Management Board Report of the Bank Millennium Capital Group

for the six months ended 30 June 2016

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I. MAIN ACHIEVEMENTS AND MARKET CONDITIONS

I.1. Main achievements of the Group

Consolidated net profit of Bank Millennium Group reached in the 1st half 2016 the amount of PLN 431 million i.e. 31.5% higher than in 1st half 2015. The high results of 2nd quarter 2016 of PLN 294 million were inflated by VISA Europe transaction. Core income grew by 2.6% yearly driven by an improvement in interest income by 8.1% y/y. In the 1st half 2016 ROE reached 13% despite record level of equity (PLN 6 723 million, 12% growth yearly).

Bank Millennium further improved its capital ratios and is compliant with the new regulatory capital limits.

In business area, the Bank reached half a million of the new account Konto 360°, which have been sold for the last two years.

Main financial and business highlights of 1H 2016 are as follows:

Strong profit thanks to VISA transaction

- 1H net profit of PLN 431 million
- 2Q net profit of PLN 294 million supported by extraordinary VISA gain
- ROE at 13.1%

Core income growth driven by net interest income

- Core income grew by 6.4% quarterly and 2.6% yearly, driven by improvement in net interest income (+7.3% q/q and 8.1% y/y)
- Net Commission income grew 4% quarterly but still lower by 10% vs 1H 2015

Solid asset quality and low cost of risk

- Impaired loans ratio at low 4.6%; impaired mortgage at 2.2% (of which past-due over 90 days at 1%)
- Cost of risk YTD at 45 bps

Capital ratio compliant with regulatory high limits

- Group TCR[1] at 17.3%, CET1 at 16.9% and Bank TCR at 17.1%, CET1 at 16.8%
- Strong liquidity, with Loans-to-deposits ratio [2] at low 87%

Deposits/accounts/customers

- 500.000 new 360 current accounts sold during two years from launching
- +27.000 net growth in active customers number during 2Q, +45,000 year-to-date
- Fast growth of retail deposits: +18.1% y/y +3.6% q/q

Loans

- High cash loans sale kept: PLN 647 million in 2Q'16; portfolio 13% up y/y
- Mortgage loans sales keeps growing: +47% y/y (ytd) and 10% q/q
- Strong growth of leasing and factoring portfolios: +16% and +9% y/y

Innovation leadership

- New, modern format of branch with new functionality, oriented on customers' relations
- New on-line and mobile solutions for retail and companies

[1] Calculated in accordance with CRR/CRD4 and partial IRB approach (with regulatory constraint).

[2] Deposits include Bank's debt securities sold to individuals and repo transactions with customers.

I.2. Macroeconomic situation

In 1Q 2016 Polish economy decelerated and GDP growth reached 3.0% y/y compared to 4.3% y/y in 4Q 2015 and 3.6% in the whole 2015. Economic growth was fuelled by private consumption, that increased by 3.2% after growing by 3.0% a quarter before. In the same time, investment in fixed assets recorded a negative dynamics (-1.8% y/y), for the first time since 3Q 2013 on the back of lower investments in infrastructure financed by the EU funds. The latter was reflected in the collapse of the construction and assembly production, the average dynamics of which in the first three months of the year was equal to -12.2% y/y. The trade balance subtracted 0.9 percentage point from the annual growth rate, while a year before the contribution was positive, equal to 0.8 percentage point.

Labour market conditions in Poland are currently the best since 2008. Registered unemployment rate declined in Q2 to an estimated 8.7% from 10.0% in March, partially because of seasonal factors and increased demand for workers in agriculture, construction and some services. However, also seasonally adjusted data showed improvement in the labour market. The increased demand for labour was also visible in corporate sector. In June 2016 employment in the enterprise sector increased by 19.1 thousands persons and it was the best June reading since 2007. The annual growth of the employment in corporate sector accelerated to 3.1%. It is worth noting that the mismatch between labour supply and demand is growing, what is visible in high number of vacancies unfilled at the end of each month. At the same time growing number of unemployed persons per each job offer bears increasing problems with finding suitable employees. This might, with time, translate into growing wage pressure. Nonetheless wage growth remains moderate, and in first six months of this year the average wage in the enterprise sector increased by 4.0% y/y in nominal terms.

The deflation, since its bottom in February 2015 at -1.6% y/y, has been slowly diminishing, but the period of its persistence has been longer than forecasted. In April 2016 the price decline deepened as the fall of world oil prices intensified, however deflation started to diminish in the following months and in June it was equal to -0.8% y/y compared to -0.9% y/y in March. The persistence of negative inflation is the consequence of supply-side shocks on food and fuel markets, but the demand pressure in the economy is also low. Net inflation, excluding food and energy, has been negative since the beginning of the year and in June was equal to -0.2% y/y.

In 2Q 2016 the Monetary Policy Council kept rates unchanged, at the record low levels. In the MPC opinion current rates remain conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance. In June Mr A. Glapinski was appointed new NBP governor. In his opinion the current level of rates is appropriate for current economic conditions as Poland enjoys "balance on all fronts”. In addition, lower rates would threaten the stability of financial system and would create a difficult situation for some banks. This suggests that next months should bring stable official interest rates.

The Bank assesses that the deceleration of the economic growth in Q1 was temporary and in following quarters the Polish economy should slightly accelerate driven by private consumption. Leading indicators suggest that good business climate will be sustained in months to come. PMI index, that describes the sentiment in manufacturing, increased to 52.6 points in June from 51.6 points in March and significantly exceeds no-change level of 50 points. In the Bank’s assessment, high consumption dynamics will be sustained and its acceleration in the second half of the year will result from the launch of social program Rodzina 500+. Investment may however slow down, as the implementation of the new EU financial perspective may be delayed, but it should continue to grow supported by high capacity utilization and good financial standing and liquidity of Polish companies. Despite the fact that the economic growth will be maintained, we do not expect the return of positive inflation earlier than in the fourth quarter of 2016.

