Report of the Bank Millennium S.A. Capital Group

for 1st half 2017

MAIN CONSOLIDATED FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	Period from 1.01.2017 - 30.06.2017	Period from 1.01.2016 - 30.06.2016*	Period from 1.01.2017 - 30.06.2017	Period from 1.01.2016 - 30.06.2016*
Interest income	1 169 772	1 131 300	275 409	258 258
Fee and commission income	392 262	330 323	92 353	75 408
Operating income	1 286 287	1 417 547	302 841	323 604
Operating profit	527 410	661 155	124 172	150 931
Profit (loss) before income tax	433 730	580 619	102 117	132 546
Profit (loss) after taxes	314 096	430 949	73 950	98 379
Total comprehensive income of the period	398 563	279 485	93 837	63 802
Net cash flows from operating activities	942 021	184 368	221 788	42 088
Net cash flows from investing activities	(1 504 294)	(2 321 754)	(354 168)	(530 020)
Net cash flows from financing activities	(287 217)	160 890	(67 622)	36 729
Net cash flows, total	(849 490)	(1 976 496)	(200 002)	(451 203)
Total Assets	69 488 847	68 792 787	16 441 227	15 549 907
Liabilities to banks and other monetary institutions	1 404 356	1 270 745	332 274	287 239
Liabilities to customers	56 987 958	55 875 609	13 483 487	12 630 111
Equity	7 339 768	6 941 205	1 736 607	1 568 988
Share capital	1 213 117	1 213 117	287 026	274 213
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)	6.05	5.72	1.43	1.29
Diluted book value per share (in PLN/EUR)	6.05	5.72	1.43	1.29
Total Capital Ratio (TCR)	18.05%	17.40%	18.05%	17.40%
Earnings (losses) per ordinary share (in PLN/EUR)	0.26	0.36	0.06	0.08
Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.26	0.36	0.06	0.08
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

* - Comparative balance sheet data was presented, in compliance with IFRS requirements, as at 31.12.2016. Other comparative data is presented for the period from 1.01.2016 to 30.06.2016.

Exchange rates accepted to convert selected financial data into EURO

The following rates were used to calculate amounts stated in EURO:

- for balance sheet items: 4.2265 PLN/EUR – the exchange rate of 30 June 2017 (for comparative data as at 31 December 2016: 4.4240 PLN/EUR),
- for profit and loss account items for the period from 1 January – 30 June 2017: 4.2474 PLN/EUR, the exchange rate was calculated as the average of the rates at the end of the months covered by the financial statements (for comparative data 1 January – 30 June 2016: 4.3805 PLN/EUR).

CONTENTS

I. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017

CONTENTS

1. GENERAL INFORMATION ON THE ISSUER

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

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

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

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

Supervisory Board and Management Board of Bank Millennium S.A. as at 30 June 2017

Composition of the Supervisory Board as at 30 June 2017 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,
- Julianna Boniuk-Gorzelańczyk – Member 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,
- Miguel Maya Dias Pinheiro – Member of the Supervisory Board,
- Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

On March 31, 2017, Mr. David Harris Klingensmith tendered his resignation from the function of Member of the Supervisory Board of the Bank, effective as of above date.

Composition of the Management Board as at 30 June 2017 was as follows:

- Joao Nuno Lima Bras Jorge – Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho – Deputy Chairman of the Management Board,
- Wojciech Haase – Member of the Management Board,
- Andrzej Gliński – Member of the Management Board,
- Maria Jose Henriques Barreto De Matos De Campos – Member of the Management Board,
- Wojciech Rybak – Member of the Management Board.

Bank Millennium S.A. Capital Group

Bank Millennium S.A. is the parent company of the Bank Millennium Group. The companies comprising the Group as at 30 June 2017 are presented in 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 2016.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in the consolidated financial statements of Bank Millennium S.A. Capital Group for the year ended 31 December 2016, with consideration of the specific requirements of IAS 34.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with later amendments) the Bank is required to publish the financial results for the six months ended 30 June 2017.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2017 to 30 June 2017:

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

The Management Board approved these condensed consolidated interim financial statements on 24th July 2017.

2.1. Fees for Banking Guarantee Fund

The amendment to the Banking Guarantee Fund (BFG) Act introduced in 2016 changed the cycle of calculation and payment of BFG contributions to resolution fund (former prudential fee) from quarterly to yearly (as regards contribution to guarantee fund quarterly cycle of calculation has been maintained). In addition, the methodology for calculating of both contributions has been altered, the final amounts of fees in 2017 are calculated and reported to each bank by BFG. As a consequence, according to requirements of IFRIC 21, the Bank recognized on a one-off basis costs of the resolution fee, at the moment of recognition obligation to pay the contribution i.e. at the 1st January 2017 (with a minor adjustment in April to the final communicated amount).

Table below presents BFG costs recorded in I half 2017 and comparative period (data in PLN million)

	I half 2017	I half 2016
Contribution for guarantee fund	26.5	30.6
Contribution for resolution fund (former prudential fee)	46.4	14.5

It should be added that from tax calculations point of view both contributions in 2017 are not tax-deductible whereas in previous year contribution for guarantee fund used to be tax-deductible.

2.2. 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 replaces the existing International Accounting Standard 39 „Financial instruments: recognition and measurement". The European Commission adopted the Standard as published by the IASB on 24th July 2014 in the Resolution No. 2016/2067 issued on 22nd November 2016.

IFRS 9 introduces a new standard in the impairment process. New model is based on the concept of „expected credit losses", estimated with the use of predictions and introduces modifications regarding the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

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

Work on the project has been planned in two stages:

- gap analysis - Phase I
- Implementation of the concept of IFRS 9 Group - Phase II.

The Group is currently testing and implementing necessary solutions regarding the implementation of IFRS 9, based on the gap analysis and defined key methodological assumptions.

Summary of key IFRS 9 requirements

Classification and measurement

Financial assets

In accordance with IFRS 9, on initial recognition a financial asset may be classified as subsequently measured at:

- amortised cost,
- fair value through other comprehensive income,
- fair value through profit or loss.

A financial asset shall be classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- the Group's business model for managing the financial assets which is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective; and
- the contractual cash flow characteristics of the financial asset by verifying if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (so called SPPI criterion).

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss if:

- the financial asset does not meet the conditions of being classified as subsequently measured at amortised cost or at fair value through other comprehensive income (the business model the asset is held in is managed on a fair value basis or the contractual terms of the financial asset give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding);
- at initial recognition, the Group has irrevocably designated the financial asset as measured at fair value through profit or loss because doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

On the initial recognition the Group is required to determine if a financial instrument contains an embedded derivative. Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. However, derivatives embedded in contracts where the host is not a financial asset in the scope of IFRS 9 shall be analysed in order to determine whether it should be bifurcated.

A financial asset shall be reclassified if, and only if, the Group changes its business model for managing financial assets. In such a case, all financial assets affected by the business model change are subject to reclassification.

Financial liabilities

IFRS 9 does not introduce 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:

- a financial liability measured at fair value through profit loss, or
- other financial liability (measured at amortised cost).

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

Impairment

IFRS 9 replaces the „incurred loss" model in IAS 39 with a forward-looking „expected credit loss" (ECL) model. Because of the aforementioned change the Bank will be obliged to calculated loss allowances based on the expected credit loss, taking into consideration forecasts of future economic conditions with regard to the measurement of the credit risk of an exposure. The implemented impairment model will be applied to financial instruments measured, in accordance with IFRS 9, at amortised cost or at fair value through other comprehensive income, except for equity instruments.

Accordingly the Group, replacing the concept of „incurred loss" with the concept of „expected credit loss" will influence significantly the way of modelling credit risk parameters and the final amount of loss allowance. The currently applied loss identification period will not be used anymore, therefore the IBNR (incurred but not reported) category of loss allowance will be eliminated. In accordance with IFRS 9, the loss allowance will be calculated in the following categories (instead of the IBNR loss allowance and the loss allowance for exposures with impairment triggers):

- Stage 1 – 12-month expected credit losses – the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date;
- Stage 2 and 3 – lifetime expected credit losses – The expected credit losses that result from all possible default events over the expected life of a financial instrument.

The measurement of lifetime expected credit losses will be applied to all exposures for which during the period between the initial recognition and the reporting date the Bank has identified a significant increase in credit risk (Stage 2) or has identified impairment (Stage 3). The measurement of 12-month expected credit losses (Stage 1) will be applied to all exposures for which the Bank has not identified a significant increase in credit risk or impairment during the period between the initial recognition and the reporting date.

The new approach to calculating the impairment of the financial assets will also have an impact on the interest income recognition. In particular, interest income on financial assets allocated to Stages 1 and 2 will be calculated based on the gross carrying amount of the exposure, whereas interest income on financial assets allocated to Stage 3 will be calculated based on the net carrying amount of the exposure (similarly to impaired financial assets under the requirements of IAS 39).

Hedge accounting

In accordance with standard, when initially applying IFRS 9 the Group may choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Group to ensure that its hedging relationships are compliant with the risk management strategy applied by the Group and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting.

Potential impact of IFRS 9 on the Group's financial situation and own funds

Quantitative estimation of the impact of IFRS 9 on the Group's financial situation and own funds

As of 30th June 2017, it is not possible to reliable estimate the complete impact of IFRS 9 implementation on the Group's financial situation and own funds. Therefore, the Group has chosen to disclose solely qualitative information on the Group's approach to the IFRS 9 implementation, which in the Group's opinion will enable the users of the financial statement to understand the impact of IFRS 9 on the financial situation and capital management of the Group.

Qualitative data enabling the users of the financial statement to understand the impact of IFRS 9 on the Group's financial situation

Classification and measurement

Financial assets

In order to be able to classify the financial assets in accordance with IFRS 9 on 1st January 2018, the Group, in the course of the ongoing IFRS 9 implementation project, has reviewed the financial assets in the Group's portfolio, which are going to a part of the portfolio after 31st December 2017. The objectives of the review were:

- determining and allocating groups of financial assets to the appropriate business model on the basis of the assessment of the applied way of managing the financial asset portfolios by:
  - reviewing and assessing relevant and objective qualitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (such as, e.g.: how the particular financial assets are managed including the justification of the sales of the financial assets from certain portfolios that occurred in the past);
  - reviewing and assessing relevant and objective quantitative data which may have an impact on allocating financial asset portfolios to the appropriate business model (e.g. the value of sales of the financial assets from certain portfolios that occurred in previous reporting periods and the frequency of those sales);
  - analysis of expectations regarding the value and frequency of future sales from certain portfolios.
- identifying and analysing the contractual terms of financial assets that may cause the financial assets to fail the SPPI criterion.

As a result of the IFRS 9 implementation, the Bank assumes possibility of changes in classification of certain loans granted to clients, measured at amortised cost under IAS 39, which will have to be measured at fair value through profit or loss because the contractual terms of the loan give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding. Based on the current stage of analysis (final conclusions are not made yet), the Bank expects that these changes could affect a small percentage of the loan portfolio estimated at approx. 2% of value of total loan portfolio as at 30.06.2017.

Regarding the portfolio of debt securities the Group does not expect significant changes in the applied method of the classification and measurement of financial assets that could have a significant impact on the balance sheet and / or the Group's financial result.

As of 30 June 2017 the Group holds equity instruments (stocks and shares) which, in accordance with IAS 39, are categorized as financial assets "available for sale". In accordance with IFRS 9, the Group will be able to classify them as financial assets measured at fair value through profit or loss (provided that they do not constitute a strategic investment in the view of the entities which manage them) or irrevocably choose to measure them at fair value through other comprehensive income. If the Group chooses to measure the equity instruments at fair value through other comprehensive income, the fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. At the moment of preparation of these financial statement the Group has not yet made a decision in this regard.

