



**Management Board Report  
on the activity of the Bank Millennium  
Capital Group**

**for the 12 month period ended 31 December 2008**

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## LETTER FROM THE CHAIRMAN OF THE BANK'S MANAGEMENT BOARD

Dear Sirs,

2008 reminded us that the global economy is a system of connected vessels. In the first half of the year the markets supported growth of our economy. In the second half we came to pay a high price for the crisis, which began on the US mortgage market to rapidly become a world situation.

This situation found Bank Millennium implementing its four-year (2006-2009) growth programme where the Bank planned to significantly strengthen its position on the retail market and to improve the position in the SME services segment. Last year, the Bank was consistently approaching its targets, going above one million individual Customers and a 7% market share in retail deposits. The Bank also attained 7.4% of the retail loans market, maintaining a still high share in mortgages. Also the assumed 19% annual growth of revenues in the Small and Medium Enterprises segment was reached. All-in-all Bank Millennium ended 2008 as the fifth bank in terms of share in total household deposits and loans. If to this we add the fourth-largest (490 branches) retail branch network located in regions with sales potential, a high cross-selling ratio, effective direct sales channels and a strong and recognisable brand name, then we can consider that the Bank significantly strengthened its market foundations in 2008.

Net Profit of Bank Millennium Group in 2008 was PLN 413.4 million, being 10% lower than in 2007 (PLN 461.6 million), with its level being affected by events, which ensued from the world economic crisis. An important event occurred in the 4th quarter was connected with losses on FX derivative transactions with customers, as a consequence of sudden and sharp depreciation of the zloty.

Detailed data concerning financial results, including financial effects of actions taken in 4<sup>th</sup> Quarter 2008 in connection with the matters described above, are available in the financial part of this Annual Report.

Considering the reality of doing business in late 2008-early 2009 as well as forecasts for the nearest future, Bank Millennium decided to redefine its operational strategy and to set new medium-term targets.

These were defined in the programme "New Strategy – Millennium 2010". Its foundation is Bank Millennium's strong position on the retail market, which the bank intends to continue improving. Hence it will focus on drawing on the potential of its proprietary network of retail branches, the number of which will grow in 2009 to 500. The key task of the network will remain to acquire new Customers thanks to high awareness of the Millennium brand as well as the quality of offered services. Apart from proactively selling current accounts, term deposits and a broad range of retail loans, which should also lead to improvement of the cross-selling ratio, the Bank also intends to become the bank of choice for deposit Customers. Moreover the offering for individual affluent Customers and micro-businesses will also be optimised.

In corporate banking, the Bank will use its national network of branches and specialised advisors to concentrate on working with small and medium enterprises (SME segment). The Bank will offer to companies from this segment diversified forms of financing business activity (e.g. leasing, factoring) as well as simple treasury products.

Also within strategic programme "Millennium 2010 the Bank will implement an active cost-saving programme. Reduction will apply to administrative expenses (including spending on telecom, IT and marketing as well as renegotiating building rental and maintenance contracts).

It is also planned to simplify the organisational structure of the Bank by merging structures, reducing the number of organisational cells and consolidating back-office functions. Moreover personnel costs will be reduced i.a. with new bonus rules. We assume that the total operating cost-cutting effect will be PLN 200 million by 2010.

The volatile economic situation will make the Bank apply more prudent rules of capital and liquidity management, also focusing special attention on growth of deposits. The Bank will also introduce more conservative rules of credit risk assessment and will improve the level of collateral. It will be an essential step to adapt margins to the level of risk and cost of money as well as strictly controlling all market risks.

In result of implementation of the new strategy, the Bank's leaner and cheaper structure will be better suited to face the challenges brought on by the difficult economic situation. In 2009 Bank Millennium will concentrate its efforts on meeting defined business targets and pursuing a deeper and balanced relationship with its Customers.

**Respectfully,**



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

## **I. MARKET CONDITIONS IN 2008 AND PROSPECTS FOR BUSINESS ACTIVITY**

### **I.1. Macroeconomic situation**

The year 2008 continued the trend of dynamic growth of the Polish economy, however, the growth rate was gradually declining. The economic growth rate for the whole year was 4.8%, much below the 6.7% recorded in 2007. The economic situation was especially good in the first half of the year when the Gross Domestic Product (GDP) growth reached 5.9% yoy. During the period, just as in the previous periods, the main factor driving economic growth was domestic product, especially investments which increased 15.4% yoy. The high growth rate of investments in the beginning of the year resulted from the solid and stable financial standing of Polish companies, high utilization of production capacity and absorption of EU funds. However, the second half of the year was much worse than the first half. The first symptoms of deteriorating business conditions were recorded in the third quarter of 2008, when, following the shrinking export markets, investment growth plummeted to 3.5% yoy. The real slowdown, however, was recorded in the fourth quarter of 2008, when according to our estimations, the GDP growth rate reached 2.9% yoy, less than half of the growth rate recorded in the beginning of the year. The slower growth in 2008 affected mainly the heavy industry rather than construction and market services, which resulted from the consequences of the global economic downturn reaching the Polish economy. At the end of 2008 year, industrial business condition indices in the developed economies (USA and EU) as well as in Poland reached the lowest levels in the history. A slowdown in the Euro zone, where two-thirds of Polish exports are directed, has an especially acute effect on the Polish economy. In the third quarter of 2008, the Euro zone entered a recession after the GDP fell for two successive quarters. According to the European Commission's latest forecasts, the economy of the Euro zone will shrink by 1.9% in 2009, which will most definitely affect the economic situation in Poland.

In 2008, economic growth in Poland was driven by private consumption, which increased 5.4%, which was the highest growth in the decade. The increase of disposable income was associated with an excellent situation on the labour market, especially in the first three quarters of the year. Salary in the corporate sector continued to grow in two-digit figures and increased by an average of 10.3% throughout the year. For a majority of the year, salary growth exceeded increases in productivity, however, at the end of the year, a slowdown in salary growth was clearly visible. Employment in the corporate segment, after strong growth in the first months of 2008, levelled off and remained at a stable level almost until the end of the year. In November and December however, a decrease in the number of employed was recorded, which affected mainly industrial processing and services to companies. The registered unemployment rate decreased from 11.2% at the end of 2007 to 8.8% in October and rebounded to 9.5% at the end of 2008.

In the first three quarters, Polish exports maintained a high, double-digit growth, however, considering the whole year, net exports were neutral for economic growth. Activation of domestic demand increased imports, also increasing the trade deficit. According to our estimates, the current account deficit (which besides commercial trading also incorporates the exchange of services, income and transfers) was approximately 5.3% of the GDP in 2008, slightly exceeding 5.0% of the GDP level generally believed to be safe. The inflow of direct foreign investments in 2008 did not compensate, as it did in previous years, for the current account deficit, which signals deterioration in the deficit financing quality. Other symptoms of Poland's deteriorating international financial standing also became visible in 2008. A very distinct increase of Poland's foreign debt could be observed in recent years. Since the beginning of 2008, short-term international debt, i.e. debt maturing within the next year, has been greater than the central bank's official reserve assets.

A very strong appreciation trend on the market for Polish zloty was observed in the beginning of 2008. In the third quarter, the situation on the currency market changed materially as compared to previous periods. The increasing financial crisis on the global markets caused investors to exit from the emerging markets, which caused a strong depreciation of local currencies. The zloty also suffered from the sudden outflow of investors from the domestic markets. In a period of just three months, PLN depreciated 22% against the Euro, 23% against the US dollar and 29% against the Swiss franc. It was the fastest depreciation of the Polish currency in this decade; other currencies in the region, the Hungarian forint and the Czech crown, also suffered such a dynamic depreciation.

In the first half of the year, economic growth and a dynamic salary increase were accompanied by inflationary pressures. Inflation measured by the consumer price index increased from 4.0% yoy in January to 4.8% yoy in August and remained above the NBP's inflation target (2.5% +/- 1%) for 11 months of the year. The factors driving the overall price levels included on one hand negative supply shocks, i.e. increases of fuel and food prices on international markets as well increases of official price levels. On the other hand, the increasing inflationary pressure was caused by a strong growth of domestic demand and increasing disposable income of households. In December 2008, Inflation measured by the consumer price index was 3.3% and, for the first time since October 2007, reached the desirable deviation range from the central bank's target. The decreasing inflation in the second half of the year resulted from declining prices on the commodity market and an increase in food prices that was slower than in the previous year. At the end of the year, these were additionally strengthened by a decrease of the base inflation associated with demand factors.

The deterioration of inflationary prospects and concern about occurrence of "second round" effects inclined the Monetary Policy Council (MPC) to apply a more restrictive monetary policy and increase interest rates by a total of 100 bps during first half of the year. In June 2008, the NBP reference rate was 6.00%, vis-à-vis 5.00% in December 2007. Along with the increase of NBP base rates, commercial banks started to raise interest rates on deposits and loans. In November, driven by concern about the coming economic slowdown and in light of the declining inflation, NBP started relaxing the monetary policy. The reference rate returned to the level of 5.0% at the end of 2008. The monetary policy relaxation cycle continues in 2009. Anxiety on the

international financial market translated last year into increasing aversion to risk. This was reflected in a very clear increase of spreads between the reference rate published by the central bank and money market rates. Despite the actual and expected reduction of the reference rate, the interest rate on both deposits and loans was increasing at the end of 2008.

In the first half of 2008, the situation in the public finance sector was good. Actual income was worse than assumed in the budget schedule, however, the government was even more restrictive in reducing its expenditures. As a result, in the beginning of the year, the budget deficit was lower than initially assumed. For the entire year, it was PLN 24.6 billion, compared to PLN 27.1 billion posted in the initial schedule. It should be emphasized, however, that just a few months before the end of the year, there were estimations that the budget deficit in 2008 may reach approx. PLN 20 billion; this indicates that the standing of the state budget deteriorated significantly in the last months of the previous year.

For 2009, the government assumed a budget deficit of PLN 18.2 billion. The increasing problems with fulfilling the budget at the end of 2008 justifies concern for the 2009 budget and increases the risk of its mid-year amendment. Especially since it was drawn up using very optimistic macroeconomic assumptions. Lower than assumed economic growth and lower inflation may result in the actual budget income being much lower than specified in the budget act, which coupled with limited capacity to reduce inflexible expenditures may require an increase of the deficit and amendment of the budget.

In 2008 year, the structure of household savings changed. The increase of interest rates and turmoil on the international financial markets resulted in lower interest in mutual funds and an increasing popularity of safer forms of savings, such as bank deposits. Mutual fund assets decreased every month, with the exception of December, recording an annual decline of PLN 60.8 billion. As a result of turmoil on the global financial markets, a one-time, very distinct increase of cash in circulation was recorded in the fall of 2008; cash increased PLN 8.1 billion in October and remained at that level until the end of the year. Also in October, overall deposits decreased by PLN 376 million. This situation forced an intensive deposit campaign undertaken by most of the Polish banks, which increased interest rates on deposits much above the reference rate. These activities resulted in an increase of total deposits by PLN 33.5 billion in the last two months of the year (in 2008 overall by PLN 98.2 billion and by PLN 69.5 billion for households). With the deposit level increasing by PLN 20.4 billion, December was the best month in history. The increased savings of households at the end of last year may suggest that, in light of the economic slowdown, the propensity of the Poles for savings increases while their propensity for consumption decreases.

As a result of the depreciation of the zloty, the value of currency loans expressed in PLN increased significantly. As a result, the very high growth of loans to households, which in December increased by 45% yoy, was maintained. Nonetheless, the value of PLN loans during the year was increasing at a declining rate.

In the Bank's opinion, in the following quarters the Polish economy will experience a noticeable slowdown. Private consumption will remain the main pillar of economic growth, which will be fostered by the reduction of

income taxes applicable from the beginning of 2009. The increase in consumption will not, however, be as strong as it was in the last three years. Individual consumption will be stifled by an increasing propensity of Polish households for saving and a deteriorating situation on the labour market. The Bank believes that corporate investments will decrease significantly in 2009, which will be influenced by the deteriorating outlooks in the economy, problems with selling Polish goods and more difficult access to funding for investment projects. The factor that could support investment growth is public investments, mainly in construction and improvement of infrastructure, which is associated with the influx of funds from the European Union. Despite the clear slowdown of economic growth, Poland's economy will develop faster than most of the EU states. In 2009, inflation is expected to return to the NBP target and the monetary policy will continue to be relaxed. In current year we may expect difficulties in keeping the budget deficit at the assumed level of PLN 18.2 billion, which will be the consequence of the economic slowdown, and therefore, the budget income being lower than assumed in the budget act.

Considering the current uncertainty with respect to the outlook for the global economy and an increased volatility of the international markets, demand for bank deposits may be expected to be maintained. The banking sector should remain to be the main place where financial resources will be invested, however, the decline in interest rates and limited growth of income will reduce deposit growth. We believe that a lower demand for loans and stricter credit terms will hamper growth of credit activity.

## **I.2. Execution of strategy**

Bank Millennium is a nationwide and universal bank offering, together with its subsidiary companies, a wide range of financial products and services to individual and corporate Clients. Leveraging on a renewed network of almost 500 branches, Bank Millennium is one of the fastest growing operators in the Polish banking market, supported by an efficient sales industrialization machine and by the increased awareness of the Millennium brand.

2008 was a very important year in the life of Bank Millennium as it represents the 10th anniversary of the launch of the Millennium network. With the simultaneous opening of 22 branches, the new Bank then revolutionized the market. Today, Bank Millennium Group has already the fourth largest banking network in Poland, with more than 7,000 employees, over a million Clients and with quality and competitiveness constantly recognized by Clients, investors and the press.

2008 was also another year of affirmation of Bank Millennium in the Polish market, showing again the dynamism and quality of its professionals, which have supported the Bank's development over the past decade. In spite of the adverse economic environment, which impact was particularly visible in the 4<sup>th</sup> quarter, the Bank was able to gain dimension, increase its competitive capacity in different segments, and



gain visibility and market recognition, while keeping adequate profitability indicators and a solid financial situation.

Throughout 2008, Bank Millennium continued to pursue a strategy aimed at balancing business growth with adequate levels of profitability, liquidity and solvency. On the retail front, the main priority continued to be gaining scale through organic growth, with a particular focus in expanding the branch network and in the growth of the deposit base. The consolidation of the consumer finance platform remained a priority for the Bank whereas in the corporate area the activity was particularly focused on expanding the small and medium enterprises segment as well as on capturing deposits.

In the scope of the branch expansion project, 80 new retail branches were opened during the year, increasing the total number of branches to 490. As a consequence of the fast pace of Client acquisition, the effectiveness of the cross-selling actions and the savings both in costs and capital expenditure resulting from the continuous improvements in the efficiency of the branch expansion “machine”, the new branches’ results clearly exceeded expectations, having already generated a positive contribution to the 2008 net profit.

The expanded retail branch network and the highly effective media campaigns realized during the year, which resulted in a clear increase of the awareness of the Millennium brand, led to the acquisition of more than 186 thousand new active Clients. In this framework, it is worth mentioning that in 2008, Bank Millennium reached a historical milestone of one million active retail Clients.

2008 was a major success for Bank Millennium in terms of capturing deposits from individual Clients, fuelled by an increasing number of Clients and by the attractiveness of the deposits offer, supported by effective media campaigns with a significant presence on television. The remarkable growth of deposits from individuals (achieved in a particularly difficult environment) allowed Bank Millennium to continue growing the lending business. It is worth mentioning that such performance was strongly correlated with the Bank’s decision to switch from mutual funds to deposits as the main tool to capture Client funds, which was made before the stock markets crashed.

Along with a strong effort to acquire new Clients, Bank Millennium dedicated particular attention to reinforce the relation with its existing Client base, both through a permanent improvement of the quality of service and through the cross-selling of additional products, having in mind its strong correlation with the level of Client loyalty and, consequently, with revenues. Several actions were successfully implemented throughout the year in this area, namely campaigns aimed at promoting pre-approved limits for cash loans, calculated using behavioural scorecards. At the same time, the Bank continued developing specific programs aimed at cross-selling particular products to specific groups of Clients.

