Annual Consolidated Report
of the Bank Millennium S.A. Capital Group
for the 12-month period ending 31st December 2018

Financial Highlights

	Amount '000 PLN		Amount '000 EUR	
	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Interest income and other of similar nature	2 561 919	2 398 938	600 417	565 161
Fee and commission income	824 245	799 288	193 172	188 303
Profit (loss) before income tax	1 024 605	925 223	240 129	217 971
Profit (loss) after taxes	760 651	681 227	178 268	160 489
Total comprehensive income of the period	854 466	831 394	200 255	195 866
Net cash flows from operating activities	4 255 280	2 458 968	997 277	579 303
Net cash flows from investing activities	(8 004 614)	580 471	(1 875 979)	136 752
Net cash flows from financing activities	(138 230)	(13 169)	(32 396)	(3 102)
Net cash flows, total	(3 887 564)	3 026 270	(911 098)	712 953
Earnings (losses) per ordinary share (in PLN/EUR)	0.63	0.56	0.15	0.13
Diluted earnings (losses) per ordinary share	0.63	0.56	0.15	0.13
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Total Assets	80 458 914	71 141 415	18 711 375	17 056 610
Liabilities to banks and other monetary institutions	1 788 857	2 353 131	416 013	564 178
Liabilities to customers	66 243 769	57 273 255	15 405 528	13 731 630
Equity	8 384 386	7 772 599	1 949 857	1 863 530
Share capital	1 213 117	1 213 117	282 120	290 853
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	6.91	6.41	1.61	1.54
Diluted book value per share (in PLN/EUR)	6.91	6.41	1.61	1.54
Total Capital Ratio (TCR)	21.68%	21.99%	21.68%	21.99%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Exchange rates accepted to convert selected financial data into EUR				
for items as at the balance sheet date	-	-	4.3000	4.1709
for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period)	-	-	4.2669	4.2447

QUARTERLY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	1.01.2018 - 31.12.2018	1.10.2018 - 31.12.2018*	1.01.2017 - 31.12.2017	1.10.2017 - 31.12.2017*
Net interest income	1 817 475	485 668	1 696 468	443 930
Interest income and other of similar nature	2 561 919	680 494	2 398 938	615 914
Income calculated using the effective interest method	2 445 255	650 089	n/a	n/a
- Interest income from Financial assets at amortised cost	2 092 858	555 227	n/a	n/a
- Interest income from Financial assets at fair value through other comprehensive income	352 397	94 862	n/a	n/a
Income of similar nature to interest from Financial assets at fair value through profit or loss	116 664	30 405	n/a	n/a
Interest expenses	(744 444)	(194 826)	(702 470)	(171 984)
Net fee and commission income	661 069	161 569	663 553	169 380
Fee and commission income	824 245	204 337	799 288	205 962
Fee and commission expenses	(163 176)	(42 768)	(135 735)	(36 582)
Dividend income	2 601	196	2 612	147
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	18 897	3 220	25 288	16 069
Results on financial assets and liabilities held for trading	81 775	23 667	42 580	6 520
Result on non-trading financial assets mandatorily at fair value through profit or loss	(6 375)	(4 591)	n/a	n/a
Result on hedge accounting	(20 037)	(5 130)	(20 377)	(7 670)
Result on exchange differences	151 620	41 134	169 518	44 625
Other operating income	50 710	16 077	69 909	12 547
Other operating expenses	(50 028)	(15 682)	(77 950)	(29 350)
Administrative expenses	(1 213 765)	(305 392)	(1 149 723)	(291 394)
Impairment losses on financial assets	(201 967)	(52 132)	(254 159)	(62 703)
Impairment losses on non-financial assets	(509)	311	(1 199)	(256)
Result on modification	(14 157)	(3 970)	n/a	n/a
Depreciation	(54 227)	(14 358)	(52 971)	(13 117)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(198 477)	(49 952)	(188 326)	(48 270)
Profit before income taxes	**1 024 605**	**280 635**	**925 223**	**240 458**
Corporate income tax	(263 954)	(68 118)	(243 996)	(60 811)
Profit after taxes	**760 651**	**212 517**	**681 227**	**179 647**
Attributable to:				
Owners of the parent	760 651	212 517	681 227	179 647
Non-controlling interests	0	0	0	0
Weighted average number of outstanding ordinary shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)	0.63	0.18	0.56	0.15

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

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 31.12.2018	1.10.2018 - 31.12.2018*	1.01.2017 - 31.12.2017	1.10.2017 - 31.12.2017*
Result after taxes	760 651	212 517	681 227	179 647
Other comprehensive income items that may be (or were) reclassified to profit or loss	112 882	71 694	187 456	705
Result on debt securities at fair value through other comprehensive income	71 006	57 008	n/a	n/a
Result on debt securities classified as available for sale	n/a	n/a	112 041	9 767
Result on equity instruments classified as available for sale	n/a	n/a	5 237	845
Hedge accounting	41 876	14 686	70 178	(9 907)
Other comprehensive income items that will not be reclassified to profit or loss	2 939	2 957	(2 064)	(2 064)
Actuarial gains (losses)	(83)	(83)	(2 064)	(2 064)
Result on equity instruments at fair value through other comprehensive income	3 022	3 040	n/a	n/a
Total comprehensive income items before taxes	**115 821**	**74 651**	**185 392**	**(1 359)**
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	(21 448)	(13 620)	(35 618)	(136)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(558)	(562)	392	392
Total comprehensive income items after taxes	**93 815**	**60 470**	**150 167**	**(1 102)**
Total comprehensive income for the period	**854 466**	**272 987**	**831 394**	**178 545**
Attributable to:				
Owners of the parent	854 466	272 987	831 394	178 545
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 2018

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1. CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Net interest income		1 817 475	1 696 468
Interest income and other of similar nature	1	2 561 919	2 398 938
Income calculated using the effective interest method		2 445 255	n/a
- Interest income from Financial assets at amortised cost		2 092 858	n/a
- Interest income from Financial assets at fair value through other comprehensive income		352 397	n/a
Income of similar nature to interest from Financial assets at fair value through profit or loss		116 664	n/a
Interest expenses	2	(744 444)	(702 470)
Net fee and commission income		661 069	663 553
Fee and commission income	3	824 245	799 288
Fee and commission expenses	3	(163 176)	(135 735)
Dividend income	4	2 601	2 612
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	18 897	25 288
Results on financial assets and liabilities held for trading	6	81 775	42 580
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	(6 375)	n/a
Result on hedge accounting	8	(20 037)	(20 377)
Result on exchange differences		151 620	169 518
Other operating income	9	50 710	69 909
Other operating expenses	10	(50 028)	(77 950)
Administrative expenses	11	(1 213 765)	(1 149 723)
Impairment losses on financial assets	12	(201 967)	(254 159)
Impairment losses on non-financial assets	13	(509)	(1 199)
Result on modification		(14 157)	n/a
Depreciation	14	(54 227)	(52 971)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(198 477)	(188 326)
Profit before income taxes		**1 024 605**	**925 223**
Corporate income tax	15	(263 954)	(243 996)
Profit after taxes		**760 651**	**681 227**
Attributable to:			
Owners of the parent		760 651	681 227
Non-controlling interests		0	0
Weighted average number of outstanding ordinary shares		1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)	16	0.63	0.56

Notes on pages 13-131 are integral part of these consolidated financial statements.

2. CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Ptofit after taxes	760 651	681 227
Other comprehensive income items that may be (or were) reclassified to profit or loss	112 882	187 456
Result on debt securities at fair value through other comprehensive income	71 006	n/a
Result on debt securities classified as available for sale	n/a	112 041
Result on equity instruments classified as available for sale	n/a	5 237
Hedge accounting	41 876	70 178
Other comprehensive income items that will not be reclassified to profit or loss	2 939	(2 064)
Actuarial gains (losses)	(83)	(2 064)
Result on equity instruments at fair value through other comprehensive income	3 022	n/a
Total comprehensive income items before taxes	**115 821**	**185 392**
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	(21 448)	(35 618)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(558)	392
Total comprehensive income items after taxes	**93 815**	**150 167**
Total comprehensive income for the period	**854 466**	**831 394**
Attributable to:		
Owners of the parent	854 466	831 394
Non-controlling interests	0	0

Notes on pages 13-131 are integral part of these consolidated financial statements.

3. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2018	31.12.2017
Cash, cash balances at central banks	17	2 450 176	2 080 151
Financial assets held for trading	18	794 718	531 125
Derivatives		101 372	192 664
Equity instruments		104	102
Debt securities		693 242	338 359
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	19	64 796	n/a
Equity instruments		21 609	n/a
Debt securities		43 187	n/a
Financial assets at fair value through other comprehensive income	20	22 133 938	n/a
Equity instruments		29 299	n/a
Debt securities		22 104 639	n/a
Financial assets available for sale	20	n/a	19 066 946
Equity instruments		n/a	50 091
Debt securities		n/a	19 016 855
Loans and advances to customers	21	52 711 680	47 411 078
Mandatorily at fair value through profit or loss		1 250 525	n/a
Valued at amortised cost		51 461 155	47 411 078
Financial assets at amortised cost other than Loans and advances to customers	22	1 026 420	254 205
Debt securities		44 884	0
Deposits, loans and advances to banks and other monetary institutions		731 252	254 205
Reverse sale and repurchase agreements		250 284	0
Derivatives – Hedge accounting	23	125 501	885 880
Investments in subsidiaries, joint ventures and associates	24	0	0
Tangible fixed assets	25	210 641	185 880
Intangible fixed assets	26	96 464	79 756
Income tax assets		335 726	288 178
Current income tax assets		11	1 625
Deferred income tax assets	27	335 715	286 553
Other assets	28	483 180	338 659
Non-current assets and disposal groups classified as held for sale	29	25 674	19 557
Total assets		**80 458 914**	**71 141 415**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2018	31.12.2017
LIABILITIES			
Financial liabilities held for trading	30	231 633	190 111
Derivatives		107 879	190 111
Liabilities from short sale of securities		123 754	0
Financial liabilities measured at amortised cost		69 594 512	61 484 830
Liablities to banks and other monetary institutions	31	1 788 857	2 353 131
Liabilities to customers	32	66 243 769	57 273 255
Sale and repurchase agreements	33	50 324	0
Debt securities issued	34	809 679	1 156 473
Subordinated debt	35	701 883	701 971
Derivatives – Hedge accounting	23	376 811	176 853
Provisions	36	112 452	67 752
Pending legal issues		60 710	46 032
Commitments and guarantees given		51 742	21 720
Income tax liabilities		22 309	26 988
Current income tax liabilities		22 309	26 988
Deferred income tax liabilities	37	0	0
Other liabilities	38	1 736 811	1 422 282
Total Liabilities		**72 074 528**	**63 368 816**
EQUITY			
Share capital	39	1 213 117	1 213 117
Share premium		1 147 502	1 147 502
Accumulated other comprehensive income	39	73 692	(34 795)
Retained earnings	39	5 950 075	5 446 775
Total equity		8 384 386	7 772 599
Total equity and total liabilities		**80 458 914**	**71 141 415**

Book value of net assets	8 384 386	7 772 599
Number of shares (pcs.)	1 213 116 777	1 213 116 777
Book value per share (in PLN)	6.91	6.41

Notes on pages 13-131 are integral part of these financial statements.

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2018 - 31.12.2018						
Equity at the beginning of the period	7 772 599	1 213 117	1 147 502	(34 795)	863 313	4 583 462
adjustment of the opening balance due to the adaption of IFRS 9	(242 679)	0	0	14 672	(257 351)	0
Equity as at 01.01.2018	7 529 920	1 213 117	1 147 502	(20 123)	605 962	4 583 462
Total comprehensive income for 2018 (net)	854 466	0	0	93 815	760 651	0
net profit/ (loss) of the period	760 651	0	0	0	760 651	0
valuation of debt securities at fair value through other comprehensive income	57 514	0	0	57 514	0	0
valuation of shares at fair value through other comprehensive income	2 448	0	0	2 448	0	0
hedge accounting	33 920	0	0	33 920	0	0
actuarial gains (losses)	(67)	0	0	(67)	0	0
Transfer between items of reserves	0	0	0	0	(695 290)	695 290
Equity at the end of the period	8 384 386	1 213 117	1 147 502	73 692	671 323	5 278 752

01.01.2017 - 31.12.2017						
Equity at the beginning of the period	6 941 205	1 213 117	1 147 502	(184 962)	851 770	3 913 778
Total comprehensive income for 2017 (net)	831 394	0	0	150 167	681 227	0
net profit/ (loss) of the period	681 227	0	0	0	681 227	0
valuation of debt securities 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

Detailed information concerning changes in different equity items are presented in the **note (39).**

5. CONSOLIDATED CASH FLOW STATEMENT

A. Cash flows from operating activities

Amount '000 PLN	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Profit (loss) after taxes	760 651	681 227
Total adjustments:	3 494 629	1 777 741
Interest received	2 593 317	2 400 638
Interest paid	(699 306)	(689 890)
Depreciation and amortization	54 227	52 971
Foreign exchange (gains)/ losses	33 933	(107 096)
Dividends	(2 601)	(2 612)
Changes in provisions	20 871	18 337
Result on sale and liquidation of investing activity assets	(30 375)	(41 830)
Change in financial assets held for trading	196 495	(1 080 043)
Change in loans and advances to banks	(133 802)	971 458
Change in loans and advances to customers	(7 528 450)	(2 140 325)
Change in receivables from securities bought with sell-back clause (loans and advances)	(255 869)	83 502
Change in financial liabilities valued at fair value through profit and loss (held for trading)	241 480	(1 121 705)
Change in deposits from banks	(806 792)	1 048 227
Change in deposits from customers	9 625 190	2 021 164
Change in liabilities from securities sold with buy-back clause	61 908	14 052
Change in debt securities	4 323	74 126
Change in income tax settlements	267 335	253 764
Income tax paid	(292 306)	(286 302)
Change in other assets and liabilities	143 517	299 138
Other	1 534	10 167
Net cash flows from operating activities	4 255 280	2 458 968

B. Cash flows from investing activities

Amount '000 PLN	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Inflows:	193 300 916	149 968 708
Proceeds from sale of property, plant and equipment and intangible assets	14 301	28 924
Proceeds from sale of shares in related entities	0	0
Proceeds from sale of investment financial assets	193 284 014	149 937 172
Other	2 601	2 612
Outflows:	(201 305 530)	(149 388 237)
Acquisition of property, plant and equipment and intangible assets	(46 096)	(75 651)
Acquisition of shares in related entities	0	0
Acquisition of investment financial assets	(201 259 434)	(149 312 586)
Other	0	0
Net cash flows from investing activities	(8 004 614)	580 471

C. Cash flows from financing activities

Amount '000 PLN	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Inflows from financing activities:	730 687	1 371 570
Long-term bank loans	730 687	342 136
Issue of debt securities	0	329 434
Increase in subordinated debt	0	700 000
Net proceeds from issues of shares and additional capital paid-in	0	0
Other inflows from financing activities	0	0
Outflows from financing activities:	(868 917)	(1 384 739)
Repayment of long-term bank loans	(501 432)	(205 615)
Redemption of debt securities	(329 385)	(529 076)
Decrease in subordinated debt	0	(629 625)
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other outflows from financing activities	(38 100)	(20 423)
Net cash flows from financing activities	(138 230)	(13 169)

D. Net cash flows. Total (A + B + C)	(3 887 564)	3 026 270
- including change resulting from FX differences	4 424	(9 514)
E. Cash and cash equivalents at the beginning of the reporting period	8 408 252	5 381 982
F. Cash and cash equivalents at the end of the reporting period (D + E)	4 520 688	8 408 252

In 2018, the Group changed the presentation format of the data in the Statement of cash flows by allocating in the operating activities additional items presenting interest paid and received, comparative data for 2017 were adjusted accordingly.

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 31), 34), 35) 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 mobile 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 6,100 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 2018

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

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

Composition of the Management Board as at 31 December 2018 was as follows:

- Joao Nuno Lima Bras Jorge – Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho – Deputy Chairman of the Management Board,
- Wojciech Haase – Member of the Management Board,
- Andrzej Gliński – Member of the Management Board,
- Wojciech Rybak – Member of the Management Board,
- Antonio Ferreira Pinto Junior – Member of the Management Board,
- Jarosław Hermann – Member of the Management Board.

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

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

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 2018, are presented by the table below:

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI S.A.	investment funds management	Warsaw	100	100	full consolidation
MB FINANCE AB	funding companies from the Group	Stockholm	100	100	full consolidation
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warsaw	100	100	full consolidation
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
Piast Expert Sp. z o.o.	marketing services	Tychy	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 (unified text - Official Journal from 2018, item 395, 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 Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

This financial report was approved for publication by the Management Board on 22 February 2019.

2) Standards and interpretations applied in 2018 and those not binding at the balance sheet date

Applied new and revised standards and interpretations

This consolidated financial report for the first time reflected provisions of following standards, which came into force on 1 January 2018:

IFRS 9: „Financial instruments"

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

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

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

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

Valuation Models

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

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

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

1) The business model of managing financial assets,

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

- to collect contractual cash flows resulting from the contract,
- both to collect contractual cash flows arising from the contract and the sale of a financial asset or
- for other business purposes.

2) Test of contractual cash flow characteristics connected with financial assets (hereinfrom „SPPI test").

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

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

Business Models of the Group

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

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

Held To Collect Model (HTC)

Model characteristics:

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

Conditions allowing sale in the HTC model:

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

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

Impact on classification and valuation:

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

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

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

Model characteristics:

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

Impact on classification and valuation:

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

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

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

Other models

Characteristics:

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

This category should include in particular:

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

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

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

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

Impact on classification and valuation:

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

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

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

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

Test of characteristics of contractual cash flows (SPPI test)

The evaluation of the fulfillment of the SPPI Test is carried out in the following cases:

- granting a loan;
- purchase of credit;
- renegotiation of contractual terms;

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

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

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

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

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

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

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

Modifications to the terms of the loan agreement

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

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

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

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

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

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

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

Impairment

General assumptions of the model

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

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at amortized 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 for 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 for the remaining life time of the financial asset,
- Stage 3 – exposures with identified signs of impairment, for which expected credit loss is estimated for the remaining life time of the financial asset.

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

Identification of a significant increase in credit risk

Assets, for which there has been identified 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 recognized based on qualitative and quantitative criteria. The qualitative criteria include:

- repayment delays of more than 30 days,
- forborne exposures in non-default status,
- procedural rating, which is reflecting early delays in payments,
- taking a risk-mitigating decision for corporate clients, triggered by the early warning system,
- events related to an increase in credit 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. The quantitative assessment does not cover exposures analyzed individually.

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 values of estimated parameters and exposures.

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.

Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: 500 zł retail and 3000 zł corporates,
- Restructured loans (annexes and agreements),
- Loans in vindication process,
- Qualitative triggers identified in the individual analysis.

Bank is using cross-default approach for all segments.

PD Model

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

LGD Models

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

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

EaD Model

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

Impact on the amount of impairment charges

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

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

Write-offs

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

POCI assets

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

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

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

Financial liabilities

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

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

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

Hedge accounting

Based on the paragraph 7.2.21 of IFRS 9, the Group decided to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. In view of the above, as regards hedge accounting, the adoption of IFRS 9 did not have any impact on the financial position of the Group.