According to the preliminary NBP data, total deposits of Polish banks increased in the second quarter by 27.8 billion PLN. The substantial growth was recorded not only in households deposits, which increased by 14.9 billion PLN, but also in corporate deposits that surged by 12.9 billion PLN. Households deposits has been growing at the solid pace (+11.2% y/y in June), despite the record low interest rates, confirming improved income situation of households, that in Q2 was supported by the government’s program Rodzina 500+. Strong growth of corporate deposits reflects solid financial situation of Polish companies and moderate growth of investments. Total credit in June was by 4.7% higher than in the corresponding period of last year. Credit to households grew at the moderate pace of 4.5% in June, while non-financial companies credit dynamics slowed down to 7.0% y/y, the lowest pace of growth since mid-2015.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1. Group profit and loss account

Operating Income *(PLN million)*	1H 2016	1H 2015	Change 2016/2015
Net Interest Income *	756.0	699.5	*8.1%*
Net Commission Income	274.1	304.1	*-9.9%*
*Core Income***	*1 030.1*	*1 003.6*	*2.6%*
Other Non-Interest Income ***	289.9	85.6	*238.6%*
Total Operating Income	**1 320.0**	**1 089.2**	***21.2%***

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 22.3 million in 1 half 2016 and PLN 32.7 million in 1 half 2015) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

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

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

Net Interest Income (pro-forma) for 1 half 2016 reached PLN 756.0 million and increased by 8.1% versus the corresponding period of the previous year. This shows a stronger rebound of interest margin after weaker performance driven by significant central bank rates cuts in October 2014 (reference rate by 50 bps and lombard rate by 100 bps) and March 2015 (by another 50 bps).

In 2Q 2016 Net Interest Income increased by 7.3% vs 1Q 2016 driven both by gradual reduction of deposits cost (to 1,30% in 2Q'16) and slight increase of average yield on loans (to 4,19% in 2Q). As a consequence, total Net Interest Margin (over average interest earning assets) for 1 half 2016 improved visibly to 2.36% from 2.21% in 1 half 2015.

Net Commission Income in 1 half 2016 amounted to PLN 274.1 million, which means a 10% decrease year-on-year due to continued negative trends on capital markets (responsible for lower fees from investment products). In 2Q 2016 Net Commission Income grew by 4% vs 1Q 2016.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 1,030.1 million for 1 half 2016 and increased by 2.6% compared to the corresponding period of the previous year. In quarterly horizon, core income grew by 6.4%.

Other non-interest income amounted to PLN 289.9 million and comprises a significant positive influence from the closing of Visa transaction, of which the Bank, as member of Visa Europe Ltd, was among the beneficiaries. The gross impact on revenues from this transaction, concluded on 21st June 2016, totalled PLN 283 million as a result of the three components of the transaction (cash settlement and fair value of the preferred stock and deferred payment). Thanks to this extraordinary gain, other non-interest income for 1 half 2016 was much higher than PLN 85.6 million level registered in 1 half 2015. Other main elements of other non-interest income are: FX gains, results on financial operations and net balance of other operating income and costs (including provisions for contentious claims).

Total operating income of the Group reached PLN 1,320.0 million in 1 half 2016 so it increased by 21.1% year-on-year.

Total costs in 1 half 2016 amounted to PLN 552.8 million, which means an increase by 1.3% when compared to 1 half 2015.

Operating Costs *(PLN million)*	1H 2016	1H 2015	Change 2016/2015
Personnel Costs	(277.9)	(275.2)	*1.0%*
Other Administrative Costs*	(274.9)	(270.5)	*1.6%*
Total Operating Costs	**(552.8)**	**(545.7)**	***1.3%***
Cost/Income Ratio	41.9%	50.1%	*-8.2 p.p.*
Cost/Income Ratio **	50.8%	50.1%	*+0.7 p.p.*

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

Personnel costs in 1 half 2016 grew slightly by 1.0% compared to the corresponding period of the previous year. The total number of employees in the Group decreased by 42 employees compared to the end of June 2015, to the level of 5,897 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	30.06.2016	30.06.2015	Change 2016/2015
Bank Millennium S.A.	5 554	5 602	-0,85%
Subsidiaries	343	337	1,67%
Total Bank Millennium Group	5 897	5 939	-0,71%

Other administrative costs (including depreciation) in 1 half 2016 increased mildly by 1.6% year-on-year (i.e by PLN 4.4 million. The increase was registered in external services and depreciation and rental fees, while decrease was in costs of marketing.

Cost-to-Income ratio for 1 half 2016, excluding extraordinary VISA gain and one-off provisions, stood at 50.8%, that is the level similar to 50.4% ratio for the full 2015 year (also without one-off items accounted in 4Q 2015).

Total net impairment provisions created by the Group in 1 half 2016 amounted to PLN 106.1 million and were 16.6% lower than provisions created in 1 half 2015. The provisions were much lower for corporate segment and slightly higher in retail segment (an increase to PLN 95.5 million from PLN 89.7 million an year ago).

In relative terms, cost of risk (i.e. net provisions created to the average net loans) in 1 half 2016 reached 45 bps level (i.e. 11 bps lower yearly). Cost of risk in mortgage in 1 half 2016 (24 bps) was only slightly higher than 2015 level, in line with slow increase of impaired mortgage loans.

Pre-tax Profit and Net Profit *(PLN million)*	1H 2016	1H 2015	Change 2016/2015
Operating Income	1 320.0	1 089.2	*21.2%*
Operating Costs *	(552.8)	(545.7)	*1.3%*
Impairment provisions	(106.1)	(127.2)	*-16.6%*
Special banking tax	(80.5)	(0)	
-Pre-income tax Profit**	580.6	415.0	*39.9%*
Income tax	(149.7)	(87.2)	*71.7%*
Net Profit	**430.9**	**327.8**	***31.5%***

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

Commencing from February 2016 a new special banking tax was introduced, with 0.44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount. Bank Millennium was charged in 1 half 2016 with PLN 80.5 million of this tax. After this charge, **Pre-income tax Profit** in 1 half 2016 amounted to PLN 580.6 million, which was higher by 40% than Pre-tax profit of 1st half 2015. **Net Profit** for the analysed period amounted to PLN 430.9 million i.e. was higher by 31.5% year-on-year.