In 2008 Bank Millennium continued pursuing its multi-channel approach, which complements face-to-face contacts at the Bank’s premises, with the use of the internet and telephone banking. While several improvements were introduced in the front-office solution to increase the efficiency of the sales actions at the

branch, the Internet portal was also significantly upgraded including a new graphic design, a new highly secure transaction authorization method and new features in the transactional area. For the fourth consecutive time, Global Finance distinguished Bank Millennium's online banking service, *Millenet*, as "The Best Consumer Internet Bank" in Poland, recognizing its ability to attract new Clients to the platform, its offer of new and innovative products along with its design and functionality as an online banking service.

Last year, Bank Millennium dedicated once again special attention to consolidating the consumer finance platform. While keeping mortgage loans as a distinctive business, combining an attractive offer with efficient service, the Bank was particularly focused on preserving margin and a high quality mortgage loan portfolio. In this framework, it is noteworthy that the Bank's decided to discontinue granting new mortgage loans denominated in foreign currency from December 2008, having in mind the unfavourable developments in the international financial markets which resulted in a significant growth of risk for loans denominated in foreign currency. In spite of the impacts of such decision, Bank Millennium kept a top position in the mortgage market in Poland.

Concerning payment cards, Bank Millennium crossed the milestone of half-a-million credit cards issued. In only 2.5 years, Millennium has quadrupled its credit card portfolio, as a result of the strategy implemented in 2005, when a unit was created to manage card distribution, with a dedicated sales force spread across the country, which, together with a network of financial intermediaries and partners, joined efforts for quick and efficient placement of cards in the Polish market. Bank Millennium continued its efforts to make cash loan an important product in the offer – it was one of the fastest growing products in terms of revenues in 2008.

During 2008, the corporate business segment showed a sustained trend of growth in volumes, particularly in loans and revenues. Such improvement was particularly observed in the small and medium enterprises segment, as the Bank introduced more selective criteria regarding large exposures, particularly when involving long tenors, which conditioned the activity of the large corporate segment. In line with the target of significantly increasing penetration in the SME segment, Bank Millennium created a dedicated sales force, which the main target is to rapidly expand the Client base. Out of the several awards received in 2008, it is worth mentioning that *Forbes* magazine distinguished Bank Millennium for the third year in a row, as the best Bank in Poland for SME. Such decision was based on several criteria, such as the competitiveness of the maintenance costs of the current account, the transparency of the overdraft facility and the deposit offer.

Millennium Leasing remained a key player in the leasing business in Poland in 2008. The continuous improvement of the co-operation with the Bank Millennium networks, including the micro-business segment, enabled Millennium Leasing to compensate the negative impact from the slowdown in the transportation segment by increasing sales in other areas, namely machinery and real estate leasing.

Having in mind the expected impacts of the financial crisis in the real economy, Bank Millennium Group took several measures to reduce its exposure to sectors that are more likely to be affected.

Finally, 2008 was marked by transferring the Bank's headquarters in Warsaw to the new place - Millennium Park - a modern and functional complex of buildings located in the centre of Warsaw, which from now on holds the majority of the Bank's central services in the same location. Overall, the Bank Millennium Group carried out in 2008 total investments worth PLN 118 million. A significant part of the funds, i.e. PLN 71 million, was used to develop the branch network (in 2008 the Bank opened 80 new branches). The capital expenditures also pertained to development and improvement of the Bank's infrastructure (e.g. upgrade of ATMs in order to meet new standards – compliance with EMV and IT infrastructure) and software.

### **I.3. New strategy – Millennium 2010**

Considering the current situation on the financial markets and forecasts for the immediate future, the Bank has revised the assumptions for its medium-term strategy. The starting point is the strong position achieved by the Bank on the retail market: 1.1 million active retail Clients, which gave the Bank a 7.1% market share in deposits and the fifth place ranking of the largest deposit banks for individual Clients and a 7.4% market share in loans for natural persons (mortgage loans, credit cards and cash loans).

Assumptions for the updated "Millennium 2010" strategy is based on the following priorities:

#### **1. Consolidation of retail banking based on the Bank's own branches**

The Bank will focus on using the potential of its own retail branch network, which at the end of 2008 consisted of 490 outlets. In 2009, the Bank's branch network will grow to 500 outlets (which will complete the network development project) and the branches will continue to acquire new Clients thanks to high awareness of the Millennium brand and the quality of services. Besides active sales of current accounts, term deposits and a broad range of retail loans, which will improve the cross-selling ratio, the Bank also intends to achieve the position of a first choice bank for deposit Clients. Also, the offer for affluent individual Clients and micro-businesses will be optimized.

#### **2. Focus on SME Clients in the corporate banking area**

With regard to corporate banking, the Bank, based on the national network of branches and specialized relationship managers, will focus on cooperating with companies from the SME segment. The Bank will offer, primarily to companies from that segment, various forms of financing business activities, other than asset-backed or mortgage loans (e.g. leasing, factoring) and simple treasury products.

### **3. Higher productivity and prudent cost management**

In 2009 and 2010, the Bank will implement a cost savings policy. The necessary reduction will apply to administrative costs, communication, IT, marketing expenditures, renegotiating building lease and maintenance contracts. According to the plans, the Bank's organizational structure will be simplified by combining structures, reducing the number of organizational units and consolidating back-office functions. Personnel costs will decrease, among others through new rules for granting bonuses. As a result, the simpler and cheaper organizational structure will be adjusted to the new market conditions. The Bank intends to achieve the annual cost reduction effect of PLN 200 million by 2010.

### **4. Implementation of more conservative risk management principles**

The Bank will apply more conservative principles for managing capital, liquidity and the loan to deposit growth ratio. It will also implement more conservative credit risk evaluation principles, limit large exposures and improve collateral. Another necessary step will be to adjust margins to the risk level and the cost of money as well as strict control of all the market risks.

### **Capital expenditures**

In 2009 Bank Millennium Group plans to realise capital expenditures amounting to PLN 57 million, which include opening additional 10 branches. Part of the above mentioned amount will be also dedicated to the continuation of improvement of IT systems supporting the Bank's activity. The investments planned for 2009 are much lower than in 2008 and they should not exceed the expected amount of depreciation and amortization of fixed assets in 2009.

## II. FINANCIAL STANDING OF BANK MILLENNIUM GROUP

The consolidated net profit of the Group in 2008 was PLN 413 million, marking a 10% decline as compared to 2007 (PLN 462 million).

The Group's performance was adversely affected by very strong depreciation of the Polish zloty observed in the 4<sup>th</sup> quarter of 2008, which caused the adjusted valuation of currency derivatives concluded with corporate Clients. Due to an increase of credit risk embedded in financial derivatives concluded with non-banking clients, based on IAS 39 requirements, the Bank included the credit risk component in valuation of derivatives concluded with clients as of 31 December 2008. The fair value adjustment due to valuation of credit risk component in derivatives was reduced through active management of the Bank's foreign exchange exposure. Net impact of credit risk valuation and revaluation of FX options amounted to PLN -152 million (before tax).

Key ratios associated with the 2008 financial results:

<b>Deposits and retail bonds</b>	increase by 46% yoy (PLN 10 bn)
<b>Loans</b>	increase by 53% yoy (PLN 11,7 bn)
<b>ROE</b>	15.7%
<b>Cost / income ratio</b>	64.5%
<b>Loans / deposits ratio</b>	102.6%
<b>Capital adequacy ratio</b>	10.2%, assuming that entire net profit for the year is retained

The Bank's Management Board is going to propose to the General Shareholders' Meeting not to pay dividend and thereby retaining entire net profit of the Bank for the year 2008 in the Bank's own funds.

In recent years and especially in 2008, the Group managed to improve its market position in many product categories, especially in the retail banking area.

<b>Product category</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Deposits of individuals	<b>4.0%</b>	<b>5.3%</b>	<b>7.1%</b>
Corporate deposits	3.7%	3.9%	3.8%
<b>Total deposits</b>	<b>3.9%</b>	<b>4.6%</b>	<b>5.6%</b>
Loans to individuals	5.4%	6.6%	7.4%
<i>incl. mortgage loans</i>	9.8%	11.2%	11.5%
<i>incl. card loans</i>	4.9%	5.5%	5.6%
Corporate loans	3.4%	3.2%	3.2%
<b>Total loans</b>	<b>4.3%</b>	<b>4.8%</b>	<b>5.4%</b>

In scope of the network expansion project, Bank assumed opening of 80 new branches in 2008. The goal was fully realized and at the end of the year, Bank had a branch network amounted in total of 490 outlets.

## II.1 Financial results in 2008

Operating income * (PLN million)	2008	2007	Change
Net Interest Income**	1,181.3	819.9	44.1%
Net Commissions Income	472.0	543.2	-13.1%
Other non-interest income *	195.3	346.3	-43.6%
<i>incl. impact of currency derivatives</i>	-152.1		
<b>Operating income</b>	<b>1,848.6</b>	<b>1,709.4</b>	<b>8.1%</b>

(\*) includes "Other operating income" and "Other operating expenses".

(\*\*) Pro-forma data: net interest income includes margin on all derivatives. Since 1 January 2006, the Bank has treated any combination of mortgage, foreign currency, floating rate loans, floating rate PLN deposits and related cross currency interest rate swaps under hedge accounting principles. Since that change, the margin on such operations is reflected in Net Interest Income. However, as hedge accounting does not cover the entire portfolio denominated in foreign currency, the Bank provides pro-forma data, where the entire margin on derivative instruments is posted in net interest income, while according to the accounting principles part of that margin (PLN 200 million in 2008 and PLN 48 million in 2007) is posted as other non-interest income. The Bank believes that such an approach allows for a better understanding of the actual developments of this item from an economic point of view.

The Group's 2008 **net interest income** (on a pro-forma basis) amounted to PLN 1,181.3 million and was 44% higher than in 2007. Interest income steadily increased quarter to quarter. In 4Q, net interest income was PLN 335.9 million, 6.3% up from the preceding quarter. Such a good performance was recorded despite the strong competition for deposits observed in the banking sector since early October, which also caused a reduction of margins. The net interest margin of for entire 2008 was 3.4%, which was 0.3 percentage points more than the average margin recorded in 2007.

In 2008, **net commission income** was PLN 472.0 million, marking a 13% decline as compared to 2007. On the quarter-to-quarter basis, net commission income was at a similar level in the last three quarters of 2008. The Bank managed to cover most of the decrease on sales of own and third party mutual funds by boosting fees for distributing insurance products, cards and other transactions with Clients. As a result, net commission on account of cards and insurance products increased their contribution from 10% (on both products) to 16% and 20%, respectively, while the share of mutual funds in overall commission income fell from 39% in 2007 to 22% in 2008.

**Other Non-Interest Income** was PLN 195.3 million, marking a 43.6% decline over 2007. This resulted from the adverse effect of the adjusted valuation of currency derivatives concluded with Clients, which was made after a significant depreciation of the Polish currency in 4Q 2008. Due to an increase of credit risk embedded in financial derivatives concluded with non-banking clients, based on IAS 39 requirements, the Bank included the credit risk component in valuation of derivatives concluded with clients as of 31 December 2008. The fair value adjustment due to valuation of credit risk component in derivatives was reduced through active management of the Bank's foreign exchange exposure. Net impact of credit risk valuation and revaluation of FX options amounted to PLN -152 million, out of which PLN -106 million was presented in Result on financial instruments held for trading and PLN -46 million in FX result.

Moreover other non-interest income included a dividend income of PLN 24.8 million received in 4Q from VISA Europe as a result of distribution of funds obtained from Visa Inc. shares issue.

The Group's **total operating income** in 2008 amounted to PLN 1,849 million and was 8% higher than in the previous year.

<b>Operating expenses*</b> (PLN million)	<b>2008</b>	<b>2007</b>	<b>Change</b>
Personnel Costs	609.0	538.8	13.0%
Other Administrative Costs	510.2	431.1	18.3%
Depreciation & impairment of fixed assets	72.6	88.4	-18%
<b>Total operating expenses</b>	<b>1,191.7</b>	<b>1,058.3</b>	<b>12.6%</b>

*(\*) without impairment charges of financial assets and other operating costs*

**Total cost** reached PLN 1,191.7 million in 2008 and its growth rate fell to 12.6% year to year (from 23.3% in 2007).

**Staff costs** increased 13% during the year. Group's headcount increased by 982 during the year (but just in 4Q decreased by 38) and at the end of December reached 7,049 employees (in FTE).

**Other administrative expenses** increased 18.3% during the year. This increase was caused by development of the branch network and higher marketing cost associated with campaigns.

**Depreciation** (including impairment charges for non-financial assets) fell 18% vis-à-vis 2007, when non-recurring cost of PLN 20.9 million was recorded, associated with the move to the new head office completed in February 2008.

**The cost to income ratio** was 64.5% and was higher than in 2007 (61.9%).

**Net impairment charges** of financial assets established by the Group in 2008 were PLN 135.1 million, marking a 103.2% increase over 2007. The increase in the level of charges resulted partially from the significant growth of the loan portfolio (53%), but also from higher impairment charges of the corporate portfolio caused by the deterioration in the economic standing of some of the entities. In relative terms, the charges established in 2008 represented 52 basis points of the average loan portfolio, compared to 35 basis points in 2007.

The Group's 2008 **pre-tax profit** was PLN 521.7 million (a year-to-year decrease of 10.7%), while net profit PLN 413.4 million (a year-to-year decrease of 10.4%). After excluding the negative effect of valuation of credit risk related to currency derivatives (PLN 152 million) and extraordinary income from VISA in amount PLN 24.8 million, the Group's 2008 net profit (PLN 516.4 million) would be 12% higher than the net profit earned in 2007 (PLN 461.6 million).

Return on equity was 15.7% in comparison with 19.9% in 2007 year.

## **II.2. Balance sheet and off-balance items**

### **ASSETS**

As of 31 December 2008, Bank Millennium Group's total assets stood at PLN 47,115 million, marking an increase of 54.3% in relation to the same date in the previous year. Evolution of the Group's key asset items and their structure during the 12 months is presented in the table below:

<b>ASSETS</b> (PLN million)	<b>31.12.2008</b>		<b>31.12.2007</b>		<b>change</b>
	<b>Value</b>	<b>Structure</b>	<b>Value</b>	<b>Structure</b>	<b>2008/2007</b>
Cash, funds with Central Bank	1,802.6	3.8%	1,257.1	4.1%	43.4%
Loans and advances to other banks	1,580.0	3.4%	1,053.1	3.4%	50.0%
Loans and advances to Clients	33,748.2	71.6%	22,027.2	72.1%	53.2%
Receivables under purchased buy-sell-back securities	61.3	0.1%	28.8	0.1%	112.7%
Financial assets carried at fair value through P&L and hedging derivatives	6,289.9	13.4%	3,352.9	11.0%	87.6%
Investment financial assets*	2,919.1	6.2%	1,899.7	6.2%	53.7%
Intangible assets, property, plant and equipment**	406.8	0.9%	355.5	1.2%	14.5%
Other assets	307.0	0.7%	555.9	1.8%	-44.8%
<b>Total assets</b>	<b>47,114.9</b>	<b>100.0%</b>	<b>30,530.1</b>	<b>100.0%</b>	<b>54.3%</b>

\* including investments in subordinated entities, \*\* without non-current assets to be sold



The assets structure was dominated by loans and advances to Clients (71.6%). This percentage was similar in the same period of the previous year (72.1%). At the end of December 2008, net loans and advances granted to Clients reached PLN 33,748 million, which reflects their impressive annual growth of 53.2%. The change in this asset item (the increase of PLN 11,721 million) had decisive impact on the increase of the Group's assets. The increase in loans and advances discussed above was caused largely by the depreciation of PLN against the key foreign currencies. If the effect of changing rates was not taken into account, the growth rate would be approximately 30%.