Impact of the implementation of IFRS 9 on the financial position of the Group

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

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

ASSETS *Amount '000 PLN*	IAS 39 31.12.2017	(1) reclassification	(2) reclassification	(3) reclassification	(4) valuation	(5) valuation	IFRS 9 01.01.2018
Cash, cash balances at central banks	2 080 151	0	0	0	0	0	2 080 151
Financial assets held for trading	531 125	0	0	0	0	0	531 125
Derivatives	192 664	0	0	0	0	0	192 664
Equity instruments	102	0	0	0	0	0	102
Debt securities	338 359	0	0	0	0	0	338 359
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	0	19 232	0	29 632	0	0	48 864
Equity instruments	0	19 232	0	0	0	0	19 232
Debt securities	0	0	0	29 632	0	0	29 632
Financial assets at fair value through other comprehensive income	0	18 970 106	0	0	0	24 904	18 995 010
Equity instruments	0	1 227	0	0	0	24 904	26 131
Debt securities	0	18 968 879	0	0	0	0	18 968 879
Financial assets available for sale	19 066 946	(19 037 314)	0	(29 632)	0	0	0
Equity instruments	50 091	(20 459)	0	(29 632)	0	0	0
Debt securities	19 016 855	(19 016 855)	0	0	0	0	0
Loans and advances to customers	47 411 078	0	0	0	(291 909)	0	47 119 169
Mandatorily at fair value through profit or loss	0	0	1 099 841	0	0	0	1 099 841
Valued at amortised cost	47 411 078	0	(1 099 841)	0	(291 909)	0	46 019 328
Financial assets at amortised cost other than Loans and advances to customers	254 205	47 976	0	0	0	0	302 181
Debt securities	0	47 976	0	0	0	0	47 976
Deposits, loans and advances to banks and other monetary institutions	254 205	0	0	0	0	0	254 205
Reverse sale and repurchase agreements	0	0	0	0	0	0	0
Derivatives – Hedge accounting	885 880	0	0	0	0	0	885 880
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible fixed assets	185 880	0	0	0	0	0	185 880
Intangible fixed assets	79 756	0	0	0	0	0	79 756
Income tax assets	288 178	0	0	0	52 887	(4 732)	336 333
Current income tax assets	1 625	0	0	0	0	0	1 625
Deferred income tax assets	286 553	0	0	0	52 887	(4 732)	334 708
Other assets	338 659	0	0	0	0	0	338 659
Non-current assets and disposal groups classified as held for sale	19 557	0	0	0	0	0	19 557
Total assets	**71 141 415**	**0**	**0**	**0**	**(239 022)**	**20 172**	**70 922 565**

LIABILITIES AND EQUITY *Amount '000 PLN*	IAS 39 31.12.2017	(1) reclassification	(2) reclassification	(3) reclassification	(4) valuation	(5) valuation	IFRS 9 01.01.2018
LIABILITIES							
Financial liabilities held for trading	190 111	0	0	0	0	0	190 111
Derivatives	190 111	0	0	0	0	0	190 111
Short positions	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	61 484 830	0	0	0	0	0	61 484 830
Liablities to banks and other monetary other monetary institutions	2 353 131	0	0	0	0	0	2 353 131
Liabilities to customers	57 273 255	0	0	0	0	0	57 273 255
Sale and repurchase agreements	0	0	0	0	0	0	0
Debt securities issued	1 156 473	0	0	0	0	0	1 156 473
Subordinated debt	701 971	0	0	0	0	0	701 971
Derivatives - Hedge accounting	176 853	0	0	0	0	0	176 853
Provisions	67 752	0	0	0	23 829	0	91 581
Pending legal issues	46 032	0	0	0	0	0	46 032
Commitments and guarantees given	21 720	0	0	0	23 829	0	45 549
Income tax liabilities	26 988	0	0	0	0	0	26 988
Current income tax liabilities	26 988	0	0	0	0	0	26 988
Deferred income tax liabilities	0	0	0	0	0	0	0
Other liabilities	1 422 282	0	0	0	0	0	1 422 282
Total Liabilities	**63 368 816**	**0**	**0**	**0**	**23 829**	**0**	**63 392 645**
EQUITY							
Capital	1 213 117	0	0	0	0	0	1 213 117
Share premium	1 147 502	0	0	0	0	0	1 147 502
Accumulated other comprehensive income	(34 795)	0	0	(5 500)	0	20 172	(20 123)
Retained earnings	5 446 775	0	0	5 500	(262 851)	0	5 189 424
Total equity	7 772 599	0	0	0	(262 851)	20 172	7 529 920
Total equity and total liabilities	**71 141 415**	**0**	**0**	**0**	**(239 022)**	**20 172**	**70 922 565**

(1) Reclassification of securities: the Group has evaluated the business model for investment securities, as a result, debt securities previously classified as available for sale were included in the HTC&FS portfolio and are measured at fair value through other comprehensive income.

The exceptions were municipal bonds included in the HTC portfolio valued at amortized cost, because these instruments are generally maintained by the Group to obtain contractual cash flows, and sales transactions occur infrequently. The impact of valuation of these instruments in 2018 on other comprehensive income (if the reclassification to the category of measurement at amortized cost was not made) would be immaterial.

Equity instruments are classified as measured at fair value through profit and loss unless they are a strategic investment - at the time of implementing IFRS 9, the Group used the option and designated some equity investments treated as strategic to the fair value measurement category with the effect of valuation recognized in other comprehensive income.

(2) The Group identified in credit portfolio exposures which include, in the interest rate definition, leverage/multiplier feature (credit card exposures and overdraft limit for which the interest rate is based on the multiplier: 4 times the lombard rate) and due to not meeting the SPPI test, presented aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances".

(3) Reclassification of exposures to VISA Incorporation securities.

(4) Revaluation of the loan portfolio and provisions for off-balance sheet liabilities.

The change in the balance of all impairment allowances and provisions created by the Group which value has changed as a result of the implementation of IFRS 9 is presented below:

	As at 31.12.2017 (IAS 39)	IFRS9 implementation			As at 01.01.2018 (IFRS 9)
		reclassification of credit portfolio not meeting SPPI test	reclassification of KOIM (*)	revaluation	
Impairment allowances for loan portfolio valued at amortised cost	1 497 228	(83 790)	119 315	291 909	1 824 662
Provisions for off-balance sheet liabilities	21 720	0	0	23 829	45 549

(*) In accordance with IFRS 9, the Group calculates interest on the loan portfolio with recognized impairment based on the net exposure value. For this purpose, the so-called correction of impaired interest ("KOIM") is calculated and accounted for as a reduction in interest income. The aforementioned adjustment in the balance sheet used to presented in accordance with IAS 39 as a reduction of gross exposure, in accordance with IFRS 9 KOIM in the balance sheet is recognized as impairment allowances. The reclassification of KOIM consisted of a simultaneous increase in the gross exposure value and the balance of impairment allowances.

In relation to other categories of assets and liabilities, the implementation of IFRS 9 did not result in changes in impairment losses and provisions.

The following is the balance of impairment losses and provisions recognized by the Group on January 1, 2018, broken down into baskets

As at 01.01.2018 accordingly IFRS 9	impairment allowances/provisions			Total
	Stage 1	Stage 2	Stage 3	
Impairment allowances for loan portfolio valued at amortised cost	198 097	215 408	1 411 159	1 824 662
Provisions for off-balance sheet liabilities	24 862	13 189	7 498	45 549

(5) Revaluation of equity instruments.

Impact of IFRS9 implementation on capital adequacy ratios

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

As at 01/01/2018 full IFRS 9 implementation would cause decrease of TCR by 23 b.p. from 21.99% to 21.76%, and Tier 1 ratio by 28 b.p. from 20.03% to 19.75%. Applying transitional periods rules, TCR would improve by 8 b.p. to 22.07% and Tier 1 ratio by 4 b.p. to 20.07%.

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

Changes to IFRS 2: Classification and valuation of share-based transactions

Change to IFRS 2 introduces, inter alia, guidelines for valuation at fair value of liabilities under share-based transactions settled in cash, guidelines regarding change of classification from cash settled share-based transactions to capital instruments settled cash based transactions, and also guidelines on employee tax liability resulting from share-based transactions.

Applying the standard did not have an impact on the Group's financial situation and results.

Changes to IFRS 4: Application of IFRS 9 „Financial Instruments" together with IFRS 4 „Insurance Contracts"

Changes to IFR 4 „Insurance Contracts" address the issue of application of the new IFRS 9 „Financial Instruments". The published changes to IFRS 4 supplement options already existing in the standards with the objective to prevent temporary volatility of results generated by insurance sector entities in connection with implementation of IFRS 9.

Applying the standard did not have an impact on the Group's financial situation and results.

Annual changes to IFRS 2014 - 2016:

"Annual changes to OFRS 2014-2016" amend 3 standards: IFRS 12 „Disclosure of Interests in Other Entities", IFRS 1 „First Time Adoption of IFRS" and IAS 28 „Investments in Associates". Amendments contain explanations and changes to standard scopes, posting and valuation and contain terminology and edition changes.

Applying the standard did not have an impact on the Group's financial situation and results.

Changes to IAS 40: Re-classification of investment property

Changes to IAS 40 more precisely provide for requirements connected with re-classification to investment property and from investment property.

Applying the standard did not have an impact on the Group's financial situation and results.

IFRIC 22: FX transactions and advance payments

IFRIC 22 explains accounting rules with regard to transactions in which an entity receives or transfers advances in foreign currency.

Applying the standard did not have an impact on the Group's financial situation and results.

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

IFRS 16 Leases

The International Accounting Standards Board has published the new International Financial Reporting Standard No. 16 (IFRS 16) concerning leases. IFRS 16 will apply to reporting periods starting on 1 January 2019 and will affect the Group in the area of assets used under lease agreements. The new requirements eliminate the notion of operating lease and thus off-balance sheet recognition of assets used on this basis. All assets used as well as relevant rent payment liabilities will have to be recognised in the balance sheet.

The Group analysed its agreements to establish which are leases, which aren't. An agreement is a lease or contains a lease if under it the right is conveyed to control the use of an identified asset for a particular irrevocable period in exchange for remuneration. Recognition of agreements on rental of office space (Head Office, branches) as leases will have the biggest impact on financial statements. Also agreements were identified on small spaces (bin shelters, ATM space etc.) as well as agreements on minor equipment, which were classified as low value leases.

Transition period

In order to implement the new standard the Bank adopted a modified retrospective approach, which assumes not restating comparable data. In consequence the date of applying the standard will be the first day of the annual reporting period, in which the Bank will apply principles of the new standard for the first time (1 January 2019). On the day of first use of the new standard the Bank will recognise lease liabilities equal to the current value of discounted and as yet unpaid lease payments as well as assets equal to liabilities. The life of an asset for use will be equal to the duration of the lease agreement.

Based on budgetary assumptions the Group estimates that in result of application of the new standard in January 2019 the Group will report total assets higher by approx. PLN 376 million, while costs recognised in 2019 result will increase by approx. PLN 5 million over 2018. In subsequent years the impact of the new standard on the result will decrease.

The Bank has adopted the following assumptions, based on which lease agreements will be carried in financial statements:

- Calculation of liabilities and assets will use net values of future cash flows,
- In case of agreements denominated in currency the liabilities will be carried in the original currency of the contract while assets in Polish zloty converted at the rate from the day of start of validity (signing) of the agreement, assets in Polish zloty were converted at the rate from the date of initial application of the standard (i.e. 01.01.2019),
- New agreements shall be discounted using incremental borrowing rate defined as risk free rate (SWAP) from the day of start (signing) of an agreement appropriate for the duration of the agreement, plus credit spread defined and updated with respect to the premium for Bank's credit risk.

Accounting schedules

The financial report will show in different items both assets from right to use as well as lease liabilities. On the start date lease payments contained in the valuation of the lease liability shall comprise following payments for the right to use the underlying asset during the lease period, which remain due on that date:

- fixed lease payments less any and all due lease incentives,
- variable lease payments, which depend on the index or rate, initially valuated with use of this index or this rate in accordance with their value on start date,
- amounts expected to be paid by the lessee under the guaranteed final value,
- the buy option strike price if it can be assumed with sufficient certainty that the lessee will exercise this option,
- monetary penalties for lease termination if the lease terms and conditions stipulated that the lessee may exercise the lease termination option.

A right to use asset will comprise:

- amount of initial valuation of the lease liability,
- any and all lease payments paid on the start date or before it, less any and all lease incentives received.

Financial result shall reflect following items:

- depreciation of right to use,
- interest on lease liabilities as a sum of two bookings – due monthly rent less value of repayment of liability,
- VAT on rent invoices reported in cost of rent.

The Group expects that introduction of listed below not effective standards will not have significant impact on the Group's financial situation and results.

Changes to IFRS 9: Right of pre-payment with negative compensation

Changes to IFRS 9 apply to annual periods commencing on 1 January 2019 or after that date with early application option. In effect of change to IFRS 9, entities will be able to value financial assets with the so-called pre-payment right with negative compensation according to amortised cost or fair value by comprehensive income if a specific condition is met - instead of fair value through profit and loss.

IFRS 17 „Insurance Contracts"

IFRS 17 „Insurance Contracts" was issued by the International Accounting Standards Board on 18 May 2017 and is effective for annual periods commencing on 1 January 2021 or after that date.

The new IFRS 17 Insurance Contracts will replace currently effective IFRS 4, which allows diverse practices in settling of insurance contracts. IFRS 17, in principle, will change accounting of all entities dealing in insurance contracts and investment agreements.

The Group will apply IFRS 17 after its approval by the European Union.

As on the date of this consolidated financial statement, the new standard has not been, yet, approved by the European Union.

Changes to IAS 28 "Investments in Associates and Joint Ventures"

Change is effective for annual periods commencing on 1 January 2019 or after that date. Changes to IAS 28 "Investments in Associates and Joint Ventures" explain that relative to long term interests in associates or joint ventures to which property right method is not applied, companies will apply IFRS 9. In addition, the Board also published an example illustrating application of IFRS 9 and IAS 28 requirements to long term interests in associate or joint venture.

The Group will apply the above changes from 1 January 2019.

As on the date of this consolidated financial statement, the change has not been, yet, approved by the European Union.

IFRIC 23: Uncertainty connected with income tax recognition

IFRIC 23 explains requirements with regard to recognition and valuation, as contained in IAS 12 in case of uncertainty related to income tax recognition. Guidelines are effective for annual periods commencing on 1 January 2019 or after that date.

The Group will apply the above changes from 1 January 2019.

Annual changes to IFRS 2015 – 2017:

The International Accounting Standards Board published, in December 2017 "Annual Changes to IFRS 2015-2017", introducing changes to 4 standards: IFRS 3 „Business Combinations", IFRS 11 „Joint Arrangements", IAS 12 „Income Tax" and IAS 23 „Borrowing Costs".

Amendments provide explanations and more precise standard guidelines in the area of recognition and valuation.

The Group will apply the above changes from 1 January 2019.

As on the date of this consolidated financial statement, the change has not been, yet, approved by the European Union.

IAS 19 „Employee Benefits"

Changes to IAS 19 are effective for annual periods commencing on 1 January 2019 or after that date. Amendments to the standard stipulate requirements related to accounting recognition of modification, limitation or settlement of a programme of specific benefits.

The Group will apply the above changes from 1 January 2019.

As on the date of this consolidated financial statement, the change has not been, yet, approved by the European Union.

Changes to the scope of references to Conceptual Assumptions in IFRS

Changes to the scope of references to Conceptual Assumptions in IFRS will become applicable as on 1 January 2020.

IFRS 3 „Business Combinations"

In effect of changes to IFRS 3 definition of "undertaking" was modified. Definition currently introduced has been narrowed down and is likely to produce more transactions to be classified to asset acquisition. Changes to IFRS 3 apply to annual periods commencing on 1 January 2020 or after that date.

As on the date of this consolidated financial statement, the change has not been, yet, approved by the European Union.

IAS 1 „Presentation of Financial Statements" an IAS 8 „Accounting Policies, Changes to Accounting Estimates and Errors"

The Board published a new definition of the term "materiality". Changes to IAS 1 and IAS 8 precisely formulate definition of materiality and improve cohesion between standards, but they are not expected to have significant impact upon preparation of financial statements. Guidelines are effective for annual periods commencing on 1 January 2020 or after that date.

As on the date of this consolidated financial statement, the change has not been, yet, approved by the European Union.

IFRS 14 „Regulatory Deferral Accounts"

The standard allows entities preparing their financial statements in accordance with IFRS for the first time (as from 1 January 2016 or after that date) to recognise amounts resulting from operations with regulated rates in accordance with accounting principles applied to date. To improve comparability with entities that have been already applying IFRS and do not show such amounts, in line with the published IFRS 14 amounts resulting from operations with regulated rates, should be presented in a separate line item both in the report on financial situation and in the profit and loss account and the report on other comprehensive incomes.

By decision of the European Union IFRS 14 will not be approved.

Changes to IFRS 10 and IAS 28 regarding sale or contribution of assets between investor and its associates or joint ventures

Changes resolve the current inconsistencies between IFRS 10 and IAS 28. Accounting recognition is conditional upon whether non-monetary assets sold or contributed to an associate or a joint venture constitute a „business".

In case the non-monetary assets constitute "business", investor will recognise full profit or loss on the transaction. In case assets do not meet the 'business' definition, investor will recognise profit or loss excluding the part constituting interests of other investors.

Changes were published on 11 September 2014. The effectiveness date relative to the amended regulations has not been determined by the International Accounting Standards Board yet.

As on the date of this consolidated financial statement, the change has not been, yet, 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 2018 to 31 December 2018 include financial data of the Bank and its subsidiaries forming the Group.

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 FVTPL including derivative instruments, and financial assets classified as FVTOCI. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost with effective interest rate applied less impairment charges (except loans which failed SPPI test), 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 except changes reflected from IFRS9 implementation commencing from 1 January 2018. For the areas affected by IFRS9 are presented also accounting standards obligatory before 1 January 2018 (resulted from IAS39) – these parts of the text are highlighted with darker background.

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 and for other companies 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 valued at fair value through other comprehensive income 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 valued at fair value through other comprehensive income, 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

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

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), which results will be taken into account in order to improve the quality of the process.

Further details are presented in **Chapter 8. "Financial Risk Management"**.

Accounting standards obligatory before 1st January 2018

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.

- 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,
  Loans and advances mandatorily at fair value through profit or loss,
  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.

    To estimate the fair value of loans, due to the lack of availability of the market value, an internal valuation model was used, taking into account the assumption that at the time of granting the loan the fair value is equal to the carrying value.

The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date. The discounting rate is the sum of: the cost of risk, the cost of financing, the value of the expected return.

The fair value of impaired loans is equal to the sum of future expected recoveries discounted using the effective interest rate, recognizing that the average expected recoveries fully take into account the element of credit risk.

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

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

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

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

1) The business model of managing financial assets,

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

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

2) Test of contractual cash flow characteristics connected with financial assets (hereinfrom „SPPI test").

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

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

Financial instruments are classified at the moment of recognition or significant modification of the instrument. A change in the classification of financial assets may be caused by a change in the business model or failing the SPPI test. Reclassification is made prospectively, i.e. it does not affect fair value measurements, write-downs or accrued interests recorded to the date of reclassification.

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 infrequent,
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. The value of instruments is calculated based on effective interest rate which is applied to determine interest income and then adjusted for impairment allowances reflecting expected credit losses. Consequently, subject to valuation at amortised cost is the Group's credit portfolio (except loans not meeting the SPPI test) and debt securities issued by local government units (municipal bonds portfolio), because these instruments in principle are held by the Group in order to collect contract cash flows, while sales transactions occur infrequently.

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). These instruments are measured at fair value net of impairment allowances, the fair value result is recognised in other comprehensive income until financial assets is derecognised.

The HTC&FS model is applied mainly to the portfolio of debt government securities and money bills of the National Bank of Poland in particular the liquidity and investment portfolio.

Equity instruments (with the exception of related entities) 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 is 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).

Other models

Model 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) Debt securities held for trading,
3) Capital instruments not appointed to be a strategic investment
4) Financial assets irrevocably designated at initial recognition to be valued at fair value through profit & loss (even in case the asset does not meet criteria to be FVTPL) in order to eliminate or significantly mitigate accounting mismatch if would appear in case such designation is not made.

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

Accounting standards obligatory before 1st January 2018 (IAS39)

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.

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.

Test of characteristics of contractual cash flows (SPPI test)

The evaluation of the fulfillment of the SPPI Test is carried out in the following cases:

- granting a loan;
- purchase of credit;
- renegotiation of contractual terms;

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

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

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

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

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

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

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

Modifications to the terms of the loan agreement

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

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

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

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

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

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

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

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

POCI assets

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

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

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

Financial liabilities

Upon 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, financial liabilities shall not be reclassified subsequent to their initial recognition.

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.

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 derivative instruments embedded in liabilities

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 following conditions 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 FVOCI asset. The valuation of hedged financial assets classified as FVOCI, 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 FVOCI 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 'Results on financial assets and liabilities held for trading'/'Result on exchange differences', 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 exchange differences' 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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading'.

  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 'Results on financial assets and liabilities held for trading' 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 'Results on financial assets and liabilities held for trading'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 'Results on financial assets and liabilities held for trading' 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 ‘Results on financial assets and liabilities held for trading’ 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 ‘Results on financial assets and liabilities held for trading’ of the Profit and Loss Account.

