2018 *Amount '000 PLN*	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity as at 31.12.2017	7 540 548	1 213 117	1 147 241	(35 077)	648 945	4 566 322
adjustment of the opening balance due to the implementation of IFRS 9	(220 741)	0	0	14 672	(235 413)	0
Equity as at 01.01.2018	7 319 807	1 213 117	1 147 241	(20 405)	413 532	4 566 322
Total comprehensive income for 1quarter 2018 (net)	232 385	0	0	46 775	185 610	0
net profit/ (loss) of the period	185 610	0	0	0	185 610	0
valuation of debt securities at fair value through other comprehensive income	37 580	0	0	37 580	0	0
valuation of shares at fair value through other comprehensive income	0	0	0	0	0	0
hedge accounting	9 195	0	0	9 195	0	0
Transfer between items of reserves	0	0	0	0	(648 945)	648 945
Equity at the end of the period	7 552 192	1 213 117	1 147 241	26 370	(49 803)	5 215 267

01.01.2017 - 31.12.2017 *Amount '000 PLN*	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 741 504	1 213 117	1 147 241	(185 176)	652 651	3 913 671
Total comprehensive income for 2017 (net)	799 044	0	0	150 099	648 945	0
net profit/ (loss) of the period	648 945	0	0	0	648 945	0
valuation of debt securities at fair value through other comprehensive income	90 748	0	0	90 748	0	0
valuation of shares at fair value through other comprehensive income	4 201	0	0	4 201	0	0
hedge accounting	56 845	0	0	56 845	0	0
actuarial gains (losses)	(1 695)	0	0	(1 695)	0	0
Transfer between items of reserves	0	0	0	0	(652 651)	652 651
Equity at the end of the period	7 540 548	1 213 117	1 147 241	(35 077)	648 945	4 566 322

01.01.2017 - 31.03.2017 *Amount '000 PLN*	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 741 504	1 213 117	1 147 241	(185 176)	652 651	3 913 671
Total comprehensive income for 1quarter 2017 (net)	249 006	0	0	61 799	187 207	0
net profit/ (loss) of the period	187 207	0	0	0	187 207	0
valuation of debt securities at fair value through other comprehensive income	31 847	0	0	31 847	0	0
valuation of shares at fair value through other comprehensive income	1 486	0	0	1 486	0	0
hedge accounting	28 466	0	0	28 466	0	0
Transfer between items of reserves	0	0	0	0	(652 651)	652 651
Equity at the end of the period	6 990 510	1 213 117	1 147 241	(123 377)	187 207	4 566 322

CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Profit (loss) after taxes	185 610	187 207
Total adjustments:	(219 670)	30 555
Interests in net income (loss) of associated companies	0	0
Depreciation and amortization	12 676	12 441
Foreign exchange (gains) losses	8 094	(71 110)
Dividends	(53 726)	(72 286)
Changes in provisions	12 137	(2 881)
Result on sale and liquidation of investing activity assets	(3 487)	(7 264)
Change in financial assets valued at fair value through profit and loss (held for trading)	(874 059)	(227 966)
Change in loans and advances to banks	(5 366)	612 150
Change in loans and advances to customers	(858 917)	35 384
Change in receivables from securities bought with sell-back clause (loans and advances)	(140 956)	(37 743)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	82 614	(718 569)
Change in deposits from banks	(378 882)	175 311
Change in deposits from customers	2 194 078	502 961
Change in liabilities from securities sold with buy-back clause	0	0
Change in debt securities	(311)	(24 578)
Change in income tax settlements	60 685	62 605
Income tax paid	(37 263)	(52 295)
Change in other assets and liabilities	(244 081)	(159 248)
Other	7 094	3 643
Net cash flows from operating activities	(34 060)	217 762