The structure and evolution of loans and advances to Bank Millennium Group Clients, by key types of loans, is presented in the table below:

Loans and advances to Clients (PLN million)	31.12.2008		31.12.2007		Change 2008/2007	
	Value	Structure	Value	Structure	Value	(%)
Loans to households	24,628.5	73.0%	14,905.1	67.76%	9,723.4	65.2%
- mortgage loans	22,161.9	65.7%	13,092.5	59.4%	9,069.4	69.3%
- other loans to households	2,466.6	7.3%	1,812.6	8.2%	654.1	36.1%
Loans to businesses	9,119.6	27.0%	7,122.0	32.3%	1,997.6	28.0%
- leasing	3,643.2	10.8%	2,687.4	12.2%	955.8	35.6%
- other loans to businesses	5,476.5	16.2%	4,434.7	20.1%	1,041.8	23.5%
<b>Total loans and advances to Clients</b>	<b>33,748.2</b>	<b>100.0%</b>	<b>22,027.2</b>	<b>100.0%</b>	<b>11,721.0</b>	<b>53.2%</b>

Loans to households remain the key growth factor for the entire loan category. During the year ended 31 December 2008, their value increased to PLN 24,629 million, up 65% (PLN 9,723 million) from 31 December 2007. Loans granted to individual Clients expressed as a percentage of total loans increased from 68% at the end of 2007 to 73% at the end of 2008.

Mortgage loans account for the majority of the retail loan portfolio. They also clearly dominate the overall loan portfolio – their share increased from 59% at the end of 2007 to 66% at the end of 2008. That loan category was the main growth factor for the Group's overall loan portfolio. At the end of 2008, the value of the mortgage loan portfolio was PLN 22,162 million, increasing 69.3%, or PLN 9,069 million, from the end of 2007. Depreciation of Polish currency vs. main foreign currencies had the significant impact on this growth.

At the end of the reporting period, the value of other loans to households (including card debt, current account overdraft limits, cash loans and others) reached PLN 2,467 million, increasing 36.1% during the year; their share in the overall portfolio was 7.3%. The value of credit card debt alone increased by 43.4% during the year (in gross terms), reaching PLN 701 million. The cash loan portfolio increased 54.2% during the last 12 months, reaching the total value of PLN 1,621 million (gross).

Loans granted to companies increased 28%, or PLN 1,998 million, from 31 December 2007, up to PLN 9,120 million at the end of the reporting period; their share in the portfolio was 27%. The segment of small

and medium-sized enterprises (companies with turnover of PLN 3 to 30 million per annum) was significant for the growth of the corporate segment; at the end of 2008, its share in all the corporate loans (without leasing) was 21%. Leasing activity carried out in the Group by two subsidiaries, Millennium Leasing and Millennium Lease, remains a very important growth factor of corporate loans: the leasing portfolio increased 35.6% year-to-year, up to PLN 3,643 million at the end of 2008.

In the discussed period, the value of "Financial assets carried at fair value through profit and loss and hedging derivatives" increased by PLN 2,397 million (that is 87.6%) up to PLN 6,290 at the end of 2008. The main item of assets in the portfolio of "Financial assets carried at fair value through profit and loss and hedging derivatives" were debt securities, which almost fully consisted of Treasury bills and bonds. At the end of 2008, their share in that portfolio was 55.2% and their value reached PLN 3,472 million, which represents a growth of 48.9% year-to-year. The second relevant item of this group of assets is the positive valuation of derivatives held for trading and hedging derivatives, which reached at the end of year PLN 2,815 million and its share in this asset group increased within the year from 30.3% to 44.8%. The increased valuation of derivatives was influenced by the significant depreciation of the domestic currency against the key foreign currencies.

Equity instruments had marginal share (close to zero) in the portfolio of "Financial assets carried at fair value through profit and loss and hedging derivatives".

The value of "Investment financial assets" increased by PLN 1,019 million (i.e. by 53.7%) up to PLN 2,919 million at the end of 2008. That portfolio was almost entirely (99.4%) composed of debt securities, which increased by PLN 1,009 million compared to the end of 2007. The portfolio was dominated (95.7%) by securities issued by the State Treasury and some (slight percentage) by the central bank. The remaining part of "Investment financial assets" consisted of shares and ownership interest in other entities, however their share was small at 0.6%; most of that amount consisted of investments in unconsolidated subsidiaries and affiliates.

The value of debt securities in all items of the Bank's assets, was PLN 6,374 million, up PLN 2,150 million (or 51%) from the end of 2007.

Cash and funds in NBP reached PLN 1,803 mln whereas loans and advances to other banks reached PLN 1,580 million at the end of the year. These two liquid assets constituted consecutively 3.8% and 3.4% of the Group's total assets at the end of 2008 and their total value during the year increased by PLN 1,072 mln.

At the end of 2008, non-current assets, which consisted of property, plant and equipment and intangibles (without non-current assets to be sold, which were included in other assets), represented 0.9% of assets reaching the value of PLN 407 million.

## LIABILITIES AND EQUITY

The structure of the Group's liabilities and equity at the end of 2008 and 2007 is presented below:

LIABILITIES AND EQUITY (PLN million)	31.12.2008		31.12.2007		change
	Value	Structure	Value	Value	Structure
Liabilities to banks	3,060.6	6.9%	2,568.7	9.2%	19.1%
Liabilities to Clients	31,702.3	71.6%	21,800.7	77.8%	45.4%
Liabilities under sold sell-buy-back securities	1,502.1	3.4%	726.0	2.6%	106.9%
Financial liabilities carried at fair value through P&L account and hedging derivatives	5,579.1	12.6%	587.0	2.1%	850.4%
Liabilities on the issue of debt securities	927.4	2.1%	851.5	3.0%	8.9%
Reserves	33.9	0.1%	34.7	0.1%	-2.2%
Subordinated debt	961.4	2.2%	826.0	2.9%	16.4%
Other liabilities*	533.3	1.2%	615.6	2.2%	-13.4%
<b>Total liabilities</b>	<b>44,300.0</b>	<b>100.0%</b>	<b>28,010.2</b>	<b>100.0%</b>	<b>58.2%</b>
<b>Total equity</b>	<b>2,814.9</b>		<b>2,519.9</b>		<b>11.7%</b>
<b>Total liabilities and equity</b>	<b>47,114.9</b>		<b>30,530.1</b>		<b>54.3%</b>

(\*) including tax liabilities

At the end of 2008, liabilities represented 94% and the equity 6% of Group's total liabilities and equity.

Client deposits, which reached PLN 31,702 million at the end of December 2008, dominated the structure of liabilities (72%). The deposits increased significantly during the year and were 45.4% (or PLN 9,902 million) higher compared to the end of 2007.

The structure of deposits at the end of 2008 and 2007, by Client type, is presented in the table below:

Client Deposits (PLN million)	31.12.2008		31.12.2007		Change 2008/2007	
	Value	Structure	Value	Structure	Value	(%)
Deposits of individuals *	22,337.8	70.2%	12,889.5	59.1%	9,448.4	73.3%
Deposits of corporate Clients and public sector	9,487.9	29.8%	8,911.2	40.9%	576.7	6.5%
<b>TOTAL</b>	<b>31,825.8</b>	<b>100.0%</b>	<b>21,800.7</b>	<b>100.0%</b>	<b>10,025.1</b>	<b>46.0%</b>

\* including retail bonds issued by the Bank and deposits in the form of insurance policies

The rapid growth of total deposits was caused mainly by the very high growth of deposits from individual Clients (including the Bank's bonds distributed among individual Clients); their aggregated value was 73.3% (or PLN 9,448 million) higher than the year before, reaching the total of PLN 22,338 million.

The increase of deposits was not as significant in the corporate segment. Total deposits from corporate Clients and the public sector as at the end of 2008 were PLN 9,488 million, marking growth of 6.5%, or PLN 577 million, from the end of 2007.

Part of the savings entrusted by Clients to Bank Millennium Group is not reflected in the consolidated balance sheet. Therefore, below you will find a table with additional information on total Client funds invested in savings products offered by the Group.

<b>Total Client funds</b> (PLN million)	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>Change 2008/2007</b>	
			<b>Value</b>	<b>(%)</b>
Client funds managed by the Group, including:	<b>34,229</b>	<b>28,016</b>	6,213	22.2%
- Deposits and retail bonds	31,826	21,801	10,025	46.0%
- Millennium TFI mutual funds	1,664	5,061	-3,397	-67.1%
- Third party savings products distributed by the Group*	739	1,154	-415	-35.9%

\* insurance and investment products and mutual funds offered by companies from outside of the Bank Millennium Group

The item whose nature is similar to deposits (i.e. funds acquired from third parties) is liabilities from securities sold with a buy-back clause (sell-buy-back) that reached PLN 1,502 million, or 3.4% of all liabilities, at the end of 2008. This item includes mainly short-term funds acquired from Clients, financial institutions and National Bank of Poland and generally is very volatile. As compared to the end of 2007, the funds acquired through sell-buy-back transactions increased by PLN 776 million or 106.9%, largely due to increased value of transactions made with financial institutions.

Liabilities to banks increased from the end of 2007 by 19.1% (or PLN 492 million) and at the end of 2008 they represented 6.9% of total liabilities. The growth was caused primarily by the fact that the Bank took out in September 2008 a syndicated loan of EUR 175 million from a group of financial institutions.

The value of „Financial liabilities carried at fair value through P&L account and hedging derivatives” item grew significantly during the year by PLN 4.992 million and reached at the end of 2008 year PLN 5.579 million. It consisted almost entirely of the negative valuation of derivatives and the growth of it came, like in case of positive valuation recognized on assets side, from significant changes of FX rates in analyzed period.

At the end of December 2008, liabilities under debt securities were 2.1% of total liabilities. During the year, their value increased 8.9% up to PLN 927 million. The largest component of that item is liabilities under the securitization agreement for part of the assets concluded by the Millennium Leasing subsidiary, whose value at the end of 2008 was PLN 804 million. The remaining part of that item (PLN 123 million) was the Bank's liabilities under the issue of bonds for retail Clients as part of the private issue program.

Subordinated liabilities represented 2.2% of all liabilities (PLN 961 million) and included debt resulting from the issue of long-term bonds with par value of EUR 80 million maturing in 2011 as well as subordinated bonds with par value of EUR 150 million maturing in 2017. The increase of that item as compared to the end of December 2007 (by 16.4%) was caused primarily by changes in the currency exchange rate.

At the end of 2008, the Group's equity was PLN 2,815 million, up PLN 295 million or 11.7% from the end of 2007; this resulted from retaining profits after the dividend of PLN 161.3 million paid out in May 2008.

## OFF-BALANCE SHEET LINE ITEMS

The aggregated nominal values of off-balance items reached PLN 162,140 million at the end of 2008. The largest item was derivatives at PLN 151,539 million, up 48.3% from the end of 2007. This item included primarily FX instruments, including Currency Swaps, CIRS, and other FX contracts (including options and other forwards) as well as interest rate swap and forward contracts (IRS, FRA). The increase in derivative instruments resulted from the need to manage currency and interest rate risks associated with the increase of the Group's business volumes.

Contingent off-balance commitments comprised 5.5% of all off-balance liabilities, or PLN 8,962 million at the end of 2008 (a 11.6% increase compared to the end of 2007). This item is comprised of commitments granted of PLN 8,246 million (a 12.5% increase) and commitments received of PLN 716 million (a 2.2% increase). These are mainly liabilities associated with guarantees (PLN 692 million at the end of 2008), mainly guarantees securing credit risk. Liabilities associated with purchase/sale transactions were PLN 1,639 million at the end of 2008 and resulted from currency transactions concluded by the Bank.

Group's off-balance items are presented in the table below:

OFF-BALANCE SHEET LINE ITEMS (PLN million)	31.12.2008	31.12.2007	Change (%)
I. Contingent off-balance commitments – granted and received	8,961.7	8,032.1	11.6%
1. Commitments granted	8,245.9	7,331.8	12.5%
2. Commitments received	715.8	700.3	2.2%
II. Commitments related to purchase/sale transactions	1,639.1	1,667.0	-1.7%
III. Derivative instruments	151,539.2	102,189.9	48.3%
1. Interest Rate Forward contracts (FRA)	3,800.0	1,250.0	204.0%
2. Interest Rate Swap contracts (IRS)	40,011.2	27,272.8	46.7%
3. Currency Swap contracts	39,459.3	11,853.0	232.9%
4. Currency Interest Rate Swap contracts (CIRS)	23,395.1	12,591.7	85.8%
5. Other FX derivative instruments	43,507.4	46,079.7	-5.6%
6. Commodity derivative instruments	1,211.8	2,950.4	-58.9%
7. Other derivative instruments	154.4	192.4	-
IV. Other	0.0	0.0	-
<b>Total off-balance sheet line items</b>	<b>162,140.0</b>	<b>111,889.0</b>	<b>44.9%</b>

## **II.3. Share price and rating**

2008 was the year of a global financial crisis, causing prolonged drops of stock indices on all markets. In particular, it resulted in historical declines of banks' stock prices.

The crisis strongly affected Polish companies. The overall index of the Polish market, WIG, fell 51%, while mWIG40, of which Bank Millennium is a part, fell 63%. The price of Bank Millennium shares, which recorded a 46% increase in 2007 (much above the 10% WIG growth and 9% mWIG40 increase), fell 75% in 2008.

<b>Market ratios</b>	<b>31.12.2008</b>	<b>28.12.2007</b>
Shares in trading:	849,181,744	849,181,744
Price per share (PLN)	2.88	11.63
Market capitalization (PLN million)	2,246	9,876
Book value per share (PLN)	3.31	2.97
Earnings per Share (PLN)	0.49	0.54

In 2008, the Fitch rating agency did not change its rating assigned in 2007 and on 9<sup>th</sup> February 2009 it has re-affirmed all ratings assigned to Bank Millennium keeping stable outlook. According to Fitch, the individual rating reflects the Bank's increasing base profitability, well-directed strategy, improvement of the loan portfolio quality and adequate coverage of loans with recognized impairment.

The Moody's rating agency, due to the unstable situation on the global markets and deterioration of the business environment in 2008, which will affect all the banks, reduced the outlook for Bank Millennium from positive to stable.

Below you will find the current ratings given to Bank Millennium by the aforementioned rating agencies:

<b>FITCH RATINGS:</b>	<b>Current rating</b>	<b>Recent change</b>
Long-term deposit rating	A	21 May 2007
Short-term deposit rating	F-1	21 May 2007
Bank's Individual Default Rating (IDR)	C/D	21 May 2007
Support rating	1	13 July 2005
Rating outlook	Stable	9 February 2009

<b>MOODY'S INVESTOR SERVICES:</b>	<b>Current rating</b>	<b>Recent change</b>
Long-term deposit rating	A3	24 April 2007
Short-term deposit rating	Prime-2	24 April 2007
Bank's financial strength rating (BFSR)	D	10 April 2006
Rating outlook	Stable	6 November 2008

### III. DESCRIPTION OF THE GROUP'S BUSINESS ACTIVITY

According to the assumptions for the published medium-term development strategy, in 2008, the Bank Millennium Group focused especially on activities in the following three areas: services to retail Clients, a broad range of consumer finance loans and modern services for small and medium-sized enterprises. Being a universal bank, activities in the foregoing areas were supplemented by the offer for large companies as well as leasing, brokerage and mutual fund activity conducted by specialized Group companies. Key information on the structure of services and products offered by the Bank Millennium Group in these areas is presented below.

#### III.1. Retail banking

##### **Network development and improvement of service quality**

Bank Millennium consistently executes the strategy of developing services and products targeted at individual Clients, through developing distribution channels (the branch network, phone banking, Internet banking and multi-function ATMs) and through gradual improvement of quality and adjustment of the offer to the changing needs and increasing expectations of the diverse Client group. Clients are serviced by specialized business lines focusing on retail Clients (Millennium), affluent Clients (Prestige) and small businesses (Biznes).