Financial liabilities

As a result of implementing IFRS 9, the Group does not expects changes in classification of financial liabilities in comparison to existing requirements in IAS 39, which could have a significant impact on the financial position / profit or loss of the Group.

Impairment

The Group assumes that the implementation of the new impairment model based on the concept of ECL will have a significant impact on the level of the Group's loss allowance, particularly with regard to exposures allocated to Stage 2. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment events in order to estimate lifetime credit losses in Stage 2. Instead, the Group is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Group will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach will result in the earlier recognition of credit losses which will cause an increase in loss allowance and therefore it will also affect profit or loss. It needs to be emphasized that as of the date of implementation of IFRS 9, this specific change in the level of loss allowance stemming from the adoption of new impairment model will be recognized in retained earnings, not in profit or loss.

Within the scope of the IFRS 9 implementation project, the Group is working on implementing a new methodology of loss allowance calculation as well as on implementing appropriate modifications in IT systems and processes used by the Group. In particular work are focused on designing the processes and tools and performing a detailed estimation of the impact of IFRS 9 on the level of loss allowance. Methodological tasks are focused on both redevelopment of currently applied solutions as well as implementation of the brand new solutions. In terms of the redevelopment of existing solutions, the Bank is advanced in adjusting PD, LGD, EAD and CCF models so that they may be used to estimate expected credit losses. In terms of brand new solutions, the scope of the IFRS 9 project is focused mainly on defining details of the Stage allocation criteria and including expectations regarding future macroeconomic outlook in the estimation of loss allowance levels.

It should be underlined that, the implementation of the new Standard requires the application of more complex credit risk models of greater predictive abilities which require a significantly broader set of source data than the currently applied models.

Additionally, works regarding implementation of IFRS 9 for Millennium Leasing Sp. z o.o. are performed.

The impact assessment of IFRS 9 on the financial position of the Group and its capital management is currently difficult. The difficulties stem from the ongoing methodological works regarding adjustments of credit risk models to IFRS 9 requirements which are still in progress as well as from the lack of unambiguous interpretations of the new Standard and uniform market practice. From the legislative standpoint, the supervisory and regulatory authorities are working on updating prudential requirements which will be binding for the Bank. However, it needs to be noted that these works are not advanced enough to enable Bank to unambiguously determine the impact of the IFRS 9 on the financial position and capital adequacy indicators. It should also be noted that, in terms of capital impact, the potential increase of impairment loss allowances in the implementation moment of IFRS9 may be partially offset by improvement of own funds through reduction of deductions connected with the difference between expected credit loss and incurred loss (this situation applies to IRB banks such as Bank Millennium). In this regard the Group will also be analysing possibility to apply transitional provisions within CRR, allowing institutions to mitigate potentially negative impact on Common Equity Tier 1 capital, resulting from accounting treatment of expected credit losses.

Hedge accounting

Based on the paragraph 9.7.2.21 of IFRS 9, on the 1st January 2018 the Group is going to choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9, the decision will constitute an element of the Group’s accounting policy. The decision will be applied to every hedging relationship that the Group applies and is going to apply in the future. Changing the decision is possible solely by introducing appropriate changes to the accounting policy which will be associated with all the consequences resulting from IAS 8. Due to the aforementioned decision, the adoption of IFRS 9 in the hedge accounting area will not have an impact on the financial position of the Group.

3. CONSOLIDATED FINANCIAL DATA (GROUP)

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Interest income	1	1 169 772	593 422	1 131 300	574 633
Interest expense	2	(355 515)	(172 653)	(397 607)	(192 076)
Net interest income		814 257	420 769	733 693	382 557
Fee and commission income	3	392 262	196 164	330 323	168 941
Fee and commission expense	4	(63 627)	(33 646)	(56 187)	(29 157)
Net fee and commission income		328 635	162 518	274 136	139 784
Dividend income		2 326	2 041	1 775	1 775
Result on investment financial assets	5	4 181	3 849	302 469	285 372
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	100 450	47 799	82 009	37 794
Other operating income		36 438	10 980	23 465	12 419
Operating income		**1 286 287**	**647 956**	**1 417 547**	**859 701**
General and administrative expenses	6	(534 369)	(276 947)	(524 441)	(266 081)
Impairment losses on financial assets	7	(122 280)	(62 779)	(104 759)	(61 402)
Impairment losses on non-financial assets		(421)	(191)	(1 313)	(342)
Depreciation and amortization		(26 859)	(13 740)	(28 345)	(14 878)
Other operating expenses		(74 948)	(15 573)	(97 534)	(78 819)
Operating expenses		**(758 877)**	**(369 230)**	**(756 392)**	**(421 522)**
Operating profit		**527 410**	**278 726**	**661 155**	**438 179**
Share of profit of associates		0	0	0	0
Banking tax		(93 680)	(46 450)	(80 536)	(48 247)
Profit / (loss) before income tax		**433 730**	**232 276**	**580 619**	**389 932**
Corporate income tax	8	(119 634)	(58 678)	(149 670)	(96 168)
Profit / (loss) after taxes		**314 096**	**173 598**	**430 949**	**293 764**
Attributable to:					
Owners of the parent		314 096	173 598	430 949	293 764
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
Earnings (losses) per ordinary share (in PLN)		0.26	0.14	0.36	0.24

CONSOLIDATED TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Profit / (loss) after taxes	314 096	173 598	430 949	293 764
Other elements of total comprehensive income that will be subsequently reclassified to profit or loss	104 280	27 950	(186 992)	(272 609)
Effect of valuation of available for sale debt securities	73 041	33 718	(1 002)	(23 857)
Effect of valuation of available for sale shares	1 666	(198)	(213 216)	(213 584)
Hedge accounting	29 573	(5 570)	27 226	(35 168)
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	0	0	0	0
Actuarial gains (losses)	0	0	0	0
Other elements of total comprehensive income before taxes	**104 280**	**27 950**	**(186 992)**	**(272 609)**
Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss	(19 813)	(5 311)	35 528	51 796
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	0	0	0	0
Other elements of total comprehensive income after taxes	**84 467**	**22 639**	**(151 464)**	**(220 813)**
Total comprehensive income for the period	**398 563**	**196 238**	**279 485**	**72 951**
Attributable to:				
Owners of the parent	398 563	196 238	279 485	72 951
Non-controlling interests	0	0	0	0

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	30.06.2017	31.12.2016
Cash, balances with the Central Bank		2 171 577	1 778 768
Deposits, loans and advances to banks and other monetary institutions	9	517 562	1 267 811
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	10	624 682	564 574
Hedging derivatives	11	378 203	17 934
Loans and advances to customers	12	47 316 323	47 020 043
Investment financial assets	13	17 467 016	17 135 347
- available for sale		17 467 016	17 135 347
- held to maturity		0	0
Investments in associates		0	0
Receivables from securities bought with sell-back clause (loans and advances)		65 148	90 520
Property, plant and equipment		171 904	164 070
Intangible assets		60 451	62 315
Non-current assets held for sale		16 316	10 937
Receivables resulting from income tax		11	5 381
Deferred income tax assets	15	283 927	273 767
Other assets		415 727	401 320
Total Assets		**69 488 847**	**68 792 787**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	30.06.2017	31.12.2016
LIABILITIES			
Liabilities to banks and other monetary institutions	16	1 404 356	1 270 745
Financial liabilities valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	10	367 135	339 015
Hedging derivatives	11	435 590	1 149 654
Liabilities to customers	17	56 987 958	55 875 609
Liabilities from securities sold with buy-back clause		0	0
Debt securities	18	1 158 424	1 313 836
Provisions	19	46 300	49 415
Deferred income tax liabilities	15	0	0
Liabilities resulting from income tax		26 433	20 642
Other liabilities		1 088 565	1 168 662
Subordinated debt		634 318	664 004
LIABILITIES		62 149 079	61 851 582
EQUITY			
Share capital		1 213 117	1 213 117
Share premium		1 147 502	1 147 502
Revaluation reserve		(100 495)	(184 962)
Retained earnings		5 079 644	4 765 548
Total Equity		7 339 768	6 941 205
Total equity attributable to owners of the parent		7 339 768	6 941 205
Non-controlling interests		0	0
Total Liabilities and Equity		**69 488 847**	**68 792 787**
Book value		7 339 768	6 941 205
Number of shares		1 213 116 777	1 213 116 777
Book value per share (in PLN)		6.05	5.72

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01.01.2017 - 30.06.2017 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Revaluation reserve	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 1 half 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 available for sale debt securities	59 164	0	0	59 164	0	0
valuation of available for sale shares	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**

01.01.2016 - 31.12.2016 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 443 165	1 213 117	1 147 502	18 250	679 929	3 384 367
Total comprehensive income for 2016 (net)	498 040	0	0	(203 212)	701 252	0
net profit/ (loss) of the period	701 252	0	0	0	701 252	0
valuation of available for sale debt securities	(68 982)	0	0	(68 982)	0	0
valuation of available for sale shares	(171 270)	0	0	(171 270)	0	0
hedge accounting	35 866	0	0	35 866	0	0
actuarial gains (losses)	1 174	0	0	1 174	0	0
Transfer between items of reserves	0	0	0	0	(529 411)	529 411
Equity at the end of the period	**6 941 205**	**1 213 117**	**1 147 502**	**(184 962)**	**851 770**	**3 913 778**

01.01.2016 - 30.06.2016 *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 443 165	1 213 117	1 147 502	18 250	679 929	3 384 367
Total comprehensive income for 1 half 2016 (net)	279 485	0	0	(151 464)	430 949	0
net profit/ (loss) of the period	430 949	0	0	0	430 949	0
valuation of available for sale debt securities	(812)	0	0	(812)	0	0
valuation of available for sale shares	(172 705)	0	0	(172 705)	0	0
hedge accounting	22 053	0	0	22 053	0	0
Transfer between items of reserves	0	0	0	0	(529 411)	529 411
Equity at the end of the period	**6 722 650**	**1 213 117**	**1 147 502**	**(133 214)**	**581 467**	**3 913 778**

CONSOLIDATED CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
Profit (loss) after taxes	314 096	430 949
Total adjustments:	627 925	(246 581)
Non-controlling interests profit (loss)	0	0
Interests in net income (loss) of associated companies	0	0
Depreciation and amortization	26 859	28 345
Foreign exchange (gains)/ losses	(73 521)	51 811
Dividends	(2 326)	(1 775)
Changes in provisions	(3 115)	23 146
Result on sale and liquidation of investing activity assets	(13 223)	(307 614)
Change in financial assets valued at fair value through profit and loss (held for trading)	(388 847)	388 424
Change in loans and advances to banks	737 059	252 839
Change in loans and advances to customers	(300 479)	(590 226)
Change in receivables from securities bought with sell-back clause (loans and advances)	25 372	(46 852)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(685 944)	(542 657)
Change in deposits from banks	229 318	(100 069)
Change in deposits from customers	1 112 349	549 788
Change in liabilities from securities sold with buy-back clause	0	0
Change in debt securities	74 069	223 581
Change in income tax settlements	130 044	183 140
Income tax paid	(143 486)	(78 319)
Change in other assets and liabilities	(101 344)	(277 942)
Other	5 140	(2 201)
Net cash flows from operating activities	**942 021**	**184 368**

