Management Board Report of the Bank Millennium Capital Group

for the six months ended 30 June 2017

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I. MAIN ACHIEVEMENTS AND MARKET CONDITIONS

I.1. Main achievements of the Group

Consolidated net profit of Bank Millennium Group reached in the 1st half 2017 the amount of PLN 314 million, which is 27% lower than a record profit of PLN 431 million achieved in 1st half 2016 inflated by VISA Europe transaction. When adjusting for this and other one-off transactions (e.g. non-symmetric charge of BFG resolution fund in 2017), net profit of 1H 2017 was 35% higher than corresponding adjusted profit of the previous year.

Good business performance and core income growth were the main drivers of profitability improvement, which allowed to strengthen main indicators: ROE of 8.9% and Cost-to-Income of 46.3% in 1st half 2017.

Bank Millennium keeps strong asset quality, liquidity and capital ratios

Main financial and business highlights of 1H 2017 are as follows:

Further improvement of profitability and cost efficiency

- Net profit in 2Q 2017 at PLN 173.6 million (+24% q/q).
- 1H Net profit reached PLN 314.1 million which is 35% higher y/y when adjusting for one-offs
- ROE in 2Q close to double-digit: 9.6%
- Cost to Income in 2Q improved again to 46%

Core income as main driver of the improvement

- Core income grew 13.5% y/y
- Net interest income up by 11.3% y/y
- Net commission strong growth of 19.9% y/y

Strong asset quality and liquidity maintained

- Impaired loans ratio at 4.54%
- Cost of risk at 52 b.p. ytd
- Strong liquidity kept: loan to deposits at low 82.4% level

High capital ratios

- Both consolidated TCR and CET1 at 18.0% (without inclusion of 1H profit)
- TCR in 2H will increase due to KNF/ECB decision on IRB model changes and revoking Supervisory Floor (with estimated impact of 2.9 p.p.). Further changes to minimum capital ratios may occur in 4Q as a consequence of SREP/BION conclusion

Retail business

- 10% yearly growth of retail customer funds
- 28% yearly growth of current and saving accounts balance
- PLN mortgage sale at PLN 628 million in 2Q
- Cash loans sale at PLN 572 million in 2Q

Companies business

- Continued growth of corporate loans: +2.4% q/q, after strong 1Q
- Record factoring sale of PLN 4.2 billion in 2Q
- Rebound of corporate deposits with continued current accounts growth (7.5% y/y)

Innovation/Quality

- More than 36 thous. users of Profil Zaufany (Trusted profile - access to e-administration)
- “Best Bank for CSR in Central & Eastern Europe” award from Euromoney magazine
- Regional Innovation Potential - Millennium Index 2017 as Bank’s participation in debate on innovation

I.2. Macroeconomic situation

In 1Q 2017 business sentiment in the Polish economy improved. Gross Domestic Product grew, in real terms, by 4.0% in first three months of 2017 after growing by 2.5% in 4Q 2016, substantially faster as compared to the expectations from the beginning of the year. The main engine of the growth was private consumption, that was supported by growing households' income, including social benefits, favourable labour market conditions and optimistic sentiment in the households' sector. After a sharp plunge of investments in fixed assets in 2016, its decline slowed down in 1Q 2017. Conducive to improved investments' activity was higher utilization of the EU funds, that translated into higher investments in infrastructure. The Bank assesses that macroeconomic data show no sign of the build-up of macroeconomic imbalances.

Data on industrial production, assembly and construction production as well as retail sales confirmed that positive economic sentiment prevailed also in 2Q, when the economic growth equalled 3.9% y/y according to Bank's estimate. The private consumption was the main driver of the economic growth, coupled with increase of investments in fixed assets supported by higher absorption of the EU funds, high capacity utilization and growing demand.

Situation in the labour market remained positive in the first half of 2017. A registered unemployment rate fell to its record low value and in June 2017 it reached 7.2%. Unemployment rate based on the Labour Force Study (BAEL) has also reached a new record low at 5.4% in the first quarter of 2017. Falling number of unemployed coupled with growing demand for labour, bears growing problems with finding suitable employees. It may translate into intensifying wage pressure. The wage growth accelerates, but remains moderate and in May average earnings in the enterprise sector increased in nominal terms by 5.4% y/y.

Inflation slowed down in 2Q, after its acceleration in the beginning of this year, and in June in equalled 1.5% y/y compared to 2.0% y/y in March. Low inflation was a result of falling energy prices, especially fuels. Core inflation, that excludes volatility of food and energy prices, was growing steadily, although it remains much below the central bank target. This is why the MPC kept loose monetary policy stance, despite of accelerating economic growth. The reference rate is record-low and currently stands at 1.50%. In the Bank's assessment the NBP official interest rates will remain at current levels in the nearest future.

Leading indicators suggest the positive sentiment in the economy to remain. Manufacturing PMI at 53.1 in June highlighted an improvement in the health of the Polish manufacturing sector. Consumer confidence is currently the highest on record. The Bank assesses that in 2017 the economic growth might accelerate to 3.8%. The structure of the growth may improve as a build-up of public investment is expected. Private consumption will still be the main engine of the growth.

In the first half of 2017 growth of deposits in the banking sector slowed down, and it reached 5.6% y/y in May compared to 8.9% y/y in December of the previous year. Dynamics of households' deposits decelerated to 6.5% y/y from 9.4% y/y in December (with nominal decline of PLN 4.1 bln in May) which might reflect growing consumption and lower interests on deposits in the banking sector. Growth of corporate deposits slowed down in May to 3.8% y/y from 7.9% y/y in December, that might be related to rebound in investments activity.

Total credit in May was by 4.8% higher than in the corresponding period of last year. Credit to households decelerated slightly and its dynamics equalled to 3.4% y/y in May. Corporate credit dynamics improved and equalled 7.0% y/y in May compared to 3.7% y/y in December, which might reflect oncoming rebound of corporates' demand for external financing.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1. Group profit and loss account

Operating Income (PLN million)	1H 2017	1H 2016	Change 2017/2016
Net Interest Income *	841.1	756.0	11.3%
Net Commission Income	328.6	274.1	19.9%
Core Income**	**1 169.7**	**1 030.1**	**13.5%**
Other Non-Interest Income ***	41.6	289.9	-85.6%
of which extraordinary incomes and charges	*(23.2)*	*231.5*	-
Total Operating Income	**1 211.3**	**1 320.0**	**-8.2%**
Total Operating Income (without one-offs)	*1 234.5*	*1 088.5*	*13.4%*

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 26.8 million in 1 half 2017 and PLN 22.3 million in 1 half 2016) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

(**) Sum of Net Interest Income and Net Commission Income.

