

Management Board Report of the Bank Millennium Capital Group

for the six months ended 30 June 2013



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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 1st half 2013 the amount of PLN 254 million i.e. 15% higher than in 1H 2012. Cost-to-income ratio for 1H 2013 hit another record of 56%.

Such good results were reached thanks to better operating income (+4.3% y/y) and continued reduction of operating costs (-1.2% y/y) and despite slightly higher cost of risk provisions (+2.4% y/y).

Bank Millennium was focusing during 1H 2013 on the following main key strategic initiatives:

- Increasing consumer lending and its share in total retail loans.
- Becoming a reference bank for savings and transactions, developing broad range of saving opportunities for customers balancing their needs of liquidity and investment.
- Consistently developing innovative star products supporting customer acquisition.
- Optimising use of multiple sales channels and business analytics for pre-eminent convenience, increased sales productivity and efficient product distribution.
- Catching the next wave of digital banking and striving for leadership in mobile banking.
- Exploring broader target market opportunities in corporate lending combining the focus in SMEs with addressing mid-large companies.
- Establishing strategic partnership relations with key corporate customers.

The results of the Group in 1H 2013 showed already the progress in implementation of some of these initiatives. Quarterly sale of cash loans more than doubled versus last year and already exceeded the production of mortgage loans. Thanks to that, share of all consumer loans in total retail portfolio grew from 10% to 12%. Also share of loans to companies grew during last year from 25% to 27%, partially thanks to establishing new relations with SME or mid-large corporate customers. Total loans increased by 1.8% yearly, but during 1H 2013 the growth was 4.4%, i.e. higher than average market growth.

On deposits side the growth was even stronger: 10.8% yearly and 6.7% semi-annually. The Bank managed to increase significantly the share of current and saving accounts, which partially supported the protection of interest margin in a scenario of the quick reduction of market interest rates.

Positive change of assets and customer funds mix, together with successful management of deposit interest margin, allowed the Group to keep almost the same level of net interest income as year ago: (drop of 1.1%, based on pro-forma data). At the same time fees and commission income grew visibly by 7.4%, so entire core income was better by almost 2% versus 1H 2012.

Improvement of profitability and cost efficiency has been accompanied by keeping strong capital and liquidity position: Core Tier 1 ratio was 13.3% and Loan-to-deposit (adjusted by retail bonds, repos and securitization) at 93%. Bank Millennium also enjoys one of the lowest ratio of impaired to total loans among top Polish banks: 4.6% as at the end of June 2013.

At the same time Bank Millennium keeps leadership position in digital innovation. In June 2013 Mobile Banking for Companies in Bank Millennium came 1st in the "Best Banking Offer" category of this year's "Market Pearls - Retailers' Choice" competition. Bank was also again awarded as „Best Consumer Internet Bank” by Global Finance.

In July 2013 Bank Millennium together with five other banks, covering altogether over 70% of country's electronic banking customer base, initiated co-operation on a new mobile payments standard. New standard for mobile payments in shops, internet, ATMs and between mobile phones is to be developed, based on a new system just implemented by the biggest Polish bank.

High quality of services provided to customers remains one of the most important elements of the Group's strategy. Improvement of service quality is one of the foundations, which have been constantly developed by the Bank for the last years in order to support business growth. Since 2011, when the Bank launched a dedicated Quality Project, quality improvement system became regular and important component of the Bank's everyday activities. They brought visible results: Bank Millennium was selected as the second best bank in the "Jakość na Bank" (Bank on Quality) 2013 competition, prepared by TNS Polska for the "Puls Biznesu" daily. During 1H 2013 the Bank was also awarded again with Service Quality Star in the 6th edition of the Polish Service Quality Programme.

The Bank also follows very high standards in the areas of corporate governance, investor relations and responsible activities towards environment, society and its own personnel. This was proved by the fact that Bank Millennium has qualified again to the RESPECT Index - created by the Warsaw Stock Exchange the first index of socially responsible companies in the CEE region.

For the second half of 2013 year, Bank intends to continue the systematic implementation of key strategic initiatives in order to fulfil main medium-term targets planned for the end of 2015 year.

1.2. Macroeconomic situation

The condition of the Polish economy deteriorated further during first half of this year. Data released in the latest months suggest that the Polish economy probably reached the bottom of the economic cycle in the first quarter of this year and despite the slowdown Poland managed to avoid technical recession described as the two consecutive periods of negative GDP dynamics in quarter-to-quarter terms. Gross domestic product in Q1 2013 (the latest available data) was by 0.5% higher than in the corresponding period of the previous year. Domestic demand in year-to-year term has been decreasing for four quarters. Individual consumption was in Q1 at the same level as last year after unprecedented fall by 0.2% y/y in Q4 2012. During the quarter the annual decline of investment outlays slowed down to 2.0% from 4.1% at the end of 2012. The bulk of this decrease was concentrated in construction after the termination of big infrastructural projects, which confirms difficult conditions of the sector seen also in strong decline of construction and assembly production. In the environment of weak internal demand, for a year now, net exports has been the only engine of economic growth. This is typical for the current phase of the economic cycle, when weak demand curbs imports. At the same time Polish exporters are doing relatively well diversifying markets and increasing sales outside Europe. Recently in Polish external trade one can observe decreased share of the euro area and increasing importance of developing countries. Data for Q2 suggest light improvement of the economic growth. Better readings of industrial production and retail sales support expectations for the improvement of economic sentiment. This scenario is supported by leading indicators. Despite growth acceleration Polish economy will still be developing at the pace below its potential.

Labour market conditions were very difficult in the first half of 2013. Registered unemployment rate increased from 13.4% in December 2012 to even 14.4% in February, the highest level in six years. In the following months unemployment rate has been falling thanks to increase of seasonal employment in agriculture, construction and services. In June unemployment rate was equal to 13.2% and was by 0.9 percentage points higher than in the corresponding period last year. Polish companies were still reluctant to increase employment because of the uncertainty regarding future economic conditions. Wage dynamics in the first half of the year remained at low level, but declining inflation supported purchasing power of the labour income.

CPI inflation decreased significantly in the first half of the year, reaching its historical lows at 0.2% y/y in June. Low inflation is the result of the mixture of positive supply shocks (food, energy and telecommunication prices) and low demand. Inflation is likely to remain below the lower band of the NBP target (1.5%) till the end of the year.

In the first half of the year Monetary Policy Council continued easing cycle that started in November last year and cut interest rates by another 175 basis points to a record low level of 2.50%. The cuts were a response to declining growth forecasts and extremely low inflation, which according to the latest NBP projection, is likely to remain below the NBP target (2.50%) at least till the end of 2015. After a meeting in July, MPC gave a strong message regarding future monetary policy stating that the significant reduction of NBP interest rates by 225 basis points supports economic recovery and limits the risk of inflation running below the NBP target in the medium term. The decision to lower NBP interest rates made at the current meeting ends the loosening cycle of monetary policy. NBP governor Marek Belka suggested that interest rates would not be changed at least till the end of 2013.

