REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP

FOR 1ST HALF 2018

MAIN CONSOLIDATED FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Interest income	1 234 043	1 169 772	291 082	275 409
Fee and commission income	414 561	392 262	97 785	92 353
Operating income	1 317 104	1 257 779	310 674	296 129
Operating profit	579 708	527 410	136 740	124 172
Profit (loss) before income tax	479 052	433 730	112 997	102 117
Profit (loss) after taxes	347 945	314 096	82 072	73 950
Total comprehensive income of the period	377 780	398 563	89 110	93 837
Net cash flows from operating activities	(1 291 796)	942 021	(304 705)	221 788
Net cash flows from investing activities	(2 873 230)	(1 504 294)	(677 729)	(354 168)
Net cash flows from financing activities	(687 140)	(287 217)	(162 080)	(67 622)
Net cash flows, total	(4 852 166)	(849 490)	(1 144 514)	(200 002)
Earnings (losses) per ordinary share (in PLN/EUR)	0.29	0.26	0.07	0.06
Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.29	0.26	0.07	0.06
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total Assets	72 665 838	71 141 415	16 660 363	17 056 610
Liabilities to banks and other monetary institutions	1 165 688	2 353 131	267 262	564 178
Liabilities to customers	59 831 479	57 273 255	13 717 782	13 731 630
Equity	7 907 700	7 772 599	1 813 027	1 863 530
Share capital	1 213 117	1 213 117	278 136	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)	6.52	6.41	1.49	1.54
Diluted book value per share (in PLN/EUR)	6.52	6.41	1.49	1.54
Total Capital Ratio (TCR)	23.37%	21.99%	23.37%	21.99%
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	-	-	4.3616	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)	-	-	4.2395	4.2474

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I. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2018

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1. GENERAL INFORMATION ON THE ISSUER

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

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

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

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 5,800 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

Supervisory Board and Management Board of Bank Millennium S.A. as at 30 June 2018

Composition of the Supervisory Board as at 30 June 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 June 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.

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 June 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 change 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 six months ending June 30, 2018.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2018 to 30 June 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 25th July 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. 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 these financial statements, 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 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Net interest income		868 831	440 540	814 257	420 769
Interest income and other of similar nature	1	1 234 043	624 448	1 169 772	593 422
in which income calculated using the effective interest method		1 178 165	595 956	1 165 275	591 002
Interest expenses	2	(365 212)	(183 908)	(355 515)	(172 653)
Net fee and commission income		336 587	164 083	328 635	162 518
Fee and commission income	3	414 561	205 359	392 262	196 164
Fee and commission expenses	4	(77 974)	(41 276)	(63 627)	(33 646)
Dividend income		2 224	2 075	2 326	2 041
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	8 599	5 439	4 181	3 849
Results on financial assets and liabilities held for trading	6	36 773	19 596	27 553	10 898
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	(828)	1 455	0	0
Result on hedge accounting		(9 958)	(4 529)	(8 589)	(4 517)
Result on exchange differences		74 043	37 068	81 486	41 418
Other operating income		24 891	11 158	36 438	10 980
Other operating expenses		(24 058)	(13 072)	(28 508)	(13 042)
Operating income		**1 317 104**	**663 813**	**1 257 779**	**634 914**
Administrative expenses	8	(605 603)	(288 781)	(580 809)	(279 478)
Impairment losses on financial assets	9	(97 789)	(50 138)	(122 280)	(62 779)
Impairment losses on non-financial assets		(26)	12	(421)	(191)
Result on modification		(7 363)	(3 064)	0	0
Depreciation		(26 615)	(13 206)	(26 859)	(13 740)
Operating expenses		**(737 396)**	**(355 177)**	**(730 369)**	**(356 188)**
Result on operating activity		**579 708**	**308 636**	**527 410**	**278 726**
Share of the profit of investments in subsidiaries		0	0	0	0
Banking tax		(100 656)	(48 478)	(93 680)	(46 450)
Result before income taxes		**479 052**	**260 158**	**433 730**	**232 276**
Corporate income tax	10	(131 107)	(67 489)	(119 634)	(58 678)
Result after taxes		**347 945**	**192 669**	**314 096**	**173 598**
Attributable to:					
Owners of the parent		347 945	192 669	314 096	173 598
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)		0.29	0.16	0.26	0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Result after taxes	347 945	192 669	314 096	173 598
Other comprehensive income items that may be reclassified to profit or loss	36 905	(20 840)	104 280	27 950
Result on debt securities at fair value through other comprehensive income	19 820	(26 573)	73 041	33 718
Result on equity instruments at fair value through other comprehensive income	0	0	1 666	(198)
Hedge accounting	17 085	5 733	29 573	(5 570)
Other comprehensive income items that will not be reclassified to profit or loss	(72)	(32)	0	0
Actuarial gains (losses)	0	0	0	0
Result on equity instruments at fair value through other comprehensive income	(72)	(32)	0	0
Total comprehensive income items before taxes	**36 833**	**(20 872)**	**104 280**	**27 950**
Corporate income tax on other comprehensive income items that may be reclassified to profit or loss	(7 012)	3 960	(19 813)	(5 310)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	14	6	0	0
Total comprehensive income items after taxes	**29 835**	**(16 906)**	**84 467**	**22 640**
Total comprehensive income for the period	**377 780**	**175 763**	**398 563**	**196 238**
Attributable to:				
Owners of the parent	377 780	175 763	398 563	196 238
Non-controlling interests	0	0	0	0

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	30.06.2018	31.12.2017
Cash, cash balances at central banks		2 146 680	2 080 151
Financial assets held for trading	11	1 410 008	531 125
Derivatives		168 318	192 664
Equity instruments		123	102
Debt securities		1 241 567	338 359
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers		57 444	0
Equity instruments		20 439	0
Debt securities		37 005	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	12	16 967 949	19 066 946
Equity instruments		26 209	50 091
Debt securities		16 941 740	19 016 855
Loans and advances to customers	13	50 255 867	47 411 078
Mandatorily at fair value through profit or loss		1 153 901	0
Valued at amortised cost		49 101 966	47 411 078
Financial assets at amortised cost other than Loans and advances to customers	14	676 243	254 205
Debt securities		47 446	0
Deposits, loans and advances to banks and other monetary institutions		519 950	254 205
Repurchase agreements		108 847	0
Derivatives – Hedge accounting	15	166 304	885 880
Investments in subsidiaries, joint ventures and associates		0	0
Tangible assets		189 674	185 880
Intangible assets		74 788	79 756
Tax assets		329 041	288 178
Current tax assets		1 098	1 625
Deferred tax assets	17	327 943	286 553
Other assets		368 507	338 659
Non-current assets and disposal groups classified as held for sale		23 333	19 557
Total assets		**72 665 838**	**71 141 415**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	30.06.2018	31.12.2017
LIABILITIES			
Financial liabilities held for trading	11	236 119	190 111
Derivatives		129 801	190 111
Short positions		106 318	0
Financial liabilities measured at amortised cost		62 502 145	61 484 830
Liablities to banks and other monetary institutions	18	1 165 688	2 353 131
Liabilities to customers	19	59 831 479	57 273 255
Repurchase agreements		94 285	0
Debt securities issued	20	708 893	1 156 473
Subordinated debt		701 800	701 971
Derivatives – Hedge accounting	15	506 560	176 853
Provisions	21	116 115	67 752
Pending legal issues and tax litigation		59 426	46 032
Commitments and guarantees given		56 689	21 720
Tax liabilities		23 664	26 988
Current tax liabilities		23 664	26 988
Deferred tax liabilities	17	0	0
Other liabilities		1 373 535	1 422 282
Total Liabilities		**64 758 138**	**63 368 816**
EQUITY			
Capital		1 213 117	1 213 117
Share premium		1 147 502	1 147 502
Accumulated other comprehensive income		9 712	(34 795)
Retained earnings		5 537 369	5 446 775
Total equity		7 907 700	7 772 599
Total equity and total liabilities		**72 665 838**	**71 141 415**
Book value		7 907 700	7 772 599
Number of shares		1 213 116 777	1 213 116 777
Book value per share (in PLN)		6.52	6.41

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01.01.2018 - 30.06.2018 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity as at 31.12.2017	7 772 599	1 213 117	1 147 502	(34 795)	863 313	4 583 462
adjustment of the opening balance due to the implementation of IFRS 9	(242 679)	0	0	14 672	(257 351)	0
Equity as at 01.01.2018	7 529 920	1 213 117	1 147 502	(20 123)	605 962	4 583 462
Total comprehensive income for 1half 2018 (net)	377 780	0	0	29 835	347 945	0
net profit/ (loss) of the period	347 945	0	0	0	347 945	0
valuation of debt securities at fair value through other comprehensive income	16 054	0	0	16 054	0	0
valuation of shares at fair value through other comprehensive income	(58)	0	0	(58)	0	0
hedge accounting	13 839	0	0	13 839	0	0
Transfer between items of reserves	0	0	0	0	(695 290)	695 290
Equity at the end of the period	7 907 700	1 213 117	1 147 502	9 712	258 617	5 278 752