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Inflows from investing activities:	54 628	87 441
Proceeds from sale of property. plant and equipment and intangible assets	902	8 155
Proceeds from sale of shares in associates	0	7 000
Change in value of investment financial assets due to purchase/sale	0	0
Other investing inflows	53 726	72 286
Outflows from investing activities:	(2 283 156)	(1 864 713)
Acquisition of property, plant and equipment and intangible assets	(7 063)	(3 525)
Acquisition of shares in associates	0	(1 000)
Change in value of investment financial assets due to purchase/sale	(2 276 093)	(1 860 188)
Other investing outflows	0	0
Net cash flows from investing activities	(2 228 528)	(1 777 272)

C. Cash flows from financing activities

Amount '000 PLN	1.01.2018 - 31.03.2018	1.01.2017 - 31.03.2017
Inflows from financial activities:	0	0
Long-term bank loans	0	0
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other financial inflows	0	0
Outflows from financial activities:	(450)	(500 331)
Repayment of long-term bank loans	0	0
Redemption of debt securities	0	(499 853)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other financial outflows	(450)	(478)
Net cash flows from financing activities	(450)	(500 331)

D. Net cash flows. Total (A + B + C)	(2 263 038)	(2 059 841)
E. Cash and cash equivalents at the beginning of the reporting period	8 408 252	5 381 982
F. Cash and cash equivalents at the end of the reporting period (D + E)	6 145 214	3 322 141

3. SUPPLEMENTARY INFORMATION FOR STANDALONE FINANCIAL DATA

As at 31 March 2018, the Bank has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed statements, Bank did not:
- create substantial write-offs for inventories,
- conclude significant acquisitions and sales of property, plant and equipment,
- make correction of prior period errors,
- introduce significant changes in determining the fair value for financial instruments valued at fair value,
- make any reclassification of financial assets as a result of changes in purpose or use,
- change the method of determining the estimated values, which would exert a significant influence on the current interim period.

There are no significant phenomena, in Bank's activity which are cyclical or subject to seasonal variations.

Between the date on which this report is drawn up and the date of its publication, there were no other events that could significantly affect Bank's future financial results.

FX mortgage loan portfolio

On 2 August 2016 the President's Bill on support for FX mortgage borrowers was submitted to the Parliament. The proposed law is to apply to FX (all currencies) loan agreements signed from 1 July 2000 to 26 August 2011 (when the "Anti-spread Act" came into force). This Bill concerns the return of part of FX spreads applied by banks.

On 2 August 2017 a new Presidential Bill appeared in Parliament regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. On 13 October 2017 the first reading of the Bill took place in the Sejm and it was sent to a Parliamentary Committee. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Restructuring Fund. As regards the Supporting Fund, the Bill aims to increase availability of money from the fund by means of: relaxing criteria, which must be satisfied by a borrower applying for support; increasing the maximum amount of support; extending the period, for which the support is granted; forgiving part of the support granted conditional on punctual repayment to the fund. The Restructuring Fund is to be used for currency conversion of FX mortgages to PLN. The Bill contains very general regulations and does not specify criteria of eligibility for such currency conversion and its rules.

Quarterly payments to the Restructuring Fund made by lenders are not to exceed the equivalent of the FX mortgage portfolio and the rate of 0.5%. The maximum costs for the entire sector, estimated by KNF, are up to PLN 2.8bn in the first year of operation of the Restructuring Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables for restructuring with consideration of stability of the financial system and effective use of money in the Restructuring Fund.

Including the two above Bills, so far four draft Acts have been submitted to Parliament and in consequence it is not possible to estimate the impact of the proposed legislation on the banking sector and the Bank. However, if any of the Bills is adopted and begins to bind banks, this may lead to significant reduction of the Bank's profitability and its capital position.

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

	01.01.2018 - 31.03.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 362 016	1 235 790
Adjustment of the opening balance due to the implementation of IFRS 9	384 139	0
Adjusted balance at the beginning of the period	1 746 155	1 235 790
Change in value of provisions:	(78 591)	126 226
Impairment write-offs created in the period	268 948	490 802
Amounts written off	(129 261)	(86 172)
Impairment write-offs released in the period	(226 935)	(254 342)
Sale of receivables	0	(5 897)
KOIM created in the period(*)	7 265	0
Changes resulting from FX rates differences	1 293	(18 165)
Other	99	0
Balance at the end of the period	**1 667 564**	**1 362 016**

(*) In accordance with IFRS 9, the Bank calculates interest on the loan portfolio with a recognized impairment based on the net exposure value. For this purpose, the so-called impaired interest adjustment ("KOIM") is calculated and recorded as a reduction of interest income. Aforementioned KOIM adjustment in the balance sheet is presented as an impairment allowances, and as a consequence the reconciliation of the change in impairment allowances requires consideration of the KOIM recognized in the interest income.

Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Investments in associates	Property. plant and equipment	Intangibles	Other assets
Balance as at 01.01.2018	5 963	7 600	8 733	0	7 872
- Write-offs created	18	0	0	0	1 244
- Write-offs released	0	0	0	0	(1 206)
- Utilisation	0	0	0	0	(6)
- Sale of assets	0	0	0	0	0
Balance as at 31.03.2018	5 981	7 600	8 733	0	7 904

Impairment write-offs:	Investment securities	Investments in associates	Property. plant and equipment	Intangibles	Other assets
Balance as at 01.01.2017	7 142	7 600	9 787	0	7 105
- Write-offs created	0	0	358	0	3 763
- Write-offs released	(1 016)	0	(1 412)	0	(2 596)
- Utilisation	0	0	0	0	(400)
- Sale of assets	(163)	0	0	0	0
Balance as at 31.12.2017	5 963	7 600	8 733	0	7 872

Impairment losses on financial assets

	01.01.2018 - 31.03.2018	01.01.2017 - 31.03.2017
Impairment losses on loans and advances to customers	(41 822)	(55 598)
- Impairment charges on loans and advances to customers	(268 948)	(176 145)
- Reversal of impairment charges on loans and advances to customers	226 935	120 439
- Amounts recovered from loans written off	191	108
- Result from sale of receivables portfolio	0	0
Impairment losses on investment securities	(18)	30
- Impairment write-offs for investment securities	(18)	0
- Reversal of impairment write-offs for investment securities	0	30
Impairment losses on investments in associates	0	0
- Impairment write-offs for investments in associates	0	0
- Reversal of impairment write-offs for investments in associates	0	0
Impairment losses on off-balance sheet liabilities	(2 090)	1 990
- Impairment write-offs for off-balance sheet liabilities	(19 223)	(9 215)
- Reversal of impairment write-offs for off-balance sheet liabilities	17 133	11 205
Total	**(43 930)**	**(53 578)**

Creation, charge, utilisation and release of provisions

	01.01.2018 - 31.03.2018	01.01.2017 - 31.12.2017
Pending legal issues and tax litigation		
Balance at the beginning of the period	45 118	23 988
Charge of provision	998	23 116
Release of provision	(44)	(1 233)
Utilisation of provision	(3 083)	(753)
Other/reclassification	12 158	0
Balance at the end of the period	55 147	45 118
Commitments and guarantees given		
Balance at the beginning of the period	21 720	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	0
Adjusted balance at the beginning of the period	45 549	24 633
Charge of provision	19 223	13 771
Release of provision	(17 133)	(16 577)
FX rates differences	18	(107)
Balance at the end of the period	47 657	21 720
Total	**102 804**	**66 838**

Assets / Liabilities from deferred income tax

	31.03.2018			31.12.2017		
	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets
Difference between tax and balance sheet depreciation and amortisation	4 075	0	4 075	4 012	0	4 012
Balance sheet valuation of financial instruments	7 041	(29 312)	(22 271)	6 275	(29 383)	(23 108)
Unrealised receivables/ liabilities on account of derivatives	10 497	(20 489)	(9 992)	16 766	(28 537)	(11 771)
Interest on deposits and securities to be paid/received	32 115	(34 474)	(2 359)	25 479	(33 022)	(7 543)
Interest and discount on loans and receivables		(49 234)	(49 234)	0	(28 062)	(28 062)
Income and cost settled at effective interest rate	83 742	0	83 742	82 892	0	82 892
Provisions for loans presented as temporary differences	184 462	0	184 462	133 150	0	133 150
Employee benefits	14 532	0	14 532	14 349	0	14 349
Provisions for costs	17 230	0	17 230	16 883	0	16 883
Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	19 305	(25 490)	(6 185)	21 462	(13 234)	8 228
Other	1 750	(80)	1 670	1 764	(92)	1 672
Net deferred income tax asset	374 749	(159 079)	215 670	323 032	(132 330)	190 702

