

# **Management Board Report of the Bank Millennium Capital Group**

**for the six months ended 30 June 2018**



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The following data was presented in the financial Report of Bank Millennium Capital Group for 1st half 2018:

1. Balance of the Bank's shares held by the Bank's Supervisory and Management Board Members (chapter 7.4)
2. Description of important proceedings pending before a court of law, an authority with competence for arbitration procedure or a public administration body, regarding the Bank's liabilities and receivables (chapter 9)
3. Description of related parties transactions (chapter 7.1-2)

## I. BANK MILLENNIUM AND MARKET CONDITIONS

### I.1. General description of Bank Millennium Group

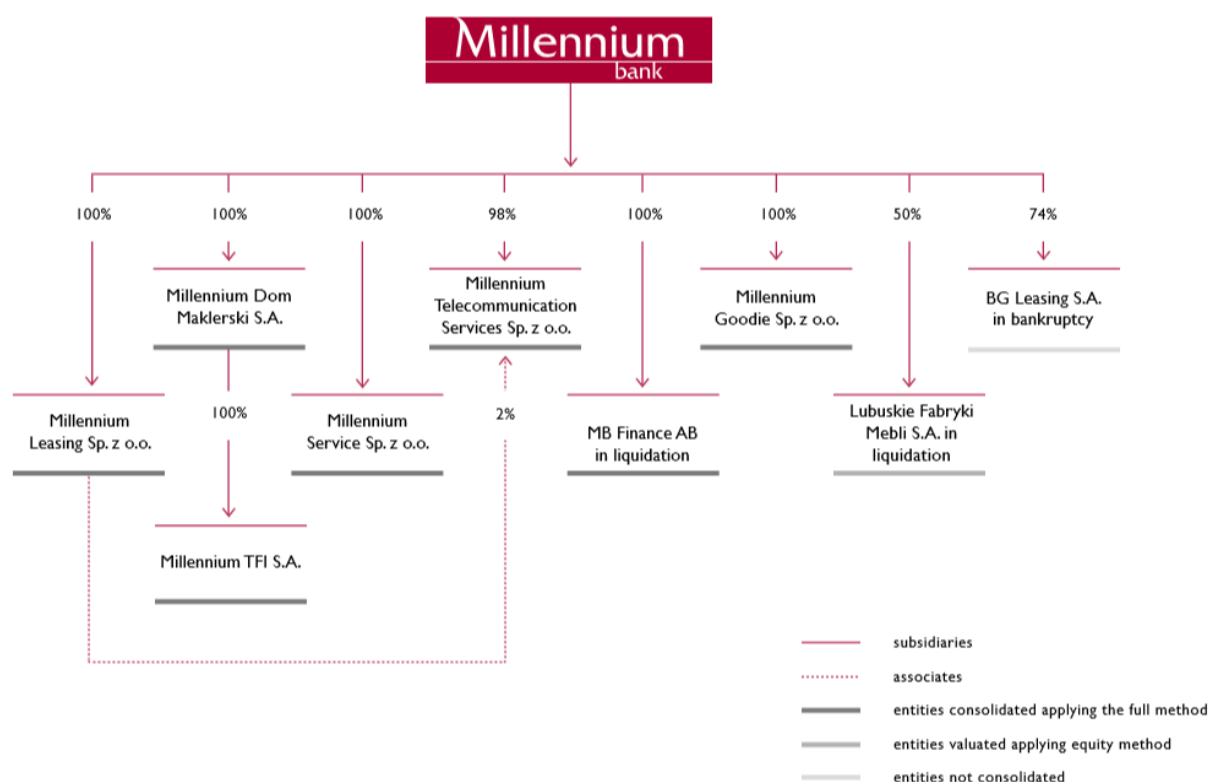
Bank Millennium was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of branches, a network of personal advisors as well as electronic and mobile banking.

Ever since the start of its activity it has been a trendsetter in Polish banking. For example it was the first Bank to be listed on the Warsaw Stock Exchange and issued the first payment card on the Polish market. The bank satisfies most stringent standards of corporate governance; it implements social programmes to support culture development as well as education of the youth.

Bank Millennium is a market leader in the area of innovations understood to mean state-of-the-art technology and process improvements. Innovation in Bank Millennium is part of its business strategy.

Bank Millennium as the parent entity, together with its subsidiaries, forms Bank Millennium Group - one of the most innovative and comprehensively developing financial groups in Poland - employing the total of over 5800 persons.

#### General organization of the Group:



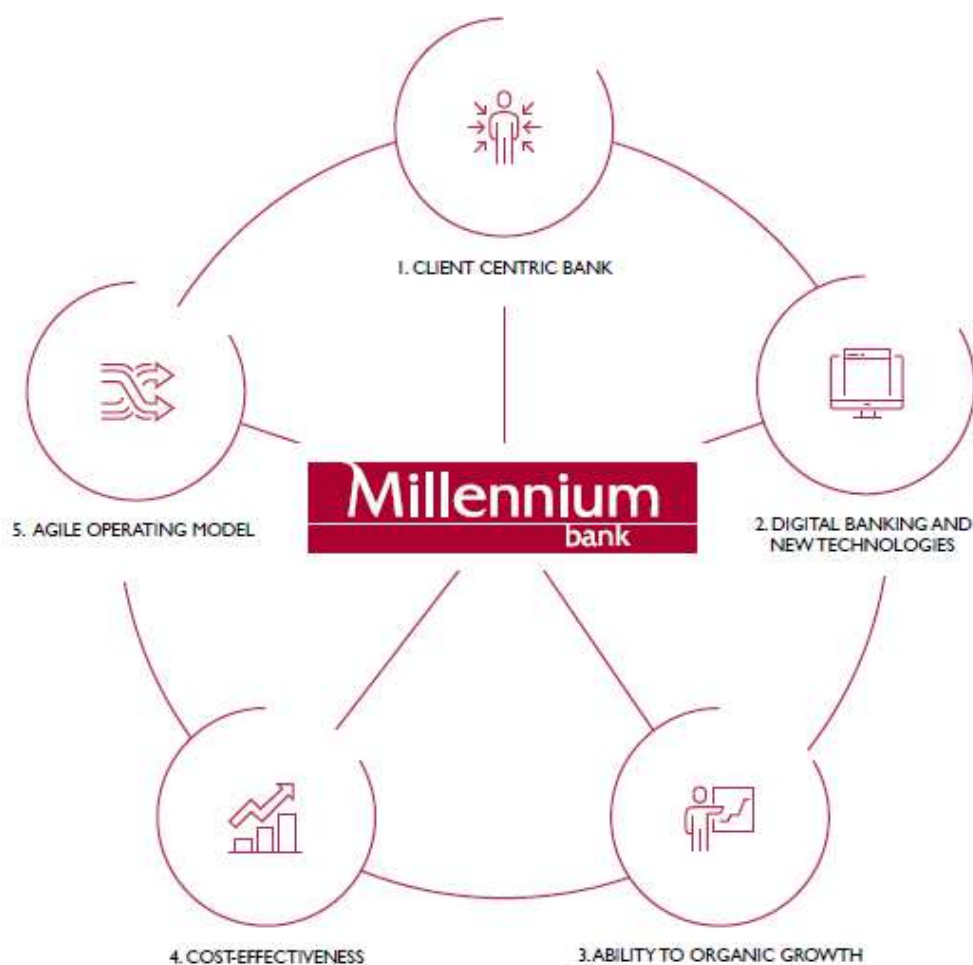
Most important companies for Group's business are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage business) and Millennium TFI (mutual funds). Since 2016 Millennium Goodie Spółka z o.o. together with the Bank has been operating a smartshopping platform based on advanced technology. The offering of the above-mentioned companies complements the services and products offered by the Bank.

The ultimate parent entity of Bank Millennium S.A. is Banco Comercial Portugues - a leading Portugues bank listed on the stock exchange in Lisbon.

In June 2018 the Bank submitted to Polish Financial Supervision Authority a request for permission to create a mortgage bank under the name of "Millennium Bank Hipoteczny" with its registered office in Warsaw, the sole shareholder of which will be Bank Millennium. The new Bank is to assure medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

## Business model

Bank Millennium operates on the basis of a business model, which rests on five pillars:



### **1. CLIENT-CENTRICITY**

We are the most client-centric bank, which keeps developing. We want to be the most personalised bank on a mass scale.

### **2. DIGITALITY AND NEW TECHNOLOGIES**

We are a digital banking leader, offering a combination of broad outreach and high quality of services.

### **3. ORGANIC GROWTH CAPABILITY**

We are growing fastest among banks as regards acquisition of customer with a main relationship. Moreover we introduced new growth engines in the 2020 strategy.

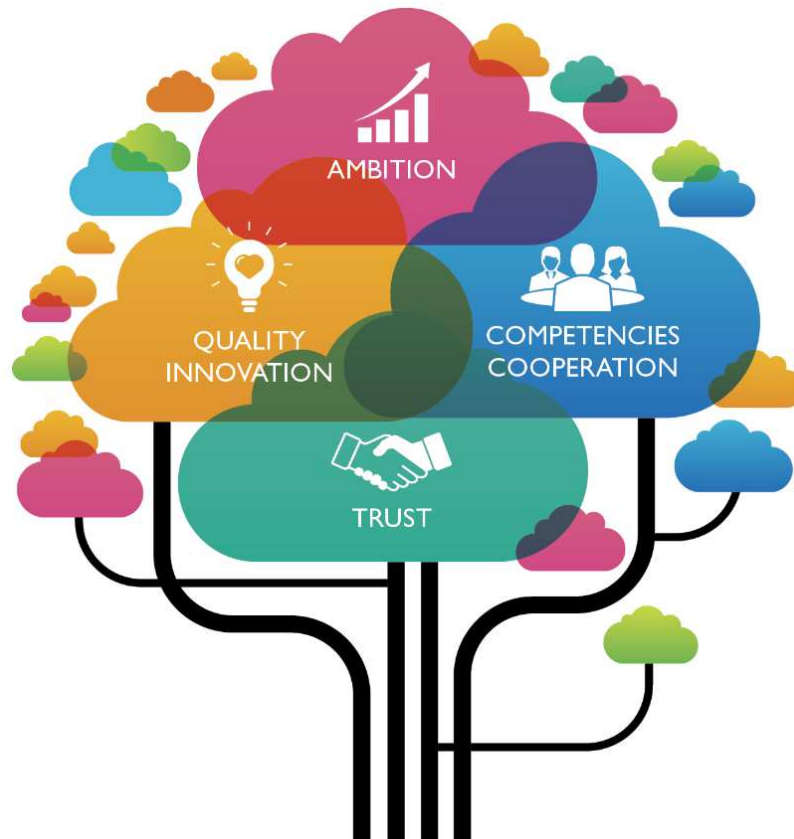
### **4. COST-EFFECTIVENESS**

We have a cutting-edge cost-effective model built on state-of-the-art technology and flexible in changing to follow growth of the Bank's scale.