In the first half of the year households deposits kept increasing despite the decrease of nominal interest rates and low disposable income dynamics. It suggests that households, facing uncertainty about economic outlook and employment stability, are increasing savings at the expense of consumption. Growth of deposits was however mitigated by growing popularity of mutual funds as households facing diminishing interest on deposits are looking for more attractive forms of investment. Households deposits in June were by 19.2 billion zlotys higher than in December 2012 and by 41.6 billion higher as compared with the corresponding month of the previous year. Their annual dynamics accelerated to 8.4% from 7.8% last December. The dynamics of corporate deposits slightly accelerated. Its annual reached 4.6% in June compared to 0.1% in December 2012, while their nominal value increased by only 1.6 billion PLN in the first half of the year. Annual dynamics of total credit amounted to 3.3% in June as compared with 1.2% in December 2012. Credit to households increased by 2.4% while loans to corporate sector grew by 4.9% y/y. At the same time a stabilization of portfolio quality was observed both in households and corporate sector.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1. Profit and Loss account

Operating Income (PLN million)	1 H 2013	1 H 2012	Change 2013/2012
<i>Interest revenue *</i>	1431.1	1544.2	-7.3%
<i>Interest costs</i>	829.1	935.2	-11.3%
Net Interest Income *	602.0	609.0	-1.1%
Net Commissions Income	299.4	278.7	7.4%
Core income**	901.4	887.6	1.6%
Other Non-Interest Income ***	86.5	59.5	45.3%
Operating Income	987.9	947.2	4.3%

(*) *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 Interest Revenue and Net Interest Income caption, whereas in accounting terms part of this margin (PLN 38.4 m in 1H 2013 and PLN 19.8 m in 1H 2012) 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*

Interest Margin management during 1H 2013 was very challenging due to the fact of quickly falling interest rates in Poland. Market interest rates (WIBOR 3m) dropped by 138 bps in 1H 2013 and 240 bps during last 12 months. Main central bank reference rate was cut from 4.75% in October 2012 to 2.50% in July 2013 reaching the lowest level in post-communist history of Poland.

In this environment Bank Millennium managed to keep almost the same level of net interest income (on pro-forma basis): 602 million in 1H 2013 versus 609 million in 1H 2012 (fall of 1.1% only). This was possible thanks to the fact, that interest revenue decreased less (-7.3% y/y) than the drop of interest costs (-11.3% y/y).

In quarterly terms the Bank managed even to grow net interest by 8.4%: from PLN 288.9 million (pro-forma) in 1Q 13 to PLN 313.1 million in 2Q 13. Thus, net interest margin (calculated on interest earnings assets) improved in quarterly terms from 2.21% to 2.24%, although it is still lower than 2.48% of NIM observed in the 1st half of 2012.

Net Commissions Income for 1H 2013 reached PLN 299.4 million which means a visible growth of 7.4% versus last year. In quarterly terms Net Commissions grew even stronger, by 11.1%. In both horizons main driver of growth came from distribution of insurance and investment products (own or third parties' mutual funds or other saving products).

Core income, defined as a combination of net interest and commission income, grew by 1.6% compared to 1st half 2012 to the amount of PLN 901.4 million. On a quarterly basis, Core Income grew in 2Q 2013 by 9.3% versus 1Q 2013.

Other non-interest income visibly grew by 45.3% versus 1st half 2012 supported by positive impact of valuation of financial instruments. In quarterly terms other non-interest income fell by 16.4% due to lower results from bond portfolio.

Total operating income of the Group reached PLN 987.9 million in 1st half 2013 and increased by 4.3% yearly. In quarterly terms the growth was also strong: 6.7% from PLN 477.8 million in 1Q 2013 to PLN 510.1 million in 2Q 2013.

Operating Costs (PLN million)	1 H 2013	1 H 2012	Change 2013/ 2012
Personnel Costs	(277.4)	(281.1)	-1.3%
Administrative Costs	(246.8)	(250.3)	-1.4%
Depreciation	(28.9)	(28.1)	2.8%
<i>Administrative Costs + Depreciation</i>	<i>(275.7)</i>	<i>(278.4)</i>	<i>-1.0%</i>
Total Operating Costs	(553.1)	(559.5)	-1.2%
Cost/Income Ratio	56.0%	59.1%	-3.1 p.p.

Total costs in 1st half 2013 amounted to PLN 553.1 million, which means a drop of 1.2% versus 1st half 2012. Total costs in 2Q 2013 reached PLN 280.3 million and were 2.7% higher than PLN 272.8 million realized in 1Q 2013 due to higher other administrative cost.

Personnel costs fell 1.3% yearly as total number of employees in the Group decreased by 4.6% yearly to the level of 5 874 persons (in Full Time Equivalents). In quarterly terms personnel costs decreased by 0.8% in 2Q versus 1Q'13.

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

Employment structure (in FTEs)	30.06.2013	30.06.2012	Change 2013/2012
Bank Millennium S.A.	5 516	5 770	-254
Subsidiaries	358	389	-31
Total Bank Millennium Group	5 874	6 159	-285

Administrative costs (including depreciation) in 1st half 2013 fell by 1% compared to 1st half 2012. In quarterly terms administrative costs (including depreciation) in 2Q'13 increased by 6.4% q/q to the level of PLN 142.2 million. Higher marketing expenses connected with intensified sales campaigns were the main reason of this growth.

Cost-to-Income ratio improved both yearly and quarterly and reached in 2Q'13 the best historical level of 54.9%. In 1st half 2013 C/I ratio stood at 56% i.e. by 3.1 p.p. less than in 1st half 2012.

Pre-tax Income and Net Income (PLN million)	1 H 2013	1 H 2012	Change 2013/2012
Operating Income	987.9	947.2	4.3%
Operating Costs *	(553.1)	(559.5)	-1.2%
Impairment provisions	(114.3)	(111.7)	2.4%
Pre-tax Income	318.8	279.4	14.1%
Income tax	(64.6)	(58.3)	-
Net Income	254.2	221.2	14.9%

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

Impairment provisions created in 1st half 2013 (PLN 114.3 million) were similar to the provisions of 1st half 2012 (PLN 111.7 million). In quarterly comparison net provisions grew by 16.6% to the level of PLN 61.5 million in 2Q 2013. In relative terms (i.e. compared to the average net loans) total provisions created in 1st half 2013 stood at 56 bps level i.e. not far from last year average level of 58 bps.

Pre-tax Income for 1st half 2013 amounted to PLN 318.8 million, which means 14.1% increase compared to the gross income for 1st half 2012. **Net Income** for the analysed period increased to PLN 254.2 million i.e. by 14.9% compared to the value of 1st half 2012. The growth was supported by visible operating income increase by 4.3% y/y, good cost control (-1.2% y/y) and similar level of risk provisions. In quarterly terms net profit grew by 11.8% versus 1Q 2013 to the level of PLN 134.2 million in 2Q 2013, which is the highest ever quarterly level, if not counting one-off capital gains (achieved in 4Q 2005).

II.2. Balance Sheet

ASSETS

The Group's assets as at 30 June 2013 totalled PLN 57,137 million and were 10.9% higher compared to the balance at the end of June 2012. The structure of Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	30.06.2013		30.06.2012		Change 2013/2012
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	1 798.6	3.1%	2 130.1	4.1%	-15.6%
Loans and advances to banks	1 961.7	3.4%	1 633.5	3.2%	20.1%
Loans and advances to customers	42 014.2	73.5%	41 256.4	80.1%	1.8%
Receivables from securities bought with sell-back clause	537.6	0.9%	192.5	0.4%	179.3%
Financial assets valued at fair value through P&L and hedging derivatives	1 727.9	3.0%	732.0	1.4%	136.0%
Investment financial assets*	8 150.9	14.3%	4 806.6	9.3%	69.6%
Intangible assets and property, plant and equipment **	209.6	0.4%	217.6	0.4%	-3.7%
Other assets	736.5	1.3%	537.8	1.0%	36.9%
Total assets	57 136.9	100.0%	51 506.5	100.0%	10.9%

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from growth in Investment financial assets by PLN 3,344 million, i.e. 69.6%, which consisted mainly of debt securities issued by the Polish State Treasury and 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 (73.5% as on 30 June 2013). Total loans of Bank Millennium Group reached PLN 42,014 million in the end of June 2013 and in nominal terms grew by 1.8% versus end of June 2012, (+2.4% without the impact of FX rates changes).

