Management Board Report of the Bank Millennium Capital Group

for the six months ended 30 June 2019

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The following data was presented in the financial Report of Bank Millennium Capital Group for 1st half 2019:

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.

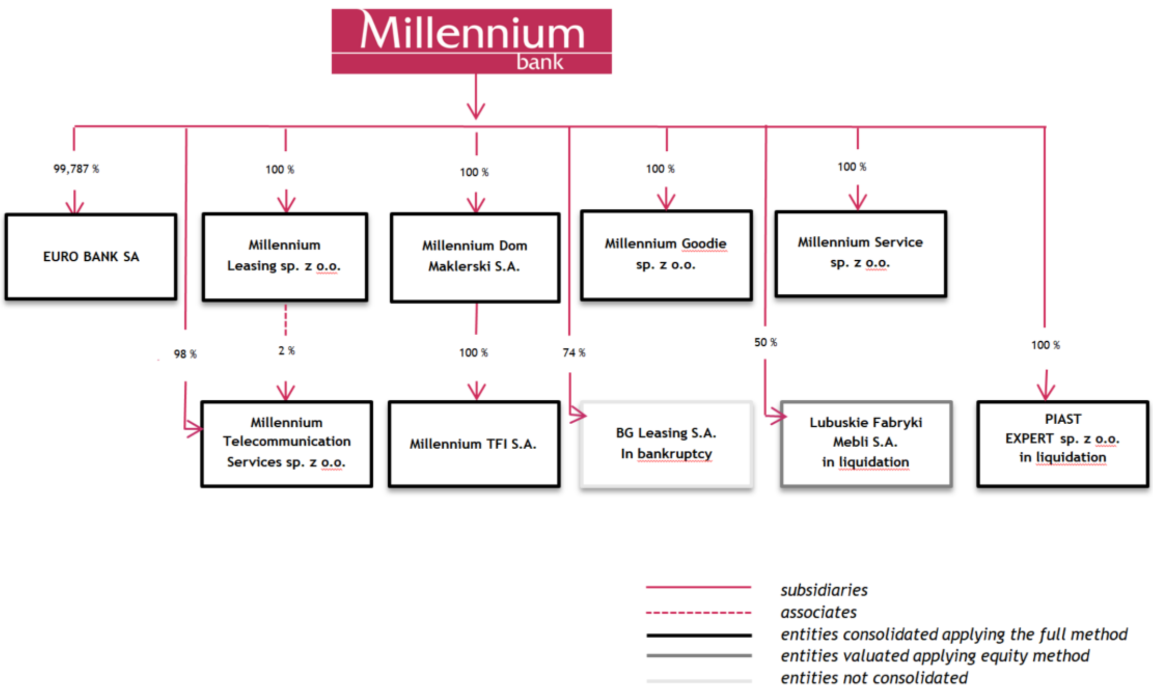
Ever since the start of its activity it has been a trendsetter in Polish banking. For example it was the first Bank to be listed on the Warsaw Stock Exchange and issued the first payment card on the Polish market. The bank satisfies most stringent standards of corporate governance; it implements social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

On 5 November 2018 the Bank announced the agreement on the transaction to buy 99.8% of the shares in Euro Bank S.A. As at the end of May 2019 Euro Bank had total assets of PLN 14.5 billion, loans of PLN 12.3 billion and deposits of PLN 8.0 billion. On 28 December 2018 the Bank got consent for merger from antimonopoly authority (UOKiK) and on 28 May 2019 got non-objection from bank supervision (KNF). The transaction was closed on 31 May 2019 and with that date Euro Bank S.A. became part of the Bank Millennium Group.

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.

<u>General organization of the Group as on 30.06.2019</u>:



Most important companies for Group's business are: Euro Bank S.A., 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 Millennium.

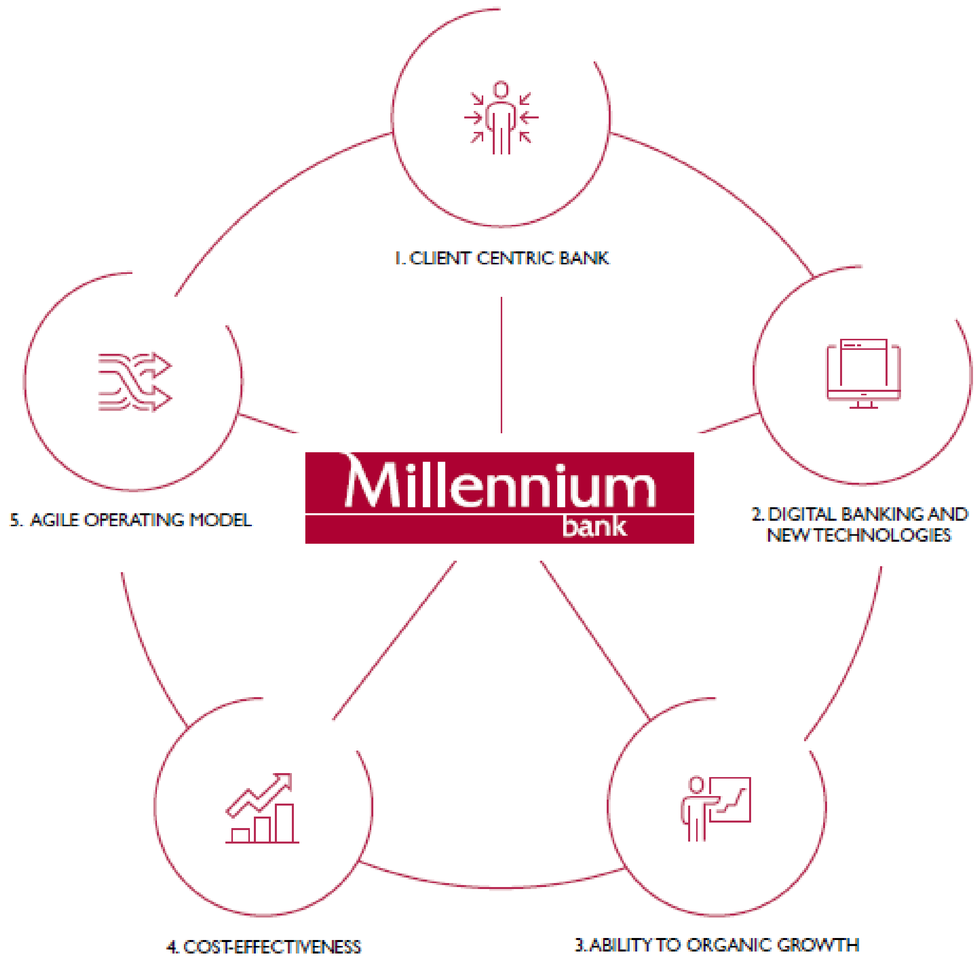
On 6 June 2019, the Management Boards of Bank Millennium and Euro Bank agreed and signed the banks' merger plan which, upon its approval by the Supervisory Board of both banks, was sent to court and KNF for acceptance. Legal merger is planned on October 2019 and operational merger on November 2019.

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, including already acquired in May Euro Bank, reached in the 1st half 2019 the amount of PLN 334 million, which is 4% lower than a profit achieved in 1st half 2018. Euro Bank first consolidation effect and results for the month of June were the main factors influencing Group's results of 2nd quarter 2019 and consolidated financial statements as on 30 June 2019.

PLN 81 million of initial provisioning of Euro Bank performing portfolio (PLN 65 million in net terms), as part of IFRS9 impact of 12 month expected credit loss (ECL) implementation on the closing of transaction day (Day 1), was the biggest one-off item. When adjusting for this item, as well as for PLN 27 million extra tax recovery from 1Q and adopting equal distribution of Banking Guarantee Fund (BFG) resolution fee through the year, the normalised net profit would have reached PLN 411 million in 1 half 2019. This would mean a 12.1% growth versus homologous pro-forma result of 1half 2018.

Very good development of organic business of Bank Millennium can be observed in 2Q 2019, which allowed for strong profitability and volumes improvement, additionally strengthened by Euro Bank consolidation. Group's total operating income grew by 18% yearly including 15.7% growth of core income. Total costs grew in the same period by 19.6% yearly, being strongly affected by higher BFG contribution. When adjusting for equal distribution of BGF resolution fee, cost-to-Income ratio of the Group remained on a stable level of 46% in 1st half 2019. Normalised Group's ROE (adjusted for Day 1 provisioning, tax recovery and BFG equal distribution) have grown to 9.7% in 1st half 2019 versus 9.5% in 1st half 2018.

Acquisition of Euro Bank's increased consolidated loans by PLN 12.6 billion and deposits by PLN 8.4 billion, which reduced liquidity and capital surplus of the Group. Despite that, Loans to Deposits ratio keeps comfortable level of 88% as on end of June 2019. Also capital ratios decreased due to the acquisition but still stay at relatively high levels: Group's TCR of 20.1% and CET1 of 16.9%.

Main financial and business highlights of 1H 2019 are as follows:

Profitability with Euro Bank impact

- Net profit of 1H 2019 reached 334 million PLN with 65 million PLN net impact of Day 1 provisions on Euro Bank portfolio.
- Normalised net profit reached 411 million PLN and grew by 12% yearly
- Normalised ROE at 9.7% and Cost/income at 46%

Core income accelerated. Costs influenced by Euro Bank and BFG fees

- Net interest income grew by 21.5% y/y; without Euro Bank grew 14.7% y/y and 4.7% q/q
- Net Commission Income flat yearly but visibly grew by 5.1% quarterly (without Euro Bank)
- Operating costs up 19.6% y/y; when excluding Euro Bank and BFG fees, costs grew by 10.9% yearly

High asset quality and liquidity kept

- Impaired loans (stage 3) ratio at 4.3% level with coverage by total provisions at 62% (Euro Bank stage 3 portfolio consolidated at net value)
- Cost of Risk at 52 b.p. (annualised) excluding Euro Bank ECL 12 months initial impact
- Loans to Deposits ratio at low level of 88%

Capital ratios influenced by the impacts of the acquisition

- Group's Total Capital Ratio (TCR) at 20.1% and CET1 ratio at 16.9% already incorporating Euro Bank
- Bank's Total Capital Ratio (TCR) at 20.5% and CET1 ratio at 16.9%

Retail business (organic)

- 1.9 million active customers (+233 ths yearly) and 1.5 million using digital channels
- 1.1 billion PLN new cash loans sold in 2Q (+34% y/y) and 1 billion PLN of mortgages (+20% y/y)
- 14.4% yearly growth of deposits (or 33.1% with Euro Bank)

Companies business

- Continued solid growth of loans to companies: +11.5% y/y
- Deposits volume grew by +16.1% y/y
- Growth in factoring and leasing sales at around +7% y/y

Digital achievements

- 1.2 million of goodie apps downloads

I.3. Most important awards and other achievements in the 1st half of 2019

Bank Millennium - Poland's best bank according to Global Finance Magazine

Bank Millennium was hailed Best Bank in Poland in the 26th Best Bank Awards competition organised by the prestigious Global Finance Magazine. Results attained by particular banks and product innovations were taken into account, as well as opinions of analysts. Moreover, Global Finance Magazine readers were polled.