Impairment of financial assets

Impairment

General assumptions of the model

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

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at amortized 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 for 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 for the remaining life time of the financial asset,
– Stage 3 – exposures with identified signs of impairment, for which expected credit loss is estimated for the remaining life time of the financial asset.

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

Identification of a significant increase in credit risk

Assets, for which there has been identified 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 recognized based on qualitative and quantitative criteria. The qualitative criteria include:

– repayment delays of more than 30 days,
– forborne exposures in non-default status,
– procedural rating, which is reflecting early delays in payments,
– taking a risk-mitigating decision for corporate clients, triggered by the early warning system,
– events related to an increase in credit 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. The quantitative assessment does not cover exposures analyzed individually.

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 values of estimated parameters and exposures.

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.

Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: 500 zł retail and 3000 zł corporates,
- Restructured loans (annexes and agreements),
- Loans in vindication process,
- Qualitative triggers identified in the individual analysis.

Bank is using cross-default approach for all segments.

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.

Accounting standards obligatory before 1st January 2018 (IAS39)

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.

Write-offs

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

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 Fixed 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 Fixed 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 allowances.

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-financial 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 2018 has been set at 3.0%. 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., point 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 income and other of similar nature

Interest income includes interest on financial instruments measured at amortized cost using the effective interest rate method and financial assets measured at fair value through other comprehensive income.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and the allocation of interest cost or interest income and certain commissions (constituting an integral part of the interest rate) to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash flows (in the period until the financial instrument expires) 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 a given financial instrument, without taking into account possible future losses due to unpaid loans. This calculation includes all fees paid or received between parties to the contract, which are an integral part of the effective interest rate, and transaction costs and all other differences due to the premium or discount.

Interest income includes interest and commissions (received or due) included in the calculation of the effective interest rate on: loans, interbank deposits and debt securities not classified into held for trading category. Interest income also includes costs directly related to the conclusion of a loan agreement borne by the Group (mainly commissions paid to external and own agents for concluding a mortgage agreement and related property valuation costs related to this type of contract) that are a component of the effective interest rate and are settled in time.

Upon recognizing the impairment of a financial instrument measured at amortized cost and financial assets measured at fair value through other comprehensive income, interest income is recognized in the Profit and Loss Account but is calculated on the newly established carrying amount of the financial instrument (that is, less impairment).

The Group recognizes in the interest income amortization over the time of the result from the modification which did not lead to the derecognition from the balance sheet of a given financial asset, included in the Profit and Loss Account under the item "Result from modification".

Interest income also includes net interest income on derivative instruments designated and being effective hedging instruments in hedge accounting (a detailed description of the existing hedging relationships is included in **note (23)**).

Interest income on derivatives classified as held for trading is shown under "Result on financial assets and liabilities held for trading" in the Profit and Loss Account. Interest income and the settlement of a discount or premium on debt financial instruments classified as held for trading are recognized under the item "Revenue similar to interest on assets valued at fair value through profit and loss" of the Profit and Loss Account. This item also includes interest income arising from assets that are measured at fair value through profit and loss.

Interest costs

Interest costs include in particular interest resulting from financial instruments measured at amortized cost using the effective interest rate method described above.

Interest costs on derivatives classified as held for trading are shown under "Result on financial assets and liabilities held for trading" in the Profit and Loss Account.

Accounting standards obligatory before 1st January 2018 (IAS39)

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 (23)**).

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 2018 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 2018 (the same level as in the year 2017).

As of 31 December 2018, 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 derecognition of financial assets and liabilities not measured at fair value through profit or loss

The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss includes gains and losses arising from the sale of debt financial instruments classified to the portfolio measured at fair value through comprehensive income and other gains and losses resulting from investing activities.

Result on financial assets and liabilities held for trading

The result on financial assets and financial liabilities held for trading contains gains and losses on disposal of financial instruments classified as financial assets / liabilities measured held for trading and the effect of valuation of these instruments at fair value (incl. debt, equity and derivative instruments intended for trading).

Result on non-trading financial assets mandatorily at fair value through profit or loss

The result on non-trading financial assets mandatorily at fair value through profit or loss includes gains and losses on disposal and the effect of the measurement of financial instruments classified to this category of assets.

Result on hedge accounting

The result on hedge accounting includes in particular: changes in the fair value of the hedging instrument (including discontinuation), changes in the fair value of the hedged item resulting from the hedged risk and inefficiencies resulting from cash flow hedges recognized in profit or loss.

Result on exchange differences

Foreign exchange differences include: i) realized result and result from the valuation of FX spot and FX Forward transactions ii) positive and negative exchange rate differences, both realized and unrealized, resulting from the daily valuation of foreign currency assets and liabilities, valid as at the balance sheet day average NBP exchange rate and affecting income or expenses from the exchange position.

Accounting standards obligatory before 1st January 2018 (IAS39)

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) Risk Management

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 organizational 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.

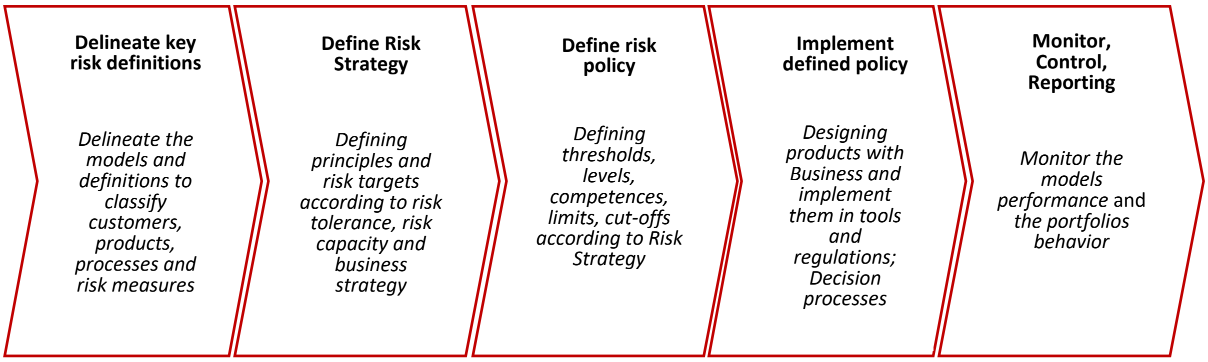
When defining the business and profitability targets, the Group takes into account the specified risk framework (Risk Tolerance) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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.
- 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 center for anti-fraud process.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2019-2021" (2018-2020 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, and 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 have 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,
- Asset quality,
- Liquidity and funding,
- Earnings volatility,
- 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 pays 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 and planning

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 art. 92 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- 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 that 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 October and November 2018 in the level of 6.41 p.p. (Bank) and 6.27 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 4.81 p.p. in Bank and of 4.70 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 3.59 p.p. in Bank and 3.51 p.p. in Group [1];
- Combined buffer – defined in Act on macro-prudential supervision over the financial system and crisis management – that consists of:
    - Capital conservation buffer at the level of 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%, and the value is set by KNF every year[2];
    - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
    - Countercyclical buffer at the 0% level.

[1] That recommendation replaces the previous one from 2017, to maintain own funds for the coverage of additional capital requirements at the level of 5.53 p.p. (Bank) and 5.41 p.p. (Group) as for TCR, which should have consisted of at least 4.15 p.p. (Bank) and 4.06 p.p. (Group) as for Tier 1 capital and which should have consisted of at least 3.10 p.p. (Bank) and 3.06 p.p. (Group) as for CET1 capital

[2] In August 2018 Bank informed about the decision of KNF on the rescinding the decision on identification of the Bank as other systemically important institution (O-SII) and on imposing on the Bank an O-SII buffer

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), the Group 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.

The below table presents these levels as at 31 December, 2018 and from 1 January 2019.

Capital ratio	31.12.2018		2019	
CET1 ratio	Bank	Group	Bank	Group
Minimum	4,50%	4,50%	4,50%	4,50%
Pillar II RRE FX	3,59%	3,51%	3,59%	3,51%
TSCR CET1 (Total SREP Capital Requirements)	8,09%	8,01%	8,09%	8,01%
Capital Conservation Buffer	1,875%	1,875%	2,50%	2,50%
OSII Buffer	0,00%	0,00%	0,00%	0,00%
Systemic risk buffer	3,00%	3,00%	3,00%	3,00%
Countercyclical capital buffer	0,00%	0,00%	0,00%	0,00%
Combined buffer	*4,88%*	*4,88%*	*5,50%*	*5,50%*
OCR CET1 (Overall Capital Requirements CET1)	**12,97%**	**12,89%**	**13,59%**	**13,51%**
T1 ratio	Bank	Group	Bank	Group
Minimum	6,00%	6,00%	6,00%	6,00%
Pillar II RRE FX	4,81%	4,70%	4,81%	4,70%
TSCR T1 (Total SREP Capital Requirements)	10,81%	10,70%	10,81%	10,70%
Capital Conservation Buffer	1,875%	1,875%	2,50%	2,50%
OSII Buffer	0,00%	0,00%	0,00%	0,00%
Systemic risk buffer	3,00%	3,00%	3,00%	3,00%
Countercyclical capital buffer	0,00%	0,00%	0,00%	0,00%
Combined buffer	*4,88%*	*4,88%*	*5,50%*	*5,50%*
OCR T1 (Overall Capital Requirements T1)	**15,69%**	**15,58%**	**16,31%**	**16,20%**
TCR ratio	Bank	Group	Bank	Group
Minimum	8,00%	8,00%	8,00%	8,00%
Pillar II RRE FX	6,41%	6,27%	6,41%	6,27%
TSCR TCR (Total SREP Capital Requirements)	14,41%	14,27%	14,41%	14,27%
Capital Conservation Buffer	1,875%	1,875%	2,50%	2,50%
OSII Buffer	0,00%	0,00%	0,00%	0,00%
Systemic risk buffer	3,00%	3,00%	3,00%	3,00%
Countercyclical capital buffer	0,00%	0,00%	0,00%	0,00%
Combined buffer	*4,88%*	*4,88%*	*5,50%*	*5,50%*
OCR TCR (Overall Capital Requirements TCR)	**19,29%**	**19,15%**	**19,91%**	**19,77%**

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. Capital ratios in a given range cause 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 (KNF) 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.

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.

In July 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 the “Regulatory floor”.

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 Bank'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 Bank 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 2018, 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 utilized 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[3]:

Capital adequacy	31.12.2018	31.12.2017	31.12.2016[4]
Risk-weighted assets	36 635.5	32 693.6	36 730.6
Own Funds requirements, including:	2 930.8	2 615.5	2 938.4
- Credit risk and counterparty credit risk	2 593.9	2 297.7	2 621.8
- Market risk	20.3	18.3	23.4
- Operational risk	313.1	293.4	279.0
- Credit Valuation Adjustment CVA	3.5	6.1	14.3
Own Funds, including:	7 943.0	7 190.6	6 390.7
Common Equity Tier 1 Capital	7 243.0	6 548.8	6 356.8
Tier 2 Capital	700.0	641.8	33.9
Total Capital Ratio (TCR)	**21.68%**	**21.99%**	**17.40%**
Minimum required level	19.15%	18.91%	16.55%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	+2.53	+3.08	+0.85
Tier 1 Capital ratio (T1)	**19.77%**	**20.03%**	**17.31%**
Minimum required level	15.58%	14.56%	12.79%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	+4.19	+5.47	+4.52
Common Equity Tier 1 Capital ratio (CET1)	**19.77%**	**20.03%**	**17.31%**
Minimum required level	12.89%	13.53%	12.21%
Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.)	+6.88	+6.50	+5.10
Leverage ratio	**8.78%**	**8.88%**	**8.85%**

As at 2018 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, decreased in one year period by ca 0.3 p.p.

In 2018, risk-weighted assets went up by ca PLN 3.9 billion (by 12%), as result of the growth of loan portfolio.

Own Funds raised by ca PLN 753 million in 2018, mainly as a result of 100% retention of 2017 net earnings.

Minimum capital levels required by KNF was achieved with a surplus.

Leverage ratio stood at the safe level of 8.6%, with a small quarterly changes and exceeds almost three times a value deemed as safe (3%).

In a long perspective, capital adequacy level of Bank and Group is evaluated as satisfactory. Capital ratios are in long-term increasing trend, and their levels exceed values defined in regulations.

[3] The Group uses transitional arrangements for IFRS 9. As at 31.12.2018, if IFRS 9 transitional arrangements had not been applied, capital ratios were as follows:
- TCR: 21.39%
- T1: 19.47%
- CET1: 19.47%
- Leverage ratio: 8,62%

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

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 base 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 with help of 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 whenever 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/Procedural
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.

Unification of the default definition across the Group

Based on guidelines 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.

Unified Default definition includes following triggers:

- DPD>90 days considering materiality thresholds for due amount: 500 zł retail and 3000 zł corporates
- Restructured loans (annexes and agreements)
- Loans in vindication process
- Qualitative triggers identified in the individual analysis

The Group is using cross-default approach for all segments.

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.

The Group doesn't apply Low Credit Risk (LCR) exemption neither for State Treasury and Central Bank exposures nor for any other groups of exposures.

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

Organization of the Process

The process of impairment identification and measurement with respect to loan exposures is regulated in the internal instruction introduced with IFRS9 application. The document defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating particular parameters.

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), which results will be taken into account in order to improve the quality of the process.

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 an unit not connected with the process of lending; it is supervised by the Management Board Member responsible for risk management. Similarly organized is the impairment process at Millennium Leasing.

The Management Board of the Bank plays an active role 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.

Expected credit loss measurement

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

The implemented impairment model applies to financial assets classified in accordance with IFRS 9 as financial assets measured at amortized 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 for the 12-month period,
- Stage 2 – non-impaired exposures, for which a significant increase in risk has been identified (SICR) and for which expected credit loss is estimated for the remaining life time of the financial asset,
- Stage 3 – credit impaired exposures, for which expected credit loss is estimated for the remaining life time of the financial asset.
- POCI (purchased or originated credit impaired) – exposures which, upon their initial recognition in the balance sheet, are recognized as impaired, expected losses are estimated for the remaining life of the financial asset.

Identification of a significant increase in credit risk (SICR)

Assets, for which there has been identified 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 recognized based on qualitative and quantitative criteria. The qualitative criteria include:

- repayment delays of more than 30 days,
- forborne exposures in non-default status,
- procedural rating, which is reflecting early delays in payments,
- taking a risk-mitigating decision for corporate clients, triggered by the early warning system,
- events related to an increase in credit 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. The quantitative assessment does not cover exposures analyzed individually.

Individual analysis of impairment for credit receivables

Individual analysis contains customers identified as significantly important both for business portfolio and recovery portfolio. Credit exposures are selected for individual analysis on the basis of materiality criteria which ensure that case-by case analysis covers at least 50% 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 soft signs of impairment being one of qualitative triggers of Significant Increase of Credit Risk (SICR);
This process covers biggest business corporate customers, for which financial-economic situation is analyzed on a quarterly basis based on: latest financial statement, events connected with company activities, information concerning related entities and economic environment, expectation about future changes, etc. There was defined catalogue of so called "soft signs of impairment", identification of which means significant increase of credit risk (SICR) and causing classification of all exposures of such customer to Stage 2.

2) Identification of impairment triggers;
The Group defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers is treated as qualitative part of default definition and contains among others following elements:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Breach of the contract, e.g. significant delays in payments of principal or interest
- 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 reorganizing the Customer's enterprise/business,
- Declaring bankruptcy or opening a recovery plan with respect to the Customer,
- Granting the Customer who has financial difficulties, facilities concerning financing conditions (restructuring).

Internal regulations allow to discover 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 reorganization.

3) Scenario approach in calculation of impairment allowances for individually analyzed customers;
If at least one of impairment triggers has been identified during the individual analysis, all exposures of given customer are classified in Stage 3 and then detailed analysis of forecasted cash-flows should be performed. Since introducing IFRS9 the Group is using scenario approach. It means that analyst should define at least two recovery scenarios which reflect described and approved recovery strategies: the main and alternative ones with assigned probabilities of realization. Scenarios can be based on restructuring or vindication strategy, mixed solutions are also used. The whole process of individual analysis is supported by specially dedicated Case-By-Case IT Tool especially useful in terms of calculation impairment amount with usage of scenario approach.

Every scenario contains two general types of recoveries: direct cash-flows from customers and recovered amounts from collateral.

4) Estimating expected cash-flows;
One element of the impairment calculation process is the estimation of the probability of cash flows included in the timetable, pertaining to the following items: principal, interest and other cash flows. The probability of realizing cash flows included 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.

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,

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.

5) 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;

The inclusion of cash flows from realization of 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.

Collective analysis of the credit portfolio

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

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

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 etc. The division into homogenous portfolios is verified from time to time for their uniformity.

The expected credit loss in a collective analysis is calculated using Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) parameters, which are the outcome of the following models:

- The PD model, is based on empirical data concerning 12-month default rates, which are then used to estimate lifetime PD values 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).
- The LGD models for the retail portfolio used by the Group 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.
  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.
- The EAD model used in the Group includes calculation of parameters such as: average limit utilization (LU), credit conversion factor (CCF), prepayment ratio and behavioral lifetime. Segmentation is based on the type of customer (retail, corporate, leasing) and product (products with/without a schedule).

The results of models employed in collective analysis are subject to periodical 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.

Forward-looking information incorporated in the ECL models

In the process of calculation of expected credit losses, the Group uses forward-looking information (FLI) about future macroeconomic events. In particular FLI is used in PD, LGD, EAD as well as in the process of determination of SICR and allocation of exposures to Stage 2 (Transfer Logic). The Macroeconomic Analysis Office prepares three macroeconomic scenarios (base, optimistic and pessimistic) and determines the probability of their occurrence. Forecasts translate directly or indirectly into the values of estimated parameters and exposures and their impact vary by model, product type, rating-class etc. The Group uses macroeconomic forecasts prepared only internally. Forecasts are provided on a quarterly basis for a 3-year time horizon.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below.

Macroeconomic variable	Scenario	2019	2020	2021
Gross Domestic Product	Base	103.9	103.2	102.9
	Optimistic	105.0	104.2	103.7
	Mild recession	101.1	101.7	102.2
Reference Interest Rate	Base	1.50	2.00	2.00
	Optimistic	2.25	2.50	2.25
	Mild recession	1.50	1.50	1.50
Unemployment rate	Base	5.6	5.7	6.0
	Optimistic	4.8	4.8	4.9
	Mild recession	6.7	7.9	8.4

The weightings assigned to each economic scenario at 31 December 2018 were as follows:

	Base	Optimistic	Mild recession
Applied weighting	70%	15%	15%

ECL sensitivity to macroeconomic scenarios

For the purpose of assessing the sensitivity of ECL for future macroeconomic conditions, the Group calculated unweighted ECL for each defined scenario separately. The impact for ECL of application of each of the scenario separately does not exceed 1,5%.

Reversal of impairment

Impairment Instruction being core document of Internal regulations, provides a detailed definition of the principle of reversing impairment losses. 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.

Sale of receivables

In 2018 in Bank there was a sale of PLN 13,3 million of on-balance sheet Impaired receivables. The sale included selected corporate receivables.

(3d) Maximum exposure to credit risk

	31.12.2018	31.12.2017
Exposures exposed to credit risk connected with balance sheet assets	**77 023 940**	**68 185 690**
Deposits, loans and advances to banks and other monetary institutions	731 252	254 205
Loans and advances to customers:	52 711 680	47 411 078
Mandatorily at fair value through profit or loss:	1 250 525	-
Loans to private individuals:	1 232 494	-
Receivables on account of payment cards	759 280	-
Credit in current account	473 214	-
Loans to companies and public sector	18 031	-
Valued at amortized cost:	51 461 155	47 411 078
Loans to private individuals:	34 015 349	32 012 824
Receivables on account of payment cards	525	722 348
Cash loans and other loans to private individuals	6 208 042	5 537 658
Mortgage loans	27 806 782	25 752 818
Loans to companies	17 227 563	15 129 506
Loans to public entities	218 243	268 748
Financial derivatives and Adjustment from fair value hedge	226 873	1 078 545
Debt instruments held for trading	693 242	338 359
Debt instruments mandatorily at fair value through profit or loss	43 187	-
Debt instruments at fair value through other comprehensive income	22 104 639	19 016 855
Repurchase agreements	250 284	0
Other financial assets	262 783	86 650
Credit risk connected with off-balance sheet items	**9 855 664**	**9 121 526**
Financial guarantees	1 431 850	1 222 236
Credit commitments	8 423 814	7 899 290

The table above presents the structure of the Group's exposures to credit risk as at 31st December 2018 and 31st December 2017, 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.