II.2. Balance Sheet – main items

The Group's **assets** as at 30 June 2016 totalled PLN 66,696 million and were 3.2% lower compared to the balance at the end of June 2015. The structure of Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	30.06.2016		30.06.2015		Change
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	2 937.4	4.4%	1 939.4	2.8%	51.5%
Loans and advances to banks	2 298.6	3.4%	3 735.7	5.4%	-38.5%
Loans and advances to Clients	46 964.6	70.4%	46 998.2	68.2%	-0.1%
Receivables from securities bought with sell-back clause	46.9	0.1%	131.1	0.2%	-64.3%
Debt securities	13 235.5	19.8%	14 650.8	21.3%	-9.7%
Derivatives (for hedging and trading)	313.3	0.5%	415.9	0.6%	-24.7%
Shares and other financial instruments *	41.1	0.1%	15.6	0.0%	164.4%
Intangible assets and property, plant and equipment **	209.0	0.3%	199.2	0.3%	4.9%
Other assets	649.5	1.0%	791.0	1.1%	-17.9%
Total assets	**66 695.7**	**100.0%**	**68 876.8**	**100.0%**	**-3.2%**

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

Lower assets level resulted primarily from the decrease of loans and advances to other banks by PLN 1,437 million (or by 38.5%) as well as a decrease of debt securities by PLN 1,415 million (or by 9.7%). This portfolio includes predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank). These decreases followed a decrease of sell-buy-back transactions on the liabilities side.

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Group's asset structure (70.4% as on 30 June 2016). Total value of loans reached PLN 46,965 million (in net terms) as at the end of June 2016 and stayed on similar level as at the end of the 1st half of the previous year.

The value of loans granted to households as at the end of 30 June 2016 totalled PLN 33,398 million and decreased slightly by 1.1% during one year period. The decrease resulted mainly from lower value of foreign currency mortgage loans (-5.5% year-on-year in gross portfolio) whereas PLN mortgage loans grew by 1.5% year-on-year driven by higher disbursements of new loans in 1st half 2016 (PLN 483 million).

Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew strongly by 11.5%, or PLN 577 million year-on-year. As at the end of June 2016 the balance of non-mortgage loans to households amounted to PLN 5,584 million. The increase was mainly driven by high value of new cash loans sales, which amounted to PLN 1.3 billion in 1st half 2016.

Loans to companies amounted to PLN 13,567 million as at the end of June 2016 and grew by 2.7% yearly. The growth was mainly driven by leasing receivables: a strong increase by 16.9% year-on-year. The value of the leasing portfolio exceeded PLN 4.9 billion as at the end of June 2016. Also factoring receivables portfolio kept strong growth above 9% yearly.

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

Loans and advances to Clients *(PLN million)*	30.06.2016	30.06.2015	Change (value)	Change (%)
Loans to households	33 398.0	33 784.0	-386.0	*-1.1%*
- mortgage loans	*27 814.0*	*28 777.5*	*-963.5*	*-3.3%*
- other loans to households	*5 584.0*	*5 006.5*	*577.5*	*11.5%*
Loans to companies	13 566.6	13 214.2	352.4	*2.7%*
- leasing	*4 920.0*	*4 209.2*	*710.8*	*16.9%*
- other loans to companies	*8 646.6*	*9 005.1*	*-358.4*	*-4.0%*
Net Loans & Advances to Clients	**46 964.6**	**46 998.2**	**-33.6**	**-0.1%**
Impairment write-offs	1 419.8	1 472.7	-52.9	-3.6%
Gross loans and advances to Clients	**48 384.4**	**48 470.9**	**-86.5**	**-0.2%**

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

LIABILITIES (PLN million)	30.06.2016		30.06.2015		Change
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 538.2	2.6%	2 152.7	3.4%	-28.5%
Deposits from Customers	53 360.2	89.0%	50 233.6	79.9%	6.2%
Liabilities from securities sold with buy-back clause	0.0	0.0%	3 364.1	5.4%	-100.0%
Financial liabilities valued at fair value through P&L and hedging derivatives	1 934.1	3.2%	3 537.4	5.6%	-45.3%
Liabilities from issue of debt securities	1 358.1	2.3%	1 814.0	2.9%	-25.1%
Provisions	54.0	0.1%	70.4	0.1%	-23.3%
Subordinated debt	664.2	1.1%	629.5	1.0%	5.5%
Other liabilities*	1 064.2	1.8%	1 051.8	1.7%	1.2%
Total liabilities	**59 973.0**	**100.0%**	**62 853.5**	**100.0%**	**-4.6%**
Total equity	**6 722.7**		**6 023.3**		**11.6%**
Total liabilities and equity	**66 695.7**		**68 876.8**		**-3.2%**

(*) including tax liabilities

As at the end of June 2016, liabilities accounted for 89.9%, while Group's equity accounted for 10.1% of the total liabilities and equity.

As at 30 June 2016, Group's liabilities amounted to PLN 59,973 million and decreased by 4.6% relative to the balance as on 30 June 2015. The decrease resulted, primarily, from lack of sell-buy-back transactions (PLN 3,364 million as at the end of June of the previous year).

Deposits from Customers

As on 30 June 2016, deposits from Customers reached PLN 53,360 million level and constituted by far the Group's main liability item accounting for 89% of the Group's total liabilities. The deposits recorded a robust increase of PLN 3,127 million i.e. 6.2% relative to the balance as at 30 June 2015.

As at 30 June 2016 deposits from individual Customers amounted to PLN 37,546 million and accounted for 70.4% of the total balance of deposits from Customers. This group of deposits increased very strongly by PLN 5,761 million or by 18.1% year-on-year supported by growing number of current accounts and customers. Current and saving accounts were the main driver of this growth (by 27% year-on-year) and constituted 52% of total deposits from individuals.

Deposits of companies and public sector amounted to PLN 15,814 million and decreased by 14.3% year-on-year, which, however is correlated with very high growth of deposits of individuals mentioned above and reflects Group's rigorous pricing policy. In 2nd quarter 2016 the deposits stabilised thanks to growing current accounts balances in companies and public sector segment.

