

V. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

V.1. Group profit and loss account

Operating Income (PLN million)	2014	2013	Change y/y
Net Interest Income *	1 465.0	1 270.8	15.3%
Net Commission Income	611.7	588.7	3.9%
Core Income**	2 076.6	1 859.5	11.7%
Other Non-Interest Income ***	138.9	146.8	-5.4%
Total Operating Income	2 215.6	2 006.4	10.4%

(*) 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 2nd half 2014 card fees decreased compared to the 1st half as a result of lower interchange fees implemented in Poland since 1st 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 (PLN million)	2014	2013	Change 2014/2013
Personnel Costs	(547.0)	(547.0)	0.0%
Other Administrative Costs*	(564.4)	(542.6)	4.0%
Total Operating Costs	(1 111.4)	(1 089.6)	2.0%
Cost/Income Ratio	50.2%	54.3%	-4.1 p.p.

(*) 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 Equivalents) 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	4,1%
Subsidiaries	338	340	-0,6%
Total Bank Millennium Group	6 108	5 881	3,9%

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 (PLN million)	2014	2013	Change 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%
Pre-tax Profit**	838.5	680.6	23.2%
Income tax	(187.5)	(144.8)	29.5%
Net Profit	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.

V.2. Balance Sheet and Off - Balance Sheet items

Assets

The Group's assets as at 31 December 2014 totalled PLN 60,740 million and were 6.5% higher compared to the balance at the end of December 2013. The structure of Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	31.12.2014		31.12.2013		Change 2014/2013 (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 612.2	4.3%	3 412.2	6.0%	-23.4%
Loans and advances to banks	2 384.7	3.9%	1 519.6	2.7%	56.9%
Loans and advances to Clients	44 142.7	72.7%	41 765.7	73.3%	5.7%
Receivables from securities bought with sell-back clause	155.6	0.3%	242.1	0.4%	-35.7%
Debt securities	10 176.1	16.8%	8 673.2	15.2%	17.3%
Derivatives (for hedging and trading)	502.0	0.8%	629.1	1.1%	-20.2%
Shares and other financial instruments*	10,5	0,0%	4,3	0,0%	141,7%
Intangible assets and property, plant and equipment **	212.6	0.3%	204.2	0.4%	4.1%
Other assets	544.0	0.9%	566.4	1.0%	-3.9%
Total assets	60 740.5	100.0%	57 016.7	100.0%	6.5%

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of loans to Clients by PLN 2,377 (or by 5.7%) as well as the growth of debt securities by PLN 1,503 million (or by 17.3%), including predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank) from both trading and investment portfolios.

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Group's asset structure (72.7% as on 31 December 2014). Total value of loans reached PLN 44,143 million (in net terms) as at the end of December 2014, which means an increase by 5.7% versus the end of the previous year. Loans to both segments, for companies and individual Clients, recorded growth in 2014 year: by 12.9% and by 3.0% respectively.

As can be seen from the above figures, the main source of loans growth were loans for companies. As at the end of 2014 the total value of this portfolio amounted to PLN 12,707 million, which means the annual growth in value of PLN 1,453 million. The scale of growth in 2014 was even higher for leasing (by 15.3%) but also substantial for other loans (by 11.9%).

The value of loans granted to households as at the end of December 2014 totalled PLN 31,435 million and increased by 3.0% year-on-year. Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew very

strongly by 22.1%, or PLN 820 million year-on-year. The increase was mainly driven by the growth of cash loans: the value of sales of cash loans in 2014 amounted to PLN 2.1 billion (an increase by 19.4% compared to the sales level of 2013). As at the end of December 2014 the balance of non-mortgage loans to households amounted to PLN 4,529 million.

The relatively modest growth of the loans to households resulted from rather stable balance of mortgage loans (little growth by 0.4% y/y). FX mortgage loans decreased by PLN 250 million compared to the end of December 2013 as a result of natural repayments of loans from this portfolio. On the other hand, PLN mortgage book grew by PLN 395 million yearly. As on 31 December 2014, mortgage loans accounted for 61.0% of the Group's net loan portfolio, which was considerably lower (i.e. by 3 p.p.) when compared to the level recorded as at the end of 2013.

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

Loans and advances to Clients (PLN million)	31.12.2014	31.12.2013	Change (value)	Change (%)
Loans to households	31 435.3	30 511.7	923.6	3.0%
- mortgage loans	26 906.6	26 802.8	103.9	0.4%
- other loans to households	4 528.7	3 708.9	819.8	22.1%
Loans to companies	12 707.4	11 254.0	1 453.4	12.9%
- leasing	3 974.0	3 447.9	526.1	15.3%
- other loans to companies	8 733.4	7 806.1	927.3	11.9%
Net Loans & Advances to Clients	44 142.7	41 765.7	2 377.0	5.7%
Impairment write-offs	1 358.3	1 312.3	45.9	3.5%
Gross loans and advances to Clients	45 501.0	43 078.0	2 422.9	5.6%

The average basic interest rate of loans granted by the Bank throughout 2014 was 5.0%. This interest rate includes interest revenue on hedging derivative transactions (mostly cross-currency interest rate swaps) connected with loans granted in foreign currencies and compensating for the lower nominal interest rate of such loans.

Debt securities

The value of debt securities equalled PLN 10,176 million at the end of December 2014 and increased strongly by PLN 1,503 million i.e. 17.3% compared to the balance as on 31 December 2013 thus improving substantially the Group's liquidity buffer. Major part of debt securities (i.e. 99.1%) were bonds and bills issued by the Polish State Treasury and the National Bank of Poland (the central bank). Of total debt securities, 90.8% were booked in investment portfolio (financial assets available for sale) and 9.2% were in trading portfolio (financial instruments at fair value through profit and loss).

Derivatives

Value of derivatives (designated for trading and hedging) totalled PLN 502 million at the end of December 2014, which signifies a PLN 127 million decrease compared to 31 December 2013.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 2,385 million as at the end of December 2014, which means an increase by PLN 865 million (or by 56.9%) year-on-year. The changes resulted mainly from higher value of deposits placed with other banks but also, to a lesser extent, higher balances on banks nostro current accounts.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment amounted to PLN 213 million as at the end of December 2014, which means slight increase by PLN 8 million or 4.1% yearly, mainly as a result of investments in computer software limited by liquidation and depreciation write-off in the reported period (net increase by PLN 18 million), whereas property, plant and equipment decreased by PLN 10 million year-on-year.

Total Capital Expenditure of the Group in 2014 amounted to PLN 65.3 million, of which PLN 22.8 million spent for the Bank's sales and other infrastructure (branches, ATMs, security etc.) and PLN 32.1 million spent on software and IT infrastructure used by the Bank. Remaining expenditures refer to financing assets of subsidiaries. The planned investments of Bank Millennium Group in 2015 are PLN 76.5 million.

Liabilities

The value and structure of the Group's liabilities as at the end of 2014 and 2013 are shown in the table below:

LIABILITIES (PLN million)	31.12.2014		31.12.2013		Change 2014/2013 (%)
	Value	Structure	Value	Structure	
Deposits from banks	2 037.3	3.7%	2 348.6	4.5%	-13.3%
Deposits from Customers	47 591.2	86.6%	45 305.1	87.7%	5.0%
Liabilities from securities sold with buy-back clause	59.8	0.1%	114.8	0.2%	-47.9%
Financial liabilities valued at fair value through P&L and hedging derivatives	2 020.0	3.7%	1 505.4	2.9%	34.2%
Liabilities from issue of debt securities	1 739.5	3.2%	701.4	1.4%	148.0%
Provisions	98.6	0.2%	66.6	0.1%	48.0%
Subordinated debt	639.7	1.2%	622.6	1.2%	2.8%
Other liabilities*	788.9	1.4%	989.1	1.9%	-20.2%
Total liabilities	54 975.0	100.0%	51 653.6	100.0%	6.4%
Total equity	5 765.5		5 363.1		7.5%
Total liabilities and equity	60 740.5		57 016.7		6.5%

(*) including tax liabilities

As at the end of December 2014, liabilities accounted for 90.5%, while Group's equity accounted for 9.5% of the total liabilities and equity.

As at 31 December 2014, Group's liabilities amounted to PLN 54,975 million and increased by PLN 3,321 million or 6.4% relative to PLN 51,654 million as on 31 December 2013. The increase resulted, primarily, from growth in Customer deposits (by PLN 2,286 million) and the growth of liabilities from issue of debt securities (by PLN 1,038 million) during the period of one year.

Deposits from Customers

As on 31 December 2014, deposits from Customers constituted the Group's main liability item accounting for 86.6% of the Group's total liabilities.

Deposits from Customers provide the main source of financing of the Group's activities and include, mainly, Customer funds deposited on current, saving and term deposit accounts. As on 31 December 2014 deposits from Customers amounted to PLN 47,591 million and recorded an increase of PLN 2,286 million i.e. 5.0% relative to the balance as at 31 December 2013. The very positive fact is that this growth of deposits during 2014 was combined with improvement of net interest margin for the whole 2014 compared with the previous year, despite unfavourable environment of falling market interest rates in the reported period.

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

Deposits of Clients (PLN million)	31.12.2014	31.12.2013	Change (value)	Change (%)
Deposits of individuals	29 780.0	26 433.6	3 346.3	12.7%
Deposits of companies and public sector	17 811.3	18 871.5	-1 060.2	-5.6%
Total Deposits	47 591.2	45 305.1	2 286.1	5.0%

As at 31 December 2014 deposits from individual Customers amounted to PLN 29,780 million and accounted for 62.6% of the total balance of deposits from Customers. Their value increased strongly by PLN 3,346 million or by 12.7% year-on-year. On the other hand the value of Deposits from companies and public sector decreased throughout 2014 by PLN 1,060 million (i.e. by 5.6%), which, however, was within Group's interest margin management policy, and the decrease was compensated by much higher growth of deposits of individuals. As at the end of December 2014 deposits from companies and public sector equalled PLN 17,811 million and accounted for 37.4% of Group's total deposits.

The average basic interest rate of deposits placed with the Bank throughout 2014 was 2.0%.

Deposits from banks

Deposits from banks, as at 31 December 2014, amounted to PLN 2,037 million, accounting for 3.7% of the Group's liabilities. The value of that item decreased by PLN 311 million (i.e. 13.3%) vs the balance as at 31 December 2013. The most important items of wholesale long-term and medium-term funding received by the Group included loans 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. The total balance of loans from financial institutions expressed in PLN as at 31 December 2014 was PLN 1,377 million.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Group concludes short-term transactions with buy-back clause both with banks and Customers (mainly financial institutions). The transactions are based on the State Treasury debt securities. As at 31 December 2014, liabilities from securities sold with buy-back clause amounted to PLN 60 million decreasing by PLN 55 million compared with the balance as at 31 December 2013. The decrease resulted mainly from lower 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 31 December 2014, PLN 2,020 million and increased by PLN 515 million or 34.2% relative to the balance of 31 December 2013, first of all due to PLN depreciation having the impact on increase of negative valuation of derivatives, mostly used for hedging purpose.

Debt securities issued

As at 31 December 2014 liabilities from issue of debt securities amounted to PLN 1,739 million recording a significant increase by PLN 1,038 million relative to the balance recorded as at 31 December 2013. At the end of December 2014 the value of bonds and bank debt securities issued by the Bank and offered to individual Customers in connection with savings products amounted to PLN 333 million whereas the value of bonds offered to institutional investors amounted to PLN 1,408 million (part of which of the nominal value PLN 750 million are traded on Catalyst - ASO BondSpot debt instruments exchange in Warsaw). The main reason for high increase of liabilities from issued debt securities in 2014 was the new issue of bonds to institutional investors of the total balance sheet value of PLN 1,056 million (four series). Debt securities were 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 640 million as at 31 December 2014 and increased by 2.8% 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

During 2014 equity of the Group grew by PLN 402 million or 7.5% year-on-year to PLN 5,765 million as on 31 December 2013. The main reason of the growth of equity was net profit generated during the reported period (PLN 651 million) partly offset by the dividend paid in May 2014 from 2013 profit in the amount of PLN 267 million. The contribution of revaluation reserve to this growth was less material (PLN 18 million).

The information about capital adequacy is presented in Chapter VII of this document and in separate report titled "Information on risk, own funds, capital requirements, remunerations policy and other information" for 2014.

Contingent liabilities

Distribution of contingent liabilities of the Group is presented in the table below:

CONTINGENT LIABILITIES (PLN million)	31.12.2014	31.12.2013	Change 2014/2013
Contingent liabilities granted and received	7 889.9	8 710.5	-9.4%
1. Liabilities granted:	7 757.5	7 815.5	-0.7%
a) financial	6 691.4	6 692.3	0.0%
b) guarantees	1 066.0	1 123.2	-5.1%
2. Liabilities received:	132.5	895.0	-85.2%
a) financial	60.5	850.6	-92.9%
b) guarantees	72.0	44.4	62.2%

In the course of its operations, the Group executes transactions in effect of which contingent liabilities arise. The main contingent liability items (granted) include: (i) financial commitments mainly commitments to extend loans (including, inter alia, not utilised credit card limits, not used overdraft facilities, not utilised investment loan tranches) and (ii) guarantee type commitments including mainly guarantees and letters of credit issued by the Group (providing security for performance, by the Groups Customers, of their commitments relative to third parties). Contingent liabilities granted cause that the Group is exposed to various risk types including credit risk. The Group creates provisions against irrevocable risk based contingent liabilities, booked in the item „Provisions” in the liabilities side of the Balance Sheet.

As on 31 December 2014, the total value of contingent liabilities of the Group amounted to PLN 7,890 million, including commitments granted by the Group: PLN 7,757 million. During 2014 the value of contingent financial liabilities granted by the Group stayed on almost the same level, whereas the value of guarantee commitments decreased by PLN 57 million (i.e. 5.1%).

More information on contingent liabilities can be found in Chapter 12 of Annual Financial Statements of the Capital Group of Bank Millennium for 12 month period ended 31 Dec. 2014.

V.3. Results of Business Segments

The following information provide Profit and Loss data as well as business volumes for the Group's two main business segments: Retail and Corporate allowing for comparison of 2014 versus 2013 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 earnings (PLN million)	2014	2013	Change 2014/2013
Net interest income	1 138.5	952.2	19.6%
Net commission income	475.9	457.8	4.0%
Other income *	87.5	95.7	-8.6%
Total operating income	1 701.8	1 505.7	13.0%
Total operating expense **	-841.6	-827.2	1.7%
Cost/Income	49.5%	54.9%	-5.5 p.p.
Pre-provisions income	860.2	678.5	26.8%
Net impairment provisions	-126.0	-121.8	3.4%
Pre-tax income	734.2	556.7	31.9%

(*) including FX income

(**) without impairment provisions

The total operating income of the Retail segment in 2014 amounted to PLN 1,701.8 million and increased strongly by 13% yearly, first of all as a result of high increase of Net interest income by 19.6%. Net commission income grew by 4.0% year-on-year. Operating expenses of retail segment grew slightly in 2014 by 1.7% yearly. As a result, cost-effectiveness of this business segment improved visibly compared to 2013 with Cost/Income Ratio moving down to 49.5% from 54.9% in the previous year, which signifies remarkable improvement by 5.5 p.p. Net impairment provisions increased by 3.4% yearly 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 grew strongly in 2014 by 31.9% year-on-year to the level of PLN 734.2 million.

Corporate segment earnings (PLN million)	2014	2013	Change 2014/2013
Net interest income	321.0	320.6	0.1%
Net commission income	132.3	126.5	4.6%
Other income *	50.7	31.5	60.7%
Total operating income	503.9	478.6	5.3%
Total operating expense **	-207.9	-196.7	5.7%
Cost/Income	41.2%	41.1%	0.1%
Pre-provisions income	296.1	281.9	5.0%
Net impairment provisions	-139.1	-110.7	25.6%
Pretax income	157.0	171.2	-8.3%

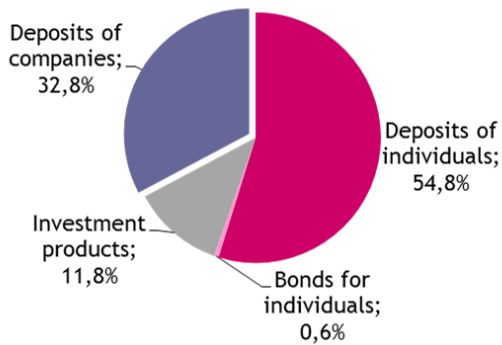
(*) including FX income

(**) without impairment provisions

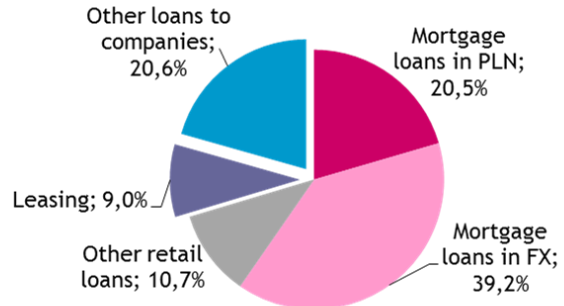
The total operating income of Corporate segment in 2014 amounted to PLN 503.9 million and increased by 5.3% yearly, due to increase in income from FX and financial instruments operations with Clients as well as higher level of net operating income and costs. Net commission income grew by 4.6% year-on-year and Net interest income stayed on practically the same level. At the same time, operating expenses increased by 5.7% year-on-year. All above trends resulted in relatively stable level of the cost / income ratio which was at 41.2% in 2014. The level of net impairment provisions on loans to companies increased significantly during 2014 year by 25.6%

which was correlated with increased coverage of impaired loans in this segment (from 69% to 73%). The abovementioned factors, especially growing costs and provisions, resulted in a decrease of pre-tax profit of Corporate segment by 8.3% to the level of PLN 157.0 million.

Structure of Group's Customer Funds



Structure of Group's Loan Portfolio (gross)



Total Customer funds collected by Bank Millennium Group as at 31 December 2014 amounted to PLN 54,353 million. Customer funds of retail segment amounted to PLN 36,541 million and accounted for 67% of total Group's Customer funds. The funds comprised deposits (PLN 29,780 million), bonds for individuals (PLN 333 million) and investment products, including own and third party mutual funds, insurance-saving products etc. (PLN 6,429 million). Deposits of companies as at 31 December 2014 amounted to PLN 17,811 million and accounted for 33% of total Group's Customer funds.

Total gross loans of the Group as at 31 December 2014 amounted to PLN 45,501 million. Loans to retail segment Clients amounted to PLN 32,018 million and accounted for 70% of total Group's loans. The loans comprised mortgage loans (PLN 27,138 million) and other retail loans, including cash loans, credit card loans, overdrafts etc. (PLN 4,880 million). Loans to companies as at 31 December 2014 amounted to PLN 13,483 million and accounted for 30% of total Group's loans. The loans, besides different groups of loans and overdrafts for companies, included also leasing receivables (PLN 4,107 million).