REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP

FOR 3RD QUARTER 2018

MAIN CONSOLIDATED FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	1.01.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.01.2018 - 30.09.2018	1.01.2017 - 30.09.2017
Interest income	1 881 425	1 783 024	442 324	418 885
Fee and commission income	619 908	593 326	145 741	139 390
Operating income	2 001 579	1 915 403	470 572	449 984
Operating profit	892 495	824 821	209 826	193 775
Profit (loss) before income tax	743 970	684 765	174 908	160 871
Profit (loss) after taxes	548 134	501 580	128 867	117 836
Total comprehensive income of the period	581 480	652 849	136 706	153 373
Net cash flows from operating activities	(1 492 448)	1 079 411	(350 875)	253 585
Net cash flows from investing activities	(3 384 520)	(1 912 401)	(795 702)	(449 279)
Net cash flows from financing activities	(256 964)	84 342	(60 412)	19 814
Net cash flows, total	(5 133 932)	(748 648)	(1 206 990)	(175 879)
Earnings (losses) per ordinary share (in PLN/EUR)	0.45	0.41	0.11	0.10
Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.45	0.41	0.11	0.10
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Total Assets	73 408 314	71 141 415	17 186 008	17 056 610
Liabilities to banks and other monetary institutions	1 630 516	2 353 131	381 729	564 178
Liabilities to customers	60 222 668	57 273 255	14 099 047	13 731 630
Equity	8 111 400	7 772 599	1 899 003	1 863 530
Share capital	1 213 117	1 213 117	284 009	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)	6.69	6.41	1.57	1.54
Diluted book value per share (in PLN/EUR)	6.69	6.41	1.57	1.54
Total Capital Ratio (TCR)	22.91%	20.51%	22.91%	20.51%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Exchange rates accepted to convert selected financial data into EUR				
for items as at the balance sheet date	-	-	4.2714	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)	-	-	4.2535	4.2566

INFORMATION ABOUT THE ACTIVITY OF BANK MILLENNIUM CAPITAL GROUP DURING 3 QUARTERS OF 2018

Bank Millennium Group (the "Group") consolidated net profit in 1-3Q 2018 amounted to PLN 548.1 million and was 9.3% higher versus net profit of the corresponding period in 2017.

Net profit for 3Q 2018 amounted to PLN 200.2 million and was 3.9% higher than net profit of the previous quarter and 6.8% higher than in 3Q 2017. Interest income was the main driver of the growth: 6.7% yearly and 5.4% quarterly.

Main financial and business highlights of 1-3Q 2018 are as follows:

Net profit increase

- Net profit of 1-3Q 2018 reached 548 million PLN, which means 9.3% yearly growth
- ROE at 9.5% and cost/income at 46.6% *

Improvement of NIM, similar growth of operating income and costs

- Net Interest Margin improved 10 bps in the 3Q, reaching 2.67% and Net interest income grew +6.7% y/y and 5.4% q/q
- Commissions income still affected by negative capital markets environment
- Operating income grew by 5.2% y/y while costs grew by 5.6% y/y

Low cost of risk and impaired ratio maintained

- Cost of risk ** at 47 b.p. (annualised)
- Impaired loans (stage 3) ratio at stable 4.7% level

Strong capital and liquidity ratios, rating upgrade

- Group's TCR at 22.9% and CET1 at 20.9% (without profit of the current year)
- Loan to deposits ratio still at very low level of 84.5%
- Moodys's upgraded Bank Millennium rating to Baa2 / P2/ ba1 / positive outlook

Retail business

- Acceleration of customer acquisition to +57 ths. in 3Q, +175 ths in the last 12 months
- Strong growth of accounts and cards by c.a. 300 ths y/y in each case
- Sale of cash loans and PLN mortgages at stable, high level above 800 million PLN in the quarter (almost 40% growth ytd)
- Customers' funds keep strong growth of 9% yearly to reach 53.3 bn PLN
- +236 ths yearly growth of active mobile users

Companies business

- Loans to companies keep high pace of growth: +10% y/y
- Maintained double-digit growth in factoring and leasing sales: +16% and +11% ytd
- Accelerating current account balances growth : +19% y/y
- Double-digit yearly growth of transfers (domestic and foreign), trade finance and FX transactions

Quality and Innovations

- Bank Millennium reached the podium in all four categories in the ranking „Newsweek Friendly Bank 2018", including first position in the „Mobile banking" category. For eight years now, the Bank has been ranked among the top three banks.
- Almost 600 ths goodie apps downloads and 300 ths loyalty cards opened

(*) with equal accrual through the year of BFG resolution fee booked upfront in 1Q in the amount of 34.7 million PLN
(**) Total net provisions to average net loans

Macroeconomic situation and factors influencing results in the next quarters

Q2 2018 saw a continuation of a very good sentiment in Poland's economy. GDP increased between April and June by 5,1% y/y, only slightly slower than in Q1, when its pace was 5,2% y/y. The main driver of the growth in Q2 was private consumption supported by a favourable situation on the labour market, also conducive to optimistic consumer sentiment. After a solid rebound to 8,1% y/y in Q1 2018, the growth of investments between April and June slowed to 4,5% y/y, despite recovery in construction. A very good business sentiment in this sector was helped by the high investment activity of the general government sector supported by the EU funds. Moreover, economic growth was boosted by the trade balance, despite an economic activity slowdown in Poland's most important trade partners.

Data on industrial production, construction-assembly production and retail sales show nevertheless that the peak of economic activity in this business cycle was already achieved in the first half of 2018. According to the Bank's estimates the GDP growth slowed down in Q3 2018 to 4,7% y/y. Private consumption remained the main engine of the economy, which was accompanied by a slight acceleration of investment growth. On the other hand, deterioration of business sentiment abroad has contributed to a likely drop of export dynamics.

This year, the situation on the labour market continued to improve. In August the unemployment rate in Poland according to the Eurostat methodology was 3,4%. This is the second lowest level (after Czech Republic, and shared with Germany) among the EU countries. Moreover, this estimate is much below the average for the whole Community, which is 6,8%. The falling number of unemployed coupled with employers' increasing problems in finding appropriate employees was conducive in Q2 2018 to wage growth that accelerated to 7,1% y/y. However, data from the enterprise sector showed that in Q3 labour demand slightly decreased in some sectors.

Despite the low unemployment rate and rising wages, inflation continues to be low. The core inflation indicator (CPI excluding food and energy prices) reflecting demand and cost pressure in the economy was in Q3 2018 at 0,8% y/y, much below the NBP's inflation target of 2,5%. The rate of price growth in the whole inflation basket did not exceed this level either, standing at 2,0% y/y. The Monetary Policy Council therefore keeps the cost of money unchanged. The reference rate remains record-low and is currently at 1,50%. In the Bank's opinion the monetary policy parameters will stay unchanged also in the near future.

In Bank's opinion the coming months could see a further slowdown in economic activity, although GDP growth in 2018 could be similar to last year's, which was 4,8%. The main driver of economic growth should remain households' consumption in connection with the expected stabilisation of wage growth and still favourable consumer sentiment. In the Bank's assessment CPI inflation in the coming months will be slightly lower than recorded in Q3 2018 and will probably increase afterwards.

In July and August 2018 annual deposit growth in the banking sector accelerated. This is connected with robust economic activity conducive to a favourable situation on the labour market and increased company profits. In recent months the growth rate of credit to households also increased. This is helped by improvement in households' creditworthiness as a result of growing wages and employment and, probably, settlement of part of their past financial liabilities. A faster growth of household credit also results, to an extent, from a weaker zloty, which increases the value of the foreign currency denominated debt. On the other hand, the growth by value of loans for the corporate sector remains relatively stable, which proves that there is no need to increase enterprises' external financing, as a result of their good financial situation and high savings.

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 were estimated by KNF to be up to PLN 2.8 billion 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 connected with the geopolitical situation may affect business activity in Poland. In particular, these refer to an escalation of protectionist activities in international trade and terms of the UK's departure from the European Union (brexit). Due to interlinked global production chains certain events in the international environment may affect Poland's exports and, by the same token, income situation of domestic enterprises and households. At the same time an escalation of geopolitical tensions could heighten volatility on global financial markets impacting the valuation of the Bank's assets and liabilities in foreign currencies.
- A significant relaxation of fiscal discipline in Italy could contribute to a durable growth uncertainty relating to the situation in the Eurozone economy. This would increase volatility on financial markets increasing the Bank's funding costs.
- Rising costs of labour and energy in Poland could limit the profitability of some enterprises and capacity to repay their financial liabilities to the Bank.

Bank Millennium is considering an issue of subordinated bonds and therefore is going to consider the market demand for such type of bonds. Potential issue will be conducted provided that market conditions meet Bank's expectations.

Bank Millennium Group Profit and Loss Account after 3rd quarter 2018

Operating Income *(PLN million)*	1-3Q 2018	1-3Q 2017	Change y/y	3Q 2018	2Q 2018	Change q/q
Net Interest Income *	1 374.1	1 287.7	*6.7%*	481.1	456.3	*5.4%*
Net Commission Income	499.5	494.2	*1.1%*	162.9	164.1	*-0.7%*
Core Income	1 873.6	1 781.9	*5.1%*	644.0	620.3	*3.8%*
Other Non-Interest Income */**	141.3	133.5	*5.8%*	45.6	48.5	*-6.1%*
Total Operating Income **	2 014.9	1 915.4	*5.2%*	689.6	668.9	*3.1%*

(*) 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. 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 42.3 million in 1-3Q 2018 and PLN 35.2 million in 1-3Q 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.

(**) Excludes fair value adjustment of credit portfolio (PLN 13.3 million in 1-3Q18), which is moved to pro-forma cost of risk

Net Interest Income (pro-forma) in 1-3Q 2018 reached PLN 1,374.1 million and increased by 6.7% versus the corresponding period of the previous year. This increase was driven by growth of business volumes and improvement of Net Interest Margin to 2.6% y-t-d compared to 2.5% one year ago. The quarterly trend of the margin during the 2018 financial year is even more visible with 10 bps improvement to c.a. 2.7% in 3Q 2018. The improvement results mainly from better assets mix with higher proportion of PLN retail loans of c.a 40% as well as improvement in cost of deposits partially supported by strict pricing discipline and continued change of mix towards current and saving accounts, which now constitute 62% of the total.

In 3Q 2018 Net Interest Income increased substantially by 5.4% vs 2Q 2018 confirming upward quarterly trend.

Net Commission Income in 1-3Q 2018 amounted to PLN 499.5 million and increased by 1.1% year-on-year. The transactional commissions (including loans and guarantees) presented considerable growth by PLN 12.9 million and bancassurance commissions increased by PLN 5.1 million. On the other hand, fees from distribution of investment products and capital markets related decreased versus 1-3Q 2017 by PLN 12.3 million. In 3Q 2018 Net Commission Income decreased slightly by 0.7% vs 2Q 2018.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 1,873.6 million for 1-3Q 2018 which means a robust growth of 5.1% yearly. The value of Core Income for 3Q 2018 increased by 3.8% vs. the previous quarter.

Other Non-interest Income, which comprise FX Result, Results on Financial Assets and Liabilities (without interest margin on derivatives and fair value adjustment of credit portfolio) and net other operating income and costs, amounted to PLN 141.3 million in 1-3Q 2018 and increased by 5.8% yearly.

Total operating income (pro-forma) of the Group reached PLN 2,014.9 million in 1-3Q 2018 and increased by 5.2% year-on-year. In 3Q 2018, Total operating income grew by 3.1% vs 2Q 2018.

Total costs in 1-3Q 2018 amounted to PLN 948.2 million, which means an increase by 5.6% versus the corresponding period of 2017. In both periods there was a negative impact of recognition of entire year BFG resolution fund fee in the first quarter of the year. In 3Q 2018 total operating costs grew by 4.6% vs 2Q 2018.

Operating Costs *(PLN million)*	1-3Q 2018	1-3Q 2017	Change y/y	3Q 2018	2Q 2018	Change q/q
Personnel Costs	(477.2)	(444.0)	*7.5%*	(161.0)	(158.5)	*1.5%*
Other Administrative Costs *	(471.1)	(454.2)	*3.7%*	(155.1)	(143.5)	*8.1%*
- of which Banking Guarantee Fund (BFG) fees	(87.4)	(86.2)	*1.5%*	(17.8)	(14.9)	*19.5%*
Total Operating Costs	(948.2)	(898.2)	*5.6%*	(316.0)	(302.0)	*4.6%*
Cost/Income - reported	47.1%	46.9%	*0.2 p.p.*	45.8%	45.1%	*0.7 p.p.*
*Cost/Income – recurrent ***	*46.6%*	*46.3%*	*0.3 p.p.*	-	-	-

(*) including depreciation

(**) adjusted for BFG resolution fund annual fee booked at the beginning of a financial year by equally accruing it over the year - only 3/4 of this fee for the periods 1-3Q 2018 and 1-3Q 2017 is treated as recurrent

Personnel costs in 1-3Q 2018 amounted to PLN 477.2 million and grew by 7.5% compared to the corresponding period of the previous year as a result of increase of staff remuneration and some increase in employment. The total number of employees in the Group increased by 98 employees compared to the end of September 2017, mainly in sale channels including electronic banking, to the total number of 5,950 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	30.09.2018	30.06.2018	Change q/q	30.09.2017	Change y/y
Bank Millennium S.A.	5 605	5 502	1.9%	5 506	1.8%
Subsidiaries	346	343	0.9%	346	0.0%
Total Bank Millennium Group	**5 950**	**5 846**	1.8%	**5 852**	1.7%

Other administrative costs (including depreciation) in 1-3Q 2018 reached PLN 471.1 million and grew by 3.7% year-on-year. They comprised PLN 87.4 million of contribution to BFG funds, including PLN 34.7 million of entire yearly fee for resolution fund. The biggest increase was registered in IT & telecom cost, mostly driven by spending on transaction infrastructure and client related services as well as some higher marketing costs. On the other hand, some positive impact had the decrease in rental costs. Total number of branches were on similar level during last 12 months (net decrease by 3 to 356 outlets).

Cost-to-Income ratio in 1-3Q 2018, calculated with adjusted BFG resolution fee (¾ of total amount paid fully in the first quarter of the year), reached 46.6% i.e. slightly higher (by 0.3 p.p.) versus the level one year ago.

Net Profit *(PLN million)*	1-3Q 2018	1-3Q 2017	Change y/y	3Q 2018	2Q 2018	Change q/q
Operating Income	2 014.9	1 915.4	*5.2%*	689.6	668.9	*3.1%*
Operating Costs *	(948.2)	(898.2)	*5.6%*	(316.0)	(302.0)	*4.6%*
Impairment provisions and other cost of risk **	(174.2)	(192.4)	*-9.5%*	(60.8)	(58.3)	*4.3%*
Banking tax	(148.5)	(140.1)	*6.0%*	(47.9)	(48.5)	*-1.3%*
Pre-income tax Profit	744.0	684.8	*8.6%*	264.9	260.2	*1.8%*
Income tax	(195.8)	(183.2)	*6.9%*	(64.7)	(67.5)	*-4.1%*
Net Profit - reported	548.1	501.6	*9.3%*	200.2	192.7	*3.9%*
Net Profit - recurrent ***	556.8	513.2	*8.5%*	-	-	-

(*) without impairment provisions for financial and non-financial assets

(**) includes fair value adjustment of loans presented at fair value through profit and loss (PLN 13.3 million) and result from modification (PLN 10.2 million) for 1-3Q 2018

(***) adjusted for BFG resolution fund annual fee booked at the beginning of a financial year by equally accruing it over the year - only 3/4 of this fee for the periods 1-3Q 2018 and 1-3Q 2017 is treated as recurrent

Total cost of risk (pro-forma), which comprises net impairment provisions, fair value adjustment (of part of credit portfolio) and result on modifications, bore by the Group in 1-3Q 2018 amounted to PLN 174.2 million and were 9.5% lower than this cost recognized in 1-3Q 2017. The charges for retail segment stood at PLN 125.3 million and were on similar level as for the previous year while for corporate segment and other amounted to PLN 48.9 million and dropped yearly by PLN 18.9 million. In relative terms, cost of risk (i.e. net charges to average net loans) in 1-3Q 2018 reached 47 bps level (i.e. 7 bps lower when compared to the corresponding period of 2017).

Pre-income tax profit in 1-3Q 2018 amounted to PLN 744.0 million and increased by 8.6% compared to the previous year, as a consequence of evolution of all described above elements but with negative impact of banking tax which increased by 6.0% yearly.

Net Profit reported in 1-3Q 2018 amounted to PLN 548.1 million and was 9.3% higher than an year ago. Recurrent net profit (with adjustment for non-symmetric resolution BFG fee) amounted to PLN 556.8 million in 1-3Q 2018 and grew by 8.5% yearly.

The Net Profit for 3Q 2018 reached PLN 200.2 million and was higher by 3.9% compared to the previous quarter level.