B. Cash flows from investing activities

Amount '000 PLN	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
Inflows from investing activities:	61 948 442	56 462 131
Proceeds from sale of property. plant and equipment and intangible assets	12 291	6 726
Proceeds from sale of shares in associates	0	0
Change in value of investment financial assets due to purchase/sale	61 933 825	56 453 630
Other inflows from investing activities	2 326	1 775
Outflows from investing activities:	(63 452 736)	(58 783 885)
Acquisition of property, plant and equipment and intangible assets	(34 521)	(12 286)
Acquisition of shares in associates	0	0
Change in value of investment financial assets due to purchase/sale	(63 418 215)	(58 771 599)
Other outflows from investing activities	0	0
Net cash flows from investing activities	**(1 504 294)**	**(2 321 754)**

C. Cash flows from financing activities

Amount '000 PLN	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
Inflows from financing activities:	299 600	220 826
Long-term bank loans	0	220 520
Issue of debt securities	299 600	306
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:	(586 817)	(59 936)
Repayment of long-term bank loans	(48 036)	(48 102)
Redemption of debt securities	(529 081)	0
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	(9 700)	(11 834)
Net cash flows from financing activities	**(287 217)**	**160 890**

D. Net cash flows. Total (A + B + C)	**(849 490)**	**(1 976 496)**
E. Cash and cash equivalents at the beginning of the reporting period	**5 381 982**	**6 851 154**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**4 532 492**	**4 874 658**

4. NOTES TO CONSOLIDATED FINANCIAL DATA

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

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Balances with the Central Bank	13 307	6 815	12 683	6 346
Deposits, loans and advances to banks	620	469	293	180
Loans and advances to customers	830 122	423 463	817 922	417 888
Transactions with repurchase agreement	3 973	2 078	5 546	3 785
Hedging derivatives	156 504	78 717	168 800	83 049
Financial assets held for trading (debt securities)	4 497	2 420	3 000	1 432
Investment securities	160 749	79 460	123 056	61 953
Total	1 169 772	593 422	1 131 300	574 633

Interest income for 1 half 2017 includes interest accrued on loans with recognized impairment of PLN 27,623 thousand (for the comparative data for 1 half 2016, such interest was PLN 27,013 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:

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Banking deposits	(9 637)	(5 197)	(6 189)	(1 944)
Loans and advances from banks and other monetary institutions	(3 834)	(1 881)	(5 587)	(2 880)
Transactions with repurchase agreement	(7 185)	(2 960)	(5 684)	(2 551)
Deposits from customers	(313 778)	(153 058)	(357 063)	(172 910)
Subordinated debt	(5 864)	(2 906)	(6 574)	(3 133)
Debt securities	(15 033)	(6 566)	(16 247)	(8 526)
Other	(184)	(85)	(262)	(131)
Total	(355 515)	(172 653)	(397 607)	(192 076)

Note (3) Fee and commission income

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Resulting from accounts service	39 372	19 690	40 653	20 680
Resulting from money transfers, cash payments and withdrawals and other payment transactions	29 241	15 290	26 077	13 519
Resulting from loans granted	74 936	36 221	71 138	35 718
Resulting from guarantees and sureties granted	6 539	2 899	6 669	2 921
Resulting from payment and credit cards	78 659	40 616	70 867	36 490
Resulting from sale of insurance products	48 903	24 168	25 700	14 034
Resulting from distribution of investment funds units and other savings products	45 776	22 214	31 298	17 032
Resulting from brokerage and custody service	10 892	5 044	9 390	5 003
Resulting from investment funds managed by the Group	43 907	22 877	39 364	19 777
Other	14 037	7 145	9 167	3 767
Total	392 262	196 164	330 323	168 941

Note (4) Fee and commission expense

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Resulting from accounts service	(733)	(405)	(634)	(365)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(1 597)	(918)	(1 052)	(557)
Resulting from loans granted	(8 687)	(4 606)	(10 612)	(6 218)
Resulting from payment and credit cards	(37 099)	(19 718)	(32 966)	(17 191)
Resulting from brokerage and custody service	(1 925)	(872)	(1 669)	(855)
Resulting from investment funds managed by the Group	(4 851)	(2 612)	(4 387)	(2 234)
Other	(8 735)	(4 515)	(4 867)	(1 737)
Total	(63 627)	(33 646)	(56 187)	(29 157)

Note (5a) Result on investment financial assets

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Operations on debt instruments	4 185	3 854	19 431	2 334
Operations on equity instruments and participation units	(4)	(5)	283 038	283 038
Total	4 181	3 849	302 469	285 372

Note (5b) Result on financial instruments valued at fair value through profit and loss and foreign exchange result

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Operations on securities	3 017	2 858	1 744	(1 620)
Operations on derivatives	16 645	3 976	19 209	10 863
Fair value hedge accounting operations including:	0	0	(181)	(137)
- result from hedging derivatives	0	0	613	(137)
- result from items subjected to hedging	0	0	(794)	0
Foreign exchange result	81 486	41 418	62 104	29 241
Costs of financial operations	(698)	(453)	(867)	(553)
Total	**100 450**	**47 799**	**82 009**	**37 794**

Note (6) General and administrative expenses

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Staff costs:	(294 954)	(149 900)	(277 914)	(139 078)
Salaries	(241 141)	(122 599)	(229 337)	(115 004)
Surcharges on pay	(42 434)	(21 091)	(40 185)	(19 761)
Employee benefits, including:	(11 379)	(6 210)	(8 392)	(4 313)
- provisions for retirement benefits	(1 410)	(930)	68	0
- provisions for unused employee holiday	(16)	(10)	(7)	(7)
- other	(9 953)	(5 270)	(8 453)	(4 306)
General administrative costs:	(239 415)	(127 047)	(246 527)	(127 003)
Costs of advertising, promotion and representation	(21 199)	(15 110)	(21 031)	(12 703)
IT and communications costs	(38 215)	(19 243)	(36 331)	(18 114)
Costs of renting	(78 723)	(37 763)	(90 924)	(46 431)
Costs of buildings maintenance, equipment and materials	(12 738)	(6 525)	(12 995)	(6 518)
ATM and cash maintenance costs	(8 545)	(4 185)	(8 242)	(4 220)
Costs of consultancy, audit and legal advisory and translation	(12 797)	(7 658)	(8 493)	(4 742)
Taxes and fees	(8 427)	(4 329)	(8 406)	(4 288)
KIR clearing charges	(2 335)	(1 180)	(2 141)	(1 108)
PFRON costs	(2 547)	(1 154)	(2 437)	(1 194)
Banking Guarantee Fund costs - contribution to guarantee fund	(26 500)	(13 340)	(30 560)	(15 214)
Financial Supervision costs	(2 538)	(1 281)	(2 679)	(1 339)
Other	(24 851)	(15 279)	(22 288)	(11 132)
Total	**(534 369)**	**(276 947)**	**(524 441)**	**(266 081)**

Note (7) Impairment losses on financial assets

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Impairment losses on loans and advances to customers	(124 812)	(63 291)	(99 830)	(55 546)
Impairment charges on loans and advances to customers	(357 522)	(145 944)	(342 366)	(152 657)
Reversal of impairment charges on loans and advances to customers	232 145	82 381	225 167	96 935
Amounts recovered from loans written off	565	272	11 614	203
Sale of receivables	0	0	5 755	(27)
Impairment losses on securities	662	632	23	16
Impairment charges on securities	0	0	0	0
Reversal of impairment charges on securities	662	632	23	16
Impairment losses on off-balance sheet liabilities	1 870	(120)	(4 952)	(5 872)
Impairment charges on off-balance sheet liabilities	(11 638)	(2 423)	(8 423)	(6 021)
Reversal of impairment charges on off-balance sheet liabilities	13 508	2 303	3 471	149
Total	**(122 280)**	**(62 779)**	**(104 759)**	**(61 402)**

Note (8a) Income tax reported in income statement

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Current tax	(149 608)	(69 340)	(164 913)	(99 064)
Deferred tax:	29 974	10 662	15 243	2 896
Recognition and reversal of temporary differences	29 806	10 517	17 098	3 390
Recognition / (Utilisation) of tax loss	168	145	(1 855)	(494)
Total income tax reported in income statement	**(119 634)**	**(58 678)**	**(149 670)**	**(96 168)**

Note (8b) Effective tax rate

	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Gross profit / (loss)	433 730	232 276	580 619	389 932
Statutory tax rate	19%	19%	19%	19%
Income tax according to obligatory income tax rate of 19%	(82 409)	(44 133)	(110 318)	(74 087)
Impact of permanent differences on tax charges:	**(37 225)**	**(14 545)**	**(40 177)**	**(22 081)**
Non taxable income	352	368	513	425
Dividend income	329	352	337	337
Release of other provisions	23	16	138	51
Other	0	0	38	37
Non tax-deductible costs	(37 577)	(14 913)	(40 690)	(22 506)
Loss on sale of receivables	0	0	(2 913)	(7)
PFRON fee	(484)	(218)	(464)	(228)
Banking Guarantee Fund costs	(13 858)	(3 015)	(2 747)	(1 368)
Banking tax	(17 799)	(8 825)	(15 302)	(9 167)
Cost of provisions for factoring receivables	(2 659)	(1 493)	(2 438)	(720)
Receivables written off	(874)	(173)	(1 203)	(122)
Costs of litigations and contentious claims	(100)	(4)	(7 840)	(7 549)
Depreciation and insurance costs of cars (in excess of EUR 20.000)	(1 199)	(873)	(1 356)	(840)
Other	(604)	(312)	(6 427)	(2 505)
The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet	0	0	825	0
Total income tax reported in income statement	**(119 634)**	**(58 678)**	**(149 670)**	**(96 168)**
Effective tax rate	28%	25%	26%	25%

Note (8c) Deferred tax reported directly in equity

	30.06.2017	31.12.2016
Valuation of available for sale securities	(5 208)	8 985
Valuation of cash flow hedging instruments	28 700	34 319
Actuarial gains (losses)	82	81
Deferred tax reported directly in equity	23 574	43 385

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.

Due to the termination of legal actions taken in respect of tax audits described in previous periodical reports, the current report does not include a description of completed proceedings. This information was presented for the last time in a report published for the first quarter of 2017.

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 1,679,202. 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.

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.

Note (9) Deposits, loans and advances to banks and other monetary institutions

	30.06.2017	31.12.2016
Current accounts	142 262	194 464
Deposits granted	373 162	1 071 206
Loans	3	0
Interest	2 135	2 141
Total (gross) deposits, loans and advances	517 562	1 267 811
Impairment write-offs	0	0
Total (net) deposits, loans and advances	**517 562**	**1 267 811**

Note (10a) Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge

	30.06.2017	31.12.2016
Debt securities	**412 414**	**314 476**
Issued by State Treasury	412 407	314 466
a) bills	0	0
b) bonds	412 407	314 466
Other securities	7	10
a) quoted	7	10
b) non quoted	0	0
Equity instruments	**132**	**110**
Quoted on the active market	132	110
a) financial institutions	0	0
b) non-financial institutions	132	110
Adjustment from fair value hedge	9 611	11 889
Positive valuation of derivatives	202 525	238 099
Total	**624 682**	**564 574**

Note (10b) Valuation of derivatives. Adjustment from fair value hedge and Liabilities from short sale of securities as at 30.06.2017

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(12 795)	84 851	97 646
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(12 795)	84 851	97 646
Other interest rate contracts: options	0	0	0
2. FX derivatives	(35 103)	71 400	106 503
FX contracts	(10 154)	19 915	30 069
FX swaps	(18 519)	50 727	69 246
Other FX contracts (CIRS)	(6 430)	758	7 188
FX options	0	0	0
3. Embedded instruments	(44 418)	7	44 425
Options embedded in deposits	(39 757)	0	39 757
Options embedded in securities issued	(4 661)	7	4 668
4. Indexes options	44 171	46 267	2 096
Valuation of derivatives, total	**(48 145)**	**202 525**	**250 670**
Valuation of hedged position in fair value hedge accounting		9 611	9 223
Liabilities from short sale of securities			107 242

Note (10c) Valuation of derivatives. Adjustment from fair value hedge and Liabilities from short sale of securities as at 31.12.2016

	Fair value		
	Total	Assets	Liabilities
1. Interest rate derivatives	(5 481)	134 128	139 609
Forward Rate Agreements (FRA)	0	0	0
Interest rate swaps (IRS)	(5 481)	134 128	139 609
Other interest rate contracts: options	0	0	0
2. FX derivatives	22 231	76 503	54 272
FX contracts	(4 542)	12 502	17 044
FX swaps	53 113	58 023	4 910
Other FX contracts (CIRS)	(26 340)	5 813	32 153
FX options	0	165	165
3. Embedded instruments	(26 116)	237	26 353
Options embedded in deposits	(22 128)	0	22 128
Options embedded in securities issued	(3 988)	237	4 225
4. Indexes options	26 199	27 231	1 032
Valuation of derivatives, total	**16 833**	**238 099**	**221 266**
Valuation of hedged position in fair value hedge accounting		11 889	10 896
Liabilities from short sale of securities			106 853

As at 30.06.2017 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 financial instruments valued at fair value through profit and loss and foreign exchange result.