4. STATEMENT OF RELATED PARTY TRANSACTIONS

All the transactions concluded between the Group entities in the period from 1 January to 31 March 2018 resulted from their ongoing activity. Below, we are presenting amounts of the most important intra-group transactions concluded between the following entities:

- MILLENNIUM LEASING Sp. z o.o.,
- MILLENNIUM DOM MAKLERSKI S.A.,
- MILLENNIUM TFI S.A.,
- MB FINANCE A.B.,
- MILLENNIUM SERVICE Sp. z o.o.,
- MILLENNIUM TELECOMMUNICATION SERVICES.,
- MILLENNIUM GOODIE Sp. z o.o.

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

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

Assets and liabilities from transactions with related parties (data in '000 PLN) as at 31.03.2018

	With subsidiaries	With parent entity	With other entities of parent Group
ASSETS			
Loans and advances to banks – accounts and deposits	0	2 263	0
Loans and advances to customers	5 469 594	0	0
Investments in associates	84 342	0	0
Financial assets held for trading	692	0	0
Hedging derivatives	0	0	0
Other assets	109 926	0	0
LIABILITIES			
Deposits from banks	0	409	107 391
Deposits from customers	248 212	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities from debt securities	913	0	0
Hedging derivatives	0	0	0
Financial liabilities held for trading	2	95	0
Subordinated debt	0	0	0
Other liabilities	92 867	0	9
- including liabilities from financial leasing	87 652	0	0

Assets and liabilities from transactions with related parties (data in '000 PLN) as at 31.12.2017

	With subsidiaries	With parent entity	With other entities of parent Group
ASSETS			
Loans and advances to banks - accounts and deposits	0	263	0
Loans and advances to customers	5 340 461	0	0
Investments in associates	84 349	0	0
Financial assets held for trading	441	0	0
Hedging derivatives	0	0	0
Other assets	76 859	0	0
LIABILITIES			
Deposits from banks	0	1 252	106 970
Deposits from customers	294 732	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities from debt securities	900	0	0
Financial liabilities held for trading	146	0	0
Subordinated debt	0	0	0
Other liabilities	99 050	0	33
- including liabilities from financial leasing	89 041	0	0

Profit and loss on transactions with related parties (data in '000 PLN) for the period of 1.01-31.03.2018

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	26 833	5	0
Commissions	15 029	49	0
Financial assets and liabilities held for trading	653	0	0
Dividends	53 577	0	0
Other net operating income	1 199	0	0
EXPENSE FROM:			
Interest	619	0	(67)
Commissions	4	0	0
Financial assets and liabilities held for trading	0	95	0
Other net operating costs	0	4	0
General and administrative expenses	21 840	0	112

Profit and loss on transactions with related parties (data in '000 PLN) for the period of 1.01-31.03.2017

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	21 747	3	0
Commissions	13 358	33	0
Financial assets and liabilities held for trading	0	13	0
Dividends	72 001	0	0
Other operating net	1 063	0	0
EXPENSE FROM:			
Interest	3 572	0	(74)
Commissions	7	0	0
Financial assets and liabilities held for trading	496	0	0
Other operating net	0	5	0
General and administrative expenses	21 432	0	98

Off-balance transactions with related parties (data in '000 PLN) as at 31.03.2018

	With subsidiaries	With parent entity	With other entities of parent Group
Conditional commitments	538 397	161 072	0
- granted	535 545	160 345	0
- received	2 852	727	0
Derivatives (par value)	98 045	16 686	0

Off-balance transactions with related parties (data in '000 PLN) as at 31.12.2017

	With subsidiaries	With parent entity	With other entities of parent Group
Conditional commitments	37 884	101 962	0
- granted	35 101	100 345	0
- received	2 783	1 617	0
Derivatives (par value)	73 784	0	0

5. FAIR VALUE

The methodology used by the Bank for valuation of assets and liabilities at fair value is described in detail in Chapter 8. Condensed interim consolidated financial statements of Bank Millennium SA for the 3 months ended 31 March 2018.

