Annual Consolidated Report

of the Bank Millennium S.A. Capital Group

for the 12-month period ending 31st December 2017

Millennium bank

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2017 to 31.12.2017	period from 1.01.2016 to 31.12.2016	period from 1.01.2017 to 31.12.2017	period from 1.01.2016 to 31.12.2016
Interest income	2 398 938	2 277 354	565 161	520 455
Fee and commission income	799 288	698 007	188 303	159 519
Operating income	2 649 551	2 627 990	624 202	600 587
Operating profit / (loss)	1 113 549	1 128 701	262 339	257 948
Profit /(loss) before income taxes	925 223	953 256	217 971	217 852
Profit /(loss) after taxes	681 227	701 252	160 489	160 261
Total comprehensive income for the period	831 395	498 040	195 867	113 820
Net cash flows from operating activities	2 106 858	2 891 446	496 350	660 796
Net cash flows from investing activities	932 581	(4 373 934)	219 705	(999 596)
Net cash flows from financing activities	(13 169)	13 316	(3 102)	3 043
Net cash flows, total	3 026 270	(1 469 172)	712 953	(335 757)
Total assets	71 141 415	68 792 787	17 056 610	15 549 907
Liabilities to banks and other monetary institutions	2 353 131	1 270 745	564 178	287 239
Liabilities to customers	57 273 255	55 875 609	13 731 630	12 630 111
Total equity	7 772 599	6 941 205	1 863 530	1 568 988
Share capital	1 213 117	1 213 117	290 853	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)	6.41	5.72	1.54	1.29
Diluted book value per share (in PLN/EUR)	6.41	5.72	1.54	1.29
Capital adequacy ratio	21.99%	17.40%	21.99%	17.40%
Basic earnings (losses) per ordinary share (in PLN/EUR)	0.56	0.58	0.13	0.13
Diluted earnings (losses) per ordinary share	0.56	0.58	0.13	0.13
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.1709 EUR/PLN rate of 31 December 2017 (for comparable data as of 31 December 2016: 4.4240 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2017 – 4.2447 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data for the period 1 January – 31 December 2016: 4.3757 EUR/PLN).

QUARTERLY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	1.01.2017 - 31.12.2017	1.10.2017 - 31.12.2017*	1.01.2016 - 31.12.2016	1.10.2016 - 31.12.2016*
Interest income	2 398 938	615 914	2 277 354	574 785
Interest expense	(702 470)	(171 984)	(771 516)	(185 611)
Net interest income	1 696 468	443 930	1 505 838	389 174
Fee and commission income	799 288	205 962	698 007	188 445
Fee and commission expense	(135 735)	(36 582)	(116 983)	(31 749)
Net fee and commission income	663 553	169 380	581 024	156 696
Dividend income	2 612	147	1 909	2
Result on investment financial assets	25 288	16 069	314 689	9 675
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	191 721	43 475	173 974	49 089
Other operating income	69 909	12 547	50 556	15 771
Operating income	2 649 551	685 548	2 627 990	620 407
General and administrative expenses	(1 103 283)	(291 394)	(1 057 466)	(268 249)
Impairment losses on financial assets	(254 159)	(62 703)	(227 804)	(70 907)
Impairment losses on non-financial assets	(1 199)	(256)	(3 390)	(744)
Depreciation and amortization	(52 971)	(13 117)	(54 854)	(13 460)
Other operating expenses	(124 390)	(29 350)	(155 775)	(39 136)
Operating expenses	(1 536 002)	(396 820)	(1 499 289)	(392 496)
Operating profit / (loss)	**1 113 549**	**288 728**	**1 128 701**	**227 911**
Share in net profit of related entities	0	0	(1 376)	(1 376)
Banking tax	(188 326)	(48 270)	(174 069)	(46 127)
Profit / (loss) before income taxes	**925 223**	**240 458**	**953 256**	**180 408**
Corporate income tax	(243 996)	(60 811)	(252 004)	(48 917)
Profit / (loss) after taxes	**681 227**	**179 647**	**701 252**	**131 491**
Attributable to:				
Owners of the parent	681 227	179 647	701 252	131 491
Non-controlling interests	0	0	0	0

* quarterly financial information has not been audited by an independent auditor

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2017 - 31.12.2017	1.10.2017 - 31.12.2017*	1.01.2016 - 31.12.2016	1.10.2016 - 31.12.2016*
Profit / (loss) after taxes	681 227	179 647	701 252	131 491
Other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss	187 456	706	(252 328)	(53 523)
Effect of valuation of debt securities from available for sale portfolio	112 041	9 768	(85 163)	(65 138)
Effect of valuation of shares from available for sale portfolio	5 237	845	(211 444)	272
Hedge accounting	70 178	(9 907)	44 279	11 343
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	(2 064)	(2 064)	1 449	1 449
Actuarial gains (losses)	(2 064)	(2 064)	1 449	1 449
Other elements of total comprehensive income before taxes, total	**185 392**	**(1 358)**	**(250 879)**	**(52 074)**
Corporate income tax on other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss	(35 617)	(134)	47 942	10 169
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	392	392	(275)	(275)
Other elements of total comprehensive income after taxes	**150 167**	**(1 100)**	**(203 212)**	**(42 180)**
Total comprehensive income for the period	**831 394**	**178 547**	**498 040**	**89 311**
Attributable to:				
Owners of the parent	831 394	178 547	498 040	89 311
Non-controlling interests	0	0	0	0

* quarterly financial information has not been audited by an independent auditor

Annual Consolidated Financial Statements of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2017

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1. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest income	1	2 398 938	2 277 354
Interest expense	2	(702 470)	(771 516)
Net interest income		1 696 468	1 505 838
Fee and commission income		799 288	698 007
Fee and commission expense		(135 735)	(116 983)
Net fee and commission income	3	663 553	581 024
Dividend income	4	2 612	1 909
Result on investment financial assets	5	25 288	314 689
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	191 721	173 974
Other operating income	6	69 909	50 556
Operating income		2 649 551	2 627 990
General and administrative expenses	7	(1 103 283)	(1 057 466)
Impairment losses on financial assets	8	(254 159)	(227 804)
Impairment losses on non-financial assets	9	(1 199)	(3 390)
Depreciation and amortization	10	(52 971)	(54 854)
Other operating expenses	11	(124 390)	(155 775)
Operating expenses		(1 536 002)	(1 499 289)
Operating profit / (loss)		**1 113 549**	**1 128 701**
Share in net profit of related entities		0	(1 376)
Banking tax		(188 326)	(174 069)
Profit / (loss) before income taxes		**925 223**	**953 256**
Corporate income tax	12	(243 996)	(252 004)
Profit / (loss) after taxes		**681 227**	**701 252**
Attributable to:			
Owners of the parent		681 227	701 252
Non-controlling interests		0	0
Basic earnings per ordinary share (in PLN)	13	0.56	0.58
Diluted earnings (losses) per ordinary share (in PLN)	13	0.56	0.58

Notes on pages 13-134 are integral part of these financial statements.

2. CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Profit / (loss) after taxes	681 227	701 252
Other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss:	187 456	(252 328)
Effect of valuation of debt securities from available for sale portfolio	112 041	(85 163)
Effect of valuation of shares from available for sale portfolio	5 237	(211 444)
Hedge accounting	70 178	44 279
Other elements of total comprehensive income that will not be subsequently reclassified to profit or loss:	(2 064)	1 449
Actuarial gains (losses)	(2 064)	1 449
Other elements of total comprehensive income before taxes, total	**185 392**	**(250 879)**
Corporate income tax on other elements of total comprehensive income that were/will be subsequently reclassified to profit or loss	(35 617)	47 942
Corporate income tax on other elements of total comprehensive income that will not be subsequently reclassified to profit or loss	392	(275)
Other elements of total comprehensive income after taxes	**150 167**	**(203 212)**
Total comprehensive income for the period	**831 394**	**498 040**
Attributable to:		
Owners of the parent	831 394	498 040
Non-controlling interests	0	0

Notes on pages 13-134 are integral part of these financial statements.

3. CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2017	31.12.2016
Cash, balances with the Central Bank	14	2 080 151	1 778 768
Deposits, loans and advances to banks and other monetary institutions	15	254 205	1 267 811
Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge	16	531 125	564 574
Hedging derivatives	17	885 880	17 934
Loans and advances to customers	18	47 411 078	47 020 043
Investment financial assets	19	19 066 946	17 135 347
- available for sale		19 066 946	17 135 347
- held to maturity		0	0
Investments in related entities	19	0	0
Receivables from securities bought with sell-back clause (loans and advances)	20	0	90 520
Property, plant and equipment	21	185 880	164 070
Intangible assets	22	79 756	62 315
Non-current assets held for sale	23	19 557	10 937
Receivables resulting from current tax		1 625	5 381
Deferred income tax assets	24	286 553	273 767
Other assets	25	338 659	401 320
Total Assets		**71 141 415**	**68 792 787**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2017	31.12.2016
LIABILITIES			
Liabilities to banks and other monetary institutions	26	2 353 131	1 270 745
Financial liabilities valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge	27	190 111	339 015
Hedging derivatives	17	176 853	1 149 654
Liabilities to customers	28	57 273 255	55 875 609
Liabilities from securities sold with buy-back clause	29	0	0
Debt securities	30	1 156 473	1 313 836
Provisions	31	67 752	49 415
Deferred income tax liabilities	32	0	0
Liabilities resulting from current tax		26 988	20 642
Other liabilities	33	1 422 282	1 168 662
Subordinated debt	34	701 971	664 004
Total Liabilities		63 368 816	61 851 582
EQUITY			
Share capital	35	1 213 117	1 213 117
Share premium	35	1 147 502	1 147 502
Revaluation reserve	35	(34 795)	(184 962)
Retained earnings	35	5 446 775	4 765 548
Total Equity		7 772 599	6 941 205
Total equity attributable to owners of the parent		7 772 599	6 941 205
Non-controlling interests		0	0
Total Liabilities and Equity		**71 141 415**	**68 792 787**

Notes on pages 13-134 are integral part of these financial statements.

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

01.01.2017 - 31.12.2017 *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 2017 (net)	831 394	0	0	150 167	681 227	0
net profit/ (loss)	681 227	0	0	0	681 227	0
valuation of debt securities from available for sale portfolio	90 754	0	0	90 754	0	0
valuation of shares from available for sale portfolio	4 241	0	0	4 241	0	0
hedge accounting	56 844	0	0	56 844	0	0
actuarial gains (losses)	(1 672)	0	0	(1 672)	0	0
Transfer between items of reserves	0	0	0	0	(669 684)	669 684
Equity at the end of the period	**7 772 599**	**1 213 117**	**1 147 502**	**(34 795)**	**863 313**	**4 583 462**

01.01.2016 - 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)	701 252	0	0	0	701 252	0
valuation of debt securities from available for sale portfolio	(68 982)	0	0	(68 982)	0	0
valuation of shares from available for sale portfolio	(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**

Detailed information concerning changes in different equity items are presented in the **note (35).**

5. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2017 - 31.12.2017	1.01.2016 - 31.12.2016
Profit (loss) after taxes	681 227	701 252
Adjustments for:	1 425 631	2 190 194
Non-controlling interests	0	0
Interests in net profit /(loss) of associated companies	0	1 378
Depreciation and amortization	52 971	54 854
Foreign exchange gains /(losses)	(107 096)	56 385
Dividends	(2 612)	(1 909)
Changes in provisions	18 337	18 567
Result on sale and liquidation of investment financial assets	(41 830)	(327 935)
Change in financial assets valued at fair value through profit and loss (held for trading)	(764 690)	302 463
Change in loans and advances to banks	972 976	881 630
Change in loans and advances to customers	(415 686)	(646 710)
Change in receivables from securities bought with sell-back clause	90 520	(90 520)
Change in liabilities valued at fair value through profit and loss (held for trading)	(1 121 705)	(988 073)
Change in liabilities to banks	1 027 755	(231 072)
Change in deposits from customers	1 397 646	3 065 220
Change in liabilities from securities sold with buy-back clause	0	0
Change in debt securities	42 278	179 310
Change in income tax settlements	253 764	285 637
Income tax paid	(286 302)	(211 420)
Change in other assets and liabilities	299 138	(163 142)
Other	10 167	5 531
Net cash flows from operating activities	**2 106 858**	**2 891 446**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2017 - 31.12.2017	1.01.2016 - 31.12.2016
Inflows:	150 320 819	102 295 603
Proceeds from sale of property, plant and equipment and intangible assets	28 924	15 982
Proceeds from sale of shares in related entities	0	0
Proceeds from sale of investment financial assets	150 289 283	102 277 712
Other	2 612	1 909
Outflows:	(149 388 238)	(106 669 537)
Acquisition of property, plant and equipment and intangible assets	(75 651)	(46 298)
Acquisition of shares in related entities	0	0
Acquisition of investment financial assets	(149 312 587)	(106 623 239)
Other	0	0
Net cash flows from investing activities	**932 581**	**(4 373 934)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2017 - 31.12.2017	1.01.2016 - 31.12.2016
Inflows:	1 371 570	250 246
Long-term bank loans	342 136	220 520
Issue of debt securities	329 434	29 726
Increase in subordinated debt	700 000	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other	0	0
Outflows:	(1 384 739)	(236 930)
Repayment of long-term bank loans	(205 615)	(184 636)
Redemption of debt securities	(529 076)	(29 450)
Decrease in subordinated debt	(629 625)	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other	(20 423)	(22 844)
Net cash flows from financing activities	**(13 169)**	**13 316**

D. NET CASH FLOWS, TOTAL (A+B+C)	3 026 270	(1 469 172)
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	5 381 982	6 851 155
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	8 408 252	5 381 982

Additional information regarding cash flows statement is presented in **point 5 of chapter 14 "Supplementary information".**

Information on liabilities classified as financing activities is presented in **points 26, 30, 34 of chapter 13 "Notes to the Consolidated Financial Report".**

6. GENERAL INFORMATION ABOUT ISSUER AND THE ISSUER'S CAPITAL GROUP

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

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

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

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

Supervisory Board and Management Board of Bank Millennium S.A. as at 31 December 2017

Composition of the Supervisory Board as at 31 December 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 H. Klingensmith tendered his resignation from the function of Member of the Supervisory Board of the Bank, effective as of above date.

The General Meeting of the Bank on March 31, 2017, determined that the Supervisory Board will consist of 11 members.

Composition of the Management Board as at 31 December 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.

Capital Group of Bank Millennium S.A.

The Group’s parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium S.A. is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 31 December 2017, are presented by the table below:

Company	Activity domain	Head office	% of the Group’s capital share	% of the Group’s voting share	Recognition in financial statements
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI S.A.	investment funds management	Warsaw	100	100	full consolidation
MB FINANCE AB	funding companies from the Group	Stockholm	100	100	full consolidation
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warsaw	100	100	full consolidation
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	furniture manufacturer	Świebodzin	50 (+1 share)	50 (+1 share)	equity method valuation (*)
BG LEASING S.A. in bankruptcy	leasing services	Gdańsk	74	74	historical cost (*)

(*) Despite having a control over the companies Lubuskie Fabryki Mebli S.A. and BG Leasing S.A., due to insignificant nature of these companies from the realization of the primary goal of the consolidated financial statements point of view, which is the correct presentation of Group’s financial situation, the Group does not consolidate capital involvement in aforementioned enterprises.

7. ACCOUNTING POLICY

1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2017, item 2342, with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These financial statements meet the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).

This financial report was approved for publication by the Management Board on 23rd February 2018.

2) STANDARDS AND INTERPRETATIONS APPLIED IN 2017 AND NOT BINDING AS OF THE BALANCE SHEET DAY

Applied new and revised standards and interpretations

This consolidated financial report for the first time reflected amendments to following standards, which came into force on 1 January 2017:

Amendments to IAS 7: Initiative concerning disclosure of information

The amendment to IAS 7 is effective for annual reporting periods beginning on 1 January 2017 and introduces the obligation to disclose reconciliation of changes in liabilities resulting from financial operations.

Applying the standard did not affect information presented in the Group's financial report.

Amendments to IAS 12 concerning recognition of deferred tax asset resulting from unrealised losses

The amendment to IAS 12 explains the requirements concerning recognition of deferred tax asset resulting from unrealised losses connected with debt instruments. An entity is obliged to recognise the deferred tax asset resulting from unrealised losses when these are the result of discounting cash flow connected with a debt instrument with use of arm's length interest rate; also when it intends to keep the debt instruments until maturity and upon receipt of the notional amount there will be no obligation to pay taxes. The economic benefits reflected in the deferred tax asset result from the possibility for the holder of the a/m instruments to gain future yields (reversing the effect of discounting) without the need to pay taxes.

The amendment to IAS 12 did not affect the Group's financial report (balance of deferred tax assets; deferred tax charge).

Published standards and interpretations, which are not in force yet and were not applied by the Group earlier

In this financial report the Group did not decide to make earlier use of following published standards, interpretations or corrections of existing standards before the date of their coming into force:

IFRS 9 “Financial Instruments”

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

In March 2016 the Group launched an IFRS 9 implementation project which actively 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.

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

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

Valuation Models

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

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

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

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

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

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

Business Models of the Group

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

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

Held To Collect Model (HTC)

Model characteristics:

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

Conditions allowing sale in the HTC model:

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

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

Impact on classification and valuation:

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

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

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

Model characteristics:

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

Impact on classification and valuation:

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

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

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

Other models

Characteristics:

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

This category should include in particular:

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

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

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

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

Impact on classification and valuation:

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

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

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

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

Impairment

General assumptions of the model

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

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

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

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

Identification of a significant increase in credit risk.

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

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

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

Incorporation of forward looking information on economic conditions (FLI)

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

Unification of the default definition across the Group

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

PD Model

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

LGD Models

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

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

EaD Model

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

Impact on the amount of impairment charges

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

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

Financial liabilities

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

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

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

Hedge accounting

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

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

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

Below a demonstrative impact of the implementation of IFRS 9 on the financial position of the Group is presented. Having in mind ongoing discussions regarding classification and measurement of instruments based on multiplier and the lack of market practice regarding other issues, the final effect of IFRS9 implementation may differ, the Group estimates that potential changes would be insignificant.

(PLN ths.)	IAS 39	Adj. 1	Adj. 2	Adj. 3	IFRS 9
Assets					
Cash, balances with the Central Bank	2 080 151	-	-	-	2 080 151
Deposits, loans and advances to banks and other monetary institutions	254 205	-	-	-	254 205
Financial assets held for trading	531 125	-	-	-	531 125
Other financial assets valued at fair value through profit or loss	-	48 864	-	-	48 864
Financial assets available for sale	19 066 946	(19 066 946)	-	-	-
Financial assets valued at fair value through other comprehensive income	-	18 970 106	-	24 904	18 995 010
Loans and advances to customers	47 411 078	47 976	(291 909)	-	47 167 145
Receivables from securities bought with sell-back clause	-	-	-	-	-
Hedging derivatives	885 880	-	-	-	885 880
Investments in related entities	-	-	-	-	-
Non-current assets held for sale	19 557	-	-	-	19 557
Property, plant and equipment	185 880	-	-	-	185 880
Intangible assets	79 756	-	-	-	79 756
Current tax assets	1 625	-	-	-	1 625
Deferred tax assets	286 553	-	52 887	(4 732)	334 708
Other assets	338 659	-	-	-	338 659
Total Assets	71 141 415	-	(239 022)	20 172	70 922 565
Liabilities					
Liablities to banks and other monetary other monetary institutions	2 353 131	-	-	-	2 353 131
Financial liabilities held for trading	190 111	-	-	-	190 111
Financial liabilities valued at fair value through profit or loss	-	-	-	-	
Liabilities to customers	57 273 255	-	-	-	57 273 255
Debt securities	1 156 473	-	-	-	1 156 473
Liabilities from securities sold with buy-back clause	-	-	-	-	-
Hedging derivatives	176 853	-	-	-	176 853
Provisions	67 752	-	23 829	-	91 581
Current income tax liabilities	26 988	-	-	-	26 988
Deferred income tax liabilities	-	-	-	-	-
Other liabilities	1 422 282	-	-	-	1 422 282
Subordinated debt	701 971	-	-	-	701 971
Total Liabilities	63 368 816	-	23 829	-	63 392 645
Equity					
Capital	1 213 117	-	-	-	1 213 117
Share premium	1 147 502	-	-	-	1 147 502
Cumulated other comprehensive income	(34 795)	(5 500)	-	20 172	(20 123)
Reserves and retained earnings	5 446 775	5 500	(262 851)	-	5 189 424
Total Equity attributable to Shareholders of the Bank	7 772 599	-	(262 851)	20 172	7 529 920
Minority interests	-	-	-	-	-
Total Equity	7 772 599	-	(262 851)	20 172	7 529 920
Total Libilities and Equity	71 141 415	-	(239 022)	20 172	70 922 565

Adj. 1 – change in the classification of financial assets,
Adj. 2 - change in the value of allowances and other credit risk adjustments,
Adj. 3 - valuation of minority shares.

Impact of IFRS9 implementation on capital adequacy ratios

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

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment to IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2019, with possibility of its earlier application. In result of the amendments to IFRS 9 entities will be able to measure at amortised cost or fair value some prepayable financial assets with negative compensation, through other total income if a specific requirement is satisfied – instead of measurement at fair value through P&L.

As of the day of preparation of this consolidated financial report this amendment has not yet been approved by the European Union.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 “Revenue from Contracts with Customers” is effective for annual reporting periods beginning on or after 1 January 2018.

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

The conducted analysis identified following main types of potential revenues and costs of the Group, which as a rule should be recognised in keeping with IFRS 15:

- variable revenues such as bonuses on results,
- revenues from sale of fixed assets,
- up-front fees,
- loyalty programmes,
- costs eligible for capitalisation.

In result of analyses conducted especially in the a/m areas of activity of the Group and also due to the fact that a significant majority of revenues of companies in the Group results from business regulated by other IFRS (including those recognised in the financial report with the effective interest rate method) it must be accepted that applying the amended standard will not have a significant impact on the Group’s financial situation and results.

Additionally due to the fact that most of the analysed revenues and costs are variable it is not possible to accurately measure the impact of the standard on the Group’s financial results.

Clarifications to IFRS 15 “Revenue from Contracts with Customers”

Clarifications to IFRS 15 “Revenue from Contracts with Customers” were published on 12 April 2016 and are effective for financial reports prepared after 1 January 2018.

The clarifications provide additional information and explanations concerning main assumptions adopted in IFRS 15 i.a. about identification of separate obligations, establishing whether the entity plays the role of agent or whether it is the principal supplier of goods and services and also the method of recording license revenues.

Apart from additional clarifications there were also waivers and simplifications introduced for entities applying the new standard for the first time.

IFRS 16 “Leasing”

IFRS 16 “Leasing” is effective for annual reporting periods beginning on or after 1 January 2019.

The new standard lays down principles of recognition, measurement, presentation and disclosure concerning leasing. All leasing transactions result in the lessee gaining the right to use the asset and also a liability under the payment obligation. Thus IFRS 16 does away with classification of operating and financial leasing in keeping with IAS 17 and introduces one model for accounting recognition of leasing by the lessee. The lessee shall be obliged to recognise: (a) assets and liabilities for all leasing transactions concluded for a period over 12 months with the exception of situations when the particular asset is of low value; and (b) depreciation of the leased asset separately from interest on the leasing liability in the results report.

IFRS 16 largely copies regulations from IAS 17 concerning accounting recognition of leasing by the lessor. In consequence the lessor continues classification between operating and financial leasing and differentiates recognition in accounts accordingly.

The Group shall apply IFRS 16 starting from 1 January 2019 and its requirements will result mainly in amendment to classification and presentation of office space rental agreements, in which the Group’s companies appear as lessees.

IFRS 17 “Insurance Contracts”

IFRS 17 “Insurance Contracts” was issued by the International Accounting Standards Board on 18 May 2017 is effective for annual reporting periods beginning on or after 1 January 2021.

The new IFRS 17 Insurance Contracts shall replace the currently valid IFRS 4, which permits diverse practices as regards settlement of insurance contracts. IFRS 17 will fundamentally change the accounting of all entities, which deal with insurance contracts and investment agreements.

As of the day of preparation of this consolidated financial report IFRS17 has not yet been approved by the European Union.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendment to IFRS 2 is effective for annual reporting periods beginning on or after 1 January 2018. The amendment introduces i.a. guidelines for fair value measurement of a liability resulting from share-based transactions settled in cash, guidelines concerning change of classification from share-based transactions settled in cash to share-based transactions settled in capital instruments as well as guidelines on recognition of an employee’s tax liability on account of share-based transactions.

As of the day of preparation of this consolidated financial report this amendment has not yet been approved by the European Union.

Amendments to IFRS 4: Use of IFRS 9 “Financial Instruments” together with IFRS 4 “Insurance Contracts”

Amendments to IFRS 4 “Insurance Contracts” address the matter of applying the new IFRS 9 “Financial Instruments” standard. The published amendments to IFRS 4 supplement the options already existing in standards and aim to prevent temporary fluctuation of results of insurance sector companies in connection with implementation of IFRS 9.

The above amendments do not apply to companies comprising the Group and in consequence they will not affect the Group’s financial report.

Annual Improvements to IFRS Standards 2014 - 2016

In December 2016 the International Accounting Standards Board published “Annual Improvements to IFRS Standards 2014 - 2016”, which amend 3 standards: IFRS 12 “Disclosure of Interests in Other Entities”, IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 28 “Investments in Associates”.

The improvements contain explanations and changes concerning the scope of the standards, recognition and measurement and also contain terminology and editorial changes.

As of the day of preparation of this consolidated financial report this amendment has not yet been approved by the European Union.

Amendments to IAS 40: Investment Property

These amendments do not concern the Group’s business.

Amendments to IAS 28 “Investments in Associates and Joint Ventures”

The amendments are effective for annual reporting periods beginning on or after 1 January 2019. Amendments to IAS 28 “Investments in Associates and Joint Ventures” clarify that as regards long-term interests in associates or joint ventures, with respect to which the equity rights method is not applied, the companies apply IFRS 9. Additionally IASB also published an example illustrating the application of IFRS 9 and IAS 28 requirements long-term interests in an associate or joint venture.

As of the day of preparation of this consolidated financial report this amendment has not yet been approved by the European Union.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.

As of the day of preparation of this consolidated financial report this amendment has not yet been approved by the European Union.

IFRIC 23: Uncertainty over Income Tax Treatments

IFRIC 23 clarifies recognition and measurement requirements contained in IAS 12 in a situation of uncertainty over income tax treatments. The guidelines are effective for annual reporting periods beginning on or after 1 January 2019.

As of the day of preparation of this consolidated financial report this amendment has not yet been approved by the European Union.

Annual Improvements to IFRS Standards 2015 - 2017

In December 2017 the International Accounting Standards Board published “Annual Improvements to IFRS Standards 2015-2017”, which amend 4 standards: IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 Borrowing Costs”.

The Improvements clarify and specify guidelines of the Standards as regards recognition and measurement.

As of the day of preparation of this consolidated financial report these improvements have not yet been approved by the European Union.

3) ADOPTED ACCOUNTING PRINCIPLES

Basis of Financial Statements Preparation

Consolidated financial statements of the Group prepared for the financial year from 1 January 2017 to 31 December 2017 include financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method.

These financial statements are prepared on the basis of the going concern assumption of 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.

The financial statements have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

The financial statements, have been prepared based on the fair value principle for financial assets and liabilities recognised at fair value through profit and loss account including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost with effective interest rate applied less impairment charges, or at their purchase price less impairment charges.

The preparation of financial statements in accordance with IFRS, as adopted by the EU, requires from the management the use of estimates and assumptions that affect applied accounting principles and the amounts (assets, liabilities, incomes and costs) reported in the financial statements and notes thereto. The respective unit of the Group is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Group’s management.