Business results after 3rd quarter 2018

Compared to the end of Q2, the number of active retail customers went up by 57 thousand and at the end of Q3 stood at 1,77 million. Electronic banking had 1,3 million active users (growth by 18% y/y), including 888 thousand (growth by 36 % y/y) active users of the mobile application and mobile Millenet. The record-breaking acquisition of new customers was supported by the sale of accounts through online channels (the share of these channels in total sales is already 25%) and continuation of the popular “Like it? Share it!” referral programme. By the end of September almost 315 thousand satisfied customers registered in it.

An intensive development of the sale of products and services in electronic banking channels is visible not only in the most important product categories, such as personal accounts, but also in cash loans (45% share in total cash loan sales), overdraft limits (42%) and deposits (89%).

Total **customer funds** of Bank Millennium Group reached PLN 69,318 million as at 30 September 2018 showing the growth of 5.6% vs. the end of September 2017 and stable level vs. the end of June 2018. **Deposits** grew by 6.3% yearly and crossed PLN 60 billion reaching total balance of PLN 60,223 million as at 30 September 2018.

Deposits of households reached PLN 44,187 million as at 30 September 2018, after remarkable growth of 10.2% yearly. In the same time non-deposit investment products grew by only 1.6% y/y and reached PLN 9,096 million level at the end of September 2018. Within this assets balance, PLN 4,404 million was under management of Millennium TFI, PLN 4,264 million was managed by third party providers and PLN 428 million was an outstanding balance of own bank’s securities placed to retail customers (mainly as structured instruments).

The balance of investment products dropped during last quarter by 3.3% as a consequence of general negative trends on the Polish capital market.

Strong growth in number of customers and accounts caused a visible increase of current and saving accounts volume share in total deposits of individuals to the level of 66%.

Deposits from companies and public sector decreased by 3.4% during the year to 16,036 million PLN.

Customer Funds *(PLN million)*	30.09.2018	30.06.2018	Change q/q	30.09.2017	Change y/y
Deposits of individuals	44 186.5	43 303.2	2.0%	40 081.5	10.2%
Deposits of Companies and public sector	16 036.2	16 528.3	-3.0%	16 597.1	-3.4%
Total Deposits	60 222.7	59 831.5	0.7%	**56 678.5**	**6.3%**
Investment products *	9 095.5	9 404.6	-3.3%	8 953.9	1.6%
Total Customer Funds	**69 318.2**	**69 236.0**	**0.1%**	**65 632.5**	**5.6%**

(*) 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

Total net **loans** of Bank Millennium Group reached PLN 50,915 million as at the end of September 2018, which means a 7.0% growth year-on-year.

The growth of loans without foreign currency mortgage portfolio presented very strong rate of 14.4% year-on-year reflecting dynamic increase in all key groups of lending activity (PLN mortgage, consumer loans and companies), whereas FX mortgage portfolio continues a fast reduction by 8.1% year-on-year.

The net value of loans granted to households as at the end of September 2018 totalled PLN 34,375 million and grew by 5.9% compared to the balance recorded year ago. But when excluding faster amortising FX mortgage loans, all other segments presented strong annual growth rates: PLN mortgages +21.2% year-on-year, and consumer loans of +15.2% year-on-year. Sale of cash loans and PLN mortgages remains at stable, high level above 800 million PLN in the quarter implying almost 40% growth ytd.

Net value of loans to companies amounted to PLN 16,540 million as at the end of September 2018 and grew by 9.3% yearly (in gross terms the growth was at 9.8% level). The growth was well balanced, at high pace in all main product groups: factoring (+13% y/y), leasing (+9% y/y) and other loans (+9% y/y). Leasing and factoring maintained double-digit growth in sales ytd: +16% y/y and +11% y/y respectively.

Loans and Advances to clients *(PLN million)*	30.09.2018	30.06.2018	Change q/q	30.09.2017	Change y/y
Loans to households	34 375.3	33 813.8	1.7%	32 462.8	5.9%
- PLN mortgage loans	12 870.6	12 297.9	4.7%	10 618.7	21.2%
- FX mortgage loans	14 403.9	14 697.9	-2.0%	15 679.1	-8.1%
- consumer loans	7 100.9	6 818.0	4.1%	6 165.0	15.2%
Loans to companies	16 539.9	16 442.1	0.6%	15 130.4	9.3%
- leasing	5 966.4	5 953.8	0.2%	5 487.6	8.7%
- other loans to companies and factoring	10 573.5	10 488.4	0.8%	9 642.8	9.7%
Net Loans & Advances to clients	**50 915.2**	**50 255.9**	**1.3%**	**47 593.2**	**7.0%**
Net Loans and Advances to clients excluding FX mortgage loans	***36 511.3***	***35 558.0***	***2.7%***	***31 914.2***	***14.4%***
Provisions and adjustments for credit risk*	1 848.6	1 881.6	-1.8%	1 505.3	22.8%
Gross* Loans and Advances to clients	**52 763.8**	**52 137.5**	**1.2%**	**49 098.5**	**7.5%**

(*) Including, besides provisions for credit risk, also fair value adjustment of loan portfolio presented in fair value as well as modification. Gross loan portfolio in this case presents value of loans and advances before mentioned provisions and adjustments.

Liquidity, asset quality and solvency

Main liquidity ratios of Bank Millennium Group remain after 3Q 2018 on very comfortable levels. Loan-to-deposit ratio stay at low 84.5% level and share of liquid securities (mainly treasury bonds and NBP bills) in Group's total assets remains high at 24.8%. Also LCR ratio at 181% remain high above 100% minimum and it grew during 3Q thanks to an improvement of the financing structure of customers' deposit base (more stable funds from retail clients and a decrease of financing from corporate and financial clients).

The year 2018 brought the new reporting standard IFRS 9, which caused not only change of balance sheet volumes, but also required 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 the end of September 2018 on the level of 4,68%. This means a growth from 4.61% a year ago, but when looking into its evolution this year (under the same standard), the ratio decreased from 4.74% a quarter before, which means an improvement of the quality of the loan portfolio.

Share of loans past-due more than 90 days in total portfolio is lower both compared to the previous year as well as previous quarter and amounts to 2.66%.

Coverage ratio of impaired loans, now defined as all risk provisions over stage 3 loans, improved during the year from 66% in September 2017 to 75% now, partially thanks to the effect of increasing provisions after implementation of IFRS9 reporting standard. Coverage by total provisions of loans past-due more than 90 days also increased from 107% one year ago to 132% now.

Impaired loans ratios (stage 3) in particular product segments in September 2018 versus year ago showed the following evolution (partially affected by change of the standard): in non-mortgage retail portfolio decrease of the ratio to 11,7% from 12,5%, in mortgage portfolio increase to 2,84% from 2,57% year ago. In the corporate portfolio improvement of the ratio to 4.20% from 4.34% year ago, including leasing portfolio at 4.12% vs. 4.26% last year.

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

Group loans quality indicators	30.09.2018 under IFRS9	30.06.2018 under IFRS9	30.09.2017 under IAS39
Total impaired/stage 3 loans (PLN million)	2 467.7	2 473.9	2 262.3
Provisions and adjustments for credit risk* (PLN million)	1 848.6	1 881.6	1 505.3
Impaired/stage 3 over total loans ratio (%)	**4.68%**	**4.74%**	**4.61%**
Loans past-due over 90 days /total loans (%)	2.66%	2.71%	2.87%
Total provisions*/impaired loans (%)	**74.9%**	**76.1%**	**66.5%**
Total provisions*/loans past-due (>90d) (%)	131.8%	133.4%	106.7%

(*) Including, besides provisions for credit risk, also fair value adjustment of loan portfolio presented in fair value as well as modification.

In 3 quarter 2018 compared to 1 half of the year capital ratios of Group slightly decreased – TCR went down by 0.54 p.p. and CET1 ratio by 0.43 p.p. The most important driver of that change was the rise of risk-weighted assets by 1.6%, accompanying by an immaterial fall of own funds by 0.4%. Consolidated equity increased by 6.8% yearly to the level of PLN 8,111 million.

As at 30 September 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% (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+3 = 14.94% (for the Bank 15.03%)
- Total Capital Ratio (TCR) = 8+5.41+1.875+3 =18.29% (for the Bank 18.41%).

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 (PLN million)	30.09.2018 1)	30.06.2018	30.09.2017
Risk-weighted assets (RWA) for Group	34 822.1	34 268.7	31 944.4
Risk-weighted assets (RWA) for Bank	34 177.7	33 744.5	31 321.1
Own funds requirements for Group	2 785.8	2 741.5	2 555.5
Own funds requirements for Bank	2 734.2	2 699.6	2 505.7
Own Funds for Group	7 978.2	8 009.6	6 552.1
Own Funds for Bank	7 774.9	7 807.0	6 362.5
Total Capital Ratio (TCR) for Group	**22.91%**	**23.37%**	**20.51%**
Minimum required level TCR	18.285%	18.535%	16.55%
Total Capital Ratio (TCR) for Bank	**22.75%**	23.14%	20.31%
Tier 1 ratio for Group	**20.90%**	**21.33%**	**20.51%**
Minimum required level T1	14.94%	15.18%	12.79%
Tier 1 ratio for Bank	**20.70%**	21.06%	20.31%
Common Equity Tier 1 (=T1) ratio for Group 2)	**20.90%**	**21.33%**	**20.51%**
Minimum required level CET1	12.41%	12.656%	12.21%
Common Equity Tier 1 (=T1) ratio for Bank 2)	**20.70%**	21.06%	**20.31%**
Loans to Deposits ratio	**84.5%**	**84.0%**	**84.0%**
Liquidity Coverage Ratio (LCR)	**181%**	**164%**	**154%**

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 22.60%, T1 and CET1 ratio: 20.58%.

2) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio both for the Bank and the Group

On the 22nd of October 2018 the Bank received from the PFSA a requirement to maintain own funds for the coverage of additional capital requirement of the Bank at the level of 6.41 p.p. in order to secure the risk resulting from FX mortgage loan portfolio, which should consist of at least 75% of Tier I capital (which corresponds to 4.81 p.p.), and should consist of at least 56% of core Tier I capital (which corresponds to 3.59 p.p.).

Information on shares and ratings

During nine months of 2018 Bank Millennium shares grew by 3.5%, while WIG banking index fell by 7.1%. At the same time and main WIG index fell by 7.5%. In yearly comparison Bank Millennium shares grew strongly by 32% while WIG banking index fell by 8.3%.

Average daily turnover of Bank Millennium shares grew by 38% compared to 9 months of 2017 year.

Market ratios	28.09.2018	30.12.2017*	Change (%) YTD	29.09.2017	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)	7 591	6 765	12.2%	5 501	38.0%
Bank's share price (PLN)	9.25	8.94	3.5%	7.01	32.0%
Market cap. (PLN million)	11 221	10 845	3.5%	8 504	32.0%
WIG Banks	7 876	8 482	-7.1%	7 451	5.7%
WIG20	2 285	2 461	-7.2%	2 453	-6.9%
WIG30	2 602	2 825	-7.9%	2 849	-8.6%
WIG - main index	58 975	63 746	-7.5%	64 290	-8.3%

(*) last day of quotation in 2017

During the 3rd quarter of 2018 there were no changes in Bank Millennium ratings but on 18 October 2018 Moody's rating agency made following changes in the Bank's ratings:

- Bank's deposit ratings were upgraded to Baa2/Prime-2 from Baa3/Prime-3
- Bank's baseline credit assessment (BCA) and Adjusted BCA were upgraded to ba1 from ba2
- Long-term Counterparty Risk Assessment (CR Assessment) was upgraded to Baa1(cr) from Baa2(cr)
- Long-term Counterparty Risk Ratings (CRR) were upgrades to Baa1 from Baa2.

At the same time, Moody's affirmed the Bank's Prime-2(cr) short-term CR Assessment and Prime-2 short-term CRR.

The outlook on the long-term deposit ratings remains positive.

Current Bank Millennium ratings are presented in the table below:

Ratings	FITCH	MOODY'S
Long-term deposit rating/IDR	**BBB- (stable outlook)**	**Baa2 (positive outlook)**
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	Prime-2
Individual (Viability rating / standalone BCA*)	bbb-	ba1
Counterparty Risk Assessment (CR)		Baa1/Prime-2
Support	4	

(*) Baseline Credit Assessment (BCA) – Moody's indicator of issuers' standalone intrinsic strength (no outlook assigned)

CONTENTS

I. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 almost 6,000 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 30 September 2018

Composition of the Supervisory Board as at 30 September 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 30 September 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,
- Wojciech Rybak – Member of the Management Board,
- Antonio Ferreira Pinto Junior – Member of the Management Board,
- Jarosław Hermann – 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 30 September 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 and IFRS 15 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 addition, starting from 2018, the Group 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, further details are provide under the Note (8) Administrative expenses.

Accounting principles applicable to comparative data have been described in the consolidated financial statements of the Bank Millennium SA Capital Group for the financial year ended December 31, 2017

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the nine months ending September 30, 2018.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2018 to 30 September 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 24th October 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 is presented below.

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,
The assessment of the business model is aimed at determining whether the financial asset is maintained:
- for obtaining cash flows resulting from the contract,
- both in order to receive cash flows arising from the contract and the sale of a financial asset or
- for other business purposes.
2) Test of contractual cash flow characteristics connected with financial assets (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:
- The contractual terms trigger, at specific dates, certain cash flows which constitute solely a payment of principal and interest on such principal,
- The principal constitutes the fair value of a loan at the moment of its recognition,
- The interest reflects the value of money over time and credit risk, liquidity risk, the 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 is 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.
As a result of the implementation of new rules in the area of classification of financial instruments, the Group has separated credit exposures which include, in the interest rate definition, leverage/multiplier feature (credit card exposures and overdraft limit for which the interest rate is based on the multiplier: 4 times the lombard rate) and presented aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". It should be noted that there is still a discussion in the banking sector regarding the presentation of such loans; whether the fair value or amortized cost model is appropriate. The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost. On the other hand, due to the current nature of this loan portfolio, the difference between its fair value and the carrying amount determined using the amortized cost method is negligible, therefore the issue has an insignificant impact on the financial result and capital of the Group, it only causes a change in the presentation of these exposure in the balance sheet.

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 is applied 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).

Test of characteristics of contractual cash flows (SPPI test)

The evaluation of the fulfillment of the SPPI Test is carried out in the following cases:
- granting a loan;
- purchase of credit;
- renegotiation of contractual terms;

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

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

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

In cases where there is a modification of the time value of money, eg in case where a period of interest rate mismatch with the base rate tenor, in order to verify the fulfillment of the SPPI Test, the Group performs an assessment based on the Benchmark Test, ie a comparison of the instrument resulting from the contract with the base instrument.

The clauses contained in the credit agreement that make the interest margin conditional upon the fulfillment of specific covenants (eg maintaining a given ratio at a certain level) constitute an element modifying the value of contractual cash flows and are subject to analysis in terms of impact on meeting SPPI criteria.

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

The negative result of the SPPI Test implies the valuation of the loan to fair value, causing a departure from the standard method of credit valuation at amortized cost.

Modifications to the terms of the loan agreement

Modifications to the terms of the loan agreement during the loan period include:
- changing the dates of repayment of all or part of the receivables,
- changes in the amount of the repayment installments,
- changing the interest or stop charging interest,
- capitalization of arrears or current interest,
- currency conversion (unless such a possibility results from the original contract),
- establishing, amending or abolishing the existing security for receivables.

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

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

- at least two times extension of the residual maturity (analyzed on the basis of the residual maturity at the time of extension), not shorter than 3 years and at the same time an increase in the amount of financing,
- conversion of exposures to another currency (if the conversion option was not included in the original contract),
- change in the SPPI test result.

Additionally, as part of backtesting, the Group periodically verifies the adopted criteria of significant modification by performing the 10% test criterion (examining the amount of cash flow deviations before and after contract modification).

The result on significant modification is presented in the result on impairment losses.

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

Impairment

General assumptions of the model

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

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at 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.

In the case of exposures classified as POCI (purchased or originated credit impaired) which, upon their initial recognition in the balance sheet, are recognized as impaired, expected losses are estimated during the remaining life 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,
- 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.

Write-offs

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

POCI assets

POCI assets ("purchased or originated credit-impaired") are financial assets that, upon initial recognition, have an identified impairment. Financial assets that were classified as POCI at the time of initial recognition are treated by the Group as POCI in all subsequent periods until they are derecognized from balance sheet, and classified to stage 3, regardless of future changes in estimates of cash flows generated by them (possible improvement of assets quality).

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

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

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.