Bank Millennium – Client Relations Star

In the „Banking Stars 2019" competition organised by Dziennik Gazeta Prawna and PwC, the Bank was three times among the Top 3. It won in the „Client Relations" category receiving the „Client Relations Star" title (the ranking was based on customer opinions), came second in the „Innovativeness" and „Growth" categories.

12 thousand customers of different banks took part in the "Client Relationship Index" survey. Bank Millennium was most frequently mentioned as a trusted financial partner for the client and had the biggest percentage of opinions of the type: "this is an ideal bank for me" and „I am very satisfied".

BM awarded three times in the Golden Banker 2019 ranking

In this year's edition of the Golden Banker ranking Bank Millennium stood on the podium three times. It was first in the "Socially Sensitive Bank" category for the Financial ABC - financial education programme for pre-schoolers. In the "Golden Bank 2019" main category, evaluating the quality of service in all contact channels, the bank came second. Also, for the fourth time in a row it was hailed one of the safest banks in Poland.

Service Quality Star 2019

Bank Millennium was once again honoured with the prestigious title of Service Quality Star. The award is given on the basis of consumer votes as part of the Polish Service Quality Programme collected all year on www.jakoscobslugi.pl and by means of a smartphone app.

1st place in the „Accessibility" category and 2nd place in the „Bank for Young People" category in the 2019 Ranking of Banks by Bank Miesięcznik Finansowy (Bank Financial Monthly)

The ranking of banks aims to honour banks which focus on efficiency, development of new technologies as well as innovative financial services, seeking the best solutions in customer relationship management and enjoying the best customer reviews. Activity in corporate social responsibility and openness to persons with disabilities is also rewarded.

Bank Millennium with double Institution of the Year title

In this year's edition of the competition the Bank received the statuette and title of Institution of the Year 2018 in the categories: „Best Service Quality in Remote Channels – Retail Client" and „Best Branch Service Quality – Retail Client".

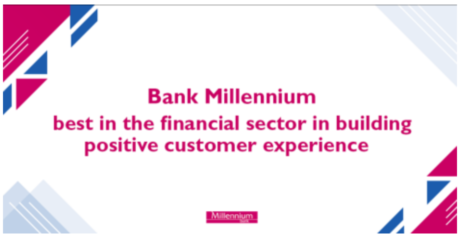
The winners of the ranking were selected based on the results of four waves of surveys carried out in 2018 by experts of the MojeBankowanie.pl. portal

Chatbot Milla awarded in the Leader 2018 competition

The Bank was awarded in Gazeta Bankowa's Leader 2018 technological competition for Milla, Poland's first bank chatbot for performing transactions. Milla is an automatic bank assistant with whom you can talk in natural language, in text or voice form.

Goodie among finalists of "The Heart Corporate Innovation Awards"

In the second edition of „The Heart Corporate Innovation Awards 2018", which promote businesses open to innovations and successfully implementing new technologies, the Goodie shopping platform came up among the three finalists in the "New Digital Venture" category.



Bank Millennium best in the financial sector in building positive customer experience

Bank Millennium was acclaimed as the Customer Experience leader in the financial sector on the list of TOP 100 Brands published in the latest KPMG Poland report, which was prepared based on an opinion survey of consumers evaluating brands in terms of offered experience. The Bank was also among the top ten of the one hundred best-scoring brands in Poland.

Most transparent company among those included in the mWIG40 index

Bank Millennium won the "Transparent Company of the Year 2018" ranking. The ranking recognises companies which communicate with the market in the most transparent and regular way. Bank Millennium scored the highest, maximum number of points among all the ranked companies.

Parkiet's Forecast Cup 2018

2nd place for our experts' macroeconomic team in the ranking of monthly financial and macroeconomic forecasts, prepared by Parkiet newspaper.

CERTYFIKAT

Bank Millennium SA

OTRZYMUJE TYTUŁ

SOLIDNY PRACODAWCA 2018
W OGÓLNOPOLSKIM KONKURSIE
SOLIDNY PRACODAWCA ROKU

SOLIDNY PRACODAWCA ROKU 2018

ROBERT KOWALSKI
ORGANIZATOR KONKURSU

TINA DEJ
DYREKTOR PROGRAMU

KATOWICE, 7 LISTOPADA 2018

Reliable Employer of the Year 2018

Bank Millennium again received the title of Reliable Employer 2018 in the nationwide category. The jury appreciated among others the stable terms of employment offered by the Bank, comprehensive social benefit package, investment in staff development, „Parents say YES" project, IMPAKT employee awards programme, CSR activity: Code of Ethics and employee volunteering and development opportunities for students and graduates.

ranking odpowiedzialnych firm

Bank Millennium among Top 10 most responsible companies in Poland

Bank Millennium is among the Responsible Business Leaders in the Ranking of Responsible Companies 2019. This is a list of Poland's biggest companies evaluated in terms of quality of corporate social responsibility (CSR) management.

POLITYKA CSR

CSR Silver Leaf

Already for the fifth time the Bank received the CSR Silver Leaf from Polityka weekly. This award is given to companies which implement the highest standards of corporate social responsibility in their day-to-day activity.

I.4. Information on shares and ratings

During the 12 months ended June 2019 the main WIG index went up by 7.6% and WIG Banks (banking index) by 9.5%. At the same time Bank Millennium shares went up by 16.7%, i.e. much above the whole market and the banking sector. Since the beginning of the year the price of Bank Millennium shares has gone up by 5.5%, which is comparable to the evolution of the WIG Banks index (6.1%).

The average daily turnover of Bank Millennium shares was lower by 29% in the first half of 2019 compared to the first half of 2018.

Market indicators	28.06.2019(*)	28.12.2018(*)	Change (%) in 1 H 2018	30.06.2018	Change (%) per annum
Number of Bank's shares (in thousands)	1 213 117	1 213 117	0.00%	1 213 117	0.00%
Average daily turnover (in thous. PLN, YTD)	5 542	8 157 (**)	-32.1%	7 851	-29.4%
Bank's share price (PLN)	9.36	8.87	5.5%	8.02	16.7%
Market capitalisation (million PLN)	11 355	10 760	5.5%	9 729	16.7%
WIG Banks	7 908	7 454	6.1%	7 219	9.5%
WIG30	2 328	2 277	2.2%	2 135	9.0%
WIG20	2 676	2 582	3.6%	2 465	8.5%
WIG - main index	60 187	57 691	4.3%	55 954	7.6%

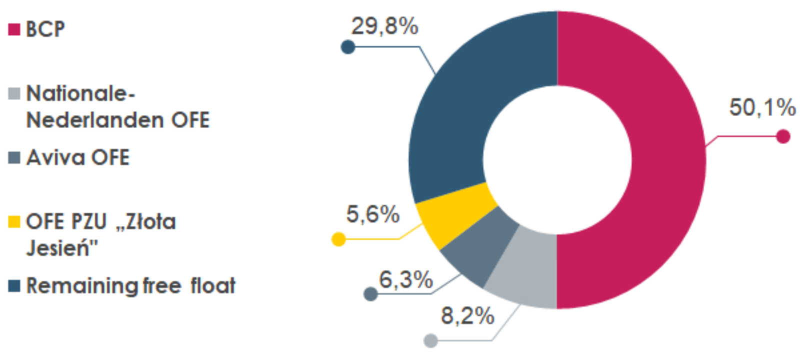
(*) the last day of quotations in June and as at the end of 2018
(**) turnover in second half 2018

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 three biggest ones: Nationale-Nederlanden OFE, Aviva OFE and OFE PZU „Złota jesień", which have more than 5% of the share capital.

Shareholders structure *



*) according to the information from current report dated 25.03.2019 published after Ordinary General Shareholders Meeting of Bank Millennium

Bank Millennium ratings

Since early 2019 there has been one change in the ratings assigned to Bank Millennium. On 2 April 2019 Moody's rating agency increased the Bank's long-term deposit rating to Baa1 from Baa2. At the same time the baseline credit assessment (BCA) and adjusted BCA have been increased to baa3 from ba1, long term Counterparty Risk Assessment (CR Assessment) has been increased to A3(cr) from Baa1(cr) and long-term Counterparty Risk Ratings (CRRs) to A3 from Baa1.

At the same time Moody's confirmed the Prime-2 level of the short-term deposit rating of the Bank, Prime-2(cr) for short-term CR Assessment and Prime-2 for short-term CRR ratings.

The outlook of long-term deposit ratings was changed from positive to stable.

Current ratings of Bank Millennium are presented in the table below:

Rating	MOODY'S	FITCH
Long-term deposit rating /IDR	**Baa1 (stable outlook)**	**BBB- (stable outlook)**
National long-term IDR	-	A-(pol) (stable outlook)
Short-term deposit rating	Prime-2	F-3
Viability/standalone BCA*	baa3	bbb-
Counterparty risk (CR)	A3/Prime-2	-
Support rating	-	4

I.5. Macroeconomic situation

Economic growth slowed down in the first half of 2019, although it still exceeded the historical average. In 1Q 2019 it was equal to 4.7% y/y after an increase of 4.9% y/y in 4Q 2018 and turned out to be the third best result in the European Union. The main growth driver was household consumption, which was constantly supported by the situation on the labour market: rising wages and employment as well as historically low unemployment rate improving the propensity to increase expenditures. GDP in 1Q 2019 was also supported by investments, growth rate of which increased to 12.6% y/y from 8.2% y/y in the previous quarter. The structure of growth, however, suggests that its acceleration may be difficult to sustain - investments in buildings and structures continued to grow strongly, and investments in machinery and equipment were less favourable despite high capacity utilization, significant company savings and low financing costs. Net exports proved to support economic growth as well, which was a positive surprise considering the weak economic activity in Poland's major trading partners.

Data covering the period between April and June indicate that the good economic situation in the Polish economy also continued in 2Q 2018, although, according to the Bank's estimates, economic growth slowed down slightly. The available information confirms the favorable situation on the labour market - rising wages and employment, although some of the data, i.a. stabilization of the unemployment rate (after seasonal adjustment) in June signals that it is slowly approaching saturation. Leading business cycle indicators show that in the coming quarters economic growth should be close to that recorded in the first half of 2019. The strongest support for GDP growth will most probably be the households' consumption, driven by the growing wage bill, as well as by the planned increase in social transfers from the state budget. On the other hand, the economic growth will most likely be limited by the prolonged economic slowdown abroad that hampers the growth of domestic exports.