## 5. FLEXIBILITY IN RESPONDING TO CHANGES

We have a flexible operating model; an organisational culture, which allows short reaction times as well as digital and data analysis skills.

The business model is founded on **key values**: building relationships based on trust, a passion for quality and innovation, people development and promoting cooperation as well as the ambition to always aim higher.



## I.2. Main financial and business achievements of the Group

Consolidated net profit of Bank Millennium Group reached in the 1<sup>st</sup> half 2018 the amount of PLN 348 million, which is 11% higher than a profit achieved in 1<sup>st</sup> half 2017. Both periods have been distorted by entire year Bank Guarantee Fund resolution fee. When adjusting result for this distortion, net profit of 1H 2018 would be PLN 365 million.

Consistent good business performance was the main driver of profitability improvement: operating income grew by 5.4% y/y outpacing costs growth of 4% y/y. Growing profitability allowed for keeping ROE at 9.5% and Cost-to-Income at 46.4% in 1<sup>st</sup> half 2018 (both ratios adjusted for equal distribution of BGF resolution fee).

Bank Millennium keeps strong asset quality (including loan portfolio), liquidity and capital ratios.

Main financial and business highlights of 1H 2018 are as follows:

### Profitability increase

- Net profit of 1H 2018 reached 348 million PLN, which means 11% yearly growth
- ROE at 9.5% and cost/income at 46.4%

### Operating income exceeds costs growth

- Operating income grew by 5.4% y/y outpacing costs growth of 4% y/y
- Net interest income grew by 6.2% y/y and Net Commission Income by 2.4% y/y

### Low cost of risk and improvement of loans quality

- Cost of Risk at 47 b.p. per annum
- Impaired loans (stage 3) ratio at 4.7% level

### Strong capital and liquidity ratios

- Group's Total Capital Ratio (TCR) at 23.4% and CET1 ratio (=T1) at 21.3%, much above minimum regulatory thresholds
- Loans to Deposits ratio at low level of 84%

### Retail business

- Active customers net growth in the last 12 months at 157 ths.
- Record sale of cash loans at 822 million PLN in 2Q (+41% y/y in 1H'18)
- New mortgage loans sale at high 863 million PLN in 2Q (+53% y/y in 1H'18)
- Customers' funds grew by 8% yearly to reach 52.7 bn PLN
- +36% yearly growth of active mobile users

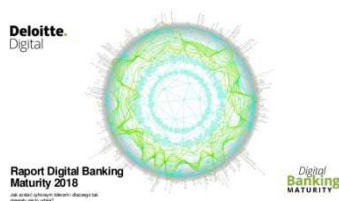
### Companies business

- Total loans to companies yearly growth accelerated to 12% y/y
- New quarterly record of factoring turnover of 4.8 billion PLN (+18% y/y in 1H'18)
- Leasing sale has grown to 856 million PLN in 2Q (+15% y/y in 1H'18)
- Volume of FX transactions grew by 26% and volume of guaranties and LC granted grew by 31% yearly

### Digital innovations

- Over 400 ths goodie apps downloads, of which almost 300 ths in the first half of 2018; continuous development and new functionalities of Bank Millennium smart-shopping platform - goodie
- Many external awards confirming leadership position in the area of digital innovations

### I.3. Most important awards and other achievements in the 1<sup>st</sup> half of 2018



#### Bank Millennium is among the most digitally advanced banks in EMEA according to Deloitte Digital Banking Maturity 2018 report

The EMEA Digital Banking Maturity 2018 report looks at digital maturity of banking institutions. Bank Millennium came up among the digital leaders on the list, as an innovative bank, digitally mature, well prepared for the challenges of open banking, offering many non-banking services already today.



#### Bank Millennium is the most innovative bank of 2017

Bank Millennium was again acclaimed by representatives of the world of science, finances, insurance, business and the media as the most innovative bank in the World of Banking and Insurance Leaders Contest.



#### Bank Millennium as one of the winners of the international The Innovators 2018 contest

Bank Millennium was one of the winners of the sixth edition of The Innovators annual contest organised by Global Finance magazine. The contest awards financial institutions from all over the world, which set new trends and design the most innovative solutions. Bank Millennium was recognised for the "Travel Assistance" widget - a button for contacting the insurer quickly, available with travel insurance in the Bank's mobile app.



#### Bank Millennium won the prestigious Efma-Accenture Innovation in Insurance Awards 2018 international contest

Bank Millennium won in the international Efma-Accenture Innovation in Insurance Awards 2018 contest in the Claims Management category thanks to the "Travel Assistance" solution in travel insurance available in the Bank's mobile app. The Bank was awarded again for the same functionality (it also won in The Innovators 2018 contest). Thanks to the "Travel Assistance" solution the person insured can immediately report an insured event. Exercising the "Travel Assistance" option does not require logging on to the mobile app, which allows help to be called very quickly.



#### "Golden Banker" for Bank Millennium

In this year's edition of the Golden Banker plebiscite Bank Millennium was awarded four times. For the second consecutive year Konto 360° account was seen to be the best on the market and won the "Personal account" category. For the third time the bank also won the title of safest bank in Poland. Also Impresja credit card and the Financial ABCs educational programme were among the top three.



### Bank Millennium hailed 2017 Transparent Company of the Year

Bank Millennium was among the winners of the Transparent Company of the Year 2017 ranking. The bank was among the top 7 most transparent companies from the mWIG 40 index. The ranking recognises companies, which communicate with the market in a transparent way.

Prepared by the Institute of Accounting and Taxes together with Gazeta Giełdy Parkiet, the ranking is aimed at public companies from WIG 20, 40 and 80. Results were based on a questionnaire survey, which spanned 3 most important areas of communication with the market: financial and other reporting, investor relations and corporate governance. The idea behind the competition is to recognise those companies, which communicate with the market most efficiently, run their business in a transparent way, observe deadlines e.g. for publishing reports and develop in line with their published strategies.



### The Chairman of the Management Board of Bank Millennium came second on the Banker of the Year 2018 ranking list by "Forbes" magazine

The Chairman of Bank Millennium came second in the general ranking and in the opinion of the jury: - This bank is much smaller than contenders from the top of the list however as regards retail banking development skills, it holds its own - say the editors of "Forbes".

The Bankers' Ranking analyses following ratios: efficiency, security and growth as well as rates of return on investment and rating grades. The ratio analysis is supplemented by scores from the jury and the editors.



### Bank Millennium without barriers

Bank Millennium won in the Website without Barriers contest, which promotes access to digital information for persons who are disabled, elderly, unwealthy and threatened with digital exclusion. The "Website without Barriers" competition organised by Fundacja Widzialni and Szerokie Porozumienie na Rzecz Umiejętności Cyfrowych is the only such initiative in Poland. It aims to promote deliberate development of websites in order to counteract discrimination in access to information.



### Bank Millennium was honoured with the title of Reliable Employer of the year 2017

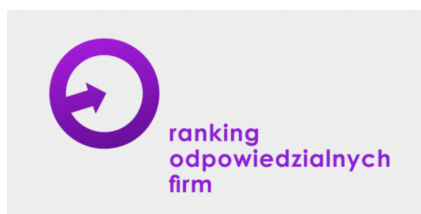
The Reliable Employer of the Year programme in a nationwide HR research project, which aims to honour the best employers, which are reliable in terms of employment policy, employment solutions and human resources management. The jury also look external and internal opinions about the institution and its organisational culture.



### The fourth CSR Silver Leaf for Bank Millennium

For the fourth time already Bank Millennium was awarded the CSR Silver Leaf. The award is given to companies, which in the day-to-day activity implement highest standards of social responsibility.





### Bank Millennium among top 10 most responsible companies in Poland

Bank Millennium was 7th in the overall standings and No. 4 on the sector Ranking List of Responsible Companies 2018. This is a list of Poland's biggest companies evaluated from the point of view of quality of corporate social responsibility management. In this year's ranking Bank Millennium scored most points in the "Responsible Business Management" category and in "Sustainable Development Policy". This is confirmation that CSR activities, which are part and parcel of the company's business strategy, are being consistently carried out. CSR projects are mainly targeted at the bank's customers and employees as well as local communities.

#### I.4. Information on shares and ratings

At the beginning of 2018 share prices could be observed to continue to grow on the Warsaw Stock Exchange. However, in the following months of the first half-year situation deteriorated and red colour dominated the WSE listings. Main Index WIG lost since the beginning of the year 12.2% and banking index 14.9%. At the same time the price of Bank Millennium shares dropped by 10.3%.

In annual terms, price of the Bank shares increased by 7.7%, at a much higher rate than the growth level recorded by the entire banking sector. In the same period, main WIG Index dropped by 8.3% while WIG Banki decreased by 0.6%. Average level of trading in shares Bank Millennium shares increased by 38% y/y.

Market indicators	29.06.2018(*)	29.12.2017(*)	Change (%) In 1H 2018	30.06.2017	Change (%) annual
Volume of Bank's shares (in thous.)	1 213 117	1 213 117	0.00%	1 213 117	0.00%
Daily trading (PLN thous., ave. ytd)	7 851	7 829 (**)	0.3%	5 683	38.2%
Bank's share price (PLN)	8.02	8.94	-10.3%	7.45	7.7%
Market capitalisation (mln PLN)	9 729	10 845	-10.3%	9 038	7.7%
WIG - main index	55 954	63 746	-12.2%	61 018	-8.3%
WIG Banki	7 219	8 482	-14.9%	7 262	-0.6%
WIG30	2 465	2 825	-12.8%	2 664	-7.5%
WIG20	2 135	2 461	-13.2%	2 300	-7.1%

(\*) the last day of quotations in June and as at the end of 2017.