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

Deposits of Clients *(PLN million)*	30.06.2016	30.06.2015	Change (value)	Change (%)
Deposits of individuals	37 546.0	31 785.3	5 760.7	18.1%
Deposits of companies and public sector	15 814.2	18 448.3	-2 634.1	-14.3%
Total Deposits	**53 360.2**	**50 233.6**	**3 126.6**	**6.2%**

Debt securities issued

Debt securities issued by the Group as at 30 June 2016 amounted to PLN 1,358 million, which means a decrease by PLN 456 million (or by 25.1%) relative to the balance recorded as at 30 June 2015. At the end of June 2016 the value of bank debt securities issued by the Bank and possessed by individual Customers as savings products amounted to PLN 429 million whereas the value of bonds possessed by institutional investors amounted to PLN 929 million. The main reason for decrease of liabilities from issued debt securities vs. the end of June 2015 was lower balance of bonds to institutional investors. Debt securities were issued by the Group in order to raise funds for financing the general Group's operations and to strengthen the mid-term funding of the Bank.

Subordinated debt

The value of subordinated debt amounted to PLN 664 million as at 30 June 2016 and increased by 5.5% year-on-year due to FX rates changes. This item includes only the liabilities from ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

As at 30 June 2016 the equity of the Group amounted to PLN 6,723 million and grew by PLN 699 million or 11.6% year-on-year. The main reason of the growth of equity was net profit generated during the 2nd half 2015 and 1st half 2016, without payment of any dividend as decided by AGM of the Bank held on 31 March 2016. The impact of revaluation reserve changes on this growth was positive (PLN 50 million).

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

II.3. Share price main indicators and ratings

During 1st half of 2016 negative sentiment towards Polish capital market and banks in particular has been continued, additionally accelerated at the end of the period by Brexit turmoil on financial markets. During the analysed period of 6 months ended on 30th June 2016, Polish market main WIG index dropped by 3.7% and WIG banks index fell by 6.6%. In the yearly horizon, WIG index fell by 16.1% and WIG banks by 23.1%. Bank Millennium shares contracted by 28.6% yearly and by 15.8% semi-annually. Average daily turnover of Bank Millennium shares was lower in 1H 2016 by 42.9% compared to corresponding period of 2015 year (in which ABB transaction of selling 15.4% of Bank's shares inflated turnover significantly). This drop was also explained by overall lower turnover on the Warsaw Stock Exchange registered during 1 half 2016.

Market ratios	30.06.2016	30.12.2015*	Change (%) in 1H 2016	30.06.2015	Change (%) Yearly
Number of shares of the Bank (in ths.)	1 213 117	1 213 117	0.00%	1 213 117	0.00%
Daily trading - average (PLN ths, ytd)	5 836	7 660**	-23.8%	10 214	-42.9%
Price of the Bank shares (PLN)	4.68	5.56	-15.8%	6.55	-28.6%
Market cap. (PLN million)	5 677	6 745	-15.8%	7 946	-28.6%
WIG - main index	44 749	46 467	-3.7%	53 329	-16.1%
WIG Banks	5 687	6 087	-6.6%	7 398	-23.1%
WIG30	1 956	2 076	-5.8%	2 540	-23.0%
mWIG 40	3 393	3 567	-4.9%	3 685	-7.9%

(*) last day of quotation in 2015
(**) turnover for the second half of 2015 year

During the 1st half of 2016 there were no changes of the two basic ratings assigned to Bank Millennium.

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

(*) In March 2015 Moody's replaced former BFSR (bank financial strength ratings) with Baseline Credit Assessment (BCA), which will be the only indicator of issuers' standalone intrinsic strength and will not have outlook assigned.

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

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

- On January 15th 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however without an assessment of impact for the banking sector. According to estimations later announced by Polish Financial Supervision Authority, the overall direct costs for the polish banking sector could reach PLN 66.9 billion. Currently there are ongoing works aimed at preparation of the new version of the Act. In these circumstances it is not possible to estimate the impact of this regulation on the banking sector, however announced legislative intentions on FX loans conversion, if implemented and made mandatory for banks, could significantly deteriorate the Bank's profitability and capital position.

- Potential increase of financial markets volatility, including a risk of PLN depreciation in the context of increased uncertainty over prospects in public finances.

- Further improvement on labour market and record low interest rates might support demand for households credit and improve quality of loans portfolio.

- Increased uncertainty over economic outlook and political situation in Poland might reduce corporate's willingness to invest that might curb demand for investment loans.

- Continued bad sentiment on capital markets, for Poland strengthened by prospects of further reduction of 2nd pillar pension funds system and for European banks driven by potential capital shortfall for some countries/banks.

III. RESULTS BY BUSINESS SEGMENTS

III.1. Introduction

The following information provide Profit and Loss data as well as business volumes for the Group's two main business segments: Retail and Corporate, allowing for comparison of 1st half 2016 versus 1st half 2015 results. Retail segment includes services to mass market individual Clients, affluent Clients, individual entrepreneurs and small businesses (of annual turnover below PLN 5 million). Corporate segment includes services to medium and large companies as well as public sector entities.

For the purpose of presentation of current year results comparable with the previous year results, the liquidity premium has not been applied to below presented Net interest income for 2016 (implemented by the recommendation of KNF since 1 January 2016). Accordingly, the pre-tax income does not include a charge of a new tax on financial institutions (imposed since 1 February 2016).

Retail segment results (PLN million)	1H 2016	1H 2015	Change 2016/2015
Net interest income *	578.4	530.4	9.0%
Net commission income	197.5	229.1	-13.8%
Other income **	21.2	24.3	-12.9%
Total operating income	**797.0**	**783.8**	**1.7%**
Total operating expense	**-416.4**	**-415.9**	**0.1%**
Net impairment provisions	-95.5	-89.7	6.5%
Pre-tax income* **	**285.0**	**278.2**	**2.4%**

(*) adjusted for liquidity premium, which in financial statement was recognized in the third segment of "Treasury, ALM and other" (in accordance to Recommendation P of the local regulator KNF)
(**) including FX income
(***) income before banking tax and corporate income tax

The total operating income of the Retail segment in 1st half 2016 amounted to PLN 797 million and increased by 1.7% yearly. The growth of the income was supported by 9% higher Net interest income (rebound after market interest rate cuts in 2014 and 1H'2015), whereas Net commission income fell by 13.8%, mainly commissions from capital market related investment products and insurance.