GDP growing faster than the potential rate supported the CPI inflation rebound in 2Q to 2.4% y/y from 1.2% y/y before the quarter. However, in June alone, CPI inflation rose to 2.6% y/y, exceeding the middle of the inflation target range (2.5% y/y) for the first time since November 2012. The most important reason for the CPI rebound was food prices inflation, which reached in 2Q 2019 4.7% y/y resulting in particular from the increase in prices of vegetables, pork and bread. In addition, core inflation calculated as the CPI excluding food and energy prices increased significantly, which amounted to 1.8% y/y in 2Q, compared to 1.1% y/y in 1Q. These data suggest that enterprises are increasingly boldly transferring operating costs to the consumers, as the space for limiting profits has decreased. This refers in particular to services whose prices in June were 3.5% higher than last year. Despite growing inflationary pressure, the Monetary Policy Council keeps the National Bank of Poland's interest rates at a historically low level. CPI inflation is expected to grow gradually, approaching at the beginning of 2020 the level of 3.5% y/y, i.e. the upper limit of admissible deviations from the inflation target. In the Bank's opinion, the rise in inflation will not affect the Monetary Policy Council, which will seek to stabilize the cost of money for a long time.

Despite historically low interest rates the growth of household deposits accumulated in the banking sector slightly accelerated in 2Q 2019, supported by a growing wage bill, social transfers from the state budget, as well as low interest in alternative means of investment. On the other hand, deposits' growth rate of non-financial enterprises remains moderate. On the money creation side, comparing to the beginning of 2019, there is a slight slowdown in loans growth for both households and enterprises, which can be associated with an increase in uncertainty regarding the expected economic situation in the country and abroad.

I.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:

- A stronger-than-expected slowdown in global economic growth as a result of intensified protectionism in global trade and deteriorating outlook in Eurozone. Due to the connections within the global production chains, such events in the external environment may have a negative impact on Polish exports and thus on the income situation of domestic enterprises and households.

- Increasing labour costs in Poland are affecting also banking sector and growing problems with finding employees with appropriate qualifications may additionally limit profitability of some enterprises financed by banks.

- Restart of monetary easing by the main central banks may strengthen Polish Zloty and Treasury bonds affecting financial situation banks.

- There are risks connected with verdicts in Polish courts individual litigations raised by FX mortgage borrowers against banks (including Bank Millennium). Most of verdicts regarding Bank Millennium cases have been in favour of the Bank so far. However, some recent verdicts and an opinion of advocate general of the European Court of Justice regarding questions raised by a Polish court regarding such type of litigation has generated a risk of a European Court of Justice ruling that would increase the risk of possible change of line of verdicts. If materialized, such risk might create very sizable negative impact on banks having FX mortgage loan portfolios (including Bank Millennium).

- Regarding regulations on FX mortgage loans, which have been discussed in Poland during last 4 years, it was recently approved a Presidential Draft Bill of 2 August 2017 regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. The finally accepted Bill does not include the creation of a Conversion Fund. On the other hand, it increased availability of the PLN 600 million worth Borrowers' Support Fund originally created in 2015 and still waiting to be used for borrowers in need (both PLN and FX mortgages) and sets potential future contributions. The Bill will come into force from 1 January 2020.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1. Group profit and loss account

Group's Operating Income (PLN million)	1H 2019	1H 2018	Change y/y
Net Interest Income *	1 084.7	892.9	*21.5%*
Net Commission Income	338.2	336.6	*0.5%*
Core Income **	**1 422.9**	**1229.5**	***15.7%***
Other Non-Interest Income *, ***	140.6	95.8	*46.8%*
Total Operating Income ***	**1 563.4**	**1 325.3**	***18.0%***

(*) 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 28.1 million in 1 half 2019 and PLN 24.1 million in 1half 2018) 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.

(***) Without fair value adjustment of credit portfolio (PLN 5.1 million in 1 half 2019 and PLN 8.2 million in 1half 2018), which is considered in the pro-forma cost of risk

Net Interest Income (pro-forma) in 1H 2019 reached PLN 1,084.7 million and increased by 21.5% versus the corresponding period of the previous year. The growth was supported by 1 month interest income of Euro Bank (PLN 61 million), but even without it, net interest income grew strongly by 14.7% yearly and 4.7% quarterly. This increase was driven by the growth of business volumes and improvement of Net Interest Margin (mainly in quarterly comparison). Blended with Euro Bank, average Net Interest Margin (over average interest earning assets) in 2Q 2019 reached 2.80% which was 27 bps better than 2.53% NIM for 1Q 2019.

Net Commission Income in 1H 2019 amounted to PLN 338.2 million, which means a flat evolution year-on-year. Contribution of Euro Bank to this line of income was only PLN 3.6 million, as most of commissions collected by this bank is recognized in interest income through effective interest rate mechanism. Cards, insurance and account related fees grew the most in yearly horizon, while capital market related visibly decreased. Net commission income showed very positive quarterly evolution: +7.3% or 5.1% when excluding Euro Bank.

Core Income, defined as a combination of net interest and commission income, reached for the Group the amount of PLN 1,422.9 million in 1H 2019 which means an increase of 15.7% 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 140.6 million in 1H 2019 and strongly increased by 46.8% yearly (including PLN 26.9 million one-off tax asset recovery booked in 1Q 2019).

Total operating income (pro-forma) of the Group reached PLN 1,563.4 million in 1H 2019 and increased by 18% year-on-year and 11% quarter-on-quarter.

Group's Operating Costs (PLN million)	1H 2019	1H 2018	Change y/y
Personnel Costs	(372.2)	(316.2)	*17.7%*
Other Administrative Costs*	(383.8)	(316.0)	*21.5%*
- of which Banking Guarantee Fund (BFG) fees	(96.0)	(69.6)	*38.0%*
Total Operating Costs	(756.0)	(632.2)	*19.6%*
Cost/Income - adjusted**	46.0%	46.3%	***-0.3 p.p.***

(*) 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 2019 and 1H 2018 is treated as recurrent

Total costs in 1H 2019 amounted to PLN 756.0 million, which means an increase by 19.6% versus 1H 2018. Euro Bank consolidation (PLN 36.0 million costs in June) and BFG resolution fee had a strong impact on cost evolution. When excluding both items, Group's total operating costs would grow by 10.9% yearly.

Personnel costs in 1H 2019 amounted to PLN 372.2 million and grew by 17.7% compared to the previous year, or 11.7% excluding Euro Bank impact. Continuation of average salary increase was observed combined with small increase of number of staff. As a consequence of Euro Bank acquisition, total number of employees in the Group increased by 2,407 employees. Combined Group employs now 8,550 persons while Bank Millennium alone employs 5,794 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	30.06.2019	30.06.2018	Change y/y
Bank Millennium S.A.	5 794	5 502	*5.3%*
Euro Bank	2 407	-	-
Other subsidiaries	349	343	*1.8%*
Total Bank Millennium Group	**8 550**	**5 846**	*46.3%*

Other administrative costs (including depreciation) in 1H 2019 reached PLN 383.8 million and grew by 21.5% yearly. They comprised PLN 96 million of fees to BFG, including PLN 73.3 million of entire yearly fee for resolution fund. Without BFG fees, Group's administrative costs grew by 16.8% yearly. Euro Bank admin costs amounted to PLN 11.3 million and additionally Group spent PLN 19.7 million on costs connected with Euro Bank (closing the deal, legal merger plan and preparation to operational merger).

Total number of Group's branches after the acquisition reached 839, of which 465 Euro Bank branches (including 233 within franchise model) and 374 Millennium branches (net increase of 15 outlets during the year).

Cost-to-Income ratio, adjusted for BFG resolution fee, reached in 1H 2019 similar level as year ago: 46.0%.

Group's Net Profit *(PLN million)*	1H 2019	1H 2018	Change y/y
Operating Income	1 563.4	1 325.3	*18.0%*
Operating Costs *	(756.0)	(632.2)	*19.6%*
Impairment provisions and other cost of risk**	(230.2)	(113.4)	*103.0%*
Banking tax	(110.0)	(100.7)	*9.3%*
Pre-income tax Profit	467.2	479.1	*-2.5%*
Income tax	(133.6)	(131.1)	*1.9%*
Net Profit - reported	333.6	347.9	*-4.1%*
Net Profit - normalised *	411.3	366.8	*12.1%*

(*) without impairment provisions for financial and non-financial assets
(**) includes initial provisions of PLN 80.6 million for 12 months expected credit loss on Euro Bank stage 1 and stage 2 portfolios, fair value adjustment of loans presented at fair value through profit and loss (PLN 5.1 million in 1 half 2019 and PLN 8.2 million in 1half 2018)) and result from modification (PLN 6.6 million in 1 half 2019 and PLN 7.4 million in 1half 2018)
(***) adjusted for BFG resolution fund annual fee by equally accruing it over the year - only 1/2 of this fee booked in 1H 2019 and 1H 2018 is treated as recurrent. Without one-off tax recovery of PLN 24.3 million (net) and Day 1 Euro Bank provisions of PLN 65 million (net)

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 2019 amounted to PLN 230.2 million and were 103% higher than this cost recognized in 1H 2018. Impairment losses of 2Q 2019 were increased by PLN 80.6 million initial provisioning on the fair value of Euro Bank performing portfolio as part of IFRS9 impact of 12 month expected credit loss implementation (Day 1 provisions). Apart of that one-off, there were PLN 12 million on-going provisions created on Euro Bank portfolio in June. Including this impact, total risk charges for retail segment stood at PLN 96.1 million while for corporate segment and other amounted to PLN 53.5 million in 1H 2019. In relative terms, cost of risk (i.e. net charges to average net loans) reached 52 bps level (without Day 1 provisions) compared to 47 bps in 1H 2018.

Pre-income tax profit in 1H 2019 amounted to PLN 467.2 million and decreased by 2.5% compared to the previous year, as a consequence of evolution of all described above elements and increase of banking tax by 1.9% yearly.

Net Profit reported in 1H 2019 amounted to PLN 333.6 million and was 4.1% lower than an year ago. Normalised net profit without initial Day 1 Euro Bank provisions, extra tax recovery and with adjustment for non-symmetric resolution BFG fee (in both periods) would reach PLN 411.3 million in 1H 2019 which means a growth of 12.1% yearly.