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

01.01.2017 - 30.06.2017 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 941 205	1 213 117	1 147 502	(184 962)	851 770	3 913 778
Total comprehensive income for 1half 2017 (net)	398 563	0	0	84 467	314 096	0
net profit/ (loss) of the period	314 096	0	0	0	314 096	0
valuation of debt securities at fair value through other comprehensive income	59 164	0	0	59 164	0	0
valuation of shares at fair value through other comprehensive income	1 349	0	0	1 349	0	0
hedge accounting	23 954	0	0	23 954	0	0
Transfer between items of reserves	0	0	0	0	(669 786)	669 786
Equity at the end of the period	7 339 768	1 213 117	1 147 502	(100 495)	496 080	4 583 564

CONSOLIDATED CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Profit (loss) after taxes	347 945	314 096
Total adjustments:	(1 639 741)	627 925
Depreciation and amortization	26 615	26 859
Foreign exchange (gains)/ losses	42 797	(73 521)
Dividends	(2 224)	(2 326)
Changes in provisions	24 534	(3 115)
Result on sale and liquidation of investing activity assets	(12 608)	(13 223)
Change in financial assets valued at fair value through profit and loss (held for trading)	(182 543)	(388 847)
Change in loans and advances to banks	(244 079)	737 059
Change in loans and advances to customers	(3 139 635)	(300 479)
Change in receivables from securities bought with sell-back clause (loans and advances)	(108 847)	25 372
Change in financial liabilities valued at fair value through profit and loss (held for trading)	375 715	(685 944)
Change in deposits from banks	(886 905)	229 318
Change in deposits from customers	2 558 224	1 112 349
Change in liabilities from securities sold with buy-back clause	94 285	0
Change in debt securities	(118 200)	74 069
Change in income tax settlements	131 605	130 044
Income tax paid	(133 946)	(143 486)
Change in other assets and liabilities	(79 285)	(101 344)
Other	14 756	5 140
Net cash flows from operating activities	(1 291 796)	942 021

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Sale/aquisition of property. plant and equipment and intangible assets	(21 934)	(22 230)
Sale/acquisition of shares in associates	0	0
Change in value of investment financial assets due to purchase/sale	(2 853 520)	(1 484 390)
Other inflows/outflows from investing activities	2 224	2 326
Net cash flows from investing activities	(2 873 230)	(1 504 294)

C. Cash flows from financing activities

Amount '000 PLN	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Inflows from financing activities:	85 434	299 600
Long-term bank loans	85 434	0
Issue of debt securities	0	299 600
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
Outflows from financing activities:	(772 574)	(586 817)
Repayment of long-term bank loans	(423 518)	(48 036)
Redemption of debt securities	(329 380)	(529 081)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other outflows from financing activities	(19 676)	(9 700)
Net cash flows from financing activities	(687 140)	(287 217)

D. Net cash flows. Total (A + B + C)	**(4 852 166)**	**(849 490)**
- including change resulting from FX differences	9 841	(6 771)
E. Cash and cash equivalents at the beginning of the reporting period	**8 408 252**	**5 381 982**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**3 556 086**	**4 532 492**

4. NOTES TO CONSOLIDATED FINANCIAL DATA

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

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Interest income from Financial assets at fair value through other comprehensive income	306 265	149 995	317 253	158 177
Debt securities	174 182	85 846	160 749	79 460
Hedging derivatives	132 083	64 149	156 504	78 717
Interest income from Financial assets at amortised cost	871 900	445 961	848 022	432 825
Balances with the Central Bank	5 207	2 618	13 307	6 815
Loans and advances to customers	862 807	441 297	830 122	423 463
Debt securities	731	367	0	0
Deposits, loans and advances to banks	859	322	620	469
Transactions with repurchase agreements	2 296	1 357	3 973	2 078
Income of similar nature to interest, including:	55 878	28 492	4 497	2 420
Loans and advances to customers mandatorily at fair value through profit or loss	46 818	23 648	0	0
Financial assets held for trading - debt securities	9 060	4 844	4 497	2 420
Total:	**1 234 043**	**624 448**	**1 169 772**	**593 422**

Interest income for 1 half 2018 includes interest accrued on loans with recognized impairment of PLN 24,064 thousand (for the comparative data for 1 half 2017, such interest was PLN 27,623 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 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Financial liabilities measured at amortised cost	(365 072)	(183 838)	(355 331)	(172 568)
Liablities to banks and other monetary other monetary institutions	(9 984)	(3 671)	(13 471)	(7 078)
Liabilities to customers	(322 940)	(164 199)	(313 778)	(153 058)
Transactions with repurchase agreement	(4 472)	(2 355)	(7 185)	(2 960)
Debt securities issued	(13 422)	(6 453)	(15 033)	(6 566)
Subordinated debt	(14 254)	(7 160)	(5 864)	(2 906)
Hedging derivatives	0	0	0	0
Other	(140)	(70)	(184)	(85)
Total	**(365 212)**	**(183 908)**	**(355 515)**	**(172 653)**

Note (3) Fee and commission income

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Resulting from accounts service	41 404	20 857	39 372	19 690
Resulting from money transfers, cash payments and withdrawals and other payment transactions	36 912	18 318	29 241	15 290
Resulting from loans granted	81 591	40 044	74 936	36 221
Resulting from guarantees and sureties granted	7 165	3 355	6 539	2 899
Resulting from payment and credit cards	83 895	43 509	78 659	40 616
Resulting from sale of insurance products	53 956	23 978	48 903	24 168
Resulting from distribution of investment funds units and other savings products	36 762	19 126	45 776	22 214
Resulting from brokerage and custody service	9 671	4 787	10 892	5 044
Resulting from investment funds managed by the Group	47 617	23 604	43 907	22 877
Other	15 588	7 781	14 037	7 145
Total	414 561	205 359	392 262	196 164

Note (4) Fee and commission expense

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Resulting from accounts service	(870)	(481)	(733)	(405)
Resulting from money transfers. cash payments and withdrawals and other payment transactions	(2 707)	(1 518)	(1 597)	(918)
Resulting from loans granted	(14 366)	(7 441)	(8 687)	(4 606)
Resulting from payment and credit cards	(43 598)	(23 083)	(37 099)	(19 718)
Resulting from brokerage and custody service	(1 714)	(809)	(1 925)	(872)
Resulting from investment funds managed by the Group	(5 164)	(2 529)	(4 851)	(2 612)
Other	(9 555)	(5 415)	(8 735)	(4 515)
Total	(77 974)	(41 276)	(63 627)	(33 646)

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

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Operations on debt instruments	8 599	5 439	4 185	3 854
Operations on equity instruments	0	0	(4)	(5)
Total	8 599	5 439	4 181	3 849

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

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Operations on securities	7 368	61	3 017	2 858
Operations on derivatives	30 224	20 012	25 234	8 493
Costs of financial operations	(819)	(477)	(698)	(453)
Total	36 773	19 596	27 553	10 898

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

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Loans and advances to customers	(8 202)	(5 066)	0	0
Operations on equity instruments	0	0	0	0
Operations on debt instruments	7 374	6 521	0	0
Total	**(828)**	**1 455**	**0**	**0**

For the purposes of these financial statements, the Bank classified the portfolio of loans with the multiplier feature as "Financial assets other than those held for trading, which are compulsorily measured at fair value through profit and loss". In the previously published financial statements - for the first quarter of 2018, such a division was not applied, as a result the Group retrospectively adjusted the data considering reclassification from the beginning of the financial year. The change concerned the following items in the Profit and Loss Account: "Result on financial assets not held for trading at fair value through profit or loss" and “Impairment of financial assets".