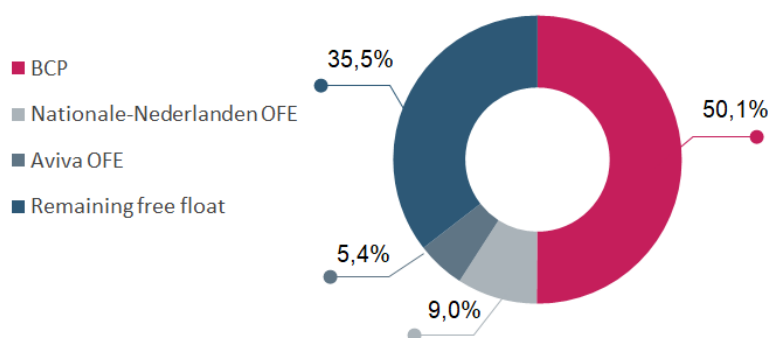
(\*\*) turnover in second half 2017

Bank Millennium was the first Polish bank listed on the Warsaw Stock Exchange. Currently, it is a member of the WIG Index, WIG Banks, WIG 30, mWIG 40, WIG Poland and Respect Index. In 2017, the Bank was also included in the FTSE4Good Emerging Index.

Bank Millennium tickers: ISIN PLBIG0000016, Bloomberg MIL PW, Reuters MILP.WA.

The Bank's strategic shareholder is Banco Comercial Portugues, the largest private bank in Portugal, which holds a 50.1% stake in Bank Millennium. The shareholders are also all Polish Open Pension Funds, including the two biggest ones: Nationale-Nederlanden OFE and Aviva OFE, which have more than 5% of the share capital.

### Shareholders structure as on 31.03.2018



### Bank Millennium ratings

In the area of two main ratings assigned to Bank Millennium, in IH 2018 there was one change regarding outlook: on 22 March 2018 Moody's increased the rating outlook from stable to positive.

Rating	FITCH	MOODY'S
	BBB- (stable outlook)	Baa3 (positive outlook)
<b>Long-term deposit rating /IDR</b>		
National long term IDR	A-(pol) (stable outlook)	-
Short term deposit rating	F-3	Prime-3
Individual rating (Viability/standalone BCA)	bbb-	ba2
Counterparty risk (CR)		Baa2/Prime-2
Support rating	4	

### I.5. Macroeconomic situation

The good economic sentiment in the Polish economy has been maintained at the beginning of 2018. Growth of Gross Domestic Product accelerated in 1Q 2018 to 5.2% y/y versus 4.9% y/y in 4Q 2017 and 4.6% in the whole 2017. The main engine of the economic growth remained private consumption, although its annual dynamics slowed down to 4.8% from 5.0% in the previous quarter. The favorable income situation of households, including transfers from the Family 500+ program, very low unemployment and subsequent improvement in consumer sentiment continued to underpin very solid consumer spending. There was also some acceleration in investments dynamics and their dynamics amounted to 8.1% y/y. A rebound in investments was supported mainly by a very good situation in construction sector which is related to infrastructural investments co-financed by EU funds. On the other hand, corporate sector, especially private companies, remained reluctant in investments' activity despite of high capacity utilization, good financial results and low costs of financing.

The continuation of very good economic situation on the domestic labor market is still conducive to high growth in individual consumption. Growth rate of wages in the enterprise sector accelerated slightly in 2Q 2018 in nominal and real terms, following gradually arising wage pressure in the economy. This is accompanied by still growing number of employees, despite low unemployment. The unemployment rate, according to LFS methodology, went down to 4.2%, which was the lowest reading in the history of available data.

CPI inflation accelerated in 2Q 2018 and amounted to 1.8% y/y compared to 1.5% y/y recorded in the previous quarter. In 2Q headline inflation returned to the range of inflation target, after the CPI had fallen below the lower limit of admissible deviations from the NBP's inflation target. The spike CPI inflation resulted mostly from

the low base effect, as well as growing energy prices in the global markets. However, the core inflation, that reflects the price pressure from the demand side, went down in 2Q. One of the core inflation measures, CPI with exclusion of food and energy prices, amounted as low as 0.5% y/y in May, which is the lowest value since February 2017. This confirms currently low inflationary pressure despite economic expansion, growing wages and low unemployment rate. The Monetary Policy Council maintains a loose monetary policy stance and the reference rate has been at a historically low level of 1.5% for over 3 years. In the Bank's opinion, official NBP interest rates will remain at current levels for a long time.

The macroeconomic data from April-June suggest that the positive business sentiment in the Polish economy was continued also in 2Q. However, leading indicators point out to the possible deceleration of the annual GDP growth rate, as an effect of the weakening of the economic growth in the euro area. Individual consumption will remain a very strong pillar of economic growth supported by the expected good situation on the labour market and favorable consumer sentiment. Also investments should support the GDP growth, although maintaining the current high activity in the construction sector in the coming quarters will be very difficult.

In April and May of this year, the annual growth rate of deposits in the banking system increased slightly and amounted to 5.8% y/y in May compared to 4.0% y/y in December 2017, both in corporate and households' sector, which might be related to their good financial situation. Growth rate of loans increased as well: to 5.3% y/y in May from 4.1% y/y in March, however mostly because of weaker zloty.

## 1.6. 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 2 August 2016 the President's Bill on support for FX mortgage borrowers was submitted to the Parliament. The proposed law is to apply to FX (all currencies) loan agreements signed from 1 July 2000 to 26 August 2011 (when the "Anti-spread Act" came into force). This Bill concerns the return of part of FX spreads applied by banks. On 2 August 2017 a new Presidential Bill appeared in Parliament regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. On 13 October 2017 the first reading of the Bill took place in the Sejm and it was sent to a Parliamentary Committee. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Restructuring Fund. As regards the Supporting Fund, the Bill aims to increase availability of money from the fund by means of: relaxing criteria, which must be satisfied by a borrower applying for support; increasing the maximum amount of support; extending the period, for which the support is granted; forgiving part of the support granted conditional on punctual repayment to the fund. The Restructuring Fund is to be used for currency conversion of FX mortgages to PLN. The Bill contains very general regulations and does not specify criteria of eligibility for such currency conversion and its rules. Quarterly payments to the Restructuring Fund made by lenders are not to exceed the equivalent of the FX mortgage portfolio and the rate of 0.5%. The maximum costs for the entire sector were estimated by KNF to be up to PLN 2.8 billion in the first year of operation of the Restructuring Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables for restructuring with consideration of stability of the financial system and effective use of money in the Restructuring Fund. 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.
- The materialization of risk factors related to the geopolitical situation, in particular to the escalation of protectionist measures in international trade, may have an impact on economic activity in Poland. Due to the links within global production chains, events in the external environment may have a negative impact on Polish exports and thus on the income situation of domestic enterprises and households. At the same time, as a result of the escalation of geopolitical tensions, the volatility in global financial markets could increase, which would affect the valuation of the bank's assets and liabilities denominated in foreign currencies.
- Record low unemployment rate and growing households' income should support demand for households' credit and quality of loans portfolio. The increase in labour costs may, on the other hand, cause deterioration of financial situation of some enterprises.

- Prolonged period of record low interest rates in Poland might result in slower growth of banks' deposits, especially from households' sector. Possible further reallocation of households' savings toward assets with potentially higher profitability (e.g. mutual funds, real estates).
- Low investments growth in the corporate sector, especially in private companies, might limit demand on investment loans, especially in the environment of good financial results and relatively high liquidity of Polish companies.

## II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

### II.1. Group profit and loss account

Group's Operating Income (PLN million)	1H 2018	1H 2017	Change y/y
Net Interest Income *	892.9	841.1	6.2%
Net Commission Income	336.6	328.6	2.4%
<b>Core Income **</b>	<b>1 229.5</b>	<b>1 169.7</b>	<b>5.1%</b>
Other Non-Interest Income *, ***	95.8	88.1	8.7%
<b>Total Operating Income ***</b>	<b>1 325.3</b>	<b>1 257.8</b>	<b>5.4%</b>

(\*) 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. 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 24.1 million in 1H 2018 and PLN 26.8 million in 1H 2017) 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.

(\*\*\*) Excludes fair value adjustment of credit portfolio (PLN 8.2 million in 1H18), which is moved to cost of risk

**Net Interest Income** (pro-forma) in 1H 2018 reached PLN 892.9 million and increased by 6.2% versus the corresponding period of the previous year. This increase was driven by growth of business volumes and improvement of Net Interest Margin. Total customers' loans grew by 6.2% yearly despite 10% drop of FX mortgage loans. Total deposits grew by 5% during the year, with continued change of mix towards current and saving accounts. Net Interest Margin (over average interest earning assets) in 1H 2018 reached 2.54% which was slightly better than 2.51% for 1H 2017.

**Net Commission Income** in 1H 2018 amounted to PLN 336.6 million, which means an increase by 2.4% year-on-year. Growth of payments, cash and other transactions on current accounts as well as sale of insurance products were the main drivers of the increase. On the other hand fees from sale of capital market related investment products decreased versus 1H 2017 year.

**Core Income**, defined as a combination of net interest and commission income, reached the amount of PLN 1,229.5 million in 1H 2018 which means an increase of 5.1% yearly.

**Other Non-interest Income**, which comprise FX Result, Results on Financial Operations (without interest margin on derivatives and fair value adjustment on credit portfolio) and net other operating income and costs, amounted to PLN 95.8 million in 1H 2018 and increased by 8.7% yearly.

**Total operating income (pro-forma)** of the Group reached PLN 1,325.3 million in 1H 2018 and increased by 5.4% year-on-year.