As a result of the Retail Banking Network Development Project launched in 2006, already in 2007 the Bank had outlets in all Polish cities with more than 60,000 inhabitants. In order to meet our Clients' expectations, the Bank established outlets in smaller towns as well – among others, in: Zgorzelec, Żywiec, Luboń, Suchy Las, Mińsk Mazowiecki, Grójec, Skierniewice, Żyrardów, Radzymin, Płońsk, Otwock, Zgierz, Radomsko, Ciechanów, Oleśnica,. The continuing development of the branch network is an expression of a consistent fulfillment of Bank Millennium's ambition to create a branch network that will ensure availability of the Bank's services throughout Poland.

In March 2008, the number of retail Clients exceeded 1 million and the Bank had the honour of celebrating its millionth Client – a resident of Wrocław. The regularly and dynamically growing number of new Clients shows the high evaluation of quality and availability of the Bank's services. At the end of 2008, the Bank serviced as many as 1,1 million active personal account holders.

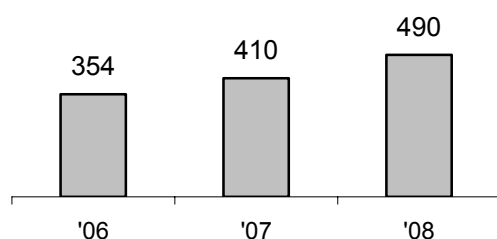


In scope of the Retail Banking Development Project, the following outlets were opened in 2008:

- 5 Financial Centres, where individual, Prestige and small business Clients are serviced in one branch,
- 20 new Retail and Business branches to service individual Clients and small businesses,
- 55 new retail branches.

At the end of 2008, Bank Millennium served Clients in 490 outlets across Poland, compared to 410 outlets at the end of 2007. In 2009, the number of branches will slightly increase to around 500.

**Number of Bank Millennium outlets (at the end of the period)**



In addition to improving Client access to a larger number of outlets, in 2008 the Bank continued its activities aimed at providing its Clients with top quality services. The ongoing improvement of services provided remains one of the Bank's priority objectives. Therefore, lots of attention was given in 2008 to the factors fostering quality improvements and consequently – greater Client satisfaction. The initiatives increasing convenience for Clients included: improvement of service through branches and through electronic banking channels, further changes improving the quality of information sent to Clients in their monthly statements and further improvement of operating processes in branches as well as in the Bank's Head Office.

The Bank regularly monitors the quality of service by conducting quarterly Client satisfaction and loyalty studies and "mystery Client" studies. According to research conducted in 2008, the satisfaction level of retail Clients remains stable and high.

In order to maintain high quality of service, the Bank successfully implemented in 2008 Client service and sale standards described in the "Great Book of the Millenniumness" containing the key principles of the Bank's corporate culture. Dissemination of standard approaches and behaviours among the employees and continuous growth of cross-selling resulted in an increase in the number of products per Client. Consolidation of the Bank's relationship with its Clients is a valuable source of information about Client needs, which may then be reflected in continuous improvements of the Bank's offering.



## RETAIL OFFER AND CROSS-SELLING

Bank Millennium is a universal bank; as such it offers its individual Clients a broad range of financial products – from personal accounts to debit and credit cards, savings accounts, term deposits, mutual funds, consumer and mortgage loans, brokerage services, structured products and insurance.

### Retail deposits

In 2008, Bank Millennium continued its activities aimed at strengthening its image as the bank specializing in savings products.

New term deposits: “SuperProcent” and “Twój Wybór” were successfully introduced. Existing products, “MegaZysk” (previously “MilleInwestycja”) and “SuperDuet”, were improved.

“SuperProcent” is a very transparently designed product, in which attractive interest accrues from the very first zloty deposited and from the very first day and which is not dependent on any additional conditions to be met by the Client. “Twój Wybór” (*Your choice*) is an innovative term deposit with an attractive interest rate and a possibility of selecting any savings period from 30 to 365 days. Bank Millennium was the first bank on the market offering its Clients such a flexible scheme, which resulted in record sales performance.

The Bank’s offer was dynamically adjusted to the current situation on the market. In the first half of the year, sales concentrated on the 12-month “SuperProcent” term deposit. Acquisition of deposits was supported by “MilleInwestycja”, a term deposit structured as life insurance. Using an insurance-based product allowed the Bank to offer its Clients more attractive interest rates than could be offered on traditional deposits.

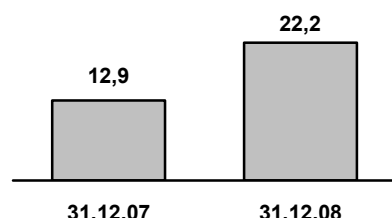
At the beginning of the second half of the year, the Bank started to promote “SuperProcent 8%”, a 2-year term deposit. The offer was still supported by “MegaZysk” (the new name for “MilleInwestycja”), better suited to the product’s features.

In the last quarter of 2008, i.e. the period when competition on the deposit market reached the highest level recorded – the Bank focused on promoting “Twój Wybór” deposit and its main benefit – possibility of selecting any saving period while keeping high interest rates. Sales of the “SuperProcent” deposit were supported by a national media marketing campaign, using the slogans: “We serve excellent percent”, “Our specialty” and “You have a choice” featuring the popular TV show host, Hubert Urbański.

Throughout the year, the Bank conducted an active pricing policy, adjusting the offer of other savings products – deposits available on the “Millenet” website and “MegaZysk” – to the changing market requirements. Additionally, the Bank popularized use of the Internet channel, among others, by offering Deposit Auctions where Clients could offer their own interest rates – up to 10%.

As a result of the activities described above, total deposits of household segment reached the level of PLN 22,2 billion growing strongly by 9.4 bn (that is 73%) during the year.

#### **Value of households deposits (PLN bn)**



#### **Cross-selling**

Cross-selling remains one of the principal business objectives of the Bank Millennium Group. The Bank pays special attention to differentiating the portfolio of products held by each of the Clients to ensure that each of them, besides the package of basic products, could conveniently use the Bank's comprehensive offer of credit and investment products.

Since 2005, various cross-selling initiatives have been adopted and implemented as permanent processes or temporary campaigns. In 2008, the systematic sales of new credit products were continued in the Retail and Business segments; in the case of retail Clients, it successfully leveraged electronic banking channels. These campaigns were supplemented by up-selling of cash loans, credit cards and personal account overdrafts. Further cross-selling initiatives were addressed to Clients without personal accounts, i.e. to credit card holders or Clients with deposits.

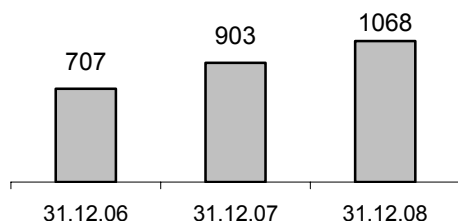
With respect to deposit product sales, last year several new initiatives were launched that focused on retaining, acquiring or reacquiring new funds, which encompassed all Clients' segments, including the Corporate segment.

The Bank continues to develop its cross-selling efforts in the "Biznes" and "Prestige" segments. The cross-selling campaigns carried out in 2008 in the "Biznes" segment were aimed at Millennium Leasing Clients and individual Clients running their own businesses. Attempts were also made to acquire new Clients. Last year's initiatives in the "Prestige" segment included primarily cross-sales of investment products and credit cards.

The improvement of cross-selling performance in 2008 was fostered by the upgrade of the CRM application by adding new functionalities supporting registration of leads and product sales. The cross-selling ratio in retail banking (that is the number of products held by one Client) as at the end of 2008 was 3.02.

In the individual Client segment, the Bank currently has over 1,068 thousand Clients who actively use its products and services, compared to 903 thousand at the end of 2007. The overall number of products held by the Bank's Clients from that segment increased by 16%.

#### Number of active individual Clients (thousands)



#### Internet Banking – Millenet

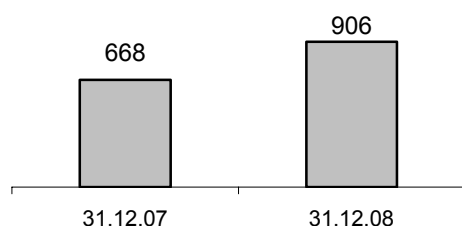
The year 2008 was another fast growth period for Millenet Internet Banking, which was recognized by independent experts and market analysts. For the fourth year in a row, Bank Millennium's Internet banking system was recognized as the best in Poland in the annual global contest "World's Best Internet Banks" organized by the independent international finance magazine, "Global Finance".



The Internet banking offer for individual Clients was also recognized in Poland, ranking third overall in Newsweek's ranking entitled "Friendly Bank – the best in the web".

At the end of 2008, the number of individual Clients registered in Millenet reached 906 thousand. In December 2008, transfers performed by individual Clients via Millenet accounted for approximately 80% of all the transfers made by individual Clients and in the case of external transfers, the number increases to approximately 89% of all the transactions in the Bank.

### Number of individual Clients registered in Millenet (thousands)



The Millenet Internet platform is currently used not only for information purposes, but becomes an ever more popular distribution channel for our financial products. Millenet may currently be used to purchase credit and deposit products, mutual fund units and to open personal accounts.

In 2008, the Bank successfully promoted term deposits on the Internet, actively leveraging the modern and effective platform for banking operations. In December 2008, the volume of Client deposits acquired through Millenet (term deposits and savings accounts) was almost PLN 2 billion, almost twice as much as in 2007. In 2008, Millenet was used to open the promoted term deposits, which previously were available only in the Bank's branches. Term deposit auctions account for a significant portion of 15-day deposits; they continue to be recognized by many journalists and market analysts as an exceptionally innovative form of distribution on the Polish market.

Clients using Internet Banking have reacted positively to the new method of confirming one-time orders made in Millenet by code words texted to their mobile phones. Implementation of this service significantly increased the security of using the Millenet system.

The year 2008 witnessed a continued growth of credit products offered under personalized offers sent to Clients through the Millenet system. Last year, such offers were sent to almost 296 thousand Clients; over 92 thousand Clients showed interest in the proposal and learned about its details.

### OFFER FOR AFFLUENT INDIVIDUAL CLIENTS

Prestige is Bank Millennium's offer addressed to affluent persons who expect the highest quality of service and financial products of superior quality, tailored to their specific needs. In 2008, development of processes and tools related to the adopted asset management strategy continued. The product offering was significantly extended as well. These activities allowed the Bank to increase efficiency of Client fund management and improve its offering to match their needs.

In 2008, the Prestige product offering continued to develop. The “Open Fund Architecture” was improved by new funds of the mutual fund companies already cooperating with us: Millennium, ING, ARKA, DWS, Legg Mason. Moreover, the list of available BlackRock foreign funds was expanded.

The PLN fund offering in the Prestige Investment Program was expanded to include new funds of our current partners as well as funds offered by a new mutual fund company, Quercus TFI S.A. In April 2008, the EUR and USD versions of the Prestige Investment Program were launched. Within that product, the Clients obtained direct access to selected foreign mutual funds offered by the leading global investment companies, such as: BlackRock, HSBC, JP Morgan, Schroders, Robeco, Franklin Templeton. Moreover, within the framework of the Program, our Clients are able to invest in a guaranteed fund denominated in EUR and USD offered by PZU Życie S.A.

In 2008, Clients were offered 45 structured products benefiting from various investment opportunities arising on financial and commodity markets throughout the world. These proposals have proved to be an excellent diversification tool for our Clients’ investment portfolios.

Our Clients’ funding needs were satisfied by a broad range of mortgage loans, credit cards and asset-backed loans. In 2008, the range of possible collateral of an asset-backed loan was extended to include further investment products.

The Prestige outlet network continued to develop in 2008. In the beginning of the year, there were 35 outlets, while at the year-end, Clients were serviced in 41 modern Financial Centres located across Poland. All of the Prestige outlets offer comfortable, exclusive interiors conveying the feeling of complete discretion and security.

Communication activities in 2008 focused primarily on organizing investment seminars for current and potential Prestige Clients, which enjoyed great interest. 115 investment seminars were held in 2008 (compared to over 70 in 2007). They have proved to be a very effective means of information about the changes occurring on the market and new products in the Prestige offer.

As a result of all of the activities undertaken in 2008, the Prestige line increased its Client count. At the end of 2008, it serviced 18,985 Clients, which marked growth of almost 25% compared to the end of 2007. Total assets of that group of Clients increased by 5.1%, reaching PLN 6,4 billion at the year-end.

<b>Prestige</b>	<b>2007</b>	<b>2008</b>	<b>change</b>
Number of Clients	15 211	18 985	24,8%
Assets under management (PLN m)	6 132	6 444	5,1%

## MICRO-BUSINESSES

The Biznes segment covers micro-businesses, that is business entities with annual turnover up to PLN 3.2 million. The micro-business market in Poland experiences dynamic growth and is considered to have excellent prospects. Therefore, understanding the potential of that Client group, Bank Millennium gradually expanded and improved its offer to small businesses in 2008.

### Offer

Currently, in the Biznes segment, Bank Millennium offers a broad range of products and services. They include, inter alia:

- Current accounts in PLN and in four foreign currencies (Euro, dollar, British pound, Swiss franc),
- Credit products, including a renewable current account overdraft, cash loan, investment loan,
- Leasing,
- Trade finance products (letter of credit, guarantees),
- Debit and charge cards,
- Other account-related services, such as: phone support, Internet support, closed deposits or car collections.

The offering of current accounts in PLN was significantly extended in 2008. Considering the diverse needs of entrepreneurs, the Bank developed attractively priced accounts that met the needs of our Clients:

- "Biznes Start" account – created for companies commencing their business activity.
- "Biznes Profesja" account – created for liberal professionals.
- "Biznes Pay Up" account – created in cooperation with a third party, Pay Up.
- "Biznes Oferta Specjalna" account – introduced in the offer as part of the sales and cross-selling campaigns directed to Millennium Group Clients.

2008 was also a period of polishing the credit offering and improving efficiency of processes employed by Bank Millennium. The investment loan offer was improved in the beginning of the year. In order to meet our Clients' expectations, we resigned from the obligation to present a complex business plan, which was replaced by a simple "Investment Information" form. Additionally, the maximum term of the investment loan was increased and certain pricing parameters were changed. Moreover, an automatic renewal option was introduced for current account overdrafts. As a result, in the case of Clients who service their overdraft properly, the product is automatically renewed after 12 months, without the need to submit any financial documents.

The last 12 months saw intense sales campaigns directed to the Bank's current and prospective Clients. Similarly as in 2007, regular internal *pre-approval* campaigns were carried out. The new element of the aforementioned campaigns was adding leasing products to the offer. Another purpose of the campaigns was to increase cross-selling within the Millennium group. Cooperation was offered to micro-businesses that used

Millennium Leasing products or serviced mortgage loans as individual Clients. To consolidate the market position and increase awareness of the Bank Millennium Biznes segment offering, campaigns based on market analysis reached 100,000 prospective Clients.