Note (8) Administrative expenses

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Staff costs:	(316 220)	(158 521)	(294 954)	(149 900)
Salaries	(257 983)	(129 376)	(241 141)	(122 599)
Surcharges on pay	(46 150)	(22 779)	(42 434)	(21 091)
Employee benefits, including:	(12 087)	(6 366)	(11 379)	(6 210)
- provisions for retirement benefits	(1 813)	(921)	(1 410)	(930)
- provisions for unused employee holiday	(36)	(49)	(16)	(10)
- other	(10 238)	(5 395)	(9 953)	(5 270)
Other administrative expenses:	(289 383)	(130 260)	(285 855)	(129 578)
Costs of advertising, promotion and representation	(23 957)	(16 374)	(21 199)	(15 110)
IT and communications costs	(43 563)	(22 862)	(38 215)	(19 243)
Costs of renting	(73 516)	(37 141)	(78 723)	(37 763)
Costs of buildings maintenance, equipment and materials	(13 267)	(6 677)	(12 738)	(6 525)
ATM and cash maintenance costs	(9 491)	(4 839)	(8 545)	(4 185)
Costs of consultancy, audit and legal advisory and translation	(13 451)	(8 810)	(12 797)	(7 658)
Taxes and fees	(11 015)	(5 923)	(8 427)	(4 329)
KIR clearing charges	(2 674)	(1 380)	(2 335)	(1 180)
PFRON costs	(2 395)	(1 269)	(2 547)	(1 154)
Banking Guarantee Fund costs	(69 623)	(14 919)	(72 940)	(15 871)
Financial Supervision costs	(2 687)	(1 350)	(2 538)	(1 281)
Other	(23 744)	(8 716)	(24 851)	(15 279)
Total	**(605 603)**	**(288 781)**	**(580 809)**	**(279 478)**

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 first half 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 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Impairment losses on loans and advances to customers	(87 640)	(42 097)	(124 812)	(63 291)
Impairment charges on loans and advances to customers	(407 336)	(95 522)	(357 522)	(145 944)
Reversal of impairment charges on loans and advances to customers	317 827	52 703	232 145	82 381
Amounts recovered from loans written off	1 775	628	565	272
Sale of receivables	94	94	0	0
Impairment losses on securities	725	743	662	632
Impairment charges on securities	(18)	0	0	0
Reversal of impairment charges on securities	743	743	662	632
Impairment losses on off-balance sheet liabilities	(10 874)	(8 784)	1 870	(120)
Impairment charges on off-balance sheet liabilities	(45 391)	(26 168)	(11 638)	(2 423)
Reversal of impairment charges on off-balance sheet liabilities	34 517	17 384	13 508	2 303
Total	**(97 789)**	**(50 138)**	**(122 280)**	**(62 779)**

Note (10a) Income tax reported in income statement

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Current tax	(131 340)	(71 625)	(149 608)	(69 340)
Current year	(131 242)	(71 527)	(149 608)	(69 340)
Adjustment to previous years	(98)	(98)	0	0
Deferred tax:	233	4 136	29 974	10 662
Recognition and reversal of temporary differences	(191)	3 931	29 806	10 517
Recognition / (Utilisation) of tax loss	424	205	168	145
Total income tax reported in income statement	**(131 107)**	**(67 489)**	**(119 634)**	**(58 678)**

Note (10b) Effective tax rate

	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Gross profit / (loss)	479 052	260 158	433 730	232 276
Statutory tax rate	19%	19%	19%	19%
Income tax according to obligatory income tax rate of 19%	(91 020)	(49 430)	(82 409)	(44 133)
Impact of permanent differences on tax charges:	**(39 989)**	**(17 961)**	**(37 225)**	**(14 545)**
Non taxable income	363	355	352	368
Dividend income	338	338	329	352
Release of other provisions	25	17	23	16
Other	0	0	0	0
Non tax-deductible costs	(40 352)	(18 316)	(37 577)	(14 913)
Loss on sale of receivables	(27)	(27)	0	0
PFRON fee	(454)	(240)	(484)	(218)
Banking Guarantee Fund costs	(13 228)	(2 834)	(13 858)	(3 015)
Banking tax	(19 125)	(9 211)	(17 799)	(8 825)
Cost of provisions for factoring receivables	(45)	179	(2 659)	(1 493)
Receivables written off	(445)	(688)	(874)	(173)
Costs of litigations and contentious claims	(4 862)	(4 279)	(100)	(4)
Depreciation and insurance costs of cars (in excess of EUR 20.000)	(1 027)	(876)	(1 199)	(873)
Other	(1 139)	(340)	(604)	(312)
Adjustment to CIT-8 declarations for previous years	(98)	(98)	0	0
Total income tax reported in income statement	**(131 107)**	**(67 489)**	**(119 634)**	**(58 678)**
Effective tax rate	27%	26%	28%	25%

Note (10c) Deferred tax reported directly in equity

	30.06.2018	31.12.2017
Valuation of securities at fair value through other comprehensive income	(20 489)	(13 296)
Valuation of cash flow hedging instruments	17 739	20 985
Actuarial gains (losses)	473	473
Deferred tax reported directly in equity	(2 277)	8 162

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

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

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

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

By a decision of 19 November 2014, the Director of the Treasury Control Office (UKS) commenced the tax audit procedure for the accuracy of the declared tax basis and the correctness of calculation and payment of Corporate Income Tax (CIT) for 2010. As a result of the procedure issued the decision of 19 December 2016, in which he increased the CIT due by the amount of PLN 1.7 million. On 3 January 2017 an appeal has been lodged against this decision issued to the second instance. As a consequence of the appeal on 19 May 2017, the Director of the Tax Chamber Office in Warsaw revoked entirely the above decision of the first instance and referred back to this authority. Based on decision of 27 February 2018 the Head of Mazovian Customs&Tax Office (formerly UKS) prolonged the date of completing its proceeding until 7 May 2018. Based on decision of 25 June 2018 the Head of Mazovian Customs&Tax Office (formerly UKS) prolonged the date of completing its proceeding until 10 September 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. The judgement is not final – Bank analyzes further actions in this case.

Note (11a) Financial assets held for trading

	30.06.2018	31.12.2017
Debt securities	**1 241 567**	**338 359**
Issued by State Treasury	1 241 559	338 351
a) bills	0	0
b) bonds	1 241 559	338 351
Other securities	8	8
a) quoted	8	8
b) non quoted	0	0
Equity instruments	**123**	**102**
Quoted on the active market	123	102
a) financial institutions	0	0
b) non-financial institutions	123	102
Adjustment from fair value hedge	6 054	7 784
Positive valuation of derivatives	162 264	184 880
Total	**1 410 008**	**531 125**

Note (11b) 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 (11c) 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 (12) Financial assets at fair value through other comprehensive income

	30.06.2018	31.12.2017
Debt securities	**16 941 740**	**19 016 855**
Issued by State Treasury	15 921 059	12 810 462
a) bills	0	0
b) bonds	15 921 059	12 810 462
Issued by Central Bank	939 867	6 077 287
a) bills	939 867	6 077 287
b) bonds	0	0
Other securities	80 814	129 106
a) listed	80 814	81 130
b) not listed	0	47 976
Shares and interests in other entities	26 209	50 091
Other financial instruments	0	0
Total financial assets at fair value through other comprehensive income	**16 967 949**	**19 066 946**

Note (13a) Loans and advances to customers as at 30.06.2018

	Balance sheet value
Mandatorily at fair value through profit or loss *	1 153 901
- Companies	19 912
- Individuals	1 133 832
- Public sector	157

* The above data includes the fair value adjustment in the amount of PLN -76 277 ths.

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.

	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

	30.06.2018		31.12.2017
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	
Loans and advances	44 269 560	405 764	41 850 883
- to companies	10 424 686	0	9 610 098
- to private individuals	33 568 714	405 764	31 977 162
- to public sector	276 160	0	263 623
Receivables on account of payment cards	3 154	748 137	763 964
- due from companies	353	20 069	20 770
- due from private individuals	2 801	728 068	743 194
Purchased receivables	235 468	0	259 373
- from companies	235 468	0	255 342
- from public sector	0	0	4 031
Guarantees and sureties realised	12 028	0	10 893
Debt securities eligible for rediscount at Central Bank	6 429	0	5 590
Financial leasing receivables	6 125 704	0	5 741 101
Other	4 265	0	5 028
Interest	250 674	0	271 474
Total:	**50 907 282**	**1 153 901**	**48 908 306**
Impairment write-offs	(1 805 316)		(1 497 228)
Total balance sheet value:	**49 101 966**	**1 153 901**	**47 411 078**

* The above data includes the fair value adjustment in the amount of PLN -76 277 ths.