Group's Operating Costs (PLN million)	1H 2018	1H 2017	Change y/y
Personnel Costs	(316.2)	(295.0)	7.2%
Other Administrative Costs*	(316.0)	(312.7)	1.0%
- of which Banking Guarantee Fund (BFG) fees	(69.6)	(72.9)	-4.5%
<b>Total Operating Costs</b>	<b>(632.2)</b>	<b>(607.7)</b>	<b>4.0%</b>
<b>Cost/Income - reported</b>	<b>47.7%</b>	<b>48.3%</b>	<b>-0.6 p.p.</b>
<b>Cost/Income - recurrent **</b>	<b>46.4%</b>	<b>46.5%</b>	<b>-0.1 p.p.</b>

(\*) including depreciation

(\*\*) adjusted for BFG resolution fund annual fee by equally accruing it over the year - only 1/2 of this fee booked in 1H 2018 and 1H 2017 is treated as recurrent

**Total costs** in 1H 2018 amounted to PLN 632.2 million, which means an increase by 4.0% versus 1H 2017. In both periods there was a negative impact of recognition of entire year BFG resolution fund fee.

**Personnel costs** in 1H 2018 amounted to PLN 316.2 million and grew by 7.2% compared to the previous year as a result of increase of average salary and variable compensation. The total number of employees in the Group decreased by 19 employees compared to the end of June 2017, to the level of 5,846 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	30.06.2018	30.06.2017	Change y/y
Bank Millennium S.A.	5 502	5 517	-0,3%
Subsidiaries	343	348	-1,4%
<b>Total Bank Millennium Group</b>	<b>5 846</b>	<b>5 865</b>	<b>-0,3%</b>

**Other administrative costs** (including depreciation) in 1H 2018 reached PLN 316.0 million and grew by 1% yearly. They comprised PLN 69.6 million of fees to BFG, including PLN 34.7 million of entire yearly fee for resolution fund. Apart of BFG fees changes, the biggest increase was registered in IT & telecom while visible decrease was in physical infrastructure costs (mostly rental costs). Total number of branches were flat during last year (net decrease by 1 to 359 outlets).

**Cost-to-Income ratio**, calculated with only 1/2 of BFG resolution fee paid fully in the first half of the year, reached in 1H 2018 similar level as year ago: 46.4%.

Group's Net Profit (PLN million)	1H 2018	1H 2017	Change y/y
Operating Income	1 325.3	1 257.8	5.4%
Operating Costs *	(632.2)	(607.7)	4.0%
Impairment provisions and other cost of risk**	(113.4)	(122.7)	-7.6%
Banking tax	(100.7)	(93.7)	7.4%
<b>Pre-income tax Profit</b>	<b>479.1</b>	<b>433.7</b>	<b>10.4%</b>
Income tax	(131.1)	(119.6)	9.6%
<b>Net Profit - reported</b>	<b>347.9</b>	<b>314.1</b>	<b>10.8%</b>
<b>Net Profit - recurrent ***</b>	<b>365.3</b>	<b>337.3</b>	<b>8.3%</b>

(\*) without impairment provisions for financial and non-financial assets

(\*\*) includes fair value adjustment of loans presented at fair value through profit and loss (PLN 8.2 million) and result from modification (PLN 7.4 million)

(\*\*\*) adjusted for BFG resolution fund annual fee by equally accruing it over the year - only 1/2 of this fee booked in 1H 2018 and 1H 2017 is treated as recurrent

**Total cost of risk**, which comprises net impairment provisions, fair value adjustment (of part of credit portfolio) and result on modifications, bore by the Group in 1H 2018 amounted to PLN 113.4 million and were 7.6% lower than this cost recognized in 1H 2017. The charges for retail segment stood at PLN 75.6 million while for corporate segment and other amounted to PLN 37.8 million (both dropped yearly). In relative terms, cost of risk (i.e. net charges to average net loans) in 1H 2018 reached 47 bps level (i.e. 5 bps lower when compared to 1H 2017).

**Pre-income tax profit** in 1H 2018 amounted to PLN 479.1 million and increased by 10.4% compared to the previous year, as a consequence of evolution of all described above elements and increase of banking tax by 7.4% yearly.

**Net Profit** reported in 1H 2018 amounted to PLN 347.9 million and was 10.8% higher than an year ago. Recurrent net profit (with adjustment for non-symmetric resolution BFG fee) amounted to PLN 365.3 million in 1H 2018 and grew by 8.3% yearly.

## II.2. Balance Sheet

### Assets

The Group's assets as at 30 June 2018 reached PLN 72,666 million, which means an increase by 4.6% compared to the end of June 2017. The synthetic structure of Group's assets and changes of their particular components are presented in the table below:

Group's Assets (PLN million)	30.06.2018		30.06.2017		Change 2018/2017 (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 146.7	3.0%	2 171.6	3.1%	-1.1%
Loans and advances to banks	520.0	0.7%	517.6	0.7%	0.5%
Loans and advances to Clients*	50 255.9	69.2%	47 316.3	68.1%	6.2%
Receivables from securities bought with sell-back clause	108.8	0.1%	65.1	0.1%	67.1%
Debt securities	18 267.8	25.1%	17 834.0	25.7%	2.4%
Derivatives (for hedging and trading)	334.6	0.5%	590.3	0.8%	-43.3%
Shares and equities **	46.8	0.1%	45.6	0.1%	2.7%
Tangible and intangible fixed assets***	264.5	0.4%	232.4	0.3%	13.8%
Other assets	720.9	1.0%	716.0	1.0%	0.7%
<b>Total assets</b>	<b>72 665.8</b>	<b>100.0%</b>	<b>69 488.8</b>	<b>100.0%</b>	<b>4.6%</b>

(\*) including loans valued at fair value through profit and loss

(\*\*) including investments in associates

(\*\*\*) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of loans to clients by PLN 2,940 million (+6.2% y/y) and also higher value of debt securities by PLN 434 million.

### *Loans and advances to Clients*

Loans and advances to Clients constitute a dominant position in the Group's asset structure (69.2% as on 30 June 2018). Total net loans of Bank Millennium Group reached PLN 50,256 million as at 30 June 2018, which means growth by 6.2% year-on-year.



The growth of loans without foreign currency mortgage portfolio presented very strong rate of 15.1% year-on-year reflecting dynamic increase in all key groups of lending activity (PLN mortgage, consumer loans and companies), whereas FX mortgage portfolio present fast reduction (a decrease by 10.5% year-on-year).

The net value of loans granted to households as at the end of June 2018 totalled PLN 33,814 million and grew by 4.1% compared to the balance recorded as at the end of June 2017. But when excluding quicker amortising FX mortgage loans, all other segments presented strong annual growth rates: PLN mortgages, exceptionally high, +22.2% year-on-year, and consumer loans of +13.6% year-on-year. The sale of new PLN mortgages has been accelerating since the beginning of 2017 year: the new sale of 1<sup>st</sup> half 2018 grew by 53% vs. the value for the corresponding period of the previous year reaching the level of over PLN 1.6 billion. The sale of new cash loans also enjoy the growing trend and reached similar level of new sale in 1<sup>st</sup> half 2018 (almost PLN 1.6 billion), which signifies an increase by 41% vs. 1<sup>st</sup> half 2017.

Loans to companies amounted to PLN 16,442 million as at the end of June 2018 and grew visibly by 10.9% yearly. The growth was well balanced, at high pace in all main product groups: factoring (+15% y/y), leasing (+12% y/y) and other loans (+10% y/y). Leasing and factoring sale showed consistent growth to reach new records in 2Q 2018 and to finish 1<sup>st</sup> half 2018 with growth in sales of +18% y/y and +15% y/y respectively.

The structure and evolution of loans to Clients of the Group is presented in the table below:

Loans and advances to Clients (PLN million)	30.06.2018	30.06.2017	Change y/y
Loans to households	33 813.8	32 490.9	4.1%
- PLN mortgage loans	12 297.9	10 065.5	22.2%
- FX mortgage loans	14 697.9	16 425.1	-10.5%
- Consumer loans	6 818.0	6 000.2	13.6%
Loans to companies and public sector	16 442.1	14 825.5	10.9%
- Leasing	5 953.8	5 328.0	11.7%
- Other loans to companies and factoring	10 488.4	9 497.5	10.4%
<b>Net Loans &amp; Advances to Clients</b>	<b>50 255.9</b>	<b>47 316.3</b>	<b>6.2%</b>
Net Loans and Advances to Clients excluding FX mortgage loans	35 558.0	30 891.2	15.1%
Impairment write-offs *	1 881.6	1 453.0	29.5%
<b>Gross loans and advances to Clients</b>	<b>52 137.5</b>	<b>48 769.4</b>	<b>6.9%</b>

(\*) including IFRS 9 impact and fair value adjustment of loans valued at fair value through profit and loss

#### Debt securities

The value of debt securities equalled PLN 18,268 million at the end of June 2018 and increased by 2.4% year-on-year. Almost all debt securities (i.e. 99.1%) 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 was 25.1% as at the end of June 2018, thus making a very good liquidity buffer.

#### Derivatives

Value of derivatives (designated for trading and hedging) reflecting the valuation of these instruments totalled PLN 335 million at the end of June 2018, which means a decrease by 43.3% compared to 30 June 2017, due to FX rates changes (mainly appreciation of Polish currency vs. Swiss Franc within the period of 1 year).

#### Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 520 million as at the end of June 2018, which means a slight increase by 0.5% year-on-year.



### Shares and equities

Shares and other equities amounted to PLN 47 million as at the end of June 2018 and were the minor item in the balance sheet with only 0.1% share. The item increased by 2.7% year-on-year.

### Tangible and intangible fixed assets

Group's tangible and intangible fixed assets amounted to PLN 264 million as at the end of June 2018, which means an increase by 13.8% year-on-year, both in the area of intangible assets (+23.7% year-on-year) as well as tangible fixed assets (+10.3% year-on-year).