Loans and advances to customers mandatorily at fair value through profit or loss

	31.12.2018	31.12.2017
Mandatorily at fair value through profit or loss *	1 250 525	-
Companies	17 944	-
Individuals	1 232 494	-
Public sector	87	-
* The above data includes the fair value adjustment, in the amount of:	(72 943)	-

The credit quality of financial assets

PLN'000, as of the end of 2018	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Balance exposures exposed to credit risk	**71 474 402**	**3 097 748**	**2 388 484**	**15 410**	**76 976 045**
Balance impairment	**232 576**	**184 451**	**1 343 418**	**(1 576)**	**1 758 868**
Loans and advances to banks (external rating Fitch: from BBB to AAA; Moody's: from B3 to Aaa; S&P: from B+ to AAA)	731 268				731 268
Loans and advances to private individuals (according to Master Scale):	31 901 909	1 581 911	1 597 129	15 410	35 096 359
▫ 1-3 Highest quality	18 986 783	9 988	0	0	18 996 771
▫ 4-6 Good quality	6 422 656	171 289	0	4	6 593 948
▫ 7-9 Medium quality	5 192 651	282 731	0	8	5 475 390
▫ 10-12 Low quality	1 031 929	358 918	0	10	1 390 857
▫ 13-14 Watched	0	758 795	0	67	758 863
▫ 15 Default	0	0	1 597 129	15 321	1 612 450
▫ Without rating (*)	267 891	189	0	0	268 080
Impairment	73 640	121 530	887 106	(1 576)	1 080 700
Loans and advances to companies (according to Master Scale):	7 515 196	784 615	507 031	0	8 806 842
▫ 1-3 Highest quality	28 835	0	0	0	28 835
▫ 4-6 Good quality	1 598 962	39 852	0	0	1 638 814
▫ 7-9 Medium quality	3 587 730	293 248	0	0	3 880 978
▫ 10-12 Low quality	1 426 388	403 382	0	0	1 829 770
▫ 13-14 Watched	0	14 103	0	0	14 103
▫ 15 Default	0	0	506 770	0	506 770
▫ Without rating (*)	873 281	34 029	261	0	907 572
Impairment	97 889	31 829	313 879	0	443 596
Loans and advances to public entities (according to Master Scale):	198 803	1 937	0	0	200 741
▫ 1-3 Highest quality	0	0	0	0	0
▫ 4-6 Good quality	0	0	0	0	0
▫ 7-9 Medium quality	0	0	0	0	0
▫ 10-12 Low quality	0	0	0	0	0
▫ 13-14 Watched	0	498	0	0	498
▫ 15 Default	0	0	0	0	0
▫ Without rating (*)	198 803	1 439	0	0	200 242
Impairment	241	3	0	0	244
Factoring (according to Master Scale):	2 398 100	181 186	31 167	0	2 610 453
▫ 1-3 Highest quality	0	0	0	0	0
▫ 4-6 Good quality	580 470	71	0	0	580 541
▫ 7-9 Medium quality	1 252 918	40 992	0	0	1 293 909
▫ 10-12 Low quality	275 181	138 594	0	0	413 775
▫ 13-14 Watched	0	0	0	0	0
▫ 15 Default	0	0	31 167	0	31 167
▫ Without rating (*)	289 531	1 529	0	0	291 060
Impairment	27 193	7 384	27 500	0	62 077

PLN'000, as of the end of 2018	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL)	POCI	Total
Leasing (according to Master Scale):	5 704 373	548 098	253 157	0	6 505 628
¤ 1-3 Highest quality	6 289	0	0	0	6 289
¤ 4-6 Good quality	521 028	32 578	0	0	553 606
¤ 7-9 Medium quality	1 295 470	43 337	0	0	1 338 807
¤ 10-12 Low quality	400 597	172 927	0	0	573 524
¤ 13-14 Watched	0	1 358	0	0	1 358
¤ 15 Default	0	0	238 775	0	238 775
¤ Without rating (*)	3 480 988	297 898	14 382	0	3 793 268
Impairment	33 613	23 704	114 933	0	172 250
Derivatives and adjustment from fair value hedge (according to Master Scale):	226 873	0	0	0	226 873
¤ 1-3 Highest quality	25 516				25 516
¤ 4-6 Good quality	38 235				38 235
¤ 7-9 Medium quality	4 399				4 399
¤ 10-12 Low quality	27 455				27 455
¤ 13-14 Watched	0				0
¤ 15 Default	0				0
¤ Without rating	1 474				1 474
¤ fair value adjustment due to hedge accounting	4 293				4 293
¤ Valuation of future FX payments	0				0
¤ Hedging derivative	125 501				125 501
Trading debt securities (State Treasury(**) bonds)	693 242				693 242
Investment debt securities (State Treasury (**), Central Bank(**), Local Government , EIB)	22 104 639				22 104 639
Receivables from securities bought with sell-back clause	0				0

(*) - the group of clients without an internal rating includes, among others, exposures related to loans to local government units as well as investment projects and some leasing clients;

(**) – rating for Poland in 2018 A- (S&P), A2 (Moody's), A- (Fitch)

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

PLN'000, as of the end of 2017			31.12.2017
Balance exposures exposed to credit risk not past due and not impaired:			**65 866 562**
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
Loans and advances to clients (according to Master Scale):			45 178 599
•	1-3	Highest quality	17 734 981
•	4-6	Good quality	8 274 048
•	7-9	Medium quality	10 354 286
•	10-12	Low quality	3 937 005
•	13-14	Watched	218 783
•	15	Default (**)	193 468
•	Without rating (***)		4 466 028
Trading debt securities (State Treasury(****) bonds)			338 359
Derivatives and adjustment from fair value hedge (according to Master Scale):			1 078 544
•	1-3	Highest quality	63 420
•	4-6	Good quality	67 980
•	7-9	Medium quality	14 902
•	10-12	Low quality	37 795
•	13-14	Watched	49
•	15	Default	0
•	Without rating		730
•	fair value adjustment due to hedge accounting		7 784
•	Valuation of future FX payments		4
•	Hedging derivative		885 880
Investment debt securities (State Treasury (****), Central Bank(****), Local Government , EIB)			19 016 855
Receivables from securities bought with sell-back clause			0

(*) – 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).

(3e) Loans

The structure of loans granted to customers and to banks as well as key loans portfolio ratios as at the end of 2017 were as follows:

Gross exposure in '000 PLN	31.12.2017	
	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	45 178 599	254 205
Overdue(*), but without impairment (amort. cost)	1 497 041	0
Overdue(*), but without impairment (fair value)		
Total without impairment (IBNR/stage1+2)	46 675 640	254 205
incl. total portfolio with stage 2		
With impairment for amortized cost	2 232 666	0
incl. POCI		
Fair value without revaluation treated as stage 3		
Loans and advances, gross	**48 908 306**	**254 205**
Impairment allowances together with IBNR	(1 497 228)	0
Fair value revaluation		
Loans and advances, net	**47 411 078**	**254 205**
Loans with impairment + fair value without revaluation treated as stage 3/ total loans	4.57%	0.00%
Loans with stage 2 (with fair value)/total loans		

(*) 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 (i.e. stage 1+2)

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, as at the end of 2017 were 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 delay more than 4 days	572 366	631 210	293 465	0	1 497 041

(*) - 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	31.12.2018				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	541 425	211 092	2 433	0	754 950
Collective analysis	250 011	585 885	813 048	0	1 648 944
Total	791 436	796 977	815 481	0	2 403 894

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

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 respectively charges) is presented in financial notes.
The tables below present the structure of the impaired portfolio subjected to case-by-case analysis.

Case by Case loans and advances to customers - by currency

	31.12.2018			31.12.2017		
	Amount in '000 PLN	Share %	Coverage by impairment provisions	Amount in '000 PLN	Share %	Coverage by impairment provisions
PLN	580 470	76.9%	57.6%	580 437	80.5%	62.9%
CHF	128 734	17.1%	22.6%	103 311	14.3%	27.4%
EUR	44 874	5.9%	41.2%	37 552	5.2%	45.3%
USD	872	0.1%	20.5%	224	0.0%	40.2%
Total (Case by Case impaired)	754 950	100.0%	50.6%	721 524	100.0%	56.9%

Case by Case loans and advances to customers - by coverage ratio

	31.12.2018		31.12.2017	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	222 534	29.5%	166 405	23.0%
20% - 40%	106 059	14.0%	85 295	11.8%
40% - 60%	123 934	16.4%	147 214	20.4%
60% - 80%	72 446	9.6%	53 806	7.5%
Above 80%	229 977	30.5%	268 804	37.3%
Total (Case by Case impaired)	754 950	100.0%	721 524	100.0%

At the end of 2018, the financial impact from the established collaterals securing the Group's receivables with impairment recognized under individual analysis (Case by Case) amounted to PLN 291,4 million (at the end of 2017 respectively PLN 230,3 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 centralized 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 specialized 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 behavioral 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.

All restructured exposures are classified directly after signing sufficient annex/agreement to Stage 3. In terms of regular payments such exposure can be cured when fulfil internally defined quarantine rules. Cured restructured cases are classified to Stage 2 for at least following 2 years after cure in accordance to EBA technical standards for forborne exposures.

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

Gross exposure in '000 PLN	31.12.2018	31.12.2017
Loans and advances to private individuals	832 975	713 659
Loans and advances to companies	246 542	250 413
Total	1 079 517	964 072

(3g) Collateral transferred to the Group

In 2018 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 (29) "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)

Gross exposure write-offs in '000 PLN	In 2018				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Receivables written-off excluded from enforcement activity	1 966	1 731	3 301	0	6 998
Receivables written-off being subject to enforcement activity	103 946	31 133	191 341	0	326 420
Total written-off	105 912	32 864	194 642	0	333 418

(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.

31.12.2018	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	731 268	0	0	0	0	0	0	0	731 268
Loans and advances to customers (Amortized cost)	261 101	6 282 355	4 877 840	2 514 447	184 911	28 319 185	6 777 096	4 003 087	53 220 022
Loans and advances to customers (FAIR VALUE)	291	4 011	4 981	2 141	5	0	1 232 494	6 601	1 250 524
Trading securities	104	0	0	0	693 242	0	0	0	693 346
Instruments valued at amort. cost	0	0	0	0	44 904	0	0	0	44 904
Instruments mandatorily at fair value through P&L	64 796	0	0	0	0	0	0	0	64 796
Derivatives and adjustment due to fair value hedge	202 012	11 212	4 175	773	0	0	0	8 701	226 873
Investment securities	28 968	5 004	0	287	22 104 651	0	0	32	22 138 942
Repurchase agreements	250 284	0	0	0	0	0	0	0	250 284
Total	1 538 824	6 302 582	4 886 996	2 517 648	23 027 713	28 319 185	8 009 590	4 018 421	78 620 959

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

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

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 (52%) and cash loans (12%). 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	2018 Balance Exposure (PLN million)	Share (%)	2017 Balance Exposure (PLN million)	Share (%)
Credits for individual persons	**36 399.7**	**66.7%**	**32 953.1**	**67.4%**
Mortgage	28 319.2	51.9%	26 104.0	53.4%
Cash loan	6 450.2	11.8%	5 332.4	10.9%
Credit cards and other	1 630.3	3.0%	1 516.6	3.1%
Credit for companies*	**18 143.8**	**33.3%**	**15 955.2**	**32.6%**
Wholesale and retail trade; repair	4 883.5	9.0%	4 037.6	8.3%
Manufacturing	5 170.3	9.5%	4 836.7	9.9%
Construction	1 116.2	2.0%	1 000.1	2.0%
Transportation and storage	2 516.9	4.6%	2 343.0	4.8%
Public administration and defense	184.9	0.3%	245.3	0.5%
Information and communication	540.3	1.0%	574.0	1.2%
Other Services	972.2	1.8%	774.6	1.6%
Financial and insurance activities	261.6	0.5%	172.8	0.4%
Real estate activities	861.3	1.6%	843.2	1.7%
Professional, scientific and technical services	485.2	0.9%	364.7	0.7%
Mining and quarrying	59.8	0.1%	60.0	0.1%
Water supply, sewage and waste	99.8	0.2%	104.9	0.2%
Electricity, gas, water	463.0	0.8%	90.9	0.2%
Accommodation and food service activities	168.9	0.3%	156.0	0.3%
Education	77.0	0.1%	63.3	0.1%
Agriculture, forestry and fishing	100.4	0.2%	94.1	0.2%
Human health and social work activities	158.3	0.3%	169.1	0.3%
Culture, recreation and entertainment	24.1	0.0%	24.9	0.0%
Total (gross)	**54 543.5**	**100.0%**	**48 908.3**	**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 2018 is 7,0% comparing with 5,9%% at the end of 2017. Concentration ratio in 2018 also increased for the 10 largest customers: to 4.8% from 4,1% at the end of the previous year, in line with risk tolerance policy of the Group.

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, which are generic risk (including interest rate risk, foreign exchange risk, and equity risk), non-linear risk, specific risk and commodity risk. In 2018 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 sensitivity analysis and 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 and will be replaced by revised limits on 1st January 2019.

In 2018 the VaR indicators for the Group remained on average at the level of PLN 22.0 million (10% of the limit) and PLN 29.1 million (14% of the limit) as of the end of December 2018. The VaR indicators presented in the table below reflect joint exposures to market risk in the Group, which are 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 (2018)				
	31.12. 2017	Average	Maximum	Minimum	31.12. 2018
Total risk	17 540	22 037	30 610	15 654	29 098
Generic risk	15 666	20 126	28 757	13 786	27 337
Interest Rate Risk	15 651	20 155	28 757	13 850	27 349
FX Risk	97	144	3 353	8	78
Diversification Effect	0,5%				0,3%
Specific risk	1 874	1 911	2 871	1 761	1 761

The corresponding exposures as of 2017 respectively amounted to ('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 Risk	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	2 072	3 571	1 874	1 874

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 (2018)				
	31.12 2017	Average	Maximum	Minimum	31.12 2018
Total risk	16 271	20 240	29 406	15 358	28 825
Generic risk	14 401	18 372	27 501	13 494	27 067
Interest Rate Risk	14 401	18 373	27 501	13 494	27 067
FX Risk	0	0	0	0	0
Diversification Effect	0,0%				0,0%
Specific risk	1 870	1 869	1 918	1 758	1 758

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 Risk	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

Trading Book:

VaR measures for market risk ('000 PLN)	VaR (2018)				
	31.12 2017	Average	Maximum	Minimum	31.12 2018
Total risk	1 614	2 698	7 238	474	478
Generic risk	1 610	2 656	6 999	471	475
Interest Rate Risk	1 598	2 555	6 984	469	470
FX Risk	97	143	3 351	8	81
Diversification Effect	5,3%				16,0%
Specific risk	4	42	1 007	2	3

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 Risk	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

In 2018, 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 2018, FX position generated in the Banking Book was fully transferred to the Trading Book where it was managed on a daily basis. During, 2018 the FX open position remained on average at the level of PLN 7.3 million (9% of the limit) with maximum of PLN 5.3 million (47% of the limit). FX open position was kept well below defined limits.

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
2018	7 323	1 493	39 817	5 318
2017	4 988	1 667	23 192	5 961

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, five 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 *
2018-12-31	27 337	3 996	5
2017-12-31	15 666	2 043	2

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

In 2018, the excesses in the process of VaR model back testing were caused by unanticipated market movements, which are mainly Polish government bonds yields. 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 2018 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.

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 depends 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, which are 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[5]). Therefore, the results shows the impact on the Group's economic value resulting from the interest rate change,

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 behavior, 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 mortgage 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 2018 and 2017 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):

	31.12.2018	31.12.2017
	BPVx100	BPVx100
PLN	(37 109)	50 069
CHF	10 469	14 315
EUR	36 099	30 955
USD	12 065	7 139
Other	4 010	3 650
TOTAL	25 533	106 128
Equity, fixed and other assets	73 117	68 974
TOTAL	**98 650**	**175 102**

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 2018 is negative and equal to -4.6% of the annualized 4Q2018 net interest income (+3.4% 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 2018 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] According to EBA guidelines on the management of interest rate risk arising from non-trading activities (IRRBB) (EBA/GL/2015/08).

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 2018 total Clients' deposits of the Group reached the level of PLN 66.2 billion. The deposit base constituted mainly funds of individuals Clients, of which the share in total Client's deposits equaled to approx. 72.1% at the end of December 2018 (70.4% at the end of December 2017). The high share of funds from individuals had a positive impact on the Group's liquidity and supported the compliance and further grow of the supervisory liquidity measures.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2018 amounted respectively to 3.2 % and 6.5 % (in December 2017 it was respectively 3.9 % and 7.0 % The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2018. 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, own bonds issue and bank's securities.

During 2018 the Group continued to explore the possibility of rising additional funding from loans from financial institutions, bond issues and bank's securities in order to diversify the source of funding with particular attention to the cost of obtaining these funds. The total balance sheet value of medium-term loans from financial institutions at the end of 2018 amounted to PLN 1 227.5 million (at the end of December 2017 it was PLN 961.4 million). In 2018, the Bank decided for prepayment of outstanding amount of the loan granted in December 2010 by the European Investment Bank, in original amount of EUR 100 million. The total of EUR 80.2 million within the loan in question was repaid in the end of May 2018 (EUR 11.4 million) and in June 2018 (EUR 68.8 million). Early repayment was decided in the context of new mid-term funding opportunities at Bank Millennium Group level and possible cost reduction in the area. In 2018, the Group entered into two new senior unsecured loan agreements, that is PLN 300 million with the European Bank for Reconstruction and Development (EBRD) and EUR 100 million with the European Investment Bank (EIB), in both of which the Bank is a Guarantor, while the Borrower is Millennium Leasing, the Bank's wholly-owned subsidiary. The proceeds from the EIB loan will be used by Millennium Leasing for the financing of leasing contracts with SME clients, while former loan is to be utilized within the scope of EBRD's PolGEFF program (Polish Green Economy Financing Facility). Both loans will be repaid in instalments, with final maturities in August 2023 (EBRD) and December 2025 (EIB).

Additionally, in 2018 the Bank issued bank's securities in PLN with a total nominal value of PLN 187.2 million and one series of bank's securities in USD with a nominal value of USD 2.11 million. Bank's securities issued under the third issue program with a nominal value not exceeding PLN 1.5 billion or the equivalent in USD, CHF or EUR have a maturity of up to 3 years. In 2018 the Bank redeemed PLN 330 million of senior unsecured bonds whereas Millennium Leasing issued 2-year bonds in nominal amount of PLN 104.7 million. At the end of December 2018 the total balance sheet value of bonds and bank's securities issued by the Group (without subordinated bonds) amounted to PLN 809.7 million (PLN 1 156.5 million in nominal value in December 2017).

In 2018 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 decreased at the end of December 2018 and was equal to 80% (comparing to level of 83% as of end of December 2017). The Group continues 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 2018. During 2018 this portfolio grew by 18% from PLN 19.2 billion at the end of December 2017 (27% of total assets) to approx. PLN 22.7 billion at the end of December 2018 (28% of total assets). Those assets are characterized with high liquidity and can be easily used as 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 unfavorable 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 favorable 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 unfavorable 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 2018, all internal liquidity indicators were well above minimum limits. The liquidity risk limits are revised at least once a year in order to take into account, inter alia, the change of 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 current limits in place have been valid since 1st November 2017 and will be replaced by revised limits on 1st January 2019.

Current Liquidity indicators PLN million

	31.12.2018			
	Immediate liquidity ratio (m PLN)*	Quarterly liquidity ratio (m PLN)*	Liquid assets Portfolio (m PLN)	LCR (%)
Indicator	20 228	20 228	22 836	212%
Minimum limit	934	(2 336)	10 000	100%

	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%

* - 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 100% for LCR valid in 2018 was complied by the Group (as of the end of December 2018 the LCR reached the level of 212%). The increase in LCR in 2018 was mainly caused by increase in retail funding followed by a decrease in funding from corporates and financial clients. This has a positive effect on LCR due to more favourable risk weights for retail clients deposits. 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 2018 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.

