

Letter from the Chairman	Financial Situation	▼	✕
At a Glance	Business Activity	▼	
Highlights and main events	Risk Management	▼	
Market conditions and business prospects	Human resources management	▼	
Macroeconomic environment	Responsible business and CSR		
Banking sector	Additional Information		
Strategy and business perspectives	Statement of Management Board		

Strategy and business perspectives

In 2014 Bank Millennium continued to implement strategy for 2013-15, which was announced in October 2012. According to its guidelines, Bank focussed in the past years on rebalancing business model towards productivity, while maintaining liquidity and capital discipline.

Bank's strategy for 2013-15 assumed:

1. Sustained focus on valuable areas while redirecting product mix to higher margin products.
2. Further enhancement of sales effectiveness of the network.
3. Improved balance sheet structure and profitability of corporate franchise.
4. Sustaining efficiency advantage through strict platform management and cost savings discipline.
5. Preparing the Bank for the future by investing in business analytics and multichannel platform.

Main strategy goals for end of 2015 assumed:

- ROE 14-15%
- Cost/income ratio at the level of 50%
- Loans to deposits ratio ≤ 100%
- Capital ratio CT 1 > 10%
- Customer satisfaction level > 90%
- Percentage share of corporate loans in portfolio at the level of 30-35%

In retail segment Bank established for 2014 priorities for acquisition of new clients, customer funds and consumer loans, achieving successes in all fields. In 2014 Bank opened 231 ths new current accounts, retail customer funds grew by 13%, with share of current and saving accounts at the level of near 50%. Cash loans sales reached record level of 2.1 bn PLN, increasing the portfolio by 24% YoY. Growth in retail segment was supported by business analytics development.

Taking into account changing customer trends in relation to banking service usage, Bank Millennium reviewed existing distribution model, in order to ensure optimum structure and format of branches. Bank promoted new website in “web responsive design” technology, further improved functionalities of electronic banking. The efforts were awarded by Newsweek ranking with Bank receiving “*Best electronic banking*” title. The magazine also recognized Bank’s superb quality of service, Millennium for the third time in a row on podium in category “*Newsweek – Friendly Bank – Individual Client*” – in 2014 placed second, fulfilling strategic objective in area of quality and customer satisfaction levels.

For the last few years mobile banking has been strategic area of development. Bank Millennium became one of the market leaders in Poland. It was the first bank in Poland to introduce mobile credit offer, first to introduce Personal Finance Manager, first to introduce express transfers first to introduce QR codes for payments, first to introduce tablet service for Windows 8 and Blackberry 10 and the first to introduce mobile banking for corporate clients.

In corporate segment, Bank Millennium continued to pursue corporate credit goals, increasing the portfolio by 1.5 bn PLN, growth of 13% YoY, faster than market average, which resulted in Bank reaching strategic goal of 30% share of corporate loans in total portfolio, a year before the plan.

In corporate segment many initiatives were undertaken in area of process improvement: outstanding onboarding process (new client activation), enhancement of quality of customer service and development of functionalities of remote channels thanks to innovative electronic banking solutions, in particular superb payments platform, continuously improved mobile banking.

The above actions, as well as strong cost discipline and efficient infrastructure management, led to Bank reaching an ambitious goal of decreasing cost to income ratio from 57% in 2012 to 50% in 2014, , a year before the plan. At the same time [ROE](#) improved by 1.2% to 11.8%, even though it did not reach target due to higher than assumed capital levels.

Bank Millennium Group managed to keep strong capital position measured with CT1 ratio at 14.5%, which is significantly higher than level of 10% assumed in strategic plan. This results from increased regulatory requirements and conservative approach on Bank’s side to risk and capital. Total capital ratio ([TCR](#)) amounted to safe levels of 15,2%. In addition, liquidity norms of the Bank remained at safer levels than those assumed 2.5 years ago. Loans to deposits ratio amounted to 92%, lower than strategic limit of 100%, providing safety liquidity cushion, in case of e.g. unexpected exchange rate fluctuations, like those in January 2015. Solid capital base and assets quality of Bank Millennium were confirmed by good results of external assets quality review ([AQR](#)) and stress tests, which were conducted by KNF in 2014 and announced on the 26th of October (along with results of Pan-european asset quality review and stress tests conducted by ECB/EBA).

With majority of 2013-15 strategic goals achieved, and taking into consideration the changes in macroeconomic, regulatory and customer trends environment, Bank Millennium performed a strategy update review for the next 3 years (2015-17).

Macroeconomic scenario for Poland assumes GDP growth at 3,3% in 2015, mostly due to increased investment and private consumption. At the same time lower interest rates will challenge banks to maintain effectiveness and search for additional sources of revenue and cost reduction. Additional challenges are posed by regulatory environment: Recommendation U, increased contribution to Banking Guarantee Fund, consumer protection.

Changing customer trends, regarding preferred way of contact with the bank, pose further challenge. Poles are fast at adopting new technologies: sustained high pace of digitization with recent rapid acceleration in mobile can be observed. Online and mobile show growing importance in service and sales to existing customers, however are not yet driving significant customer acquisition. As digitization among Poles grows, so does the potential of electronic payments.

With rising client expectations towards quality of service and offer, as well as strong competition, banking sector will see growing importance of customer analytics in order to address those expectations.

As a consequence of these changes, Bank will focus in updated strategy for 2015-2017 on value creating organic growth. Strategy will be based on four pillars:

1. Accelerating acquisition of retail customers through increased network effectiveness and optimized footprint, digital channels and acquisition of mass affluent, while maintaining segment profitability due to focus on high margin products.
2. Keeping differentiating through customer experience, transforming digital channels to powerful engagement platforms: omnichannel, mobile payments and maximizing customer value through usage of advanced business analytics.
3. Keeping the growth momentum in corporate segment while improving profitability, reducing cost of risk, further strengthening position in specialized finance.
4. Maintaining operational excellence and strict cost control, through maintaining leading lean and digital operating model, future proofing the IT platform to keep enhancing flexibility, scalability and security.

Main midterm goals to be achieved by Bank Millennium Group by 2017 year include:

- Increase number of retail clients to 1,6 million
- Grow market share of retail customer funds to above 6%
- Grow corporate lending market share to 4%
- Reach [ROE](#) level between 13-14%
- Decrease Cost to Income to a range between 45-47%
- Keep Loans to Deposits ratio below 100%

The Bank has approved a dividend policy of distributing between 35% to 50% of net profit what is also

subject to regulatory recommendations. Up to the date of publications of financial statements, the Management Board of the Bank has not yet submitted its recommendation regarding 2014 net profit distribution.

 Up