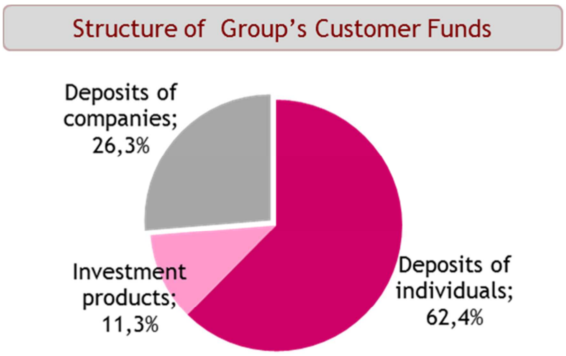
Operating expenses of Retail segment stood at similar level as one year ago and Net impairment provisions increased slightly by 6.5% year-on-year. As a result of above tendencies, pre-tax income of Retail segment for 1st half 2016 increased by 2.4% year-on-year to the level of PLN 285 million.

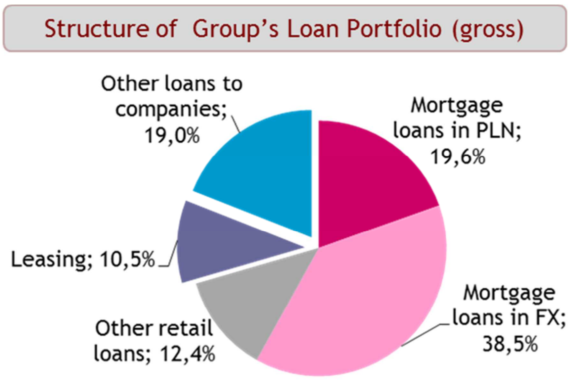
Corporate segment results (PLN million)	1H 2016	1H 2015	Change 2016/2015
Net interest income*	132.5	130.7	1.4%
Net commission income	74.3	69.8	6.4%
Other income **	29.9	26.1	14.7%
Total operating income	**236.8**	**226.6**	**4.5%**
Total operating expense	**-109.4**	**-103.1**	**6.1%**
Net impairment provisions	-9.3	-37.5	-75.3%
Pre-tax income* **	**118.1**	**86.0**	**37.3%**

(*) adjusted for liquidity premium, which in financial statement was recognized in the third segment of "Treasury, ALM and other" (in accordance to Recommendation P of the local regulator KNF)
(**) including FX income
(***) income before banking tax and corporate income tax

The total operating income of Corporate segment for 1st half 2016 amounted to PLN 236.8 million and increased by 4.5% yearly thanks to higher Net interest income (an increase by 1.4% year-on-year) and Net commission income (strong growth by 6.4% year-on-year). Other income also grew: by 14.7% year-on-year.

Operating expenses of this segment increased by 6.1% year-on-year. The value of net impairment provisions on loans to companies decreased significantly vs. 1st half 2015 by 75.3% which was correlated with improving quality and good coverage of impaired loans in this segment. The abovementioned factors, especially growing income and falling provisions, resulted in growth of pre-tax profit of Corporate segment by 37.3% to the level of PLN 118.1 million.





Total Customer funds collected by Bank Millennium Group as at 30 June 2016 amounted to PLN 60,150 million. Customer funds of retail segment amounted to PLN 44,335 million and accounted for 74 % of total Group's Customer funds. The funds comprised deposits (PLN 37,546 million), bonds for individuals (PLN 429 million) and investment products, including own and third party mutual funds, insurance-saving products etc. (PLN 6,360 million). Deposits of companies as at 30 June 2016 amounted to PLN 15,814 million and accounted for 26% of total Group's Customer funds.

Total gross loans of the Group as at 30 June 2016 amounted to PLN 48,384 million. Loans to retail segment Clients amounted to PLN 34,124 million and accounted for 71% of total Group's loans. The loans comprised mortgage loans (PLN 28,103 million) and other retail loans, including cash loans, credit card loans, overdrafts etc. (PLN 6,021 million). Loans to companies as at 30 June 2016 amounted to PLN 14,261 million and accounted for 29% of total Group's loans. The loans, besides different groups of loans and overdrafts for companies, included also leasing receivables (PLN 5,060 million).

III.2. Retail banking

Bank Millennium offers universal banking services including retail banking, which constitutes continuously growing area of the Bank's business operations. The Bank offers its retail services, adjusted to meet client needs and changing market conditions, under specialised business lines: individual clients, affluent individual clients (Prestige), private banking and Business line specialising in servicing individuals conducting business operations or small companies. The Bank's products and services are available through the nationwide network of 394 branches, Internet and mobile banking, direct banking, ATM network and telephone banking. Such organisation of client service network helps clients manage their financials in a convenient and safe manner without any restrictions.

The number of active retail customers stood at 1,414 thous. at the end of the first half of 2016. From the start of the year, their number increased by 45,000. The key factor of growth of the number of new customers was the unwavering interest in Konto 360° account, which led to the building of a portfolio of close to 500 thous. accounts from the Konto 360° line in a matter of 2 years since its launch in May 2014.

Konto 360° remains the most popular and most often opened product in the bank. It is particularly a favourite of medium and large city dwellers with above-average income, who appreciate free of charge ATMs in Poland and abroad, low monthly cost of the account, first rate internet and mobile banking. Holders of Konto 360° accounts are very active customers. They use their debit cards extensively; the definite majority of them make transactions in internet banking, with over 30% using the mobile app. Also BLIK payments and phone number payments are increasingly popular.

Beside the success of Konto 360°, other settlement-saving products were introduced for various customer groups. An interesting innovation launched by Bank Millennium with a view to persons travelling and earning in foreign currencies is the FX Savings Account. In the initial period after introduction of this account, the Bank offered promotional saving opportunities to customers. In 2Q 2016 the Bank also launched Konto Mój Biznes - a new account for customers in the microbusiness segment. In a matter of less than two months, more than 1000 Konto Mój Biznes accounts were opened.

Deposits of personal customers reached the value of PLN 37 546 million, growing 18.1% compared with the 1st half of 2015. This growth was driven first of all by the 27% y/y increase of the value of funds on current and savings accounts, which accounted for 52% of all retail segment deposits.

New sales of cash loans in 2Q 2016 increased 4.6% quarterly, reaching PLN 647 million. The cash loans portfolio continued the trend by increasing 13% annually. As of end of 2Q 2016 loans to personal customers stood at PLN 34 124 million (in gross terms).

Innovations for retail banking customers

As of end of June 2016 the number of customers actively using electronic banking exceeded 906 thous. i.e. 15% more than a year ago. There was a significant progress in process improvement, adapting them to customers' expectations and implementation of innovative solutions.