Note (11a) Hedge accounting as at 30.06.2017

	Fair values		
	Total	Assets	Liabilities
Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate			
CIRS contracts	(123 010)	312 531	435 541
IRS contracts	4 937	4 986	49
FXS contracts	60 686	60 686	0
Total	(57 387)	378 203	435 590

As of 30.06.2017 there were no active fair value hedges.

Note (11b) Hedge accounting as at 31.12.2016

	Fair values		
	Total	Assets	Liabilities
Cash flows hedging derivatives connected with interest rate and/or FX rate			
CIRS contracts	(1 139 740)	391	1 140 131
IRS contracts	6 063	7 070	1 007
FXS contracts	1 957	10 473	8 516
Total	(1 131 720)	17 934	1 149 654

As of 31.12.2016 there were no active fair value hedges.

Note (12a) Loans and advances to customers

	30.06.2017	31.12.2016
Loans and advances	42 064 571	41 972 241
- to companies	9 311 321	8 494 801
- to private individuals	32 461 583	33 159 579
- to public sector	291 667	317 861
Receivables on account of payment cards	737 656	712 001
- due from companies	22 793	22 803
- due from private individuals	714 863	689 198
Purchased receivables	226 328	141 563
- from companies	223 041	141 563
- from public sector	3 287	0
Guarantees and sureties realised	10 987	11 506
Debt securities eligible for rediscount at Central Bank	5 604	4 424
Financial leasing receivables	5 460 666	5 261 332
Other	5 964	5 150
Interest	257 593	276 739
Total gross	**48 769 369**	**48 384 956**
Impairment write-offs	(1 453 046)	(1 364 913)
Total net	**47 316 323**	**47 020 043**

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

	30.06.2017	31.12.2016
Loans and advances to customers (gross)	48 769 369	48 384 956
- impaired	2 212 955	2 179 456
- not impaired	46 556 414	46 205 500
Impairment write-offs	(1 453 046)	(1 364 913)
- for impaired exposures	(1 252 526)	(1 179 173)
- for incurred but not reported losses (IBNR)	(200 520)	(185 740)
Loans and advances to customers (net)	**47 316 323**	**47 020 043**

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

	30.06.2017	31.12.2016
Loans and advances to customers (gross)	48 769 369	48 384 956
- case by case analysis	724 319	838 560
- collective analysis	48 045 050	47 546 396
Impairment write-offs	(1 453 046)	(1 364 913)
- on the basis of case by case analysis	(368 712)	(382 036)
- on the basis of collective analysis	(1 084 334)	(982 877)
Loans and advances to customers (net)	**47 316 323**	**47 020 043**

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

	30.06.2017	31.12.2016
Loans and advances to customers (gross)	48 769 369	48 384 956
- corporate customers	15 369 963	14 300 739
- individuals	33 399 406	34 084 217
Impairment write-offs	(1 453 046)	(1 364 913)
- for receivables from corporate customers	(544 500)	(522 324)
- for receivables from private individuals	(908 546)	(842 589)
Loans and advances to customers (net)	**47 316 323**	**47 020 043**

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

	01.01.2017 - 30.06.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	1 364 913	1 460 928
Change in value of provisions:	88 133	(96 015)
Impairment write-offs created in the period	357 522	613 932
Amounts written off	(28 102)	(63 989)
Impairment write-offs released in the period	(232 145)	(358 671)
Sale of receivables	0	(283 375)
Changes resulting from FX rates differences	(9 142)	5 994
Other	0	(9 906)
Balance at the end of the period	**1 453 046**	**1 364 913**

Note (13) Investment financial assets available for sale

	30.06.2017	31.12.2016
Debt securities	**17 421 593**	**17 092 257**
Issued by State Treasury	15 790 471	14 289 633
a) bills	441 254	0
b) bonds	15 349 217	14 289 633
Issued by Central Bank	1 499 750	2 669 700
a) bills	1 499 750	2 669 700
b) bonds	0	0
Other securities	131 372	132 924
a) listed	79 495	79 236
b) not listed	51 877	53 688
Shares and interests in other entities	45 423	42 890
Other financial instruments	0	200
Total financial assets available for sale	**17 467 016**	**17 135 347**

Note (14) Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Property. plant and equipment	Intangibles	Non-current assets held for sale	Other assets
Balance as at 01.01.2017	7 142	9 808	3 988	136	7 145
- Write-offs created	0	358	0	0	1 676
- Write-offs released	(662)	(1 412)	0	0	(1 255)
- Utilisation	0	0	0	0	(212)
- Sale of assets	0	0	0	0	0
- Other	0	0	0	0	0
Balance as at 30.06.2017	6 481	8 754	3 988	136	7 354

Impairment write-offs:	Investment securities	Property, plant and equipment	Intangibles	Non-current assets held for sale	Other assets
Balance as at 01.01.2016	44	17 719	3 988	136	4 843
- Write-offs created	0	1 054	0	0	4 511
- Write-offs released	(62)	(8 300)	0	0	(1 121)
- Utilisation	(10)	0	0	0	(1 088)
- Sale of assets	0	(665)	0	0	0
- Other changes	7 169	0	0	0	0
Balance as at 31.12.2016	7 142	9 808	3 988	136	7 145

Note (15) Assets / Provision from deferred income tax

	30.06.2017			31.12.2016		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation and amortisation	95 687	(5 889)	89 798	87 978	(20 674)	67 304
Balance sheet valuation of financial instruments	86 080	(110 820)	(24 740)	309 598	(320 898)	(11 300)
Unrealised receivables/ liabilities on account of derivatives	19 268	(26 731)	(7 463)	20 583	(33 779)	(13 196)
Interest on deposits and securities to be paid/received	19 657	(35 608)	(15 951)	21 491	(39 390)	(17 899)
Interest and discount on loans and receivables	15	(25 794)	(25 779)	17	(24 455)	(24 438)
Income and cost settled at effective interest rate	85 775	(1 392)	84 383	82 216	(1 271)	80 945
Provisions for loans presented as temporary differences	125 046	0	125 046	119 270	0	119 270
Employee benefits	13 714	0	13 714	13 774	8	13 782
Provisions for costs	20 238	0	20 238	13 078	0	13 078
Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	28 782	(5 208)	23 574	43 440	(54)	43 385
Tax loss deductible in the future	289	0	289	121	0	121
Other	2 048	(1 230)	818	6 252	(3 538)	2 714
Net deferred income tax asset	496 599	(212 672)	283 927	717 818	(444 051)	273 767

Note (16) Liabilities to banks and other monetary institutions

	30.06.2017	31.12.2016
In current account	117 065	115 567
Term deposits	480 999	256 776
Loans and advances received	805 689	897 532
Interest	603	870
Total	1 404 356	1 270 745

Note (17) Structure of liabilities to customers by type

	30.06.2017	31.12.2016
Amounts due to private individuals	40 414 346	39 681 704
Balances on current accounts	24 968 471	23 023 622
Term deposits	15 291 343	16 502 023
Other	90 679	84 811
Accrued interest	63 853	71 248
Amounts due to companies	13 861 725	13 873 616
Balances on current accounts	5 697 372	5 766 433
Term deposits	7 908 391	7 839 361
Other	242 181	253 522
Accrued interest	13 781	14 300
Amounts due to public sector	2 711 887	2 320 289
Balances on current accounts	909 671	979 696
Term deposits	1 756 332	1 311 250
Other	44 070	27 348
Accrued interest	1 814	1 995
Total	**56 987 958**	**55 875 609**

Note (18) Change of debt securities

	01.01.2017 - 30.06.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	1 313 836	1 134 250
Increases, on account of:	579 777	628 525
- issue of bonds by the Bank	299 600	29 726
- issue of bonds by Millennium Leasing	234 500	452 600
- issue of Banking Securities	27 530	112 324
- interest accrual	18 147	33 875
Reductions, on account of:	(735 189)	(448 939)
- repurchase of bonds by the Bank	(529 081)	(29 450)
- repurchase of bonds by Millennium Leasing	(121 999)	(251 200)
- repurchase of Banking Securities	(66 659)	(134 750)
- interest payment	(17 450)	(33 539)
Balance at the end of the period	**1 158 424**	**1 313 836**

Note (19) Provisions

	01.01.2017 - 30.06.2017	01.01.2016 - 31.12.2016
Provision for off-balance sheet commitments		
Balance at the beginning of the period	24 633	14 239
Charge of provision	11 638	15 279
Release of provision	(13 508)	(4 804)
FX rates differences	(69)	(81)
Balance at the end of the period	22 694	24 633
Provision for contentious claims		
Balance at the beginning of the period	24 782	16 609
Charge of provision	5 506	37 287
Release of provision	(123)	(5 579)
Utilisation of provision	(6 559)	(25 973)
Other/reclassification	0	2 438
Balance at the end of the period	23 606	24 782
Total	**46 300**	**49 415**

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 2017 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.

The new rating model has been introduced in the corporate segment, including behavioral data in addition to financial and qualitative data. The Group has focused on adapting its lending policies and regulations to changing legal conditions (particularly restructuring and bankruptcy law) and on measures to streamline and accelerate credit processes. As in previous periods, work was continued on the improvement of IT tools supporting processes, particularly the monitoring process and the extension of credit offer.

In retail segment the Group continued activities relating to optimization of methodology, tools and processes of credit risk management.

Bank was conducting changes to credit methodology and processes relating to consumer loans resulting from the extension of the credit offer to new groups of customers and of implementation of the recommendations of the Financial Supervision Authority on the implementation of the rules of Recommendation T.

Particular attention was paid of the implementation of the changes in areas granting consumer loans and mortgage loans policy. New solutions regarding, among others, the scope of information and documentation obtained from customers in the process of granting consumer credits, the rules for granting credit products under the standard and simplified procedure, in particular the maximum permissible credit periods. In the retail segment, the Group has reviewed and modified rules process renewals of overdraft facilities.

All above changes were aimed at streamlining of credit process as well as unification of the rules concerning identification of risks presenting the process of granting loans to retail segment customers.

