Management Board Report of the Bank Millennium Capital Group

for the six months ended 30 June 2014

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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 2014 the amount of PLN 320 million i.e. 26% higher than in 1H 2013. Net profit in 2Q'2014 grew by 6% q/q and reached PLN 164 million, which is the best ever level (if not counting one-off results achieved in 2005 year). The Group cost-to-income ratio for 1H 2014 already went below 50% - the level targeted for 2015 year.

Such good results were reached thanks to better operating income (+12.5% y/y), stable operating costs (+0.2% y/y) and despite higher provisions on credit risk (+22.3% y/y).

Main financial and business highlights of 1H 2014 are as follows:

Improvement of profitability and meeting of efficiency target

- 1st half 2014 net profit at PLN 320 million – an increase by 26% y/y
- C/I in 1st half 2014 already at targeted level below 50%
- ROE at 11.9%

Continuation of interest margin and commission growth

- Net interest income up 21.9% y/y and 5.8% q/q
- Net commissions up 6.4% y/y and 4.9% q/q

Strong asset quality and improved coverage

- Impaired loans ratio at very low level of 4.3% y/y - the best ratio among main banks in Poland after 1Q 14
- Coverage ratio of impaired loans improved remarkably during the year by 7 p.p. to 71%

Strong liquidity and capital

- Loan-to-deposits[1] ratio at 93.5%
- Loans to stable sources of funding[2] at 89%
- Total CAR[3] at 13.8% and Common Equity Tier 1[4] at 13.0%

Retail business development

- Cash loan record quarterly sale of PLN 516 million, portfolio up 24% y/y
- Start of the new current account 360°sale: encouraging early results of 35,000 accounts since May
- Continuation of strong retail deposits growth: +2.8% q/q and +8.7% y/y

Companies business development

- Loans to companies grew strongly by PLN 1.6 billion y/y, i.e. by 13% , bringing the share of loans to companies to around 30% of total loan portfolio
- Factoring quarterly turnover at PLN 2.9 billion, +40% y/y (ytd)
- One of the best quarters in leasing sales: PLN 581 million, +31% y/y (ytd)

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

[2] Stable sources of funding : deposits plus medium-term debt securities sold to individual and institutional investors (including subordinated debt) and medium-term funding from financial institutions.

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

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

I.2. Macroeconomic situation

Condition of the Polish economy improved in the first half of 2014. Especially first quarter showed substantial acceleration of the economic growth that amounted to 3.4% y-o-y. On a quarterly basis, seasonally adjusted, growth amounted to 1.1%, and was the highest since 2Q 2011. Besides the acceleration of the economic growth, one should positively assess its structure. Investments growth accelerated significantly and in the first three months of this year increased by 10.7% y / y compared to a growth of 2.0% y/y in 4Q 2013. Conducive to investments growth were favourable weather conditions and the possibility of a wider deduction of VAT on cars, which boosted investments in infrastructure and means of transport. Investments in machinery and equipment accelerate as well, which increased by 7.7% y-o-y, which confirms a picture of a gradual recovery in investments activity in the corporate sector. Further acceleration was observed in private consumption, which increased by 2.6% y-o-y, supported by low inflation and growth in household's real income. As a result, domestic demand grew by 3.0% y-o-y The same was also its contribution to GDP and thus was the highest since 4Q 2011. The negative impact of the lower exports to Eastern Europe on the Polish economy was small, because smaller exports to Ukraine and Russia was offset by the higher exports to other European markets. Data for the second quarter indicate some stabilization in the dynamism of the Polish economy, after the substantial acceleration in economic growth at the beginning of this year. The Polish economy should remain on the growth track in next quarters, and in the whole year the GDP growth might reach 3.5%.

Situation in the labour market was improving during first half of 2014. Registered unemployment rate went down to 12.0% in June from 13.4% in December 2013 was by 1.2 p.p. lower as compared to the corresponding period of the previous year. The number of registered unemployed was lower by 9.3% as compared to the previous year and was below 2 mln for the first time since October 2012. The fall of unemployment rate was supported by seasonal factors and improving situation in the Polish economy. Increasing GDP growth and recovery in investments support rebound of demand for labour.

Inflationary pressures remained at low level, despite of accelerating economic growth. Inflation, measured with consumer price index, slipped substantially of 2014, reach 0.3% y-o-y in June. In May CPI inflation was at record low level of 0.2% y-o-y. Low inflation results from combination of positive supply shocks (food prices and energy) and moderate growth of demand. Inflation will remain below the bottom of NBP inflation target (1.50%) also till the end of this year.

In the first half of the year, monetary policy remained accommodative and the reference rate was kept at the record low of 2.50%. Low inflation, persisting well below the central bank's target, increased however expectations for monetary easing. Also post meeting statement after the meeting in June and MPC members' comments suggest more dovish the Council's position, but the likelihood of interest rate cuts still remains at a relatively low level. The baseline scenario remains still a stabilization of interest rates. Rate cuts are conditioned only weaker results of the Polish economy and fast strengthening of the Polish zloty. Interest rates hikes, however, remain a matter of distant in time and we do not expect them earlier then in the second half of next year.

In the first half households deposits grew by PLN 19.95 bln, while its annual dynamics remained relatively in particular months and amounted to 6.5% in June compared to 6.6% in December 2013. Deceleration in growth of households' deposits might be related to low interest rates, still relatively low disposable income dynamics and growing propensity to consume. Growth of deposits was also mitigated by the popularity of mutual funds as households facing diminishing interest on deposits are looking for more attractive forms of investment. The annual dynamics of corporate deposits decelerated slightly and amounted to 4.7% in June compared to 6.8% in December 2013, partially because of changes in pension scheme and decrease in deposits of Open Pension Funds.

Annual dynamics of total credit amounted 4.4% in June as compared with 3.6% in December 2013. Credit to households increased by 4.6% while loans to corporate sector grew by 4.1% y/y. One should note however that annual dynamics of loans was reduced by fx effect and strengthening of the Polish Zloty that decreased PLN value of loans denominated in foreign currencies. Excluding fx changes there was a visible acceleration in dynamics of loans portfolio in households sector and in corporate sector, especially in investments loans.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1. Profit and Loss account

Operating Income (PLN million)	1H 2014	1H 2013	Change 2014/2013
Net Interest Income *	733.9	602.0	21.9%
Net Commission Income	318.6	299.4	6.4%
*Core Income***	*1 052.5*	*901.4*	*16.8%*
Other Non-Interest Income ***	58.9	86.5	-31.9%
- including FX result	*76.7*	*63.8*	*20.3%*
Total Operating Income	**1 111.4**	**987.9**	**12.5%**

(*) 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 2.7 million in 1st half 2014 and PLN 38.4 million in 1st half 2013) 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) reached PLN 733.9 million in 1H 2014, which means very strong growth of 22% yearly. The main driver of yearly growth was falling interest cost, by 33% y/y, whereas interest revenue dropped by 10% y/y. NII continued also its quarterly improvement, growing by 5.8% q/q, now more positively from improving loan margin.

Total Net Interest Margin in 2Q'14 reached 2.65%, growing by 0.41 p.p. versus 2Q'13 and by 0.07 p.p. versus 1Q'14. Interest margin in whole 1H'14 reached 2.61%.