### Services for small businesses

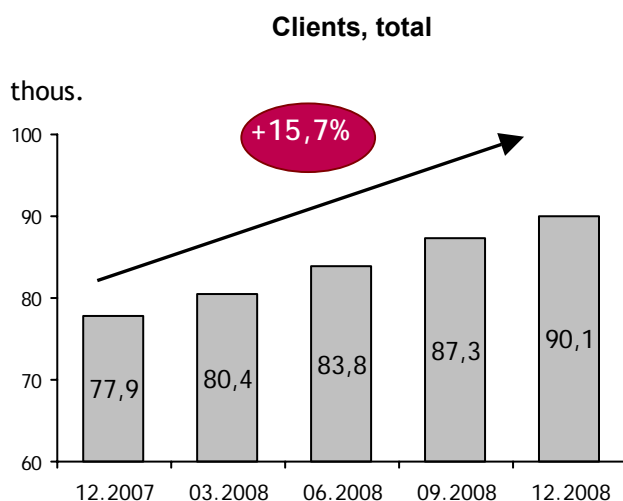
Clients of the Bank Millennium Biznes segment have the opportunity of using a broad range of services and distribution channels used to support current accounts, deposits, loans or other products held by the Clients. They have at their disposal over 2100 Millennium and Euronet ATMs operating 24/7, as a result of which the Clients have unlimited access to funds on their company accounts. Bank Millennium has a well-developed network of Branches located throughout Poland, with Bank employees specialized in servicing Biznes segment Clients. Entrepreneurs who wish to deposit cash to the account may use closed deposits, night safes or car collections. Bank Clients may use electronic banking features through:

- Millenet Internet banking system
- ESOBIG® Electronic Bank Service System
- TRANSBANK® floppy disk application

Moreover, Bank Millennium offers the TeleMillennium® service – a 24/7 contact and service centre providing support to Clients.

### Business performance

At the end of December 2008, there were over 90.1 thousand Clients in the Biznes segment portfolio (up 15.7% during the year) and 98.4 thousand of active accounts (up 18%).



## **III.2. Consumer Finance**

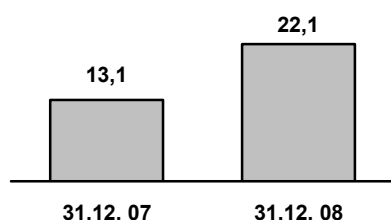
Delivery of financial solutions that fulfil Client needs in a professional and convenient manner is one of Bank Millennium's key objectives. Following its motto, "Inspired by life", the Bank has developed a broad range of Consumer Finance services based on its own market experience as well as the opinions and expectations reported by the Clients. The Consumer Finance offer encompasses the area of mortgage loans, cash loans and credit cards.

### **RETAIL MORTGAGE**

The year 2008 was a period of serious challenges and changes for the mortgage sector in Bank Millennium. In the first quarters, improving the offer and the credit process was the priority. The purpose of these activities was to meet our Clients' high expectations, increasing competition and achieving the assumed performance.

In the fourth quarter, as a result of the turmoil on the international financial markets, the conditions for conducting credit activity changed drastically. The increase in the risk of business activity and unpredictability of the economic environment forced the Bank to conduct a more conservative risk assessment policy, leading to a more restrictive credit policy. As a result, mortgage loan sales in 2008 were 15% lower than the record level in 2007, down to PLN 6 billion. The mortgage loan portfolio increased 69% up to PLN 22.1 billion. With a market share of 11,5%, the Bank was promoted from the third to second position in the classification of the largest mortgage lenders.

**The value of the Bank Millennium mortgage loan portfolio (PLN bn):**



In 2008, high demand for the Bank's mortgage loans was associated mainly with fulfillment of the Clients' regular residential needs – as much as 93% of the loans were granted for that purpose (purchase or construction of a house/apartment, renovation, refinancing of another mortgage loan, etc.). Debt consolidation loans refinancing other consumer loans represented another 5% and mortgage advances for any purpose – 2% of total loans sold.



It should be noted that many Clients decided to use Millennium's offer to refinance a less attractive mortgage loan taken out from another bank (23% of sales). The Bank's offer was the most popular among young people (63% Clients under 35 years of age) with higher education (65%), taking out a loan from PLN 100 to 500 thousand to purchase real estate (45% of sales) or to build a house (25% of sales). Mortgage loans are important Client acquisition tools – as much as 70% of mortgage Clients acquired in 2008 have never used services offered by Millennium. The Clients represent a segment that is safe and profitable for the Bank – the average cross-selling ratio is 5.8 products, almost twice as high as for other retail Clients.

Besides activities associated with acquiring new Clients, the Bank offered numerous features facilitating repayment of the loans. Thanks to development of IT applications and automation in the debt service process, a monitoring system was introduced that reminds Clients about their obligation to satisfy the conditions set forth by the loan agreement. This tool not only helps Clients to service the loan properly but also to limit related costs. Teams have been established to handle Client inquiries and requests, and consequently communication with Clients has been improved and the response time and the number of complaints reduced significantly. In order to improve the quality of service, a practical guide entitled "I've got a loan" has been developed – a comprehensive set of advice for Clients repaying a mortgage loan to ensure convenience and the highest level of satisfaction from having a Millennium product. Moreover, a simplified procedure for examining requests to change terms of the signed loan agreements has been introduced, which also fosters a more friendly and convenient servicing of debt in Bank Millennium.

In addition to the fulfilment of business objectives, in the predominant uncertainty on the international financial markets in 4Q 2008, the Bank's actions resulted primarily from the need to reduce risk and ensure high quality of the portfolio. A number of changes was introduced in the terms of granting the loans, such as the requirement to provide own contribution of 20% and reducing the lending period to 35 years. Moreover, due to the excessive increase of risk related associated with granting currency loans, as of 1 December 2008, the Bank decided to withdraw such loans from its offer.

It should be emphasized that the mortgage loan portfolio is regularly monitored. Its quality is shown by the very low percentage of irregular loans, which as at 31 December 2008 was only 0.3%.

Millennium's efforts to build the position and image of a mortgage banking leader were appreciated by the market, which was reflected in many awards and distinctions. One of the most important of those was the "Client's Laurels 2008" for the Millennium mortgage loan – victory in the largest consumer program in Poland (29 August 2008). The Bank's success in the best mortgage loan contest was decided by the vote of "Rzeczpospolita" and "Gazeta Prawna", results of brand awareness questionnaires and opinions about the brand. Other notable distinctions include:

- 1st place for the best combination of an attractive offer and a short term loan according to Independent Financial Advisor Expander (24 June 2008)

- 1st place in the category of loans for persons seeking cost-attractive and flexible funding for real estate, in the ranking organized by “Gazeta Wyborcza” and Open Finance advisor company (15 May 2008)
- 1st place in the ranking of refinancing loans by “Gazeta Giełdy Parkiet” and the Notus Brokerage House (18 February 2008).
- 1st place among mortgage products most frequently described in the media – according to the Bankier.pl ranking (27 April 2008).

Mortgage loan advertising campaigns conducted under the catchphrase: “My home, my happiness” were very important for the Bank’s image. They not only increased demand for Millennium mortgage loans but also significantly increased awareness of the Bank’s brand.

In 2009, the Bank’s activities in the mortgage loan area will focus on developing a safe and profitable portfolio based on loans granted in PLN. Portfolio growth will be adjusted to macroeconomic conditions and available funding sources. Despite the expected slowdown on the residential market and in the mortgage banking sector, the Bank will continue to make efforts to strengthen its image as one of the leaders on the mortgage banking market in Poland. The Bank will offer new, attractive products denominated in PLN and will compete by offering high quality services – further standardization and automation of the lending process is planned.

## **CONSUMER LOANS**

In 2008, Bank Millennium combined two strategic business lines: the payment card area and the cash loan area and established the Consumer Loan Area. The decision results from the complementary approach to the two credit products (credit cards and cash loans) which aims at optimizing their availability and profitability.

### **Credit cards**

Activities conducted on the portfolio in the last 12 months were focused primarily on increasing credit card use (promotions with attractive prizes organized in cooperation with Visa and MasterCard systems) and on reactivating Clients who temporarily ceased to use their cards. The “Inspiracje” Benefit Program encouraged more frequent payments with the Bank Millennium credit card; the program continues to grow and maintains its position of the second largest discount program on the market. At the end of 2008, when paying with a Millennium card, Clients could obtain discounts in almost 2000 points of sale throughout Poland.

Among the sales activities, the largest projects of 2008 should include the UEFA EURO 2008 promotion, which served the purpose of acquiring new Bank Millennium Clients. The grand prize in the promotion was tickets for the games of the Polish football team; the campaign was additionally supported by introducing a card with a football-related image. The promotion, organized with the participation of the MasterCard payment system, was a great success.

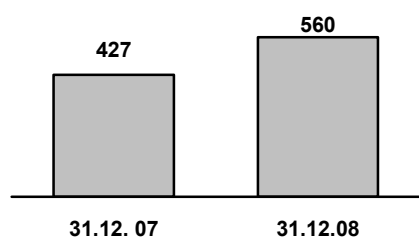
Acquisition activities were supported by sales of additional cards and effective cross-selling campaigns addressed to Bank Millennium's existing Client base, which consists of over 1 million Clients. Acquisition was additionally supported by incentive contests for the sales units. Direct Sales conducted by a network of agents was an important distribution channel on the new Client acquisition process in 2008.

The *balance transfer* offer (which is the offer of transferring the outstanding debt balance from another bank to a Bank Millennium credit card) was extended. This upgrade of the offer allowed Clients not only to refinance credit card debt, but also other credit products, such as an overdraft. The service was promoted twice in advertising campaigns in the Bank's branches.

The co-branded card offer was also extended. New products included: an Enel-Med Millennium Visa card, which offered preferential terms for using services of the private medical centre Enel-Med, a Piotr i Paweł Millennium MasterCard card providing discounts in the chain of Piotr i Paweł supermarkets and the WWF Millennium MasterCard card. The latter one, issued in cooperation with the WWF foundation, is the first affinity card on the Polish market, targeted at the persons interested in providing real support to the environment. The Bank transfers half of the annual card fee and a specified percentage off the value of each non-cash payment to the WWF account for the execution of the foundation's programs. Additionally, the WWF Millennium MasterCard card was issued on environmental-friendly PETG polyester.

Currently, the Bank Millennium credit card portfolio has over 560 thousand cards, increasing 31% (133 thousand cards) from the end of 2007. High quality of credit cards portfolio is demonstrated, among others, by the market share in the total value of card payments. It reached 8.8%, which is higher than the Bank's natural market share.

#### **Bank Millennium credit card portfolio** (in thousands of cards)



## Debit cards

A new strategy was created in 2008 for debit cards. Its main goals included: increase of non-cash payments and an increase in the number of debit cards among personal account holders. These objectives were achieved, among others, by educational activity, showing Clients the benefits of using debit cards and encouraging them to replace ATM withdrawals with card payments.

Utilization of debit cards in 2008 was supported by promotions with attractive prizes organized in cooperation with the Visa payment system. Cards are also covered by the "Inspiracje" discount program, which allowed their users to benefit from discounts in almost 2000 points of sale throughout Poland.

In order to increase product awareness, a card designed for younger users was advertised in the "Euro>26" student magazine: Euro>26 Millennium Visa.

The debit card portfolio grew systematically, to reach almost 800 thousand cards at the end of 2008. This marks a 14% growth over the previous years (696 thousand cards in 2007). The target set for 2008 to achieve a 20% share of non-cash payments in the overall volume of debit cards transactions was fulfilled and the share reached 20.1%.

## Cash Loans

In 2008, Bank Millennium continued the policy of quickly increasing cash loan sales. Activities undertaken in this respect were to increase product availability and to optimize processes, among others, by radically reducing the time necessary to grant and pay out the loan.

In 2008, product sales to new Clients were tested. Diverse distribution channels were used for this purpose (Bank branches, brokerage and Internet channel) and acquisition was addressed to current and prospective Bank Clients. The cross-selling campaigns were a great success. Their purpose was to offer loans to the Bank's own Clients and to retain Clients who already had the "Pilna Pożyczka" (Urgent loan) product.

The cash loan offer changed in 2008; notable changes included introducing a brand new consolidation offer applicable to unsecured credit products from other banks. Additionally, "Pilna Pożyczka" was supported by television, press and Internet marketing campaigns, which increased interest in the product among the current and prospective Bank Clients.

Consumer loan sales increased in 2008 by 46% as compared to 2007. In 2008, Bank Millennium granted almost 109 thousand loans with an aggregated amount of PLN 1,2 billion (PLN 0,8 billion in 2007). Higher sales allowed the Bank to increase cash loans total portfolio by 54% up to PLN 1,6 billion at the end of 2008.

The combination of the cash loan and payment/credit card lines in 2008 allowed Bank Millennium to implement a consistent pricing policy of consumer finance products. This enlarged the range of products that could be offered to the same Client base and consequently – allowed the Bank to optimize its income. A complementary instead of competitive approach to these two business lines made it possible to develop a joint Client acquisition strategy and improvement management of relationships with Clients and long-term management of credit relations. In practical terms, this means that the Bank is able to better learn about and satisfy its Clients' actual needs and consequently – increase their loyalty to the Bank.

### **III.3. Corporate Banking**

In the Corporate Banking area, Bank Millennium offers a broad range of products and services based on cutting-edge solutions which provide a comprehensive response to the current and long-term financial needs of the Clients. By designing custom solutions for every company and closely cooperating in executing their development strategy, Bank Millennium builds long-lasting and mutually beneficial relationships with their Clients. Corporate Banking is focused on professional, comprehensive support for medium-sized and large companies with annual sales of over PLN 3.2 million.

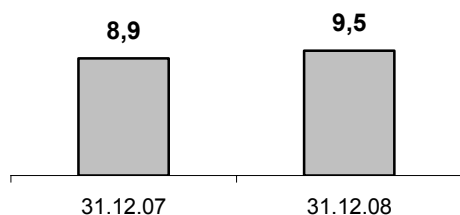
Throughout Poland, 353 employees in 33 Bank Millennium Corporate Centres provide support in selecting the optimum financial instruments. Moreover, Clients may benefit from specialized knowledge of almost 50 Product Advisors.

Ongoing transactions may be concluded by our Clients in the national network of retail branches located in all the cities with over 60 thousand inhabitants, or through electronic banking systems: Millenet Internet Banking, ESOBIG and TeleMillennium call centre services. Electronic banking systems guarantee permanent, fast and secure access to information about the current balance of funds on company accounts and allow Clients to conduct account transactions. Their use allows Clients to materially reduce the cost of banking services.

2045 new Corporate Banking Clients had been acquired in 2008, which was 38.1% more than in 2007; out of that number, 843 Clients were acquired by the network of mobile Bank Advisors.

Many years of experience gained by Bank Millennium in servicing companies and a comprehensive offer of modern products, encompassing areas of financial management, trade finance, current operations and investment financing, guarantees top quality of the services offered.

### Volume of deposits from Corporate Banking Clients (PLN bn)



Total volume of funds from corporate clients and public sector at the end of 2008 was PLN 9.5 billion. (7% increase during the year)

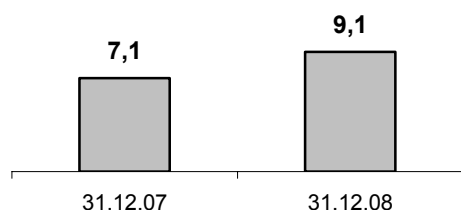
### Corporate finance

The services and products offered by Bank Millennium in the corporate finance area satisfy Clients' needs for working capital, improvement of liquidity and execution of the planned investment undertakings. Bank Millennium prepares a comprehensive funding strategy, where it customizes the range of credit products, individual credit amounts, financing periods and required collateral to the needs of its corporate Clients.

In 2008, Bank Millennium prepared and developed a unique flexible credit offer under the name "Credit Package for Small and Medium-Sized Enterprises". That is a solution in which the Client can make an individual choice of the form of financing out of 20 credit products.

The Credit Package is based on a few fundamental principles. First of all, credit decision is made quickly, based on a standardized and fully defined set of documents. On that basis, the Client obtains information about the total credit amount, up to which the Bank is willing to finance its activity. Secondly, within that amount, the Client and the Relationship Manager may structure the financing in a flexible manner, using a set of over 20 instruments. They facilitate financing of working capital or investments, in the form of short-term or long-term loans or factoring transactions. In 2008, to meet expectations of a large group of companies, the Bank cooperated with Millennium Leasing to extend the offer with the first non-banking products: operating and financial leasing. These products, combined with bank guarantees, letters of credit and Treasury products, make Bank Millennium's offer one of the most comprehensive and diverse on the market.