Changes in the loan portfolio of the Group in 1 half 2017 are summarized below:

Gross exposure in ‘000 PLN	30.06.2017		31.12.2016	
	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	44 991 685	517 562	44 779 120	1 267 811
Overdue(*), but without impairment	1 564 729	0	1 426 379	0
Total without impairment (IBNR)	46 556 414	517 562	46 205 499	1 267 811
With impairment	2 212 955	0	2 179 457	0
Loans and advances, gross	**48 769 369**	**517 562**	**48 384 956**	**1 267 811**
Impairment write-offs together with IBNR	(1 453 046)	0	(1 364 913)	0
Loans and advances, net	**47 316 323**	**517 562**	**47 020 043**	**1 267 811**
Loans with impairment / total loans	4.54%	0.00%	4.50%	0.00%

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

Market risk

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (10-days holding period) and with specified probability (99% confidence level) from an adverse market movement. The market risk measurement, monitoring and reporting is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios. All eventual excesses of market risk limits are reported, documented and ratified at the proper competence level.

In 1 H 2017, 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 26.2 m (8 % of the limit) and approx. PLN 20.0 m (6% of the limit) as of the end of June 2017. The market risk exposure in 1H 2017 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)

	30.06.2017		VaR (1HY2017)			31.12.2016	
	Exposure	limit usage	Average	Maximum	Minimum	Exposure	limit usage
Total risk	19 987	6%	26 160	48 262	14 249	38 738	12%
Generic risk	18 012	6%	24 067	46 229	12 238	36 702	12%
Interest Rate VaR	18 024	6%	24 076	46 222	12 251	36 692	12%
FX Risk	59	0%	186	2 881	12	32	0%
Diversification Effect	0.4%					0.1%	
Specific risk	1 975	1%	2 093	3 571	1 975	2 036	1%

In 1H 2017, 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 2017, the FX Total open position (Intraday as well as Overnight) remained well below the maximum limits in place.

In addition to above mention market risk limits, the stop loss limits are introduced for the financial markets portfolios. The aim is to limit the maximum losses of the trading activity of the Group. In case of the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

In case of the Banking Book, the main component of the market risk is interest rate risk. In order to manage this risk, the following principles are in place:

- The market risk that results from the commercial banking activity is hedged or transferred on the monthly basis to areas that actively manage market risk and that are measured in terms of risk and profit and loss.
- The Bank uses natural hedging between loans and deposits as well as fixed rate bonds and derivatives to manage interest rate risk with the main purpose of protecting the Net Interest Income.

The variations in market interest rate have an influence on the Group's net interest income, both under a short and medium-term perspective, affecting its economic value in the long term. The measurement of both is complementary in understanding the complete scope of interest rate risk in Banking Book. For this reason, apart from daily market risk measurement in terms of value at risk, the scope of the additional measurement of interest rate risk on monthly basis covers both earnings-based and on quarterly basis economic value measures. Due to specificity of the polish legal system, the interest rate of consumer credits is limited by a cap and from January 2016 cannot exceed two times the Reference Rate of the National Bank of Poland increased by 7 percentage points (the Bank adjusted calculations to the new formula). The Bank is subject to asymmetrical impacts on its Net Interest Income in case of interest rates change. In situation of decreasing interest rates (including NBP reference interest rate), the impact is negative and depends on the percentage of the loan portfolio that is affected by the new maximum rate. At the end of June 2017, the results of the impact on the net interest income in the next 12 months for position in Polish Zloty in Banking Book in a scenario of immediate parallel yield curve decrease by 100 bps was negative but stayed witinin 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 2017, the Group was characterized by good liquidity position. All the supervisory and internal liquidity indicators remained significantly above minimum limits in place.

According to the Regulation of European Parlament and Council no 575/2013 on prudential requirements for credit insitutions and investment firms (CRR), the Group is calculating the liquidity coverage requirement (LCR). The regulator minimum of 80% for LCR valid in 2017 was complied by the Group. The LCR Group reached the level of 147% at the end of June 2017 (124% at the end of December 2016). The increase of LCR was mainly connected with the specific rules of calculation of additional outflows corresponding to collateral needs that would result from the impact of an adverse market scenario on the institution's derivatives transactions. In I quarter 2017, the additional outflow decreased significantly causing immediate LCR increase (maximum change in bank's level of colatterals observed so far in January 2015 is no longer valid for calculation). The measure is calculated daily and has been reported on the monthly basis to NBP since March 2014. 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 2017, 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 82% at the end of June 2017 (84% at the end of December 2016). 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 2017. During 2017 this portfolio slightly increased from PLN 17.3 billion at the end of December 2016 (25% of total assets) to approx. PLN 17.7 billion at the end of June 2017 (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 institiutions and other money market operations. The source of medium-term funding remain also medium-term loans, subordinated debt and own bonds issue.

The level of deposit concentration is regulary monitored and did not have any negative impact on the stability of the deposit base in 1H 2017. 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.

In order to further improvement of quality of conducted stress tests in the area of liquidity as well as to ensure its consistency with liquidity contingency plan, in 1H 2017 the assumptions for stress tests scenarios and early warning signals under Liquidity Contingency Plan were revised.

Operational risk

In the first half of 2017 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 2017 the registered level of operational risk losses was much lower than the level of losses recorded in the same period last year and is at the acceptable level.

Capital management

Capital management in the Group consists of the following subprocesses:

- capital adequacy management,
- capital allocation.

The purpose of capital adequacy management is to ensure solvency of the Group in the normal and stressed conditions (economic capital adequacy) and to meet the requirements specified in external regulations (regulatory capital adequacy).

Capital Adequacy Management is based on:

- measuring and monitoring of capital requirement for different risks and economic capital - both measures are monitored also in stressed conditions;
- measuring and monitoring of CAR, Tier 1 Ratio and Core Equity Tier 1 Ratio;
- measuring and monitoring of economic capital buffer and economic capital buffer in stressed conditions;
- monitoring the amount, structure and quality of own funds, to support business development, meet the recommendations of Supervisors and the expectations of other bodies (shareholders, depositors, rating agencies);
- initiating management actions aimed at increasing an amount and / or improve the quality of own funds and / or changes in the level of risk in the activity (control of capital adequacy).

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

In capital adequacy management, the Group considers as necessary complying with a reccomendations and expectations of Competent Authorities regarding capital levels:

- KNF recommendation for Polish banks: Total Capital Ratio of 12% and Tier 1 Capital Ratio of 9% as the expected minimum base in Poland;
- Capital conservation buffer – of 1.25 p.p. of risk-weighted assets, similarly to other banks in Poland, valid from the beginning of 2016;
- Additional capital buffer in order to cover the risk resulting from FX mortgage loans granted to households (SREP Buffer) - at the level of 3.09 p.p. (Bank) and 3.05 p.p. (the Group), which should consists of at least 75% of Tier 1 capital (which corresponds to 2.32 p.p. in Bank and 2.29 p.p. in Group), and should consists of at least 56% of common equity Tier 1 capital (which corresponds to 1.73 p.p. in Bank and 1.71 p.p. in Group). These recommendations were issued in October and December 2016 and replaced the previous ones from 2015;
- Other systematically important institution buffer – of 0.25 p.p. of risk-weighted assets, as a consequence of identification of the Bank as other systematically important institution. The decision was issued in October 2016.

As a result of the above decisions and recommendations, the Group has to comply as at 30.06.2017 with the following minimum capital ratios:

- Tier 1 Capital Ratio (T1) = 9+1.25+2.29+0.25 = 12.79% (for the Bank 12.82%)
- Total Capital Ratio (TCR) = 12+1.25+3.05+0.25 =16.55 % (for the Bank 16.59%).

Both Group and Bank are compliant with the new regulatory capital limits. The total capital ratio stood at 18.05% (for the Group) and 17.82% (the Bank), while Tier1 capital ratio 1 respectively amounted to 18.01% and 17.78%. Group solvency is assessed as satisfactory, both in the economic and regulatory capital adequacy.

As far as own funds are concerned, they consist mostly of high quality Core Tier 1 Capital. Concerning capital requirements, the Group uses internal ratings based method (IRB) of credit risk capital requirements calculation for retail residential real estate exposures and qualified revolving exposures, while for most of remaining portfolios corporate and other retail the Group will continue the process in order to obtain the consent from Supervisory Authorities for the use of IRB. Market and operational risk capital requirements are calculated along with standard methods.

Bank received the decision of Competent Authorities (ECB cooperating with KNF) in July 2017 on approval the material changes to IRB LGD models and revoking „Supervisory Floor"[1]. That decision has a positive impact on capital adequacy – initial estimation show a rise of capital ratios by ca. 2.9 p.p. from July 2017. On the other hand, the Bank expects that the SREP Buffer will be adjusted by KNF in the 4th quarter 2017, which may change the minimum required capital ratios.

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

Bank Millennium Group - capital adequacy	30.06.2017	31.12.2016
(PLN mn)	IRB with regulatory floor[1)]	IRB with regulatory floor[1)]
Risk-weighted assets (RWA)	36 978.8	36 730.6
Own funds requirements, including:	2 958.3	2 938.4
- Credit risk and counterparty credit risk	2 636.6	2 621.8
- Market risk	22.2	23.4
- Operational risk	293.4	279.0
- Credit Valuation Adjustment CVA	6.1	14.3
Own Funds including:	6 674.6	6 390.7
Common Equity Tier 1 Capital, including:	6 659.6	6 356.8
- 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	430.9
- other retained earnings	4 765.5	4 064.4
- recognised part of revaluation reserve	16.6	(41.4)
- regulatory adjustments	(483.1)	(457.7)
Tier II Capital, including:	15.0	33.9
- subordinated debt	60.0	128.7
- regulatory adjustments	(45.0)	(94.8)
Total Capital Ratio (TCR)	18.05%	17.40%
Common Equity Tier 1 Capital ratio (CET1 ratio)[2)]	18.01%	17.31%

1) Risk-weighted assets and own funds requirements are calculated with „Regulatory floor" of 70%.

2) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio.

[1] Requirement that own funds requirements for portfolios covered by the IRB decision (RRE and QRRE) must be maintained at no less than 70% of the respective capital requirements calculated using the Standardized method.

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 and amortisation 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.

In accordance with Recommendation P, the Group commencing from January 2016 allocates a liquidity premium to particular operating segments.

In 2017, the adjustment of methodology of interest result allocation to particular segments was introduced. Segment results for 2016 were recalculated to maintain comparability.