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances. Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on basis of other sources. The actual results may differ from those estimates.

The conformity between actual results and adopted estimations and assumptions is verified on regular basis. Adjustments to estimates are recognized in the period when the estimation was changed, provided that the adjustment applies to this period alone, or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

The below-presented accounting principles have been applied to all reporting periods presented in the consolidated financial statements.

All the entities subject to consolidation prepare their financial statements in accordance with the same accounting standards applied by the whole Capital Group which is IFRS as adopted by the EU, at the same balance sheet date.

Basis of Consolidation

Acquisition method

The acquisition method is used to account for business combination in which the Group acts as an acquirer. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of combination is lower than the Group's interest in net fair value of identifiable assets, liabilities, contingent liabilities of the acquired subsidiary, the Group reassesses identification and measures again the identifiable assets, liabilities and contingent liabilities of the entity being acquired as well as measurement of the cost of the combination. Any surplus remaining after the reassessment is immediately recognised in the Profit and Loss Account.

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

Subsidiaries are subject to consolidation from the date of taking over control by the Group until the date on which the parent ceases to control the subsidiary.

Transactions, settlements and unrealized profits resulting from transactions among Group's entities are eliminated. The unrealised losses are also subject to elimination, as long as the transaction does not provide evidence that the transferred asset is impaired.

Associates

Associates are any entities over which the Group has significant influence but do not control them, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are initially accounted at purchase price and then accounted for by using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit and loss, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition. When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

Any unrealised profits on transactions between the Group and its associates shall be eliminated in proportion to the Group's shareholding in the associates. Also unrealised losses are subject to elimination, as long as the transaction does not deliver evidence that the transferred asset is impaired.

Functional currency and presentation currency

Functional currency and presentation currency

The items contained in the consolidated financial statements of the Group are presented in the currency of their basic economic environment, in which a given entity operates ('the functional currency'). The consolidated financial statements are presented in Polish zlotys, being the functional currency and the presentation currency for the Bank – a parent company of the Group.

Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences on monetary items, both those valued at fair value through the profit and loss account or classified as available for sale or held to maturity are disclosed in the profit and loss account.

Exchange rate differences on non-monetary items valued at fair value through the profit and loss, are accounted in the profit and loss account. Exchange rate differences due to items, such as equity instruments classified to financial assets available for sale, are included in Other comprehensive income.

Application of estimates in connection with Accounting Policies

The preparation of financial statements in accordance with IFRS requires from the Group the use of estimates and assumptions that affect the amounts reported in the financial statements.

The estimates and assumptions, revised by the Group management on a regular basis, are made on basis of historical experience and other factors, including expectations concerning future events, considered being relevant in given circumstances.

Despite the fact, that such estimates are based on best knowledge about current conditions and activities undertaken by the Group, the actual results may differ from the estimates. The major areas for which the Group makes estimates are presented below:

- Impairment of loans and advances

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Group assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio, before the decrease can be assigned to a particular loan in order to assess impairment.

The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current market conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be recovered are regularly reviewed and updated, in order to estimate the difference between the actual loss results and estimations of impairment.

The effect of increase / decrease of cash flows for the impaired credit or either PI or LGI parameter for IBNR portfolio at the end of 2017 for the Group is presented in the following table (in PLN million):

Type of analysis	Change of provision amount considering :	
	Scenario 1 (improvement by 10%)	Scenario 2 (deterioration by 10%)
1. Individual Analysis (Impaired)	**-24,42**	**29,68**
a) Change in cash flows from debtors business activity	-7,13	9,44
b) Change in cash flows from collateral	-17,29	20,24
2. Collective Analysis	**-104,55**	**98,33**
a) Change in LGI parameter (Impaired)	-86,92	80,70
b) Change in LGI or PI parameter (IBNR)	-17,63	17,63
Total Group	**-128,97**	**128,01**

- Fair value of financial instruments

Fair value of financial instruments not quoted on active markets is determined with use of measurement techniques consistent with the Group's accounting policy. With respect to non-option derivatives and debt securities use is made of models based on discounted cash flows. Option pricing models are applied to option instruments. All models are approved prior to use and also calibrated to ensure that attained results reflect the actual fair value of the measured instruments. If possible, only observable data from the active market are used in the models.

In case of lack of measurement parameters coming from the active market, fair value is determined on the basis of application of measurement techniques using estimated input parameters.

The Group measures financial instruments using the measurement methods below in the following hierarchical order:

- Prices quoted on the active market for identical instruments for following financial instruments:
  Treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:
  Treasury floating interest debt securities,
  Derivatives:
    - FRA, IRS, CIRS,
    - FX Swap, FX Forward,
    - Embedded derivatives,

  Bills issued by the Central Bank;
- Techniques of measurement with use of significant parameters not coming from the market:
  Debt securities of other issuers (e.g. municipalities),
  Shares of VISA Incorporation,
  Derivatives:
    - FX Options acquired by the Group,
    - Indexes options acquired/placed by the Group.

  In order to determine the fair value of VISA preferred shares, the time value of money and the time line for conversion of preferred stock in common stock of VISA were taken into account.

  For derivative financial instruments valuation the Group applies the component of credit risk taking into account both: counterparty risk (credit value adjustment – CVA) and own Group's risk (debit value adjustment - DVA). The Group assesses that unobservable inputs related to applying this component used for fair value measurement are not significant.
- Impairment of other non-current assets

The Group assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Group performs an estimation of recoverable amount. Estimation of value-in-use of a non-current asset (or cash generating units) requires assumptions to be adopted, regarding, among others, amounts and timing of future cash flows, which the Group may obtain from the given non-current asset (or cash generating unit). The Group performs an estimation of the fair value less costs to sell on the basis of available market data regarding this subject or estimations made by external parties.

- Other Estimate Values

Retirement provision is calculated using an actuarial method by an independent actuary as the present value of future liabilities of the Group due to employees based on headcount and remuneration as of the date of the update. The estimation of the provision is made on the basis of several assumptions, regarding macroeconomic conditions and employee turnover, mortality risk and other.
With regard to employee benefits, such as bonuses granted to directors and key management personnel, bonuses for employees, the Management Board makes assumptions and estimates regarding the amount of benefits as at the balance sheet date. The final amount of bonuses granted is established by Personnel Committee of the Management Board or Personnel Committee of the Supervisory Board.

Financial assets and liabilities

Classification

The Group classifies financial instruments (as defined in IAS 39) into the following categories: financial assets and liabilities valued at fair value through profit and loss, investments held to maturity, loans and receivables, financial assets available for sale, other financial liabilities. The classification of financial instruments is determined by the authorised staff at the time of their initial recognition.

- Financial instruments valued at fair value through the profit and loss

These are financial assets or financial liabilities that are either held for trading (those that are acquired or incurred principally for the purpose of selling it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; derivatives are also classified as held for trading, except those that are designated as effective hedging instruments) or those that were designated as at fair value through profit and loss at their initial recognition.

Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting mismatch due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Group's investment strategy.

- Held to maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than: (1) those that the Group upon initial recognition designates as at fair value through profit or loss; (2) those that the entity designates as available for sale; and (3) those that meet the definition of loans and receivables.

Held to maturity investments cannot be reclassified to other category of financial instruments or sold. The Group cannot classify any financial assets as held to maturity during two financial years (any remaining held to maturity investments have to be reclassified as available for sale), if the Group, during the current financial year, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. This does not apply if the sale or reclassification described above took place, so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; the event occurs after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or the event is result of an isolated event that is beyond the Group's control, is nonrecurring and could not have been reasonably anticipated by the Group.

- Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: 1) those that are designated as at fair value through profit or loss 2) those that the entity upon initial recognition designates as available for sale; or 3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Receivables resulting from factoring without recourse are presented as Purchased receivables.

- Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

- Other financial liabilities

As other financial liabilities, the Group classifies all financial liabilities not classified as financial liability valued at fair value through the profit and loss, including especially received deposits and loans.

Recognition of financial instruments in the balance sheet

The Group recognizes financial assets or liabilities on the balance sheet, when it becomes a party to the contractual provisions of the instrument. Standardized purchase and sale transactions of financial assets are recognized at the trade date.

All financial instruments at their initial recognition are valued at fair value adjusted, in the case of a financial instrument not valued at fair value through profit or loss, by transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

De-recognition of financial instruments from the balance sheet

The Group derecognizes a financial asset when: the contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset to third party. The transfer takes place when the Group:

- transfers the contractual right to receive the cash flows from the financial asset, or
- retains the contractual rights to receive the cash flows from the financial asset, but assumes a contractual obligation to pay those cash flows to an entity from outside the Group.

On transferring a financial asset, the Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group:

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset from the balance sheet,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in the balance sheet,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case if the Group has retained control, it continues to recognise the financial asset in the balance sheet to the extent of its continuing involvement in the financial asset, and if the Group has not retained control, it derecognises the financial asset accordingly.

The Group removes a financial liability (or a part of a financial liability) from its balance sheet when the obligation specified in the contract is discharged or cancelled or expired.

Valuation of financial instruments after the initial recognition in the balance sheet

After the initial recognition, financial instruments are valued as follows:

- Financial instruments valued at fair value through the profit and loss

  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Group.

- Held to maturity investments and loans and advances

  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- Financial assets available for sale

  Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized in Other comprehensive income until the de-recognition of the respective financial asset from the balance sheet: at such time the aggregate net gain or loss is recognised in the profit and loss.
  Interests calculated using the effective interest rate are recognized in interest income.
  If there is any objective evidence of impairment, the Group recognizes impairment loss as described in the **point: 'Impairment of financial assets'**.

- Other financial liabilities

  Financial instruments classified as other financial liabilities are valued at amortized cost using the effective interest rate.

In the first place the measurement at fair value is based on prices quoted for a given instrument on an active market. If the valued instrument is not quoted on an active market, the Group determines the fair value using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of other instruments, discounted cash flow analysis and option pricing models, as well as other valuation methods generally applied by market participants.

Hedge Accounting and Derivatives

Valuation at fair value

Derivative instruments are reported at fair value starting from the day of conclusion of the transaction. Fair value is determined on the basis of quotations of instruments on active markets, including pricing of recently concluded transactions. A market is considered as active when the quoted instrument prices are regularly available and result from actual transactions on the market and represent a level, at which the Group could conclude such transactions. If the market for the instruments is not active the Group determines fair value with use of measurement techniques, including models based on discounted cash flows and options measurement models. The measurement techniques used by the Group are based on maximum use of input data coming from the active market, such as interest rates, FX rates and implied volatilities. In case of lack of input data from the active market the Group makes use in the measurement techniques of proprietary estimates of measurement parameters, based on best knowledge and experience.

An additional element of the valuation of derivatives is a component of credit risk including both the risk of the counterparty (credit value adjustment - CVA) and own Group's risk (debit value adjustment - DVA).

Recognition of embedded derivative instruments

The Group distinguishes and records in the balance sheet the derivatives which are a component of hybrid instruments. A hybrid agreement contains an underlying (host) contract (not being a derivative) and an embedded derivative which on the basis of a specific interest rate, price of financial instrument, price of a commodity, rate of a currency, index of prices or rates or another variable modifies part or the total of the cash flows resulting from the underlying contract.

Embedded derivative instruments are treated as stand-alone derivative instruments provided they meet conditions presented below. Embedded derivative instruments are valued at fair value, and their changes are recognized in the profit and loss. Embedded derivative instruments are recognized and valued separately from the host contract if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) financial instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The method of recognizing the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedging relationship and the hedged item.

Derivative instruments designated as hedging instruments – hedge accounting

The Group uses derivative instruments in order to hedge against interest rate risk and FX risk arising from operating, financing and investing activities of the Group. Some derivative instruments are designated as a hedging instrument of:

- cash flows hedges of recognized asset or liability or highly probable forecasted transaction (cash flow hedges), or:
- fair value hedges of recognized asset or liability or firm commitment (fair value hedges).

Hedge accounting criteria

The Group uses hedge accounting, if the conditions established in IAS 39 are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and through the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity through the other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument is recognised in Result on financial instruments valued at fair value through profit and loss.

The associated gains or losses that were recognised in other comprehensive income (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned hedged future transaction, are transferred into profit or loss in the same period or periods during which the asset acquired or liability assumed affects the profit or loss.

In case of a hedge of non-financial asset or a non-financial liability, the associated gains and losses, recognised in other comprehensive income as an effective hedge, are transferred successively into the profit or loss account in the same period or periods during which the asset acquired or liability assumed affects the profit or loss account directly from equity or are transferred from equity to initial purchase price in the balance sheet and recognized successfully in the periods, in which non – financial asset or liability has impact on profit and loss account.

Fair value hedge

Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

Changes in the fair value of derivative instruments classified and eligible as fair value hedges are recognised in the Profit and Loss along with their corresponding changes of the hedged asset or liability relating to the risk hedged by the Group.

It means that any gains or losses resulting from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss and the gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset. The valuation of hedged financial assets classified as available for sale, resulting from factors other than risk hedged, is recognized in other comprehensive income till the date of sale or maturity of this financial asset.

Termination of hedge accounting

If the fair value hedge no longer meets the criteria for applying hedge accounting, the carrying value adjustment of the hedged instrument valued at amortized cost and effective interest rate, is linearly amortized through profit and loss account over the period ending on the maturity date. The value of hedged financial assets classified as available for sale resulting from factors other than hedged risks is recognized in the revaluation reserve till the date of sale or maturity of this financial asset.

If the cash flow hedge no longer meets the criteria for hedge accounting, the valuation of hedging instrument recognized in other comprehensive income at the date of the last effectiveness test remains in equity until the realization of cash flow resulting from the hedged item. Then the amount is transferred into profit and loss account in the periods, in which the hedged transaction influences the profit and loss account.

Derivative instruments not qualifying as hedging instruments

Derivative instruments that are not subject to hedge accounting principles are classified as instruments held for trading, and valued at fair value. The changes in fair value of derivative instruments held for trading are recognized in the profit and loss in item 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result', which was described below.

The Group uses the following principles of recognition of gains and losses resulting from the valuation of derivative instruments:

- FX forward

  Forward transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FX forward transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

  Moreover the Group designated selected FX forward transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

- FX SWAP

FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of FX SWAP transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' in the Profit and Loss Account.

- Interest Rate SWAP (IRS)

  IRS transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of IRS transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

  Moreover the Group designated selected IRS transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

- Cross – Currency Swap (CCS)

  CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of CCS transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'.

  Moreover the Group designated selected CCS transactions as hedging instruments. The method of recognition and measurement of hedging instruments was described in the part devoted to hedge accounting.

- IRS transactions with embedded options

  The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Group.

- FX and Index options

  Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Group's counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of options are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' line of the Profit and Loss Account.

- Forward Rate Agreement (FRA)

  FRA transactions are valued at fair value on discounted future cash flows basis and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FRA transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

- Commodity futures

  Commodity futures are measured at fair value based on the discounted future cash flow methodology, using reference prices set at the LME reference market (London Metal Exchange), whereas the Group does not keep own positions on the commodity market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

- Commodity options

  Commodity options are measured at fair value with use of option valuation models as well as reference prices set at the LME reference market (London Metal Exchange), whereas the Group does not keep own positions on the commodity market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assessment of impairment of financial assets takes place in the framework of individual and collective analysis. Subject of individual analysis are significant assets according to the criteria of significance adopted by the Group, based primarily on the size of the exposure using early warning signals. As regards collective analysis the process includes assets not individually significant, and individually significant, for which as a result of individual analysis, impairment has not been identified.

The Group has defined a list of evidence of impairment, adapted to the profile of the Group, based on the requirements of IAS 39 Financial Instruments: Recognition and Measurement and recommendations provided by Financial Supervision in Recommendation R. The list of evidence of impairment was defined separately for the assets covered by individual and collective analysis.

Financial assets valued at amortized cost

The Group assesses in the first place, whether evidence of impairment exists both for individually significant financial assets and assets that are not individually significant. If the Group determines that no evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective analysis.

If there is evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Impairment is presented as reduction of the balance-sheet value of an asset, while the amount of loss (of the impairment charge posted in the period) is charged against profit or loss for the period.

If in the next period the amount of impairment loss is reduced in result of an event, which occurred after the impairment (e.g. improvement of the debtor's debt capacity assessment) then the previously made impairment charge is reversed. The amount of the made reversal is reported in the Profit and Loss Account.

Financial assets are written off against the related provision for impairment in case when, in Group's opinion, collection of receivables becomes not possible. Recoveries subsequent to write – offs are recognised in the Profit and Loss Account as a decrease of the amount of created provisions.

Financial assets available for sale

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of instrument below its cost is considered in determining whether the assets are impaired.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

Detailed accounting policy regarding write-offs due to impairment of loan receivables is described in **Chapter 8. Financial Risk Management.**

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.

The Group presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause, provided that risks and rewards relating to this asset are retained by the Group after the transfer.

When the Group purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

Transactions with repurchase/resell agreement are measured at amortized cost. Securities, which are the subjects of transactions with repurchase clause, are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio. The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

Receivables from lease contracts

The Group is a party to lease contracts, on the basis of which it grants for paid use or benefit of non-current assets or intangible assets for an agreed period of time.

In the case of lease contracts, which result in transferring substantially all risks and rewards incidental to ownership of the asset under lease, the subject of the lease is derecognized. A receivable amount is recognized instead, however, in an amount equal to the present value of minimum lease payments. Lease payments are accounted for (apportioned between the financial income and the reduction of the balance of receivables) to reach constant periodic rate of return from the outstanding receivables.

Lease payments for contracts, which do not fulfil qualifications of a finance lease, are recognized as income in the profit and loss, using the straight-line method, throughout the period of the lease.

The Group is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period. These are agreements (mainly rent or lease), which do not meet the conditions of the finance lease contract (operating leasing). Lease payments for contracts, which do not fulfil qualifications of a finance lease agreement are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

Property, plant and equipment and Intangible Assets

Own property, plant and equipment

Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

Tangible fixed assets are reported at historical cost less depreciation and impairment.

Fixed assets under construction are disclosed at purchase price or production costs and are not subject to depreciation.

The Group recognizes as a part of the asset's carrying value, the replacement costs as incurred, only when it is probable that future economic benefits associated with these items will flow to the Group, and the cost of the item can be reliably measured. Other outlays are recognised in profit and loss.

Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss in the reporting period in which they were incurred.

Intangible Assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form and will generate economic benefits for the Group in the future.

The main components of intangible assets are licenses for computer software.

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Expenses attached to the development or maintenance of computer software is expensed when incurred.

Other intangibles purchased by the Group are recognized at cost less accumulated amortization and accumulated impairment write-offs.

Subsequent costs incurred after initial recognition of acquired intangible assets are recognized only when it is probable that future economic benefits will flow to the Group. In the other cases, costs are charged to the profit and loss in the reporting period in which they were incurred.

All intangible assets are subject to periodic review in order to verify whether there were triggers indicating possible loss of values, which would require a test for the loss of values and an impairment recognition.

Depreciation and amortization charges

The depreciation charge of tangible and intangible assets is accounted for on a straight line basis with the use of defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized prospectively from the date of application.

Land, an intangible asset with an unspecified useful life, outlays for tangible assets and intangible assets are not depreciated. At each balance sheet date intangible assets with indefinite useful life are regularly tested for impairment.

The following depreciation rates are applied to basic categories of tangible and intangible assets and for investment property:

Selected categories of property, plant and equipment:

Bank buildings	2.5%
Lease holding improvements	period of the lease, hire purchase
Computer hardware	30%
Network devices	30%
Vehicles	as standard 25%
Telecommunication equipment:	10%
Intangibles (software):	
Main applications (systems)	20%

For other computer software the Group applies the rate not higher than 50%, which depends on the expected useful life.

Depreciation and amortization charges are recognized as operating expenses in the profit and loss account.

Non-current assets held for sale

The Group classifies a non-current asset as held for sale, if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated. Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non- current assets held for sale are measured at the lower of: its carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Group ceases to classify the assets as held for sale and makes reclassification to other assets category. The Group measures a non-current asset that ceases to be classified as held for sale at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Impairment of non-current assets

The Group assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Group estimates the recoverable amount of the asset and if the recoverable amount of an asset is less than its carrying amount, the Group recognizes impairment charge in the profit and loss.

The impairment loss is the difference between the carrying amount and the recoverable amount of the asset. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is established for particular assets, if a given asset generates cash flows substantially independent of those generated by other assets or groups of assets. If such indications exist, the Group performs an estimation of recoverable value. If, and only if, the recoverable value of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value.

If pursuant to IAS 36, paragraph 21 there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will be particularly the case of an asset that is held for disposal.

An impairment loss can be reversed only to the amount, where the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss would not be recognized.

Prepayments, Accruals and Deferred Income

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet.

Accruals are liabilities for costs arising from services provided to the Group, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities" in the balance sheet.

Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities' in the balance sheet.

Provisions

Provisions are established when (1) the Group has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented. A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The restructuring provision does not cover future operating expenses.

Employee Benefits

Short-term employee benefits

Short-term employee benefits of the Group (other than termination benefits due wholly within 12 months after work is completed) comprises of wages, salaries, bonuses and paid annual leave and social security contributions.

The Group recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

The amount of short-term employee benefits on the unused holidays to which Group employees are entitled is calculated as the sum of unused holidays to which particular Group employees are entitled.

Long-term employee benefits

The Group's liabilities on long-term employee benefits are equal to the amount of future benefits, which the employee will receive in return for providing his services in the current and earlier periods, which are not fully due within 12 months from carrying out the work. In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Group's future liabilities due to employees according to the headcount and wages as at the date of revaluation. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2017 has been set at 3.3%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

In 2012, Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. Capital Group in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

The benefits of the program are realized partially in cash payments and partially by granting phantom shares entitling to receive cash in the amount that depends on the share price of Bank Millennium in the relevant period. Part of the scheme payable in cash is accounted for in the period employees acquire rights to such benefits. In the case of benefits granted in the form of phantom shares a 3-year term of holding shares is applied, at the same time the amount of shares is verified annually. The employee cannot perform the rights attaching to the allocated phantom shares. The fair value of the phantom shares is determined in accordance with accepted principles and allocated over the vesting period. The value of the provision is recognized as a liability to employees in correspondence with the Profit and Loss Account. Policy details are presented in **Chapter 14.8).**

Provisions for short-term and long-term employee benefits are recognized in the caption 'Other Liabilities' in balance sheet in correspondence with the 'staff costs' in the profit and loss.

The Group fulfils a programme of post – employment benefits called defined contribution plan. Under this plan the Group pays fixed contributions into the state pension fund. Post – employment benefits are paid to an employee from the proceeds of the fund including the return on the invested contributions. Consequently, the Group does not have a legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service.

Group's Equity

Equity consists of capital and funds established in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or the Articles of Association.

Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are presented at nominal value.

Share Capital

Share capital is presented at nominal value, in accordance with the Articles of Association and the entry in the Register of Companies.

If the entity acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is treated as a change in the Equity. Acquired own shares are treated as own shares and disclosed as reduction of the Equity until the time they are cancelled.

Dividends for the financial year, which have been approved by the General Shareholders' Meeting, but not distributed as of the balance sheet day, are disclosed in the caption „Other Liabilities' in the balance sheet.

Share Premium

Share premium is formed from agio obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Revaluation Reserve

Revaluation reserve consists of: revaluation of financial assets available for sale and result of cash flow hedge valuation with deferred income tax effect applied. Revaluation reserve is not subject to distribution.

Retained Earnings

Retained earnings are created with charges against profit and are allocated for purposes specified in the Articles of Association or other legal regulations (the remaining part of supplementary capital, additional reserve capital, including general banking risk fund) or constitute previous years' profit/loss or year-to-date net financial result.

The General Banking Risk Fund at Bank Millennium SA is created from profit after tax in accordance with the Banking Act dated 29 August 1997 as later amended.

Net profit of the current year represents net profit adjusted by corporate income tax. Losses attributed to non-controlling interests and exceeding the value of equity attributed to them are charged to the Group's equity.

Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees granted are measured at the higher of:

- The amount being the best estimate of the expenditure required to settle the present obligation resulting from this financial guarantee, considering the probability of its realization;
- the amount initially recognised less amortized amount of commission received for guarantee granting.

Interest result

Interest income and expenses on financial instruments measured at amortized cost using effective interest rate and available for sale financial assets are recognized in the profit and loss.

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.

Net interest income comprises of interest income and costs on designated derivatives being a result of effective hedge instruments in hedge accounting (detailed information on active hedge accounting relationships is presented in **note (17)**.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

Interest income comprises interest and commissions (received or due) captured in the calculation of effective interest rate on account of: loans, interbank deposits and securities held to maturity and available for sale, measured at fair value in the Profit and Loss Account. Additionally, interest income includes the directly attributable incremental costs to the conclusion loan agreement incurred by the Group (mainly commissions paid to external and own agents for concluding mortgage loan agreements, and costs of property valuation connected with this type of agreements) that are an integral part of the effective interest rate calculation and subject to amortization over time.

Following the recognition of an impairment loss on a financial instrument carried at amortized cost and available for sale financial assets, interest income is recognised in the profit and loss calculated on a net asset value basis (gross carrying amount less impairment amount). In this case interest income is calculated using the interest rate applied for discounting future cash flows for the purpose of impairment valuation.

Fee and commission Income/ Fee and commission Costs

Fee and commission income and expenses received from banking operations on client accounts, from operations on payment cards and brokerage activity is recognized in the profit and loss at the time the service is rendered; other fees and commissions are deferred and recognized as revenue over time.

The basic types of commissions related to credit operations in the Group include among others: loan origination fees and commissions, and commitment fees.

Fees and commissions (both income and expense) directly attributable to initial recognition of financial assets with established repayment schedules are recognized in profit and loss account as effective interest rate component and are part of interest income. Other, attributed to initial recognition of financial assets without established repayment schedules are amortized on a straight-line basis through the expected life of the financial instrument. Fees and commissions on pledge to grant a loan, which is probable to be drawn, are deferred and since initial recognition of financial assets are amortized as component of effective interest rate or on a straight-line basis based on above mentioned criteria. In the case of loans and advances with undetermined instalment payments and changes in interest, e.g. overdraft facilities and credit cards commissions are settled over the duration of the card or overdraft limit by the straight-line method and included in commission income.

In connection with the Group's bancassurance activity (selling insurance services), based on the criterion how the income from aforementioned activity is recorded, two groups of products can be identified.

The first group consists of insurance products without direct links with the financial instrument (for example: health insurance, personal accident insurance) - in this case the Group's remuneration is recognised as income after performance of a significant act, i.e. in a date of commencement or renewal of insurance policies, taking into account provisions for thinkable returns.

In the second group (where there is a direct link to a financial instrument, particularly when the insurance product is offered to the customer only with credit product, i.e. there is not possibility to buy from the bank separately, without a credit product, the same insurance product in terms of form, legal and economic conditions) two sub-groups can be identified:

a) With respect to insurance connected with housing loans, in case of insurance premiums collected monthly (life insurance and property insurance) remuneration is applied to Profit and Loss Account upon remuneration receipt.
b) With respect to insurance associated with cash loans the Group allocate the total value of remuneration for combined transaction due to their respect for the individual elements of the transaction, after deducting by provision on the part of the remuneration to be reimbursed, for example as a result of the cancellation by the customer with insurance, prepayments or other titles. Provision estimate is based on an analysis of historical information about the real returns in the past and predictions as to the trend returns in the future.

Allocation of remuneration referred to above is based on the methodology of 'relative fair value' involving division of the total remuneration pro rata to, respectively, fair value of remuneration with respect to financial instrument and fair value of intermediation service. Determination of the above fair values is based on market data including, in particular, for:

- Intermediation services – upon market approach involving the use of prices and other market data for similar market transactions,
- Remuneration relative to financial instrument – upon income approach based on conversion of future amounts into present value using information on interest rates and other charges applicable to identical or similar financial instruments offered separately from the insurance product.