Mortgage loans are the largest component of the Group's loan portfolio with the total balance as on 30 June 2013 at PLN 27,594 million, which means a decrease by 1.6% compared to the level of 30 June 2012, partly resulting from FX effect. The share of FX mortgage loans in total portfolio as at the end of June 2013 decreased to 45.8% from 48.3% a year ago.

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

Loans and advances to Clients (PLN million)	30.06.2013	30.06.2012	Change (value)	Change (%)
Loans to households	30 948.7	30 859.1	89.6	0.3%
- <i>mortgage loans</i>	27 594.4	28 036.8	-442.4	-1.6%
- <i>other loans to households</i>	3 354.3	2 822.2	532.0	18.9%
Loans to businesses	11 065.5	10 397.4	668.1	6.4%
- <i>leasing</i>	3 279.7	3 361.0	-81.3	-2.4%
- <i>other loans to businesses</i>	7 785.8	7 036.3	749.4	10.7%
Total Loans & Advances to Clients	42 014.2	41 256.4	757.7	1.8%
Impairment write-offs	1 272.1	1 282.2	-10.1	-0.8%
Gross loans and advances to Clients	43 286.2	42 538.6	747.6	1.8%

The value of other loans granted to individual Customers (cash loans, credit cards, overdrafts etc.) as at the end of June 2013 totalled PLN 3,354 million and increased by 18.9% yearly as a result of higher level of new sales of cash loans.

Loans to companies (including public sector) totalled PLN 11,066 million and grew by 6.4% yearly thanks to continuous growth in non-leasing loans to companies in 2nd quarter 2013.

Investment financial assets

The value of investment financial assets (including investments in associates) equalled PLN 8,151 million at the end of June 2013 and increased by PLN 3,344 million i.e. 69.6% compared to the balance as on 30 June 2012 mainly due to PLN 3,345 million increase in the portfolio of debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank). The increase resulted from the visible improvement of liquidity situation of the Group noticed during one-year period (higher growth of deposits than loans). Investment financial assets portfolio (including investments in associates) was composed in 98.5% of debt securities issued by the Polish State Treasury and the National Bank of Poland.

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 1,728 million at the end of June 2013, which signifies a PLN 996 million increase (i.e. 136.0%) compared to 30 June 2012. This increase compounds of a growth in the portfolio of State Treasury debt securities by PLN 819 million and an increase of assets from valuation of derivatives (designated for trading and hedging) by PLN 175 million. The discussed assets portfolio as at 30 June 2013 comprised mainly debt securities issued by the Polish State Treasury (64.3% share) and assets from valuation of derivatives designated for trading and hedging (35.6% share), whereas the share of equity instruments in the portfolio was negligible.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 1,962 million at the end of June 2013 which means an increase by PLN 328 million (i.e. 20.1%) year-on-year. Collateral deposits for transactions hedging risk were a primary cause of this item's increase, which resulted from changes in valuation of these transactions, mainly as a consequence of exchange rate changes.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment equalled PLN 210 million at the end of June 2013, which means a decrease by 3.7% yearly.

LIABILITIES

The value and structure of the Group's liabilities as at the end of June 2013 and 2012 are shown in the table below:

LIABILITIES (PLN million)	30.06.2013		30.06.2012		Change 2013/2012
	Value	Structure	Value	Value	Structure
Deposits from banks	2 348.5	4.5%	2 137.0	4.6%	9.9%
Deposits from customers	44 208.5	84.8%	39 887.7	85.1%	10.8%
Liabilities from securities sold with buy-back clause	1 098.2	2.1%	620.1	1.3%	77.1%
Financial liabilities valued at fair value through P&L and hedging derivatives	2 224.4	4.3%	2 108.3	4.5%	5.5%
Liabilities from issue of debt securities	767.3	1.5%	675.3	1.4%	13.6%
Provisions	65.1	0.1%	27.0	0.1%	141.2%
Subordinated debt	649.8	1.2%	639.7	1.4%	1.6%
Other liabilities*	774.9	1.5%	755.7	1.6%	2.5%
Total liabilities	52 136.8	100.0%	46 850.9	100.0%	11.3%
Total equity	5 000.1		4 655.7		7.4%
Total liabilities and equity	57 136.9		51 506.5		10.9%

(*) including tax liabilities

As at the end of June 2013, liabilities accounted for 91.2%, while Group's equity accounted for 8.8% of the total liabilities and equity.

As on 30 June 2013, Group's liabilities amounted to PLN 52,137 million and increased by PLN 5,286 million i.e. 11.3% relative to the figure reported as on 30 June 2012. The increase resulted, primarily, from a considerable growth in customer deposits (by PLN 4,321 million), which had a positive impact on Group's liquidity.

Deposits from Customers

As on 30 June 2013 deposits from customers amounted to PLN 44,209 million and recorded an increase of PLN 4,321 million i.e. 10.8% relative to the balance as on 30 June 2012. Deposits from customers constituted the Group's main liability item accounting for 84.8% of the Group's total liabilities.

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

Deposits of Clients (PLN million)	30.06.2013	30.06.2012	Change (value)	Change (%)
Deposits of individuals	25 621.1	23 210.3	2 410.8	10.4%
Deposits of companies and public sector	18 587.5	16 677.4	1 910.0	11.5%
Total Deposits	44 208.5	39 887.7	4 320.8	10.8%

As on 30 June 2013 deposits from individual customers amounted to PLN 25,621 million and accounted for 58.0% of the total balance of deposits from customers (this figure does not include the balance of retail saving-insurance product presented in deposits of companies as deposits of an insurance company with total value of

PLN 676 million as on 30 June 2013). Their value increased by PLN 2,411 million compared to the balance as on 30 June 2012, which was supported by strong new customers acquisition as well as promotional campaigns during that period.

Deposits from companies and public sector at the end of June 2013 equalled PLN 18,587 million and accounted for 42.0% of Group's total deposits. Throughout the one-year period the value of these deposits increased by PLN 1,910 million.

Deposits from banks

Deposits from banks, as on 30 June 2013, amounted to PLN 2,349 million accounting for 4.5% of the Group's liabilities. Their value increased by PLN 212 million (i.e. 9.9%) relative to the balance as on 30 June 2012. The main items of wholesale medium-term funding received by the Group included loans from European Investment Bank totalling EUR 100 million and loans from European Bank for Reconstruction and Development (EBRD) of the total balance of EUR 79.2 million and PLN 60.0 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 customers (mainly financial institutions). The transactions are based on the State Treasury debt securities. As on 30 June 2013, liabilities from securities sold with buy-back clause amounted to PLN 1,098 million increasing by PLN 478 million i.e. 77.1% relative to the balance as on 30 June 2012.

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 2013, PLN 2,224 million and increased by 5.5% relative to the balance of 30 June 2012.

Debt securities issued

As on 30 June 2013 liabilities from issue of debt securities amounted to PLN 767 million recording a increase by PLN 92 million (or by 13.6%) relative to the balance recorded as on 30 June 2012. At the end of June 2013 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 352 million whereas the value of bonds offered to institutional investors amounted to PLN 353 million. The issue of the bonds for institutional investors was the main growth factor of the whole item. Besides the above-mentioned bonds, the item also includes liabilities from December 2007 agreements, regarding securitisation of receivables under the leasing portfolio, which as on 30 June 2013 amounted to PLN 62 million and decreased compared to the end of June 2012 by PLN 179 million as the transaction is being gradually amortised.

Subordinated debt

The value of subordinated debt amounted to PLN 650 million as at 30 June 2013, which means a increase during 12 month period by 1.6% 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

During 12-month period ended 30 June 2013 the equity of the Group grew by 7.4% and amounted to PLN 5,000 million. The growth of equity was driven by the retention of the whole net profit for 2012 and the net profit generated during the 1st half of 2013 (PLN 254 million) whereas revaluation reserve decreased by PLN 161 million driven mainly by the decrease of revaluation of hedging instruments portfolio.

The information about capital adequacy is presented in Chapter IV of this Management Board Report.

The main capital ratios of the Group are the following:

Capital ratios	30.06.2013	30.06.2012	Change 2013/2012
Total consolidated equity (in PLN m)	5 000	4 656	7.4%
Book Value Per Share (in PLN)	4.12	3.84	7.4%
Capital Adequacy Ratio (consolidated)	14.8%	12.7%	2.1 p.p.
Core Tier 1 ratio (consolidated)	13.3%	11.2%	2.1 p.p.

II.3. Share price main indicators and ratings

During 1st half of 2013 the main index WIG fell by 5.7%, banking index WIG-Banks fell by 0.8%, while mWIG40, which comprises the shares of Bank Millennium, gained 8.8%. In the same time Bank Millennium shares increased by 17.9%.

In the yearly horizon, the same indexes recorded an increase between 11 and 13%. In the same time Millennium Bank shares grew significantly by 48.9%, which was the highest growth rate among top 10 Polish banks.

Also the turnover of Bank Millennium shares grew strongly by 84% versus 2H 2012.

Market ratios	28.06.2013*	28.12.2012*	Change (%) in 1H 2013	28.06.2012	Change (%) Yearly
Number of Bank Millennium shares (in ths.)	1 213 117	1 213 117	0	1 213 117	0
Average daily trading (PLN ths, ytd)	3 974	2 165 **	83.6%	3 808	4.4%
Price of the Bank Millennium shares (PLN)	5.21	4.42	17.9%	3.50	48.9%
Market cap. (PLN million)	6 320	5 362	17.9%	4 246	48.9%
WIG - main index	44 748	47 461	-5.7%	40 165	11.4%
WIG Banks	6 598	6 649	-0.8%	5 888	12.1%
mWIG 40	2 777	2 553	8.8%	2 251	13.4%

(*) last day of quotation in 1H 2013 and in 2012

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

During the first half of 2013 there have been no changes in ratings of the two basic ratings of Bank Millennium shares.

On 20th 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 2013

Main external factors that could influence the standing of Bank Millennium Group in the third and fourth quarter of 2013 include:

- Bank will operate in the environment of record low, but stable, interest rates. It means low cost of financing on the domestic market but also low interest margins of the banking sector.
- Low interest rates and extended period of receivables collection might lead to increased demand for corporate credit. On the other hand decreasing interest supports the quality of the floating rate credit portfolio.
- Prolonged low consumption dynamics might mitigate demand for consumer loans although interest rate cuts made recently and low inflation could support private consumption in the remainder of the year.
- Possible slowing down of quantitative easing made by Fed might lead to some outflow of foreign capital from emerging markets. This could lead to increased FX and fixed income markets volatility (and somewhat decrease in Polish assets value), that could translate into the loans-to-deposits ratio and into the valuation of the portfolio of debt securities.

III. RESULTS BY BUSINESS SEGMENTS

III.1. Introduction

Results of Bank Millennium Group for the 1st half of 2013, broken down into segments of activity, i.e. retail banking (including micro-businesses), corporate banking and treasury plus investment banking compared with the 1st half of 2012, is presented in the table below.

(PLN million)	Retail segment			Companies segment			Treasury and Investment Banking segment		
	1H 2013	1H 2012	change	1H 2013	1H 2012	change	1H 2013	1H 2012	change
Net interest income	497.1	505.6	-1.7%	158.6	130.0	22.0%	-92.1	-46.5	-
Net commission income	230.5	208.5	10.5%	65.1	65.9	-1.3%	3.9	4.3	-8.8%
Other income *	56.2	48.5	16.0%	18.6	17.8	4.5%	50.0	13.1	281.4%
Total operating income	783.8	762.6	2.8%	242.2	213.7	13.4%	-38.2	-29.1	-
Total operating expense **	-422.5	-424.2	-0.4%	-99.9	-103.6	-3.5%	-30.6	-31.8	-3.7%
Cost/Income	53.9%	55.6%	-1.7 p.p.	41.2%	48.5%	-7.2 p.p.	-	-	-
Impairment provisions	-73.8	-42.1	75.2%	-40.0	-73.0	-45.2%	-0.5	3.5	-
Pre-tax income	287.5	296.3	-3.0%	102.3	37.1	175.8%	-71.0	-54.0	-

(*) including FX income

(**) without impairment charges

The total operating income of **Retail segment** recorded improvement in the 1st half of 2013 compared to 1st half of 2012 and increased by 2.8% to PLN 783.8 million mainly thanks to higher by 10.5% net commission income and also 16% higher other income. Net interest income recorded a decrease by 1.7% versus 1st half of 2012 due to falling market interest rates affecting Bank's margins. Operating costs of retail segment recorded slight decrease by 0.4% which combined with growing operating income allowed to improve visibly operating efficiency measured by Cost/Income ratio from 55.6% in 1st half of 2012 to 53.9% in 1st half 2013. Risk provisions in retail segment amounted to PLN 73.8 million which means a 75.2% increase versus corresponding period of 2012. As a result, pre-tax income of the retail segment decreased slightly by 3% y/y to the amount of PLN 287.5 million for 1st half 2013.

Corporate segment presented in 1st half of 2013 a significant improvement of total operating income by 13.4% in yearly terms to the level of PLN 242.2 million. The growth was first of all driven by remarkably higher (by 22% y/y) level of net interest income, thanks to actions aimed at protecting interest margins of both loans and deposits. Net commissions decreased slightly by 1.3% y/y and other income increased by 4.5% y/y. Operating cost fell in 1st half 2013 by 3.5% to the level of PLN 99.9 million. As a result, Cost/Income ratio of the Corporate segment improved considerably from 48.5% in 1st half of 2012 to 41.2% in 1st half of 2013 (improvement of 7.2 p.p.). The value of impairment provisions in the reported period (PLN 40.0 million) decreased considerably by 45.2% compared to 1st half of 2012. Consequently the improvement in all main categories (operating income, costs and provisions) was reflected in significant improvement of pre-tax income for 1st half of 2013 to PLN 102.3 million, i.e. growth of 175.8% y/y.

Total operating income of **Treasury and Investment Banking** segment for 1st half of 2013 was negative and amounted to PLN -38.2 million. This was mainly the result of lower net interest income (by PLN 45.6 million y/y), which was partly offset by positive result from valuation of financial instruments assigned to this segment. Operating cost of this segment dropped by 3.7% compared to the previous year. Impairment provisions showed small value of PLN 0.5 million. In consequence, pre-tax profit of Treasury and Investment

Banking segment was negative and amounted to PLN -71.0 million for 1st half 2013. It should be noted that the cost of medium-term funding and subordinated debt is mostly allocated to this segment.

Description of activity of two main businesses (retail and corporates), along with discussion of the main products and segment sub-areas, is presented in the following sections.

III.2. Retail banking

Bank Millennium is one of the leading universal banks in Poland and retail banking accounts for important area of its business operations. The Bank has retail product and service proposition, systematically adjusted to meet Client needs, offered within specialised business lines: individual Clients, affluent individual Clients (Prestige), private banking and Business line for individuals conducting business operations or small companies. The Bank's offer is generally available through the network of 441 outlets, Internet and mobile banking, direct banking, network of ATMs and telephone banking.

As on 30 June 2013, Bank Millennium served 1.2 million active individual Clients i.e. their number increased relative to similar period of the previous year by 5%.

Standard banking offer directed at individual Clients and small firms was supplemented by services offered by the Group's companies: Millennium TFI (mutual funds), Millennium Dom Maklerski (brokerage business) and Millennium Leasing (leasing products). The Bank's effectiveness in meeting the Client needs is illustrated by the high level of cross-selling ratio arriving, as on 30 June 2013 - at 3.80 products per Client.

In the first half of 2013, the Bank continued its efforts, commenced in 2011, to improve service quality. These actions became an important element of the continuous system of improvement of service quality offered by the Bank. The activities are of special importance with respect to retail segment, where Client service level has a special impact upon development of competitive advantage.

At the end of 1st half of 2013, the Clients had in Bank Millennium over 1,655 thous. personal accounts. Amongst all types of accounts offered to individuals the very popular one is „Dobre Konto”, being recently intensively promoted among the Clients. In the first half of 2013, the Bank focused its efforts on development of sales of consumer loan and deposit products.

Consumer loans

The first half of 2013 was marked with high dynamics of growth in sales of cash and consolidation loans. The Bank doubled its loan sales, in terms of both value and volume, relative to the same period of the previous year. This success has resulted from a series of actions undertaken as early as in the second half of 2012 and continued through 2013 aimed at improving the product offer, origination process including modification of banking systems, elements of credit policy as well as principles and ways of offering the product using all sales channels.

The Bank continued the process, commenced in the fourth quarter 2012, of building its image of a lender offering the best cash loan on the market, supporting these efforts with a marketing campaign conducted with use of TV and press. The campaign focused on promoting the Lowest Interest Rate Guarantee, which is the only such solution on the Polish market.

In response to seasonal Client needs, at the beginning of June of the current year, the Bank introduced a special offer under the name of „Loan Payment Holidays”, involving deferral of payment of the first loan instalment even by up to 3 months. The solution is available to all Clients undertaking a loan in amount of up to 30 thousand PLN during the promotion period. The offer has been supported by TV campaign and posters and leaflets available in Bank outlets.

Consistent implementation of the strategy generated significant increase of the cash loan portfolio in the first half of 2013, at 25% yearly, paired with increase in interest income and maintaining stable level of risk in the product portfolio.

Deposit products

In the first half of 2013 Bank Millennium followed its growth strategy based on maintaining balance between volume growths and care for margins. In the environment of rapidly dropping interest rates, the Bank attached special importance to management of deposit structure and interest rates.

Savings accounts remained the main product but the offer was broadened by adding new solutions encouraging Clients to save.

In the 1st quarter of 2013, the offer was enriched by a promotional offer addressed to new Clients saving on the savings accounts (up to the amount of 50,000 PLN) - the Bank offered guaranteed 5% interest rate accruing for the period of 3 months.

Concurrently, for the Bank's existing Clients, the Bank introduced a package: savings account + investment deposit. Under this proposal, Client who have used the current investment deposit offer received guarantee of interest rates on "Konto Oszczędnościowe" (Savings Account) at 5% for the period of 6 months.

In the 2nd quarter of 2013, the Bank promoted depositing new funds onto the "Konto Oszczędnościowe", introducing a new way to communicate its deposit offer to the market i.e. in the form of "Centrum Oszczędzania" (Savings centre). The Centre shows the offer scope from savings account, through traditional term deposits, progressive FX deposits and solutions available in Internet channel (auctions, Happy Hours).

Promotion of new funds constituted the main element of the offer. Interest rate on the new funds was conditional upon the account balance and amounted to 4% on amounts up to 50,000 PLN. More than 60 thousand existing Bank Clients and new Clients encouraged by media campaign took advantage of the promotion.

Payment cards

In March 2013, the Bank introduced changes to Moneyback scheme for users of „Dobre Konto” current account - the leading product in the offer for individual Clients. Additionally, since March 2013, the list of acceptance points including supermarkets and food stores as well as fuel stations has been expanded by adding drug stores and medical care centres throughout Poland.

At the end of June 2013, the total number of valid and not cancelled payment cards was 1,586 thousand. The turnover on debit cards issued by the Bank in the first half of 2013, relative to 1st half of 2012, increased by 22%. With respect to credit cards, the growth ratio reached 2%.

Mortgage banking

In the first half of 2013 activities conducted by Bank Millennium in the area of mortgage banking focused on improving the lending process and service quality. Changes were introduced to ways to finance development projects. The Bank, by expanding its cooperation with developers, facilitated provision of financing at early stages of the project subject to developer having with respect to a given project one of the buyer protection schemes in line with "Developer's act": open or closed escrow account or any of the two accounts with bank/insurance guarantee. The first half of 2013 was also marked by undertaking efforts to optimise and automate the servicing of applications for mortgage loans. The new processing system under implementation based on use of electronic copies of documents, will help shorten the time need for credit decision to be made and, thereby, to limit costs connected with servicing of loan applications.

From the beginning of 2013, the entire market has been recording significant decrease of the total amount of newly originated loans. Value of Bank Millennium mortgage loan disbursements in 1st half 2013 amounted to 516 million PLN, while the mortgage loan portfolio reached the total value of 27,594 million PLN.

Internet banking - individual Clients and business

The first half of 2013 was the period of continuous development of Internet Banking and brought about the following key improvements to Millenet- Bank's internet solution:

- Changes in the process of opening credit products on-line with respect to cash loans, credit cards, overdrafts, facilitating increase monthly sales twice relative to the first months of the year,
- Adding the option to conclude insurance policy in the process of opening cash loans on-line,
- Functional improvements in the savings account „Twój Cel” (Your Goal): information on the status of achievement of the savings objective, additional information on progress in achieving objective displayed in a graphic form,
- Improvements have been introduced for Clients executing transactions at the time of central system processing.

The number of Millenet Clients at the end of June 2013 amounted to 1,390 thousand, i.e. increased by 4% y/y.

Millenet Client transaction ratio (number of Clients with at least one bank transfer in a month) increased in the first half of 2013 by 13%. Millenet individual Clients execute 97% of all external transfers via Millenet (to accounts in other banks).

Millenet provides an important distribution channel in the area of selling banking products: deposits/saving accounts (accounting for 18% of net volumes for individual clients), current accounts (7% of accounts sold in the

Bank), FX accounts (80% of accounts sold in the Bank), cash loans (13% of the volume of loans sold to individual clients), new overdrafts (30% of volume of new overdrafts for individual clients), overdraft increases (58% of net volume), debit/credit/prepaid cards, disbursements from credit cards, investment products. More than 50% of standing orders and many other bank services are opened through Milennet.

The Bank has been systematically undertaking work to improve usability and convenience of the use of its Internet site. Changes and improvements are introduced on the basis of eye-tracker tests, questionnaires as well as comments and suggestions received from Clients.

In the first half of 2013, the Bank made available to its Clients a new information part of its internet site with the objective to improve clarity and transparency of the site to facilitate searching for information as well as the new and more user friendly form of information presentation. The Bank underscored elements which the Client's seek the most: contact option, applications for bank products. Besides, the changes have been introduced to the Internet site to improve its accessibility for persons with disabilities.

Mobile banking

In the first half of 2013, mobile banking services constituted one of the fastest growing areas of electronic banking. The Bank was undertaking efforts to both increase the number of service users and met growing demand.

The main achievement of this time was to ensure access to applications designated to support new mobile platforms:

- BlackBerry 10 (the first banking application in Poland to be used on this platform),
- Windows Phone 8,

and introduction of the first in Poland mobile banking application for tablets with Windows 8.

In addition, existing applications were enriched with a series of new, useful functionalities:

- Immediate transfers,
- Ordering transfers to be executed on future dates,
- Servicing prepaid cards (top-ups and view),
- Repetition of ordered transfers,
- Generation of QR codes with transfer data,
- Retrieving transaction confirmations in PDF format,
- Sending e-mail confirmations to transfer receivers,
- Activation of credit and prepaid cards,
- Changing credit card daily limits.

The number of mobile banking Clients, as at the end of June 2013, exceeded 60 thous. i.e. increased by 57% y/y.

In the first half of 2013, the work on establishment of a uniform, local standard supporting execution of payments with use of telephone was conducted. On 4 July 2013, six commercial banks - including Bank Millennium - having total market share, in terms of number of Clients with access to electronic banking, at the level of 70%, signed an agreement on strategic cooperation in developing joint standard governing mobile payments. The objective of the parties to the agreement is to develop a common mobile payment supporting infrastructure in Poland incorporating the new authorisation and clearing standards, open to other market players including banks and merchants.

Prestige segment and Private Banking

Private banking in Bank Millennium includes an offer of products and services addressed to the most affluent individual Clients having assets in excess of 1 million PLN, expecting high service quality and offer of financial products tailor made to meet their individual needs.

Prestige is an offer addressing needs of affluent persons with assets from 100,000 to 1 million PLN or making monthly payments to account in the amount of at least 10,000 PLN.

In the first half of 2013, the Bank, under the product proposition for affluent Clients, offered a broad range of products and services designed to facilitate on-going finance management: savings and settlement accounts in PLN and foreign currencies, savings account, term deposits, debit and credit cards. In addition, the Private Banking Clients had access to credit card Millennium MasterCard® World Signia™ with access to World Signia MasterCard Reward, a partnership programme World Signia as well as Assistance and Concierge packages.

The offer was supplemented by a broad range of investment and insurance-and-investment products including domestic and foreign investment funds, Multi-Currency Investment Programme, Polisa Oszczędnościowa (savings policy) and structured products.

In the first half of 2013, Bank Millennium, within structured products offering, conducted 11 issues of banking securities with 100% capital guarantee (all in PLN) with different time horizons, different underlying assets and disbursement formulas. The greatest interest was raised by products based on underlying instruments in the form of value of shares of listed companies.

In the first half of 2013, the value of investment products sold to both affluent segments increased by 35% relative to similar period of 2012.

Financing needs of these Clients groups were satisfied by offering of cash loans, credit cards, mortgage loans and asset-backed loans. In the area of credit products, sales efforts were concentrated, primarily, on offering cash loans, credit cards and personal account overdrafts.

In the area of communicating with the market, the Bank focused its activities on organising very popular investment seminars for current and prospective Prestige and Private banking Clients. During the reporting period, overall 42 investment seminars were held to which 1,667 Clients were invited. The seminars turned out to be an effective means to inform about changes in the market place and in the Bank's product offer.

As on 30 June 2013, Bank Millennium had more than 2 thousand active Private Banking Clients and more than 31 thousand active Prestige Clients.

Business Segment in retail banking

Bank Millennium has been systematically developing its offer addressed to self-employed persons and to small companies. The first half of 2013 was marked by implementation of pre-defined development directions and strengthening of product offer designed for the segment.

At the turn of the year, a campaign was launched to foster automated process of credit product granting to self-employed Clients within the Business segment. Credit may be disbursed within a few hours. Clients can apply for several products at the same time or take advantage to increase the value of currently used products available within campaign up to the granted limit.

Already since the beginning of 2013 the Bank offered its Business segment Clients access to the network of specialist Credit Advisors. Currently, Clients have access to ca. 60 advisors working from countrywide outlet network.

In April, the Bank streamlined decision making process further to facilitate making credit decision during a single visit of the Client in a Branch and to sign credit agreement.

In June, the Bank signed with Bank Gospodarstwa Krajowego (BGK) an agreement on portfolio guarantee line "de minimis" and joined the group of banks offering loans with government guarantees to entrepreneurs. Under the "de minimis" guarantee, Client can use one or several products secured by guarantee at the same time. Credit with guarantee is granted for maximum period of 2 years. Security in the form of de minimis guarantee can cover up to 60% of the loan amount but not more than 3.5 million PLN. For guarantees extended by BGK by the end of 2013, in the first year the fee equals 0%, in the second year only 0.5%.

At the end of May 2013, in its Business segment the Bank had 62.5 thousand active Clients conducting operations with the Bank.

Marketing activities promoting retail banking

Bank Millennium supported its offer addressed to retail Clients by many marketing campaigns conducted in the first half of 2013, including abovementioned campaigns of savings accounts and cash loans.

Offer addressed to Bank Millennium retail Clients was highly appreciated by independent market ratings:

- Bank Millennium was ranked first in the ranking of the Best Savings and Investment Bank in the 2nd half of 2012. The ranking, prepared by editorial committee of the Comperia.pl portal identifies banks having the broadest and the most flexible deposit and investment offer.
- In the first half of 2013 'Dobre Konto' was leading in rankings of the best personal accounts in rankings prepared by Open Finance company and editors of the following portals: money.pl, bankier.pl.
- Bank Millennium cash loan was many times ranked first in the ranking of cash credits and loans prepared by Total Money portal.

III.3. Corporate Banking

Activities of Corporate Banking in Bank Millennium focus on professional and comprehensive servicing of Clients generating annual revenue of more than PLN 5 million as well as public sector institutions and units. The primary objective is to maintain long-term, stable partnership cooperation with corporate Clients based on mutual trust, commitment and understanding. Using the potential of professional team of advisors and experts, comprehensive offer and multiple electronic communication channels, the Bank effectively strengthens its position in the corporate banking market.

In the 1st half of 2013 Corporate Banking carried out activities connected with implementation of its goals provided for in the medium-term Bank's strategy, expanding its offer and improving service quality. At the end of June 2013, the Bank actively cooperated with more than 10 thousand corporate Clients representing this segment.

Distribution channels

Corporate banking Clients receive daily support from a team of professional advisors composed of (as on June 30th, 2013): 122 Relationship Managers, 76 Consultants and 59 Product Advisors - specialists in leasing, factoring, trade finance, treasury transactions and transactional banking.

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

- Internet banking system Millenet for Companies (with its „Trade Finance” module) and
- Mobile banking i.e. access to accounts and banking operations via mobile telephony.

In the 1st half of 2013, Bank Millennium, within the framework of its Internet banking service Millenet for Companies, commenced implementation of a new user authorisation management module in the internet banking system.

All changes in the scope of granting authorisations and determining rules thereof incorporated expectations and needs of both larger and smaller companies. The Bank managed to achieve this by application of templates and simplified schemes facilitating management of users, authorisations and authorisation rules in the electronic banking system Millenet for Companies.

In the 1st half of 2013, Clients were provided with access to mobile application for the operational system BlackBerry 10. The Bank has been continuing efforts to expand functionalities within mobile banking for companies.

Mobile application „Bank Millennium Firmy” was nominated to award in the competition Mobile Trends Awards 2012 in the mobile banking category, and also received the top prize for the best banking offer in the competition „Perty Rynku - Wybór Detalistów 2013” (“Market Pearls - Retailers' Choice of 2013”).

Loans

Bank's strategy assumes increase in corporate loans area as a one of major targets for 2013. This approach will result in increase of weight of corporate area in Bank's loan portfolio.

Financing should be the platform for establishing strategic partnership relations with key corporate customers translating into wide cooperation in all areas of business activity. Growth of the portfolio is based on credit policy focused on sectors of the economy recognised as carrying lower credit risk and especially addressing mid-large companies. New policy will allow Bank Millennium to become more balanced commercial bank increasing presence in corporate sector.

Effectiveness of undertaken steps is reflected by 2Q 2013 results which show significant growth in credit portfolio. Comparing to end of 2012, portfolio of loans to companies increased by 10.1%.

In the 1st half of 2013, the Bank implemented the programme to support Clients from SME sector (annual revenue of up to EUR 50 million, employing less than 250 employees). Under the programme, entrepreneurs (having credit capacity and conducting business in Poland), who are seeking to obtain additional resources to finance current expenditures, received access to attractive loan collaterals. The programme is implemented in cooperation with BGK Bank. On May 29th, 2013, the Bank signed "The Agreement of portfolio guarantee line de minimis", under which both existing and new Bank Clients received an opportunity to take advantage of "de minimis" guarantee granted by BGK to secure repayment of loans granted to finance needs of day-to-day business operations. The "de minimis" guarantee facilitates access to loans financing on-going operations thus

providing an important facility to Client having insufficient assets to secure repayment of the full amount of the loan.

Factoring

In the 1st half of 2013, Bank Millennium realised factoring turnover in the amount of PLN 3,923 million. Relative to 1st half of 2012 this turnover increased by 32.81% (in the similar period turnovers recorded by all institutions offering factoring services in Poland increased by 11.19%). This rapid growth resulted from very good results of attracting new factoring agreements and better use of limits under existing transactions.

At present, relative to the value of acquired receivables, Bank Millennium is ranked sixth on the factoring service market in Poland having market share increased from the level of 6.5% as at the end of 2012 to 7.7% after 1st half of 2013.

In 2013 Bank Millennium expanded its offer of Non-Recourse Factoring with Client's Policy by adding option to offer the product to Clients having entered into agreement on insurance of their trade receivables with Coface S.A. Oddział w Polsce. Currently the Bank has offered financing of receivables and taking over counterparty insolvency risk within the scope of insurance agreement and provided for in the factoring agreement, to clients having their trade receivable insurance agreements concluded with TU Euler Hermes S.A. or Coface S.A. Oddział w Polsce.

Trade finance

The most important development in the trade finance area in the 1st half of 2013 was provision of access, via Internet banking system Millenet for Companies, to a new „Trade Finance” module. This advanced platform provides Clients with ability to comprehensively manage bank guarantees and documentary letters of credit via Internet.

Use of trade finance products through Millenet is a convenient proposition based on solutions ensuring high transaction safety. The system can be accessed from the same place in which bank accounts are serviced as well as other transaction banking services, thus shortening time needed to execute order on the side of the bank. Furthermore, the risk of Client making mistake in filling in the order form is reduced. Numerous improvements offered by the new module ensure that servicing guarantees and letters of credit is much easier than in the case of use of paper forms.

Leasing

After the 1st half of 2013 Millennium Leasing was ranked second in the ranking of leasing companies in Poland in terms of real estate value and fourth in term of all leased items with market share respectively amounting to 8.3% and 7.9%. The value of agreements signed by the Company within given period amounted to PLN 1,1 billion, whereas the value of received items amounted to PLN 828 million, which enabled Millennium Leasing to achieve an increase by 17.1% versus 1H 2012, when the simultaneous increase of the market was 5.5%.

In the 1st half of 2013 Millennium Leasing expanded its product offer by introducing new solutions:

- The on-line service for Clients was launched with options to continue insurance for the subsequent year under agreements, concluded by Millennium Leasing with leading insurers: PZU, Ergo Hestia and Compensa. In effect of cooperation with insurance partner i.e. PZU, Millennium Leasing has launched a promotional offer, addressed to heavy transport companies, of multi-year insurance policy.
- Millennium Leasing continued promoting car leasing with additional discount card MOBICARD, providing Millennium Leasing's Clients to receive up to 30% of discounts when making purchases of automotive products and services.
- Millennium Leasing introduced a new product under the name of „Osobisty-leasing.pl”- an innovative solution facilitating Clients useage of leasing service via Internet.
- A programme Leasing Eko Energia was launched. The programme objective is to support Polish companies in financing of technologies contributing to reduction of energy consumption. The programme facilitates applying for a Millennium Leasing's bonus granted against energy efficiency projects in enterprises.

The Millennium Leasing's offer has been highly appreciated by Clients and the market. The Company received, in the 1st half of 2013, the following awards and recognitions:

- Laury Buildera 2012 - in the category: financing construction sector for the product Leasing Eko Energia,
- 3rd place among the Best Leasing Offer under the seventh round of competition „Perty Rynku FMCG 2013” for the product under the name of „Leasing samochodów wraz z motoryzacyjną kartą rabatową MOBICARD” (leasing of cars with automotive discount card MOBICARD).

Transactional banking

The 1st half of 2013 was marked with stable increase of volumes of settlement transactions and funds collected on current accounts (+12.9% relative to the 1st half of 2012), which is the effect of consistent increase of transactional products' number and number of operations on Customers' accounts. The Bank's share in corporate deposits market has increased up to 5.7% at the simultaneous improvement of its structure (our share in current accounts amounts to 16.8%). Despite of the dynamically developing situation on the interest rates market the Bank has also achieved the goal of increasing an effectiveness of the deposit base spread.

Bank Millennium has a comprehensive transactional banking offer supported by efficient and ergonomic internet and mobile banking system. At present, the Bank is focusing on expansion of solutions and improvements delivering information on completed settlements in a manner most useful and friendly for Clients and on achieving high level of operational efficiency when launching Client's settlements in the Bank with support of transactional banking product specialists.

The Bank has already introduced improvements to cash services by implementing scanning of multidimensional bar codes generated on electronic payment confirmations (EBDW documents). This solution significantly improves preparation of payment document on the side of the Client, eliminates operational errors occurring in manual document preparation process and significantly accelerates the process of registering payments to Client accounts.

Treasury products

In the 1st half of 2013 Bank Millennium continued treasury operations connected with offering solutions, to Corporate Banking Clients, in the area of hedging against FX risk and interest rate risk.

The Treasury Department's offer for Corporate Banking Clients includes the same broad range of products as in 2012: 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).

In the reporting period, the Treasury Department continued activities connected with offering of the transaction platform Millennium Forex Trader, by which the Clients conclude, themselves, FX transactions including FX forwards and FX swaps.

Marketing

In the 1st half of 2013 Bank Millennium continued an initiative (undertaken last year) of educational meetings with current and prospective Clients of the Bank. The subject matter of 8 business seminars, attended free of charge, was „Taking advantage effectively of market volatility by using solutions offered by Bank Millennium”. Discussions at meetings referred issues connected with macro-economic situation in Poland and worldwide, obtaining funding, factoring, leasing, obtaining financing from the European Union and company cash flow projections viewed from the Bank's perspective. The meeting formula enabled Clients conducting free discussion of issues, important from the point of view of their business operations, with the Bank's experts and specialists responsible for above mentioned areas.

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 2013 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 2013.

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 is proceeding according to a plan.

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, but will not cease before 30 June 2014.

Capital requirements and ratios of the Bank Millennium Group in the three approaches, as at 30th June, 2013 are presented in the below table:

Bank Millennium Group - capital requirements (PLN million) for:	30.06.2012 STD*	30.06.2013		
		STD	IRB constrained ¹⁾	IRB full ²⁾
Credit risk	3 035.2	3 070.1	2 684.9	1 622.8
Market risk	32.9	32.3	32.3	32.3
Operational risk	226.5	248.9	248.9	248.9
Total capital requirements	3 294.6	3 351.3	2 966.1	1 904.0
Own Funds	5 225.3	5 655.6	5 481.0	5 481.0
Consolidated capital adequacy ratio	12.7%	13.5%	14.8%	23.0%
Consolidated Core Tier 1 ratio	11.2%	12.0%	13.3%	20.7%

(*) Standardized approach

1) Calculated including regulatory constraint

2) Without the 80% constraint, before the fulfilment of the conditions defined by BdP and KNF and before the inclusion of the remaining portfolios in the IRB

The Capital position expressed in capital adequacy ratio, calculated in line with IRB regulatory constraint, is better by 1.3 p.p. when comparing to the standardized approach. Total potential advantage stemming from IRB method for portfolios under approval of Supervisors is 9.5 p.p. (excluding the 80% constraint and before the fulfillment of the conditions defined by BdP and KNF and before covering remaining portfolios with IRB approach).

Analyzing economic capital adequacy, the Group's internal capital - expression for material risks in activity - is covered with a 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. Capital requirement to cover credit risk amounted to PLN 2,685 million, whereas the total capital requirement amounted to PLN 2,966 million as at 30 June 2013. The key quality ratio of credit portfolio- share of impaired loans in total loans (calculated according to International Accounting Standards) - decreased significantly in the last 12 months from the level of 5.2% a year ago to the level of 4.6% at end of June 2013. 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 2013 amounted to 8.9%.

During the first half-year of 2013 the value of impaired loans decreased by PLN 137 million, which combined with a slight increase of the entire portfolio (by PLN 1,816 million) during the same period, resulted in the decrease of impaired loans ratio to the above mentioned level of 4.6% (at the end of December 2012 the ratio amounted to 5.1%).

The mortgage portfolio is characterized by stable and very good quality, although the impaired loans ratio increased slightly from the level of 1.13% a year ago to the level of 1.20% today. A notable improvement can be observed in the quality of the consumer loans portfolio: impaired loans ratio decreased from the level of 16.7% in June 2012 to the level of 14.1% on 30 June 2013. During the same period the quality of companies loans portfolio also improved: the impaired loans ratio decreased in the last 12 months from the level of 12.1% on 30 June 2012 to the current level of 9.5%. The improvement of this ratio results among others from the reclassifying of some successfully restructured exposures to the normal portfolio.

The ratio of loans overdue above 90 days (DPD - Days Past Due) remained in the past half-year at relatively stable level: 2.7% at the end of December 2012 and 2.8% at present. In the past half-year the biggest decrease of this ratio related to the consumer loans portfolio (from the level of 11.0% to 9.8%) due to the further intensification of monitoring process.

It should be noted that ratios related to loans with 90 DPD for 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 a number of 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, consumer and companies) as at 30.06.2013 amounted to 0.56%, 9.78% and 5.65% respectively.

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

Key loan quality ratios	30.06.2013	31.12.2012	30.06.2012
Total impaired loans (PLN million)	1 973.8	2 110.6	2 209.8
Loans over 90 days past due (PLN million)	1 189.3	1 160.5	1 124.3
Impaired/total loans	4.56%	5.09%	5.19%
Loans >90 DPD/total loans	2.75%	2.80%	2.64%
Total provisions*/impaired loans	64.4%	58.6 %	58.0%
Total provisions*/ Loans >90 DPD	107.0%	106.6%	114.0%

(*) including IBNR provision

The improvement of the quality of Group's credit portfolio was accompanied by the maintenance of the level of impairment provisions created in profit and loss account. In the first half-year the ratio of created provisions to the average level of net loans amounted to 56 basis points, which was slightly higher than 55 basis points in the first half-year of 2012. The coverage ratio of the impaired loans portfolio with provisions improved significantly in June 2013 when it amounted to 64.4% in comparison to about 58% in December 2012 and June 2012.

The coverage ratio of overdue loans with above 90 DPD with provisions remained at high level of 107% at the end of June 2013.

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 4.5% of total loans portfolio of the Group.

The share of individual sectors in the companies portfolio of Bank Millennium Group as at 30 June 2013 and 2012 has been shown in the table below:

Group	Sector	30.06.2013		30.06.2012	
		Gross balance exposure (PLN million)	% share of total portfolio	Gross balance exposure (PLN million)	% share of total portfolio
A	Agriculture, forestry and fishing	59.4	0.5%	56.4	0.5%
B	Mining and quarrying	127.1	1.1%	66.2	0.6%
C	Manufacturing	2 550.5	21.7%	2 245.5	20.3%
D	Electricity, gas, water	170.6	1.5%	56.1	0.5%
E	Water supply, sewage and waste	109.2	0.9%	89.9	0.8%
F	Construction*	1 635.9	13.9%	1 729.9	15.6%
G	Wholesale and retail trade; repair	2 779.2	23.7%	2 306.3	20.8%
H	Transportation and storage	1 462.5	12.5%	1 189.9	10.7%
I	Accommodation and food service activities	124.2	1.1%	86.9	0.8%
J	Information and communication	356.2	3.0%	762.7	6.9%
K	Financial and insurance activities	315.4	2.7%	437.1	3.9%
L	Real estate activities*	652.8	5.6%	557.8	5.0%
M	Professional, scientific and technical services	174.3	1.5%	250.1	2.3%
O	Public administration and defence	523.	4.5%	574.	5.2%
P	Education	53.1	0.5%	46.6	0.4%
Q	human health and social work activities	77.4	0.7%	50.5	0.5%
R	Culture, recreation and entertainment	19.6	0.2%	29.2	0.3%
N+S	Other Services	546.6	4.7%	554.6	5.0%
	Total	11 736.9	100.0%	11 089.8	100.0%

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

The sector structure of corporate portfolio has not changed significantly during the year, although a notable decrease can be observed in Construction sector which was characterized by the increased risk in the last

period. The share of Wholesale & retail trade sector increased, however, due to high diversification of this sector (Wholesale trade and retail trade as well as production diversification), increase of the share of this sector does not result in the increase of credit 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 11 April 2013 Annual General Meeting was held. 105 Shareholders took part in the meeting, representing 82.4% of Bank's share capital, including the two largest Shareholders: Banco Comercial Portugues (65.51% of share capital) and ING Otwarty Fundusz Emerytalny (9.30% of share capital). Following to the Management Board proposal the Annual General Meeting decided to retain entire 2012 profit to increase reserve capital.

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 GRI¹ standards

The seventh edition of the annual Responsible Business report, which presents 2012 implementation by Bank Millennium Group of the principles of Corporate Social Responsibility, has again been prepared in keeping with international reporting standards. This year the scope and structure of presented information satisfy criteria provided for reporting in accordance with GRI G3.I standards on B application level (previously it was one level below at C). Compliance of the data with the international standard was confirmed by Global Reporting Initiative.

¹ 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 2013 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 2013 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 2013 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2013 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
24.07.2013	Bogusław Kott	Chairman of the Management Board
24.07.2013	Joao Bras Jorge	First Deputy Chairman of the Management Board
24.07.2013	Fernando Bicho	Deputy Chairman of the Management Board
24.07.2013	Artur Klimczak	Deputy Chairman of the Management Board
24.07.2013	Julianna Boniuk-Gorzelańczyk	Member of the Management Board
24.07.2013	Wojciech Haase	Member of the Management Board
24.07.2013	Andrzej Gliński	Member of the Management Board
24.07.2013	Maria Jose Campos	Member of the Management Board