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	(34 216)	(17 791)	13 497	(38 510)
Operating income	789 352	223 560	198 427	1 211 339
Staff costs	(213 235)	(67 205)	(14 514)	(294 954)
Administrative costs	(195 889)	(30 459)	(13 067)	(239 415)
Depreciation and amortization	(22 219)	(4 041)	(599)	(26 859)
Operating expenses	(431 343)	(101 705)	(28 180)	(561 228)
Impairment losses on assets	(79 591)	(42 690)	(420)	(122 701)
Operating Profit	**278 418**	**79 165**	**169 827**	**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 30.06.2017

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	33 788 685	13 527 638		47 316 323
Liabilities to customers	42 839 387	14 024 040	124 531	56 987 958

Income statement 1.01.2016 – 30.06.2016

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Net interest income	488 527	115 878	129 288	733 693
Net fee and commission income	197 470	74 331	2 335	274 136
Dividends other income from financial operations and foreign exchange profit	32 654	33 510	320 089	386 253
Other operating income and cost	(11 482)	(3 582)	(59 005)	(74 069)
Operating income	707 169	220 137	392 707	1 320 013
Staff costs	(200 080)	(64 501)	(13 333)	(277 914)
Administrative costs	(192 630)	(40 786)	(13 111)	(246 527)
Depreciation and amortization	(23 727)	(4 118)	(500)	(28 345)
Operating expenses	(416 437)	(109 405)	(26 944)	(552 786)
Impairment losses on assets	(95 526)	(9 267)	(1 279)	(106 072)
Operating Profit	**195 206**	**101 465**	**364 484**	**661 155**
Share in net profit of associated companies	0	0	0	0
Banking tax				(80 536)
Profit / (loss) before income tax				**580 619**
Income taxes				(149 670)
Profit / (loss) after taxes				**430 949**

Balance sheet items as at 31.12.2016

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	34 432 196	12 587 847	0	47 020 043
Liabilities to customers	41 858 722	13 899 932	116 955	55 875 609

7. DESCRIPTION OF RELATED PARTY TRANSACTIONS

All and any transactions between entities of the Group during I half 2017 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	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
ASSETS				
Loans and advances to banks - accounts and deposits	291	625	0	0
Financial assets valued at fair value through profit and loss (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	141	913	115 949	123 466
Debt securities	0	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	0	109	0	0
Hedging derivatives	0	0	0	0
Other liabilities	13	0	31	0

	With parent entity		With other entities of parent Group	
	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
INCOME FROM:				
Interest	5	(10)	0	0
Commissions	71	68	0	0
Other net operating income	0	0	0	0
EXPENSE FROM:				
Interest	0	420	(146)	(154)
Commissions	0	0	0	0
Financial instruments valued at fair value	0	1	0	0
Other net operating costs	9	31	0	0
General and administrative expenses	79	81	194	907

	With parent entity		With other entities of parent Group	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Conditional commitments	102 173	102 183	0	0
- granted	100 345	100 345	0	0
- obtained	1 828	1 838	0	0
Derivatives (par value)	0	99 891	0	0

7.2. Transactions with the managing and supervising persons

Data as at 30.06.2017

	Members of the Management Board	Members of the Supervisory Board
Total debt limit (in '000 PLN).	196.0	138.0
- including an unutilized limit (in '000 PLN).	153.8	137.5
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 as at 30.06.2017:

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	26	2 000	154	Personal with a supervising person

Information on total exposure towards the members of the Manegement and Supervisory Boards as at 31.12.2016:

	Members of the Management Board	Members of the Supervisory Board
Total debt limit (in '000 PLN).	196.0	208.0
- including an unutilized limit (in '000 PLN).	162.2	196.5
Mortgage loans and credits	-	-
Active guarantees	-	-

Information on total exposure towards companies and groups personally related as at 31.12.2016:

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	35	2 000	132	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
1.01-30.06.2017	8 936	996	9 932
1.01-30.06.2016	6 796	666	7 462

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
1.01-30.06.2017	941
1.01-30.06.2016	1 096

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 I half report prepared as at 30.06.2017	Number of shares as presented in annual report for 2016
Joao Nuno Lima Bras Jorge	Chairman of the Management Board	111 000	111 000
Fernando Maria Cardoso Rodrigues Bicho	Deputy Chairman of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	7 494
Andrzej Gliński	Member of the Management Board	0	0
Maria Jose Henriques Barreto De Matos De Campos	Member of the Management Board	0	0
Wojciech Rybak	Member of the Management Board	0	0
Bogusław Kott	Chairman of the Supervisory Board	2 187 118	4 465 791
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
Julianna Boniuk-Gorzelańczyk	Member of the Supervisory Board	492 248	492 248
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
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	0
Rui Manuel da Silva Teixeira	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.

Accordingly 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 date (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 date (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 requirements of the presentation defined by IFRS 13.

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. The applied method of mortgage loan valuation does not take into account the regulatory risks associated with possible currency conversion or other legislative solutions, which are described in Section 10.7. "The proposed regulations relating to foreign currency loans ".

Liabilities to customers

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

Fair value of instruments due and payable over 30 days 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 credit risk margin based on 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 30.06.2017 (data in PLN thousand):

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	9	517 562	517 423
Loans and advances to customers (*)	12	47 316 323	45 770 374

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	16	1 404 356	1 401 542
Amounts due to customers	17	56 987 958	56 989 446
Debt securities	18	1 158 424	1 163 759
Subordinated debt		634 318	628 170

(*) 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 31.12.2016 (data in PLN thousand):

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	9	1 267 811	1 267 563
Loans and advances to customers	12	47 020 043	45 238 237

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	16	1 270 745	1 271 762
Amounts due to customers	17	55 875 609	55 876 129
Debt securities	18	1 313 836	1 319 294
Subordinated debt		664 004	657 787

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

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

Data in PLN'000, as at 30.06.2017

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	10			
- derivatives			156 251	46 274
- debt securities		412 414		
- shares and interests		132		
Hedging derivatives	11		378 203	
Financial assets available for sale	13			
- debt securities		15 869 967	1 499 750	51 877
- shares and other financial instruments		342		26 049
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	10			
- derivatives and short sale of securities		107 242	204 149	46 521
Hedging derivatives	11		435 590	

Data in '000 PLN, as at 31.12.2016

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	10			
- derivatives			210 466	27 633
- debt securities		314 476		
- shares and interests		110		
Hedging derivatives	11		17 934	
Financial assets available for sale	13			
- debt securities		14 368 869	2 669 700	53 688
- shares and interests		280	200	24 445
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	10			
- derivatives and short sale of securities		106 853	193 716	27 550
Hedging derivatives	11		1 149 653	

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

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

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 2017 are presented in the table below (in ’000 PLN):

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 1 January 2017	26 199	(26 116)	0	53 688	24 445
Settlement/sell/purchase	9 054	(9 344)	0	(1 830)	0
Change of valuation recognized in equity	0	0	0	0	1 604
Change of valuation recognized in P&L account (including interests)	8 918	(8 958)	0	19	0
Balance on 30 June 2017	44 171	(44 418)	0	51 877	26 049

For options on indexes concluded on an inactive market, 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 to 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 (8)**.

Court cases brought up by the Group

Value of the court litigations, as at 30.06.2017, in which the companies of the Group were a plaintiff, totalled 242.2 million PLN.

Court cases against the Group

As at 30.06.2017, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were two cases brought up by PCZ S.A. and Europejska Fundacja Współpracy Polsko – Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 150.0 million PLN with statutory interest from 29.12.2015 until the day of payment, and 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment.

The lawsuit in the first case, dated 09.07.2015, was filed to the Regional Court in Wrocław and served personally to the Bank on 28.12.2015. In the second case, 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 plaintiffs, the basis for both claims is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan 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. After exchange of pleadings the date of the first hearing was set at 10.10.2017. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Favourable forecasts for the Bank, as regards dismissal of the suit, have been confirmed by a renowned law firm representing the Bank in the proceeding.

As regards the lawsuit filed by PCZ the Regional Court in Wrocław (1st Instance) on 07.04.2017 has issued a verdict favourable to the Bank by dismissing the suit. The judgement is not final.

Another important proceeding under way against the Group is the case of the value of item under dispute of PLN 200.0 million filed by a natural person. In effect of consumer bankruptcy of a Client, the Bank blocked the person's account with the balance of PLN 1,355.83. The Client, in the lawsuit, demands payment of damages and compensation for groundless, as the Client believes, blockage of account. After conclusion of bankruptcy proceedings the Bank made the account available to the Client. The lawsuit was received by the Bank on 21 March 2017, and the case remains, currently, at an initial stage of consideration. In the Bank's opinion the plaintiff chances to win the case are marginal.

As at 30.06.2017, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 234.7 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 190.8 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; currently the date of reviewing the case by the Court of Appeal in Warsaw has not been scheduled yet. 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 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 16/02/2017 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.

OFF-BALANCE ITEMS

Amount '000 PLN	30.06.2017	31.12.2016
Off-balance conditional commitments granted and received	**8 409 802**	**8 202 308**
Commitments granted:	8 337 161	8 097 700
- financial	7 244 422	7 014 009
- guarantee	1 092 739	1 083 691
Commitments received:	72 641	104 608
- financial	4 015	0
- guarantee	68 626	104 608

10. ADDITIONAL INFORMATION

10.1. Data on assets securing liabilities

As at 30 June 2017, 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 WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	131 216
2.	Treasury bonds WZ0118	available for sale	Initial security deposit for bond futures	500	505
3.	Treasury bonds WZ0118	available for sale	Loan agreement	623 000	628 825
4.	Treasury bonds WZ0119	available for sale	Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund	325 000	328 218
5.	Treasury bills TB300817	available for sale	Seciurity of payment obligation to BFG contribution	9 000	8 975
6.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
7.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	4 433	4 433
8.	Deposits	Deposits in banks	Settlement on transactions concluded	373 162	373 162
		TOTAL		1 465 195	1 475 434

As at 31 December 2016 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 WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	131 180
2.	Treasury bonds WZ0118	available for sale	Initial security deposit for bond futures	500	505
3.	Treasury bonds WZ0118	available for sale	Loan agreement	623 000	628 657
4.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Deposit Protection Fund under the Bank Guarantee Fund	310 000	312 815
5.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
6.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	4 117	4 117
7.	Deposits	Deposits in banks	Settlement on transactions concluded	1 071 202	1 071 202
		TOTAL		2 138 919	2 148 576

10.2. Dividend for 2016

On 6th December 2016, KNF issued its position in the matter of the dividend policy of banks (among other entities) in 2017. Based on this recommendations, the Management Board of the Bank submitted to the General shareholders meeting a proposal to retain in own funds the full net profit of 2016, and the Annual General Meeting held on 31st March 2017 decided to retain the net profit for 2016 in the Bank by allocating it in full to reserve capital.

10.3. Earnings per share

Profit per share calculated for I half 2017 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.26.

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 31 March 2017.

Data as at the delivery date of the report for 1st half 2017

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	115 000 000	9.48	115 000 000	9.48
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	65 984 000	5.44	65 984 000	5.44

Shareholders structure according to consolidated annual report for 2016

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	120 634 080	9.94	120 634 080	9.94
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	66 136 567	5.45	66 136 567	5.45

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

In the six months 2017, the Group did not grant any sureties or guarantees for a loan or bank loan to a single entity, which would cause the Group's exposure on this account to the Client as at 30 June 2017 to exceed 10% of the Group's equity as at the balance sheet date.

10.6. Seasonality and business cycles

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

10.7. The proposed regulations relating to foreign currency loans

On August 2nd 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward. The draft Act covers all foreign currency loans concluded from 1st July 2000 to 26th August 2011 (date of entry into force so called anti-spread Act). Aforementioned draft Act envisages reimbursement of part of FX spread applied by banks.

Including the above mentioned draft Act, there are currently three different draft acts submitted to the Polish parliament and according to recent news, there is another legislation prepared, regulating voluntary restructuring of FX mortgages with partial capital reduction, designated for FX borrowers in the weakest financial situation.

As a consequence it is not possible to estimate the impact of this potential regulation on the banking sector. However, announced legislative intentions, if implemented and made mandatory for banks, could significantly deteriorate the Bank's profitability and capital position.

On January 13th 2017 Financial Stability Committee (KSF) in Poland released set of recommendations regarding restructuring of FX mortgage loans. The proposed supervisory instruments aimed to support banks and borrowers in the direction of taking decisions on restructuring include, among other: to increase risk weight for FX mortgage exposures, to increase the minimum value of LGD parameter for FX mortgages, to allow utilize Mortgage Borrowers Support Fund for supporting voluntary restructuring of loans, to update BION/SREP methodology in order to assign appropriate level of capital surcharge to further risk factors connected with FX mortgage loans (operational, market and risk of a collective default of the borrowers) and to supplement currently used Pillar 2 additional capital buffers with these risk factors. KSF suggested also that KNF should issue a recommendation regarding good practices of restructuring FX mortgage loans.

In June 2017 KSF summarized status of preparation of these recommendations indicating, that most of them should be implemented before year-end or at the beginning of 2018.

It is not possible with the available information to analyse the impacts of these recommendations, but implementation of part or all recommendations may have influence on the results and capital ratios of the banks, including Bank Millennium, although it is possible that there will be some offsetting effects.

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

As at 30 June 2017, 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.

Date	Name and surname	Position/Function	Signature
24.07.2017	Joao Bras Jorge	Chairman of the Management Board	
24.07.2017	Fernando Bicho	Deputy Chairman of the Management Board	
24.07.2017	Wojciech Haase	Member of the Management Board	
24.07.2017	Andrzej Gliński	Member of the Management Board	
24.07.2017	Maria Jose Campos	Member of the Management Board	
24.07.2017	Wojciech Rybak	Member of the Management Board	

II. CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS OF BANK MILLENNIUM S.A. FOR THE SIX MONTHS ENDED 30 JUNE 2017

CONTENTS

1. INTRODUCTION AND ACCOUNTING PRINCIPLES

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2016.

The accounting policies applied by the Bank in these condensed interim financial statements are the same as those applied by the Bank in the financial statements of Bank Millennium S.A. for the year ended 31 December 2016 with consideration of the specific requirements of IAS 34.

The amendment to the Banking Guarantee Fund (BFG) Act introduced in 2016 changed the cycle of calculation and payment of BFG contributions to resolution fund (former prudential fee) from quarterly to yearly (as regards contribution to guarantee fund quarterly cycle of calculation has been maintained). In addition, the methodology for calculating of both contributions has been altered, the final amounts of fees in 2017 are calculated and reported to each bank by BFG. As a consequence, according to requirements of IFRIC 21, the Bank recognized on a one-off basis costs of the resolution fee, at the moment of recognition obligation to pay the contribution i.e. at the 1st January 2017 (with a minor adjustment in April to the final communicated amount).

Table below presents BFG costs recorded in I half 2017 and comparative period (data in PLN million)

	I half 2017	I half 2016
Contribution for guarantee fund	26.5	30.6
Contribution for resolution fund (former prudential fee)	46.4	14.5

It should be added that from tax calculations point of view both contributions in 2017 are not tax-deductible whereas in previous year contribution for guarantee fund used to be tax-deductible.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with later amendments) the Bank is required to publish the financial results for the six months ended 30 June 2017.

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 2017. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the six months period ended 30 June 2017 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

The Board of Directors approved this condensed standalone interim financial statements on 24th July 2017.

Information about IFRS9 implementation is presented in the interim consolidated statements of the Group.

2. STANDALONE FINANCIAL DATA (BANK)

INCOME STATEMENT

Amount '000 PLN	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Interest income	1 117 635	567 235	1 081 996	549 096
Interest expense	(353 361)	(171 464)	(401 060)	(195 090)
Net interest income	764 274	395 771	680 936	354 006
Fee and commission income	323 104	161 294	278 889	134 740
Fee and commission expense	(48 853)	(25 962)	(41 673)	(21 156)
Net fee and commission income	274 251	135 332	237 216	113 584
Dividend income	74 324	2 038	45 957	34 241
Result on investment financial assets	4 181	3 849	302 469	285 372
Result on financial instruments valued at fair value through profit and loss (held for trading) and Foreign exchange result	99 528	47 234	84 640	40 973
Other operating income	24 781	5 953	11 338	5 031
Operating income	**1 241 339**	**590 177**	**1 362 556**	**833 207**
General and administrative expenses	(505 057)	(262 233)	(496 373)	(251 923)
Impairment losses on financial assets	(110 763)	(57 185)	(94 405)	(56 315)
Impairment losses on non financial assets	(421)	(191)	(1 313)	(343)
Depreciation and amortization	(25 529)	(13 088)	(26 989)	(14 203)
Other operating expenses	(64 165)	(11 121)	(91 813)	(74 474)
Operating expenses	**(705 935)**	**(343 818)**	**(710 893)**	**(397 258)**
Operating profit	**535 404**	**246 359**	**651 663**	**435 949**
Banking tax	(93 680)	(46 450)	(80 536)	(48 247)
Profit / (loss) before income tax	**441 724**	**199 909**	**571 127**	**387 702**
Corporate income tax	(106 204)	(51 596)	(136 491)	(88 535)
Profit / (loss) after taxes	**335 520**	**148 313**	**434 636**	**299 167**
Weighted average number of ordinary shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Earnings (losses) per ordinary share (in PLN)	0.28	0.12	0.36	0.25

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	1.01.2017 - 30.06.2017	1.04.2017 - 30.06.2017	1.01.2016 - 30.06.2016	1.04.2016 - 30.06.2016
Profit / (loss) after taxes	335 520	148 313	434 636	299 167
Other elements of total comprehensive income that will be subsequently reclassified to profit or loss	104 220	27 925	(186 851)	(272 445)
Effect of valuation of available for sale debt securities	73 043	33 725	(1 002)	(23 857)
Effect of valuation of available for sale shares	1 604	(230)	(213 075)	(213 420)
Hedge accounting	29 573	(5 570)	27 226	(35 168)
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	**0**	**0**	**0**	**0**
Actuarial gains (losses)	0	0	0	0
Other elements of total comprehensive income before taxes	**104 220**	**27 925**	**(186 851)**	**(272 445)**
Corporate income tax on other elements of total comprehensive income that will be subsequently reclassified to profit or loss	(19 802)	(5 306)	35 502	51 765
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	0	0	0	0
Other elements of total comprehensive income after taxes	**84 418**	**22 619**	**(151 349)**	**(220 680)**
Total comprehensive income for the period	**419 938**	**170 932**	**283 287**	**78 487**

BALANCE SHEET

ASSETS

Amount '000 PLN	30.06.2017	31.12.2016
Cash, balances with the Central Bank	2 171 577	1 778 768
Deposits, loans and advances to banks and other monetary institutions	517 499	1 267 805
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	624 708	564 585
Hedging derivatives	378 203	17 934
Loans and advances to customers	46 958 407	46 593 429
Investment financial assets	17 453 144	17 118 811
- available for sale	17 453 144	17 118 811
- held to maturity	0	0
Investments in associates	83 356	212 368
Receivables from securities bought with sell-back clause (loans and advances)	65 148	90 520
Property, plant and equipment	164 235	159 742
Intangible assets	50 222	53 195
Non-current assets held for sale	0	0
Receivables resulting from income tax	0	5 370
Deferred tax assets	194 255	190 641
Other assets	353 758	341 433
Total Assets	**69 014 512**	**68 394 601**

LIABILITIES AND EQUITY

Amount '000 PLN	30.06.2017	31.12.2016
LIABILITIES		
Liabilities to banks and other monetary institutions	1 404 356	1 270 745
Financial liabilities valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	367 138	339 018
Hedging derivatives	435 590	1 149 654
Liabilities to customers	57 128 373	55 988 198
Liabilities from securities sold with buy-back clause	0	0
Debt securities	841 834	1 113 223
Provisions	45 436	48 621
Deferred income tax liabilities	0	0
Liabilities resulting from income tax	18 929	9 964
Other liabilities	977 096	1 069 670
Subordinated debt	634 318	664 004
Total Liabilities	61 853 070	61 653 097
EQUITY		
Share capital	1 213 117	1 213 117
Share premium	1 147 241	1 147 241
Revaluation reserve	(100 758)	(185 176)
Retained earnings	4 901 842	4 566 322
Total Equity	7 161 442	6 741 504
Total Liabilities and Equity	**69 014 512**	**68 394 601**

Book value	7 161 442	6 741 504
Number of shares	1 213 116 777	1 213 116 777
Book value per share (in PLN)	5.90	5.56

STATEMENT OF CHANGES IN EQUITY

01.01.2017 - 30.06.2017, *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Revaluation reserve	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 1 half of 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 available for sale debt securities	59 165	0	0	59 165	0	0
valuation of available for sale shares	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**

01.01.2016 - 31.12.2016, *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 292 081	1 213 117	1 147 241	18 052	814 157	3 099 514
Total comprehensive income for 2016 (net)	449 423	0	0	(203 228)	652 651	0
net profit/ (loss) of the period	652 651	0	0	0	652 651	0
valuation of available for sale debt securities	(68 981)	0	0	(68 981)	0	0
valuation of available for sale shares	(171 292)	0	0	(171 292)	0	0
hedge accounting	35 866	0	0	35 866	0	0
actuarial gains (losses)	1 179	0	0	1 179	0	0
Transfer between items of reserves	0	0	0	0	(814 157)	814 157
Equity at the end of the period	**6 741 504**	**1 213 117**	**1 147 241**	**(185 176)**	**652 651**	**3 913 671**

01.01.2016 - 30.06.2016, *Amount '000 PLN*	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings	
					Unappropriated result	Other reserves
Equity at the beginning of the period	6 292 081	1 213 117	1 147 241	18 052	814 157	3 099 514
Total comprehensive income for 1 half of 2016 (net)	283 287	0	0	(151 349)	434 636	0
net profit/ (loss) of the period	434 636	0	0	0	434 636	0
valuation of available for sale debt securities	(812)	0	0	(812)	0	0
valuation of available for sale shares	(172 591)	0	0	(172 591)	0	0
hedge accounting	22 053	0	0	22 053	0	0
Transfer between items of reserves	0	0	0	0	(814 157)	814 157
Equity at the end of the period	**6 575 367**	**1 213 117**	**1 147 241**	**(133 298)**	**434 636**	**3 913 671**

CASH FLOWS

A. Cash flows from operating activities

Amount '000 PLN	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
Profit (loss) after taxes	335 520	434 636
Total adjustments:	417 139	(295 404)
Interests in net income (loss) of associated companies	0	0
Depreciation and amortization	25 529	26 989
Foreign exchange (gains) losses	(73 509)	51 808
Dividends	(74 324)	(45 957)
Changes in provisions	(3 185)	22 906
Result on sale and liquidation of investing activity assets	(11 355)	(304 318)
Change in financial assets valued at fair value through profit and loss (held for trading)	(388 862)	387 491
Change in loans and advances to banks	737 116	252 848
Change in loans and advances to customers	(363 798)	(531 423)
Change in receivables from securities bought with sell-back clause (loans and advances)	25 372	(46 852)
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(685 944)	(542 760)
Change in deposits from banks	229 318	(100 069)
Change in deposits from customers	1 140 175	545 007
Change in liabilities from securities sold with buy-back clause	0	0
Change in debt securities	(41 663)	29 793
Change in income tax settlements	122 602	171 815
Income tax paid	(126 313)	(71 806)
Change in other assets and liabilities	(99 248)	(138 674)
Other	5 228	(2 202)
Net cash flows from operating activities	**752 659**	**139 232**

B. Cash flows from investing activities

Amount '000 PLN	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
Inflows from investing activities:	62 119 250	56 502 992
Proceeds from sale of property. plant and equipment and intangible assets	10 301	3 405
Proceeds from sale of shares in associates	101 000	0
Change in value of investment financial assets due to purchase/sale	61 933 625	56 453 630
Other investing inflows	74 324	45 957
Outflows from investing activities:	(63 433 937)	(58 779 610)
Acquisition of property, plant and equipment and intangible assets	(12 198)	(12 158)
Acquisition of shares in associates	(1 000)	0
Change in value of investment financial assets due to purchase/sale	(63 420 739)	(58 767 452)
Other investing outflows	0	0
Net cash flows from investing activities	**(1 314 687)**	**(2 276 618)**

C. Cash flows from financing activities

Amount '000 PLN	1.01.2017 - 30.06.2017	1.01.2016 - 30.06.2016
Inflows from financial activities:	300 000	220 826
Long-term bank loans	0	220 520
Issue of debt securities	300 000	306
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:	(587 462)	(59 936)
Repayment of long-term bank loans	(48 036)	(48 102)
Redemption of debt securities	(529 726)	0
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	(9 700)	(11 834)
Net cash flows from financing activities	**(287 462)**	**160 890**

D. Net cash flows. Total (A + B + C)	**(849 490)**	**(1 976 496)**
E. Cash and cash equivalents at the beginning of the reporting period	**5 381 982**	**6 851 154**
F. Cash and cash equivalents at the end of the reporting period (D + E)	**4 532 492**	**4 874 658**

3. SUPPLEMENTARY INFORMATION FOR STANDALONE FINANCIAL DATA

As at 30 June 2017, 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.