### Volume of risk-based products for Corporate Clients (PLN bn)



Total volume of credits for corporate clients segment at the end of 2008 was PLN 9.1 billion and was 28% higher than at the end of 2007

By offering the Credit Package, Bank Millennium chooses a pro-active model of service. On one hand, such an approach allows Clients to select convenient forms of financing, while on the other hand - makes it easier to select the transaction collateral structure using the pre-defined collateral list.

The year 2008 brought about changes in the credit process, which resulted in shortening the time to apply for financing and sped up the fund disbursement process. Moreover, the list of documents required when applying for financing was standardized and simplified.

### EU Funds – EuroMillennium Offer

In 2008, the next round of application was launched for financing from European Union funds distributed in the period of 2007-2013. The new period of EU funds distribution means new operating programs, which are broken down into national and regional programs and new guidelines and priorities for investment projects. It also means amended principles for applying for grants and a scoring system. As a result of those changes, Bank Millennium also had to materially modify and adjust its offer of products designed for the projects co-funded by the European Union to ensure that it remains competitive and meets the requirements set forth by the operating programs.

**EUROMILLENNIUM** is a comprehensive proposal for companies applying for EU grants, featuring:

- **information for businesses about EU funds**

The Bank has a very important role of an intermediary between the EU funds and entrepreneurs. It helps them find the suitable operating program and activity within which the Client's investment may be co-funded.

The first step is to provide companies with information about the prospects for the companies being co-funded with EU funds. Such information can be obtained from Relationship Managers and on the Bank Millennium website, along with guidebooks, descriptions of operating programs for entrepreneurs and a bridge loan offer.

- **audit of the undertaking and advice**

Thanks to the Bank's cooperation with a consulting company, the Clients may fill out a verification form, based on which the undertaking will be audited for the possibility of receiving the EU funds. After the investment is audited, the consulting company gives a reply with the following information: whether or not the planned undertaking qualifies for co-financing with EU funds, under which operating program and activity, the planned or announced application deadline, the expected size of the grant, the documents that should be submitted along with the application and an analysis of chances and opportunities for obtaining the assistance funds.

- **possibility of financing the investment with a loan or leasing**

Another stage in the cooperation between the entrepreneur and the Bank in the process of acquiring EU funds is to ensure funding for the projects. Businesses ask banks to issue a promise of the loan to demonstrate that the project funding has been closed. Attaching a promise of the loan that confirms the source for financing the investment, issued following a credit analysis of the entrepreneur and of the project increases the certainty of the project in the eyes of the Implementing Institution.

- **settlements of payments associated with the execution of the undertaking through a separate bank account**

Bank Millennium can offer a separate account to service all the project-related settlements.

The banking advice and specialized products will allow the companies to use the opportunity given by EU grants to small businesses as well as large companies.

## **Factoring and trade finance**

Companies, which use deferred payment terms in trade transactions may use a broad range of factoring services offered by Bank Millennium.

The Bank offers financing of receivables selected by the Client as well as comprehensive management of the portfolio of receivables combined with financing of the company's ongoing business activity. Within its factoring offer, the Bank may propose customized solutions that may facilitate financing of the Counterparties after the due date of the receivable, or financing of Suppliers to local government units.

With regard to factoring activity, year 2008 in Bank Millennium was primarily the year of intensive activities to satisfy the needs of the current and future Clients for quality of service in factoring transactions. The efforts focused mainly on improving the factoring process and extending the product offering.

In 4 Q 2008, the work on implementation of a new product, full factoring with insurance, was completed. In that product, the Bank purchases and finances undisputable and not yet due receivables of the Client and takes over the risk of non-payment by the Counterparties, up to the awarded limit amounts. The product has been designed for the companies, which, in addition to financing and settlement of receivables, would like to protect themselves against the risk of non-payment by their Counterparties for their goods or services. Full



factoring with insurance increases safety of cooperation between the Client and its Counterparties, especially those, who are not well known to the Client. For the full factoring with insurance transaction, a Client may submit selected domestic counterparties or foreign counterparties (from the EU, Russia, USA and Canada), including those, with which cooperation has not yet begun. Settlements with the Client are carried out in PLN and in foreign currencies.

The Bank has a solid position on the factoring market in Poland and ranks second among the banks offering factoring services. In 2008, the overall value of purchased invoices was PLN 2,2 billion. In that period, the number of factoring agreements increased 13%.

## **Transactional Banking**

The transactional banking products used most frequently by the Bank's Clients - besides current accounts, term deposits, electronic or Internet banking and transfers - included mass payment identification services and cash management. High and stable growth was recorded in sales of corporate payment cards (20% year-on-year).

In 2008 a number of important modifications has been introduced in the electronic banking systems. Integrated order management mechanisms have been introduced for orders made via Millenet. This materially improved efficiency and effectiveness of the order execution process. The service of ordering mail orders has been launched and developed. The service, provided in cooperation with Polish Post, is used to send funds from the Client's current account to natural persons and entities, whose bank account number is not known to the Principal. It is especially important for paying money to natural persons having no bank accounts.

In 2008, the transactional banking offer has been supplemented in the area of receivable management products. New mass-payment service modules and systems (AIPP) have been positively accepted by the Clients. The best measure of the market reaction is a 35% increase in the number of Clients using the receivables collection service (automatic identification of mass payments). With respect to charge products, Bank Millennium has always set the standard on the Polish market. We were the first Bank to join the GOBI arrangement. In 2008, we confirmed our innovativeness in this respect. As part of the projects conducted by the Union of Polish Banks, together with the National Clearing Chamber, we were the first Bank to join the GONIEC system organized by the National Clearing Chamber, we registered the first electronic direct debit approval, setting a new standard on the market again. In 2008, Bank Millennium, as one of the first banks in Poland, launched the transmission and receipt of SEPA-compliant trans-border transfers.

In the last year, the Bank continued development of services related to the service of Clients' cash transactions, especially acceptance and processing of closed deposits (cash take-ins paid in closed plastic envelopes). In 2008, a project was launched in which new night safes were installed in several cities. The

Bank's night safe is the answer to the needs of its smaller Clients. Clients with high daily cash takings benefited from the Bank's new cash counting points, where the Clients or convoys operating upon their orders may deliver the cash themselves, thus obtaining lower cash processing costs per unit and having their cash quickly counted and credited to their accounts in the Bank. This service, introduced in 2007, experienced the fastest growth rate. The level of cash processed in this manner in 2008 represented 266% of the cash stream accepted in 2007.

## **Treasury Products**

At Bank Millennium, the Treasury Department's offer targeted to Corporate Banking Clients entails a broad scope of financial instruments. Clients have access to foreign exchange transactions (*FX spot, swap, forward, option*), deposit products (deposits, buy-sell-back transactions, structured bonds) and modern products for managing price risk. Within the framework of the derivative product offer, Corporate Banking Clients take advantage of advanced instruments for managing foreign exchange rate risk and commodity price risk (transactions to hedge against price volatility in underlying metals and oil) as well as interest rate risk (IRS, CCIRS hedges).

During the first three quarters of 2008 złoty continued its appreciation trend, which had started in mid 2007. As a result of strong and quick appreciation of złoty, profitability of the domestic export declined. Increasingly more Bank's clients with revenues in foreign currencies tried to hedge against further appreciation of złoty using FX risk hedge transactions. Bank Millennium, which has in its standard product portfolio a wide range of hedging instruments, in anticipation of entrepreneurs' expectations, offered to exporters a variety of specialised products, including also option-based products. The Bank offered them to companies with natural FX exposure (mainly in EUR and USD). Thanks to hedging transactions, companies knew future FX rates and thus they were able to predict their revenues denominated in PLN. Bank Millennium's offer in derivatives allowed hedge future cash flows in the period of up to 2 years.

In the fourth quarter of 2008 the situation on the FX market was significantly changed compared to the previous quarters of 2008. Following the global financial crisis there was a rapid flight of investors from the emerging markets, which resulted in a strong depreciation of local currencies, including złoty. Within only three months Polish złoty depreciated by 22.4% against euro, 23% against dollar and 29% against Swiss franc. In this situation Bank Millennium reacted very fast to the change in the market conditions. After the review of its portfolio of FX hedge agreements, the Bank proposed to some of its Clients solutions aimed at mitigation of the risk from the concluded transactions – for both the companies and the Bank.

## Custody Services

In 1990 Bank Millennium was one of the first Banks to offer custody services. From that moment the Bank's offer has been steadily perfected to keep pace with the development of the capital market in Poland and with the requirements of the constantly growing group of Clients.

The Custody Department's Clients are reputable domestic and international financial institutions (global custody banks, custodian banks of global depository receipts, investment banks, asset management institutions, insurance companies, mutual fund institutions) as well as other legal persons actively participating in capital market and money market operations who require efficient, comprehensive and customized service.

Bank Millennium cooperates with numerous brokerages operating on the Warsaw Stock Exchange. This means that without having to open separate accounts Clients are able to do deals directly on their custody account.

The standard scope of custody services entails keeping a securities account, a register of international financial instruments and a linked bank account in Polish zloty or exchangeable currencies as well as deposit accounts. Records of electronic securities and other financial instruments are kept on security accounts and on Client registers. Records of paper securities are kept on deposit accounts.

Our standard offer is complemented by additional services like comprehensive custody bank services for mutual funds and pension funds, handling the rights attached to securities (dividends, bond coupons, subscription rights, splits/assimilations, takeover bids), comprehensive reporting (statements may be transmitted by SWIFT messaging, fax or e-mail) as well as escrow accounts. Custody Department Clients may use the electronic banking system.

The number of securities accounts as at 31 December 2008 stood at 5,926 making a 29.2% growth over the 4,586 accounts kept as at 31 December 2007. In 2008 the Bank entered into contracts with another 4 mutual fund companies. It also increased the number of funds for which it acts as the custodian from 33 to 42.

The prizes and distinctions conferred once again on Bank Millennium for its custody activity in Poland by the American trade quarterly entitled "Global Custodian Magazine" in its annual ranking based on assessments made by bank Clients testify to the high quality of services rendered. In the opinion of the Clients, the Bank provides a flexible offer, efficient and professional handling and high quality service. Bank Millennium has received this very prestigious distinction every year without fail since 2004.

## Marketing Activities and main awards

In 2008 a visible marketing campaign was conducted regarding credit offer for firms, advertising the „Credit Bundle” under the slogan „Having the Right Tools is the Foundation of Success”. Marek Kamiński, well known traveller and mountain climber, who has reached both poles on foot, while being a dynamic entrepreneur, was the face for this advertisement campaign.

The Bank's website functionality was expanded further in the Corporate Banking section. A contact form enabling Clients to make contact with the Bank faster and more easily was inserted, whereby they can choose the most convenient form of contact.

2008 was a special year with respect to the number of prizes and distinctions conferred on Bank Millennium – Corporate Banking. For the third time the Bank received the Promotional Emblem entitled “Entrepreneur-Friendly Bank” in the 9<sup>th</sup> annual contest organized by the National Chamber of Commerce and the Polish-American Foundation for Small Business Advisory Services. The Bank's introduction of innovative solutions using new technologies and offering extensive flexibility in contacts with entrepreneurs in catering to Clients in the Small and Medium Enterprise segment was appreciated in particular.

In May 2008, the credits for businesses offered by Bank Millennium received double distinction in the annual contests entitled “Market Leader” and “Euro Leader”. Both titles were confirmed with the pertinent certificates constituting a guarantee for our Clients of the highest quality of service and the high level of innovativeness in the technological and organizational solutions used. At the beginning of November, the Bank received another distinction when it won this year's contest entitled “EuroProduct”. This prize was conferred to the Bank for its extensive business credit offer customized to the individual needs of every single firm.

Another valuable distinction was the „Silver Prize for Skills and Competencies” in the financial institution category in the contest organized by the Opole Chamber of Commerce. This award has special value for the Bank since the Bank's Clients were the ones who applied to confer this award: the Marshall's Office of the Opole Voivodship and the local government units of the City Office of Opole, where the application itself received the support of other institutions and firms served by our bank in contacts with the contest jury. The Silver Prize for Skills and Competencies was conferred on Bank Millennium inter alia for the high quality of the services offered meeting Client expectations and needs, for the constant expansion of the scope of services offered, for actions to disseminate knowledge about financial products and for education of the public at large in utilizing financial products.

In September, for the third time in a row, Bank Millennium's offer targeted to businesses proved to be the best, taking the number one spot in the prestigious ranking published by the monthly "Forbes". Above all, the Bank earned the top spot in Forbes ranking with the market's lowest cost of keeping a company account, its comprehensive and transparent credit proposal and its very competitive deposit offer. This award shows that

consistently endeavouring to perfect our offer, while also raising the level of service and meeting the market's changing requirements lead to Client appreciation.

### **III.4. International operations**

Significant portion of activities undertaken during the last year within the Bank's international operations was targeted on ensuring transaction safety in view of developing financial market crisis. These activities focused, primarily, on economic situation and credibility of individual, international counterparties and their groups. For instance, the Bank decided to suspend, completely, the limits and withdrew from cooperation with some banks half a year before these institutions went into troubles.

Despite unfavourable market conditions, in the last year Bank Millennium continued to expand its medium- and long-term asset financing on the basis of international market borrowings including, primarily, funding from the syndicated loans' market. In September 2008 Bank Millennium SA finalised the subsequent medium-term loan transaction (in the amount of EUR 175 M) granted under the agreement concluded with a group of foreign banks cooperating with Bank Millennium including, mainly, German and Austrian institutions. The said loan supplemented earlier financings (in the total amount of CHF 675 M) obtained from this market in the course of the previous two years.

Year 2008 was the fifth consecutive year of practical operation of international banking consortium established to cooperate and support the Trade Bank of Iraq. Consortium is made up of: JPMorgan Chase Bank (performing coordinating function), Australia & New Zealand Banking Group, Bank Millennium SA, Bank of Tokyo-Mitsubishi, Bayerische Hypo- und Vereinsbank, Calyon, ING Bank, Intesa SanPaolo, National Bank of Kuwait and Standard Chartered Bank. As a member of the said consortium, by the end of 2008 Bank Millennium SA participated in financial servicing of more than 600 export contracts, in cooperation with suppliers (and their banks) having their head offices located in more than 30 different countries (including, *inter alia*, Germany, Austria, Denmark, Finland, Sweden, Norway, the U.K., Italy, Turkey, Belgium, the Netherlands, France, Spain, Switzerland, Canada, United Arab Emirates, Cyprus, Greece, Russia, Ukraine, Slovenia, Slovakia, the Czech Republic, Bosnia-Herzegovina, Romania, Bulgaria, and Croatia).

Irrespective of the activities mentioned above, the Bank performed, on the current basis, all other tasks within its international operations, achieving diverse objectives including, *inter alia*, ongoing financing of its own and its Clients' needs, servicing foreign trade transactions, participation in international money market and currency transactions, capital market operations.

These achievements were supported largely by more than 18 years of development of Bank's cooperation with its foreign partners and counterparties. The Bank has been maintaining contacts with more than 1,200 correspondent banks and their units located in all countries of the world important in terms of structure of Polish foreign trade as well as transactions of non-commercial nature. Within this context, specifically important relationships are maintained with banks having their head offices located in countries such as (in alphabetical order): Australia, Austria, Belarus, Belgium, Bosnia-Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, the Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Ireland, Italy, Japan, Jordan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxemburg, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Republic of South Africa, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the U.K., Ukraine, the U.S.

Only with a few of its correspondent banks the Bank maintains its nostro accounts in foreign currencies while, concurrently, maintaining a series of loro accounts in domestic currency in favour of, *inter alia*, renown German, Spanish, Italian, and Scandinavian banks. This cooperation developed also due to the growing importance of PLN as a settlement currency for transactions executed within the current account turnovers and elimination – in the recent year – of practically all earlier restrictions on capital turnover.

### **III.5. Leasing operations**

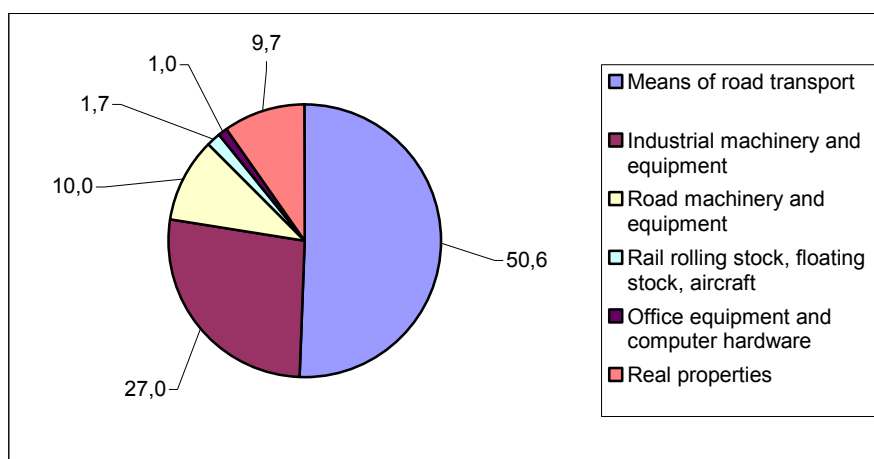
Millennium Leasing Sp. z o.o. is a company offering, within the framework of the Bank Millennium Group, leasing services i.e. increasingly more popular form of business development financing. In 2008 the Company was ranked fifth among leasing companies relative to the value of leased objects with the market share of nearly 5,9 %; having operated on the market for 18 years now, the company remains one of the leading leasing companies in Poland.

The company offers a broad range of leasing services:

- operational lease
- financial lease
- rental

The company has been financing and leasing practically all types of fixed assets and real properties.

### Leasing agreements concluded in 2008 by types of leased assets (in %)



Millennium Leasing stands out against the market by its high service standards, attractive transaction conditions, fast, simple and safe contract conclusion and service procedures, case by case approach and ability to provide tailor-made service to Clients (e.g. contract termination conditions). In addition, the Company offers an attractive insurance package, close cooperation with suppliers, option for the Company to import leased items and assistance from professional and experienced staff.

Among the Company Clients there are large, medium size and small companies as well as individuals operating their own businesses in various sectors of production and services.

Product availability and extended sales network constitute the Company's advantages. The Millennium Leasing products are offered via its own sales network including:

- 15 branches located in Białystok, Bydgoszcz, Gdańsk, Gdynia, Katowice, Kraków, Lublin, Łódź, Nowy Sącz, Olsztyn, Poznań, Warsaw (2), Wrocław and Zielona Góra,
- Key Client Team in the Company Head Office
- Banking Advisors in Bank Millennium units and outlets throughout Poland
- External network including 16 Representative Offices and 18 Agencies cooperating with Millennium Leasing

### Millennium Leasing sales results for 2008

	2008
Number of new agreements signed	11 842
Value of new agreements signed (in PLN mln)	1 960,4

### Development of leasing portfolio in 2008

	Stan na 31.12.2008	Stan na 31.12.2007	Zmiana (%)
Number of active Clients	11 062	9 876	12,1%
Number of active agreements	36 054	30 246	19,2%
Value of leasing receivables (in PLN mln)	3 643	2 687	35,6%

Throughout 2008 the Company continued to carry out efforts to develop cross-selling process within the Bank Millennium Group. Together with Corporate Banking segment the Company was selling leasing products to the Bank Clients as well as banking products to the Company Clients. In effect, the value of leasing contracts concluded with common Millennium Leasing and Bank Millennium Clients has been steadily increasing for several years to reach, in 2008, the level of 59% of assets leased out (relative to 55% in 2007).

### III.6. Investment funds - Millennium TFI

Millennium Towarzystwo Funduszy Inwestycyjnych S.A., as a part of the Bank Millennium Group, sets up and manages investment funds and offers securities management service at Client's account.

Millennium TFI products are addressed towards both individual and institutional Clients. The Company manages two open umbrella funds i.e. Millennium Fundusz Inwestycyjny Otwarty (open mutual fund - FIO) and Millennium Specjalistyczny Fundusz Otwarty Funduszy Zagranicznych (open specialist fund of foreign funds). Millennium FIO was established on 23 May 2008 by way of transformation of the existing funds into sub-funds under a single umbrella fund. As at the end of 2008, the funds offered the following sub-funds: Money, Debt Securities, US Dollar Deposit, Stable Growth, Balanced, Equities, Small and medium Size Companies and Medium Firms of Central Europe. Changes were made to the sub-fund offering included in the SFIO. On 5 November 2008 sub-fund Conservative USD and Conservative EUR was transformed into, respectively, sub-fund BRIC USD and Alternative Investments EUR. The change process in the sub-fund structure within this fund will continue in 2009 to make the offer more attractive and simpler.

Asset management service covers three standard portfolios (equities, balanced, and Treasury bonds) as well as portfolio structured under individual strategies created in line with Client requests. In addition, the Company offers long-term savings products: Individual Retirement Account and Regular Savings Plans.



Year 2008 turned out to be the most dramatic in the Warsaw Stock Exchange history; indices recorded serious downslides with WIG dropping by 51%, while WIG20 - by 48%. The indices of small and medium size companies experienced even greater decline by, respectively, 57% (sWIG80) and 63% (mWIG40). Unfortunate records were broken by the sectoral index WIG-Deweloperzy losing as much as 73%. In this extremely difficult year for investors the Millennium TFI managers strived to minimise fund losses. Thus, in 2008 all equities and mixed Millennium TFI sub-funds were ranked high in their respective categories.

Financial market turbulences were reflected by Client behaviour; Clients decided to withdraw their money from mutual funds. In 2008, decrease in the level of fund assets on the Polish market reached PLN 60.9 billion. Assets of the funds managed by Millennium TFI declined pro rata to the market share held by PLN 3,4 billion to reach the level, as on 31 December 2008, of PLN 1,7 billion.

The existing Millennium Fund distribution network: Bank Millennium S.A., Millennium Dom Maklerski, mBank, Multibank, Open Finance, GO Finance Sp. z o.o., A-Z Finanse S.A., DK Notus Sp. z o.o., Goldenegg Sp. z o.o., Netfield Sp. z o.o., Partnerzy Inwestycyjni Sp. z o.o., Secus Asset Management S.A., Wrocławski Dom Maklerski S.A. and Xelion Doradcy Finansowi Sp. z o.o., was expanded by addition of new financial intermediaries i.e. Doradcy24 Sp. z o.o., Strefa Finansów Sp. z o.o.

### **III.7. Brokerage - Millennium Dom Maklerski**

Brokerage in Bank Millennium Group is conducted by the company Millennium Dom Maklerski S.A. The Company offers a full range of brokerage services including:

- Offering securities in primary market or under Initial Public Offering (IPO);
- Buying or selling financial instruments for own account;
- Buying or selling financial instruments on third party account;
- Advisory services in the area of trading in securities;
- Maintaining financial instrument accounts and money accounts used for their handling.

Millennium DM offers investment advisory services. Analysts providing the service are among the most highly regarded specialists in the market.

Millennium Dom Maklerski S.A. is a member of the Brokerage Houses Chamber and its activity is subject to principles of the Code of best Practices of Brokerage Houses.

The year 2008 was the worst in the history of both the Warsaw Stock Exchange (WSE) and the entire Polish capital market. Deepening global financial crisis paired with collapse of major global economies had its effects on dramatic decline in local indexes. In 2008 WIG20 lost more than 48% reaching, in October, the

level equal to that of 2004. WIG behaviour was similar – index recorded loss of 51%. Stock market turnover amounted to more than PLN 321 billion i.e. 31% less than in 2007. WSE capitalisation in 2008 decreased significantly. As at the end of the year it amounted to PLN 465 billion i.e. declined by 57% relative to the end of the 2007.

In the course of 12 months of 2008, there were 94 débuts on WSE: 33 at the main WSE market and 61 at the alternative NewConnect. The value of these IPOs exceeded PLN 9.5 billion. To compare, in the similar period of 2007 WSE recorded 105 IPOs to the total value of PLN 18.2 billion. In the second half of 2008 there were only 10 IPOs on the main WSE market.

In 2008 Millennium Dom Maklerski conducted the flotation of the company Skyline Investment S.A. The value of the offering amounted to PLN 18.0 million.

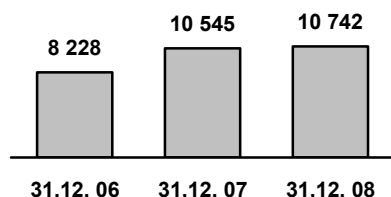


Millennium Dom Maklerski, as Retail Tranche syndication member participated also in the public offering of Enea S.A. shares. Upon the order by Kompap S.A., Millennium Dom Maklerski organised a subscription for Muza S.A. issue shares to the value of 7.0 million PLN.

In 2008, the Millennium DM stock exchange turnover on the share market amounted to PLN 6.2 billion thus providing the Company with market share of almost 2%. As on 31 December 2008 Millennium DM serviced 60,452 investment accounts. Pursuant to agreements concluded as on 31 December 2008, Millennium Dom Maklerski acted as market maker for 12 WSE listed companies.

Millennium DM provides its services through a traditional network of 12 Points of Sale located all over Poland, through Millennium banking distribution channels and via internet. The last distribution channel is particularly popular among the Clients not only because it provides them with an easy access to broad capital market information base but also with direct access, in real time, to broad array of brokerage services. The 1H 2008 figures show that 70% of WSE share market orders were Internet originated. Millennium DM records regular growth in the number of Internet investment accounts. There were 8,228 accounts at the end of 2006, to increase to 10,545 at the end of 2007 and to finally reach 10,742 at the end of 2008.

#### Internet investment accounts in Dom Maklerski Millennium:



Rapid development of this modern distribution channel requires continuous modernisation of the offer. The most important changes introduced in 2008 include, as follows:

- Implementation of new principles of brokerage service provision in Bank Millennium outlets,
- Introduction of the opportunity to modify orders transferred to WSE,
- Change in the manner of presentation of Client account balance (statements and printouts),
- Takeover of the Internet service from an external entity and redesigning of the WEB site in its part designated for Clients,
- Change in the manner of presentation of PAP information in the Internet service,
- Commissioning of the Internet service supporting subscriptions under drawing rights,
- Development of an option to execute transactions on foreign markets by Clients having accounts at a depository.

As part of integration of services offered by the entire capital group Millennium Dom Maklerski closely cooperates with Bank Millennium. The Millennium DM POS network also sells units in Millennium TFI investment funds and intermediates in concluding asset management agreements by Millennium TFI.

## IV. RISK MANAGEMENT IN BANK MILLENNIUM GROUP

The risk management function performs a key role in the strategy of sustainable and stable growth of the Bank Millennium Group supporting optimisation of proportions between risk and returns from various business lines and maintaining adequate risk profile with respect to equity capital and liquidity.

In order to ensure effective risk management and coherent policies, the Bank Millennium Group implemented its risk management model to ensure integrated credit, market, liquidity, and operational risk management.

The Bank Millennium Supervisory Board and the Management Board remain responsible for defining general risk policy and approving risk management strategy and policies as well as for securing resources needed to achieve relevant objectives.

The risk management and risk monitoring model in the Bank Millennium Group is based upon the following main principles:

- Complete separation of risk generation, management, and monitoring functions;
- Use of economic capital as a general measure of risk management;
- Concentration of market risk management in the commercial and financing areas;
- Use, to the greatest extent possible, of the same IT technologies and methodologies as applied at the BCP Group level.

In the course of 2008, Bank Millennium Group implemented a series of initiatives to strengthen its risk management function. They influence, in particular, such areas as: i) specialist monitoring of quality of each credit sub-portfolio (both in retail and corporate banking areas); ii) fraud prevention; iii) liquidity risk management; iv) self-evaluation of risks existing in main processes supporting the Bank operations; v) reporting and control mechanisms. The Q4 2008 brought about a number of negative changes in the global financial markets having important impact upon the Polish market. In view of deepening financial crisis and economic slowdown, the Bank undertook efforts to adjust to the new market realities in all risk management aspects.

## IV.1. Internal organisation

Due to complexity and diversity of the Bank Millennium Group's operations, the risk management functions were supported by organisational structure, as demonstrated by the work of the Risk Control Committee and four specialist Risk Committees i.e.:

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

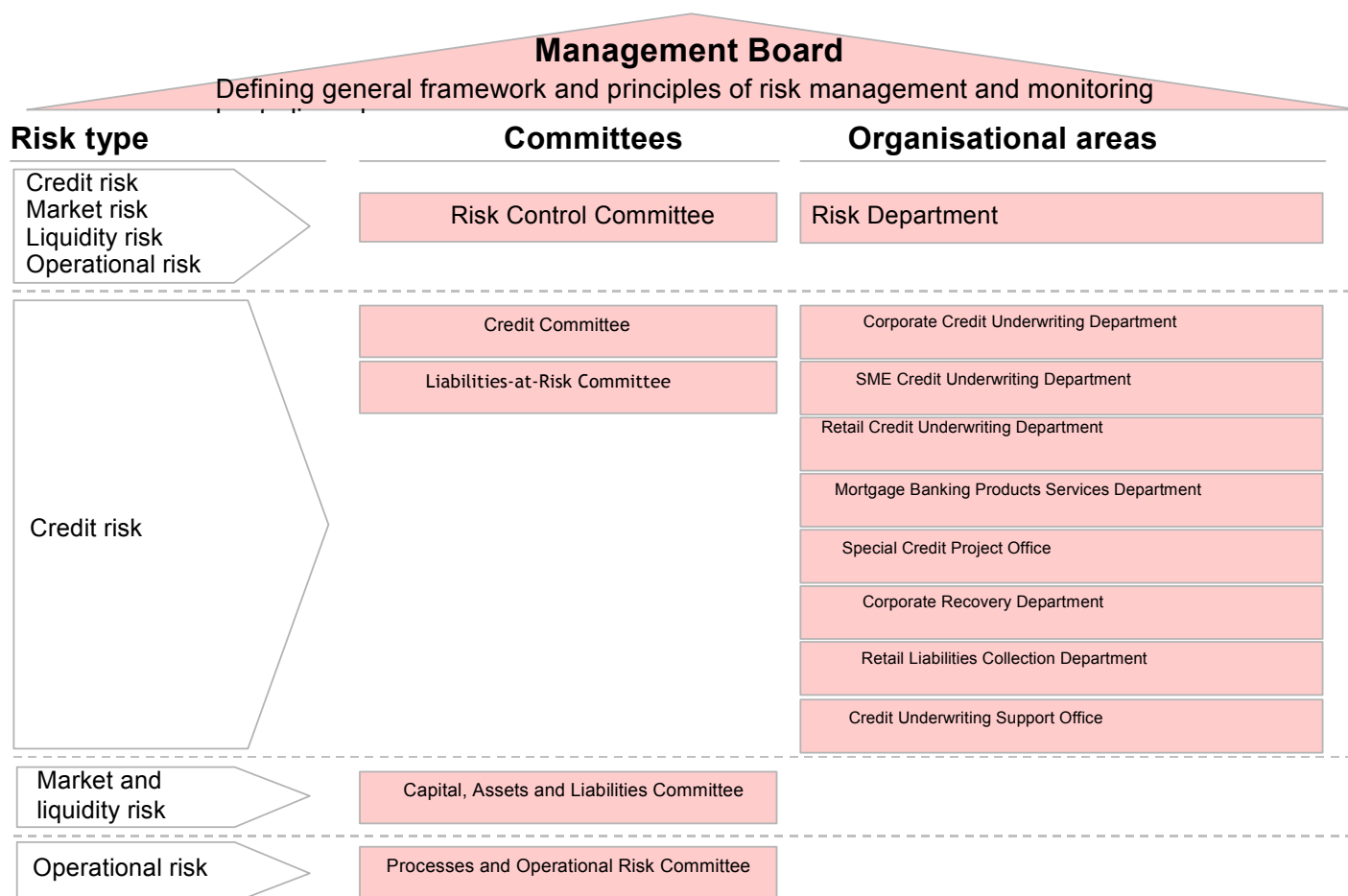
Duties of the Risk Control Committee include monitoring of different risk types and its composition includes, *inter alia*, all Members of the Management Board. The Committee is responsible for monitoring Group's integrated risk profile, in particular with respect to evolution of key risk indicators for different risk types, compliance with effective policies, regulations and limits as well as material developments in individual risk areas during the period under analysis.