Net Commissions Income in 1H 2014 amounted to PLN 318.6 million, which means a growth of 6.4% (or PLN 42.7 million) yearly. Main yearly growth drivers were net fees from payment cards and sale of investment products (own and third parties). In quarterly terms net commissions grew by 4.9%.

Core income, defined as a combination of net interest and net commission income, grew by 16.8% in 1H 2014 versus previous year and reached the amount of PLN 1,052.5 million. In quarterly terms core income grew by 5.5%.

Other non-interest income in 1H 2014 amounted to PLN 58.9 million and fell by 31.9% yearly due to lower balance of other operating income and costs. The biggest part of this item was FX income with the amount of PLN 76.7 million.

Robust growth of Core Income during 1H 2014 allowed **Total Operating Income** of the Group to grow by 12.5% yearly to the amount of PLN 1,111.4 million.

Total costs in 1H 2014 amounted to PLN 554.3 million and remained flat (+0.2%) compared to the level of 1H 2013 year. In quarterly terms costs grew by 1.7% exclusively in administrative costs.

Cost-to-Income ratio improved again to a record low of 49.9% in 1H'14 thus achieving already 2015 goal.

Operating Costs (PLN million)	1H 2014	1H 2013	Change 2014/ 2013
Personnel Costs	(270.0)	(277.4)	-2.6%
Other Administrative Costs*	(284.3)	(275.7)	3.1%
Total Operating Costs	(554.3)	(553.1)	0.2%
Cost/Income Ratio	49.9%	56.0%	**-6.1 p.p.**

(*) including depreciation

Personnel costs decreased by 2.6% yearly. Total number of employees in the Group was flat yearly and reached 5,883 persons (in Full Time Equivalents) at the end of June 2014.

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

Employment (in FTEs)	30.06.2014	30.06.2013	Change 2014/ 2013
Bank Millennium S.A.	5 540	5 516	0.4%
Subsidiaries	342	358	-4.4%
Total Bank Millennium Group	5 883	5 874	0.1%

Other administrative costs (including depreciation) in 1H 2014 grew by 3.1% yearly mainly due to higher marketing costs, which is consistent with the organic business growth strategy that is being implemented.

Total net impairment provisions created by the Group in 1H 2014 amounted to PLN 139.8 million and were higher by 22.3% than in 1H 2013. In relative terms (i.e. compared to the average net loans) total provisions created in 1H 2014 stood at 66 bps level and was consistent with strengthening of coverage of impaired exposures.

Net Income on consolidated basis reached PLN 320.1 million in 1H 2014 year and PLN 163.6 million in 2Q 2014, the record level in the Group's history without one-offs. Better operating income (+12.5%), stable costs (+0.2%) and higher provisions (+22.3%) created a very strong annual growth of the Net Income of 25.9%, which allowed ROE to grow to 11.9% level (ytd).

Pre-tax Income and Net Income (PLN million)	1H 2014	1H 2013	Change 2014/2013
Operating Income	1 111.4	987.9	12.5%
Operating Costs *	(554.3)	(553.1)	0.2%
Impairment provisions	(139.8)	(114.3)	22.3%
Pre-tax Income**	417.3	318.8	30.9%
Income tax	(97.2)	(64.6)	50.5%
Net Income	**320.1**	**254.2**	**25.9%**

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

II.2. Balance Sheet

Assets

The Group's assets as at 30 June 2014 totalled PLN 59,231 million and were 3.7% higher compared to the balance at the end of June 2013. The structure of Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	30.06.2014		30.06.2013		Change 2014/2013
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	2 607.2	4.4%	1 798.6	3.1%	45.0%
Loans and advances to banks	2 137.3	3.6%	1 961.7	3.4%	9.0%
Loans and advances to Clients	43 374.4	73.2%	42 014.2	73.5%	3.2%
Receivables from securities bought with sell-back clause	319.0	0.5%	537.6	0.9%	-40.7%
Financial assets valued at fair value through P&L and hedging derivatives	1 152.3	1.9%	1 727.9	3.0%	-33.3%
Investment financial assets*	8 761.4	14.8%	8 150.9	14.3%	7.5%
Intangible assets and property, plant and equipment **	197.5	0.3%	209.6	0.4%	-5.7%
Other assets	681.8	1.2%	736.5	1.3%	-7.4%
Total assets	**59 230.9**	**100.0%**	**57 136.9**	**100.0%**	**3.7%**

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

Higher assets level resulted mainly from the growth of loans to Clients by PLN 1,360 (or by 3.2%) as well as the growth of Cash and operations with the Central Bank by PLN 809 million (or by 45.0%) and Investment financial assets by PLN 610 million (or by 7.5%), mainly debt securities issued by the National Bank of Poland (the central bank).

Loans and advances to Customers

Loans and advances to Clients constitute a dominant position in the asset structure (73.2% as on 30 June 2014). Total loans of Bank Millennium Group reached PLN 43,374 million (in net terms) as at the end of June 2014, which means an increase by 3.2% versus the end of June of the previous year.

The main source of this growth were loans for companies which increased in one year time by 13.4%. The scale of growth was similar for leasing and other loans. The share of loans to companies (in net terms) in the total loan portfolio reached 29% as at the end of June 2014.

The value of loans granted to households as at the end of June 2014 totalled PLN 30,831 million and decreased slightly by 0.4% year-on-year. Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew very strongly by 21.9%, or PLN 736 million year-on-year. The increase was mainly driven by the growth of cash loans: the value of sales of cash loans in 1st half 2014 amounted to PLN 963 million (an increase by 11% compared to the sales level of corresponding period of 2013). As at the end of June 2014 the balance of non-mortgage loans to households amounted to PLN 4,090 million.

The relatively stable level of the loans to households resulted from decreasing mortgage loans by 3.1% y/y. FX mortgage loans decreased by PLN 1,535 million compared to the end of June 2013 as a result of natural repayments of this portfolio and negative FX effect (CHF/PLN rate fell by 2.5% yearly). On the other hand, PLN mortgage book grew by PLN 695 million yearly. As on 30 June 2014, mortgage loans constituted the largest component of the Group's net loan portfolio and accounted for 61.7%, which was however considerably lower (i.e. by 4 p.p.) when compared to the share of 65.7% recorded as at the end of June 2013.

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

Loans and advances to Clients *(PLN million)*	30.06.2014	30.06.2013	Change (value)	Change (%)
Loans to households	30 830.9	30 948.7	-117.7	-0.4%
- mortgage loans	26 741.1	27 594.4	-853.3	-3.1%
- other loans to households	4 089.8	3 354.3	735.5	21.9%
Loans to companies	12 543.5	11 065.5	1 478.0	13.4%
- leasing	3 710.7	3 279.7	430.9	13.1%
- other loans to companies	8 832.8	7 785.8	1 047.1	13.4%
Net Loans & advances to Clients	**43 374.4**	**42 014.2**	**1 360.3**	**3.2%**
Impairment write-offs	1 356.8	1 272.1	84.7	6.7%
Gross loans & advances to Clients	**44 731.2**	**43 286.2**	**1 445.0**	**3.3%**

Investment financial assets

The value of investment financial assets (including investments in associates) equalled PLN 8,761 million at the end of June 2014 and increased by PLN 610 million i.e. 7.5% compared to the balance as on 30 June 2013 mainly due to PLN 619 million increase in the portfolio of debt securities. Investment financial assets portfolio (including investments in associates) was composed in 98.8% of debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank).