(***) Includes FX results, Results on Financial Operations and net other operating income and costs.

Net Interest Income (pro-forma) for 1 half 2017 reached PLN 841.1 million and increased by 11.3% versus the corresponding period of the previous year. This considerable increase was driven by both: improving Net Interest Margin and growth of loans (especially consumer and corporate loans) and deposits. Especially positive contributing to Net Interest Margin increase was the reduction of deposits cost (to 1.08% in 2Q'17). Loan yield also improved in 2Q by 6 bps. vs. the previous quarter to 4.09%. As a consequence, total Net Interest Margin (over average interest earning assets) for 1 half 2017 improved visibly to 2.51% from 2.36% in 1 half 2016.

In 2Q 2017 Net Interest Income increased by 4.6% vs 1Q 2017 showing strong upward quarterly trend.

Net Commission Income in 1 half 2017 amounted to PLN 328.6 million, which means strong increase by 19.9% year-on-year. Insurance and investment products related fees were the main drivers of the growth, but also transactional and loans commissions presented visible increase.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 1,170 million for 1 half 2017 which means a remarkable increase of 13.5% yearly.

Other Non-interest Income, which comprise FX Result, Results on Financial Operations and net other operating income and costs, amounted to PLN 41.6 million in 1st half 2017 and decreased strongly by PLN 248.2 million due to the impact of one-off incomes and charges, which had altogether positive impact in 1st half 2016 and negative impact in 1st half 2017. The one-off items (pre-tax) in 1st half 2016 included mainly income from the transaction on Visa Europe shares of PLN 283 million and other one-off charges of PLN 51.5 million booked in 2nd quarter of the year. In 1st half 2017 the Bank made full payment of annual resolution fund fee to Bank Guarantee Fund in the amount of PLN 46.4 million, which was presented in other operating cost. As half of this payment refers to 2nd half of 2017, it may be considered as an extraordinary cost for homologous comparison purposes.

Total operating income of the Group reached PLN 1,211.3 million in 1 half 2017 and decreased by 8.2% year-on-year. Without taking into consideration one-off incomes and charges mentioned above, the total operating income for 1st half 2017 would present a substantial annual growth of 13.4%.

Total costs in 1 half 2017 amounted to PLN 561.2 million, which means a small increase by 1.5% when compared to 1 half 2016. Some increase in personnel costs were to large extent offset by lower other administrative costs.

Operating Costs *(PLN million)*	1H 2017	1H 2016	Change 2017/2016
Personnel Costs	(295.0)	(277.9)	*6.1%*
Other Administrative Costs*	(266.3)	(274.9)	*-3.1%*
Total Operating Costs	(561.2)	(552.8)	***1.5%***
Cost/Income Ratio	46.3%	41.9%	*4.5 p.p.*
Cost/Income Ratio **	45.5%	50.8%	*-5.3 p.p.*

(*) including depreciation
(**) without VISA transaction and other one-offs

Personnel costs in 1 half 2017 grew by 6.1% compared to the corresponding period of the previous year as a result of increase of average salary and bonuses. The total number of employees in the Group decreased by 32 employees compared to the end of June 2016, to the level of 5,865 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	30.06.2017	30.06.2016	Change 2017/2016
Bank Millennium S.A.	5 517	5 554	-0,7%
Subsidiaries	348	343	1,5%
Total Bank Millennium Group	5 865	5 897	-0,5%

Other administrative costs (including depreciation) in 1 half 2017 reached PLN 266.3 million and decreased by 3.1% year-on-year (i.e by PLN 8.6 million). The decrease was driven mainly by lower rental costs. Total number of branches fell during last 12 months from 392 to 360.

Cost-to-Income ratio for 1 half 2017 reached low level of 46.3% and if excluding one-off incomes and charges, the ratio would be even lower, i.e. 45.5% and much lower (by 5.3 p.p.) compared to the level for 1st half 2016.

Total net impairment provisions created by the Group in 1 half 2017 amounted to PLN 122.7 million and were 15.7% higher than provisions created in 1 half 2016. The provisions for corporate segment increased visibly by PLN 32.6 million year-on-year, which was partly offset by decreasing provisions in retail segment (by PLN 15.9 million year-on-year). Such variation of impairment provisions registered in corporate segment and other resulted from the very low level booked in 1st half 2016 (only PLN 10.5 million) influenced by sale of impaired loans and extraordinary recoveries.

In relative terms, cost of risk (i.e. net provisions created to the average net loans) in 1 half 2017 reached 52 bps level (i.e. 7 bps higher compared to 1st half 2016), which is within expected range for entire 2017 year.

Pre-income tax profit in 1st half 2017 amounted to PLN 433.7 million, and decreased by 25.3% compared to the level of the corresponding period of the previous year, mainly due to full payment of yearly BFG resolution fund fee in 1st half 2017 and gain on Visa transaction in 1st half 2016. **Net Profit** for 1st half 2017 amounted to PLN 314.1 million and was 27.1% lower than an year ago. When excluding abovementioned one-off incomes and charges, net profit of the Group would have grown by 34.6% year-on-year.

Pre-tax and Net Profit *(PLN million)*	1H 2017	1H 2016	Change 2017/2016
Operating Income	1 211.3	1 320.0	*-8.2%*
Operating Costs *	(561.2)	(552.8)	*1.5%*
Impairment provisions	(122.7)	(106.1)	*15.7%*
Special banking tax	(93.7)	(80.5)	*16.3%*
Pre-income tax Profit**	433.7	580.6	*-25.3%*
Income tax	(119.6)	(149.7)	*-20.1%*
Net Profit	**314.1**	**430.9**	*-27.1%*
Net Profit (without one-offs)	***337.3***	***250.7***	***34.6%***

(*) without impairment provisions for financial and non-financial assets
(**) includes also share in profits of associates

II.2. Balance Sheet - main items

The Group's **assets** as at 30 June 2017 totalled PLN 69,489 million and were 4.2% higher compared to the balance at the end of June 2016. The structure of the Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	30.06.2017		30.06.2016		Change
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	2 171.6	3.1%	2 937.4	4.4%	-26.1%
Loans and advances to banks	517.6	0.7%	2 298.6	3.4%	-77.5%
Loans and advances to Clients	47 316.3	68.1%	46 964.6	70.4%	0.7%
Receivables from securities bought with sell-back clause	65.1	0.1%	46.9	0.1%	39.1%
Debt securities	17 834.0	25.7%	13 235.5	19.8%	34.7%
Derivatives (for hedging and trading)	590.3	0.8%	313.3	0.5%	88.5%
Shares and other financial instruments *	45.6	0.1%	41.1	0.1%	10.7%
Intangible assets and property, plant and equipment **	232.4	0.3%	209.0	0.3%	11.2%
Other assets	716.0	1.0%	649.5	1.0%	10.2%
Total assets	**69 488.8**	**100.0%**	**66 695.7**	**100.0%**	**4.2%**

(*) including investments in associates
(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of debt securities by PLN 4,599 million (or by 34.7%), including predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank) and, to lower extent, from the growth of loans to Clients by PLN 352 million (or by 0.7%).