Individual, separated elements of a given transaction or several transactions considered jointly are subject to the following income recognition principles:

- Fees charged by insurance agencies – partially including fee for performance of a significant act, recognised in revenue on the day of commencement or renewal of insurance policy.
- Fees/charges constituting an integral part of effective interest rate accruing on financial instrument – treated as adjustment of effective interest rate and recognised under interest income.

In 2017 Bank has reviewed the assumptions of the model applied for recognition of revenue from bancassurance. In consequence in the field of insurance of cash loans the part of revenue recognized on a one-off basis as commission for the execution of significant amounted to 5% in 2017 whereas in 2016 the rate varied from 5% to 7%.

As of 31 December 2017, with respect to insurance products linked with cash loans, the Bank estimated provisions against refunds of premiums, expressed as percentage ratio of refunds to the level of gross fees, at 67%.

Remaining fees and commissions connected with financial services offered by the Group, such as:

- Asset management services;
- Services connected with cash management;
- Brokerage services;

are recognised in the Profit and Loss Account on an one-off basis.

Dividend Income

Dividend income is recognized in the profit and loss when the shareholders' right to receive payment is established

Result on Investment Financial Instruments

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.

Result on Financial Instruments Valued at Fair Value through the Profit and Loss Account and foreign exchange result

Result on financial instruments valued at fair value through profit and loss and foreign exchange result' includes profits and losses generated as a result of selling financial instruments from the trading portfolio and the effect of their valuation to fair value (debt securities and derivatives held for trading) as well as foreign exchange profit.

Foreign exchange profit includes: i) realised result and result of valuation of FX spot and FX forward transactions ii) exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency at the average rate established as at the balance sheet date for a given currency by National Bank of Poland.

Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the Group's banking and brokerage activity. In particular, this is result on sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines and provisions for litigations issues.

Income Tax

Corporate income tax comprises current and deferred tax.

Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.

Deferred income tax is recognized in profit and loss, except for when it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized in other comprehensive income or directly in equity.

Provision for deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Group offsets deferred tax assets and deferred tax liabilities within each individual companies of the Group, because it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes (levied by the same taxation authority).

Deferred income tax provision is recognised using the balance sheet method for all positive temporary differences except when it arises from the amortization of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

Deferred income tax assets are recognised using the balance sheet method with respect to tax loss carry forwards and all negative temporary differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets are not recognised for negative temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

An asset or a liability arising from temporary differences associated with investments in subsidiaries and associates are not included in calculation of deferred income tax assets or liabilities, unless the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will reverse in the foreseeable future.

The amount of calculated deferred tax is based on expected degree of realisation of balance-sheet values of assets and liabilities with use of tax rates, which are expected to be in force when the asset is realised or provision eliminated, assuming the tax rates (and tax legislation) legally or factually in force as of the balance sheet date.

8. FINANCIAL RISK MANAGEMENT

The management of risk is one of the key tasks of the Management Board in the process of effective management of the Group. It defines the framework for business development, profitability and stability, by creating rules ensuring the Group's compliance with best internal control practices and legal requirements and coordination of the strategy for managing all risks.

1) GROUP'S RISK MANAGEMENT RULES

The mission of risk management in the Bank Millennium Group is to ensure that all types of risks are managed, monitored and controlled as required for the risk profile (risk tolerance), nature and scale of the Group's operations. Important principle of risk management is the optimization of the risk and profitability trade-off – the Group pays special attention to ensure that its business decisions balance risk and profit adequately.

The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, credit policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of employees as regards their responsibility for proper risk management at every level of the Group's organisational structure.

Risk management is centralized for the Group and takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk. Within risk management system, a broad range of methods is used, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

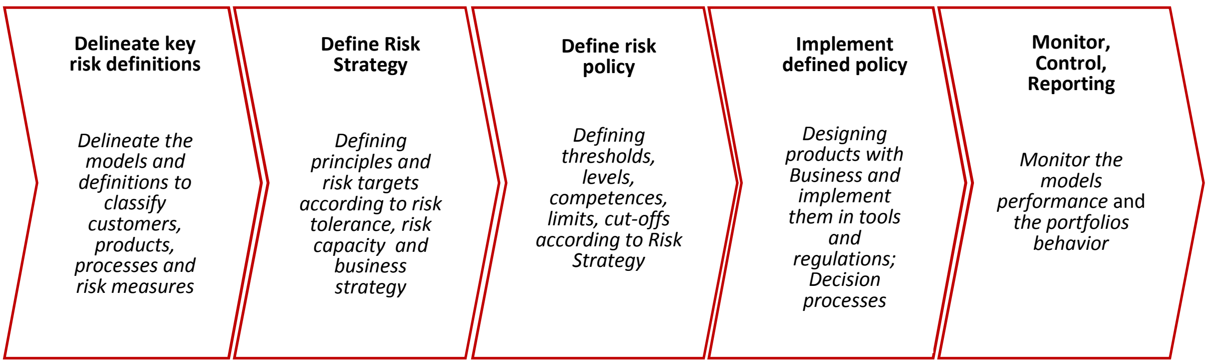
When defining the business and profitability targets, the Group takes into account the specified risk framework (Risk Tolerance) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed.

The risk management and control model at the Group's level is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the segregation of duties between risk origination, risk management and risk control.

The Risk management process of the Group is presented in the below diagram:



The split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Group's risk-taking policy with the Group's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Group's Risk Strategy, including the Group's Risk Tolerance and verifying the assets and liabilities prices offered to customers.
- The Management Board is responsible for the effectiveness of the risk management system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board;
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Group. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee and the Management Board to make decisions with respect to risk management;
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models analysis and validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs;
- Fraud Risk Management Team has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence centre for anti-fraud process.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2018-2020" (2017-2019 version was in force previously). The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, Capital Plan.

The Risk Strategy bases on the two concepts defined by the Group:

1. Risk profile – current risk profile in amount or type of risk the Group is currently exposed. The Group should also has a forward looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk tolerance,
2. Risk tolerance – the maximum amount or type of risk the Group is prepared to accept tolerate to achieve its financial and strategic objective.

Goal of Risk Strategy is to define a risk profile and to maintain a risk profile for all risk types within the limits set in the risk tolerance.

Risk tolerance measures consider both the current and forecasted target risk profile. They have been defined in the key areas, listed below:

- Solvency (including assets quality)
- Liquidity and funding
- Earnings volatility and business mix
- Franchise and reputation.

The Group has a clear risk strategy, covering retail credit, corporate credit, markets activity and liquidity, operational and capital management. For each risk type and overall the Group clearly define the risk tolerance.

The Risk Tolerance of the Group is mainly defined through the principles and targets defined in Risk Strategy and complemented in more detail by the principles and qualitative guidelines defined in the following documents:

- Capital Management and Planning Framework
- Credit Principles and Guidelines
- Rules on Concentration Risk Management
- Principles and Rules of Liquidity Risk Management
- Principles and Guidelines on Market Risk Management on Financial Markets
- Principles and Guidelines for Market Risk Management in Banking Book
- Investment Policy
- Principles and Guidelines for Management of Operational Risk
- Stress tests policy.

Within risk tolerance, the Group has defined tolerance zones (build up based on the "traffic lights" principle). Tolerance zones depend on defined measures of risk tolerance levels. As for all tolerance zones have been set:

- Escalation process of taken decisions/actions (bodies/organizational entities responsible for decisions and actions)
- Catalogue of decisions/actions on risk controls and mitigation
- Risk tolerance monitoring procedures.

The Group attaches particular attention to continuous improvement of the risk management process. One measurable effect of this is a success of the received authorization to the further use of the IRB approach in the process of calculating capital requirements.

2) Capital Management

Capital management's process

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

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

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

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

Regulatory capital adequacy

The Group is obliged by law to meet minimum own funds requirements, set in CRR art. 92. At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Minimum levels expected by KNF;
- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of the buffer is defined for particular banks by KNF every year as a result of Supervisory Review and Evaluation Process (SREP) and relates to risk that is –in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in November and December 2017 in the level of 5.53 p.p. (Bank) and 5.41 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements as for Tier 1 ratio of 4.15 p.p. in Bank and of 4.06 p.p. in Group, and which corresponds to capital requirements as for CET 1 ratio of 3.10 p.p. in Bank and 3.03 p.p. in Group [1];
- Combined buffer – defined in Act on macroprudential supervision over the financial system and crisis management – that consists of:
    - Capital conservation buffer at the level of 1.25%, and from the beginning of 2018 increased to 1.875%, and from the beginning of 2019 increased to target value of 2.5%;
    - Other systemically important institution buffer (OSII) – at the level of 0.25%, and the value is set by KNF every year;
    - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
    - Countercyclical buffer at the 0% level.

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), Bank defined minimum levels of capital ratios, being at the same time capital targets/limits. These are OCR (overall capital requirements) as for particular capital ratios.

[1] That recommendation replaces the previous one from 2016, to maintain own funds for the coverage of additional capital requirements at the level of 3.09 p.p. (Bank) and 3.05 p.p. (Group) as for TCR, which should have consisted of at least 2.32 p.p. (Bank) and 2.29 p.p. (Group) as for Tier 1 capital and which should have consisted of at least 1.73 p.p. (Bank) and 1.71 p.p. (Group) as for CET1 capital

The below table presents these levels as at 31 December, 2017 and in 2018.

Capital ratio	31.12.2017		2018	
CET1	Bank	Group	Bank	Group
Minimum	4,50%	4,50%	4,50%	4,50%
KNF recommendation	4,50%	4,50%	-	-
Pillar II RRE FX	3,10%	3,03%	3,10%	3,03%
TSCR CET1 (Total SREP Capital Requirements)	12,10%	12,03%	7,60%	7,53%
Capital Conservation Buffer	1,25%	1,25%	1,875%	1,875%
OSII Buffer	0,25%	0,25%	0,25%	0,25%
Systemic risk buffer	-	-	3,00%	3,00%
Countercyclical capital buffer	-	-	-	-
Combined buffer	*1,50%*	*1,50%*	*5,125%*	*5,125%*
OCR CET1 (Overall Capital Requirements CET1)	**13,60%**	**13,53%**	**12,725%**	**12,655%**
T1	Bank	Group	Bank	Group
Minimum	6,00%	6,00%	6,00%	6,00%
KNF recommendation	3,00%	3,00%	-	-
Pillar II RRE FX	4,15%	4,06%	4,15%	4,06%
TSCR T1 (Total SREP Capital Requirements)	13,15%	13,06%	10,15%	10,06%
Capital Conservation Buffer	1,25%	1,25%	1,875%	1,875%
OSII Buffer	0,25%	0,25%	0,25%	0,25%
Systemic risk buffer	-	-	3,00%	3,00%
Countercyclical capital buffer	-	-	-	-
Combined buffer	*1,50%*	*1,50%*	*5,125%*	*5,125%*
OCR T1 (Overall Capital Requirements T1)	**14,65%**	**14,56%**	**15,275%**	**15,185%**
TCR	Bank	Group	Bank	Group
Minimum	8,00%	8,00%	8,00%	8,00%
KNF recommendation	4,00%	4,00%	-	-
Pillar II RRE FX	5,53%	5,41%	5,53%	5,41%
TSCR TCR (Total SREP Capital Requirements)	17,53%	17,41%	13,53%	13,41%
Capital Conservation Buffer	1,25%	1,25%	1,875%	1,875%
OSII Buffer	0,25%	0,25%	0,25%	0,25%
Systemic risk buffer	-	-	3,00%	3,00%
Countercyclical capital buffer	-	-	-	-
Combined buffer	*1,50%*	*1,50%*	*5,125%*	*5,125%*
OCR TCR (Overall Capital Requirements TCR)	**19,03%**	**18,91%**	**18,655%**	**18,535%**

Capital risk, expressed in the above capital targets/limits, is measured and monitored in a regular manner. As for all capital targets, there are determined some minimum ranges for those values. A capital ratios in a given range causes a need to take an appropriate management decision or action. Regular monitoring of capital risk relies on classification of capital ratios to the right ranges and then performing the evaluation of trends and drivers influencing capital adequacy.

Own Funds capital requirements

The Group calculates its own funds requirements using standard methodologies, and is implementing at the same time a project of an implementation of internal ratings based method (IRB) for calculation of own funds requirements for credit risk and obtaining of approval decisions from Regulatory Authorities on that matter.

In the end of 2012, Banco de Portugal (consolidating Regulator) with cooperation of Polish Financial Supervision Authority (PFSA) granted an approval to the use of IRB approach as to following loan portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE). According to the mentioned approval, minimum own funds requirements calculated using the IRB approach should be temporarily maintained at no less than 80% (“Regulatory floor”) of the respective capital requirements calculated using the Standardized approach.

During 2014, the Bank submitted to Regulatory Authorities an IRB approval pack regarding the remaining loan portfolios under the IRB roll-out plan – “other retail” and “corporate” portfolios. The Bank also submitted to Regulatory Authorities an IRB roll-out for the remaining portfolios - “other retail” and “corporate” portfolios.

In the end of 2014, the Bank received another decision by Regulatory Authorities regarding the IRB process. According to its content, for the RRE and QRRE loan portfolios, the minimum own funds requirements calculated using the IRB approach had to be temporarily maintained at no less than 70% (“Regulatory floor”) of the respective capital requirements calculated using the Standardized approach until the Bank fulfils further defined conditions.

As it was presented in half-year report ended June 2017, the 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 “Regulatory floor”. The positive impact of that decision was in a large extent neutralized by the mentioned above increasing Pillar II RRE FX buffer in the end of 2017.

Internal capital

The Group defines internal capital according to Polish Banking Act, as the estimated amount needed to cover all identified, material risks found in the Group’s activity and changes in economic environment, taking into account the anticipated level of risk in the future.

Internal capital is used in capital management in following processes: economic capital adequacy management and capital allocation. The Group defined an internal (economic) capital estimation process. To this end, as for measureable risk types, mathematic and statistic models and methods are used.

Maintaining economic capital adequacy means a coverage (provision) of internal capital (that is an aggregated risk measure) by available financial resources (own funds). An obligation to banks to have in place that sort of risk coverage stems from Banking Act. It was mirrored in the Group’s capital targets/limits: economic capital buffer and economic capital buffer in stressed conditions.

In 2017, both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

At the same time internal capital is utilised in capital allocation process, to assign an internal capital to products/business lines, calculating risk-adjusted performance measures, setting risk limits and internal capital reallocation.

Capital adequacy – current state, evaluation and trends

Capital adequacy of the Group over the last three years was as follows:

Capital adequacy	31.12.2017	31.12.2016[2]	31.12.2015[2]
Risk-weighted assets	32 693.6	36 730.6	37 129.6
Own Funds requirements, including:	2 615.5	2 938.4	2 970.4
- Credit risk and counterparty credit risk	2 297.7	2 621.8	2 650.4
- Market risk	18.3	23.4	29.1
- Operational risk	293.4	279.0	271.1
- Credit Valuation Adjustment	6.1	14.3	19.8
Own Funds, including:	7 190.6	6 390.7	6 208.9
Common Equity Tier 1 Capital	6 548.8	6 356.8	6 071.0
Tier 2 Capital	641.8	33.9	137.9
Total Capital Ratio (TCR)	**21.99%**	**17.40%**	**16.72%**
Minimum required level	18.91%	16.55%	12.00%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	+3.08	+0.85	+4.72
Tier 1 Capital ratio (T1)	**20.03%**	**17.31%**	**16.35%**
Minimum required level	14.56%	12.79%	9.00%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	+5.47	+4.52	+7.35
Common Equity Tier 1 Capital ratio (CET1)	**20.03%**	**17.31%**	**16.35%**
Minimum required level	13.53%	12.21%	9.00%
Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.)	+6.50	+5.10	+7.35
Leverage ratio	**8.88%**	**8.85%**	**9.15%**

As at 2017 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, improved in one year period by 2.7 p.p. (CET1) and by 4.6 p.p. (TCR).

In 2017, risk-weighted assets went down by ca PLN 4 billion (by 11%), mostly because of revoking the mentioned above Regulatory floor in July 2017.

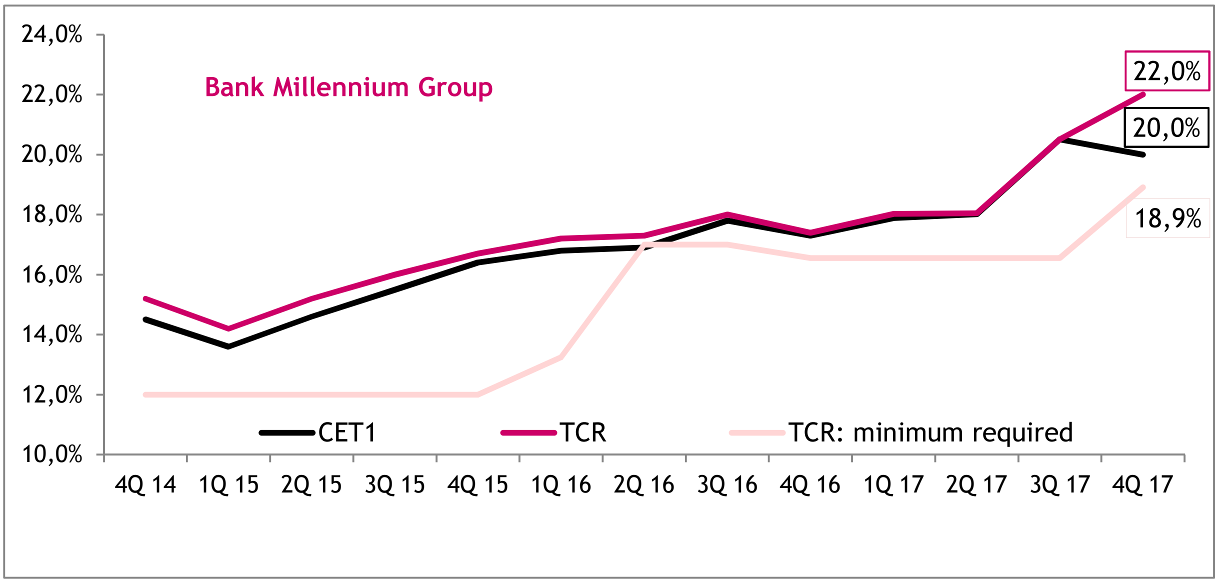
Own Funds raised in 2017 as a result of retaining of the rest on net earnings for 2016 (net earnings for first half of 2016 has been already included in Own Funds as of 2016 end) and issuance of subordinated bonds in amount of PLN 700 million, that was included in Tier 2 capital.

Minimum capital levels required by KNF was achieved with a significant surplus – as at 2017 end, the surplus of reported consolidated TCR over minimum required level was 3.1 p.p., and the surplus of CET1: 6.5 p.p.

[2] Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor"

Leverage ratio stood at the safe level 8-9%, with small quarterly changes and exceeds ca. three times a value deemed as safe (3%).

In a long perspective, capital adequacy level of Group is evaluated as satisfactory. Capital ratios are in long-term increasing trend, and their levels significantly exceed values defined in regulations. CET1 and TCR ratios over the last 3 years are showed on the below graphs.



3) Credit risk

The credit risk is one of the most important risk types for the Group and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures as well as off-balance sheet financial instruments, such as granted and unutilized credit lines, guarantees and letters of credit, as well as limits for transactions in financial instruments.

The credit policy is subject to periodic reviews and verification process taking into account the prevailing market conditions and changes in the Group's regulatory environment.

The Group uses several rating systems to manage credit risk depending on the type of exposure and the customer segment involved. A rating system is a set of methods (models), processes, controls, data collection procedures and IT systems that identify and measure credit risk, sort levels of exposure by grades or pools (granting of credit rating), and quantify probability of default and expected loss estimates for specific types of exposure.

(3a) Measurement of Credit Risk

Loans and advances

Measurement of credit risk, for the purpose of the credit portfolio management, on the level of individual customers and transactions, on account of granted loans is done with the consideration of three parameters:

(i) Probability of Default (PD) of a customer or counterparty as regards their liability;
(ii) amount of Exposure At Default (EAD) and
(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

(i) The Group assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed in-house or at the level of the BCP Group, or by external providers, and combine statistical analysis with assessment by a credit professional. The Group's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Group's Master Ratings Scale, presented below, also contains the scale of probabilities of non-compliance with the liabilities specified for a given class/rating group. Rating models are subject to regular reviews and – if necessary – to relevant modification. Modifications of models are confirmed by Validation Committee.
The Group regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments is performed by Rating Department independently from credit decision process and transactions are supported by IT systems, obtaining and analyzing information from internal and external databases.

The Group's internal rating scale

Master scale	Description of rating
1-3	Highest quality
4-6	Good quality
7-9	Medium quality
10-12	Low quality
13-14	Watched
15	Default

(ii) EAD – amount of exposure at default – concerns amounts which according to the Group's predictions will be the Group's receivables at the time of default against liabilities. Liabilities are understood by the Group to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.
(iii) LGD – loss given default is what the Group expects will be its losses resulting from actual cases of default, with the consideration of internal and external costs of recovery and the discount effect.

Debt Securities

Debt securities from State Treasury and from the Central Bank are monitored on the basis of Polish rating. Whereas the economic and financial situation of issuers of municipal debt securities is monitored on a quarterly basis based on their finance reporting.

Derivatives

The Group maintains strict control over the limits of net open derivative positions both with respect to amounts and transaction maturities. Credit risk exposures resulting from derivatives are managed as part of total credit limits defined for individual customers calculated on the basis of verification of natural exposure and analysis of customer's financial situation, and also as part of counterparties' limits.

The Group offers Treasury products for FX risk or interest rate risk only for hedging purposes and under Treasury limits assigned to clients or secured by specific collateral (deposit).

Most of the Group's agreements include the possibility of calling the client to replenish the margin deposit, (if the valuation of the client's open position exceeds treasury limit, the so-called *margin call*); and if the client does not supplement the deposit, the Group has the right to close the position.

Credit risk-based off-balance sheet liabilities

Credit risk-based off-balance sheet liabilities include guarantees, letters of credit as well as granted credit lines. The main purpose of these instruments is to enable the customer to use the funds granted by the Group in a specific way.

Guarantees and letters of credit of standby type (liability similar to guarantee) bears at least the same credit risk as loans (in the case of guarantees and stand-by letters of credit type when valid claim appears, the Group must make a payment).

Documentary and commercial letters of credit are a written, irrevocable and final obligation of the Group to accept payments based on compliant documents within the time limits specified in the letters of credit and are connected with a guarantee-like risk.

The available credit line balance is the non-utilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters of credit. Considering the credit risk of undertakings to grant credit, the Group is potentially exposed to a loss in an amount equal to the sum of non-utilised liabilities. However the probable loss amount is usually lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on customers' particular credit conditions.

The Group monitors the period remaining to maturity of off-balance liabilities because long-term liabilities usually involve a higher degree of credit risk than short-term liabilities.

(3b) Limits control and risk mitigation policy

The Group measures, monitors and controls large credit exposures and high credit risk concentrations, wherever they are identified. Concentration risk management process encompasses single-name exposures with respect to an individual borrower or group of connected borrowers (with material capital, organizational or significant economic relations) and sectoral concentration – to economic industries, geographical regions, countries, and the real estate financing portfolio (including FX loans), portfolio in foreign currencies and other. Above types of sectoral exposures are subject to internal limits system. Information about the utilization of limits are presented at the Supervisory Board and the Risk Committee.

The internal, (mentioned above) limits are monitored quarterly. Limits are subject to annual or more frequent review, when deemed appropriate. The limits are approved by the Supervisory Board or the Risk Committee.

Management of credit risk exposure is also performed through regular monitoring of customers' economic and financial situation and/or track record of their relationship with the Group from the point of view of punctual repayment of their principal and interest liabilities.

Collateral

The Group accepts collateral to mitigate its credit risk exposure; the main role of collateral is to minimize loss in the event of customers' default in repayment of credit transactions in contractual amounts and on contractual dates by ensuring an alternative source of repayment of due and payable amounts.

Collateral is accepted in accordance with the credit policy principles defined for each customer segment. The key principle is that collateral for credit transaction should correspond to the credit risk incurred by the Group, taking into account the specific nature of the transaction (i.e. its type, amount, repayment period and the customer's rating).

The credit policy defines the types, kinds and legal forms of collateral accepted in the Group as well as more detailed requirements that are to ensure the probability of selling collateral of respective types in the context of the Group's recovery experiences.

The Group pays special attention to the correct determination of collateral value. It defined the rules for preparing and verifying collateral valuation and does its utmost to ensure that such valuations are objective, conservative and reflect the true value of the collateral. In order to ensure effective establishment of collateral, the Group has developed appropriate forms of collateral agreements, applications, powers-of-attorney and representations.

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the corporate segment, are taken primarily all types of property (residential, commercial, land) as well as the assignment of receivables from contracts.

Temporary collateral is also accepted in the period before the final collateral is established. Additionally, the Group uses various forms of instruments supplementing the collateral, which facilitate enforcement or increase probability of effective repayment of debt from a specific collateral. Those instruments include: statement of submitting to enforcement in the form of a notarial deed, blank promissory note, power-of-attorney to a bank account, assignment of rights under an insurance agreement.

The Group monitors the collateral to ensure that it satisfies the terms of the agreement, i.e. that the final collateral of the transaction has been established in a legally effective manner or that the assigned insurance policies are renewed. The value of the collateral is also monitored during the term of the credit transaction.

In accordance with credit policy adopted in the Group it is also allowed to grant a transaction without collateral, but this takes place according to principles, which are different depending on the client's segment. But in the case of the deterioration of the debtor's economic and financial situation, in documents signed with the client the Group stipulates the possibility of taking additional collateral for the transaction.

(3c) Policy with respect to impairment and creation of impairment charges

Organisation of the Process

The process of impairment identification and measurement with respect to loan exposures is regulated in the internal instruction introduced by a Management Note of the Bank's Management Board Member. Moreover, the principles of receivables classification and estimation of impairment charges and provisions in the bank's management system are laid down in the document „Management System at Bank Millennium S.A." adopted by resolution of the Management Board and approved by the Supervisory Board.

Supervision over the process of estimating impairment charges and provisions is exercised at the Group by the Risk Department (DMR), which also has direct responsibility for individual analysis in the business portfolio at the Bank, as well as collective analysis. In addition to DMR the process also involves recovery and restructuring units. These are the Corporate Recovery Department – DNG (individual analysis for the recovery-restructuring portfolio for corporate customers) and the Retail Liabilities Collection Department - DDN (individual analysis of individually significant retail impairments, mainly mortgages). DMR is a unit not connected with the process of lending; it is supervised by the Management Board Member responsible for risk management. Similarly organised is the impairment process at Millennium Leasing.

The Management Board of the Bank plays an active part in the process of determining impairment charges and provisions. The results of credit portfolio valuation are submitted to the Management Board for acceptance in a monthly cycle with a detailed explanation of the most important changes with an impact on the overall level of impairment charges and provisions, in the period covered by the analysis. Methodological changes resulting from the validation process and methodological improvements are presented at the Validation Committee, and subsequently at the Risk Committee, which includes all the Management Board Members.

In monthly periods detailed reports are prepared presenting information about the Group's retail portfolio in various cross-sections, including the level of impairment charges and provisions, their dynamics and structure. The recipients of these reports are Members of the Management Board supervising the activity of the Group in the area of finance, risk and management information.

The process of determining impairment charges and provisions in the Group is formalised and described in the above-mentioned regulation, which defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating particular parameters.

The Audit Department assesses the correctness of estimating the impairment and provisions at least twice a year.

The methodology and assumptions adopted for determining credit impairments are regularly reviewed in order to reduce discrepancies between the estimated and actual losses. In order to assess the adequacy of the impairment determined both in individual analysis and collective analysis a historical verification (backtesting) is conducted from time to time (at least once a year), whose results will be taken into account in order to improve the quality of the process.