A new, fast process was introduced for cash loans to non-customers, while the process of applying for a cash loan in Millenet was revamped for current customers of the Bank. Another innovation is also the functionality of a chat with an expert, involving screen sharing – a unique service in Poland, which enables direct Customer support inside the transactional system. Notable is also the next edition of the "I recommend Bank Millennium" referrals programme, which led to acquisition of 30% more Customers in the online channel in the first half of the year, than in the same period of last year.

Since the beginning of April 2016 Bank Millennium enables Customers to apply for the Family 500+ government programme benefit by means of the Millenet internet system, without the need to visit government offices. Close to 50 thous. applications have been submitted until the end of June 2016.

The number of users of mobile banking at the end of June 2016 exceeded 474 thousands. The mobile app is gaining in popularity as a platform for improving customer service. In the first half of the year Bank Millennium continued to promote mobile deposits set up with use of augmented reality. Customers could set up a 3-month Mobile Deposit with a higher interest rate – 3.50% per annum. Bank Millennium customers had the highest number of deposits set up with a mobile app on the market.

The first half of 2016 saw further development and launch of innovative mobile solutions – the Bank was the first on the market to introduce the possibility of authorising online 3D Secure card payments with a fingerprint. Another innovation are push notifications of transactions on the account as well as card transactions. Bank Millennium has also prepared a new version of the application for phones using the Windows Phone system; now their users can make payments and withdraw cash, as well as sending transfers and issuing BLIK cheques. Additionally, it is now possible to set up widgets displayed before logon, showing the balance of the current account, credit card and prepaid card, as well as widgets with BLIK code. Moreover the app was updated for BlackBerry phones with remodelled graphics. The Bank has also launched the application for users of Android Wear – the most popular smartwatch system. The smartwatch app supports BLIK payments, receiving push messages, checking the balance, finding the nearest cash machine or checking FX rates.

During the Great Gala of Leaders of the World of Banking and Insurance Bank Millennium S.A. was hailed the Most Innovative Bank of 2015. The Competition Chapter awarded the Bank for an innovative mindset, comprising all processes and structures of the company as well as for using new technologies to make everyday banking easier for customers. Bank Millennium was also awarded in this year's edition of the Złoty Bankier (Golden Banker) competition in the "Security: Best Practice" category. The rank was prepared based on independent and comprehensive IT security audit conducted by experts from Obserwatorium.biz and Securing. A check was made of electronic banking system availability, authentication and authorisation tools used in electronic banking and electronic payments; privacy of the line between the bank and the customer, the process of registering a mobile device, quality of passwords and procedure for their recovery as well as protection from hacking attacks. Moreover an evaluation was made of educating customers in using electronic banking safely, handling incident reports and the applied solutions for reporting security-related incidents. Bank Millennium in this year's edition of the Złoty Bankier (Golden Banker) competition was also distinguished as top three in "Quality of Service", based on TNS Polska multichannel quality of service research.

Customer service and branch network

Adapting to customer expectations and their changing behaviours, Bank Millennium is developing omnichannel processes using traditional branches, Call Center, internet and mobile banking to contact customers. The usage of digital channels in the Bank's product and service sales is growing: 99% of money transfers and 89% term deposits are made with their use. The value of cash loans newly granted with use of electronic channels represented approx. 22% of all loans granted.

At the end of 2Q 2016 the number of the Bank's branches was 394 and was lower by 17 comparing to one year ago. While reducing total number of branches, the Bank's intention is also to open branches in newly built commercial centers often visited by customers, and also to expand their functionality. An example of that is the new branch in Matarnia shopping center in Gdańsk – with an innovative architectural arrangement and with new functionalities and automated cash services. Next modern service centers will appear in Łódź and in Katowice.

The Bank is also striving to improve efficiency of existing branches by means of upgrading and re-modelling them. In the first half of this year 8 branches were upgraded; upgrades of further 30 existing branches are planned for the second half of 2016.

III.3. Corporate Banking

Bank Millennium Corporate Banking is a business line providing professional and comprehensive service to clients having annual sales turnovers above PLN 5 million and institutions and units of the public sector. The Bank has been carrying out long-term, stable and partnership cooperation with corporate clients founded upon mutual trust, commitment and understanding. Using the potential of a professional team of Relationship Managers and product experts, comprehensive product offer and advanced electronic communication channels, the Bank has been effectively strengthening its position on the corporate banking market.

The financial situation of Polish companies in the 1st half of 2016 was good. The percentage of companies above break-even point was growing; also the number of businesses with a safe level of cash liquidity increased. As of 30 June 2016, Group's loan portfolio to companies stood at PLN 14 261 million gross, which means 1.7% growth yearly. The leasing portfolio grew by 16% y/y, reaching the level of PLN 5 060 million. The value of assets leased out during 1H'16 was PLN 1 287 million, which means 10% growth over the same period of last year. The factoring portfolio grew more than 9% y/y, while turnover in the 1st half of 2016 reached PLN 7 183 million i.e. over 16% more than last year. Customers of Bank Millennium are actively using funding from the European Union, with particular popularity of the 1st round of Technological Innovation Loan granted by Bank Gospodarstwa Krajowego under the Intelligent Development Operational Program.

Corporate deposits reached at the end of June this year PLN 15 814 million, declining 14% annually, first of all in result of the Bank's tighter pricing policy and balance-sheet management. The positive growing trend in transactional banking was sustained. The quarterly number of local transfers exceeded 9 million i.e. growing 13% annually, while the value of FX transactions stood at PLN 7 677 million in 2Q'16, which signifies their growth by 63% in annual terms.

The comprehensive "Corporate Banking Professional Consultant" programme was implemented, with its main aim being to ensure highest quality of the Bank's relationship with customers. The programme comprises processes, training and the organisational area.

Innovations for corporate banking customers

The first half of 2016 abounded with many new improvements implemented in electronic banking for Companies. In the second quarter of this year Forex Trader was released to customers – an innovative and technologically advanced tool, which provides convenient access to the FX market with use of mobile devices, powered by Android or iOS operating systems.