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Group's asset structure (68.1% as on 30 June 2017). Total value of loans reached PLN 47,316 million (in net terms) as at the end of June 2017 and increased by 0.7% year-on-year. The growth excluding FX mortgage loans reached 8.6% year-on-year.

The value of loans granted to households as at the end of June 2017 totalled PLN 32,491 million and decreased by 2.7% year-on-year. The decrease resulted from lower value of foreign currency mortgage loans (by more than 11% year-on-year) whereas PLN mortgage loans grew strongly by more than 8% year-on-year driven by considerably higher disbursements of new mortgage loans in 1st half 2017 (PLN 1,055 million, growth by 119% year-on-year).

Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew visibly by 7.5%, or PLN 416 million year-on-year. As at the end of June 2017 the balance of non-mortgage loans to households amounted to PLN 6.0 billion. The increase was mainly driven by high value of new cash loans sales, which amounted to PLN 1,130 million in 1st half 2017.

Loans to companies (including leasing) amounted to PLN 14,825 million as at the end of June 2017 and grew strongly by 9.3% yearly, after another quarter of significant increase. The strong growth could be seen both in leasing receivables (+8.3% year-on-year) and other loans (+9.8% year-on-year). The value of the leasing portfolio exceeded PLN 5.3 billion as at the end of June 2017. Also factoring receivables portfolio kept strong growth of c.a. 16% yearly.

The structure and yearly evolution of loans and advances to Clients (in net terms) is presented in the table below:

Loans and advances to Clients *(PLN million)*	30.06.2017	30.06.2016	Change (value)	Change (%)
Loans to households	32 490.9	33 398.0	*-907.1*	*-2.7%*
- PLN mortgage loans	*10 065.5*	*9 287.1*	*778.4*	*8.4%*
- FX mortgage loans	*16 425.1*	*18 526.9*	*-2 101.8*	*-11.3%*
- consumer loans	*6 000.2*	*5 584.0*	*416.3*	*7.5%*
Loans to companies	14 825.5	13 566.6	*1 258.8*	*9.3%*
- leasing	*5 328.0*	*4 920.0*	*408.0*	*8.3%*
- other loans to companies and factoring	*9 497.5*	*8 646.6*	*850.9*	*9.8%*
Net Loans & Advances to Clients	**47 316.3**	**46 964.6**	**351.7**	***0.7%***
Net Loans and Advances to Clients excluding FX mortgage loans	**32 227.9**	**29 749.8**	**2 453.4**	***8.6%***
Impairment write-offs	1 453.0	1 419.8	33.3	*2.3%*
Gross loans and advances to Clients	**48 769.4**	**48 384.4**	**385.0**	***0.8%***

Debt securities

The value of debt securities equalled PLN 17,834 million at the end of June 2017 and increased strongly by PLN 4.6 billion (i.e. 34.7%) compared to the balance as on 30 June 2016. Major part of debt securities (i.e. 99.3%) were bonds and bills issued by the Polish State Treasury and the National Bank of Poland (the central bank). The share of debt securities in Group's Total Assets increased to 25.7% from 19.8% recorded as at the end of June 2016.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 518 million as at the end of June 2017, which means a strong decrease by 77.5% year-on-year due to lower value of collateral deposits securing hedging transaction placed in counterparty banks. This resulted mostly from active management of the currency swaps portfolio, different structure of hedging instruments and different conditions of renewed hedging contracts.

The value and structure of the Group's **liabilities** and the changes of their components is presented in the table below:

LIABILITIES (PLN million)	30.06.2017		30.06.2016		Change
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 404.4	2.3%	1 538.2	2.6%	-8.7%
Deposits from Customers	56 988.0	91.7%	53 360.2	89.0%	6.8%
Liabilities from securities sold with buy-back clause	0.0	0.0%	0.0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	802.7	1.3%	1 934.1	3.2%	-58.5%
Liabilities from issue of debt securities	1 158.4	1.9%	1 358.1	2.3%	-14.7%
Provisions	46.3	0.1%	54.0	0.1%	-14.2%
Subordinated debt	634.3	1.0%	664.2	1.1%	-4.5%
Other liabilities*	1 115.0	1.8%	1 064.2	1.8%	4.8%
Total liabilities	**62 149.1**	**100.0%**	**59 973.0**	**100.0%**	**3.6%**
Total equity	**7 339.8**		**6 722.7**		**9.2%**
Total liabilities and equity	**69 488.8**		**66 695.7**		**4.2%**

(*) including tax liabilities

As at 30 June 2017, liabilities accounted for 89.4%, while Group's equity accounted for 10.6% of the total liabilities and equity. Group's liabilities amounted on this day to PLN 62,149 million and increased by 3.6% relative to the balance as on 30 June 2016. The increase resulted, primarily, from growing customer deposits: by 6.8% year-on-year.

Deposits from Customers

As on 30 June 2017, deposits from Customers reached PLN 56,988 million level and constituted by far the Group's main liability item accounting for 91.7% of the Group's total liabilities. The deposits recorded a robust increase of PLN 3,628 million i.e. 6.8% relative to the balance as at 30 June 2016.

As at 30 June 2017 deposits from individual Customers amounted to PLN 40,414 million and accounted for 70.9% of the total balance of deposits from Customers. This group of deposits increased strongly by PLN 2,868 million or by 7.6% year-on-year supported by growing number of current accounts and customers. Current and saving accounts were the main driver of this growth (by 28.4% year-on-year) and constituted 62% of total deposits from individuals. When adding non-deposit investment products (e.g. own and third party mutual funds and insurances), total individual customer funds acquired by the Group as on 30 June 2017 reached PLN 48,592 million and grew by 9.6% yearly.

Deposits of companies and public sector amounted to PLN 16,574 million and increased by 4.8% year-on-year, mostly thanks to growing current accounts balances (by 7.5% year-on-year).

