

# Management Board Report on the activity of Bank Millennium SA

for the 12 month period ended 31 December 2013



## MANAGEMENT BOARD REPORT ON THE ACTIVITY OF BANK MILLENNIUM FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2013

### CONTENTS

I.	LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD .....	3
II.	BRIEF DESCRIPTION OF BANK MILLENNIUM .....	4
III.	HIGHLIGHTS AND MAIN EVENTS IN 2013 .....	5
III.1.	SUMMARY OF THE RESULTS IN 2013 .....	5
III.2.	MARKET INDICATORS AND RATINGS.....	6
III.3.	INFORMATION ON IMPORTANT AGREEMENTS AND EVENTS WITH IMPACT ON BANK'S ACTIVITY.....	7
III.4.	MAIN AWARDS AND ACHIEVEMENTS OF BANK MILLENNIUM IN 2013 .....	7
IV.	MARKET CONDITIONS AND BUSINESS PROSPECTS .....	9
IV.1.	MACROECONOMIC ENVIRONMENT.....	9
IV.2.	BANKING SECTOR IN POLAND AND POSITION OF BANK MILLENNIUM GROUP .....	10
IV.3.	IMPLEMENTATION OF STRATEGY AND BUSINESS DEVELOPMENT PROSPECTS .....	11
V.	FINANCIAL SITUATION OF BANK MILLENNIUM .....	13
V.1.	BANK PROFIT AND LOSS ACCOUNT .....	13
V.2.	BALANCE SHEET AND OFF - BALANCE SHEET ITEMS .....	15
VI.	BUSINESS ACTIVITY.....	20
VI.1.	RETAIL BANKING.....	20
VI.2.	CORPORATE BANKING.....	26
VI.3.	TREASURY AND INVESTMENT OPERATIONS .....	29
VII.	RISK MANAGEMENT .....	31
VII.1.	RISK MANAGEMENT FRAMEWORK .....	31
VII.2.	CAPITAL MANAGEMENT.....	32
VII.3.	CREDIT RISK .....	33
VII.4.	OTHER RISKS .....	35
VIII.	HUMAN RESOURCES MANAGEMENT .....	38
VIII.1.	PERSONNEL POLICY .....	38
VIII.2.	EMPLOYMENT AND PERSONNEL COSTS .....	38
VIII.3.	REMUNERATION POLICY .....	39
IX.	PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM .....	41
IX.1.	STATEMENT ON THE PRINCIPLES OF CORPORATE GOVERNANCE EMPLOYED IN 2013.....	41
IX.2.	SHAREHOLDERS AND GENERAL MEETING OF SHAREHOLDERS.....	41
IX.3.	SUPERVISORY BOARD .....	43
IX.4.	MANAGEMENT BOARD.....	50
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 .....	59

## I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Sirs,

This was a good year for Bank Millennium Group. We finished it with the second best profit in our history, amounting to PLN 536 million - higher by 13.5% compared with 2012. This is a proof that we are well-prepared to reach the targets defined in the 2013-2015 medium-term strategy, also when operating under difficult macroeconomic circumstances - in an environment of very low interest rates and a highly competitive financial services market.

In 2013, the Group developed in a sustainable way, improving its core income (total of net interest and commission income) by 5% per annum, at the same time reducing operating costs and provisions for impairment of assets. We saw growth in below mentioned business lines: a high 24% annual growth of consumer loans' volume; 12% growth of corporate loans and 11% growth of total Customers' funds. The structure of deposits also improved markedly thanks to strong growth of savings and current accounts in the retail business area.

Maintaining strict cost discipline was the key to keeping high efficiency. Total expenses were down 3% in annual terms, which led to improvement of the cost/income ratio to the record low level of 54% at end of year. Bank Millennium Group also sustained its very good liquidity position, reaching a surplus of deposits over loans and scoring a loans/deposits ratio improvement to 91.5%.

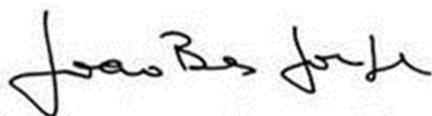
2013 was another year, in which the Bank remained focused on maintaining very high service quality. Our efforts in this respect resulted in a number of prestigious awards. The Newsweek magazine gave Bank Millennium the title of "Friendliest bank for retail Customers in Poland", while Global Finance awarded the Bank the title of "Best Consumer Internet Bank in Poland". The culture of high service quality is one of the strategic principles, which the Bank intends to rely on in establishing and developing Customer relations.

The very good results attained by the Bank in 2013 show that we are a sound, well-capitalised and rapidly developing institution. This has been appreciated by investors on the capital market - Bank Millennium share price on the Warsaw Stock Exchange grew in 2013 by 63% - the biggest growth among largest banks quoted on this trading floor.

Detailed results of Bank Millennium Group in 2013 have been shown further in this Annual Report.

Optimistic forecasts for the Polish economy in 2014, especially those concerning growth of private consumption, growth of investments and improvement of GDP, permit us to be more optimistic about the business environment we will be operating in. The year 2014 will see our focus on increasing profitability, improving efficiency, at the same time maintaining a strong liquidity and capital position. We want to continue growth in all business areas, maintaining our position as the best bank in terms of quality of service as well as, one of the most innovative players of Polish financial industry.

I am confident that we will reach the 2014 targets, thus providing a strong foundation for further growth of Bank Millennium Group.



**Joao Bras Jorge**

**Chairman of the Management Board of Bank Millennium**

## II. BRIEF DESCRIPTION OF BANK MILLENNIUM

### Bank Millennium

Bank Millennium is a peer of Polish transformation. It emerged in 1989 as one of the first Polish commercial banks (initially operating under the name of Bank Inicjatyw Gospodarczych BIG SA). Following the IPO in 1990 it became a private bank. At that time it was focusing its business on offering modern financial products and services to corporate Customers. In the early phase of activities, while building its operating foundations, the Bank issued Poland's first VISA card for business Customers (in 1991) and launched its leasing business. In 1992 the Bank's shares were the first equities of a financial institution to make their debut on the Warsaw Stock Exchange. In that same year the Bank carried out a takeover of Łódzki Bank Rozwoju SA - this was the first takeover of a private bank in the post-war history of the Polish financial market.

As the Polish market developed, thanks to the growth of its product and service range, the Bank became a universal bank. This process was strongly stimulated 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, thus marking the start of the 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 self-employed persons and micro businesses as well as small, medium and large companies in the Corporate Banking segment.

The Bank has built its market position by working with over 1.2 million individual Customers and over 10 thousand corporate Clients, who can use the nationwide network of 439 branches as well as state-of-the-art technology (online, phone and mobile banking) to have 24/7 access to innovative financial services. Their high quality was recognised in 2013 by the Newsweek magazine, which gave the Bank the first place in the prestigious ranking "Friendly Bank - Retail Customer".

Today Bank Millennium, together with its specialised subsidiaries, forms one of the most innovative and fastest developing financial groups in Poland.

Bank Millennium, together with its subsidiaries, forms the Bank Millennium Group. The key companies in the Group are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage house) and Millennium TFI (mutual funds). The offer of these companies supplements the products and services available from the Bank. Remaining companies from the Group support performance of infrastructural tasks.

### III. HIGHLIGHTS AND MAIN EVENTS IN 2013

#### III.1. Summary of the results in 2013

Bank Millennium net profit in 2013 reached PLN 497 million, which signify high growth of 10.4% compared to the previous year.

Main financial and business highlights of 2013 are as follows:

#### Improvement of profitability and strong share price increase

- 2013 net profit at PLN 497 million; 10.4% up y/y
- Bank's share price on WSE grew by 63% - the highest among the biggest listed banks



#### Revenue growth with positive interest income evolution (despite low interest rates)

- Net interest income up 7.3% y/y
- Net commissions up 7.8% y/y
- Total operating income up 2.8% y/y

#### Lower costs

- Operating costs dropped 2.8% y/y
- Cost/Income ratio at 55.0% (down by 3.2 p.p.)



#### Three strong pillars kept: asset quality, liquidity, capital

- Impaired loans ratio at 3.9% (less 0.5 p.p. y/y)
- Loan-to-deposits at 89.7%
- Core Tier 1 at 12.7% and total CAR at 13.6%

#### Improvement of funding structure and cost

- Solid growth of deposits by 9.4% y/y
- More balanced structure of deposits, with higher share of current and saving accounts (50% in retail)
- Continuation of margin improvement on deposits

#### Strategic change of asset mix continues

- Cash loans sales at PLN 1,785 million in 2013, up 77% y/y
- Loans to companies grew by PLN 1,461 million, up 16.0% y/y
- High sales of factoring in 2013: +45% versus 2012
- Growing share of non-mortgage loans

### III.2. Market indicators and ratings

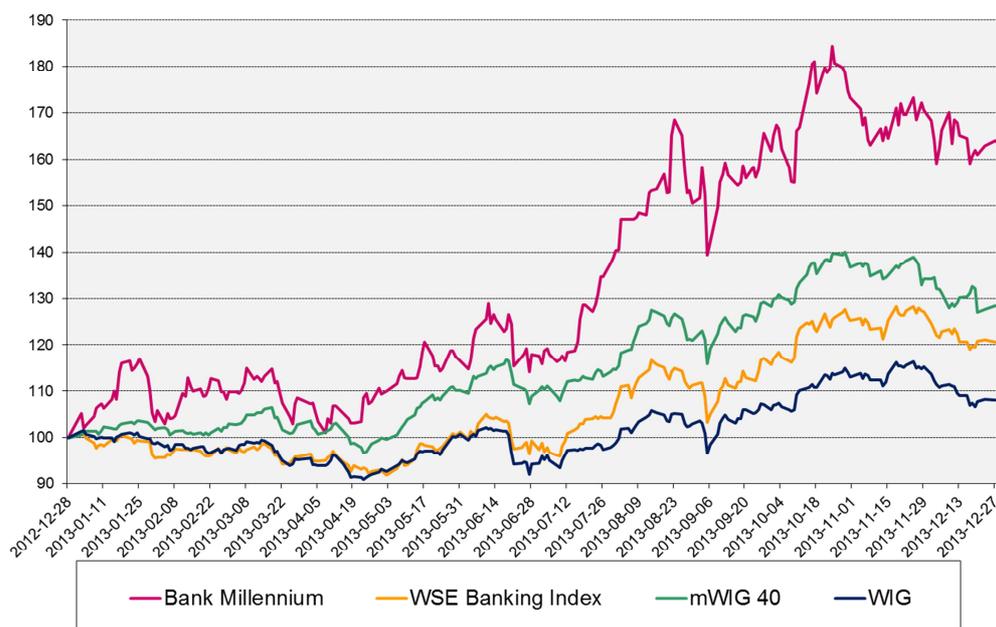
Improvement of Bank's results in the past year were accompanied by a very good performance of the Bank's share price on the Warsaw Stock Exchange. During 2013 Bank Millennium shares grew by 62.9% and performed the best among the biggest banks listed on Warsaw Stock Exchange (members of WIG banks). In the same time WIG index grew by 8.1%, the WIG Banks index grew by 20.5% and mWIG40 index by 31.1%.

This allows increase of Bank's main market indicators: P/E to 16.9 and P/BV to 1.68 (as of the last day 2013)

Market ratios	30.12.2013	28.12.2012	Change
Price of Bank Millennium shares (PLN)	7.20	4.42	62.9%
Market capitalization (PLN million)	8 734	5 362	62.9%
Daily turnover - avg. in the year (PLN thousand)	4 097	2 975	37.7%
EPS (PLN)	0,44	0,39	12.8%
P/E	16.88	11.43	47.7%
P/BV	1.68	1.15	47.0%

#### Evolution of Bank Millennium share price versus main WSE indices

(percentage changes vs. 28 December 2012)



#### Ratings

During 2013 there have been no changes of the two basic ratings of Bank Millennium. On 20<sup>th</sup> of May 2013 Fitch agency affirmed ratings for Bank Millennium in relevant report.

The table below presents the two solicited ratings of Bank Millennium as on 31 December 2013:

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

- The General Shareholders' Meeting elected on 11 April 2013 Mr Grzegorz Jędryś for member of the Bank's Supervisory Board.
- The Bank received on 1 August notification that Aviva OFE increased its share in the total number of votes in the Bank to over 5% in result of purchases of the Bank's shares, made on 25 July 2013.
- On 24 October Mr Bogusław Kott - Chairman of the Management Board of the Bank, filed his resignation from the position of Chairman of the Management Board of the Bank. At the same day the Supervisory Board appointed Mr Joao Nuno Lima Bras Jorge for the position of Chairman of the Management Board of the Bank. In result of Mr Bogusław Kott's resignation from the function of Chairman of the Management Board of the Bank, the condition was fulfilled for Mr Bogusław Kott's appointment to the Supervisory Board of the Bank in its current tenure, resulting from which from the day of 24 October 2013 Mr Bogusław Kott is a member of the Supervisory Board of the Bank. The Supervisory Board appointed Mr Bogusław Kott for Chairman of the Supervisory Board while the former Chairman of the Supervisory Board Mr Maciej Bednarkiewicz was appointed as its Deputy Chairman.
- On 24 October Supervisory Board of the Bank passed a resolution concerning selection of PricewaterhouseCoopers sp. z o.o. with its seat in Warsaw at Al. Armii Ludowej 14 as the entity authorised to examine the 2014 financial reports of Bank Millennium S.A. and Bank Millennium Capital Group.

### III.4. Main awards and achievements of Bank Millennium in 2013

#### Winner of "Friendly Bank - Retail Customers"



Bank Millennium won in the main "Friendly Bank - Retail Customers" ranking of best banks in Poland, prepared annually by the Newsweek magazine. In the "Friendly Bank - Internet Bank" ranking Bank Millennium came 2nd. The first time Bank Millennium was ranked among top 3 banks on the "Friendly Bank - Retail Customer" list in 2011 when the Bank came the third. Already a year later it moved up to the 2nd place to eventually win in this year's edition. The ranking looked at the level of services provided to individual Customers. Attention was given to many aspects, including features of bank outlets (organisation of Customer service, cleanliness), quality of service (know-how of employees, way of engaging in a discussion, way of executing the most popular orders), Customer acquisition and retention (ability to choose products, which a Customer needs the most).

### 2013 Service Quality Star



Polish consumers have identified **Bank Millennium as one of 100 friendliest companies on the Polish market**. More than 3.5 million internet users voted in the competition portal for Service Quality Stars in the 6th edition of the Polish Service Quality Programme. The award is presented to companies, which are most focused on Customer service quality. It is a proof both of effectiveness of adopted standards as well as efficient business management. The awarded companies are seen by consumers to be recommended and trustworthy, with staff who are always there to help Customers with their knowledge.

