

Letter from the Chairman	<b>Financial Situation</b> ^	X
At a Glance	<b>Group profit and loss account</b>	
Highlights and main events v	Balance Sheet and Off -	
Market conditions and business prospects v	Balance Sheet items	
	Results of Business Segments	
	Business Activity v	
	Risk Management v	
	Human resources management v	
Responsible business and CSR		
Additional Information		
Statement of Management Board		

## Group profit and loss account

Operating Income	2014	2013	Change
(PLN million)			y/y
Net Interest Income *	1,465,0	1,270,8	15,3%
Net Commission Income	611,7	588,7	3,9%
<b>Core Income**</b>	<b>2,076,6</b>	<b>1,859,5</b>	<b>11,7%</b>
Other Non-Interest Income ***	138,9	146,8	-5,4%
<b>Total Operating Income</b>	<b>2,215,6</b>	<b>2,006,4</b>	<b>10,4%</b>

(\*) 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 10.9 million in 2014 and PLN 50.8 million in 2013) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

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

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

**Net Interest Income** (pro-forma) for 2014 reached PLN 1,465.0 million, which signifies a high growth by 15.3% versus 2013 year. Such relatively high annual growth rate should be regarded as Group's success in light of falling market rates starting in 3Q 2014 (preceding base central bank interest rate cut by 50 basis points at the beginning of October). In 4Q 2014 Net Interest Income decreased by 6.1% compared to the value recorded in the previous quarter which was affected first of all by significant reduction of central bank lombard rate by 100 basis points having direct immediate impact on consumer loans interest rates through maximal interest rate limit for such loans falling from 16% to 12% (resulting from anti-usury legislation). Moreover the adjustment of interest rates of deposits was gradual after falling market interest rates in 4Q 2014.

Total Net Interest Margin (over average interest earning assets) for 2014 reached 2.5%, which was higher by 0.3 p.p. compared to 2013. The improvement of interest margin was supported by lower interest costs (mainly cost of deposits), which decreased by 22.2% y/y, whereas interest income decreased only by 4.7% y/y, which reflected good deposit margin management and gradual change of asset mix towards higher margin products.

**Net Commission Income** in 2014 amounted to PLN 611.7 million, which means a 3.9% growth year-on-year. The main drivers of this growth were commissions from sale of investment products (own mutual funds and other similar products of third parties) as well as commissions from loans and current accounts servicing. From the other hand fees and commissions from sale of insurance products (mainly linked to different credit products, like cash loans, mortgages and cards) decreased due to adoption of more conservative accounting rules. In 2<sup>nd</sup> half 2014 card fees decreased compared to the 1<sup>st</sup> half as a result of lower interchange fees implemented in Poland since 1<sup>st</sup> July 2014.

**Core Income**, defined as a combination of net interest and commission income, reached the amount of PLN 2,076.6 million in 2014 and recorded a growth of 11.7% year-on-year.

**Other non-interest income** amounted to PLN 138.9 million for 2014 and fell by 5.4% year-on-year due to lower net other operating income and costs, whereas income from foreign exchange and financial instruments increased by 23.3%.

**Total operating income** of the Group reached PLN 2,215.6 million in 2014 and increased by 10.4% year-on-year.

**Total costs** in 2014 amounted to PLN 1,111.4 million, which means a slight increase (by 2.0%) when compared to 2013 year.

Operating Costs	2014	2013	Change
(PLN million)			2014/2013
Personnel Costs	(547,0)	(547,0)	0,0%
Other Administrative Costs*	(564,4)	(542,6)	4,0%
<b>Total Operating Costs</b>	<b>(1.111,4)</b>	<b>(1.089,6)</b>	<b>2,0%</b>
<b>Cost/Income Ratio</b>	<b>50,2%</b>	<b>54,3%</b>	<b>-4.1 p.p.</b>

(\*) including depreciation

**Personnel costs** in 2014 did not change compared to the previous year. The total number of employees in the Group increased by 227 employees compared to the end of 2013, to the level of 6,108 persons (in Full Time Equivalentents) only due to insourcing 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)	31.12.2014	31.12.2013	Change 2014/2013
Bank Millennium S.A.	5.770	5.541	4,10%
Subsidiaries	338	340	-0,60%
<b>Total Bank Millennium Group</b>	<b>6.108</b>	<b>5.881</b>	<b>3,90%</b>

More information about employment structure and remuneration is presented in [Chapter VIII](#) of this document.

**Other administrative costs** (including depreciation) in 2014 grew by 4.0% yearly. The growth was driven by higher marketing costs, consulting expenses and BFG, financial supervision and other obligatory charges, whereas remaining items decreased or were relatively stable.

**Cost-to-Income ratio** strongly improved from 54.3% in 2013 to 50.2% in 2014, i.e. the level indicated as target in medium-term strategy.

**Total net impairment provisions** created by the Group in 2014 amounted to PLN 265.5 million and were 13.4% (or PLN 31.4 million) higher than provisions created in 2013. The yearly growth was seen mainly for companies (an increase by PLN 26 million), whereas retail provisions grew by only PLN 5 million year-on-year. Growing provisions translated into higher coverage of impaired loans, especially in corporate segment (an increase by 4 p.p. year-on-year to 73%).

In relative terms, cost of risk (i.e. net provisions created to the average net loans) in 2014 reached 61 bps level, i.e. 5 bps higher yearly. Mortgage and leasing portfolios showed stable cost of risk in annual horizon (16 b.p. and 44 b.p. respectively for 2014), whereas in other retail loans it decreased visibly by 45 bps year-on-year and in other corporate loans it was higher by 16 b.p. year-on-year.

Pre-tax Profit and Net Profit	2014	2013	Change
(PLN million)			2014/2013
Operating Income	2.215,6	2.006,4	10,4%
Operating Costs *	(1.111,4)	(1.089,6)	2,0%
Impairment provisions	(265,5)	(234,1)	13,4%

<b>Pre-tax Profit**</b>	838,5	680,6	23,2%
Income tax	(187,5)	(144,8)	29,5%
<b>Net Profit</b>	650,9	535,8	21,5%

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

**Pre-tax Profit** in 2014 amounted to PLN 838.5 million, which is 23.2% higher vs. the previous year. **Net Profit** for the analysed period amounted to PLN 650.9 million i.e. by 21.5% higher yearly. The growth was supported by visible operating income increase accompanied by very modest growth of operating costs and reasonable growth of provisions.