The evolution of Clients Deposits is presented in the table below:

Deposits of Clients *(PLN million)*	30.06.2017	30.06.2016	Change (value)	Change (%)
Deposits of individuals	40 414.3	37 546.0	2 868.4	7.6%
Deposits of companies and public sector	16 573.6	15 814.2	759.4	4.8%
Total Deposits	**56 988.0**	**53 360.2**	**3 627.8**	**6.8%**

Debt securities issued

Debt securities issued by the Group as at 30 June 2017 amounted to PLN 1,158 million, which means a decrease by PLN 200 million (or by 14.7%) relative to the balance recorded as at 30 June 2016. At the end of June 2017 the value of debt securities issued by the Group and possessed by individual Customers as savings products amounted to PLN 429 million, whereas the value of bonds possessed by institutional investors amounted to PLN 729 million. The main reason for decrease of liabilities from issued debt securities vs. the end of June 2016 was lower balance of bonds to institutional investors. Debt securities were issued by the Group in order to raise funds for financing the general Group's operations and to strengthen the mid-term funding of the Bank.

Subordinated debt

The value of subordinated debt amounted to PLN 634 million as at 30 June 2017 and decreased by 4.5% year-on-year due to FX rates changes. This item includes only the liabilities from ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

As at 30 June 2017 the equity of the Group amounted to PLN 7,340 million and grew by PLN 617 million or 9.2% year-on-year. The main reason of the growth of equity was net profit generated during the 2nd half 2016 and 1st half 2017, without payment of any dividend as decided by AGM of the Bank held on 31 March 2017. The impact of revaluation reserve changes on this growth was positive (PLN 33 million).

The information about capital adequacy is presented in Chapter IV.1 of this document.

II.3. Share price main indicators and ratings

During the analysed period of 6 months ended on 30 June 2017 Bank Millennium shares grew strongly by 43.5%, while Polish market main WIG index grew by 17.9% and banking index WIG Banki grew by 15.9%. In the same time average daily turnover of Bank Millennium shares grew by 4.6%.

In the yearly horizon, Bank Millennium shares also grew strongly by 59.2% but average daily turnover fell slightly by 2.6%. In the same time WIG index grew by 36.4% and WIG Banki index grew by 27.7%.

Market ratios	30.06.2017	30.12.2016*	Change (%) in 1H 2017	30.06.2016	Change (%) Yearly
Number of shares of the Bank (in ths.)	1 213 117	1 213 117	0.00%	1 213 117	0.00%
Daily trading - average (PLN ths, ytd)	5 683	5 434**	4.6%	5 836	-2.6%
Price of Bank shares (PLN)	**7.45**	**5.19**	**43.5%**	**4.68**	**59.2%**
Market cap. (PLN million)	9 038	6 296	43.5%	5 677	59.2%
WIG - main index	61 018	51 754	17.9%	44 749	36.4%
WIG Banks	7 262	6 263	15.9%	5 687	27.7%
WIG30	2 664	2 243	18.7%	1 956	36.2%
mWIG 40	4 907	4 216	16.4%	3 393	44.6%

(*) last day of quotation in 2016 r.
(**)turnover for the second half of 2016 year

During the 1st half of 2017 there were no changes in Bank Millennium ratings.

Rating	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB- (stable outlook)	Ba1 (stable outlook)
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	NP
Individual (Viability rating / standalone BCA*)	bbb-	ba3
Counterparty Risk Assessment (CR)		Baa3/Prime-3
Support	4	

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

II.4. Main factors that might influence Bank's standing in the future

In coming quarters the activity of banking sector, including Bank Millennium, can be influenced by the following external factors:

- On August 2nd 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward. The draft Act covers all foreign currency loans concluded from 1st July 2000 to 26th August 2011 (date of entry into force so called "anti-spread Act"). Aforementioned draft Act envisages reimbursement of part of FX spread applied by banks. Including the above mentioned draft Act, there are currently three different draft acts submitted to the Polish parliament and according to recent news, there is another legislation prepared, regulating voluntary restructuring of FX mortgages with partial capital reduction, designated for FX borrowers in the weakest financial situation. As a consequence it is not possible to estimate the impact of this potential regulation on the banking sector. However, announced legislative intentions, if implemented and made mandatory for banks, could significantly deteriorate the Bank's profitability and capital position.

- On January 13th 2017 Financial Stability Committee (KSF) in Poland released set of recommendations regarding restructuring of FX mortgage loans. The proposed supervisory instruments aimed at supporting decision taking by banks and borrowers concerning restructuring include, among others: to increase risk weight for FX mortgage exposures, to increase the minimum value of LGD parameter for FX mortgages, to allow utilize Mortgage Borrowers Support Fund for supporting voluntary restructuring of loans, to update BION/SREP methodology in order to assign appropriate level of capital surcharge to further risk factors connected with FX mortgage loans (operational, market and risk of a collective default of the borrowers) and to supplement currently used Pillar 2 additional capital buffers with these risk factors. KSF suggested also that KNF should issue a recommendation regarding good practices of restructuring FX mortgage loans. In June 2017 KSF summarized status of preparation of these recommendations indicating, that most of them should be implemented before year-end or at the beginning of 2018. It is not possible with the available information to analyse the impact of these recommendations, but implementation of part or all recommendations may have influence on the results and capital ratios of the banks, including Bank Millennium, although it is possible that there will be some offsetting effects.

- Expected recovery in corporate investments, thanks to increased utilization of the EU funds, might support growth of investment loans.

- Prolonged period of negative real interest rates in Poland might result in possible outflow of deposits from the banking sector, especially in households' sector.

- Good situation in labour market and growing households' income, partially because of programme Rodzina 500+ (Family 500+), should support demand for households credit and quality of loans portfolio.

III. DESCRIPTION OF BUSINESS ACTIVITY

III.1. Quality and innovation

The Bank' strategy for 2015-2017 comprises digitalisation and strong usage of internet and mobile channels in offering products and services as well as digital analysis of clients' behaviours. An illustration of this approach is the "Like it? Share it" recommendations programme, which the Bank released to clients in full version both the online banking system and the mobile app as the first bank in Poland, with the ability to register, recommend, check results, choose awards, etc. The "Like it? Share it" programme aims to step-up acquisition of new clients and to fulfil the Bank's main strategic goal. After 3 months of the programme more than 72,000 clients got registered.