Financial assets valued at fair value through profit and loss and hedging derivatives

Value of the financial assets valued at fair value through profit and loss and hedging derivatives totalled PLN 1,152 million at the end of June 2014, which signifies a PLN 576 million decrease (i.e. 33.3%) compared to 30 June 2013. This decrease was driven by lower value of State Treasury debt securities by PLN 446 million (as opposite to investment financial assets portfolio). Another important component of financial assets valued at fair value through profit and loss and hedging derivatives were assets from valuation of derivatives (designated for trading and hedging), which decreased in one year period by PLN 127 million and totalled at the end of June 2014 PLN 489 million.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 2,137 million as at the end of June 2014, which means an increase by PLN 176 million (or by 9.0%) year-on-year. The changes resulted mainly from lower collateral deposits by PLN 580 million and the increase in overnight deposits by PLN 750 million.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment amounted to PLN 198 million as at the end of June 2014, which means a decrease by 5.7% yearly, mainly as a result of standard depreciation.

Liabilities

The structure and evolution of the Group's liabilities are shown in the table below:

LIABILITIES (PLN million)	30.06.2014		30.06.2013		Change 2014/2013
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 169.3	4.0%	2 348.5	4.5%	-7.6%
Deposits from Customers	45 970.1	85.5%	44 208.5	84.8%	4.0%
Liabilities from securities sold with buy-back clause	678.8	1.3%	1 098.2	2.1%	-38.2%
Financial liabilities valued at fair value through P&L and hedging derivatives	1 576.8	2.9%	2 224.4	4.3%	-29.1%
Liabilities from issue of debt securities	1 622.9	3.0%	767.3	1.5%	111.5%
Provisions	93.7	0.2%	65.1	0.1%	43.9%
Subordinated debt	624.6	1.2%	649.8	1.2%	-3.9%
Other liabilities*	1 059.7	2.0%	774.9	1.5%	36.8%
Total liabilities	**53 796.0**	**100.0%**	**52 136.8**	**100.0%**	**3.2%**
Total equity	**5 435.0**		**5 000.1**		**8.7%**
Total liabilities and equity	**59 230.9**		**57 136.9**		**3.7%**

(*) including tax liabilities

As at the end of June 2014, liabilities accounted for 90.8%, while Group's equity accounted for 9.2% of the total liabilities and equity.

As on 30 June 2014, Group's liabilities amounted to PLN 53,796 million and increased by PLN 1,659 million or 3.2% relative to PLN 52,137 million as on 30 June 2013. The increase resulted, primarily, from growth in Customer deposits (by PLN 1,762 million) and the growth of Liabilities from issue of debt securities (by PLN 856 million) during the period of one year. From the other hand, during the same period the value of Financial liabilities valued at fair value through P&L and hedging derivatives decreased by PLN 648 million and Liabilities from securities sold with buy-back clause fell by PLN 419 million.

Deposits from Customers

As on 30 June 2014, deposits from Customers constituted the Group's main liability item accounting for 85.5% of the Group's total liabilities.

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

Deposits of Clients *(PLN million)*	30.06.2014	30.06.2013	Change (value)	Change (%)
Deposits of individuals	28 550.6	25 621.1	2 929.5	11.4%
Deposits of companies and public sector	17 419.5	18 587.5	-1 167.9	-6.3%
Total Deposits	**45 970.1**	**44 208.5**	**1 761.5**	**4.0%**

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 on 30 June 2014 deposits from Customers amounted to PLN 45,970 million and recorded an increase of PLN 1,762 million i.e. 4.0% relative to the balance as on 30 June 2013. The very positive fact is that this growth of deposits during the period of one year was combined with consequent improvement of quarterly interest margin starting from 2Q 2013, despite unfavourable environment of low market interest rates.

As on 30 June 2014 deposits from individual Customers amounted to PLN 28,551 million and accounted for 62.1% of the total balance of deposits from Customers. Their value increased visibly by PLN 2,929 million or by 11.4% compared to the balance as on 30 June 2013. Deposits from companies and public sector at the end of June 2014 equalled PLN 17,420 million and accounted for 37.9% of Group's total deposits. During the period of one year the value of these deposits decreased by PLN 1,168 million (i.e. by 6.3%) partly due to financial institutions deposits decrease, which was correlated with the general decrease of deposits related to pension system in the whole banking system.

Deposits from banks

Deposits from banks, as on 30 June 2014, amounted to PLN 2,169 million. This was the second largest item accounting for 4.0% of the Group's liabilities The value of this item decreased by PLN 179 million (i.e. 7.6%) relative to the balance as on 30 June 2013. The main items of wholesale medium-term funding received by the Group included loans from European Bank for Reconstruction and Development (EBRD) in currencies: EUR, CHF and PLN amounting to equivalent of PLN 414 million, as well as loans from European Investment Bank in EUR of the total balance of equivalent of PLN 416 million.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Group concludes short-term transactions with buy-back clause both with banks and the Group's Customers (mainly non-banking financial institutions). The transactions are based on the State Treasury debt securities. As on 30 June 2014, liabilities from securities sold with buy-back clause amounted to PLN 679 million which means a decrease by PLN 419 million relative to the balance as on 30 June 2013.

Financial liabilities valued at fair value through profit and loss and hedging derivatives

Financial liabilities valued at fair value through profit and loss and hedging derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. The value of this item amounted to, as on 30 June 2014, PLN 1,577 million and decreased by PLN 648 million or 29.1% relative to the balance of 30 June 2013.

Debt securities issued

As on 30 June 2014, liabilities from issue of debt securities amounted to PLN 1,623 million recording a considerable increase by PLN 856 million (or by 111.5%) compared to the balance recorded as on 30 June 2013. At the end of June 2014 the value of bonds and bank debt securities issued by the Bank and offered to individual Customers in connection with savings products amounted to PLN 348 million. The value of bonds offered to institutional investors amounted to PLN 1,275 million. The increase of the latter group of bonds was the main reason of the increase of liabilities from issue of debt securities during the period of one year. During 1st half 2014 the placed two issues of bonds to institutional investors: one of them placed in March 2014 of the total nominal value of PLN 500 million maturing March 2017, and another one issued in June 2014 – with the nominal value of PLN 420 million and 3-month maturity. Debt securities were issued in order to raise funds for financing the general Bank's operations.

Subordinated debt

The value of subordinated debt amounted to PLN 625 million as on 30 June 2014 and decreased by 3.9% 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 June 2007.

Equity

Total equity of the Group amounted to PLN 5,435 as at the end of June 2014 and grew by 8.7% yearly. The main reason of the growth of equity was net profit generated during the period of one year, deducted by dividend paid in May 2014 in the amount of PLN 267 million. The contribution of revaluation reserve was positive to this growth (increase PLN 100 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 2014 the main index WIG grew by 1.3%, banking index WIG-Banks by 1.4%, while mWIG40, which comprises shares of Bank Millennium, gained 5.4%. In the same time Bank Millennium shares increased by 7.9%.