## Liabilities

The synthetic structure of Group's liabilities and equity and the changes of their particular components is presented in the table below:

Group's Liabilities and Equity (PLN million)	30.06.2018		30.06.2017		Change 2018/2017
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 165.7	1.8%	1 404.4	2.3%	-17.0%
Deposits from Customers	59 831.5	92.4%	56 988.0	91.7%	5.0%
Liabilities from securities sold with buy-back clause	94.3	0.1%	0.0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	742.7	1.1%	802.7	1.3%	-7.5%
Debt securities issued	708.9	1.1%	1 158.4	1.9%	-38.8%
Provisions	116.1	0.2%	46.3	0.1%	150.8%
Subordinated debt	701.8	1.1%	634.3	1.0%	10.6%
Other liabilities*	1 397.2	2.2%	1 115.0	1.8%	25.3%
<b>Total liabilities</b>	<b>64 758.1</b>	<b>100.0%</b>	<b>62 149.1</b>	<b>100.0%</b>	<b>4.2%</b>
<b>Total equity</b>	<b>7 907.7</b>		<b>7 339.8</b>		<b>7.7%</b>
<b>Total liabilities and equity</b>	<b>72 665.8</b>		<b>69 488.8</b>		<b>4.6%</b>

(\*) including tax liabilities

As at the end of June 2018, liabilities accounted for 89.1%, while Group's equity accounted for 10.9% of the total liabilities and equity.

As at 30 June 2018, Group's total liabilities amounted to PLN 64,758 million and increased by PLN 2,609 million (or 4.2%) relative to the value as on 30 June 2017. The increase resulted, primarily, from growth in Customer deposits (by PLN 2,844 million).

### Deposits from Customers

Deposits from Customers constituted the Group's main liability and as on 30 June 2018 they accounted for 92.4% of total liabilities.

Deposits from Customers provide the main source of financing of the Group's activities and include, mainly, Customer funds deposited on current, saving and term deposit accounts. As at 30 June 2018 deposits from Customers amounted to PLN 59,831 million and recorded an increase of 5.0% relative to the balance as at 30 June 2017.

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

<b>Customer Deposits (PLN million)</b>	<b>30.06.2018</b>	<b>30.06.2017</b>	<b>Change y/y</b>
Deposits of individuals	43 303.2	40 414.3	7.1%
Deposits of companies and public sector	16 528.3	16 573.6	-0.3%
<b>Total deposits</b>	<b>59 831.5</b>	<b>56 988.0</b>	<b>5.0%</b>

Deposits from individual Customers amounted to PLN 43,303 million which means a substantial growth of 7.1% yearly.

Strong growth in number of customers and accounts together with promotions of savings accounts allowed for visible increase of current and saving accounts volume by 14.4% year-on-year and their share in total deposits of individuals reached 66%. At the same time term deposits of individual Customers decreased by 4.6% year-on-year.

Deposits of companies and public sector amounted to PLN 16,528 million as at 30 June 2018 and decreased slightly by 0.3% year-on-year. Like in retail segment, current accounts had very strong growth: +15.3% versus the end of June 2017.

#### *Deposits from banks*

Deposits from banks, including received loans, as at 30 June 2018 amounted to PLN 1,166 million, accounting for 1.8% of the Group's liabilities. The value of that item decreased by 17.0% vs. the balance as at 30 June 2017, first of all due to lower value of deposits from other banks. The balance of loans from financial institutions amounted to PLN 666 million (expressed in PLN) as at 30 June 2018 (a decrease of 17.4% y/y). These loans included financing from European Bank for Reconstruction and Development and loans from European Investment Bank (most of them in EUR and CHF), which were the important items of wholesale long-term and medium-term funding received by the Group.

#### *Financial liabilities valued at fair value through profit and loss and derivatives*

Financial liabilities valued at fair value through profit and loss and derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. As at 30 June 2018 the value of this item amounted to PLN 743 million and decreased by 7.5% relative to the balance of 30 June 2017, due to changes in FX rates, which is commented above in the text regarding derivatives valuation in assets.

#### *Debt securities issued*

Debt securities issued by the Group as at 30 June 2018 amounted to PLN 709 million, which means a material decrease by PLN 450 million (or by 38.8%) relative to the balance recorded as at 30 June 2017. At the end of June 2018 the value of bank debt securities issued by the Bank and possessed by individual Customers as savings products amounted to PLN 245 million, whereas the value of the Bank's bonds possessed mostly by institutional investors amounted to PLN 301 million. Apart from the Bank's debt securities and bonds, the Bank's subsidiary Millennium Leasing issued bonds for private and institutional investors. The balance sheet value of bonds issued by this company as at 30 June 2018 was PLN 163 million. The main reason of the yearly decrease of the balance of Group's liabilities from issued debt securities was the maturing of two series of bonds for institutional holders: of the total nominal value of PLN 300 million in June 2018 and PLN 30 million in April 2018, as well as the redemption of debt securities issued by Millennium Leasing. The level of debt financing can be regarded as adequate in light of good liquidity position of the Group as at the end of the reporting period.

#### *Subordinated debt*

The value of subordinated debt amounted to PLN 702 million as at 30 June 2018 and increased by 10.6% vs. the balance as at the end of June 2017. The Bank issued in December 2017 ten-year subordinated bonds in PLN of the total nominal value PLN 700 million in place of ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007, which matured in December 2017. The new issue of subordinated debt supports Group's and Bank's capital adequacy and constitutes a stable long-term source for funding of business activity.

### *Equity*

As at 30 June 2018 the equity of the Group amounted to PLN 7,908 million and grew by PLN 568 million or 7.7% year-on-year. The main reason of the growth of equity was net profit generated during the 2<sup>nd</sup> half 2017 and 1<sup>st</sup> half 2018 financial year of PLN 715 million, without payment of any dividend for 2017 as decided by AGM of the Bank held on 26<sup>th</sup> March 2018. The impact of Other Comprehensive Income (mainly valuation of debt securities and instruments in hedge accounting) was also positive for equity value (PLN 96 million). On the other hand, implementation of IFRS 9 had a negative impact on the opening balance as at 1<sup>st</sup> January 2018 decreasing total equity by PLN 243 million.

The information about capital adequacy is presented in Chapter IV of this document as well as in the Consolidated Financial Statements for 1<sup>st</sup> half 2018.

### III. DESCRIPTION OF BUSINESS ACTIVITY

#### III.1. Quality, innovations, key awards

In Deloitte's "EMEA Digital Banking Maturity 2018" report published in April 2018, which assessed the digital maturity of financial institutions in 38 countries in Europe and the Middle East, Bank Millennium came up as one of the digital leaders on the market as an innovative bank, digitally mature, well-prepared for the challenges of open banking, offering many non-banking services already now.

The Bank keeps working on development of electronic channels and enhancing them to include further innovative solutions as well as non-banking services. Today already on a far greater scale than ever before the bank supports online setting up of deposits (also with use of augmented reality), borrowing money, buying mutual funds, motor and travel insurance as well as paying with use of a phone. The purpose of all these innovations is to make customers' daily lives easier and to provide them with the best possible experience. The increasingly greater role of electronic channels is reflected in their share in transaction processing and sales. During the first two quarters of 2018 these channels were used to send 99% transfers, to set up 89% of new term deposits and to initiate close to 40% of cash loans.

High quality of service and customer satisfaction continue to be our priority and passion. Activities in this area are appreciated by customers - internal satisfaction surveys show that NPS (a measure of loyalty to the Bank) reached its highest level to-date in 2017 - 51, while 91% Customers are satisfied with their relationship with the Bank. Assuming that quality always supports sales - in the first half of the year the Bank was working on refreshing the skills of branch staff as regards the model of opening relationships with new customers, making use of innovative gamification solutions. The Bank was also concentrating on preparing employees to conduct sales interviews concerning credit products.

Recent months brought to the Bank some awards for innovation as well as regarding corporate social responsibility. In April Bank Millennium won in the *Leaders of the Banking and Insurance World* contest in the **Most innovative bank** category, which confirmed its position of leader in digital banking. Also in April in the *Golden Banker* competition the Bank won the **1<sup>st</sup> place for Konto 360°** and also the title of **Safe Bank - best practice**. Also the Impresja credit card and the Financial ABCs educational programme were among the top three. In the *Website Without Barriers* competition organised by *Widzialni* Foundation the Bank won in the **non-public portals** category for adapting its website to the needs of persons with disabilities. The *Help in Travel* solution, available in the mobile app after buying travel insurance, was appreciated at two international contests - *The Innovators*, organised by the *Global Finance* magazine and in *EFMA Innovation in Insurance* in the Claims Management category. The first semester was completed with two awards in the latest edition of *Stars of Banking* contest organised by *Dziennik Gazeta Prawna* and PwC. The Bank came **2<sup>nd</sup> in the Customer Relations** category and **3<sup>rd</sup> in Innovation**.

#### Important dates

On 25 May 2018 GDPR (a European Regulation on protection of personal data) came into force. By that time Bank Millennium had finished all work necessary to implement the Regulation in processes concerning management of customer information and is GDPR-compliant in all key areas.

#### III.2. Retail banking

Retail banking is an important area of the Bank's operation. It involves services for individuals, affluent individuals, Private Banking as well as business customers. Customers have access to products and services through a branch network, internet, mobile and telephone banking as well as a network of ATMs. Thanks to the omnichannel organisation of the service network customers gain a consistent experience in their contacts with the Bank and manage their money in a convenient and secure way.

In the first half of 2018 fulfilment of targets regarding customer acquisition was going as planned. Since the start of the year the number of active customers increased 78,700 and at the end of the second quarter it was 1.714 million. From the beginning of the year 196,000 new bank accounts were opened, with Konto 360° having the biggest share. For four years now it has been enjoying unwavering popularity and is one of the best banking products on the market. In April in the *Golden Banker* contest Konto 360° won the **1<sup>st</sup> place in the Best personal**

*account* category while in May the millionth account was opened. To celebrate this event the Bank gave the customer, holder of the millionth account, a special prize - money transfer of PLN 360 per month during the next year. Good acquisition results were also supported by continuation of the “Like it? Share it!” recommendation programme where for recommending Konto 360° or Konto 360° Student you can get attractive prizes. Until the end of June close to 270,000 satisfied customers registered in it. Following the success of first editions of the programme, its subsequent edition was announced in April with an increased rewards budget.

In the first two quarters of 2018 sales of new mortgage loans reached the record value of 1.612 billion PLN (53% growth over the 1<sup>st</sup> half of 2017), which gave the Bank the fifth place on the market with a share of approx. 7%. During that same period 26% agreements more were signed and 16% more loan applications were received. In 2Q 2018 alone sales of new mortgages rose 15% Q/Q and reached the level of 863 million PLN. This good result comes from improvement of operational processes and also from the excellently working model of cooperation with intermediaries. It is worth emphasising that despite some pressure from the market success was reached with unchanged pricing.