Bank Millennium keeps working on development of electronic channels and on adding further innovative solutions. These innovations aim first of all to make daily life easier for the clients and to ensure the best possible experience. The Bank attaches big importance to the needs of users of electronic channels. We also want the apps to be consistent and whatever the channel the client decides to use, his contact with the Bank is convenient and intuitive.

The growing role of electronic channels is reflected in their share in sales. In the 1st half of 2017 electronic channels were used to send 99% transfers and to set up 87% new term deposits.

Another example of the Bank's innovation strategy in practice is development of the goodie app. The goodie smartshopping app is a project, which is growing rapidly. In this half of the year new functionalities were launched, a very powerful recommendations engine was developed and the Bank tested numerous new components, including image recognition functionalities, as well as cooperation with other start-ups and fin-techs.

High quality of service and giving clients a market-unique consistent experience, irrespective of service channel, have for some years now been the Bank's strategic goals. Service quality is increasingly often the most important criterion of selecting a Bank and it determines customer loyalty. According to a TNS Zoom Finanse 4Q 2016 survey Bank Millennium has the highest NPS score (34) among commercial banks in Poland.

In the first half of 2017 the Bank was awarded and lauded by independent experts, as regards service quality as well as product features. In this year's edition of Złoty Bankier (Golden Banker) survey by Puls Biznesu and the bankier.pl portal, Bank Millennium made it to the podium four times. The Bank won in the Personal Account category with Konto 360°being hailed the best account. The Bank also came second in Mortgage Loan, third in The highest Quality of Service category and was awarded with safety rating.

Bank Millennium's mobile app received the prestigious 2016 Mobile Trends Award for best mobile projects and solutions. The goodie smartshopping platform won an award in the Project of the Year 2016 category of the E-economy Congress Competition organised by the Polish Bank Association.

III.2. Retail banking

Bank Millennium offers universal banking services with retail banking accounting for important and progressing business area. Retail banking offers services to individuals, affluent individual clients (Prestige), Private Banking and Business line specialising in provision of services to individuals conducting business operations or the smallest companies. Clients have access to the Bank products and services via the network of nearly 360 branches, internet and mobile banking, ATM network and telephone banking. The Bank constantly develops remote access channels, and simultanosly improves effectiveness and functionality of its outlets and adjusts them to meet the newest market and demographic trends. Due to omnichannel service network organisation Clients exercises comprehensive experience in contacts with the Bank can manage their funds in a convenient, safe manner.

Realization of customer acquisitions targets is in line with the assumptions - since the beginning of the year the number of active retail clients increased by 65 thousands and at the end of the first half of 2017 amounted to 1.56 million. At the same time the number of internet Clients exceeded 1,06 million, and that of mobile clients 615 thous., growing by, respectively 17% and 42% yearly.

Since the beginning of the year, 167 thous. of new accounts were opened. The largest share in this number had Konto 360°account which perfectly integrates the technological and process innovations implemented by the Bank. Konto 360°current account excel also in customer expectations, making them one of the best-selling banking products on the market. Their attractiveness and popularity among customers translated into tangible results and built in 4 years the portfolio of nearly 760 thousand accounts. Good result of acquisition activity in 2nd quarter is also an effect of an innovative recommendation programme „Like it? Share it!" launched in March.

At the end of 1st half 2017, the total funds of individual clients reached the value of 48.6 bn PLN, growing by 9.6% y/y. Increasing value of funds in current and saving accounts by 28,4% y/y was the force driving the growth. These funds accounted for 62% of all retail segment client deposits and increased by 10 pp. than the year before. Good results of the sale of investment products is worth stressing. In Q2 2017 the sales amounted to 8.2 bn PLN and increased, relative to similar period of the previous year, by 21%. This is a direct result of clients' search for products generating higher rate of return and of good performance of mutual funds including Millennium TFI.

In the first two quarters of 2017, the sale of cash loans reached 1,13 bln PLN including 572 million PLN sold in Q2 only (2,5% of quarterly growth). The value of new mortgage loans granted in the 1H 2017 amounted to 1,06 bln PLN, growing dynamically specifically in Q2 (the sales amounted to 628 million PLN). This is the result, mainly, of improving effectiveness of Bank's own sales channels and market increase. At the end of Q2 2017 loans to individuals, in total, reached the level of 33.4 bn PLN gross.

Internet and mobile banking for individual clients

The 1H 2017 recorded continued development of electronic banking and brought about introduction of a series of innovations and improvements to make clients' lives easier. Within the process of developing e-administration supporting services, at the beginning of the year Bank Millennium was one of the first to provide access to establishment of Trusted Profile by the internet service Millenet. The Trusted Profile facilitates access to public administration services online 24 hours a day. Since client's identity is confirmed by a bank, visiting administration office is no longer necessary. The Trusted Profile performing a function of a free electronic signature allows clients to handle official business in internet services of public administration such as ePUAP-ie, PUE ZUS, CEIDG etc.

In 1H 2017, mobile application provided access to consolidation loan covering not only other Bank credit products but also products of Bank Millennium, facilitating new borrowing. Developing credit processes in both the mobile application and in Millenet internet service translated into 37% share of electronic channels in the total number of cash loans sold in 1st half of the year.

In both the mobile application and Millenet internet system, history of personal account and payment card transactions has been made available in a new format, offering an option to add attachments – pictures of bills, descriptions or tags to simplify search and identification of desired transactions.

Since January of this year, passengers of city transport using the Bank's mobile application can conveniently buy and validate tickets, show validated tickets to controllers in a phone. Drivers can buy parking tickets. This way they will pay for actual parking time without the need to pay in advance in a parking meter. The service is provided in cooperation with moBILET company.

III.3. Corporate Banking

Bank Millennium Corporate Banking provides professional and comprehensive services to clients generating annual sales revenues above 5 million PLN and to public sector units and institutions. The Bank has been effectively strengthening its corporate banking market position primarily by its long-term and stable cooperation with corporate clients funded on mutual trust, commitment and understanding. Corporate Banking Clients are served by professional team of relationship managers and product experts and via advanced electronic communication channels.

In first mid-2017, situation of economy and of Polish entrepreneurs was quite good. According to monthly data, enterprises increased their investment activity. Thus, effective use of funds from the new EU financial perspective and high business effectiveness will support continuous improvement of condition of large and medium size companies. In Q2 2017, further increase of demand for funding was noticed.

