

Management Board Report on the activity of Bank Millennium S.A.

for the 12 month period ended 31 December 2014



MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE BANK MILLENNIUM S.A. FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2014

CONTENTS

I.	LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD	3
II.	BRIEF DESCRIPTION OF BANK MILLENNIUM	4
III.	HIGHLIGHTS AND MAIN EVENTS IN 2014	6
III.1.	SUMMARY OF THE RESULTS IN 2014	6
III.2.	MARKET INDICATORS AND RATINGS.....	7
III.3.	INFORMATION ON IMPORTANT AGREEMENTS AND EVENTS WITH IMPACT ON BANK'S ACTIVITY.....	8
III.4.	MAIN AWARDS AND ACHIEVEMENTS OF BANK MILLENNIUM IN 2014.....	9
IV.	MARKET CONDITIONS AND BUSINESS PROSPECTS	10
IV.1.	MACROECONOMIC ENVIRONMENT	10
IV.2.	BANKING SECTOR IN POLAND AND POSITION OF BANK MILLENNIUM GROUP	11
IV.3.	STRATEGY FULFILMENT AND BUSINESS DEVELOPMENT PERSPECTIVES.....	12
V.	FINANCIAL SITUATION OF BANK MILLENNIUM	15
V.1.	THE BANK'S PROFIT AND LOSS ACCOUNT	15
V.2.	BALANCE SHEET AND OFF - BALANCE SHEET ITEMS	17
VI.	PRESENTATION OF BUSINESS ACTIVITY	22
VI.1.	RETAIL BANKING.....	22
VI.2.	CORPORATE BANKING.....	27
VI.3.	TREASURY AND INVESTMENT OPERATIONS	29
VII.	RISK MANAGEMENT	31
VII.1.	RISK MANAGEMENT FRAMEWORK	31
VII.2.	CAPITAL ADEQUACY.....	33
VII.3.	CREDIT RISK	36
VII.4.	OTHER RISKS	38
VIII.	HUMAN RESOURCES MANAGEMENT	40
VIII.1.	PERSONNEL POLICY	40
VIII.2.	EMPLOYMENT AND COSTS OF PERSONNEL	40
VIII.3.	REMUNERATION POLICY	41
IX.	PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM	43
IX.1.	STATEMENT ON THE PRINCIPLES OF CORPORATE GOVERNANCE EMPLOYED IN 2014.....	43
IX.2.	SHAREHOLDERS AND GENERAL MEETING OF SHAREHOLDERS.....	44
IX.3.	SUPERVISORY BOARD	45
IX.4.	MANAGEMENT BOARD.....	51
IX.5.	INTERNAL CONTROL, EXTERNAL AUDIT AND COMPLIANCE POLICY.....	54
X.	RESPONSIBLE BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY	57
XI.	ADDITIONAL INFORMATION.....	58
XII.	STATEMENT OF MANAGEMENT BOARD OF THE BANK	59

I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Sirs,

The year 2014 was for Bank Millennium Group a period of hard, effective and eventually successful work. In the Group's history it will be recorded as a year, in which we generated the highest net profit amounting to PLN 651 million. This result betters 2013 by 21.5%. It gives me satisfaction to report this because in the past twelve months we were working in a difficult and challenging business environment, which was characterised by low interest rates, reduction of interchange fees and tough competition on the financial market.

In 2014 the Bank was developing in a sustainable way, reaching the defined targets thanks to growth in all business areas. The main factors, which determined the financial result in 2014 was high growth of core business income (12% year-on-year) and keeping stable cost of operations (up 2% y/y). Thus the cost-to-income ratio was reduced by more than 4 p.p. to 50%, i.e. the target for 2015 in our medium-term strategy.

2014 showed that we are working with increasing effectiveness. ROE of Bank Millennium Group stood at 11.8%, above the Polish banking sector average.

Our business achievements in retail banking were possible thanks to record high sales of cash loans (PLN 2.1bn), opening of 231,000 new current accounts primarily thanks to the Konto 360 campaign as well as strong increase by almost 13% y/y of retail deposits, with simultaneous increase of interest margin. Corporate banking was growing with equal success, with more than 30% growth of annual factoring turnover (PLN 12.1bn), 18% annual growth of leasing contracts value (PLN 2.3bn) and 13% growth of corporate loans, which outpaced the market.

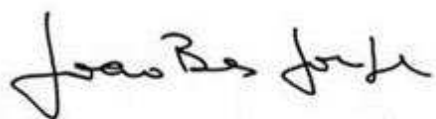
At the same time when changes in the business environment are hard to foresee, worth noting is the very strong liquidity and capital position of Bank Millennium. The loans/deposits ratio stood at 92%, providing a liquidity buffer protecting the Bank i.a. from volatility of FX rates. The Bank's strong capital position is reflected in the Capital Adequacy Ratio of 15.2% at the end of 2014.

All in all the results of 2014 allow us to say that Bank Millennium is a sound, safe and well capitalised bank, which is able to continue implementing its further growth strategy in spite of external challenges.

Already after the end of 2014 financial year, in February 2015, Bank Millennium announced its updated medium-term strategy for the years 2015-2017. The strategy lays down key business targets for the coming years, assuming that the Bank will retain the sustainable high rate of growth and improvement of performance in all key areas of operation.

2015 will beyond any doubt be a year of challenges. The CHF appreciation to PLN in the middle of January affected the operations of most Polish banks. Increased payments to the Banking Guarantee Fund, continued reduction of interchange fees or the possibility of another round of interest rate cuts by the Monetary Policy Council are further factors determining the reality, in which we will be working.

Nevertheless I am confident that thanks to sound capital and business foundations, excellent motivation of Staff as well as strong work culture we will be able to carry out our ambitious programme for 2015.



Joao Bras Jorge

Chairman of the Management Board of Bank Millennium

II. BRIEF DESCRIPTION OF BANK MILLENNIUM

Bank Millennium

Bank Millennium emerged in 1989 as one of the first Polish commercial banks (initially operating under the name of Bank Inicjatyw Gospodarczych BIG SA) taking advantage of the legal and market opportunities brought by the economic and political reforms implemented at the turn of the 1980s. The Bank's first shareholders were both companies as well as private persons. Following the 1990 first IPO BIG became a private bank. At that time it was focusing its business on offering modern financial products and services to corporate customers. The Bank, drawing on the best experience from developed markets, was building a modern product infrastructure and distribution platform, steadily developing its offer. The Bank issued Poland's first VISA card for business customers (1991) and began to offer leasing services. In 1992 the Bank's shares were the first equities of a financial institution to make their debut on the Warsaw Stock Exchange. Thus the Bank gained new growth opportunities, while the status of a public company significantly strengthened its position among investors and customers. In that same year the Bank carried out a takeover of Łódzki Bank Rozwoju SA and implemented its restructuring programme. This was the first takeover of a private bank in the post-war history of the Polish financial market and the first so large a financial institution restructuring project.

Regularly expanding its range of products and services, by using a state-of-the-art operating system, the bank was developing its business towards that of a universal bank. This growth trend was significantly supported by the merger with Bank Gdański SA (in 1997) and the ensuing establishment of BIG Bank Gdański SA, an institution with a universal business profile, providing its services to all market segments. A year later - in cooperation with the Portuguese Banco Comercial Portugues - the Bank launched the innovative Millennium network serving private Customers. The appearance in Poland's largest cities of small bank branches, which used latest technology to serve customers, marked the start of a new era in Polish retail banking.

Since 2003 the Bank has been operating under the brand name of Bank Millennium, with its business mission focused on providing universal innovative financial products and services to all Customer segments as well as generating growth of shareholder value. The Bank offers its services to private Customers (in Retail, Prestige and Private Banking segments), to sole traders as well as small, medium and large companies in the Corporate Banking segment.

The Bank has built its market position by working with over 1.3 million active private customers and 13 thousand corporate Clients, who can use the nationwide network of 423 branches as well as state-of-the-art technology (online, phone and mobile banking) to have 24/7 access to innovative financial services. Lately the Bank has been attaching particular importance to making its services conveniently and safely available by means of mobile devices. The gradual improvement of quality of services coupled with an appealing product range as well as user-friendly technologies have given the Bank a number of awards in recent years, based on bank surveys using both independent expert reviews as well as customer feedback.

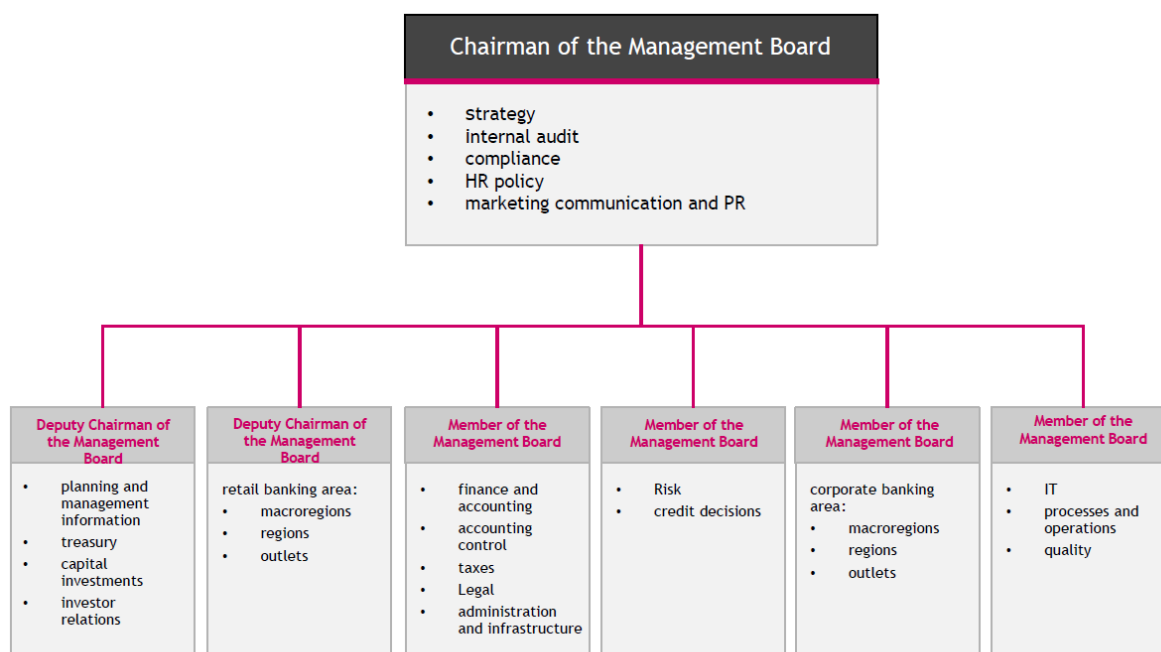
Bank Millennium performs its activities on the basis of organisational structure facilitating efficient management and planned achievement of business objectives and ensuring high level of safety and transparency.

Organisational structure reflects objectives stipulated in the Bank's strategy and its structure supports objectives, tasks and functions performed by each organisational unit. The organisational structure ensures continued implementation of processes and remains in compliance with external and internal legal regulations.

From management perspective, the Bank's organisational structure is flat i.e. it has not more than five management levels. The Bank's structure is functional in its nature with each organisational unit implementing specific functions assigned to it.

In accordance with legal requirements, the Bank's organisational structure separates risk assessment and credit decision making from sales and business functions, back-office support function and control functions.

The Bank's structure is built upon separate and stand-alone organisational units established and recalled by decisions of the Bank Management Board. Detailed scope of tasks performed by these units and their internal organisational structures are defined by organisational bylaws of each individual unit. The Bank Management Board also specifies division of competence and responsibilities for individual areas of Bank operations between Management Board Members taking account of criteria of functionality and need.



III. HIGHLIGHTS AND MAIN EVENTS IN 2014

III.1. Summary of the results in 2014

Bank Millennium net profit in 2014 amounted to PLN 620 million, which means a very solid growth of 24.7% when compared to 2013 year. Net profit achieved in 4Q 2014 (PLN 146 million) was 7.6% lower than the profit achieved in the previous quarter mainly due to negative impact of interest rate cuts in October.

Main financial and business highlights of 2014 results are the following:

Strong growth of profitability

- Net profit grew 24.7% y/y
- ROE (on consolidated basis) improved yearly from 10.6% to 11.8%
- Cost-to-income decreased strongly by 4.6 p.p. yearly to 50.4%

Core income yearly growth

- Net interest income up 21.1% y/y, despite lower than expected market interest rates
- Net commissions up 4.4% y/y

Very solid asset quality, externally proven by Asset Quality Review

- Impaired loans ratio (on consolidated basis) at 4.2% - the lowest in the last 6 years
- High coverage ratio of impaired loans by provisions (on consolidated basis) at 71%

Stable liquidity and stronger capital ratios

- Loan-to-deposits ratio at comfortable 91%
- Loans to stable sources of funding¹ (on consolidated basis) at 88.4%
- Total Capital Ratio² at 14.4% and CET1 at 13.7%

Retail business

- Cash loans record sale of PLN 589 million in 4Q and 2.1 billion in entire year, portfolio grew 24% y/y
- 231 thousand new current accounts thanks mainly to Konto 360° campaign
- Very solid growth of retail deposits at 12.7% y/y

Companies business

- Total loans to companies grew by 15.7% yearly, faster than market average
- Factoring yearly turnover of PLN 12.1 billion gives 30% yearly growth, more than double of entire market growth (+13%)

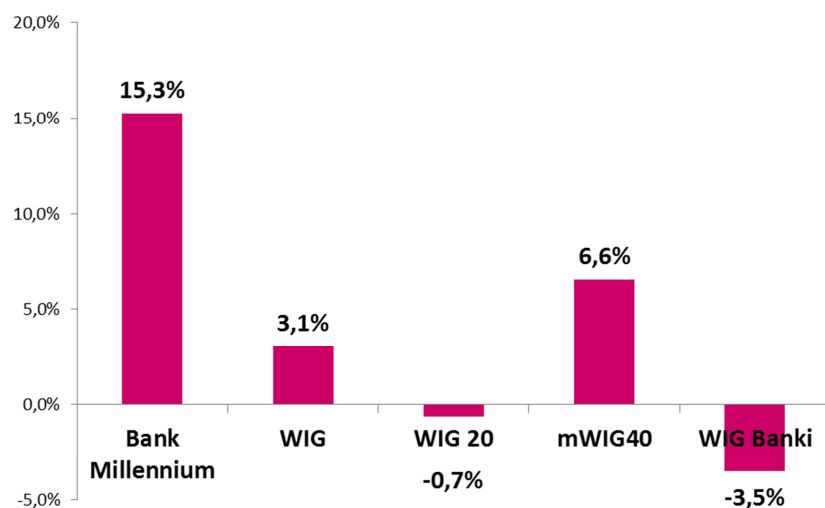
¹ Stable sources of funding : deposits plus all debt securities sold to individual and institutional investors (including subordinated debt) and medium-term funding from financial institutions.

² Calculated in accordance with CRR/CRD4 rules and with partial IRB approach under regulatory constraint (70% on mortgage loans as of 31/12/2014, versus 80% on 30/09/2014 and before)

III.2. Market indicators and ratings

During 2014 Bank Millennium shares grew by 15.3% and it was second the best result among the biggest banks listed on Warsaw Stock Exchange (members of WIG banks). Only three banks recorded positive annual growth and entire WIG Banks index fell by 3.5%. During 2014 year total WIG index grew by 3.1% and mWIG40 index grew by 6.6%.

Evolution of Bank Millennium share price in 2014 versus main Warsaw Stock Exchange indices is presented below:



Earnings Per Share grew during 2014 year by 23%, which caused that Price to Earnings ratio decreased to 15.2 despite growth of share price. At the same time, Price To Book ratio grew to 1.78 i.e. by 6% yearly.

Market ratios	30.12.2014	28.12.2013	Change
Price of Bank Millennium shares (PLN)	8.30	7.20	15.3%
Market capitalization (PLN million)	10 069	8 734	15.3%
Daily turnover - avg. in the year (PLN thousand)	5 911	4 097	44.3%
EPS (PLN)	0.54	0.44	23%
P/E	15.18	16.88	-10%
P/BV	1.78	1.68	6%

Ratings

During 2014 there have been no changes of the two basic ratings of Bank Millennium, which are presented table below:

Rating	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB- (stable outlook)	Ba2 (negative outlook)
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	NP
Viability rating / financial strength	bbb- (no outlook)	E+ (stable outlook)
Support	3	-

III.3. Information on important agreements and events with impact on Bank's activity

- On 28 March 2014 the Bank issued 500,000 3-year bearer Bonds, with nominal value of PLN 1,000 each. The Bonds were issued in private placement and are unsecured. Interest rate on the Bonds is variable, based on the WIBOR 6M rate, plus a margin of 1.40% per annum. Interest shall be paid every six months. Since 23 April 2014 the bonds are listed in the Alternative Trading System, kept by BondSpot S.A. of Warsaw.
- In result of sale of the Bank's shares in transactions concluded on 30 May 2014, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK reduced its stake in the total number of votes in the Bank below 5%. After concluding and settling the transactions mentioned above, as of 4 June 2014 Aviva OFE held 60,163,442 shares of the Bank, constituting 4.96% of shareholders' equity. According to the Aviva OFE annual report, as at end of 2014 the fund held 4.8% of the Bank's shareholders' equity.
- On 24 October 2014 the Supervisory Board of the Bank selected PricewaterhouseCoopers sp. z o.o. with its registered office in Warsaw to audit financial statements of Bank Millennium and consolidated financial statements of the Bank Millennium Group for 2015.
- On 26 October 2014 the Polish Financial Supervision Authority informed about results achieved by 15 Polish banks, including Bank Millennium, in the Asset Quality Review and Stress Tests, carried out in 2014 in the context of EBA Recommendations on asset quality reviews, EBA/REC/2013.04 and based on uniform guidelines defined in the methodology published by the European Central Bank in March 2014 (Asset Quality Review, Phase 2, Manual March 2014). Results of both the Asset Quality Review as well as the Stress Tests were very positive for Bank Millennium. As regards the Asset Quality Review (AQR), the level of adjustments to the Common Equity Tier 1 Ratio (CET1) was minor and decreased the mentioned ratio by only 0,28 p.p. As regards tests under an adverse scenario, the adjusted CET1 Ratio reached 12.37%, which is more than double of the minimum threshold of 5.5% and only 0,99 p.p. lower than the CET1 ratio as of 31/12/2013 before adjustments.