II.2. Balance Sheet

Assets

The Group's assets as at 30 June 2019 reached PLN 93,670 million, which means an increase by 28.9% compared to the end of June 2018. The synthetic structure of Group's assets and changes of their particular components are presented in the table below:

Group's Assets (PLN million)	30.06.2019		30.06.2018		Change 2019/2018
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	3 396.0	3.6%	2 146.7	3.0%	58.2%
Loans and advances to banks	711.6	0.8%	520.0	0.7%	36.9%
Loans and advances to Clients*	67 855.2	72.4%	50 255.9	69.2%	35.0%
Receivables from securities bought with sell-back clause	73.7	0.1%	108.8	0.1%	-32.3%
Debt securities	19 528.6	20.8%	18 267.8	25.1%	6.9%
Derivatives (for hedging and trading)	197.9	0.2%	334.6	0.5%	-40.9%
Shares and equities **	51.2	0.1%	46.8	0.1%	9.6%
Tangible and intangible fixed assets***	928.2	1.0%	264.5	0.4%	251.0%
Other assets	927.8	1.0%	720.9	1.0%	28.7%
Total assets	**93 670.3**	**100.0%**	**72 665.8**	**100.0%**	**28.9%**

(*) including loans valued at fair value through profit and loss
(**) including investments in associates
(***) including goodwill

Higher assets level resulted primarily from the growth of loans to clients by PLN 17,599 million (+35% y/y), of which PLN 12,629 million were the loan portfolio of acquired Euro Bank, consolidated since 1st June 2019. Also higher value of debt securities by PLN 1,261 million contributed more visibly to the total assets growth.

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Group's asset structure (72.4% as on 30 June 2019). Total net loans of Bank Millennium Group reached PLN 67,855 million as at 30 June 2019, which means growth by 35% year-on-year. The main driver of the very high growth was the consolidation of the loan portfolio of acquired Euro Bank, mentioned above in the text. Without the Euro Bank portfolio the growth of total loans would signify 9.9% year-on-year.

The growth of loans without foreign currency mortgage portfolio presented very strong rate of 49.1% year-on-year. The growth without Euro Bank presents very strong dynamics of 16.5% year-on-year reflecting fast increase in all key groups of lending activity (PLN mortgage, consumer loans and companies). FX mortgage portfolio continued to decrease and without Euro Bank loans it decreased by 6% year-on-year.

The net value of loans granted to households as at the end of June 2019 totalled PLN 49,529 million and grew by 46.5% compared to the balance recorded year ago. The portfolio without Euro Bank loans grew meaningfully by 9.1%. All main product categories, except FX mortgage loans, presented very strong annual growth rates (without Euro Bank impact): PLN mortgages +20.4% year-on-year and consumer loans of +21.4% year-on-year. The share of FX mortgage loans (including Euro Bank) fell to below 22%.

Cash loans hit a new quarterly record of PLN 1,098 million new sales during 2Q 2019 (without Euro Bank). This was possible, among others, thanks to the increase of digital channels in the sale process from 39% year ago to 51% in 2Q 2019. PLN mortgages sale also achieved a quarterly record and reached PLN 1,039 million level in 2Q 2019. The year-to–date values of sold loans reached very high increase of 31% year-on-year for cash loans and 18% year-on-year for mortgage loans.

Net value of loans to companies amounted to PLN 18,326 million as at 30 June 2019 and grew by 11.5% yearly. Solid growth was recorded in both leasing (+9.6% y/y) and other loans (+12.5% y/y).

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

Loans and advances to Clients *(PLN million)*	30.06.2019	30.06.2018	Change y/y
Loans to households	49 528.8	33 813.8	46.5%
- PLN mortgage loans	*20 001.9*	*12 297.9*	*62.6%*
- of which PLN mortg. loans of Euro Bank	*5 198.5*	*-*	*-*
- FX mortgage loans	*14 836.1*	*14 697.9*	*0.9%*
*- of which FX mortg. loans of Euro Bank***	*1 017.7*	*-*	*-*
- Consumer loans	*14 690.8*	*6 818.0*	*115.5%*
- of which consumer loans of Euro Bank	*6 412.6*	*-*	*-*
Loans to companies and public sector	18 326.4	16 442.1	11.5%
- Leasing	*6 525.6*	*5 953.8*	*9.6%*
- Other loans to companies and factoring	*11 800.8*	*10 488.4*	*12.5%*
Net Loans & Advances to Clients	**67 855.2**	**50 255.9**	**35.0%**
Net Loans and Advances to Clients excluding FX mortgage loans	*53 019.1*	*35 558. 0*	*49.1%*
Impairment write-offs *	1 867.3	1 881.6	-0.8%
Gross loans and advances to Clients	**69 722.5**	**52 137.5**	**33.7%**

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

(**) FX mortgage loans of Euro Bank are covered by an Indemnity and Guarantee Agreement signed with Société Générale S.A.

Debt securities

The value of debt securities equalled PLN 19,529 million at the end of June 2019 and increased by 6.9% year-on-year. Almost all 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 was 20.8% as at the end of June 2018, still making a strong liquidity buffer. Part of liquid assets was used to finance the acquisition of Euro Bank and repayment of Euro Bank's wholesale funding (of PLN 3.8 billion).

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 712 million as at the end of June 2019 and increased by PLN 192 million (or by 36.9%) year-on-year.

Shares and equities

Shares and other equities amounted to PLN 51 million as at the end of June 2019 and were the minor item in the balance sheet with only 0.1% share. The item increased by 9.6% year-on-year.

Tangible and intangible fixed assets

Group's tangible and intangible fixed assets amounted to PLN 928 million as at the end of June 2019, which means an increase by PLN 664 million (or by 251%) year-on-year, first of all due to acquisition of Euro Bank and presenting in the consolidated Balance Sheet its tangible and intangible fixed assets. In addition to that, the Bank recognized goodwill resulting from the acquisition in the amount of PLN 136 million after incorporating initial solution of Purchase Price Adjustment (PPA).

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)	30.06.2019		30.06.2018		Change 2019/2018
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 908.3	2.2%	1 165.7	1.8%	63.7%
Deposits from Customers	76 827.8	90.4%	59 831.5	92.4%	28.4%
Liabilities from securities sold with buy-back clause	21.0	0.0%	94.3	0.1%	-77.7%
Financial liabilities valued at fair value through P&L and hedging derivatives	571.5	0.7%	742.7	1.1%	-23.0%
Debt securities issued	1 470.0	1.7%	708.9	1.1%	107.4%
Provisions	108.3	0.1%	116.1	0.2%	-6.7%
Subordinated debt	1 646.3	1.9%	701.8	1.1%	134.6%
Other liabilities*	2 412.9	2.8%	1 397.2	2.2%	72.7%
Total liabilities	**84 966.1**	**100.0%**	64 758.1	**100.0%**	**31.2%**
Total equity	**8 704.2**		**7 907.7**		**10.1%**
Total liabilities and equity	**93 670.3**		**72 665.8**		**28.9%**

(*) including tax liabilities

As at the end of June 2019, liabilities accounted for 90.7%, while Group's equity accounted for 9.3% of the total liabilities and equity.

As at 30 June 2019, Group's total liabilities amounted to PLN 64,758 million and increased by PLN 20,208 million (or 31.2%) relative to the value as on 30 June 2018. The increase resulted, primarily, from growth in Customer deposits by PLN 17 billion, of which PLN 8.4 billion from Euro Bank. Other meaningful sources of the increase were subordinated debt (by PLN 945 million) and liabilities from securities (by PLN 761 million).

Deposits from Customers

Deposits from Customers constituted the Group's main liability and as on 30 June 2019 they accounted for 90.4% 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 2019 deposits from Customers amounted to PLN 76,828 million and recorded an increase of 28.4% relative to the balance as at 30 June 2018. The main reason of the increase were deposits of Euro Bank (practically most of them from retail segment) in the amount of PLN 8,361 million. Without the Euro Bank’s deposits the growth would be strong at 14.4%.

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

Customer Deposits *(PLN million)*	30.06.2019	30.06.2018	Change y/y
Deposits of individuals	57 638.4	43 303.2	33.1%
- of which deposits of Euro Bank	*8 360.7*	-	-
Deposits of companies and public sector	19 189.4	16 528.3	16.1%
Total deposits	**76 827.8**	**59 831.5**	28.4%

Deposits from individual Customers amounted to PLN 57,638 million which means a substantial growth of 33.1% yearly. The growth without Euro Bank’s deposits would be 14.4% year-on-year.

Strong growth in number of customers and accounts supported by Euro Bank’s current accounts deposits amounting PLN 4,520 million, allowed for visible increase of current and saving accounts volume by 36.9% year-on-year and their share in total deposits of individuals increased to 68%. At the same time term deposits of individual Customers grew by 25.8% year-on-year.

Deposits of companies and public sector amounted to PLN 19,189 million as at 30 June 2019 and increased meaningfully by 16.1% year-on-year.

Deposits from banks

Deposits from banks, including received loans, as at 30 June 2019 amounted to PLN 1,908 million, accounting for 2.2% of the Group’s liabilities. The value of that item increased by 63.7% vs. the balance as at 30 June 2018, first of all due to growing value of outstanding loans from European Investment Bank and European Bank for Reconstruction and Development (in EUR and PLN) by PLN 544 million, mostly for financing Group’s leasing activity. These loans included financing with original maturities up to 7 years, constitute the important items of wholesale long-term and medium-term funding received by the Group. Term deposits from banks also grew meaningfully by PLN 160 million compared to the balance as on 30 June 2018.

Debt securities issued

Debt securities issued by the Group as at 30 June 2019 amounted to PLN 1,470 million, which means an increase by PLN 761 million (or by 107.4%) relative to the balance recorded as at 30 June 2018. The main source of the increase were bonds issued by consolidated Euro Bank of the nominal value PLN 500 million. The other reasons for the growth were higher net values of issued bank debt securities possessed by individual Customers as savings products and higher net issues of bonds of the Bank's subsidiary Millennium Leasing (of the balance sheet value as at the end of June 2019 PLN 201 million).

The nominal value of Bank's bonds issued to institutional investors amounted to PLN 300 million and did not change during the period of 1 year.

Subordinated debt

The value of subordinated debt amounted to PLN 1,646 million as at 30 June 2019 and increased strongly by 134.6% year-on-year. The Bank issued in January 2019 ten-year subordinated bonds in PLN of the total nominal value PLN 830 million in addition to existing ten-year subordinated bonds in PLN of the total nominal value PLN 700 million. The issue of subordinated debt supports Group's and Bank’s capital adequacy and constitute the stable long-term source for funding of business activity.

Equity

As at 30 June 2019 the equity of the Group amounted to PLN 8,704 million and grew by PLN 796 million or 10.1% year-on-year. The main reason of the growth of equity was net profit generated during the 2nd half 2018 and 1st half 2019 financial year of PLN 746 million, without payment of any dividend for 2018 as decided by AGM of the Bank held on 25th March 2019. The impact of Other Comprehensive Income (mainly valuation of debt securities and instruments in hedge accounting) was also positive for the value of equity (PLN 50 million).