Value of gross loans to companies granted by Bank Millennium increased by 1.1 bn PLN or by 7.8% y/y. This positive trend has been driven, mainly, by further development of cooperation between existing client base and the market growing due to improvement of macro-economic indicators. On 30 June 2017, the portfolio of corporate credit products including leasing and factoring reached, in total, the value of 15.4 bn PLN. The leasing portfolio increased by 7.9% y/y to reach the level of 5.5 bn PLN. Value of leased assets in 1H amounted to 1.45 bn PLN which means increase by 12.3% y/y. Factoring turnover remained in positive trend and in Q2 2017 exceeded the record level of 4 bln PLN, allowing the portfolio to grow by 16% y/y.

In response to needs of companies connected with increasing trade with China, in June 2017 the Bank provided its corporate clients with comprehensive package of settlement services in CNY (yuan renminbi) – payment account, currency exchange, foreign transfers and trade finance solutions.

Continuing implementation of the Bank's long-term strategy of supporting Polish entrepreneurs and creating financing opportunities also for clients having potential difficulties with access to credit, Bank Millennium signed a consecutive agreement with Bank Gospodarstwa Krajowego. This way, the Bank will offer guarantees to entrepreneurs to secure investment loans designated to finance, inter alia, innovative projects. Guarantees will be granted under the Operational Programme „Smart Development".

The Bank jointed the debate on innovation development in Poland. Noticing differences in innovation potentials represented by individual voivodships, the Bank is conducting research of Polish economy in regional terms. The „Millennium Index – Regional Innovation Potential 2017" report published in May indicates innovation potentials of voivodships following the growth of innovation of the Polish economy. The expanded edition of the report containing, inter alia, factors driving achievements of individual sectors of economy will be published this year in the fall.

Electronic banking for companies

In 1H 2017, Bank Millennium continued its work on upgrading Millenet – electronic banking system for entrepreneurs, introducing a series of functionalities to help companies to streamline finance management. Among others the Bank had lauched the option of automatic generation of JPK_WB (Uniform Control Pack) reports in Millenet for companies, in a format required by the Ministry of Finance. This new service will make life much easier to entrepreneurs obliged to deliver files in this particular format to tax audit bodies. Bank also introduced function of immediate transfers to ZUS, tax and customs offices.

Also payment card management modul has been modernised. Managing payment set up for payments outside of the European Union as well as function of management of contactless payment setup including transaction limits were introduced. The Bank also expanded functionality of Electronic Cash Withdrawal (ECW) and thus ECW can be ordered not only in PLN but also in several selected foreign currencies. Besides the duty to provide receiver's address data was waived.

Consistent improvements to the internet service Millenet for companies have generated increase in the number of system users and frequency of use of the system functions. For instance, in Q2 2017, the number of foreign transfers in the Millenet system increased by 23% relative to Q2 of 2016.

IV. RISK MANAGEMENT IN BANK MILLENNIUM GROUP

Bank Millennium Group attaches particular importance to risk management, which is an essential part of the Group's development strategy. In order that effective management and consistent policy for risk are ensured, the Group implemented a comprehensive risk management model, which integrates all types of risk, constituting main areas of threat to the Group's activity, i.e. credit, market, liquidity and operational risk.

During the 1st half of 2017 Bank Millennium Group implemented a number of initiatives with an aim to improve risk management function; these initiatives have been presented in greater detail in the Condensed Interim Financial Statements of Bank Millennium S.A. Capital Group for the six months ended 30 June 2017.

IV.1. Capital management

Capital management in the Group consists of the following sub-processes:
- capital adequacy management,
- capital allocation.

In capital adequacy area, the main goal of the Group is to unconditional observe the requirements defined in external regulations (ensuring regulatory capital adequacy).

Simultaneously, in the scope of the Group's capital adequacy management, were also defined measurable long-term targets, which are at the same time capital limits. They are: total capital ratio, common equity Tier 1 capital ratio, economic capital buffer and appropriate ratios calculated in stressed conditions. The definition of the capital targets/limits take into consideration the recommendations of Polish Financial Supervisory Authority (KNF), European Central Bank and Bank de Portugal.

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

Parallel to capital adequacy management process, there is capital allocation process in place. It covers risk measurement (internal/economic capital), setting risk limits, calculation of risk-adjusted performance measures with consideration of cost of capital and capital reallocation.

In 1st half of 2017, all capital targets were met. It relates to realised ratios, taking into account additional individual capital buffer imposed by KNF connected with risk of FX mortgage loans granted to households, other systematically important institution buffer, as well as capital conservation buffer relating to all banks. The Group meets capital targets in stressed conditions as well. The Group's capital adequacy is assessed as satisfactory and assuring a smooth and steady development of banking activity.

In a scope of capital management process, there is also a process of capital planning. 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.

Own funds requirements

According to Capital Requirements Regulation (CRR), the Group is committed under this law to meet a minimum own funds requirements. At the same time, there are other regulations in force (including Banking Act) and therefore in the calculation of own funds requirements there are also specific solutions concerning CRR interpretations for Polish Banks, as pointed out by Polish Financial Supervisory Authority (KNF).

The Group assumes to maintain the own funds requirements higher than the minimum set by the law. Based on that assumption and guidelines and recommendations of Supervisory Authorities, the Group established its capital targets/limits, described in the above point.

The Group is realizing a project of a gradual implementation of internal-ratings based method of calculation of own funds requirements to credit risk (IRB) and obtaining a relevant decisions of Supervisory Authorities on that matter.

The Group received at the end of 2012 authorization from Supervisory Authorities for the use of the advanced IRB method regarding two loan portfolios: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE). That decision regarding IRB contained a constraint (so-called Regulatory floor), whereby minimum own funds requirements for portfolios covered by the decision must be maintained at no less than 80% of the respective capital requirements calculated using the Standardized method. In the end of 2014, the Supervisory Authorities eased the constraint (Regulatory floor), what means that own funds requirements for portfolios covered by the IRB decision (RRE and QRRE) must be maintained at no less than 70% of the respective capital requirements calculated using the Standardized method.

The Group has been continuing works on improving further rating systems for already approved portfolios and on receiving the IRB approval for the remaining loan portfolios under roll-out plan.