According to the Bank’s three-year strategy for 2018 - 2020 mortgage loans remain an important part of the business. This is why in June 2018 the Bank submitted to Polish Financial Supervision Authority a request for permission to create a mortgage bank under the name of “Millennium Bank Hipoteczny” with its registered office in Warsaw, the sole shareholder of which will be Bank Millennium. The new Bank is to assure medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

The first half of the year also brought record high sales of cash loans - 41% growth y/y. Sales stood at 1.6 billion with 822 million PLN in 2Q (7% quarterly growth). Double-digit growth was seen in all sales channels, the highest of them in electronic channels - 140% growth y/y. This is result of an excellent product sales process in digital channels and the time to disbursement of loans on customers’ accounts. The portfolio of cash loans increased after two quarters by 15% y/y and the total value of loans to individuals as at 30 June 2018 reached 35 billion PLN gross.

Acquisition of credit cards in the first half of the year saw the highest semi-annual value of 33 380 new cards, which constitutes 16% growth in annual terms. Sales in 2Q stood at 17 186 cards (6,1% growth Q/Q).

As at end of the 1<sup>st</sup> half of 2018 total funds of individuals deposited with Bank Millennium reached the value of 53 billion PLN, growing 8% y/y. The growth was driven first of all by increase of the value of money on current and savings accounts by 14% y/y. This money constituted 66% of all deposits of retail segment customers and their share rose 4 p.p. during the year.

## Internet and mobile banking for individuals

During the first two quarters of 2018 the Bank continued to intensely develop its e-banking offering for current as well as future customers. It also released its new website, including the Millenet transactional system logon page. The changes made the page more clear and transparent, tailored it to latest trends in design and optimised for mobile devices.

In 2Q 2018 the Bank enabled opening a personal account from mobile app level by persons who are not yet the Bank’s customers. Now after downloading the app from an app store the option is available of applying for Konto 360°. It is sufficient to fill-in the application and the agreement will be delivered by courier. The customer can also sign documents in any Millennium branch.

A number of improvements were introduced in the mobile app: the home page after logon was visually revamped and the BLIK to mobile (P2P payment) form can now be accessed from screen level just after logon and before logon on the widget. When making a P2P payment the customer will see immediately which friends from his list of contacts in the phone are registered in the service i.e. they can receive a transfer outright (on the form next to these contacts BLIK icons will appear).

PayByLink-type internet payments were expanded to include BLIK service. When making online purchases, after selecting “Millennium - internet payments” customers can choose the method of authorising the transaction. Apart from the traditional method (logon to internet banking and confirmation with SMS password) they can choose to authorise with a BLIK code.

The Bank also expanded e-administration services to include online application for Good Start programme and Family 500+ programme in the new benefit season. In the Millenet transactional system and in the mobile app convenient update of data from the Personal Identity Card was enabled. Because they get updated automatically in public administration systems, the customer will not have to worry about a possible mistake, while a month before expiry of validity of the Card the system will send a reminder about necessary update.

The Bank was also developing its strategic pillars of sales in electronic channels i.e. loan processes and access to investment products. Among others the possibility was created to apply 24/7 for credit products together with the possibility to get promo offers. In order to expand the investment offering the possibility was introduced in Milenet to purchase and make transactions on external TFI funds. In addition, the purchase process of DuetPlus and Structured Deposit has been optimized. Bank Millennium also recorded a growing share of online acquisitions.

### III.3. Goodie smartshopping app

Since 2016 together with Millennium Goodie the Bank has been operating an innovative smartshopping platform. The free-of-charge goodie app is an open ecosystem, which is used by sellers, customers, service providers and the Bank alike. Altogether the app contains 670 brands and 1500 commercial offers, part of which are available only on goodie, proposing exceptionally competitive prices.

The first half of 2018 brought a major acceleration of the app's development. Thanks to continued improvement of the offering, towards the end of June the app exceeded 400,000 downloads. The strong increase of the number of users (from March to May this year 100,000 people decided to install goodie) results from activity in shopping centres where acquisition events take place regularly, special promotions for the app users e.g. involving the Circle K petrol station chain, McDonald's restaurants, North Fish and the PizzaPortal.pl delivery company, as well as effective marketing in the web and in social media. The goodie profile on Facebook has gathered close to 20,000 fans and this number is growing fast. Expanding its business goodie launched loyalty programmes with i.a. the ice cream maker Grycan, M1 shopping centres as well as largest shopping centres in Warsaw and Wrocław, at the same time expanding the users' base. By 30 June 2018 167,000 virtual loyalty cards were set up in the app.

Increase of the app's popularity was reflected on ranking lists of digital distributors. In April 2018 goodie was the 6<sup>th</sup> most popular shopping app in Google Play. In the same category it made it to No. 2 in App Store and was No. 5 among all apps available in this store.

### III.4. Corporate Banking

Corporate Banking is a business line, which provides professional and comprehensive service to companies with annual sales above 5 million PLN as well as institutions and units from the public sector. It engages in long-term, stable and partnership-based relationships with customers, relying on mutual trust, commitment and understanding. The comprehensive product range allows tailored relationship proposals to be prepared on the basis of a diagnosis of customers' needs and understanding of their respective sectors.

In the first two quarters of 2018 further growth of demand for financing could be seen. The gross value of loans granted by the Bank to companies increased 1.8 billion PLN i.e. 12% annually. The source of this trend was first of all further development of cooperation with the existing customer base as well as acquisition of new relationships. On 30 June 2018 the portfolio of credit products for companies, leasing and factoring included, reached the value of 17.1 billion PLN gross. The lease portfolio grew 12% y/y reaching the level of 6.1 billion PLN. Value of leased assets in the 1<sup>st</sup> half of the year was 1.66 billion PLN, which means 15% growth y/y. Such good performance came above all from increase of sales of machines and equipment (by 28%) as well as of heavy road transport (by 13%).

Also factoring turnover followed a positive trend. During the first six months of the year the Bank had factoring turnover of 9.4 billion PLN. This means 18% growth y/y. Factoring assets at end of June 2018 reached 2.46 billion PLN. In terms of value of purchased receivables Bank Millennium is now No. 4 on the market. The growths in the factoring business result from developing cooperation with the Bank's current customers.

The amount of trade finance transactions (guarantees and letters of credit) active at the end of the first half of the year reached the value of 887m PLN, which constitutes 31% growth y/y.

Pursuing its long-term strategy of supporting innovative companies and facilitating financing also for customers who may have harder access to loans, the Bank continued its cooperation with Bank Gospodarstwa Krajowego as regards loans for technological innovations as well as free-of-charge guarantees to secure investment loans assigned i.a. for innovative projects.

Customers of Corporate Banking were using the comprehensive offering of transactional products and services supported with the productive and ergonomic internet banking system, mobile app and solutions based on web service technology. The volume of current accounts of companies at end of the 1<sup>st</sup> half of 2018 reached the



value of 7.6 billion PLN, growing 15% y/y; there was also 13% growth of the number of domestic transfers, 31% increase of the number of cross-border transfers and 31% growth of the number of card transactions.

Also treasury results turned out to have been above-average. The volume of FX transactions in the 1<sup>st</sup> half of the year grew 26% over the same period of 2017, with income growth at the level of 10% y/y.

### Electronic banking for companies

In the 2<sup>nd</sup> half of 2018 the Bank implemented a number of improvements and new functions for customers of corporate banking.

In accordance with the Act of 15 December 2017 on change of Act on tax on goods and services and certain other acts, on 1 July 2018 the Bank launched the split payment mechanism for use by companies in the electronic banking system. Thus the Bank opened an additional VAT account for every company and introduced - also online - a new type of bank transfer - split payment/VAT transfer. The split payment mechanism assumes splitting the payment for purchased good or services between two separate accounts - the supplier's bank account and a special VAT account. Information about the new solution was provided i.a. during a series of 10 business breakfasts.

Also a new cash management module was released. Although card transactions are increasing, managing cash deposits and withdrawals remains important for customers, which generate sales in cash. The new functionalities allow management of one-off and scheduled open deposits. Another improvement for such customers was the introduction of open and closed deposits in Polish Post offices.

In order to deliver bank guarantees faster and safer to customers and their counterparties, in June the Bank launched a new service under the name of e-guarantee. As opposed to traditional paper documents, e-guarantees are issued in the form of an electronic PDF file, with use of a secure qualified electronic signature placed by two authorised representatives of the Bank. Thanks to e-guarantees companies can i.a. participate in public procurement proceedings where it is required to submit all documents in electronic format.

Also a new transactional channel - SWIFTNet has been introduced, which allows customers to send payment files to banks with use of SWIFT FileAct. The payments (domestic, internal and cross-border transfers) sent by a customer in the SWIFT network, upon receipt by the Bank are immediately directed to execution. The service also enables banks to send files to customers in the same way. SWIFTNet allows customers to use the same files to make payments in banks in many countries, which significantly increases efficiency of operational processes. Customers do not have to logon to many banking systems anymore - SWIFT enables sending payments and getting information about an account from the level of one system serving many banks.

Moreover Millenet users have started using a refreshed menu. The new solution has modern and attractive graphics. Thanks to changes made in information architecture (for example creation of such separate bookmarks as "Orders Management" and "Cards"), presentation of content on the website is now even more transparent. Also the new "Line guarantees/letters of credit/sureties" has been launched, thanks to which customers have gained access to current data concerning the line for bank guarantees, Civil Law sureties and documentary letters of credit, which they were granted. Under the new bookmark there is i.a. information about amount of limit granted and utilised, available funds as well as date of validity of the line.

## IV. RISK MANAGEMENT IN BANK MILLENNIUM GROUP

### IV.1. Risk Management rules

Risk management in the Bank Millennium Group covers all types of risk, including the most important in the banking activity namely the credit, market, liquidity or operational risk.

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

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

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

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

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

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

In current activity, the Group pays a lot of attention to compliance risk management, for which is responsible Compliance Department.

Before going on to present the main risks, the capital management process will be presented to ensure coverage of risk exposures in the Bank and the Group by equity.