In the yearly horizon the same indexes recorded an increase from 16% to 24%. In the same time Millennium Bank shares grew significantly by 49.1% and it was the second best increase among the biggest banks in Poland.

Also the turnover of Bank Millennium shares grew significantly by 95.6% compared to the 1st half 2013 and by 84.3% compared to 2nd half of 2013.

Market ratios	30.06.2014*	30.12.2013*	Change (%) in 1H 2014	28.06.2013*	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 (PLN ths, avg. ytd)	7 771	4 217**	84.3%	3 974	95.6%
Price of the Bank shares (PLN)	7.77	7.20	7.9%	5.21	49.1%
Market cap. (PLN million)	9 426	8 734	7.9%	6 320	49.1%
WIG - main index	51 935	51 284	1.3%	44 748	16.1%
WIG Banks	8 126	8 014	1.4%	6 598	23.1%
mWIG 40	3 446	3 269	5.4%	2 777	24.1%

(*) last day of quotation in 1H 2014 and in 2013

(**) turnover for the second half of 2013 year

During the first half of 2014 there have been no changes in ratings of the two ratings of Bank Millennium from Fitch and Moodys.

On 19th of May Fitch agency affirmed ratings for Bank Millennium in relevant report.

Rating	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB- (stable outlook)	Ba2 (negative outlook)
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	NP
Viability rating / financial strength	bbb- (no outlook)	E+ (stable outlook)
Support	3	

II.4. Main factors that might influence Bank's standing in the second half of 2014

Main external factors that could influence the standing of Bank Millennium Group in the third and fourth quarter of 2014 include:

- Possible reduction in interest rates in Poland would increase the pressure on interest margins in the banking sector. On the other hand, it would reduce cost of financing in the domestic market.
- Gradual recovery in private consumption and record-low interest rates could encourage growth in loans to consumers. At the same time good financial results of Polish companies and increasing capacity utilization might support the investments activity of companies and thus rebuild demand for corporate loans.
- Staying the economy on a growth path, in particular further decrease in unemployment and the good financial condition of the Polish companies should contribute to the stabilization of the quality of loan portfolio.
- Lower transaction fees for use of payment cards (so-called "inter-change fee") with effect from 1 July will result in loss of revenue of the bank, which in the short term will certainly not be able to be offset by higher turnover in respect of the use of cards by the bank's customers
- Adapting to the new KNF recommendation concerning the sale of banking and insurance products (so-called recommendation U) will increase costs of the bank as well as the change in the long term model of income associated with these activities.
- There is a possibility of a change in the compulsory contributions for banks, which are usually decided in the 4th quarter by the Banking Guarantee Fund.
- Monetary policy easing by the European Central Bank, in conjunction with good fundamentals of the Polish economy should contribute to the strengthening of the Polish zloty. This could have a positive effect on loans to deposits ratio, as well as the liquidity needs of the Bank.
- Conclusions taken by local and European regulators from the Asset Quality Review and Stress Tests may provide further information on the level of resilience of the Bank and other Polish banks.

III. RESULTS BY BUSINESS SEGMENTS

III.1. Introduction

The following information provide Profit and Loss data for the Group's two main business segments: Retail and Corporate allowing for comparison of 1st half 2014 versus 1st half 2013 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.

Retail segment earnings (PLN million)	1H 2014	1H 2013	Change 2014/2013
Net interest income	572.5	443.4	29.1%
Net commission income	246.9	233.6	5.7%
Other income *	43.4	44.6	-2.7%
Total operating income	**862.8**	**721.7**	**19.6%**
Total operating expense **	**-418.7**	**-420.0**	**-0.3%**
Cost/Income	48.5%	58.2%	-9.7 p.p.
Pre-provisions income	**444.1**	**301.7**	**47.2%**
Net impairment provisions	-53.4	-73.8	-27.6%
Pre-tax income	**390.6**	**227.9**	**71.4%**

(*) including FX income
(**) without impairment provisions

The total operating income of the Retail segment in 1st half 2014 increased by 19.6% yearly to PLN 862.8 million, as a result of the increase of core income items, especially interest. Net interest income of retail segment grew remarkably by 29.1% yearly, despite lower interest environment in Poland this year when compared to 1H 2013. Such good result was achieved thanks to strict margin management as well as a favourable change of asset and funding mix – as planned in the current strategy of the Group. Net commissions income also grew yearly, by 5.7%, mainly from payment cards and investment products.

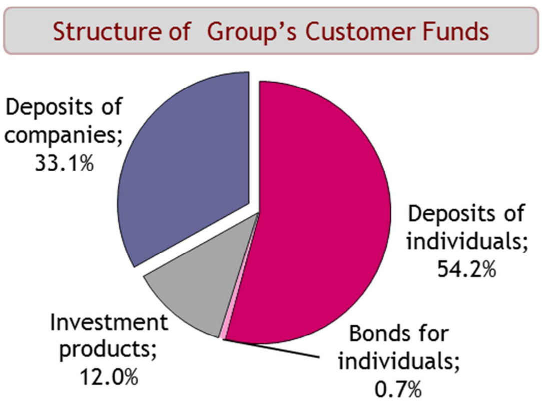
Operating expenses of retail segment remained flat in an yearly comparison (-0.3% y/y). As a result, cost-effectiveness of this business segment improved visibly during the year with cost-to-income ratio moving down from 58.2% to 48.5% i.e. crossing important threshold. Net impairment provisions decreased during the year by 27.6%, as there were higher provisions for microbusiness done in 1st half 2013.

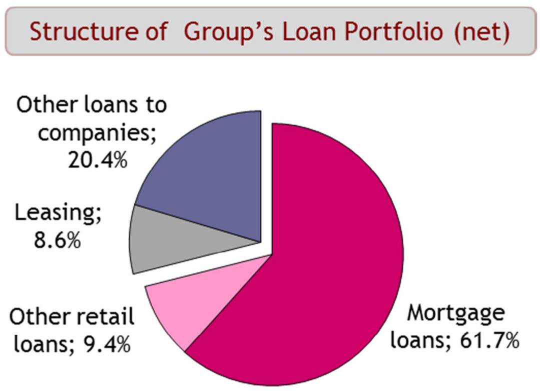
All of that gave very strong 71.4% yearly growth of pre-tax income of Retail segment in 1H 2014 to the level of PLN 390.6 million.

Corporate segment earnings (PLN million)	1H 2014	1H 2013	Change 2014/2013
Net interest income	162.4	157.9	2.8%
Net commission income	69.2	65.1	6.2%
Other income *	23.5	21.3	10.2%
Total operating income	**255.0**	**244.3**	**4.4%**
Total operating expense **	**-104.5**	**-98.3**	**6.3%**
Cost/Income	41.0%	40.2%	0.7 p.p.
Pre-provisions income	**150.5**	**146.0**	**3.1%**
Net impairment provisions	-86.0	-40.0	114.9%
Pre-tax income	**64.5**	**106.0**	**-39.1%**

(*) including FX income
(**) without impairment provisions

The total operating income of Corporate segment in 1st half 2014 increased by 4.4% yearly to PLN 255.0 million. Net interest income increased by PLN 2.8% year-on-year and net commission income grew by 6.2% year-on-year. At the same time, operating expenses increased by 6.3% y/y. As a result, cost-to-income ratio of the companies segment was on slightly higher level of 41.0% in 1H 2014 and Pre-provision income grew by 3.1% yearly. However, amount of impairment provisions on loans to companies increased significantly (by 114.9%) in 1H 2014 when comparing with 1H 2013, mainly as a result of strengthening of coverage of existing impaired exposures. Due to the latter reason, pre-tax profit of Corporate segment reduced by 39.1% yearly to the level of PLN 64.5 million.