31.12.2018 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	30 398	5 728	7 932	7 389	8 953	29 089
Adjusted balance liabilities	10 423	3 001	6 122	4 417	6 671	54 803
Balance-Sheet Gap	19 974	2 727	1 810	2 972	2 283	(25 714)
Cumulative Balance-Sheet Gap	19 974	22 701	24 511	27 482	29 765	4 051
Adjusted off-balance assets	77	64	410	53	33	4
Adjusted off-balance liabilities	(1 294)	(83)	(114)	(61)	(39)	(10)
Off-Balance Sheet Gap	(1 217)	(20)	296	(9)	(6)	(6)
Total Gap	18 757	2 707	2 106	2 963	2 277	(25 720)
Total Cumulative Gap	18 757	21 465	23 571	26 534	28 811	3 090

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

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 2018 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 2018.

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 organization and constitutes its intrinsic part.

In the year 2018 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions. The 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 defense. The second line of defense 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, antifraud, security and business continuity as well as insurance and outsourcing. The third line of defense is the independent internal audit unit.

Every decision regarding optimizing 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 analyzed 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 realized 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 optimization. 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.

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;
- Operating profit used as segment profit measure differs from pre-tax IFRS profit only by Banking tax and Share in net profit of associated companies. Share in net profit of associated companies and Income tax charge has been presented on Group level only.

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

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

Income statement 1.01.2018 – 31.12.2018

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Net interest income	1 242 434	291 239	283 802	1 817 475
Net fee and commission income, including:	500 680	163 741	(3 352)	661 069
Fee and commission income	638 217	174 451	11 577	824 245
Fee and commission expenses	(137 537)	(10 710)	(14 929)	(163 176)
Dividends, other income from financial operations and foreign exchange profit	76 449	71 124	87 283	234 856
Result on non-trading financial assets mandatorily at fair value through profit or loss	(19 930)	0	13 555	(6 375)
Other operating income and cost	(6 917)	4 219	3 380	682
Operating income	1 792 716	530 323	384 668	2 707 707
Staff costs	(467 094)	(140 766)	(30 235)	(638 095)
Administrative costs	(447 281)	(68 659)	(59 730)	(575 670)
Depreciation and amortization	(43 443)	(9 210)	(1 574)	(54 227)
Operating expenses	(957 818)	(218 635)	(91 539)	(1 267 992)
Impairment losses on assets	(141 775)	(60 225)	(476)	(202 476)
Results on modification	(15 165)	1 008	0	(14 157)
Operating Profit	**677 958**	**252 471**	**292 653**	**1 223 082**
Share in net profit of associated companies	0	0	0	0
Banking tax				(198 477)
Profit / (loss) before income tax				**1 024 605**
Income taxes				(263 954)
Profit / (loss) after taxes				760 651

Balance sheet items as at 31.12.2018

In '000 PLN	Retail Banking	Corporate Banking	Treasury. ALM & Other	Total
Loans and advances to customers	37 270 388	15 441 292	0	52 711 680
Liabilities to customers	49 860 658	16 248 660	134 451	66 243 769

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	(7 945)	1 739	(1 835)	(8 041)
Operating income	1 662 886	489 120	419 595	2 571 601
Staff costs	(433 223)	(134 703)	(28 612)	(596 538)
Administrative costs	(415 592)	(64 724)	(72 869)	(553 185)
Depreciation and amortization	(43 587)	(8 096)	(1 288)	(52 971)
Operating expenses	(892 402)	(207 523)	(102 769)	(1 202 694)
Impairment losses on assets	(172 361)	(81 829)	(1 168)	(255 358)
Operating Profit	**598 123**	**199 768**	**315 658**	**1 113 549**
Share in net profit of associated companies	0	0	0	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

10. TRANSACTIONS WITH RELATED ENTITIES

All and any transactions between entities of the Group in 2018 and 2017 resulted from the current operations.

Apart from transactions described herein, in the indicated period neither Bank Millennium S.A., nor subsidiaries of Bank Millennium S.A. made any other transactions with related entities, which individually or jointly may have been significant and 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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
ASSETS				
Loans and advances to banks – accounts and deposits	921	263	0	0
Financial assets held for trading	0	0	0	0
Hedging derivatives	0	0	0	0
Other assets	0	0	0	0
LIABILITIES				
Loans and deposits from banks	199	1 252	114 449	106 970
Debt securities	0	0	0	0
Financial liabilities held for trading	307	0	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	135	0

	With parent company		With other entities from parent group	
	2018	2017	2018	2017
Income from:				
Interest	24	8	0	0
Commissions	204	156	0	0
Financial assets and liabilities held for trading	0	0	0	0
Expense from:				
Interest	0	4	(290)	(271)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	271	0	0	0
Other net operating	13	17	0	0
Administrative expenses	0	144	722	408

	With parent company		With other entities from parent group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Conditional commitments	109 673	101 962	0	0
- granted	104 643	100 345	0	0
- obtained	5 030	1 617	0	0
Derivatives (par value)	33 577	0	0	0

2) Transactions with the Managing and Supervising Persons

Information on total exposure towards the managing and supervising persons as at 31.12.2018 (in '000 PLN):

	The managing persons	The supervising persons
Total debt limit	211.0	137.0
- including an unutilized limit	144.9	121.0

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 31.12.2018 (in '000 PLN):

Entity	Loans granted	Guarantees provided	Open credit lines	Relationship
Client 1	13 006	2 000	154	Personal with a supervising person

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

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

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
2018	18 653.1	1 941.1	20 594.2
2017	17 875.4	1 578.9	19 454.3

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 2018 and 2017, 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
2018	1 926.6
2017	1 891.6

In 2018 and 2017, 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 the price which can be obtained for the sale of assets or paid for the transfer of liability in case of 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 cash 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:

Level 1 - valuation based on the data fully observable (active market quotations);
Level 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;
Level 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 Level 1 to 2 takes place when for the financial instruments measured according to Level 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from Level 2 to 3 takes place when for the financial instruments measured according to the Level 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 valued at amortised cost

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 31.12.2018 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	22	44 884	45 631
Deposits, loans and advances to banks and other monetary institutions	22	731 252	731 163
Loans and advances to customers (*)	21	51 461 155	50 070 672
LIABILITIES MEASURED AT AMORTISED COST			
Liablities to banks and other monetary institutions	31	1 788 857	1 791 378
Liablities to customers	32	66 243 769	66 245 865
Debt securities issued	34	809 679	811 734
Subordinated debt	35	701 883	695 468

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

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

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

	Note	Balance sheet value	Fair value
ASSETS			
Deposits, loans and advances to banks and other monetary institutions	22	254 205	254 152
Loans and advances to customers	21	47 411 078	45 818 564
LIABILITIES			
Liablities to banks and other monetary institutions	31	2 353 131	2 355 464
Liablities to customers	32	57 273 255	57 270 753
Debt securities issued	34	1 156 473	1 161 524
Subordinated debt	35	701 971	701 956

Financial instruments recognized at fair value in the balance sheet

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

Data in PLN'000, as at 31.12.2018

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	18			
Valuation of derivatives			59 071	38 008
Equity instruments		104		
Debt securities		693 242		
Non-trading financial assets mandatorily at fair value through profit or loss	19			
Equity instruments				21 609
Debt securities				43 187
Loans and advances				1 250 525
Financial assets at fair value through other comprehensive income	20			
Equity instruments		257		29 042
Debt securities		20 504 839	1 599 800	
Derivatives – Hedge accounting	23		125 501	
LIABILITIES				
Financial liabilities held for trading	30			
Valuation of derivatives			65 568	38 162
Short positions		123 754		
Derivatives – Hedge accounting	23		376 811	

Data in '000 PLN, as at 31.12.2017

	Note	Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	18			
Valuation of derivatives			139 734	45 146
Equity instruments		102		
Debt securities		338 359		
Financial assets available for sale	20			
Equity instruments		329		29 632
Debt securities		12 891 592	6 077 287	47 976
Derivatives – Hedge accounting	23		885 880	
LIABILITIES				
Financial liabilities held for trading	30			
Valuation of derivatives			138 371	44 218
Short positions		0		
Derivatives – Hedge accounting	23		176 853	

Using the criterion of valuation techniques as at 31.12.2018 Group classified into the third category following financial instruments:

- credit exposures with a leverage / multiplier feature inbuilt in the definition of interest rate (these are credit card exposures and overdraft limits for which the interest rate is based on a multiplier: 4 times the lombard rate). To estimate the fair value of loans, due to the lack of availability of the market value, an internal valuation model was used, taking into account the assumption that at the time of granting the loan the fair value is equal to the carrying value. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date. The discounting rate is the sum of: the cost of risk, the cost of financing, the value of the expected return. The fair value of impaired loans is equal to the sum of future expected recoveries discounted using the effective interest rate, recognizing that the average expected recoveries fully take into account the element of credit risk. In case of an increase in the discount rate by 1 p.p. valuation of the portfolio would have been reduced by -0.22% (sensitivity analysis: based on the FV model for the portfolio of credit cards);

- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;

- VISA Inc. engagement (classified as a debt instrument) in an amount of 21,493; the method of fair value calculation of this instrument considers the time value of money, the time line for conversion of preferred stock in common stock of VISA and adjustments resulting from litigations (on-going or potential) against VISA and the Bank.;

- other equity instruments measured at fair value (unquoted on an active market).

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
Balance on 31 December 2017	43 159	(42 231)	29 632	47 976	0
Adjusments/reclassifications due to the implementation of IFRS 9	0	0	15 403	(18 344)	1 099 841
Balance on 1 January 2018	43 159	(42 231)	45 035	29 632	1 099 841
Settlement/sell/purchase	(6 287)	5 611	2 515	0	72 009
Change of valuation recognized in equity	0	0	3 095	0	0
Interest income and other of similar nature	0	0	0	0	98 605
Results on financial assets and liabilities held for trading	(1 442)	1 036	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	13 555	(19 930)
Result on exchange differences	0	0	6	0	0
Balance on 31 December2018	**35 430**	**(35 584)**	**50 651**	**43 187**	**1 250 525**

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.

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities
Balance on 1 January 2017	26 199	(26 116)	24 445	53 689
Settlement/sell/purchase	10 998	(10 398)	0	(5 741)
Change of valuation recognized in equity	0	0	5 187	0
Change of valuation recognized in P&L account (including interests)	5 962	(5 717)	0	28
Balance on 31 December 2017	43 159	(42 231)	29 632	47 976

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. note 15) "Corporate Income Tax"**.

Court cases brought up by the Group

Value of the court litigations, as at 31.12.2018, in which the companies of the Group were a plaintiff, totalled PLN 239.9 million.

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

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

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

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

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

Court cases against the Group

As at 31.12.2018, the most important proceeding, in the group of the court cases where the Group's companies were defendant, was a case brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment.

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

In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank.

At present, the court is conducting evidence proceedings.

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

As at 31.12.2018, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 416.0 million (excluding the class actions described below). In this group the most important category are cases related to forward transactions (option cases) and cases related with FX loans mortgage portfolio.

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

The class action related to the indexation issue.

On 21 October 2014 a class 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 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.

Actual status:

The number of the group members amounts to approximately 5 400 and the value of the litigation has been estimated to approximately PLN 146 million. The number of loan agreements involved is approximately 3 400.

The current stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the group may participate in the group).

The class action related to the LTV insurance

On the 3rd of December 2015 a class action was served on the Bank. A group of the Bank's debtors (454 borrowers party to 275 loan agreements) is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million, claiming that the clauses of the agreements, pertaining to the low down payment insurance, are unfair and thus not binding. Plaintiff extended the group in the court letter filed on the 4th of April 2018, therefore the claims increased from PLN 3.5 million to over PLN 5 million.

Current status:

On the 1st of October 2018, the group's representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering the total of 697 borrowers – 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7 371 107.94.

On the 21st of November 2018 the Bank filed objections regarding the membership of individual persons in the group. The court also ordered the Bank to submit its objections as to the revised list of all group members by 28 January 2019.

The next stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the proceedings may participate in the group).

OFF-BALANCE ITEMS

Amount '000 PLN	31.12.2018	31.12.2017
Off-balance conditional commitments granted and received	**10 229 552**	**9 353 288**
Commitments granted:	9 855 664	9 121 526
- loan committments	8 423 814	7 899 290
- guarantee	1 431 850	1 222 236
Commitments received:	373 887	231 762
- financial	0	0
- guarantee	373 887	231 762

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	31.12.2018	31.12.2017
financial sector	59.2	44.6
non-financial sector (companies)	1 364.4	1 170.8
public sector	8.3	6.8
Total	1 431.9	1 222.2

Guarantees and sureties granted to Clients

Commitments granted – guarantee in PLN million	31.12.2018	31.12.2017
Active guarantees and sureties	904.3	725.6
Sureties for loans granted through EFRWP*	0.1	0.3
Lines for guarantees and sureties	535.1	501.0
Total	1 439.5	1 226.9
Provisions created	(7.6)	(4.7)
Commitments granted – guarantee after provisions	**1 431.9**	**1 222.2**

* European Development Fund of the Polish countryside

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

By currency	31.12.2018	31.12.2017
PLN	730 903	581 017
Other currencies	173 389	144 579
Total:	904 292	725 596

By type of commitment	31.12.2018		31.12.2017	
	Number	Amount	Number	Amount
Guarantee	3 239	873 388	3 092	708 473
Surety	0	0	0	0
Re-guarantee	21	30 904	20	17 123
Total:	3 260	904 292	3 112	725 596

By object of the commitment	31.12.2018			31.12.2017		
	Number	Amount	% share	Number	Amount	% share
good performance of contract	2 378	436 841	48,31%	2 270	403 119	55,56%
punctual payment for goods or services	275	279 321	30,89%	247	135 855	18,72%
bid bond	256	21 021	2,32%	251	27 565	3,80%
rent payment	255	55 001	6,08%	257	49 906	6,88%
advance return	42	37 052	4,10%	31	32 025	4,41%
customs	28	61 391	6,79%	25	59 720	8,23%
other	14	2 381	0,26%	18	1 741	0,24%
payment of bank loan	12	11 284	1,25%	13	15 665	2,16%
Total:	3 260	904 292	100,00%	3 112	725 596	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 AND OTHER OF SIMILAR NATURE

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Interest income from Financial assets at fair value through other comprehensive income	352 397	328 150
Debt securities	352 397	328 150
Interest income from Financial assets at amortised cost	2 092 858	2 061 199
Balances with the Central Bank	10 528	27 222
Loans and advances to customers	1 807 004	1 719 426
Debt securities	1 493	0
Deposits, loans and advances to banks	1 780	1 559
Transactions with repurchase agreements	5 585	7 018
Hedging derivatives	266 468	305 974
Income of similar nature to interest, including:	116 664	9 589
Loans and advances to customers mandatorily at fair value through profit or loss	98 605	0
Financial assets held for trading - debt securities	18 059	9 589
Total	**2 561 919**	**2 398 938**

In the line „ Derivatives – Hedge accounting" 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 (23).**

Interest income for the year 2018 contains interest accrued on impaired loans in the amount of PLN 56,618 thous. (for corresponding data in the year 2017 the amount of such interest stood at PLN 65,276 thous.).

2) INTEREST EXPENSE

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Financial liabilities measured at amortised cost	(744 163)	(702 075)
Liabilities to banks and other monetary institutions	(21 816)	(29 133)
Liabilities to customers	(660 422)	(615 992)
Transactions with repurchase agreement	(11 584)	(14 052)
Debt securities issued	(21 685)	(29 677)
Subordinated debt	(28 656)	(13 221)
Hedging derivatives	0	0
Other	(281)	(395)
Total	(744 444)	(702 470)

3) Fee and commission income and expense

3a. Fee and commission income

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Resulting from accounts service	81 036	77 713
Resulting from money transfers, cash payments and withdrawals and other payment transactions	73 682	63 194
Resulting from loans granted	166 548	153 215
Resulting from guarantees and sureties granted	15 172	12 158
Resulting from payment and credit cards	177 744	162 080
Resulting from sale of insurance products	102 733	98 598
Resulting from distribution of investment funds units and other savings products	68 615	89 211
Resulting from brokerage and custody service	17 760	21 750
Resulting from investment funds managed by the Group	88 116	92 576
Other	32 839	28 793
Total	824 245	799 288

3b. Fee and commission expense

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Resulting from accounts service	(1 922)	(1 663)
Resulting from money transfers. cash payments and withdrawals and other payment transactions	(5 407)	(4 039)
Resulting from loans granted	(30 854)	(20 936)
Resulting from payment and credit cards	(89 297)	(77 596)
Resulting from brokerage and custody service	(3 111)	(3 511)
Resulting from investment funds managed by the Group	(9 521)	(10 244)
Other	(23 064)	(17 746)
Total	(163 176)	(135 735)

4) Dividend income

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Financial assets held for trading	4	4
Non-trading financial assets mandatorily at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	2 597	2 608
Total	2 601	2 612

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

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Operations on debt instruments	18 897	22 856
Operations on equity instruments	0	2 432
Total	18 897	25 288

6) Results on financial assets and liabilities held for trading

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Result on debt instruments	13 447	5 399
Result on derivatives	70 313	39 222
Costs of financial operations	(1 985)	(2 041)
Total	81 775	42 580

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

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Loans and advances to customers	(19 930)	-
Result on equity instruments	0	-
Result on debt instruments	13 555	-
Total	(6 375)	-

8) Result on hedge accounting

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Changes in the fair value of the hedging instrument (including abandonment)	(117)	(733)
Changes in the fair value of the hedged item resulting from the hedged risk	0	0
Inefficiency in cash flow hedges	(19 920)	(19 644)
Inefficiencies due to net investment hedges in foreign operations	0	0
Total	(20 037)	(20 377)

9) Other operating income

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Gain on sale and liquidation of property, plant and equipment, intangible assets	20 868	27 344
Indemnifications, penalties and fines received	5 024	3 138
Income from sale of other services	1 872	1 616
Income from collection service	2 772	2 636
Income from leasing business	5 383	5 667
Other	14 791	29 508
Total	50 710	69 909

10) Other operating expense

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Loss on sale and liquidation of property, plant and equipment, intangible assets	(9 390)	(10 802)
Indemnifications, penalties and fines paid	(6 654)	(22 315)
Costs of provisions for disputed claims	(7 541)	(23 236)
Costs of leasing business	(1 099)	(1 696)
Donations made	(1 239)	(521)
Costs of collection service	(18 306)	(16 426)
Other	(5 799)	(2 954)
Total	(50 028)	(77 950)

11) Administrative expenses

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Staff costs:	(638 095)	(596 538)
Salaries	(525 977)	(491 063)
Surcharges on pay	(86 746)	(80 013)
Employee benefits, including:	(25 372)	(25 462)
- provisions for retirement benefits	(3 915)	(3 208)
- provisions for unused employee holiday	(999)	(2 362)
- other	(20 458)	(19 892)
Other administrative expenses:	(575 670)	(553 185)
Costs of advertising, promotion and representation	(58 056)	(53 963)
IT and communications costs	(89 577)	(78 050)
Costs of renting	(145 691)	(157 369)
Costs of buildings maintenance, equipment and materials	(28 008)	(25 800)
ATM and cash maintenance costs	(19 662)	(17 551)
Costs of consultancy, audit and legal advisory and translation	(28 852)	(35 189)
Taxes and fees	(23 261)	(17 321)
KIR - clearing charges	(5 589)	(4 776)
PFRON costs	(4 959)	(4 663)
Banking Guarantee Fund costs	(105 502)	(99 299)
Financial Supervision costs	(6 924)	(2 375)
Other	(59 589)	(56 829)
Total	**(1 213 765)**	**(1 149 723)**

Starting from January 1, 2018, the Group has changed the way in which the fees for the banks resolution fund collected by the Banking Guarantee Fund are presented in the profit and loss account. This contribution was previously presented in other operating expenses, while since 2018 this fee is recognized as a component of other administrative expenses (together with fees from BFG guarantee fund). Comparative data for the year 2017 were adjusted by reducing the value of Other operating expenses while increasing Administrative costs by PLN 46 440 thousand.

