

II. Risk management objectives and strategies¹

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: “Risk Strategy for 2015-2017” (2014-2016 version was in force previously). The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank’s Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, Capital Plan.

The Risk Strategy contains a number of objectives for the risk types regarded as material. Among others, the following should be mentioned:

- Target structure of the loan portfolio,
- Credit portfolio quality indicators,
- Cost of risk,
- Capital requirements/economic capital,
- Required liquidity level and structure,
- Limits and rules for market and operational risk.

The objectives included in the Risk Strategy are measurable, quantitative figures, as well as qualitative principles. Simultaneously, the Group has developed a number of guidelines for the strategy/policy for specific risk types/areas. These documents - in addition to measurable limits and objectives - include a broad description of different qualitative risk aspects. We should mention the following:

- Capital Management and Planning Principles,
- Credit Principles and Guidelines,
- Credit Concentration Risk Management Principles,
- Liquidity Risk Management Principles and Rules,
- Market Risk Management Principles and Guidelines for Financial Markets,
- Market Risk Management Principles and Guidelines for the Banking Book,
- Policy for Investment Securities,
- Operational Risk Management Principles and Guidelines.

The strategies/policies mentioned above, in conjunction with the Risk Strategy, define the “risk appetite” defined as the level of individual material risk types and their management, which is accepted and recognized as permitted by the Bank and the Group in its business.

➤ Article 435.1.a-d

In respect to individual disclosures made pursuant to Article 435.1 of CRR, the following:

¹Information published pursuant to Article 435 of CRR

- the structure and organization of the relevant risk management function including information on its authority and statute, or other appropriate arrangements;
- the scope and nature of risk reporting and measurement systems;
- the strategy for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants,

have been discussed in risk management chapters in the Report and the Management Board Activity Report.

➤ Article 435.1.e

The declarations on the adequacy of risk management arrangements providing assurance that the risk management systems put in place are adequate with regard to the profile and strategy are presented at the end of this document.

➤ Article 435.1.f

Discussion of the overall risk profile, with key indicators and figures have been included in the Management Report, in the chapter on risk management.

➤ Article 435.2.a

the number of directorships held by members of the management body

Every Board Member holds 1 directorship.

➤ Article 435.2.b

the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;

Procedures and recruitment practices of the Bank aimed at assessing suitability of candidates for work covers all positions and verification process is even more comprehensive with reference to persons applying for key functions.

Main preconditions of assigning and suitability assessment of Supervisory Board members are stated in Articles of Associations of Bank Millennium SA. A permanent body affiliated to Supervisory Board of the Bank, Personnel Committee, assesses candidates for members of management board and evaluates their qualifications and results of work.

Assessment of qualifications of members of the management body is based on the criteria defined in the Banking Law and the criteria enumerated in detail in the Guidelines on the assessment of the suitability of members of the management body and key function holders, EBA/GL/2012/06, of November 22, 2012. They are especially related to:

- experience
- reputation
- management

The above mentioned criteria are taken into consideration in accordance with profile of the performed function, size of the area they manage, scope and character of the tasks performed in this area.

Current practices meet requirements of provisions of law.

➤ Article 435.2.c

the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved

Personnel Committee of Supervisory Board selects Board Members in the way that general composition of Board of Management possesses practical experience related to managing of financial institutions as a whole. In doing this Personnel Committee follows the criteria defined in point 435.b of CRR.

It is worth to stress that during recent 5 years composition of Board of Management remained very stable. Five out of seven Members of the Board remained in the Board longer than 5 years, one was appointed in 2010 and one in 2011. Currently all Board Members have many years' experience not only in managing of the Bank but in specific areas they are responsible for as well.

➤ Article 435.2.d

whether or not the institution has set up a separate risk committee and the number of times the risk committee has met

The Bank has established a separate risk committee: Bank Millennium SA Risk Committee. In 2014, the Committee held 9 meetings.

➤ Article 435.2.e

The description of the information flow on risk to the management body

The Bank and the Group have in place an integrated management information system that enables it to generate reports on identification, measurement and control measures relating to the management of individual risk types.

The Bank and the Group have defined the risk exposure reporting policy for management purposes, which sets forth the general rules for preparing and distributing information used to manage different risks. The unit responsible for preparing reports on exposure to different risks is mainly the Risk Department. The frequency and information content of the reports is adjusted to the level of powers and responsibilities of their recipients and also to the changes in the Bank's and the Group's risk profile.

Information contained in internal reports enable reliable evaluation of the risk exposure and support the decision-making process in the bank's risk management area.

The reports also include information on exposure to risks in the business activity of the subsidiaries.

Risk exposure reports for management purposes are addressed to:

- Supervisory Board (reports approved by the Bank's Management Board)
- Bank's Management Board
- Committees dedicated to risk management - Risk Committee, Capital, Assets and Liabilities Committee, Credit Committee, Liabilities at Risk Committee, Processes and Operational Risk Committee
- Members of the Bank's Management Board
- Risk Department (internal reports)

The risk exposure reporting policy defines the following for each addressee:

- Information content (e.g. synthetic information about the credit portfolio, including key risk parameters, change in revaluation charges in the profit and loss account, etc.),
- Information format
- Information frequency

➤ Article 436

An outline of the differences in the basis of consolidation for accounting and prudential purposes

The scope of consolidation of the Capital Group of Bank Millennium SA as determined in accordance with the prudential regulations (Regulation CRR) is the same as the scope of consolidation made for the preparation of consolidated financial statements prepared by the Group in accordance with IAS/IFRS. The Group did not make any exclusions of consolidated entities in comparison to IFRS financial statements, based on possibility provided by article 19.1 of the CRR.

Companies included in consolidation as at 31.12.2014 are presented in the following table:

Table no 1 Companies of Bank Millennium group included in consolidation as at 31.12.2014

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
BANK MILLENNIUM SA	banking services	Warsaw	Parent company		full consolidation
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI SA	investment funds management	Warsaw	100	100	full consolidation
MB FINANCE AB	funding companies from	Stockholm	100	100	full consolidation

	Millennium Group				
MILLENNIUM SERVICE Sp. z o.o.	general construction and engineering	Warsaw	100	100	full consolidation
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation

As at 31 December 2014 none of the Group's companies disclosed the capital shortage in relation to existing capital requirements.