Bank Millennium also prepared some improvements in the Millenet internet banking system. Corporate customers with pre-approved credit can now apply in Millenet for a charge card, with the entire process being automated. It is also more convenient to carry out transactions. The revamped and even more innovative "Payments" section has been designed on the basis of best "user experience" practices. The functionality of a Virtual Advisor was also introduced. This option may be used when the Customer is talking to a Technical Support Consultant.

IV. RISK MANAGEMENT IN BANK MILLENNIUM GROUP

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

During the 1st half of 2016 Bank Millennium Group implemented a number of initiatives with an aim to improve risk management function; these initiatives have been presented in greater detail in the Condensed Interim Financial Statements of Bank Millennium S.A. Capital Group for the six months ended 30 June 2016.

IV.1. Capital management

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

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

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

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

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

In 1st half of 2016, all capital targets were met. It relates to realised ratios, taking into account additional individual capital buffer imposed by KNF connected with risk of FX mortgage loans granted to households, as well as capital conservation buffer relating to all banks. The Group meets capital targets in stressed conditions as well. The Group's capital adequacy is assessed as satisfactory and assuring a smooth and steady development of banking activity.

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

Own funds requirements

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

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

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

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

In 1st half 2016 the Group has been continuing works on improving further rating systems for already approved portfolios and on receiving the IRB approval for the remaining loan portfolios under roll-out plan. That resulted in submitting by the Group IRB further application (regarding Other Retail exposures) to Supervisory Authorities.

In October 2015, Polish Financial Supervisory Authority (KNF) required the Bank to have an additional capital buffer connected with specific risk of FX mortgage portfolio loans granted to households of 3.83 p.p. for Total Capital Ratio, of which 2.87 p.p. as Tier 1 Capital. For the consolidated (Group level) ratios, buffers were established at 3.75 p.p. TCR and 2.81 p.p. for Tier 1. These buffers are to be created by the end of June 2016.

Also in October 2015, Polish Banking Supervision (KNF) announced an additional capital conservation buffer of 1.25 p.p. for all Polish banks from 1st January 2016. The new required levels of capital ratios that include the above mentioned new capital buffers are applicable on top of previous recommended by KNF base of 12% TCR and 9% Tier 1 Capital minimum ratios valid in Poland.

Both Group and Bank Millennium are compliant with the new regulatory capital limits.

Capital requirements and ratios of the Group and Bank Millennium as at 30th June 2016 and year before are presented in the below table:

Bank Millennium Group - capital adequacy	30.06.2016	30.06.2015
(PLN million)	IRB with regulatory floor[1)]	IRB with regulatory floor[1)]
Risk-weighted assets (RWA) for Group	37 244.8	38 010.9
Risk-weighted assets (RWA) for Bank	36 752.8	37 234.9
Own funds requirements for Group	2 979.6	3 040.9
Own funds requirements for Bank	2 940.2	2 978.8
Own Funds for Group	6 426.4	5 763.7
Own Funds for Bank	6 297.0	5 354.2
Total Capital Ratio (TCR) for Group	17.25%	15.16%
Total Capital Ratio (TCR) for Bank	17.13%	14.38%
Common Equity Tier 1 (CET1) ratio for Group[2)]	16.92%	14.62%
Common Equity Tier 1 (CET1) ratio for Bank[2)]	16.80%	13.83%

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

Internal capital

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

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

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

In 1st half 2016 both economic capital buffers were met with a surplus. Economic capital adequacy – accounting for a coverage of internal capital by own funds – is assessed as satisfactorily fulfilled.

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

Dividend policy

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

Thus, the Bank has approved a dividend policy of distributing between 35% to 50% of net profit subject to regulatory recommendations or guidelines. Having above in mind, as for 2015 year, the Bank retained 100% of net profit in Own Funds, and it obtained KNF approval to include 5 month of 2016 net earnings to regulatory Own Funds.

IV.2. Credit risk

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

Credit risk is the most important type of risk borne by Bank Millennium Group. The key quality ratio of credit portfolio – share of impaired loans in total loans (calculated according to International Accounting Standards) – rose slightly in the last 12 months from the level of 4.34% a year ago to the level of 4.57% at the end of June 2016. This means that the impaired loans ratio in Bank Millennium Group still remains well below the ratio for the entire market, which at the end of May 2016 amounted to 7.3%.

During the first half-year of 2016 the value of impaired loans increased by PLN 6,3 million, which combined with an increase of the entire portfolio (by PLN 554,0 million) during the same period, resulted in a small decrease of impaired loans ratio to the above mentioned level of 4.57% as compared to the end of December 2015 (4.61%).

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

Key loan quality ratios	30.06.2016	31.12.2015	30.06.2015
Total impaired loans (PLN million)	2 210.4	2 204.2	2 103.5
Loans over 90 days past due (PLN million)	1 264.3	1 331.2	1 441.9
Impaired/total loans	4.57%	4.61%	4.34%
Loans >90 DPD/total loans	2.61%	2.78%	2.97%
Total provisions*/impaired loans	64.2%	66.3%	70.0%
Total provisions*/ Loans >90 DPD	112.3%	109.7%	102.1%

(*) including IBNR provisions

The mortgage portfolio is characterized by relatively stable and good quality, although the impaired loans ratio increased from the level of 1.75% a year ago to the level of 2.24% today, mainly due to natural ageing of the portfolio and the specific situation around the mortgage loans in CHF. Impaired ratio in CHF mortgage portfolio reached 2.6% level at the end of June 2016 (at the end of June 2015 the ratio amounted to 2.0%).

During the same period we have observed improvement of the quality of corporates loans portfolio: the impaired loans ratio decreased from level 7.1% on 30 of June 2015 to 6.2% on 30 of June 2016. This improvement occurred both in the part concerning the leasing portfolio and loan (credit) portfolio.

The ratio of loans overdue above 90 days (DPD - days past due) remained in the last half-year at stable level: 2.6-2.8%. It should be noted that ratios related to loans with 90 DPD for Bank Millennium Group remain at much lower level than respective impaired loans ratios for particular segments. This proves Bank's prudential approach to classification of impaired loans (the Bank uses additional impairment triggers for loans, not only the fact that the loan is overdue). The ratios of loans overdue above 90 DPD for particular portfolios (mortgage, other retail with microbusiness and corporates) as at 30 June 2016 amounted to 0.96%, 7.60% and 3.60% respectively.