In the opinion of the Bank's Management Board, the Asset Quality Review (AQR) result and the relatively small size of adjustments are a confirmation of the sound principles that the Bank has been applying in terms of recognition of impaired exposures, collateral valuation and level of provisions. On the other hand, the stress tests results confirm the resilience and high level of solvency of the Bank even under adverse scenarios.

III.4. Main awards and achievements of Bank Millennium in 2014

Top bank in Newsweek ranking



Bank Millennium came 1st in the “Internet Banking” category in Newsweek’s latest “Friendly Bank” ranking. Bank Millennium also took the high 2nd place in the “Traditional Banking” category and was classified 2nd in “Mortgage Banking”.

The 13th annual Newsweek Ranking was based on a service quality audit carried out by means of the “mystery shopping” method and an assessment of the attractiveness of offers of largest banks in Poland.

2014 Service Quality Star



Thanks to positive opinions of its customers, Bank Millennium has again been ranked among the friendliest companies and was awarded the title of 2014 Service Quality Star. The awarded companies from several dozen sectors include those, which to the greatest extent respond to today’s market needs and are most often recommended by customers for 2014. Bank Millennium received this prestigious title for the third time already (previously in 2013 and 2011).

The Best Internet bank according to the Global Finance



Bank Millennium is yet again in the prestigious group of banks recognized by the Global Finance independent financial magazine. Bank Millennium topped the list in “Best Trade Finance Services” in the overall category of best internet banks for corporate customers. Moreover the Bank was also number one in Best Online Deposit, Credit and Investment Product Offerings for retail customers in Central-Eastern Europe.

The custody operation awarded by the Global Custodian



Bank Millennium was awarded the Category Outperformer award in “Agent Banks in Emerging Markets Survey 2014”, carried out by the Global Custodian, a leading international magazine, which deals with services connected with processing of transactions on global securities’ markets. For 25 years now Global Custodian has been conducting surveys renowned in the financial sector, measuring achievements and quality of services provided by banks and brokerage companies.

The award given to Bank Millennium is the equivalent of the “Best in Class” award, which Global Custodian had been giving out in previous years.

Macroeconomic Research Bureau among top Polish forecasters

Macroeconomic Research Bureau of Bank Millennium was placed 1st in the ranking of forecasters of Polish financial institutions prepared by “Parkiet” daily in 2014. Macroeconomic part covers i.e. inflation, labour market, money supply, balance of payment and domestic demand (production, retail sales, GDP, investments, consumption). Ranking of financial market indicators includes forecasts of EURPLN, USDPLN, reference rate, WIBOR 3M, 2Y Bond, 5Y Bond, WIG20 in a perspective of 1 months, 1 quarter, and 2 quarters. Forecasts were collected from ca. 24 institutions.

Bank Millennium in the RESPECT Index



Bank Millennium is again part of RESPECT Index - index of socially responsible companies.

The RESPECT Index portfolio covers Polish companies listed on the Warsaw Stock Exchange Main Market which follow the highest corporate governance, reporting and investor relations standards, and which also include environmental, social and governance factors.

IV. MARKET CONDITIONS AND BUSINESS PROSPECTS

IV.1. Macroeconomic environment

Polish economy returned on the path of solid economic growth after the slowdown on the turn of 2012 and 2013. Gross domestic product was, in real terms, by 3.3% higher than in 2003 when it grew by 1.7%. The dynamics of domestic demand looks even better, in real terms it equalled 4.6% versus only 0.2% in 2013 and was the highest since 2008. Domestic demand was supported by both solid private consumption growth (by 3.0% vs 1.1% last year) and investment (9.4% vs 0.9% a year ago). The improvement of labour market conditions accompanied by low inflation or even falling prices supports real disposable income of households. It is however worth noting that there are no signs of the deflationary spiral, i.e. postponing of the consumption as a response to decreasing prices. Investment was growing in 2014 at the pace similar to 2011, however at that time booming public infrastructure investment financed by the EU funds was observed. Nowadays one can rather observe increasing private investment aimed to rebuilt capacity and modernize existing equipment. Negative contribution from net exports, equal to -1.3 pp, resulted from diminishing trade surplus, while growth of both exports and imports was sustained. The consequences of limited access to eastern markets for Polish exporters were smaller than feared at the beginning of the year thanks to high flexibility of the Polish companies that are actively seeking new markets. The Bank assesses that the economic growth in 2014 was balanced and the GDP data show no sign of macroeconomic imbalances.

Registered unemployment rate was equal to 11.5% in December 2014 and was by 1.9 pp lower than in the corresponding month of 2013. At the same time it was the lowest reading for December since 2008. The decline of unemployment observed since the second quarter was much stronger than seasonal pattern and represented improved standing of the companies. Mean employment in the enterprise sector in December 2014 was by 1.1% higher than in December 2013. During the year 2014 stable increase of nominal wages was observed. In December average wage in the enterprise sector increased by 3.7% in nominal terms which translates into real growth of 4.7%.

In the second half of the year Polish economy recorded deflation. In July Consumer Price Index fell below zero in year-on-year terms and the decrease has been deepening in the months that followed. to reach -1.0% in December. The persistence of negative inflation resulted from supply-side shocks on food and fuel markets. Demand pressure in the economy is very low as core inflation excluding food and energy was equal to just 0.5% yoy. Average annual inflation equalled to 0.0% in 2014 as compared with 0.9% in 2013. Cost and demand pressures in the economy remain extremely low and inflation is still much below the NBP target (2.50% +/-1%)

Leading indicators suggest further improvement of business sentiment. The Bank expects that in 2015 domestic demand will remain strong and the economic growth will be equal to 3.5%. The Bank expects that high dynamics of private consumption, supported by improved labour market conditions including unemployment falling to 10.7% in December, 2015 will be maintained. The Bank forecasts that the investment is likely to growth further but at a slightly slower pace than last year. Investment will still be supported by high capacity utilization and growing new orders in manufacturing as well as good financial standing and liquidity of the companies. Despite growth acceleration we do not expect fast return of the inflation.

In the environment of the lack of inflation pressures MPC kept loose monetary policy stance. In the first three quarters of the year reference rate was equal to 2.50%. In October the Council assessed that incoming information show slowing economic activity and increasing risk of inflation running below the target in medium term and decided to loose monetary policy. Reference rate was cut by 50 bps to record low of 2.00%, however lombard credit rate was cut by as much as 100 bps to 3.00%. It means that the maximum interest on consumption loans (stated by law as a quadruple of lombard rate) decreased from 16% to 12%. MPC does not rule out further policy adjustments if incoming information confirms significant risk of inflation running below the target in the medium term. The Bank does not currently see much space for rate cuts and expects one more cut by 25 bps. The rationale for that forecast is ongoing economic recovery and the fact, that negative inflation stems from supply-side shocks on fuel and food markets rather than from weak demand in the economy.

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

- On 15th January 2015, the Swiss National Bank (SNB) announced that it was discontinuing maintaining the minimum exchange rate of CHF 1.20 per euro. At the same time, SNB announced that it was lowering the interest rate on sight deposit account balances to -0.75%. As a reaction, the EUR and the PLN depreciated versus the CHF. The Bank does not expect significant worsening of the loans repayment as the influence of the Swiss franc appreciation against the Polish zloty will be partly offset by the decrease of CHF LIBOR3M. rate. 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).

However, taking into consideration the structure of the CHF denominated mortgage loan portfolio, temporary higher instalments may increase the level of impaired loans and cost of risk. Additionally, proposals put forward by different polish authorities may trigger, if enforced losses for the Bank.

- Introduction from 2015 significant increases of obligatory fees for Banking Guarantee Fund will cause increase of costs in 2015.
- The need of compliance to the new Supervision’s recommendation “U”, which will implement new rules and some restrictions to sale of insurances by banks (to be in force since 1 April 2015), may cause decrease of bancassurance commission revenue. Also change of this commission amount recognized up-front and accrued over time may cause decrease of current revenue (compensated by increases in the next years).
- Record low interest rates and expected further cuts limit the size of interest margin and may temporarily restrain interest result of the Bank.
- Growth acceleration resulting mainly from private consumption recovery and investment may support growth of households and corporate loans.
- The improvement of business sentiment, including good financial standing of the companies and further unemployment decrease will support the quality of loans portfolio.

IV.2. Banking sector in Poland and position of Bank Millennium Group

During most part of 2014, banks in Poland were operating in a moderately favourable macroeconomic environment, however towards the end of the year several events and negative regulatory developments were accumulated with an adverse impact on the Polish banking sector. These events include:

- Strong decrease of interchange fees, in force in Poland since 1 July 2014
- Reduction of interest rates in October 2014 - reference rate down by 50 bp. and unexpectedly sharper cut of lombard credit rate by 100 bp.
- Announcement of major increase of mandatory BFG changes (in force since 2015)
- Announcement by KNF of Recommendation U, which introduced new rules and some restrictions on sales of insurance products by banks (in force from 1 April 2015)

At the same time the process of growing concentration of the banking sector in Poland continues (merger of Nordea Bank with PKO BP, Santander Consumer Bank with BZ WBK, or takeover of Rabobank Polska by BGŻ and its subsequent acquisition by BNP Paribas). Despite that the degree of concentration of banks in Poland is not high, especially compared with many European countries: top 10 banks accounted for 66.8% of total assets at end of Q3 2014.

In the course of 2014 deposits of the banking sector grew 8.4% per annum (NBP data). It is worth noting that this high growth of deposits came despite the cutting of interest rates down to a record low level (2% reference rate). Total loans of banks operating in Poland grew 6.9%, with marked acceleration of corporate sector funding, the annual growth rate of which rose in the course of 2014 from 2.2% at the outset of the year to 9.2% at the year’s end.

Equity of Polish banks increased some 9% during the year, with average Solvency Ratio remaining at the very strong level of 14.9% in September 2014 (KNF data according to the new CRR/CRDIV standard). The strong capital position of Polish banks was confirmed by results of the Asset Quality Review (AQR) as well as Stress Tests carried out last year by KNF together with the European Central Bank and European Banking Authority and published on 26 October 2014. According to the Bank’s in-house calculations, the average weighted (with total exposure to risk) CET1 ratio for 15 Polish banks covered by the tests reached 12.3% in the adverse scenario and was much higher than the average in other European countries covered by the ECB/EBA test (it remained at approx. 9% in the largest economies).

Liquidity of Polish banks is also kept at a very safe level, with the Loans to Deposits ratio in the entire sector standing at 103% at the end of 2014.

According to own and other banks' data at end of September 2014 Bank Millennium was No. 7 among commercial banks in Poland by total loans and deposits, with an average market share of approx. 5%. Bank Millennium Group, comprising the Bank itself and a leasing company, mutual fund management company as well as a brokerage house, has a relatively strong foothold in retail loans and credit cards (approx. 6% market share). Other strong segments of the Bank include leasing (5th place on the market with 7% share in sales) as well as factoring (almost 10% share in total turnover of the sector). In deposits, Millennium keeps an average share of 5.1% of the market. Distribution of the Group's products and services is done through 423 branches as well as electronic channels, including cash machines, the internet, phone and mobile applications.

In 2014 Bank Millennium Group was consolidating its position in sales of cash loans and factoring, while the market share in mortgage loans and corporate deposits fell. The market position in retail deposits remained at a relatively stable level (5.2%).

In 2015 the Bank is expecting further growth of deposits in the banking sector, though probably at a slower pace than last year. A factor hindering growth of retail deposits may be growing consumption as well as the record-low interest rates in Poland. Also corporate deposits may demonstrate a slight slowdown because companies may be consuming part of their surplus liquidity by investing in fixed assets.

As regards banking sector loans, the Bank expects them to pick up pace. In the sector of households consumer finance should keep growing at a solid pace, supported by low interest rates and recovering consumption demand in the economy. Meanwhile residential loans should keep growing at a rate close to that of last year. The "Flat for the Young" programme, low interest rates as well as possible improvement of climate on the building construction sector may give this loan category a helping hand. The Bank expects corporate loans in the entire banking sector to at least keep last year's strong growth rate of more than 9% per year. The factor supporting corporate lending will be the recovery of capital expenditure, both private as well as public, also enjoying stronger EU funding support under the new perspective.

Moreover the Polish banking sector makes extensive use of new technologies in result of strong digitisation of the Polish public. This leads to already pronounced and still rapidly growing role of remote customer communication and service channels (online banking, mobile, e-payments).

IV.3. Strategy fulfilment and business development 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:

- I. Sustained focus on valuable areas while redirecting product mix to higher margin products.
- II. Further enhancement of sales effectiveness of the network.
- III. Improved balance sheet structure and profitability of corporate franchise.
- IV. Sustaining efficiency advantage through strict platform management and cost savings discipline.
- V. 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 \leq 100%
- Capital ratio CT $>$ 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:

- I. 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.
- II. 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.
- III. Keeping the growth momentum in corporate segment while improving profitability, reducing cost of risk, further strengthening position in specialized finance.
- IV. 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.

V. FINANCIAL SITUATION OF BANK MILLENNIUM

V.1. The Bank's profit and loss account

Operating Income (PLN million)	2014	2013	Change y/y
Net Interest Income	1 348.8	1 113.9	21.1%
Net Commission Income	570.9	546.9	4.4%
Core Income*	1 919.7	1 660.7	15.6%
Other Non-Interest Income **	175.0	216.4	-19.1%
Total Operating Income	2 094.7	1 877.2	11.6%

(*) 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 for 2014 reached PLN 1,348.8 million, which signifies a high growth by 21.1% 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 7.3% 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.

The improvement of Net Interest Income was supported by lower interest costs (mainly cost of deposits), which decreased by 22.0% y/y, whereas interest income decreased only by 3.3% 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 570.9 million, which means a 4.4% growth year-on-year. The main drivers of this growth were commissions from distribution of investment products (mutual funds of Millennium TFI and other similar products of third parties) as well as commissions from loans and current accounts servicing. On 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 1,919.7 million in 2014 and recorded a growth of 15.6% year-on-year.

Other non-interest income amounted to PLN 175.0 million for 2014 and fell by 19.1% year-on-year due to lower net other operating income and costs, whereas income from foreign exchange, financial instruments and dividends increased by 23.3%.

Total operating income of the Group reached PLN 2,094.7 million in 2014 and increased by 11.6% year-on-year.

Total costs in 2014 amounted to PLN 1,055.5 million, which means a slight increase (by 2.3%) when compared to 2013 year.

Operating Costs (PLN million)	2014	2013	Change 2014/2013
Personnel Costs	(507.6)	(509.9)	-0.4%
Other Administrative Costs*	(547.9)	(522.1)	4.9%
Total Operating Costs	(1 055.5)	(1 032.0)	2.3%
Cost/Income Ratio	50.4%	55.0%	-4.6 p.p.

(*) including depreciation

Personnel costs in 2014 decreased slightly by 0.4% compared to the previous year. The total number of employees in the Bank increased by 229 employees compared to the end of 2013, to the level of 5,770 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 is presented in the table below:

Employment in Bank Millennium S.A.	31.12.2014	31.12.2013	Change 2014/2013
Number of employees in the Bank (in FTEs)	5 770	5 541	4,1%

More information about employment structure and remuneration is presented in Chapter VIII of this document.

Other administrative costs (including depreciation) in 2014 grew by 4.9% yearly. The growth was driven by higher marketing costs, consulting expenses and Bank Guarantee Fund, financial supervision and other obligatory charges, whereas remaining items decreased or were relatively stable.

Cost-to-Income ratio strongly improved from 55.0% in 2013 to 50.4% in 2014.

Total net impairment provisions created by the Bank in 2014 amounted to PLN 248.4 million and were 11.8% (or PLN 26.2 million) higher than provisions created in 2013. The yearly growth was seen mainly for companies, 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.

Pre-tax Profit and Net Profit (PLN million)	2014	2013	Change 2014/2013
Operating Income	2 094.7	1 877.2	11.6%
Operating Costs *	(1 055.5)	(1 032.0)	2.3%
Impairment provisions	(248.4)	(222.2)	11.8%
Pre-tax Profit**	790.8	622.9	27.0%
Income tax	(171.3)	(126.1)	35.8%
Net Profit	619.5	496.8	24.7%

(*) without impairment provisions for financial and non-financial assets

(**) includes also share in profits of associates

Pre-tax Profit in 2014 amounted to PLN 790.8 million, which is 27.0% higher vs. the previous year. **Net Profit** for the analysed period amounted to PLN 619.5 million i.e. by 24.7% 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 Bank's assets as at 31 December 2014 totalled PLN 60,484 million and were 7.0% higher compared to the balance at the end of December 2013. The structure of Bank'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	2 612.0	4.3%	3 411.9	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	43 634.3	72.1%	41 087.6	72.7%	6.2%
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	15.3%	17.3%
Derivatives (for hedging and trading)	504.8	0.8%	631.6	1.1%	-20.1%
Shares and other financial instruments*	234.4	0.4%	298.8	0.5%	-21.6%
Intangible assets and property, plant and equipment **	195.7	0.3%	195.8	0.3%	0.0%
Other assets	586.4	1.0%	468.4	0.8%	25.2%
Total assets	60 484.1	100.0%	56 529.1	100.0%	7.0%

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of loans to Clients by PLN 2,547 (or by 6.2%) 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 Bank's asset structure (72.1% as on 31 December 2014). Total value of loans reached PLN 43,634 million (in net terms) as at the end of December 2014, which means an increase by 6.2% versus the end of the previous year. Loans to both segments, for companies and individual Clients, recorded growth in 2014 year: by 15.3% 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 12,199 million, which means the annual growth in value of PLN 1,623 million.

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 61.7% of the Bank's net loan

portfolio, which was considerably lower (i.e. by 3.6 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	12 199.0	10 575.9	1 623.1	15.3%
Net Loans & Advances to Clients	43 634.3	41 087.6	2 546.7	6.2%
Impairment write-offs	1 225.6	1 190.2	-35.5	3.0%
Gross loans and advances to Clients	44 860.0	42 277.8	2 582.2	6.1%

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 505 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 196 million as at the end of December 2014 and stayed on similar level as at the end of 2013.

Total Capital Expenditure of the Bank in 2014 amounted to PLN 54.8 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. The above investment expenditures refer also to assets leased by the Bank and financed by a Bank's subsidiary. The planned investments of Bank Millennium in 2015 (including leased assets) are PLN 72.8 million.

Liabilities

The value and structure of the Bank'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	1 986.1	3.6%	2 202.6	4.3%	-9.8%
Deposits from Customers	47 807.9	86.7%	45 448.7	88.2%	5.2%
Liabilities from securities sold with buy-back clause	66.8	0.1%	116.8	0.2%	-42.8%
Financial liabilities valued at fair value through P&L and hedging derivatives	2 020.1	3.7%	1 505.5	2.9%	34.2%
Liabilities from issue of debt securities	1 740.6	3.2%	701.4	1.4%	148.2%
Provisions	95.0	0.2%	63.1	0.1%	50.7%
Subordinated debt	639.7	1.2%	622.6	1.2%	2.8%
Other liabilities*	781.1	1.4%	892.7	1.7%	-12.5%
Total liabilities	55 137.3	100.0%	51 553.3	100.0%	7.0%
Total equity	5 346.7		4 975.8		7.5%
Total liabilities and equity	60 484.1		56 529.1		7.0%

(*) including tax liabilities

As at the end of December 2014, liabilities accounted for 91.2%, while Bank's equity accounted for 8.8% of the total liabilities and equity.

As at 31 December 2014, Bank's liabilities amounted to PLN 55,137 million and increased by PLN 3,584 million or 7.0% relative to the balance as on 31 December 2013. The increase resulted, primarily, from growth in Customer deposits (by PLN 2,359 million) and the growth of liabilities from issue of debt securities (by PLN 1,039 million) during the period of one year.

Deposits from Customers

As on 31 December 2014, deposits from Customers constituted the Bank's main liability item accounting for 86.7% of the Bank's total liabilities.

Deposits from Customers provide the main source of financing of the Bank'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 47,808 million and recorded an increase of PLN 2,359 million i.e. 5.2% 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 of the Bank is presented in the table below:

Deposits of Clients (PLN million)	31.12.2014	31.12.2013	Change (value)	Change (%)
Deposits of individuals	29 643.7	26 302.4	3 341.3	12.7%
Deposits of companies and public sector	18 164.2	19 146.2	-982.1	-5.1%
Total Deposits	47 807.9	45 448.7	2 359.2	5.2%

As at 31 December 2014 deposits from individual Customers amounted to PLN 29,644 million and accounted for 62.0% of the total balance of deposits from Customers. Their value increased visibly by PLN 3,341 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 982 million (i.e. by 5.1%), which, however, was within Bank'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 18,164 million and accounted for 38.0% of Bank'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 1,986 million, accounting for 3.6% of the Bank's liabilities. The value of that item decreased by PLN 216 million (i.e. 9.8%) vs the balance as at 31 December 2013. The most important items of wholesale long-term and medium-term funding received by the Bank 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 1,326 million.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Bank 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 67 million decreasing by PLN 50 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 1,741 million recording a significant increase by PLN 1,039 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 Bank grew by PLN 371 million or 7.5% year-on-year to PLN 5,347 million as on 31 December 2013. The main reason of the growth of equity was net profit generated during the reported period (PLN 620 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 Bank is presented in the table below:

CONTINGENT LIABILITIES (PLN million)	31.12.2014	31.12.2013	Change 2014/2013
Contingent liabilities granted and received	7 930.6	8 747.5	-9.3%
1. Liabilities granted:	7 796.3	7 851.1	-0.7%
a) financial	6 691.5	6 693.0	0.0%
b) guarantees	1 104.8	1 158.0	-4.6%
2. Liabilities received:	134.3	896.4	-85.0%
a) financial	60.5	850.6	-92.9%
b) guarantees	73.8	45.9	61.0%

In the course of its operations, the Bank 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 Bank (providing security for performance, by the Bank's Customers, of their commitments relative to third parties). Contingent liabilities granted cause that the Bank is exposed to various risk types including credit risk. The Bank 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 Bank amounted to PLN 7,931 million, including commitments granted by the Bank: PLN 7,796 million. During 2014 the value of contingent financial liabilities granted by the Bank stayed on similar level, whereas the value of guarantee commitments decreased by PLN 53 million (i.e. 4.6%).

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

VI. PRESENTATION OF BUSINESS ACTIVITY

VI.1. Retail banking

Bank Millennium has a broad, universal offer of banking services and products for Retail Clients under four specialist business lines: Individual Clients, Prestige Clients, Private Banking and Small Business.

The main product offered to retail Clients is personal account, which number of new accounts sold in 2014 reached 231 thousands and balance at the end of year amounted to almost 1.8 million accounts. At the end of December 2014 Bank Millennium gathered almost PLN 30 billion deposits of individuals (growth by 10% yearly) and additionally PLN 6.8 billion of non-deposit investment products. On the loans side, the Bank financed households with PLN 32 billion of loans (growth by 3% yearly). Such good performance of retail segment of Bank Millennium resulted from systematic expansion and modernisation of the offer, effective sale and maintaining utmost quality of service to Clients.

Personal account

In May 2014 based on in-depth analyses of Poles' preferences relating to personal accounts, the Bank enriched its retail offer by a new current account - Konto 360°. The name of the account is also its definition, because it means a comprehensive offer with a focus on the Client and his needs. As part of this new offer the Clients who have met two simple conditions - total monthly payments into the account of at least PLN 1000 and making at least one card payment a month for shopping - pay nothing for account maintenance, for the Millennium Visa Konto 360° debit card, specially prepared for the new account, or for cash withdrawals from all ATMs in Poland and abroad. But whether such conditions are met in any particular month, or not, online PLN transfers and standing orders are always free of charge. Moreover, Konto 360° accountholders can also use the assistance insurance linked to it, which in emergency situations guarantees access to 24-hour medical help and home visits of specialists in various fields. An additional advantage of the account is the possibility of using a special offer of savings products and interest-free overdraft limit up to 7 days (any days) in a settlement month.

Konto 360° is a solution prepared for the whole family and the Bank spares no effort to adjust the features of the account to one's needs, which change with age. Hence, the new offer also includes attractive versions of the account for young people: Konto 360° Junior for Clients up to 18 years of age who are only joining the world of finance and Konto 360° Student for young adults of 18 - 26.

The launching of the Konto 360° account was accompanied by an advertising campaign including information on television, in the press, on the internet and in cinemas. Additionally in October 2014 a campaign was conducted at schools and universities to promote the Konto 360° Student account, very popular among the Clients.

The Konto 360° offer was quickly appreciated and after nearly eight months the Clients opened almost 150 thousand of such accounts and over 75% of all new accounts were opened by new Clients without a current account at Bank Millennium, while almost 90% accounts were opened with a debit card. In the Bank's opinion 2014 was a very good year in terms of building long-term client relationships enabling the development of a cooperation based on modern current accounts.

Savings Products

In connection with considerable cuts in interest rates and dynamically changing external environment, including an aggressive deposit pricing policy of some market players, the year 2014 should be recognised as a time of serious challenges. Despite such factors, the Bank focused on effective deposit portfolio management, thanks to which it achieved its intended objectives, such as growth of volumes by almost PLN 3 billion, with preserving interest margin. 2014 year marked also visible growth of balances on current accounts, which allowed to maintain share of current and saving accounts in total retail deposits at the assumed level of 50%.

List of interesting offers and promotions of saving products of the Bank in 2014 year include:

- Promotion: New Money on Savings Account

In 2014 the Bank regularly promoted savings with the use of Savings Account, cyclically proposing Promotions for New Money. The Bank consistently encourages this convenient way of savings, which enables flexible management of financial surpluses.

- Mobile Deposits

The Bank was one of the first on the market to launch special deposits available only for mobile application users. 3- and 6-months deposits were very popular among the Clients, thus becoming one way to promote this service channel.

- Promoting deposits from loyal Clients

The Bank launched innovative deposit solutions which give better savings terms to Clients who actively use Bank Millennium services.

A 3-months Mobile Deposit was launched with higher interest for holders of the new current account (Konto 360°) whose holders were paid 4.5% per annum.

In parallel with this offer the bank proposed to its Clients a promotional offer of the Savings Account on which Konto 360° holders earned more interest, even by 0.5 p.p.

- Promotion of Internet Banking Deposits

The Bank promoted modern online banking solutions: Auction Deposits and Happy Hours Deposits. Both solutions are addressed to Clients who open deposits through Millenet by themselves. They can be given higher-than-standard interest for short periods: 15 days in the case of auctions, and from 1 to 2 months in the case of Happy Hours.

In June the Bank conducted a promotion of Happy Hours deposits. They were offered every day for 6 days with interest increased up to as much as 3.5% (bonus of 1.5 percentage point compared to the analogous deposit outside the Happy Hours) and could deposit up to PLN 100 000 each day.

- Promoting the idea of long-term savings:

In order to encourage Clients to deposit their savings for longer terms the Bank launched the Risk Horizon Deposit. This is a deposit for new money for 15, 18 or 24 months at attractive interest.

- World Savings Day

On 31 December (World Savings Day) Bank Millennium offered a special Happy Day promotion. For the duration of eight hours you could set up a deposit with an interest rate 1% higher compared to the standard.

Investment Products

In 2014 the Bank continued its initiatives to make the offer of such products more attractive.

To enhance the appeal of investment-insurance products for Prestige and Private Banking Clients by adding new investment possibilities, 11 domestic investment funds and 8 foreign investment funds were added in 2014 to the list of funds available under life insurance with capital funds (the "Multicurrency Investment Programme"). The number of funds offered under the Multicurrency Investment Programme at year-end 2014 was 66 (of which 46 funds of Polish Investment Fund Companies and 20 funds of foreign investment companies).

In cooperation with Generali Życie TU SA in May 2014 the Bank expanded the offer of investment-insurance products by "Wygodny Portfel" (Comfy Wallet) Investment Programme, which combines life insurance with a one-off premium and the possibility of investing in Insurance Capital Funds. The product combines the possibility of accumulating funds by investing capital in four model portfolios with diversified investment risk and rate of return potential plus insurance cover. The offer is addressed to Retail, Prestige and Private Banking Clients.

In 2014 Bank Millennium kept a high level of exposure to structured products by conducting 19 issues of Banking Securities with 100% capital protection offered to Prestige Clients and Private Banking Clients and 26 subscriptions of investment deposits addressed to Retail, Prestige and Private Banking Clients.

As regards open architecture and Millennium TFI funds, the number of funds offered to Clients at year-end 2014 totalled 115 (including 64 domestic and 51 foreign funds).

Cards

2014 year brought important changes to business model for the card market. Interchange fee, which merchants pay to issuer banks on each single transaction, was statutorily reduced to the level of 0.5%. For many years the fee was on average at 1.5% or even higher. In December 2014 the Payment Cards Act was amended, thus additionally reducing the Interchange Fee to the level of 0.3% (credit cards) and 0.2% (debit cards). These changes will be implemented in the beginning of 2015 year.

Credit cards

Since 2009 we have observed on Poland's credit card market falling numbers of issued cards. According to NBP data, in the period between Q3 2009 and Q3 2014 Poland's market lost over 4.8 million cards. At the same time, number and value of card transactions keep growing trend. This shows that banks' decisions to limit the availability of this product and review their portfolios make sense. Banks focused on the quality of their portfolio rather than on the quantity of issued cards. Within this trend, Bank Millennium took steps to increase the number of cards and generated transactions.

Such steps included the weekend discount campaign named *Stylowe zakupy* (Shopping with Style) in partnership with *Twój Styl* and *Grazia* magazines. The campaign was run twice during the year: in April and October 2014 and enabled significant discounts with the campaign partners. At the same time Bank Millennium actively promoted *Impresja* credit cards, pushing up the share of *Impresja* cards in new credit card sales to 70%.

One important way to give more appeal to the Bank's credit card offer was to launch a new credit card for male - Millennium Alfa. Alfa card users have access to the Moneyback offer for transactions performed with specially selected partners. The list of partners has been selected based on analysing the transactional behaviour of present male Bank Clients and is classified according to the following shopping categories: home appliances, car parts, entertainment, sport and recreation, travel, jewellery and cosmetics. Millennium Alfa card clients, apart from claiming back 5% of their spending with programme partners have access to an extended assistance package and promotional Convenient Instalments promotional programmes. The card is available in off and online sales channels.

The decisions of the Monetary Policy Council reducing interest rates significantly affected the level of credit card revenues. The lombard rate, which indirectly defines the maximum interest on loans, including credit card loans, was reduced by the MPC decision of October 2014 to 3%, which means that the interest rate on credit card debt must not exceed 12%.

Debit Cards

In recent years the number of debit cards in the market is steadily growing. According to NBP data in Q3 2014 the number of debit cards in Poland reached the total of 29.2 million, i.e. went up by 388 thousands (1.3% yearly).

Also at Bank Millennium you can notice a steady growth trend in the number of debit cards and number of transactions performed with them. In 2014 the Bank Millennium portfolio went up by 6.4% yearly. Bank with 1.2 million cards has c.a. 4.3% share in the debit card market.

The value of transactions generated by holders of Bank Millennium debit cards in 2014 went up 19.4% in 2014 compared to 2013 and is higher than the growth recorded on the whole debit card market. Such growth rate results among others from a very competitive offer - particularly the Konto 360° offer. Among new debit card holders you can also notice a considerable growth of card transactions in the first months after their setting up.

In May 2014 the Bank launched a new Visa Konto 360° debit card. The card adds to the offer of the following accounts: Konto 360°, Konto 360° Student and Konto 360° Junior. This is the first embossed credit card in the Bank's offer which also supports PayWave contactless transactions. The use of the card gives certain benefits: it exempts the user from the card fee, account maintenance fee and allows withdrawals from all ATMs domestically and abroad. In the case of the Konto 360° account the Client will have all the above benefits after having met the additional condition of a certain amount of money paid into the account.

Cash Loans

In 2014 the Bank focused its activities on developing a product offer, new remote Client acquisition channels. Furthermore, it continued the implementation of credit process improvements. In January and February the national media campaign for the consolidation loan with a 0% commission boosted the sales of the product by over 70% compared to the period from before the campaign. In June and August 2014 the Bank launched two promotional offer cycles with a 0% commission named „There is only one such loan”, which pushed up sales in the offer's target segment by over 20%. In November and December the Bank promoted the „Festive Seven” offer with a promotional interest of 7% for loans up to PLN 5 000 for a maximum 24 months repayment period. The campaign was supported by window label stickers at Bank branches.

In the second half of January there was launched a new remote sales channel for the product. By means of such channel Clients can conclude a cash loan agreement entirely on the phone. The share in total monthly sales (by value) of the product in this channel was already over 9% in December. Thanks to introducing further simplifications in the transaction system and the Bank's mobile application the sale of the loan in these channels totalled at year-end 2014 over 25% of the total monthly sales of the loan by value.

In the period from April till August 2014 the Bank launched Quick Loans up to the amount of PLN 10 000 and Quick Consolidation in the maximum amount of PLN 60 000 available for Bank's Clients in every distribution channel without the requirement of providing documents. In October this year the Bank also introduced a new product offer for the free professionals. The offer covers attractive pricing terms and significant simplifications with respect to the required income documents. Over the year there have also been implemented many improvements in the underwriting process with considerable impact on the time of loan disbursement, which in the process based on income documents is currently maximum 24 hours, and in the process without documents even several minutes.

Steps taken to promote the offer, develop new and existing product distribution channels and advantageous modifications of the sales process translated into a growth by value of the loan's sale by over 19% yearly. In 2014 the Bank noted a growth in the balance of retail cash loans by over 24%, i.e. several times more than the market at the same time.

Mortgages

In 2014 Bank Millennium actively developed credit and pricing policy with respect to mortgage loans adjusting it to macroeconomic conditions, competition requirements and regulator expectations.

In 2014 the Bank recorded a drop in the total amount of newly granted loans. Millennium mortgage Clients signed with the bank agreements totalling PLN 957 million and the value of disbursements stood at PLN 1018 million, i.e. fell by 20% compared to 2013. At the end of 2014 the mortgage loan portfolio of Bank Millennium reached the value PLN 27 138 million and was on similar level as year ago, which was consistent with adopted strategy of sustainable business growth with simultaneously conservative liquidity and credit risk management.

In January 2014 in connection with the enactment of the new KNF Recommendation S, the Bank adjusted its internal procedures to binding requirements, among others such as the necessity to have a downpayment at the level of 5% of the property's value, lending in the currency, in which the Client earns his income and period of lending no longer than 35 years.

A product innovation in April 2014 was to launch the subsidised mortgage loan under the Polish government's "Mieszkanie dla młodych" (First Home Buyers) programme. The programme is addressed to persons up to 35 years of age. The buyers can obtain a state budget grant with the allocation for paying part of the property's purchasing price at the level of 10% of the property price for childless persons and 15% for persons with a child. This way, the borrower with governmental support may buy a flat or home on the primary market without having own funds.

In 2014 the Bank also implemented certain improvements whose purpose is to offer to Clients with mortgage loans highest quality services. The bank launched a telephone line exclusively for Clients from the mortgage loan portfolio. Now mortgage Clients when they go to a bank branch or when they call the special number will get full information and assistance within the duration of loan repayment.

The attractiveness of the Bank Millennium loan has been appreciated by the market, as evidenced by rankings and listings prepared by the media and international financial advisors. One of the most important successes is the 2nd place in the „Mortgage banking” category of Newsweek's Friendly Bank ranking - one of the most prestigious in Poland. Such high place resulted from the professionalism of relationship managers and possibility of adjusting the offer to the needs of a particular Client.

Prestige Segment

Prestige is an offer for wealthy Clients with assets from PLN 100 thsd. to PLN 1 million or Clients making monthly payments into the account at a level of at least of PLN 10 000. Bank Millennium Prestige account comes with a broad array of products and services used for current financial management: PLN and FX current accounts, savings accounts, terms deposits, debit and credit cards. The bank also offers a broad array of investment and investment-insurance products, including domestic and foreign investment funds, investment programmes and structured products.

Communication focused first of all on organising investment seminars for current and potential Prestige and Private Banking Clients. In the reported period 53 investment seminars were held, with 1 587 Clients invited. Seminars proved an effective way to inform about changes in the market and the Bank's product offer.

As of 31 December 2014 Bank Millennium had over 30 thsd. active Prestige clients.

Private Banking Segment

Private Banking at Bank Millennium is an offer of products and services addressed to the most wealthy individual Clients with assets over PLN 1 million expecting high quality of service and financial product offer tailored to their individual needs.

In 2014 the Bank as part of its wealth offer provided a broad array of products and services used for current financial management: PLN and FX current accounts, savings accounts, term deposits, debit and credit cards. Additionally for Private Banking Clients there were available the Millennium MasterCard® World Signia/Elite™ cards with access to the World MasterCard Reward programme, World Signia/Elite Privileges Programme (partnership programme), insurance package and Assistance Concierge package. The offer was supplemented by a broad array of investment and investment-insurance products, including domestic and foreign investment funds, and structured products.

Client funding needs were satisfied by the offer of cash loans, credit cards, mortgage loans and assets-backed loans. Credit product sales activities were focused first of all on offering the cash loan, credit cards and overdraft facility.

As of 31 December 2014 Bank Millennium had over 2.7 thousand active Private Banking Clients.

Internet Banking for Individual Clients

In 2014 the Bank launched its new website (available before logging) in the Responsive Web Design technology, which makes it well adjusted to displaying on all mobile devices.

Thanks to an appropriately designed graphical interface, incorporating special features of devices (computer, tablet and telephone), the website is useful, user-friendly and easy to use no matter which device is used. This makes all information presentable to the user in a clear and understandable manner, also on mobile browsers. The Bank implemented a number of online innovations and improvements in the online banking system for individual Clients (after logging).

The implemented changes and new solutions allowed the Bank to win the prestigious „Newsweek” ranking in the Best Internet Banking category. The bank was also highly rated in the Global Finance international ranking - best in online acquisition of deposits, credits, investment products in Central and Eastern Europe.

The Bank has launched (among others) services of a transfer to e-mail and mobile phone, loan and overdraft limit for Clients without a relationship history. Cash loan applications have also been simplified. Clients gained the possibility of launching through Millenet innovative products such as the Konto 360 account (also fully set up online) and Millennium Alfa credit card.

To further improve the quality of service for its Clients the bank continues its omnichannel strategy, by implementing in Millenet the Application Centre, unique tool focusing information on all sale and post-sale processes of the Client. Thanks to this the Client has now the possibility of submitting an application for a product in one channel and then continue and finalise it in a different channel. This is in fulfilment of the Bank's desire to provide its Clients with uniformly high quality service, irrespective of the contact channel.

For Client's data security the Bank implemented in 2014 changes to the logging process - possibility of defining the so-called personal security seal, using a virtual keyboard and assigning an own name to the MilleKod number. It also launched the possibility of managing contactless payments and card payments outside the European Union.

The number of active Millenet Clients at the end of December 2014 stood at 723 thsd. Indeed internet banking confirmed in 2014 its growing role as the channel for distributing the Bank's products. Now Millenet is used to open 71% of new deposits, 25% of cash loans, 27% of current account overdrafts and 26% of credit cards. Internet banking is also an important communication channel for Clients and the bank. They can use this channel to submit their applications, enquires and complaints.

Mobile Banking for Individual Clients

The number of Clients who actively use Mobile Banking in 2014 exceeded 100 thousands, which confirms that it is becoming an increasingly significant access channel to the Bank. 2014 saw the expansion of sales of credit products - in addition to the loan which was available even earlier and increasing the credit card limit - our Clients may now apply for a new overdraft limit and its increasing, if they already have one. Moreover, this process does not require the Client to visit the Bank, because it is conducted entirely on-line, and the product is disbursed practically immediately.

In 2014 the application was enriched by many innovative functions which are this channel's distinctive feature. The first of them are push notifications - thanks to which Clients quickly obtain information about new promotions, services and updates. The notifications are so designed that they allow to quickly use the offer by clicking the application a few times. In response to Client needs the application was also enriched by widget

functions - i.e. the possibility of quick and convenient checking the account or credit card balance without the necessity of logging on to the application.

A major improvement for our Clients has become a considerable simplification of the activation process, as well as ATM withdrawals by means of a mobile application without the use of a card. Mobile application users could also count in 2014 on additional benefits, such as a 3-months Mobile Deposit with promotional interest of even 4.5% per annum. The high quality of Bank Millennium's Mobile Application is confirmed by the fact that it is one of the best rated financial applications on the Polish market by Google Play clients.

Telephone Banking (TeleMillennium)

In 2014 incoming telephone traffic figures in the Bank slightly went up compared to the previous period, which is presented below:

	2013	2014	Change yearly
Number of calls to TeleMillennium	2 711 913	2 900 828	7%
Calls to consultant	1 439 082	1 520 783	6%
Automatic traffic	1 272 831	1 380 045	8%

This service channel increased its support for Clients both in technology and content thanks to a solution enabling screen sharing with Millenet users who need service assistance. In Q3 2014 a specialist consultant team for mortgage loans began to operate and at the end of the year the Bank started to combine telephone service with e-mail answers.

2014 is also the beginning of launching products in telephone channel pre-approval. This brought a growth up to 7% of the share of this channel in the bank's sales result. The total value of cash loans disbursed in this service channel exceeded PLN 150 million.

VI.2. Corporate banking

As part of the Corporate Banking segment Bank Millennium offers professional services to entrepreneurs with annual revenues from sale above PLN 5 million and, moreover, to institutions and public sector entities.

Services for Corporate Banking Clients are provided by an extensive countrywide sales network. Clients can use Relationship Managers and Consultants working in 37 Corporate Centres supported by Product Advisors specialising in leasing, factoring, trade finance, Treasury transactions and transactional banking.

Apart from direct contact with Bank Employees and access to the TeleMillennium telephone service, the Clients have the possibility of using modern tools such as:

- Millenet for Corporates online banking system (with the „Trade Finance” module),
- Mobile banking, i.e. access to accounts and banking operations by mobile means.

A comprehensive product offer in the corporate area allows to build customised cooperation proposals based on diagnoses of the Clients' needs, understanding their realities and those of their sector. All Clients starting their cooperation with Bank Millennium have guaranteed full support in the process of launching direct service through electronic channels (current settlements, FX platform, trade finance service and mobile banking).

In the reported period our activities also focused on further improvement of service quality for Corporate Clients. In consequence, not just business results improved, but up also went the level of Client satisfaction as shown both in an internal satisfaction survey and in the independent survey conducted by GfK Polonia.

Loans

2014 was a period of dynamic growth in the value of financing provided to enterprises by Bank Millennium. The volume of loans in the Bank's portfolio increased in 2014 by PLN 1.5 bn (growth of 13% year on year) thus reaching the value of PLN 13.5 bn. This increment happened despite continued limited enterprises' demand for

financing with banking credit, which results from a good liquidity situation of companies and possibility of covering a major part of current needs from own funds. 2014 saw a considerable (20%) growth by value of investment loans granted by the Bank.

The Bank constantly increases its share in Medium and Large financing. For this purpose the Structured Financing Department was created in 2014 specialising in large structured financial transactions, including project finance transactions in real-estate area. The offer of credit products in Q1 2015 will be extended by the umbrella loan - common credit limit for several enterprises making up a group of related entities. This is also connected with the plan of further strengthening of the position relating to funding companies from the mid corporate segment.

Work is under way on providing new functionality in the Millenet for Corporates online banking system, which will allow Clients to send an electronic version of documents in the lending process. The launching of a new channel of supplying documents will increase the Client's convenience in contacts with the Bank and, moreover, it will make the funding process more efficient.

Bank Millennium participates in the governmental programme of enterprise promotion with the use of guarantees from Bank Gospodarstwa Krajowego. Under an agreement concluded with BGK, the Bank may offer to SMEs PLN funding secured with de minimis guarantees of the Polish Government. High guarantee value, even up to 60% of the loan value (maximum PLN 3.5 million), long period of financing - up to 24 months in the case of loans for current needs or up to 96 months for investment needs, make the programme is popular among Clients. Steps connected with obtaining the loan and guarantees are implemented directly at Bank Millennium.

Specialist Financing - Factoring

In 2014 Bank Millennium's realised factoring turnover was PLN 12.1 bn. This is yet another record-breaking year in this area. The growth rate was recorded at 30%. In 2014 Bank Millennium moved up in the ranking of factoring institutions by one spot and is currently 5th, having increased its market share from 8.2% at year-end 2013 to 9.5%.

In view of the value of realised turnover broken down into factoring without recourse (full factoring and reverse factoring) and factoring with recourse, in 2014 Bank Millennium recorded a growth rate respectively at the level of 31% and 29%. These results demonstrate that the whole factoring portfolio of the Bank is uniformly growing and the Bank increases its turnover both in factoring without recourse, which corresponds to growing demands in this target group category, as well as in classic factoring transactions.

Such good result stems from steady growth in the number of transactions and level of factoring limits with the observance of a high degree of their utilisation. From January till the end of the year the portfolio of factoring assets went up 16%, achieving the value of PLN 1.59 bn. The Bank is fourth in the market in terms of the number of functioning agreements and the size of factoring assets.

Trade Finance

In 2014 the Bank significantly improved the structure of the trade finance portfolio in terms of potential transaction risk. On the one hand there still persisted a noticeable falling trend in terms of the portfolio share of long-term transactions (in excess of 5 years), but, on the other hand, the share of letters of credit was significantly growing in new transactions. In January 2014 letters of credit constituted 10% of new transaction amounts, and in November this was already 47%. In 2014 year 45% more letters of credit were opened than in the preceding year. The volume of new letters of credit went up threefold.

2014 saw the expansion of the group of Clients using the „Trade Finance” module offered in the Millenet for Corporates online banking system. The advanced functionality of Millenet enables the Clients a comprehensive Web-based management of bank guarantees and documentary letters of credit.

Thanks to platform implementation the transaction rate has definitely gone up (the transaction rate is the number of transactions originated at the Bank by the Client). Our Clients like this manner of transaction processing, as evidenced by the order automation ratio defined as the ratio of the number of electronic orders to all orders in the case of documentary letters of credit. In the second half of the year it stood, on average, at 83%, and in November even 96%.

The „Trade Finance” Module has been appreciated by experts and editors of the Global Finance magazine preparing the ranking of the best online banks for corporate clients in Central and Eastern Europe, in which Bank Millennium came first in the „Best Trade Finance Services” category.

Client Settlement Service

2014 is a continuation of a stable growth of volumes accumulated on current accounts by 8%, which stems from a consistent rise in the number of transaction products and the number and volumes of operations on Client accounts by 17% y/y.

Bank Millennium offers a comprehensive array of transactional banking products supported by a productive and ergonomic online and mobile banking system. Corporate Clients may use without any limitations all the Bank's branches. Transactional communication with Clients uses also dedicated channels through SSH/SFTP and PGP protocols. In transactional banking the Bank currently focuses on solutions ensuring high quality of Client service, streamlining of processes in accordance with the Lean methodology and operational efficiency in order to increase the base of clients actively using a variety of transactional solutions.

In the first half of 2014 the offer was supplemented by Millennium MasterCard Prepaid Commercial cards in EUR, liquidity services were expanded through cash pool type solutions, Bank Millennium was also registered with the SWIFT for Corporates service, MT101 settlements were automated and the MT 101 multiple functionality was launched.

The Bank prepared processes assuring from January 2015 compliance of its business with FATCA, i.e. the tax international compliance improvement agreement and implementation of FATCA legislation.

Electronic Banking

In 2014 work continued on developing Millenet for Corporates as a uniform access platform for Corporate Clients. The scope of services offered in the service system was expanded by access to the Millennium Forex Trader FX platform and module for ordering and handling of payment cards. Thanks to projects which have already been implemented the system now allows our Clients to electronically manage Treasury products, trade finance and transactional banking. Access to many services after just one logging and by means of the same authorisation tools effectively increases the Client's comfort and boosts the number of performed transactions. The card ordering module will (in the next projects) be expanded by the possibility of submitting applications for other banking products and ultimately is to completely replace paper-based applications.

An important project was also the new path for implementing online banking services for clients starting their cooperation with the Bank. It lays emphasis on providing specialist support from an electronic banking expert (already from the first meeting with the Client) to the first transaction performed in the system. Thanks to the new process the transaction activity of new clients faster achieves the levels assumed for a given cooperation.

In 2014 the Bank was able to achieve a considerable, almost double growth in the number of users of corporate mobile banking. Mobile applications introduced new types of transactions (instant transfers and Sorbnet). Moreover, the possibility of handling several companies in a single application was implemented. It is planned to implement further projects enhancing mobile banking functionality.

Deposits

In 2014 Bank Millennium improved the structure of companies deposit products increasing the share of current accounts in the total volume to 27%. 2014 was yet another year in which costs of financing by means of corporate term deposits were strictly controlled - they fell on average in a year by 0.05%. The volume of corporate deposits at the year-end 2014 was PLN 17.8 billion.

VI.3. Treasury and investment operations

Treasury and Investment services

Bank Millennium as part of its business conducted by the Treasury Department enables the Bank's Clients to access a broad portfolio of financial instruments: spot exchange transactions, deposit products, instruments for managing exchange rate risk (fx forward, fx swap, options) and interest rate risk management instruments (FRA, IRS, CIRS transactions).

The solutions offered by the Bank allow both exporters and importers to hedge the exchange rate risk, and by the same token perform a correct calculation of costs and prices. Clients also have the possibility of hedging the risk of financial result deterioration due to adverse fluctuations in market interest rates in future - the proposed solutions enable both to establish fixed interest cost or income - and do not require the making of changes in the already functioning credit or leasing agreements.

In 2014 the Treasury Department continued its steps connected with active sales of the Millennium Forex Trader platform (for the first time - starting from 2014 - integrated with the Millenet online banking system), which is used by Corporate Banking Clients to conclude on their own spot and forward transactions and currency swap transactions. At year-end 2014 the Bank's platform was actively used by almost 1500 Clients.

Bank Millennium is the market's leading financial institution in structured products offered to Retail and Prestige Clients.

Custody services

Bank Millennium provides custody services based on an individual permit from the Securities and Exchanges Commission. Bank Millennium is a direct participant of deposit and settlement systems such as the National Deposit for Securities, NBP Securities Register or the International Clearing Houses: Euroclear Bank SA/NV, Clearstream Banking Luxembourg, etc.

Custody Department Clients are domestic and foreign financial institutions (global custody banks, depository banks or global depository receipts, investment banks, asset management institutions, insurance companies, mutual investment institutions, investment funds) and other legal persons active in operations of the capital and money market requiring a comprehensive and customised service.

In terms of the number of foreign and domestic Clients who entrust us with their assets Bank Millennium is one of Poland's top banks. The value of assets on Client security accounts as of 31 December 2014 stood at PLN 34.3 bn, which compared to PLN 30.25 bn in 2013 means a growth by 13.39 %. At the end of 2014 the Bank ran 11 476 securities accounts and performed the function of a Depositary for 80 Investment Funds.

In this year's Global Custodian ranking „Agent Banks in Emerging Markets Survey 2014” Bank Millennium received the „Category Outperformer” award. The award received by Bank Millennium corresponds to the „Best in its Class” Award, given by Global Custodian magazine in previous years. Custody services are assessed based on detailed surveys of client opinions about banks operating in this field all over the world.

VII. RISK MANAGEMENT

VII.1. Risk management framework

The mission of risk management in the Bank Millennium Group is to ensure that all types of risks are managed, monitored and controlled as required for the risk profile (risk appetite), nature and scale of the Group's operations. Risk management takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk.

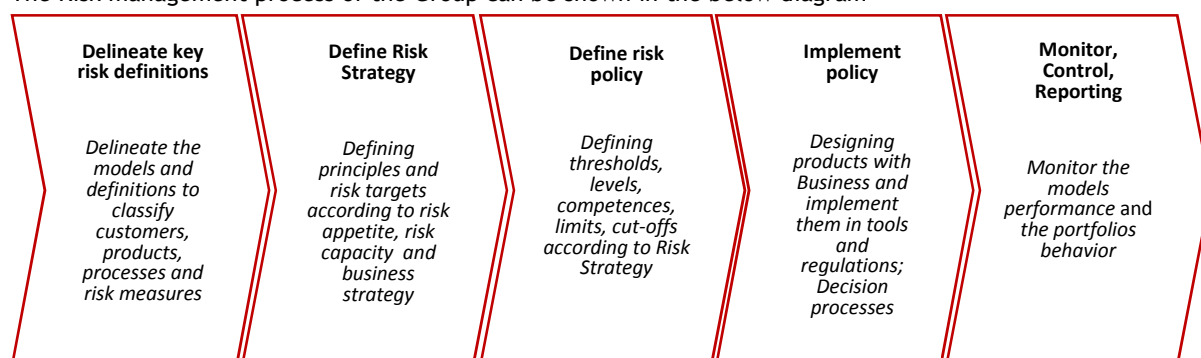
The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of employees as regards their responsibility for proper risk management at every level of the Group's organisational structure,

The risk management and control model at Group's level is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the segregation of duties between risk origination, risk management and risk control.

The Risk management process of the Group can be shown in the below diagram



In terms of internal organization, the Supervisory Board and Management Board of Bank Millennium are responsible at a strategic level for defining general risk policy, including approving of the risk management strategy and policy, as well as guaranteeing the necessary resources for their implementation.

At operational level, due to the complexity and diversification of the operations of the Group, the risk management function is supported by specialized committees with their competences specified by the Bank's Management Board. This is reflected in the works of the Risk Committee and additionally five specialized risk committees, i.e.:

- Capital, Assets and Liabilities Committee (CALCO);
- Credit Committee;
- Validation Committee;
- Liabilities-at-Risk Committee;
- Processes and Operational Risk Committee.

Specialized Committees are chaired by Management Board members and incorporate responsibilities for the main areas related to origination, monitoring and management of the specific risks.

The Risk Committee has global responsibility for risk control at the Group. In order to assure such control the Risk Committee monitors the evolution of various types of risks in the Group's operations and decides on the

general risk policy accordingly to the goals defined on the Risk Strategy (approved by the Supervisory Board). All the Bank's Management Board members are members of the Risk Committee.

The on-going risk management is centrally conducted by the Bank's dedicated unit - Risk Department and its subunits - specialized in particular types of risk or process stages. The goal of the Risk Department is proposing and implementing policy regarding the management of credit, market, liquidity and operational risks and monitoring the Group exposures to those risks, including for the purpose of calculation of capital requirements.

The Management Board of the Bank attaches particular attention to continuous improvement of the risk management process. One effect of this is the measurable success which the Bank and the Group reached in 2014 considering the results of AQR and the stress tests as well as the received authorization to the further use of the IRB approach in the process of calculating capital requirements.

Asset Quality Review (AQR) and Stress Tests

In 2014 European Central Bank covered the largest banks in the Euro zone with the Asset Quality Review (AQR) and the Stress Tests (coordinated by the European Banking Authority). The Polish Financial Supervision Authority (UKNF) decided to join these exercises and selected 15 Banks in Poland, representing 72% of the assets of the banking sector, including as well Bank Millennium SA.

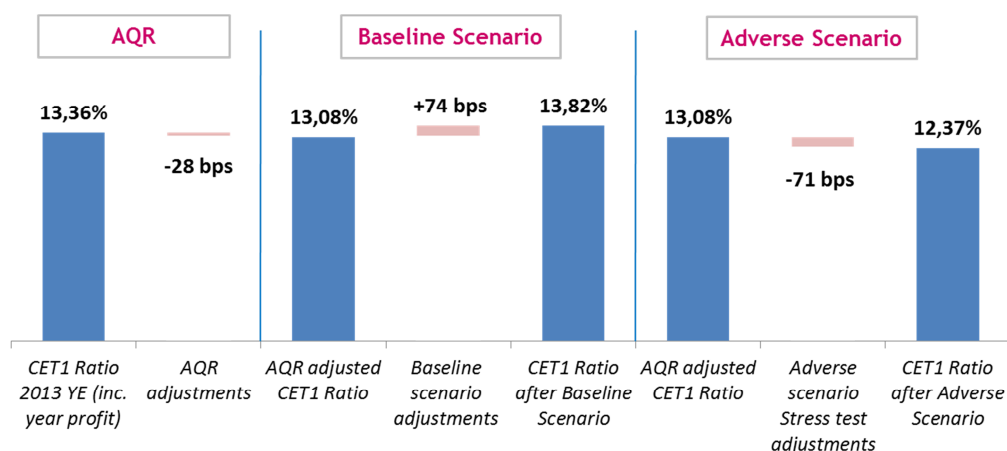
The specific objectives of the AQR were the assessment of adequacy of Bank's assets classification and level of provisioning for credit exposures and determination of the appropriate valuation of collateral for those exposures.

The AQR methodology incorporated credit asset valuation principles and assumptions more conservative than the currently applicable rules of IFRS, including a stricter definition of non-performing exposures. The methodology also required to have an external valuation for each type of collateral.

The Stress Tests aimed to investigate the stability of the banking sector and the behaviour of financial institutions in the event of a significant economic slowdown, financial turmoil and an increase in financing costs. Banks were theoretically tested for resilience to a baseline scenario and an adverse scenario (assuming unlikely hypothetical and very negative economic and financial events). The Group conducted Stress Tests on the basis of macroeconomic assumptions provided by the Supervisor and uniform for all banks, as well as on the basis of EBA methodology.

Bank Millennium has scored those two exercises at a very good level. Asset Quality Review results and Stress Tests were aggregated and resulted in minor adjustments to the consolidated capital adequacy ratio CET1:

- In the scope of Asset Quality Review (AQR), the level of adjustments of consolidated solvency ratio CET1 was minor and the outcome indicator decreased only by 28 b.p from 13,36% to 13,08%.
- In Stress Tests, in the baseline scenario - the adjusted CET1 ratio increased with 74 b.p reaching the level of 13,82%, In adverse scenario the adjusted CET1 ratio reached 12,37%, remaining more than twice the minimum threshold set at 5,5% and was only about 99 b.p lower than the CET1 ratio as of 31.12.2013 before the adjustments.



The Asset Quality Review (AQR) result and the relatively small size of adjustments are a confirmation of the sound principles that the Bank has been applying in terms of recognition of impaired exposures, collateral valuation and level of provisions. Bank Millennium had the second lowest adjustment of AQR among Polish banks. On the other hand, the stress tests results confirm the resilience and high level of solvency of the Bank even under shock scenarios.

Further use of the IRB approach

On 19th of December 2014 the Bank received authorization by Banco de Portugal (BdP) and KNF to ease the previous imposed regulatory IRB floor from 80% to 70% and, the same time, it received further conditions to the portfolios under IRB and under rollout.

This decision improved the Group Capital Ratios by +141 bp on CET1 and by +148 bp on TCR as of 31.12.2014.

This recent authorization from regulators represents, therefore, in the Group's view, an external acknowledgement of the significant and continuous achievements by the Group on risk management.

In fact, since 2010 the Group has been deeply involved in the process of having the authorization for the use of the IRB methods. The Group considered this project as crucial for two main reasons: first, it ensures that the Group will permanently have the best standards on credit risk management; and second, it is an effective way to optimize the capital management.

Following the IRB approach in a natural way enforces the application of highest standards in credit risk management and this in turn materially affects quality of the credit process, thus the level of credit risk itself.

As to assess credit risk of customers and transactions in fully concise manner, IRB method requires utilization of rating systems. Group's rating systems (rating models) are matched to a portfolios/products risk characteristics and were tailored separately to private individuals (retail mortgage loans, cash loans, overdrafts), small business, SME and corporates.

Applied risk models enable proper and reliable risk measurement, by employing well developed statistically risk parameters, like:

- probability of default of a customer (PD),
- loss given default for a transaction (LGD) and
- exposure at default for a transactions (EaD)

In fact, for every customer applying for a loan, internal rating must be assigned (PD equivalent), what enforce automated assessment of customer default risk. Rating models are automated and fully supported by IT systems. Every risk model (including rating models) have to be regularly monitored and validated in terms of quality, what stems also from IRB rules.

Using uniformed risk parameters in the portfolio regular monitoring reinforces the credit risk management process and helps to take a more accurate decision regarding credit risk controls.

VII.2. Capital adequacy

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 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 CET 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 (PFSa) and Bank de Portugal (college of Supervisions).

Capital risk, expressed in the above ratios, is measured and monitored in a regular manner. As for all capital targets, it were determined some minimum ranges for those values. The Capital ratios in a given range causes a need to take appropriate management decisions or actions. 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 2014, all capital targets were met with a significant surplus. It relates both to realised ratios, and 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 capital planning process. 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

In the area of regulatory capital adequacy, an event that required a considerable implementation effort was an alignment to the rules of Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR). Nevertheless the impact of new rules on capital adequacy was not significant (*decrease of total capital ratio by 13 p.b. and common equity CET 1 capital ratio by 8 p.b.*).

According to 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 (PFSa).

The Group assumes to maintain the own funds requirements higher than the minimum set by 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 2014 the Group has been continuing works on improving further already approved portfolios and on receiving the IRB approval for the remaining loan portfolios under roll-out plan: other retail exposures and exposures to corporates. That resulted in submitting by the Group IRB further applications to Supervisory Authorities during 2014. After completing a validation of information and data contained in the IRB applications, Supervisory Authorities presented a list of conditions that shall be met by the Group to receive an IRB approval for remaining portfolios and to reduce or abolish Regulatory floor.

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 requirements 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:

- 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;
- 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;
- economic capital aggregation - (loss distribution) and consideration of diversification between risk types;
- stress tests for internal capital calculation purposes;
- reporting.

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

In 2014 both economic capital buffers were met with a significant surplus. 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 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.

Capital requirements and ratios of the Group and Bank Millennium as at 31st December, 2014 are presented in the below table:

Bank Millennium Group - capital adequacy (PLN mn)	31.12.2014	31.12.2013
	IRB with regulatory floor ¹⁾	IRB with regulatory floor ²⁾
Risk-weighted assets (RWA) for Group	35 257,0	36 653,9
Risk-weighted assets (RWA) for Bank	34 634,5	35 603,6
Own funds requirements for Group	2 820,6	2 932,3
Own funds requirements for Bank	2 770,8	2 848,3
Own Funds for Group	5 368,9	5 327,8
Own Funds for Bank	4 988,4	4 848,3
Total Capital Ratio for Group (TCR)	15,2%	14,5%
Total Capital Ratio for Bank (TCR)	14,4%	13,6%
Common Equity Tier 1 Ratio for Group (CET1 ratio) ³⁾	14,5%	13,4%
Common Equity Tier 1 Ratio for Bank (CET1 ratio) ³⁾	13,7%	12,7%

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

VII.3. 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 (%)	4,2%	4.4%
Past-due over 90 days over total loans ratio (%)	3,0%	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		2013	
	Balance Exposure (PLN million)	share (%)	Balance Exposure (PLN million)	Share (%)
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

VII.4. Other risks

Market risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse market movement. The framework of market risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the BCP Group.

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model - an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for the portfolios that are subject to high market risk. Additionally, in the process of interest rate risk management, the Group also uses interest income sensitivity measure and analyzes repricing gaps.

In situations as the one faced in October 2014 (cut by the Monetary Policy Council the reference rate by 50 bps and of lombard credit rate by 100 bps) the Bank is subject to asymmetrical impacts on its Net Interest Income. This is due to the Polish legal system and the fact that the interest rate of consumer loans and credit cards cannot exceed four times the Lombard interest rate of the National Bank of Poland. The impact on net interest income in face of decrease of the interest rate depends among other factors on the percentage of the loan portfolio that is affected by the new maximum rate.

VaR ratios reflect total exposure to market risk in the Group. In 2014, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Group was relatively low during 2014 and was on average equal to PLN 29.1 million compared to the end-of-year internal limit of PLN 277.8 million.

All eventual excesses of market risk limits are reported, documented and ratified at the proper competence level. In 2014, the market risk exposure was kept within limits in place (no excesses were detected).

More on market Risk in terms of VaR and management of interest rate risk in Banking Book- see point 8 in Annual Financial Statements of the Capital Group of Bank Millennium for 12 month period ended 31 Dec. 2014.

Liquidity risk

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Group's obligations.

The process of the Group's planning and budgeting covers the preparation of a Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In 2014, the Group's Loan-to-Deposit ratio was kept below 100% (as of end of December 2014 the ratio was equal to 92.0%). The liquidity surplus was still invested in the portfolio of liquid assets (Cash, balance with NBP, NBP Bills and Polish Government bonds). The share of Polish government securities (including NBP Bills) in

total securities portfolio in Banking Book (qualified as assets available for sale) amounted to 99% at the end of December 2014 that is 15% of total assets.

	31.12.2014	31.12.2013
Loans/Deposits ratio (%) *	92,0%	91.5%
High liquid assets portfolio (PLN million) (**)	11 862	11 546

(*) including bonds for individual Clients and sell-buy-backs with Clients

(**) without Trading activity

At the end of 2014 total Clients' deposits of the Group reached the level of PLN 47.6 billion. The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grow to approx. 62.6% at the end of December 2014 from 58.3% at the end of December 2013. Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

During 2014 the Bank continued to explore the possibility of raising additional funding from bond issue in order to diversify the source of funding. At the end of 2014, the value of bonds placed in institutional investors increased to PLN 1 408 million from PLN 353 million at the end of 2013. The growth was connected with the issue of the 3-year floating rate bonds in the total amount of PLN 500 million at the end of March 2014. Another PLN 501 million of that portfolio increased due to 3-month term bonds, issued partially as a replacement of deposits from financial institutions and as rollover of 3-months bonds issued already in 2Q and 3Q 2014. The new issues had a positive impact on the Group's liquidity.

The Group manages its FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Group has signed a Credit Support Annex to the master agreements.

The estimation of the Group's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. In 2014 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place.

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2014 all the liquidity gaps were maintained at the levels significantly above the minimum limits, both for normal as well as stress scenarios.

Liquidity stress tests are performed at least quarterly, in order to understand the Group's liquidity-risk profile and to ensure that the group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the Liquidity Contingency Plan and management decisions.

The Group has emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least twice a year and it is tested once a year in order to ensure that it is operationally robust.

Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organisational structure. Current management of the specific processes, including the management of the profile of process operational risk, is entrusted to Process Owners, who report to all other units participating in the risk management process and are supported by these units.

The Group has in its structure a special organizational unit to develop, implement and monitor the Group's policy for management of this risk in cooperation with other organisational units of the Group and in accordance with its internal regulations. The Fraud Risk Management Bureau is a centre of competence for the fraud prevention process.

VIII. HUMAN RESOURCES MANAGEMENT

VIII.1. Personnel Policy

The Bank Millennium Group has, in place, its Human Resource Policy defining general rules and principles governing recruitment, evaluation, development and retention of employees. On the basis of this Policy and business assumptions, the Bank developed its HR Management Strategy to regulate all HR management areas including employment and remuneration.

The Bank Millennium Group attaches significant importance to HR Management quality, investing in both development and monitoring of this area.

Competences and attitudes represented by managers have decisive impact upon Staff management; hence the Bank attaches major importance to the quality of their work. The Bank takes a proper care for application of the best practices including, in particular, in the area of open and full communication with employees and provision of feedback to employees in their work quality. For several years, the programme „Managerial Academy” has been consistently implemented. Within the programme, in 2011 - 2013, managers participated in training courses to develop their leadership skills.

In the monitoring area, once a year employee satisfaction survey is conducted. Within the survey, several questions were defined to facilitate evaluation of managers' performance quality in terms of human resource management. Furthermore, in 2013 an additional survey was conducted in the Bank Millennium Group to verify, exclusively, quality of management. Results of both surveys were presented to the Management Board, managers and employees. On the basis of conclusions drawn from either survey, action plans for a consecutive period were prepared.

Appropriate image of the Bank as an employer has major impact upon HR policy effectiveness. The Bank Millennium Group has, for years, focused on building its image of attractive employer. Since 2003, the Bank Group has been an active participant in labour fairs addressing needs of students and graduates from prestigious universities throughout Poland, where the Bank promotes various development programmes addressed to these groups of recipients. Since 2002, the Bank has been conducting the management competence development programme „People Grow”. During 2 years of performance, the programme participants have been given an opportunity to learn about various areas of the Bank operation. In effect of the rotation system and „training on the job” approach, they gain experience in various organisational units. Graduate students and graduates can take part in Expert Start-Up programmes. To these programmes, we recruit persons with specific professional interests in risk, process management, IT, and electronic banking (for more information about these programmes see: Social Responsibility Report). Since 2013, the Bank increased its active presence in social media.

VIII.2. Employment and costs of personnel

HR management effectiveness constitutes an important element of the Bank Millennium Group strategy. The Group monitors both individual personal cost line items as well as the level of FTEs, conducting, for many years now, a stable cost and employment level policy. Staff turnover is monitored and reported on current basis and exit interviews are conducted with persons leaving the Group. Employment level and effective use of resources are subject to verification against appropriate market benchmarks.

Employment in the Group (full time equivalent)	31.12.2014	31.12.2013	Change
Bank Millennium	5 770	5 541	229
- including key positions	132	129	3
Subsidiaries	338	340	-2
Bank Group	6 108	5 881	227

Employment in the Bank Millennium Group, as at the end of 2014, reached 6 108 full time equivalents i.e. increased, relative to the situation at the end of 2013, by 227 FTEs (i.e. by 4%). Bank Millennium is the largest employer in the Group with the total head count as at the end 2014 of 5 793 persons, an equivalent of 5 770 in terms of full time equivalents. Bank Millennium Group subsidiaries employed, at the end of the year, the total of 338 full time equivalents with the three companies Millennium Leasing, Millennium Dom Maklerski and Millennium TFI being the main contributors.

Employment in the Bank (full time equivalents)	31.12.2014	31.12.2013	Change
Branches and direct sales	3 909	3 692	217
Head Office	1 861	1 849	11
Total Bank Millennium	5 770	5 541	229

Employment structure in Bank Millennium demonstrates significant dominance of persons employed directly in sales of the Bank products and services including, primarily, in 423 Bank outlets located throughout the country.

The objective of the Bank Millennium Group remuneration policy is to ensure remuneration of employees adequate to currently performed tasks, their competences and scopes of responsibility. In particular, major weight is attached to proper levels of basic wage. Remuneration levels are verified on the basis of periodical performance assessment, potential evolution of the level of skills involved in performance of tasks of the organisation. Furthermore, payroll information presented in surveys of remuneration in the financial market is subject to analysis.

The total personnel costs in the Bank Millennium Group in 2014 and the preceding year were, as follows:

Personnel costs (in PLN mln)	2014	2013	Change (%)
Bank Millennium	507.6	509.8	-0.4%
Subsidiaries	39.4	37.1	6.2%
Total Bank Millennium Group	547.0	547.0	0.0%

VIII.3. Remuneration policy

An important part of remuneration management in the Bank is the stand-alone policy of variable components of remuneration of persons in management positions in the meaning of Regulation of European Parliament and of the Council of 26 June 2013, which is a tool to support the Bank Millennium Group's management system and encourages particular attention to the Bank's long-term interest as well as avoiding excessive exposure to risk.

The aim of the policy is implemented by deferring a significant part of variable remuneration of persons in specific management positions for the period of three years and reassessing the effects of management decisions over this period. Moreover 50% of this remuneration is paid in financial instruments, the value of which depends on the future price of Bank Millennium shares.

Individual variable remuneration of persons embraced by the policy shall not exceed a defined % of the reference level (100%) with respect to total annual base salary what is according to CRD IV. Additionally, the total pool of money for variable components of the remuneration of Members of Management Board of Bank Millennium may not exceed a percentage (defined by the Supervisory Board) of consolidated net profit of Bank Millennium Group (2%).

The annual bonus pool for persons in management positions is awarded following prior analysis of the Bank's situation regarding:

- Actual business results and main efficiency and profitability ratios;
- Liquidity;
- Capital adequacy ratios.

The Policy of variable components of remuneration of persons in management positions has been revised by Supervisory Board of 24th October 2014.

Bank Millennium shall disclose on its internet site adjusted quantitative information concerning variable components of remuneration of persons in management positions after the meeting of Personnel Committee of Supervisory Board focused on evaluation of 2014 and granting of variable components of remuneration.

Remaining employees in 2014 were covered by bonus systems tailored to the business targets defined for individual units. The amount of bonus pool for quarterly calculation periods in individual units depends on attainment of positive financial results by the Bank as well as fulfilment of the total net profit plan of Bank Millennium Group.

Bonuses in the Bank's back-office units totalled on average approx. 1/5 of total annual remuneration. In bonus systems based on sales performance the amount of bonus is relatively more diversified, however it is assumed that the value of annual variable remuneration of the sales force may not exceed annual base salary. Base salaries of employees are subject to revision twice a year with reference in particular to work performance evaluation as well as market remuneration benchmarks.

Decision on granting variable remuneration referring to 2014 for Management Board is going to be taken by Personnel Committee of Supervisory Board after approval of Bank's results by Shareholding Meeting.

IX. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

IX.1. Statement on the Principles of Corporate Governance Employed in 2014.

„Good Practices in Public Companies on the WSE” adopted by the Board of the Warsaw Stock Exchange constitute a set of Corporate Governance principles to whose observance Bank Millennium was committed in 2014. The fundamental standard of the above-mentioned Good Practices is the „comply or explain” rule, i.e. the duty to publish information in the form of a report, whenever any of the principles described in the “Good Practices” guidelines is not followed. The full text of the “Good Practices” document is available from the WSE website www.corp-gov.gpw.pl and from the Bank’s website <http://www.bankmillennium.pl/en/about-the-bank/corporate-bodies-and-governance>

In 2014 Bank Millennium observed all the principles contained in the Good Practices except one rule provided for in Chapter IV section 10 item 2 of Good Practices, regarding ensuring the shareholders with opportunity to participate in General Meetings of Shareholders („GMS”) with the use of real-time online two-way communication, by means of which the shareholders may take an active part in a General Meeting of Shareholders from a different place than the place of meeting. In the Bank’s assessment the implementation of this rule during a General Meeting carries with itself certain technical and legal risks to the correct and efficient conducting of the General Meeting. In the Bank’s assessment the avoiding of these threats constitutes a bigger value for the shareholders than the implementation of the rule from Chapter IV section 10 item 2 of Good Practices. At the same time the Bank since 2008 has provided real-time internet broadcasting of the proceedings of the GMS, in accordance with the requirement specified in Chapter IV section 10 item 1 of Good Practices. At the same time the Bank does not rule out the possibility of ensuring to the shareholders two-way real time communication during the proceedings of a General Meeting, should actual or legal circumstances change.

Otherwise, by applying due diligence in establishing corporate and investors’ relations, Bank Millennium, as a company listed on WSE, complied, in 2014, with standards of Good Practices. The Bank strives to ensure the highest transparency of its activities, proper communication with investors and protection of shareholder rights also in materials not regulated by effective laws.

From the beginning of 2015, the Bank, as a financial institution, is also subject to the Principles of Corporate Governance for Institutions Supervised by the Polish Financial Supervision Authority (Principles), as accessible from the KNF website www.knf.gov.pl

In December 2014 the Bank’s Management Board and the Supervisory Board passed resolutions on application of the Principles, with the exception of those stipulated in:

- 1) § 8 sec. 4 - principle demanding the possibility of electronic active participation in the GMS,
- 2) § 16 sec. 1 and § 24 sec. 1 - rules concerning holding of meetings of the Bank’s governing bodies (Management Board and Supervisory Board) in Polish.

The Bank’s position that there is no possibility of electronic active participation in a GMS is consistent and reiterates the Bank’s position previously expressed with respect to a principle existing in the Good Practices, referred-to above.

With respect to the principle of holding meetings of the Management Board and Supervisory Board in Polish the Bank has taken position that the knowledge of the English language by the Management Board Members enables full mutual understanding and an appropriate level of communication during meetings. Furthermore the practically applied rule of holding Supervisory Board meetings both in Polish as well as in English, with necessary assistance provided by an interpreter, also enables full mutual understanding and an appropriate level of communication.

The Management Board and the Supervisory Board decided to apply to the GMS, approving the financial statement for the year 2014, in the matter of the Principles addressed to Shareholders.

In the reporting period, the Bank was, for the seventh consecutive time, listed among RESPECT Index companies („Index”) - the Central and Eastern Europe’s first index of socially responsible companies. In the course of review conducted in December 2014, the RESPECT Index incorporated only 24 companies from amongst the entire population of businesses listed on WSE. Enterprises incorporated in the said Index operate on the basis of the best corporate governance standards, information policy, investor relations and in the area of employee matters, social relations and environment protection.

IX.2. Shareholders and General Meeting of Shareholders

As on 31 December 2014, the Bank's share capital consisted of 1,213,116,777 shares (1 PLN of par value each). Below please find information about the shareholders in direct or indirect possession of significant blocks of shares with the number of shares held by them, their share in the share capital and the total number of votes at the General Meeting of the Bank's Shareholders. Since the Bank is a public company and its shares traded on the Warsaw Stock Exchange, the Bank does not have any detailed data concerning the composition of shareholders as on 31 December 2014.

As on 31.12.2014, Bank Millennium had two shareholders holding more than 5% of votes at GMS.

Banco Comercial Portugues (BCP), the largest private bank in Portugal - as a strategic investor holds 65.5% of all Bank Millennium shares.

According to the available information, the other major shareholder is the Poland's largest pension fund ING OFE, which, as on 31.12.2014, held 7.9% of the Bank's shares. The remaining shares, i.e. 26.6% of the share capital, are vastly dispersed among Polish and foreign shareholders, both institutional and individual.

The Bank's shareholders as on 31 December 2014.

Shareholder	Number of shares	% share capital	Number of votes	% share in votes at GMS
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING OFE	95 521 053	7.87	95 521 053	7.87
Total number of Bank's shares	1 213 116 777	100	1 213 116 777	100

The Bank's shareholders as on 31 December 2013

Shareholder	Number of shares	% share capital	Number of votes	% share in votes at GMS
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING OFE	90 560 790	7.47	90 560 790	7.47
Aviva OFE	65 923 565	5.43	65 923 565	5.43
Total number of Bank's shares	1 213 116 777	100	1 213 116 777	100

Data provided in the tables were calculated in accordance with the following principles. With respect to Banco Comercial Portugues S.A the data were collected in connection with registration of the shareholders eligible to take part in the General Meetings of Shareholders convened for 11 April 2013 and 10 April 2014. With respect to ING OFE the number of shares and their participation in the Bank's share capital were calculated on the basis of the Annual Structure of ING OFE assets as of 31 December 2013 and 31 December 2014 (published on the website: www.ingofe.pl). For the purposes of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 7.23 PLN for 2013 and 8.25 PLN for 2014.

As a majority shareholder Banco Comercial Portugues S.A. („BCP”), exercises its shareholder's rights stipulated in the Code of Commercial Companies and the Bank's Articles of Association. BCP exercises corporate control over the Bank. By holding a majority of votes at a General Meeting of Shareholders BCP may exert decisive impact upon the decisions about the most important corporate issues, such as amendments to the Articles of Association, issue of new shares of the Bank, reduction of the share capital of the Bank, issue of convertible bonds, payment of dividends and other actions that pursuant to the Code of Commercial Companies require a simple or qualified majority at a General Meeting of Shareholders. BCP has also a sufficient number of votes to appoint all the Members of the Supervisory Board, which in turn appoints Members of the Management Board. Due to the above corporate rights BCP is able to exercise significant control over the operations of the Bank.

The Bank is not aware of any agreements concluded between shareholders regarding their mutual cooperation and the Bank is not aware of any agreements that, in future, might cause changes in the proportions of shares held by existing shareholders.

The Bank's shareholders exercise their rights in the way and within the boundaries defined by effective general laws, the Articles of Association of the Bank as well as the Bylaws of the General Meeting of Shareholders. Each share of the Bank entitles to one vote, however registered founding shares in the outstanding number of 62,200

are preferential in as much as one share entitles to two votes at a GMS. Registered founding shares in total accounted for 0.0051% of the Bank's share capital and 0.0102% of the total number of votes at a General Meeting, as on 31 December 2014.

Founding shares are subject to disposal restrictions, i.e. their disposal subject to a consent of, at least, three fourths of the founders, to other founders does not result in their loss of preferential status. A disposal of registered founding shares in all other cases causes loss of their preferential status. There are no restrictions on exercising voting rights under the Bank's shares and none of the holders of securities issued by the Bank has any special controlling rights with respect to the Bank.

Bank Millennium shares are listed on Warsaw Stock Exchange in Warsaw since 13 August 1992 as the first among all banks. Currently 1,213,007,541 shares with code ISIN PLBIG0000016 (symbol GPW: MIL; Reuters: MILP.WA; Bloomberg: MIL PW) are traded on the stock exchange.

In addition, shareholders have 109,236 registered shares of which 62,200 are founder's shares, privileged (right to two votes on GMS). Thus, total number of Bank Millennium shares amount to 1,213,116,777 shares and total number of votes on GMS amount to 1,213,178,977.

General Meeting of Shareholders

The General Meeting of Shareholders (GMS) is the supreme governing body of the Bank. The General Meeting operates in accordance with generally applicable effective laws including, in particular: the Code of Commercial Companies and the Banking Law. Internal procedural rules of the General Meeting of Shareholders are provided for in the form of the Articles of Association and Bylaws and are available from the Bank's website by clicking the bookmark: "About the Bank > Corporate Bodies & Governance". These documents describe, in particular, procedures applicable to General Meeting activities, its competences and, moreover, they indicate specific powers of shareholders to be exercised in the course of a General Meeting.

The competencies of the General Meeting include, *inter alia*, amending the Articles of Association, which includes an increasing and reduction of share capital.

IX.3. Supervisory Board

The Supervisory Board is a governing body elected for a fixed term and exercising supervision over the activity of the Bank, whose term of office is three years. The Supervisory Board operates under legal regulations, the Articles of Association of the Bank, resolutions of the General Meeting of Shareholders as well as the Bylaws available on the Bank's website. The competences of the Supervisory Board comprise, in particular, appointment and recalling of the Members of Management Board (by an ordinary majority of votes) and determination of their remuneration principles.

The meetings of the Supervisory Board are held at least once a quarter and when needed the Supervisory Board adopts resolutions by a simple majority of votes with at least half of the Supervisory Board Members present. In the case of equal votes the Chairman of the Supervisory Board has a casting vote.

The Supervisory Board of the Bank is composed of at least five Members elected by the General Meeting of Shareholders, of whom at least half, including the Chairman, are of Polish nationality.

In the reporting period the following persons comprised the Supervisory Board of the Bank:

1. Bogusław Kott - Chairman of the Supervisory Board

Mr. Bogusław Kott graduated from the Foreign Trade Faculty at SGPiS (present name SGH - Warsaw School of Economics) in Warsaw. For many years he worked at the Ministry of Finance, specializing in foreign trade financing.

He co-founded and co-organised Bank Millennium S.A., and from 1989 when the Bank was established, till 24 October 2013 was Chairman of the Management Board. Currently, he is the Chairman of the Supervisory Board of Bank Millennium S.A.

Mr Bogusław Kott also sits in the Supervisory Board of Yareal Polska Sp. z o.o.

2. Maciej Bednarkiewicz - Deputy Chairman of the Supervisory Board

Mr. Maciej Bednarkiewicz graduated from the Law Faculty at the University of Warsaw. He started his lawyer's practice in 1969. He was also a lecturer for trainee attorneys, Chairman of the Supreme Bar

Council, Member of the Sejm of the 10th term, Member of its Constitutional Committee and Vice-Chairman of the Regulations Committee.

In 1991-1993 he was an advisor to the Head of the Sejm's Chancellery. Furthermore, he was Member of the Legislative Council at the Council of Ministers. In the years 1991-2003 he was a judge of the Tribunal of State.

From 8 September 1993 till 5 January 2001 he was Member of the Supervisory Board of BIG BANK Spółka Akcyjna. From 20 February 1995 till 24 October 2013 he was the Chairman and currently he is Deputy Chairman of the Supervisory Board of Bank Millennium S.A. He is also the Deputy Chairman of the Supervisory Board of PBG S.A.

He is a lawyer specializing in banking cases. He has a law office.

3. Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board

Mr. Nuno Manuel da Silva Amado graduated in Companies Organization and Management at ISCTE (Instituto Superior de Ciencias do Trabalho e da Empresa) and attended the Advanced Management Programme at INSEAD (France).

From 1980 he worked in consulting (KPMG) and financial companies; between 2006-2012 he was Chairman of the Executive Committee and Vice-Chairman of the Board of Directors of Banco Santander Totta (Portugal). Since 2012 he has been Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Comercial Portugues (BCP), Portugal. Since 20 April 2012 Deputy Chairman of the Supervisory Board of Bank Millennium S.A.

4. Marek Furtek - Secretary of the Supervisory Board

Mr. Marek Furtek, graduate of the Department of Law and Administration at the University of Warsaw and a series of training courses in comparative law at Faculté Internationale du Droit Comparé, Strasbourg (1985, 1986, 1988).

Legal Counsel, Member of the District Chamber of Legal Counsels in Warsaw. President of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw and Member of the Alternative Dispute Resolution Council of the Minister of Justice. Founder and partner at FKA Furtek Komosa Aleksandrowicz Sp. k. law firm in Warsaw. Member of the Supervisory Board of Bank Millennium S.A. in 2006-2008 and since 27 March 2009 Secretary of the Supervisory Board. Mr Marek Furtek also sits in the authorities of Leopold Kronenberg Banking Foundation.

5. Miguel de Campos Pereira de Bragança - Member of the Supervisory Board

Mr. Miguel de Campos Pereira de Braganca graduated in Company Management and Administration from the Catholic University of Portugal and attended the INSEAD MBA programme (France).

Since 1989 he has worked for banks in Portugal, Brazil and Great Britain. Between 2008-2012 he was Director, responsible for the Financial, Accounting and Control, Marketing and Products Areas, at Banco Santander Totta and Banco Santander de Negocios (Portugal). Since 2012 Member of the Board of Directors and Vice-Chairman of the Executive Committee of Banco Comercial Portugues (BCP), Portugal. Since 20 April 2012 Member of the Supervisory Board of Bank Millennium S.A.

6. Luís Maria França de Castro Pereira Coutinho - Member of the Supervisory Board

Mr. Luis Maria Franca da Castro Pereira Coutinho graduated in Economics at the Catholic University of Portugal.

Since 1985 he has worked in banks in Portugal. Between 2003 and 2009, he was Deputy Chairman of the Management Board of Bank Millennium S.A. in Poland. Since 27 March 2009 Member of the Supervisory Board of Bank Millennium SA. Between 2008-2012 he was Member of the Executive Board of Directors of Banco Comercial Portugues (BCP). Since 2012 he has been Member of the Board of Directors and Member of the Executive Committee of Banco Comercial Portugues (BCP), Portugal.

7. Grzegorz Jędrys - Member of the Supervisory Board

Mr Grzegorz Jędrys is a graduate of the Production Economics Faculty of Warsaw School of Economics and of a post-graduate course at Warsaw School of Economics in Strategic Marketing Management as well as real estate agency operation. Moreover Mr. Jędrys attended many courses and training sessions, i.a. for candidates for members of supervisory boards of State Treasury companies (2008).

He began his professional career in 1994 in the Housing Finance and Municipal Advisory Programme for Poland/PADCO - a joint Poland-USAID programme. In 1996 he worked as Manager of the Building Projects Financing Team in Polsko-Amerykański Bank Hipoteczny S.A. In 1997 - 1999 he was employed in Jedenasty Narodowy Fundusz Inwestycyjny S.A., initially as an Investment Analyst, then as Project Director. Between 1999 and 2005 he was Investment Director in Trinity Management Sp. z o.o. - a company, which managed the assets of Jupiter NFI S.A. as well as Pekao Fundusz Kapitałowy Sp. z o.o. In 1997 - 2005 he sat on Supervisory Boards of many companies.

Starting from 2005 he has been Head of the Poland's Representative Office of the Polish American Freedom Foundation. Since 11 April 2013 he has been Member of the Supervisory Board of Bank Millennium S.A.

8. Andrzej Koźmiński - Member of the Supervisory Board

Mr. Andrzej Koźmiński, Correspondent Member of Polish Academy of Sciences, for eighteen years Rector of Kozminski University in Warsaw, currently its President, Chairman of the ALK Board of Trustees, Head of the Management Chair till 2014; also performs the function of President of the Management Board of Międzynarodowa Szkoła Zarządzania S.A. In 1981-1987 he was the Dean of the Management Faculty at Warsaw University and in 1991-1996 he was the Director of the International Management Centre of Warsaw University. In 1990-1996 he was a lecturer at the University of California in Los Angeles, invited every year for a semester. In 1982-1989 he was a lecturer at the University in Orleans, France. Visiting professor in many renowned foreign universities.

Professor of economic sciences, with specialisation in "organisation and management", he has published over 400 research papers in this area in many languages, including 47 books. He is an elected Member of the International Academy of Management, Academie Europeene and Academie des Sciences Commerciales in Paris and Warsaw Scientific Society. He is an Honorary Vice-President of the Central and East European Management Development Association (CEEMAN), until 2008 he was a member of the Accreditation Committee of the European Foundation for Management Development (EFMD) in Brussels and Member of the International Committee of the American Association of Collegiate Schools of Business (AACSB). Member of the Scientific Board of UNESCO CEPES (European Center for Higher Education in Bucharest). He is a Member of the Presidium of the Committee of Organisation and Management Sciences at the Polish Academy of Sciences and Member of the Prime Minister's Council for Social and Economic Strategy. Member of the Supervisory Board of Orange Polska S.A. Since 1 August 2000 Member of the Supervisory Board of Bank Millennium S.A.

9. Maria da Conceição Mota Soares de Oliveira Callé Lucas - Member of the Supervisory Board

Ms. Maria da Conceicao Mota Soares de Oliveira Calle Lucas graduated in Company Management and Administration at the Catholic University of Portugal and a Master's Degree from the London School of Economics, University of London (England).

Since 1983 she has worked at banks in Portugal. Between 2009 and 2012 she was a Director of Banco Privado Atlantico-Europa S.A. (Portugal). Since 2012 she is Member of the Board of Directors and Member of the Executive Committee of Banco Comercial Portugues (BCP), Portugal. Since 20 April 2012 Member of the Supervisory Board of Bank Millennium S.A.

10. Marek Rocki - Member of the Supervisory Board

Mr. Marek Rocki, graduated from the Finance and Statistics Department, SGPiS (now SGH Warsaw School of Economics) in Warsaw.

Since 1991 has been a professor extraordinary at the Institute of Econometrics of the Warsaw School of Economics. He worked in the Consolidated Brewing Industry Organisation, Institute of Machine Industry Economics and Organisation and since 1981 has been connected with the Warsaw School of Economics (SGH). From November 1981 he was assistant professor in the Institute of Econometrics at SGPiS and in the period 1982 -1988 the scientific secretary of the Institute of Cybernetics and Management at SGPiS. In 1984-88 and 1989-1991 he headed the Department of Econometrics at the Institute of Econometrics. From December 1990 he was the Deputy Rector of Warsaw School of Economics for Teaching. During the 1993-1996 term he was Deputy Rector for Management, while in the period 1996-1999 he held the function of Dean of SGH Graduate Studies. In the years 1999-2005 for two terms he held the office of Rector of SGH. In the years 2005 - 2011 he was the Dean of the SGH Economic Analyses College.

He combined his research and teaching activity in university with work in other institutions, i.a. in the Planning Commission, Central Planning Office. Member of the SGPiS IT Centre Consultative Board (1984-1985), University Senate Organisation and Development Committee (1987-1990). Chairman of AZS Main Board since 2003. At the same time Chairman of the Polish Accreditation Committee since 2008. In the parliamentary elections in 2005, 2007 and again in 2011 he was elected for the Senate of the Republic of Poland. He is a Member of the Supervisory Boards of following companies: COGNOR S.A. and Makarony Polskie S.A. Since 1 August 2000 Member of the Supervisory Board of Bank Millennium S.A.

11. Dariusz Rosati - Member of the Supervisory Board

Mr. Dariusz Rosati, graduated in International Trade from the Main School of Planning and Statistics - SGPiS (now SGH Warsaw School of Economics) in Warsaw. Professor of economic sciences with the position of Full Professor in the European Union Unit of the SGH Institute of Foreign Trade Policy and European Studies. In 1978-1979 he was a consultant at Citibank in New York. In 1985-1986 and 1987-1988 - founder and Director of the World Economy Research Institute at SGH. In 1986-1987 he was a Fulbright scholar at the University of Princeton (USA). In 1988-1991 he was the director of the Foreign Trade Research Institute. Since 1990 Professor of Economic Sciences at SGH. In 1991-1995 he worked in the UN Economic Commission for Europe in Geneva (Switzerland) as Head of the Central and Eastern European Section. During 1995 - 1997 Minister of Foreign Affairs of the Republic of Poland. In 1978 - 1991, UNIDO consultant and member of numerous missions to developing countries. In 1988-1991 many times worked as an expert of the World Bank, the United Nations University World Institute for Development Economics Research (WIDER), International Labour Organisation and Commission of the European Communities. Member of the Economic Reform Commission (1987-1989), team of the economic advisors to the Prime Minister (1988 - 1989), the Socio-Economic Strategy Council at the Council of Ministers (1994 - 1998). Since 1997 Member of the Committee of Economics at the Polish Academy of Sciences. In 1998-2004 Member of the Monetary Policy Council of the National Bank of Poland and in 2001-2004 he was a member of the Group of Economic Policy Advisors to the President of the European Commission. From 2003 to 2005 Rector of the Lazarski University in Warsaw. In years 2004 - 2009 and currently (elected in 2014) Member of the European Parliament. Member of Parliament of the Republic of Poland of 7th term - he performed the function of the Chairman of the Public Finance Committee. Author of more than 200 scientific papers and publications, including five books on economic policy. Member of the Supervisory Board of Bank Millennium S.A. since 27 May 2004.

12. Rui Manuel da Silva Teixeira - Member of the Supervisory Board

Mr. Rui Manuel da Silva Teixeira graduated in Electronic Engineering at the University of Oporto.

From 1987 he held managerial positions at Banco Comercial Portugues (BCP). Between 2003 and 2006 he was a Member of the Management Board of Bank Millennium S.A. (Poland) and between 2009 and 2010 he was Deputy Chairman of the Management Board of Bank Millennium S.A. (Poland). Between 2011 and 2012 he was Member of the Executive Board of Directors of Banco Comercial Portugues (BCP). Since 2012 Member of the Board of Directors and Member of the Executive Committee of Banco Comercial Portugues (BCP), Portugal. Since 20 April 2012 Member of the Supervisory Board of Bank Millennium S.A.

The present term of office of the Bank's Supervisory Board ends as of the day of holding a General Meeting of Shareholders approving the financial report for the financial year 2014.

Audit Committee

The Audit Committee as a standing committee of the Supervisory Board was established in 2000. Its task is to monitor the Bank's financial reporting systems and processes, as well as risk management. In particular the Audit Committee is responsible for carrying out on behalf of the Supervisory Board control over the functioning of the Bank's internal audit.

In compliance with the Act on auditors and their self-government, entities entitled to audit financial reports and on public supervision (Act on Certified Auditors) the Audit Committee must consist of at least three members and at least one of the Members of the Audit Committee must satisfy the independence requirements and have qualifications in accounting or financial auditing. The Audit Committee meets on a regular basis (once every quarter) and in the extraordinary mode. It is convened by the Chairman of the Supervisory Board on his own initiative or at the request of a Member of the Supervisory Board or a Member of the Management Board. The duties of the Audit Committee include specifically: (i) constant monitoring of the activities of the Bank's auditor and issuing opinions regarding independence of the auditor and any other relations between the auditor and the Bank; (ii) constant monitoring of the systems and processes of financial reporting and risk management of the Bank; and (iii) evaluation and monitoring of internal procedures for accounting and auditing as well as other control systems, including acceptance and handling complaints and doubts concerning them.

From 1 January until 31 December 2014 the Audit Committee was composed of the following persons:

1. Dariusz Rosati - Chairman,
2. Maciej Bednarkiewicz,
3. Miguel de Campos Pereira de Bragança,
4. Luis Maria Pereira Coutinho,
5. Grzegorz Jędrys,
6. Bogusław Kott.

During the reporting period Mr Dariusz Rosati was Chairman of the Audit Committee. He satisfied the independence requirements and had qualifications in accounting or financial audit in accordance with Art. 86, section 4 of the Act on Certified Auditors. Mr. Grzegorz Jędrys satisfied the independence requirement.

Strategic Committee

The Strategic Committee as a standing committee of the Supervisory Board has been in existence in the Bank since 2013. The tasks of the Strategic Committee are in particular: (i) examination of macroeconomic trends, (ii) analysing new trends and solutions in the banking sector, (iii) analysing the Bank's competitive position and reference models, (iv) analysing and recommending a long-term strategy, objectives and tasks of the Bank.

In the reporting period the Strategic Committee was composed of the following members:

1. Bogusław Kott - Chairman,
2. Nuno Manuel da Silva Amado,
3. Miguel de Campos Pereira de Bragança,
4. Luis Maria Pereira Coutinho,
5. Andrzej Koźmiński,
6. Dariusz Rosati.

Personnel Committee

The Personnel Committee as a standing committee of the Supervisory Board was established in 2000. The duties of the Personnel Committee include in particular: (i) evaluation of the candidates for Members of the Management Board; (ii) establishment of the terms of employment of the newly appointed Members of the Management Board; (iii) negotiation of amendments to the terms of employment of the Members of the Management Board, (iv) establishment of the terms of termination of employment of the Members of the Management Board; and (v) implementation of activities in the area of policy of variable components of remuneration.

In the reporting period the Personnel Committee was composed of the following members:

1. Maciej Bednarkiewicz - Chairman,
2. Nuno Manuel da Silva Amado,
3. Luis Maria Pereira Coutinho,
4. Marek Furtek,
5. Bogusław Kott.

In execution of the effective Resolution of the General Meeting of Shareholders in the matter of determination of remuneration for Members of the Supervisory Board the Personnel Committee of the Supervisory Board defined the levels of remuneration for participation in the work of the Supervisory Board on the basis of a percentage of the average monthly salary in the enterprise sector (base rate). The remuneration shall be paid for each meeting of the Supervisory Board at the end of the month.

For participation in the work of Standing Committees of the Supervisory Board (Personnel Committee, Audit Committee and Strategic Committee) their Members receive remuneration in the month in which the Committee meeting was held. This remuneration shall also be defined as a percentage of the monthly salary in the enterprise sector.

Furthermore, Mr. Maciej Bednarkiewicz for providing individual supervision over the legal aspects of the Bank's operation, Mr. Marek Furtek for providing individual supervision over the execution of the Supervisory Board resolutions and recommendations and Mr. Dariusz Rosati for providing individual supervision in the area of Internal Audit are also entitled to receive specific monthly amounts linked with the base rate.

Remuneration paid out to Members of the Supervisory Board in 2014 (in thous. PLN)

Name and Surname	Remuneration for 2014	Benefits	Total
Bogusław Kott *	184,32	21,58	205,90
Maciej Bednarkiewicz	473,60	0,00	473,60
Nuno Manuel da Silva Amado	124,16	0,00	124,16
Marek Furtek	334,08	0,00	334,08
Miguel de Campos Pereira de Braganca	133,12	0,00	133,12
Luis Maria Pereira Coutinho	163,84	0,00	163,84
Grzegorz Jędryś	112,64	0,00	112,64
Andrzej Koźmiński	81,92	0,00	81,92
Maria da Conceicao Mota Soares de Oliveira Calle Lucas	61,44	0,00	61,44
Marek Rocki	61,44	0,00	61,44
Dariusz Rosati	299,52	0,00	299,52
Rui Manuel da Silva Teixeira	61,44	0,00	61,44
Razem:	2 091,52	21,58	2 113,10

* in addition for the period of performance of the Management Board Chairman function, annual bonus for the year 2012 and 2013 was paid out in the amount of 1 028,72 thous. PLN and compensation for prohibition to work for competition in the amount of 1 740,00 thous. PLN.

In 2014, Members of the Supervisory Board did not receive any remuneration or additional benefits from the bank subsidiary companies.

Bank shares held by members of the Supervisory Board (performing functions on 31 December 2014)

Name and Surname	Function	Number of shares as on 31.12.2014	Number of shares as on 31.12.2013
Bogusław Kott	Chairman of the Supervisory Board	4.465.791	4.465.791
Maciej Bednarkiewicz	Deputy Chairman of the Supervisory Board	134	134
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Marek Furtek	Secretary of the Supervisory Board	1	1
Miguel de Campos Pereira de Braganca	Member of the Supervisory Board	0	0
Luis Maria Pereira Coutinho	Member of the Supervisory Board	0	0
Grzegorz Jędryś	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Maria da Conceicao Mota Soares de Oliveira Calle Lucas	Member of the Supervisory Board	0	0
Marek Rocki	Member of the Supervisory Board	0	0
Dariusz Rosati	Member of the Supervisory Board	0	0
Rui Manuel da Silva Teixeira	Member of the Supervisory Board	0	0

IX.4. Management Board

The Management Board is the executive authority of the Bank and manages the entirety of the Bank's operations. The Management Board operates pursuant to the Code of Commercial Companies and other regulations, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders and the Supervisory Board, as well as provisions of the Bylaws of the Management Board adopted by the Supervisory Board, which are available on the Bank's website. The competences of the Management Board include all matters that are not restricted to other authorities of the Bank.

The Management Board makes decisions in the form of resolutions. Resolutions of the Management Board are adopted by an absolute majority of votes present at the Management Board meeting, except for resolutions on the appointment of a registered proxy, which require the unanimous consent of the Members of the Management Board. In the case of equal votes the Chairman of the Management Board has the casting vote. Resolutions of the Management Board may be adopted, if at least half of the Management Board Members are present.

Representations of will on behalf of the Bank are made by: (i) the Chairman of the Management Board individually; (ii) two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with a registered proxy or two registered proxies acting jointly; or (iii) attorneys-in-fact acting individually or jointly within the scope of the power of attorney granted thereto. Mr Jerzy Andrzejewicz holds powers of joint proxy. Attorneys-in-fact operating independently within the limits of their authorisation may be appointed to perform actions of a specified type. The Management Board is composed of a minimum of three Members, of whom at least half have Polish nationality. The Management Board is appointed by the Supervisory Board. The term-of-office of the Management Board is 3 years. A Member of the Bank's Management Board may be recalled by the Supervisory Board at any time.

In the reporting period the composition of the Management Board was, as follows:

1. Joao Bras Jorge - Chairman of the Management Board



Mr Joao Nuno Lima Bras Jorge has a Degree in Management from Universidade Catolica Portuguesa. He also completed the Advance Management Program, PADE - AESE.

Started his career as a stock broker in 1990 and during 10 years made a career in investment banking. Led many transactions and had several positions including as board member of an investment bank and on the board of the Lisbon Stock Exchange.

Prior to his move to Poland had 5 years of experience in Retail Banking, namely as Head of the Customer Division and as Coordinator of the Retail Network.

Since 19 July 2006 he has been a Member of the Management Board of Bank Millennium S.A. From 22 April 2010 he performed the function of the Deputy Chairman of the Management Board and from 20 April 2012 First Deputy Chairman of the Management Board, and since 24 October 2013 Chairman of the Management Board of Bank Millennium S.A. responsible for strategy, internal audit, compliance, personnel, marketing communication and PR.

2. Fernando Bicho - Deputy Chairman of the Management Board



Mr Fernando Maria Cardoso Rodrigues Bicho graduated from the Economic Department at Universidade Catolica Portuguesa in 1984. In 1993 he obtained an MBA from Universidade Catolica Portuguesa. He gained his professional experience inter alia in the Portuguese Foreign Investment Institute, Lloyds Bank Plc in Lisbon and Uniao de Banco Portugueses (UBP), later renamed to Banco Mello.

He performed duties as fund manager and later in the bank's Financial Division he was in charge of treasury and capital markets, securities operations, asset and liabilities management, issues on international capital markets, capital management and investor relations.

After Banco Mello purchase by Banco Comercial Portugues (BCP) in 2000, Mr. Fernando Bicho worked in BCP Corporate Centre and from June 2001 he was the head of the Asset and Liabilities Management Division of the BCP Group.

Since August 1, 2002 Member of the Management Board of Bank Millennium. Supervises the areas of planning and management information, Treasury, capital investments and investor relations.

3. Artur Klimczak - Deputy Chairman of the Management Board



Mr Artur Klimczak started his banking career in the USA in 1990 in the Citibank Group, holding positions from credit advisor to regional director responsible for the local branch network.

From 2000 he continued his professional career in Poland, where in the Citibank Group he was among others Regional Director responsible for credit centres, and in 2002-2005 he was Managing Director for Central and Eastern Europe in charge of wealth management.

Since 2005 Mr Artur Klimczak has been with Bank Millennium, where he was Director of the Retail Banking Department.

Member of the Management Board since 12 February 2009. Supervises the retail banking area.

4. Julianna Boniuk-Gorzelańczyk - Member of the Management Board



Ms Julianna Boniuk-Gorzelańczyk graduated from the Faculty of Finances and Statistics at SGPiS (present name SGH - Warsaw School of Economics) in Warsaw with the rights of certified auditor.

She worked in industry, her last position being Economic Director.

Member of the Management Board of Bank Millennium since 17 July 1989. Supervises the area of finance and reporting, accounting control, taxes, legal, administration and infrastructure as well as custody.

5. Wojciech Haase - Member of the Management Board



Mr. Wojciech Haase graduated from the Faculty of Production Economics at Gdańsk University.

He worked at the National Bank of Poland in Gdańsk to be then transferred to the group organising Bank Gdański SA. In 1989-1997 he worked at Bank Gdański SA - first in the Credit Department and then in the Treasury Department. From 1993 he was Deputy Chairman of the Management Board of Bank Gdański SA and then acting Chairman of the Management Board of that Bank.

Since 27 June 1997 Member of the Management Board of Bank Millennium. Supervises the area of risk and credit decisions.

6. Andrzej Gliński - Member of the Management Board



Mr. Andrzej Gliński graduated from Poznań University of Technology (1994) and completed his post-graduate studies in banking and finance at the Warsaw School of Economics. He has worked in the financial sector for more than 10 years: he worked at Bank Handlowy S.A. in Warsaw - in management positions as Branch Director and Sales Director in the Assets Financing Department.

Between 2001-2004 he was Vice President of Handlowy Leasing S.A. He has been working in the Bank Millennium Group since 2004, first as Chairman of Millennium Leasing Sp. z o.o. and next as Head of Corporate Banking Area at Bank Millennium SA.

Member of the Management Board since 22 April 2010. Supervises the corporate banking area.

7. Maria Jose Campos - Member of the Management Board



Maria Jose Henriques Barreto De Matos De Campos graduated in the field of Electronics and Telecommunications from Aveiro University (1990), Portugal. She started her professional career in the same year at an electronics and telecommunications R&D company. In 1994 she joined the Macao Post Office and Telecommunications Authority, heading its IT division, supporting both the postal bank and mail services.

She joined Millennium BCP Group in 1999, initially integrating the operational IT platform of Banco Comercial de Macao, as head of the IT division. Then, from 2001 she was responsible in Bank Millennium S.A. for the IT Area. From 2006 she had also responsibility in BCP Group for IT Europe, a division at group level supervising the IT areas for European operations.

Since 22 July 2011 Member of the Management Board of Bank Millennium. Supervises the area of IT, processes and operations as well as quality.

The present term of office of the Bank's Management Board shall end as of the date of the General Meeting of Shareholders approving the financial report for the financial year 2014.

Remuneration of Management Board

Determination of the terms and conditions of contracts and remuneration of the Management Board Members falls under powers of the Supervisory Board. The Personnel Committee of the Supervisory Board considers cases relative to principles of compensation and levels of remuneration for the Management Board Members.

The remuneration of the Members of the Management Board consists of a fixed and a variable part. The fixed part is the base salary defined as a fixed amount for each Member of the Management Board. The variable part may comprise an annual bonus, which depends on the Bank's performance compared to the yearly budget and to the performance of peer banks and an individual evaluation of a Member of the Management Board by the Personnel Committee.

Decisions concerning the granting of bonus to Management Board Members are taken by the Personnel Committee of the Supervisory Board following an analysis of performance concerning

financial criteria:

- execution of planned budgets and ratios for the area of activity under management,
- comparison with competitors in the same segment of the market,
- market business criteria defined for the period;

as well as non-financial criteria, in particular:

- overall management quality in the area of responsibility,
- effective leadership and contribution to the Bank's development,
- management and supervision over units in the area of responsibility.

The bonus pool for payments of bonus to Management Board Members may not exceed 100% of the value of total annual salaries and 2% of Consolidated Net Profit of Millennium Group.

Granting and payment of 50% of the value of variable components of remuneration is done only after the end of the relevant period and after announcement of financial results, while payment of the remaining 50% of variable remuneration shall be deferred and paid in three equal annual instalments. Members of the Management Board shall receive each part of the awarded bonus - paid in the year coming after the assessment period and deferred - half in cash and half in a financial instrument, the value of which relates to the value of shares of Bank Millennium. By the date of publication of the Annual Report, the Personnel Committee of the Supervisory Board had not taken any decision on the value of variable remuneration for Management Board Members for 2014.

The total remuneration for 2014 of all Members of the Management Board performing functions in this year was 15.411,7 thous. PLN. The said amount includes remuneration, annual bonus for 2012 and 2013 in the amount of 4.749,3 thous. PLN and additional benefits in the amount of 1.795,7 thous. PLN.

In the period from 01.01.2014 to 31.12.2014 a provision was established for annual bonus in the amount of 9.294 thous. PLN.

Remuneration, bonuses or benefits paid out to Members of the Management Board in 2014 (in thous. PLN)

Name and Surname	Remuneration in 2014 plus annual bonus for 2012 and 2013	Benefits	Total
Joao Bras Jorge	2 588,53	1 154,83	3 743,36
Fernando Bicho	2 007,64	65,71	2 073,35
Artur Klimczak	2 210,78	9,82	2 220,60
Julianna Boniuk-Gorzelańczyk	1 703,56	70,78	1 774,34
Wojciech Haase	1 700,00	83,48	1 783,48
Andrzej Gliński	1 701,98	25,07	1 727,05
Maria Jose Campos	1 703,56	385,97	2 089,53
Total:	13 616,05	1 795,66	15 411,71

Bank shares held by Members of the Management Board (performing functions on 31 December 2014)

Name and Surname	Function	No. of shares, as on 31.12.2014	No. of shares, as on 31.12.2013
Joao Bras Jorge	Chairman of the Management Board	51.000	0
Fernando Bicho	Deputy Chairman of the Management Board	0	0
Artur Klimczak	Deputy Chairman of the Management Board	0	0
Julianna Boniuk-Gorzelańczyk	Member of the Management Board	492.248	492.248
Wojciech Haase	Member of the Management Board	7.494	7.494
Andrzej Gliński	Member of the Management Board	0	0
Maria Jose Campos	Member of the Management Board	0	0
Jerzy Andrzejewicz	Proxy	6.260	6.260

IX.5. Internal Control, External Audit and Compliance Policy
Internal control system

The Bank has an internal control system adjusted to the organisational structure whose scope covers the organisational units of the Bank's head office, branches and subsidiaries. This system comprises internal control procedures defined in the form of internal control bylaws for particular units of the Bank, and internal control mechanisms which cover, among others, control principles, limits and procedures, and any other types of operations whose purpose is to control the quality and correctness of the tasks implemented at the Bank.

The Internal Audit Department is a specialist unit of institutional control whose purpose is an independent and objective assessment of adequacy, correctness and effectiveness of the internal control and management systems, including risk management. In particular, this is connected with the assessment of quality, correctness and security of running banking operations. In implementing its mission Internal Audit takes into account strategic objectives and tasks of the organisation specified by the Management Board and Supervisory

Board of the Bank. The audit process is implemented according to the Internal Audit Methodology fostering international standards of internal audit and good banking practices.

The activity of Internal Audit is planned and based on an annual audit plan. The basis of the planning process is the assessment of risk of particular areas and processes at the Bank in order to identify increased risk and support the specification of priorities and resources for the implementation of tasks. The planning process takes into account consultations with higher level management and owners of key processes. The annual audit plan is approved by the Audit Committee of the Bank's Supervisory Board and implemented on a quarterly basis by experienced and highly qualified professionals.

Internal audit provides opinions on regulations being implemented and updated at the Bank, it independently and objectively assesses and advises particular units with respect to the audited area and builds positive relations with audited units in order to work out common added value to streamline the Bank's operations. Advisory activities can be provided, if they do not undermine the objectiveness and independence of the internal auditor.

In 2014, the Internal Audit Department implemented tasks at the Bank, the Bank's subsidiaries, external entities to which the Bank, to the extent permissible by regulations, outsourced banking and bank-related operations, as well as within the BCP Group. The planned activity of the Department covered among others audits of key business and support processes, as well as financial audits, outlet audits and those of compliance with external regulatory environment. The tasks performed by the Internal Audit Department also include investigations and spot checking (prevention). The Internal Audit Department is an independent unit reporting to the Chairman of the Management Board of the Bank and the results of its activities are reported by it to the Audit Committee of the Supervisory Board and the Supervisory Board of the Bank. The results of a review of the entire internal control system are also regularly presented and reviewed by the Audit Committee of the Supervisory Board of the Bank.

Internal Control System with respect to the Process of Preparing Financial Reports

Solutions described above regarding internal control system protect to a significant extent the Bank against financial reporting errors and provide the Bank Management with information facilitating evaluation of preparation of financial reports or its correctness, efficiency and security in order to ensure the highest possible effectiveness in managing identified risks accompanying the process.

The internal control system, introduced by the Management Board of the Bank and incorporating the financial report preparation process, has been designed to facilitate the controlling of process risk while maintaining appropriate supervision of correctness of the gathering, processing and presentation of data necessary for preparation of financial reports in keeping with effective laws.

According to effective laws, the Bank's reports (non-consolidated) and those of the Bank Capital Group (consolidated) are subject to, respectively: review (semi-annual statements) or audit (annual statements), performed by an independent entity authorised to audit financial statements - i.e. the External Auditor. The External Auditor is selected by the Supervisory Board on the basis of a recommendation issued by the Audit Committee of the Supervisory Board. In addition, considering the quality of financial data presented in remaining published quarterly reports, the Bank, jointly with the External Auditor, implemented cooperation procedures ensuring the consultation of important issues connected with recognition of economic events in the Bank accounts and financial reports, on a current basis. At the meetings of the Audit Committee of the Supervisory Board the External Auditor presents key findings relative to financial reporting. Furthermore, the external auditing firm also performed, in 2014, a review of the adequacy and effectiveness of a part of the Bank's internal control system supporting the financial information preparation and publication process (financial reporting) and issued relevant opinions. In 2014 the Bank's External Auditor was PricewaterhouseCoopers Sp. z o.o. In October 2014, the Bank Supervisory Board decided to select PricewaterhouseCoopers Sp. z o.o. to be the Bank's External Auditor in 2015. The Bank is covered by the consolidated financial statement of the BCP Group. Therefore, the annual review of the Bank's system of internal control in support of the process of preparing and publishing financial information is also subject to the terms and requirements of consolidated supervision, which is performed by the Bank of Portugal.

Information on the agreements with the entity authorised to audit financial reports

In 2014 the audit of Bank's financial statements was performed by PricewaterhouseCoopers sp. z o.o. On 24 October 2013 the Supervisory Board of the Bank adopted a resolution on selection of PricewaterhouseCoopers sp. z o.o. to perform audits of annual financial statements of Bank Millennium and Bank Millennium Group for 2014. The audit agreement was concluded on 22 January 2014.

Remuneration received by auditor on account of services provided to the Capital Group of Bank Millennium S.A. under concluded agreements.

Auditor's Remuneration (in PLN '000)	2014	2013
Examination of annual financial statement	555	1 229
Certification services, including review of financial statement	1 233	1 182
Tax advisory services	0	0
Other services	20	0

Compliance policy

Lack of legal compliance of internal regulations and the ensuing risk of legal or regulatory sanctions, material losses or reputation risk is one of the areas threatening the activity of every bank. Therefore Bank Millennium has the Compliance Department, the task of which is to ensure compliance with Acts of Law, secondary legislation, rules, related self-regulatory organisation standards as well as codes of conduct, relating to banking activity. Monitoring compliance with both internal as well as external regulations, Bank Millennium Group considers the following to be particularly important:

- Preventing money laundering and financing of terrorism;
- Ensuring consistency of Bank Millennium's internal normative acts with generally binding laws as well as recommendations issued by supervisory authorities,
- Managing conflicts of interest,
- Observance of ethical principles,
- Restricting personal transactions and protecting confidential information related to Bank Millennium, financial instruments issued by the Bank as well as information connected with purchase/sale of such instruments.
- monitoring and ensuring compliance of the investment products covered by MiFID.

Companies from Bank Millennium Group undertake appropriate actions for the purpose of ongoing and continuous tracking of changes occurring in generally binding legal regulations as well as recommendations and guidance given by supervisory authorities, both national as well as of the European Union.

For the purpose of ensuring compliance of internal normative acts with generally binding legal regulations the solutions adopted by Bank Millennium Group reflect the need for periodic reviews of all internal normative acts, binding in the Group.

The scope of actions undertaken by the Group may generate a conflict of interest between these actions and the interests of Customers. The Group's main principle is to take all reasonable steps to identify a conflict of interest between the Group and its Customers, as well as between individual Customers, and also to establish rules ensuring that such conflicts have no adverse impact on Customers' interests.

Companies from Bank Millennium Group undertake also appropriate actions to ensure conduct concerning personal transactions, which is compliant with standards and laws. These actions and measures are meant to, according to the circumstances, to restrict or prevent performance of personal transactions by Relevant Persons in situations, which may cause a conflict of interest or be involved with access to confidential information or to data about Customers' transactions. Shares of Bank Millennium are admitted to public trading on the Warsaw Stock Exchange. Such status requires special attention and observance of the obligation to maintain highest standards for transparency of financial markets. It is the policy of Bank Millennium Group to maintain strict control as regards protection of the flow of Confidential Information. The Bank forbids use and disclosure of Confidential Information in whatever form. Purchasing and selling the Bank's shares, derivative rights concerning the Bank's shares or any other financial instruments thereto related is forbidden during closed periods.

The Anti-Money Laundering and Counter Terrorism Financing Programme (AML/CTF), applied by Bank Millennium, is a comprehensive system of identification of threats related to money laundering crimes.

Actions launched under this programme include in particular:

- application of financial security measures to Customers, depending on the degree of risk and based on „Know your Client” or KYC principle - the key concept of the programme,
- transaction registration and reporting,
- identification of suspected transactions,
- cooperation with the General Inspector of Financial Information.

Bank Millennium adjusts its reports to the analysis of suspected transactions on the on-going basis, taking into account up-to-date patterns (sectors, cash-flow routes, Customer behaviour) for effective identification and reporting of transactions suspected of money laundering.

Our internal procedures, organisational solutions and employee training programmes ensure efficient operation of the Programme.

With view to protecting Clients who invest their funds in investment products with varied degree of risk, Bank Millennium strictly monitors compliance of these products, their offering and handling process with relevant internal regulations, laws and external guidelines - on the domestic and European Union level (MiFID).

X. RESPONSIBLE BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY

Bank Millennium Group considers activity in compliance with the principles of corporate social responsibility to be one of the fundamental values of its operation. CSR declarations were reflected both in the 2012 updated medium-term strategy of development for the years 2013-2015 as well as in the latest medium-term strategy for 2015-2017, published already after the end of 2014 (on 2 February 2015). These goals were also taken on board when building operational plans for the various areas of the Bank's activity. The Bank considers as particularly important to continue its growth in a sustainable way, with consideration of its impact upon the society and the environment as well as cooperation with stakeholders, based on dialogue, trust and observance of rules and principles.

The Bank attaches special importance to building long-term relations with its key Stakeholders: Customers, Employees, Suppliers, Shareholders, Social Partners and Local Communities. Just as important, in fact increasingly so, is monitoring and mitigating the Bank's adverse impact on the natural environment.

In 2013 the Bank implemented its Code of Ethics, which lays down the principles of ethical conduct of Group Employees during performance of professional duties. The principles of the Code of Ethics were communicated to all employees and awareness of them was checked by means of obligatory e-learning training. In 2014 the Bank also required its suppliers to comply with the Code of Ethics. When bidding for tendered contracts every supplier must sign a statement of compliance with the ethical principles of the Code.

An important part of the Bank's social activity is stimulating and organising employee volunteering. In 2014 together with the "United Way" foundation the Bank organised three community programmes involving employees. The employees also regularly participate in the BAKCYL youth financial education programme, which is carried out by Warsaw Banking Institute. Moreover the Bank continued to work with the WWF Foundation by issuing a card, which had part of its fees supporting the Foundations main goals. The Bank's representatives attended consultation meetings, conferences and training sessions in 2014, which were organised by government and non-government institutions working to disseminate CSR in Poland.

The Bank annually reports on its Corporate Social Responsibility activities. In March 2015 the Bank will issue the ninth annual edition of the Responsible Business report. The report will be available in electronic format in Polish and in English. The content and structure of the report satisfies criteria provided for such reporting by the Global Reporting Initiative Sustainability Guidelines (GRI G4). The report will define key aspects of the Bank's influence on sustainable economic, social and environmental development with respect to key groups of Stakeholders: Customers, Employees, Shareholders, Business Partners, the Society as well as the Natural Environment.

In 2015 the Bank will be striving to update its CSR policy and to develop a medium-term CSR strategy for Bank Millennium Group. It is also planned to involve more Stakeholders in CSR activity, with particular consideration of business partners/suppliers.

In 2014 the Bank was yet again included in the RESPECT Index - Central and Eastern Europe's first index of socially responsible companies listed on the Warsaw Stock Exchange and was also recognised in the nationwide "Ranking of Responsible Companies".

The Bank perceives cooperation with non-governmental and community institutions as an important part of its social mission. The key areas of such cooperation are:

- Culture
- Education
- Charity

Cultural activity has for years been the most important part of Bank Millennium's social activity. It is planned on the basis of medium-term action plans and following assumptions:

- The activity is exclusively programme-specific (the Bank does not support institutions but only selected programmes carried out by these institutions)
- The Bank prefers to cooperate under long-term programmes with clearly defined goals
- The Bank gives preference to high culture programmes
- The Bank strives to make sure that the programmes it supports have widespread public reach and are available also by means of the mass media (TV reports, TV rebroadcast, radio broadcasts, publications, audio/video albums, media reports)

In cultural programmes the Bank has partnered first of all with cultural institutions and non-governmental organisations (foundations and associations) as well as the media.

Most important cultural projects of Bank Millennium in 2014

- Golden Sceptre - an annual award, one of the highest in Poland (110,000 PLN plus 11,000 PLN for a debutante), presented to a Polish artist for outstanding achievement. So far it has been awarded to: Jerzy Giedroyc, Wojciech Kilar, Stanisław Lem, Roman Polański, Ewa Podleś, Sławomir Mrożek, Janusz Gajos, Tadeusz Różewicz, Maria Foltyn, Wojciech Młynarski, Krzysztof Penderecki, Józef Wilkoń, Wiesław Myśliwski, Jerzy Stuhr, Danuta Szaflarska, and Jerzy Maksymiuk. A report from the award ceremony and its accompanying concert, shown by TVP 2, has had an audience of approximately 79,5 thousands.
- Millennium Pearls - a series of artistic events organised by Bank Millennium together with Polish Television. The project comprises presentation of selected valuable television shows. In 2014 these were Television Theatre shows (TVP 1) and plays staged by the reactivated Channel Two Theatre Studio (TVP 2).
- Planet Doc Film Festival in Warsaw - the Bank is a sponsor of the largest international documentary film festival in Poland as well as accompanying events (workshops, discussions, concerts). The Bank is also the sponsor of the Millennium Award - the Festival's main award. The total festival audience in 2014 (including its editions outside Warsaw) was 35,000.

XI. ADDITIONAL INFORMATION

Other information regarding:

- Numbers and values of the execution titles issued by the bank,
- Guarantees and sureties granted,
- Transactions with related companies,
- List of the biggest court cases, arbitration proceedings before an authority or public administration,

can be found in "Consolidated financial statement of Bank Millennium Group for 2014".

XII. STATEMENT OF MANAGEMENT BOARD OF THE BANK

Presentation of asset and financial position of Bank Millennium S.A. in the financial report

According to the best knowledge, the Annual Financial Statements of Bank Millennium S.A. as at 31 December 2014 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 Bank and its financial result. This Annual Management Board Report on the activity of Bank Millennium contains a true picture of development, achievements and condition of the Bank.

Selection of an entity authorized to audit financial

The entity authorized to review financial reports that audits these Annual Financial Statements of Bank Millennium S.A. as at 31 December 2014, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
13.02.2015	Joao Bras Jorge	Chairman of the Management Board
13.02.2015	Fernando Bicho	Deputy Chairman of the Management Board
13.02.2015	Artur Klimczak	Deputy Chairman of the Management Board
13.02.2015	Julianna Boniuk-Gorzelańczyk	Member of the Management Board
13.02.2015	Wojciech Haase	Member of the Management Board
13.02.2015	Andrzej Gliński	Member of the Management Board
13.02.2015	Maria Jose Campos	Member of the Management Board