Individual analysis of impairment for credit receivables

Credit exposures are selected for individual analysis on the basis of materiality criteria which ensure that case-by case analysis covers at least 55% of the Group's business corporate portfolio and 80% of the portfolio managed by entities responsible for the recovery and restructuring of corporate receivables.

Principal elements of the process of individual analysis:

(1) Identification of impairment triggers;

The Group defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers incorporates in some more detail the triggers specified in IAS 39 and recommendation R, which pertain among others to:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Breach of the contract, e.g. delay in payments of principal or interest exceeding 90 days,
- Stating the customer's unreliability in communicating information about his economic and financial situation,
- Permanent lack of possibility of establishing contact with the customer in the case of violating the terms of the agreement,
- High probability of bankruptcy or a different type of reorganising the Customer's enterprise/business,
- Declaring bankruptcy or opening a recovery plan with respect to the Customer,
- Granting by the Bank, for economic and legal reasons, resulting from the client's financial problems, concessions in conditions of financing (restructuring).

The internal regulation contains a fine-tuning of the above-mentioned triggers by indicating specific cases and situations corresponding to them, in particular with respect to triggers resulting from the Customer's considerable financial problems, violating the critical terms of the agreement and high probability of a bankruptcy or a different enterprise reorganisation. Additionally, the Bank has an extended monitoring process which identifies in monthly periods various types of early warning signals subject to additional assessment by credit analysts.

(2) Estimating future flows;

One element of the impairment calculation process is the estimation of the probability of cash flows contained in the timetable pertaining to the following items: principal, interest and other cash flows. The probability of realising cash flows contained in the timetable results from the conducted assessment of the customer's economic and financial situation (indication of the sources of potential repayments) must be justified and assessed on the basis of current documentation and knowledge (broadly understood) of his situation with the inclusion of financial projections. This information is gathered by an analyst prior to the actual analysis in accordance with the guidelines specified in appropriate Group regulations.

If at least one of impairment triggers has been identified in the individual analysis then detailed analysis of forecasted cashflows should be performed in terms of all exposures. There are estimated expected future cash-flows from current activity of the Customer, from sources other than the current activity and recoveries received from established collaterals.

In the event of estimating the probability of cash flows for customers in the portfolio managed by restructuring-recovery departments analysts will take into account the individual nature of each transaction pointing among others to the following elements which may have an impact on the value of potential cash flows:

- Operational strategy with respect to the Customer adopted by the Group,
- Results of negotiations with the customer and his attitude, i.e. willingness to settle his arrears,
- Improvement/deterioration of his economic and financial situation,
- Possibility of settling liabilities from the borrower's own funds, or perhaps the necessity to seize the collateral, e.g. through its selling.

The Group also uses the formal terms of setting and justifying the amount of probability and amount of the payment by the Bank of funds under the extended off-balance sheet credit exposure such as guarantees and letters of credit.

(3) Estimation of the fair value of collateral, specifying the expected date of sale and estimation of expected revenues from the sale after deduction of the costs of the recovery process;

If base impairment (i.e. not considering recovery from collateral) has occurred with respect to a given credit exposure, then one should estimate the cash flows from realising collateral including the dates of its realisation. The inclusion of cash flows from realising collateral must be preceded by an analysis of how realistically it can be sold and estimation of its fair value after recovery costs.

In order to ensure the fairness of the principles of establishing collateral recoveries the Group prepared guidelines for corporate segment with respect to the recommended parameters of the recovery rate and recovery period for selected collateral groups. Depending on the place of the exposure in the Bank's structure (business portfolio, restructuring-recovery portfolio) and type of exposure (credit, leasing) separate principles have been specified for particular portfolio types: business, restructuring-recovery and leasing portfolio. The recommended recovery rates and period of collateral recovery are verified in annual periods.

If the total discounted value of the expected cash flows from the customer's current activity, collateral recoveries and other documented sources is lower than the on-balance value of the credit exposure, then an impairment is recognised and a revaluation charge posted. If an impairment has been recognised with respect to at least one of the customer's exposure in an individual analysis, then all the remaining exposures of the customer are estimated in the process of an individual analysis irrespective of the exposure level and are classified in the impaired portfolio (cross default).

Internal regulations define the principles of reversing impairment losses. In the case of a customer in an individual analysis after finding that the consequences of the triggers no longer occur and the exposures are being properly repaid in a defined period (which is different for corporate and retail customers), the Bank may decide that the trigger no longer exists/persists and reverse the loss.

Collective analysis of the credit portfolio

Subject to collective analysis shall be the following receivables from the group of credit exposures:

- Individually insignificant exposures;
- Individually significant exposures for which there has not been recognised impairment as a result of an individual analysis.

The former group includes exposures for which as a result of a collective analysis impairment triggers have been defined and for which there has been created a revaluation charge/ provision (the so-called collective impairment), as well as exposures for which no impairment triggers have been identified with respect to an individual exposure, but there has been created a group charge for an incurred but not reported loss (IBNR). The latter group includes exposures for which there have not been identified impairment triggers as a result of an individual analysis and, moreover, exposures for which there have been identified impairment triggers, but there has not been created an individual revaluation charge/ provision due to full coverage of the exposure with the discounted value of the expected cash flows from collateral or other documented sources. For this group an IBNR charge is created.

The Group has defined among others the following catalogue of impairment triggers used in collective analysis for individually insignificant exposures:

- Delay in the repayment of principal or interest in excess of 90 days,
- Exposure restructuring,
- Inclusion of receivables in the recovery process,
- The Customer's having a product earlier written off.

In its impairment estimation process the Group employs for many years the *cross-default* rule, which consists in a transfer to the impairment portfolio of the value of all exposures to the customer (irrespective of the segment) for whom there has been detected the occurrence of at least one of the impairment triggers with respect to at least one receivable.

For the purposes of collective analysis the Group has defined homogenous portfolios consisting of exposures with a similar credit risk profile. These portfolios have been created on the basis of segmentation into business lines, types of credit products, number of days of default, type of collateral (leasing), etc. The division into homogenous portfolios is verified from time to time for their uniformity.

The calculation of impairment charges and provisions by the collective method employs model parameters determined on the basis of historical observations of credit losses for particular homogenous portfolios. The Group employs the following parameters:

- PI (*probability of being impaired*),
- LIP (*loss identification period*),
- LGI (*loss given impairment*),
- PU (*probability of utilization*), which is the ratio/probability of implementing an off-balance sheet commitment,
- PW – *probability of submitting an application by the beneficiary of the guarantee*

The parameters employed in collective analysis are determined cyclically, based on historical statistical data and – in case of PI parameter – forecasted values of impaired rate. The period of observing historical data is defined in the Group's internal regulations, taking into account the tendency to adjusting impairment charges to the market and internal situation of the Group with a simultaneous observance of the statistical correctness of the calculated parameters.

The PI parameter is calculated as a weighted average of historical and projected impaired rates, whereby the projected rates are calculated based on the relationship between historical data and macroeconomic variable.

The Loss Identification Period (LIP) is determined to each homogeneous portfolio by statistical analysis of historical events for the time that the Group took between the event that lead to the default and the moment the Group recognized the impairment.

The Loss Identification Period (LIP) in the retail and corporate segment is verified at least once a year based on data obtained from customers who have a problem with timely repayment.

Since October 2014, for mortgage exposures the Bank uses new LGI model, which is an adaptation of LGD model developed for the capital calculation, based on the IRB approach. Similar model was adapted for other retail exposures (including Microbusiness) in September 2015. The models are based on a discounted cash flow analysis. In case of corporate exposures the Bank uses simplified LGI model based on comparison of balances.

The LGI models use a deep and statistically driven segmentation based on: product type, amount of exposure, LTV, currency, restructuring flag, etc. In addition, all models differentiate LGI depending on the number of months from impaired date.

The PU parameter denoting the ratio of using an off-balance exposure during LIP months before going impaired, is calculated for credit cards, revolving loans and overdraft limits (separately for retail and corporate customers). In case of guarantees the PU is the probability of guarantee realisation in the event of submitting by beneficiary of the guarantee, an application for guarantee payment.

The PW parameter is the probability of submitting an application by the beneficiary of the guarantee.

Since 2017 the PU and PW parameters are calculated as a weighted average of historical and projected date, whereby the projected values are calculated based on the relationship between historical data and macroeconomic variable.

Internal regulations provide a detailed definition of the principle of reversing impairment losses determined by the collective method. In principle, reversing a loss and elimination of a revaluation charge is possible in the case of cessation of the impairment triggers, including the repayment of arrears or exclusion from the recovery portfolio (reclassification to the Non-Impaired category) or in the case of selling receivables. Reclassification to the Non-Impaired category in the case of exposures subject to restructuring is possible only when the customer has successfully passed the „quarantine" period, during which he will not show delay in the repayment of principal or interest above 30 days. The quarantine period only starts counting after any eventual grace period that may be granted on the restructuring.

The above does not pertain to the Corporate Recovery restructuring portfolio, for which there have been defined separate conditions of transfer to the Non-Impaired category.

Furthermore for leasing transactions the quarantine period is equal to the period of staying in the restructuring portfolio, plus an additionally defined period. Within its duration delays in repayments must not exceed 30 days.

The results of models employed in collective analysis are subject to periodical historical verification. The parameters and models are also covered by the process of models management governed by the document „Principles of Managing Credit Risk Models", which specifies, among others, the principles of creating, approving, monitoring and validation, and historical verification of models.

If as a result of the validation and analysis of cyclicity of credit models and historical verification of revaluation charges and provisions the Bank comes to the conclusion that the parameters employed as of a given balance sheet day deviate from the actual trend of the data being the basis for their determination, then the Bank may adjust the period of observing historical data to the current economic conditions.

In 2017 in Bank there was a sale of PLN 32,5 million of on-balance sheet Impaired receivables. The balance sale included corporate portfolio.

(3d) Maximum exposure to credit risk

PLN '000	Maximum exposure	
	31.12.2017	31.12.2016
Exposures exposed to credit risk connected with balance sheet assets	**68 185 690**	**66 239 148**
Loans and advances to banks	254 205	1 267 811
Loans and advances to customers:	47 411 078	47 020 043
Loans to private individuals:	32 012 824	33 241 628
- Credit cards	722 348	670 429
- Cash loans and other loans to private individuals	5 537 658	5 079 163
- Mortgage loans	25 752 818	27 492 036
Loans to companies	15 129 506	13 459 310
Loans to public entities	268 748	319 105
Trading debt securities	338 359	314 476
Derivatives and adjustment due to fair value hedge	1 078 544	267 922
Financial assets valued at fair value	0	0
Investment debt securities	19 016 855	17 092 257
Receivables from securities bought with sell-back clause	0	90 520
Other financial assets	86 649	186 119
Credit risk connected with off-balance sheet items	**9 121 526**	**8 097 700**
Financial guarantees	1 222 236	1 083 691
Credit commitments and other commitments connected with loans	7 899 290	7 014 009

The table above presents the structure of the Group's exposures to credit risk as at 31st December 2017 and 31st December 2016, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

The credit quality of financial assets, which were neither past-due(*), nor impaired.

PLN'000	Maximum exposure	
	31.12.2017	31.12.2016
Balance exposures exposed to credit risk not past due and not impaired:	**65 866 562**	**63 812 106**
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	254 205	1 267 811
Loans and advances to clients (according to Master Scale):	45 178 599	44 779 120
• 1-3 Highest quality	17 734 981	19 331 657
• 4-6 Good quality	8 274 048	6 938 616
• 7-9 Medium quality	10 354 286	11 229 815
• 10-12 Low quality	3 937 005	2 925 337
• 13-14 Watched	218 783	241 993
• 15 Default (**)	193 468	195 650
• Without rating (***)	4 466 028	3 916 052
Trading debt securities (State Treasury(****) bonds)	338 359	314 476
Derivatives and adjustment from fair value hedge (according to Master Scale):	1 078 544	267 922
• 1-3 Highest quality	63 420	99 804
• 4-6 Good quality	67 980	83 648
• 7-9 Medium quality	14 902	26 169
• 10-12 Low quality	37 795	25 463
• 13-14 Watched	49	32
• 15 Default	0	28
• Without rating	730	2 953
• fair value adjustment due to hedge accounting	7 784	11 889
• Valuation of future FX payments	4	2
• Hedging derivative	885 880	17 934
Investment debt securities (State Treasury (****), Central Bank(****), Local Government , EIB)	19 016 855	17 092 257
Receivables from securities bought with sell-back clause	0	90 520

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

(**) - Receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure and exposures that used to be classified as impaired in the past but are cured now but according to default definition used in IRB process are still presented as Rating 15.

(***) - The group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and some leasing clients.

(****) - Rating of Poland in 2017 BBB+ (S&P), A2 (Moody's), A- (Fitch).

The quality of loans and advances to clients (according to Master Scale) divided by customer segments, which were neither past-due(*), nor impaired:

Gross exposure in '000 PLN	31.12.2017			
	Loans and advances to customers			Total
	Companies	Mortgages	Other retail	
1-3 Highest quality	41 863	17 227 541	465 577	17 734 981
4-6 Good quality	2 053 260	4 622 646	1 598 142	8 274 048
7-9 Medium quality	5 316 538	2 138 128	2 899 620	10 354 286
10-12 Low quality	2 647 236	574 453	715 316	3 937 005
13-14 Watched	29 829	133 188	55 766	218 783
15 Default (**)	54 338	115 971	23 159	193 468
Without rating (***)	4 463 694	2 122	212	4 466 028
Total	14 606 758	24 814 049	5 757 792	45 178 599

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

(**) - Receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure and exposures that used to be classified as impaired in the past but are cured now but according to default definition used in IRB process are still presented as Rating 15.

(***) - The group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and particular leasing clients

Gross exposure in '000 PLN	31.12.2016			
	Loans and advances to customers			Total
	Companies	Mortgages	Other retail	
1-3 Highest quality	80 527	18 808 749	442 381	19 331 657
4-6 Good quality	1 151 642	4 516 697	1 270 277	6 938 616
7-9 Medium quality	6 450 917	2 120 467	2 658 431	11 229 815
10-12 Low quality	1 311 432	748 118	865 787	2 925 337
13-14 Watched	18 550	173 837	49 606	241 993
15 Default (**)	94 430	80 703	20 517	195 650
Without rating (***)	3 915 379	617	56	3 916 052
Total	13 022 877	26 449 188	5 307 055	44 779 120

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

(**) - Receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure and exposures that used to be classified as impaired in the past but are cured now but according to default definition used in IRB process are still presented as Rating 15.

(***) - The group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects and particular leasing clients

(3e) Loans

The structure of loans granted to customers and to banks as well as key loans portfolio ratios are as follows:

Gross exposure in '000 PLN

	31.12.2017		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	45 178 599	254 205	44 779 120	1 267 811
Overdue(*), but without impairment	1 497 041	0	1 426 379	0
Total without impairment (IBNR)	46 675 640	254 205	46 205 499	1 267 811
With impairment	2 232 666	0	2 179 457	0
Loans and advances, gross	**48 908 306**	**254 205**	**48 384 956**	**1 267 811**
Impairment write-offs together with IBNR	(1 497 228)	0	(1 364 913)	0
Loans and advances, net	**47 411 078**	**254 205**	**47 020 043**	**1 267 811**
Loans with impairment / total loans	4.57%	0.00%	4.50%	0.00%

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

Loans and advances without impairment in '000 PLN

	31.12.2017		31.12.2016	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without identified impairment triggers	46 622 222	254 205	46 115 322	1 267 811
With identified impairment triggers, incl.	53 418	0	90 177	0
- Exposures for which expected cash-flows consider cash-flows from collateral, incl..	53 418	0	90 177	0
- overdue(*)	39 803	0	14 442	0
Loans and advances without impairment, gross	**46 675 640**	**254 205**	**46 205 499**	**1 267 811**
Impairment for IBNR portfolio	(181 972)	0	(185 740)	0
Loans and advances without impairment, net	**46 493 668**	**254 205**	**46 019 759**	**1 267 811**

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

Loans and advances past due but without impairment

Loans past due below 90 days are not considered as impaired exposures, unless other impairment triggers are identified. The gross amount of loans past due but without impairment, divided between customer segments, is as follows:

Gross exposure in '000 PLN	31.12.2017				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5-30 days(*)	463 247	502 173	220 042	0	1 185 462
Delay 31-60 days	64 967	102 230	50 489	0	217 686
Delay 61-90 days	10 680	26 796	21 503	0	58 979
Delay above 90 days(**)	33 472	11	1 431	0	34 914
Total	572 366	631 210	293 465	0	1 497 041

Gross exposure in '000 PLN	31.12.2016				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5-30 days(*)	400 559	519 228	192 467	0	1 112 254
Delay 31-60 days	60 149	115 019	53 822	0	228 990
Delay 61-90 days	10 022	38 841	21 300	0	70 163
Delay above 90 days(**)	6 281	7 049	1 642	0	14 972
Total	477 011	680 137	269 231	0	1 426 379

(*) - loans overdue not more than 4 days are treated as technical delay and are not shown in this category

(**) - receivables past due over 90 days, but not included in the impaired portfolio, displaying impairment triggers but not demonstrating impairment due to estimated cash flows or below the minimum threshold

Impaired loans and advances

The gross amount of impaired loans and advances broken down into customer segments is as follows:

Gross exposure in '000 PLN	31.12.2017				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	536 113	182 390	3 021	0	721 524
Collective analysis	239 989	476 384	794 769	0	1 511 142
Total	776 102	658 774	797 790	0	2 232 666

Gross exposure in '000 PLN	31.12.2016				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	588 896	245 632	4 032	0	838 560
Collective analysis	211 955	440 755	688 187	0	1 340 897
Total	800 851	686 387	692 219	0	2 179 457

Loans and advances covered by case-by-case analysis

The quantification of the value of the portfolio subjected to case-by-case analysis as well as of the value of created charges, split between impaired receivables and the IBNR portfolio (and respectively charges) is presented in financial notes.

The tables below present the structure of the impaired portfolio subjected to case-by-case analysis.

Loans and advances to customers - by currency

	31.12.2017			31.12.2016		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	580 437	80.5%	62.9%	610 098	72.8%	54.3%
CHF	103 311	14.3%	27.4%	179 254	21.4%	19.2%
EUR	37 552	5.2%	45.3%	48 927	5.8%	33.9%
USD	224	0.0%	40.2%	281	0.0%	44.1%
Total (Case by Case impaired)	721 524	100.0%	56.9%	838 560	100.0%	45.6%

Loans and advances to customers - by coverage ratio

	31.12.2017		31.12.2016	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	166 405	23.0%	286 243	34.1%
20% - 40%	85 295	11.8%	162 813	19.4%
40% - 60%	147 214	20.4%	95 344	11.4%
60% - 80%	53 806	7.5%	94 493	11.3%
Above 80%	268 804	37.3%	199 667	23.8%
Total (Case by Case impaired)	721 524	100.0%	838 560	100.0%

At the end of 2017, the financial impact from the established collaterals securing the Group's receivables with impairment recognised under individual analysis (Case by Case) amounted to PLN 230,3 million (at the end of 2016 respectively PLN 323 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

Restructured loans and advances

The restructuring of receivables is done by dedicated units (separately for corporate and retail receivables).

The restructuring of both corporate and retail receivables allows the Group to take effective action towards the customers, the purpose of which is to minimize losses and mitigate, as quickly as possible, any risks to which the Group is exposed in connection with client transactions giving rise to the Group's off-balance sheet receivables or liabilities.

The restructuring process applies to the receivables which, based on the principles in place in the Group, are transferred to restructuring and recovery portfolios and includes setting new terms of transactions which are acceptable for the Group (including in particular the terms of their repayment and their collateral and possibly obtaining additional collateral).

Recovery of retail receivables is a fully centralised process implemented in two stages:

- warning process - conducted by Direct Banking Department,
- restructuring and execution proceedings – implemented by Retail Liabilities Collection Department.

Process performed by Direct Banking Department involves, direct, telephone contacts with Customers and obtaining repayment of receivables due to the Group. In case of failure to receive repayment or in case the Customer applies for debt restructuring, the case is taken over by the Retail Liabilities Collection Department and involves any and all restructuring and execution activities.

Recovery process is supported by specialised IT system covering the entire Customer portfolio, fully automated at the stage of portfolio monitoring and supporting actions undertaken in later restructuring and recovery phases. The behavioural scoring model constitutes an integral component of the system, used at the warning stage. The system is used for retail liabilities collection process applicable to all retail Customer segments.

The scoring model is based on internal calculations including, inter alia, Customer's business segment type of credit risk based product (applicable, primarily, to mortgage products) and history of cooperation with the Customer relative to previous restructuring and execution activities. Late receivables from retail customers are sent to the IT system automatically no later than 4 days after the date of the receivable becoming due and payable.

The restructuring and recovery process applicable to corporate receivables (i.e. balance and off-balance receivables due from corporate and SME customers) is centralized and performed by the Corporate Recovery Department. Recovery of corporate receivables aims to maximize the recovery amounts and to mitigate risk incurred by the Group in the shortest possible periods of time by carrying out the accepted restructuring and recovery strategies towards:

- the customer,
- corporate receivables,
- collateral ensuring their repayment.

The actions performed as part of those strategies include, among others: setting the terms and conditions of Customer financing, terms and conditions of restructuring corporate receivables (also within court restructuring proceedings), including the terms on which they will be repaid and secured, obtaining valuable and liquid collateral, achieving amicable repayment, recovery of due and payable receivables (also by court executive officer), also from collateral, actions performed within debtors' bankruptcy proceedings, conducting required legal actions.

Corporate Recovery Department manages the corporate receivable restructuring and recovery process by using IT applications supporting the decision-making process and monitoring. They provide instantaneous information on receivables, collateral, approach used and key actions and dates

The table below presents the loan portfolio with recognised impairment managed by the Group's organisational units responsible for loan restructuring.

Gross exposure in '000 PLN	31.12.2017	31.12.2016
Loans and advances to private individuals	713 659	657 806
Loans and advances to companies	250 413	258 899
Total	964 072	916 705

(3f) Debt and equity securities

The table below presents the structure of securities in the Group's portfolio as at 31 December 2017 (gross, PLN'000).

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	338 351	12 810 462	12	13 148 825
Central Bank	0	6 077 287	0	6 077 287
Other	8	135 065	50 181	185 254
- listed	8	81 130	431	81 569
- not listed	0	53 935	49 750	103 685
Total	**338 359**	**19 022 814**	**50 193**	**19 411 366**

The table below presents the structure of securities in the Group's portfolio as at 31 December 2016 (gross, PLN'000).

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	314 466	14 289 633	12	14 604 111
Central Bank	0	2 669 700	0	2 669 700
Other	10	139 900	43 353	183 263
- listed	10	79 236	390	79 636
- not listed	0	60 664	42 963	103 627
Total	**314 476**	**17 099 233**	**43 365**	**17 457 074**

(3g) Collateral transferred to the Group

In 2017 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from lien or transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (also as part of selling organized parts or the debtor's whole enterprise). Funds obtained in such a way are allocated directly for repayment of the Bank's receivables (such debt-collection procedure is implemented without recording transferred collateral on the so-called "Fixed Assets for Sale").

At the same time, a subsidiary of Bank - Millennium Leasing, takes control over some of assets leased and leads active measures aimed at their disposal. Data about the value of these assets and their changes during the reporting period are shown in **note (23) "Non-current assets held for sale"** of the consolidated balance sheet.

(3h) Policy for writing off receivables

Credit exposures, with respect to which the Group no longer expects any cash flows to be recovered and for which impairment provisions (or fair value adjustments in case of overdue receivables originated from derivatives) have been created fully covering the outstanding debt are written-off the balance sheet against said provisions and transferred to off-balance. This operation does not cause the debt to be cancelled and the legal and recovery actions, reasonable from the economic point of view, are not interrupted in order to enforce repayment.

In most of cases the Group writes off receivables against impairment provisions when said receivables are found to be unrecoverable i.e. among other things:

- obtaining a decision on ineffectiveness of execution proceedings;
- death of a debtor;
- confirmation that there are no chances to satisfy claims from the estate in bankruptcy;
- exhaustion of all opportunities to carry out execution due to the lack of assets of the main debtor and other obligors (e.g. collateral providers).

(3i) Concentration of risks of financial assets with exposure to credit risk

Economy sectors

The table below presents the Group's main categories of credit exposure broken down into components, according to category of customers.

31.12.2017	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	254 205	0	0	0	0	0	0	0	254 205
Loans and advances to customers	172 828	5 836 781	4 037 554	2 343 036	245 345	26 104 033	6 849 047	3 319 682	48 908 306
Trading securities	19	65	10	0	338 351	0	0	16	338 461
Derivatives and adjustment due to fair value hedge	1 013 703	21 647	21 011	92	0	0	0	22 091	1 078 544
Investment securities	131 035	5 960	0	142	18 935 737	0	0	31	19 072 905
Receivables from securities bought with sell-back clause	0	0	0	0	0	0	0	0	0
Total	1 571 790	5 864 453	4 058 575	2 343 270	19 519 433	26 104 033	6 849 047	3 341 820	69 652 421

* including: credit cards, cash loans, current accounts overdrafts

31.12.2016	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 267 811	0	0	0	0	0	0	0	1 267 811
Loans and advances to customers	144 745	4 881 381	3 706 759	2 293 059	308 447	27 815 712	6 268 505	2 966 348	48 384 956
Trading securities	8	85	10	0	314 466	0	0	17	314 586
Derivatives and adjustment due to fair value hedge	225 598	4 744	183	188	0	0	0	37 209	267 922
Investment securities	122 131	7 140	0	151	17 013 033	0	0	33	17 142 488
Receivables from securities bought with sell-back clause	90 520	0	0	0	0	0	0	0	90 520
Total	1 850 813	4 893 350	3 706 952	2 293 398	17 635 946	27 815 712	6 268 505	3 003 607	67 468 283

* including: credit cards, cash loans, current accounts overdrafts

Loans and advances to customers by economy sectors and segment

Taking into consideration segments and activity sectors concentration risk, the Group defines internal concentration limits in accordance with the risk tolerance allowing it to keep well diversified loan portfolio.

The main items of loan book are mortgage loans (53%) and cash loans (11%). The portfolio of loans to companies (including leasing) from different sectors like industry, construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 33% of the total portfolio.

Sector name	2017 Balance Exposure (PLN million)	share (%)	2016 Balance Exposure (PLN million)	share (%)
Credits for individual persons	**32 953.1**	**67.4%**	**34 084.2**	**70.4%**
Mortgage	26 104.0	53.4%	27 815.7	57.5%
Cash loan	5 332.4	10.9%	4 919.0	10.1%
Credit cards and other	1 516.6	3.1%	1 349.5	2.8%
Credit for companies*	**15 955.2**	**32.6%**	**14 300.7**	**29.6%**
Wholesale and retail trade; repair	4 037.6	8.3%	3 706.8	7.7%
Manufacturing	4 836.7	9.9%	3 967.2	8.2%
Construction	1 000.1	2.0%	914.2	1.9%
Transportation and storage	2 343.0	4.8%	2 293.1	4.7%
Public administration and defence	245.3	0.5%	308.4	0.6%
Information and communication	574.0	1.2%	408.9	0.8%
Other Services	774.6	1.6%	696.7	1.4%
Financial and insurance activities	172.8	0.4%	144.7	0.3%
Real estate activities	843.2	1.7%	715.7	1.5%
Professional, scientific and technical services	364.7	0.7%	337.9	0.7%
Mining and quarrying	60.0	0.1%	118.5	0.2%
Water supply, sewage and waste	104.9	0.2%	99.0	0.2%
Electricity, gas, water	90.9	0.2%	111.9	0.2%
Accommodation and food service activities	156.0	0.3%	157.0	0.3%
Education	63.3	0.1%	31.8	0.1%
Agriculture, forestry and fishing	94.1	0.2%	103.6	0.2%
Human health and social work activities	169.1	0.3%	161.9	0.3%
Culture, recreation and entertainment	24.9	0.0%	23.4	0.0%
Total (gross)	**48 908.3**	**100.0%**	**48 385.0**	**100.0%**

(*) incl. Microbusiness, annual turnover below PLN 5 million

Concentration ratio of the 20 largest customers in the Group's loan portfolio (considering groups of connected entities) at the end of 2017 is 5.9% comparing with 5.4% at the end of 2016. Concentration ratio in 2017 also increased marginally for the 10 largest customers: to 4.1% from 3.7% at the end of the previous year, in line with risk tolerance policy of the Bank.