In the first half-year of 2016 the ratio of created provisions to the average level of net loans (cost of risk) amounted to 45 basis points and was lower than in the first half-year of 2015 (56 bp). The coverage ratio of the impaired loans portfolio with provisions in June 2016 was 64.2% and was lower than in December 2015 (66.3%) and June 2015 (70%). The main reason of the decrease of the ratio was the sale of impaired loans with high provision coverage.

The coverage ratio of overdue loans with above 90 days past-due with provisions increased at the end of June 2016 by 10,2 p.p. compared to the end of June 2015 and remained at relatively high level of 112%.

The share of individual sectors in the companies portfolio of Bank Millennium Group as at 30 June 2016 and 2015 has been shown in the table below:

Group	Sector	30.06.2016		30.06.2015	
		Gross balance exposure (PLN million)	% share of total portfolio	Gross balance exposure (PLN million)	% share of total portfolio
A	Agriculture, forestry and fishing	91.8	0.6%	84.8	0.6%
B	Mining and quarrying	171.2	1.2%	275.6	2.0%
C	Manufacturing	3 892.2	27.3%	3 656.2	26.1%
D	Electricity, gas, water	120.3	0.8%	163.8	1.2%
E	Water supply, sewage and waste	107.5	0.8%	112.5	0.8%
F	Construction*	1 036.2	7.3%	1 160.4	8.3%
G	Wholesale and retail trade; repair	3 703.9	26.0%	3 663.0	26.1%
H	Transportation and storage	2 280.5	16.0%	2 007.7	14.3%
I	Accommodation and food service activities	157.4	1.1%	91.9	0.6%
J	Information and communication	472.1	3.3%	419.9	3.0%
K	Financial and insurance activities	70.3	0.5%	104.2	0.7%
L	Real estate activities*	660.8	4.6%	805.3	5.7%
M	Professional, scientific and technical services	303.6	2.1%	324.9	2.3%
O	Public administration and defence	344.9	2.4%	458.0	3.3%
P	Education	47.4	0.3%	44.0	0.3%
Q	Health and social work activities	160.2	1.1%	135.6	1.0%
R	Culture, recreation and entertainment	22.9	0.2%	23.6	0.2%
N+S	Other Services	617.6	4.3%	496.5	3.5%
	Total	14 260.7	100.0%	14 027.8	100.0%

(*) The sectors "Construction" as well as "Real estate activities" contain, among others, financing of developers' projects

The loan portfolio of Bank Millennium Group is well diversified, both from the point of view of individual exposure size as well as overall exposure to particular industry and services sectors. The concentration of credit risk in 20 largest customers (meaning groups of economically and financially related companies) remains at the low, stable level of 5.1% of total loan portfolio of the Group (reduction compared to the end of June 2015 – by 0.03 p.p.).

The sector structure of corporate portfolio has not changed significantly during the year, although a notable decrease can be observed in Construction sector and Real estate activities (from 14.0% to 11.9%), which were characterized by increased risks in the recent period. On the other hand, the share of Manufacturing sectors and Transport and storage increased. As these sectors are well diversified (by number of sub-sectors, companies and products), this increase does not result in the increase of concentration risk in corporate portfolio.

IV.3. Market risk

See the Consolidated Condensed Interim Financial statement, chapter 5 “Changes in risk management process”.

IV.4. Liquidity risk

See the Consolidated Condensed Interim Financial statement, chapter 5 “Changes in risk management process”.

IV.5. Operational risk

See the Consolidated Condensed Interim Financial statement, chapter 5 “Changes in risk management process”.

V. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

V.1. Management Board changes and Annual General Meeting decisions

On 31st of March 2016 Annual General Meeting of Bank Millennium was held. 178 Shareholders took part in the meeting, representing 78.14% of Bank's share capital: BCP (50.10% of share capital), Nationale- Nederlanden OFE (8.65% of share capital), Aviva OFE (6.49% of share capital). Following to the Supervisory Authority (KNF) recommendation and the Management Board proposal, the Annual General Meeting decided to retain entire 2015 profit in the Bank's reserve capital.

On 13rd of May 2016 Mr. Michał Gajewski tendered his resignation from the function of the Bank's Management Board member, effective with above date.

On 6th of June 2016 the Supervisory Board of the Bank appointed Mr. Wojciech Rybak as member of the Management Board of the Bank. Mr. Wojciech Rybak does not conduct competitive activity towards the Bank, he is not a partner in a company competitive towards the Bank, nor he is a member of an organ of capital company competitive towards the Bank and he is not a member of an organ of any legal entity competitive towards the Bank.

V.2. Bank Millennium in RESPECT index

Bank Millennium remains in the composition of RESPECT Index of WSE - the first socially responsible companies index in CEE region. The Bank views its selection to the RESPECT index as a confirmation of the very high standards in area of corporate social responsibility and investor relations.

V.3. Report "Corporate Responsibility" according to the GRI[3] standards

In March 2016 the Bank issued the tenth edition of the "2015 Responsible Business" report. The Report is available in printed and electronic format, in Polish and English language versions on http://raportcsr.bankmillennium.pl/2015/en. The scope of information presented as well as structure of the report comply with criteria provided by Global Reporting Initiative Sustainability Guidelines (GRI G4). The Report defines key aspects of the Bank's impact on sustainable economic, social and environmental development with respect to key Stakeholder groups: Customers, Employees, Shareholders, Business Partners, the Society and the Natural Environment.

[3] GRI is an international organisation, which develops social responsibility and sustainable development reporting standards. The GRI guidelines are the acknowledged international standard for corporate social responsibility reporting. www.globalreporting.org

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 2016 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 2016 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This Semi-annual Management Board Report on the Activity of Bank Millennium Group contains a true picture of development, success, and condition of the Capital Group (including description of key risks and threats).

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

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 2016 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2016 was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

SIGNATURES:

Date	Name and Surname	Position/Function	Signature
25.07.2016	Joao Bras Jorge	Chairman of the Management Board	....
25.07.2016	Fernando Bicho	Deputy Chairman of the Management Board	....
25.07.2016	Wojciech Haase	Member of the Management Board	....
25.07.2016	Andrzej Gliński	Member of the Management Board	....
25.07.2016	Maria Jose Campos	Member of the Management Board	....
25.07.2016	Wojciech Rybak	Member of the Management Board	....