The following tables show the figures for Bank Millennium SA.

5.1. Financial instruments not recognized at fair value in the balance sheet

ASSETS

31.03.2018	Balance sheet value	Fair value
Loans and advances to banks	448 116	448 046
Loans and advances to customers *	47 738 929	46 173 299

LIABILITIES

31.03.2018	Balance sheet value	Fair value
Amounts due to banks	1 981 886	1 982 576
Amounts due to customers	59 592 982	59 587 142
Debt securities	878 708	882 758
Subordinated debt	709 065	712 035

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

ASSETS

31.12.2017	Balance sheet value	Fair value
Loans and advances to banks	254 191	254 138
Loans and advances to customers	47 144 531	45 551 004

LIABILITIES

31.12.2017	Balance sheet value	Fair value
Amounts due to banks	2 353 131	2 355 464
Amounts due to customers	57 398 904	57 396 402
Debt securities	879 019	882 732
Subordinated debt	701 971	701 956

5.2. Financial instruments recognized at fair value in the balance sheet

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in PLN'000, as at 31.03.2018

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets held for trading				
Valuation of derivatives			86 145	41 551
Debt securities		1 666 368		
Non-trading financial assets mandatorily at fair value through profit or loss				
Equity instruments				49 717
Financial assets at fair value through other comprehensive income				
Equity instruments				25 803
Debt securities		15 136 381	2 889 638	
Derivatives – Hedge accounting			516 107	
LIABILITIES				
Financial liabilities held for trading				
Valuation of derivatives			106 048	36 128
Short positions		108 309		
Derivatives – Hedge accounting			193 014	

Data in ‘000 PLN, as at 31.12.2017

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets held for trading				
Valuation of derivatives			140 171	45 146
Debt securities		338 351		
Financial assets at fair value through other comprehensive income				
Equity instruments				29 632
Debt securities		12 878 079	6 077 287	47 976
Derivatives – Hedge accounting			885 880	
LIABILITIES				
Financial liabilities held for trading				
Valuation of derivatives			138 516	44 218
Short positions		0		
Derivatives – Hedge accounting			176 853	

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in the 1 quarter 2018 are presented in the table below (in ’000 PLN):

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 31 December 2017	43 159	(42 231)	0	47 976	29 632
Adjusments/reclassifications due to the implementation of IFRS 9	0	0	0	(47 976)	45 035
Balance on 1 January 2018	43 159	(42 231)	0	0	74 667
Settlement/sell/purchase	(8 058)	12 807	0	0	0
Change of valuation recognized in equity	0	0	0	0	0
Change of valuation recognized in P&L account (including interests)	(455)	201	0	0	853
Balance on 31 March 2018	34 646	(29 223)	0	0	75 520

6. ADDITIONAL INFORMATION

6.1. Issue, redemption or repayment of debt or equity instruments

During the three months ended 31 March 2018, the total liabilities of the Bank arising from the issue of debt securities were practically unchanged. During this period, the Bank maintained a fixed level of nominal value of BKMO series N, T and U bonds. The decrease in the balance of bank securities (BPW) by approx. PLN 5 million was offset by the amount of interest accrued on bonds (BKMO series N and T).

6.2. Off-balance sheet liabilities

As at 31 March 2018 and 31 December 2017, the structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	31.03.2018	31.12.2017
Off-balance conditional commitments granted and received	**10 057 291**	**9 204 511**
Commitments granted:	9 844 839	9 156 628
- financial	7 948 725	7 900 674
- guarantee	1 896 114	1 255 954
Commitments received:	212 452	47 883
- financial	165 515	0
- guarantee	46 937	47 883