Total Customer funds collected by Bank Millennium Group as at 30 June 2014 amounted to PLN 52,637 million. Customer funds of retail segment amounted to PLN 35,218 million and accounted for 66.9% of total Group's Customer funds. The funds comprised deposits (PLN 28,551 million), bonds for individuals (PLN 348 million) and investment products, including own and third party mutual funds, insurance-saving products etc. (PLN 6,319 million). Deposits of companies as at 30 June 2014 amounted to PLN 17,420 million and accounted for 33.1% of total Group's Customer funds.

Total net loans of the Group as at 30 June 2014 amounted to PLN 43,374 million. Loans to retail segment Clients amounted to PLN 30,831 million and accounted for 71.1% of total Group's loans. The loans comprised mortgage loans (PLN 26,741 million) and other retail loans, including cash loans, credit card loans, overdrafts etc. (PLN 4,090 million). Loans to companies as at 30 June 2014 amounted to PLN 12,543 million and accounted for 28.9% of total Group's loans. The loans, besides different groups of loans and overdrafts for companies, included leasing receivables (PLN 3,711 million).

III.2. Retail banking

Retail Banking

Bank Millennium is one of the leading universal banks in Poland and retail banking accounts for a significant area of its business operation. The Bank offers retail products and services systematically adjusted to meet Client needs, offered under specialist business lines: individual clients, affluent individual (Prestige), private banking and Business line addressing needs of self-employed persons or small enterprises. The Bank offers its products and services to general public through the network of 430 outlets, Internet and mobile banking, direct banking, the network of ATMs and telephone banking.

As on 30 June 2014, Bank Millennium provided services to 1 million 277 thousand active individual Clients, recording an increase in their number by ca. 2% relative to similar period of the previous year.

Classic banking offer for individual Clients and small firms is supplemented by services offered by the Group's companies: Millennium TFI (investment funds), Millennium Dom Maklerski (brokerage operations) and Millennium Leasing (leasing products). This way the Bank is able to satisfy various financial needs of its Clients, as illustrated by high value of the cross selling ratio amounting to, at the end of June 2014, 3,89 product per single Client (in comparable period of 2013 the ratio reached 3,85).

One of the Bank's strategic objectives is to consistently improve service quality and the level of Client satisfaction. To date, the Bank's efforts in this area were appreciated by both the Clients and independent experts. In the first half of 2014, the Bank consistently continued its efforts to improve service quality. These activities are specifically important in the retail segment, where the Client service level is specifically important in building competitive advantage on the market.

Current accounts

As on 30.06.2014, Clients had, in Bank Millennium, more than 1 million 716 thousand personal accounts. The Bank has been systematically expanding and modernising its offer in this area: in May 2014 the bank introduced a new account for the its retail Clients i.e. „Konto 360˚" – a comprehensive offer focusing on Client and the Client's needs. Account is maintained free of charge subject to meeting two simple conditions. In addition, the account holders can take advantage of assistance insurance attached to the account, ensuring access to round-the-clock medical help and support in resolving various household problems. The Bank has also prepared special account versions for youth of under 18 years of age and for persons in the age of 18 – 26. Clients can have Konto 360º irrespective of their age and the Bank will adjust its offer to meet their needs changing with advancing age.

The concept of Konto 360º was developed on the basis of market research and review of preferences of the Poles relative personal account, and was quickly appreciated by the Clients. Launching of Konto 360º was accompanied with an advertising campaign in TV, press, Internet and cinemas. The early results are encouraging: over 35,000 accounts within less than 2 months.

Cash loan

In January 2014, the Bank introduced a simplified option to repay liabilities due to other banks by a consolidation loan. The new solutions help advisors in branches to actively offer transfers of Client liabilities to Bank Millennium. The offer was supported, in February and March, by TV advertising campaign.

Also in January of the current year, the bank introduced an opportunity for Clients to take a cash loan by phone via Telemillennium service line. Thus, the product is available through five channels: in branch, in Internet, by phone, by way of mobile application and in the Bank's ATMs. Introduction of new product distribution channels has changed the sales structure and, at present, remote channels generate more than 20% of the cash loan sales.

In Q2 2014, the bank introduced the product named "Quick Cash" for new and existing Bank Clients. The offer is available up to the amount of 10,000 PLN and to obtain it the Client must have positive credit history. The product can be acquired in Bank branch or via Telemillennium or Internet without the need to go out.

In effect of its activities in 1st half of 2014, the Bank recorded increase of the cash loan portfolio at 24% p.a. Cash loan sales in Q2 2014 reached record level of 516 million PLN.

Deposit products

In the 1st half of 2014, the Bank, taking advantage of stabilising interest rates, effectively managed its deposit margin while, at the same time, focusing on increasing volumes of Client savings.

In Q2 2014, interest among Clients in term deposits visibly increased. During this time, the Bank started to promote the option to open deposits through mobile banking channels.

The share of current and savings accounts in the total deposit portfolio remained flat at 50%.

Volumes of deposits of natural persons increased in 1st half of 2014 by 1,5 bln PLN, to reach the level of 28,6 bln PLN. The Bank's share in the natural person deposit market increased by 0,1% year-on-year and amounted to 5,2% at the end of June 2014.

Payment cards

In the 1st half of 2014, Bank Millennium expanded its payment card offer by introducing a new embossed debit card – Millennium Visa 360 – issued to the Konto 360 and the account's Junior and Student versions.

The Bank reduced the interest free period for credit cards to maximum 51 days, but, at the same time, introduced interest free period for cash transactions – a unique solution on the payment card market. The above change relates to all credit cards, except for Millennium MasterCard World Signia/Elite and Signia/Elite VIP. In addition, the Bank made available the option to switch off and on the contactless transaction functionality on credit and debit cards MasterCard/Maestro PayPass or Visa payWave, and reduced the amount of card holder's liability for unauthorised contactless transactions from 150 EUR to the amount of 50 EUR.

As at the end of June 2014, the total number of payment cards, valid and not cancelled, amounted to 1,577 thousand. Debit card turnovers, in the first half of 2014, increased by 12% p.a. and in case of credit cards turnovers slightly decreased i.e. by 5% p.a.

Mortgage banking

In the 1st half of 2014, activities carried out by Bank Millennium in the mortgage banking area focused on adjusting loan granting conditions to meet market expectations and to develop relations with Clients.

In connection with entry into full force and effect of the updated Recommendation S, the Bank adjusted its operations to meet effective requirements such as: the need for the Client to contribute own funds in the amount of 5% of the real property value, granting loans in currency in which the Client generates his/her incomes, recommendation of loan for the term not longer than 35 years.