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

	30.06.2018	31.12.2017
Loans and advances to customers (gross)	50 907 282	48 908 306
- impaired	2 408 724	2 232 666
- not impaired	48 498 558	46 675 640
Impairment write-offs	(1 805 316)	(1 497 228)
- for impaired exposures	(1 387 230)	(1 315 256)
- for not impaired exposures	(418 086)	(181 972)
Loans and advances to customers (net)	**49 101 966**	**47 411 078**

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

	30.06.2018	31.12.2017
Loans and advances to customers (gross)	50 907 282	48 908 306
- case by case analysis	734 322	721 524
- collective analysis	50 172 961	48 186 782
Impairment write-offs	(1 805 316)	(1 497 228)
- on the basis of case by case analysis	(374 651)	(410 445)
- on the basis of collective analysis	(1 430 665)	(1 086 783)
Loans and advances to customers (net)	**49 101 966**	**47 411 078**

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

	30.06.2018	31.12.2017
Loans and advances to customers (gross)	50 907 282	48 908 306
- corporate customers	17 116 248	15 955 226
- individuals	33 791 034	32 953 080
Impairment write-offs	(1 805 316)	(1 497 228)
- for receivables from corporate customers	(694 201)	(556 972)
- for receivables from private individuals	(1 111 115)	(940 256)
Loans and advances to customers (net)	**49 101 966**	**47 411 078**

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

	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 497 228	1 364 913
Adjustment of the opening balance due to the implementation of IFRS 9	327 434	0
Adjusted balance at the beginning of the period	1 824 662	1 364 913
Change in value of provisions:	(19 346)	132 315
Impairment write-offs created in the period	407 336	627 978
Amounts written off	(130 811)	(105 093)
Impairment write-offs released in the period	(317 827)	(365 600)
Sale of receivables	(5 506)	(5 897)
KOIM created in the period(*)	12 795	0
Changes resulting from FX rates differences	14 570	(19 073)
Other	97	0
Balance at the end of the period	**1 805 316**	**1 497 228**

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

Nota (14a) Assets valued at amortised cost as at 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

	30.06.2018	31.12.2017
Current accounts	117 231	136 853
Deposits granted	400 853	115 174
Interest	1 866	2 178
Total (gross) deposits, loans and advances	519 950	254 205
Impairment write-offs	0	0
Total (net) deposits, loans and advances	**519 950**	**254 205**

Note (15a) Hedge accounting

As at 30.06.2018 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	30.06.2018			31.12.2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
CIRS contracts	159 595	458 948	(299 353)	825 280	176 845	648 435
IRS contracts	6 709	0	6 709	8 401	8	8 393
FXS contracts	0	47 612	(47 612)	52 199	0	52 199
Hedge accounting total	166 304	506 560	(340 256)	885 880	176 853	709 027

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	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

Note (17) Assets / Liabilities from deferred income tax

	30.06.2018			31.12.2017		
	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets
Difference between tax and balance sheet depreciation and amortisation	72 937	(10 906)	62 031	73 799	(4 973)	68 826
Balance sheet valuation of financial instruments	58 279	(73 021)	(14 742)	7 182	(29 383)	(22 201)
Unrealised receivables/ liabilities on account of derivatives	11 518	(20 162)	(8 644)	16 766	(28 537)	(11 771)
Interest on deposits and securities to be paid/received	21 567	(35 718)	(14 151)	26 513	(33 114)	(6 601)
Interest and discount on loans and receivables	6	(50 009)	(50 003)	7	(28 471)	(28 464)
Income and cost settled at effective interest rate	86 225	(1 379)	84 846	82 892	(1 514)	81 378
Provisions for loans presented as temporary differences	231 617	0	231 617	163 093	0	163 093
Employee benefits	15 235	0	15 235	15 420	0	15 420
Provisions for costs	22 394	0	22 394	19 214	0	19 214
Valuation of investment assets (FVOCI), the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	18 217	(20 494)	(2 277)	21 463	(13 301)	8 162
Tax loss deductible in the future	812	0	812	387	0	387
Other	1 721	(896)	825	(14)	(876)	(890)
Net deferred income tax asset	540 528	(212 585)	327 943	426 722	(140 169)	286 553

Note (18) Liabilities to banks and other monetary institutions

	30.06.2018	31.12.2017
In current account	98 783	97 235
Term deposits	400 550	1 293 678
Loans and advances received	665 792	961 079
Interest	563	1 139
Total	1 165 688	2 353 131

Note (19) Structure of liabilities to customers by type

	30.06.2018	31.12.2017
Amounts due to private individuals	43 303 180	40 343 597
Balances on current accounts	28 575 290	25 108 948
Term deposits	14 569 627	14 993 961
Other	93 011	176 728
Accrued interest	65 252	63 960
Amounts due to companies	13 782 260	14 363 117
Balances on current accounts	6 496 423	6 710 128
Term deposits	7 015 797	7 354 951
Other	254 556	284 150
Accrued interest	15 484	13 888
Amounts due to public sector	2 746 039	2 566 541
Balances on current accounts	1 119 083	1 185 444
Term deposits	1 622 063	1 346 597
Other	1 951	32 331
Accrued interest	2 942	2 169
Total	**59 831 479**	**57 273 255**

Note (20) Change of debt securities

	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 156 473	1 313 836
Increases, on account of:	112 887	754 779
- issue of bonds by the Bank	141	329 434
- issue of bonds by Millennium Leasing	51 500	343 200
- issue of Banking Securities	47 824	52 468
- interest accrual	13 422	29 677
Reductions, on account of:	(560 467)	(912 142)
- repurchase of bonds by the Bank	(329 521)	(529 076)
- repurchase of bonds by Millennium Leasing	(166 930)	(266 900)
- repurchase of Banking Securities	(50 002)	(84 318)
- interest payment	(14 014)	(31 848)
Balance at the end of the period	**708 893**	**1 156 473**

Note (21) Provisions

	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017
Pending legal issues and tax litigation		
Balance at the beginning of the period	46 032	24 782
Charge of provision	4 940	23 236
Release of provision	(133)	(1 233)
Utilisation of provision	(3 571)	(753)
Reclassification	12 158	0
Balance at the end of the period	59 426	46 032
Commitments and guarantees given		
Balance at the beginning of the period	21 720	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	0
Adjusted balance at the beginning of the period	45 549	24 633
Charge of provision	45 391	13 771
Release of provision	(34 517)	(16 577)
FX rates differences	266	(107)
Balance at the end of the period	56 689	21 720
Total	**116 115**	**67 752**

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 first half 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, in particular regarding the forms used and documentary requirements. The Group also adjusted the credit regulations and processes to the changing legal conditions (split payment, RODO). The verification of selected industry limits 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 credit risk management methodologies, tools and processes.

Maximum acceptable levels of relation of expenditures result from servicing credit products and financial liabilities other than credit liabilities to the Client's income (DTI indicator) have been updated. In addition, the available credit limits set as part of behavioral models for customers at increased risk were limited, while ensuring their availability in all distribution channels.

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 in 1 half 2018 are summarized below:

Gross exposure in '000 PLN	30.06.2018		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	48 039 565	519 950	45 178 599	254 205
Overdue(*), but without impairment	1 624 030	0	1 497 041	0
Total without impairment	49 663 595	519 950	46 675 640	254 205
With impairment	2 473 864	0	2 232 666	0
Total	**52 137 459**	**519 950**	**48 908 306**	**254 205**
Impairment write-offs	(1 805 316)	0	(1 497 228)	0
Fair value adjustment(**)	(76 277)	0	0	0
Total, net	**50 255 867**	**519 950**	**47 411 078**	**254 205**
Loans with impairment / total loans	4.74%	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 1 H 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 19.7 m (9 % of the limit) and approx. PLN 25.0 m (12% of the limit) as of the end of June 2018. The market risk exposure in 1H 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)

	30.06.2018		VaR (1H 2018)			31.12.2017	
	Exposure	limit usage	Average	Maximum	Minimum	Exposure	limit usage
Total risk	24 964	12%	19 705	26 194	16 706	17 540	8%
Generic risk	23 110	11%	17 806	24 325	14 842	15 666	7%
Interest Rate VaR	23 112	11%	17 828	24 324	14 902	15 651	7%
FX Risk	35	0%	207	3 353	8	97	1%
Diversification Effect	0.2%					0.5%	
Specific risk	1 854	1%	1 899	2 871	1 854	1 874	1%

In 1H 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 1H 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 1H 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 1H 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 164% at the end of June 2018 (153% at the end of December 2017). Internally, the LCR is estimated daily and reported together with other internal liquidity measures to the areas responsible for the management and control of the liquidity risk in the Group on the daily basis.

In 1H 2018, the Group has consistently maintained Loan-to-Deposit ratio well below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, was equalled 83% at the end of June 2018 (82% at the end of December 2017). The Group continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of June 2018. During 1H 2018 this portfolio slightly decreased from PLN 19.2 billion at the end of December 2017 (27% of total assets) to approx. PLN 18.1 billion at the end of June 2018 (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 1H 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 revised and tested at least once a year in order to ensure that it is operationally robust.

Operational risk

In the first half 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 first half 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.

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

- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. At present, the buffer was set by KNF in recommendations issued in November and December 2017 in the level of 5.53 p.p. (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 0.25%, 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] At present there is a pending KNF procedure on repealing in full the decision about identification the Bank's as other systematically important institution and imposing on the Bank the other systematically important institution buffer. On the 21st June, 2018 Financial Stability Committee issued the positive opinion for KNF on that matter. Bank have not received a formal decision in this matter until the publication of this report.