4) MARKET RISK

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse movement in interest rates, foreign exchange rates or prices of bonds, equities or commodities.

Market-risk evaluation measures

The Group's market risk measurement allows monitoring of all of the risk types, that is generic risk (including interest rate risk, foreign exchange risk, equity risk), non-linear risk, specific risk and commodity risk. In 2017 the nonlinear risk and commodities risk did not exist in the Group. The equity risk assumed to be irrelevant since the Group's engagement in equity instruments is immaterial.

Each market risk type is measured individually using an appropriate risk models and then integrated measurement of total market risk is built from those assessments without considering any type of diversification between the four risk types (the worst case scenario).

The main measure used by the Group to evaluate market risks (interest rate risk, foreign exchange risk, equity risk) is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement.

The Value at Risk in the Group (VaR) is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). In order to adapt to regulatory requirements of CRDIV / CRR, since April 2014 the volatility associated with each market risk vertex considered in the VaR model (and respective correlation between them) has been estimated by the equally weighted changes of market parameters using the effective observation period of historical data of last year. Previously applied EWMA method (exponentially weighted moving average method) with effectively shorter observation period is now only justified by a significant upsurge in price volatility.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear risk, commodity risk and specific risk), the appropriate assessment rules were defined. The non-linear risk is measured according to internally developed methodology which is in line with the VaR methodology – the same time horizon and significant level is used. Specific and commodities' risks are measured through standard approach defined in supervisory regulations, with a corresponding change of the time horizon considered.

The market risk measurement 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.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.

All reported excesses are documented. This includes an explanation of their causes and their incorporation in one of the three classes of excess explanation: adequacy of the model, insufficient model accuracy or unanticipated market movements.

Parallel to the VaR calculation the portfolios are subject to a set of stress scenarios, in order to:

- Estimate the potential economic loss resulting from extreme variations in market risk factors,
- Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- Identify the actions that can be taken to reduce the impact of extreme variations in the risk factors.

The following types of market scenarios are being applied:

- Parallel shifts of the yield curves;
- More steep or flat shape of the yield curves;
- Variations of the exchange rates;
- Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows having on-line access to the risk exposures in terms of VaR in all market risk management areas (intra-day and end-of-day).

The VaR is used as a measure in assessing the risks incurred by the positions in consolidated terms and separately for the Trading and Banking Book. In addition, each Book is divided into the risk management areas. The global limit is expressed as a fraction of the consolidated Own Funds and then limit is divided into the books, risk management areas and various types of risk, which enables the Group for full measurement, monitoring and control of market risk. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Group.

The market risk limits are revised at least once a year and in order to take into account, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 1st November 2017.

In 2017 the VaR indicators for the Group remained on average at the level of PLN 22.1 million (7% of the limit) and PLN 17.5 million (8% of the limit) as of the end of December 2017. The VaR indicators presented in the table below reflect joint exposures to market risk in the Group, that is Trading Book and the Banking Book. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect is connected with the fact that the Group's market risk is mainly the interest rate risk. The figures in the Table include also the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

The market risk in terms of VaR for the Group ('000 PLN):

VaR measures for market risk ('000 PLN)	VaR (2017)				
	31.12. 2016	Average	Maximum	Minimum	31.12. 2017
Total risk	38 738	22 118	48 262	13 088	17 540
Generic risk	36 702	20 046	46 229	11 058	15 666
Interest Rate VaR	36 692	20 050	46 222	11 063	15 651
FX Risk	32	166	3 365	10	97
Diversification Effect	0,1%				0,5%
Specific risk	2 036	2 071	3 667	1 874	1 874

The corresponding exposures as of 2016 respectively amounted to ('000 PLN):

VaR measures for market risk ('000 PLN)	VaR (2016)				
	31.12. 2015	Average	Maximum	Minimum	31.12. 2016
Total risk	35 818	43 997	60 779	24 223	38 738
Generic risk	33 864	41 865	58 556	22 186	36 702
Interest Rate VaR	33 861	41 873	58 510	22 109	36 692
FX Risk	41	149	3 844	7	32
Diversification Effect	0.1%				0,1%
Specific risk	1 954	2 132	3 334	1 921	2 036

The market risk exposure divided into Trading Book and Banking Book together with risk type division is presented in the table below ('000 PLN):

Banking Book:

VaR measures for market risk ('000 PLN)	VaR (2017)				
	31.12 2016	Average	Maximum	Minimum	31.12 2017
Total risk	38 638	21 031	47 325	13 209	16 271
Generic risk	36 607	19 017	45 297	11 184	14 401
Interest Rate VaR	36 606	19 016	45 296	11 184	14 401
FX Risk	3	2	4	0	0
Diversification Effect	0,0%				0,0%
Specific risk	2 031	2 014	2 082	1 870	1 870

VaR measures for market risk ('000 PLN)	VaR (2016)				
	31.12. 2015	Average	Maximum	Minimum	31.12. 2016
Total risk	33 957	43 920	61 222	24 660	38 638
Generic risk	32 010	41 836	59 008	22 627	36 607
Interest Rate VaR	32 010	41 835	59 002	22 626	36 606
FX Risk	0	2	8	0	3
Diversification Effect	0.0%				0,0%
Specific risk	1 947	2 085	2 339	1 913	2 031

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2017)				
	31.12 2016	Average	Maximum	Minimum	31.12 2017
Total risk	741	1 880	5 192	334	1 614
Generic risk	736	1 822	5 188	330	1 610
Interest Rate VaR	729	1 779	5 103	332	1 598
FX Risk	32	166	3 366	9	97
Diversification Effect	3,4%				5,3%
Specific risk	4	57	1 585	4	4

VaR measures for market risk ('000 PLN)	VaR (2016)				
	31.12. 2015	Average	Maximum	Minimum	31.12. 2016
Total risk	3 245	1 759	8 361	194	741
Generic risk	3 238	1 711	8 245	189	736
Interest Rate VaR	3 236	1 673	8 267	190	729
FX Risk	41	148	3 848	7	32
Diversification Effect	1.2%				3,4%
Specific risk	7	47	995	4	4

In 2017, risk limits in terms of VaR were not breached - neither for the whole Group nor for the Banking Book and Trading Book, separately.

All eventual excesses of market risk limits are always reported, documented and ratified at the proper competence level.

Open positions mostly included interest-rate instruments and FX risk instruments. The FX risk covers all the foreign exchange exposures of the Group. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows keeping FX open positions mainly in Trading Book. In 2017, the FX open position was kept at low levels and well below defined limits. In June 2016, due to extraordinary cash payment in EUR connected with being a beneficiary of the transaction between Visa Inc. and Visa Europe Ltd, the Bank's Management Board approved the temporary FX open position above the established limits. The FX open position reached temporarily the level of PLN 111.2 million and was closed to the levels well below maximum limits in place within four working days after receiving the payment on 21st June 2016.

Evolution of the total FX open position (Overnight) in Trading Portfolio (PLN thousand):

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2017	4 988	1 667	23 192	5 961
2016	7 151	1 501	111 170	25 199

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

In the back-testing calculation for VaR model, two excesses were detected during the last twelve months (see table below, PLN thousand).

Reporting Date	VaR (generic risk)	Theoretical change in the value of the portfolio (absolute values)	Number of excesses in last 12 months *
2017-12-31	15 666	2 043	2
2016-12-31	36 702	35 150	4

* The excess is said to happen whenever the difference between the absolute change in portfolio value and VaR measure is positive.

In 2017, the excesses in the process of VaR model back testing were caused by unanticipated market movements, that is mainly CHF money market rates in December 2017. The number of excesses proves the model adequacy (green zone: 1 - 8 excesses acceptable).

VaR assessment is supplemented by monitoring the sensitivity to the above-mentioned stress tests scenarios of portfolios carrying market risk.

The results of stress tests for market risk were reported to the Capital, Assets and Liabilities Committee. In keeping with principles adopted by the Group the limits for stress test results based on the probability of the scenario materialization are triple as high as limits for daily management of market risk. In 2017 the limits for market risk exposure under stress scenarios were not exceeded.

Interest rate risk in Banking Book

In case of the Banking Book, the main component of the market risk is interest rate risk. As a rule, FX position generated in the Banking Book is fully transferred to the Trading Book where it is managed on a daily basis. Conservative limits applied to FX position guarantees that the market risk generated by open FX positions is residual in the Group (see table above).

Exposure to interest rate risk in the Banking Book are primarily generated by the unbalance between assets and liabilities (including equity) that have fixed rate (or zero rate) and also, to a lower extent, by the different repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. Additionally, due to specificity of the polish legal system, the interest rate of consumer credits is limited (from January 2016 cannot exceed two times Reference Rate of the National Bank of Poland increased by 7 percentage points). In situations of decreasing interest rates, the impact on Net Interest Income is negative and depend on the percentage of the loan portfolio that is affected by the new maximum rate.

Regarding the interest rate risk in Banking Book, 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 also 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 covers both earnings-based and economic value measures, that is quarterly:

- the economic value of equity that measures the theoretical change in the net present value of all Group's positions resulting from different upward/downward parallel basis points shocks applied to market interest rates curves (0% floor in a low interest rate environment is assumed[3]). Therefore, the results shows the impact on the Group's economic value resulting from the interest rate change,

[3] According to EBA guidelines on the management of interest rate risk arising from non-trading activities (IRRBB) (EBA/GL/2015/08).

and monthly:

- the interest rate sensitivity in terms of BPVx100, that is the change of the portfolio's value for the parallel movement in the yield curve by 1 basis point multiply by 100,
- the impact on net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of 100 basis points.

The measurement is carried for all the risk management areas in the Bank, with the particular attention on Banking Book. For the purpose of above mentioned analysis for non-maturing assets and liabilities or for the instruments with Client's option embedded, the Group is defining specific assumptions, including:

- Due date for non-maturing deposits is defined on the basis of historical data regarding customer behaviour, taking into account the stability of the volumes and with assumption of a maximum maturity of 3 years,
- In the interest rate risk measurement process a tendency to faster repayment of receivables than contractually scheduled is taken under consideration. On the basis of historical data a prepayment rate is determined in respect to all relevant Bank's loan portfolios. It should be noted, that mortgages loans that are the Group's loan product with a dominant share, are indexed to floating interest rate. This causes that the tendency to early repayment is less important for the interest rate risk.
- The equity, fixed and other assets are assumed to have repricing period of 1 year.

The results of the above mentioned analysis as of the end of 2017 and 2016 did not exceed internally defined limits. The results for interest rate sensitivity in terms of BPVx100 are presented in Table below (PLN thousand). The internally defined limits were not exceeded.

Sensitivity of the Banking Book to changes of interest rates was as follows ('000 PLN):

	31.12.2017	31.12.2016
	BPVx100	BPVx100
PLN	50 069	(42 537)
CHF	14 315	20 468
EUR	30 955	21 075
USD	7 139	7 354
Other	3 650	2 758
TOTAL	106 128	9 118
Equity, fixed and other assets	68 974	60 085
TOTAL	**175 102**	**69 203**

Additionally, for position in Polish Zloty in Banking Book in a scenario of immediate parallel yield curve decrease by 100 bps, the impact on net interest income in the next 12 months after 31st December 2017 is negative and equal to -7.0% of the annualized 4Q2017 net interest income (+5.7% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the polish legal system mentioned above (the formula for maximum rate valid in 2017 was applied).The NBP Reference rate is currently set at 1.5%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 8% annually in comparison to currently valid 10%.

5) LIQUIDITY RISK

The objective of liquidity risk management is to ensure and maintain the Group's ability to meet both current, as well as future funding requirements taking into account costs of funding.

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the needs for funding arising from the Group's obligations.

There were no exposures to liquidity risk at a subsidiary level, because the Bank manages liquidity risk centrally. Both the financing requirements and any liquidity surplus of subsidiaries are managed by transactions with the Bank, unless specific market transactions are previously decided and agreed. The Treasury Department is responsible for the day-to-day management of the Group's liquidity position in accordance with the adopted rules and procedures taking into account goals defined by the Management Board and the Capital, Assets and Liabilities Committee.

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. At the end of 2017 total Clients' deposits of the Group reached the level of PLN 57.3 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equalled to approx. 70.4% at the end of December 2017 (71.0% at the end of December 2016). The high share of funds from individuals had a positive impact on the Group's liquidity and supported the compliance of the supervisory liquidity measures.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2017 amounted respectively to 3.9 % and 7.0 % (in December 2016 it was respectively 4.1 % and 7.2 %). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2017. 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.

The deposit base is supplemented by the deposits from financial institutions and other money market operations. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

During 2017 the Bank continued to explore the possibility of raising additional funding from loans from financial institutions, bond issues and bank's securities in order to diversify the source of funding In August 2017, the Bank entered into an agreement with Industrial and Commercial Bank of China (Europe) S.A., Branch in Poland (ICBC Europe), concerning a 3 year, senior unsecured loan of 80 million EUR. The interest rate on the loan is based on EURIBOR 6M and the margin, and the funds are allocated to the general financing of the borrower's activity. The loan will be repaid by the Bank in a single instalment (bullet) in August 2020. . The total balance sheet value of medium-term loans from financial institutions at the end of 2017 amounted to PLN 961.4 million (at the end of December 2016 it was PLN 898.0 million).

In December 2017 was the date of redemption of ten years subordinated bonds with nominal value of EUR 150.0 million issued by the Bank in 2007. The monies obtained by the Bank from these bonds were included in external stable funding. The redemption did not have any negative impact on Group's liquidity situation as in December 2017 the Bank issued new, ten years subordinated bonds in total nominal amount of PLN 700.0 million. Maturity of the new bonds is on 7 December 2027. The issuer may decide to redeem the bonds on 8 December 2022 only after obtaining prior assent of Polish Financial Supervision Authority for earlier redemption of the bonds, if such assent is required.

Additionally, in 2017 the Bank issued a 3-year Senior Unsecured Bonds in the amount of PLN 300.0 million and PLN 54.2 million of 3-year bank's securities whereas Millennium Leasing issued 2-year bonds in nominal amount of PLN 86.0 million. At the end of December 2017 the total balance sheet value of bonds and bank's securities issued by the Group with contractual period up to 3 years amounted to PLN 1 156.5 million (PLN 1 313.8 million in nominal value in December 2016).

In 2017 the increase of the deposits from Customers at the faster pace than loans, allowed Group to maintain Loan-to-Deposit ratio well below 100%. This ratio, including own issues sold to individuals and sell-buy back transactions with customers, decreased at the end of December 2017 and was equal to 82% (comparing to level of 84% as of 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 December 2017. During 2017 this portfolio grew by 11% from PLN 17.3 billion at the end of December 2016 (25% of total assets) to approx. PLN 19.2 billion at the end of December 2017 (27% of total assets). Those assets are characterized with high liquidity and can be easily used as a collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which can overcome crisis situations.

The Group manages FX liquidity through the use of FX-denominated bilateral loans as well as 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 Group has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Group is obliged to place deposits as a 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 a collateral from the counterparties. In none of signed ISDA Schedules and Credit Support Annex (both international and domestic) there exists a relationship between level of the Bank's ratings and parameters of collateral. The potential downgrade of any of the ratings will not have impact on method of calculation and collateral exchange.

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.

Liquidity risk evaluation measures

The estimation of the Group's liquidity risk is carried out with the use of both measures defined by the supervisory authorities and internally, for which exposure limits were established.

The evolution of the Group's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively. Additionally, the liquid asset portfolio is calculated on the daily basis.

These figures are compared with the exposure limits in force and reported daily to the areas responsible for the management and control of the liquidity risk in the Group. During 2017, all internal liquidity indicators were well above minimum limits. In 3Q 2017, the internal limits were revised. The revision of the limits took into account the size of the consolidated own funds, current and expected balance sheet structure, historical consumption limits, as well as current market conditions and supervisory requirements. The new limits are effective from 1st November 2017.

Current Liquidity indicators PLN million / %

	31.12.2017			
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Liquid assets Portfolio (m PLN)	LCR (%)
Indicator	16 412	16 412	18 735	153%
Minimum limit	934	(2 336)	10 000	80%

	31.12.2016			
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Liquid assets Portfolio (m PLN)	LCR (%)
Indicator	14 131	14 113	16 950	124%
Minimum limit	900	(2 249)	8 000	70%

* - Immediate and Quarterly Liquidity Indicator: The sum of cash flows in spot date or during the next 3 months respecitively, Nostro Balance (the algebraic sum for all currencies reduced by obligatory reserve) and Highly Liquid Assets.

** - Liquid Assets Portfolio: The sum of cash, exposure to Central Bank (the surplus above the required obligatory reserve) and Polish Goverenment debt securities, NBP-Bills and due from banks with maturity up to 1 month. The debt securities portfolio is reduced by securities encumbered for non liquidity purposes.

The Group monitors liquidity on the basis of internal liquidity measures, taking into account in particular the impact of FX rates on the liquidity situation.

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 regulatory minimum of 80% for LCR valid in 2017 was complied by the Group (as of the end of December 2017 the LCR reached the level of 153%). 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 to the areas responsible for the management and control of the liquidity risk in the Group.

Additionally the Group employs an internal structural liquidity analysis based on cumulative, behaviour liquidity gaps calculated on a real basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted by the Group for the ratio of liquidity shortfall is established for each time bucket below 5 years.

In 2017 liquidity gaps were maintained at levels significantly above the safe limits. The results of cumulative, behaviour liquidity gaps (normal conditions) are presented in tables below.

31.12.2017 Adjusted Liquidity Gap (PLN million)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	26 147	5 348	8 070	7 288	7 721	25 608
Adjusted balance liabilities	12 383	3 252	6 192	5 048	5 976	44 700
Balance-Sheet Gap	13 764	2 096	1 878	2 240	1 745	(19 092)
Cumulative Balance-Sheet Gap	13 764	15 860	17 738	19 978	21 723	2 631
Adjusted off-balance assets	114	56	110	319	40	10
Adjusted off-balance liabilities	(1 115)	(76)	(163)	(80)	(53)	(21)
Off-Balance Sheet Gap	(1 001)	(20)	(53)	239	(13)	(11)
Total Gap	12 763	2 076	1 825	2 479	1 732	(19 103)
Total Cumulative Gap	12 763	14 839	16 664	19 143	20 875	1 772

31.12.2016 Adjusted Liquidity Gap (PLN million)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	24 096	4 745	6 501	6 224	7 840	27 032
Adjusted balance liabilities	9 719	3 299	4 997	3 742	6 407	44 551
Balance-Sheet Gap	14 378	1 446	1 504	2 482	1 433	(17 519)
Cumulative Balance-Sheet Gap	14 378	15 823	17 327	19 809	21 242	3 723
Adjusted off-balance assets	133	71	115	88	542	15
Adjusted off-balance liabilities	(1 040)	(83)	(121)	(107)	(113)	(35)
Off-Balance Sheet Gap	(907)	(12)	(6)	(19)	429	(20)
Total Gap	13 471	1 434	1 498	2 463	1 862	(17 539)
Total Cumulative Gap	13 471	14 905	16 403	18 866	20 728	3 189

The Group has developed a liquidity risk management tool defining sensitivity analysis and stress scenarios (internal, external and combination of both). For the purpose of stress tests, liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence among others taking into account a reduction of deposits, delays of loans repayment, deteriorated liquidity of the secondary securities market, the highest cost of funding - the assumption of the worst observed margins on deposits in the Bank, parallel shift of the yield curve and PLN depreciation.

Stress tests are performed at least quarterly, to determine the Group's liquidity-risk profile, to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the liquidity contingency plan and management decisions. Additionally, stress test results are used for setting thresholds for early warning signals, which aim is to identify upcoming liquidity problems and to indicate to the Management Board the eventual necessity of launching Liquidity Contingency Plan.

The results of the stress test analysis demonstrated that the liquidity indicators will be maintained above the established limits.

The information regarding the liquidity risk management, including the utilization of the established limits for internal and supervisory measures, is reported monthly to the Capital, Assets and Liabilities Committee and quarterly to the Management Board and Supervisory Board.

The process of the Group's planning and budgeting covers the preparation of the Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

The Group has also emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Group's financial liquidity deteriorates). The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least once a year. In 2017 the Liquidity Contingency Plan was tested and revised in order to guarantee that it is operationally robust. The Plan also adapted revised warning thresholds for early warning indicators, taking into account scenarios and stress test results. The revised Plan was approved by the Supervisory Board in December 2017.

6) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk and excluding strategic and reputational risk (last two are treated as separate categories). Operational risk is demonstrated in every aspect of activity of the organisation and constitutes its intrinsic part.

In the year 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 the best practice of national and international financial institutions. The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities.

Owners of defined business and support processes play a key role in the day-to-day operation of the Bank. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks, thus constituting the first line of defence. The second line of defence is the level of specialized units dealing with the organization of the management and control of an acceptable level of risk, with particular consideration of the areas such as: compliance, antifrauds, security and business continuity as well as insurance and outsourcing. The third line of defence is the independent internal audit unit.

Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

A higher risk management level is the Processes and Operational Risk Committee, which focuses on threats identified in more than one process. All and any activities concerning operational risk are coordinated and supervised by the Risk Committee, the Management Board and the Supervisory Board.

In keeping with the adopted model, risk management is a process of continuous improvement as regards identification, assessment, monitoring, mitigating and reporting by:

- Gathering operational risk events,
- Self-assessment of operational risk in individual processes,
- Analysis and monitoring of risk indicators.

The Group gathers operational risk events in an IT tool. The tool supports management of operational risk. Such events are being afterwards analysed in what concerns the source of event and possibility of mitigating the effects and apply appropriate preventive actions. In the IT tool, events are being ascribed to a certain risk category and proper process type, which is later used as a part of reporting and risk self-assessment validation. The internal database of risk events additionally meets qualitative and quantitative requirements for following the advanced approach in calculating capital requirements on account of operational risk.

The risk self-assessment was being realised together with the processes review. It relied on assessment of adopted solutions' effectiveness in fulfilling expectations of Clients and business partners in the scope of both, services quality and costs optimisation. Approved operational risk and control methodology allowed assessment of risk level in a given process, taking into account existing controls and basing on accepted scenarios. Mitigation actions were proposed implemented and are monitored for purposes of assessment of risk levels above the accepted tolerance threshold.

During the risk and control self-assessment exercise an analysis of performance indicators was made, including risk indicators defined for each process. Key persons - responsible for creating and implementation activities in given processes - have defined and adjusted the indicators thus to make them the best forecasts of future risks. On-going monitoring of indicators serves the purpose of increasing effectiveness and productivity of processes as well as effective control of risk on the level of individual actions within processes.

Information about operational risk in processes is included in the top level dashboards consolidating information about the processes performance.

Considering the degree of development of operational risk management and the scale and profile of its activity, the Bank calculates its capital requirement due to the operational risk using the Standard Approach.

9. OPERATIONAL SEGMENTS

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

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

Retail Customer Segment

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

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

Corporate Customer Segment

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

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

Treasury, ALM (assets and liabilities management) and Other

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

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

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

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

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

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

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 – 31.12.2017

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	1 131 098	265 680	299 690	1 696 468
Net fee and commission income	504 377	156 091	3 085	663 553
Dividends. other income from financial operations and foreign exchange profit	35 356	65 610	118 655	219 621
Other operating income and cost	(37 283)	(14 922)	(2 276)	(54 481)
Operating income	1 633 548	472 459	419 154	2 525 161
Staff costs	(433 223)	(134 703)	(28 612)	(596 538)
Administrative costs	(415 592)	(64 724)	(26 429)	(506 745)
Depreciation and amortization	(43 587)	(8 096)	(1 288)	(52 971)
Operating expenses	(892 402)	(207 523)	(56 329)	(1 156 254)
Impairment losses on assets	(172 361)	(81 829)	(1 168)	(255 358)
Operating Profit	**568 785**	**183 107**	**361 657**	**1 113 549**
Share in net profit of associated companies				0
Banking tax				(188 326)
Profit / (loss) before income tax				**925 223**
Income taxes				(243 996)
Profit / (loss) after taxes				**681 227**

Balance sheet items as at 31.12.2017

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

Income statement 1.01.2016 – 31.12.2016

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	1 002 048	241 562	262 228	1 505 838
Net fee and commission income	429 224	147 066	4 734	581 024
Dividends. other income from financial operations and foreign exchange profit	66 555	66 369	357 648	490 572
Other operating income and cost	(24 778)	(12 121)	(68 320)	(105 219)
Operating income	1 473 049	442 876	556 290	2 472 215
Staff costs	(403 290)	(129 170)	(26 298)	(558 758)
Administrative costs	(386 738)	(85 508)	(26 462)	(498 708)
Depreciation and amortization	(45 415)	(8 435)	(1 004)	(54 854)
Operating expenses	(835 443)	(223 113)	(53 764)	(1 112 320)
Impairment losses on assets	(228 519)	675	(3 350)	(231 194)
Operating Profit	**409 087**	**220 438**	**499 176**	**1 128 701**
Share in net profit of associated companies				(1 376)
Banking tax				(174 069)
Profit / (loss) before income tax				**953 256**
Income taxes				(252 004)
Profit / (loss) after taxes				**701 252**

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

10. TRANSACTIONS WITH RELATED ENTITIES

All and any transactions between entities of the Group in 2017 and 2016 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 concluded under terms and conditions other than market-based.

1) DESCRIPTION OF THE TRANSACTIONS WITH THE PARENT GROUP

The following are the amounts of transactions with the Capital Group of Bank's parent company - Banco Comercial Portugues (ultimate parent company), these transactions are mainly of banking nature(in '000 PLN):

	With parent company		With other entities from parent group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
ASSETS				
Loans and advances to banks – accounts and deposits	263	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				
Deposits from banks	1 252	913	106 970	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	0	0	0	0

	With parent company		With other entities from parent group	
	2017	2016	2017	2016
Income from:				
Interest	8	(7)	0	0
Commissions	156	129	0	0
Other net operating	0	0	0	0
Expense from:				
Interest	4	628	(271)	(314)
Commissions	0	0	0	0
Derivatives net	0	110	0	0
Other net operating	17	44	0	0
General and administrative expenses	144	161	408	1 436

	With parent company		With other entities from parent group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Conditional commitments	101 962	102 183	0	0
- granted	100 345	100 345	0	0
- obtained	1 617	1 838	0	0
Derivatives (par value)	0	99 891	0	0

2) Transactions with the Managing and Supervising Persons

Information on total exposure towards the managing and supervising persons as at 31.12.2017 (in ‘000 PLN):

	The managing persons	The supervising persons
Total debt limit	196.0	163.0
- including an unutilized limit	144.3	121.6

The Group provides standard financial services to Members of the Management Board and Members of the Supervisory Board and their relatives, which services comprise i.a.: keeping bank accounts, accepting deposits or sale of financial instruments. In the Group’s opinion 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 31.12.2017 (in ‘000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	14 436	2 000	158	Personal with a supervising person

Information on total exposure towards the managing and supervising persons as at 31.12.2016 (in ‘000 PLN):

	The managing persons	The supervising persons
Total debt limit	196.0	208.0
- including an unutilized limit	162.2	196.5

Information on total exposure towards companies and groups personally related as at 31.12.2016 (in ‘000 PLN) :

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	35	2 000	132	Personal with a supervising person

3) Information on compensations and benefits of the persons supervising and managing the Bank

Salaries (including the balance of created and reversed provisions for payments of bonuses) and benefits of managing persons recognized in Profit and loss account of the Group were as follows (data in thousand PLN):

Year	Salaries and bonuses	Benefits	Total
2017	17 875.4	1 578.9	19 454.3
2016	14 679.4	1 602.8	16 282.2

The benefits are mainly the costs of accommodation of the foreign members of the Management Board. The values presented in the table above include items classified to the category of short-term benefits and provision for variable remuneration components.