Impact of the implementation of IFRS 9 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	Adj. 4	Adj. 5	IFRS 9 01.01.2018
Cash, cash balances at central banks	2 080 151	0	0	0	0	0	2 080 151
Financial assets held for trading	531 125	0	0	0	0	0	531 125
Derivatives	192 664	0	0	0	0	0	192 664
Equity instruments	102	0	0	0	0	0	102
Debt securities	338 359	0	0	0	0	0	338 359
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	0	48 864	0	0	0	0	48 864
Equity instruments	0	48 864	0	0	0	(29 632)	19 232
Debt securities	0	0	0	0	0	29 632	29 632
Financial assets available for sale	19 066 946	(19 066 946)	0	0	0	0	0
Equity instruments	50 091	(50 091)	0	0	0	0	0
Debt securities	19 016 855	(19 016 855)	0	0	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	0	0	18 995 010
Equity instruments	0	1 227	0	24 904	0	0	26 131
Debt securities	0	18 968 879	0	0	0	0	18 968 879
Loans and advances to customers	47 411 078	0	(291 909)	0	0	0	47 119 169
Mandatorily at fair value through profit or loss	0	0	0	0	1 099 841	0	1 099 841
Valued at amortised cost	47 411 078	0	(291 909)	0	(1 099 841)	0	46 019 328
Financial assets at amortised cost other than Loans and advances to customers	254 205	47 976	0	0	0	0	302 181
Debt securities	0	47 976	0	0	0	0	47 976
Deposits, loans and advances to banks and other monetary institutions	254 205	0	0	0	0	0	254 205
Repurchase agreements	0	0	0	0	0	0	0
Derivatives – Hedge accounting	885 880	0	0	0	0	0	885 880
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	185 880	0	0	0	0	0	185 880
Intangible assets	79 756	0	0	0	0	0	79 756
Tax assets	288 178	0	52 887	(4 732)	0	0	336 333
Current tax assets	1 625	0	0	0	0	0	1 625
Deferred tax assets	286 553	0	52 887	(4 732)	0	0	334 708
Other assets	338 659	0	0	0	0	0	338 659
Non-current assets and disposal groups classified as held for sale	19 557	0	0	0	0	0	19 557
Total assets	**71 141 415**	**0**	**(239 022)**	**20 172**	**0**	**0**	**70 922 565**

LIABILITIES AND EQUITY

Amount '000 PLN	IAS 39 31.12.2017	Adj. 1	Adj. 2	Adj. 3	Adj. 4	Adj. 5	IFRS 9 01.01.2018
LIABILITIES							
Financial liabilities held for trading	190 111	0	0	0	0	0	190 111
Derivatives	190 111	0	0	0	0	0	190 111
Short positions	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	61 484 830	0	0	0	0	0	61 484 830
Liablities to banks and other monetary institutions	2 353 131	0	0	0	0	0	2 353 131
Liabilities to customers	57 273 255	0	0	0	0	0	57 273 255
Repurchase agreements	0	0	0	0	0	0	0
Debt securities issued	1 156 473	0	0	0	0	0	1 156 473
Subordinated debt	701 971	0	0	0	0	0	701 971
Derivatives – Hedge accounting	176 853	0	0	0	0	0	176 853
Provisions	67 752	0	23 829	0	0	0	91 581
Pending legal issues and tax litigation	46 032	0	0	0	0	0	46 032
Commitments and guarantees given	21 720	0	23 829	0	0	0	45 549
Tax liabilities	26 988	0	0	0	0	0	26 988
Current tax liabilities	26 988	0	0	0	0	0	26 988
Deferred tax liabilities	0	0	0	0	0	0	0
Other liabilities	1 422 282	0	0	0	0	0	1 422 282
Total Liabilities	**63 368 816**	**0**	**23 829**	**0**	**0**	**0**	**63 392 645**
EQUITY							
Capital	1 213 117	0	0	0	0	0	1 213 117
Share premium	1 147 502	0	0	0	0	0	1 147 502
Accumulated other comprehensive income	(34 795)	(5 500)	0	20 172	0	0	(20 123)
Retained earnings	5 446 775	5 500	(262 851)	0	0	0	5 189 424
Total equity	7 772 599	0	(262 851)	20 172	0	0	7 529 920
Total equity and total liabilities	**71 141 415**	**0**	**(239 022)**	**20 172**	**0**	**0**	**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,

Adj. 4 - change in the classification of the multiplier portfolio,

Adj. 5 - VISA reclassification

Both the: adjustment 4 and the adjustment 5, were included for the first time in financial statements for the II quarter 2018, in the previously published financial statements for 2017 and for the first quarter of 2018 these corrections were not recognized. The introduction of the adjustment 4 regarding the presentation of the multiplier portfolio was determined by the approach applied by majority of the banking sector, a broader description of the issue is presented in point: Business Models of the Group / Model HTC. Adjustment 5 was recognized because in line with IAS 32, an investment in VISA does not meet the definition of an equity instrument and it should be presented as a debt instrument. Due to the lack of fulfillment of the SPPI test (settlement will be realized by assignment of own shares), this instrument was classified as FVTPL. Both adjustments do not affect the amount of own equity, they refer only to the presentation of financial instruments in this financial statements.

Impact of IFRS9 implementation on capital adequacy ratios

Group has estimated a negative impact of IFRS 9 implementation on capital ratios and has evaluated it as immaterial.

As at 31/12/2017 full IFRS 9 implementation would cause decrease of TCR by 23 b.p. from 21.99% to 21.76%, and Tier 1 ratio by 28 b.p. from 20.03% to 19.75%. Applying transitional periods rules, TCR would improve by 8 b.p. to 22.07% and Tier 1 ratio by 4 b.p. to 20.07%.

Group took decision on application of transitional periods rules according to Regulation 2017/2395 (EU). Group informed about that decision Competent Authorities.

IFRS 15 "Revenue from Contracts with Customers"

For annual periods beginning on January 1, 2018, the Group implemented IFRS 15 "Revenue from contracts with customers". The principles stipulated in IFRS 15 shall apply to all agreements resulting in revenues. Recognition of revenues should be made upon transfer of control over goods or services to the customer, at transaction price. Any and all goods or services sold in packs, which may be identified within the pack, should be recognised separately. Moreover any and all discounts and rebates concerning the transaction price should be as a rule allocated to particular components of the pack. If the amount of revenue is variable, in accordance with the new standard the variable amounts are carried in revenues if there is a high likelihood that in the future there will be no reversal of recognition of revenue in result of revaluation. Moreover costs incurred to acquire and hedge a contract with a customer should be activated and settled over time during the period of consuming the benefits from this contract.

Main types of potential revenues and costs of the Group, which as a rule should be recognised in accordance with IFRS 15 are following:

- revenues from sale of fixed assets,
- up-front fees,
- loyalty programmes,
- costs eligible for capitalisation.

Due to the fact that a significant majority of revenues of the Bank results from business regulated by other IFRS (including those recognised in the financial report with the effective interest rate method), applying the amended standard does not have a significant impact on the Group's financial situation and results.

3. CONSOLIDATED FINANCIAL DATA (GROUP)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Amount '000 PLN	Note	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Net interest income		1 331 807	462 976	1 252 538	438 281
Interest income and other of similar nature	1	1 881 425	647 382	1 783 024	613 252
in which income calculated using the effective interest method		1 795 166	617 001	1 776 540	611 265
Interest expenses	2	(549 618)	(184 406)	(530 486)	(174 971)
Net fee and commission income		499 500	162 913	494 173	165 538
Fee and commission income	3	619 908	205 347	593 326	201 064
Fee and commission expenses	4	(120 408)	(42 434)	(99 153)	(35 526)
Dividend income		2 405	181	2 465	139
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	15 677	7 078	9 219	5 038
Results on financial assets and liabilities held for trading	6	58 108	21 335	36 060	8 507
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	(1 784)	(956)	0	0
Result on hedge accounting		(14 907)	(4 949)	(12 707)	(4 118)
Result on exchange differences		110 486	36 443	124 893	43 407
Other operating income		34 633	9 742	57 362	20 924
Other operating expenses		(34 346)	(10 288)	(48 600)	(20 092)
Operating income		**2 001 579**	**684 475**	**1 915 403**	**657 624**
Administrative expenses	8	(908 373)	(302 770)	(858 329)	(277 520)
Impairment losses on financial assets	9	(149 835)	(52 046)	(191 456)	(69 176)
Impairment losses on non-financial assets		(820)	(794)	(943)	(522)
Result on modification		(10 187)	(2 824)	0	0
Depreciation		(39 869)	(13 254)	(39 854)	(12 995)
Operating expenses		**(1 109 084)**	**(371 688)**	**(1 090 582)**	**(360 213)**
Result on operating activity		**892 495**	**312 787**	**824 821**	**297 411**
Share of the profit of investments in subsidiaries		0	0	0	0
Banking tax		(148 525)	(47 869)	(140 056)	(46 376)
Result before income taxes		**743 970**	**264 918**	**684 765**	**251 035**
Corporate income tax	10	(195 836)	(64 729)	(183 185)	(63 551)
Result after taxes		**548 134**	**200 189**	**501 580**	**187 484**
Attributable to:					
Owners of the parent		548 134	200 189	501 580	187 484
Non-controlling interests		0	0	0	0
Weighted average number of ordinary shares		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)		0.45	0.17	0.41	0.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Result after taxes	548 134	200 189	501 580	187 484
Other comprehensive income items that may be reclassified to profit or loss	41 188	4 283	186 751	82 471
Result on debt securities at fair value through other comprehensive income	13 998	(5 822)	102 274	29 233
Result on equity instruments at fair value through other comprehensive income	0	0	4 392	2 726
Hedge accounting	27 190	10 105	80 085	50 512
Other comprehensive income items that will not be reclassified to profit or loss	(18)	54	0	0
Actuarial gains (losses)	0	0	0	0
Result on equity instruments at fair value through other comprehensive income	(18)	54	0	0
Total comprehensive income items before taxes	**41 170**	**4 337**	**186 751**	**82 471**
Corporate income tax on other comprehensive income items that may be reclassified to profit or loss	(7 828)	(816)	(35 482)	(15 669)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	3	(10)	0	0
Total comprehensive income items after taxes	**33 346**	**3 511**	**151 269**	**66 802**
Total comprehensive income for the period	**581 480**	**203 700**	**652 849**	**254 286**
Attributable to:				
Owners of the parent	581 480	203 700	652 849	254 286
Non-controlling interests	0	0	0	0

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Cash, cash balances at central banks		2 237 361	2 146 680	2 080 151	3 672 323
Financial assets held for trading	11	1 259 804	1 410 008	531 125	598 545
Derivatives		101 332	168 318	192 664	189 973
Equity instruments		119	123	102	163
Debt securities		1 158 353	1 241 567	338 359	408 409
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers		61 604	57 444	0	0
Equity instruments		20 439	20 439	0	0
Debt securities		41 165	37 005	0	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	12	16 970 243	16 967 949	19 066 946	16 485 662
Equity instruments		26 258	26 209	50 091	48 152
Debt securities		16 943 985	16 941 740	19 016 855	16 437 510
Loans and advances to customers	13	50 915 176	50 255 867	47 411 078	47 593 226
Mandatorily at fair value through profit or loss		1 192 617	1 153 901	0	0
Valued at amortised cost		49 722 559	49 101 966	47 411 078	47 593 226
Financial assets at amortised cost other than Loans and advances to customers	14	645 159	676 243	254 205	661 070
Debt securities		50 290	47 446	0	0
Deposits, loans and advances to banks and other monetary institutions		528 384	519 950	254 205	355 619
Repurchase agreements		66 485	108 847	0	305 451
Derivatives - Hedge accounting	15	192 167	166 304	885 880	576 930
Investments in subsidiaries, joint ventures and associates		0	0	0	0
Tangible assets		184 392	189 674	185 880	173 097
Intangible assets		79 591	74 788	79 756	62 392
Tax assets		342 666	329 041	288 178	286 723
Current tax assets		606	1 098	1 625	11
Deferred tax assets	17	342 060	327 943	286 553	286 712
Other assets		493 232	368 507	338 659	340 914
Non-current assets and disposal groups classified as held for sale		26 919	23 333	19 557	16 995
Total assets		**73 408 314**	**72 665 838**	**71 141 415**	**70 467 877**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	30.09.2018	30.06.2018	31.12.2017	30.09.2017
LIABILITIES					
Financial liabilities held for trading	11	157 516	236 119	190 111	397 288
Derivatives		105 046	129 801	190 111	186 079
Short positions		52 470	106 318	0	211 209
Financial liabilities measured at amortised cost		63 304 899	62 502 145	61 484 830	60 865 153
Liablities to banks and other monetary institutions	18	1 630 516	1 165 688	2 353 131	2 173 068
Liabilities to customers	19	60 222 668	59 831 479	57 273 255	56 678 526
Repurchase agreements		11 272	94 285	0	172 345
Debt securities issued	20	731 445	708 893	1 156 473	1 191 578
Subordinated debt		708 998	701 800	701 971	649 636
Derivatives – Hedge accounting	15	358 955	506 560	176 853	317 135
Provisions	21	120 132	116 115	67 752	54 768
Pending legal issues and tax litigation		60 833	59 426	46 032	30 829
Commitments and guarantees given		59 299	56 689	21 720	23 939
Tax liabilities		16 852	23 664	26 988	32 072
Current tax liabilities		16 852	23 664	26 988	32 072
Deferred tax liabilities	17	0	0	0	0
Other liabilities		1 338 560	1 373 535	1 422 282	1 207 406
Total Liabilities		**65 296 914**	**64 758 138**	**63 368 816**	**62 873 822**
EQUITY					
Capital		1 213 117	1 213 117	1 213 117	1 213 117
Share premium		1 147 502	1 147 502	1 147 502	1 147 502
Accumulated other comprehensive income		13 223	9 712	(34 795)	(33 693)
Retained earnings		5 737 558	5 537 369	5 446 775	5 267 128
Total equity		8 111 400	7 907 700	7 772 599	7 594 054
Total equity and total liabilities		**73 408 314**	**72 665 838**	**71 141 415**	**70 467 876**

Book value	8 111 400	7 907 700	7 772 599	7 594 054
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)	6,69	6,52	6,41	6,26

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2018 - 30.09.2018						
Equity at the beginning of the period	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 III quarters 2018 (net)	581 480	0	0	33 346	548 134	0
net profit/ (loss) of the period	548 134	0	0	0	548 134	0
valuation of debt securities at fair value through other comprehensive income	11 337	0	0	11 337	0	0
valuation of shares at fair value through other comprehensive income	(15)	0	0	(15)	0	0
hedge accounting	22 024	0	0	22 024	0	0
Transfer between items of reserves	0	0	0	0	(695 290)	695 290
Equity at the end of the period	8 111 400	1 213 117	1 147 502	13 223	458 806	5 278 752
01.07.2018 - 30.09.2018						
Equity at the beginning of the period	7 907 700	1 213 117	1 147 502	9 712	258 617	5 278 752
Total comprehensive income for third quarter 2018 (net)	203 700	0	0	3 511	200 189	0
net profit/ (loss) of the period	200 189	0	0	0	200 189	0
valuation of debt securities at fair value through other comprehensive income	(4 716)	0	0	(4 716)	0	0
valuation of shares at fair value through other comprehensive income	42	0	0	42	0	0
hedge accounting	8 185	0	0	8 185	0	0
Transfer between items of reserves	0	0	0	0	0	0
Equity at the end of the period	8 111 400	1 213 117	1 147 502	13 223	458 806	5 278 752
01.01.2017 - 31.12.2017						
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	681 227	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 - 30.09.2017						
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 III quarters 2017 (net)	652 849	0	0	151 269	501 580	0
net profit/ (loss) of the period	501 580	0	0	0	501 580	0
valuation of debt securities at fair value through other comprehensive income	82 842	0	0	82 842	0	0
valuation of shares at fair value through other comprehensive income	3 558	0	0	3 558	0	0
hedge accounting	64 869	0	0	64 869	0	0
Transfer between items of reserves	0	0	0	0	(669 786)	669 786
Equity at the end of the period	7 594 054	1 213 117	1 147 502	(33 693)	683 564	4 583 564

CONSOLIDATED CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Profit (loss) after taxes	548 134	200 189	501 580	187 484
Total adjustments:	(2 040 582)	(400 841)	577 831	(50 094)
Depreciation and amortization	39 869	13 254	39 854	12 995
Foreign exchange (gains)/ losses	28 536	(14 261)	(53 357)	20 164
Dividends	(2 405)	(181)	(2 465)	(139)
Changes in provisions	28 551	4 017	5 353	8 468
Result on sale and liquidation of investing activity assets	(23 459)	(10 851)	(20 681)	(7 458)
Change in financial assets held for trading	(69 870)	112 673	(489 959)	(101 112)
Change in loans and advances to banks	(105 878)	138 201	889 758	152 699
Change in loans and advances to customers	(3 805 284)	(665 649)	(579 106)	(278 627)
Change in receivables from securities bought with sell-back clause (loans and advances)	(66 485)	42 362	(214 931)	(240 303)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	149 507	(226 208)	(774 246)	(88 302)
Change in deposits from banks	(837 992)	48 913	648 630	419 312
Change in deposits from customers	2 949 413	391 189	802 917	(309 432)
Change in liabilities from securities sold with buy-back clause	11 272	(83 013)	77 511	77 511
Change in debt securities	(95 648)	22 552	172 345	98 276
Change in income tax settlements	197 111	65 506	193 531	63 487
Income tax paid	(220 713)	(86 767)	(219 789)	(76 303)
Change in other assets and liabilities	(238 984)	(159 699)	93 780	195 124
Other	21 877	7 121	8 686	3 546
Net cash flows from operating activities	(1 492 448)	(200 652)	1 079 411	137 390

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Sale/aquisition of property. plant and equipment and intangible assets	(30 859)	(8 925)	(37 431)	(15 201)
Sale/acquisition of shares in associates	0	0	0	0
Change in value of investment financial assets due to purchase/sale	(3 356 066)	(502 546)	(1 877 435)	(393 045)
Other inflows/outflows from investing activities	2 405	181	2 465	139
Net cash flows from investing activities	(3 384 520)	(511 290)	(1 912 401)	(408 107)

C. Cash flows from financing activities

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Inflows from financing activities:	515 610	430 176	671 628	372 028
Long-term bank loans	515 610	430 176	342 316	342 316
Issue of debt securities	0	0	329 312	29 712
Increase in subordinated debt	0	0	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
Outflows from financing activities:	(772 574)	0	(587 286)	(469)
Repayment of long-term bank loans	(423 518)	0	(48 036)	0
Redemption of debt securities	(329 380)	0	(529 081)	0
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(19 676)	0	(10 169)	(469)
Net cash flows from financing activities	(256 964)	430 176	84 342	371 559

D. Net cash flows. Total (A + B + C)	(5 133 932)	(281 766)	(748 648)	100 842
- including change resulting from FX differences	5 048	(4 793)	(6 775)	(4)
E. Cash and cash equivalents at the beginning of the reporting period	8 408 252	3 556 086	5 381 982	4 532 492
F. Cash and cash equivalents at the end of the reporting period (D + E)	3 274 320	3 274 320	4 633 334	4 633 334

4. NOTES TO CONSOLIDATED FINANCIAL DATA

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

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Interest income from Financial assets at fair value through other comprehensive income	456 419	150 154	478 599	161 346
Debt securities	257 535	83 353	245 534	84 785
Hedging derivatives	198 884	66 801	233 065	76 561
Interest income from Financial assets at amortised cost	1 338 747	466 847	1 297 941	449 919
Balances with the Central Bank	7 829	2 622	20 367	7 060
Loans and advances to customers	1 324 400	461 593	1 270 977	440 855
Debt securities	1 112	381	0	0
Deposits, loans and advances to banks	1 136	277	846	226
Transactions with repurchase agreements	4 270	1 974	5 751	1 778
Income of similar nature to interest, including:	86 259	30 381	6 484	1 987
Loans and advances to customers mandatorily at fair value through profit or loss	72 052	25 234	0	0
Financial assets held for trading - debt securities	14 206	5 146	6 484	1 987
Total:	**1 881 425**	**647 382**	**1 783 024**	**613 252**

Interest income for III quarters 2018 includes interest accrued on loans with recognized impairment of PLN 39,534 thousand (for the comparative data for III quarters 2017, such interest was PLN 46,099 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 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Financial liabilities measured at amortised cost	(549 406)	(184 334)	(530 209)	(174 878)
Liablities to banks and other monetary other monetary institutions	(15 476)	(5 492)	(22 478)	(9 007)
Liabilities to customers	(485 494)	(162 554)	(465 691)	(151 913)
Transactions with repurchase agreement	(9 440)	(4 968)	(10 925)	(3 740)
Debt securities issued	(17 544)	(4 122)	(22 364)	(7 331)
Subordinated debt	(21 452)	(7 198)	(8 751)	(2 887)
Hedging derivatives	0	0	0	0
Other	(212)	(72)	(277)	(93)
Total	(549 618)	(184 406)	(530 486)	(174 971)

Note (3) Fee and commission income

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Resulting from accounts service	62 167	20 763	58 052	18 680
Resulting from money transfers, cash payments and withdrawals and other payment transactions	55 041	18 129	45 545	16 304
Resulting from loans granted	121 455	39 864	112 883	37 947
Resulting from guarantees and sureties granted	10 775	3 610	9 410	2 871
Resulting from payment and credit cards	129 976	46 081	120 657	41 998
Resulting from sale of insurance products	78 599	24 643	73 523	24 620
Resulting from distribution of investment funds units and other savings products	55 387	18 625	67 378	21 602
Resulting from brokerage and custody service	13 906	4 235	15 745	4 853
Resulting from investment funds managed by the Group	69 135	21 518	68 088	24 181
Other	23 467	7 879	22 045	8 008
Total	619 908	205 347	593 326	201 064

Note (4) Fee and commission expense

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Resulting from accounts service	(1 325)	(455)	(1 170)	(437)
Resulting from money transfers. cash payments and withdrawals and other payment transactions	(4 083)	(1 376)	(2 645)	(1 048)
Resulting from loans granted	(22 462)	(8 096)	(13 852)	(5 165)
Resulting from payment and credit cards	(66 973)	(23 375)	(57 226)	(20 127)
Resulting from brokerage and custody service	(2 460)	(746)	(2 715)	(790)
Resulting from investment funds managed by the Group	(7 341)	(2 177)	(7 550)	(2 699)
Other	(15 764)	(6 209)	(13 995)	(5 260)
Total	(120 408)	(42 434)	(99 153)	(35 526)

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

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Operations on debt instruments	15 677	7 078	6 787	2 602
Operations on equity instruments	0	0	2 432	2 436
Total	15 677	7 078	9 219	5 038

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

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Operations on securities	9 937	2 569	3 474	457
Operations on derivatives	49 298	19 074	33 873	8 639
Costs of financial operations	(1 128)	(309)	(1 287)	(589)
Total	58 107	21 334	36 060	8 507

Note (7) Results non-trading financial assets mandatorily at fair value through profit or loss

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Loans and advances to customers	(13 318)	(5 116)	0	0
Operations on equity instruments	0	0	0	0
Operations on debt instruments	11 534	4 160	0	0
Total	(1 784)	(956)	0	0

Note (8) Administrative expenses

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Staff costs:	(477 187)	(160 967)	(443 966)	(149 012)
Salaries	(392 111)	(134 128)	(366 017)	(124 876)
Surcharges on pay	(67 242)	(21 092)	(61 650)	(19 216)
Employee benefits, including:	(17 834)	(5 747)	(16 299)	(4 920)
- provisions for retirement benefits	(2 734)	(921)	(2 130)	(720)
- provisions for unused employee holiday	(92)	(56)	(23)	(7)
- other	(15 007)	(4 769)	(14 146)	(4 193)
Other administrative expenses:	(431 187)	(141 804)	(414 363)	(128 508)
Costs of advertising, promotion and representation	(38 389)	(14 432)	(36 069)	(14 870)
IT and communications costs	(65 998)	(22 435)	(57 798)	(19 583)
Costs of renting	(109 602)	(36 086)	(118 437)	(39 714)
Costs of buildings maintenance, equipment and materials	(20 191)	(6 924)	(19 118)	(6 380)
ATM and cash maintenance costs	(14 426)	(4 935)	(13 010)	(4 465)
Costs of consultancy, audit and legal advisory and translation	(23 989)	(10 538)	(22 498)	(9 701)
Taxes and fees	(16 938)	(5 923)	(12 987)	(4 560)
KIR clearing charges	(4 087)	(1 413)	(3 546)	(1 211)
PFRON costs	(3 673)	(1 278)	(3 568)	(1 021)
Banking Guarantee Fund costs	(87 445)	(17 822)	(86 177)	(13 237)
Financial Supervision costs	(5 299)	(2 612)	(1 756)	782
Other	(41 149)	(17 405)	(39 399)	(14 548)
Total	**(908 373)**	**(302 770)**	**(858 329)**	**(277 520)**

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 from BFG guarantee fund). Comparative data for the three quarters of 2017 were adjusted by reducing the value of Other operating expenses while increasing Administrative costs by PLN 46 440 thousand.

Note (9) Impairment losses on financial assets

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Impairment losses on loans and advances to customers	(136 957)	(49 317)	(192 749)	(67 937)
Impairment charges on loans and advances to customers	(518 975)	(111 639)	(498 583)	(141 061)
Reversal of impairment charges on loans and advances to customers	379 649	61 822	302 057	69 912
Amounts recovered from loans written off	2 275	500	1 547	982
Sale of receivables	94	0	2 230	2 230
Impairment losses on securities	723	(2)	662	0
Impairment charges on securities	(20)	(2)	0	0
Reversal of impairment charges on securities	743	0	662	0
Impairment losses on off-balance sheet liabilities	(13 601)	(2 727)	631	(1 239)
Impairment charges on off-balance sheet liabilities	(57 682)	(12 291)	(13 176)	(1 538)
Reversal of impairment charges on off-balance sheet liabilities	44 081	9 564	13 807	299
Total	**(149 835)**	**(52 046)**	**(191 456)**	**(69 176)**

Note (10a) Income tax reported in income statement

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Current tax	(211 010)	(79 670)	(231 613)	(82 005)
Current year	(210 618)	(79 376)	(231 613)	(82 005)
Adjustment to previous years	(392)	(294)	0	0
Deferred tax:	15 174	14 941	48 428	18 454
Recognition and reversal of temporary differences	14 441	14 632	48 112	18 306
Recognition / (Utilisation) of tax loss	733	309	316	148
Total income tax reported in income statement	**(195 836)**	**(64 729)**	**(183 185)**	**(63 551)**

Note (10b) Effective tax rate

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Gross profit / (loss)	743 970	264 918	684 765	251 035
Statutory tax rate	19%	19%	19%	19%
Income tax according to obligatory income tax rate of 19%	(141 354)	(50 334)	(130 105)	(47 696)
Impact of permanent differences on tax charges:	**(54 090)**	**(14 101)**	**(53 080)**	**(15 855)**
Non taxable income	477	114	354	2
Dividend income	329	(9)	322	(7)
Release of other provisions	148	123	32	9
Other	0	0	0	0
Non tax-deductible costs	(54 567)	(14 215)	(53 434)	(15 857)
Loss on sale of receivables	(27)	0	(817)	(817)
PFRON fee	(697)	(243)	(678)	(194)
Banking Guarantee Fund costs	(16 614)	(3 386)	(16 374)	(2 516)
Banking tax	(28 220)	(9 095)	(26 611)	(8 812)
Cost of provisions for factoring receivables	(349)	(304)	(3 265)	(606)
Receivables written off	(1 162)	(717)	(1 115)	(241)
Costs of litigations and contentious claims	(5 303)	(441)	(1 495)	(1 395)
Depreciation and insurance costs of cars (in excess of EUR 20.000)	(1 484)	(457)	(2 006)	(807)
Other	(711)	428	(1 073)	(469)
Adjustment to CIT-8 declarations for previous years	(392)	(294)	0	0
Total income tax reported in income statement	**(195 836)**	**(64 729)**	**(183 185)**	**(63 551)**
Effective tax rate	26%	24%	27%	25%

Note (10c) Deferred tax reported directly in equity

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Valuation of securities at fair value through other comprehensive income	(19 393)	(20 489)	(13 296)	(11 279)
Valuation of cash flow hedging instruments	15 819	17 739	20 985	19 102
Actuarial gains (losses)	473	473	473	81
Deferred tax reported directly in equity	(3 101)	(2 277)	8 162	7 904

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 30 August 2018 Head of Mazovian Customs&Tax Office (formerly UKS) prolonged the date of completing its proceeding until 12 November 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 (RAC) in Warsaw. On the basis of judgement of 15 May 2018 RAC Warsaw dismissed it. After analysis of justification of this judgement Bank did not decide to appeal to the Supreme Administrative Court and sent a copy to auditors from Mazovian Customs&Tax Office with opinion that the court stated that CIT overpayment can be ruled in their (UKS) decision not through the Second Mazovian Tax Office.

Note (11a) Financial assets held for trading

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Debt securities	**1 158 353**	**1 241 567**	**338 359**	**408 409**
Issued by State Treasury	1 158 345	1 241 559	338 351	408 401
a) bills	0	0	0	0
b) bonds	1 158 345	1 241 559	338 351	408 401
Other securities	8	8	8	8
a) quoted	8	8	8	8
b) non quoted	0	0	0	0
Equity instruments	**119**	**123**	**102**	**163**
Quoted on the active market	119	123	102	163
a) financial institutions	0	0	0	0
b) non-financial institutions	119	123	102	163
Adjustment from fair value hedge	5 173	6 054	7 784	8 663
Positive valuation of derivatives	96 159	162 264	184 880	181 310
Total	**1 259 804**	**1 410 008**	**531 125**	**598 545**

Note (11b) Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at 30.09.2018

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(15)	32 178	32 193
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(15)	32 178	32 193
Other interest rate contracts: options	0	0	0
2. FX derivatives	(4 049)	29 632	33 681
FX contracts	(6 475)	3 774	10 249
FX swaps	7 620	24 973	17 353
Other FX contracts (CIRS)	(5 194)	885	6 079
FX options	0	0	0
3. Embedded instruments	(31 968)	7	31 975
Options embedded in deposits	(27 598)	0	27 598
Options embedded in securities issued	(4 370)	7	4 377
4. Indexes options	32 145	34 342	2 197
Valuation of derivatives	**(3 887)**	**96 159**	**100 046**
Valuation of hedged position in fair value hedge accounting		5 173	5 000
Liabilities from short sale of debt securities			52 470

Note (11c) Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at 30.06.2018

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(412)	43 910	44 322
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(412)	43 910	44 322
Other interest rate contracts: options	0	0	0
2. FX derivatives	36 424	86 216	49 792
FX contracts	10 407	23 328	12 921
FX swaps	32 416	58 620	26 204
Other FX contracts (CIRS)	(6 399)	4 268	10 667
FX options	0	0	0
3. Embedded instruments	(24 633)	2 128	26 761
Options embedded in deposits	(21 501)	0	21 501
Options embedded in securities issued	(3 132)	2 128	5 260
4. Indexes options	26 934	30 010	3 076
Valuation of derivatives	**38 313**	**162 264**	**123 951**
Valuation of hedged position in fair value hedge accounting		6 054	5 850
Liabilities from short sale of debt securities			106 318

Note (11d) 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 (11e) Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at 30.09.2017

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(6 409)	70 235	76 644
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(6 409)	70 235	76 644
Other interest rate contracts: options	0	0	0
2. FX derivatives	10 237	64 273	54 036
FX contracts	(5 496)	17 108	22 604
FX swaps	22 811	45 449	22 638
Other FX contracts (CIRS)	(7 078)	1 716	8 794
FX options	0	0	0
3. Embedded instruments	(44 667)	45	44 712
Options embedded in deposits	(39 427)	0	39 427
Options embedded in securities issued	(5 240)	45	5 285
4. Indexes options	44 443	46 757	2 314
Valuation of derivatives	**3 604**	**181 310**	**177 706**
Valuation of hedged position in fair value hedge accounting		8 663	8 373
Liabilities from short sale of debt securities			211 209

Note (12) Financial assets at fair value through other comprehensive income

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Debt securities	**16 943 985**	**16 941 740**	**19 016 855**	**16 437 510**
Issued by State Treasury	16 113 675	15 921 059	12 810 462	15 610 160
a) bills	0	0	0	0
b) bonds	16 113 675	15 921 059	12 810 462	15 610 160
Issued by Central Bank	749 875	939 867	6 077 287	691 970
a) bills	749 875	939 867	6 077 287	691 970
b) bonds	0	0	0	0
Other securities	80 435	80 814	129 106	135 380
a) listed	80 435	80 814	81 130	80 081
b) not listed	0	0	47 976	55 299
Shares and interests in other entities	26 258	26 209	50 091	48 152
Other financial instruments	0	0	0	0
Total financial assets at fair value through other comprehensive income	**16 970 243**	**16 967 949**	**19 066 946**	**16 485 662**

Note (13a) Loans and advances to customers

Balance sheet value:	30.09.2018	30.06.2018
Mandatorily at fair value through profit or loss *	1 192 617	1 153 901
- Companies	19 714	19 912
- Individuals	1 172 733	1 133 832
- Public sector	170	157
* The above data includes the fair value adjustment, in the amount of:	-67 808	-76 277

As a result of the implementation of new rules in the area of classification of financial instruments, the Group has separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presented aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". It should be noted that there is still a discussion in the banking sector regarding the presentation of such loans; whether the fair value or amortized cost model is appropriate. The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost.

30.09.2018	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost	46 058 837	3 032 824	2 411 735	(225 515)	(181 822)	(1 373 500)	49 722 559
- Companies	14 610 655	1 543 970	807 587	(158 234)	(73 848)	(459 416)	16 270 714
- Individuals	31 200 056	1 487 402	1 604 148	(66 965)	(107 972)	(914 084)	33 202 585
- Public sector	248 126	1 452	0	(316)	(2)	0	249 260

30.06.2018	Balance sheet value, gross			Accumulated impairment write-offs			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost	45 123 585	3 374 973	2 408 724	(227 461)	(190 625)	(1 387 230)	49 101 966
- Companies	14 163 201	1 891 959	784 046	(161 946)	(79 483)	(452 456)	16 145 321
- Individuals	30 684 793	1 481 562	1 624 678	(65 201)	(111 140)	(934 774)	32 679 918
- Public sector	275 591	1 452	0	(314)	(2)	0	276 727

Note (13b) Loans and advances to customers

	30.09.2018		30.06.2018	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	44 816 894	444 371	44 269 560	405 764
- to companies	10 503 983	0	10 424 686	0
- to private individuals	34 064 280	444 371	33 568 714	405 764
- to public sector	248 631	0	276 160	0
Receivables on account of payment cards	2 970	748 246	3 154	748 137
- due from companies	170	19 885	353	20 069
- due from private individuals	2 799	728 361	2 801	728 068
Purchased receivables	261 085	0	235 468	0
- from companies	261 085	0	235 468	0
- from public sector	0	0	0	0
Guarantees and sureties realised	10 229	0	12 028	0
Debt securities eligible for rediscount at Central Bank	5 450	0	6 429	0
Financial leasing receivables	6 140 813	0	6 125 704	0
Other	4 657	0	4 265	0
Interest	261 298	0	250 674	0
Total:	**51 503 396**	**1 192 617**	**50 907 282**	**1 153 901**
Impairment write-offs	(1 780 837)	-	(1 805 316)	-
Total balance sheet value:	**49 722 560**	**1 192 617**	**49 101 966**	**1 153 901**
* The above data includes the fair value adjustment in the amount of	-	(67 808)	-	(76 277)

Note (13c) Loans and advances to customers

	31.12.2017	30.09.2017
Loans and advances	41 850 883	42 230 317
- to companies	9 610 098	9 470 749
- to private individuals	31 977 162	32 451 401
- to public sector	263 623	308 167
Receivables on account of payment cards	763 964	749 006
- due from companies	20 770	22 776
- due from private individuals	743 194	726 230
Purchased receivables	259 373	208 459
- from companies	255 342	207 611
- from public sector	4 031	848
Guarantees and sureties realised	10 893	10 983
Debt securities eligible for rediscount at Central Bank	5 590	4 559
Financial leasing receivables	5 741 101	5 619 619
Other	5 028	5 607
Interest	271 474	269 984
Total:	**48 908 306**	**49 098 534**
Impairment write-offs	(1 497 228)	(1 505 308)
Total balance sheet value:	**47 411 078**	**47 593 226**

Note (13d) Quality of loans and advances to customers portfolio valued at amortised cost

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Loans and advances to customers (gross)	51 503 396	50 907 282	48 908 306	49 098 534
- impaired	2 411 735	2 408 724	2 232 666	2 262 340
- not impaired	49 091 661	48 498 558	46 675 640	46 836 194
Impairment write-offs	(1 780 837)	(1 805 316)	(1 497 228)	(1 505 308)
- for impaired exposures	(1 373 500)	(1 387 230)	(1 315 256)	(1 312 545)
- for not impaired exposures	(407 337)	(418 086)	(181 972)	(192 763)
Loans and advances to customers (net)	**49 722 559**	**49 101 966**	**47 411 078**	**47 593 226**

Note (13e) Loans and advances to customers portfolio valued at amortised cost by methodology of impairment assessment

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Loans and advances to customers (gross)	51 503 396	50 907 282	48 908 306	49 098 534
- case by case analysis	746 632	734 322	721 524	731 056
- collective analysis	50 756 764	50 172 961	48 186 782	48 367 478
Impairment write-offs	(1 780 837)	(1 805 316)	(1 497 228)	(1 505 308)
- on the basis of case by case analysis	(380 161)	(374 651)	(410 445)	(386 811)
- on the basis of collective analysis	(1 400 676)	(1 430 665)	(1 086 783)	(1 118 497)
Loans and advances to customers (net)	**49 722 559**	**49 101 966**	**47 411 078**	**47 593 226**

Note (13f) Loans and advances to customers portfolio valued at amortised cost by customers

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Loans and advances to customers (gross)	51 503 396	50 907 282	48 908 306	49 098 534
- corporate customers	17 211 791	17 116 248	15 955 226	15 690 194
- individuals	34 291 606	33 791 034	32 953 080	33 408 340
Impairment write-offs	(1 780 837)	(1 805 316)	(1 497 228)	(1 505 308)
- for receivables from corporate customers	(691 816)	(694 201)	(556 972)	(559 746)
- for receivables from private individuals	(1 089 021)	(1 111 115)	(940 256)	(945 562)
Loans and advances to customers (net)	**49 722 559**	**49 101 966**	**47 411 078**	**47 593 226**

Note (13g) Change of impairment write-offs for loans and advances to customers valued at amortised cost

	01.01.2018 - 30.09.2018	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017	01.01.2017 - 30.09.2017
Balance at the beginning of the period	1 497 228	1 497 228	1 364 913	1 364 913
Adjustment of the opening balance due to the implementation of IFRS 9	327 434	327 434	0	0
Adjusted balance at the beginning of the period	1 824 662	1 824 662	1 364 913	1 364 913
Change in value of provisions:	(43 825)	(19 346)	132 315	140 395
Impairment write-offs created in the period	518 959	407 336	627 978	498 583
Amounts written off	(209 788)	(130 811)	(105 093)	(38 428)
Impairment write-offs released in the period	(379 649)	(317 827)	(365 600)	(302 057)
Sale of receivables	(5 506)	(5 506)	(5 897)	(5 897)
KOIM created in the period(*)	19 361	12 795	0	0
Changes resulting from FX rates differences	12 676	14 570	(19 073)	(11 806)
Other	122	97	0	0
Balance at the end of the period	**1 780 837**	**1 805 316**	**1 497 228**	**1 505 308**

(*) 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.

Nota (14a) Assets valued at amortised cost

30.09.2018	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	50 313	0	0	(23)	0	0	50 290
Deposits, loans and advances to banks and other monetary institutions	528 401	0	0	(16)	0	0	528 385
Repurchase agreements	66 485	0	0	0	0	0	66 485

30.06.2018	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	47 467	0	0	(21)	0	0	47 446
Deposits, loans and advances to banks and other monetary institutions	519 950	0	0	0	0	0	519 950
Repurchase agreements	108 847	0	0	0	0	0	108 847

Nota (14b) Deposits, loans and advances to banks and other monetary institutions

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Current accounts	174 065	117 231	136 853	86 030
Deposits granted	352 812	400 853	115 174	267 415
Interest	1 524	1 866	2 178	2 173
Total (gross) deposits, loans and advances	528 401	519 950	254 205	355 619
Impairment write-offs	(16)	0	0	0
Total (net) deposits, loans and advances	**528 385**	**519 950**	**254 205**	**355 619**

Note (15a) Hedge accounting

As at 30.09.2018 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 (15b) Hedge accounting - derivative instruments constituting cash flow hedge related to interest rate and/or exchange rate

Fair values	30.09.2018			30.06.2018		
	Assets	Liabilities	Total	Assets	Liabilities	Total
CIRS contracts	185 269	328 814	(143 545)	159 595	458 948	(299 353)
IRS contracts	5 814	0	5 814	6 709	0	6 709
FXS contracts	1 084	30 141	(29 057)	0	47 612	(47 612)
Hedge accounting total	192 167	358 955	(166 788)	166 304	506 560	(340 256)

Fair values	31.12.2017			30.09.2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
CIRS contracts	825 280	176 845	648 435	512 404	317 105	195 299
IRS contracts	8 401	8	8 393	7 857	30	7 827
FXS contracts	52 199	0	52 199	56 669	0	56 669
Hedge accounting total	885 880	176 853	709 027	576 930	317 135	259 795

As of presented above dates there were no active fair value hedges.

Note (16) 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	20	0	0	0	3 350
- Write-offs released	(743)	0	0	0	(1 528)
- Utilisation	0	0	0	0	(21)
- Sale of assets	0	0	0	0	0
Balance as at 30.09.2018	5 240	8 754	3 988	136	9 745
Balance as at 01.01.2018	5 963	8 754	3 988	136	7 944
- Write-offs created	18	0	0	0	1 345
- Write-offs released	(743)	0	0	0	(1 319)
- Utilisation	0	0	0	0	(14)
- Sale of assets	0	0	0	0	0
Balance as at 30.06.2018	5 238	8 754	3 988	136	7 956

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
Balance as at 01.01.2017	7 142	9 808	3 988	136	7 145
- Write-offs created	0	658	0	0	3 326
- Write-offs released	(662)	(1 412)	0	0	(2 383)
- Utilisation	0	0	0	0	(353)
- Sale of assets	(164)	0	0	0	0
Balance as at 30.09.2017	6 316	9 054	3 988	136	7 735

Note (17) Assets / Liabilities from deferred income tax

	30.09.2018			30.06.2018		
	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	75 343	(3 323)	72 020	72 937	(10 906)	62 031
Balance sheet valuation of financial instruments	48 839	(70 262)	(21 423)	58 279	(73 021)	(14 742)
Unrealised receivables/ liabilities on account of derivatives	9 037	(18 267)	(9 230)	11 518	(20 162)	(8 644)
Interest on deposits and securities to be paid/received	27 129	(36 505)	(9 376)	21 567	(35 718)	(14 151)
Interest and discount on loans and receivables	5	(50 708)	(50 703)	6	(50 009)	(50 003)
Income and cost settled at effective interest rate	87 048	(1 238)	85 810	86 225	(1 379)	84 846
Provisions for loans presented as temporary differences	235 713	0	235 713	231 617	0	231 617
Employee benefits	15 553	0	15 553	15 235	0	15 235
Provisions for costs	24 652	0	24 652	22 394	0	22 394
Valuation of investment assets (FVOCI), the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	16 297	(19 398)	(3 101)	18 217	(20 494)	(2 277)
Tax loss deductible in the future	1 120	0	1 120	812	0	812
Other	1 899	(874)	1 025	1 721	(896)	825
Net deferred income tax asset	542 635	(200 575)	342 060	540 528	(212 585)	327 943

	31.12.2017			30.09.2017		
	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	73 799	(4 973)	68 826	69 524	(11 231)	58 293
Balance sheet valuation of financial instruments	7 182	(29 383)	(22 201)	12 346	(30 391)	(18 045)
Unrealised receivables/ liabilities on account of derivatives	16 766	(28 537)	(11 771)	11 806	(23 125)	(11 319)
Interest on deposits and securities to be paid/received	26 513	(33 114)	(6 601)	29 059	(33 060)	(4 001)
Interest and discount on loans and receivables	7	(28 471)	(28 464)	13	(28 380)	(28 367)
Income and cost settled at effective interest rate	82 892	(1 514)	81 378	87 061	(1 473)	85 588
Provisions for loans presented as temporary differences	163 093	0	163 093	162 782	0	162 782
Employee benefits	15 420	0	15 420	13 999	0	13 999
Provisions for costs	19 214	0	19 214	21 240	0	21 240
Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	21 463	(13 301)	8 162	19 197	(11 293)	7 904
Tax loss deductible in the future	387	0	387	437	0	437
Other	(14)	(876)	(890)	127	(1 926)	(1 799)
Net deferred income tax asset	426 722	(140 169)	286 553	427 591	(140 879)	286 712

Note (18) Liabilities to banks and other monetary institutions

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
In current account	114 324	98 783	97 235	162 357
Term deposits	431 118	400 550	1 293 678	849 884
Loans and advances received	1 081 567	665 792	961 079	1 158 151
Interest	3 507	563	1 139	2 676
Total	1 630 516	1 165 688	2 353 131	2 173 068

Note (19) Structure of liabilities to customers by type

	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Amounts due to private individuals	44 186 453	43 303 180	40 343 597	40 081 457
Balances on current accounts	29 308 805	28 575 290	25 108 948	25 078 849
Term deposits	14 645 126	14 569 627	14 993 961	14 843 274
Other	166 678	93 011	176 728	95 537
Accrued interest	65 844	65 252	63 960	63 797
Amounts due to companies	13 605 575	13 782 260	14 363 117	13 797 853
Balances on current accounts	6 719 547	6 496 423	6 710 128	5 641 056
Term deposits	6 603 274	7 015 797	7 354 951	7 921 279
Other	267 412	254 556	284 150	221 619
Accrued interest	15 342	15 484	13 888	13 899
Amounts due to public sector	2 430 640	2 746 039	2 566 541	2 799 216
Balances on current accounts	1 073 372	1 119 083	1 185 444	929 414
Term deposits	1 351 433	1 622 063	1 346 597	1 824 395
Other	3 848	1 951	32 331	41 198
Accrued interest	1 987	2 942	2 169	4 209
Total	**60 222 668**	**59 831 479**	**57 273 255**	**56 678 526**

Note (20) Change of debt securities

	01.01.2018 - 30.09.2018	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017	01.01.2017 - 30.09.2017
Balance at the beginning of the period	1 156 473	1 156 473	1 313 836	1 313 836
Increases, on account of:	211 354	112 887	754 779	664 012
- issue of bonds by the Bank	141	141	329 434	329 312
- issue of bonds by Millennium Leasing	88 500	51 500	343 200	275 500
- issue of Banking Securities	105 169	47 824	52 468	36 519
- interest accrual	17 544	13 422	29 677	22 681
Reductions, on account of:	(636 381)	(560 467)	(912 142)	(786 271)
- repurchase of bonds by the Bank	(329 521)	(329 521)	(529 076)	(529 081)
- repurchase of bonds by Millennium Leasing	(192 930)	(166 930)	(266 900)	(163 900)
- repurchase of Banking Securities	(98 109)	(50 002)	(84 318)	(72 722)
- interest payment	(15 821)	(14 014)	(31 848)	(20 568)
Balance at the end of the period	**731 446**	**708 893**	**1 156 473**	**1 191 577**

Note (21) Provisions

	01.01.2018 - 30.09.2018	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017	01.01.2017 - 30.09.2017
Pending legal issues and tax litigation				
Balance at the beginning of the period	46 032	46 032	24 782	24 782
Charge of provision	7 223	4 940	23 236	18 295
Release of provision	(781)	(133)	(1 233)	(169)
Utilisation of provision	(3 799)	(3 571)	(753)	(12 079)
Reclassification	12 158	12 158	0	0
Balance at the end of the period	60 833	59 426	46 032	30 829
Commitments and guarantees given				
Balance at the beginning of the period	21 720	21 720	24 633	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	23 829	0	0
Adjusted balance at the beginning of the period	45 549	45 549	24 633	24 633
Charge of provision	57 682	45 391	13 771	13 176
Release of provision	(44 081)	(34 517)	(16 577)	(13 807)
FX rates differences	149	266	(107)	(63)
Balance at the end of the period	59 299	56 689	21 720	23 939
Total	**120 132**	**116 115**	**67 752**	**54 768**

5. CHANGES IN RISK MANAGEMENT PROCESS

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

In order to ensure effective risk management and coherent policy the Group has implemented risk management model under which credit, market, liquidity and operational risks are managed in an integrated manner.

Credit risk

In the third quarter of 2018 the Group both in the corporate and retail segments focused on further improving of the credit policy as well as the tools and processes of credit risk management.

In the corporate segment, the Group focused on activities aimed at streamlining and accelerating credit processes.. The verification of industry policy was also carried out. As in previous periods, work continued on improving IT tools supporting credit process.

In the retail segment, the Group continued its activities in the area of optimization of methodology, tools and credit processes. In particular, Bank started to use in its credit policy, the new models that evaluating the client's credit risk, based on the extended scope of information about the client. These models are characterized by high predictive power, thanks to which they will improve the process of identification and limitation of credit risk. Additionally, the requirements in the process of confirming the Client's income were sharpened, which should translate into an further risk reduction.

In addition, Bank has introduced modification to adapt the credit policy to changes in legal regulations. Their impact on the credit process was assessed as insignificant.

All the above changes were aimed at streamlining the credit process while at the same time limiting the appetite for risk.

The Group assesses credit risk regardless of how the portfolio of receivables from customers is classified in the financial statements: either as a portfolio valued at amortized cost or as a portfolio valued at fair value through profit or loss. The table below contains data on the entire portfolio due from customers, broken down into non-overdue and overdue exposures.

Changes in the loan portfolio of the Group after 3 quarters of 2018 are summarized below:

Gross exposure in '000 PLN	30.09.2018		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	48 597 556	528 401	45 178 599	254 205
Overdue(*), but without impairment	1 698 558	0	1 497 041	0
Total without impairment	50 296 114	528 401	46 675 640	254 205
With impairment	2 467 707	0	2 232 666	0
Total	**52 763 821**	**528 401**	**48 908 306**	**254 205**
Impairment write-offs	(1 780 837)	(16)	(1 497 228)	0
Fair value adjustment(**)	(67 808)	0	0	0
Total, net	**50 915 176**	**528 385**	**47 411 078**	**254 205**
Loans with impairment / total loans	4.68%	0.00%	4.57%	0.00%

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

(**) Fair value adjustment is defined as the difference between the nominal value and the fair value of the portfolio measured at fair value through profit or loss. The fair value adjustment is influenced, in particular, by taking into account the credit risk of the portfolio.

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 3 Q 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 22.5 m (11 % of the limit) and approx. PLN 23.0 m (11% of the limit) as of the end of September 2018. The market risk exposure in 3Q 2018 in terms of value at risk in the Group, together with risk type division, is presented in the table below ('000 PLN).

VaR measures for market risk ('000 PLN)

	30.09.2018		VaR (3Q 2018)			30.06.2018	
	Exposure	Limit usage	Average	Maximum	Minimum	Exposure	Limit usage
Total risk	22 956	11%	22 455	26 521	17 991	24 964	12%
Generic risk	21 058	10%	20 500	23 795	16 091	23 110	11%
Interest Rate VaR	21 326	10%	20 526	23 796	16 016	23 112	11%
FX Risk	69	0%	127	988	9	35	0%
Diversification Effect	1.6%					0.2%	
Specific risk	1 899	1%	1 954	2 776	1 833	1 854	1%

In 3Q 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 Bank, the FX open position is allowed, however should be kept at low levels. For this purpose, the Bank has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows to keep FX open positions only in Trading Book. In the 3Q 2018, the FX Total open position (Intraday as well as Overnight) remained well below the maximum limits in place as well as did not exceed 2% of Consolidated Own Funds.

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, including supervisory standard shocks of +/- 200 bps. Therefore, the results shows the impact on the Group's economic value resulting from the interest rate change.

In 3Q 2018, the results of the above mentioned analysis for Banking Book stayed within 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 3Q 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 institutions 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 181% at the end of September 2018 (164% at the end of June 2018). 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 3Q 2018, the Group has consistently maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 84.5% at the end of September 2018 (84% at the end of June 2018). 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 September 2018. At the end of 3Q 2018 this portfolio was kept at the level of PLN 18.0 billion (25% of total assets).similary as at the end of June 2018 (PLN 18.1 billion, 25% 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 institutions 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 regularly monitored and did not have any negative impact on the stability of the deposit base in 3Q 2018. 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 annually revised and selected procedures were tested in 3Q 2018 that ensured that it is operationally robust.

Operational risk

In the third 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 legal provisions in force and the best practice of national and international financial institutions.

The operational risk management model, implemented by the 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, which effectively translates into a real reduction in the level of operational risk in the business tasks.

In the third quarter of 2018 the registered level of operational risk losses was at the acceptable level.

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.

As of 30 September 2018 the Bank and the Group were 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. (the Bank) and 5.41 p.p. (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) [1];
- 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%, and the value is set by KNF every year[2];
  - Systemic risk buffer at the level of 3%;
  - Countercyclical buffer at the 0% level.

[1] 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

[2] On the 1st August, 2018 Bank informed in the Current Report no 15/2018 on the decision of Polish Financial Supervision Authority on rescinding the decision on identification of Bank Millennium as other systematically important institution and on imposing on the Bank a buffer of other systematically important institution.

Since the 31st July until 22nd October 2018, minimum levels of capital ratios presented in the below table were valid, being at the same time capital targets/limits. 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	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	*4.875%*	*4.875%*
CET 1 Overall Capital Requirements (OCR)	**12.475%**	**12.405%**
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	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	*4.875%*	*4.875%*
T1 OCR	**15.025%**	**14.935%**
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	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	*4.875%*	*4.875%*
TCR OCR	**18.405%**	**18.285%**

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

Bank Millennium Group - capital adequacy (PLN mn)	30.09.2018[1)]	30.06.2018
Risk-weighted assets (RWA)	34 822.1	34 268.7
Own funds requirements, including:	2 785.8	2 741.5
- Credit risk and counterparty credit risk	2 444.7	2 399.0
- Market risk	27.1	27.9
- Operational risk	310.8	310.8
- Credit Valuation Adjustment CVA	3.2	3.8
Own Funds including:	7 978.2	8 009.6
Common Equity Tier 1 Capital, including:	7 278.2	7 309.6
- 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	4 960.5	4 960.5
- recognised part of revaluation reserve	80.7	85.3
- regulatory adjustments	(499.2)	(477.6)
Tier II Capital, including:	700.0	700.0
- subordinated debt	700.0	700.0
- regulatory adjustments	(0.0)	(0.0)
Total Capital Ratio (TCR)	**22.91%**	**23.37%**
Minimum required level	18.285%	18.535%
Surplus(+) / Deficit(-) of TCR ratio (p.p.)	+4.625	+4.835
Tier 1 Capital ratio (T1 ratio)	**20.90%**	**21.33%**
Minimum required level	14.935%	15.185%
Surplus(+) / Deficit(-) of T1 ratio (p.p.)	+5.965	+6.145
Common Equity Tier 1 Capital ratio (CET1 ratio)	**20.90%**	**21.33%**
Minimum required level	12.405%	12.655%
Surplus(+) / Deficit(-) of CET1 ratio (p.p.)	+8.495	+8.675

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 22.60%, T1 and CET1 ratio: 20.58%.

In 3 quarter 2018 compared to 1 half of the year capital ratios of Group slightly decreased – TCR went down by 0.54 p.p. and CET1 ratio by 0.43 p.p. The most important driver of that change was the rise of risk-weighted assets by 1.6%, accompanied by an immaterial fall of own funds by 0.4%.

On the 22nd of October 2018 the Bank received from the PFSA a requirement to maintain own funds for the coverage of additional capital requirement of the Bank at the level of 6.41 p.p. in order to secure the risk resulting from FX mortgage loan portfolio, which should consist of at least 75% of Tier I capital (which corresponds to 4.81 p.p.), and should consist of at least 56% of core Tier I capital (which corresponds to 3.59 p.p.).

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 have been adjusted accordingly.

Income statement 1.01.2018 – 30.09.2018

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	909 751	212 390	209 666	1 331 807
Net fee and commission income	379 013	122 638	(2 151)	499 500
Dividends, other income from financial operations and foreign exchange profit	53 193	53 141	65 435	171 769
Result on non-trading financial assets mandatorily at fair value through profit or loss	(13 318)	0	11 534	(1 784)
Other operating income and cost	(4 674)	3 008	1 953	287
Operating income	1 323 965	391 177	286 437	2 001 579
Staff costs	(348 735)	(105 508)	(22 943)	(477 186)
Administrative costs	(326 322)	(51 487)	(53 378)	(431 187)
Depreciation and amortization	(31 878)	(6 840)	(1 151)	(39 869)
Operating expenses	(706 935)	(163 835)	(77 472)	(948 242)
Impairment losses on assets	(100 903)	(48 921)	(831)	(150 655)
Results on modification	(11 059)	872	0	(10 187)
Operating Profit	**505 068**	**179 293**	**208 134**	**892 495**
Share in net profit of associated companies	0	0	0	0
Banking tax				(148 525)
Profit / (loss) before income tax				**743 970**
Income taxes				(195 836)
Profit / (loss) after taxes				**548 134**

Balance sheet items as at 30.09.2018

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Loans and advances to customers	36 477 395	14 437 781	0	50 915 176
Liabilities to customers	46 291 809	13 807 242	123 617	60 222 668

Income statement 1.01.2017 – 30.09.2017

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	835 624	196 939	219 974	1 252 537
Net fee and commission income	374 677	116 419	3 078	494 174
Dividends, other income from financial operations and foreign exchange profit	51 472	49 296	59 162	159 930
Other operating income and cost	(7 208)	(1 534)	17 503	8 761
Operating income	1 254 565	361 120	299 717	1 915 402
Staff costs	(321 792)	(100 554)	(21 620)	(443 966)
Administrative costs	(301 688)	(46 702)	(65 973)	(414 363)
Depreciation and amortization	(32 917)	(6 037)	(901)	(39 855)
Operating expenses	(656 397)	(153 293)	(88 494)	(898 184)
Impairment losses on assets	(124 619)	(66 175)	(1 605)	(192 399)
Operating Profit	**473 549**	**141 652**	**209 618**	**824 819**
Share in net profit of associated companies	0	0	0	0
Banking tax				(140 056)
Profit / (loss) before income tax				**684 763**
Income taxes				(183 185)
Profit / (loss) after taxes				**501 578**

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 III quarters 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	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
ASSETS				
Loans and advances to banks – accounts and deposits	720	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	1 236	1 252	112 865	106 970
Debt securities	0	0	0	0
Financial liabilities held for trading	157	0	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	84	0

	With parent entity		With other entities of parent Group	
	1.01.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.01.2018 - 30.09.2018	1.01.2017 - 30.09.2017
INCOME FROM:				
Interest	21	5	0	0
Commissions	152	113	0	0
Financial assets and liabilities held for trading	0	0	0	0
EXPENSE FROM:				
Interest	0	4	(214)	(214)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	154	0	0	0
Other net operating costs	11	13	0	0
Administrative expenses	0	105	415	299

	With parent entity		With other entities of parent Group	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Conditional commitments	101 075	101 962	0	0
- granted	100 345	100 345	0	0
- obtained	731	1 617	0	0
Derivatives (par value)	16 936	0	0	0

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

Name and surname		Number of shares as presented in II quarter 2018 report	Number of shares as of delivery date of quarterly report prepared as at 30.09.2018
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
Wojciech Rybak	Member of the Management Board	0	0
Antonio Ferreira Pinto Junior	Member of the Management Board	0	0
Jarosław Hermann	Member of the Management Board	-	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 30.09.2018 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS			
Debt securities	14	50 290	51 110
Loans and advances to banks	14	528 384	528 304
Loans and advances to customers (*)	13	49 722 559	48 069 209
LIABILITIES			
Amounts due to banks	18	1 630 516	1 631 916
Amounts due to customers	19	60 222 668	60 217 338
Debt securities	20	731 445	735 795
Subordinated debt		708 998	701 808

* 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):

	Note	Balance sheet value	Fair value
ASSETS			
Loans and advances to banks	14	254 205	254 152
Loans and advances to customers	13	47 411 078	45 818 564
LIABILITIES			
Amounts due to banks	18	2 353 131	2 355 464
Amounts due to customers	19	57 273 255	57 270 753
Debt securities	20	1 156 473	1 161 524
Subordinated debt		701 971	701 956

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

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

Data in PLN'000, as at 30.09.2018

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	11			
Valuation of derivatives			61 810	34 349
Equity instruments		119		
Debt securities		1 158 345		
Non-trading financial assets mandatorily at fair value through profit or loss				
Equity instruments				20 439
Debt securities				41 165
Loans and advances				1 192 617
Financial assets at fair value through other comprehensive income	12			
Equity instruments		312		25 946
Debt securities		16 194 110	749 875	
Derivatives - Hedge accounting	15		192 167	
LIABILITIES				
Financial liabilities held for trading	11			
Valuation of derivatives			65 874	34 172
Short positions		52 470		
Derivatives - Hedge accounting	15		358 955	

Data in '000 PLN, as at 31.12.2017

	Note	Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	11			
Valuation of derivatives			139 734	45 146
Equity instruments		102		
Debt securities		338 359		
Financial assets at fair value through other comprehensive income	12			
Equity instruments		329	0	29 632
Debt securities		12 891 592	6 077 287	47 976
Derivatives - Hedge accounting	15		885 880	
LIABILITIES				
Financial liabilities held for trading	11			
Valuation of derivatives			138 371	44 218
Short positions		0		
Derivatives - Hedge accounting	15		176 853	

Using the criterion of valuation techniques as at 30.09.2018 Group classified into the third category following financial instruments:

- credit exposures with a leverage / multiplier feature inbuilt in the definition of interest rate (these are credit card exposures and overdraft limits for which the interest rate is based on a multiplier: 4 times the lombard rate);
- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- VISA Inc. preferred shares (presented as debt instrument) 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 III quarters 2018 are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
Balance on 31 December 2017	43 159	(42 231)	29 632	47 976	0
Adjusments/reclassifications due to the implementation of IFRS 9	0	0	15 403	(18 344)	1 099 841
Balance on 1 January 2018	43 159	(42 231)	45 035	29 632	1 099 841
Settlement/sell/purchase	(9 112)	8 453	1 345	0	34 041
Change of valuation recognized in equity	0	0	0	0	0
Change of valuation recognized in P&L account (including interests)	(1 902)	1 810	5	11 533	58 735
Balance on 30 September 2018	**32 145**	**(31 968)**	**46 385**	**41 165**	**1 192 617**

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 (10)**.

Court cases brought up by the Group

Value of the court litigations, as at 30.09.2018, in which the companies of the Group were a plaintiff, totalled 256.8 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 30.09.2018, the most important proceeding, in the group of the court cases where the Group's companies were defendant, was a case brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment.

The plaintiff filed the suit dated 23.10.2015 to the Regional Court in Warsaw; the suit was served to the Bank on 04.04.2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan concluded between the Bank and PCZ S.A., which resulted in placing the loan on demand.

In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. After prior exchange of pleadings, the Court on the first hearing on 10.10.2017 has started the evidentiary hearings. On the hearing on 24.04.2018 the Bank's witnesses were heard. The parties submitted further requests for evidence. Next hearing was set at 29.10.2018.

Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank.

Favourable forecasts for the Bank, as regards dismissal of the suit in both proceedings, is confirmed by a renowned law firm representing the Bank in the proceeding.

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

As at 30.09.2018, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 252.5 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 163.6 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).

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 issued a decision ordering the publication of an announcement in the "Rzeczpospolita" newspaper concerning the commencement of group action proceedings. The above announcement was published on 23 January 2018; the deadline for further borrowers to join the proceedings was 23 April 2018.

In the last extension of claim (dated 24 April 2018), 382 new borrowers declared their accession to the group. Including all previous extensions of claim, the total number of declared members of the group is currently approx. 5,400 persons, while the total value of the subject matter of the dispute was indicated as approx. PLN 146 million. The next stage of the proceedings will be establishing the composition of the group. As yet, the Regional Court in Warsaw has not set a deadline for the Bank to challenge the membership of particular individuals in the group.

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. On 28 December 2017, 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. Pursuant to the court’s order, the representative of the group filed with the Regional Court in Warsaw an updated list of all the members of the group amounting to 709 persons and lodged a further claim for slightly above PLN 5 million altogether. The Regional Court in Warsaw ordered the Bank to file objections regarding the membership of individual persons in the group by 21 November 2018. On October 1, 2018, the plaintiff corrected the amount of claims and filed a revised list of all group members covering a total of 697 persons (432 contracts). The dispute's value, updated by the plaintiff, is currently PLN 7.4 million.

OFF-BALANCE ITEMS

Amount ‘000 PLN	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Off-balance conditional commitments granted and received	**9 968 396**	**9 467 100**	**9 166 626**	**8 604 810**
Commitments granted:	9 649 984	9 174 162	9 121 526	8 563 586
- financial	8 304 816	7 857 205	7 899 290	7 450 167
- guarantee	1 345 168	1 316 957	1 222 236	1 113 419
Commitments received:	318 412	292 938	45 100	41 225
- financial	7 176	0	0	1 207
- guarantee	311 236	292 938	45 100	40 018

10. ADDITIONAL INFORMATION

10.1. Data on assets securing liabilities

As at 30 September 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 WZ0121	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 078
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	504
3.	Treasury bonds WZ0120	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	311 000	313 454
4.	Central Bank bills NBP_051018	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	35 600	35 594
5.	Central Bank bills NBP_051018	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	27 100	27 095
6.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
7.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	1 993	1 993
8.	Deposits	Deposits in banks	Settlement on transactions concluded	238 746	238 746
			TOTAL	745 039	748 564

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 III quarters 2018 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.45.

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 and in accordance with the information provided to the Bank by PTE PZU S.A., which the Bank reported in the current report No. 17/2018.

Data as at the delivery date of the report for III 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
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	67 921 832	5.60	67 921 832	5.60
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	65 984 000	5.44	65 984 000	5.44

Data as at the delivery date of the report for 1st half 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

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

In the third quarter 2018, the Group did not grant any sureties or guarantees for a loan or bank loan which would cause the Group's exposure on this account as at 30 September 2018 to be significant.

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 30 June 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, were estimated by KNF, to be up to PLN 2.8 bn 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.

Mortgage Bank

Mortgage loans are an important element of the Bank’s retail business. Therefore, in June 2018, the Bank filed to the Polish Financial Supervision Authority an application for granting permission to set up a mortgage bank called "Millennium Bank Hipoteczny" based in Warsaw, the sole shareholder of which will be Bank Millennium. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

SKOK Piast conveyance

On the basis of decision of the Polish Financial Supervision Authority on 17 October 2018 Bank Millennium will take over management of the assets of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast (SKOK Piast) (Cooperative Credit Union SKOK Piast). The conveyance will take place on 1 November 2018.

SKOK Piast, like other SKOKs was established at the beginning of the nineties at the Coal Mine „Ziemowit” in Lędziny. After several years other credit unions operating in the vicinity of Tychy, Gliwice and Elbląg decided to join forces and funds and establish SKOK Piast in its current shape and structure. Today, Piast operates 41 branches located mainly in Silesia and Lower Silesia and has 93 thous. clients.

Bank Millennium is a consecutive bank to join the SKOK turnaround process supported by the Polish Financial Supervision Authority and the Bank Guarantee Fund. Conveyance of SKOK Piast fits well within efforts to ensure stability of the national financial system and to ensure safety for all clients of financial institutions in Poland.

Subordinated debt

Bank Millennium is considering an issue of subordinated bonds and therefore is going to consider the market demand for such type of bonds. Potential issue will be conducted provided that market conditions meet Bank’s expectations.

II. CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS OF BANK MILLENNIUM S.A. FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 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 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 financial statements of the Bank Millennium SA for the year ended on December 31, 2017, taking into account changes introduced as a result of the IFRS 9 and IFRS 15 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 addition, starting from 2018, the Bank 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, further details are provide under the Note (8) Administrative expenses in the condensed interim consolidated financial statements of the Group.