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

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

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

Bank Millennium Group - capital adequacy (PLN mn)	30.06.2018[1)]	31.12.2017
Risk-weighted assets (RWA)	34 268.7	32 693.6
Own funds requirements, including:	2 741.5	2 615.5
- Credit risk and counterparty credit risk	2 399.0	2 297.7
- Market risk	27.9	18.3
- Operational risk	310.8	293.4
- Credit Valuation Adjustment CVA	3.8	6.1
Own Funds including:	8 009.6	7 190.6
Common Equity Tier 1 Capital, including:	7 309.6	6 548.8
- paid up capital instruments	1 213.1	1 213.1
- share premium	1 147.5	1 147.5
- recognised part of current profit	0.0	0.0
- other retained earnings	5 189.4	4 765.6
- recognised part of revaluation reserve	85.3	43.4
- regulatory adjustments	(325.7)	(620.8)
Tier II Capital, including:	700.0	641.8
- subordinated debt	700.0	700.0
- regulatory adjustments	0.0	(58.2)
Total Capital Ratio (TCR)	**23.37%**	**21.99%**
Minimum required level	18.535%	18.91%
Surplus(+) / Deficit(-) of TCR ratio (p.p.)	+4.835	+3.08
Tier 1 Capital ratio (T1 ratio)	**21.33%**	**20.03%**
Minimum required level	15.185%	14.56%
Surplus(+) / Deficit(-) of T1 ratio (p.p.)	+6.145	+5.47
Common Equity Tier 1 Capital ratio (CET1 ratio)	**21.33%**	**20.03%**
Minimum required level	12.655%	13.53%
Surplus(+) / Deficit(-) of CET1 ratio (p.p.)	+8.675	+6.50

1) Capital ratios are calculated according to transitional arrangements mitigating the impact of IFRS9 implementation on common equity Tier 1 capital. Assuming full implementation of this standard, TCR for Group is 23.04%, T1 and CET1 ratio: 20,99%.

In first half 2018 compared to the end of 2017, capital ratios of Group increased – TCR went up by 1.38 p.p. and CET1 ratio by 1.30 p.p. The most important driver of that improvement was the increase of own funds by 12.4%, stemming mainly from the decision of general shareholders meeting regarding retention in own funds full amount of 2017 net profit. At the same time, rise of risk-weighted assets was smaller – by 4.8% in relation to aforementioned own funds growth.

6. OPERATIONAL SEGMENTS

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

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

Retail Customer Segment

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

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

Corporate Customer Segment

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

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

Treasury, ALM (assets and liabilities management) and Other

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

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

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

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

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

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

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

Income statement 1.01.2018 – 30.06.2018

In ‘000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	590 695	139 534	138 602	868 831
Net fee and commission income	253 058	84 366	(837)	336 587
Dividends other income from financial operations and foreign exchange profit	33 290	37 524	40 867	111 681
Result on non-trading financial assets mandatorily at fair value through profit or loss	(8 202)	0	7 374	(828)
Other operating income and cost	(3 023)	1 815	2 041	833
Operating income	865 818	263 239	188 047	1 317 104
Staff costs	(230 607)	(70 272)	(15 341)	(316 220)
Administrative costs	(210 196)	(32 508)	(46 679)	(289 383)
Depreciation and amortization	(21 327)	(4 531)	(757)	(26 615)
Operating expenses	(462 130)	(107 311)	(62 777)	(632 218)
Impairment losses on assets	(59 607)	(38 184)	(24)	(97 815)
Results on modification	(7 749)	386	0	(7 363)
Operating Profit	**336 332**	**118 130**	**125 246**	**579 708**
Share in net profit of associated companies	0	0	0	0
Banking tax				(100 656)
Profit / (loss) before income tax				**479 052**
Income taxes				(131 107)
Profit / (loss) after taxes				**347 945**

Balance sheet items as at 30.06.2018

In ‘000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Loans and advances to customers	35 842 094	14 413 773	0	50 255 867
Liabilities to customers	45 429 486	14 279 617	122 376	59 831 479

Income statement 1.01.2017 – 30.06.2017

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	542 457	130 860	140 940	814 257
Net fee and commission income	247 582	77 582	3 471	328 635
Dividends other income from financial operations and foreign exchange profit	33 529	32 909	40 519	106 957
Other operating income and cost	(4 879)	(1 130)	13 939	7 930
Operating income	818 689	240 221	198 869	1 257 779
Staff costs	(213 235)	(67 205)	(14 514)	(294 954)
Administrative costs	(195 889)	(30 460)	(59 506)	(285 855)
Depreciation and amortization	(22 219)	(4 041)	(599)	(26 859)
Operating expenses	(431 343)	(101 706)	(74 619)	(607 668)
Impairment losses on assets	(79 591)	(42 028)	(1 082)	(122 701)
Operating Profit	**307 755**	**96 487**	**123 168**	**527 410**
Share in net profit of associated companies	0	0	0	0
Banking tax				(93 680)
Profit / (loss) before income tax				**433 730**
Income taxes				(119 634)
Profit / (loss) after taxes				**314 096**

Balance sheet items as at 31.12.2017

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

7. DESCRIPTION OF RELATED PARTY TRANSACTIONS

All and any transactions between entities of the Group during I half 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	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
ASSETS				
Loans and advances to banks – accounts and deposits	1 296	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	298	1 252	113 057	106 970
Debt securities	0	0	0	0
Financial liabilities held for trading	209	0	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	13	0

	With parent entity		With other entities of parent Group	
	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
INCOME FROM:				
Interest	20	5	0	0
Commissions	102	71	0	0
Financial assets and liabilities held for trading	0	0	**0**	0
EXPENSE FROM:				
Interest	0	0	(142)	(146)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	207	0	0	0
Other net operating costs	7	9	0	0
Administrative expenses	0	79	239	194

	With parent entity		With other entities of parent Group	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Conditional commitments	101 080	101 962	0	0
- granted	100 345	100 345	0	0
- obtained	735	1 617	0	0
Derivatives (par value)	17 293	0	0	0

7.2. Transactions with the managing and supervising persons

Members of the Management Board	30.06.2018	31.12.2017
Total debt limit (in '000 PLN).	186,0	196,0
- including an unutilized limit (in '000 PLN).	156,0	144,3
Mortgage loans and credits	-	-
Active guarantees	-	-

Members of the Supervisory Board	30.06.2018	31.12.2017
Total debt limit (in '000 PLN).	136,0	163,0
- including an unutilized limit (in '000 PLN).	128,3	121,6
Mortgage loans and credits	-	-
Active guarantees	-	-

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

Information on total exposure towards companies and groups personally related:

Client No. 1, as at:	Loans granted	Guarantees provided	Open credit lines	Relationship
30.06.2018	27 487	2 000	142	Personal with a supervising person
31.12.2017	14 436	2 000	158	Personal with a supervising person

7.3. Information on compensations and benefits of the members of the Management and Supervisory Boards

Remuneration costs (including provisions charged) and benefits incurred by the Bank in favour of the Members of the Management Board (data in thousand PLN):

Period	Short term salaries	Benefits	TOTAL
1.01-30.06.2018	9 043	812	9 855
1.01-30.06.2017	8 936	996	9 932

The benefits are mainly the costs of accommodation of the foreign Members of the Management Board.

Remuneration costs of the Members of the Supervisory Board of the Bank (data in thousand PLN):

Period	Short term salaries and benefits
1.01-30.06.2018	1 016
1.01-30.06.2017	941

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

Name and surname	Function	Number of shares as of delivery date of quarterly report prepared as at 30.06.2018	Number of shares as presented in I quarter 2018 report
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	Członek Zarządu	0	0
Antonio Ferreira Pinto Junior	Członek Zarządu	0	0
Bogusław Kott	Chairman of the Supervisory Board	1 000	1 000
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Dariusz Rosati	Deputy Chairman and Secretary of the Supervisory Board	0	0
Miguel de Campos Pereira de Bragança	Member of the Supervisory Board	0	0
Agnieszka Hryniewicz-Bieniek	Member of the Supervisory Board	0	0
Anna Jakubowski	Member of the Supervisory Board	0	0
Grzegorz Jędrys	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Alojzy Nowak	Member of the Supervisory Board	0	0
José Miguel Bensliman Schorcht da Silva Pessanha	Member of the Supervisory Board	0	0
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	0
Lingjiang Xu	Member of the Supervisory Board	0	0

8. FAIR VALUE

The best reflection of fair value of financial instruments is their market value which can be obtained for the sale of assets or paid for the transfer of liability in case of mutually beneficial market transactions (an exit price). For many products and transactions for which market value to be taken directly from the quotations in an active market (marking-to-market) is not available, the fair value must be estimated using internal models based on discounted cash flows (marking-to-model). Financial flows for the various instruments are determined according to their individual characteristics, and discounting factors include changes in time both in market interest rates and margins.