Capital buffers

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

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

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

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

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

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

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

Capital requirements and ratios of the Group and Bank Millennium as at 30th June 2017 and year before are presented in the below table:

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

Bank Millennium Group - capital adequacy	30.06.2017	30.06.2016
(PLN million)	IRB with regulatory floor[1)]	IRB with regulatory floor[1)]
Risk-weighted assets (RWA) for Group	36 978.8	37 244.8
Risk-weighted assets (RWA) for Bank	36 382.9	36 752.8
Own funds requirements for Group	2 958.3	2 979.6
Own funds requirements for Bank	2 910.6	2 940.2
Own Funds for Group	6 674.4	6 426.4
Own Funds for Bank	6 484.9	6 297.0
Total Capital Ratio (TCR) for Group	18.05%	17.25%
Total Capital Ratio (TCR) for Bank	17.82%	17.13%
Common Equity Tier 1 (CET1) ratio for Group[2)]	18.01%	16.92%
Common Equity Tier 1 (CET1) ratio for Bank[2)]	17.78%	16.80%

1) Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor" set in the 2nd IRB decision in 2014
2) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio

Internal capital

According to the Banking Act, internal capital (aggregate measure of risk in activity) must be fully covered (secured) by financial resources provided by owners (own funds). That requirement was embedded in the Group capital targets – economic capital buffer and economic capital buffer in stressed conditions. These targets were established by the Group at a levels significant higher than the regulatory minimum.

The Group defined an internal (economic) capital estimation process, that is described as an estimated amount needed to cover all material risks identified in the Group activity and changes in economic environment, taking into account the anticipated level of risk in the future. Internal capital accounts for the effect of diversification / correlation between the types of risk, namely the assumption that the potential loss due to the risk incurred is less than the sum of estimated losses on various types of risk (losses materialisation of risks at the same time is imperfectly correlated).

From the technical standpoint, economic capital is an amount of capital, indispensable to cover all future unexpected economic losses, that might occur over a defined time in the future and estimated with the defined probability, without jeopardizing interest/safety of depositors /creditors of the Group. In estimation of internal/economic capital, stress tests results are also used.

In 1st half 2017 both economic capital buffers were met with a surplus. Economic capital adequacy – accounting for a coverage of internal capital by own funds – is assessed as satisfactorily fulfilled.

Internal capital is not used only as a measure for maintaining capital adequacy. As mentioned before, there is in the Group a process of capital allocation in place, based on internal capital. The latter enables a calculation of risk-adjusted performance measures, defining a risk limits, allocation and reallocation of internal capital to portfolios and business lines, and in future – usage of internal capital for another purposes as well.

Dividend policy

The Group's goal is to have a strong capital base, providing a solid support for business development, a buffer for a potential deterioration of macroeconomic situation, and amortisation of a potential adverse changes in regulatory environment. In the normal scenario and assuming no external shocks, the Group does not plan a further own funds increase by new issue of shares. Own funds will be increased due to internal generation of capital (retained earnings).

Thus, the Bank has approved a dividend policy of distributing between 35% to 50% of net profit subject to regulatory recommendations or guidelines. Having above in mind, as for 2016 year, the Bank retained 100% of net profit in Own Funds.

IV.2. Credit risk

Credit risk means the uncertainty about performance of a customer in relation to agreements signed with the Group regarding his financing, i.e. repayment of principal and interest in a specified period, which may cause financial loss of the Group.

Credit risk is the most important type of risk borne by Bank Millennium Group. The key quality ratio of credit portfolio – share of impaired loans in total loans (calculated according to International Accounting Standards) – is stable. In the last 12 months this ratio decreased slightly from the level of 4.57% a year ago to the level of 4.54% at the end of June 2017. This means that the impaired loans ratio in Bank Millennium Group still remains well below the ratio for the entire market, which at the end of May 2017 amounted to 6.9%.

During the first half-year of 2017 the value of impaired loans increased by PLN 33.5 million, which combined with an increase of the entire portfolio (by PLN 384.0 million) during the same period, resulted in a small increase of impaired loans ratio to the above mentioned level of 4.54% as compared to the end of December 2016 (4.50%).

The situation of Bank Millennium Group regarding the quality of the loan portfolio is illustrated below:

Key loan quality ratios	30.06.2017	31.12.2016	30.06.2016
Total impaired loans (PLN million)	2 213.0	2 179.5	2 210.4
Loans over 90 days past due (PLN million)	1 387.0	1 273.3	1 264.3
Impaired/total loans	4.54%	4.50%	4.57%
Loans >90 DPD/total loans	2.84%	2.63%	2.61%
Total provisions*/impaired loans	65.7%	62.6%	64.2%
Total provisions*/ Loans >90 DPD	104.8%	107.2%	112.3%

(*) including IBNR provisions

The mortgage portfolio is characterized by relatively stable and good quality, although the impaired loans ratio increased from the level of 2.24% a year ago to the level of 2.60% today, mainly due to natural ageing of the portfolio and the specific situation around the mortgage loans in CHF. Impaired ratio in CHF mortgage portfolio reached 3.2% level at the end of June 2017 (at the end of June 2016 the ratio amounted to 2.6%), partially due to shrinking portfolio, and is lower than average ratio for the banking sector in Poland.

During the same period we have observed improvement of the quality of corporates loans portfolio: the impaired loans ratio decreased from the level of 6.2% on 30 of June 2016 to 4.3% on 30 of June 2017. Significant improvements have taken place in part of credit and factoring portfolio (decrease from the level of 7.2% on 30.06.2016 to 4.3% on 30.06.2017).

The ratio of loans overdue above 90 days (DPD - days past due) remained in the last half-year at stable level: 2.6-2.8%. It should be noted that ratios related to loans with 90 DPD for Bank Millennium Group remain at much lower level than respective impaired loans ratios for particular segments. This proves Bank's prudential approach to classification of impaired loans (the Bank uses additional impairment triggers for loans, not only the fact that the loan is overdue). The ratios of loans overdue above 90 DPD for particular portfolios (mortgage, other retail with microbusiness and corporates) as at 30 June 2017 amounted to 1.25%, 8.8% and 2.9% respectively.

In the first half-year of 2017 the ratio of created provisions to the average level of net loans (cost of risk) amounted to 52 basis points and was higher than in the first half-year of 2016 (45 bp), but remains within expected range for entire 2017 year. The coverage ratio of the impaired loans portfolio with provisions in June 2017 was 65.7% and was higher than in December 2016 (62.6%) and June 2016 (64.2%).

The coverage ratio of overdue loans with above 90 days past-due with provisions decreased at the end of June 2017 by 7.5 p.p. compared to the end of June 2016 but despite this, remained at relatively high level of 104.8%.

The share of individual sectors in the companies portfolio of Bank Millennium Group as at 30 June 2017 and 2016 has been shown in the table below:

Group	Sector	30.06.2017		30.06.2016	
		Gross balance exposure (PLN million)	% share of total portfolio	Gross balance exposure (PLN million)	% share of total portfolio
A	Agriculture, forestry and fishing	92.9	0.6%	91.8	0.6%
B	Mining and quarrying	83.2	0.5%	171.2	1.2%
C	Manufacturing	4 491.4	29.2%	3 892.2	27.3%
D	Electricity, gas, water	92.6	0.6%	120.3	0.8%
E	Water supply, sewage and waste	90.6	0.6%	107.5	0.8%
F	Construction*	982.4	6.4%	1 036.2	7.3%
G	Wholesale and retail trade; repair	3 964.5	25.8%	3 703.9	26.0%
H	Transportation and storage	2 271.1	14.8%	2 280.5	16.0%
I	Accommodation and food service activities	154.3	1.0%	157.4	1.1%
J	Information and communication	592.2	3.9%	472.1	3.3%
K	Financial and insurance activities	182.1	1.2%	70.3	0.5%
L	Real estate activities*	746.1	4.8%	660.8	4.6%
M	Professional, scientific and technical services	395.3	2.6%	303.6	2.1%
O	Public administration and defence	278.8	1.8%	344.9	2.4%
P	Education	40.1	0.3%	47.4	0.3%
Q	Health and social work activities	165.4	1.1%	160.2	1.1%
R	Culture, recreation and entertainment	25.4	0.2%	22.9	0.2%
N+S	Other Services	721.4	4.7%	617.6	4.3%
	Total	15 370.0	100.0%	14 260.7	100.0%

(*) Sectors "Construction" and "Real estate activities" contain, among others, financing of developers' projects

The loan portfolio of Bank Millennium Group is well diversified, both from the point of view of individual exposure size as well as overall exposure to particular industry and services sectors. The concentration of credit risk in 20 largest customers (meaning groups of economically and financially related companies) remains still at the low level of 6.0% of total loan portfolio of the Group (reduction compared to the end of June 2016 – by 0.9 p.p.).

The sector structure of corporate portfolio has not changed significantly during the year, although a notable decrease can be observed in Construction sector and Real estate activities (from 11.9% to 11.2%), which were characterized by increased risks in the recent period and decrease of share of Transportation and storage from 16.0% to 14.8%. On the other hand, the share of Manufacturing sector increased. As this sector is well diversified (by number of sub-sectors, companies and products), this increase does not result in the increase of concentration risk in corporate portfolio.

IV.3. Other risks

Description of other risk, including market, liquidity and operational, is included in the Consolidated Condensed Interim Financial statement, chapter 5 "Changes in risk management process".

V. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

V.1. Annual General Meeting decisions

On 31st of March 2017 Annual General Meeting of Bank Millennium was held. 198 Shareholders took part in the meeting, representing 77.99% of Bank's share capital, including BCP (50.10% of share capital), Nationale-Nederlanden OFE (9.48% of share capital) and Aviva OFE (5.44% of share capital). Following to the Supervisory Authority (KNF) recommendation and the Management Board proposal, the Annual General Meeting unanimously decided to retain entire 2016 profit in the Bank's reserve capital.

Before AGM one member of supervisory Board, Mr David.H.Klingensmith, placed resignation from its function and AGM decided to decrease number of Supervisory Board from 12 to 11 members.

V.2. Responsible business and activities for the society

In 2017, the report „Corporate Social Responsibility" was for the first time published together with financial report of Bank Millennium for 2016. The Report is available in electronic version, in Polish and in English, at http://raportroczny.bankmillennium.pl/2016/pl/. The scope of the Corporate Social Responsibility Report and its structure meet criteria stipulated under the Global Reporting Initiative Sustainability Guidelines (GRI G4). The Report defines key aspects of the Bank's impact upon sustainable economic, social and environmental development relative to key stakeholder groups: clients, employees, shareholders, business partners, the society and natural environment.

Quality, transparency and speed of CSR activity reporting were among the major arguments supporting recognition of Bank Millennium as the **Best Bank in the Central and Eastern Europe, in category Socially Responsible Business** by the international financial industry magazine, Euromoney. Only one award was granted in this category. Euromoney, when presenting award winners in London underscored that the award recognises diversity of programmes implemented and, primarily, innovative approach towards clients, thus rendering the use of Bank Millennium services even simpler and transparency of the manner in which CSR activities were presented. Decisions to grant awards are made by a commission composed of experienced editors, journalists and research team after receipt of detailed information from market participants and results of year long, broad banking and capital market surveys in the regions. Awards are given in more than ten categories and banks representing nearly one hundred countries are evaluated.

On 6 June 2017, Bank Millennium signed a Declaration on achievement of Sustainable Development Goals adopted by the United Nations. It was the Ministry of Economic Development of the Republic of Poland that initiated creation of coalition of business, state administration and NGOs for sustainable development in Poland. Bank Millennium has for years been initiating actions towards implementation of the Sustainable Development Goals countrywide and at local levels. „Financial ABC" a nationwide educational programme for kindergartens, developed and implemented by the Bank Millennium Foundation can serve as an example. Within this proprietary programme kindergarten children were explained basic definitions from the area of finance. In the first round of the programme, more than 240 workshops in 70 kindergartens were conducted throughout Poland. The „Financial ABC" programme is carried out by the Bank employees in collaboration with a non-governmental organisation. Voluntary workers from Bank Millennium are also involved in financial education of lower secondary school students. Since 2014, nearly 40 Bank employees conducted more than 200 classes in schools above primary level in 9 voivodships.

In the first half of 2017, Bank Millennium received a special mention in the Ranking of Responsible Companies 2017 – a list of the biggest Polish companies assessed for quality of corporate social responsibility management.

At the same time, Bank Millennium was awarded for the third time with CSR Silver Leaf – an award given to companies conducting their business in socially responsible manner. The list was prepared by „Polityka" weekly and advisory company Deloitte.

High standards in the area of corporate social responsibility and investor relations are confirmed by continuous presence of Bank Millennium in the composition of RESPECT Index of the Warsaw Stock Exchange – an index grouping companies standing out in the area of social responsibility.

VI. REPRESENTATIONS OF THE MANAGEMENT BOARD

VI.1. Presentation of asset and financial position of the Capital Group of Bank Millennium in the financial report

According to the best knowledge, the Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A., in 6 month period ending 30th June 2017 and the comparable data as well and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the period of 6 month ending 30th June 2017 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This Semi-annual Management Board Report on the Activity of Bank Millennium Group contains a true picture of development, success, and condition of the Capital Group (including description of key risks and threats).

VI.2. Selection of an entity authorized to financial reports auditing

PricewaterhouseCoopers Sp z.o.o. - the entity authorized to audit financial reports, reviewing this Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A. for the 6 month period ending 30th June 2017 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2017 - was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

SIGNATURES:

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