In 2017 and 2016, the Members of the Management Board did not receive any salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2017	1 891.6
2016	2 041.6

In 2017 and 2016, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

11. FAIR VALUE

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

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

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

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

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

Financial instruments not recognized at fair value in the balance sheet

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

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

Receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

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

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

Subordinated liabilities and medium term loans

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

The table below presents results of the above-described analyses as at 31.12.2017 (data in PLN thousand):

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	254 205	254 152
Loans and advances to customers *	18	47 411 078	45 818 564

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 353 131	2 355 464
Amounts due to customers	28	57 273 255	57 270 753
Debt securities	30	1 156 473	1 161 524
Subordinated debt	34	701 971	701 956

* 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 December 2016 (data in PLN thousand):

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 267 811	1 267 563
Loans and advances to customers	18	47 020 043	45 238 237

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	1 270 745	1 271 762
Amounts due to customers	28	55 875 609	55 876 129
Debt securities	30	1 313 836	1 319 294
Subordinated debt	34	664 004	657 787

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 '000PLN, as at 31.12.2017

	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)	16			
- derivatives			139 734	45 146
- debt securities		338 359		
- shares and interests		102		
Hedging derivatives	17		885 880	
Financial assets available for sale	19			
- debt securities		12 891 592	6 077 287	47 976
- shares and interests		329	0	29 632
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities		0	138 371	44 218
Hedging derivatives	17		176 853	

Data in '000PLN, 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)	16			
- derivatives			210 466	27 633
- debt securities		314 476		
- shares and interests		110		
Hedging derivatives	17		17 934	
Financial assets available for sale	19			
- 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)	27			
- derivatives and short sale of securities		106 853	193 716	27 550
Hedging derivatives	17		1 149 653	

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

- index options and FX options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- 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 is described in **Chapter 13, note 5).**

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 2017 are presented in the table below:

	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	10 998	(10 398)	0	(5 740)	0
Change of valuation recognized in equity	0	0	0	0	5 187
Change of valuation recognized in P&L account (including interests)	5 962	(5 717)	0	28	0
Balance on 31 December 2017	43 159	(42 231)	0	47 976	29 632

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

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

12. CONTINGENT LIABILITIES AND ASSETS

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 13. Section 12 "Income Taxes"**.

Court cases brought up by the Group

Value of the court litigations, as at 31.12.2017, in which the companies of the Group were a plaintiff, totalled PLN 212.6 million.

Court cases against the Group

As at 31 December 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 December 2015 until the day of payment, and 521.9 million PLN with statutory interest from 5 April 2016 until the day of payment.

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

As regards the lawsuit filed by PCZ the Regional Court in Wrocław (1st Instance) on 7 April 2017 has issued a verdict favourable to the Bank by dismissing the suit. The plaintiff has lodged an appeal. The Court of Appeal in Wrocław (II instance) dismissed the plaintiff's appeal on December 21, 2017. The verdict is valid, but the plaintiff has the right to lodge a cassation appeal to the Supreme Court.

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

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

As at 31.12.2017, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 247.5 million (excluding the class actions described below). In this group the most important category are cases related to forward transactions (option cases) with total value in dispute of PLN 163.0 million.

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

Class actions

On 21 October 2014 a group action was delivered to the Bank in which a group of the Bank's borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that the Bank is liable towards the same for unjust enrichment in connection with the CHF-indexed mortgage agreements. The members of the group claim that the Bank unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was to result from the application of abusive contractual provisions concerning the CHF-indexation of credits. According to the statement of claim there are approx. 2,300 group members and the value of the subject matter of the dispute is defined at PLN 45.2 million. The Bank does not agree with the claims of the group members.

On 31 December 2014 the Bank submitted a response to the statement of claim. On 4 March 2015 new members joined the group action and the Claimant extended the statement of claim accordingly. According to the Claimant after the extension there are approx. 3,400 group members (including the group members included in the statement of claim) and the value of the subject matter of the dispute is approx. PLN 81.5 million (including the value provided in the statement of claim).

On 14 May 2015 the Regional Court in Warsaw held a hearing concerning the admissibility of the group action proceedings. On 28 May 2015 the Regional Court in Warsaw issued a decision rejecting the group action on the grounds that the case cannot be heard in group action proceedings. On 3 July 2015 the Claimant filed an appeal against this decision, and the Court of Appeal upheld the appeal by refusing rejection of the claim.

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

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

The submission dated 30 June 2017 extending the claim has not yet been served on the Bank's counsel. On 28 September 2017 the Court of Appeal in Warsaw issued a decision dismissing the Bank's appeal against the decision the Regional Court in Warsaw dated 15 March 2017; thus, the decision for the case to be heard in group action proceedings became final.

On 20 November 2017, the District Court in Warsaw ordered the publication in the newspaper "Rzeczpospolita" that group proceedings had been initiated. The announcement has not been published yet

On 3 December 2015 the Bank received a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million PLN claiming that the clauses of the agreements pertaining to low down payment insurance are prohibited and thus null and void. On 3 March 2016 the Bank filed the response to the lawsuit demanding its dismissal. The first court hearing took place on 13 September 2016 and the court issued the decision on the admissibility of the class action in this case. On 16 February 2017 the Court of Appeal dismissed the appeal against the decision on the admissibility of the class action in this case. This decision is final. On 30 March 2017 the Regional Court in Warsaw dismissed Bank's motion to oblige the plaintiff to provide security for costs of proceedings. On 10 April 2017 Bank filed a complaint to the Court of Appeal in Warsaw against the decision dismissing the motion to provide security. On 13 September 2017 the Court of Appeal in Warsaw dismissed the complaint against the decision of the Regional Court in Warsaw of 30 March 2017 on dismissal of the motion to provide security. The decision is final.

On 28 December 2017, pursuant to the decision from 10 October 2017, the Regional Court in Warsaw announced the initiation of group proceedings in the newspaper "Rzeczpospolita", thus setting a period of three months for submitting by interested parties the statements on joining the group.

CONSOLIDATED OFF-BALANCE SHEET ITEMS

	31.12.2017	31.12.2016
Off-balance sheet conditional commitments granted and received	**9 166 626**	**8 202 308**
Commitments granted:	9 121 526	8 097 700
a) financial	7 899 290	7 014 009
b) guarantee	1 222 236	1 083 691
Commitments received:	45 100	104 608
a) financial	0	0
b) guarantee	45 100	104 608

The granted conditional commitments presented in the table above comprise commitments to grant credit (such as: unutilised credit card limits, unutilised current account overdraft facilities, unutilised tranches of investment loans) and issued guarantees and Letters of Credit (securing performance by customers of the Group of their obligations to third parties). The value of above-presented guarantee commitments presents the maximum value of a loss, which may be incurred by the Group, should the customers default on their obligations. The Group creates provisions for impaired irrevocable conditional commitments, reported in the "provisions" item under liabilities in the balance-sheet. The provision value is determined as the difference between the estimated amount of utilised conditional exposure and the present value of expected future cash flows under this credit exposure. In this context, the Group considers that the values presented in the above table are similar to the fair value of contingent liabilities.

The breakdown by entity of all net guarantee liabilities, reported in off-balance sheet items is presented in the table below:

Customer - sector, amount in PLN million	31.12.2017	31.12.2016
financial sector	44.6	80.0
non-financial sector (companies)	1 170.8	996.2
public sector	6.8	7.5
private individuals	0.0	0.0
Total	1 222.2	1 083.7

Guarantees and sureties granted to Clients

Commitments granted - guarantee in PLN million	31.12.2017	31.12.2016
Active guarantees and sureties	725.6	672.4
Sureties for loans granted through EFRWP*	0.3	0.7
Lines for guarantees and sureties	501.0	415.6
Total	1 226.9	1 088.7
Provisions created	(4.7)	(5.0)
Commitments granted - guarantee after provisions	**1 222.2**	**1 083.7**

* European Development Fund of the Polish countryside

The structure of liabilities under guarantees and sureties divided by particular criteria are presented by the tables below (PLN'000):

By currency	31.12.2017	31.12.2016
PLN	581 017	526 012
Other currencies	144 579	146 389
Total:	725 596	672 401

By type of commitment	31.12.2017		31.12.2016	
	Number	Amount	Number	Amount
Guarantee	3 092	708 473	2 829	651 521
Surety	0	0	0	0
Re-guarantee	20	17 123	26	20 880
Total:	3 112	725 596	2 855	672 401

By object of the commitment	31.12.2017			31.12.2016		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 270	403 119	55,56%	2 125	374 356	55,67%
rent payment	257	49 906	6,88%	288	47 988	7,14%
punctual payment for goods or services	247	135 855	18,72%	251	151 339	22,51%
bid bond	251	27 565	3,80%	116	14 679	2,18%
Other	18	1 741	0,24%	16	25 011	3,72%
advance return	31	32 025	4,41%	25	22 333	3,32%
Customs	25	59 720	8,23%	20	17 140	2,55%
payment of bank loan	13	15 665	2,16%	14	19 555	2,91%
Total:	3 112	725 596	100,00%	2 855	672 401	100,00%

13. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts presented in the notes to the consolidated financial statements are presented in PLN thousands.

1) Interest income

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balances with the Central Bank	27 222	25 970
Loans and advances to banks	1 559	611
Loans and advances to customers	1 719 426	1 633 572
Transactions with repurchase agreement	7 018	10 170
Hedging derivatives	305 974	333 914
Financial assets held for trading (debt securities)	9 589	5 675
Investment securities	328 150	267 442
Total	2 398 938	2 277 354

In the line „Hedging derivatives" the Group presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Group is presented **in note (17)**

Interest income for the year 2017 contains interest accrued on impaired loans in the amount of PLN 65,276 thous. (for corresponding data in the year 2016 the amount of such interest stood at PLN 73,501 thous.).

2) Interest expense

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Banking deposits	(20 410)	(12 910)
Loans and advances from banks	(8 723)	(10 536)
Transactions with repurchase agreement	(14 052)	(10 815)
Deposits from customers	(615 992)	(690 045)
Subordinated debt	(13 221)	(12 844)
Debt securities	(29 677)	(33 831)
Other	(395)	(535)
Total	(702 470)	(771 516)

3) Fee and commission income and expense

3a. Fee and commission income

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Resulting from accounts service	77 713	81 351
Resulting from money transfers, cash payments and withdrawals and other payment transactions	63 194	53 855
Resulting from granted credits and loans	153 215	140 449
Resulting from guarantees and sureties granted	12 158	12 261
Resulting from payment and credit cards	162 080	147 816
Resulting from sale of insurance products	98 598	67 452
Resulting from distribution of investment funds units and other savings products	89 212	73 615
Resulting from brokerage and custody service	21 750	20 314
Resulting from investment funds managed by the Group	92 576	79 727
Other	28 792	21 167
Total	799 288	698 007

3b. Fee and commission expense

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Resulting from accounts service	(1 663)	(1 500)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(4 039)	(2 324)
Resulting from granted credits and loans	(20 936)	(19 328)
Resulting from payment and credit cards	(77 596)	(69 186)
Resulting from brokerage and custody service	(3 511)	(3 597)
Resulting from investment funds managed by the Group	(10 244)	(8 667)
Other	(17 746)	(12 381)
Total	(135 735)	(116 983)

4) Dividend income

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Securities valued at fair value through profit and loss (held for trading)	4	3
Investment securities	2 608	1 906
Total	2 612	1 909

5) RESULT ON FINANCIAL INSTRUMENTS AND FOREIGN EXCHANGE RESULT

5a. Result on investment financial assets

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Operations on debt instruments	22 856	9 048
Operations on equity instruments	2 432	305 641
Total	25 288	314 689

The Bank, as member of Visa Europe Ltd is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. In result of the conversion the Bank received EUR 59.2 million in cash, 21 493 preference shares and is entitled to a deferred payment of approx. EUR 5 million minus adjustments.

The closing of the Visa transaction took place on 21st June 2016, and had a significant positive influence on the results of the Bank in the 1st half 2016: the gross impact on revenues totalled PLN 283 million. In order to determine the fair value of deferred payments and preferred shares, 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 were considered.

In the fourth quarter of 2016, taking into account the practice adopted by the banking sector, as well as probability of potential litigations, the Bank reassessed the fair value of VISA transaction settlement. As a result deferred payment component was adjusted by PLN 22.6 million. Following the above, the Bank recognized income from the change in fair value of a deferred payment component which increased gross revenue on VISA settlement recognized in the first half of the year by additional amount of PLN 22.6 million.

5b. Result on financial instruments measured at fair value through profit and loss account and foreign exchange result

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Operations on securities	5 399	(623)
Operations on derivatives	18 845	43 887
Fair value hedge accounting operations, including:	0	72
- result from hedging derivatives	0	866
- result from items subjected to hedging	0	(794)
Foreign exchange result	169 518	132 453
Costs of financial operations	(2 041)	(1 815)
Total	**191 721**	**173 974**

The Result on financial instruments valued at fair value through profit and loss and foreign exchange result account comprises profits and losses generated as a result of selling financial instruments allocated to financial assets/liabilities measured at fair value through the profit and loss account and the effect of their fair value valuation.

This category includes the instruments qualified as “held for trading” – at the moment the Group does not use the capacity to assign other instruments as valued at fair value through the profit and loss account at the initial booking (so-called fair value option).

6) Other operating income

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Profit on sale and liquidation of property, plant and equipment, intangible assets	27 344	24 262
Profit on sale of non current assets held for sale	1	0
Indemnifications, penalties and fines received	3 138	3 326
Income from sale of other services	1 616	755
Income from collection service	2 636	2 230
Income from leasing business	5 667	5 427
Other	29 507	14 556
Total	69 909	50 556

7) General and administrative expenses

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Staff costs:	(596 538)	(558 758)
Salaries (including bonuses)	(491 063)	(462 834)
Social security contributions	(80 013)	(74 756)
Employee benefits, including:	(25 462)	(21 168)
- provisions for retirement benefits	(3 208)	(3 161)
- provisions for unused employee holiday	(2 362)	(509)
- other	(19 892)	(17 498)
General administrative costs	(506 745)	(498 708)
Costs of advertising, promotion and representation	(53 963)	(44 262)
Costs of IT and communications	(78 050)	(75 113)
Costs of renting	(157 369)	(174 889)
Costs of buildings maintenance, equipment and materials	(25 800)	(25 673)
Costs of ATMs and cash handling	(17 551)	(16 511)
Costs of consultancy, audit and legal advisory and translation	(35 189)	(21 991)
Taxes and fees	(17 321)	(17 043)
Costs of National Clearing House	(4 776)	(4 595)
Costs of National Fund for the Rehabilitation of Disabled	(4 663)	(4 830)
Costs of Banking Guarantee Fund – fee for guarantee fund	(52 859)	(60 921)
Financial Supervision costs	(2 375)	(4 682)
Other	(56 829)	(48 198)
Total	**(1 103 283)**	**(1 057 466)**

8) Impairment losses on financial assets

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Impairment losses on loans and advances to customers	(257 981)	(217 389)
- Impairment charges on loans and advances to customers	(627 978)	(613 932)
- Reversal of impairment charges on loans and advances to customers	365 600	358 680
- Amounts recovered from previously loans written off	2 167	13 322
- Result on sale of receivables	2 230	24 541
Impairment losses on investments securities	1 016	60
- Impairment charges on investments securities	0	0
- Reversal of impairment write-offs for investment securities	1 016	60
Impairment losses on off-balance sheet liabilities	2 806	(10 475)
- Impairment charges on off-balance sheet liabilities	(13 771)	(15 279)
- Reversal of impairment charges on off-balance sheet liabilities	16 577	4 804
Total	**(254 159)**	**(227 804)**

9) Impairment losses on non-financial assets

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Fixed assets	0	0
Other assets	(1 199)	(3 390)
Total	(1 199)	(3 390)

10) Depreciation and amortization

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Property, plant and equipment	(38 096)	(39 975)
Intangible assets	(14 875)	(14 879)
Total	(52 971)	(54 854)

11) Other operating expense

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Loss on sale and liquidation of property, plant and equipment, intangible assets	(10 802)	(10 704)
Reversal of impairment charges on property, plant and equipment	0	8 300
Contribution to Banking Guarantee Fund dedicated for the repayment of guaranteed deposits for clients of BS Nadarzyn	0	(7 065)
Indemnifications, penalties and fines paid	(22 315)	(27 223)
Costs of provisions for disputed claims	(23 236)	(37 287)
Costs of leasing business	(1 696)	(3 939)
Donations made	(521)	(2 589)
Costs of collection service	(16 426)	(15 833)
Banking Guarantee Fund – fee for resolution fund	(46 440)	(28 819)
Write-off for disputed receivables from tax settlements	0	(26 933)
Other	(2 956)	(3 683)
Total	(124 392)	(155 775)

12) Income tax

12a. Income tax reported in income statement

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Current tax	(292 007)	(253 384)
Current year	(292 693)	(253 384)
Adjustment of previous years	686	0
Deferred tax	48 011	1 380
Appearance and reversal of temporary differences	47 745	4 168
Appearance and utilisation of tax loss	266	(2 788)
Total income tax reported in income statement	**(243 996)**	**(252 004)**

12b. Effective tax rate

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Gross profit / (loss)	925 223	953 256
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(175 792)	(181 119)
Impact of permanent differences on tax charges:	(68 390)	**(70 509)**
- Non-taxable income	526	1 392
Dividend income	310	331
Release of other provisions	216	1 061
Other	0	0
- Cost which is not a tax cost	(68 916)	(71 901)
Loss on sale of receivables	(817)	(12 459)
PFRON fee	(886)	(913)
Fees for Banking Guarantee Fund	(18 867)	(5 476)
Banking tax	(35 782)	(33 073)
Receivables written off	(1 115)	(3 885)
Costs of litigations and claims	(1 495)	(6 641)
Write-off for disputed receivables from tax settlements	0	(5 117)
Depreciation and insurance costs of cars (in excess of EUR 20,000)	(3 162)	(1 307)
Cost of provisions for factoring receivables	(2 376)	(2 616)
Other	(4 416)	(414)
Deduction of the tax paid abroad	186	0
Adjustment resulted from Article 38a of CIT	0	(376)
Total income tax reported in income statement	**(243 996)**	**(252 004)**
Effective tax rate	26.37%	26.44%

12c. Deferred tax reported in equity

	31.12.2017	31.12.2016
Valuation of available for sale securities	(13 296)	8 985
Valuation of cash flow hedging instruments	20 985	34 319
Actuarial gains (losses)	473	81
Deferred tax reported directly in equity	8 162	43 385

Changes in deferred tax recognized directly in equity are presented in **Note (35b)**.

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

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

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

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

By a decision of 19 November 2014, the Director of the Treasury Control Office (UKS) commenced the tax audit procedure for the accuracy of the declared tax basis and the correctness of calculation and payment of Corporate Income Tax (CIT) for 2010. As a result of the procedure issued the decision of 19 December 2016, in which he increased the CIT due by the amount of PLN 1.7 million On 3 January 2017 an appeal has been lodged against this decision issued to the second instance. As a consequence of the appeal on 19 May 2017, the Director of the Tax Chamber Office in Warsaw revoked entirely the above decision of the first instance and referred back to this authority. Based on decision of 14 December 2017 the Head of Mazovian Customs &Tax Office (formerly UKS) prolonged the date of completing its proceeding until 5 March 2018.

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

13) Earnings per share

Earnings per share (PLN)

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Earnings after taxes	681 227	701 252
Weighted average number of shares in the period	1 213 116 777	1 213 116 777
Earnings per share	0.56	0.58

Earnings per share has been calculated by dividing net profit for the period by the weighted average number of shares. At the same time due to the nature of the issue it was not necessary to make a separate calculation of diluted Earnings Per Share (the calculation methodology in case of absence of diluting instruments is the same as in case of Earnings Per Share; in result diluted Earnings Per Share equals baseline Earnings Per Share).

14) Cash, balances with the central bank

14a. Cash, balances with the central bank

	31.12.2017	31.12.2016
Cash	574 962	612 349
Cash in Central Bank	1 505 189	1 166 419
Other funds	0	0
Total	2 080 151	1 778 768

In the period from 30 November 2017 to 1 January 2018 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 2,017,118 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

14b. Cash, balances with the Central Bank – by currency

	31.12.2017	31.12.2016
in Polish currency	1 881 049	1 444 527
in foreign currencies (after conversion to PLN)	199 102	334 241
- currency: USD	40 700	41 925
- currency: EUR	128 353	256 109
- currency: CHF	12 158	16 289
- currency: GBP	13 981	15 447
- other currencies	3 910	4 471
Total	**2 080 151**	**1 778 768**

15) Deposits, loans and advances to banks and other monetary institutions

15a. Deposits, loans and advances to banks and other monetary institutions

	31.12.2017	31.12.2016
Current accounts	136 853	194 464
Deposits granted	115 174	1 071 206
Interest	2 178	2 141
Total (gross) deposits, loans and advances	254 205	1 267 811
Impairment write-offs	0	0
Total (net) deposits, loans and advances	**254 205**	**1 267 811**

15b. Deposits, loans and advances to banks and other monetary institutions by maturity date

	31.12.2017	31.12.2016
Current accounts	136 853	194 464
to 1 month	115 174	1 032 128
above 1 month to 3 months	0	0
above 3 months to 1 year	0	39 078
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	2 178	2 141
Total (gross) deposits, loans and advances	254 205	1 267 811

15c. Deposits, loans and advances to banks and other monetary institutions by currency

	31.12.2017	31.12.2016
in Polish currency	33 514	73 974
in foreign currencies (after conversion to PLN)	220 691	1 193 837
- currency: USD	25 482	35 586
- currency: EUR	117 854	1 058 581
- currency: CHF	5 097	34 877
- currency: JPY	1 569	7 109
- currency: GBP	8 579	30 518
- other currencies	62 110	27 166
Total	**254 205**	**1 267 811**

15d. Change of impairment write-offs for deposits, loans and advances to banks and other monetary institutions

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	0	9
Impairment write-offs created in the period	0	0
Impairment write-offs released in the period	0	(9)
Balance at the end of the period	0	0

16) Financial assets measured at fair value through the Profit and Loss Account (held for trading) and adjustment due to fair value hedge accounting

16a. Financial assets valued at fair value through profit and loss (held for trading) and adjustment due to fair value hedge

	31.12.2017	31.12.2016
Debt securities	**338 359**	**314 476**
Issued by State Treasury	338 351	314 466
a) bills	0	0
b) bonds	338 351	314 466
Other securities	8	10
a) quoted	8	10
b) not quated	0	0
Equity instruments	**102**	**110**
Quoted on the active market	102	110
a) financial institutions	0	0
b) non-financial institutions	102	110
Adjustment due to fair value hedge	7 784	11 889
Positive valuation of derivatives	184 880	238 099
Total	**531 125**	**564 574**

16b. Financial assets valued at fair value through profit and loss (held for trading)

	31.12.2017	31.12.2016
Trading financial assets	523 341	552 685
Adjustment due to fair value hedge	7 784	11 889
Financial assets valued at fair value when initially recognized	0	0
Total	531 125	564 574

Information on financial assets securing liabilities is presented in Chapter 14.2).

16c. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

	31.12.2017	31.12.2016
- with fixed interest rate	313 448	310 095
- with variable interest rate	24 911	4 381
Total	338 359	314 476

16d. Debt securities valued at fair value through profit and loss (held for trading), by maturity

	31.12.2017	31.12.2016
to 1 month	838	1 209
above 1 month to 3 months	0	0
above 3 months to 1 year	25 121	120 261
above 1 year to 5 years	254 227	110 666
above 5 years	58 173	82 340
Total	338 359	314 476

16e. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	314 585	410 254
Increases (purchase and accrual of interest and discount)	33 015 575	43 059 887
Reductions (sale and redemption)	(32 991 854)	(43 154 764)
Differences from valuation at fair value	155	(792)
Balance at the end of the period	338 461	314 585

Note 16f / 27. Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2017

	Par value of instruments with future maturity					Fair values	
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Interest rate derivatives	1 453 600	1 633 471	4 030 064	456 361	(983)	78 219	79 202
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	1 453 600	1 633 471	3 825 004	456 361	(983)	78 219	79 202
Other interest rate contracts: options	0	0	205 060	0	0	0	0
2. FX derivatives *	6 636 100	3 256 976	872 919	0	2 346	61 515	59 169
FX contracts	2 868 731	558 195	175 357	0	(4 263)	18 777	23 040
FX swaps	3 767 369	2 698 781	119 535	0	12 523	40 856	28 333
Other FX contracts (CIRS)	0	0	578 027	0	(5 914)	1 882	7 796
FX options	0	0	0	0	0	0	0
3. Embedded instruments	325 133	1 182 119	672 780	0	(42 231)	7	42 238
Options embedded in deposits	316 995	1 119 211	576 432	0	(36 306)	0	36 306
Options embedded in securities issued	8 138	62 908	96 348	0	(5 925)	7	5 932
4. Indexes options	516 561	1 097 734	685 716	0	43 159	45 139	1 980
Valuation of derivatives, TOTAL	**8 931 394**	**7 170 300**	**6 261 479**	**456 361**	**2 291**	**184 880**	**182 589**
Valuation of balance sheet items designated to fair value hedge accounting						7 784	7 522
Liabilities from short sale of securities							0

* Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

Note 16g / 27. Valuation of derivatives and: Adjustment due to fair value hedge, Liabilities from short sale of securities as at 31.12.2016

	Par value of instruments with future maturity					Fair values	
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Interest rate derivatives	1 351 240	2 149 931	6 119 325	359 232	(5 481)	134 128	139 609
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	1 331 240	2 087 921	5 895 471	359 232	(5 481)	134 128	139 609
Other interest rate contracts: options	20 000	62 010	223 854	0	0	0	0
2. FX derivatives *	10 162 663	3 746 721	833 573	0	22 231	76 503	54 272
FX contracts	1 621 367	1 110 527	204 180	0	(4 542)	12 502	17 044
FX swaps	8 108 396	1 528 591	33 921	0	53 113	58 023	4 910
Other FX contracts (CIRS)	432 900	1 091 360	595 472	0	(26 340)	5 813	32 153
FX options	0	16 243	0	0	0	165	165
3. Embedded instruments	431 398	851 227	975 897	0	(26 116)	237	26 353
Options embedded in deposits	404 327	821 702	828 129	0	(22 128)	0	22 128
Options embedded in securities issued	27 071	29 525	147 768	0	(3 988)	237	4 225
4. Indexes options	487 246	893 226	950 131	0	26 199	27 231	1 032
Valuation of derivatives, TOTAL	**12 432 547**	**7 641 105**	**8 878 926**	**359 232**	**16 833**	**238 099**	**221 266**
Valuation of balance sheet items designated to fair value hedge accounting						11 889	10 896
Liabilities from short sale of securities							106 853

*Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

17) Derivative hedging instruments

The Group as at the end of 2017 uses the following types of hedge accounting:

1. Hedges of volatility of the cash flows generated by the portfolio of floating FX mortgage loans;
2. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
3. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;

Starting from 1 January 2006 the Group established first formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding resulting from the zloty deposit portfolio). Implementation of formal hedge accounting permitted presentation of the transactions in the Profit and Loss Account in accordance with their economic meaning.