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

1 - valuation based on the data fully observable (active market quotations);
2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;
3 - valuation models using unobservable data (not derived from an active market).

Valuation techniques used to determine fair value are applied consistently. Change in valuation techniques resulting in a transfer between these methods occurs when:

- transfer from method 1 to 2 takes place when for the financial instruments measured according to method 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from method 2 to 3 takes place when for the financial instruments measured according to the method 2 value of parameters not derived from the market has become significant at the balance sheet day (and previously used to be irrelevant).

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

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

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

Receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

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

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

Subordinated liabilities and medium term loans

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

The table below presents results of the above-described analyses as at 30.06.2018 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS			
Loans and advances to banks	14	519 950	519 807
Loans and advances to customers (*)	13	49 101 966	47 496 515
LIABILITIES			
Amounts due to banks	18	1 165 688	1 167 514
Amounts due to customers	19	59 831 479	59 827 489
Debt securities	20	708 893	712 283
Subordinated debt		701 800	695 075

* 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 30.06.2018

	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			130 126	32 138
Equity instruments		123		
Debt securities		1 241 567		
Non-trading financial assets mandatorily at fair value through profit or loss				
Equity instruments				20 439
Debt securities				37 005
Loans and advances				1 153 901
Financial assets at fair value through other comprehensive income	12			
Equity instruments		256		25 953
Debt securities		16 001 874	939 866	
Derivatives - Hedge accounting	15		166 304	
LIABILITIES				
Financial liabilities held for trading	11			
Valuation of derivatives			94 114	29 837
Short positions		106 318		
Derivatives - Hedge accounting	15		506 560	

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 30.06.2018 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 1 half 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	(13 266)	14 990	1 345	0	15 444
Change of valuation recognized in equity	0	0	0	0	0
Change of valuation recognized in P&L account (including interests)	(2 959)	2 608	11	7 374	38 616
Balance on 30 June 2018	26 934	(24 633)	46 391	37 006	1 153 901

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 30.06.2018, in which the companies of the Group were a plaintiff, totalled 246.1 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 30.06.2018, 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 plaintiff did not submit any additional evidence, the evidentiary proceeding was closed. 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, have been 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.

As at 30.06.2018, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 229.6 million (excluding the class actions described below). In this group the most important category are cases related to forward transactions (option cases) with total value in dispute of PLN 163.0 million.

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

Class actions

On 21 October 2014 a group action was delivered to the Bank in which a group of the Bank's borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that the Bank is liable towards the same for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that the Bank unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits. According to the statement of claim there are approx. 2,300 group members and the value of the subject matter of the dispute is defined at PLN 45.2 million. The Bank does not agree with the claims of the group members. On 31 December 2014 the Bank submitted a response to the statement of claim. On 4 March 2015 new members joined the group action and the Claimant extended the statement of claim accordingly. According to the Claimant after the extension there are approx. 3,400 group members (including the group members included in the statement of claim) and the value of the subject matter of the dispute is approx. PLN 81.5 million (including the value provided in the statement of claim). On 14 May 2015 the Regional Court in Warsaw held a hearing concerning the admissibility of the group action proceedings. On 28 May 2015 the Regional Court in Warsaw issued a decision rejecting the group action on the grounds that the case cannot be heard in group action proceedings. On 3 July 2015 the Claimant filed an appeal against this decision, and the Court of Appeal upheld the appeal by refusing rejection of the claim. On 31 March 2016 the Regional Court in Warsaw issued a decision dismissing Bank's motion for a security deposit to secure litigation costs. On 6 April 2016 the Bank filed an appeal against this decision; on 13 July 2016 Bank's appeal in this regard was dismissed by the Court of Appeal.

On 17 February 2016 the Claimant filed a submission with the Regional Court in Warsaw, extending the claim again by a further 1,041 group members. The new value of the subject matter of the dispute was indicated as approx. PLN 109.8 million (including the values provided in the statement of claim and the submission dated 4 March 2015). On 2 August 2016 the Regional Court in Warsaw issued a decision ordering the publication of an announcement in the press concerning the commencement of group action proceedings. Following the Bank's motion to rescind this decision, the Court suspended its execution, but, on 8 August 2016, it issued another decision for the case to be heard in group action proceedings. On 31 August 2016 the Bank appealed against this decision. On 16 December 2016 the Court of Appeal in Warsaw overruled decision of the Regional Court for the case to be heard in group action proceedings and referred the request for the case to be heard in group action proceedings to the Regional Court for re-examination. At a hearing on 15 March 2017 the Regional Court issued decision for the case to be heard in group action proceedings. On 18 April 2017 the Bank filed an appeal against the above decision. On 30 June 2017 the Claimant filed a submission with the Regional Court in Warsaw, extending the claim again by further 676 group members. The new value of the subject matter of the dispute was indicated as approx. PLN 132.7 million (including the values provided in the statement of claim and the previous submissions concerning extension of the claim dated 4 March 2015 and 17 February 2016).

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 5 million PLN altogether.

OFF-BALANCE ITEMS

Amount '000 PLN	30.06.2018	31.12.2017
Off-balance conditional commitments granted and received	**9 467 100**	**9 166 626**
Commitments granted:	9 174 162	9 121 526
- financial	7 857 205	7 899 290
- guarantee	1 316 957	1 222 236
Commitments received:	292 938	45 100
- financial	0	0
- guarantee	292 938	45 100

10. ADDITIONAL INFORMATION

10.1. Data on assets securing liabilities

As at 30 June 2018, the Bank's following assets secured its liabilities (in '000 PLN):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0119	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 424
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	506
3.	Treasury bonds WZ0120	Held to Collect and for Sale	Loan agreement	72 000	72 932
4.	Treasury bonds WZ0119	Held to Collect and for Sale	Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund	311 000	314 405
5.	Central Bank bills NBP_060718	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	29 700	29 695
6.	Central Bank bills NBP_060718	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	15 500	15 497
7.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
8.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	2 714	2 714
9.	Deposits	Deposits in banks	Settlement on transactions concluded	381 634	381 634
			TOTAL	943 148	948 907

As at 31 December 2017 following assets of the Bank constituted collateral of liabilities (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0119	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 537
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	506
3.	Treasury bonds WZ0119	Held to Collect and for Sale	Loan agreement	120 000	121 418
4.	Treasury bonds WZ0120	Held to Collect and for Sale	Loan agreement	503 000	509 298
5.	Treasury bonds WZ0119	Held to Collect and for Sale	Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund	325 000	328 842
6.	Central Bank bills NBP_050118	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	18 000	17 998
7.	Central Bank bills NBP_050118	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	15 500	15 498
8.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
9.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	3 377	3 377
10.	Deposits	Deposits in banks	Settlement on transactions concluded	115 173	115 173
			TOTAL	1 230 650	1 243 747

10.2. Dividend for 2017

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

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

10.3. Earnings per share

Profit per share calculated for I half 2018 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.29.

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

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

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

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

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50,10	607 771 505	50,10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	108 963 373	8.98	108 963 373	8.98
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	65 984 000	5.44	65 984 000	5.44

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

In the six months 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 June 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 2.8bn 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.

Date	Name and surname	Position/Function	Signature
25.07.2018	Joao Bras Jorge	Chairman of the Management Board	
25.07.2018	Fernando Bicho	Deputy Chairman of the Management Board	
25.07.2018	Wojciech Haase	Member of the Management Board	
25.07.2018	Andrzej Gliński	Member of the Management Board	
25.07.2018	Wojciech Rybak	Member of the Management Board	
25.07.2018	Antonio Pinto Junior	Member of the Management Board	

II. CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS OF BANK MILLENNIUM S.A. FOR THE SIX MONTHS ENDED 30 JUNE 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 change 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 six months ending June 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 six months period ended 30 June 2018. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the six months period ended 30 June 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 25th July 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 included for the first time in these financial statements, 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 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Net interest income	819 993	415 922	764 274	395 771
Interest income and other of similar nature	1 182 714	598 649	1 117 635	567 235
in which income calculated using the effective interest method	1 126 835	570 154	1 113 139	564 815
Interest expenses	(362 721)	(182 727)	(353 361)	(171 464)
Net fee and commission income	286 198	140 344	274 251	135 332
Fee and commission income	346 936	172 957	323 104	161 294
Fee and commission expenses	(60 738)	(32 613)	(48 853)	(25 962)
Dividend income	56 080	2 354	74 324	2 038
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	8 599	5 439	4 181	3 849
Results on financial assets and liabilities held for trading	36 687	19 452	27 276	10 764
Result on non-trading financial assets mandatorily at fair value through profit or loss	(828)	1 455	0	0
Result on hedge accounting	(9 958)	(4 529)	(8 589)	(4 517)
Result on exchange differences	73 621	37 013	80 841	40 987
Other operating income	12 099	3 647	24 781	5 953
Other operating expenses	(15 169)	(9 465)	(17 725)	(8 590)
Operating income	**1 267 322**	**611 632**	**1 223 614**	**581 587**
Administrative expenses	(577 808)	(274 972)	(551 497)	(264 764)
Impairment losses on financial assets	(84 363)	(43 569)	(110 763)	(57 185)
Impairment losses on non-financial assets	(26)	12	(421)	(191)
Result on modification	(7 364)	(3 065)	0	0
Depreciation	(25 136)	(12 460)	(25 529)	(13 088)
Operating expenses	**(694 697)**	**(334 054)**	**(688 210)**	**(335 228)**
Result on operating activity	**572 625**	**277 578**	**535 404**	**246 359**
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(100 656)	(48 478)	(93 680)	(46 450)
Result before income taxes	**471 969**	**229 100**	**441 724**	**199 909**
Corporate income tax	(118 195)	(60 936)	(106 204)	(51 596)
Result after taxes	**353 774**	**168 164**	**335 520**	**148 313**

STATEMENT OF COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 30.06.2018	1.04.2018 - 30.06.2018	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017
Result after taxes	353 774	168 164	335 520	148 313
Other comprehensive income items that may be reclassified to profit or loss	36 904	(20 843)	104 220	27 925
Result on debt securities at fair value through other comprehensive income	19 819	(26 576)	73 043	33 725
Result on equity instruments at fair value through other comprehensive income	0	0	1 604	(230)
Hedge accounting	17 085	5 733	29 573	(5 570)
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	**36 904**	**(20 843)**	**104 220**	**27 925**
Corporate income tax on other comprehensive income items that may be reclassified to profit or loss	(7 012)	3 960	(19 802)	(5 306)
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	**29 892**	**(16 883)**	**84 418**	**22 619**
Total comprehensive income for the period	**383 666**	**151 281**	**419 938**	**170 932**

BALANCE SHEET

ASSETS

Amount '000 PLN	30.06.2018	31.12.2017
Cash, cash balances at central banks	2 146 680	2 080 151
Financial assets held for trading	1 411 738	531 452
Derivatives	170 179	193 101
Equity instruments	0	0
Debt securities	1 241 559	338 351
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	57 444	0
Equity instruments	20 439	0
Debt securities	37 005	0
Financial assets at fair value through other comprehensive income (available for sale as at 31.12.2017)	16 954 036	19 053 103
Equity instruments	25 952	49 761
Debt securities	16 928 084	19 003 342
Loans and advances to customers	50 122 410	47 144 531
Mandatorily at fair value through profit or loss	1 153 901	0
Valued at amortised cost	48 968 509	47 144 531
Financial assets at amortised cost other than Loans and advances to customers	676 229	254 191
Debt securities	47 446	0
Deposits, loans and advances to banks and other monetary institutions	519 936	254 191
Repurchase agreements	108 847	0
Derivatives – Hedge accounting	166 304	885 880
Investments in subsidiaries, joint ventures and associates	84 346	84 349
Tangible assets	182 341	178 243
Intangible assets	63 969	68 287
Tax assets	221 505	191 391
Current tax assets	0	689
Deferred tax assets	221 505	190 702
Other assets	151 322	165 456
Non-current assets and disposal groups classified as held for sale	0	0
Total assets	**72 238 324**	**70 637 034**

LIABILITIES AND EQUITY

Amount '000 PLN	30.06.2018	31.12.2017
LIABILITIES		
Financial liabilities held for trading	236 119	190 257
Derivatives	129 801	190 257
Short positions	106 318	0
Financial liabilities measured at amortised cost	62 360 036	61 333 025
Liablities to banks and other monetary institutions	1 078 456	2 353 131
Liabilities to customers	59 938 799	57 398 904
Repurchase agreements	94 285	0
Debt securities issued	546 696	879 019
Subordinated debt	701 800	701 971
Derivatives – Hedge accounting	506 560	176 853
Provisions	115 201	66 838
Pending legal issues and tax litigation	58 512	45 118
Commitments and guarantees given	56 689	21 720
Tax liabilities	23 417	11 893
Current tax liabilities	23 417	11 893
Deferred tax liabilities	0	0
Other liabilities	1 293 518	1 317 620
Total Liabilities	**64 534 851**	**63 096 486**
EQUITY		
Capital	1 213 117	1 213 117
Share premium	1 147 241	1 147 241
Accumulated other comprehensive income	9 487	(35 077)
Retained earnings	5 333 628	5 215 267
Total equity	7 703 473	7 540 548
Total equity and total liabilities	**72 238 324**	**70 637 034**

Book value	7 703 473	7 540 548
Number of shares	1 213 116 777	1 213 116 777
Book value per share (in PLN)	6.35	6.22

STATEMENT OF CHANGES IN EQUITY

01.01.2018 - 30.06.2018 *Amount '000 PLN*	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity as at 31.12.2017	7 540 548	1 213 117	1 147 241	(35 077)	648 945	4 566 322
adjustment of the opening balance due to the implementation of IFRS 9	(220 741)	0	0	14 672	(235 413)	0
Equity as at 01.01.2018	7 319 807	1 213 117	1 147 241	(20 405)	413 532	4 566 322
Total comprehensive income for 1half 2018 (net)	383 666	0	0	29 892	353 774	0
net profit/ (loss) of the period	353 774	0	0	0	353 774	0
valuation of debt securities at fair value through other comprehensive income	16 053	0	0	16 053	0	0
valuation of shares at fair value through other comprehensive income	0	0	0	0	0	0
hedge accounting	13 839	0	0	13 839	0	0
Transfer between items of reserves	0	0	0	0	(648 945)	648 945
Equity at the end of the period	7 703 473	1 213 117	1 147 241	9 487	118 361	5 215 267

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

01.01.2017 - 31.03.2017 *Amount '000 PLN*	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 741 504	1 213 117	1 147 241	(185 176)	652 651	3 913 671
Total comprehensive income for 1half 2017 (net)	419 938	0	0	84 418	335 520	0
net profit/ (loss) of the period	335 520	0	0	0	335 520	0
valuation of debt securities at fair value through other comprehensive income	59 165	0	0	59 165	0	0
valuation of shares at fair value through other comprehensive income	1 299	0	0	1 299	0	0
hedge accounting	23 954	0	0	23 954	0	0
Transfer between items of reserves	0	0	0	0	(652 651)	652 651
Equity at the end of the period	7 161 442	1 213 117	1 147 241	(100 758)	335 520	4 566 322

CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Profit (loss) after taxes	353 774	335 520
Total adjustments:	(1 610 637)	417 139
Depreciation and amortization	25 136	25 529
Foreign exchange (gains) losses	41 002	(73 509)
Dividends	(56 080)	(74 324)
Changes in provisions	24 534	(3 185)
Result on sale and liquidation of investing activity assets	(8 926)	(11 355)
Change in financial assets valued at fair value through profit and loss (held for trading)	(183 946)	(388 862)
Change in loans and advances to banks	(244 079)	737 116
Change in loans and advances to customers	(3 241 865)	(363 798)
Change in receivables from securities bought with sell-back clause (loans and advances)	(108 847)	25 372
Change in financial liabilities valued at fair value through profit and loss (held for trading)	375 569	(685 944)
Change in deposits from banks	(886 905)	229 318
Change in deposits from customers	2 539 895	1 140 175
Change in liabilities from securities sold with buy-back clause	94 285	0
Change in debt securities	(2 464)	(41 663)
Change in income tax settlements	124 457	122 602
Income tax paid	(106 361)	(126 313)
Change in other assets and liabilities	(10 657)	(99 248)
Other	14 615	5 228
Net cash flows from operating activities	(1 256 863)	752 659

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Sale/aquisition of property. plant and equipment and intangible assets	(24 950)	(1 897)
Sale/acquisition of shares in associates	0	100 000
Change in value of investment financial assets due to purchase/sale	(2 853 380)	(1 487 114)
Other inflows/outflows from investing activities	56 080	74 324
Net cash flows from investing activities	(2 822 250)	(1 314 687)

C. Cash flows from financing activities

Amount '000 PLN	1.01.2018 - 30.06.2018	1.01.2017 - 30.06.2017
Inflows from financial activities:	0	300 000
Long-term bank loans	0	0
Issue of debt securities	0	300 000
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other financial inflows	0	0
Outflows from financial activities:	(773 053)	(587 462)
Repayment of long-term bank loans	(423 518)	(48 036)
Redemption of debt securities	(329 859)	(529 726)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other financial outflows	(19 676)	(9 700)
Net cash flows from financing activities	(773 053)	(287 462)

D. Net cash flows. Total (A + B + C)	**(4 852 166)**	**(849 490)**
- including change resulting from FX differences	9 841	(6 771)
E. Cash and cash equivalents at the beginning of the reporting period	**8 408 252**	**5 381 982**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**3 556 086**	**4 532 492**

3. SUPPLEMENTARY INFORMATION FOR STANDALONE FINANCIAL DATA

As at 30 June 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.