### The Best Internet bank according to the Global Finance



In July 2013 Bank Millennium yet again topped the category **“Best Consumer Internet Bank in Poland”**. The awards were given by Global Finance independent financial magazine. Winning banks were selected based on the nominations of individual banks and evaluation of world class specialists - experts of Tata Infotech company and according to the following criteria: strength of strategy for attracting and servicing online Customers, successes in getting Clients to use web offerings, growth of on-line Customers, breadth of product offerings, evidence of tangible benefits gained from internet initiative, web-site design and functionality.

### Bank Millennium website gets “No Barriers” certificate



Bank Millennium’s website and online banking system for private Customers have been fully adapted to the needs of disabled users. In result **Bank Millennium is the first bank in Poland to have been awarded the “Website Without Barriers” certificate**.

“Website Without Barriers” is a quality mark identifying websites, which may be deemed accessible and adapted to the needs of persons threatened with digital exclusion, including disabled persons. This quality mark, granted by the “Fundacja Widzialni” foundation, gives a guarantee of full compliance with international website accessibility standards

### Macroeconomic Research Bureau among top Polish forecasters

The Macroeconomic Research Bureau of **Bank Millennium took 2nd place after 3Q 2013 in the contest of forecasters** conducted by the National Bank of Poland and the Rzeczpospolita daily. The ranking includes forecasts for the GDP growth, investments dynamics, inflation, current account deficit and unemployment rate. What is more important, the team of Bank Millennium managed to keep 2nd place in two consecutive quarters which proves stable and good quality of forecasts, especially forecasts of inflation and unemployment.

### Bank Millennium in the RESPECT Index



Once again **Bank Millennium is 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

Data confirm that Polish economy reached the bottom of the economic cycle in the first half of 2013 and a gradual acceleration of growth is taking place. Gross Domestic Product in 2013 was by 1.6% higher than in 2012 when it grew by 1.9%. After very difficult beginning of the year significant improvement of business conditions was observed and GDP growth accelerated from 0.5% y/y in the first quarter to 2.7% y/y in the fourth quarter reflecting upswing in manufacturing as well as in individual consumption. In the whole year net exports remained the main engine of the economic growth, with the contribution of 1.8 percentage point similar to the one observed in 2012. Exports were supported by improved business climate in the euro area and market diversification conducted by the Polish exporters. Domestic demand was a drag on imports' growth. In 2013 domestic demand still had negative impact on growth, mainly because of diminishing public investments and lower stock of supplies. Individual consumption increased by 0.8% supported by stabilizing labour market and low inflation.

Registered unemployment in December 2013 was equal to 13.4%, similarly to the end of 2012. Looking at the unemployment in particular months one could observe that the end of year was much better than the beginning. In April unemployment rate was by 1.0 percentage point higher than in the corresponding period of 2012r. In the following months the annual growth has systematically diminished on the back of improved business climate in manufacturing and services. At the end of year these factors were accompanied by good weather and additional active labour market policies financed by the Labour Fund. During the year average wages growth was moderate and amounted to 2.9% y/y. In the environment of low inflation this translated into a stable growth of real income from labour.

Leading indicators suggest further improvement of the business climate in Poland following revival of growth in the euro area. Bank expects that, along with net exports, also domestic demand will have positive impact on growth that is expected to reach 3.2% in 2014. Bank anticipates that the consumption growth will accelerate to 2.3% supported by improving labour market conditions i.e. unemployment falling to c.a. 13% in December. After a decline in 2012 and 2013 Bank expects investment growth at 4.5% supported by growing capacity utilization and new orders as well as good financial standing and high liquidity ratios of the companies. Despite the acceleration, economic growth should not yet translate into significantly higher inflation.

Inflation increased from a June historical low of 0.2% y/y to 1.1% y/y in July and declined again to 0.7% y/y in December. In 2013 average inflation was equal to 0.9% compared to 3.7% in 2012. Cost and demand pressures in the economy remain low and inflation is significantly below the NBP target (2.50% +/-1%).

Responding to growth slowdown and inflation deceleration the NBP significantly lowered interest rates. Reference rate was cut from 4.00% in January to a record low level of 2.50% in July. According to the Monetary Policy Council the easing cycle that cut interest rates by a total of 225 basis points supports economic recovery and limits the risk of inflation running below the target in the medium term. Since September 2013 the MPC uses forward guidance to communicate future shape of monetary policy. Currently the Council maintains its assessment that NBP interest rates should be kept unchanged at least until the end of the first half of 2014 which supports reaching medium-term inflation target. In Bank's opinion after this period the Council might start forward-looking interest rate hikes by a total of 50 basis point in the third and fourth quarter of 2014.

In coming quarters the following external macroeconomic factors could influence the standing of Bank Millennium:

- Accelerating economic growth, driven mainly by private consumption and investments, might support credit growth to households and corporate sector.
- Improvement in economic sentiment, including better financial standing of Polish companies and gradual decrease in unemployment, might support quality of credit portfolio.
- Possible rate hikes in the second half of the year might increase interest rate margin but also cost of financing on the domestic market.
- Regulatory factors including a reduction of the interchange fee (as of July 2014.), possible recommendation of the banking supervision regarding the change in cooperation model between banks and insurance companies, as well as possible additional charges on the Bank Guarantee Fund may negatively affect profitability of the Bank.
- Fed tapering or turbulences in emerging markets might increase volatility in the domestic financial markets that could affect the valuation of the portfolio of debt securities and the PLN exchange rate that might translate into the loans-to-deposits ratio.

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

2013 year marked a difficult macroeconomic environment for the banking sector in Poland, not only due to low economy growth in the first half, but especially due to the lowest ever level of interest rates. Despite that, Polish banks performed relatively well. According to KNF data, 2013 net profit of all banks fell slightly by 0.3% versus 2012 year, mainly due to falling net interest income of 3.8% yearly.

During year 2013 deposits in the banking sector increased by 6.7% year-on-year (NBP data). Their nominal value increased by PLN 53.9 billion, of which PLN 34.2 billion increased deposits in the households' sector and by PLN 19.7 billion in the corporate sector. It should be noted that the substantial growth in households' deposits was recorded despite the low growth of disposable incomes, low interest rates and increasing attractiveness of mutual funds, whose assets increased during 2013 by PLN 43.2 billion (data IZFA). Total loans of the banks operating in Poland increased by 3.6%. In the households' sector there has been a marked acceleration of consumer loans, which dynamics amounted to 4.8% y/y in December 2013 vs. drop of 4.9% y/y in December 2012. In a somewhat lesser extent, increased mortgage loans, that grew in December 2013 by 3.7% y/y. In the corporate sector, the growth of loans remained relatively low, and it amounted to 2.2% y/y at the end of the year, reflecting the low investment activity of Polish companies.

Polish banks increased their total equity by 5% y/y and average Capital Adequacy Ratio remains on very strong level of 15.75% in December 2013. Liquidity position also remains very solid with Loans-to-Deposits ratio at a comfortable level of 105%.

2013 year brought also few important regulatory changes for the banking sector, including new fee for Banking Guarantee Fund (BFG), new limits on payment cards interchange fees and changed recommendation for mortgage loans (two last factors valid from 2014 year).

Bank Millennium, as at the end of September 2013, was the 7<sup>th</sup> largest commercial bank in Poland measured by consolidated total assets and deposits with average market share of about 5%. Bank Millennium Group, which comprise apart from the Bank also leasing, mutual fund and brokerage company, is relatively strong in loans to individuals (6.2% market share), especially in mortgages (almost 8% market share) and in credit cards (above 8% share in spending). Other Bank's strong segments are leasing (5<sup>th</sup> largest company with above 7% market share) and factoring (more than 8% market share in turnover). On deposits side Bank has on average 5.2% market share. Products and services of the Group are distributed through 439 branches and other electronic channels, including ATMs, internet, phone and mobile phone applications.

During 2013 Bank Millennium Group improved market position in cash loans, leasing and factoring sale, whereas market share dropped in mortgage loans. Overall deposits market position was relatively stable, but the Bank significantly improved position in retail saving and current accounts volumes.

In 2014, the Bank expects further growth of deposits in the banking sector at a pace similar to the last year (5-7%). The increase in household's deposits will be supported by the growing disposable incomes, driven by improvement in the labour market. On the other hand, factors that might limit growth of households' deposits include increasing consumption and the inflow of assets into mutual funds and/or growing sales of structured products, that might be a more attractive alternatives to bank deposits in the environment of record low interest rates. The dynamics of corporate deposits may slightly slow down because companies can consume part of their liquidity surplus for investments in fixed assets.

As regards loans of the banking sector the Bank expects a slight acceleration of their growth to 6-8% in 2014. Within the household's sector one might expect still solid grow of consumer loans, what should be supported by low interest rates and recovery in consumer demand in the economy. Mortgage loans should grow at the rate similar to the last year. Implementation of the programme "Apartment for the Young", low interest rates and a possible economic recovery in the construction sector might support this category of loans. The Bank expects that the portfolio of corporate sector loans will grow in the banking sector by 7-9% in 2014. Recovery in investments in the economy will supporting lending to the corporate sector. However, one should consider the fact that the own funds of the Polish corporate sector are the main sources of investments financing, hence the increase in demand for bank credits from the corporate sector will be gradual. An alternative to bank loans might be also corporate bonds, which are gaining in importance as a source of corporate financing.

### IV.3. Implementation of strategy and business development prospects

In 2013 Bank Millennium continued to implement the medium-term strategy for 2013-2015, which was announced in October 2012. The current strategy of Bank Millennium Group focuses on valuable areas of business, with redirecting product mix to higher margin products, improving balance sheet structure and increasing profitability and share of corporate business. Improved sales effectiveness and keeping efficiency advantage through strict cost discipline are the other main priorities of the strategy. Main medium-term targets set to be achieved by the Group include cost-to-income at 50% and ROE at 14-15%.



The Bank has adopted several initiatives with the aim to materialise the new strategy, including consumer and corporate loans growth action plans. Undertaken projects and implemented solutions resulted in the dynamic growth of consumer loans during the year by 24%, and of corporate loans by 12%, which led to gradual increase of share of corporate loans in total loan portfolio, from 25% in October 2012 to almost 28% in December 2013.

In addition Customer deposits of the Bank increased by 9.3% versus end of 2012. The structure of retail deposit base improved, with share of saving and current accounts at 50% level.

Bank improved both its net interest income (by 3.5% yearly), despite quickly falling market rates in 2013 (average WIBOR 3M dropped by 188 basis points during 2013), as well as commission income (by 7.8% yearly). Strict cost control in 2013 allowed decrease of total expenses by 2.8% comparing to 2012, which led to the improvement of cost-to-income ratio from 58% in September 2012 to 54% at the end of 2013, showing that it is well on track to fulfil 50% ratio in 2015.

Growing income with decreasing operating costs and decreasing risk provisions brought improvement of consolidated net profit in 2013 by 13.5% to the amount of PLN 536 million. This strong improvement of profitability was accompanied by an excellent Bank's share price performance (+63% yearly), the best among the biggest listed banks on the Warsaw Stock Exchange.

Bank Millennium Group kept strong capital and liquidity position, measured by Core Tier 1 ratio at 13.4% (much above minimum assumed in the strategy), total CAR at 14.5% and Loan-to-deposit at 91.5%, much lower than the maximum 100% level assumed in the strategy.

One of other medium term goals of the Bank was to maintain competitive advantage of exceptional quality. Bank's efforts in this area were recognized by prestigious Newsweek ranking, in which Bank was awarded with "The most friendly bank for individuals in Poland" title. The ranking took into consideration quality standards for retail Customers, such as branch functionality, quality of service, acquisition and relationship building with Customers. Furthermore Bank ranked according to Newsweek second in "The Best and Friendliest Internet Bank in Poland" category. Continued efforts in area of remote channels were also recognized by internet magazine Global Finance, which for the 6th time in a row granted Bank Millennium the title of "The Best Internet Bank for Clients in Poland".

The strong capital position of the Bank gives the possibility for Bank Millennium to come back to regular dividend distribution after two years of full net profit retention. Therefore, the Bank's Management Board will recommend to submit to the next General Shareholders Meeting a proposal to pay as dividend 50% of the

consolidated net profit of 2013 (or 54% of unconsolidated net profit of PLN 497 million), which gives PLN 267 million dividend (or 0.22 PLN per share) and implies a 3.1% dividend yield (to PLN 7,20 price from the end of 2013 year).

In terms of business development, the Bank intends in the future to focus on acquisition of new Customers, forming strong relations with Customers, further enhancing the level of quality of services and implementing innovative products.

Macroeconomic scenario for Poland assumes positive evolution, with GDP growth in 2014 above 3%, driven especially by investments and private consumption rebound.

In this positive scenario Bank Millennium will continue growth of consumer loans and will further explore market opportunities in corporate lending, by combining the focus in SMEs with addressing mid-large companies. In addition, Bank will look to establish strategic partnership relations with key corporate Customers.

Bank will undertake further efforts to optimize use of multiple sales channels, through review of the current distribution model, branch network structure and formats, as well as accessibility of remote channels and adjusting it to changing Clients' behaviours. Bank will continue its efforts in development of mobile banking and advanced business analytics for increased sales productivity.

## V. FINANCIAL SITUATION OF BANK MILLENNIUM

### V. 1. Bank profit and loss account

Operating Income (PLN million)	2013	2012	Change 2013/2012
Net Interest Income	1 113.9	1 038.4	7.3%
Net Commission Income	546.9	507.3	7.8%
Core Income*	1 660.7	1 545.7	7.4%
Other Non-Interest Income **	216.4	279.2	-22.5%
- including FX result	163.0	158.3	3.0%
<b>Total Operating Income</b>	<b>1 877.2</b>	<b>1 824.9</b>	<b>2.9%</b>

(\*) 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** reached PLN 1,113.9 million in the whole 2013 financial year, which means a growth by 7.3% (or PLN 75.5 million) versus 2012. This was an important achievement having in mind very steep reduction of market rates in Poland (average WIBOR 3M decreased by 188 bps yearly). During 2013 year the Bank managed to reduce its interest costs more (i.e. by PLN 490.8 million or by 25.3%) than the decrease of interest income (by PLN 415.4 million or by 13.9%).

**Net Commissions Income** in 2013 amounted to PLN 546.9 million, which means a robust 7.8% (or PLN 39.5 million) growth yearly. The main growth driver were fees from distribution of Millennium TFI and third parties' saving products (altogether growth by PLN 25.6 million yearly). Also fees and commissions from sale of insurance products (mainly linked to different credit products, like cash loans, mortgages and cards) grew by PLN 21.4 million yearly, and now constitute 15.3% of total Net Commission Income.

**Core income**, defined as a combination of net interest and net commission income, grew visibly by 7.4% in 2013 versus previous year and reached the amount of PLN 1,660.7 million, showing strengthened income generation from the core activities.

**Other non-interest income** for 2013 amounted to PLN 216.4 million and fell by 22.5% yearly due to lower income from instruments at fair value through profit and loss, as well as lower dividends from subsidiaries and net balance of other operating income and costs, whereas FX gains were slightly higher and amounted to PLN 163.0 million (+ 3.0% y/y) compared to the level of 2012.

Robust growth of Core Income during 2013 year translated into higher value of **Total Operating Income** of the Bank (by 2.9% y/y) which amounted to PLN 1,877.2 million.

Total costs in 2013 amounted to PLN 1,032.0 million, which means a reduction by 2.8% compared to the level of 2012. Costs fell in both main items: personnel and other administrative costs (including depreciation).

Operating Costs (PLN million)	2013	2012	Change 2013/ 2012
Personnel Costs	(509.9)	(521.4)	-2.2%
Other Administrative Costs*	(522.1)	(540.5)	-3.4%
<b>Total Operating Costs</b>	<b>(1 032.0)</b>	<b>(1 061.9)</b>	<b>-2.8%</b>
<b>Cost/Income Ratio</b>	<b>55.0%</b>	<b>58.2%</b>	<b>-3.2 p.p.</b>

(\*) including depreciation

Personnel costs in 2013 decreased by 2.2% yearly. Total number of employees in the Bank presented similar scale decrease, i.e. by 1.5% compared to the end of 2012 and in December 2013 comprised 5,541 persons (in Full Time Equivalents).

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

The evolution of employment of Bank Millennium is presented in the table below:

	31.12.2013	31.12.2012	Change 2013/ 2012
Bank's employment (in FTEs)	5 541	5 627	-1.5%

Other administrative costs (including depreciation) in 2013 fell by 3.4% yearly thanks to reduction in several areas including IT, telecom and rental costs. On the other hand, marketing costs grew visibly, which is consistent with the organic business growth strategy that is being implemented.

Cost-to-Income ratio improved significantly. The level of the ratio for the whole 2013 went down to the much lower level of 55.0%, i.e. 3.2 p.p. less than in 2012.

Total net impairment provisions created by the Bank in 2013 amounted to PLN 222.2 million and were higher by 7.8% than in 2012.

Net Income of the Bank reached PLN 496.8 million in the whole 2013 financial year. Better operating income and lower costs allowed very solid annual growth of the Net Income of 10.4%.

Pre-tax Income and Net Income (PLN million)	2013	2012	Change 2013/2012
Operating Income	1 877.2	1 824.9	2.9%
Operating Costs *	(1 032.0)	(1 061.9)	-2.8%
Impairment provisions	(222.2)	(206.1)	7.8%
<b>Pre-tax Income**</b>	<b>622.9</b>	<b>556.9</b>	<b>11.9%</b>
Income tax	(126.1)	(106.7)	18.2%
<b>Net Income</b>	<b>496.8</b>	<b>450.1</b>	<b>10.4%</b>

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

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

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

### Assets

The Bank's assets as at 31 December 2013 totalled PLN 56,529 million and were 8.5% higher compared to the balance at the end of December 2012. The structure of Bank's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	31.12.2013		31.12.2012		Change 2013/2012 (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	3 411.9	6.0%	2 465.6	4.7%	38.4%
Loans and advances to banks	1 519.6	2.7%	1 392.4	2.7%	9.1%
Loans and advances to clients	41 087.6	72.7%	39 341.4	75.5%	4.4%
Receivables from securities bought with sell-back clause	242.1	0.4%	17.5	0.0%	1285.7%
Financial assets valued at fair value through P&L and hedging derivatives	1 064.5	1.9%	942.5	1.8%	12.9%
Investment financial assets*	8 539.2	15.1%	7 059.5	13.5%	21.0%
Intangible assets and property, plant and equipment**	195.8	0.3%	221.2	0.4%	-11.5%
Other assets	468.4	0.8%	673.2	1.3%	-30.4%
<b>Total assets</b>	<b>56 529.1</b>	<b>100.0%</b>	<b>52 113.4</b>	<b>100.0%</b>	<b>8.5%</b>

(\*) including investments in associates

(\*\*) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of loans to clients by PLN 1,746 (or by 4.4%) as well as the growth of investment financial assets (including investments in associates) by PLN 1,480 million (or by 21.0%), first of all debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank).

### *Loans and advances to customers*

Loans and advances to clients constitute a dominant position in the asset structure (72.7% as on 31 December 2013). Total loans of Bank Millennium reached PLN 41,088 million (in net terms) as at the end of December 2013, which means an increase by 4.4% versus the end of last year. Both loans for companies and individual clients recorded growth in 2013 year: by 16.0% and by 0.9% respectively.

The value of loans granted to households as at the end of December 2013 totalled PLN 30,512 million and increased by 0.9% year-on-year. Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) grew very strongly by 24% year-on-year and amounted to PLN 3,709 million as at the end of December 2013. The increase was mainly driven by exceptional growth of cash loans: the value of annual sales of cash loans grew by 77% compared to the sales level in 2012 and amounted to PLN 1,785 million.

The relatively modest growth of the loans to households was caused by decreasing FX mortgage loans (by PLN 1,110 million in 2013) as a result of natural amortisation of this portfolio. On the other hand the net growth of PLN mortgage book by PLN 710 million contributed positively (thanks to PLN 1,279 million new PLN mortgage loans originated in 2013). As on 31 December 2013, mortgage loans constituted the largest component of the Bank's net loan portfolio and accounted for 65.2%, which was however considerably lower (i.e. by 4.0 p.p.) when compared to the share of 69.2% recorded as at the end of 2012.

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

Loans and advances to Clients (PLN million)	31.12.2013	31.12.2012	Change (value)	Change (%)
Loans to households	30 511.7	30 226.3	285.4	0.9%
- <i>mortgage loans</i>	26 802.8	27 235.3	-432.5	-1.6%
- <i>other loans to households</i>	3 708.9	2 991.0	718.0	24.0%
Loans to companies	10 575.9	9 115.2	1 460.7	16.0%
<b>Net Loans &amp; Advances to Clients</b>	<b>41 087.6</b>	<b>39 341.4</b>	<b>1 746.1</b>	<b>4.4%</b>
Impairment write-offs	1 190.2	1 093.2	97.0	8.9%
<b>Gross loans and advances to Clients</b>	<b>42 277.8</b>	<b>40 434.6</b>	<b>1 843.2</b>	<b>4.6%</b>

Loans to companies grew by PLN 1,460 million and amounted to PLN 10,576 million as at 31 December 2013. This means a solid 16.0% increase yearly, which is especially positive when comparing to a modest, 3.3% growth of loans to companies (including individual entrepreneurs) in the Polish banking sector.

The average basic interest rate of loans granted by the Bank throughout 2013 was 4.47%. Relatively low level of this interest rate is mostly due to the lower nominal interest rate of mortgage loans in foreign currencies, which represent significant part of the Bank's loan portfolio.

#### *Investment financial assets*

The value of investment financial assets (including investments in associates) equalled PLN 8,539 million at the end of December 2013 and increased by PLN 1,480 million i.e. 21.0% compared to the balance as on 31 December 2012 mainly due to PLN 1,491 million increase in the portfolio of debt securities. The increase resulted from the visible improvement of liquidity position of the Bank noticed during 2013 year (higher growth of deposits than loans). Investment financial assets portfolio (including investments in associates) was primarily composed of debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank) (share of 95.3%). Smaller part, i.e. 3.5% of the portfolio, were shares in associates.

#### *Financial assets valued at fair value through profit and loss and hedging derivatives*

Value of the financial assets valued at fair value through profit and loss and hedging derivatives totalled PLN 1,064 million at the end of December 2013, which signifies a PLN 122 million increase (i.e. 12.9%) compared to 31 December 2012. This increase was driven by higher value of State Treasury debt securities by PLN 386 million. On the other hand assets from valuation of derivatives (designated for trading and hedging) decreased in the reporting period by PLN 264 million.

#### *Loans and advances to banks*

Loans and advances to banks (including interbank deposits) amounted to PLN 1,520 million as at the end of December 2013, which means an increase by PLN 127 million (or by 9.1%) year-on-year. The changes resulted mainly from higher balances on nostro current accounts and also higher deposits placed and other amounts due from banks.

#### *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 2013, which means a decrease by 11.5% yearly, mainly as a result of standard depreciation.

Total Capital Expenditure of the Bank in 2013 amounted to PLN 30,1 million, of which PLN 16.2 million spent for sales and other infrastructure (e.g. branches, ATMs, security) and PLN 13.9 million spent on software and IT

infrastructure. The planned expenditures of the Bank in 2014 (including assets to be leased) are PLN 60.1 million.

### Liabilities

The value and structure of the Bank's liabilities as at the end of 2013 and 2012 are shown in the table below:

LIABILITIES (PLN million)	31.12.2013		31.12.2012		Change 2013/2012
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 202.6	4.3%	2 253.0	4.7%	-2.2%
Deposits from customers	45 448.7	88.2%	41 552.2	87.2%	9.4%
Liabilities from securities sold with buy-back clause	116.8	0.2%	174.8	0.4%	-33.2%
Financial liabilities valued at fair value through P&L and hedging derivatives	1 505.5	2.9%	1 582.8	3.3%	-4.9%
Liabilities from issue of debt securities	701.4	1.4%	767.6	1.6%	-8.6%
Provisions	63.1	0.1%	40.7	0.1%	54.9%
Subordinated debt	622.6	1.2%	613.6	1.3%	1.5%
Other liabilities*	892.7	1.7%	652.8	1.4%	36.7%
<b>Total liabilities</b>	<b>51 553.3</b>	<b>100.0%</b>	<b>47 637.5</b>	<b>100.0%</b>	<b>8.2%</b>
<b>Total equity</b>	<b>4 975.8</b>		<b>4 475.9</b>		<b>11.2%</b>
<b>Total liabilities and equity</b>	<b>56 529.1</b>		<b>52 113.4</b>		<b>8.5%</b>

(\* ) including tax liabilities

As at the end of 2013, liabilities accounted for 91.2%, while Bank's equity accounted for 8.8% of the total liabilities and equity.

As on 31 December 2013, deposits from Customers constituted the Bank's main liability item accounting for 88.2% of the Bank's total liabilities.

As on 31 December 2013, Bank's liabilities amounted to PLN 51,553 million and increased visibly by PLN 3,916 million or 8.2% relative to PLN 47,638 million as on 31 December 2012. The increase resulted, primarily, from a considerable growth in customer deposits (by PLN 3,896 million).

#### *Deposits from Customers*

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

Deposits of Clients (PLN million)	31.12.2013	31.12.2012	Change (value)	Change (%)
Deposits of individuals	26 302.4	25 911.0	391.4	1.5%
Deposits of companies and public sector	19 146.2	15 641.2	3 505.0	22.4%
<b>Total Deposits</b>	<b>45 448.7</b>	<b>41 552.2</b>	<b>3 896.5</b>	<b>9.4%</b>

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 2013 deposits from customers amounted to PLN 45,449 million and recorded an increase of PLN 3,896 million i.e. 9.4% relative to

the balance as on 31 December 2012. The very positive fact is that this solid growth of deposits during the whole 2013 was combined with consequent improvement of quarterly interest margin starting from 2Q'13, despite sharply falling market interest rates in 1st half and staying on low levels in 2nd half of the year.

As on 31 December 2013 deposits from individual customers amounted to PLN 26,302 million and accounted for 57.9% of the total balance of deposits from customers. Their value increased by PLN 391 million or by 1.5% compared to the balance as on 31 December 2012. Deposits from companies and public sector at the end of December 2013 equalled PLN 19,146 million and accounted for 42.1% of Bank's total deposits. Throughout 2013 the value of these deposits increased considerably by PLN 3,505 million (i.e. by 22.4%).

The average basic interest rate of deposits placed with the Bank throughout 2013 was 2.85%.

#### *Deposits from banks*

Deposits from banks, as on 31 December 2013, amounted to PLN 2,203 million accounting for 4.3% of the Bank's liabilities. Their value decreased by PLN 50 million (i.e. 2.2%) relative to the balance as on 31 December 2012. The main items of wholesale medium-term funding received by the Bank included FX loans from European Bank for Reconstruction and Development (EBRD) amounting to equivalent of EUR 107 million and PLN loans amounting to PLN 60 million, as well as loans from European Investment Bank of the total balance of EUR 100 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 on 31 December 2013, liabilities from securities sold with buy-back clause amounted to PLN 117 million decreasing by PLN 58 million relative to the balance as on 31 December 2012. The decrease resulted mainly from lower value of transactions with non-banking financial institutions.

#### *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 on 31 December 2013, PLN 1,506 million and decreased by PLN 77 million or 4.9% relative to the balance of 31 December 2012.

#### *Debt securities issued*

As on 31 December 2013 liabilities from issue of debt securities amounted to PLN 701 million recording a decrease by PLN 66 million (or 8.6%) relative to the balance recorded as on 31 December 2012. At the end of December 2013 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 348 million whereas the value of bonds offered to institutional investors amounted to PLN 353 million (part of which of the nominal value PLN 250 million are traded on ASO BondSpot debt instruments exchange in Warsaw). Debt securities were issued in order to raise funds for financing the general Bank's operations.

#### *Subordinated debt*

The value of subordinated debt amounted to PLN 623 million as on 31 December 2013 and increased by 1.5% 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 2013 equity of the Bank grew by 11.2% yearly and amounted to PLN 4,976 million as on 31 December 2013. The main reason of the growth of equity was net profit generated during the reported period. The contribution of revaluation reserve to this growth was not material.

More information about capital adequacy is presented in Chapter VII of this document.

## Contingent liabilities

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

<b>CONTINGENT LIABILITIES (PLN million)</b>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>Change 2013/2012</b>
<b>Contingent liabilities granted and received</b>	<b>8 747.5</b>	<b>7 889.9</b>	<b>10.9%</b>
1. Liabilities granted:	7 851.1	6 975.8	12.5%
a) financial	6 693.0	5 610.8	19.3%
b) guarantees	1 158.0	1 365.1	-15.2%
2. Liabilities received:	896.4	914.0	-1.9%
a) financial	850.6	817.6	4.0%
b) guarantees	45.9	96.4	-52.4%

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 Banks 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 2013, the total value of contingent liabilities of the Bank amounted to PLN 8,747 million, including commitments granted by the Bank: PLN 7,851 million. During 2013 the value of contingent financial liabilities granted by the Bank increased by PLN 1,082 million (i.e. 19.3%) whereas the value of guarantee commitments decreased by PLN 207 million (i.e. 15.2%).

More information on contingent liabilities can be found in Chapter 11 of Annual Financial Statements of Bank Millennium for 12 month period ended 31 Dec. 2013.

## VI. BUSINESS ACTIVITY

### VI.1. Retail banking

Bank Millennium offers broad and universal mix of banking products and services to retail Clients through four specialist business lines: Individual Clients, Prestige Clients, Private Banking and Business.

As at the end of December 2013, the Bank had more than 1.2 mln active retail Clients including 31 thous. Prestige Clients, more than 2 thous. Private Banking Clients and 62 thous. Business Segment Clients.

Bank Millennium Clients have an opportunity to take advantage of one of the largest in Poland Client service network of 439 outlets located in major Polish towns. Clients also can use banking services through the Internet banking system (Millenet), telephone service system (TeleMillennium), and via mobile banking and a network of multi-function ATMs. This way the Bank services are available 24 hours round for 7 days a week.

Following development of new technologies and in view of growing Client expectations, the Bank continued to develop and modernise electronic channels of distribution and banking product services.

The new version of the Internet service Millenet, implemented in 2013, was expanded by adding consecutive functionalities thereby streamlining finance management and providing home page personalisation option, helping Clients control their household budgets, planning expenditures and savings in Finance Manager. New Millenet for individual and Business Clients was given the certificate „Website Without Barriers”; thus Bank Millennium became the first bank in Poland to fully adjust its Internet service to the needs of persons with disabilities.

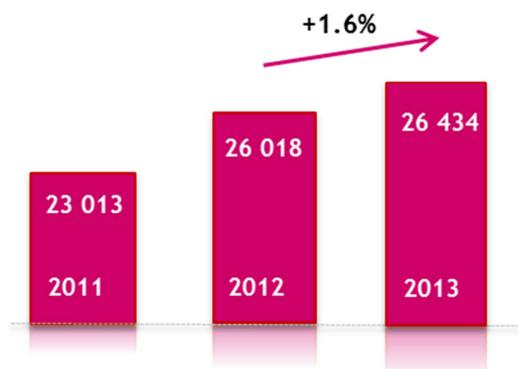
In 2013, Bank Clients were provided with access to mobile banking via all most popular types of smart-phones and tablets and multi-functional ATMs were provided with option granting access to personalised information and specialist product and service offers.

To serve Clients for whom Internet is the most convenient communication channel, the Bank, in 2013, launched an option to open personal accounts fully on-line. Intention to open an account is confirmed by sending a transfer from another bank. The process is made up of three simple steps while mechanisms applied ensure the highest possible level of safety. Account opened this way is fully functional and ready to use both via Internet and during visits in Bank Millennium branches.

Continuous improvement of service quality and Client satisfaction has been one of the main strategic objective for the Bank in recent years. Effects of the Bank activities in this area were recognised both by Clients and independent experts. Bank Millennium won in the ranking „Newsweek’s Friendly Bank 2013”, recognised as the most prestigious ranking in Poland - the bank was ranked top on the main ranking „Friendly Bank - Retail Client” (moving upwards from the second place awarded the year before). In the category „Friendly Bank - Internet Bank” the Bank was ranked second, holding its position at the podium.

### Savings products

Deposits of individual clients (PLN million)



Strong drop of interest rates and dynamically changing external environment made the year 2013 a year of challenges in the area of savings product. Despite the above difficulties, Bank effectively managed its deposit portfolio and achieved success: increase in the share of current accounts and savings accounts in the portfolio from 37% to 50% and significant decrease of the average cost of deposits. The Bank managed to achieve these results by reducing the volume of negotiated deposits and significant growth in current account balances; these activities were supported by promotional campaigns addressed towards the Clients. Volume of deposits of individual Clients increased in 2013 by 416 million PLN to reach the level of 26,4 bln PLN. The share in the market of deposits of natural persons remained at stable level, year-on-year, of 5.2% at the end of December 2013.

In 2013, Bank Millennium conducted active promotional and information campaigns in the area of its retail saving products offer. These activities were addressed towards individual Clients and supported sales of selected Bank products. In the last year, promotional activities applied to, as follows:

- Saving in Savings Account
- Savings Centre offering a broad range of savings products,
- Package Konto Oszczędnościowe z Lokatą Inwestycyjną (Savings Account with Investment Deposit), combining promotional interest rate accruing on funds on the savings account (5%) with option to generate higher than average earnings on Investment Deposit
- Package Promotional Deposit with Investment Deposit, combining high fixed interest rate in a short term with opportunity to generate earnings in a longer investment horizon.
- Savings Account „Twój Cel” (“Your Goal”) through competition „Trzy kroki do celu” (“Three steps to the goal”)(edition 2012/2013). Participants were asked to present their dreams or a target to be achieved in a short, three-part movie to be published in competition section of the Bank Millennium channel: [www.youtube.com/bankmillennium](http://www.youtube.com/bankmillennium). Altogether 203 movies took part in the competition, which presented dreams and plans of their authors. 167 movies qualified to the finals. Jury awarded 10 awards and choose a winner: a voiceover actor with a fantastic voice who used the award to set up his own recording studio.
- Savings Account „Twój Cel” through competition „Taksówką do marzeń” (*Taxi to Your Dreams*) (edition 2013/2014). Participants were to present their dreams or plan in a short 30-second movie published in the competition section of the Bank Millennium’s [www.youtube.com/bankmillennium](http://www.youtube.com/bankmillennium) channel. The movie could be recorded also in a special Bank Millennium taxi visiting: Warsaw, Tri-City of Gdańsk, Gdynia and Sopot, Poznań, Wrocław and Krakow. Altogether 501 movies were presented in the competition and jury awarded three most interesting ideas and granted one special award. The winner of the competition will be able to complete construction of wakeboarding centre - the first in Lubuskie Region.
- Saving on the World Savings Day (31 October), Bank Millennium launched an exceptional, promotional offer „Happy Day”. Within this offer, within eight hours Clients could open a deposit having a higher interest rate.
- ATM Deposit, which the Bank was the first to offer to Clients
- Investment Deposit - Bank offered, to individual Clients, subscription for investment deposits within which deposits with index based on FX rates were the most popular.

## Payment cards

### Credit cards

In 2013, a declining trend in the number of credit cards originated in preceding years continued on the Polish market. According to NBP, from December 2009 to September 2013, their number dropped by 4.6 million. However, despite the decline, value of card transaction remains flat.

Despite adverse market trends resulting in decrease of credit cards number, Bank Millennium has retained its share in the credit card market at the level of 6.7% (as after 3Q 2013). Despite drop in number of credit cards issued by the Bank, the number of all transactions executed by credit card holders in 2013 increased by 3% relative to 2012. This growth dynamics has resulted, inter alia, from very competitive offer including, in particular, success of Impresja card issued under two payment systems - Visa and MasterCard.

Worth noticing in 2013 was a growing trend in payments using contactless card offering convenient and fast payment for small shopping.

Reduction of Interchange rates (on the average from 1.6% to 1.3%) and systematic decrease of Lombard NBP rate since the beginning of 2013, forcing decrease of nominal interest rates accruing on credit card debt had a negative impact upon revenues in the area of payment cards in the last year.

### Debit cards

In 2013, number of debit cards on the Polish market systematically increased. According to NBP, in Q3 2013, the number of debit cards reached 28.3 mln. In Bank Millennium, increasing trend in the debit card portfolio and increasing numbers of transactions executed with use of debit cards was observed. In 2013, the number of Bank Millennium debit cards increased by 2.9%. The number of transactions generated by debit card holders increased by 22% relative to 2012. This growth dynamics was generated, inter alia, by very competitive offer, in particular, „Dobre Konto” current account. Bank Millennium with nearly 1,2 million issued cards holds ca. 4% share in debit card market in Poland.

Value of transactions executed with the Bank’s debit cards is continuously growing together with gradual increase in market share up to 4,5% (as in September 2013). Relative to 2012, the number of transactions per one card also increased by 14%. Change of the market situation, mainly resulting from reductions and planned consecutive decrease of Interchange rates contributed to the change in the business debit card model. The Bank withdrew moneyback from its Dobre Konto and Internet Account offer and changed fees for debit cards offered with the Internet Account.

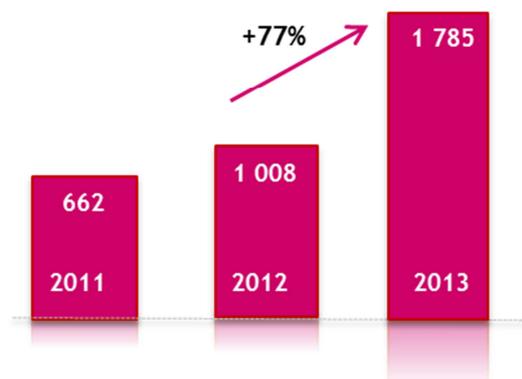
### New products and most important marketing campaigns in 2013

In 2013, the Bank concluded migration of cards to modern technology 3D-Secure supporting greater security of transactions executed by the Clients in the Internet. Following this change, all payment cards issued by Bank Millennium ensure the top level of protection when executing transactions of this type.

In the autumn of 2013, the Bank launched its Internet Millennium MasterCard Prepaid card campaign carried out in the Internet (mainly YouTube). The card is promoted by way of 30-seconds spot focusing, primarily, on young people of above 13 years of age and their parents.

### Cash Loans

Cash loans new sale (PLN million)



In 2013, the Bank undertook a series of actions to develop its cash loan product offer and increase its availability. Within these actions, the Bank introduced simplifications with respect to income documents required when applying for Cash Loan, thereby shortening the time to disbursement for 90% of applications to maximum 48 hours.

In mid-2013, the Bank adjusted its offer and credit processes to changes resulting from amended Recommendation T.

In 2013, the Bank modified, several times, its product price list to increase competitiveness of its offer in credits and loans category. Clients could take advantage of special loan with insurance bearing interest rate lower by 2 percentage points and fee reduced by 1 percentage point and an offer for persons transferring their wages to the account with additional reduction by 1 percentage point.

In the course of 2013, the Bank conducted four countrywide promotional campaigns promoting, as follows:

- Cash loan with long-term” Lowest Interest Rate Guarantee”.

- „Wakacje od spłaty rat” (instalment repayment holidays) offering option for the Clients to pay the first loan instalment, even up to 3 months from the loan agreement date (for loans with the maximum amount of up to 30,000 PLN gross).
- Loan to finance expenses connected with return to school.
- A repeated campaign promoting popular among the Clients offer of repaying the first instalment, this time after the New Year.

During 2013 year, the Bank launched two innovative loan distribution channels. Selected Bank Clients can take advantage of the offer (up to 2,000 PLN) loan in ATM and they can undertake loan via mobile phone, at any amount up to the Client's credit capacity. Borrowing through the two channels does not require delivery of income confirmation documents nor visit in the Bank outlet.

At the end of the year, the Bank also introduced significant changes to the consolidation loan offer reducing number of documents required from a Customer. Moreover, Client can, at any moment in the cash loan application process, decide to reduce his/her liabilities due to other banks by transferring them to the Bank and replace many instalments by a single, lower one in Bank Millennium.

In effect of actions undertaken in 2013, the value of cash loan sales increased by 77% year-on-year, and portfolio increased by 30% annually i.e. several times above the market increase recorded in this product category. In 2013, sales of new Cash Loans amounted to 1,785 million PLN while the relevant loan portfolio reached the value of 3,023 million PLN.

### **Mortgage Loans**

Activities conducted by Bank Millennium in 2013 in the mortgage banking area focused on improving credit process and Client service quality.

In 2013, the entire market registered a decrease of the total amount of new credits. Millennium mortgage banking Clients signed agreements with the Bank to the total of 1,181 mln PLN i.e. less by 40% than in 2012. Disbursements amounted to 1,279 mln PLN i.e. less by 35% relative to the year 2012. As at the end of December 2013, mortgage loan portfolio of Bank Millennium amounted to 26,803 mln PLN (value of the portfolio, a year ago, amounted to 27,235 mln PLN). Decrease in sales of mortgage loans remained in line with adopted balanced business growth strategy.

At the beginning of 2013, the method of land development project financing was changed. The Bank offered an option to finance projects advanced at 0% subject to developer having in place one of the forms of buyer protection provided for under the so-called developer act: an open or closed escrow account or any of the above accounts with insurance/bank guarantee. Other projects are financed in an unchanged way i.e. with works advanced to the minimum level of 20%.

Year 2013 was also marked with efforts undertaken to optimise and automate the process of mortgage loan application servicing. By implementation of the new processing procedures, based upon electronic copies of documents, waiting time for credit decision was shortened and, thereby, costs of loan applications servicing were reduced. Following this improvement, Client can obtain credit decision even few hours after submission of application in the Bank's outlet.

### **Prestige segment**

Prestige is the Bank Millennium offer addressed to affluent persons having assets from 100 thous. to 1 mln PLN or making monthly payments to the account at, at least 10.000 PLN, expecting high quality services and financial product offers tailor made to meet their individual needs.

The Prestige account offers a broad range of products and services supporting on-going finance management: current accounts in PLN and foreign currencies, savings account, term deposits, debit and credit cards. The Bank offers also a broad range of investment as well as investment and insurance products including domestic and foreign investment funds, investment programmes and structured products.

In 2013, Bank Millennium carried out 22 issues of Banking Securities with 100% principal guarantee (all in PLN), with varied time horizons, underlying assets and disbursement formulas. Bank Millennium won European Structured Products Awards as „The best distributor of structured products in Poland in 2013”.

Financing needs of the Clients were satisfied by offer including cash loans, credit cards, mortgage loans and asset backed loans. In 2013 the sales activities focused, primarily, on offering cash loans, credit cards and authorised overdrafts in personal accounts.

In the area of communication, the Bank focused, primarily, on organisation of investment seminars for current and prospective Prestige Clients - in 2013 in total 86 seminars were held with nearly 3500 Clients

participating. Seminars enjoyed high level of interest and turned out to be an effective means to provide information about market changes and Prestige product offer.

### Private Banking segment

Private Banking in Bank Millennium includes an offer of products and services addressed to the most affluent individual Clients with assets exceeding 1 million PLN.

In 2013 Private Banking Clients could take advantage of a broad range of products involving attractive personal account, savings and investment products, brokerage services, credit products including credit card Millennium MasterCard® World Signia™/Elite™ with access to the World Signia MasterCard Reward and World Signia MasterCard Privileges Programme, a partnership programme World Signia as well as Assistance and Concierge packages.

Furthermore, the Millennium Private Banking Clients were provided with a broad offer of investment and insurance solutions - more than 100 Polish and foreign investment funds denominated in EUR/USD/PLN and offered by respectable partners such as Amplico TFI, BlackRock, BZ WBK TFI, Franklin Templeton, HSBC, ING TFI, Investors TFI, Ipopema TFI, JPMorgan, Legg Mason TFI, Millennium TFI, , PZU TFI, Quercus TFI, Robeco, Skarbiac TFI, Schroders or Union Investment TFI. The offer also includes structured products, brokerage services, life policies as well as a broad range of deposits with attractive interest rates, saving and pension accounts.

Financing needs of the Clients were satisfied by an offer of cash loans, credit cards, mortgage loans and asset backed loans.

In 2013, Bank Millennium introduced, into its offer addressed to the Private Banking Clients, the Closed Investment Fund of Millennium TFI.

### Business Client segment in retail division

Within the retail banking, Bank Millennium offers a broad range of products and services addressed to Business Segment Clients i.e. to the smallest companies with annual turnovers of up to 5 mln PLN. Recognising potential of this group, the Bank focused in 2013 on improving sales process and its offer. In effect, in 2013, the Bank opened more than 15 thous. new current accounts for the Business segment Clients and, at the end of December 2013, the portfolio included more than 62 thous. active Clients.

From the Bank's product offer, these Clients most often chose Konto Biznes Start account designed for business start-ups. The share of this account in the group of newly opened accounts accounted for nearly 50%.

In 2013, in the small business segment, the Bank launched intensive efforts to optimise Client service processes. Existing Clients were able to take advantage of a simplified credit process under which self-employed persons could obtain a credit product during one visit without the need to deliver any documents.

In mid-2013, the Bank introduced products secured by de minimis guarantees. The programme provides an attractive security for loans and offers specific advantages for Clients seeking additional capital to finance on-going operations.

Following market changes and Client requirements the Bank improved solutions offered under the mobile Banking for Companies. These solutions were well appreciated by the market winning for the Bank the title of „The Best Banking Offer” in the competition „Pearls of the Market - Retailers' Choice”.

### Insurance products

Bank Millennium Group offers to the Clients a wide range of insurance products, the most important of which are insurances linked to such Bank's product as: mortgage loans, cash loans and cards. In the area of cash loans insurance, the Bank introduced in 2013 the following improvements:

- The scope of insurance protection under the loan repayment insurance was significantly expanded while retaining the existing product price,
- New Price List for cash loan for Clients using insurance protection to incur lower credit costs (reduced fee and interest rate),
- Innovative assistance product for Clients with a free-of-charge assistance package „Career and Health” valid until the end of 2014, provided that, during the promotion campaign, Client would sign cash loan agreement with basic loan repayment insurance,
- The Bank provided its Client with option to enter into cash loan insurance agreement via remote access channels: Internet and mobile banking solutions.

### Internet banking for individual Clients

In 2013, the Bank launched a new version of the Internet banking system for individual Clients and Business Segment Clients. Regular tests performed with user participation allowed introduction of additional improvements for Clients using the system. Moreover, Millenet was expanded by adding new functionalities streamlining Client's own finance management. The new system supports budget development for expenditure categories and sub-categories and development of Savings Plans suggesting categories where expenditures could be reduced. Within the „Finance Manager” the system provides access to Interactive „Planner” in the form of a convenient calendar with upcoming transactions marked. This service supports comprehensive household budget management.

Since 2013, Bank has been offering opening and closing of accounts solely via Internet. Both the first and the second process was prepared and secured appropriately so that the Client does not have to sign any additional documents.

Responding to the needs of its Clients, Bank Millennium in 2013 provided access to the Fast Overdraft service to be used by Clients without the need to document their incomes. By simplified process access to funds is provided within 24 hours from agreement signing.

The number of active Millenet Clients, as at the end of December 2013, reached 685 thous. Internet banking constitutes an important banking product distribution channel. Clients open 52% new deposits, undertake 15% of cash loans, 34% of new overdrafts via Millenet and many banking services are rendered through this channel.

### Mobile banking for individual Clients

To respond to the needs of continuously greater number of Clients using mobile equipment, the Bank introduced, in 2013, application for telephones with operational system Windows Phone 8 and tablets and computers with Windows 8. This way Bank Millennium became the first bank in Poland to prepare the most comprehensive offer of mobile applications operating on the Windows 8 platform, which supplemented earlier adopted solutions for the most popular operating systems (iOS, Android).

In 2013, Bank's mobile applications were expanded by many new and innovative functionalities. Using this access channel, the Bank Clients have an option to undertake loan or increase their credit card limit without the need to submit additional documents. Furthermore, applications offer an opportunity to use and generate own QR codes to execute payments. In addition, the Finance Manager supporting own budget management has become an integral part of the application.

### Telephone Banking

Activeness of Bank Millennium in telephone service channel increase significantly in 2013. Monthly average number of effective calls made by Telemillennium consultants amounted to 120 thous. Comparable number of calls was made in the automatic IVR service. Throughout the year 2013, the Bank contacted 270 thous. Clients using telephone channel to manage their banking products. Monthly average number of outgoing calls was higher by 25% than in 2012. The value of all credit products disbursed in the Bank after telemarketing contacts amounted to more than 580 mln PLN. Implementation of new technological solutions in the area of traffic management (PDS) paired with a number of quality improvement initiatives have been consistently improving effectiveness of this form of Client contact supporting achievement of sales and service standard targets.

## VI.2. Corporate banking

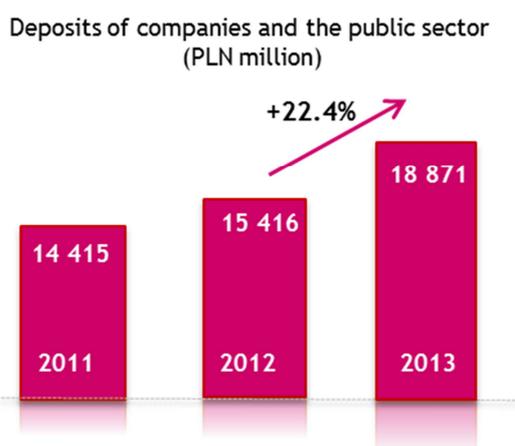
Within the Corporate Banking Segment Bank Millennium focuses on comprehensive and professional servicing of enterprises generating sales revenue above 5 mln PLN and public sector institutions as well as units. As on 31 December 2013, the Bank actively cooperated with more than 10 thous. entities.

The sales management model in the corporate banking area is based on two pillars:

- Comprehensive product offer facilitating preparation of tailor made cooperation proposals based on diagnosis of Client needs, understanding Client's realities and those of the sector the Clients operates in,
- Relation banking, based on cooperation with relationship manager responsible for the entire sale, supported by experts in the following areas: transactional banking, treasury products, factoring, trade financing and leasing (Bank's subsidiary Millennium Leasing).

Year 2013 was a consecutive year of development of the Corporate Banking based on the comprehensive cooperation model under which the Bank strives to achieve a position of one of the main banks cooperating with key Clients. In 2013 the Bank recorded significant growth of its corporate credit portfolio by 15.5% year-on-year (without small businesses with annual turnover below PLN 5 million) in contrast to the overall market growth of 3.3%.

2013 was another good year for growth of deposits from companies, public sector and institutional investors, allowing Bank to keep market share of deposits in this segment above 5%.



Besides visible improvement of sales in the target segment, quality of corporate Client service improved significantly, as confirmed by increase in the level of Client satisfaction measured by internal Client satisfaction survey and by independent survey conducted by GfK Polonia.

Corporate Banking Clients are serviced by a broad, countrywide sales network. As on 31 December 2013 Clients were served by 123 Relationship Managers and 81 Consultants working in 37 Corporate Banking Centres, supported by 62 Product Advisors - specialists in leasing, factoring, trade finance, treasury transactions and transactional banking.

Besides direct contacts with Bank staff and having access to telephone service TeleMillennium, Clients have an opportunity to use modern tools such as:

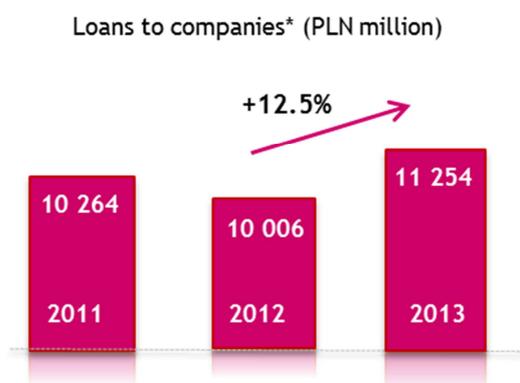
- Internet banking system Millenet for Companies,
- Mobile banking i.e. access to accounts and banking operations via mobile telephony (since 2013 available also for Blackberry 10 system).

In 2013, the Bank continued initiatives connected with the Internet banking system development with the objective to provide Clients with access to banking services within the integrated Internet Banking system Millenet for Companies. In the second half of 2013, a new version of the Millenet system was implemented to provide Clients with greater service transparency and convenience. The new, more user friendly menu was implemented as well as functionalities streamlining operation and existing functionalities were improved. Refreshed system version has a broad range of data sorting and search options and advanced solutions in the

area of user authorisation configuration and user access to individual system functionalities. As at December 2013, already 95% of Clients decided to use the refreshed system version.

In 2013 the system was also expanded by adding a module supporting on-line trade finance transactions. This advanced platform provides Clients with a comprehensive management of bank guarantees and documentary letters of credit via Internet as well as on-line negotiation with the Bank of the guarantee wording. Trade finance products available on-line within the Millenet system offer the highest transaction safety standard. Furthermore, the module allows for individual parameterisation of individual user authorisation in terms of, *inter alia*, product or the amount of authorised transaction. By the end of Q1 2014, the Bank plans to activate the service on-line for all Clients actively using trade finance products in the Bank.

## Credit products



\* including the small business Clients with annual turnover below PLN 5 million

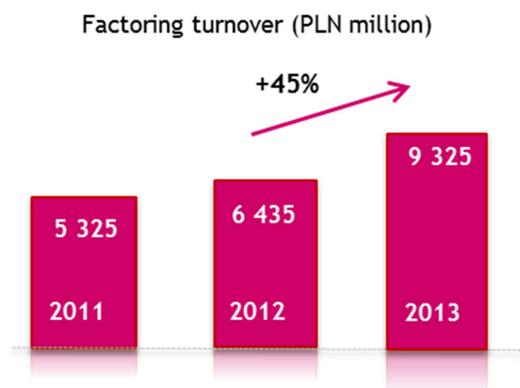
In 2013, the Bank dynamically developed its operations in the area of corporate financing. The most important projects of the last year including implementation of projects connected with long-term credit policy thus facilitating significant increase of lending activity while, at the same time, maintaining very good quality of the corporate credit portfolio. This was supported by improving financial condition of enterprises translated into increased readiness to undertake capital projects, specifically by large business entities. Bank Millennium attaches a key importance to long-term, comprehensive financing of Clients operating in various sectors. In 2013, the Bank recorded 12.5% increase of the value of loans to companies (all business Clients) as well as increase in investment loan sales.

In 2013, Bank Millennium supported entrepreneurs developing their businesses by helping them obtain assistance from proceeds allocated in the EU and Polish state budget to increase of competitiveness of companies. The Bank participated in initiatives, jointly with European Bank for Reconstruction and Development (EBRD), to provide development support to small and medium size enterprises taking account of environment protection principles. Participation in the Polish Sustainable Energy Financing Facility PoSEFF was one of the examples of this activity. Bank Millennium was one of the leaders of implementation of the programme and together with Millennium Leasing at the end of 2013 credit and Eko Energia leasing financed 431 projects implemented by entrepreneurs.

The Bank also granted, in 2013, loans to finance projects subsidised from EU funds under Government manager EU funding distribution programmes. Among the most popular programmes under which applications were acquired was the Operational Programme Innovative Economy Measure 4.4 „New Investment of High Innovative Potential”. Furthermore, calls for proposals were announced under Regional Operational Programmes.

Another example of the bank’s participation in supporting SME development was signing, with Bank Gospodarstwa Krajowego (BGK) in 2013, of the Agreement on portfolio de minimis guarantee line (PLD Programme). In November, the programme was expanded and now entrepreneurs have an opportunity to undertake loan to finance not only current operations but also their long-term investment objectives.

## Factoring



Bank Millennium is one of the leading factors operating on the Polish factoring service market and the member of the Polish Factors Association (PZF) - domestic sectoral federation and International Factors Group - international organisation associating factors from more than 50 countries worldwide.

In 2013, in its factoring operations Bank Millennium realised turnover of 9.325 mln PLN i.e. its value increased by 45% relative to 2012. To compare, in line with Polish factoring market information provided by PZF, turnovers realised by factoring firms associated in PZF increased in 2013 by 15.5%.

The Bank's share in factoring turnovers realised in 2013 by all market players exceeded 8% and the Bank was ranked 6 in terms of turnovers.

Bank Millennium for several years has been gradually developing its factoring offer. At present, the Bank's offer includes more than ten different factoring solutions tailor made, in addition, to meet Client's individual needs and expectations.

In 2013, Bank Millennium expanded its factoring service offer by adding Factoring without Recourse with Client Policy and extended, for consecutive period, the validity of *The Trade Receivables Insurance Agreement* concluded with Atradius Credit Insurance N.V. S.A. Branch in Poland, providing the grounds for the Bank to render Factoring without Recourse with Insurance service.

The Bank provides Clients taking advantage of factoring service with modern application (WEB Faktor) with professional system reporting factoring settlement status and electronic data exchange module. In 2013, majority of Clients had an opportunity to obtain financing on the basis of summary list of receivables delivered electronically (in December 2013, more than 95% of the total number of receivables were repurchased on the basis of data delivered by electronic means). This way, the Client waiting time for disbursement of proceeds was shortened significantly.

## Transactional banking

The year 2013 was the time of continuation of dynamic growth in settlement transaction volumes in domestic transactions (+9% y/y) and foreign (+16% y/y) and funds collected on current accounts (+11% y/y).

Bank Millennium offers comprehensive mix of transactional banking products available through effective Internet and mobile banking systems. Corporate Clients are also offered with an option to execute transactions in each Branch with support from transactional banking and electronic banking experts cooperating with banking advisors in the process of performance of settlements, their optimisation and comprehensive liquidity management.

In 2013, servicing of international payments was automated and confirmation of negotiated deposits was made accessible by Millenet. The Bank launched innovative solution supporting booking of closed payments - deposit kiosk connected on-line with the Bank system. Responding to individual needs, the Bank provided comprehensive financial liquidity management service and optimisation of interest result - actual cash pool.

### VI.3. Treasury and investment operations

Bank Millennium, within activities performed by the Treasury Department, provides its Clients with access to a broad range of financial instruments. In 2013, the Treasury Department's offer to Corporate banking Clients included a broad range of products: spot currency exchange transactions, deposit products, FX rate risk management (fx forward, fx swap, options) and interest rate risk management (transactions of FRA, IRS, CIRS type).

Solutions offered by the Bank provide both exporters and importers to hedge against FX risk and, thereby, opportunity to properly calculate prices and costs. Clients also have an opportunity to hedge themselves against unfavourable levels of market interest rates in the future - proposed solutions facilitate both definition of a fixed cost of financing and interest income and do not require introduction of changes to credit or leasing agreements already concluded.

Interest risk hedge products are also used to structure credit products to eliminate accompanying variable interest rate risk.

In 2013, the Treasury Department continued its activities connected with active sale of the transaction platform *Millennium Forex Trader*, through which the Corporate Banking Clients execute, themselves, spot and forward FX transactions and FX swaps. Relative to the year 2012, sales were addressed to selective group of Clients.

*Millennium Forex Trader* is a tool ensuring fast and safe access to financial markets facilitating Clients to efficiently execute transactions without the need to have telephone contact with the Treasury Department dealer. The platform helps minimise service costs by access to quotations directly collected from inter-bank market. At the end of 2013, the Bank's platform was used by nearly 1350 Clients.

Bank Millennium is the leading financial institution in offering structured products to Retail Banking and Prestige Clients.

#### Investment activities

At the end of 2013, the value of securities in the Bank portfolio amounted to 8,1 bln PLN relative to 6,6 bln PLN a year before. The value increased due to, primarily, favourable evolution of the Bank's liquidity surplus. Favourable conditions prevailed on the market in cross-currency swaps thus helping the Bank to obtain foreign currencies including, in particular CHF at favourable prices and for longer terms. Therefore, FX swaps were used solely to support short-term liquidity management by the Bank.

In 2013, the Bank was granted with the status of the State Treasury Securities Dealer (3rd place in the competition organised by the Ministry of Finance) and was awarded as the best market maker on Treasury BondSpot platform. Since January 2013, together with 6 other institutions, the Bank has been participating in IRS, FRA and OIS reference rate fixing. The Bank was also granted with the status of Money Market Dealer for the year 2014.

#### Custody services

Bank Millennium renders custodial services being a direct participant of the depository and clearing systems such as Krajowy Depozyt Papierów Wartościowych (National Deposit of Securities), Rejestr Papierów Wartościowych NBP (NBP Register of Securities) or international clearing houses: Euroclear Bank SA/NV, Clearstream Banking Luxembourg etc. The group of Clients of the Bank's custodial services includes domestic and foreign financial institutions: global custodial banks, depository banks of global depository receipts, investment banks, asset management institutions, insurance companies, collective investment institutions and other legal persons actively participating in capital and money market operations, requiring comprehensive and individualised services. In terms of volumes of domestic and foreign Clients entrusting the Bank with their assets, the Bank remains one of the leaders in Poland. The value of assets on Client securities accounts as on 31 December 2013 amounted to 30.3 bln PLN, and this value, relative to 28.5 bln PLN in 2012 marked the increase by 6.3%. At the end of 2013, the Bank maintained 11,643 securities accounts (increase by 5.4% relative to 2012). The basic Bank's offer is supplemented by additional services including rendering comprehensive Depository Bank services for Investment Funds. At the end of December 2013, the Bank performed a Depository function for 62 Investment Funds i.e. more by 8.8% than the year before.

### International activity

In 2013, the Bank continued servicing existing and managing new agreements concluded in this area with international financial institutions including, in particular, European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which, as on 31 December 2013, included:

- Agreement with EBRD concluded in December 2013 relative to medium-term loan in the amount equivalent to 75 mln EUR, to increase Bank Millennium capacity to finance SME sector Clients in selected regions of the country with maturity falling on December 2018.
- Agreement concluded in December 2012 with EBRD on the loan in the amount of 60 mln PLN, for the purpose of expanding financing of projects under the PolSEFF programme with final maturity falling in December 2016.
- Agreement concluded with EBRD in December 2010 on a loan of 35 mln EUR, for the purpose of financing of investment projects connected with energy consumption optimisation in the SMR sector implemented within the EBRD PolSEFF (*Polish Sustainable Energy Financing Facility*) programme implemented in Poland with additional support provided to investors from the (EU) funds. The loan will mature in 2015.
- Agreement concluded with EBRD in November 2009 on a medium-term loan in the amount of 100 mln EUR to increase Bank Millennium capacity to finance SME sector Clients with final maturity in November 2014.
- Loan agreement (so-called Global Loan) concluded in December 2010 with EIB in the amount of 100 mln EUR to support bank activities in the area of financing of capital projects implemented by the SME sector.

In the last year the Bank continued projects connected with on-going, for several years already, expansion of the base of credible counterparties and partners in the inter-bank market including, in particular, in the segment of instruments used for purposes of medium and long-term management of FX liquidity. One of the most important aspects of these activities was to open more than ten new (or updating existing ones) ISDA master agreements concluded with domestic and international banks, accompanied with fully symmetric on either side the so-called Credit Support Annex. In parallel, the Bank implemented actions connected with gradual entry into force of the EMIR (*European Market Infrastructure Regulation*), to cover, with the said regulation, activities connected with execution of transactions in individual categories of derivative instruments on the OTC market (including, in particular, international market). Irrespective of the above activities, in the past the Bank performed, on the current basis, all other projects and tasks connected with its overall international operations to achieve diverse targets involving, *inter alia*, working capital financing of Bank's own and Clients' needs, servicing of foreign trade transactions, participation in international money and currency market transactions, capital market activities.

Achievement of the above resulted, largely, from the process, lasting more than 20 years, of development of the Bank's cooperation with its foreign partners and counterparties. The Bank maintains current contacts with nearly one thousand bank-correspondents and their units located in all countries significant from the perspective of the structure of turnovers within the Polish foreign trade and non-trade transactions.

## VII. RISK MANAGEMENT

### VII.1. Risk management framework

The mission of risk management in the Bank Millennium 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 Bank'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.

Efficient risk management system means a collection of rules and mechanisms that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such rules also include a broad range of methods, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

The risk management and control model at Bank'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 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 the Bank's employees as regards their responsibility for proper risk management at every level of the Bank's organisational structure.
- The initiatives undertaken by the Bank in 2013, in the area of risk management focused primarily on activities related to further improve the process of identifying, measuring, monitoring and reporting of credit risk.

On the 3rd of January 2013, Banco de Portugal (as the consolidating Supervisor) and Polish Financial Supervision Authority granted a conditional consent to use from 31.12.2012 onwards the Internal Rating Based (IRB) approach by Bank Millennium to calculate the capital requirements for credit risk for most of retail portfolios (retail exposures to individual persons secured by residential real estate collateral - RRE and qualifying revolving retail exposures - QRRE).

In fact, since 2010 the Bank has been deeply involved in the process of having the authorization for the use of the IRB methods. The Bank considered this project as crucial for two main reasons: first, it ensures that the Bank will permanently have the best standards on credit risk management; and second, it is an effective way to optimize the capital management. The authorization from Portuguese and Polish regulators represents, therefore, in the Bank's view, an external recognition of the significant achievements by the Bank on risk management. During 2013, the Bank continued the process of enlarging the IRB methods to the corporate and other retail portfolios

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 Bank, 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.

The Risk Committee has global responsibility for risk control at the Bank. In order to assure such control the Risk Committee monitors the evolution of various types of risks in the Bank'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. 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 on-going risk management is centrally conducted by the Bank's dedicated unit - Risk Department and its subunits - specializing in particular types of risk or process stages. The goal of the Risk Department is proposing and implementing the Bank's policy regarding the management of credit, market, liquidity and operational risks and monitoring the Bank exposures to those risks.

## VII.2. Capital management

Capital management in the Bank consists of a capital adequacy management process and capital allocation process. The purpose of the capital management is to ensure safety (solvency) of the Bank in normal and in stressed conditions and compliance with regulations. The purpose of the capital allocation process is to create value for shareholders by maximizing the return on risk in the business activities, taking into account the established "risk appetite".

Within the established risk appetite, the Bank and the Group set measurable long-term capital targets, that serve as a solid base for maintaining solvency and support a potential business growth. These targets (limits) are in line with regulatory requirements. Utilization of limits is measured and monitored on a regular basis. For controlling capital adequacy, it is used a rule of "safety zones", that sets up a set of potential management decisions commensurate to a current and forecasted risk level. Also it is defined a target structure of own funds, what serves as a measure to safeguard the Bank activity. The purpose of the Bank is to support a long-term increase of the activity, supported by internal sources of capital growth. In general, the Bank's capital adequacy is internally assessed as strong, both now and within next few years.

This assessment is also supported by the impacts of the decision taken on the 3<sup>rd</sup> January 2013, by Banco de Portugal (BdP), in cooperation with Polish Financial Supervisory Authority (PFSA), for applying Internal Ratings Based method (IRB) to the calculation of capital requirements for credit risk in retail exposure class, in the following subclasses: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE).

The approval also contains a regulatory constraint that the capital requirements calculated for the classes using the IRB approach must be temporarily maintained at no less than 80% of the respective capital requirements calculated using the Standardized approach. This constraint is applied until the fulfilment of the conditions set by BdP and PFSA is confirmed by BdP and PFSA, but will not cease at least before 30 June 2014. In 2013 the Bank has completed all high significance conditions and almost all supplementary conditions. According to the IRB roll-out plan, in 2014 the Bank will submit an approval pack for use that method to calculate credit risk capital requirements regarding exposures to corporates and other retail exposures.

Capital requirements and ratios of the Bank in the three approaches, as at 31st December, 2013, are presented in the below table:

Bank Millennium S.A - capital requirements (PLN mln)	31.12.2013		31.12.2012
	IRB constrained <sup>1)</sup>	STD <sup>2)</sup>	
Credit risk	2 607.5	2 961.4	2 484.9
Market risk	18.3	18.3	24.8
Operational risk	222.5	222.5	200.1
<b>Total capital requirements</b>	<b>2 848.3</b>	<b>3 202.2</b>	<b>2709.8</b>
<b>Own Funds</b>	<b>4848.3</b>	<b>5 043.3</b>	<b>4 578.5</b>
<b>Capital adequacy ratio (CAR)</b>	<b>13.6%</b>	<b>12.6%</b>	<b>13.5%</b>
<b>Tier 1 ratio (T1) *</b>	<b>12.7%</b>	<b>11.5%</b>	<b>12.1%</b>

1) Regulatory capital requirements calculated including temporary constraint

2) Calculation according to standard method for credit risk capital requirements (for comparison purposes)

\*) Tier 1 ratio (T1) is equal to Common Equity Tier 1 Ratio (CET1)

The capital position expressed in capital adequacy ratio, calculated in line with IRB regulatory constraint, almost did not change in 2013. The growth rate of capital requirements was the same as the rate of own funds growth, what indicates an unchanged risk coverage by capital resources. Tier 1 ratio increased by 0,6 p.p., what was determined by inclusion of 2012 net earnings to own funds.

Analyzing economic capital adequacy, the Bank's internal capital and the Group's internal capital - expression for material risk in activity - are covered with a significant surplus by the available financial resources.

### VII.3. Credit risk

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Bank i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Bank.

The credit policy pursued in the Bank 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 Bank focused in the 2013 year on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks, in particular:

- updated the new Risk Strategy, for the years 2014-2016;
- introduced a new sector risk classification and limits;
- updated the rating policy for corporate;
- revised the credit policy for the Micro Business segment;
- introduced a new application scorecard for Micro Business customers;
- introduced new behaviour model and calibration;

In 2013 in the retail area, a leading role in the credit policy of the Bank took activities related to further optimization of the form and the use of the tools for credit risk assessment. For this purpose, a set of solutions was implemented or modified in such areas as risk filters, scoring models or tools relating to credit decisions monitoring. The Bank was strongly involved in improvement of the credit process and IT tools for the portfolio of consumer loans. In case of small companies the significant changes were related to automation of credit process for customers with history of cooperation with the Bank.

In the corporate segment, the Bank focused on the development of tools to assess the credit risk and optimization of the credit process and monitoring process, particularly of large exposures. The Group has also implemented a new sector policy and further developed a management information system for the purpose of managing the loan portfolio. The changes in the credit methodologies are based on objective and measured levels of risk.

All the changes mentioned above should allow the Bank to achieve the goals defined in the Bank's strategy referring to the growth dynamics of corporate portfolio at the acceptable level of risk (defined in the Risk Strategy).

### Loan portfolio quality

The Bank maintains also very solid asset quality of the loan portfolio. Share of impaired loans in the portfolio dropped during the year from 4.4 % to 3.9% and share of past-due more than 90 days loans is relatively stable at 2.6-2.8%. The improvement was registered in two portfolios: for non-mortgage retail loans the impaired loans ratio decreased to 13.4% (and past-due ratio to 10%) and for loans to companies the impaired loans ratio dropped to 6.1% (past-due over 90 days ratio was stable at 4.8%) as at the end of December 2013. The quality of mortgage portfolio remains good, with impaired loans ratio at 1.34% and past due over 90 days at 0.67%.

The coverage ratio, defined as the share of total provisions in total impaired loans, significantly improved during 2013 year from 61% to 72% while coverage of loans past-due over 90 days remains at high 102% level.

The evolution of main indicators of the Bank's loan portfolio quality:

Total portfolio quality indicators	31.12.2013	31.12.2012
Total impaired loans (PLN million)	1 645	1 798
Loans past-due over 90 days (PLN million)	1 167	1 041
Total impairment provisions (PLN million)	1 190	1 093
Impaired over total loans ratio (%)	3.9%	4.4%
Past-due over 90 days over total loans ratio (%)	2.8%	2.6%
Total impairment provisions/impaired loans (%)	72%	61%
Total impairment provisions/ Loans past-due over 90 days (%)	102%	105%

The evolution of the Bank's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due		Impaired loans Ratio	
	> 90 days ratio	> 90 days ratio	Ratio	Ratio
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Mortgage	0.67%	0.54%	1.34%	1.11%
Other retail*	10.0%	11.5%	13.4%	15.4%
Corporates	4.8%	4.7%	6.1%	9.6%
Total loan portfolio	2.8%	2.6%	3.9%	4.4%

\*incl. Microbusiness, annual turnover below PLN 5 million

## Industry structure of the loan portfolio

Taking into consideration concentration risk within sectors of activity, the Bank's portfolio is well diversified. The main items are mortgage loans (64%) and cash loan (7,2%). 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 26% of the total portfolio.

## Structure of Bank's credit portfolio

Sector name	2013		2012	
	Balance Exposure (PLN million)	share (%)	Balance Exposure (PLN million)	share (%)
<b>Credits for individual persons</b>	<b>31 093.2</b>	<b>73.6%</b>	<b>30 804.4</b>	<b>76.2%</b>
Mortgage	26 993.3	63.8%	27 392.9	67.7%
Cash loan	3 023.4	7.2%	2 329.2	5.8%
Credit cards and other	1 076.5	2.6%	1 082.3	2.7%
<b>Credit for companies*</b>	<b>11 184.6</b>	<b>26.4%</b>	<b>9 630.2</b>	<b>23.8%</b>
Wholesale and retail trade; repair	2 958.0	7.0%	2 095.3	5.2%
Manufacturing	2 661.3	6.3%	1 999.7	5.0%
Construction	1 311.5	3.1%	1 546.3	3.8%
Transportation and storage	1 319.8	3.1%	996.9	2.5%
Public administration and defence	420.3	1.0%	590.6	1.5%
Information and communication	297.6	0.7%	458.4	1.1%
Other Services	304.1	0.7%	377.3	0.9%
Financial and insurance activities	230.5	0.6%	350.4	0.9%
Real estate activities	661.9	1.6%	543.3	1.3%
Professional, scientific and technical services	273.5	0.6%	217.7	0.5%
Mining and quarrying	270.4	0.6%	67.9	0.2%
Water supply, sewage and waste	97.8	0.2%	92.5	0.2%
Electricity, gas, water	70.9	0.2%	65.1	0.2%
Accommodation and food service activities	96.2	0.2%	64.4	0.2%
Education	57.8	0.1%	53.3	0.1%
Agriculture, forestry and fishing	52.6	0.1%	50.1	0.1%
Human health and social work activities	85.7	0.2%	40.9	0.1%
Culture, recreation and entertainment	14.7	0.0%	20.1	0.0%
<b>Total (gross)</b>	<b>42 277.8</b>	<b>100.0%</b>	<b>40 434.6</b>	<b>100.0%</b>

\*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 Bank'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 Bank 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.

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.

VaR ratios reflect total exposure to market risk in total Bank. In 2013, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Bank was relatively low during 2013 and was on average equal to PLN 27.2 million compared to the end-of-year internal limit of PLN 176.1 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents.

More on market Risk in terms of VaR - see point 8 in Financial Report.

### 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 Bank's obligations.

The process of the Bank'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.

The increase of deposits in 2013, at the faster pace than loans, allowed to keep the liquidity surplus. The liquidity surplus was still invested in the portfolio of liquid (Cash, balance with NBP, NBP Bills and Polish Government bonds), which grew during the year by 31% from PLN 9.1 billion to approx. PLN 12.0 billion at the end of the year.

	31.12.2013	31.12.2012
High liquid assets portfolio (PLN million)	11 979	9 149

At the end of 2013 total Clients' deposits of the Bank reached the level of PLN 45.3 billion. Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Bank. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

The Bank 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 Bank has signed a Credit Support Annex to the master agreements.

The estimation of the Bank'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 2013 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place.

Additionally, the Bank 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 2013 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 Bank's liquidity-risk profile and to ensure that the Bank 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 Bank has emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan is updated on a quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

### 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.

In order to identify, analyse and assess operational risk, the following tools are applied:

- loss data gathering,
- key risk indicators monitoring,
- risk self-assessment.

These tools are the basis of the operational risk management model and are essential for the continuous process of the Group processes improvement.

A separate category of being a part of operational risk is the risk of fraud. Fraud risk means a probability of an event where the Client who enters a relationship with the Group presents untrue or incomplete information regarding his situation or identity, which has a direct impact on the Group's credit decision or transaction execution.

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

Bank Millennium Group has a personnel policy, which stipulates general rules for staff recruitment, evaluation, development and retention. Based on this Policy as well as business assumptions, the Bank developed its Human Resources Management Strategy. The Strategy regulates all areas of HR management, including employment and remuneration.

Bank Millennium Group attaches much importance to the quality of management of human resources, investing both in development as well as monitoring of this area.

Management competence and attitudes are of decisive impact on the quality of people management, therefore the Bank attaches much importance to the quality of their work. It makes sure that best practice is brought to bear, especially as regards open and full communication with employees as well as providing employees with feedback about quality of their work. For some years now we have been implementing the “Manager’s Academy” programme. In the years 2011 - 2013 the programme provided leadership skills training to managers.

In the area of monitoring once a year an employee satisfaction survey is carried out. The survey uses a number of questions, which permit assessment of the quality of work of managers as regards HR management. Moreover in 2013 an additional survey was carried out in Bank Millennium Group with a focus exclusively on management quality. Results of both surveys were presented to the Management Board, managers and employees. Based on conclusions from both the surveys action plans for the next period were prepared.

Effectiveness of personnel policy is strongly affected by an appropriate perception of the Bank as an employer. For several years now Bank Millennium Group has been focused on building the image of an attractive employer. Since 2003 the Bank’s Group has been an active participant of job fairs targeted at students and graduates of prestigious universities in all Poland, where the Bank promotes various development programmes addressed to these people. Since 2002 the “People Grow” management skills development programme has been under way. During the 2-year programme its participants have the opportunity to see various areas of the Bank in action. Thanks to job rotation and on the job training they gain experience in various organisational units. Moreover senior year students and graduates can benefit from Expert Start-Up programmes. The programme is offered to persons who have clearly defined professional interests in risk, process management, information technology as well as electronic banking (more information about the programmes is available in the Corporate Social Responsibility Report). Moreover in 2013 the Bank’s activity in the social portals increased.

### VIII.2. Employment and personnel costs

Efficient management of human resources is an important component of Bank Millennium Group’s strategy. The Group monitors both individual items in personnel costs as well as the FTE level, for some years now pursuing a stable costs and headcount policy. Staff fluctuation is monitored and reported on an ongoing basis and exit interviews are carried out with people leaving the Bank. Headcount and efficiency of use of resources are checked against appropriate market benchmarks.

Employment in Bank Millennium Group at end of 2013 stood at 5881 FTEs, which signifies a decline as compared with end of 2012 by 120 FTEs (i.e. by 2%). The Group’s largest employer is Bank Millennium, at end of 2013 employing 5562 persons, which corresponds to 5541 FTEs. The Bank’s subsidiaries at end of the year were employing a total of 340 FTEs, with three companies having biggest importance: Millennium Leasing, Millennium Dom Maklerski and Millennium TFI.

Employment in the Group (in full FTEs)	31.12.2013	31.12.2012	Change
Bank Millennium	5 541	5 627	-85
- including key positions	129	127	2
Subsidiaries	340	374	-34
Millennium Group	5 881	6 001	-120

Employment structure in Bank Millennium shows that the definite majority of people employed work directly in sales of banking products and services, first of all in the 439 Millennium branches located throughout Poland.

Employment in the Bank (in full FTEs)	31.12.2013	31.12.2012	Change
Branches and direct sales	3 692	3 746	-54
Head Office	1 849	1 880	-31
Total Bank Millennium	5 541	5 627	-85

The remuneration policy of Bank Millennium Group aims to ensure adequacy of employees' salaries, given currently performed tasks, competencies and scope of responsibility. In particular much attention is attached to proper salary setting. Salary levels are verified with consideration of periodic performance assessment and any evolution of the level of skills involved in performance of tasks of the organisation. Also salary information presented in financial market salary surveys is analysed.

The total level of personnel costs in Bank Millennium Group in 2013 and in the previous year was as follows:

Personnel costs (in PLN million)	2013	2012	Change (%)
Bank Millennium	509,9	521,4	-2,2%
Subsidiaries	37,1	36,9	+0,5%
Total Bank Millennium Group	547,0	558,3	-2,0%

### 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 resolution No 258/2011 of Polish Financial Supervision Authority, 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 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 percentage of the reference level (100%) with respect to total annual base salary what is according to European Union directive 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 Personnel Committee of the Supervisory Board decides on the award of variable remuneration of the Members of the Management Board after the date of the Ordinary General Shareholders Meeting that approves the financial statements of each year.

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

- Actual business results: Net Profit, Result on Banking Activity, Cost/Income ratio, ROE;
- Liquidity: Loans/Deposits ratio, value of liquid assets;
- Capital adequacy ratios with respect to KNF reference level.

The Policy of variable remuneration components has been approved by Management Board and Supervisory Board of Bank and comes under periodic revisions.

Bank Millennium is publicly disclosing on its website quantitative information regarding the size of remuneration for persons holding managerial positions in the meaning of resolutions adopted by the Financial Supervision Authority (258/2011 and 259/2011) once a year, after the above mentioned meeting of the Personnel Committee of the Supervisory Board.

Remaining employees in 2013 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.

## IX. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

### IX.1. Statement on the Principles of Corporate Governance Employed in 2013.

„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 2013. 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](http://www.corp-gov.gpw.pl) and from the Bank’s website <http://www.bankmillennium.pl/pl/o-banku/wladze-banku-i-lad-korporacyjny/>.

In 2013 Bank Millennium observed all the principles contained in Good Practices, except the one described below.

On 14 March 2013 the Bank transferred in the form of a current report information pertaining to the rule specified in Chapter IV section 10 item 2 of Good Practices pertaining to ensuring to the shareholders the possibility of participation in a General Meeting of Shareholders with the use of real-time online 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 General Meeting of Shareholders, 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 factual or legal circumstances change.

Otherwise, the Bank fully observed the principles described in Good Practices.

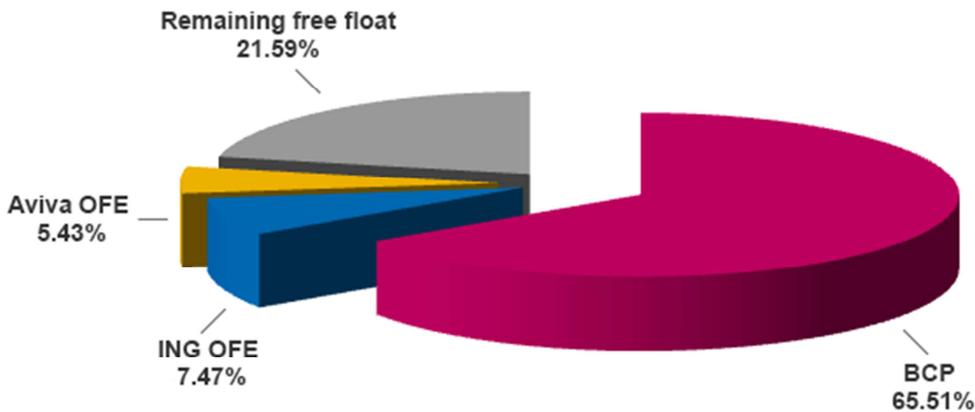
For the 6th time the Bank was included in the RESPECT Index - CEE’s first index of socially responsible companies.

On 31 December 2013 the Index covered 23 companies listed on the Warsaw Stock Exchange. Enterprises from this Index employ best standards regarding corporate governance, information policy, investor relations, as well as in the area of personnel, social relations and environmental protection.

### IX.2. Shareholders and General Meeting of Shareholders

As on 31 December 2013 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, it does not have any detailed data concerning the composition of shareholders as at 31 December 2013.

### Shareholders structure of Bank Millennium (as on 31.12.2013)



As at 31 December 2013 the Bank Millennium had three shareholders with over 5% of votes at the General Meeting.

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 shareholders are Poland's largest pension funds: ING OFE, which as at 31.12.2013 held 7.47% of the shares of the Bank and Aviva OFE with 5.43%. The remaining shares, i.e. 21.59% of the share capital, are vastly dispersed among Polish and foreign shareholders, both institutional and individual.

#### 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	1 213 178 977	100

#### The Bank's shareholders as on 31 December 2012.

Shareholder	Number of shares	% share in 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	112 824 664	9.30	112 824 664	9.30
Total number of Bank's shares	1 213 116 777	100	1 213 178 977	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 20 April 2012 and 11 April 2013. 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 2012 and 31 December 2013 (published on the website: [www.ingofe.pl](http://www.ingofe.pl)). Data pertaining to the shares held in the Bank by AVIVA OFE and their participation in the Bank's equity are provided on the basis of the Annual Structure of the Fund's Assets as of 31 December 2013 (published on the website: [www.aviva.pl](http://www.aviva.pl)).

For the purposes of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 4.41 PLN for 2012 and 7.23 PLN for 2013.

As a majority shareholder Banco Comercial Portugues S.A. (BCP) exercises its shareholder's rights stipulated in the Code of Commercial Companies and the Articles of Association. BCP exercises corporate control over the Bank. Thanks to 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 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 2013.

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 on WSE: 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 so that one share entitles to two votes at the Annual General Meeting. Thus, total number of Bank Millennium shares amount to 1 213 116 777 shares and total number of votes on AGM 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 provided in the form of the Articles of Association and Bylaws 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, election and recalling of the Members of Management Board (by an ordinary majority of votes) and determination of their remuneration rules.

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.

The following persons comprised the Supervisory Board of the Bank in the period from 1 January till 11 April 2013:

1. Maciej Bednarkiewicz - Chairman,
2. Nuno Manuel da Silva Amado - Deputy Chairman,
3. Marek Furtek - Secretary,
4. Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
5. Luís Maria França de Castro Pereira Coutinho - Member of the Supervisory Board,
6. Andrzej Koźmiński - Member of the Supervisory Board,
7. Maria da Conceição Mota Soares de Oliveira Callé Lucas - Member of the Supervisory Board,
8. Marek Rocki - Member of the Supervisory Board,
9. Dariusz Rosati - Member of the Supervisory Board,
10. Rui Manuel da Silva Teixeira - Member of the Supervisory Board.

On 11 April 2013 the General Meeting of Shareholders elected Mr Grzegorz Jędrzyś Member of the Supervisory Board, as a result of which the membership the Supervisory Board was as follows:

1. Maciej Bednarkiewicz - Chairman,
2. Nuno Manuel da Silva Amado - Deputy Chairman,
3. Marek Furtek - Secretary,
4. Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
5. Luís Maria França de Castro Pereira Coutinho - Member of the Supervisory Board,
6. Grzegorz Jędrzyś - Member of the Supervisory Board,
7. Andrzej Koźmiński - Member of the Supervisory Board,
8. Maria da Conceição Mota Soares de Oliveira Callé Lucas - Member of the Supervisory Board,
9. Marek Rocki - Member of the Supervisory Board,
10. Dariusz Rosati - Member of the Supervisory Board,
11. Rui Manuel da Silva Teixeira - Member of the Supervisory Board.

On 24 October 2013 Mr. Bogusław Kott resigned from the position of the Chairman of the Bank's Management Board - thus meeting the condition specified in Resolution no 19 of the General Meeting of Shareholders of Bank Millennium S.A. dated 20 April 2012 appointing Mr. Bogusław Kott Member of the Bank's Supervisory Board, while Mr. Maciej Bednarkiewicz resigned from the position of the Chairman of the Supervisory Board. On the same day the Supervisory Board elected Mr. Bogusław Kott Chairman of the Supervisory Board and Mr. Maciej Bednarkiewicz Deputy Chairman of the Bank's Supervisory Board. In view of the above, the composition of the Supervisory Board is as follows:

#### **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.

#### **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 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, has a Licenciante Degree in Companies Organization and Management from ISCTE (Instituto Superior de Ciências do Trabalho e da Empresa) and attended the Advanced Management Programme at INSEAD (France).

From 1980 he worked at 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 SA.

### 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 training programme in comparative law at Faculté Internationale du Droit Comparé, Strasburg (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 Board at the Minister of Justice. Member of the Supervisory Board of Bank Millennium S.A. in 2006-2008 and since 27 March 2009 Secretary of the Supervisory Board. Founder and partner at law firm FKA Furtek Komosa Aleksandrowicz Sp. k. in Warsaw.

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

Mr. Miguel de Campos Pereira de Bragança, has a Licenciante Degree in Company Management and Administration from the Catholic University of Portugal and attended the INSEAD MBA programme (France). Since 1989 he has worked at banks in Portugal, Brazil and Great Britain. Between 2008-2012 he was Director, responsible for the Financial, Accounting and Management 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 SA.

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

Mr. Luis Maria Franca da Castro Pereira Coutinho, has a Licenciante Degree in Economics from the Catholic University of Portugal.

Since 1985 he has worked in banks in Portugal. Between 2003 and 2009, he was Vice 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

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; 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 350 research papers in this area in many languages, including 39 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. Chairman of the Supervisory Board of Telekomunikacja 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, has a Licenciante Degree in Company Management and Administration from the Catholic University of Portugal and a Master's Degree from the London School of Economics, University of London (United Kingdom).

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 SA.

#### 10. Marek Rocki - Member of the Supervisory Board

Mr. Marek Rocki, graduated from the Finance and Statistics Department, SGPiS (now the 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 of 3rd and 4th term 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: Fabryka Mebli FORTE S.A., COGNOR S.A., AXA PTE 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 the SGH Warsaw School of Economics) in Warsaw.

Associate professor of economic sciences. 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. In 1995 - 1997 the 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 European Commission. 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. In 2001-2004 he was a member of the Group of Economic Policy Advisors to the President of the EU Commission. From 2003 to 2005 Rector of the Lazarski University in Warsaw, and in 2004-2009 Member of the European Parliament. Author of more than 200 scientific papers and publications, including five books on economic policy. Member of Parliament of the Republic of Poland of 7<sup>th</sup> term. 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, has a Licentiate degree in Electronic Engineering from 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 SA.

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 till 24 April 2013 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.

On 24 April 2013 the Supervisory Board elected Mr. Grzegorz Jędrys as Member of the Audit Committee. Thus, the composition of the Audit Committee was as follows:

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

On 24 October 2013 the Supervisory Board elected Mr. Bogusław Kott Member of the Audit Committee. Thus, the composition of the Audit Committee is now as follows:

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 independence requirements.

#### ***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) determination of the evaluation criteria for the Members of the Management Board and establishment of their annual bonuses; and (v) establishment of the termination of employment of the Members of the Management Board.

In the period from 1 January till 24 October 2013 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.

On 24 October 2013 the Supervisory Board appointed as Member of the Personnel Committee Mr. Bogusław Kott - Chairman of the Supervisory Board. In connection with this the composition of the Personnel Committee is now as follows:

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

#### ***Strategic Committee***

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

On 24 October 2013 the Supervisory Board established the following composition of the Strategic Committee:

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.

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 2013 (in thous. PLN)**

Name and Surname	Remuneration for 2013
Bogusław Kott **	25,6
Maciej Bednarkiewicz	463,4
Nuno Manuel da Silva Amado	103,7
Marek Furtek	334,1
Miguel de Campos Pereira de Braganca	102,4
Luis Maria Pereira Coutinho	133,1
Grzegorz Jędrys*	71,7
Andrzej Koźmiński	61,4
Maria da Conceicao Mota Soares de Oliveira Calle Lucas	61,4
Marek Rocki	61,4
Dariusz Rosati	266,2
Rui Manuel da Silva Teixeira	61,4
<b>Total:</b>	<b>1 745,9</b>

\* from 11.04.2013

\*\* from 24.10.2013

In 2013 Supervisory Board Members did not receive any remuneration or any additional benefits from the Bank's subsidiaries.

**Bank shares held by members of the Supervisory Board (performing their functions on 31 December 2013)**

Name and Surname	Function	Number of shares as on 31.12.2013	Number of shares as on 31.12.2012
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	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 takes 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.

The composition of the Bank Management Board during the period from 1 January to 24 October 2013 was as follows:

1. Bogusław Kott - Chairman of the Management Board,
2. Joao Nuno Lima Bras Jorge - First Deputy Chairman of the Management Board,
3. Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board,
4. Artur Klimczak - Deputy Chairman of the Management Board,
5. Julianna Boniuk-Gorzelańczyk - Member of the Management Board,
6. Wojciech Haase - Member of the Management Board,
7. Andrzej Gliński - Member of the Management Board,
8. Maria Jose Henriques Barreto De Matos De Campos - Member of the Management Board.

On 24 October 2013 Mr. Bogusław Kott resigned from the function of the Chairman of the Management Board of the Bank. On the same day the Bank's Supervisory Board elected Mr. Joao Nuno Lima Bras Jorge the Chairman of the Management Board of the Bank and thus the composition of the Management Board of the Bank is now 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 internal audit, strategy, 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 Bancos 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 inter alia the 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 performed functions 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 (CFO). 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 the credit advisor to regional director responsible for the local branch network. He then continued his professional career in Poland, where in the Citibank Group he was among others Regional Director responsible for credit centers, 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 at 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. Juliann 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, reporting and accounting control, as well as the legal and administration area.

### 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, next, acting Chairman of the Management Board of that Bank.

Since 27 June 1997 Member of the Management Board of Bank Millennium. Supervises 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 - on 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 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 a 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, operations and 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 2013.

The total remuneration for 2013 of all Members of the Management Board performing functions in this year was PLN 14 689.3 thous. The said amount includes remuneration, annual bonus for 2011 and 2012 in the amount of PLN 2 410.00 thous., additional benefits and equivalent for vacation and severance pay pension paid to the outgoing Chairman of the Management Board.

A provision for annual bonus of PLN 11,141.5 thous. was established for payment in period from 01.01.2013 to 31.12.2013.

#### Remuneration, bonuses or benefits paid out to Members of the Management Board in 2013 (in thous. PLN)

Name and Surname	Remuneration and annual bonus for 2011 i 2012	Benefits	Total
Bogusław Kott *	2 177.1	46.7	2 223.8
Joao Bras Jorge	1 867.6	1 145.7	3 013.3
Fernando Bicho	1 553.8	74.9	1 628.7
Artur Klimczak	1 787.5	7.4	1 794.9
Julianna Boniuk-Gorzelańczyk	1 390.0	17.1	1 407.1
Maria Jose Campos	1 315.0	504.7	1 819.7
Wojciech Haase	1 390.0	13.9	1 403.9
Andrzej Gliński	1 377.5	20.3	1 397.8
<b>Razem:</b>	<b>12 858.5</b>	<b>1 830.8</b>	<b>14 689.3</b>

\* do 23.10.2013 r.

**Bank shares held by Members of the Management Board (performing their functions on 31 December 2013)**

Name and Surname	Function	No. of shares, as on 31.12.2013	No. of shares, as on 31.12.2012
Joao Bras Jorge	Chairman of the Management Board	0	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 regulations, internal control byelaws 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 incorporating 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 rank management and owners of key processes. The annual audit plan is approved by the Audit Committee of the Bank's Supervisory Board is implemented in a quarterly breakdown by experienced and highly qualified professionals.

Internal audit is consulted about regulations being implemented and updated at the Bank, it independently and objectively assesses and advises to 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 2013 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 Millennium 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). In 2013 the activity of the Internal Audit Department was covered by independent external assessment conducted PricewaterhouseCoopers Sp. z o.o.

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***

Described above solutions regarding internal control system protect to a significant extent the Bank from financial reporting errors and provide the Bank Management with information enabling the evaluation of the correctness, efficiency and security of preparation of financial reports also 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 and advisor selected, independently, by the Management Board i.e. company Deloitte Audyt Spółka z o.o. also performed, in 2013, a review of the adequacy and effectiveness of the part of the Bank's internal control system supporting the financial information preparation and publication process (financial reporting) and issued relevant opinions. In 2013, the Bank's External Auditor was KPMG Audyt Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa (in previous years: KPMG Audyt Sp. z o.o.). In October 2013 the Supervisory Board decided to replace the Bank's External Auditor, which in 2014 will be the company PricewaterhouseCoopers Sp. z o.o.

The Bank is covered by the consolidated financial statement of the BCP Group. In connection with this, the annual review of the Bank's system of internal control in support of the process of preparing and publishing financial information is subject also to the terms and requirements of consolidated supervision, which is Bank of Portugal.

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

In 2013 the audit of Bank's financial statements was performed by KPMG Audyt Sp. z o.o. sp. k. On 30 January 2012 the Supervisory Board of the Bank adopted a resolution on selection of KPMG Audyt Sp. z o.o. sp. k. to perform audits of annual financial statements of Bank Millennium and Bank Millennium Group for 2012 and 2013. The audit agreement was concluded on 15th of June 2012.

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

Auditor's Remuneration (in PLN '000)	2013	2012
Examination of annual financial statement	885	885
Certification services, including review of financial statement	1 071	1 067
Tax advisory services	0	0
Other services	0	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, cashflow 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

Compliance with the principles of corporate social responsibility of Bank Millennium Group is one of the foundations of its activity. Declarations concerning corporate social policy were reflected both in the 2012 updated medium-term growth strategy for the years 2013-2015 as well as when preparing activity plans in individual areas of the Bank's operation. The Bank considers continuation of growth in a sustainable way as well as cooperating with Customers on the basis of trust, respect and observance of rules, to be particularly important.

Implementing CSR policy the Bank attaches special importance to building long-term relations with the most important groups of its Stakeholders: Customers, Employees, Suppliers, Shareholders, Social Partners and local communities. Equally important is monitoring and mitigating the adverse environmental impact of the Bank.

As announced in 2012 the Bank proceeded in 2013 to implement the Code of Ethics, which lays down the principles of ethical conduct of the Group's Employees during performance of professional duties. The Bank also provided e-learning training about the Code of Ethics to all Employees.

In its CSR activity the Bank cooperated with the "Wspólna Droga" (United Way) foundation to organise community volunteering programmes for the Bank's Employees. The Bank also cooperated with WWF, issuing a payment card, which supported the foundation with part of the fees it generated. In 2013 the Bank's representatives attended consultation meetings, conferences and training arranged by government and non-government institutions, which promote CSR in Poland.

In March 2014 the Bank will issue the eighth edition of the "2013 Responsible Business" report. The Report will be available in printed and electronic format, in Polish and English language versions. The scope of information presented as well as structure of the report comply with criteria provided by Global Reporting Initiative Sustainability Guidelines (GRI G4). The Report will define key aspects of the Bank's impact on sustainable economic, social and environmental development with respect to key Stakeholder groups: Customers, Employees, Shareholders, Business Partners, the Society and the Natural Environment.

In 2014 the Bank will strive to update its CSR policy and to formulate a medium-term CSR strategy for Bank Millennium Group. The Bank intends to stimulate volunteer and charity activity based on the reactivated "Life Inspires Us" corporate foundation.

In 2013 the Bank remained part of the RESPECT Index - the first index in Central-Eastern Europe of socially responsible companies, listed on the Warsaw Stock Exchange and was also recognised in the nationwide "Ranking of Responsible Companies".

The Bank considers cooperation with non-governmental and community institutions to be an important part of its social mission. The key areas of cooperation with them 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:

- It takes place on the programming level only (the Bank does not support institutions, but exclusively selected programmes, which the institutions are implementing)
- The Bank prefers to cooperate under long-term programmes with clearly defined goals
- The Bank prefers high culture programmes
- The Bank strives to make the programmes it supports available to the general public also through the media (television reports, television rebroadcasts, radio broadcasts, publications, discs, media coverage)

In cultural programmes the Bank partners-up first of all with cultural institutions and non-governmental organisations (foundations, associations) and the media.

Most important cultural projects of Bank Millennium in 2013:

- "Golden Sceptre" - an annual award, one of the highest in Poland (PLN 110,000 plus PLN 11,000 for a debutante), given for eminent artistic achievement. So far it has been presented to: Jerzy Giedroyc, Wojciech Kilar, Stanisław Lem, Roman Polański, Ewa Podleś, Sławomir Mrożek, Janusz Gajos, Tadeusz Różewicz, Maria Fołtyn, Wojciech Młynarski, Krzysztof Penderecki, Józef Wilkoń, Wiesław Myśliwski, Jerzy Stuhr, Danuta Szaflarska (2013 - fifteenth edition of the award). The report from the Award ceremony and its accompanying concert, shown on TVP 2, was watched by approx. 500,00- viewers.

- “Pearls of Millennium” - a series of artistic events organised by Bank Millennium together with Polish Television. The programme involves presentations of selected valuable television shows. These are largely Television Theatre plays, but also eminent documentary feature films from all over the world. In 2013 Television Theatre shows were presented again. This time it was a series of 17 plays, including premieres broadcast live. The average audience of each of the theatre shows in the series was over 1 million (according to TVP surveys).
- “Planete + 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” main prize of the festival. The festival in 2013 (including its editions outside Warsaw) had a total audience of 33,000.

## 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 “Financial statement of Bank Millennium for 2013”.

## XII. STATEMENT OF MANAGEMENT BOARD

### Presentation of asset and financial position of Bank Millennium in the financial report

According to the best knowledge, the Annual Financial Statements of Bank Millennium S.A. as at 31 December 2013 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 SA as at 31 December 2013, 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
28.02.2014	Joao Bras Jorge	Chairman of the Management Board	.....
28.02.2014	Fernando Bicho	Deputy Chairman of the Management Board	.....
28.02.2014	Artur Klimczak	Deputy Chairman of the Management Board	.....
28.02.2014	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	.....
28.02.2014	Wojciech Haase	Member of the Management Board	.....
28.02.2014	Andrzej Gliński	Member of the Management Board	.....
28.02.2014	Maria Jose Campos	Member of the Management Board	.....