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

III. DESCRIPTION OF BUSINESS ACTIVITY

III.1. Bank Millennium is "Customer Relationship Star"

Quality of service is the hallmark of the best and is becoming increasingly important. In the age of acceleration, digitalisation and PSD2 customers have an increasingly wide selection of products and services to choose from faster and more easily. In order to be unique the Bank focuses on what makes it stand out among others and what brings a smile to customers' faces. Thanks to this Bank Millennium has for years been an unquestioned quality leader of the Polish banking sector, with recent months bringing it i.a. the title of "Customer Relationship Star" - a prestigious award in a competition organised by "Dziennik Gazeta Prawna" and PwC. In the competition questionnaires Bank Millennium had the most responses on the market that for customers it is a trusted financial partner and also opinions like "for me it is the perfect bank" and "I am very satisfied".

Working on modern products and continuing to improve its services, the Bank puts emphasis on adapting its solutions also to the expectations of employees. Given the assumption that quality always supports sales and a well-prepared employee is the pillar of quality - in the 1st half of 2019 the Bank was improving the skills of branch staff in customer relationship opening. For this purpose it was using unconventional gamification form of training, which were intended i.a. to reduce the customer's effort in matters requiring longer processing.

Euro Bank too continues to make sure it provides high quality of customer service and their customers are regularly asked to fill-out satisfaction questionnaires. In the first half of 2019 Euro Bank acquired more than 25,000 opinions, almost 8,000 more than in the same period of 2018. The survey results show that customers are very satisfied with service quality: 96% of customers served in branches and 87% of those who used the call centre gave the Bank scores of 4 and 5 on a scale of 5.

Top quality is one of the most important values of both brands, which is confirmed by market experts and rankings. In the 1st half of the year Bank Millennium and Euro Bank were in the top 5 banks ranked in the "Golden Banker" competition, which awards banks with highest multichannel quality of service. Both banks were also appreciated by customers - their NPS results were above the market average ("Bank Customers Satisfaction Monitor" survey made by ARC Rynek i Opinia). Also in the "Złota Słuchawka" and "Telemarketer Roku" competitions organised by SMB Polish Marketing Association, Bank Millennium and Euro Bank stood on the podium no less than three times.

III.2. Retail Banking - Bank Millennium

Retail banking constitutes an important area in the Bank's activities. It comprises services for private customers, affluent private customers, Private Banking and business customers. Customers have access to products and services through the branch network, internet banking, mobile and telephone banking and the network of ATMs. In effect of the omni-channel approach, customers gain comprehensive experience in contacts with the Bank and manage their finances in a convenient and safe manner.

In the first half of 2019 customer acquisition proceeded in line with strategic assumptions of the organisation. Since the beginning of the year the Bank increased its active customers' base by the record-high figure of 110 000 (233 000 within the last 12 months), which means that as of 30 June it was serving more than 1.9 million active retail customers. At that time 1.5 million people were actively using electronic banking while the mobile app and mobile Millenet were in use by 1.1 million (35% annual growth). Since the beginning of the year 237 000 new bank accounts were opened, with the unwaveringly popular Konto 360° traditionally having the biggest share. Excellent performance was supported by the successfully continued referral programme "Like it! Share it", in which recommending Konto 360° could be rewarded with attractive prizes. By end of June more than 500,000 customers registered in the programme.

In the first two quarters of 2019 sales of new mortgages reached the record-high value of 1.9 bn PLN (18% growth over the 1st half of 2018), while sales in Q2 alone stood at 1bn PLN (+20% y/y). This is the Bank's best result since the mortgage crisis in 2008. Q2 also saw sustained high growth rate of applications - 5,000 per month. Crucially important for attaining the results was introduction in the own network of a new sales model based on standardisation of the process of customer interview, automation of the collaterals valuation model, reduction of spread in ranges below 80% LTV and change of the method of calculating the fee for increased risk until writing the mortgage in the land and mortgage register. The Bank's market share was 7.2% in Q2, which gave it the 6th place among competitors.

The first half of the year also brought record-high sales of cash loans with 31% y/y growth. It amounted to more than 2 bn PLN, with more than 1.1 bn of that in Q2 (11% q/q growth). The Bank continued to implement its strategy of developing a competitive product offer and sales process, as launched in previous quarters. Acquisition of cash and consolidation loans was supported by attractive promotional offers addressed to new customers and selected market segments. Double-digit growth was seen in all sales channels, the highest in the mobile channel: 205% y/y growth. The portfolio of cash loans increased 22% y/y after two quarters and the total value of loans to individuals as of 30 June 2019 reached 38.1 bn PLN gross (without Euro Bank).

Credit card sales in the first half of the year saw the highest semi-annual value – close to 45,000 new cards, which constitutes 39% increase over the previous half-year. Sales in Q2 amounted to 21,500 cards (25% y/y growth). Impresja remained the best-selling credit card, with Alfa in the 2nd place. Their sales accounts for 80% of total credit card sales. Q2 2019 was another period of high 19% share of digital channels in total sales. On 30 June 2019 the credit cards portfolio comprised 382,300 cards, which means 8% growth in annual terms.

In the first half of the year the Bank was back on the dynamic growth track for deposit volumes, with simultaneous improvement of portfolio profitability - total funds of private customers deposited with Bank Millennium reached the value of 58.3 bn PLN, 11% up in annual terms. Volume growth involved primarily current and savings accounts (+2.16 bn PLN in Q2) with simultaneous decrease in term deposits

The Bank continued the business model based on further digitalisation and again increased the share of digital channels in selling its products and services. The share of these channels in sales of personal accounts totalled 21%, with 90% in term deposits and 51% in cash loans (which means that one out of two loans was sold in a digital channel). As regards non-banking online services, the highest growth was observed in BLIK transactions - 194% y/y, sale of city transport tickets - 93% y/y and number of activated HCE cards - 99% per y/y (HCE technology enables using a phone for contactless card payments).

Internet and mobile banking for individuals

In the first half of 2019 the Bank still worked on delivering its clients in e-channels the best solutions to facilitate taking care of every-day formalities. Such as:

Bank Millennium launched the production version of API - it was one of the first on the market to launch the test documents and environment in March and the production API open banking interface in June. Thus the Bank has satisfied all the requirements as regards account access and payment initiation under PSD2 Directive and RTS standards, both for individual as well as corporate clients. The access interface is based on PolishAPI standard, which had been developed together with other banks, payment institutions and third parties under the auspices of ZBP. Thanks to the interface licensed third-party providers (TPP) can now provide PSD2 services to the Bank's customers.

In March the Bank started the launch of revamped Millenet online system and mobile application to create *new-generation banking*. It uses technologies and solutions, which are unique on the Polish market and also have an exceptional design, providing customers with a completely new digital experience. In the new app and in Millenet offers can be found, which are accurately tailored to needs and to an individualised method of managing finances. New sections facilitate access to frequently used functions, which customers can manage according to their own preference.

In the Millenet system the Bank launched applications for family benefits in Rodzina 500+ and Dobry Start 300+ programmes reflecting the new assumptions. From 1 July 2019 the 500+ benefit is available for the first and every subsequent child, without the income criterion. For this occasion the Bank prepared a special promotion - customers applying for 500+ benefit can count on a bonus of up to 300 PLN as well as additional prizes.

Both in Millenet as well as in the mobile app, new cash loan application processes were made available, which significantly drove up the sales results. Customers gained the possibility of consolidating the loans they have in Bank Millennium and to apply for new ones in the mobile app (apart from the preapproval offering). Also such sales processes were optimised as opening an account for sole traders and buying motor insurance.

The Bank was the first bank in Poland to launch in its mobile app the service of automatic motorway toll payment - *Autopay* from Blue Media. Thanks to this service customers can travel on a motorway without having to stop at the toll gates. The toll will be charged automatically after leaving the motorway, to the account or credit card specified by the customer. The *Autopay* automatic payment system is currently active on the A1 motorway and on the A4 on the Kraków - Katowice section.

Development of the e-channel offer was translated into the number of logins. In Q2 2019 Millenet users logged-on 23 million times to the system and 67 million times to the mobile app. At the end of the second quarter, 100,000 clients used transaction approval in Millenet with mobile app thanks to Mobile Authorisation service.

III.3 Retail banking - Euro Bank

In the first six months of 2019 Euro Bank continued activity as the personal finances expert. During this period the balance of granted cash loans increased to 6.4 bn PLN (9.2% y/y growth), while the balance of total loans at end of June 2019 was 12.6 bn PLN (according to consolidated Group's statements).

At the same time the Bank was actively acquiring new customers who were depositing their savings with it. The attractive deposits' offering drove a marked growth of value of accumulated funds to the record-high level of 8,1 bn PLN (+16.3% y/y).

In the first half of 2019 Euro Bank was consistently attracting new users of mobile banking with the eurobank mobile 2.0 app. It was implemented in early 2018 and in later months was supplemented with new functionalities (mobile authorisation and contactless withdrawals from ATMs using a mobile phone). As of 30 June 2019 the app was used by 40,200 mobile-only users. In the first two quarters of 2019 the mobile app was used by customers to set-up more than 11,000 deposits and to perform almost 2 million transactions.

Euro Bank has a network of more than 460 branches throughout Poland. Half of them are outlets operated by partners in the franchise network. Proof of their satisfaction with the relationship is the fact that 11 out of 138 franchise partners have been working with the Bank ever since the network originated i.e. since 2007, while 52 partners are operating more than one branch. The franchise network is located first of all in towns with 12,000 to 35,000 inhabitants - these account for 85% of the Bank's franchise branches.

III.4 Goodie smartshopping app

The first half of 2019 saw continued goodie growth rate. The total number of downloads of the app since its launch reached close to 1,2 million, with 300,000 downloads in 2019. The mobile app introduced in 2016 and the goodie.pl website contains close to 1300 brands and 2800 retail offers. 480,000 virtual customer loyalty cards have been registered in 43 loyalty programmes of shopping centres.

In accordance with the continuous development assumption goodie has been enriched to include new programmes and functions. Already existing customer loyalty programmes were joined by further stamp programmes of cafes and restaurants, including "goodie club" opened in two business parks in Warsaw's Mokotów district. The number of stamp cards set up in the app exceeded 215,000. A new and useful function are the maps of nine shopping centres, available in the app. They allow finding a favourite shop quickly and seeing what other brands are available in the selected shopping centre. More maps soon.

The cashback programme remains a strong point of the goodie app. By mid-2019 close to 310,000 purchase transactions were made by 21,000 users who received a refund of part of their spending.

III.5. Corporate Banking

Corporate Banking is a segment, which targets companies generating annual sales revenue above 5 mln PLN as well as institutions and public sector units. A unique characteristic of Bank Millennium are long-term stable partnership relations with customers, based upon mutual trust, commitment and understanding.