12) Impairment losses on financial assets

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Impairment losses on loans and advances to customers	(196 880)	(257 981)
Impairment charges on loans and advances to customers	(725 180)	(627 978)
Reversal of impairment charges on loans and advances to customers	521 196	365 600
Amounts recovered from loans written off	3 302	2 167
Sale of receivables	1 571	2 230
Other directly recognised in profit and loss	2 231	0
Impairment losses on securities	936	1 016
Impairment charges on securities	(28)	0
Reversal of impairment charges on securities	964	1 016
Impairment losses on off-balance sheet liabilities	(6 023)	2 806
Impairment charges on off-balance sheet liabilities	(60 827)	(13 771)
Reversal of impairment charges on off-balance sheet liabilities	54 804	16 577
Total	**(201 967)**	**(254 159)**

13) Impairment losses on non-financial assets

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Fixed assets	0	0
Other assets	(509)	(1 199)
Total	(509)	(1 199)

14) Depreciation and amortization

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Property, plant and equipment	(36 436)	(38 096)
Intangible assets	(17 791)	(14 875)
Total	(54 227)	(52 971)

15) Corporate income tax

15a. Income tax reported in income statement

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Current tax	(289 958)	(292 007)
Current year	(289 272)	(292 693)
Adjustment to previous years	(686)	686
Deferred tax:	26 004	48 011
Recognition and reversal of temporary differences	25 071	47 745
Recognition / (Utilisation) of tax loss	933	266
Total income tax reported in income statement	**(263 954)**	**(243 996)**

15b. Effective tax rate

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Profit before tax	1 024 605	925 223
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(194 675)	(175 792)
Impact of permanent differences on tax charges:	**(68 775)**	**(69 076)**
- Non-taxable income	587	526
Dividend income	313	310
Release of other provisions	154	216
Other	120	0
- Cost which is not a tax cost	(69 362)	(69 602)
Loss on sale of receivables	(27)	(817)
PFRON fee	(942)	(886)
Fees for Banking Guarantee Fund	(20 045)	(18 867)
Banking tax	(37 711)	(35 782)
Income/cost of provisions for factoring receivables	1 438	(2 376)
Receivables written off	(2 964)	(1 441)
Costs of litigations and claims	(5 384)	(4 643)
Depreciation and insurance costs of cars (in excess of EUR 20,000)	(1 976)	(3 162)
Other	(1 751)	(1 628)
Deduction of the tax paid abroad	182	186
Adjustment resulted from Article 38a of CIT	(686)	686
Total income tax reported in income statement	**(263 954)**	**(243 996)**
Effective tax rate	25.76%	26.37%

15c. Deferred tax reported in equity

	31.12.2018	31.12.2017
Valuation of securities at fair value through other comprehensive income	(30 803)	(13 296)
Valuation of cash flow hedging instruments	13 028	20 985
Actuarial gains (losses)	489	473
Deferred tax reported directly in equity	(17 286)	8 162

Changes in deferred tax recognized directly in equity are presented in **Note (39b)**.

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 3 January 2019 Head of Mazovian Customs&Tax Office (formerly UKS) prolonged the date of completing its proceeding until 14 March 2019.

16) Earnings per share

Earnings per share (PLN)

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Earnings after taxes	760 651	681 227
Weighted average number of shares in the period	1 213 116 777	1 213 116 777
Earnings per share – basic and diluted	0.63	0.56

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; as a result diluted Earnings Per Share equals basic Earnings Per Share).

17) Cash, balances at the central bank

17a. Cash, balances at the central bank

	31.12.2018	31.12.2017
Cash	625 897	574 962
Cash in Central Bank	1 824 279	1 505 189
Other funds	0	0
Total	2 450 176	2 080 151

In the period from 31 December 2018 to 31 January 2019 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 2,236,259 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

17b. Cash, balances at the Central Bank – by currency

	31.12.2018	31.12.2017
in Polish currency	2 272 807	1 881 049
in foreign currencies (after conversion to PLN)	177 369	199 102
- currency: USD	36 206	40 700
- currency: EUR	113 538	128 353
- currency: CHF	11 736	12 158
- currency: GBP	12 567	13 981
- other currencies	3 322	3 910
Total	**2 450 176**	**2 080 151**

18) Financial assets held for trading

18a. Financial assets held for trading

	31.12.2018	31.12.2017
Debt securities	**693 242**	**338 359**
Issued by State Treasury	693 242	338 351
a) bills	0	0
b) bonds	693 242	338 351
Other securities	0	8
a) quoted	0	8
b) non quoted	0	0
Equity instruments	**104**	**102**
Quoted on the active market	104	102
a) financial institutions	0	0
b) non-financial institutions	104	102
Adjustment from fair value hedge	4 293	7 784
Positive valuation of derivatives	97 079	184 880
Total	**794 718**	**531 125**

Information on financial assets securing liabilities is presented in **point 2) of chapter 14.**

18b. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

	31.12.2018	31.12.2017
- with fixed interest rate	149 016	313 448
- with variable interest rate	544 226	24 911
Total	693 242	338 359

18c. Debt securities valued at fair value through profit and loss (held for trading), by maturity

	31.12.2018	31.12.2017
to 1 month	8 388	838
above 1 month to 3 months	0	0
above 3 months to 1 year	3 617	25 121
above 1 year to 5 years	528 081	254 227
above 5 years	153 156	58 173
Total	693 242	338 359

18d. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	338 461	314 585
Increases (purchase and accrual of interest and discount)	18 624 623	33 015 575
Reductions (sale and redemption)	(18 270 866)	(32 991 854)
Differences from valuation at fair value	1 128	155
Balance at the end of the period	693 346	338 461

18e. Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at:

31.12.2018	Par value of instruments with future maturity				Fair value		
	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	415 000	544 457	4 106 283	182 991	7 806	40 057	32 251
Forward Rate Agreements (FRA)	0	0	0	0	0	0	0
Interest rate swaps (IRS)	415 000	544 457	4 106 283	182 991	7 806	40 057	32 251
Other interest rate contracts: options	0	0	0	0	0	0	0
2. FX derivatives*	8 399 942	1 531 685	1 125 670	0	(14 303)	19 014	33 317
FX contracts	1 631 727	789 439	152 985	0	(7 524)	1 753	9 277
FX swaps	6 768 215	592 361	358 245	0	(996)	15 197	16 193
Other FX contracts (CIRS)	0	0	511 764	0	(5 783)	2 064	7 847
FX options	0	149 885	102 676	0	0	0	0
3. Embedded instruments	257 886	929 048	789 479	0	(35 584)	15	35 599
Options embedded in deposits	245 526	894 520	645 872	0	(29 336)	0	29 336
Options embedded in securities issued	12 360	34 528	143 607	0	(6 248)	15	6 263
4. Indexes options	383 324	1 027 872	712 361	0	35 430	37 993	2 563
Total	**9 456 152**	**4 033 062**	**6 733 793**	**182 991**	**(6 651)**	**97 079**	**103 730**
Valuation of hedged position in fair value hedge accounting					-	4 293	4 149
Liabilities from short sale of debt securities					-	-	123 754

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

31.12.2017	Par value of instruments with future maturity				Fair value		
	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
Total	**8 931 394**	**7 170 300**	**6 261 479**	**456 361**	**2 291**	**184 880**	**182 589**
Valuation of hedged position in fair value hedge accounting					-	7 784	7 522
Liabilities from short sale of debt securities					-	-	0

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

19) Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers

	31.12.2018	31.12.2017
Equity instruments	21 609	0
credit institutions	0	0
other corporates	21 609	0
Debt securities	43 187	0
credit institutions	0	0
other corporates	43 187	0
Total	**64 796**	**0**

20) Financial assets at fair value through other comprehensive income

20a. Financial assets at fair value through other comprehensive income

	31.12.2018	31.12.2017
Debt securities	**22 104 639**	**19 016 855**
Issued by State Treasury	20 422 616	12 810 462
a) bills	0	0
b) bonds	20 422 616	12 810 462
Issued by Central Bank	1 599 800	6 077 287
a) bills	1 599 800	6 077 287
b) bonds	0	0
Other securities	82 223	129 106
a) listed	82 223	81 130
b) not listed	0	47 976
Shares and interests in other entities	29 299	50 091
Other financial instruments	0	0
Total financial assets at fair value through other comprehensive income	**22 133 938**	**19 066 946**
Including:		
Instruments listed on the active market	20 505 096	12 891 921
Instruments not listed on the active market	1 628 842	6 175 025

20b. Debt securities at fair value through other comprehensive income

	31.12.2018	31.12.2017
- with fixed interest rate	10 324 154	11 377 769
- with variable interest rate	11 780 485	7 639 086
Total	22 104 639	19 016 855

20c. Debt securities at fair value through other comprehensive income by maturity

	31.12.2018	31.12.2017
- to 1 month	1 599 800	6 206 913
- above 1 month to 3 months	0	0
- above 3 months to 1 year	206 419	2 788 208
- above 1 year to 5 years	19 179 817	9 990 932
- above 5 years	1 118 603	30 802
Total	22 104 639	19 016 855

20d. Change of financial assets at fair value through other comprehensive income

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	19 066 946	17 135 347
Adjustment of the opening balance due to the implementation of IFRS 9	(71 936)	0
Adjusted balance at the beginning of the period	18 995 010	17 135 347
Increases (purchase and accrual of interest and discount)	201 308 298	152 077 308
Reductions (sale and redemption)	(198 244 357)	(150 263 995)
Difference from measurement at fair value	74 025	117 280
Impairment allowances	956	1 016
Other	6	(10)
Balance at the end of the period	22 133 938	19 066 946

21) LOANS AND ADVANCES TO CUSTOMERS

21a. Loans and advances to customers mandatorily at fair value through profit or loss

Balance sheet value:	31.12.2018	31.12.2017
Mandatorily at fair value through profit or loss *	1 250 525	-
- Companies	17 944	-
- Individuals	1 232 494	-
- Public sector	87	-
* The above data includes the fair value adjustment, in the amount of:	(72 943)	-

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

The Bank writes down the gross carrying amount of a financial asset when there is no reasonable probability that it will be fully (total writes off) or partially (partial writes off) recovered. Following the recorded partial writes off the Bank transferred to off-balance sheet evidence (deducting the carrying value of gross receivables) penalty interest amounting to PLN 328 million as at 31.12.2018.

21b. Loans and advances to customers valued at amortised cost

31.12.2018	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3*	Stage 1	Stage 2	Stage 3*	
Valued at amortised cost	47 718 394	3 097 734	2 403 894	(232 574)	(184 450)	(1 341 843)	51 461 155
- Companies	15 600 077	1 513 894	791 487	(158 794)	(62 917)	(456 184)	17 227 563
- Individuals	31 901 749	1 581 890	1 612 407	(73 508)	(121 530)	(885 659)	34 015 349
- Public sector	216 568	1 950	0	(272)	(3)	0	218 243

* including POCI

21c. Loans and advances to customers

	31.12.2018		31.12.2017	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	46 165 570	473 214	41 850 883	-
- to companies	11 076 840		9 610 098	-
- to private individuals	34 871 344	473 214	31 977 162	-
- to public sector	217 386		263 623	-
Receivables on account of payment cards	2 769	777 311	763 964	-
- due from companies	123	18 031	20 770	-
- due from private individuals	2 646	759 280	743 194	-
Purchased receivables	275 878		259 373	-
- from companies	275 472		255 342	-
- from public sector	406		4 031	-
Guarantees and sureties realised	11 622		10 893	-
Debt securities eligible for rediscount at Central Bank	3 660		5 590	-
Financial leasing receivables	6 505 628		5 741 101	-
Other	3 893		5 028	-
Interest	251 002		271 474	-
Total:	**53 220 022**	**1 250 525**	**48 908 306**	-
Impairment allowances	(1 758 867)	-	(1 497 228)	-
Total balance sheet value:	**51 461 155**	**1 250 525**	**47 411 078**	-
* The above data includes the fair value adjustment in the amount of	-	(72 943)	-	-

21d. Quality of loans and advances to customers portfolio valued at amortised cost

	31.12.2018	31.12.2017
Loans and advances to customers (gross)	53 220 022	48 908 306
- impaired	2 403 894	2 232 666
- not impaired	50 816 128	46 675 640
Impairment write-offs	(1 758 867)	(1 497 228)
- for impaired exposures	(1 341 843)	(1 315 256)
- for not impaired exposures	(417 024)	(181 972)
Loans and advances to customers (net)	**51 461 155**	**47 411 078**

21e. Loans and advances to customers portfolio valued at amortised cost by methodology of impairment assessment

	31.12.2018	31.12.2017
Loans and advances to customers (gross)	53 220 022	48 908 306
- case by case analysis	754 950	721 524
- collective analysis	52 465 072	48 186 782
Impairment allowances	(1 758 867)	(1 497 228)
- on the basis of case by case analysis	(382 327)	(410 445)
- on the basis of collective analysis	(1 376 540)	(1 086 783)
Loans and advances to customers (net)	**51 461 155**	**47 411 078**

21f. Loans and advances to customers portfolio valued at amortised cost by customers

	31.12.2018	31.12.2017
Loans and advances to customers (gross)	53 220 022	48 908 306
- corporate customers	18 123 976	15 955 226
- individuals	35 096 046	32 953 080
Impairment allowances	(1 758 867)	(1 497 228)
- for receivables from corporate customers	(678 170)	(556 972)
- for receivables from private individuals	(1 080 697)	(940 256)
Loans and advances to customers (net)	**51 461 155**	**47 411 078**

21g. Movements in impairment allowances for loans and advances to customers carried at amortised cost

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 497 228	1 364 913
Adjustment of the opening balance due to the implementation of IFRS 9	327 434	0
Adjusted balance at the beginning of the period	1 824 662	1 364 913
Change in value of provisions:	(65 795)	132 315
Impairment allowances created in the period	725 164	627 978
Amounts written off	(299 068)	(105 093)
Impairment allowances released in the period	(521 196)	(365 600)
Sale of receivables	(13 252)	(5 897)
KOIM created in the period(*)	25 558	0
Changes resulting from FX rates differences	15 986	(19 073)
Other	1 013	0
Balance at the end of the period	**1 758 867**	**1 497 228**

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

21h. Changes in impairment allowances and gross carrying amount of loans and advances divided into stages and classes:

Companies: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	145 193	83 731	487 129	0	716 054
Transfers between stages	8 942	(18 299)	9 357	0	0
Increase due to granting or purchase	67 273	0	0	0	67 273
Changes in credit risk	(50 859)	5 503	92 336	(130)	46 850
Decrease due to derecognition (except exposures sold and written off)	(13 084)	(7 686)	(19 733)	0	(40 504)
Sale of loans and advances	0	0	(13 252)	0	(13 252)
Loans and advances written off	0	(880)	(103 723)	0	(104 603)
KOIM	0	0	3 144	0	3 144
Other (including FX differences)	1 329	549	1 055	0	2 932
Balance at the end of the period	158 794	62 917	456 313	(130)	677 895

Companies: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	13 060 533	1 837 582	847 664	0	15 745 779
Transfers between stages	(326 081)	184 933	141 148	0	0
Granted or purchased loans and advances	5 579 024	0	0	139	5 579 163
Repaid loans and advances	(2 832 781)	(510 064)	(113 543)	0	(3 456 388)
Loans and advances sold	(517)	0	(13 356)	0	(13 873)
Loans and advances written off	(8 822)	(1 049)	(97 986)	0	(107 857)
Other (including FX differences)	128 722	2 491	27 420	0	158 633
Balance at the end of the period	15 600 077	1 513 894	791 348	139	17 905 458

Individuals: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	52 600	131 673	924 029	0	1 108 303
Transfers between stages	122 928	(134 833)	11 905	0	0
Increase due to granting or purchase	35 406	0	0	0	35 406
Changes in credit risk	(127 566)	128 123	192 606	(1 447)	191 716
Decrease due to derecognition (except exposures sold and written off)	(10 778)	(6 378)	(79 581)	0	(96 737)
Loans and advances written off	(33)	(35)	(194 396)	0	(194 465)
KOIM	0	0	22 413	0	22 413
Other (including FX differences)	951	2 980	10 130	0	14 060
Balance at the end of the period	73 508	121 530	887 106	(1 447)	1 080 697

The Group records POCI assets in the balance sheet as a result of recognition of impaired loans after the takeover of SKOK Piast (the transaction is described in more detail in **Chapter 14., point 9).** At the time of the merger, the assets of the former SKOK Piast were included in the Bank's books at fair value. The increase in the value of the loan portfolio (measured after initial recognition at amortized cost) results in the inverse balance of impairment losses ("negative" impairment losses increase the carrying amount of the credit exposure.

Individuals: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	28 667 718	1 418 800	1 613 085	0	31 699 603
Transfers between stages	(482 680)	323 711	158 969	0	0
Granted or purchased loans and advances	5 401 855	0	0	15 271	5 417 126
Repaid loans and advances	(2 445 533)	(193 663)	(47 073)	0	(2 686 269)
Loans and advances sold	0	0	0	0	0
Loans and advances written off	(80)	(14)	(197 393)	0	(197 486)
Other (including FX differences)	760 469	33 056	69 547	0	863 072
Balance at the end of the period	31 901 749	1 581 890	1 597 136	15 271	35 096 046

Public sector: impairment allowances	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	303	4	0	0	307
Transfers between stages	80	(80)	0	0	0
Increase due to granting or purchase	11	0	0	0	11
Changes in credit risk	(114)	79	0	0	(35)
Decrease due to derecognition (except exposures sold and written off)	(11)	0	0	0	(11)
Other (including FX differences)	2	0	0	0	2
Balance at the end of the period	272	3	0	0	275

Public sector: loans and advances balance sheet value, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the period	267 174	2 275	0	0	269 448
Transfers between stages	(805)	805	0	0	0
Granted or purchased loans and advances	3 386	0	0	0	3 386
Repaid loans and advances	(52 993)	(1 130)	0	0	(54 123)
Loans and advances sold	(175)	0	0	0	(175)
Loans and advances written off	0	0	0	0	0
Other (including FX differences)	(18)	(0)	0	0	(19)
Balance at the end of the period	216 568	1 950	0	0	218 518

21i. Loans and advances to customers portfolio valued at amortised cost by maturity

	31.12.2018	31.12.2017
Current accounts	3 773 665	4 061 957
to 1 month	842 914	1 220 256
above 1 month to 3 months	1 770 319	1 688 445
above 3 months to 1 year	5 756 920	4 553 483
above 1 year to 5 years	16 506 430	14 613 798
above 5 years	22 855 385	20 994 275
past due	1 463 387	1 504 618
Interest	251 002	271 474
Total gross	53 220 022	48 908 306

21j. Loans and advances to customers portfolio valued at amortised cost by currency

	31.12.2018	31.12.2017
in Polish currency	34 924 845	30 919 565
in foreign currencies (after conversion to PLN)	18 295 177	17 988 741
- currency: USD	205 087	69 283
- currency: EUR	3 573 588	3 222 168
- currency: CHF	14 504 282	14 685 314
- currency: JPY	2 204	2 358
- other currencies	10 016	9 618
Total gross	**53 220 022**	**48 908 306**

21k. Financial leasing receivables

	31.12.2018	31.12.2017
Financial leasing receivables (gross)	6 943 903	6 166 593
Unrealised financial income	(438 275)	(425 492)
Financial leasing receivables (net)	6 505 628	5 741 101
Financial leasing receivables (gross) by maturity		
Under 1 year	2 655 519	2 268 980
From 1 year to 5 years	4 003 216	3 598 828
Above 5 years	285 168	298 785
Total	6 943 903	6 166 593
Financial leasing receivables (net) by maturity		
Under 1 year	2 467 417	2 092 848
From 1 year to 5 years	3 771 541	3 373 700
Above 5 years	266 670	274 553
Total	6 505 628	5 741 101

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 residual 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.

22) FINANCIAL ASSETS AT AMORTISED COST OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

22a. Financial assets at amortised cost other than Loans and advances to customers

31.12.2018	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	44 904	0	0	(20)	0	0	44 884
Deposits, loans and advances to banks and other monetary institutions	731 268	0	0	(16)	0	0	731 252
Repurchase agreements	250 284	0	0	0	0	0	250 284

22b. Debt securities

	31.12.2018	31.12.2017
credit institutions	0	-
other companies	0	-
public sector	44 884	-
Total	44 884	-

22c. Deposits, loans and advances to banks and other monetary institutions

	31.12.2018	31.12.2017
Current accounts	143 113	136 853
Deposits	586 666	115 174
Interest	1 489	2 178
Total (gross) deposits, loans and advances	731 268	254 205
Impairment allowances	(16)	0
Total (net) deposits, loans and advances	**731 252**	**254 205**

22d. Deposits, loans and advances to banks and other monetary institutions by maturity date

	31.12.2018	31.12.2017
Current accounts	143 113	136 853
to 1 month	581 666	115 174
above 1 month to 3 months	0	0
above 3 months to 1 year	5 000	0
above 1 year to 5 years	0	0
above 5 years	0	0
past due	0	0
Interest	1 489	2 178
Total (gross) deposits, loans and advances	731 268	254 205

22e. Deposits, loans and advances to banks and other monetary institutions by currency

	31.12.2018	31.12.2017
in Polish currency	133 599	33 514
in foreign currencies (after conversion to PLN)	597 669	220 691
- currency: USD	51 423	25 482
- currency: EUR	449 968	117 854
- currency: CHF	21 456	5 097
- currency: JPY	434	1 569
- currency: GBP	11 469	8 579
- other currencies	62 919	62 110
Total	**731 268**	**254 205**

22f. Change of impairment allowances for deposits, loans and advances to banks and other monetary institutions

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	0	0
Impairment allowances created in the period	16	0
Impairment allowances released in the period	0	0
Balance at the end of the period	16	0

22g. Reverse sale and repurchase agreements

	31.12.2018	31.12.2017
credit institutions	49 872	0
other customers	200 375	0
budget	37	0
Total	250 284	0

23) Derivatives - Hedge accounting

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 IAS39/IFRS9 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.

The Risk Strategy approved in the Group defines a general rules for hedging of market risk generated by its commercial activity. External transactions eligible for hedge accounting are pointed in the Strategy just after the natural economic hedge. The Group applied (as at 31.12.2018) Cash Flow Hedge relations to eliminate the variability of cash flows:

1. on FX denominated mortgages and financing them PLN deposits,
2. on PLN denominated mortgages

attributable to interest rate risk and currency risk in the time horizon limited to maturity of hedging instruments, presented in **note (23b)**.

The underlying of hedged and hedging items are economically related in a way that they respond in a similar way to the hedged risk, their fair value will offset in response to the market rates movements.

The Group performs the effectiveness tests on a monthly basis, calculates and compares the changes in fair value of hedged and hedging positions. Hedge effectiveness is tested using hypothetical derivative method, hedged items are presented as a hypothetical derivative, for which changes in the fair value are calculated and compared with changes in fair value of hedging instruments. Hedge ineffectiveness can arise from differences in repricing dates of hedged and hedging positions or from designation as hedging item the existing derivative instrument. The Group designates hedging instruments on their trade date and by this eliminates this source of ineffectiveness. Hedge ineffectiveness reported by the Group includes amortization of the fair value changes recognized as effective for derivatives classified on their termination date as hedging.

Detailed information on cash flow hedge relations applied by the Group, items designated as hedged and hedging and presentation of the result (as at 31.12.2018) is shown in a table below:

	Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	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 PLN mortgages. The volatility of cash flows results from interest rate risk.	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 PLN mortgage loan portfolio	Cash flows resulting from the FX mortgage loan portfolio and PLN deposits together with issued debt PLN securities funding them.
Hedging instruments	IRS transactions	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.	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in Result on exchange differences

23a. Hedge accounting

As at 31.12.2018	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	2 916 461	4 903 815	18 582 101	912 570	(256 285)	120 526	376 811
IRS contracts	225 000	733 000	480 000	0	4 975	4 975	0
FXS contracts	0	0	0	0	0	0	0
2. Total hedging derivatives	3 141 461	5 636 815	19 062 101	912 570	(251 310)	125 501	376 811

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

23b. 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	2020-05-07
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	2025-01-07

Ineffective part of valuation of hedging instrument recognised in Profit and loss account is presented in **note (8).**

23c. Cash flow hedge – Hedged Instruments

Type of contract	Balance sheet item	Changes in fair value used in the calculation of the ineffectiveness in the period	Balance in cash flow hedge reserve for continuing hedges	Balance in cash flow hedge reserve for discontinued hedges
CIRS contracts	Loans and advances to customers	(21 508)	(38 989)	(30 297)
IRS contracts	Loans and advances to customers	(449)	716	0
Razem		(21 957)	(38 273)	(30 297)

23d. Cash flow hedge – Hedging instruments

Type of contract	Changes in fair value used in the calculation of the ineffectiveness in the period	Ineffectiveness of coverage recognized in Results	Amounts reclassified from reserves to results
CIRS contracts	21 508	(19 920)	0
IRS contracts	449	0	0
Razem	21 957	(19 920)	0

24) Investments in subsidiaries, joint ventures and associates

24a. Investments in related entities

	31.12.2018	31.12.2017
Investments in associates	0	0

24b. Change of investments in related entities

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	0	0
- sale	0	0
- equity method valuation	0	0
Balance at the end of the period	0	0

25) Tangible fixed assets

25a. Property, plant and equipment

	31.12.2018	31.12.2017
Land	2 284	1 275
Buildings and premises	66 602	62 583
Machines and equipment	74 789	61 918
Vehicles	36 784	38 946
Other fixed assets	6 243	5 656
Fixed assets under construction	23 939	15 502
Total	210 641	185 880

25b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2018 – 31.12.2018

	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	305 493	221 639	47 251	84 955	15 502	676 115
b) increases (on account of)	1 009	15 672	29 801	6 157	2 942	48 630	104 211
- purchase	0	0	765	6 043	0	38 017	44 825
- transfer from fixed assets under construction	0	8 957	28 301	0	2 906	0	40 164
- unpaid investments	0	0	0	0	0	10 613	10 613
- other (incl. SKOK Piast conveyance)	1 009	6 715	735	114	36	0	8 609
c) reductions (on account of)	0	11 121	16 920	6 290	4 208	40 193	78 732
- sale	0	3 757	4 468	6 290	1 499	0	16 014
- liquidation	0	7 364	12 452	0	2 709	0	22 525
- settlement of fixed assets under construction	0	0	0	0	0	40 193	40 193
- other	0	0	0	0	0	0	0
d) gross value of property, plant and equipment at the end of the period	**2 284**	**310 044**	**234 520**	**47 118**	**83 689**	**23 939**	**701 594**
e) cumulated depreciation (amortization) at the beginning of the period	0	234 157	159 721	8 305	79 298	0	481 481
f) depreciation over the period (on account of)	0	532	10	2 029	(1 853)	0	718
- current write-off (P&L)	0	11 645	16 952	5 494	2 345	0	36 436
- reductions on account of sale	0	(3 750)	(4 495)	(3 465)	(1 498)	0	(13 208)
- reductions on account of liquidation	0	(7 364)	(12 447)	0	(2 700)	0	(22 511)
- transfer from impairment allowance	0	0	0	0	0	0	0
- other	0	1	0	0	0	0	1
g) cumulated depreciation (amortization) at the end of the period	**0**	**234 689**	**159 731**	**10 334**	**77 445**	**0**	**482 199**
h) impairment allowances at the beginning of the period	0	8 753	0	0	1	0	8 754
- release of allowances	0	0	0	0	0	0	0
- transfer to depreciation	0	0	0	0	0	0	0
i) impairment allowances 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	**2 284**	**66 602**	**74 789**	**36 784**	**6 243**	**23 939**	**210 641**

25c. 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 allowances at the beginning of the period	0	9 807	0	0	1	0	9 808
- release of allowances	0	0	0	0	0	0	0
- transfer to depreciation	0	(1 054)	0	0	0	0	(1 054)
i) impairment allowances 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**

26) Intangible fixed assets

26a. Intangible fixed assets

	31.12.2018	31.12.2017
- concessions, patents, licenses, know-how and similar assets, including:	95 874	79 756
- computer software	83 549	67 757
- other intangible assets	0	0
- advances for intangible assets	590	0
Total intangible assets	96 464	79 756

26b. Change of balance of intangible fixed assets (by type groups) in the period 01.01.2018 – 31.12.2018

	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 fixed assets at the beginning of the period	23	338 135	314 656	4	0	338 162
b) increases (on account of)	0	34 080	26 977	0	590	34 670
- purchase	0	19 044	11 965	0	590	19 634
- unpaid investments	0	14 771	14 771	0	0	14 771
- SKOK Piast conveyance	0	236	212	0	0	236
- expenditures on intangible assets	0	29	29	0	0	29
c) reductions (on account of)	0	172	172	0	0	172
- liquidation	0	0	0	0	0	0
- other	0	172	172	0	0	172
d) gross value of intangible fixed assets at the end of the period	**23**	**372 043**	**341 461**	**4**	**590**	**372 660**
e) cumulated depreciation (amortization) at the beginning of the period	23	254 391	242 911	4	0	254 418
f) depreciation over the period (on account of)	0	17 790	11 013	0	0	17 790
- current write-off (P&L)	0	17 791	11 014	0	0	17 791
- liquidation	0	(1)	(1)	0	0	(1)
g) cumulated depreciation (amortization) at the end of the period	**23**	**272 181**	**253 924**	**4**	**0**	**272 208**
h) impairment allowances at the beginning of the period	0	3 988	3 988	0	0	3 988
i) impairment allowances at the end of the period	0	3 988	3 988	0	0	3 988
j) net value of intangible fixed assets at the end of the period	**0**	**95 874**	**83 549**	**0**	**590**	**96 464**

26c. Change of balance of intangible fixed 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:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible fixed 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 fixed 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 allowances at the beginning of the period	0	3 988	3 988	0	0	3 988
i) impairment allowances at the end of the period	0	3 988	3 988	0	0	3 988
j) net value of intangible fixed assets at the end of the period	**0**	**79 756**	**67 757**	**0**	**0**	**79 756**

27) DEFERRED INCOME TAX ASSETS

27a. Deferred income tax assets and liability

	31.12.2018			31.12.2017		
	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	83 590	(5 794)	77 796	73 799	(4 973)	68 826
Balance sheet valuation of financial instruments	79 101	(98 757)	(19 656)	7 182	(29 383)	(22 201)
Unrealised receivables/ liabilities on account of derivatives	10 395	(19 103)	(8 708)	16 766	(28 537)	(11 771)
Interest on deposits and securities to be paid/ received	21 601	(36 888)	(15 287)	26 513	(33 114)	(6 601)
Interest and discount on loans and receivables	3	(47 713)	(47 710)	7	(28 471)	(28 464)
Income and cost settled at effective interest rate	89 058	(1 190)	87 868	82 892	(1 514)	81 378
Impairment of loans presented as temporary differences	238 209	0	238 209	163 093	0	163 093
Employee benefits	16 137	0	16 137	15 420	0	15 420
Provisions for future costs	25 199	0	25 199	19 214	0	19 214
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	13 517	(30 803)	(17 286)	21 463	(13 301)	8 162
Tax loss deductible in the future	1 320	0	1 320	387	0	387
Other	2 291	(4 458)	(2 167)	(14)	(876)	(890)
Net deferred income tax asset	580 421	(244 706)	335 715	426 722	(140 169)	286 553
- including long-term net deferred income tax asset			124 255			125 698

27b. Change of temporary differences

	31.12.2017	Impact of the implementation of IFRS9 and other previous years adjustment	Changes to financial result	Changes to equity	31.12.2018
Difference between tax and balance sheet depreciation	68 826	0	8 970	0	77 796
Balance sheet valuation of financial instruments	(22 201)	0	2 545	0	(19 656)
Unrealised receivables/ liabilities on account of derivatives	(11 771)	0	3 063	0	(8 708)
Interest on deposits and securities to be paid/ received	(6 601)	0	(8 686)	0	(15 287)
Interest and discount on loans and receivables	(28 464)	0	(19 246)	0	(47 710)
Income and cost settled at effective interest rate	81 378	0	6 490	0	87 868
Impairment of loans presented as temporary differences	163 093	0	75 116	0	238 209
Employee benefits	15 420	0	717	0	16 137
Provisions for future costs	19 214	0	5 985	0	25 199
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	8 162	(3 442)	0	(22 006)	(17 286)
Tax loss deductible in the future	387	0	933	0	1 320
Other	(890)	48 606	(49 883)		(2 167)
Total	286 553	45 164	26 004	(22 006)	335 715

27c. 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
Impairment of 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

27d. Change of deferred income tax

	1.01.2018 - 31.12.2018	1.01.2017 - 31.12.2017
Difference between tax and balance sheet depreciation	8 970	1 522
Balance sheet valuation of financial instruments	2 545	(10 901)
Unrealised receivables/ liabilities on account of derivatives	3 063	1 425
Interest on deposits and securities to be paid/ received	(8 686)	11 298
Interest and discount on loans and receivables	(19 246)	(4 026)
Income and cost settled at effective interest rate	6 490	433
Impairment of loans presented as temporary differences	75 116	43 823
Employee benefits	717	1 638
Provisions for future costs	5 985	6 136
Tax loss deductible in the future	933	266
Other	(49 883)	(3 604)
Change of deferred income tax recognized in financial result	26 004	48 010
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in revaluation reserve	(22 006)	(35 224)

27e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2018	31.12.2017
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.

	31.12.2018	31.12.2017
Net deferred income tax assets	335 715	286 553
Net deferred income tax provision	-	-
TOTAL	335 715	286 553

28) OTHER ASSETS

	31.12.2018	31.12.2017
Expenses to be settled	43 734	36 436
Income to be received	40 043	43 080
Interbank settlements	3 355	416
Settlements of financial instruments transactions	94 272	0
Receivables from sundry debtors	121 135	33 820
Settlements with the State Treasury	42 618	52 412
Settlements for activities of Millennium Dom Maklerski S.A.	11 675	17 277
Other	134 474	163 162
Total other assets (gross)	491 306	346 603
Impairment allowances	(8 126)	(7 944)
Total other assets (net)	**483 180**	**338 659**
including other financial assets*	262 354	86 649
including long-term other assets	3 374	6 791

* - 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

29) NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

29a. Change of balance of non-current assets held for sale in the period 01.01.2018 – 31.12.2018

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	70	66	27	6	19 524	19 693
b) impairment allowances at the beginning of the period	(64)	(39)	(27)	(6)	0	(136)
c) net value of non-current assets held for sale at the beginning of the period	6	27	0	0	19 524	19 557
d) change of value in the period, including:	0	0	0	0	6 117	6 117
- sale of non-current assets held for sale	0	0	0	0	0	0
e) value at the end of the period	70	66	27	6	25 641	25 810
f) change of impairment allowances 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 allowances 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**	**25 641**	**25 674**

29b. 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 allowances 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 allowances 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 allowances 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**

30) Financial liabilities held for trading

	31.12.2018	31.12.2017
Negative valuation of derivatives	103 730	182 589
Adjustment due to fair value hedge	4 149	7 522
Short sale of securities	123 754	0
Financial liabilities valued at fair value through profit and loss	231 633	190 111

The division of the negative valuation of derivatives into specific types of instruments is presented in **note (18).**

31) Liabilities to banks and other monetary institutions

31a. Liabilities to banks and other monetary institutions

	31.12.2018	31.12.2017
In current account	105 472	97 235
Term deposits	455 297	1 293 678
Loans and advances received	1 224 267	961 079
Interest	3 821	1 139
Total	1 788 857	2 353 131

31b. Liabilities to banks and other monetary institutions by maturity

	31.12.2018	31.12.2017
Current accounts	105 472	97 235
- to 1 month	259 320	1 079 817
- above 1 month to 3 months	183 289	160 440
- above 3 months to 1 year	40 098	163 879
- above 1 year to 5 years	1 053 524	850 621
- above 5 years	143 333	0
Interest	3 821	1 139
Total	1 788 857	2 353 131

31c. Liabilities to banks and other monetary institutions by currency

	31.12.2018	31.12.2017
in Polish currency	672 938	445 026
in foreign currencies (after conversion to PLN)	1 115 919	1 908 105
- currency: USD	26	76
- currency: EUR	974 017	1 686 845
- currency: CHF	141 876	221 184
- other currencies	0	0
Total	**1 788 857**	**2 353 131**

32) Liabilities to customers

32a. Structure of liabilities to customers by type

	31.12.2018	31.12.2017
Amounts due to private individuals	47 730 280	40 343 597
Balances on current accounts	32 795 949	25 108 948
Term deposits	14 834 473	14 993 961
Other	30 342	176 728
Accrued interest	69 516	63 960
Amounts due to companies	15 589 643	14 363 117
Balances on current accounts	8 242 327	6 710 128
Term deposits	7 057 271	7 354 951
Other	275 095	284 150
Accrued interest	14 950	13 888
Amounts due to public sector	2 923 846	2 566 541
Balances on current accounts	1 374 012	1 185 444
Term deposits	1 546 384	1 346 597
Other	2 153	32 331
Accrued interest	1 297	2 169
Total	**66 243 769**	**57 273 255**

32b. Liabilities to customers by maturity

	31.12.2018	31.12.2017
Current accounts	42 277 838	32 835 437
to 1 month	8 590 309	9 818 714
above 1 month to 3 months	6 403 633	5 823 066
above 3 months to 1 year	7 502 247	7 812 298
above 1 year to 5 years	1 367 197	881 012
above 5 years	16 782	22 711
Interest	85 763	80 017
Total	66 243 769	57 273 255

32c. Liabilities to customers by currency

	31.12.2018	31.12.2017
in Polish currency	59 238 987	51 289 951
in foreign currencies (after conversion to PLN)	7 004 782	5 983 304
- currency: USD	1 711 780	1 630 835
- currency: EUR	4 691 138	3 894 734
- currency: GBP	309 197	288 385
- currency: CHF	115 174	119 866
- other currencies	177 493	49 484
Total	**66 243 769**	**57 273 255**

33) Sale and repurchase agreements

Liabilities from securities sold with buy-back clause

	31.12.2018	31.12.2017
a) to the Central Bank	0	0
b) to banks	50 322	0
c) to customers	0	0
d) interest	2	0
Total	50 324	0

34) Debt securities issued

34a. Liabilities from debt securities

	31.12.2018	31.12.2017
Outstanding bonds and bills	489 050	906 665
Bank Securities	318 119	247 251
Interest	2 510	2 557
Total	809 679	1 156 473

34b. Liabilities from debt securities by final legal maturity

	31.12.2018	31.12.2017
- to 1 month	2 025	3 209
- above 1 month to 3 months	55 061	53 537
- above 3 months to 1 year	113 469	553 323
- above 1 year to 5 years	636 614	543 847
- above 5 years	0	0
Interest	2 510	2 557
Total	809 679	1 156 473

34c. Change of debt securities

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	1 156 473	1 313 836
Increases, on account of:	309 865	754 779
- issue of Banking Securities	183 339	52 468
- issue of bonds by the Bank	141	329 434
- issue of bonds by the Millennium Leasing	104 700	343 200
- interest accrual	21 685	29 677
Reductions, on account of:	(656 659)	(912 142)
- repurchase of Banking Securities	(112 471)	(84 318)
- repurchase of bonds by the Bank	(329 526)	(529 076)
- repurchase of bonds by the Millennium Leasing	(192 930)	(266 900)
- interest payment	(21 732)	(31 848)
Balance at the end of the period	**809 679**	**1 156 473**

34d. Debt securities by type

Banking securities and debt securities issued by the Bank

As at 31.12.2018	Balance sheet value	Final legal maturity	Market
BPW_2019/01,A	2 212	2019-01-03,31	-
BPW_2019/03,A,B	24 061	2019-03-01,29	-
BPW_2019/04,A	13 089	2019-04-30	-
BPW_2019/05	11 625	2019-05-31	-
BPW_2019/06A	8 967	2019-06-28	-
BPW_2019/07	10 975	2019-07-31	-
BPW_2019/08	6 886	2019-08-30	-
BPW_2019/09	8 157	2019-09-30	-
BPW_2020/02	7 212	2020-02-28	-
BPW_2020/03	8 439	2020-03-31	-
BPW_2020/04	2 360	2020-04-28	-
BPW_2020/05	3 283	2020-05-29	-
BPW_2020/06	2 766	2020-06-30	-
BPW_2020/07	3 098	2020-07-31	-
BPW_2020/08	2 710	2020-08-31	-
BPW_2020/09	3 322	2020-09-29	-
BPW_2020/10	4 564	2020-10-30	-
BPW_2020/11	7 879	2020-11-30	-
BPW_2020/12	3 637	2020-12-31	-
BPW_2020/02A	3 116	2020-02-28	-
BPW_2020/03A	10 390	2020-03-30	-
BPW_2020/04A	15 634	2020-04-30	-
BPW_2021/05	6 490	2021-05-28	-
BPW_2021/06A	11 909	2021-06-28	-
BPW_2020/07A	17 039	2020-07-31	-
BPW_2020/09A,B,C	40 323	2020-09-28	-
BPW_2020/10A,B	30 784	2020-10-31	-
BPW_2020/11A,B	22 282	2020-11-30	-
BPW_2020/12A	25 097	2020-12-31	-
BKMO_210420T	301 219	2020-04-21	Catalyst (ASO BondSpot, ASO GPW)
TOTAL	619 525		

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, 2018, the interest balance was PLN 1,639 thousand. PLN.

Coupon bonds are, as at December 31, 2018, 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).

Debt securities issued by the Millennium Leasing

As at 31.12.2018	Balance sheet value	Final legal maturity	Market
Millennium Leasing series G6	31 139	2019-02-04	-
Millennium Leasing series G7	32 885	2019-05-15	-
Millennium Leasing series G8	21 021	2019-09-18	-
Millennium Leasing series G9	51 566	2020-03-16	-
Millennium Leasing series G10	37 237	2020-07-02	-
Millennium Leasing series G11	16 306	2020-10-01	-
TOTAL	190 154		

In the case of bonds issued by Millennium Leasing interest are accrued based on the notional value of bonds and paid quarterly. As at 31.12.2018 interests accrued amounted to PLN 684 thousand.

34d. 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.

35) Subordinated debt

35a. Subordinated debt

	31.12.2018	31.12.2017
Currency	PLN	PLN
Value of subordinated bonds in foreign currency	700 000	700 000
Value of subordinated bonds in PLN	700 000	700 000
Interest rate	4.090%	4.110%
Maturity	07.12.2027	07.12.2027
Interest	1 883	1 971
Balance sheet value of subordinated debt	701 883	701 971

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.

35b. Change of subordinated debt

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	701 971	664 004
Increases, on account of:	28 656	713 221
- issue of subordinated bonds	0	700 000
- interest accrual	28 656	13 221
- FX rates differences	0	0
Reductions, on account of:	(28 744)	(675 254)
- repayment of subordinated bonds	0	(629 625)
- interest payment	(28 744)	(11 636)
- FX rates differences	0	(33 993)
Balance at the end of the period	**701 883**	**701 971**

During 2017 and 2018 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.

36) Provisions

36a. Provisions

	31.12.2018	31.12.2017
Provision for commitments and guarantees given	51 742	21 720
Provision for pending legal issues	60 710	46 032
Total	112 452	67 752

36b. Change of provision for commitments and guarantees given

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	21 720	24 633
Adjustment of the opening balance due to the implementation of IFRS 9	23 829	0
Adjusted balance at the beginning of the period	45 549	24 633
Charge of provision	60 827	13 771
Release of provision	(54 804)	(16 577)
FX rates differences	170	(107)
Balance at the end of the period	**51 742**	**21 720**

36c. Change of provision for pending legal issues

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	46 032	24 782
Charge of provision	7 541	23 236
Release of provision	(809)	(1 233)
Utilisation of provision	(4 212)	(753)
Reclassification	12 158	0
Balance at the end of the period	60 710	46 032

37) DEFERRED INCOME TAX LIABILITIES

	31.12.2018	31.12.2017
Deferred income tax provision	0	0

38) OTHER LIABILITIES

38a. Other liabilities

	31.12.2018	31.12.2017
Short-term	1 623 229	1 338 254
Accrued costs - bonuses, salaries	40 561	41 253
Accrued costs - other	168 885	114 581
Interbank settlements	271 435	546 452
Settlement of transactions on financial instruments	24 890	0
Other creditors	711 599	268 894
Liabilities to public sector	17 224	14 465
Deferred income	270 016	246 762
Provisions for unused employee holiday	13 218	12 222
Provisions for retirement benefits	2 943	2 542
Settlement accounts for activities of Millennium Dom Maklerski S.A.	15 104	22 810
Other	87 354	68 273
Long-term	113 582	84 028
Provisions for retirement benefits	23 744	20 916
Accrued costs	7 316	6 846
Commitment to pay – BGF*	55 961	29 790
Other	26 561	26 476
Total	**1 736 811**	**1 422 282**
- including other financial liabilities**	1 279 695	1 036 516

* - 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.

38b. Change of provisions for unused employee holiday

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	12 222	10 175
SKOK Piast conveyance	405	0
Charge of provisions/ reversal of provisions	999	2 362
Utilisation of provisions	(408)	(315)
Balance at the end of the period	13 218	12 222

38c. Change of provisions for retirement benefits

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Balance at the beginning of the period	23 458	19 019
SKOK Piast conveyance	83	0
Charge of provisions/ reversal of provisions	3 915	3 208
Utilisation of provisions/ reclassification of provision	(852)	(833)
Actuarial gains (losses)	83	2 064
Balance at the end of the period	26 687	23 458

39) Equity

39a. 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 (PLN)	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 31.12.2018 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, 2018. 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 26 March 2018.

In case of Nationale-Nederlanden OFE, PZU "Złota Jesień" OFE and AVIVA Santander OFE 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, www.pzu.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 8.8258 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 31.12.2018

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	105 018 325	8.66	105 018 325	8.66
Otwarty Fundusz Emerytalny PZU „Złota Jesień"	76 301 553	6.29	76 301 553	6.29
Aviva Otwarty Fundusz Emerytalny Aviva Santander	68 043 397	5.61	68 043 397	5.61

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

39b. Accumulated other comprehensive income

Other comprehensive income arises on the recognition of:

- effect of valuation (at fair value) of financial assets FVTOCI (available for sale for 2017) 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), the effect on capital instruments valuation is not transferred to 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.

Accumulated other comprehensive income

	31.12.2018	31.12.2017
Effect of valuation (gross)	90 978	(42 957)
Deferred income tax	(17 286)	8 162
Net effect of valuation	73 692	(34 795)

The sources of revaluation reserve are as follows (data in PLN thousand):

Revaluation reserve on FVTOCI assets 1.01.2018 - 31.12.2018

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	69 982	(13 296)	56 686
Adjustment of the opening balance due to the implementation of IFRS 9	18 114	(3 442)	14 672
Adjusted balance at the beginning of the period	88 096	(16 738)	71 358
Transfer to income statement of the period as a result of sale	(18 896)	3 590	(15 306)
Change connected with maturity of securities	(5 188)	986	(4 202)
Profit/loss on revaluation of FVTOCI debt securities, recognized in equity	95 088	(18 067)	77 021
Profit/loss on revaluation of FVTOCI shares, recognized in equity	3 022	(574)	2 448
Revaluation reserve at the end of the period	**162 122**	**(30 803)**	**131 319**

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 cash flows hedge financial instruments 1.01.2018 - 31.12.2018

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(110 448)	20 985	(89 463)
Gains or losses on valuation of financial instruments recognized in equity	21 957	(4 172)	17 785
Transfer to income statement during period	19 920	(3 785)	16 135
Revaluation reserve at the end of the period	(68 571)	13 028	(55 543)

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 due to actuarial gains (losses) 1.01.2018 - 31.12.2018

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(2 490)	473	(2 017)
Change in the obligations arising from the provision for retirement benefits	(83)	16	(67)
Revaluation reserve at the end of the period	(2 573)	489	(2 084)

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)
Change in 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)

39c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2018	472 698	3 881 862	228 902	863 313	5 446 775
adjustment of the opening balance due to the implementation of IFRS 9				(257 351)	(257 351)
Retained earnings at the beginning of the period after adjustment	472 698	3 881 862	228 902	605 962	5 189 424
appropriation of profit, including:					
- transfer to reserve capital		695 290		(695 290)	0
net profit/ (loss) of the period				760 651	760 651
Retained earnings at the end of the period 31.12.2018	**472 698**	**4 577 152**	**228 902**	**671 323**	**5 950 075**

	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

40) Financial liabilities by contractual maturity

31.12.2018	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	365 592	187 204	48 149	1 089 041	143 893	1 833 879
Deposits from customers	50 891 515	6 447 314	7 573 618	1 390 705	16 782	66 319 934
Liabilities from securities sold with buy-back clause	50 328	0	0	0	0	50 328
Debt securities	2 211	55 472	123 646	643 130	0	824 459
Subordinated debt	0	0	28 787	114 520	814 520	957 827
Liabilities from trading derivatives - notional value	3 048 803	1 702 979	3 523 023	1 690 909	128 452	10 094 166
Liabilities from hedging derivatives - notional value	1 082 316	612 075	9 869 905	3 185 710	477 075	15 227 081
Commitments granted - financial	8 423 814	0	0	0	0	8 423 814
Commitments granted - guarantee	1 431 850	0	0	0	0	1 431 850
TOTAL	65 296 429	9 005 044	21 167 128	8 114 015	1 580 722	105 163 338

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

14. SUPPLEMENTARY INFORMATION

1) 2018 DIVIDEND

Bank Millennium has a dividend policy of distributing between 35% to 50% of net profit, assuming that the recommendations of the Polish Financial Supervision Authority (KNF) regarding the payment of dividends will be met.

The high capital ratios at the end of 2018 would allow to pay 75% if not additional K1 and K2 criteria for banks with FX mortgage loan portfolio, which KNF maintained when announcing in January 2019 a recommendation on the banks' dividend policy. K1 criterion is based on FX mortgage share in total portfolio and K2 criterion is based on share of 2007-2008 vintages in total FX mortgage portfolio.

Due to the above and considering the planned acquisition of Euro Bank S.A., the Bank intends to retain all of its 2018 net profit in own funds in order to strengthen capital ratios. The Bank's Management Board will submit to the General Shareholders Meeting a relevant proposal to retain the full net profit generated in 2018.

2) DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2018 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 WZ0121	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 630
2.	Treasury bonds WZ0120	Held to Collect and for Sale	Initial security deposit for bond futures	500	507
3.	Treasury bonds WZ0120	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	311 000	315 273
4.	Central Bank bills NBP_040119	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	35 600	35 600
5.	Central Bank bills NBP_040119	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	27 100	27 100
6.	Cash	receivables	Payment to the Futures Settlement Guarantee Fund	100	100
7.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	2 583	2 583
8.	Deposits	Deposits in banks	Settlement on transactions concluded	264 108	264 108
			TOTAL	770 991	776 901

Additionally, as at December 31, 2018, the Group had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 50,290 thousand (corresponding liabilities are presented in **Chapter 13., note 33).**

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

3) Securities covered by transactions with a buy-back clause (SBB)

As at 31 December 2018 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

Type of security	Par value	Balance sheet value
Treasury bonds	49 667	50 290
TOTAL	49 667	50 290

In result of conclusion of Sell-Buy-Back transactions with the underlying securities presented in the table above, the Group is exposed to risks, which are the same as in case of holding securities with the same characteristics in its treasury portfolio.

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.

PLN'000	Amounts to be received	Amounts to be paid
Valuation of derivatives	191 163	423 704
Amount of cash collaterals accepted/granted	(68 883)	(263 712)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	122 280	159 992
Theoretical maximum amount of compensation	(118 605)	(118 605)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical amount of compensation	**3 675**	**41 387**

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 (PLN'000):

	31.12.2018	31.12.2017
Cash and balances with the Central Bank	2 450 176	2 080 151
Receivables from interbank deposits (*)	462 324	120 350
Debt securities issued by the State Treasury (*)	1 608 188	6 207 751
of which FVTOCI (AFS as at 31.12.2017)	1 599 800	6 206 913
of which held for trading	8 388	838
Total	**4 520 688**	**8 408 252**

(*) Financial assets with maturity below three months

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 31.12.2018 the Custody Department maintained 12,522 accounts in which Customers' assets were kept with the total value of PLN 37.5 billion. Net revenue from the custody business for 2018 amounted to PLN 8.6 million. The Custody Department serves as a depositary bank for 23 mutual funds including 13 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 variable period up to 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.

Future payment commitments under non-cancellable operating leases as at, (PLN'000):	31.12.2018	31.12.2017
- to 1 year	112 744	130 650
- above 1 year to 5 years	205 451	243 236
- above 5 years	100 343	132 958
TOTAL	418 538	506 844

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:	2018	2017	2016	2015
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments			
Commencement of vesting period	1 January 2018	1 January 2017	1 January 2016	1 January 2015
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 2018	31 December 2017	31 December 2016	31 December 2015
Vesting conditions	Employment in the Group 2018, results of the Group and individual performance	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
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:	2018	2017	2016	2015
Date of shares assigning	23.01.2019	07.02.2018	02.02.2017	12.02.2016
Number of shares	135 504	125 013	106 588	56 852
- granted	0	0	0	0
- deferred	135 504	125 013	106 588	56 852
Value as at assigning date (PLN)	580 500	1 195 500	616 400	306 715
- granted	0	0	0	0
- deferred	580 500	1 195 500	616 400	306 715
Fair value as at 31.12.2018 (PLN)	1 244 200	1 108 866	739 680	368 058

Profit and Loss Account for 2018 has been charged with the change in the value of the phantom shares assigned for the years 2015-2017, the provision created for phantom shares to be assigned for 2018 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:	2018	2017	2016	2015
Date of shares assigning	-	09.04.2018	25.05.2017	13.05.2016
Number of shares	-	272 260	175 788	104 564
- granted	-	0	0	0
- deferred	-	272 260	175 788	104 564
Value as at assigning date (PLN)	-	2 235 000	1 252 500	504 000
- granted	-	0	0	0
- deferred	-	2 235 000	1 252 500	504 000
Fair value as at 31.12.2018 (PLN)	-	2 414 946	1 502 987	604 798

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 2018.

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

2018 year did not bring legal changes towards FX mortgage portfolios. 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. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Conversion 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 Conversion 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 Conversion 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, assessed based on FX mortgage balance (PLN 128 billion in December 2018 according to KNF), equal to up to PLN 2.6 billion in the first year of operation of the Conversion Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables with consideration of stability of the financial system and effective use of money in the Restructuring Fund. After Government's acceptance and voting of several changes by the Parliamentary Sub-Committee, Presidential Bill of 2 August 2017 was sent on 24 January 2019 for the further parliamentary proceedings.

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

Mortgage Bank

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

Euro Bank

On 5 November 2018 the Bank announced the agreement on the transaction to buy 99.8% of the shares in Euro Bank S.A., which should be finalized in 1st half of 2019 (as of June 2018 Euro Bank had PLN 1.4 million of clients, holding PLN 11.9 billion in loans and PLN 7 billion in deposits).

After obtaining all the approvals, the Bank assumes the closing of the transaction in 2nd quarter 2019, which will enable the following step of getting approval for the legal merger, envisaged for 3rd quarter 2019. Subsequently, an effective merger of the organisational structures of both banks will be possible and the full operational merger is planned by the end of the year 2019 and will be preceded by the migration of all the customers and products of the acquired bank to the platform of Bank Millennium. After the merger the Bank will operate under Millennium logo.

SKOK Piast conveyance

On the basis of decision of the Polish Financial Supervision Authority on 17 October 2018 Bank Millennium took over management of the assets of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast (SKOK Piast) (Cooperative Credit Union SKOK Piast), until the moment of conveyance SKOK PIAST carried out standard operational activities. The conveyance accomplished in accordance with article 74c paragraph 4 of the Act on Credit Unions took place on 1 November 2018.

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

In the Bank's accounting books the conveyance was settled in accordance with IFRS 3. The conveyance process was carried out with assumption of the support to be granted by BFG on the basis of art. 264 of the Bank Guarantee Fund Act and did not involve a transfer of the payment by the Bank. The BFG support will consist of transferring the subsidy and granting a guarantee to cover losses resulting from the risk related to the acquired property rights of SKOK Piast.

The BFG subsidy will be granted to cover, fixed at a conveyance date, the difference between the value of the taken over property rights and liabilities from guaranteed funds in the accounts of depositors and as at 31 December 2018 its value is estimated at PLN 67 492 thousand. Due to the ongoing auditor's review of the financial statements of SKOK Piast prepared as at the date of closing the accounting books (31 October 2018), the amounts applied for settlement of the transaction as at December 31, 2018 may still be subject to change. According to IFRS 3, the Bank has 12 months for the final settlement of the acquisition – until the end of October 2019.

Accordingly to IFRS 3 provisions the Bank recognized in its books fair values of taken over assets and liabilities, the fair value adjustments represents the difference between amounts of assets and liabilities recorded in SKOK Piast financial statements prepared accordingly Polish Accounting Standards as at 31 October 2018 and their fair value amounts calculated at the same date. The aforementioned differences are related with following balance sheet items:

1. Loan portfolio adjustments

Total fair value of loan portfolio of SKOK Piast was determined separately for performing and nonperforming (defaulted) loans. The default definition was determined based on 90 DPD and other qualitative triggers. Fair value of performing loan portfolio of SKOK Piast was determined using discounted cash flows model with application of current margin. For non-performing portion of loan portfolio the fair value was determined using estimation of expected self repayments and sales recoveries.

2. Deposit portfolio adjustment

Fair value adjustment on the deposit portfolio is mainly driven by slightly higher interest rates of SKOK's Piast term deposits as compared to the average market rates.

3. Real estates adjustments

The positive fair value adjustment consists of differences between the book value and market value of buildings resulting from external appraisals.

Additionally the Bank recorded deferred tax resulting from FV adjustments calculated by applying 19% to effect of the above adjustments.

Assets	SKOK Piast data as at 31.10.2018	Fair value adjustments	Fair value of taken over assets
Cash	18 630	-	18 630
Loans and advances to customers(*)	88 355	7 767	96 122
Investments in subsidiaries	5 738	-	5 738
Tangible assets	5 969	424	6 393
Other assets	12 632	-	12 632
Total assets	**131 324**	**8 191**	**139 515**

(*) gross value of credit portfolio amounted to PLN 157 833 thousand

Liabilities	SKOK Piast data as at 31.10.2018	Fair value adjustments	Fair value of taken over liabilities
Guaranteed deposits	198 816	239	199 055
Provisions	4 696	-	4 696
Deferred tax liability	2 042	1 511	3 553
Other liabilities	1 809	-	1 809
Total liabilities	**207 363**	**1 750**	**209 113**

As a result of the conveyance, the Bank recognized goodwill (being the difference between the net fair value of identifiable assets and liabilities and the amount of BFG subsidy) of PLN 2,105 thousand. PLN, which was subsequently fully amortized in costs.

Events after the date for which financial statements were prepared

Issuing by the Chairman of the Office of Competition and Consumer Protection of the consent in the matter of a concentration consisting in the takeover by Bank Millennium S.A. of the control over Euro Bank S.A.

On 3 January 2019 the Bank received information about the issuing of the decision of 28 December 2018 by the Chairman of the Office of Competition and Consumer Protection in the matter of the concentration consisting in the takeover by Bank of the control over Euro Bank S.A. Spółka Akcyjna with seat in Wrocław. The decision indicated above means that there has been fulfilled one of the conditions precedent indicated in the agreement concerning the Bank's acquisition of around 99,78% of the shares in Euro Bank SA from SG Financial Services Holdings i.e. obtaining the consent of the appropriate antitrust authority.

Issue of W-Series subordinated bonds of the Bank

The Management Board of the Bank on 17 January 2019 took the decision in the matter of issue by Bank on 30 January 2019, under provisions of the Act of 15 January 2015 on bonds, subordinated bonds W-series. Bonds were issued by Bank under the existing Third Bond Issue Program, approved in 2015, with nominal value not greater than PLN 3,000,000,000 (or the 4 equivalent of this amount in EUR, USD or CHF).

On 30th January 2019 the issue of 1,660 series W subordinated bonds of the Bank was settled. All bonds in the total amount of PLN 830,000,000 were acquired by bondholders.

Maturity of the bonds is on 30th January 2029. The issuer may decide to redeem the bonds on 31st January 2024 only after obtaining prior assent of Polish Financial Supervision Authority for earlier redemption of the bonds, if such assent is required. The interest rate on the bonds is variable, based on WIBOR 6M plus a margin of 2.30% per annum.

After the assent of Polish Financial Supervision Authority is obtained the bonds shall constitute instruments in the Bank's Tier 2 capital in the meaning of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The Bank shall strive to introduce the bonds to trading in the Alternative Trading System of BondSpot S.A. or Giełda Papierów Wartościowych w Warszawie S.A.

Date	Name and surname	Position/Function	Signature
22.02.2019	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
22.02.2019	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
22.02.2019	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
22.02.2019	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
22.02.2019	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
22.02.2019	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
22.02.2019	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature