

## PRESS RELEASE

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Warszawa, 27 July 2015

# Information about the activity of Bank Millennium Capital Group during 1 half of 2015

*(Warszawa, 27.07.2015 r.)* Consolidated net profit of Bank Millennium Group reached in the 1st half 2015 the amount of PLN 328 million i.e. 2.4% higher than in 1<sup>st</sup> half 2014. Net profit achieved in 2Q 2015 (PLN 165,2 million) was 1.6% higher than the profit achieved in the previous quarter.

Such good result was achieved despite negative pressure on banking income caused by several drivers, including lower market interest rates and regulatory limit on card related fees. Slight fall of net operating income (-2% y/y) was more than compensated by drop of operating costs (-1.6% y/y) and lower provisions on credit risk (-9% y/y).

Main financial and business highlights of 1H 2015 are as follows:

### Resilient profitability

- 1H 15 net profit at PLN 328 million: +2.4% y/y
- 2Q 15 net profit at PLN 165 million: +1.6% q/q
- ROE at 11.2%, with equity growth of 10.8% y/y

### Core income under pressure but interest income flat despite rate cut in March

- Interest income flat quarterly (-0.8% q/q) indicating gradual recovery after market interest rate cuts
- Core income fell 4.6% y/y and 2.4% q/q due to rate cuts and high base of commission income

### Lower costs and high efficiency

- Operating costs dropped 1.2% q/q and 1.6% y/y, despite higher Banking Guarantee Fund fees
- Cost to income in 2Q below 50%

### High asset quality maintained

- Impaired loans ratio at low 4.3%.
- Mortgage impaired ratio at 1.75%

### Capital ratios increased after full profit retention

- Strong capital base, with Total Capital Ratio at 15.2% and Common Equity Tier 1 at 14.6%
- Loan-to-deposits ratio at 92.1%

## Deposits/accounts/customers

- PLN 50 billion record level of deposits crossed
- Good sale of non-deposit investment/savings products: +PLN 870 million (13%) in 1H'15
- 4th place in net yearly increase of PLN current accounts - thanks to new Konto 360° campaign
- Accelerated growth of number of active customers: 21 thousand more in 2Q'15

## Loans

- High level of cash loans sale maintained: 2Q result of PLN 669 million
- Traditionally good, double-digit yearly growth in leasing and factoring portfolios

## Digital platform

- Mobile applications active users almost doubled yearly to 279 thousand
- New mobile applications for Android, iOS and Smartwatch

## Group profit and loss account

Operating Income (PLN million)	1H 2015	1H 2014	Change 2015/2014
Net Interest Income *	699,5	733,9	-4,7%
Net Commission Income	304,1	318,6	-4,5%
Core Income**	1 003,6	1 052,5	-4,6%
Other Non-Interest Income ***	85,6	58,9	45,3%
<b>Total Operating Income</b>	<b>1 089,2</b>	<b>1 111,4</b>	<b>-2,0%</b>

(\*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since aforementioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 32.7 million in 1 half 2015 and PLN 2.7 million in 1 half 2014) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

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

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

**Net Interest Income** (pro-forma) for 1 half 2015 reached PLN 699.5 million and decreased by 4.7% versus the corresponding period of the previous year. Such modest decrease proves resilience of this income line being under pressure of falling market rates: two NBP rates cuts in October 2014 (reference rate by 50 bps and lombard rate by 100 bps) and in the beginning of March 2015 (by another 50 bps). In 2Q 2015 Net Interest Income decreased by 0.8% vs 1Q 2015, which was relatively mild and similar to the previous quarter decrease, pointing to successful price adjustments and gradually improving spreads.

Quick adjustment of deposits prices to lower market rates allowed to keep gradual reduction of deposits cost (to 1,49% in 2Q'15) which partially compensated for fast reduction of average yield on loans (to

4,09% in 2Q). However, total Net Interest Margin (over average interest earning assets) for 1 half 2015 slid down to 2.2%, i.e. by 0.4 p.p. lower than in 1 half 2014.

**Net Commission Income** in 1 half 2015 amounted to PLN 304.1 million, which means a 4.5% decrease year-on-year as a result of lower interchange fees (the effect of new regulations on limits for payment cards' interchange fees in Poland). The decrease in interchange fees was offset by growing commissions from sale of investment products (own mutual funds and other similar products of third parties) as well as commissions from loans.

**Core Income**, defined as a combination of net interest and commission income, reached the amount of PLN 1,003.6 million for 1 half 2015 and decreased by 4.6% compared to the corresponding period of the previous year.

**Other non-interest income** amounted to PLN 85.6 million for 1 half 2015 presented growth by 45.3% year-on-year due to much lower net other operating income and costs in 1 half 2014, resulting from higher cost provisions for court cases.

**Total operating income** of the Group reached PLN 1,089.2 million in 1 half 2015 and decreased slightly by 2.0% year-on-year.

**Total costs** in 1 half 2015 amounted to PLN 545.7 million, which means a decrease by 1.6% when compared to 1 half 2014.

Operating Costs (PLN million)	1H 2015	1H 2014	Change 2015/2014
Personnel Costs	(275,2)	(270,0)	1,9%
Other Administrative Costs*	(270,5)	(284,3)	-4,8%
<b>Total Operating Costs</b>	<b>(545,7)</b>	<b>(554,3)</b>	<b>-1,6%</b>
Cost/Income Ratio	50.1%	49.9%	+0.2 p.p.

(\*) including depreciation

**Personnel costs** in 1 half 2015 grew slightly by 1.9% compared to the corresponding period of the previous year. The total number of employees in the Group increased by 56 employees compared to the end of June 2014, to the level of 5,939 persons (in Full Time Equivalents), only due to insourcing in 2 half 2014 of persons previously employed in outsourcing company that provided services to the Bank.

**Other administrative costs** (including depreciation) in 1 half 2015 decreased by 4.8% year-on-year. The decrease was driven by lower cost of marketing, IT, external services (such as advisory, legal etc.), branches and depreciation which offset significant increase of obligatory deposit guarantee fund (BFG) charges imposed on banks in 2015. Main charge almost doubled from 0.10 bps in 2014 to 0.189 bps in 2015, which translates into PLN 30 million additional yearly costs for the Bank.

**Cost-to-Income ratio** for 1 half 2015 was at 50.1% level (49.9% in 2Q 2015) that is the level similar to previous full year.

**Total net impairment provisions** created by the Group in 1 half 2015 amounted to PLN 127.2 million and were 9.0% lower than provisions created in 1 half 2014. The provisions were much lower in companies

segment (PLN 37.5 million compared to PLN 86.5 million an year ago) but higher in retail segment (an increase to PLN 89.7 million from PLN 53.3 million an year ago).

In relative terms, cost of risk (i.e. net provisions created to the average net loans) in 1 half 2015 reached 56 bps level (i.e. 10 bps lower yearly) and showed narrowing of difference between cost of risk in corporate and retail segment. Cost of risk in mortgage in 1 half 2015 (18 bps) was only slightly higher than 2014 level, in line with slow increase of impaired mortgage loans (mainly in FX loans).

Pre-tax Profit and Net Profit (PLN million)	1H 2015	1H 2014	Change 2015/2014
Operating Income	1 089,2	1 111,4	-2,0%
Operating Costs *	(545,7)	(554,3)	-1,6%
Impairment provisions	(127,2)	(139,8)	-9,0%
Pre-tax Profit**	415,0	417,3	-0,6%
Income tax	(87,2)	(97,2)	-10,3%
<b>Net Profit</b>	<b>327,8</b>	<b>320,1</b>	<b>2,4%</b>

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

(\*\*) includes also share in profits of associates

**Pre-tax Profit** in 1 half 2015 amounted to PLN 415.0 million, which was on similar level as in 1st half of the previous year (-0.6% year-on-year). **Net Profit** for the analysed period amounted to PLN 327.8 million i.e. by 2.4% higher year-on-year. The growth was supported by resilient operating income accompanied by lower operating costs and impairment provisions.

### Business results after 2<sup>nd</sup> quarter 2015

**The Group's assets** as at 30 June 2015 totalled PLN 68,877 million and were 16.3% higher compared to the balance at the end of June 2014.

**Total Customer funds** collected by Bank Millennium Group as at 30 June 2015 amounted to PLN 57,869 million and grew by 9.9% yearly.

As on 30 June 2015, deposits from Customers crossed a record PLN 50 billion level and constituted by far the Group's main liability item accounting for 79.9% of the Group's total liabilities. Deposits from Customers provide the main source of financing of the Group's activities and include funds deposited on current, saving and term deposit accounts. As on 30 June 2015 deposits from Customers amounted to PLN 50,234 million and recorded an increase of PLN 4,264 million i.e. 9.3% relative to the balance as at 30 June 2014.

The evolution of Customer Funds is presented in the table below:

Customer Funds (PLN million)	30.06.2015	30.06.2014	Change (value)	Change (%)
Deposits of individuals	31 785.3	28 550.6	3 234.7	11.3%
Deposits of companies and public sector	18 448.3	17 419.5	1 028.8	5.9%
<b>Total Deposits</b>	<b>50 233.6</b>	<b>45 970.1</b>	<b>4 263.5</b>	<b>9.3%</b>
<b>Investment products</b>	<b>7 635.0</b>	<b>6 667.1</b>	<b>968.0</b>	<b>14.5%</b>
<b>Total customer funds</b>	<b>57 869.0</b>	<b>52 637.1</b>	<b>5 323</b>	<b>9.9%</b>

Total value of loans reached PLN 46,998 million (in net terms) as at the end of June 2015, which means an increase by 8.4% versus the end of the 1<sup>st</sup> half of the previous year.

The value of loans granted to households as at the end of 30 June 2015 totalled PLN 33,784 million and grew by 9.6% during one year period. Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew very strongly by 22.4%, or PLN 917 million year-on-year. The increase was mainly driven by the growth of cash loans: the value of sales of cash loans in 1<sup>st</sup> half 2015 amounted to PLN 1.3 billion (an increase by 40% compared to the sales level of 1<sup>st</sup> half 2014). As at the end of June 2015 the balance of non-mortgage loans to households amounted to PLN 5,007 million.

As on 30 June 2015, the value of mortgage loans, being the significant part of Group's portfolio, amounted to PLN 28,777 million and grew by 7.6% year-on-year. The growth was mainly driven by FX mortgage loans, practically as a result of significant CHF/PLN exchange rate increase versus the end of June 2014. PLN mortgage book grew by 1.7% year-on-year.

Loans to companies amounted to PLN 13,214 million as at the end of June 2015 and grew by 5.3% yearly. The fastest growing item of this portfolio were leasing receivables: an increase by 13.4% year-on-year. The value of the leasing portfolio exceeded PLN 4.2 billion as at the end of June 2015. Also factoring receivables portfolio kept strong growth above 10% yearly.

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

Loans and advances to Clients (PLN million)	30.06.2015	30.06.2014	Change (value)	Change (%)
Loans to households	33 784,0	30 830,9	2 953,1	9,6%
- <i>mortgage loans</i>	28 777,5	26 741,1	2 036,3	7,6%
- <i>other loans to households</i>	5 006,5	4 089,8	916,7	22,4%
Loans to companies	13 214,2	12 543,5	670,8	5,3%
- <i>leasing</i>	4 209,2	3 710,7	498,5	13,4%
- <i>other loans to companies</i>	9 005,1	8 832,8	172,2	1,9%
<b>Net Loans &amp; Advances to Clients</b>	<b>46 998,2</b>	<b>43 374,4</b>	<b>3 623,8</b>	<b>8,4%</b>
Impairment write-offs	1 472,7	1 356,8	115,9	8,5%
<b>Gross loans and advances to Clients</b>	<b>48 470,9</b>	<b>44 731,2</b>	<b>3 739,7</b>	<b>8,4%</b>

#### Assets quality and capital

The key quality ratio of credit portfolio - share of impaired loans in total loans (calculated according to International Accounting Standards) - rose slightly in the last 12 months from the level of 4.26% a year ago to the level of 4.34% at the end of June 2015. This means that the impaired loans ratio in Bank Millennium Group still remains well below the ratio for the entire market, which at the end of May 2015 amounted to 8.1%.

During the first half-year of 2015 the value of impaired loans increased by PLN 180,2 million, which combined with an increase of the entire portfolio (by PLN 2.970,2 million) during the same period, resulted in a small increase of impaired loans ratio to the above mentioned level of 4.34% (at the end of December 2014 the ratio amounted to 4.23%).

The mortgage portfolio is characterized by relatively stable and good quality, although the impaired loans ratio increased from the level of 1.36% a year ago to the level of 1.75% today, mainly due to natural ageing of the portfolio and appreciation of CHF, followed by actions taken by banks to ease situation for borrowers. Impaired ratio in CHF mortgage portfolio reached 2% level at the end of June 2015.

A notable improvement can be observed in the quality of other retail loans (including microbusiness): impaired loans ratio decreased from the level of 12,3% in June 2014 to the level of 10,7% on 30 June 2015.

During the same period we have observed stabilization of the quality of corporates loans portfolio: the impaired loans ratio was on 30 June 2015 at the level of 7,1%. This stabilization is connected among others with improvement of leasing portfolio quality.

The situation of Bank Millennium Group regarding the quality of the loans portfolio is illustrated by the following values:

Key loan quality ratios	30.06.2015	31.12.2014	30.06.2014
Total impaired loans (PLN million)	2 103.5	1 923.2	1 906.9
Loans over 90 days past due (PLN million)	1 441.9	1 343.2	1 290.9
Impaired/total loans	4.34%	4.23%	4.26%
Total provisions*/impaired loans	70.0%	70.6%	71.2%

(\*) including IBNR provisions

Capital Adequacy Ratios in June 2015 were kept at similar, high levels (TCR 15.2%, CET1 14.6%) as in December 2014, as negative effect of CHF appreciation was offset by retaining of entire 2014 profit in equity. In yearly horizon, Capital ratios improved visibly: by 1.4-1.5 percentage points.

Capital ratios of the Group as at 30th June, 2015 are presented in the below table:

Bank Millennium Group - capital adequacy (PLN million)	30.06.2015	30.06.2014
	IRB with regulatory floor <sup>1)</sup>	IRB with regulatory floor <sup>2)</sup>
Own Funds for Group	5 763,7	5 273,3
Total Capital Ratio for Group (TCR)	15,2%	13,8%
Common Equity Tier 1 Capital ratio for Group (CET1 ratio) <sup>3)</sup>	14,6%	13,1%

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) CET1 Capital ratio is equal to Tier1 Capital ratio