### IV.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 the EU Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending EU Regulation No. 648/2012 (CRR). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Minimum levels expected by KNF;
- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of the buffer is defined for particular banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is - in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in November and December 2017 in the level of 5.53 p.p. (the Bank) and 5.41 p.p. (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 4.15 p.p. (the Bank) and of 4.06 p.p. (the Group), and which corresponds to capital requirements for CET 1 ratio of 3.10 p.p. (the Bank) and 3.03 p.p. (the Group);
- Combined buffer - defined in Act on macroprudential supervision over the financial system and crisis management - that consists of:
  - Capital conservation buffer at the level of 1.875%, and from the beginning of 2019 increased to target value of 2.5%;
  - Other systemically important institution buffer (OSII) - at the level of 0.25%, and the value is set by KNF every year;
  - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
  - Countercyclical buffer at the 0% level.
- At present there is a pending KNF procedure on repealing in full the decision about identification the Bank's as other systematically important institution and imposing on the Bank the other systematically important institution buffer. On the 21st June 2018, Financial Stability Committee issued the positive opinion for KNF on that matter. Bank have not received a formal decision in this matter until the publication of this report.

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

## Own funds capital requirements

The Group is during a project of an implementation of internal ratings based method (IRB) for calculation of own funds requirements for credit risk and calculates its own funds minimum requirements using the IRB and standardise method for credit risk and standardise methods for other risk types.

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.

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

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

The Bank received the decision of Competent Authorities (ECB cooperating with KNF) in July 2017 on approval the material changes to IRB LGD models and revoking "Regulatory floor". The positive impact of that decision was in a large extent neutralized by the increasing in the end of 2017 of the mentioned above Pillar II FX mortgage buffer.

## Internal capital

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

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

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

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

## Capital adequacy results

Capital adequacy evolution of the Group and the Bank in the last 12 months was as follows:

Capital adequacy measures	30.06.2018 Group	30.06.2017* Group	30.06.2018 Bank	30.06.2017* Bank
Risk-weighted assets	34 268.7	36 978.8	33 744.5	36 382.9
<b>Own Funds requirements, including:</b>	<b>2 741.5</b>	<b>2 958.3</b>	<b>2 699.6</b>	<b>2 910.6</b>
- Credit risk & counterparty credit risk	2 399.0	2 049.6	2 383.7	2 027.9
- Market risk	27.9	22.2	27.9	22.2
- Operational risk	310.8	293.4	284.1	269.4
- Credit Valuation Adjustment CVA	3.8	6.1	3.9	6.1
<b>Own Funds, including:</b>	<b>8 009.6</b>	<b>6 674.4</b>	<b>7807.0</b>	<b>6 484.9</b>
- Common Equity Tier 1 Capital	7 309.6	6 659.5	7107.0	6 469.0
- Tier 2 Capital	700.0	14.9	700.0	14.9
<b>Total Capital Ratio (TCR)</b>	<b>23.37%</b>	<b>18.05%</b>	<b>23.14%</b>	<b>17.82%</b>
Minimum required level	18.535%	16.55%	18.655%	16.59%
Surplus(+)/Deficit(-) of TCR (p.p.)	+4.835	+0.85	+4.485	+ 0.68
<b>Tier 1 Capital ratio (T1)</b>	<b>21.33%</b>	<b>18.01%</b>	<b>21.06%</b>	<b>17.78%</b>
Minimum required level	15.185%	12.79%	15.275%	12.82%
Surplus(+) / Deficit(-) of T1 (p.p.)	+6.145	+4.52	+5.785	+ 4.36
<b>Common Equity Tier 1 ratio (CET1)</b>	<b>21.33%</b>	<b>18.01%</b>	<b>21.06%</b>	<b>17.78%</b>
Minimum required level	12.655%	12.21%	12.725%	12.23%
Surplus(+) / Deficit(-) of CET1 (p.p.)	+8.675	+5.10	+8.335	+ 4.95

(\*) As of 30.06.2017 risk-weighted assets and own funds requirements were calculated with 70% „Regulatory floor”.

As at the first half 2018 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, improved in one year period. TCR rose by 5.32 p.p. to 23.37% (Group) and to 23.14% (Bank), and CET1 ratio rose to 21.33% (Group) and 21.06% (Bank).

In 12 months period, risk-weighted assets went down by ca PLN 2.7 billion (by above 7%), mostly because of revoking the mentioned above Regulatory floor in July 2017, which effect was partially offset by an increase

coming from increase of activity. Own Funds rose by ca PLN 1.3 billion, as a result of retaining net earnings for 2017 and issuance of subordinated bonds in amount of PLN 700 million, that was included in Tier 2 capital.

Thus, the minimum capital levels required by KNF for both Bank and the Group, have been achieved with a significant surplus.

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 significantly exceed values defined in regulations.

### IV.3. Credit risk management

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

In the area of credit risk, the Group focused in IH 2018 year on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks (see more in financial report).

#### Loan portfolio quality

The Group enjoys also one of the best asset quality among Polish banks: share of impaired loans (stage 3) in total loan portfolio remains on a low level of 4.74%. Share of loans past-due more than 90 days in total portfolio decreased slightly during last year from 2.84% in June 2017 to 2.71% at the end of June 2018.

Coverage ratio of impaired loans improved during the year from 65.7% in June 2017 then 67.1% in December 2017 to 76.1% presented in June 2018 (such significant growth is related partially to transition from accounting standards IAS39 to IFRS9). Coverage by provisions of loans past-due more than 90 days improved significantly and equals as of 30.06.2018 respectively 133.3%.

The evolution of main indicators of the Group's loan portfolio quality is presented below:

Group loans quality indicators	30.06.2018	30.06.2017
<b>Total impaired loans (stage 3) (PLN million)</b>	<b>2 474</b>	<b>2 213</b>
<i>Impairment provisions</i>	<i>1 806</i>	<i>1 453</i>
<i>Fair Value adjustment</i>	<i>76</i>	<i>0</i>
<b>Total impairment provisions and FV correction</b>	<b>1 882</b>	<b>1 453</b>
<b>Impaired over total loans ratio (%)</b>	<b>4.74%</b>	<b>4.54%</b>
Loans past-due over 90 days /total loans (%)	2.71%	2.84%
<b>Total impairment provisions and FV correction/ impaired loans (%)</b>	<b>76.1%</b>	<b>65.7%</b>
Total impairment provisions and FV correction/loans past-due (>90d) (%)	133.3%	104.8%

Impaired loans ratio divided by particular product segments showed improving trend in corporate portfolio year-to-year (from 4.28% to 4.04% despite new impaired definition under IFRS9 ), whereas the ratio for retail portfolio grew during the year from 4.65% to 5.07% (of which for mortgage loans from 2.60% to 2.86%) mainly due to implementation IFRS9 changes.

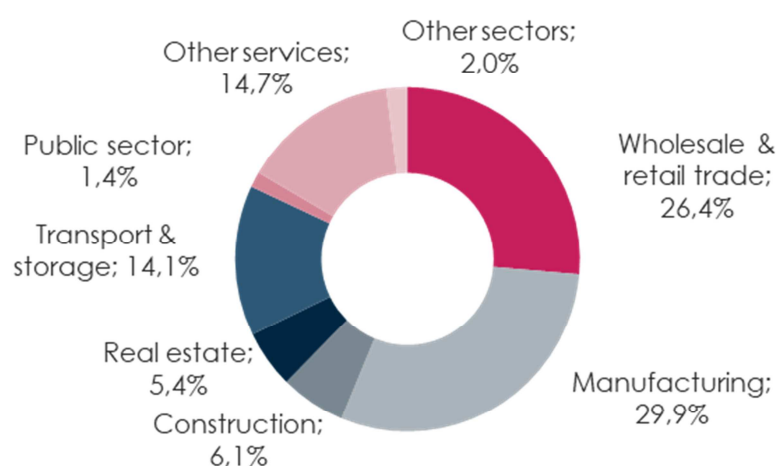
As compared to June 2017, the value of foreign currency mortgage loans decreased by approx. 10% (in PLN terms), mainly due to the repayment of the currency portfolio (8% year on year). As a result, their share in the total mortgage portfolio decreases by about 7 p.p. up to 54%. The change in the currency structure of the mortgage loan portfolio was supported by a significant increase in the sale of loans in PLN.

The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio (stage 3)	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Mortgage	1.24%	1.25%	2.86%	2.60%
Other retail (*)	8.34%	8.76%	12.55%	12.32%
Leasing	1.75%	1.65%	3.95%	4.33%
Other corporate loans and factoring	2.76%	3.57%	4.10%	4.25%
<b>Total loan portfolio</b>	<b>2.71%</b>	<b>2.84%</b>	<b>4.74%</b>	<b>4.54%</b>

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

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in the economy sectors. The share of the 10 largest exposures remains at a safe level of 4.4%. The share of main sectors in the Group's portfolio is presented in the figure below:



#### IV.4. The other main financial 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

Ordinary General meeting of Bank Millennium Shareholders was held on 26 March 2018. Overall, 249 Shareholders participated representing 76,69% stake in share capital of the Bank, including BCP (50,10% of the share capital), Nationale-Nederlanden OFE (8,99% of the share capital) and Aviva OFE (5,44% of the share capital).

According to the recommendation of the Polish Financial Supervision Authority (KNF) and the proposal submitted by the Bank Management Board, the General Meeting decided to retain entire profit generated in 2017 in the Bank's reserve capital.

The General Meeting also decided to amend the Bank's Articles of Association. Proposed changes related to provisions of the Articles of Association regarding the composition and powers of the Audit Committee of the Supervisory Board (§ 18 sec. 3 and 5), units supervised directly by the Chairman of the Management Board (§ 21) and the internal control system (§ 27).

The above mentioned changes were introduced to adjust the Articles of Association to provisions of the Act of 11.05.2017 on statutory auditors, audit firms and public supervision and provisions of the Regulation of the Minister of Economic Development and Finance of 6.03.2017 on the risk management system and the system of internal control, remuneration policy and detailed manner of estimation of internal capital in banks (also in connection with art. 9c sec. 2 of the Act - the Banking Law and Recommendation H).