In the first two quarters of 2019 further growth of demand for financing could be observed. The market of corporate loans grew 7% y/y while the gross value of loans granted by the Bank increased 1.8 bn PLN i.e. 11% annually. The trend resulted from further growth of to-date business relations as well as acquisition of new customers. On 30 June 2019 the portfolio of corporate credit products, including lease and factoring, reached the value of 18.9 bn PLN gross.

In the 1st half of 2019 the lease portfolio grew 9% y/y reaching the level of 6.7 bn PLN. The value assets leased in the 1st half of the year was 1,76 bn PLN, growing 6% y/y. The good result came mainly from increases in leasing of real estate and means of road transport. In the 1st half of the year factoring turnover realised by the Bank also grew. At the end of June 2019 the value of receivables acquired by the Bank increased 8.3% y/y and reached the value of 10.2 bn PLN. Factoring assets as of end of June 2019 were 2.5 bn PLN.

The amount of limits for guarantees and letters of credit granted by the Bank as of 30 June 2019 was 1.9 bn PLN, which represents 15% y/y growth. Also the amount of granted active guarantees grew to reach 808 million PLN (+2.3% y/y). Electronic guarantees launched in 2018 were becoming increasingly popular with customers. Their main advantages are express delivery to an e-mail address/to the Millenet system as well as zero costs of paper logistics. In the first half of the year the Bank issued 307 new e-guarantees, which constitutes close to 30% of all guarantees granted.

The effect of the consistent development of the product offer and further digitization was the increase in the volume of funds on current accounts (the value amounted to 8.7 bn PLN as at the end of June 2019, growing by 14% y/y).

The value of funds deposited by companies with Bank Millennium reached double-digit y/y growth of 16% arriving at 19.2 bn PLN.

Electronic banking for companies

In the first half of 2019, Bank Millennium was intensively developing corporate e-banking.

In March 2019 it provided access to foreign transfers in the mobile app. Just as in the internet banking system, users were given the possibility to select the date and mode of processing of transactions as well as a negotiated FX rate (each time with information about transfer costs for selected settings). The number of mobile app users was growing steadily and exceeded 9,000.

Customers were also given the opportunity to open further accounts in the Millenet internet banking system. The new function allows easy online application for another account (current, FX, salary). The account is ready for use immediately after submitting the application. Close to 50% of additional accounts are opened this way.

In April the cards range grew to include *Millennium Mastercard Corporate Executive* charge card. It is a blend of a corporate payment card with a suite of benefits available so far only to the most affluent private customers. The new card was created mainly with a view to the comfort and security of company senior managers and owners who often travel on business in Poland and abroad.

Additionally in May the Bank implemented *ApplePay* - contactless payments with a phone or smartwatch for iOS-powered devices - available to users of all corporate cards.

IV. RISK MANAGEMENT

IV.1. Risk Management

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 organizational structure.

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

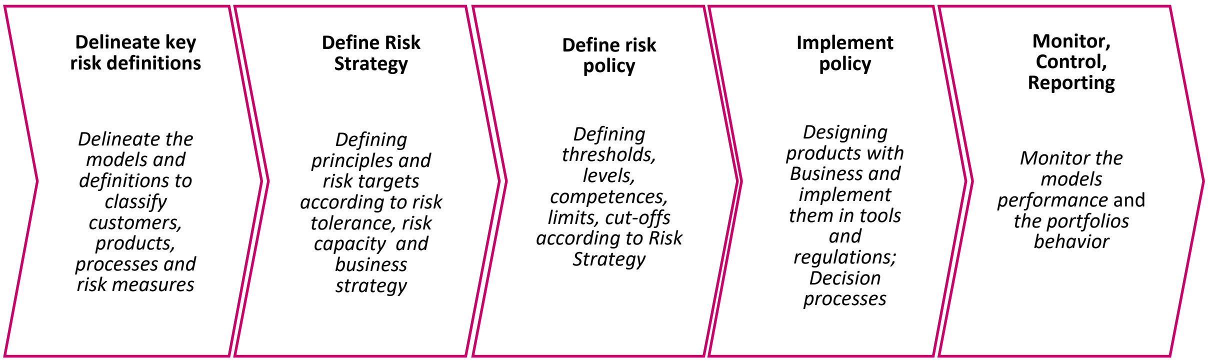
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk tolerance) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

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

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

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

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



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

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

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2019-2021" (2018-2020 version was in force previously). The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

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

1. Risk profile – current risk level expressed in amount or type of risk the Group is currently exposed. The Group also has a forward looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk tolerance,

2. Risk tolerance – the maximum amount or type of risk the Group is prepared to accept to achieve its financial and strategic objective.

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

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

1. Solvency
2. Assets quality
3. Liquidity and funding
4. Earnings volatility
5. Business mix
6. Franchise and reputation.

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

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

a. Capital Management and Planning Framework
b. Credit Principles and Guidelines
c. Rules on Concentration Risk Management
d. Principles and Rules of Liquidity Risk Management
e. Principles and Guidelines on Market Risk Management on Financial Markets
f. Principles and Guidelines for Market Risk Management in Banking Book
g. Investment Policy
h. Principles and Guidelines for Management of Operational Risk
i. Stress tests policy.

Within risk tolerance, the Group has defined tolerance zones (build up based on the “traffic lights” principle). As for all tolerance zones have been set:

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

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

In May 2019, Bank Millennium acquired 99.79% of shares in Euro Bank. As a result of this transaction, Bank Millennium improved its market share in the retail segment. The structure of the portfolio in the purchased bank is very similar to the product structure of the retail part of Bank Millenium: cash loans and PLN and FX mortgage loans. After the consolidation of the mortgage portfolio of both banks, the share of foreign currency mortgage loans in total mortgage will be reduced. Regarding the Euro Bank’s CHF mortgage exposure, Societe Generale Financial Services Holding provided a 10 year guarantee covering 80% of defaults and risk of FX mortgage loans, allowing for reduction of effective risk weight of acquired FX mortgage portfolio for the Bank; and a 20 year indemnity fully covering legal/litigation risk of FX mortgage loans, including any change of law.

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 appetite.

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:

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for particular banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in October and November 2018 in the level of 6.41 p.p. (Bank) and 6.27 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 4.81 p.p. in Bank and of 4.70 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 3.59 p.p. in Bank and 3.51 p.p. in Group; The current buffer does not include the portfolio of Euro Bank FX mortgage loans. In the Bank's opinion, its inclusion would reduce the buffer.

- 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%, and the value is set by KNF every year[1];
  - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
  - Countercyclical buffer at the 0% level.

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

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

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

In the end of 2014, the Bank received another decision by Regulatory Authorities regarding the IRB process. According to its content, for the RRE and QRRE loan portfolios, the minimum own funds requirements calculated using the IRB approach had to be temporarily maintained at no less than 70% (“Regulatory floor”) of the respective capital requirements calculated using the Standardized approach until the Bank fulfils further defined conditions. In July 2017 the Bank received the decision of Competent Authorities (ECB cooperating with KNF) on approval the material changes to IRB LGD models and revoking the “Regulatory floor”.

From the end of May 2019, the Bank took into account in the calculation of own funds requirements the purchase of 99,97% of Euro Bank S.A. shares, which was the main reason for their visible increase in the second quarter of 2019.

Internal capital

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

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

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

In second quarter 2019, 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 evaluation

Capital adequacy evolution of the Group and the Bank over the last year was as follows:

Capital adequacy measures	30.06.2019 Group	30.06.2018 Group	30.06.2019 Bank	30.06.2018 Bank
Risk-weighted assets	47 048.1	34 268.7	39 987.6	37 744.5
including from the acquisition of Euro Bank	***9 199.5***	-	***3 382.0***	-
Own Funds requirements, including:	**3 763.8**	**2 741.5**	**3 199.0**	**2 699.6**
- Credit risk and counterparty credit risk	*3 324.5*	*2 399.0*	*2 878.7*	*2 383.7*
- Market risk	*19.9*	*27.9*	*19.9*	*27.9*
- Operational risk	*415.9*	*310.8*	*297.7*	*284.1*
- Credit Valuation Adjustment CVA	*3.6*	*3.8*	*2.8*	*3.9*
Own Funds, including:	**9 470.5**	**8 009.6**	**8 187.5**	**7 807.0**

- Common Equity Tier 1 Capital	***7 940.5***	***7 309.6***	***6 757.5***	***7 107.0***
Including impact from Euro Bank purchase	*-199.0*		*-1 126.1*	
- Tier 2 Capital	*1 530.0*	*700.0*	*1 430.0*	*700.0*
Total Capital Ratio (TCR)	**20.13%**	**23.37%**	**20.47%**	**23.14%**
Minimum required level	19.77%	18.535%	19.91%	18.655%
Surplus(+) / Deficit(-) of TCR ratio (p.p.)	+ 0.36	+ 4.835	+ 0.56	+ 4.485
Tier 1 Capital ratio (T1)	**16.88%**	**21.33%**	**16.90%**	**21.06%**
Minimum required level	16.20%	15.185%	16.31%	15.275%
Surplus(+) / Deficit(-) of T1 ratio (p.p.)	+ 0.68	+ 6.145	+ 0.59	+ 5.785
Common Equity Tier 1 Capital ratio (CET1)	**16.88%**	**21.33%**	**16.90%**	**21.06%**
Minimum required level	13.51%	12.655%	13.59%	12.725%
Surplus(+) / Deficit(-) of CET1 ratio (p.p.)	+ 3.37	+ 8.675	+ 3.31	+ 8.335

As at 30 June, 2019, capital adequacy measured by Common Equity Tier 1 Capital ratio (CET1) and Total Capital Ratio (TCR), decreased over the last 12 months. CET1 dropped by 4.2 p.p. and 4.5 p.p. and TCR by 2.7 p.p. and 3.2 p.p. (Bank and Group respectively).

Risk-weighted assets (RWA) increased since the end of June 2018 by ca. 2.2 and 12.8 bn PLN (Bank and Group, respectively by 5.9% and 37.3%). The main driver of that RWA increase was a purchase of Euro Bank SA shares, which caused the rise of RWA by almost PLN 9.2 bn (Group).

Own Funds went up since June 2018 by PLN 380 m (Bank) and by PLN 1,461 (Group). The main drivers of solo own funds changes are: retention of 2018 net earnings in 1st quarter 2019 (increase by PLN 722 m), subordinated debt issue in 1st quarter 2019 (increase by PLN 830 m) and inclusion of capital engagement in Euro Bank (decrease by PLN 1,126 m). On the consolidated level, own funds increase was caused by (main drivers): retention of 2018 net earnings in 1st quarter 2019 (increase by PLN 761 m), subordinated debt issue in 1st quarter 2019 (increase by PLN 830 m) and an effect of Euro Bank shares purchase in 2nd quarter 2019 (decrease by PLN 199 m).