As an important supplement to its offer, the bank introduced, in the 1st half of 2014, a mortgage loan with subsidy under the Government programme "Flat for the Young". The programme is addressed to persons up to 35 years of age and helps them to obtain funds from the State Budget to cover 10% of the real property purchase price for childless persons and 15% for persons with a child. Thus, supported by Government financing, borrower can purchase a flat or a single-family house on the primary market having no resources of his/her own.

Since the beginning of 2014, the entire market has been recording decline of the total amount of newly granted mortgage loans. The value of mortgage loan disbursements in Bank Millennium, in the 1st half of 2014, amounted to 561 mln PLN (517 mln PLN in similar period of 2013), while the Bank's mortgage loan portfolio, at the end of the first half of the year, amounted to 26 741 mln PLN.

Internet banking – individual Clients and business

The first half of 2014 was marked by continuous development of Internet Banking resulting in improvement of the Millenet - Internet Banking system availability and acceleration and streamlining of Internet access to selected products.

The number of registered Millenet Clients, at the end of June 2014, amounted to 1,465 thous. recording increase by 6% year-on-year.

Millenet transaction ratio (measured by the number of Clients with, at least, one transfer per month) increased in the 1st half of 2014 by 9%. Individual Clients performing transactions through Millenet execute 97% of all external transfers (to accounts in other banks).

Furthermore, Millenet constitutes an important distribution channel for banking products: deposits/saving accounts (accounting for 60% of the sales volumes for individual Clients), current accounts (7% of accounts sold in the Bank), FX accounts (80% of accounts sold in the Bank), cash loans (20% of the volume of cash loans sold to individual clients), new overdraft facilities (20% of the volume of overdrafts for individual clients), overdraft facility increases (60% of the net volume), debit/credit/pre-paid cards, disbursements from credit cards, investment products. Millenet is a channel for opening of more than 50% of standing orders and many other banking services.

The Bank has been systematically working to improve Internet site usability and convenience. Relevant changes and improvements are implemented on the basis of eye-tracking tests, questionnaires as well as comments and suggestions received from Clients.

In the first half of 2014, the Bank made the new information part of its Web site to its Clients. The objective of changes implemented was to improve the site clarity and transparency of the site to facilitate search for information and to introduce a new, more user friendly offer presentation. Moreover, the new Web site was prepared in Responsive Web Design technology; hence the site is automatically adjusted to screen size. This way, the site remains clear and legible both on PC as well as on tablets and smart phones. The new site also contains a special section where Clients may become familiar with products suggested to meet their needs.

III.3. Corporate Banking

Corporate Banking in Bank Millennium focuses on professional and comprehensive servicing of Clients generating annual sales revenue of above 5 mln PLN and servicing of institutions and public sector units. The main objective of the Bank is to maintain long-term, stable and partner cooperation with corporate Clients founded upon mutual trust, commitment and understanding. Using potential of professional team of relationship managers and experts, comprehensive product offer and advanced electronic communication channels, the bank effectively strengthens its position in the corporate banking market.

In the first half of 2014, Corporate Banking continued its efforts to achieve objectives described in the Bank medium-term strategy, strengthening its position on the corporate banking market, developing its offer and continuously improving service quality.

Distribution channels

Corporate Banking Clients receive daily support from a team of professionals composed of (as on 30 June 2014) 119 Relationship Managers and 78 Consultants working in 37 Corporate Centres as well as 58 Advisors and Product Advisors – specialists in leasing, factoring, trade financing, treasury transactions and transaction banking.

Besides direct service rendered by countrywide sales network and telephone service TeleMillennium, Clients also take advantage of modern tools such as:

- Internet Banking System Millenet for Companies (with its „Trade Finance" module and „Millennium Forex Trader" platform),
- Mobile banking i.e. access to accounts and banking operations via mobile telephony.

In the 1st half of 2014, Bank Millennium carried out work to continue integration of Internet services for corporate Clients in the system Millenet for Companies. After implementation, in 2013, of the new module „Trade Financing", the next stage involved incorporation of the Millennium Forex Trader platform into the Millenet system. This way, after login into the Millenet, Clients have access not only to already available system functionalities in the area of transaction banking, but also to treasury transactions and trade finance.
In order to improve convenience for Clients, in the Millenet for Companies the bank introduced a new form of delivery of passwords for first login (the functionality can also be used to unlock passwords).

In mobile banking, the Bank introduced an opportunity to use one application to support servicing of more than one company, a functionality of specific importance for servicing capital groups where one person controls finances of more than one company.

Credit products

In the 1st half of 2014, the bank continued activities to increase lending activity for companies including medium and large companies to make the first step to establish strategic partner relationships with Clients. Activities conducted for more than a year allowed the Bank to develop cooperation with Clients representing all sectors and industries, thus strengthening Bank Millennium's position in the enterprise sector.

Effectiveness of Bank's efforts is illustrated by the following results: corporate credit portfolio increased by 1.6 bln PLN i.e. 13,4% p.a., against increase in similar period at the level of 4,1%. The share of corporate loans in the total Group's portfolio has already reached the minimum level assumed in the strategy i.e. 30%.

Factoring

In the 1st half of 2014, Bank Millennium recorded factoring turnover of 5.484 mln PLN. Relative to 1st half of 2013 the turnover increased by 40%. This increase was significantly higher than increase in value of turnovers recorded by all institutions rendering factoring services in Poland i.e. 16%. This way, the bank increased its share in the factoring service market from the level of 7,7% at the end of 1st half of 2013 to 9,3% at the end of 1st half of 2014. At present, in terms of value of receivables purchased, Bank Millennium is ranked fifth on the factoring service market in Poland.

This high increase results from very effective acquisition of new factoring agreements (at the end of 1st half of 2014 the total value of limits under factoring agreements was higher by 26% relative to the value of limits as at the end of the 1st half of 2013) and higher limit utilisation under existing transactions (at the end of 1st half of 2014, the bank's exposure in financing of receivables was higher by 26% relative to the exposure level as at the end of 1st half of 2013).

The Bank offers diverse factoring products helping the Bank to attract new Clients intending to transfer the risk of counterparty failure to pay upon the Bank (factoring without recourse), Clients interested in administration and early receipt of funds from invoices issued (factoring with recourse), as well as those, who want to extend the term of payments of their liability (reverse factoring).

Trade finance

In the first half of 2014, the Bank provided consecutive Clients with access to the module, implemented in 2013, „Trade Finance" offered within the Internet Banking system i.e. Millenet for Companies. This advanced Millenet functionality supports Clients in comprehensive management, via Internet, of bank guarantees and documentary L/Cs ensuring, inter alia, full access to reports and statuses, offering validation of data on forms to eliminate errors, supporting development of templates and reaching agreements with the Bank on-line on the guarantee wording.

As at the end of June 2014, the „Trade Finance" module was implemented and made available to 95% of corporate Clients using L/Cs and 65% of the most active corporate Clients to support guarantees and L/Cs. Implementation of the platform at the Client has a positive impact upon increase in the number of transactions they activate in Bank Millennium. This is specifically visible in case of documentary L/Cs: monthly average number of opened import L/Cs in the period from January to June 2014 increased by 82% relative to the similar period in 2013 (when platform had not been available, yet).