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

	01.01.2017 - 30.06.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	1 235 790	1 325 089
Change in value of provisions:	84 406	(89 299)
Write-offs in the period	290 882	486 922
Amounts written off	(20 678)	(35 029)
Reversal of write-offs in the period	(177 353)	(256 188)
Write-offs decrease due to sale of receivables	0	(283 375)
Changes resulting from FX rates differences	(8 445)	5 540
Other	0	(7 169)
Balance at the end of the period	**1 320 196**	**1 235 790**

Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Investments in associates	Property. plant and equipment	Intangibles	Other assets
Balance as at 01.01.2017	7 142	7 600	9 787	0	7 105
- Write-offs created	0	0	358	0	1 676
- Write-offs released	(662)	0	(1 412)	0	(1 255)
- Utilisation	0	0	0	0	(212)
- Sale	0	0	0	0	0
- Other changes	0	0	0	0	0
Balance as at 30.06.2017	6 481	7 600	8 733	0	7 314

Impairment write-offs:	Investment securities	Investments in associates	Property. plant and equipment	Intangibles	Other assets
Balance as at 01.01.2016	44	6 224	17 698	0	4 788
- Write-offs created	0	1 376	1 054	0	4 511
- Write-offs released	(62)	0	(8 300)	0	(1 121)
- Utilisation	(9)	0	0	0	(1 073)
- Sale of assets	0	0	(665)	0	0
- Other changes	7 169	0	0	0	0
Balance as at 31.12.2016	7 142	7 600	9 787	0	7 105

Impairment losses on financial assets

	01.01.2017 - 30.06.2017	01.01.2016 - 30.06.2016
Impairment losses on loans and advances to customers	(113 295)	(89 476)
- Impairment charges on loans and advances to customers	(290 882)	(283 373)
- Reversal of impairment charges on loans and advances to customers	177 353	176 513
- Amounts recovered from loans written off	234	11 629
- Result from sale of receivables portfolio	0	5 755
Impairment losses on investment securities	662	23
- Impairment write-offs for investment securities	0	0
- Reversal of impairment write-offs for investment securities	662	23
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	1 870	(4 952)
- Impairment write-offs for off-balance sheet liabilities	(11 638)	(8 423)
- Reversal of impairment write-offs for off-balance sheet liabilities	13 508	3 471
Total	**(110 763)**	**(94 405)**

Creation, charge, utilisation and release of provisions

	01.01.2017 - 30.06.2017	01.01.2016 - 31.12.2016
Provision for off-balance sheet commitments		
Balance at the beginning of the period	24 633	14 239
Charge of provision	11 638	15 279
Release of provision	(13 508)	(4 804)
FX rates differences	(69)	(81)
Balance at the end of the period	22 694	24 633
Provision for contentious claims		
Balance at the beginning of the period	23 988	16 028
Charge of provision	5 436	37 073
Release of provision	(123)	(5 579)
Utilisation of provision	(6 559)	(25 973)
Other/reclassification	0	2 439
Balance at the end of the period	22 742	23 988
Total	**45 436**	**48 621**

Assets and provision from deferred income tax

	30.06.2017			31.12.2016		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation and amortisation	3 650	0	3 650	3 365	0	3 365
Balance sheet valuation of financial instruments	85 323	(110 815)	(25 492)	293 434	(320 892)	(27 458)
Unrealised receivables/ liabilities on account of derivatives	19 268	(26 731)	(7 463)	20 583	(33 779)	(13 196)
Interest on deposits and securities to be paid/ received	18 357	(35 176)	(16 819)	20 249	(38 863)	(18 614)
Interest and discount on loans and receivables	0	(25 385)	(25 385)	0	(24 046)	(24 046)
Income and cost settled at effective interest rate	85 783	0	85 783	82 195	(1)	82 194
Provisions for loans presented as temporary differences	125 046	0	125 046	119 270	0	119 270
Employee benefits	12 741	0	12 741	12 787	0	12 787
Provisions for future costs	17 918	0	17 918	10 802	0	10 802
Valuation of investment assets, the valuation of cash flow hedge and actuarial gains (losses) recognized in the revaluation reserve	28 779	(5 145)	23 634	43 436	0	43 436
Other	1 815	(1 173)	642	3 360	(1 259)	2 101
Net deferred income tax asset	398 680	(204 425)	194 255	609 481	(418 840)	190 641

4. STATEMENT OF RELATED PARTY TRANSACTIONS

All the transactions concluded between the Group entities in the period from 1 January to 30 June 2017 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 30.06.2017

	With subsidiaries	With parent entity	With other entities of parent Group
ASSETS			
Loans and advances to banks – accounts and deposits	0	291	0
Loans and advances to customers	4 971 096	0	0
Investments in associates	83 356	0	0
Financial assets valued at fair value through profit and loss (held for trading)	167	0	0
Hedging derivatives	0	0	0
Other assets	166 654	0	0
LIABILITIES			
Deposits from banks	0	141	115 949
Deposits from customers	264 945	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities from debt securities	877	0	0
Hedging derivatives	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	3	0	0
Subordinated debt	634 318	0	0
Other liabilities	89 418	13	31
- including liabilities from financial leasing	82 722	0	0

Assets and liabilities from transactions with related parties (data in '000 PLN) as at 31.12.2016

	With subsidiaries	With parent entity	With other entities of parent Group
ASSETS			
Loans and advances to banks - accounts and deposits	0	625	0
Loans and advances to customers	4 706 329	0	0
Investments in associates	223 130	0	0
Financial assets valued at fair value through profit and loss (held for trading)	133	0	0
Hedging derivatives	0	0	0
Other assets	138 531	0	0
LIABILITIES			
Deposits from banks	0	913	123 466
Deposits from customers	229 544	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities from debt securities	1 132	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	3	109	0
Subordinated debt	664 004	0	0
Other liabilities	89 544	0	0
- including liabilities from financial leasing	78 910	0	0

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 instruments valued at fair value	33	0	0
Dividends	72 001	0	0
Other net operating income	1 985	0	0
EXPENSE FROM:			
Interest	7 190	0	(146)
Commissions	8	0	0
Financial instruments valued at fair value	0	0	0
Other net operating costs	0	9	0
General and administrative expenses	43 602	0	194

Profit and loss on transactions with related parties (data in '000 PLN) for the period of 1.01-30.06.2016

	With subsidiaries	With parent entity	With other entities of parent Group
INCOME FROM:			
Interest	41 766	(10)	0
Commissions	24 426	68	0
Financial instruments valued at fair value	281	0	0
Dividends	44 182	0	0
Other operating net	1 656	0	0
EXPENSE FROM:			
Interest	11 284	420	(154)
Commissions	42	0	0
Financial instruments valued at fair value	0	1	0
Other operating net	0	31	0
General and administrative expenses	47 880	0	907

Off-balance transactions with related parties (data in '000 PLN) as at 30.06.2017

	With subsidiaries	With parent entity	With other entities of parent Group
Conditional commitments	37 098	102 173	0
- granted	34 515	100 345	0
- received	2 583	1 828	0
Derivatives (par value)	67 227	0	0

Off-balance transactions with related parties (data in '000 PLN) as at 31.12.2016

	With subsidiaries	With parent entity	With other entities of parent Group
Conditional commitments	39 062	102 183	0
- granted	36 622	100 345	0
- received	2 440	1 838	0
Derivatives (par value)	54 066	99 891	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 S.A. for the 6 months ended 30 June 2017.

The following tables show the figures for Bank Millennium S.A.

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

ASSETS

30.06.2017	Balance sheet value	Fair value
Loans and advances to banks	517 499	517 360
Loans and advances to customers *	46 958 407	45 412 603

LIABILITIES

30.06.2017	Balance sheet value	Fair value
Amounts due to banks	1 404 356	1 401 542
Amounts due to customers	57 128 373	57 129 861
Debt securities	841 834	845 644
Subordinated debt	634 318	628 170

* 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 Bank raises spreads, fair value of the “old” loans portfolio falls.

ASSETS

31.12.2016	Balance sheet value	Fair value
Loans and advances to banks	1 267 805	1 267 557
Loans and advances to customers	46 593 429	44 810 792

LIABILITIES

31.12.2016	Balance sheet value	Fair value
Amounts due to banks	1 270 745	1 271 762
Amounts due to customers	55 988 198	55 988 718
Debt securities	1 113 223	1 117 989
Subordinated debt	664 004	657 787

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 30.06.2017

	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS			
Financial assets valued at fair value through profit and loss (held for trading)			
- derivatives		156 415	46 274
- debt securities	412 414		
Hedging derivatives		378 203	
Financial assets available for sale			
- debt securities	15 856 437	1 499 750	51 877
- shares and other financial instruments			26 049
LIABILITIES			
Financial liabilities valued at fair value through profit and loss (held for trading)			
- derivatives and short sale of securities	107 242	204 152	46 521
Hedging derivatives		435 590	

Data in '000 PLN, as at 31.12.2016

	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS			
Financial assets valued at fair value through profit and loss (held for trading)			
- derivatives		210 597	27 633
- debt securities	314 466		
Hedging derivatives		17 934	
Financial assets available for sale			
- debt securities	14 352 812	2 669 700	53 689
- shares and interests			24 445
LIABILITIES			
Financial liabilities valued at fair value through profit and loss (held for trading)			
- derivatives and short sale of securities	106 853	193 720	27 550
Hedging derivatives		1 149 653	

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 2017 are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 1 January 2017	26 199	(26 116)	0	53 688	24 445
Settlement/sell/purchase	9 054	(9 344)	0	(1 830)	0
Change of valuation recognized in equity	0	0	0	0	1 604
Change of valuation recognized in P&L account (including interests)	8 918	(8 958)	0	19	0
Balance on 30 June 2017	44 171	(44 418)	0	51 877	26 049

6. ADDITIONAL INFORMATION

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

During the six months ended 30 June 2017 the Bank's liabilities arising from debt securities decreased by approx. PLN 271.4 million. The variation in the analyzed period resulted mainly from the following: the Bank repurchased (in line with the maturity date) BKMO C- and S-series bonds with a nominal value of PLN 530 million, issued BKMO bonds T-series in the nominal value of PLN 300 million and recorded a variation in the value of bank securities (BPW). The Bank maintained during this period, practically constant level of other bonds (N-series) issued in June 2015.

6.2. Off-balance sheet liabilities

As at 30 June 2017 and 31 December 2016, the structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	30.06.2017	31.12.2016
Off-balance conditional commitments granted and received	**8 446 900**	**8 241 371**
Commitments granted:	8 371 676	8 134 323
- financial	7 246 179	7 014 153
- guarantee	1 125 497	1 120 170
Commitments received:	75 224	107 048
- financial	4 015	0
- guarantee	71 209	107 048

Date	Name and surname	Position/Function	Signature
24.07.2017	Joao Bras Jorge	Chairman of the Management Board	
24.07.2017	Fernando Bicho	Deputy Chairman of the Management Board	
24.07.2017	Wojciech Haase	Member of the Management Board	
24.07.2017	Andrzej Gliński	Member of the Management Board	
24.07.2017	Maria Jose Campos	Member of the Management Board	
24.07.2017	Wojciech Rybak	Member of the Management Board	