The minimum required by KNF levels of capital ratios for Bank and Group were achieved with a surplus, despite the taking over Euro Bank and no adjustment by KNF the Pillar II RRE FX Buffer, which does not include that event in its calculation. As of the end of June 2019, capital surplus for TCR Group was 0.36 p.p. and for CET1 ratio was 3.37 p.p. (capital surplus for Bank solo was: 0.56 p.p. and 3.31 p.p. respectively). It can be summarized, that Bank Millennium Group has used its excess capital for acquisition of Euro Bank. The Bank Millennium Group plans to use the increased market share to rebuild a strong capital position.

IV.3. Credit risk

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.

The **credit policy** pursued in the Group is based on a set of principles such as:

- centralization of the credit decision process;
- using specific scoring/rating models for each Client segment/type of products;
- using IT information (workflow) in order to support the credit process at all stages;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit sub-portfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sub-limits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;
- separate unit responsible for granting rating to corporate Client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

In the area of credit risk in the first half of 2019, the Group focused on adapting the credit policy principles to the changing economic conditions and improvement of credit risk management tools and processes, in particular:

- update of the Risk Strategy for 2019-2021;
- optimization of credit risk management methodologies, tools and processes for retail and corporate clients;
- reconstruction of rating models using new data sources to increase their discriminatory power;
- upgrade of industry risk classification and industry limits.

In the retail segment, the implementation of supervisory recommendations has been completed. At the same time, as part of the preparation for the merger with Eurobank, the implementation of changes in the credit policy for granting consumer loans began. The purpose of these changes is to serve new target groups of customers while maintaining the currently observed level of risk. All the above changes were aimed at streamlining the credit process while at the same time limiting the appetite for risk.

In the corporate segment, the Group focused on activities aimed at streamlining and accelerating credit processes. The product offer for the corporate client was expanded. The industry policy and risk tolerance in each sector were also updated. As in previous periods, work continued on improving IT tools supporting processes, in particular the monitoring process.

All the changes mentioned above should allow the Group to achieve the defined goals referring to the growth dynamics of corporate portfolio while maintaining the level of risk at an acceptable level as defined in the Risk Strategy.

Loan portfolio quality

The Group enjoys also one of the best asset quality among Polish banks: share of impaired loans in total loan portfolio remains on a low level of 4,30% (decrease by c.a. 0.44 p.p. in comparison with June 2018). Share of loans past-due more than 90 days in total portfolio also decreased during last year from 2.71% in June 2018 to 2.52% at the end of June 2019.

Coverage ratio of impaired loans decreased during the year from 76.1% in June 2018 to 62.3% presented in June 2019 (such significant drop is related to consolidation in Group from May 2019 Euro Bank's portfolio with low coverage level after PPA valuation). Coverage by provisions of loans past-due more than 90 days decreased also significantly as result of Euro Bank's consolidation and equals as of 30.06.2019 – 106.4%.

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

Group loans quality indicators	30.06.2019	30.06.2018
Total impaired loans (PLN million)	3 000	2 474
Impairment provisions	1 797	1 806
FV correction	70	76
Total impairment provisions and FV correction (PLN million)	**1 867**	**1 882**
Impaired over total loans ratio (%)	**4.30%**	**4.74%**
Loans past-due over 90 days /total loans (%)	2.52%	2.71%
Total impairment provisions and FV correction/impaired loans (%)	**62.3%**	**76.1%**
Total impairment provisions and FV correction/loans past-due (>90d) (%)	106.4%	133.3%

Impaired loans ratio divided by particular product segments showed improving trend both in retail portfolio year-to-year (mortgage from 2.86% to 2.55% and other retail from 12.55% to 8.67%) and Bank's corporate portfolio (from 4.10% to 3.71%), only leasing portfolio showed deterioration (increase to 4.12%). The same trends were observed in this segments also for dpd >90 days ratio. The Improvement ratios for retail portfolios results from the specific nature of the recognition in Bank Millennium Group's the Euro Bank's portfolio and additionally from significant write-offs activities in the field of Impaired portfolio (incl. dpd>90 days portfolio).

Since June 2018 the structure of mortgage portfolio has improved. Admittedly value of the FX mortgage loans year-to-year (in PLN) slightly increased (FX mortgage portfolio after consolidation with Euro Bank grew covering amortization connected with repayments) but share this portfolio in the total mortgage portfolio has been reduced by ca 11.5 p.p. to 42.6%.

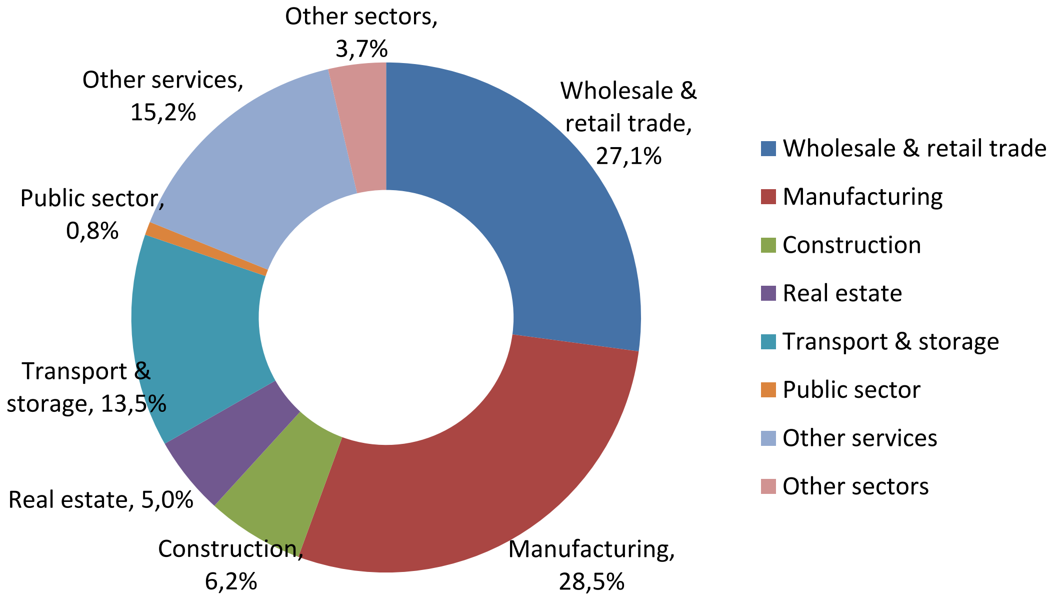
The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in the sale of loans in PLN.

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	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Mortgage	1.21%	1.24%	2.55%	2.86%
Other retail (*)	5.41%	8.34%	8.67%	12.55%
Leasing	2.22%	1.75%	4.12%	3.95%
Other Corporates	2.69%	2.76%	3.71%	4.10%
Total loan portfolio	**2.52%**	**2.71%**	**4.30%**	**4.74%**

(*) 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 3.8%. The share of main sectors in the Group's portfolio is presented in the figure below:



IV.4. Other risks

Market risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse market movement. The framework of market risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the BCP Group. In 1 half 2019, market risk was generated mainly by interest rate and FX instruments.

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (10-days holding period) with a required probability (99% confidence level) due to an adverse market movement. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management , and also in consolidated terms for Global Bank, Banking Book and Trading Book considering the effect of the diversification that exists between the particular portfolios. Apart from daily measurement at the level of each book and market risk area, the VaR model is mainly applicable and analysed at the Trading Book level, where the policy intention is to trade positions on the regular basis (mostly daily). Due to that fact, the VaR model do not cover Euro Bank positions as its Trading Book do not exists. On contrary, following the supervisory guidelines[2], the interest rate risk in Banking Book is covered by both earnings-based and economic value measures.

In 1 half 2019, the overall market risk limits in terms of VaR was not breached - neither in Global Bank not in Banking Book and Trading Book, separately.

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

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for the portfolios that are subject to high market risk. In 2019 the results of stress test were regularly reported to the Capital, Assets and Liabilities Committee (CALCO). There were no excesses of the internally established limits detected.

Interest rate risk in Banking Book (IRRBB)
In case of the Banking Book, the main component of the market risk is interest rate risk. The variations in market interest rate have an influence on the Group's net interest income, both under a short and medium-term perspective, affecting its economic value in the long term. The measurement of both is complementary in understanding the complete scope of interest rate risk in Banking Book.

Since the date of Euro Bank acquisition, those positions have been consolidated and included into interest rate risk measurement in Banking Book according to rules adopted in Bank Millennium Group.In the Table below, the sensitivity of Banking Book to interest rate changes measured in relation to net interest income (NII). The impact on net interest income in the next 12 months (based on annualized 2Q 2019 net interest income), in a scenario of immediate parallel yield curve decrease for position in Banking Book in Polish Zloty, is the following:

Sensitivity of NII for PLN interest rate change	30.06.2019(*)	31.12.2018
parallel yield curve increase by 100 b.p.	+1.4%	+3.4%
parallel yield curve decrease by 100 b.p.	-3.4%	-4.6%

(*) Euro Bank is included

The impacts of interest change on Net Interest Income is asymmetrical and it is negative in case of decreasing interest rates. This is due to the Polish legal system and the fact that the interest rate of consumer loans and credit cards is limited (from January 2016 it cannot exceed twice Reference Rate of the National Bank of Poland increased by 7 percentage points). The strength of impact on net interest income in face of decrease of the interest rate depends, among other factors, on the percentage of the loan portfolio that is affected by the new maximum rate.

2 Guidelines on the management of interest rate risk arising from non-trading book activities, EBA/GL/2018/02.

Liquidity risk

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

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

Keeping the comfortable liquidity position was possible mainly due to actions planned and taken by the Group in advance. The Group mainly increased stable deposit base from individuals and issued ten years subordinated bonds in total nominal amount of PLN 830.0 million with maturity date on 30 January 2029, so that it was able to improve its liquidity buffer and on Euro Bank's acquisition date repaid its external financing as well as completely covered the purchase price by liquidating part of liquidity surplus (unencumbered liquidity assets). Thanks to this no additional sources of funding was required with simultaneous safe liquidity position kept.

After Euro Bank acquisition, total Clients' deposits of the Group reached the level of PLN 76.8 billion (PLN 66.2 billion at the end of December 2018). The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grow to approx. 75.0% at the end of June 2016 from 72.1% at the end of December 2018. The increasing share of funds from individuals had a positive impact on the Group's liquidity and supported the compliance of the supervisory measures.