Leasing

As at the end of 1st half of 2014, the company Millennium Leasing was ranked 3rd in the ranking of leasing companies in Poland in terms of the value of movables under leasing, recording market share at 7.7%. The value of collected leased items amounted to, in the period, 1.082 mln PLN, thereby ensuring growth for Millennium Leasing by 31%, with similar growth of the total market. Interest, among companies, in investment purchases in the first months of the current year indicates that the positive trend is likely to continue in consecutive quarters.

In the first half of 2014, Millennium Leasing, as an universal company, offered its services to companies representing all sectors i.e. to corporate and institutional Clients as well as micro-businesses. The Company objective is to achieve leading position in heavy transport as well as machine and equipment.

The Company, in the first half of 2014, maintained high level of Client service in operational and product related activities. The key activities continued to include identification of Client financial needs and capacity to provide them with an offer of unique product solutions. Implementation of this strategy is based upon cooperation, in product areas, with Bank Millennium.

In effect of strategy implementation, in the first half of 2014 new leasing agreements in the number of 6,855 were concluded i.e. an increase by 49% relative to similar period of the previous year. As on 30.06.2014 Millennium Leasing cooperates with 12 thous. Clients and has, in its portfolio, more than 34 thous. active leasing agreements. The gross value of capital exposure in active leasing agreement amounted to 3.8 bln PLN.

Transaction banking

The first half of 2014 was marked with continuation of a stable growth of volumes accumulated on current accounts (+16% relative to 1st half of 2013) achieved in effect of consistent increase of the number of transaction products as well as volumes and numbers of transactions on Client accounts. The structure of deposits has been consistently improving as well as the relation of funds on current accounts to credit portfolio reaching, as at the end of June 2014, the level of 27,3%.

Bank Millennium provides Clients with a comprehensive transaction banking product offer supported by efficient and ergonomic Internet and mobile banking systems. Corporate Clients can take advantage, without limitations, of all Bank branches. In transaction related communications with Clients also channels using protocols SSH/SFTP, PGP are used. In the area of transaction banking, the Bank focuses on solutions ensuring high Client service quality, simplification of processes in line with Lean methodology and operational efficiency to increase the base of Clients actively using the mix of transaction solutions.

In the first half of 2014, Bank's offer was expanded by adding pre-paid cards i.e. Millennium MasterCard Prepaid Commercial in EUR, liquidity supporting services were expanded by adding cash pool type solutions and Bank Millennium was registered in the SWIFT for Corporates service.

Treasury products

In the 1st half of 2014, Bank Millennium continued its treasury operations involving offering Corporate Banking Clients with solutions in hedging against FX risk and interest rate risk.

A broad offer of the Treasury Department addressing needs of Corporate Banking Clients includes: spot FX transactions, deposit products, FX risk management instruments (fx forward, fx swap, options) and interest rate risk management instruments (FRA, IRS, CIRS, interest rate options).

Marketing activities

In the first half of 2014, Bank Millennium continued its initiative involving organisation of educational meetings with current and prospective Clients of the Bank. The subject matter of these free-of-charge business seminars was „Polish Economy at the face of recovery. Will geo-political tensions change the scenario of economic growth and for the PLN?". During meetings discussions focused on sustainability of clear impulses supporting recovery of the Polish economy, symptoms of market improvements and readiness to invest as well as potential of PLN and its capacity to appreciate in the context of turbulences on emerging markets.

The open formula of the meetings facilitated Clients to conduct open discussions with the Chief Economist of Bank Millennium about problems important for their businesses.

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 2014 Bank Millennium Group implemented a number of initiatives with a view to improving the 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 2014.

IV.1. Capital management

Capital management in the Group consists of a capital adequacy management process and capital allocation process. The purpose of the capital management is to ensure safety (solvency) of the Group in normal and in stressed conditions and compliance with regulations. The purpose of the capital allocation process is to create value for shareholders by maximizing the return on risk in the business activities, taking into account the established "risk appetite".

Within the established risk appetite, the Bank and the Group set measurable long-term capital targets, that serve as a solid base for maintaining solvency and support a potential business growth. These targets (limits) are in line with regulatory requirements. Utilization of limits is measured and monitored on a regular basis. For controlling capital adequacy, the "safety zones" rule is used, which defines set of potential management actions commensurate with a current and forecasted risk level. Also a target structure of own funds was defined, which serves as a measure to safeguard the Group activity. The purpose of the Group is to support a long-term increase of the activity, supported by internal sources of capital growth.

In general, the Group's capital adequacy is internally assessed as strong, both now and within next few years. This assessment is supported by the impacts of the decision taken at the end of 2012 by Banco de Portugal (BdP), in cooperation with Polish Financial Supervisory Authority (PFSA), for applying Internal Ratings Based method (IRB) to the calculation of capital requirements for credit risk in retail exposure class, in the following subclasses: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE).

The approval is conditional, i.e. the Bank should fulfil some conditions defined by BdP and PFSA, in pre-defined deadlines. Completion of the IRB conditions was finalised in 2nd quarter 2014 and currently the Group is waiting for the confirmation of completion by supervisory authorities.

The approval also contains a regulatory constraint that the capital requirements calculated for the classes using the IRB approach must be temporarily maintained at no less than 80% of the respective capital requirements calculated using the Standardized approach. This constraint is applied until the fulfilment of the conditions is confirmed by BdP and PFSA. A similar constraint will be in force after a future abolition of the current BdP and KNF constraint, what stems from new European prudential regulations.

The Group sent the application regarding IRB for remaining portfolios, in according to the plan of IRB implementation to the KNF and BdP in the first quarter 2014.

In the 2nd quarter the Group implemented changes that come from the new regulations (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (later referred to as CRR) and amending Regulation (EU) No 648/2012.

The global impact of those changes were insignificant for the Capital Adequacy Ratio and Common Equity Tier 1 ratio for the Group. The reason for that is offset the impacts between negative changes in the own funds side and positive changes on risk side (risk-weighted assets).

The total impact of implementation of CRR on CAR is equal to -13 b.p. and -10 b.p. on CET1 ratio

Capital requirements and ratios of the Bank Millennium Group, as at 30th June, 2014 are presented in the below table:

Bank Millennium Group – capital requirements (PLN million) for:	30.06.2014		30.06.2013
	IRB constrained according to CRR [1)]	IRB according to former regulations [2)]	IRB constrained [1)]
Credit risk	2 771.1		2 684.9
Market risk	22.8		32.3
Operational risk	257.5		248.9
Total capital requirements	**3 051.4**	**3 077.0**	**2 966.1**
Own Funds	**5 273.3**	**5 367.2**	**5 481.0**
Consolidated Capital Adequacy Ratio	**13.8%**	**14.0%**	**14.8%**
Consolidated Core Tier1/ Common Equity Tier 1 ratio	**13.0%**	**13.1%**	**13.3%**

1) Calculated including regulatory constraint, as at 30 June 2014 - according to CRR
2) Calculated for comparison according to formerly binding Resolution 76/2010 *KNF (Polish Financial Supervision Authority)*

The capital position expressed in capital adequacy ratio, calculated in line with IRB regulatory constraint, is on a very safe level of 13.8%, as wells as Common Equity Tier 1 ratio of 13.0%. Comparing to June 2013, capital adequacy ratio, calculated in line with IRB regulatory constraint decreased by 1 p.p. and CET1 by 0.3 p.p. The reasons are: increase of loan portfolio, implementation of more conservative LGD (loss given default) models and CRR implementation.