Accounting principles applicable to comparative data have been described in the financial statements of the Bank Millennium SA for the financial year ended December 31, 2017.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the nine months ending September 30, 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 nine months period ended 30 September 2018. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the nine months period ended 30 September 2018 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

The Management Board approved these condensed consolidated interim financial statements on 24th October 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 is presented below.

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,

The assessment of the business model is aimed at determining whether the financial asset is maintained:

- for obtaining cash flows resulting from the contract,
- both in order to receive cash flows arising from the contract and the sale of a financial asset or
- for other business purposes.

2) Test of contractual cash flow characteristics connected with financial assets (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:

- The contractual terms trigger, at specific dates, certain cash flows which constitute solely a payment of principal and interest on such principal,
- The principal constitutes the fair value of a loan at the moment of its recognition,
- The interest reflects the value of money over time and credit risk, liquidity risk, the Group'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 is 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 Group in order to collect contract cash flows, while sales transactions occur sporadically.

As a result of the implementation of new rules in the area of classification of financial instruments, the Bank has separated credit exposures which include, in the interest rate definition, leverage/multiplier feature (credit card exposures and overdraft limit for which the interest rate is based on the multiplier: 4 times the lombard rate) and presented aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". It should be noted that there is still a discussion in the banking sector regarding the presentation of such loans; whether the fair value or amortized cost model is appropriate. The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost. On the other hand, due to the current nature of this loan portfolio, the difference between its fair value and the carrying amount determined using the amortized cost method is negligible, therefore the issue has an insignificant impact on the financial result and capital of the Bank, it only causes a change in the presentation of these exposure in the balance sheet.

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 is applied 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).

Test of characteristics of contractual cash flows (SPPI test)

The evaluation of the fulfillment of the SPPI Test is carried out in the following cases:
- granting a loan;
- purchase of credit;
- renegotiation of contractual terms;

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

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

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

In cases where there is a modification of the time value of money, eg in case where a period of interest rate mismatch with the base rate tenor, in order to verify the fulfillment of the SPPI Test, the Bank performs an assessment based on the Benchmark Test, ie a comparison of the instrument resulting from the contract with the base instrument.

The clauses contained in the credit agreement that make the interest margin conditional upon the fulfillment of specific covenants (eg maintaining a given ratio at a certain level) constitute an element modifying the value of contractual cash flows and are subject to analysis in terms of impact on meeting SPPI criteria.

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

The negative result of the SPPI Test implies the valuation of the loan to fair value, causing a departure from the standard method of credit valuation at amortized cost.

Modifications to the terms of the loan agreement

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

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

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

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

A significant modification takes place if the following conditions are met:

- at least two times extension of the residual maturity (analyzed on the basis of the residual maturity at the time of extension), not shorter than 3 years and at the same time an increase in the amount of financing,
- conversion of exposures to another currency (if the conversion option was not included in the original contract),
- change in the SPPI test result.

Additionally, as part of backtesting, the Bank periodically verifies the adopted criteria of significant modification by performing the 10% test criterion (examining the amount of cash flow deviations before and after contract modification).

The result on significant modification is presented in the result on impairment losses.

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

Impairment

General assumptions of the model

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

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at 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.

In the case of exposures classified as POCI (purchased or originated credit impaired) which, upon their initial recognition in the balance sheet, are recognized as impaired, expected losses are estimated during the remaining life 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,
- 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 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, 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 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.

Write-offs

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

POCI assets

POCI assets ("purchased or originated credit-impaired") are financial assets that, upon initial recognition, have an identified impairment. Financial assets that were classified as POCI at the time of initial recognition are treated by the Bank as POCI in all subsequent periods until they are derecognized from balance sheet, and classified to stage 3, regardless of future changes in estimates of cash flows generated by them (possible improvement of assets quality).

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

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

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.

Impact of the implementation of IFRS 9 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	Adj. 4	Adj. 5	IFRS 9 01.01.2018
Cash, cash balances at central banks	2 080 151	0	0	0	0	0	2 080 151
Financial assets held for trading	531 452	0	0	0	0	0	531 452
Derivatives	193 101	0	0	0	0	0	193 101
Equity instruments	0	0	0	0	0	0	0
Debt securities	338 351	0	0	0	0	0	338 351
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	0	48 864	0	0	0	0	48 864
Equity instruments	0	48 864	0	0	0	(29 632)	19 232
Debt securities	0	0	0	0	0	29 632	29 632
Financial assets available for sale	19 053 103	(19 053 103)	0	0	0	0	0
Equity instruments	49 761	(49 761)	0	0	0	0	0
Debt securities	19 003 342	(19 003 342)	0	0	0	0	0
Financial assets at fair value through other comprehensive income	0	18 956 263	0	24 904	0	0	18 981 167
Equity instruments	0	897	0	24 904	0	0	25 801
Debt securities	0	18 955 366	0	0	0	0	18 955 366
Loans and advances to customers	47 144 531	0	(264 825)	0	0	0	46 879 706
Mandatorily at fair value through profit or loss	0	0	0	0	1 099 841	0	1 099 841
Valued at amortised cost	47 144 531	0	(264 825)	0	(1 099 841)	0	45 779 865
Financial assets at amortised cost other than Loans and advances to customers	254 191	47 976	0	0	0	0	302 167
Debt securities	0	47 976	0	0	0	0	47 976
Deposits, loans and advances to banks and other monetary institutions	254 191	0	0	0	0	0	254 191
Repurchase agreements	0	0	0	0	0	0	0
Derivatives - Hedge accounting	885 880	0	0	0	0	0	885 880
Investments in subsidiaries, joint ventures and associates	84 349	0	0	0	0	0	84 349
Tangible assets	178 243	0	0	0	0	0	178 243
Intangible assets	68 287	0	0	0	0	0	68 287
Tax assets	191 391	0	47 741	(4 732)	0	0	234 400
Current tax assets	689	0	0	0	0	0	689
Deferred tax assets	190 702	0	47 741	(4 732)	0	0	233 711
Other assets	165 456	0	0	0	0	0	165 456
Non-current assets and disposal groups classified as held for sale	0	0	0	0	0	0	0
Total assets	**70 637 034**	**0**	**(217 084)**	**20 172**	**0**	**0**	**70 440 122**

LIABILITIES AND EQUITY

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

Adj. 4 - change in the classification of the multiplier portfolio,

Adj. 5 - VISA reclassification

Both the: adjustment 4 and the adjustment 5, were recognised for the first time in financial statements for the II quarter 2018, in the previously published financial statements for 2017 and for the first quarter of 2018 these corrections were not recognized. The introduction of the adjustment 4 regarding the presentation of the multiplier portfolio was determined by the approach applied by majority of the banking sector, a broader description of the issue is presented in point: Business Models of the Bank / Model HTC. Adjustment 5 was recognized because in line with IAS 32, an investment in VISA does not meet the definition of an equity instrument and it should be presented as a debt instrument. Due to the lack of fulfillment of the SPPI test (settlement will be realized by assignment of own shares), this instrument was classified as FVTPL. Both adjustments do not affect the amount of own equity, they refer only to the presentation of financial instruments in this financial statements.

Impact of IFRS9 implementation on capital adequacy ratios

Bank has estimated a negative impact of IFRS 9 implementation on capital ratios and has evaluated it as immaterial.

As at 31/12/2017 full IFRS 9 implementation would cause decrease of TCR by 23 b.p. from 21.93% to 21.70%, and Tier 1 ratio by 29 b.p. from 19.92% to 19.63%. Applying transitional periods rules, TCR would improve by 8 b.p. to 22.01% and Tier 1 ratio by 4 b.p. to 19.96%.

Bank took decision on application of transitional periods rules according to Regulation 2017/2395 (EU). Bank informed about that decision Competent Authorities.

IFRS 15 “Revenue from Contracts with Customers”

For annual periods beginning on January 1, 2018, the Bank implemented IFRS 15 "Revenue from contracts with customers". The principles stipulated in IFRS 15 shall apply to all agreements resulting in revenues. Recognition of revenues should be made upon transfer of control over goods or services to the customer, at transaction price. Any and all goods or services sold in packs, which may be identified within the pack, should be recognised separately. Moreover any and all discounts and rebates concerning the transaction price should be as a rule allocated to particular components of the pack. If the amount of revenue is variable, in accordance with the new standard the variable amounts are carried in revenues if there is a high likelihood that in the future there will be no reversal of recognition of revenue in result of revaluation. Moreover costs incurred to acquire and hedge a contract with a customer should be activated and settled over time during the period of consuming the benefits from this contract.

Main types of potential revenues and costs of the Bank, which as a rule should be recognised in accordance with IFRS 15 are following:

- revenues from sale of fixed assets,
- up-front fees,
- loyalty programmes,
- costs eligible for capitalisation.

Due to the fact that a significant majority of revenues of the Bank results from business regulated by other IFRS (including those recognised in the financial report with the effective interest rate method), applying the amended standard does not have a significant impact on the Bank’s financial situation and results.

2. STANDALONE FINANCIAL DATA (BANK)

STATEMENT OF PROFIT OR LOSS

Amount ‘000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Net interest income	1 257 934	437 941	1 178 301	414 027
Interest income and other of similar nature	1 803 156	620 442	1 704 814	587 179
in which income calculated using the effective interest method	1 716 897	590 062	1 698 333	585 194
Interest expenses	(545 222)	(182 501)	(526 513)	(173 152)
Net fee and commission income	425 955	139 757	411 464	137 213
Fee and commission income	520 560	173 624	488 288	165 184
Fee and commission expenses	(94 605)	(33 867)	(76 824)	(27 971)
Dividend income	56 244	164	74 447	123
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	15 677	7 078	9 219	5 038
Results on financial assets and liabilities held for trading	57 881	21 194	35 687	8 411
Result on non-trading financial assets mandatorily at fair value through profit or loss	(1 784)	(956)	0	0
Result on hedge accounting	(14 907)	(4 949)	(12 707)	(4 118)
Result on exchange differences	110 345	36 724	123 646	42 805
Other operating income	16 520	4 421	43 402	18 621
Other operating expenses	(22 368)	(7 199)	(36 041)	(18 316)
Operating income	**1 901 497**	**634 175**	**1 827 418**	**603 804**
Administrative expenses	(866 287)	(288 479)	(813 972)	(262 475)
Impairment losses on financial assets	(129 291)	(44 928)	(174 053)	(63 290)
Impairment losses on non-financial assets	(820)	(794)	(943)	(522)
Result on modification	(10 187)	(2 823)	0	0
Depreciation	(37 647)	(12 511)	(37 889)	(12 360)
Operating expenses	**(1 044 232)**	**(349 535)**	**(1 026 857)**	**(338 647)**
Result on operating activity	**857 265**	**284 640**	**800 561**	**265 157**
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(148 525)	(47 869)	(140 056)	(46 376)
Result before income taxes	**708 740**	**236 771**	**660 505**	**218 781**
Corporate income tax	(176 767)	(58 572)	(162 768)	(56 564)
Result after taxes	**531 973**	**178 199**	**497 737**	**162 217**

STATEMENT OF COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Result after taxes	531 973	178 199	497 737	162 217
Other comprehensive income items that may be reclassified to profit or loss	41 193	4 289	186 703	82 483
Result on debt securities at fair value through other comprehensive income	14 003	(5 816)	102 259	29 216
Result on equity instruments at fair value through other comprehensive income	0	0	4 359	2 755
Hedge accounting	27 190	10 105	80 085	50 512
Other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
Actuarial gains (losses)	0	0	0	0
Total comprehensive income items before taxes	**41 193**	**4 289**	**186 703**	**82 483**
Corporate income tax on other comprehensive income items that may be reclassified to profit or loss	(7 827)	(815)	(35 473)	(15 672)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
Total comprehensive income items after taxes	**33 366**	**3 474**	**151 230**	**66 811**
Total comprehensive income for the period	**565 339**	**181 673**	**648 967**	**229 028**

BALANCE SHEET

ASSETS

Amount '000 PLN	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Cash, cash balances at central banks	2 237 361	2 146 680	2 080 151	3 672 323
Financial assets held for trading	1 260 066	1 411 738	531 452	598 632
Derivatives	101 721	170 179	193 101	190 231
Equity instruments	0	0	0	0
Debt securities	1 158 345	1 241 559	338 351	408 401
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	61 604	57 444	0	0
Equity instruments	20 439	20 439	0	0
Debt securities	41 165	37 005	0	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	16 956 245	16 954 036	19 053 103	16 471 879
Equity instruments	25 946	25 952	49 761	47 839
Debt securities	16 930 299	16 928 084	19 003 342	16 424 040
Loans and advances to customers	50 399 186	50 122 410	47 144 531	47 244 476
Mandatorily at fair value through profit or loss	1 192 617	1 153 901	0	0
Valued at amortised cost	49 206 569	48 968 509	47 144 531	47 244 476
Financial assets at amortised cost other than Loans and advances to customers	645 109	676 229	254 191	660 991
Debt securities	50 290	47 446	0	0
Deposits, loans and advances to banks and other monetary institutions	528 334	519 936	254 191	355 540
Repurchase agreements	66 485	108 847	0	305 451
Derivatives – Hedge accounting	192 167	166 304	885 880	576 930
Investments in subsidiaries, joint ventures and associates	84 344	84 346	84 349	84 362
Tangible assets	177 582	182 341	178 243	161 895
Intangible assets	68 620	63 969	68 287	52 229
Tax assets	231 932	221 505	191 391	194 288
Current tax assets	0	0	689	0
Deferred tax assets	231 932	221 505	190 702	194 288
Other assets	207 982	151 322	165 456	235 175
Non-current assets and disposal groups classified as held for sale	0	0	0	0
Total assets	**72 522 198**	**72 238 324**	**70 637 034**	**69 953 180**

LIABILITIES AND EQUITY

w tysiącach zł	30.09.2018	30.06.2018	31.12.2017	30.09.2017
LIABILITIES				
Financial liabilities held for trading	157 622	236 119	190 257	397 288
Derivatives	105 152	129 801	190 257	186 079
Short positions	52 470	106 318	0	211 209
Financial liabilities measured at amortised cost	62 753 823	62 360 036	61 333 025	60 682 150
Liablities to banks and other monetary institutions	1 115 835	1 078 456	2 353 131	2 173 068
Liabilities to customers	60 359 683	59 938 799	57 398 904	56 808 218
Repurchase agreements	11 272	94 285	0	172 345
Debt securities issued	558 035	546 696	879 019	878 883
Subordinated debt	708 998	701 800	701 971	649 636
Derivatives - Hedge accounting	358 955	506 560	176 853	317 135
Provisions	119 218	115 201	66 838	53 874
Pending legal issues and tax litigation	59 919	58 512	45 118	29 935
Commitments and guarantees given	59 299	56 689	21 720	23 939
Tax liabilities	16 605	23 417	11 893	21 028
Current tax liabilities	16 605	23 417	11 893	21 028
Deferred tax liabilities	0	0	0	0
Other liabilities	1 230 829	1 293 518	1 317 620	1 091 234
Total Liabilities	**64 637 052**	**64 534 851**	**63 096 486**	**62 562 709**
EQUITY				
Capital	1 213 117	1 213 117	1 213 117	1 213 117
Share premium	1 147 241	1 147 241	1 147 241	1 147 241
Accumulated other comprehensive income	12 961	9 487	(35 077)	(33 946)
Retained earnings	5 511 827	5 333 628	5 215 267	5 064 059
Total equity	7 885 146	7 703 473	7 540 548	7 390 471
Total equity and total liabilities	**72 522 198**	**72 238 324**	**70 637 034**	**69 953 180**

Book value	7 885 146	7 703 473	7 540 548	7 390 471
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)	6,50	6,35	6,22	6,09

STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Unappropriated result
01.01.2018 - 30.09.2018						
Equity at the beginning of the period	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 III quarters 2018 (net)	565 339	0	0	33 366	531 973	0
net profit/ (loss) of the period	531 973	0	0	0	531 973	0
valuation of debt securities at fair value through other comprehensive income	11 342	0	0	11 342	0	0
valuation of shares at fair value through other comprehensive income	0	0	0	0	0	0
hedge accounting	22 024	0	0	22 024	0	0
Transfer between items of reserves	0	0	0	0	(648 945)	648 945
Equity at the end of the period	7 885 146	1 213 117	1 147 241	12 961	296 560	5 215 267
01.07.2018 - 30.09.2018						
Equity at the beginning of the period	7 703 473	1 213 117	1 147 241	9 487	118 361	5 215 267
Total comprehensive income for third quarter 2018 (net)	181 673	0	0	3 474	178 199	0
net profit/ (loss) of the period	178 199	0	0	0	178 199	0
valuation of debt securities at fair value through other comprehensive income	(4 711)	0	0	(4 711)	0	0
valuation of shares at fair value through other comprehensive income	0	0	0	0	0	0
hedge accounting	8 185	0	0	8 185	0	0
Transfer between items of reserves	0	0	0	0	0	0
Equity at the end of the period	7 885 146	1 213 117	1 147 241	12 961	296 560	5 215 267
01.01.2017 - 31.12.2017						
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 - 30.09.2017						
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 third quarter 2017 (net)	648 967	0	0	151 230	497 737	0
net profit/ (loss) of the period	497 737	0	0	0	497 737	0
valuation of debt securities at fair value through other comprehensive income	82 830	0	0	82 830	0	0
valuation of shares at fair value through other comprehensive income	3 531	0	0	3 531	0	0
hedge accounting	64 869	0	0	64 869	0	0
Transfer between items of reserves	0	0	0	0	(652 651)	652 651
Equity at the end of the period	7 390 471	1 213 117	1 147 241	(33 946)	497 737	4 566 322

CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Profit (loss) after taxes	531 973	178 199	497 737	162 217
Total adjustments:	(1 555 930)	54 707	378 516	(38 623)
Depreciation and amortization	37 647	12 511	37 889	12 360
Foreign exchange (gains) losses	30 581	(10 421)	(53 351)	20 158
Dividends	(56 244)	(164)	(74 447)	(123)
Changes in provisions	28 551	4 017	5 253	8 438
Result on sale and liquidation of investing activity assets	(16 079)	(7 153)	(17 076)	(5 721)
Change in financial assets held for trading	(69 805)	114 141	(490 036)	(101 174)
Change in loans and advances to banks	(105 842)	138 237	889 831	152 715
Change in loans and advances to customers	(3 521 395)	(279 530)	(650 912)	(287 114)
Change in receivables from securities bought with sell-back clause (loans and advances)	(66 485)	42 362	(214 931)	(240 303)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	149 467	(226 102)	(774 249)	(88 305)
Change in deposits from banks	(839 103)	47 802	648 630	419 312
Change in deposits from customers	2 960 779	420 884	820 020	(320 155)
Change in liabilities from securities sold with buy-back clause	11 272	(83 013)	172 345	172 345
Change in debt securities	8 875	11 339	(34 336)	7 327
Change in income tax settlements	186 250	61 793	182 058	59 456
Income tax paid	(186 208)	(79 847)	(199 375)	(73 062)
Change in other assets and liabilities	(130 006)	(119 349)	122 452	221 700
Other	21 815	7 200	8 751	3 523
Net cash flows from operating activities	(1 023 957)	232 906	876 253	123 594

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Sale/aquisition of property. plant and equipment and intangible assets	(37 279)	(12 329)	(31 219)	(29 322)
Sale/acquisition of shares in associates	0	0	128 000	28 000
Change in value of investment financial assets due to purchase/sale	(3 355 887)	(502 507)	(1 880 236)	(393 122)
Other inflows/outflows from investing activities	56 244	164	74 447	123
Net cash flows from investing activities	(3 336 922)	(514 672)	(1 709 008)	(394 321)

C. Przepływy środków pieniężnych z działalności finansowej

Amount '000 PLN	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Inflows from financial activities:	0	0	671 858	371 858
Long-term bank loans	0	0	342 136	342 136
Issue of debt securities	0	0	329 722	29 722
Increase in subordinated debt	0	0	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other financial inflows	0	0	0	0
Outflows from financial activities:	(773 053)	0	(587 931)	(469)
Repayment of long-term bank loans	(423 518)	0	(48 036)	0
Redemption of debt securities	(329 859)	0	(529 726)	0
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other financial outflows	(19 676)	0	(10 169)	(469)
Net cash flows from financing activities	(773 053)	0	83 927	371 389

D. Net cash flows. Total (A + B + C)	**(5 133 932)**	**(281 766)**	**(748 828)**	**100 662**
- including change resulting from FX differences	5 048	(4 793)	(6 775)	(4)
E. Cash and cash equivalents at the beginning of the reporting period	**8 408 252**	**3 556 086**	**5 381 982**	**4 532 492**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**3 274 320**	**3 274 320**	**4 633 154**	**4 633 154**

3. SUPPLEMENTARY INFORMATION FOR STANDALONE FINANCIAL DATA

As at 30 September 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, were estimated by KNF, to be 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.

Mortgage Bank

Mortgage loans are an important element of the Bank's retail business. Therefore, in June 2018, the Bank filed to the Polish Financial Supervision Authority an application for granting permission to set up a mortgage bank called "Millennium Bank Hipoteczny" based in Warsaw, the sole shareholder of which will be Bank Millennium. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

SKOK Piast conveyance

On the basis of decision of the Polish Financial Supervision Authority on 17 October 2018 Bank Millennium will take over management of the assets of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast (SKOK Piast) (Cooperative Credit Union SKOK Piast). The conveyance will take place on 1 November 2018.

SKOK Piast, like other SKOKs was established at the beginning of the nineties at the Coal Mine „Ziemowit" in Lędziny. After several years other credit unions operating in the vicinity of Tychy, Gliwice and Elbląg decided to join forces and funds and establish SKOK Piast in its current shape and structure. Today, Piast operates 41 branches located mainly in Silesia and Lower Silesia and has 93 thous. clients.

Bank Millennium is a consecutive bank to join the SKOK turnaround process supported by the Polish Financial Supervision Authority and the Bank Guarantee Fund. Conveyance of SKOK Piast fits well within efforts to ensure stability of the national financial system and to ensure safety for all clients of financial institutions in Poland.

Subordinated debt

Bank Millennium is considering an issue of subordinated bonds and therefore is going to consider the market demand for such type of bonds. Potential issue will be conducted provided that market conditions meet Bank's expectations.

Impairment losses on financial assets

	1.01.2018 - 30.09.2018	1.07.2018 - 30.09.2018	1.01.2017 - 30.09.2017	1.07.2017 - 30.09.2017
Impairment losses on loans and advances to customers	(116 413)	(42 199)	(175 346)	(62 051)
- Impairment charges on loans and advances to customers	(374 247)	(61 179)	(394 934)	(104 052)
- Reversal of impairment charges on loans and advances to customers	256 935	18 587	217 017	39 664
- Amounts recovered from loans written off	805	393	341	107
- Result from sale of receivables portfolio	94	0	2 230	2 230
Impairment losses on investment securities	723	(2)	662	0
- Impairment write-offs for investment securities	(20)	(2)	0	0
- Reversal of impairment write-offs for investment securities	743	0	662	0
Impairment losses on investments in associates	0	0	0	0
- Impairment write-offs for investments in associates	0	0	0	0
- Reversal of impairment write-offs for investments in associates	0	0	0	0
Impairment losses on off-balance sheet liabilities	(13 601)	(2 727)	631	(1 239)
- Impairment write-offs for off-balance sheet liabilities	(57 682)	(12 291)	(13 176)	(1 538)
- Reversal of impairment write-offs for off-balance sheet liabilities	44 081	9 564	13 807	299
Total	**(129 291)**	**(44 928)**	**(174 053)**	**(63 290)**

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

	01.01.2018 - 30.09.2018	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017	01.01.2017 - 30.09.2017
Balance at the beginning of the period	1 362 016	1 362 016	1 235 790	1 235 790
Adjustment of the opening balance due to the implementation of IFRS 9	300 350	300 350	0	0
Adjusted balance at the beginning of the period	1 662 366	1 662 366	1 235 790	1 235 790
Change in value of provisions:	(53 799)	(26 712)	126 226	137 385
Impairment write-offs created in the period	374 231	313 068	490 802	394 934
Amounts written off	(197 243)	(122 459)	(86 172)	(23 224)
Impairment write-offs released in the period	(256 935)	(238 348)	(254 342)	(217 017)
Sale of receivables	(5 506)	(5 506)	(5 897)	(5 897)
KOIM created in the period(*)	19 361	12 795	0	0
Changes resulting from FX rates differences	12 172	13 640	(18 165)	(11 411)
Other	121	98	0	0
Balance at the end of the period	**1 608 567**	**1 635 654**	**1 362 016**	**1 373 175**

(*) 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	20	0	0	0	3 350
- Write-offs released	(743)	0	0	0	(1 530)
- Utilisation	0	0	0	0	(14)
- Sale of assets	0	0	0	0	0
Balance as at 30.09.2018	5 240	7 600	8 733	0	9 678
Balance as at 01.01.2018	5 963	7 600	8 733	0	7 872
- Write-offs created	18	0	0	0	1 345
- Write-offs released	(743)	0	0	0	(1 319)
- Utilisation	0	0	0	0	(9)
- Sale of assets	0	0	0	0	0
Balance as at 30.06.2018	5 238	7 600	8 733	0	7 889

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
Balance as at 01.01.2017	7 142	7 600	9 787	0	7 105
- Write-offs created	0	0	658	0	3 326
- Write-offs released	(662)	0	(1 412)	0	(2 383)
- Utilisation	0	0	0	0	(353)
- Sale of assets	(164)	0	0	0	0
Balance as at 30.09.2017	6 316	7 600	9 033	0	7 695

Creation, charge, utilisation and release of provisions

	01.01.2018 - 30.09.2018	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017	01.01.2017 - 30.09.2017
Pending legal issues and tax litigation				
Balance at the beginning of the period	45 118	45 118	23 988	23 988
Charge of provision	7 223	4 940	23 116	18 195
Release of provision	(781)	(133)	(1 233)	(169)
Utilisation of provision	(3 799)	(3 571)	(753)	(12 079)
Other/reclassification	12 158	12 158	0	0
Balance at the end of the period	59 919	58 512	45 118	29 935
Commitments and guarantees given				
Balance at the beginning of the period	21 720	21 720	24 633	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	23 829	0	0
Adjusted balance at the beginning of the period	45 549	45 549	24 633	24 633
Charge of provision	57 682	45 391	13 771	13 176
Release of provision	(44 081)	(34 517)	(16 577)	(13 807)
FX rates differences	149	266	(107)	(63)
Balance at the end of the period	59 299	56 689	21 720	23 939
Total	**119 218**	**115 201**	**66 838**	**53 874**

Assets / Liabilities from deferred income tax

	30.09.2018			30.06.2018		
	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	1 718	0	1 718	1 738	0	1 738
Balance sheet valuation of financial instruments	46 950	(70 256)	(23 306)	48 936	(73 016)	(24 080)
Unrealised receivables/ liabilities on account of derivatives	9 037	(18 267)	(9 230)	11 518	(20 162)	(8 644)
Interest on deposits and securities to be paid/received	25 961	(36 503)	(10 542)	20 574	(35 713)	(15 139)
Interest and discount on loans and receivables	0	(50 355)	(50 355)	0	(49 600)	(49 600)
Income and cost settled at effective interest rate	87 048	0	87 048	86 225	0	86 225
Provisions for loans presented as temporary differences	198 384	0	198 384	194 711	0	194 711
Employee benefits	14 544	0	14 544	14 183	0	14 183
Provisions for costs	22 477	0	22 477	20 213	0	20 213
Valuation of investment assets (FVOCI), the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	16 296	(19 336)	(3 040)	18 216	(20 441)	(2 225)
Other	4 287	(53)	4 234	4 190	(67)	4 123
Net deferred income tax asset	426 702	(194 770)	231 932	420 504	(198 999)	221 505

	31.12.2017			30.09.2017		
	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	4 012	0	4 012	3 810	0	3 810
Balance sheet valuation of financial instruments	6 275	(29 383)	(23 108)	5 711	(30 385)	(24 674)
Unrealised receivables/ liabilities on account of derivatives	16 766	(28 537)	(11 771)	11 806	(23 125)	(11 319)
Interest on deposits and securities to be paid/received	25 479	(33 022)	(7 543)	28 141	(33 022)	(4 881)
Interest and discount on loans and receivables	0	(28 062)	(28 062)	0	(27 970)	(27 970)
Income and cost settled at effective interest rate	82 892	0	82 892	87 061	0	87 061
Provisions for loans presented as temporary differences	133 150	0	133 150	131 685	0	131 685
Employee benefits	14 349	0	14 349	13 091	0	13 091
Provisions for costs	16 883	0	16 883	18 921	0	18 921
Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	21 462	(13 234)	8 228	19 181	(11 219)	7 962
Other	1 764	(92)	1 672	1 743	(1 141)	602
Net deferred income tax asset	323 032	(132 330)	190 702	321 150	(126 862)	194 288

4. STATEMENT OF RELATED PARTY TRANSACTIONS

All the transactions concluded between the Group entities in the period from 1 January to 30 September 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 30.09.2018

	With subsidiaries	With parent entity	With other entities of parent Group
ASSETS			
Loans and advances to banks – accounts and deposits	0	720	0
Loans and advances to customers	5 452 538	0	0
Investments in associates	84 346	0	0
Financial assets held for trading	403	0	0
Hedging derivatives	0	0	0
Other assets	44 514	0	0
LIABILITIES			
Deposits from banks	0	1 236	112 865
Deposits from customers	260 632	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities from debt securities	429	0	0
Hedging derivatives	0	0	0
Financial liabilities held for trading	107	157	0
Subordinated debt	0	0	0
Other liabilities	90 431	0	84
- including liabilities from financial leasing	84 249	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 1.01-30.09.2018

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	84 455	21	0
Commissions	45 336	152	0
Financial assets and liabilities held for trading	180	0	0
Dividends	53 858	0	0
Other net operating income	2 768	0	0
EXPENSE FROM:			
Interest	1 817	0	(214)
Commissions	4	0	0
Financial assets and liabilities held for trading	0	154	0
Other net operating costs	0	11	0
General and administrative expenses	63 982	0	415

Profit and loss on transactions with related parties (data in '000 PLN) for the period of 1.01-30.09.2017

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	68 809	5	0
Commissions	42 352	113	0
Financial assets and liabilities held for trading	130	0	0
Dividends	72 001	0	0
Other operating net	3 306	0	0
EXPENSE FROM:			
Interest	10 729	4	(214)
Commissions	17	0	0
Financial assets and liabilities held for trading	0	0	0
Other operating net	0	13	0
General and administrative expenses	64 217	0	299

Off-balance transactions with related parties (data in '000 PLN) as at 30.09.2018

	With subsidiaries	With parent entity	With other entities of parent Group
Conditional commitments	795 150	101 075	0
- granted	792 309	100 345	0
- received	2 842	731	0
Derivatives (par value)	73 773	16 936	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 9 months ended 30 September 2018.

The following tables show the figures for Bank Millennium SA.

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

30.09.2018	Balance sheet value	Fair value
ASSETS		
Debt securities	50 290	51 110
Loans and advances to banks	528 334	528 254
Loans and advances to customers valued at amortised cost*	49 206 569	47 552 749
LIABILITIES		
Amounts due to banks	1 115 835	1 116 105
Amounts due to customers	60 359 683	60 354 353
Debt securities	558 035	560 385
Subordinated debt	708 998	701 808

* 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.

31.12.2017	Balance sheet value	Fair value
ASSETS		
Loans and advances to banks	254 191	254 138
Loans and advances to customers	47 144 531	45 551 004
LIABILITIES		
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 30.09.2018

	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
	Level 1	Level 2	Level 3
ASSETS			
Financial assets held for trading			
Valuation of derivatives		62 199	34 348
Debt securities	1 158 345		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments			20 439
Debt securities			41 165
Loans and advances			1 192 617
Financial assets at fair value through other comprehensive income			
Equity instruments			25 946
Debt securities	16 180 424	749 875	
Derivatives – Hedge accounting		192 167	
LIABILITIES			
Financial liabilities held for trading			
Valuation of derivatives		65 981	34 172
Short positions	52 470		
Derivatives – Hedge accounting		358 955	

Data in '000 PLN, as at 31.12.2017

	Level 1	Level 2	Level 3
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 III quarters 2018 are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	Shares and interests	Debt securities	Loans and advances
Balance on 31 December 2017	43 159	(42 231)	29 632	47 976	0
Adjusments/reclassifications due to the implementation of IFRS 9	0	0	15 403	(18 344)	1 099 841
Balance on 1 January 2018	43 159	(42 231)	45 035	29 632	1 099 841
Settlement/sell/purchase	(9 112)	8 453	1 345	0	34 041
Change of valuation recognized in equity	0	0	0	0	0
Change of valuation recognized in P&L account (including interests)	(1 902)	1 810	5	11 533	58 735
Balance on 30 June 2018	**32 145**	**(31 968)**	**46 385**	**41 165**	**1 192 617**

6. ADDITIONAL INFORMATION

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

During the nine months ended 30 September 2018, the total liabilities of the Bank arising from the issue of debt securities decreased by PLN 321.0 million. The decrease was mainly due to the redemption (according to contract terms) of series N BKMO bonds with a nominal value of PLN 300 million and BKMO U series bonds with a nominal value of PLN 30 million. On the other hand, the decrease in the value of issued debt securities was slightly offset by the change in the State of the Bank Securities (BPW) and accrued interest on BKMO T series bonds.

6.2. Off-balance sheet liabilities

Structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	30.09.2018	30.06.2018	31.12.2017	30.09.2017
Off-balance conditional commitments granted and received	**10 763 547**	**9 969 867**	**9 204 511**	**8 642 746**
Commitments granted:	10 442 293	9 673 893	9 156 628	8 598 851
- financial	8 306 842	7 858 654	7 900 674	7 451 592
- guarantee	2 135 451	1 815 239	1 255 954	1 147 259
Commitments received:	321 254	295 975	47 883	43 896
- financial	7 176	0	0	1 207
- guarantee	314 078	295 975	47 883	42 689