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Credit Risk

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

The credit policy pursued in the Group is based on a set of principles such as:

- centralization of the credit decision process;
- using specific scoring/rating models for each Client segment/type of products;
- using IT information (workflow) in order to support the credit process at all stages;
- high level of standardizing credit decisions;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit sub-portfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sub-limits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;

- separate unit responsible for granting rating to corporate Client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

In the area of credit risk, the Group focused in 2014 year on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks, in particular:

- updated the Risk Strategy, for the years 2015-2017;
- introduced a new finance-behavioural model to monitor Corporate Clients;
- updated sector risk classification and limits;
- optimised the methodology, tools, and processes of credit risk management for retail clients, including in the area of mortgage credit .

Within optimization of methodology of credit risk assessment for retail clients in 2014 Bank Millennium Group implemented new solutions regarding, among others, application scoring model for new-to-bank clients, the scope of application of external databases to assess creditworthiness, simplified credit decision-making paths, the rules for calculating credit limits for the client and rules of monitoring of credit transactions. Work performed were aimed at continuous improvement of credit offer of the Bank within risk appetite defined in Risk Strategy.

In the corporate segment, the Group focused on improving of the monitoring process, the development of used credit risk models as well as the expanding of the credit offer. The Group also has updated the sector policy and further developed IT tools supporting credit processes and management information system for the purpose of managing the loan portfolio. All the changes mentioned above should allow the Group to achieve the defined goals referring to the growth dynamics of corporate portfolio while maintaining the level of risk at an acceptable level as defined in the Risk Strategy.

Loan portfolio quality

The Group maintains a solid asset quality of the loan portfolio. The share of impaired loans in the consolidated portfolio dropped during the year from 4,4% to 4.2% and share of past-due more than 90 days loans is relatively stable at 2.9-3.0%. The improvement was registered in three portfolios: for non-mortgage retail loans the impaired loans ratio decreased to 10,81% (and past-due ratio to 8,74%), for leasing portfolio these ratios dropped to 6,65% with a slight increase share of past-due more than 90 to 2,0% and for loans to other corporates the impaired loans ratio dropped to 7,19% (past-due over 90 days ratio was dropped to 6.4%) as at the end of December 2014. The quality of mortgage portfolio remains good, with impaired loans ratio at 1.56% and past due over 90 days at 0.80%. Despite increase of the ratio of impaired loans in the mortgage portfolio at the end of 2014, compared with the banking system it remains low.

The coverage ratio, defined as the share of total provisions in total impaired loans, improved during 2014 year from 69% to 71% while coverage of loans past-due over 90 days remains at high 101% level.

The evolution of main indicators of the Group's loan portfolio quality:

Total portfolio quality indicators	31.12.2014	31.12.2013
Total impaired loans (PLN million)	1.923	1.903
Loans past-due over 90 days (PLN million)	1.343	1.237
Total impairment provisions (PLN million)	1.358	1.312
Impaired over total loans ratio (%)	4,20%	4.4%
Past-due over 90 days over total loans ratio (%)	3,00%	2.9%
Total impairment provisions/impaired loans (%)	71%	69%
Total impairment provisions/ Loans past-due over 90 days (%)	101%	106%

The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans ratio	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Mortgage	0,81%	0,67%	1,56%	1,34%
Other retail*	8,74%	10,01%	10,81%	13,42%
Leasing	1,98%	1,95%	6,65%	7,21%
Other Corporates	6,39%	6,52%	7,19%	8,27%
Total loan portfolio	2,95%	2,87%	4,23%	4,42%

*incl. Microbusiness, annual turnover below PLN 5 million

Industry structure of the loan portfolio

Taking into consideration concentration risk within segments and sectors of activity, the Group's portfolio is well diversified. The main item are mortgage loans (60%) and cash loans (8%). The portfolio of loans to companies from sectors like industry and construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 30% of the total portfolio.

Sector name	2014	share (%)	2013	Share (%)
	Balance Exposure (PLN million)		Balance Exposure (PLN million)	
Credits for individual persons	32.018,2	70,4%	31.093,2	72,2%
Mortgage	27.138,4	59,7%	26.993,3	62,7%
Cash loan	3.741,4	8,2%	3.023,4	7,0%
Credit cards and other	1.138,4	2,5%	1.076,5	2,5%

Credit for companies*	13.482,8	29,6%	11.984,8	27,8%
Wholesale and retail trade; repair	3.448,2	7,6%	3.083,6	7,2%
Manufacturing	3.422,4	7,5%	2.781,6	6,5%
Construction	1.113,9	2,4%	1.391,8	3,2%
Transportation and storage	1.870,6	4,1%	1.478,9	3,4%
Public administration and defence	473,7	1,0%	420,4	1,0%
Information and communication	342,9	0,8%	304,8	0,7%
Other Services	450,2	1,0%	516,1	1,2%
Financial and insurance activities	164,2	0,4%	253,1	0,6%
Real estate activities	918,9	2,0%	674,4	1,6%
Professional, scientific and technical services	301,3	0,7%	283,9	0,7%
Mining and quarrying	313,0	0,7%	283,6	0,6%
Water supply, sewage and waste	114,8	0,3%	113,1	0,3%
Electricity, gas, water	161,3	0,3%	72,7	0,2%
Accommodation and food service activities	93,3	0,2%	96,0	0,2%
Education	63,0	0,1%	59,8	0,1%
Agriculture, forestry and fishing	90,6	0,2%	62,6	0,1%
human health and social work activities	126,8	0,3%	92,8	0,2%
Culture, recreation and entertainment	13,7	0,0%	15,6	0,0%
Total (gross)	45.501,0	100,0%	43.078,0	100,0%

*incl. Microbusiness, annual turnover below PLN 5 million