Impairment losses on financial assets

	01.01.2018 - 30.06.2018	01.01.2017 - 30.06.2017
Impairment losses on loans and advances to customers	(74 214)	(113 295)
- Impairment charges on loans and advances to customers	(313 068)	(290 882)
- Reversal of impairment charges on loans and advances to customers	238 348	177 353
- Amounts recovered from loans written off	412	234
- Result from sale of receivables portfolio	94	0
Impairment losses on investment securities	725	662
- Impairment write-offs for investment securities	(18)	0
- Reversal of impairment write-offs for investment securities	743	662
Impairment losses on investments in associates	0	0
- Impairment write-offs for investments in associates	0	0
- Reversal of impairment write-offs for investments in associates	0	0
Impairment losses on off-balance sheet liabilities	(10 874)	1 870
- Impairment write-offs for off-balance sheet liabilities	(45 391)	(11 638)
- Reversal of impairment write-offs for off-balance sheet liabilities	34 517	13 508
Total	**(84 363)**	**(110 763)**

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

	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 362 016	1 235 790
Adjustment of the opening balance due to the implementation of IFRS 9	300 350	0
Adjusted balance at the beginning of the period	1 662 366	1 235 790
Change in value of provisions:	(26 712)	126 226
Impairment write-offs created in the period	313 068	490 802
Amounts written off	(122 459)	(86 172)
Impairment write-offs released in the period	(238 348)	(254 342)
Sale of receivables	(5 506)	(5 897)
KOIM created in the period(*)	12 795	0
Changes resulting from FX rates differences	13 640	(18 165)
Other	98	0
Balance at the end of the period	**1 635 654**	**1 362 016**

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

Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Investments in associates	Property. plant and equipment	Intangibles	Other assets
Balance as at 01.01.2018	5 963	7 600	8 733	0	7 872
- Write-offs created	18	0	0	0	1 345
- 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

Creation, charge, utilisation and release of provisions

	01.01.2018 - 30.06..2018	01.01.2017 - 31.12.2017
Pending legal issues and tax litigation		
Balance at the beginning of the period	45 118	23 988
Charge of provision	4 940	23 116
Release of provision	(133)	(1 233)
Utilisation of provision	(3 571)	(753)
Other/reclassification	12 158	0
Balance at the end of the period	58 512	45 118
Commitments and guarantees given		
Balance at the beginning of the period	21 720	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	0
Adjusted balance at the beginning of the period	45 549	24 633
Charge of provision	45 391	13 771
Release of provision	(34 517)	(16 577)
FX rates differences	266	(107)
Balance at the end of the period	56 689	21 720
Total	**115 201**	**66 838**

Assets / Liabilities from deferred income tax

	30.06.2018			31.12.2017		
	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax assets
Difference between tax and balance sheet depreciation and amortisation	1 738	0	1 738	4 012	0	4 012
Balance sheet valuation of financial instruments	48 936	(73 016)	(24 080)	6 275	(29 383)	(23 108)
Unrealised receivables/ liabilities on account of derivatives	11 518	(20 162)	(8 644)	16 766	(28 537)	(11 771)
Interest on deposits and securities to be paid/received	20 574	(35 713)	(15 139)	25 479	(33 022)	(7 543)
Interest and discount on loans and receivables	0	(49 600)	(49 600)	0	(28 062)	(28 062)
Income and cost settled at effective interest rate	86 225	0	86 225	82 892	0	82 892
Provisions for loans presented as temporary differences	194 711	0	194 711	133 150	0	133 150
Employee benefits	14 183	0	14 183	14 349	0	14 349
Provisions for costs	20 213	0	20 213	16 883	0	16 883
Valuation of investment assets (FVOCI), the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	18 216	(20 441)	(2 225)	21 462	(13 234)	8 228
Other	4 190	(67)	4 123	1 764	(92)	1 672
Net deferred income tax asset	420 504	(198 999)	221 505	323 032	(132 330)	190 702

4. STATEMENT OF RELATED PARTY TRANSACTIONS

All the transactions concluded between the Group entities in the period from 1 January to 30 June 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 30.06.2018

	With subsidiaries	With parent entity	With other entities of parent Group
ASSETS			
Loans and advances to banks – accounts and deposits	0	1 296	0
Loans and advances to customers	5 821 527	0	0
Investments in associates	84 346	0	0
Financial assets held for trading	1 862	0	0
Hedging derivatives	0	0	0
Other assets	53 579	0	0
LIABILITIES			
Deposits from banks	0	298	113 057
Deposits from customers	229 695	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities from debt securities	427	0	0
Hedging derivatives	0	0	0
Financial liabilities held for trading	0	209	0
Subordinated debt	0	0	0
Other liabilities	93 607	0	13
- including liabilities from financial leasing	87 434	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 1.01-30.06.2018

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	55 160	20	0
Commissions	31 234	102	0
Financial assets and liabilities held for trading	1 658	0	0
Dividends	53 858	0	0
Other net operating income	1 858	0	0
EXPENSE FROM:			
Interest	1 185	0	(142)
Commissions	4	0	0
Financial assets and liabilities held for trading	0	207	0
Other net operating costs	0	7	0
General and administrative expenses	43 619	0	239

Profit and loss on transactions with related parties (data in ‘000 PLN) for the period of 1.01-30.06.2017

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	44 449	5	0
Commissions	27 576	71	0
Financial assets and liabilities held for trading	33	0	0
Dividends	72 001	0	0
Other operating net	1 985	0	0
EXPENSE FROM:			
Interest	7 190	0	(146)
Commissions	8	0	0
Financial assets and liabilities held for trading	0	0	0
Other operating net	0	9	0
General and administrative expenses	43 602	0	194

Off-balance transactions with related parties (data in ‘000 PLN) as at 30.06.2018

	With subsidiaries	With parent entity	With other entities of parent Group
Conditional commitments	502 767	101 080	0
- granted	499 730	100 345	0
- received	3 037	735	0
Derivatives (par value)	202 101	17 293	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 6 months ended 30 June 2018.

The following tables show the figures for Bank Millennium SA.

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

31.03.2018	Balance sheet value	Fair value
ASSETS		
Loans and advances to banks	519 936	519 793
Loans and advances to customers valued at amortised cost*	48 968 509	47 363 230
LIABILITIES		
Amounts due to banks	1 078 456	1 080 282
Amounts due to customers	59 938 799	59 934 809
Debt securities	546 696	548 114
Subordinated debt	701 800	695 075

* 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 30.06.2018

	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		131 988	32 138
Debt securities	1 241 559		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments			20 439
Debt securities			37 005
Loans and advances			1 153 901
Financial assets at fair value through other comprehensive income			
Equity instruments			25 952
Debt securities	15 988 218	939 866	
Derivatives – Hedge accounting		166 304	
LIABILITIES			
Financial liabilities held for trading			
Valuation of derivatives		94 114	29 837
Short positions	106 318		
Derivatives – Hedge accounting		506 560	

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 1 hal 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	(13 266)	14 990	1 345	0	15 444
Change of valuation recognized in equity	0	0	0	0	0
Change of valuation recognized in P&L account (including interests)	(2 959)	2 608	11	7 374	38 616
Balance on 30 June 2018	26 934	(24 633)	46 391	37 006	1 153 901

6. ADDITIONAL INFORMATION

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

During the six months ended 30 June 2018, the total liabilities of the Bank arising from the issue of debt securities decreased by PLN 332.3 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. A small amount of the reduction in amount of issued debt securities was caused by the change in balance of bank securities (BPW).

6.2. Off-balance sheet liabilities

Structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	30.06.2018	31.12.2017
Off-balance conditional commitments granted and received	**9 969 867**	**9 204 511**
Commitments granted:	9 673 893	9 156 628
- financial	7 858 654	7 900 674
- guarantee	1 815 239	1 255 954
Commitments received:	295 975	47 883
- financial	0	0
- guarantee	295 975	47 883

Date	Name and surname	Position/Function	Signature
25.07.2018	Joao Bras Jorge	Chairman of the Management Board	
25.07.2018	Fernando Bicho	Deputy Chairman of the Management Board	
25.07.2018	Wojciech Haase	Member of the Management Board	
25.07.2018	Andrzej Gliński	Member of the Management Board	
25.07.2018	Wojciech Rybak	Member of the Management Board	
25.07.2018	Antonio Pinto Junior	Member of the Management Board	