In 1H 2019, the Group's Loan-to-Deposit ratio was kept still well below 100%. This ratio was equalled 88% at the end of June 2019 (comparing to level of 78% as of end of December 2018). The liquidity surplus was still invested in the portfolio of liquid assets (Cash, balance with NBP, NBP Bills and Polish Government bonds). The share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 99% at the end of June 2019. During 2019 this portfolio decreased from PLN 22.7 billion at the end of December 2018 (28% of total assets) to approx. PLN 19.2 billion at the end of June 2019 (21% of total assets). The portfolio of debt securities (especially available for sale, without trading activity), supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which will overcome crisis situations (see Table below).

Liquidity ratios	30.06.2019 (*)	31.12.2018
Loans/Deposits ratio (%)	88%	78%
Liquid assets portfolio (PLN million) (**)	18 274	22 836
Liquidity Coverage requirement, LCR (%)	172%	212%

(*) Euro Bank is included

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

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. The source of medium-term funding remains also medium-term loans, subordinated debt, own bonds issue and bank's securities.

The Group manages its FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements.

The estimation of the Group's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. In 2019 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place, including the liquidity coverage requirement (LCR) calculated according to the Regulation of European Parlament and Council no 575/2013 on prudential requirements for credit insitutions and investment firms (CRR). The regulator minimum of 100% for LCR was complied by the Group (as of the end of June 2019 the LCR, icluding positions from Euro Bank, reached the level of 172%).

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 1H 2019 all the liquidity gaps were maintained at the levels significantly above the minimum limits.

Liquidity stress tests are performed at least quarterly, in order to understand the Group's liquidity-risk profile and to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the Liquidity Contingency Plan and management decisions.

The liquidity risk management process is regulated in the internal policy that is a subject of the Bank's Management Board approval

The Group has also emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is tested and revised at least once a year.

Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organizational structure. Current management of the specific processes, including the management of the profile of process operational risk, is entrusted to Process Owners, who report to all other units participating in the risk management process and are supported by these units.

In order to manage the fraud risk, the Group has in its structure a special organizational unit to develop, implement and monitor the Group's policy for management of this risk in cooperation with other organizational units of the Group and in accordance with its internal regulations. The Fraud Risk Management Bureau is a center of competence for the fraud prevention process.

V. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

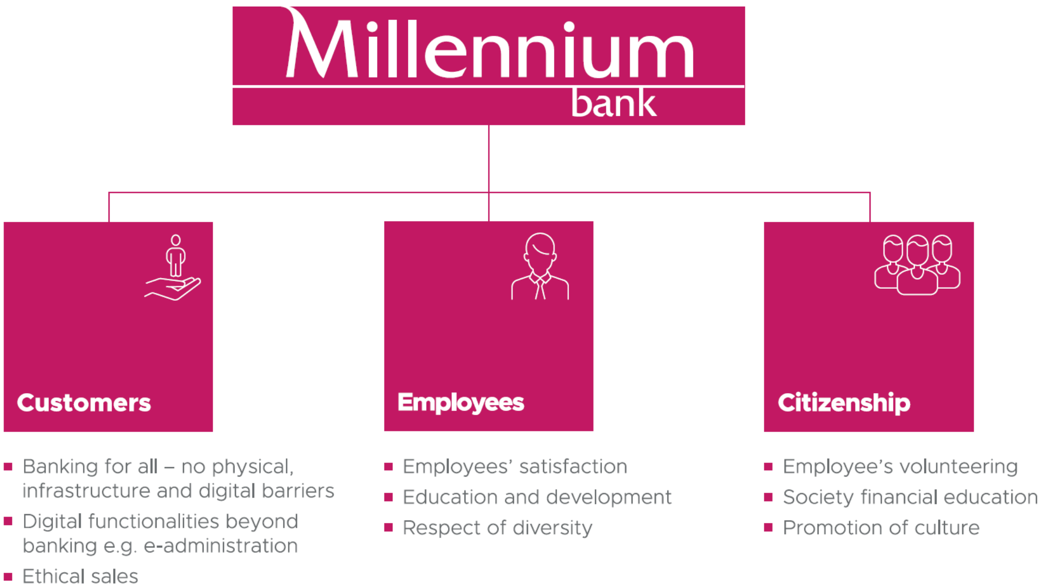
V.1. Annual General Meeting decisions

Ordinary General Meeting of Bank Millennium Shareholders was held on 25 March 2019. Overall, 211 Shareholders participated representing 77,35% stake in share capital of the Bank, including BCP (50.10% of the share capital), Nationale-Nederlanden OFE (8,.24% of the share capital), Aviva OFE (6.29% of the share capital) and PZU „Złota Jesień" OFE (5.61% 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 2018 in the Bank's reserve capital.

V.2. Responsible business and activities for the society

CSR activities are part and parcel of Bank Millennium's business strategy and apply to three main groups: customers, employees and community. The company's priority is to alleviate physical and digital barriers in access to banking and non-banking (e.g. e-administration) services. Bank Millennium is not only dedicated to developing mobile solutions, which enable use of financial services anywhere and anytime, but also adapts its services to the needs of persons with disabilities. The improvements concern easier access to branches, cash machines, telephone service, website as well as service method. 100% of our cash machines and more than 70% branches are adapted to requirements of persons with disabilities. CSR programmes carried out for employees involve first of all supporting diversity in the workplace (Bank Millennium is a signatory of the Diversity Charter), assuring stable and attractive employment terms and conditions as well as offering opportunities to engage in social activities. Community programmes are largely implemented via Bank Millennium Foundation and focus on two areas: financial education and employee volunteering The company also supports UN Sustainable Development Goals. Joining the business and government administration partnership for attaining these Goals, Bank Millennium declared it would undertake activities especially as regards financial education of children and the youth. This goal is attained by means of carrying out the Financial ABCs kindergarten children financial education programme, which has already trained 33,000 children. Since 13 years ago all CSR actions are recapitulated every year in Bank Millennium's Corporate Social Responsibility Report: https://raportroczny.bankmillennium.pl/2018/en/.



Key CSR efforts in 1H 2019:

1. Banking without barriers

Creation of the bank accessible to all clients, including persons with disabilities, is an element of the Bank Millennium's business strategy. Nearly five million of Poles i.e. close to 12% of the society are persons with disabilities. Considering this large group, Bank Millennium offers improvements in access to branches, cash machines, telephone service, website as well as service method. 100% of our cash machines and more than 70% branches are adapted to requirements of persons with disabilities. Bank Millennium was one of the first companies to adapt its website to the needs of persons with disabilities. In recognition of its focus on availability of its website Bank Millennium received the "Website Without Barriers" award from Fundacja Widzialni foundation. Bank Millennium came 1st in the "Access" category in the Ranking of Banks by Miesięcznik Finansowy Bank.

Bank Millennium is expanding the banking-without-barriers concept into other areas. By providing cinema films with audio description it facilitates access to the world of culture for persons with sight impairments. An important objective of the Bank is also to counteract digital exclusion. By improving access to mobile solutions, i.a. e-administration, it provides access to banking services anywhere and anytime. All such solutions fall into the common value creation category - for the company as well as its environment.

2. Financial education programme - the Financial ABC

Financial ABC is a proprietary kindergarten kids financial education programme of Bank Millennium Foundation under the honorary sponsorship of the Minister of Education and the Children's Ombudsman. Its purpose is to explain to the children - through play and games - the meaning of basic financial terms. The programme is implemented in the form of workshops in kindergartens throughout Poland. The sessions are led by volunteers - employees of Bank Millennium. The educational materials were prepared and made available in kids' corners in Millennium branches. Since the programme launch the programme offered more than 1300 workshops to train almost 33,000 children from approx. 400 kindergartens all over Poland. In 2019 Financial ABCs won the 1st place in the "Golden Banker" competition in the "Socially Sensitive Bank" category.

3. Employee volunteering

The Bank Millennium Foundation carries out its Millantrop programme, in which, by way of competition, it awards grants to finance social activities undertaken by the Bank's Employees. So far more than 400 volunteers took part in social actions organised with support through grant competition and carried out programmes for several thousand beneficiaries. Bank employees implement various projects – from renovation work through education to environmental projects. Volunteers renewed classrooms and a playground of a child care home; they outfitted a therapy room for persons with disabilities; laid down a new floor in a scout hall and even expanded a school football pitch. Volunteers also conducted financial education workshops for children from child care outlets, promoted book reading and encouraged sports activities and healthy life style among young people. They also implemented a project for animal shelter and planted a forest.

CSR actions carried out by Bank Millennium are highly appreciated by the market. Since 2010 the Bank is included in Respect Index, which comprises socially responsible companies listed on Warsaw Stock Exchange. For following balanced development principles and performance of CSR activities, Bank Millennium was distinguished in the Ranking of Responsible Companies - a list of biggest Polish companies evaluated from the point of view of quality of corporate social responsibility (CSR) management and awarded a CSR Silver Leaf in the Polityka weekly. As many as 15 Bank Millennium CSR initiatives were distinguished in the report "Responsible Business in Poland 2018" issued by the Forum Odpowiedzialnego Biznesu (Responsible Business Forum).

Euro Bank S.A. also actively undertakes actions in the area of business' social responsibility. Since 2017, it has been conducting nationwide campaign #BezSmogu (#withoutSmog). Within the campaign, already 100 detectors installed on Euro Bank branches have been measuring air quality, including PM1, PM5 and PM10 particulate concentration. Measurement results can be tracked, on current basis, on the website airly.eu/map/pl and in Airly apps.

Since 2017, Euro Bank S.A. has been organising Spring campaign „Our People". Besides its charity purpose it is designed to integrate employees. And they cover distances (running, bike riding) while the bank pays for charity purpose 1 PLN per each kilometre. In two rounds of the campaign completed to date, Euro Bank employees accumulated more than 150 thous. km, and thereby more than 150 thous. PLN found way to the account of Fundacja Mam Marzenie foundation (fulfilling dreams of sick children) and Wrocław Shelter for homeless animals. Employees also take up volunteer work in selected organisations.

In 2019, Euro Bank invited Bank Millennium employees to take part in the „Our People" campaign. Employees of both banks jointly strive to achieve the goal equal to the distance between the Erath and the Moon (384 thous. km). Funds gathered this way will be donated to charity.

Since 2018 Euro Bank has been conducting a support campaign for the Regional Blood Donation and Therapy Centre in Wrocław - „Blood is good". Within this activity Eurobank encourages blood donations while a special blood donation bus is visiting towns in Lower Silesia. Every person deciding to share his/her blood receives specially designed gadgets from Euro Bank.

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 2019 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 2019 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 and the Group contains a true picture of development, achievements and condition of Bank Millennium and the Capital Group of Bank Millennium.

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

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 2019 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2019 - 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
26.07.2019	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
26.07.2019	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
26.07.2019	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
26.07.2019	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
26.07.2019	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
26.07.2019	António Ferreira Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
26.07.2019	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature