Management Board Report of the Bank Millennium Capital Group

for the six months ended 30 June 2015

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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 2015 the amount of PLN 328 million i.e. 2.4% higher than in 1st half 2014. Such good result was achieved despite negative pressure on banking income caused by several drivers, including lower market interest rates and regulatory limit on card related fees. Slight fall of net operating income (-2% y/y) was more than compensated by drop of operating costs (-1.6% y/y) and lower provisions on credit risk (-9% y/y).

Main financial and business highlights of 1H 2015 are as follows:

Resilient profitability

- 1H 15 net profit at PLN 328 million: +2.4% y/y
- 2Q 15 net profit at PLN 165 million: +1.6% q/q
- ROE at 11.2%, with equity growth of 10.8% y/y

Core income under pressure but interest income flat despite rate cut in March

- Net Interest income flat quarterly (-0.8% q/q) indicating gradual recovery after market interest rate cuts
- Core income fell 4.6% y/y and 2.4% q/q due to interest rate cuts and high base of commission income

Lower costs and high efficiency

- Operating costs dropped 1.2% q/q and 1.6% y/y, despite higher Banking Guarantee Fund fees
- Cost to income in 2Q below 50%

High asset quality maintained

- Impaired loans ratio at low 4.3%.
- Mortgage impaired ratio at 1.75%

Capital ratios increased after full profit retention

- Total Capital Ratio [1] at 15.2% and Common Equity Tier 1[1] at 14.6% after decision of no dividend
- Loan-to-deposits [2] ratio at 92.1%

Deposits/accounts/customers

- PLN 50 billion record level of deposits crossed
- Continued good sale of non-deposit investment/savings products: + PLN 870 million (13%) in 1H'15
- 4th place in net yearly increase of PLN current accounts – thanks to new Konto 360° campaign
- Accelerated growth of the number of active customers : 21 thousand more in 2Q 2015

Loans

- High level of cash loans sale maintained: 2Q result of PLN 669 million
- Traditionally good, double-digit yearly growth in leasing and factoring portfolios

Digital platform

- Mobile applications active users almost doubled yearly to 279 thousand
- New mobile applications for Android, iOS and Smartwatch

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

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

I.2. Macroeconomic situation

Polish economy returned on the path of solid economic growth after slowdown on the turn of 2012 and 2013. Consequences of limited access to eastern markets for Polish exporters at the turn of 2014 and 2015 were smaller than feared at the beginning of the year thanks to high flexibility of Polish companies that were actively seeking new markets. The Bank assesses that the economic growth is balanced and GDP data show no sign of macroeconomic imbalances.

The first half of 2015 showed further improvement of the economic conditions in Poland. In the first quarter GDP growth accelerated to 3.6% year-on-year from 3.3% in the fourth quarter of 2014. Positive contributions to growth from consumption, investment and net exports were observed, confirming its solid foundation. Investment growth advanced to 11.4% year-on-year from 8.6% year-on-year in the fourth quarter what mirrors non-construction corporate investment. Individual consumption increased by 3.1% as compared with 3.0% in the fourth quarter of 2014 supported by improved labour market conditions and falling prices that support real disposable income of households. Both exports and imports were growing substantially, but the pace of exports growth was equal to 8.0% year-on-year outstripping imports growing by 6.0% year-on-year. As a result, net exports added as much as 1.1 percentage point to the pace of economic growth. 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 higher exports to other European markets, mainly Germany.

Labour market conditions continued to improve. Registered unemployment was equal to 10.3% in June as compared with 11.5% at the end of 2014. In the spring months seasonal factors support the fall of unemployment, but the rate in June was also lower by 1.7 percentage points as compared with the corresponding period of the previous year mirroring improved conditions in the enterprise sector and growing demand for labour. The wage growth is muted, because of low bargaining power of the employees, and in June it was equal to 2.5% year-on-year.

In July 2014 Consumer Price Index fell below zero in year-on-year terms and the decrease deepened in the months that followed to reach -1.6% year-on-year in February 2015. In June the deflation equalled to -0.8%. The persistence of negative inflation resulted from supply-side shocks on food and fuel markets and had positive effects on the real economy. Demand pressure in the economy is however very low as core inflation, excluding food and energy prices, was equal to just 0.2% year-on-year in June 2015.

In the environment of lack of inflation pressures, monetary authority kept loose monetary policy stance. In March 2015 MPC cut interest rates by 50 bps. The reference rate is record-low and currently stands at 1.50%. In the Bank’s assessment the next interest rates move would be a hike delivered in the second half of 2016.

Leading indicators suggest further improvement of business sentiment. The Bank expects that in 2015 domestic demand will remain strong and economic growth will be equal to 3.8%. The Bank forecasts that high dynamics of private consumption, supported by improved labour market conditions, will be maintained and investment is likely to grow further at the pace similar to the one recorded in 2014. Investment will still be supported by high capacity utilization and growing new orders in manufacturing as well as good financial standing and liquidity of companies. Despite growth acceleration, we do not expect the return of positive inflation before the fourth quarter of 2015.

In the first half of the year total deposits increased by PLN 13.0 bn, driven mainly by the increase of PLN 18.5 bn in the households’ segment. The deposits of households were growing at the solid and stable pace of 8% year-on-year, despite record low interest rates, confirming improving income conditions of the households. Corporate deposits has not yet recovered after a seasonal decline of PLN 17.7 bn in January, and in June 2015 were by PLN 5.5 bn lower as compared with December 2014. Its annual dynamics in June was equal to 6.4% vs 6.5% in December.

Annual dynamics of total credit amounted to 7.3% in June as compared with 6.9% in December 2014. Credit to households increased by 7.9% year-on-year while loans to corporate sector grew by 6.2% year-on-year. One should note however that annual dynamics of loans to households was inflated by the Polish Zloty depreciation against the Swiss Franc that increased the PLN value of loans denominated in foreign currencies. Excluding FX impact, loans to households increased by 3.7% year-on-year

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1. Group profit and loss account

Operating Income (PLN million)	1H 2015	1H 2014	Change 2015/2014
Net Interest Income *	699.5	733.9	-4.7%
Net Commission Income	304.1	318.6	-4.5%
*Core Income***	*1 003.6*	*1 052.5*	*-4.6%*
Other Non-Interest Income ***	85.6	58.9	45.3%
Total Operating Income	**1 089.2**	**1 111.4**	**-2.0%**

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income 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 32.7 million in 1 half 2015 and PLN 2.7 million in 1 half 2014) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

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

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

Net Interest Income (pro-forma) for 1 half 2015 reached PLN 699.5 million and decreased by 4.7% versus the corresponding period of the previous year. Such modest decrease proves resilience of this income line being under pressure of falling market rates: two NBP rates cuts in October 2014 (reference rate by 50 bps and lombard rate by 100 bps) and in the beginning of March 2015 (by another 50 bps). In 2Q 2015 Net Interest Income decreased by 0.8% vs 1Q 2015, which was relatively mild and similar to the previous quarter decrease, pointing to successful price adjustments and gradually improving spreads.

Quick adjustment of deposits prices to lower market rates allowed to keep gradual reduction of deposits cost (to 1,49% in 2Q'15) which partially compensated for faster reduction of average yield on loans (to 4,09% in 2Q). However, total Net Interest Margin (over average interest earning assets) for 1 half 2015 slid down to 2.2%, i.e. by 0.4 p.p. lower than in 1 half 2014.

Net Commission Income in 1 half 2015 amounted to PLN 304.1 million, which means a 4.5% decrease year-on-year as a result of lower interchange fees (the effect of new regulations on limits for payment cards' interchange fees in Poland). The decrease in interchange fees was offset by growing commissions from sale of investment products (own mutual funds and other similar products of third parties) as well as commissions from loans.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 1,003.6 million for 1 half 2015 and decreased by 4.6% compared to the corresponding period of the previous year.

Other non-interest income amounted to PLN 85.6 million for 1 half 2015 presented growth by 45.3% year-on-year due to much lower net other operating income and costs in 1 half 2014, resulting from exceptionally high cost provisions for court cases.

Total operating income of the Group reached PLN 1,089.2 million in 1 half 2015 and decreased slightly by 2.0% year-on-year.

Total costs in 1 half 2015 amounted to PLN 545.7 million, which means a decrease by 1.6% when compared to 1 half 2014.

Operating Costs *(PLN million)*	1H 2015	1H 2014	Change 2015/2014
Personnel Costs	(275.2)	(270.0)	*1.9%*
Other Administrative Costs*	(270.5)	(284.3)	*-4.8%*
Total Operating Costs	**(545.7)**	**(554.3)**	***-1.6%***
Cost/Income Ratio	50.1%	49.9%	*+0.2 p.p.*

(*) including depreciation

Personnel costs in 1 half 2015 grew slightly by 1.9% compared to the corresponding period of the previous year. The total number of employees in the Group increased by 56 employees compared to the end of June 2014, to the level of 5,939 persons (in Full Time Equivalents), only due to insourcing in 2 half 2014 of persons previously employed in outsourcing company that provided services to the Bank.

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

Employment structure (in FTEs)	30.06.2015	30.06.2014	Change 2015/2014
Bank Millennium S.A.	5 602	5 540	*1.1%*
Subsidiaries	337	342	*-1.5%*
Total Bank Millennium Group	5 939	5 883	*1.0%*

Other administrative costs (including depreciation) in 1 half 2015 decreased by 4.8% year-on-year. The decrease was driven by lower cost of marketing, IT, external services (such as advisory, legal etc.), branches and depreciation which offset significant increase of obligatory deposit guarantee fund (BFG) charges imposed on banks in 2015. Main charge almost doubled from 0.10 bps in 2014 to 0.189 bps in 2015, which translates into PLN 30 million additional yearly costs for the Bank.

Cost-to-Income ratio for 1 half 2015 was at 50.1% level (49.9% in 2Q 2015) that is the level similar to previous full year.

Total net impairment provisions created by the Group in 1 half 2015 amounted to PLN 127.2 million and were 9.0% lower than provisions created in 1 half 2014. The provisions were much lower for corporate segment and other (PLN 37.5 million compared to PLN 86.5 million an year ago) but higher in retail segment (an increase to PLN 89.7 million from PLN 53.3 million an year ago).

In relative terms, cost of risk (i.e. net provisions created to the average net loans) in 1 half 2015 reached 56 bps level (i.e. 10 bps lower yearly) and showed narrowing of difference between cost of risk in corporate and retail segment. Cost of risk in mortgage in 1 half 2015 (18 bps) was only slightly higher than 2014 level, in line with slow increase of impaired mortgage loans (mainly in FX loans).

Pre-tax Profit and Net Profit *(PLN million)*	1H 2015	1H 2014	Change 2015/2014
Operating Income	1 089.2	1 111.4	*-2.0%*
Operating Costs *	(545.7)	(554.3)	*-1.6%*
Impairment provisions	(127.2)	(139.8)	*-9.0%*
Pre-tax Profit**	415.0	417.3	*-0.6%*
Income tax	(87.2)	(97.2)	*-10.3%*
Net Profit	**327.8**	**320.1**	***2.4%***

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

Pre-tax Profit in 1 half 2015 amounted to PLN 415.0 million, which was on similar level as in 1st half of the previous year (-0.6% year-on-year). **Net Profit** for the analysed period amounted to PLN 327.8 million i.e. by 2.4% higher year-on-year. The growth was supported by resilient operating income accompanied by lower operating costs and impairment provisions.

II.2. Balance Sheet

Assets

The Group's assets as at 30 June 2015 totalled PLN 68,877 million and were 16.3% higher compared to the balance at the end of June 2014. The structure of Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	30.06.2015		30.06.2014		Change
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	1 939.4	2.8%	2 607.2	4.4%	-25.6%
Loans and advances to banks	3 735.7	5.4%	2 137.3	3.6%	74.8%
Loans and advances to Clients	46 998.2	68.2%	43 374.4	73.2%	8.4%
Receivables from securities bought with sell-back clause	131.1	0.2%	319.0	0.5%	-58.9%
Debt securities	14 650.8	21.3%	9 421.4	15.9%	55.5%
Derivatives (for hedging and trading)	415.9	0.6%	486.3	0.8%	-14.5%
Shares and other financial instruments *	15.6	0.0%	6.0	0.0%	158.9%
Intangible assets and property, plant and equipment **	199.2	0.3%	197.5	0.3%	0.9%
Other assets	791.0	1.1%	681.8	1.2%	16.0%
Total assets	**68 876.8**	**100.0%**	**59 230.9**	**100.0%**	**16.3%**

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

Higher assets level resulted primarily from the growth of loans to Clients by PLN 3,624 (or by 8.4%) as well as strong growth of debt securities by PLN 5,229 million (or by 55.5%), including predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank).

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Group's asset structure (68.2% as on 30 June 2015). Total value of loans reached PLN 46,998 million (in net terms) as at the end of June 2015, which means an increase by 8.4% versus the end of the 1st half of the previous year.

The value of loans granted to households as at the end of 30 June 2015 totalled PLN 33,784 million and grew by 9.6% during one year period. Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew very strongly by 22.4%, or PLN 917 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 2015 amounted to PLN 1.3 billion (an increase by 40% compared to the sales level of 1st half 2014). As at the end of June 2015 the balance of non-mortgage loans to households amounted to PLN 5,007 million.

As on 30 June 2015, the value of mortgage loans, being the significant part of Group's portfolio, amounted to PLN 28,777 million and grew by 7.6% year-on-year. The growth was mainly driven by FX mortgage loans as a result of significant CHF/PLN exchange rate increase versus the end of June 2014. PLN mortgage book grew by 1.7% year-on-year.

Loans to companies amounted to PLN 13,214 million as at the end of June 2015 and grew by 5.3% yearly. The fastest growing item of this portfolio were leasing receivables: an increase by 13.4% year-on-year. The value of the leasing portfolio exceeded PLN 4.2 billion as at the end of June 2015. Also factoring receivables portfolio kept strong growth above 10% yearly.

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

Loans and advances to Clients *(PLN million)*	30.06.2015	30.06.2014	Change (value)	Change (%)
Loans to households	33 784.0	30 830.9	*2 953.1*	*9.6%*
- mortgage loans	*28 777.5*	*26 741.1*	*2 036.3*	*7.6%*
- other loans to households	*5 006.5*	*4 089.8*	*916.7*	*22.4%*
Loans to companies	13 214.2	12 543.5	*670.8*	*5.3%*
- leasing	*4 209.2*	*3 710.7*	*498.5*	*13.4%*
- other loans to companies	*9 005.1*	*8 832.8*	*172.2*	*1.9%*
Net Loans & Advances to Clients	**46 998.2**	**43 374.4**	**3 623.8**	**8.4%**
Impairment write-offs	1 472.7	1 356.8	115.9	8.5%
Gross loans and advances to Clients	**48 470.9**	**44 731.2**	**3 739.7**	**8.4%**

Debt securities

The value of debt securities, both in trading and investment portfolios, equalled PLN 14,651 million at the end of June 2015 and increased strongly by PLN 5,229 million i.e. 55.5% compared to the balance as on 30 June 2014, thus improving substantially the Group's liquidity buffer. Major part of debt securities (i.e. 99.4%) were bonds and bills issued by the Polish State Treasury and the National Bank of Poland (the central bank). Of total debt securities, 74.1% were booked in investment portfolio (financial assets available for sale) and 25.9% were in trading portfolio (financial instruments at fair value through profit and loss).

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 3,736 million as at the end of June 2015, which means an increase by PLN 1,598 million (or by 74.8%) year-on-year. The changes resulted mainly from higher value of collateral deposits for derivative transactions (mainly for FX hedging) placed with other banks: the value of such deposits exceeded PLN 2.9 billion PLN.

Derivatives

Value of derivatives (designated for trading and hedging) totalled PLN 416 million at the end of June 2015 and decreased by 14.5% compared to 30 June 2014.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment amounted to PLN 199 million as at the end of June 2015, which means slight increase by 0.9% yearly.

Liabilities

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

LIABILITIES (PLN million)	30.06.2015		30.06.2014		Change
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 152.7	3.4%	2 169.3	4.0%	-0.8%
Deposits from Customers	50 233.6	79.9%	45 970.1	85.5%	9.3%
Liabilities from securities sold with buy-back clause	3 364.1	5.4%	678.8	1.3%	395.6%
Financial liabilities valued at fair value through P&L and hedging derivatives	3 537.4	5.6%	1 576.8	2.9%	124.3%
Liabilities from issue of debt securities	1 814.0	2.9%	1 622.9	3.0%	11.8%
Provisions	70.4	0.1%	93.7	0.2%	-24.9%
Subordinated debt	629.5	1.0%	624.6	1.2%	0.8%
Other liabilities*	1 051.8	1.7%	1 059.7	2.0%	-0.7%
Total liabilities	**62 853.5**	**100.0%**	**53 796.0**	**100.0%**	**16.8%**
Total equity	**6 023.3**		**5 435.0**		**10.8%**
Total liabilities and equity	**68 876.8**		**59 230.9**		**16.3%**

(*) including tax liabilities

As at the end of June 2015, liabilities accounted for 91.3%, while Group's equity accounted for 8.7% of the total liabilities and equity.

As at 30 June 2015, Group's liabilities amounted to PLN 62,854 million and increased strongly by PLN 9,058 million or 16.8% relative to the balance as on 30 June 2014. The increase resulted, primarily, from much higher level of Customer deposits (by PLN 4,264 million) and sell-buy-back transactions (by PLN 2,685 million) as well as higher balances of financial liabilities valued at fair value through P&L and hedging derivatives (by PLN 1,961 million) compared to the balances recorded at the end of June 2014.

Deposits from Customers

As on 30 June 2015, deposits from Customers reached a record PLN 50,234 million level and constituted by far the Group's main liability item accounting for 79.9% of the Group's total liabilities. The deposits recorded an increase of PLN 4,264 million i.e. 9.3% relative to the balance as at 30 June 2014.

As at 30 June 2015 deposits from individual Customers amounted to PLN 31,785 million and accounted for 63.3% of the total balance of deposits from Customers. Their value increased strongly by PLN 3,235 million or by 11.3% year-on-year. Deposits from companies and public sector increased by PLN 1,029 million (i.e. by 5.9%) year-on-year and equalled as at the end of June 2015 PLN 18,448 million (36.7% of Group's total deposits).

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

Deposits of Clients *(PLN million)*	30.06.2015	30.06.2014	Change (value)	Change (%)
Deposits of individuals	31 785.3	28 550.6	3 234.7	11.3%
Deposits of companies and public sector	18 448.3	17 419.5	1 028.8	5.9%
Total Deposits	**50 233.6**	**45 970.1**	**4 263.5**	**9.3%**

Deposits from banks

Deposits from banks, as at 30 June 2015, amounted to PLN 2,153 million, accounting for 3.4% of the Group's liabilities. The value of that item decreased slightly by 0.8% vs the balance as at 30 June 2014. Important part of interbank financing are loans from financial institutions with total balance, expressed in local currency, of PLN 1,434 million as on 30 June 2015. The majority of wholesale long-term and medium-term loans received by the Group come from European Bank for Reconstruction and Development and from European Investment Bank (most of them in EUR, but also in CHF and PLN) with maturities up to 8 years.

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 State Treasury debt securities. As at 30 June 2015, liabilities from securities sold with buy-back clause amounted to PLN 3,364 million and increased visibly by PLN 2,685 million compared with the balance as at 30 June 2014. The increase resulted mainly from higher value of transactions with banks.

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 at 30 June 2015, PLN 3,537 million and recorded high increase by PLN 1,961 million relative to the balance of 30 June 2014, first of all due to CHF appreciation, having the impact on increase of negative valuation of derivatives, mostly used for FX hedging purpose.

Debt securities issued

As at 30 June 2015 liabilities from issue of debt securities amounted to PLN 1,814 million recording an increase by 11.8% year-on-year. The main item are Bank's bonds issued to institutional investors, which amounted to PLN 1,506 million at the end of June 2015. The main reason for visible increase of issued debt securities in one year period was the new issue of bonds to institutional investors in June 2015 of the total balance sheet value of PLN 300 million.

Additionally, the Bank is selling bonds and bank debt securities to individual Customers in connection with its savings products offer. The total balance of this securities held by individual customers amounted to PLN 308 million as at the of June 2015.

Debt securities are being issued in order to raise funds for financing the general Bank's operations and to strengthen the mid-term funding of the Bank.

Subordinated debt

The value of subordinated debt amounted to PLN 629 million as at 30 June 2015 and increased by 0.8% year-on-year due to FX rates changes. This item includes only the liabilities from ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

As at 30 June 2015 the equity of the Group amounted to PLN 6,023 million and grew by PLN 588 million or 10.8% year-on-year. The main reason of the growth of equity was net profit generated during the 2nd half 2014 and 1st half 2015, without payment of any dividend as decided by AGM of the Bank held in May 2015. The impact of revaluation reserve changes on this growth was negative (PLN -70 million).

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

II.3. Share price main indicators and ratings

Following global and Polish local risk factors, which emerged during 1st half of 2015, Warsaw capital market experienced high volatility and strong pressure on stock prices from financial sector in this period. Global markets turmoil caused by possibility of "Grexit" accompanied by CHF currency strong appreciation followed by uncertainty concerning Polish authority potential interventions towards banks with CHF mortgages, plus potential increase of obligatory fees/charges put on banks in Poland, caused sharp correction of banks' shares prices on GPW in Warsaw. Just during 1st half 2015 banking index fell by 7.1% and until 17th July 2015 the fall increased to – 10.8%. In the same time Bank Millennium shares fell by 21.1% and 23.3% respectively.

Overall market indexes showed modest growth during 1H 2015 of 3.7% (WIG index) and of 5.8% (mWIG40 index).

Also in the yearly horizon, banking index fell by 9.0% and Bank Millennium shares decreased by 15.7%. The main index slightly grew by 2.7% and mWiG40 gained 6.9% in this yearly period.

The turnover of Bank Millennium shares grew by 31% compared to the 1st half 2014 and very visibly, by 130% compared to 2nd half of 2014. One of the reason of such strong growth of shares turnover was the placement of 15.4% of Bank's shares conducted by BCP (in the form of accelerated book-building transaction on 26th March 2015), which increased visibly free-float of Bank's shares to 49.9%.

Market ratios	30.06.2015	30.12.2014*	Change (%) in 1H 2015	30.06.2014	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)	10 214	4 441**	130.0%	7 771	31.4%
Price of the Bank shares (PLN)	6.55	8.30	-21.1%	7,77	-15.7%
Market cap. (PLN million)	7 946	10 069	-21.1%	9 426	-15.7%
WIG - main index	53 329	51 416	3.7%	51 935	2.7%
WIG Banks	7 398	7 961	-7.1%	8 126	-9.0%
mWIG 40	3 685	3 483	5.8%	3 446	6.9%

(*) last day of quotation in 2014
(**) turnover for the second half of 2014 year

During the 1st half 2015 the following changes in Bank Millennium rating were done:

On 21st of May 2015 Moody's rating agency upgraded Bank's Long-term Deposit Rating to Ba1 from Ba2. At the same time Moody's announced that it has introduced new rating for banks, called Counterparty Risk (CR) Assessments. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails. Bank Millennium got then CR Assessment of Ba1 (cr)/ Not-Prime (cr).

On 3rd of June 2015 Fitch rating agency changed the support rating from 3 to 4 and confirmed the remaining ratings for Bank Millennium: BBB-/A-(pol)/F3/bbb- (stable outlook).

On 26th of June 2015 Moody's rating agency affirmed the long and short-term Bank's deposit ratings at 'Ba1/Not-Prime/stable outlook' and upgraded the Baseline Credit Assessment ("BCA") to 'ba3' from 'b1' and the CR Assessment to 'Baa3(cr)/Prime-3(cr)' from 'Ba1(cr)/Not-Prime(cr)'. The remaining ratings were confirmed by the Moody's.

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

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

II.4. Main factors that might influence Bank's standing in the second half of 2015 and beyond

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

- Risks connected with fluctuation of the CHF/PLN exchange rate. The Bank does not expect significant worsening of CHF mortgage loans repayment, as a potential, further Swiss franc appreciation most probably would be followed by a further decrease of CHF LIBOR rate, which should compensate all or part of negative FX effect on a loan instalment. At the same time, Polish banks have pledged to take measures against hypothetical problems with fx-loans repayment including non-increase of obligations (collateral, new insurances) and decrease of servicing of the debt by a customer (prolongation of the loan maturity, "holidays" in instalment repayment, temporary reduction of fx spread).

- Announced legislative intentions or initiatives on FX loans conversion, if implemented and made mandatory for banks, could significantly deteriorate the Bank's profitability and capital position in the medium term.

- Possible additional capital requirements, imposed by KNF (Polish Financial Supervision Authority) in connection with FX mortgage portfolios, may influence capital position of the Bank. However, it should be noted that the Annual General Meeting of the Bank has already decided to retain entire 2014 net profit in own funds, which raised Bank's capital ratios to very high levels.

- Potential increase in the contributions to the Banking Guarantee Fund (or new tax contribution) would adversely affect profitability of the banking system (and of the Bank) in the medium term and could further deteriorate share performance of listed banks.

- The Greek debt crisis and the possibility of the euro zone exit by Greece may cause financial markets turbulences, increased risk aversion and lead to PLN depreciation. The effect should however be limited in scope and time as the direct economic links between Poland and Greece are not significant.

- Banks in Poland will continue to operate in the environment of record low but stable interest rates that will limit the scope to increase interest margin.

- Growth acceleration resulting mainly from private consumption recovery and investment may support growth of households and corporate loans, additionally underpinned by low interest rates.

- The improvement of business sentiment, including good financial standing of the companies and further unemployment decrease, will support the quality of loans portfolio.

III. RESULTS BY BUSINESS SEGMENTS

III.1. Introduction

The following information provide Profit and Loss data as well as business volumes for the Group's main business segments: Retail, Corporate and Treasury, ALM (assets and liabilities management) and other, allowing for comparison of 1st half 2015 versus 1st half 2014 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 results (PLN million)	1H 2015	1H 2014	Change 2015/2014
Net interest income	530.4	572.5	-7.3%
Net commission income	229.1	246.9	-7.2%
Other income *	24.3	41.2	-41.0%
Total operating income	**783.8**	**860.6**	**-8.9%**
Total operating expense **	**-415.9**	**-424.0**	**-1.9%**
Net impairment provisions	-89.7	-53.3	68.4%
Pre-tax income	**278.2**	**383.3**	**-27.4%**

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

The total operating income of the Retail segment in 1st half 2015 amounted to PLN 783.8 million and decreased by 8.9% yearly. The main reason for this decrease were lower Net interest income and Net commission income (similar year-on-year decrease by 7.3% and 7.2% respectively). Decrease of net interest and net commission income was adversely affected by market conditions, first of all falling interest rates and imposed lower payment cards interchange fees. Other income also fell by 41.0% year-on-year, partly affected by reduced FX spread charged by the Bank for FX mortgage instalment payments.

Operating expenses of Retail segment for 1st half 2015 decreased by 1.9% yearly. Net impairment provisions increased by 68.4% year-on-year as a result of changing credit product mix (lower share of mortgage loans and higher share of consumer loans). As a result of above tendencies pre-tax income of Retail segment for 1st half 2015 decreased by 27.4% year-on-year to the level of PLN 278.2 million.

Corporate segment results (PLN million)	1H 2015	1H 2014	Change 2015/2014
Net interest income	130.7	162.4	-19.5%
Net commission income	69.8	69.2	1.0%
Other income *	26.1	22.4	16.5%
Total operating income	**226.6**	**253.9**	**-10.7%**
Total operating expense **	**-103.1**	**-103.4**	**-0.2%**
Net impairment provisions	-37.5	-86.2	-56.5%
Pre-tax income	**86.0**	**64.3**	**33.8%**

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

The total operating income of Corporate segment in 1st half 2015 decreased by 10.7% yearly to PLN 226.6 million due to much lower Net interest income (a decrease by 19.5% year-on-year). Net commission income grew slightly by 1% year-on-year.

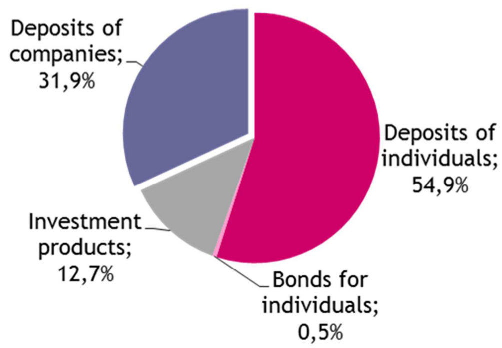
Operating expenses of this segment were on similar level as one year ago (-0.2% year-on-year). The value of impairment provisions on loans to companies for 1st half 2015 decreased visibly (by 56.5% year-on-year) which contributed to higher pre-tax profit of Corporate segment for 1st half 2015 by 33.8% year on year to the level of PLN 86 million.

Treasury, ALM and other segment results (PLN million)	1H 2015	1H 2014	Change 2015/2014
Net interest income	5.6	-3.7	-
Net commission income	5.2	2.6	105.3%
Other income *	67.9	-2.0	-
Total operating income	**78.8**	**-3.1**	**-**
Total operating expense **	**-26.7**	**-26.9**	**-0.8%**
Net impairment provisions	0.0	-0.3	-
Pre-tax income	**50.7**	**-30.3**	**-**

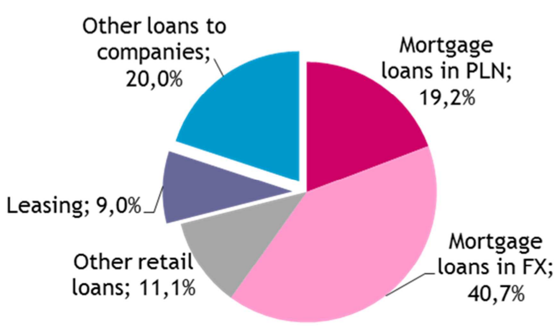
(*) including FX income
(**) without impairment provisions

Treasury, ALM and other segment recorded strong growth of total operating income for 1st half 2015 by PLN 81.9 million year-on-year, mostly due to higher income from financial operations, FX results and other income. The growth of result on financial operations resulted from higher income on bonds sale and higher income on FX swaps. Operating expenses of this segment were rather stable, so the Pre-tax income for 1st half 2015 grew strongly by PLN 81 million vs 1st half 2014.

Structure of Group's Customer Funds



Structure of Group's Loan Portfolio (gross)



Total Customer funds collected by Bank Millennium Group as at 30 June 2015 amounted to PLN 57,869 million. Customer funds of Retail segment amounted to PLN 39,420 million and accounted for 68% of total Group's Customer funds. The retail funds comprised deposits (PLN 31,785 million), bonds for individuals (PLN 308 million) and investment products, including own and third party mutual funds, insurance-saving products etc. (PLN 7,327 million). Deposits of companies as at 30 June 2015 amounted to PLN 18,448 million and accounted for 32% of total Group's Customer funds.

Total gross loans of the Group as at 30 June 2015 amounted to PLN 48,471 million. Loans to retail segment Clients amounted to PLN 34,443 million and accounted for 71% of total Group's loans. The loans comprised mortgage loans (PLN 29,044 million) and other retail loans (PLN 5,399 million), including cash loans, credit card loans, overdrafts etc. Loans to companies as at 30 June 2015 amounted to PLN 14,028 million and accounted for 29% of total Group's loans. The loans, besides different groups of loans and overdrafts for companies, included also leasing receivables (PLN 4,349 million).

III.2. Retail banking

Retail Banking

Bank Millennium offers universal banking services including retail banking constituting continuously growing area of its business operations. The Bank offers its banking services, adjusted to meet client needs and changing market conditions, under specialised business lines: individual clients, affluent individual clients (Prestige), private banking and Business line specialising in servicing individuals conducting business operations or small companies. The Bank's products and services are available through the nationwide network of 411 branches, Internet and mobile banking, direct banking, ATM network and telephone banking. This organisation of client service network helps clients manage their funds in a convenient and safe manner without restrictions.

As on 30 June 2015, Bank Millennium serviced 1,817 thous. retail clients marking an increase by 7% relative to similar period of 2014.

The classical retail product offer directed at individual clients and small companies is supplemented by services offered by the Bank Millennium Group companies: Millennium TFI (mutual funds), Millennium Dom Maklerski (brokerage service) and Millennium Leasing (leasing products).

Current accounts

As on 30 June 2015, Bank Millennium Clients held more than 1,879 thousand personal current accounts and this number increased during 12 months by nearly 163 thous.

From a broad product and service mix offered by the Bank, Clients chose, most frequently, Konto 360° accounting for 87% of all new personal accounts opened for individual clients. This result confirms the fact that the conceptual design of Konto 360º account had been developed on the basis of market analysis and survey revealing preferences of the Poles with respect to personal accounts and the fact that it was appreciated not only by experts and independent rankings but also by Clients themselves.

Accounts Konto 360° form a comprehensive offer focusing on the Client and Client's needs. Account maintenance, card to the account and basic services are offered free of charge, subject to meeting two simple conditions. In addition, the account holders have the right to use assistance type insurance attached to the account, securing round the clock access to medical help and household technical assistance. The Bank has also prepared special versions of the account offered to young people under the age of 18 and to Clients in the age of 18 – 26. Thus, Clients can have Konto 360º account irrespective of their age and the Bank adjusts its offer to needs changing with advancing age.

Consistent communication of product advantages in the advertising campaign had impact upon good result of Konto 360° sales. The campaign, from March until May of the current year included comprehensive activities in TV, press, Internet and in cinemas.

Deposit products

In the 1H of 2015, the Bank, facing expected decrease of interest rates, undertook fast actions to protect its deposit margins. Concurrently with strategy implementation, the Bank continued to carry out initiatives to support faster growth of the volumes of Client savings.

The Bank consistently promoted Konto Oszczędnościowe (savings account) as a convenient way to save money in the period marked with low interest rates.

The Bank introduced, into its product offer, the new Lokata Kompletna (term deposit) – term deposit for 12 months for new funds structured to ensure attractive interest rate accruing in the course of the first 6 months. Interest rate applicable to the next 6 months remains competitive and known when opening the deposit. The new product has been offered in order to support attracting slightly longer deposits.

Payment cards

In the 1st half of 2015, the Bank increased the portfolio of its debit cards from 1,251 thousand to 1,316 thousand (increase by 5.3%). During the period, the bank also recorded rapid increase of card user activity in terms of transactions executed with use of debit cards, in particular in non-cash payments, which, relative to similar period of 2014, increased by 25.4% in value terms and as much as 44.5% in volume.

During the reporting period, the Bank recorded a decrease in number of credit cards serviced from 354 thous. to 344 thous. (by 2.8%). Despite decrease in number of credit cards, value of turnover generated by card use increased relative to 1st half of 2014 by 5.2%. On the other hand, during the period, the number of transactions concluded increased by 9,3%. Increase of the volume of transactions concluded with credit cards was facilitated by, *inter alia,* increasing portfolio of Millennium Alfa credit cards, introduced to the Bank's offer in December 2014 and performing the role of a basic product to attract clients. Furthermore, a change of the credit card price list, as of 1 January 2015 also generated impact. The change introduced, in place of previously applied annual fees, a monthly fee for use of credit cards with introduction of a mechanism, by which the monthly fee was waived in case a Client concluded 5 transactions with a card per month.

Cash loans

In the Q1 of 2015, the Bank promoted consolidation loan granted to finance repayment of credit liabilities held by clients in other banks; the consolidation loan offered reduction of monthly instalments and helped clients obtain additional funds to finance any purpose. In January 2015, the Bank introduced a special offer connected with this product, with 0% fee and option to use credit holidays and payment of the first instalment as late as in 3 months from the agreement conclusion date. The campaign received marketing support in the form of labelling of branch windows, posters and leaflets describing the offer.

At the beginning of April, the Bank introduced a new process solution as well as new procedures and system in the area of selling cash loan insurance, adjusted to provisions of Recommendation U.

In 1st half of 2015, the Bank focused its efforts on further improvements of sales and client service processes to reduce processing time relative to credit applications and to increase product availability to reach a greater group of clients. Marketing activities conducted during the time focused on establishing relations with clients to facilitate transfers of credit products from other banks to Bank Millennium. This way the Bank achieved increase of the value of sales in the area of consolidation loan by 72% y/y.

In effect of the above activities conducted in 1st half of 2015, the Bank recorded increase of cash loan portfolio at the level of 25% y/y. Sales of cash loan grew by 40% relative to 1st half 2014.

Mortgage banking

In connection with decisions of the Swiss National Bank of January 2015, resulting in CHF appreciation, actions conducted by Bank Millennium in the first half of 2015 in mortgage banking focused on limiting negative impacts of the FX rate change.

Since the beginning of 2015, Bank Millennium, determining interest rate on mortgage loans, has been taking account of the negative value of reference rate CHF Libor, resulting in decreasing interest rates on mortgage loans. Negative value of reference rate has translated into decrease of instalment in CHF for the Clients and, thereby, offset the increase of the instalment amount (after converting into PLN) resulting from CHF appreciation.

At the turn of January and February 2015, the Bank introduced a series of solutions facilitating debt service: the Bank decided to reduce currency spread to 3% for CHF when servicing mortgage loans granted in CHF and allowed the interested clients to convert their loans from CHF to PLN at the rate equal to average NBP rate as on the conversion application submission date. In addition, the Bank allows to sign annexes to alleviate consequences of the currency exchange rate increase, involving reduction of monthly instalment amount by way of applying a grace period to repayment of the loan principal amount, extension of lending term or offering credit holidays.

In connection with ZBP recommendation, from April of the current year the Bank introduced subsidy to instalment for a Client relative to FX loans, under which the sum of margin and reference rate generates a negative value.

In June 2015, the Bank prepared new solutions for persons interested in eliminating their FX risk and facilitating service of outstanding debt. The Bank offered special conditions for currency conversion and early repayment of CHF loans.

The processing of client applications has been significantly simplified, *inter alia,* in terms of documents required from clients. In majority of cases it is sufficient for client to submit application with simulation of conditions after change attached.

The value of mortgage loan disbursements by Bank Millennium in 1st half of 2015 amounted to PLN 329 million (PLN 561 million in comparable period of 2014).

Investment products

Investment product offer addressed to the Bank's individual clients includes funds managed by Millennium TFI SA, foreign and domestic investment funds (available within the framework of open architecture of funds for clients in Prestige and Private Banking segments), investment and insurance products, structured products (investment deposits) and banking securities.

The Bank cooperates with respectable partners such as: BlackRock Investment Management, ING TFI SA, Investors TFI SA, Legg Mason TFI SA, Quercus TFI SA, PZU Życie SA and Generali Życie TU SA.

In 1st half 2015, net assets of investment funds available through direct offer and in insurance capital funds grew dynamically to reach the value of 7.3 bln PLN at the end of June 2015 i.e. recording annual increase by PLN 1 billion, including assets of Millennium TFI funds, which increased by almost PLN 700 million.

Increasing propensity of individual clients to purchase investment products was supported by the environment of low interest rates and good outlook prevailing on capital markets in particular in the first four months of the year.

The Bank, in 1st half 2015, conducted 6 issues of structured banking securities with 100% capital protection placed amongst Prestige and Private Banking clients and 12 subscriptions for investment deposits offered to retail client, Prestige and Private Banking clients.

Bancassurance

In 1st half 2015, Bank's activities in bancassurance area focused on adjustment of Bank operations to Recommendation U issued by the Polish Financial Supervision Authority, regarding good practices in bancassurance.

In connection with entry of Recommendation U into force, as of 1 April 2015, the Bank introduced changes to the insurance product offer changing the model of offering bancassurance products to accounts and loans to insurance intermediation while, at the same time, optimising the remaining parts of its insurance offer.

Implementation of the change of the model of cooperation with insurance firms into an agency type collaboration was preceded with a cycle of training ended with examinations. In effect of this exercise, more than 3 thousand Bank employees acquired competences to sell insurance products in individual form.

Adjusting bancassurance related processes to requirements of the recommendation, the Bank has also strengthened, *inter alia,* insurance product sales and servicing standards.

Internet banking – individual clients and business

The 1st half 2015 was a period of both continuous development of the Internet Banking and introduction of many innovations to Mobile Banking, thereby providing clients with easy access to many banking products via Internet and telephone.

The number of registered Internet banking Millenet clients at the end of June 2015 amounted to 1,615 thous. marking an increase by 10% y/y.

Transaction rate in the group of Millenet clients (measured by number of clients with, at least, one transfer per month) increased in 1st half 2015 by 10%. Individual clients using transactions in Millenet conclude 97% of all external transfers (to accounts in other banks) using this system.

Millenet also provides an important banking product distribution channel: deposits/savings accounts (accounting for 65% of the sales volume for individual clients), current accounts (13% of accounts sold in the Bank), FX accounts (80% of accounts sold in the Bank), cash loans (25% of the volume of loans sold to individual clients), new authorised account overdrafts (20% of the volume of new limits for individual clients), authorised overdraft increases (60% of the net volume), debit/credit/pre-paid cards, credit card withdrawals, investment products. Millenet is used to open more than 50% of standing orders and many other banking services.

The Bank has been systematically working to improve usefulness and convenience in use of electronic channels of access to finances. Relevant changes and improvements are introduced on the basis of eye-tracking exercises, questionnaires, as well as comments and suggestions received from clients.

In 1st half 2015, the Bank provided access to the new version of the Mobile Application and access to BLIK, the mobile payment system. By applying biometric technology and integration with smartwatches, the Bank Millennium Mobile Application offers the broadest personalisation opportunities on the market.

The number of Mobile Application users, at the end of June 2015, amounted to 279 thousand and increased by as much as 90% yearly. The number of log-ins to mobile application increased, relative to 2nd half 2014, by 57%.

Transaction rate generated by the Mobile Application clients (measured by number of clients with at least one transfer per month) increased within the 1st half 2015 by 30%.

The group of clients using mobile application is dominated by Android system users, accounting for as much as 67%. The second largest group of users are the iOS system users – 23%. Persons having devices with Windows Phone system account for 9%, while BlackBerry users - 1% of the total.

The Mobile Application is also becoming the most dynamic channel used to sell banking products. The sale of Cash Loans increased relatively to the 1st half of 2014 by 235%. The sale of authorised overdrafts (both new and increases of existing ones), which the Bank is offering since December 2014, increased by 29% relatively to the 2nd half 2014.

III.3. Corporate Banking

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

In 1st half 2015, Corporate Banking implemented objectives provided for in the Bank's medium-term strategy, developing cooperation with clients, broadening its offer and improving service quality.

Distribution channels

Corporate Banking clients are serviced through an expanded sales network covering the territory of the entire country. Clients can use services of Relationship Managers (111 persons) and Consultants (73 persons) working in 37 Corporate centres, supported by Product Advisors (58 persons) i.e. specialists in leasing, factoring, trade finance, treasury transactions and transaction banking. Besides direct service provided by sales network and telephone services TeleMillennium, clients take advantage of modern tools such as: Internet banking system Millenet for Companies (together with model „Trade Finance" and the platform „Millennium Forex Trader") and mobile banking i.e. access to accounts and transactions via mobile telephony.

In 1st half 2015, The Bank completed work and implemented new Millenet for Companies functionalities. These are, inter alia, automatically delivered notices on accounts, and functions facilitating large companies to download summary account statements collect. Furthermore, the Bank has introduced advanced solutions in information access management relative to information on umbrella loans designed for capital groups. In addition, importance of Millenet, as a sales channel (e.g. payment cards) has been increasing.

In 1st half 2015, the bank continued to work on improving processes facilitating clients to implement, quickly and flexibly, Internet banking services in their firms. The key role in the process is performed by specialists in electronic banking area, cooperating with specific clients. In the large company segment this programme has already covered more than 80% of newly serviced firms.

Credit products

According to objectives assumed under the strategy for 2015, the Bank has been expanding its corporate loan portfolio including portfolio of loans to medium and large companies. Effectiveness of the Bank's activity in the 1st half of 2015 is reflected by the results: corporate loan portfolio increased from PLN 13.5 bn in December 2014 to PLN 14 bn in June 2015, i.e. by 4% year-to-date.

During the reporting period, the credit product offer was expanded by umbrella loan – a solution designed for affiliated entities. This way the Bank's offer addressed to large companies also includes an opportunity of flexible use of financing and trade finance instruments within groups of affiliated entities.

Factoring

The Bank addresses its factoring offer to both companies intending to transfer the risk of non-payment by counterparty upon the Bank (factoring without recourse), companies interested in administrating and obtaining funds from issued invoices early (factoring with recourse), as well as those who want to extend the term of payment of their liabilities (reverse factoring).

Within the first 6 months of 2015, Bank Millennium realised factoring turnover at PLN 6,189 million and recorded increase by 13% relative to similar period of 2014. At present, in terms of value of receivables purchased, Bank Millennium is ranked 5th on the Polish factoring market with market share of 10%.

Increase of turnover results from well performer acquisition of new factoring agreements (as on 30 June 2015, the total value of limits under factoring agreements was higher by more than 15% relative to the value of limits as at the end of June 2014). Furthermore, the Bank's balance sheet exposure of factoring receivables amounted to, as on 30 June 2015, PLN 1.7 bn and increased by 10% relative to its exposure as at the end of 1st half 2014.

Trade finance

In 1st half 2015, the Bank systematically provided consecutive clients with access to the module „Trade Finance" offered in the Internet banking system Millenet for Companies. This advanced solution provides clients with the capacity of comprehensive management, via Internet, of their bank guarantees and documentary letters of credit. It ensures, inter alia, complete access to reports and statuses, validates data in forms thereby eliminating errors, allows to create templates and offers reconciliation of the guarantee wording with the Bank on-line.

As at the end of June 2015, all corporate clients actively using L/Cs and 69% of corporate clients submitting orders to issue guarantee in 2015 has been serviced on-line via the „Trade Finance" module. Implementation of the platform helped increase, significantly, the number of transactions activated in the Bank by single clients. The Clients appreciate this manner of transaction execution, as shown by order digitalisation ratio i.e. relation of the number of electronic orders to total number of orders submitted by the clients. With respect to documentary L/Cs, during the period from January until June 2015, this ratio reached, on average, 86%, and in the peaking month i.e. June, even 100%. Relative to guarantees, the ratio increased significantly since the beginning of the year, when it amounted to 16%. In May and June more than half of the orders to issue guarantee was submitted via Millenet.

Leasing

In 1st half 2015, Millennium Leasing (fully owned subsidiary of Bank Millennium), as an universal financial partner, offered its services to companies operating in all sectors both to corporate and institutional clients as well as micro-enterprises. The Company's objective is to achieve leading position in the heavy transport sector as well as machines and equipment.

At the end of 1st half of 2015, the Company was 5th in the ranking of leasing companies in Poland, giving financing in the form of leasing transactions in the amount PLN 1,171 million, which means 8% growth year-on-year, and acquiring market share at 6.8%. The level of interest of companies in purchasing investment goods in the first months of this year indicates that the positive trend is likely to remain in place also in upcoming quarters of the year. Implementation of this level of sales allowed the Company to increase the value of the portfolio of active leasing agreements to the level of PLN 4.3 bn gross (an increase by 13% relative to the level of 30 June 2014).

In the reporting period, the Company concluded 6,452 new leasing agreements. As on 30 June 2015, Millennium Leasing cooperated with 12.7 thousand clients and had, in the portfolio, more than 39 thousand active leasing agreements.

The Company's sales activity was supported by developing and implementing unique product solutions and the model of product cooperation with the Bank based upon in-depth analysis of client needs relative to the entire spectrum of financial products.

Transaction banking

Bank Millennium has a comprehensive transaction banking product offer supported by efficient and ergonomic Internet and mobile banking systems. Corporate clients can use, without limitations, all Bank branches in terms of cash service and sorting facilities of cooperating companies. In transaction communication with clients, the Bank uses also alternative channels including protocols SSH/SFTP, PGP. In the area of transaction banking, the Bank focuses on solutions offering high quality of client service, simplification of processes in keeping with Lean methodology and operational efficiencies to increase the base of clients actively using the whole range of transaction solutions.

The 1st half of 2015 was marked with further, stable growth in volumes accumulated on current accounts (increase by 10% relative to June 2014), in effect of growth in the number of transaction products and the number and volumes of transactions on client accounts. The number of processed transactions in 1st half of 2015 increased by 22% relative to 1st half of 2014, including the number of outgoing transfers increased by

10%. Furthermore, relation of funds on current accounts to deposit portfolio reaching, at the end of June 2015 22% was consistently improving.

In 1st half of 2015, we observed dynamic growth in the use of Internet channel in sales of payment cards – more than 60% of cards were ordered electronically. In 2nd half of 2014, we launched a new module designed to support payment card management and the module is actively used by clients to purchase debit, charge and pre-paid cards. The number of payment cards increased by 17% from June 2015 to June 2014, mainly due to rapid growth in the number of pre-paid cards. The number of charge cards remains at a comparable level and the number of debit cards dropped.

In 1st half of 2015, the Bank's offer was enlarged by addition of pre-paid cards Millennium MasterCard Prepaid Commercial in USD and GBP, liquidity services were expanded by way of further development of cash pool type solutions and transactions based on MT101 messages.

Treasury products

In 1st half of 2015, Bank Millennium continued its treasury operations connected with offering Corporate Banking Clients with solutions in the area of FX risk hedging and interest rate risk hedging. During the period, we recorded an increase of FX turnovers by 19% relative to 1st half of 2014.

The broad offer of the Treasury Department addressed to Corporate Banking Clients incorporates: FX spots, deposit products, FX risk hedge instruments (fx forward, fx swap, options) and interest rate risk hedge instruments (transactions of following types: FRA, IRS, CIRS, interest rate option).

Marketing activities

In 1st half of 2015, the Bank continued the cycle of educational and information activities implemented in the form of conferences, meetings and business breakfasts attended by potential and current clients of the Bank. Presentations mainly focused on conditions of business operations in 2015, areas regarding increase of competitive advantage as well as opportunities opened by products offered by the Bank for companies to adjust themselves to market trends.

During the period, individual meetings of representatives of companies with the Chief Economist of Bank Millennium raised significant interest. During these meetings discussions focused on present macro-economic situation and development perspectives offered to financial markets in the near future.

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 2015 Bank Millennium Group implemented a number of initiatives with an aim to improve risk management function; these initiatives have been presented in greater detail in the Condensed Interim Financial Statements of Bank Millennium S.A. Capital Group for the six months ended 30 June 2015.

IV.1. Capital management

The Group set a capital management process that is completed based on principles defined by Management Board and Supervisory Board of Bank Millennium SA.

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

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

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

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

In 1st half of 2015, all capital targets were met with a significant surplus. It relates both to realised ratios and to the same ratios calculated with assumptions of stressed conditions. The Group's capital adequacy is assessed as satisfactory and assuring a smooth and steady development of banking activity.

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

Own funds requirements

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

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

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

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

In 1st half 2015 the Group has been continuing works on improving further rating systems for already approved portfolios and on receiving the IRB approval for the remaining loan portfolios under roll-out plan. That resulted in submitting by the Group IRB further application (regarding Other Retail exposures) to Supervisory Authorities.

Internal capital

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

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

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

The internal capital estimation process consists of the following phases:

a) risk identification and risk types materiality determination – within that phase, a classification and assessment of risk types is performed, including their materiality and consideration in internal capital estimation;
b) risk measurement – within that phase, a level of material risk types is expressed in terms of economic capital, including diversification/correlation effect between risk types;
c) economic capital aggregation - (loss distribution) and consideration of diversification between risk types;
d) stress tests for internal capital calculation purposes;
e) reporting.

Evaluation of risk types materiality and methodologies of internal capital estimation are regularly reviewed and updated.

In 1st half 2015 both economic capital buffers were met with a significant surplus (more than twice above limits). Economic capital adequacy – accounting for a coverage of internal capital by own funds – is assessed as satisfactorily fulfilled.

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

Dividend policy

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

Thus, the Bank has approved a dividend policy of distributing between 35% to 50% of net profit subject to regulatory recommendations or guidelines. As for 2014 year, the Bank retained 100% of net profit in Own Funds. It was resulted from the Supervisory Authority (KNF) recommendation and announced plan to impose additional capital requirement on residential retail CHF portfolio.

Capital requirements and ratios of the Group and Bank Millennium as at 30th June, 2015 are presented in the below table:

Bank Millennium Group - capital adequacy (PLN million)	30.06.2015 IRB with regulatory floor[1)]	30.06.2014 IRB with regulatory floor[2)]
Risk-weighted assets (RWA) for Group	38 010,9	38 142,5
Risk-weighted assets (RWA) for Bank	37 234,9	37 645,4
Own funds requirements for Group	3 040,9	3 051,4
Own funds requirements for Bank	2 978,8	3 011,6
Own Funds for Group	5 763,7	5 273,3
Own Funds for Bank	5 354,2	4 891,2
Total Capital Ratio for Group (TCR)	15,2%	13,8%
Total Capital Ratio for Bank (TCR)	14,4%	13,0%
Common Equity Tier 1 Capital ratio for Group (CET1 ratio)[3)]	14,6%	13,1%
Common Equity Tier 1 Capital ratio for Bank (CET1 ratio)[3)]	13,8%	12,2%

1) Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor" set in the II IRB decision
2) Risk-weighted assets and own funds requirements are calculated with 80% „Regulatory floor" set in the I IRB decision
3) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio

IV.2. Credit risk

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

Credit risk is the most important type of risk borne by Bank Millennium Group. The key quality ratio of credit portfolio – share of impaired loans in total loans (calculated according to International Accounting Standards) – rose slightly in the last 12 months from the level of 4.26% a year ago to the level of 4.34% at the end of June 2015. This means that the impaired loans ratio in Bank Millennium Group still remains well below the ratio for the entire market, which at the end of May 2015 amounted to 8.1%.

During the first half-year of 2015 the value of impaired loans increased by PLN 180,2 million, which combined with an increase of the entire portfolio (by PLN 2.970,2 million) during the same period, resulted in a small increase of impaired loans ratio to the above mentioned level of 4.34% (at the end of December 2014 the ratio amounted to 4.23%).

The mortgage portfolio is characterized by relatively stable and good quality, although the impaired loans ratio increased from the level of 1.36% a year ago to the level of 1.75% today, mainly due to natural ageing of the portfolio and the recent appreciation of CHF, followed by actions taken by banks to ease situation for borrowers. Impaired ratio in CHF mortgage portfolio reached 2% level at the end of June 2015.

The Bank fully implemented a set of „**Six-pack solution**" recommended by Polish Banking Association (ZBP) in order to mitigate negative impact of CHF appreciation, stabilize the level of loans instalments and support clients with CHF denominated mortgage:

1. Applying negative LIBOR rate*: since 1st January this year, the loans indexed to CHF LIBOR have the interest rate calculated based on a negative LIBOR3M. In 2Q Bank was using CHF negative LIBOR3M of -0.814% and since 1 July 2015 the Bank applies the rate of -0.789%.
2. Temporary decrease of the FX conversion spread for CHF loans,
3. Extension on the Client's request the period of repayment or temporary suspension of the repayment of the capital instalment,
4. Resignation from demanding new collateral and loan insurance,
5. Enabling loan conversion at the average NBP rate,
6. Relaxing conditions of restructuring mortgage loans for clients occupying credited real estate

Additionally, Bank continues to be flexible in accepting change of collateral under the same mortgage loan (as long as LTV ratio does not deteriorate) and is providing to its customers different alternatives in case they want to decrease partially or totally the FX risk associated with the loan through preferential PLN mortgage conditions in case of partial or full conversion to PLN or early partial repayment.

A notable improvement can be observed in the quality of other retail loans (including microbusiness): impaired loans ratio decreased from the level of 12.3% in June 2014 to the level of 10.7% on 30 June 2015.

During the same period we have observed stabilization of the quality of corporates loans portfolio: the impaired loans ratio was on 30 of June 2015 at the level of 7.1%. This stabilization is connected among others with improvement of leasing portfolio quality.

The ratio of loans overdue above 90 days (DPD - days past due) remained in the last half-year at stable level: 2.97%.

It should be noted that ratios related to loans with 90 DPD for Bank Millennium Group remain at much lower level than respective impaired loans ratios for particular segments. This proves Bank's prudential approach to classification of impaired loans (the Bank uses additional impairment triggers for loans, not only the fact that the loan is overdue). The ratios of loans overdue above 90 DPD for particular portfolios (mortgage, other retail with microbusiness and corporates) as at 30 June 2015 amounted to 0.9%, 8.75% and 4.9% respectively.

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

Key loan quality ratios	30.06.2015	31.12.2014	30.06.2014
Total impaired loans (PLN million)	2 103.5	1 923.2	1 906.9
Loans over 90 days past due (PLN million)	1 441.9	1 343.2	1 290.9
Impaired/total loans	4.34%	4.23%	4.26%
Loans >90 DPD/total loans	2.97%	2.95%	2.89%
Total provisions*/impaired loans	70.0%	70.6%	71.2%
Total provisions*/ Loans >90 DPD	102.1%	101.1%	105.1%

(*) including IBNR provisions

In the first half-year of 2015 the ratio of created provisions to the average level of net loans (cost of risk) amounted to 56 basis points and was lower than in the first half-year of 2014 (66 bp). The coverage ratio of the impaired loans portfolio with provisions in June 2015 was 70% and was comparable with ratio in December 2014 and June 2014 when it amounted to around 71%.

The coverage ratio of overdue loans with above 90 DPD with provisions increased at the end of June 2015 by 1 p.p. compare end of 2014 and remained at relatively high level of 102%.

The loan portfolio of Bank Millennium Group is well diversified, both from the point of view of individual exposure size as well as overall exposure to particular industry and services sectors. The concentration of credit risk in 20 largest customers (meaning groups of economically and financially related companies) remains at the low level of 5.1% of total loan portfolio of the Group (reduction compared to the end of December 2014 – 0.9 p.p.).

The sector structure of corporate portfolio has not changed significantly during the year, although a notable decrease can be observed in Construction sector and Real estate activities (from 15.4% to 14.0%), which were characterized by increased risks in the recent period. On the other hand, the share of Manufacturing sectors and Transport and storage increased. As these sectors are well diversified (by number of sub-sectors, companies and products), this increase does not result in the increase of concentration risk in corporate portfolio.

The share of individual sectors in the companies portfolio of Bank Millennium Group as at 30 June 2015 and 2014 has been shown in the table below:

Group	Sector	30.06.2015		30.06.2014	
		Gross balance exposure (PLN million)	% share of total portfolio	Gross balance exposure (PLN million)	% share of total portfolio
A	Agriculture, forestry and fishing	84.8	0.6%	90.1	0.7%
B	Mining and quarrying	275.6	2.0%	331.8	2.5%
C	Manufacturing	3 656.2	26.1%	3 203.8	24.1%
D	Electricity, gas, water	163.8	1.2%	220.3	1.6%
E	Water supply, sewage and waste	112.5	0.8%	123.8	0.9%
F	Construction*	1 160.4	8.3%	1 262.3	9.5%
G	Wholesale and retail trade; repair	3 663.0	26.1%	3 580.1	26.9%
H	Transportation and storage	2 007.7	14.3%	1 690.8	12.7%
I	Accommodation and food service activities	91.9	0.6%	94.3	0.7%
J	Information and communication	419.9	3.0%	374.5	2.8%
K	Financial and insurance activities	104.2	0.7%	222.1	1.7%
L	Real estate activities*	805.3	5.7%	786.2	5.9%
M	Professional, scientific and technical services	324.9	2.3%	241.6	1.8%
O	Public administration and defence	458.0	3.3%	517.2	3.9%
P	Education	44.0	0.3%	61.6	0.5%
Q	Health and social work activities	135.6	1.0%	95.2	0.7%
R	Culture, recreation and entertainment	23.6	0.2%	28.0	0.2%
N+S	Other Services	496.5	3.5%	391.6	2.9%
	Total	14 027.8	100.0%	13 315.5	100.0%

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

IV.3. Market risk

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

IV.4. Liquidity risk

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

IV.5. Operational risk

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

V. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

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

On 24 April 2015 Mr. Artur Klimczak tendered his resignation from the function of Vice Chairman of the Management Board of the Bank. At the same day Supervisory Board Meeting appointed Mr. Michał Gajewski as a Member of the Management Board of the Bank.

On 21 May 2015 Annual General Meeting of Bank Millennium was held. 157 Shareholders took part in the meeting, representing 74.4% of Bank's share capital, including three the largest Shareholders: BCP (50.10% of share capital), ING OFE (7.42% of share capital) Aviva OFE (6.02% of share capital). Following to the Supervisory Authority (KNF) recommendation and the Management Board proposal, the Annual General Meeting decided to retain entire 2014 profit in the Bank's reserve capital.

During the Annual General Meeting the Shareholders choose the following persons to the Supervisory Board of the Bank:

1. Mr. Nuno Manuel da Silva Amado,
2. Ms. Julianna Boniuk-Gorzelańczyk,
3. Mr. Miguel de Campos Pereira de Braganca,
4. Ms. Agnieszka Hryniewicz-Bieniek,
5. Ms. Anna Jakubowski,
6. Mr. Grzegorz Jędrys,
7. Mr. David H. Klingensmith,
8. Mr. Bogusław Kott,
9. Mr. Andrzej Koźmiński,
10. Mr. Miguel Maya Dias Pinheiro,
11. Mr. Dariusz Rosati,
12. Mr. Rui Manuel da Silva Teixeira.

The above mentioned persons do not conduct any competitive activity in relation to the Bank, neither as a shareholder/participant of competitive companies nor as a member of the corporate authorities of such companies.

On the same day (21 May 2015) a Supervisory Board meeting was held, at which the Supervisory Board constituted itself, appointing Mr Bogusław Kott as the Chairman of the Supervisory Board, Mr Nuno Manuel da Silva Amado as the Deputy Chairman of the Supervisory Board, Mr Dariusz Rosati as the Deputy Chairman and the Secretary of the Supervisory Board.

The Supervisory Board appointed the following 6 members of the Bank's Management Board:

- Mr Joao Bras Jorge for Chairman of the Management Board,
- Mr Fernando Bicho for Deputy Chairman of the Management Board,
- and Mr Wojciech Haase, Mr Andrzej Gliński, Ms Maria Jose Campos and Mr Michał Gajewski as Members of the Management Board.

The appointed Management Board Members do not carry out activity competitive to the Bank, also as partners or members of corporate bodies. The newly appointed Members of the Management Board are not listed as insolvent debtors.

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[3] standards

In April 2015 the Bank issued the ninth edition of the “2014 Responsible Business” report. The Report is available in printed and electronic format, in Polish and English language versions on http://raportcsr.bankmillennium.pl/2014/en. The scope of information presented as well as structure of the report comply with criteria provided by Global Reporting Initiative Sustainability Guidelines (GRI G4). The Report defines key aspects of the Bank’s impact on sustainable economic, social and environmental development with respect to key Stakeholder groups: Customers, Employees, Shareholders, Business Partners, the Society and the Natural Environment.

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

VI. REPRESENTATIONS OF THE MANAGEMENT BOARD

VI.1. Presentation of asset and financial position of the Capital Group of Bank Millennium in the financial report

According to the best knowledge, the Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A., in 6 month period ending 30th June 2015 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 2015 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 2015 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2015 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
24.07.2015	Joao Bras Jorge	Chairman of the Management Board	....
24.07.2015	Fernando Bicho	Deputy Chairman of the Management Board	....
24.07.2015	Wojciech Haase	Member of the Management Board	....
24.07.2015	Andrzej Gliński	Member of the Management Board	....
24.07.2015	Maria Jose Campos	Member of the Management Board	....
24.07.2015	Michał Gajewski	Member of the Management Board	....