At the end of each month the Group performs an assessment of effectiveness of the hedge used by analysing changes of fair value of the hedged instrument and the hedging instrument.

As at 31.12.2017 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.

17a. Hedge accounting

As at 31.12.2017	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate							
CIRS contracts	3 893 287	3 293 789	19 537 134	881 395	648 435	825 280	176 845
IRS contracts	269 000	993 000	475 000	0	8 393	8 401	8
FXS contracts	696 015	0	0	0	52 199	52 199	0
2. Total hedging derivatives	4 858 302	4 286 789	20 012 134	881 395	709 027	885 880	176 853

As at 31.12.2016	Par value of instruments with future maturity				Fair values		
	below 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate							
CIRS contracts	7 041 681	7 961 146	18 450 775	950 158	(1 139 740)	391	1 140 131
IRS contracts	340 000	700 000	782 000	0	6 063	7 070	1 007
FXS contracts	816 390	1 241 180	0	0	1 957	10 473	8 516
2. Total hedging derivatives	8 198 071	9 902 326	19 232 775	950 158	(1 131 720)	17 934	1 149 654

17b. Hedge accounting - cash flow hedge

Hedge relationship	Maximum period in which cash flows with hedged value are expected to occur
Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	03.07.2019
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	07.01.2025
Hedge of the volatility of cash flows generated by the portfolio of floating FX mortgage loans	15.03.2018

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2017 amounted to PLN – 19,649 thousand (respectively in 2016 amounted to PLN – 18,402 thousand).

18) Loans and advances to customers

18a. Loans and advances to customers

	31.12.2017	31.12.2016
Loans and advances	41 850 883	41 972 241
- to companies	9 610 098	8 494 801
- to private individuals	31 977 162	33 159 579
- to public sector	263 623	317 861
Receivables on account of payment cards	763 964	712 001
- due from companies	20 770	22 803
- due from private individuals	743 194	689 198
Purchased receivables	259 373	141 563
- from companies	255 342	141 563
- from public sector	4 031	0
Guarantees and sureties realised	10 893	11 506
Debt securities eligible for rediscount at Central Bank	5 590	4 424
Financial leasing receivables	5 741 101	5 261 332
Other	5 028	5 150
Interest	271 474	276 739
Total gross	**48 908 306**	**48 384 956**
Impairment write-offs	(1 497 228)	(1 364 913)
Total net	**47 411 078**	**47 020 043**

18b. Quality of loans and advances to customers portfolio

	31.12.2017	31.12.2016
Loans and advances to customers (gross)	48 908 306	48 384 956
- impaired	2 232 666	2 179 456
- not impaired	46 675 640	46 205 500
Impairment write-offs	(1 497 228)	(1 364 913)
- for impaired exposures	(1 315 256)	(1 179 173)
- for incurred but not reported losses (IBNR)	(181 972)	(185 740)
Loans and advances to customers (net)	**47 411 078**	**47 020 043**

18c. Loans and advances to customers portfolio by methodology of impairment assessment

	31.12.2017	31.12.2016
Loans and advances to customers (gross)	48 908 306	48 384 956
- case by case analysis	721 524	838 560
- collective analysis	48 186 782	47 546 396
Impairment write-offs	(1 497 228)	(1 364 913)
- on the basis of case by case analysis	(410 445)	(382 036)
- on the basis of collective analysis	(1 086 783)	(982 877)
Loans and advances to customers (net)	**47 411 078**	**47 020 043**

18d. Loans and advances to customers portfolio by customers

	31.12.2017	31.12.2016
Loans and advances to customers (gross)	48 908 306	48 384 956
- corporate customers	15 955 226	14 300 739
- private individuals	32 953 080	34 084 217
Impairment write-offs	(1 497 228)	(1 364 913)
- for receivables from corporate customers	(556 972)	(522 324)
- for receivables from private individuals	(940 256)	(842 589)
Loans and advances to customers (net)	**47 411 078**	**47 020 043**

18e. Loans and advances to customers by maturity

	31.12.2017	31.12.2016
Current accounts	4 061 957	3 619 866
to 1 month	1 220 256	936 460
above 1 month to 3 months	1 688 445	1 668 413
above 3 months to 1 year	4 553 483	4 453 263
above 1 year to 5 years	14 613 798	14 293 770
above 5 years	20 994 275	22 166 560
past due	1 504 618	969 885
Interest	271 474	276 739
Total gross	48 908 306	48 384 956

18f. Loans and advances to customers by currency

	31.12.2017	31.12.2016
in Polish currency	30 919 565	26 909 662
in foreign currencies (after conversion to PLN)	17 988 741	21 475 294
- currency: USD	69 283	80 387
- currency: EUR	3 222 168	3 124 448
- currency: CHF	14 685 314	18 261 339
- currency: JPY	2 358	2 457
- other currencies	9 618	6 663
Total gross	**48 908 306**	**48 384 956**

18g. Change of impairment write-offs for loans and advances to customers

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	1 364 913	1 460 928
Change in value of provisions:	132 315	(96 015)
Impairment write-offs created in the period	627 978	613 932
Amounts written off	(105 093)	(63 989)
Impairment write-offs released in the period	(365 600)	(358 671)
Sale of receivables	(5 897)	(283 375)
Changes resulting from FX rates differences	(19 072)	5 994
Other	0	(9 906)
Balance at the end of the period	**1 497 228**	**1 364 913**

18h. Financial leasing receivables

	31.12.2017	31.12.2016
Financial leasing receivables (gross)	6 166 593	5 650 293
Unrealised financial income	(425 492)	(388 961)
Financial leasing receivables (net)	5 741 101	5 261 332
Financial leasing receivables (gross) by maturity		
Under 1 year	2 268 980	2 008 958
From 1 year to 5 years	3 598 828	3 347 977
Above 5 years	298 785	293 358
Total	6 166 593	5 650 293
Financial leasing receivables (net) by maturity		
Under 1 year	2 092 848	1 850 719
From 1 year to 5 years	3 373 700	3 136 002
Above 5 years	274 553	274 611
Total	5 741 101	5 261 332

The main groups of items financed through leasing are the means of transport (tractors, trailers, trucks, vans, cars, etc.), machinery and equipment, computers as well as industrial and commercial real estate. The leasing portfolio of the Group includes contracts in which fees are set in PLN or in EUR, based on floating or fixed interest rates.

Agreements with customers are concluded for term from 1 year to 10 years. Offered lease agreements provide a diverse client's own contribution and the final value of the object, as well as a diverse amount of lease payments, e.g., depending on seasonality. After the end of the lease, a customer is obliged to buy the item at a final price specified at the time of the conclusion of the agreement. The object during the entire lease term is owned by the Group and constitutes a major collateral of lease payments.

19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2017	31.12.2016
Debt securities	**19 016 855**	**17 092 257**
Issued by State Treasury	12 810 462	14 289 633
a) bills	0	0
b) bonds	12 810 462	14 289 633
Issued by Central Bank	6 077 287	2 669 700
a) bills	6 077 287	2 669 700
b) bonds	0	0
Other securities	129 106	132 924
a) listed	81 130	79 236
b) not listed	47 976	53 688
Shares and interests in other entities	50 091	42 890
Other financial instruments	0	200
Total financial assets available for sale	**19 066 946**	**17 135 347**
Available for sale instruments listed on the active market	12 891 921	14 369 148
Available for sale instruments not listed on the active market	6 175 025	2 766 199

Shares and stocks in other entities include investments in equity instruments that do not have quoted market prices from an active market, which are recognized at amortised cost and are subject to impairment testing. The value of these instruments as at 31.12.2017 and 31.12.2016 is respectively PLN 20 130 thousand and PLN 18 166 thousand.

19b. Debt securities available for sale

	31.12.2017	31.12.2016
- with fixed interest rate	11 377 769	10 943 139
- with variable interest rate	7 639 086	6 149 118
Total	19 016 855	17 092 257

19c. Debt securities available for sale by maturity

	31.12.2017	31.12.2016
- to 1 month	6 206 913	3 442 191
- above 1 month to 3 months	0	1 008
- above 3 months to 1 year	2 788 208	2 627 700
- above 1 year to 5 years	9 990 932	10 890 037
- above 5 years	30 802	131 321
Total	19 016 855	17 092 257

19d. Change of investment financial assets available for sale

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	17 135 347	13 874 320
Increases (purchase and accrual of interest and discount)	152 077 308	105 520 580
Reductions (sale and redemption)	(150 263 995)	(101 963 022)
Difference from measurement at fair value	117 280	(296 608)
Impairment write-offs	1 016	70
Other	(10)	7
Balance at the end of the period	19 066 946	17 135 347

19e. Investments in related entities

	31.12.2017	31.12.2016
Investments in associates	0	0

19f. Change of investments in related entities

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	0	1 378
- sale	0	0
- equity method valuation	0	(1 378)
Balance at the end of the period	**0**	**0**

20) Receivables from securities bought with sell-back clause

Receivables from securities bought with sell-back clause

	31.12.2017	31.12.2016
a) from banks	0	6 545
b) from customers	0	83 968
c) interest	0	7
Total	**0**	**90 520**

21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2017	31.12.2016
Land	1 275	1 275
Buildings, premises, civil and hydro-engineering structures	62 583	69 589
Machines and equipment	61 918	53 048
Vehicles	38 946	19 889
Other fixed assets	5 656	6 225
Fixed assets under construction	15 502	14 044
Total	**185 880**	**164 070**

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2017 - 31.12.2017

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**1 275**	**332 107**	**214 895**	**39 760**	**87 430**	**14 044**	**689 511**
b) increases (on account of)	0	7 722	25 157	36 241	1 759	35 791	106 670
- purchase	0	0	122	36 241	36	31 645	68 044
- transfer from fixed assets under construction	0	7 722	24 877	0	1 699	0	34 298
- unpaid investments	0	0	158	0	24	4 146	4 328
- other	0	0	0	0	0	0	0
c) reductions (on account of)	0	34 336	18 413	28 750	4 234	34 333	120 066
- sale	0	24 349	12 909	28 750	1 729	32	67 769
- liquidation	0	9 987	5 504	0	2 505	0	17 996
- settlement of fixed assets under construction	0	0	0	0	0	34 298	34 298
- other	0	0	0	0	0	3	3
d) gross value of property, plant and equipment at the end of the period	**1 275**	**305 493**	**221 639**	**47 251**	**84 955**	**15 502**	**676 115**
e) cumulated depreciation (amortization) at the beginning of the period	0	252 711	161 847	19 871	81 204	0	515 633
f) depreciation over the period (on account of)	0	(18 554)	(2 126)	(11 566)	(1 906)	0	(34 152)
- current write-off (P&L)	0	14 688	15 630	5 451	2 327	0	38 096
- reductions on account of sale	0	(24 322)	(12 261)	(17 098)	(1 728)	0	(55 409)
- reductions on account of liquidation	0	(9 974)	(5 495)	0	(2 505)	0	(17 974)
- transfer from impairment write-offs	0	1 054	0	0	0	0	1 054
- other	0	0	0	81	0	0	81
g) cumulated depreciation (amortization) at the end of the period	**0**	**234 157**	**159 721**	**8 305**	**79 298**	**0**	**481 481**
h) impairment write-offs at the beginning of the period	0	9 807	0	0	1	0	9 808
- release of write offs	0	0	0	0	0	0	0
- transfer to depreciation	0	(1 054)	0	0	0	0	(1 054)
i) impairment write-offs at the end of the period	**0**	**8 753**	**0**	**0**	**1**	**0**	**8 754**
j) net value of property, plant and equipment at the end of the period	**1 275**	**62 583**	**61 918**	**38 946**	**5 656**	**15 502**	**185 880**

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2016 – 31.12.2016

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 275	336 696	207 516	38 946	91 074	15 888	691 396
b) increases (on account of)	0	12 800	23 789	3 079	3 650	38 293	81 611
- purchase	0	0	112	3 079	3	31 644	34 838
- transfer from fixed assets under construction	0	12 800	23 677	0	3 645	0	40 122
- unpaid investments	0	0	0	0	0	6 649	6 649
- other	0	0	0	0	2	0	2
c) reductions (on account of)	0	17 389	16 410	2 265	7 294	40 137	83 495
- sale	0	8 802	7 846	2 265	3 014	0	21 927
- liquidation	0	8 587	8 564	0	4 280	0	21 431
- settlement of fixed assets under construction	0	0	0	0	0	40 122	40 122
- other	0	0	0	0	0	15	15
d) gross value of property, plant and equipment at the end of the period	**1 275**	**332 107**	**214 895**	**39 760**	**87 430**	**14 044**	**689 511**
e) cumulated depreciation (amortization) at the beginning of the period	0	251 634	163 947	15 864	85 890	0	517 336
f) depreciation over the period (on account of)	0	1 077	(2 100)	4 007	(4 686)	0	(1 702)
- current write-off (P&L)	0	18 731	13 390	5 277	2 577	0	39 975
- reductions on account of sale	0	(8 013)	(6 968)	(1 270)	(3 006)	0	(19 257)
- reductions on account of liquidation	0	(8 587)	(8 522)	0	(4 257)	0	(21 366)
- transfer to impairment write-offs	0	(1 054)	0	0	0	0	(1 054)
g) cumulated depreciation (amortization) at the end of the period	**0**	**252 711**	**161 847**	**19 871**	**81 204**	**0**	**515 633**
h) impairment write-offs at the beginning of the period	0	17 718	0	0	1	0	17 719
- transfer from depreciation	0	1 054	0	0	0	0	1 054
- release of write offs	0	(8 300)	0	0	0	0	(8 300)
- reduction due to sale	0	(665)	0	0	0	0	(665)
i) impairment write-offs at the end of the period	**0**	**9 807**	**0**	**0**	**1**	**0**	**9 808**
j) net value of property, plant and equipment at the end of the period	**1 275**	**69 589**	**53 048**	**19 889**	**6 225**	**14 044**	**164 070**

22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2017	31.12.2016
- concessions, patents, licenses, know-how and similar assets, including:	79 756	62 315
- computer software	67 757	50 994
- other intangible assets	0	0
- advances for intangible assets	0	0
Total intangible assets	79 756	62 315

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2017 – 31.12.2017

	costs of completed development work	concessions, patents, licenses, know-how and similar assets, including:		other intangible assets	advances for intangible assets	TOTAL
			computer software			
a) gross value of intangible assets at the beginning of the period	**23**	**305 934**	**287 859**	**4**	**0**	**305 961**
b) increases (on account of)	0	32 246	26 842	0	2	32 248
- purchase	0	318	318	0	2	320
- unpaid investments	0	7 445	2 997	0	0	7 445
- expenditures on intangible assets	0	24 483	23 527	0	0	24 483
c) reductions (on account of)	0	45	45	0	2	47
- liquidation	0	9	9	0	0	9
- other	0	36	36	0	2	38
d) gross value of intangible assets at the end of the period	**23**	**338 135**	**314 656**	**4**	**0**	**338 162**
e) cumulated depreciation (amortization) at the beginning of the period	23	239 631	232 877	4	0	239 658
f) depreciation over the period (on account of)	0	14 760	10 034	0	0	14 760
- current write-off (P&L)	0	14 875	10 149	0	0	14 875
- liquidation	0	(115)	(115)	0	0	(115)
g) cumulated depreciation (amortization) at the end of the period	**23**	**254 391**	**242 911**	**4**	**0**	**254 418**
h) impairment write-offs at the beginning of the period	0	3 988	3 988	0	0	3 988
i) impairment write-offs at the end of the period	0	3 988	3 988	0	0	3 988
j) net value of intangible assets at the end of the period	**0**	**79 756**	**67 757**	**0**	**0**	**79 756**

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2016 – 31.12.2016

	costs of completed development work	concessions, patents, licenses, know-how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	23	290 602	280 231	4	0	290 629
b) increases (on account of)	0	23 303	15 599	0	6	23 309
- purchase	0	293	293	0	6	299
- unpaid investments	0	4 144	4 144	0	0	4 144
- expenditures on intangible assets	0	11 161	11 162	0	0	11 161
- transfer of computer software to copyrights	0	7 705	0	0	0	7 705
c) reductions (on account of)	0	7 971	7 971	0	6	7 977
- liquidation	0	4	4	0	0	4
- transfer of computer software to copyrights	0	7 705	7 705	0	0	7 705
- other	0	262	262	0	6	268
d) gross value of intangible assets at the end of the period	**23**	**305 934**	**287 859**	**4**	**0**	**305 961**
e) cumulated depreciation (amortization) at the beginning of the period	23	224 756	221 506	4	0	224 783
f) depreciation over the period (on account of)	0	14 875	11 371	0	0	14 875
- current write-off (P&L)	0	14 879	11 375	0	0	14 879
- liquidation	0	(4)	(4)	0	0	(4)
g) cumulated depreciation (amortization) at the end of the period	**23**	**239 631**	**232 877**	**4**	**0**	**239 658**
h) impairment write-offs at the beginning of the period	0	3 988	3 988	0	0	3 988
i) impairment write-offs at the end of the period	0	3 988	3 988	0	0	3 988
j) net value of intangible assets at the end of the period	**0**	**62 315**	**50 994**	**0**	**0**	**62 315**

23) NON-CURRENT ASSETS HELD FOR SALE

23a. Change of balance of non-current assets held for sale in the period 01.01.2017 – 31.12.2017

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	219	946	33	0	9 875	11 073
b) impairment write-offs at the beginning of the period	(64)	(39)	(33)	0	0	(136)
c) net value of non-current assets held for sale at the beginning of the period	155	907	0	0	9 875	10 937
d) change of value in the period, including:	(149)	(880)	(6)	6	9 649	8 620
- sale of non-current assets held for sale	(149)	(880)	0	0	(28 181)	(29 210)
e) value at the end of the period	70	66	27	6	19 524	19 693
f) change of impairment write-offs in the period, including:	0	0	6	(6)	0	0
- sale of non-current assets held for sale	0	0	0	0	0	0
g) impairment write-offs at the end of the period	(64)	(39)	(27)	(6)	0	(136)
h) net value of non-current assets held for sale at the end of the period	6	27	0	0	19 524	19 557

23b. Change of balance of non-current assets held for sale in the period 01.01.2016 – 31.12.2016

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	561	2 825	33	0	12 400	15 818
b) impairment write-offs at the beginning of the period	(64)	(39)	(33)	0	0	(136)
c) net value of non-current assets held for sale at the beginning of the period	497	2 785	0	0	12 400	15 682
d) change of value in the period, including:	(342)	(1 879)	0	0	(2 525)	(4 746)
- sale of non-current assets held for sale	(289)	(1 879)	0	0	(28 156)	(30 324)
e) value at the end of the period	219	946	33	0	9 875	11 073
f) change of impairment write-offs in the period, including:	0	0	0	0	0	0
- sale of non-current assets held for sale	0	0	0	0	0	0
g) impairment write-offs at the end of the period	(64)	(39)	(33)	0	0	(136)
h) net value of non-current assets held for sale at the end of the period	**155**	**907**	**0**	**0**	**9 875**	**10 937**

24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets and provision

	31.12.2017			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	73 799	(4 973)	68 826	87 978	(20 674)	67 304
Balance sheet valuation of financial instruments	7 182	(29 383)	(22 201)	309 598	(320 898)	(11 300)
Unrealised receivables/ liabilities on account of derivatives	16 766	(28 537)	(11 771)	20 583	(33 779)	(13 196)
Interest on deposits and securities to be paid/ received	26 513	(33 114)	(6 601)	21 491	(39 390)	(17 899)
Interest and discount on loans and receivables	7	(28 471)	(28 464)	17	(24 455)	(24 438)
Income and cost settled at effective interest rate	82 892	(1 514)	81 378	82 216	(1 271)	80 945
Provisions for loans presented as temporary differences	163 093	0	163 093	119 270	0	119 270
Employee benefits	15 420	0	15 420	13 774	8	13 782
Provisions for future costs	19 214	0	19 214	13 078	0	13 078
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	21 463	(13 301)	8 162	43 440	(54)	43 385
Tax loss deductible in the future	387	0	387	121	0	121
Other	(14)	(876)	(890)	6 252	(3 538)	2 714
Net deferred income tax asset	426 722	(140 169)	286 553	717 818	(444 051)	273 767
- including long-term net deferred income tax asset			125 698			143 456

24b. Change of temporary differences

	31.12.2016	Changes to financial result	Changes to equity	31.12.2017
Difference between tax and balance sheet depreciation	67 304	1 522	0	68 826
Balance sheet valuation of financial instruments	(11 300)	(10 901)	0	(22 201)
Unrealised receivables/ liabilities on account of derivatives	(13 196)	1 425	0	(11 771)
Interest on deposits and securities to be paid/ received	(17 899)	11 298	0	(6 601)
Interest and discount on loans and receivables	(24 438)	(4 026)	0	(28 464)
Income and cost settled at effective interest rate	80 945	433	0	81 378
Provisions for loans presented as temporary differences	119 270	43 823	0	163 093
Employee benefits	13 782	1 638	0	15 420
Provisions for future costs	13 078	6 136	0	19 214
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	43 385	0	(35 224)	8 162
Tax loss deductible in the future	121	266	0	387
Other	2 714	(3 604)	0	(890)
Total	273 767	48 010	(35 224)	286 553

24c. Change of temporary differences

	31.12.2015	Previous years adjustment	Changes to financial result	Changes to equity	31.12.2016
Difference between tax and balance sheet depreciation	66 250	0	1 054	0	67 304
Balance sheet valuation of financial instruments	(16 873)	0	5 573	0	(11 300)
Unrealised receivables/ liabilities on account of derivatives	(14 354)	0	1 158	0	(13 196)
Interest on deposits and securities to be paid/ received	6 046	0	(23 945)	0	(17 899)
Interest and discount on loans and receivables	(8 269)	0	(16 169)	0	(24 438)
Income and cost settled at effective interest rate	71 701	0	9 244	0	80 945
Provisions for loans presented as temporary differences	105 466	0	13 804	0	119 270
Employee benefits	14 768	0	(986)	0	13 782
Provisions for future costs	13 103	0	(25)	0	13 078
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	(4 282)	0	0	47 667	43 385
Tax loss deductible in the future	2 910	0	(2 789)	0	121
Other	1 145	(12 893)	14 462		2 714
Total	237 612	(12 893)	1 380	47 667	273 767

24d. Change of deferred income tax

	1.01.2017 - 31.12.2017	1.01.2016 - 31.12.2016
Difference between tax and balance sheet depreciation	1 522	1 054
Balance sheet valuation of financial instruments	(10 901)	5 573
Unrealised receivables/ liabilities on account of derivatives	1 425	1 158
Interest on deposits and securities to be paid/ received	11 298	(23 945)
Interest and discount on loans and receivables	(4 026)	(16 169)
Income and cost settled at effective interest rate	433	9 244
Provisions for loans presented as temporary differences	43 823	13 804
Employee benefits	1 638	(986)
Provisions for future costs	6 136	(25)
Tax loss deductible in the future	266	(2 789)
Other	(3 604)	14 462
Change of deferred income tax recognized in financial result	48 010	1 380
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	(35 224)	47 667

Millennium bank

24e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2017	31.12.2016
Unlimited	12 125	12 125
Total	12 125	12 125

The value of negative temporary differences presented in the above table was recalculated with the valid tax rate.

In accordance with IAS 12, the Group offset deferred income tax assets with deferred income tax liabilities.

	31.12.2017	31.12.2016
Net deferred income tax assets	286 553	273 767
Net deferred income tax provision	-	-
TOTAL	286 553	273 767

25) OTHER ASSETS

	31.12.2017	31.12.2016
Expenses to be settled	36 436	46 076
Income to be received	43 080	46 018
Interbank settlements	416	1 885
Settlements of financial instruments transactions	0	39 867
Receivables from sundry debtors	33 820	94 183
Settlements with the State Treasury	52 412	24 697
Settlements for activities of Millennium Dom Maklerski S.A.	17 277	11 312
Other	163 162	144 427
Total other assets (gross)	346 603	408 465
Impairment allowances	(7 944)	(7 145)
Total other assets (net)	**338 659**	**401 320**
- including other financial assets*	86 649	186 119
- including long-term other assets	6 791	15 173

* - other financial assets includes all of the remaining other net assets excluding the Expenses to be settled and Settlements with the State Treasury and Other items

26) Liabilities to banks and other monetary institutions

26a. Liabilities to banks and other monetary institutions

	31.12.2017	31.12.2016
In current account	97 235	115 567
Term deposits	1 293 678	256 776
Loans and advances received	961 079	897 532
Interest	1 139	870
Total	2 353 131	1 270 745

26b. Liabilities to banks and other monetary institutions by maturity

	31.12.2017	31.12.2016
Current accounts	97 235	115 567
- to 1 month	1 079 817	226 155
- above 1 month to 3 months	160 440	19 748
- above 3 months to 1 year	163 879	98 467
- above 1 year to 5 years	850 621	809 938
- above 5 years	0	0
Interest	1 139	870
Total	2 353 131	1 270 745

26c. Liabilities to banks and other monetary institutions by currency

	31.12.2017	31.12.2016
in Polish currency	445 026	235 856
in foreign currencies (after conversion to PLN)	1 908 105	1 034 889
- currency: USD	76	102
- currency: EUR	1 686 845	677 263
- currency: CHF	221 184	357 524
- other currencies	0	0
Total	**2 353 131**	**1 270 745**

27) Financial liabilities measured at fair value through the Profit and Loss Account (held for trading)

	31.12.2017	31.12.2016
Negative valuation of derivatives	182 589	221 266
Adjustment due to fair value hedge	7 522	10 896
Short sale of securities	0	106 853
Financial liabilities valued at fair value through profit and loss	190 111	339 015

The division of the negative valuation of derivatives into specific types of instruments is presented in **note (16).**

28) Liabilities to customers

28a. Structure of liabilities to customers by type

	31.12.2017	31.12.2016
Amounts due to private individuals	40 343 597	39 681 704
Balances on current accounts	25 108 948	23 023 622
Term deposits	14 993 961	16 502 023
Other	176 728	84 811
Accrued interest	63 960	71 248
Amounts due to companies	14 363 117	13 873 616
Balances on current accounts	6 710 128	5 766 433
Term deposits	7 354 951	7 839 361
Other	284 150	253 522
Accrued interest	13 888	14 300
Amounts due to public sector	2 566 541	2 320 289
Balances on current accounts	1 185 444	979 696
Term deposits	1 346 597	1 311 250
Other	32 331	27 348
Accrued interest	2 169	1 995
Total	**57 273 255**	**55 875 609**

28b. Liabilities to customers by maturity

	31.12.2017	31.12.2016
Current accounts	32 835 437	29 652 795
to 1 month	9 818 714	10 087 758
above 1 month to 3 months	5 823 066	7 644 188
above 3 months to 1 year	7 812 298	7 129 095
above 1 year to 5 years	881 012	1 274 230
above 5 years	22 711	0
Interest	80 017	87 543
Total	57 273 255	55 875 609

28c. Liabilities to customers by currency

	31.12.2017	31.12.2016
in Polish currency	51 289 951	51 173 570
in foreign currencies (after conversion to PLN)	5 983 304	4 702 039
- currency: USD	1 630 835	1 377 470
- currency: EUR	3 894 734	2 959 884
- currency: GBP	288 385	234 619
- currency: CHF	119 866	95 512
- other currencies	49 484	34 554
Total	**57 273 255**	**55 875 609**

29) Liabilities from securities sold with buy-back clause

	31.12.2017	31.12.2016
a) to the Central Bank	0	0
b) to banks	0	0
c) to customers	0	0
d) interest	0	0
Total	0	0

30) Liabilities from debt securities

30a. Debt securities

	31.12.2017	31.12.2016
Outstanding bonds and bills	906 665	1 030 006
Bank Securities	247 251	279 102
Interest	2 557	4 728
Total	1 156 473	1 313 836

30b. Debt securities by final legal maturity

	31.12.2017	31.12.2016
- to 1 month	3 209	10 072
- above 1 month to 3 months	53 537	557 158
- above 3 months to 1 year	553 323	103 026
- above 1 year to 5 years	543 847	638 852
- above 5 years	0	0
Interest	2 557	4 728
Total	1 156 473	1 313 836

30c. Change of debt securities

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	1 313 836	1 134 250
Increases, on account of:	754 779	628 525
- issue of Banking Securities	52 468	112 324
- issue of bonds by the Bank	329 434	29 726
- issue of bonds by the Millennium Leasing	343 200	452 600
- interest accrual	29 677	33 875
Reductions, on account of:	(912 142)	(448 939)
- repurchase of Banking Securities	(84 318)	(134 750)
- repurchase of bonds by the Bank	(529 076)	(29 450)
- repurchase of bonds by the Millennium Leasing	(266 900)	(251 200)
- interest payment	(31 848)	(33 539)
Balance at the end of the period	**1 156 473**	**1 313 836**

30d. Debt securities by type

Banking securities and debt securities issued by the Bank

As at 31.12.2017	Balance sheet value	Final legal maturity	Market
BPW_2018/01	3 210	2018-01-31	-
BPW_2018/02	4 642	2018-02-27	-
BPW_2018/03	5 895	2018-03-30	-
BPW_2018/04	9 102	2018-04-30	-
BPW_2018/06,A	17 479	2018-06-01,29	-
BPW_2018/07	8 150	2018-07-31	-
BPW_2018/08	13 664	2018-08-31	-
BPW_2018/09	13 138	2018-09-28	-
BPW_2018/10	5 258	2018-10-31	-
BPW_2018/11	8 446	2018-11-30	-
BPW_2019/01,A	2 564	2019-01-03,31	-
BPW_2019/03,A,B	34 524	2019-03-01,29	-
BPW_2019/04,A	18 426	2019-04-30	-
BPW_2019/05	11 971	2019-05-31	-
BPW_2019/06A	11 892	2019-06-28	-
BPW_2019/07	11 407	2019-07-31	-
BPW_2019/08	6 962	2019-08-30	-
BPW_2019/09	8 291	2019-09-30	-
BPW_2020/02	7 262	2020-02-28	-
BPW_2020/03	8 952	2020-03-31	-
BPW_2020/04	2 519	2020-04-28	-
BPW_2020/05	4 391	2020-05-29	-
BPW_2020/06	4 135	2020-06-30	-
BPW_2020/07	3 059	2020-07-31	-
BPW_2020/08	2 670	2020-08-31	-
BPW_2020/09	3 355	2020-09-29	-
BPW_2020/10	4 501	2020-10-30	-
BPW_2020/11	7 794	2020-11-30	-
BPW_2020/12	3 592	2020-12-31	-
BKMO_220618N	299 771	2018-06-22	Catalyst (ASO BondSpot, ASO GPW)
BKMO_210420T	301 238	2020-04-21	Catalyst (ASO BondSpot, ASO GPW)
BKMO_030418U	29 859	2018-04-03	-
TOTAL	878 119		

Redemption of Banking Securities (BPW) shall be made by means of payment on redemption date of the settlement amount, which is calculated on the date of determination of the settlement amount with use of formulas indicated in terms and conditions of the issue. Calculation of the settlement amount is made on the basis of financial or commodity market ratios.

Bond redemption (BKMO) will take place on the day of redemption by paying the nominal value of the bonds. Interest on coupon bonds of two series is calculated on their notional value and is payable semi-annually on interest payment dates. As at December 31, 2017, the interest balance was PLN 1,903 thousand. PLN.

Coupon bonds are, as at 31/12/2017, 3-year bonds of Bank Millennium N series (with a nominal value of PLN 300 million) and 3-year bonds of Bank Millennium T series (with a nominal value of PLN 300 million). These bonds are listed on the Catalyst platform in the alternative trading system operated by BondSpot S.A. (ASO BondSpot) and in the alternative trading system operated by the Warsaw Stock Exchange S.A. (ASO GPW).

The U-series Bank's bonds are zero-coupon bonds.

Debt securities issued by the Millennium Leasing

As at 31.12.2017	Balance sheet value	Final legal maturity	Market
Millennium Leasing series G1	30 076	2018-03-14	-
Millennium Leasing series G2	13 033	2018-03-14	-
Millennium Leasing series G3	35 088	2018-05-09	-
Millennium Leasing series G4	20 051	2018-05-09	-
Millennium Leasing series G5	26 064	2018-09-19	-
Millennium Leasing series G6	31 072	2019-02-04	
Millennium Leasing series G7	34 076	2019-05-15	
Millennium Leasing series G8	21 047	2019-09-18	-
Millennium Leasing series F21	67 847	2018-06-21	-
TOTAL	278 354		

In the case of bonds issued by Millennium Leasing interest are accrued based on the notional value of bonds and paid quarterly. As at 31.12.2017 interests accrued amounted to PLN 654 thousand.

30e. Debt securities by type

Banking securities and debt securities issued by the Bank

As at 31.12.2016	Balance sheet value	Final legal maturity	Market
BPW_2017/01,A	10 072	2017-01-31	-
BPW_2017/02,A	6 670	2017-02-28	-
BPW_2017/03,A	10 238	2017-03-30	-
BPW_2017/04,A,C	15 567	2017-04-28	-
BPW_2017/05	5 129	2017-05-30	-
BPW_2017/06	3 947	2017-06-30	-
BPW_2017/07	3 467	2017-07-31	-
BPW_2017/11	5 439	2017-11-30	-
BPW_2017/12	3 250	2017-12-29	-
BPW_2018/01	5 141	2018-01-31	-
BPW_2018/02	5 431	2018-02-27	-
BPW_2018/03	5 831	2018-03-30	-
BPW_2018/04	9 021	2018-04-30	-
BPW_2018/06,A	18 642	2018-06-01,29	-
BPW_2018/07	10 515	2018-07-31	-
BPW_2018/08	14 886	2018-08-31	-
BPW_2018/09	14 535	2018-09-28	-
BPW_2018/10	6 301	2018-10-31	-
BPW_2018/11	8 403	2018-11-30	-
BPW_2019/01,A	8 221	2019-01-03,31	-
BPW_2019/03,A,B	36 687	2019-03-01,29	-
BPW_2019/04,A	18 377	2019-04-30	-
BPW_2019/05	12 805	2019-05-31	-
BPW_2019/06A	12 996	2019-06-28	-
BPW_2019/07	11 501	2019-07-31	-
BPW_2019/08	7 470	2019-08-30	-
BPW_2019/09	8 561	2019-09-30	-
BKMO_280317C	503 494	2017-03-28	Catalyst (ASO BondSpot)
BKMO_220618N	299 769	2018-06-22	Catalyst (ASO BondSpot, ASO GPW)
BKMO_190617S	29 727	2017-06-19	-
TOTAL	1 112 093		

Redemption of Banking Securities (BPW) shall be made by means of payment on redemption date of the settlement amount, which shall be determined on the date of settlement amount and is calculated with use of formulas indicated in terms and conditions of the issue. Calculation of the settlement amount is made on the basis of financial or commodity market ratios. As regards bonds (BKMO) quoted in the BondSpot alternative trading system (ASO BondSpot) and in the WSE alternative trading system (ASO WSE) interest is accrued on the nominal value of the bonds and is payable semi-annually. As of 31.12.2016 the interest balance was PLN 4,383 thousand.

On the Catalyst wholesale market of debt financial instruments (ASO BondSpot), as of 31.12.2016, quotations were made of 3-year C-series and N-series Bank Millennium's bonds with nominal value of PLN 500 and 300 million respectively. Additionally N-series bonds were quoted on the Catalyst retail market of debt financial instruments (ASO GPW). S-series Bank's bonds are zero-coupon bonds.

Debt securities issued by the Millennium Leasing

As at 31.12.2016	Balance sheet value	Final legal maturity	Market
Millennium Leasing series G1	30 075	2018-03-14	-
Millennium Leasing series G2	13 032	2018-03-14	-
Millennium Leasing series G3	35 087	2018-05-09	-
Millennium Leasing series G4	20 050	2018-05-09	-
Millennium Leasing series G5	26 064	2018-09-19	-
Millennium Leasing series F13	40 920	2017-03-23	-
Millennium Leasing series F14	36 516	2017-06-23	-
TOTAL	201 744		

In the case of bonds issued by Millennium Leasing interest are accrued based on the notional value of bonds and paid quarterly. As at 31.12.2016 interests accrued amounted to PLN 345 thousand.

31) Provisions

31a. Provisions

	31.12.2017	31.12.2016
Provision for off-balance sheet commitments	21 720	24 633
Provision for disputed claims and others	46 032	24 782
Total	67 752	49 415

31b. Change of provisions

	01.01.2017 - 31.12.2017	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	13 771	15 279
Release of provision	(16 577)	(4 804)
FX rates differences	(107)	(81)
Balance at the end of the period	21 720	24 633
Provision for disputed claims and others		
Balance at the beginning of the period	24 782	16 609
Charge of provision	23 236	37 287
Release of provision	(1 233)	(5 579)
Utilisation of provision	(753)	(25 973)
Reclassification	0	2 438
Balance at the end of the period	46 032	24 782

32) Provision for deferred income tax

	31.12.2017	31.12.2016
Deferred income tax provision	0	0

33) Other liabilities

33a. Other liabilities

	31.12.2017	31.12.2016
Short-term	1 338 254	1 120 327
Accrued costs - bonuses, salaries	41 253	38 449
Accrued costs - other	114 581	90 322
Interbank settlements	546 452	390 107
Other creditors	268 894	281 842
Liabilities to public sector	14 465	12 119
Deferred income	246 762	234 858
Provisions for unused employee holiday	12 222	10 175
Provisions for retirement benefits	2 542	2 499
Settlement accounts for activities of Millennium Dom Maklerski S.A.	22 810	13 114
Other	68 273	46 842
Long-term	84 028	48 335
Provisions for retirement benefits	20 916	16 520
Accrued costs	6 846	5 473
Commitment to pay – BGF*	29 790	0
Other	26 476	26 342
Total	**1 422 282**	**1 168 662**
- including other financial liabilities**	1 036 516	848 501

* - The Bank uses the option of contributing some of the fees paid to the BGF in the form of a payment obligation, which involves recognizing a commitment to pay and simultaneously recording encumbered assets in the form of debt securities held on a separate account created for this purpose.

** - other financial liabilities includes all of the other liabilities excluding the Liabilities to public sector, Deferred income, Commitment to pay – BGF, and other items

33b. Change of provisions for unused employee holiday

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	10 175	10 159
Charge of provisions/ reversal of provisions	2 362	509
Utilisation of provisions	(315)	(493)
Balance at the end of the period	12 222	10 175

33c. Change of provisions for retirement benefits

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	19 019	17 977
Charge of provisions/ reversal of provisions	3 208	3 161
Utilisation of provisions/ reclassification of provision	(833)	(671)
Actuarial gains (losses)	2 064	(1 448)
Balance at the end of the period	23 458	19 019

34) Subordinated debt

34a. Subordinated debt

	31.12.2017	31.12.2016
Currency	PLN	EUR
Value of subordinated bonds in foreign currency	700 000	150 000
Value of subordinated bonds in PLN	700 000	663 600
Interest rate	4,110%	1,784%
Maturity	07.12.2027	20.12.2017
Interest	1 971	404
Balance sheet value of subordinated debt	701 971	664 004

On 27 November 2017 the Management Board of the Bank took the decision in the matter of issue by Bank on 7 December 2017 subordinated bonds R-series ("Bonds"), with the total nominal value not greater than PLN 700 million. Bonds were issued by Bank under the existing Third Bond Issue Program with nominal value not greater than PLN 2 billion (or the equivalent of this amount in EUR, USD or CHF). On 22 December 2017 Polish Financial Supervision Authority gave consent for qualifying subordinated Bonds with the total nominal value of PLN 700 million as instruments in the Bank's Tier II.

34b. Change of subordinated debt

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Balance at the beginning of the period	664 004	639 631
Increases, on account of:	713 221	37 219
- issue of subordinated bonds	700 000	0
- interest accrual	13 221	12 844
- FX rates differences	0	24 375
Reductions, on account of:	(675 254)	(12 846)
- repayment of subordinated bonds	(629 625)	0
- interest payment	(11 636)	(12 846)
- FX rates differences	(33 993)	0
Balance at the end of the period	**701 971**	**664 004**

During 2016 and 2017 the Group did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

35) SHAREHOLDERS' EQUITY

35a. Share capital

The share capital of the Bank Millennium S.A. (equal to the Group's share capital) is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

SHARE CAPITAL Par value of one share = 1 PLN.

Series/ issue	Share type	Type of preference	Number of shares	Value of series/issue	Manner of capital coverage	Registration date	Right to dividend
A	registered founder	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			05.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

In the reporting period there was no conversions of registered shares into the bearer shares. As a consequence number of registered shares as of 31.12.2017 amounted to 108 040, of which 61 800 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2017. Information on the ultimate parent company - Banco Comercial Portugues S.A. presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Bank's General Shareholders Meeting held on 31 March 2017. In case of Nationale-Nederlanden OFE (former ING OFE) and AVIVA OFE BZ WBK the number of shares and their participation in the Bank's share capital were calculated on the basis of annual asset structure, published as at 29 December 2017 (published on the websites, respectively: www.nn.pl and www.aviva.pl). For the purpose of the above calculation, the average Bank's share price as at the above date was assumed to amount to 8.9053 PLN.

The largest shareholders of the Group's parent entity – the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2017

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	109 020 881	8.99	109 020 881	8.99
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	66 018 868	5.44	66 018 868	5.44

Shareholders as at 31.12.2016

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

35b. Revaluation reserve

Revaluation reserve arises on the recognition of:

- effect of valuation (at fair value) of financial assets available for sale in the net amount, i.e. after having accounted for deferred tax. These values are taken off revaluation reserve at the moment of excluding the valued assets from the books of account - in full or in part or at the moment of recognising impairment (the effect of valuation is then put through the profit and loss account),
- effect of valuation (at fair value) of derivatives hedging cash flows in the net amount, i.e. having accounted for deferred tax. Revaluation reserve records such part of profits or losses connected with the derivatives hedging cash flows which is an effective hedge, while the ineffective part of the profits or losses connected with such hedging instrument is recognised in the profit and loss account,
- actuarial gains (losses) at their net value, i.e. after deferred tax. Aforementioned gains or losses result from the discounting of future liabilities arising from a provision created for retirement benefits. Valuation is done using the projected unit cost method. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation) of employees, the discount rate, the rate of wage growth. These values are not reclassified to the profit and loss account.

Revaluation reserve

	31.12.2017	31.12.2016
Effect of valuation (gross)	(42 957)	(228 347)
Deferred income tax	8 162	43 385
Net effect of valuation	(34 795)	(184 962)

The sources of revaluation reserve are as follows (data in PLN thousand):

Revaluation reserve on available for sale financial assets 1.01.2017 - 31.12.2017

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(47 298)	8 985	(38 313)
Transfer to income statement of the period as a result of sale	(22 845)	4 342	(18 503)
Change connected with maturity of securities	(1 584)	302	(1 282)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	141 709	(26 925)	114 784
Revaluation reserve at the end of the period	69 982	(13 296)	56 685

Revaluation reserve on available for sale financial assets 1.01.2016 - 31.12.2016

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	249 309	(47 370)	201 939
Transfer to income statement of the period as a result of sale	(222 095)	42 198	(179 897)
Change connected with maturity of securities	(3 915)	744	(3 171)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	(70 597)	13 413	(57 184)
Revaluation reserve at the end of the period	(47 298)	8 985	(38 313)

Revaluation reserve on cash flows hedge financial instruments 1.01.2017 - 31.12.2017

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(180 624)	34 319	(146 305)
Gains or losses on valuation of financial instruments recognized in equity	50 528	(9 601)	40 927
Transfer to income statement during period	19 648	(3 733)	15 915
Revaluation reserve at the end of the period	(110 448)	20 985	(89 463)

Revaluation reserve on cash flows hedge financial instruments 1.01.2016 - 31.12.2016

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(224 903)	42 732	(182 171)
Gains or losses on valuation of financial instruments recognized in equity	25 877	(4 917)	20 960
Transfer to income statement during period	18 402	(3 496)	14 906
Revaluation reserve at the end of the period	(180 624)	34 319	(146 305)

Revaluation reserve due to actuarial gains (losses) 1.01.2017 - 31.12.2017

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(425)	81	(344)
Discounting the obligations arising from the provision for retirement benefits	(2 065)	392	(1 673)
Revaluation reserve at the end of the period	(2 490)	473	(2 017)

Revaluation reserve due to actuarial gains (losses) 1.01.2016 - 31.12.2016

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(1 874)	356	(1 518)
Discounting the obligations arising from the provision for retirement benefits	1 449	(275)	1 174
Revaluation reserve at the end of the period	(425)	81	(344)

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2017	472 698	3 212 178	228 902	851 770	4 765 548
appropriation of profit, including:					
- transfer to reserve capital		669 684		(669 684)	0
net profit/ (loss) of the period				681 227	681 227
Retained earnings at the end of the period 31.12.2017	472 698	3 881 862	228 902	863 313	5 446 775

35d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2016	472 697	2 682 768	228 902	679 929	4 064 296
appropriation of profit, including:					
- transfer to supplementary capital	1			(1)	0
- transfer to reserve capital		529 410		(529 410)	0
net profit/ (loss) of the period				701 252	701 252
Retained earnings at the end of the period 31.12.2016	472 698	3 212 178	228 902	851 770	4 765 548

36) Financial liabilities by contractual maturity

31.12.2017	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	TOTAL
Deposits from banks	1 177 051	160 440	164 828	872 576	0	2 374 895
Deposits from customers	42 542 832	5 900 125	7 946 777	898 239	22 711	57 310 684
Liabilities from securities sold with buy-back clause	0	0	0	0	0	0
Debt securities	3 203	53 816	561 173	567 085	0	1 185 277
Subordinated debt	0	0	28 770	115 080	843 850	987 700
Liabilities from trading derivatives - notional value	2 302 778	2 078 261	3 584 551	3 006 957	292 556	11 265 103
Liabilities from hedging derivatives - notional value	526 048	1 901 108	2 562 568	10 081 193	445 900	15 516 817
Commitments granted - financial	7 899 290	0	0	0	0	7 899 290
Commitments granted - guarantee	1 222 236	0	0	0	0	1 222 236
TOTAL	55 673 438	10 093 750	14 848 667	15 541 130	1 605 017	97 762 002

31.12.2016	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	TOTAL
Deposits from banks	342 136	19 748	98 467	833 631	0	1 293 982
Deposits from customers	39 775 443	7 690 173	7 193 504	1 279 470	0	55 938 590
Liabilities from securities sold with buy-back clause	0	0	0	0	0	0
Debt securities	10417	566 551	105 538	654 079	0	1 336 585
Subordinated debt	0	0	675 717	0	0	675 717
Liabilities from trading derivatives - notional value	3 419 870	2 687 233	3 522 503	4 478 039	196 803	14 304 448
Liabilities from hedging derivatives - notional value	1 605 747	2 777 009	5 394 566	10 324 430	514 663	20 616 415
Commitments granted - financial	7 014 009	0	0	0	0	7 014 009
Commitments granted - guarantee	1 083 691	0	0	0	0	1 083 691
TOTAL	53 251 313	13 740 714	16 990 295	17 569 649	711 466	102 263 437

14. SUPPLEMENTARY INFORMATION

1) 2016 AND 2017 DIVIDEND

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.

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

Bank Millennium has a dividend policy of distributing between 35% to 50% of net profit, subject to regulatory recommendations. The high capital ratios (as at 2017 year-end) would allow to pay 75% if not additional K1/K2 criteria. Therefore, the Management Board of the Bank will submit to AGM a proposal of full retention of 2017 net profit in Bank's equity. Assuming acceptance of this proposal by AGM, positive impact on T1 ratio will be approximately 2 p.p.

2) DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

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

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

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	131 800
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 Monies 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 other banks	Settlement on transactions concluded	1 071 202	1 071 202
		Total		2 138 919	2 148 576

3) Securities covered by transactions with a buy-back clause (SBB)

As at 31 December 2017 the Group did not have any repo transactions concluded.

4) Offsetting of assets and liabilities on the basis of ISDA agreements

The majority of the Group's derivatives portfolio arises due to conclusion by the Bank framework ISDA agreements (International Swaps and Derivatives Agreements). Provisions included in the agreements define comprehensive procedures in case of infringement (mainly difficulties in payments), and provide possibility to cancel a deal, making settlements with counterparty base on offset amount of mutual receivables and liabilities. To date, the Bank has not exercised that option, however, in order to meet information requirements as described in IFRS 7 the following table presents the fair values of derivative instruments (both classified as held for trading and dedicated to hedge accounting) as well as cash collaterals under ISDA framework agreements with a theoretical maximum amount resulting from the settlement on the basis of compensation.

	Amounts to be received	Amounts to be paid
Valuation of derivatives	977 146	261 726
Amount of cash collaterals accepted/granted	(771 090)	(114 819)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	206 056	146 907
Theoretical maximum amount of compensation	(141 799)	(141 799)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	**64 257**	**5 108**

5) Additional explanations to the cash flow statement

For the purpose of the cash flow statement the following financial assets are classified by the Group as cash or its equivalents:

	31.12.2017	31.12.2016
Cash and balances with the Central Bank	2 080 151	1 778 768
Receivables from interbank deposits (*)	120 350	159 814
Debt securities issued by the State Treasury (*)	6 207 751	3 443 400
of which available for sale	6 206 913	3 442 191
of which held for trading	838	1 209
Total	**8 408 252**	**5 381 982**
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	(9 514)	640

(*) Financial assets with maturity below three months

In the periods presented in the financial statements the Group has received and made interest payments in the following amounts:

Data in PLN thous.	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interests received, including:	2 427 860	2 247 596
- operating activities	2 075 750	2 013 508
- investing activities	352 110	234 088
Interests paid, including:	710 313	836 971
- operating activities	689 890	814 127
- financing activities	20 423	22 844

For the purpose of the cash flow statement the following classification of activity types was adopted:

1. Operating activities – cover the basic scope of operations connected with services provided by the Group's units covering events whose purpose is to earn profit and not being investment or financial activity,
2. Investment activities cover operations connected with the purchasing and selling of fixed assets, in particular financial assets not included in the "for trading" category, shares and shares in subsidiaries, tangible and intangible fixed assets.
3. Financial activities cover activities connected with raising of funds in the form of capital or liabilities, as well as servicing sources of funding.

6) Information on custody activity

As of 31.12.2017 the Custody Department maintained 12,570 accounts in which Customers' assets were kept with the total value of PLN 42.4 billion (including assets of the Group's companies in the amount of PLN 0.04 billion). Net revenue from the custody business for 2017 amounted to PLN 8.7 million (of which PLN 0.02 million falls on Group's companies). The Custody Department serves as a depositary bank for 61 mutual funds including 11 of Millennium TFI S.A.

7) Operating lease

The Group has lease agreements for office space, which according to IAS 17 are posted under operating leasing. As a standard, the Group's companies usually make agreements of lease of commercial property for a specified period of maximum 5 years' time, with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The Bank (parent company) made in the past also other agreements with no time limitation, which may be terminated with adequate notice, usually 3 to 6 months.

Balance of liabilities as at:	31.12.2017	31.12.2016
- to 1 year	130 650	153 711
- above 1 year to 5 years	243 236	236 907
- above 5 years	132 958	8 891
TOTAL	506 844	399 509

8) Share based payments

In 2012 the Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. Group in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

According to the mentioned Policy, Bank's and Group's employees who are covered by this Policy, who have significant impact on Group's risk profile, will be paid variable remuneration on the basis of individual results and on the basis of unit / department and the entire Bank and Group results.

Part of the variable remunerations for employees of the Bank and Group will be paid in the form of Bank's phantom shares. Those payments fulfil definition of the cash-settled share-based payments.

Variable Remuneration - Phantom Shares for:	2017	2016	2015	2014
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments			
Commencement of vesting period	1 January 2017	1 January 2016	1 January 2015	1 January 2014
The date of announcing the program	30 July 2012			
Starting date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after closing of financial year			
Number of granted instruments	Determined at the grant date of the program in accordance with the definition of IFRS 2			
Maturity date	3 years since the date of granting program			
Vesting date	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Vesting conditions	Employment in the Group 2017, results of the Group and individual performance	Employment in the Group 2016, results of the Group and individual performance	Employment in the Group 2015, results of the Group and individual performance	Employment in the Group 2014, results of the Group and individual performance
Program settlement	On the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw, preceding the settlement date. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment.			
Program valuation	The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date.			

Phantom shares granted to Group's employees who are not members of the Management Board of the Bank, for the year:	2017	2016	2015	2014
Date of shares assigning	07.02.2018	02.02.2017	12.02.2016	05.02.2015
Number of shares	125 013	159 087	112 031	43 637
- granted	0	0	0	0
- deferred	125 013	159 087	112 031	43 637
Value as at assigning date (PLN)	1 195 500	920 000	604 408	317 368
- granted	0	0	0	0
- deferred	1 195 500	920 000	604 408	317 368
Fair value as at 31.12.2017 (PLN)	-	1 104 000	725 290	380 842

Profit and Loss Account for 2017 has been charged with the change in the value of the phantom shares assigned for the years 2014-2016, the provision created for phantom shares to be assigned for 2017 and the social insurance costs resulting from the above transactions.

Phantom shares granted to members of the Management Board of the Bank, for the year:	2017	2016	2015	2014
Date of shares assigning	-	25.05.2017	13.05.2016	21.05.2015
Number of shares	-	263 157	207 884	82 743
- granted	-	0	0	0
- deferred	-	263 157	207 884	82 743
Value as at assigning date (PLN)	-	1 875 000	1 002 000	646 800
- granted	-	0	0	0
- deferred	-	1 875 000	1 002 000	646 800
Fair value as at 31.12.2017 (PLN)	-	2 249 992	1 202 401	739 722

Until the publication of the Annual Report, the Personnel Committee of the Supervisory Board has not taken a decision on the amount of variable remuneration for the members of the Management Board for 2017.

9) ADDITIONAL INFORMATION AND OTHER ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED AND ITS PUBLICATION DATE

FX mortgage loan portfolio

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

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

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

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

Events after the date for which financial statements were prepared

On January 3 2018, Bank Millennium received decision of the President of the Office of Competition and Consumer Protection (UOKIK), in which the President of UOKIK found infringement by the Bank of the rights of consumers. In the opinion of the President of UOKiK the essence of the violation is that the Bank informed consumers (it regards 78 agreements) in responses to their complaints, that the court verdict stating the abusiveness of the provisions of the loan agreement regarding exchange rates do not apply to them. According to the position of the President of UOKiK the abusiveness of contract's clauses determined by the court in the course of abstract control is constitutive and effective for every contracts from the beginning. As a result of the decision, the Bank was obliged to:
1) send information on the UOKiK decision to the said 78 clients,
2) place the information on decision and the decision itself on the website and on twitter,
3) to pay a fine 20.7 mln PLN. The decision on the fine is not immediately enforceable.
The decision of the President of UOKIK is not final. The Bank does not agree with this Decision and lodged an appeal within the statutory time limit.

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

Date	Name and surname	Position/Function	Signature
23.02.2018	Joao Bras Jorge	Chairman of the Management Board	
23.02.2018	Fernando Bicho	Deputy Chairman of the Management Board	
23.02.2018	Wojciech Haase	Member of the Management Board	
23.02.2018	Andrzej Gliński	Member of the Management Board	
23.02.2018	Maria Jose Campos	Member of the Management Board	
23.02.2018	Wojciech Rybak	Member of the Management Board	