Analyzing economic capital adequacy, the Group's internal capital – expression for material risks in activity - is covered with a significant surplus by the available financial resources.

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) – decreased in the last 12 months from the level of 4.56% a year ago to the level of 4.26% at end of June 2014. This means that the impaired loans ratio in Bank Millennium Group remains well below the ratio for the entire market, which at the end of May 2014 amounted to 8.4%.

During the first half-year of 2014 the value of impaired loans slightly increased by PLN 3.9 million, which combined with an increase of the entire portfolio (by PLN 1 653.2 million) during the same period, resulted in the decrease of impaired loans ratio to the above mentioned level of 4.26% (at the end of December 2013 the ratio amounted to 4.42%).

The mortgage portfolio is characterized by stable and very good quality, although the impaired loans ratio increased slightly from the level of 1.20% a year ago to the level of 1.36% today, mainly due to natural ageing of the portfolio. A notable improvement can be observed in the quality of other retail loans (including microbusiness): impaired loans ratio decreased from the level of 15.0% in June 2013 to the level of 12.3% on 30 June 2014. During the same period the quality of corporates loans portfolio also improved: the impaired loans ratio decreased from the level of 8.7% on 30 June 2013 to the current level of 7.1%. The improvement of this ratio resulted among others from the reclassification of some successfully restructured exposures to the normal portfolio and from the write-off of few big receivables from construction industry.

The ratio of loans overdue above 90 days (DPD - days past due) remained in the last half-year at relatively stable level: 2.87% at the end of December 2013 and 2.89% at present.

It should be noted that ratios related to loans with 90 DPD for Bank Millennium Group remain at much lower level than the 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 with above 90 DPD for particular portfolios (mortgage, other retail with microbusiness and corporates) as at 30 June 2014 amounted to 0.67%, 9.79% and 4.75% respectively.

The situation of Bank Millennium Group regarding the quality of the loans portfolio is illustrated by the following values:

Key loan quality ratios	30.06.2014	31.12.2013	30.06.2013
Total impaired loans (PLN million)	1 906.9	1 903.0	1 973.8
Loans over 90 days past due (PLN million)	1 290.9	1 236.7	1 189.3
Impaired/total loans	4.26%	4.42%	4.56%
Loans >90 DPD/total loans	2.89%	2.87%	2.75%
Total provisions*/impaired loans	71.2%	69.0%	64.4%
Total provisions*/ Loans >90 DPD	105.1%	106.1%	107.0%

(*) including IBNR provision

The improvement of the quality of Group's credit portfolio was accompanied by the growth of the level of impairment provisions created in profit and loss account. In the first half-year of 2014 the ratio of created provisions to the average level of net loans (cost of risk) amounted to 66 basis points and was higher than in the first half-year of 2013 (56 bp). Thus, the coverage ratio of the impaired loans portfolio with provisions improved significantly in June 2014 when it amounted to 71.2% in comparison to 69% in December 2013 and 64.4% in June 2013. This was probably the fastest improvement among main Polish banks and it creates a comfortable position of the Group ahead of asset quality review (AQR).

The coverage ratio of overdue loans with above 90 DPD with provisions decreased from end of 2013 by 1 p.p. however remained at high level of 105.1% at the end of June 2014.

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 relatively low level of 6.0% of total loan portfolio of the Group.

The share of individual sectors in the companies portfolio of Bank Millennium Group as at 30 June 2014 and 2013 has been shown in the table below:

		30.06.2014		30.06.2013	
Group	Sector	Gross balance exposure (PLN million)	% share of total portfolio	Gross balance exposure (PLN million)	% share of total portfolio
A	Agriculture, forestry and fishing	90.1	0.7%	59.4	0.5%
B	Mining and quarrying	331.8	2.5%	127.1	1.1%
C	Manufacturing	3 203.8	24.1%	2 550.5	21.7%
D	Electricity, gas, water	220.3	1.6%	170.6	1.5%
E	Water supply, sewage and waste	123.8	0.9%	109.2	0.9%
F	Construction*	1 262.3	9.5%	1 635.9	13.9%
G	Wholesale and retail trade; repair	3 580.1	26.9%	2 779.2	23.7%
H	Transportation and storage	1 690.8	12.7%	1 462.5	12.5%
I	Accommodation and food service activities	94.3	0.7%	124.2	1.1%
J	Information and communication	374.5	2.8%	356.2	3.0%
K	Financial and insurance activities	222.1	1.7%	315.4	2.7%

L	Real estate activities*	786.2	5.9%	652.8	5.6%
M	Professional, scientific and technical services	241.6	1.8%	174.3	1.5%
O	Public administration and defence	517.2	3.9%	523.0	4.5%
P	Education	61.6	0.5%	53.1	0.5%
Q	human health and social work activities	95.2	0.7%	77.4	0.7%
R	Culture, recreation and entertainment	28.0	0.2%	19.6	0.2%
N+S	Other Services	391.6	2.9%	546.6	4.7%
	Total	13 315.5	100.0%	11 736.9	100.0%

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

The sector structure of corporate portfolio has not changed significantly during the year, although a notable decrease can be observed in Construction sector (from 13.9% to 9.5%), which was characterized by the increased risk in the recent period. On the other hand share of Wholesale & retail trade and Manufacturing sectors 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 V "Changes in risk management process".

IV.4. Liquidity risk

See the Consolidated Condensed Interim Financial statement, chapter V "Changes in risk management process".

IV.5. Operational risk

See the Consolidated Condensed Interim Financial statement, chapter V "Changes in risk management process".

V. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

V.1. Annual General Meeting

On 10 April 2014 Annual General Meeting was held. 160 Shareholders took part in the meeting, representing 84.3% of Bank's share capital, including the two largest Shareholders: Banco Comercial Portugues (65.51% of share capital), ING Otwarty Fundusz Emerytalny (7.47% of share capital) Aviva OFE (5.00% of share capital). Following to the Management Board proposal the Annual General Meeting decided about payment of dividend of PLN 0.22 per share (50% of 2013 consolidated net profit).

On 4 of June 2014 Aviva OFE informed that reduced its stake in the total number of votes from 5.00% to 4.96%.

V.2. Bank Millennium in RESPECT index

Bank Millennium was again confirmed 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[5] standards

In March 2014 the Bank issued the eighth edition of the "2013 Responsible Business" report. The Report is available in printed and electronic format, in Polish and English language versions. 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 define 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.

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 2014 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 2014 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 2014 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2014 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.

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[5] 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

SIGNATURES:

Date	Name and Surname	Position/Function	Signature
25.07.2014	Joao Bras Jorge	Chairman of the Management Board	....
25.07.2014	Fernando Bicho	Deputy Chairman of the Management Board	....
25.07.2014	Artur Klimczak	Deputy Chairman of the Management Board	....
25.07.2014	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
25.07.2014	Wojciech Haase	Member of the Management Board	....
25.07.2014	Andrzej Gliński	Member of the Management Board	....
25.07.2014	Maria Jose Campos	Member of the Management Board	....