The updating of the Articles of Association took account of the new legal solutions and nomenclature resulting from the above regulations and recommendation.

On the same day, the General Meeting appointed following persons, listed in alphabetical order, to the Supervisory Board:

1. Mr. Nuno Manuel da Silva Amado,
2. Mr. Miguel de Campos Pereira de Braganca,
3. Ms. Agnieszka Hryniewicz-Bieniek,
4. Ms. Anna Jakubowski,
5. Mr. Grzegorz Jędrys,
6. Mr. Bogusław Kott,
7. Mr. Andrzej Koźmiński,
8. Mr. Alojzy Zbigniew Nowak,
9. Mr. José Miguel Bensliman Schorcht da Silva Pessanha,
10. Mr. Miguel Maya Dias Pinheiro,
11. Mr. Dariusz Rosati,
12. Mr. Lingjiang Xu.

The persons listed above are not involved in any business activity competitive to the Bank neither as shareholders or participants of competing companies nor as members of governing bodies of such companies. The newly appointed Members of the Bank Supervisory Board are not listed in the register of insolvent debtors.

CVs of the Members of the Supervisory Board can be found on the Bank's web site: <https://www.bankmillennium.pl/o-banku/wladze-banku-i-lad-korporacyjny/rada-nadzorcza>

On 26 March 2018 the Supervisory Board appointed on the same day by the General meeting of the bank to the new term of office held its constituent meeting and appointed Mr. Bogusław Kott to the position of the Chairman of the Supervisory Board, Mr. Nuno Manuel da Silva Amado to the position of Deputy Chairman of the Supervisory Board, and Mr. Dariusz Rosati to the position of Deputy Chairman and the Secretary of the Supervisory Board.

The Supervisory Board decided that the Bank Management Board would be composed of 6 Members and appointed, as of 26 March 2018:

Mr. Joao Bras Jorge to the position of the Chairman of the Management Board,

Mr. Fernando Bicho to the position of Deputy Chairman of the Management Board,

and Mr. Wojciech Haase, Mr. Andrzej Gliński, Ms. Maria Jose Campos and Mr. Wojciech Rybak to become Members of the Management Board.

The appointed members of the Management Board do not perform activities competitive against the Bank either as partners or members of governing bodies of companies. Newly appointed Management Board Members are not listed in the register of insolvent debtors.

CVs of the Members of the Management Board can be found on the Bank's web site <https://www.bankmillennium.pl/o-banku/wladze-banku-i-lad-korporacyjny/zarzad>

On 20 April 2018, Ms. Maria Jose Henriques Barreto De Matos De Campos submitted her resignation, effective on this date, from the position of the Bank Management Board Member. Ms. Maria Jose Henriques Barreto De Matos De Campos explained that her resignation was due to her new professional plans within the BCP Group.

On the same day the bank Supervisory Board holding its meeting and acting pursuant to par. 17 sec. 1 of the Bank's Articles of Association appointed, effective as of 20 April 2018, Mr. António Ferreira Pinto Júnior and effective as of 1 August 2018 Mr. Jarosław Hermann to the positions of Members of the Bank Management Board.

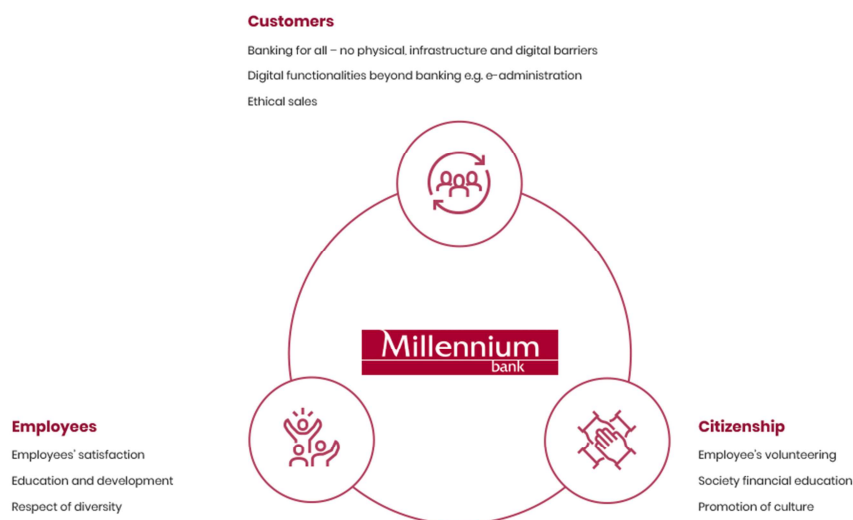
Mr. António Ferreira Pinto Júnior and Mr. Pan Jarosław Hermann do not perform activities competing against the Bank and are not partners in any company competing against the Bank and are not members of governing bodies of any company competing against the Bank and are not partners in any company competitive relative to the Bank nor they are members of governing bodies of any other legal person competitive relative to the Bank.

Mr. António Ferreira Pinto Júnior and Mr. Jarosław Hermann are not listed in the Register of Insolvent Debtor and do not perform any activities which could be competitive relative to the Bank.

## V.2. Responsible business and activities for the society

At Bank Millennium, social actions constitute an intrinsic element of the strategy and support execution of business objectives. **The priority is to assure the highest quality of customer service, ethical marketing and sales, as well as to facilitate the use of banking and non-banking services (for instance, e-administration) through introduction of innovative products and services.** The second important target group of CSR actions are Employees. The programmes dedicated to them focus mostly on **supporting diversity in the organisation (including parenthood), assurance of stable and attractive working conditions and offering volunteering opportunities.** Social programmes have been carried out through Bank Millennium Foundation and they concentrate on three areas: **financial education, culture and employee volunteering.**

We are dedicated to create shared values and make clear commitment to corporate social responsibility



### Key CSR efforts in 1H 2018:

#### 1. Financial education programme „Financial ABCs”

In the first half of 2018, the Bank, acting through Bank Millennium Foundation, continued its “Financial ABCs” project launched in 2016.

Financial ABCs is the flagship educational programme of Bank Millennium Foundation carried out under the honorary patronage of the Minister of Education and Children’s Rights Ombudsman. The objective of the programme is to explain to the youngest, through play, the basic concepts of finance. Since 2016, during almost 1100 „Financial ABCs” workshops, the Foundation trained nearly 28 000 children from 320 kindergartens in selected cities of Poland. The 3<sup>rd</sup> issue of the programme, conducted in 2018, covered almost 12 000 children. „Financial ABCs” programme involves volunteers - employees of Bank Millennium. For the purpose of the programme, also with some help from the Bank employees, some dedicated educational materials were developed, such as, inter alia, booklets that are also available in the children’s corners in the Bank branches. In the long-term Bank Millennium Foundation intends to cover with the programme selected kindergartens throughout Poland.

Apart from the workshops in kindergartens, there were also two special events held:

- „Financial ABCs” workshops for 200 children in Lublin - participants of “Entrepreneurial kids” project launched by the Municipality of Lublin City and University of Maria Curie-Skłodowska;
- three-day „Financial ABCs” animations and workshops that were held on the Children’s Day in the Shopping Centre Blue City in Warsaw.

#### 2. Support of culture - Millennium Docs Against Gravity Film Festival

The most important culture project sponsored by the Bank is Millennium Docs Against Gravity Film Festival. It is the largest festival of the world documentaries in Poland with satellite events (workshops, debates and concerts). In 2018, festival projections and events were held in more than 20 cities in Poland with 65 thousand viewers. Bank Millennium has been Millennium Docs Against Gravity partner for 13 years now. In 2016, the Bank became the Festival’s titular sponsor.

#### 3. Promotion of diversity

Bank Millennium signed the Diversity Charter. It is a commitment signed by organisations that decide to introduce ban on discrimination at work place and launch efforts to create and promote diversity. The Diversity



Charter is an international initiative promoted by the European Commission that has been already signed in Poland by 225 organisations.

Bank Millennium has been taking a lot of actions to support diversity - targeting both clients and employees. Already at the recruitment stage, candidates are selected based on their qualifications and competencies, and not sex, age or family situation. All the employees go through training in the Bank's Code of Ethics, which, among other things, bans discrimination. During their training programmes managers learn how to manage diversified teams. Also a special programme „Parents - YES” has been conducted, whereby parents are informed about their rights. Parents may also use various forms of sports and entertainment co-financed by the Bank. To underline the significance of diversity in the company, the Diversity Policy has been introduced which defines employee rights and duties related to the topic.

#### 4. Banking without barriers

In order to support diversity, Bank Millennium has been continuously increasing the access to financial services for the disabled and elderly. 100% ATMs and more than 90% branches were geared to the needs of these groups. **In 2018, the Bank became the winner of „Website without Barriers”** competition organised by Fundacja Widzialni. Having fulfilled the highest standards of content accessibility for the blind, the Bank was the only big company from among those distinguished in the competition. Bank Millennium has been also developing online banking and, through it, allows access to such non-financial banking services as e-administration. Thus, all the clients, irrespective of their location, are able to handle their official issues from home.

For implementation of principles of sustainable development and its CSR actions, Bank Millennium was distinguished in **Ranking of Responsible Companies** - list of the largest Polish enterprises evaluated and ranked in terms of quality of corporate social responsibility management and awarded with **Silver CSR Leaf** in the ranking of Polityka monthly. Nine Bank Millennium CSR initiatives were also distinguished in **“2017 Responsible Business in Poland”** report issued by the Responsible Business Forum. Bank Millennium actions highlighted in the report are, inter alia, “Financial ABCs” - a financial education programme for pre-school children, “Millantrop” - an employee volunteering programme, increasing availability of financial services for the disabled and introduction of dedicated solutions for the convenience of working parents within „Parents - YES” programme.



## 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 2018 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 2018 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 2018 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2018 - 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
25.07.2018	Joao Bras Jorge	Chairman of the Management Board	.....
25.07.2018	Fernando Bicho	Deputy Chairman of the Management Board	.....
25.07.2018	Wojciech Haase	Member of the Management Board	.....
25.07.2017	Andrzej Gliński	Member of the Management Board	.....
25.07.2018	Wojciech Rybak	Member of the Management Board	.....
25.07.2018	Antonio Pinto Junior	Member of the Management Board	.....