Specialised risk committees are responsible for individual risk types i.e. CALCO is responsible for market and liquidity risk, Credit Committee is responsible for credit risk while the Processes and Operational Risk Committee is responsible for operational risk.

The Liabilities-at-Risk Committee issues opinions and makes decisions relative to the Bank recovery portfolio.

Specialised Committees are chaired by Members of the Management Board and include, in their composition, persons responsible for main areas relative to generation, monitoring, and management of specific risks.

## Internal organisation of risk management function in Bank Millennium:



At the operational level, the Risk Department remains responsible for controlling risk thereby ensuring general risk monitoring within the entire Group and unification of concepts, policies, methods applied by various business lines and entities within the Group.

Moreover, the Risk Department is responsible for delivery of information to all risk committees relative to risk levels and for proposing measures to strengthen risk monitoring as well as for implementation of risk limits.

## IV.2. Management of capital

In the 3<sup>rd</sup> quarter 2007, the Bank applied to Supervision Authorities (in Portugal and Poland) regarding the use of method of internal models to calculate capital requirements with respect to credit and market risks. The Bank supplemented the application documents. At present, the application is subject to review by the

supervisory institutions. Until the consent is granted to use the method of internal models, the Bank will apply the standard approach.

Capital requirements for Bank Millennium Group, calculated as on 31 December 2008 using the standard approach in keeping with the New Capital Accord (and for 2007 using the previous method of capital requirement calculation) are presented in the table below:

*In PLN million*

<b>Capital requirements, by risk types</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Credit risk	2 450,4	1 638,3
Market	112,7	33,4
Operational risk	208,5	-
<b>Total capital requirements</b>	<b>2 771,5</b>	<b>1 671,6</b>
<b>Regulatory capital</b>	<b>3 533,7</b>	<b>2 872,3</b>
<b>Consolidated solvency ratio</b>	<b>10,20%</b>	<b>13,75%</b>

Drop in the value of solvency ratio in 2008 resulted from increase in capital requirements for all types of risks covered by the calculation including, mainly, as follows: (a) taking account of capital requirements relative to operational risk, for the first time in 2008 (based on standard approach) accounting for nearly 20% of the total capital requirement, (b) increase of the credit portfolio value and (c) PLN depreciation against foreign currencies.

In order to strengthen the Bank's capital, the Management Board will submit to the General Shareholders' Meeting a proposal to retain the 2008 net profit to increase of the Banks' own capital.

In 2008, the Group launched internal process of capital adequacy evaluation conducted on the basis of internal economic capital model. Calculation of economic capital covers all material risk types the Group faces and is based upon parameters structure in view of specificity and realities of the Polish market. In the economic capital calculation process individual risk types and diversification effects are stress tested. Total, diversified economic capital is compared to risk taking capacity i.e. available financial resources. In effect of these activities, capital adequacy of the Group is assessed.

### **IV.3. Credit risk**

Credit risk means uncertainty regarding Client's performance under agreements concluded with the Group with respect to financing of the Client i.e. uncertainty regarding repayment of principal and interest thereby, potentially, generating a loss to the Bank.

Credit policy implemented in the Group is based on a set of rules, such as:

- Credit decision centralisation process;
- Use of specific scoring/rating models for each Client segment/product type;
- Use of IT tools (credit workflows) in order to support credit process at all its stages;
- High level standardisation of credit decisions;
- Existence of specialist credit underwriting departments responsible for each Client segment;
- Regular credit portfolio monitoring, both at the level of each separate transaction in case of material exposures and at the sub-portfolio level (taking account of Client segment, product type, distribution channel etc.);
- Use of the credit exposure limit and sub-limit structure in order to avoid risk concentration and foster the credit portfolio diversification effect.

In 2008, the following major events in the area of credit risk were recorded:

- Implementation of the new rating model applicable to the SME segment;
- Development of the new workflow for Small Business segment (SB);
- Validation of scoring/rating models for retail and corporate banking;
- Development of the new credit risk assessment method for corporate Clients from SME and BIG segments;
- Provision of training to branch employees with respect to identification of fraud attempts;
- Further development of tools, incorporated in full into the credit underwriting system, used to protect the Bank against fraud in retail area;
- Re-definition of concentration risk management.

In the Q3 and Q4 of 2008, considering the worsening financial crisis and economic slowdown, the Bank undertook a number of actions to adjust risk management strategy to the new market reality. The most important actions involved:

- Mortgage loans – discontinuation of lending in foreign currencies, more selective credit policy (maturity limitation, change of LTV parameters, pricing)
- Consumer Finance – directing sales towards less risky segments with introduction of more restrictive changes to assessment models, suspension or use of a more restrictive credit policy with respect to products secured by liquid assets linked, primarily, with capital market;



- Corporate banking – full review of exposures, identification of threats and credits requiring close monitoring, implementation of new strategy with respect to Clients in the area of treasury limits and with respect to developers, restriction of new lending and leasing in foreign currencies;

Credit risk constitutes the most important risk type for the Bank Millennium Group. Capital requirement for credit risk amounted to PLN 2,450 million against the total capital requirement of PLN 2,772 million, as on 31 December 2008. Capital requirement for credit risk increased in 2008 by 50% as a result of fast growing loan portfolio.

In 2008 year the Group maintained high quality of the credit portfolio. The ratio of impaired loans to total loans has remained at the same level since the end of 2007 (3.4%). This means that impaired loans grew at the same rate as the whole credit portfolio. The impaired loans include the exposures resulting from closed FX option contracts in the amount of PLN 64 million, which was deducted by the component of valuation of credit risk related to options, which was presented, according to MSR 39, in “Result on financial instruments valued at fair value in profit and loss account”.

The dominating retail loan portfolio maintains a very low share of impaired loans, below 1.0%. The ratio for mortgage loans is below 0.3%. The average LTV ratio for mortgage loans as at the end of 2008 was 74.8%. The ratio is based on the most recent adjustments to real estate valuation, which is done by the Bank twice an year. The ratio of impaired corporate loans remains higher (9.7%), which reflects its recent deterioration following the unfavourable developments in the macroeconomic environment. However, the non performing loans over 90 days in the corporate and leasing portfolio were much lower and represented 1.3%% of this portfolio.

<b>Main credit quality indicators</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Loans with impairment (PLN million)	1 163	766
Loans with impairment /total Loans	3.4%	3.4%
Total provisions/Loans with impairment (coverage ratio)	64.4%	79.5%

Coverage of impaired loans by total provisions (including IBNR provisions) dropped to the level of 64.4% due to the following, main reasons:

- Increased share of receivable from leasing, which are typically of lower provision coverage (due to higher level of collateral);
- Incorporation of receivables resulting from conversion of FX options in the amount of PLN 64 million, which were discussed above,
- Write off to provisions of PLN 30 million of receivables fully covered by provisions.

Low share of impaired loans in the total portfolio shows that the Group prudently manages the most important risk area linked with the credit portfolio – a key element in the context of worsening economic environment.

#### **IV.4. Market risk**

The market risk includes current or potential impact on the results, or capital, resulting from the changes in the value of Group's portfolios due to unfavourable changes in the prices of bonds, stocks or commodities, interest rates or FX rates. The market risk management and control frameworks are defined in a centralised manner with the same concepts and measures, which are used in all the companies from the Millennium BCP Group.

The main measure for credit risk estimation applied in the Group is a parametric value-at-risk model (VaR) based on the variance-covariance matrix – expected loss that may be generated in a portfolio within a specific time horizon (holding period) with demanded probability (confidence level) due to unfavourable changes in market parameters. The values of exposure are determined daily, individually for the portfolios in the areas, which are responsible both for taking and management of risk positions. In order to ensure adequacy of the applied VaR model to estimation of the risks generated by open positions, a process of daily back testing was set up.

In parallel to VaR calculations, in order to estimate a potential economic loss resulting from extreme changes of market risk factors, a number of stress tests for trade portfolios are performed (Trading and Market Risk Strategy - MRS).

Stress tests scenarios are also used to identify the most unfavourable market movements and identification of actions, which may be taken in order to reduce the impact of these extreme changes in risk factors. The following scenarios are applied in the stress test: parallel translation of yield curves, changes in inclination of yield curves, changes in the level of volatility of rates of return, changes in FX rates, changes in spreads for swap transactions and historical scenarios.

Calculations of value at risk are conducted with the use of software based on Internet technology. This supports direct access of the trade areas to information on exposures to the risk in their portfolios.

The VaR indicators presented in below table reflect the exposure to market risk at average PLN 29.7 mln in 2008, against to current limit at PLN 33.8 mln.

**VaR measures for market risk:  
(PLN mln)**

	VaR (from 31 December 2007 do 31 December 2008 r.)				
	End of December 2008	Average	Maximum	Minimum	End of December 2007
Global	41.0	29.7	174.7	4.8	5.5
Interest rate VaR	23.6	12.6	30.1	4.9	5.5
FX risk	30.2	20.2	173.5	0.1	0.1
Diversification effect	31%				1%

Open positions contained mostly interest rate instruments and in 4<sup>th</sup> quarter 2008 – also FX rate instruments. The FX risk covers all the Bank's FX exposures as open positions are admissible only in the Trading and Market Risk Strategy areas.

Until October 2008 there were no excesses of the general limit on market risk for activities in financial markets, but there were excesses for individual risk sub-areas, what was caused by increased market parameters' fluctuations. October 2008 saw the excess of the general VaR limit for operation on financial markets. This was connected with active FX risk management, through opening a currency position, in order to offset credit risk connected with options transactions with clients. As a result the Bank accepted non-linear risk for such instruments. In the first decade of January 2009 the exposure declined below the limit.

In case of the bank's book, in order to manage interest rate risk, a sensitivity analysis of non-trade portfolios is performed, whereas to reduce this risk hedging strategies are applied. As a result of this analysis in 2008 additional hedging transactions were concluded for the interest rate risk related to the fixed-rate loan portfolio and in particular connected to the consumer loan and lease portfolios, as a continuation of strategy for 2007.

## **IV.5. Liquidity risk**

Liquidity risk reflects the potential for material losses due to deterioration of financial conditions (financial risk) and/or sale of assets below their market values (market liquidity risk) in order to satisfy the financing needs resulting from Group's liabilities.

Bank Millennium Group has been managing liquidity in a centralised way. Therefore, both the financing requirements and any liquidity surplus of subsidiaries are managed by the transactions with the Bank.

Bank's planning and budgeting process covers preparation of a detailed liquidity plan to ensure that business will be supported by a proper liquidity structure of financing.

Growth of the credit portfolio by PLN 3.2 bn in the first half of 2008 was financed by even stronger growth of the deposit base, which increased by PLN 3.8 bn. Thus, in this period the Bank became net lender on the inter-bank market. In the second half of 2008 the Bank launched an aggressive deposit campaign, forestalling the liquidity crisis, which commenced in September and October. The collected funds allowed to take up a privileged position on the inter-bank market.

As a consequence of this deposit base increased throughout the year by PLN 9.9 bn. At the same time there was also a considerable increase in loans to customers. Increase of credit portfolio in amount of PLN 11.7 bn was largely caused by depreciation of Polish złoty in the fourth quarter. Due to that effect, in 4Q 2008, loans from the accounting point of view grew much faster than deposits (22% vs. 7%, respectively, but only 4% without the FX rate effect), while in the previous quarters of the reporting period deposits grew faster than loans. The growth of the total loan portfolio during 2008 without fx rate changes effect would be PLN 7.5 billion.

Loans/ Deposits ratio	31.12.2008	31.12.2007
Loans/ Deposits ratio *	102.6%	95.1%

*(\*) including leasing securitization liabilities (bonds), bonds for individual Clients and repo transactions with Clients*

The Group's liquidity measured by the simple loans to deposits ratio (according to the definition specified in the table above) remains at the safe level of 102.6%, despite the strong impact of the depreciation of PLN on the foreign currency-denominated loan portfolio observed in 4<sup>th</sup> quarter 2008. The Group's good liquidity position allowed it to become independent of the money market and to increase the portfolio of liquid debt securities from PLN 4.2 billion to PLN 6.4 billion (most of which are debt securities issued by the Treasury and the central bank).

Group's liquidity risk is estimated both with the ratios defined by the supervisory authorities and in-house measures, for which also exposure limits were set up. The evolution of the Group's liquidity situation in the short-term horizon (up to 3 months) is examined every day on the basis of two internal ratios: current liquidity and quarterly liquidity ratios. These ratios measure the maximum liquidity needs (negative value), which may occur on a given day, considering cash flow projections, for 3-day and 3-month horizons, respectively.

In 2008 current and quarterly liquidity ratios continuously assumed positive values, which means that throughout this period the Bank maintained long liquidity position for the time horizon up to 3 months.

In view of more restrictive and more appropriate quantitative liquidity measures enacted by Resolution No 9/2007 KNB, which came into effect in January 2008, the Bank adjusted the set of liquidity management

ratios so far applied at the Bank. In the first quarters of 2008 the limits for all the new measures, which have been in force since July 2008, were observed. In October and November a few times limits were exceeded for short-term liquidity measures, however this was connected mostly to methodological approaches contained in above mentioned Resolution, and not to deterioration of Bank's liquidity position. The stepped-up deposit campaign allowed to create liquidity buffer thus recovering proper liquidity measures to safe level.

The main source of Bank's financing is a large and well-diversified deposit base. At the end of 2008, concentration of the deposit base, measured with the share of 5 and 20 largest depositors, decreased to 3.2% and 6.8% respectively (in December 2007, 5,7% and 10,6%, respectively).

Liquidity stress tests are conducted every month to understand Bank's liquidity risk profile, to ensure that the Bank is able to satisfy its liabilities in case of liquidity crisis and to contribute to the development of liquidity and management decision contingency plan.

The Bank has contingency procedures for the situation of increased liquidity risk – Contingency Liquidity Plan (contingency plan in case of deterioration of Bank's financial liquidity), updated on a quarterly basis. The Liquidity Contingency Plan defines concepts, priorities, obligations and specific steps to be taken in case of liquidity crisis.

## **IV.6. Operational risk**

Operational risk is defined as "risk of loss resulting from maladjustment or unreliability of internal processes, human actions or system operation, or external events". Operational risk is demonstrated in every aspect of activity of the organisation and constitutes its intrinsic part.

Considering the degree of development of operational risk management and the scale and profile of its activity, the Group calculates its capital requirement due to the operational risk using the Standard Approach.

Operational risk management is based on the process 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:

- Collection of loss information,
- Monitoring key risk ratios,
- Self-assessment of operational risk.

These tools together with the trainings are key for development of operational risk awareness in the organisation.

In 2008 the Group took actions aimed at both reduction of the probability of operational risk events and mitigation of the effects of potential and actual events. These actions covered, *inter alia*:

- Renewal of the scope of Group's insurance policies, with particular emphasis on the operational risk,
- Complete update of the management model for business continuity plans,
- Further optimisation of the system of measurement and monitoring of key risk ratios.

All these actions are to adjust the operational risk management system to the changing environment, in which the Bank Millennium Group operates.

## V. HUMAN RESOURCES MANAGEMENT

### V.1. Recruitment

Since 2002 Bank Millennium has been active in students' circles throughout Poland. The Bank has supported students and graduates from all lines of studies in their first steps of professional life. It is open to young and ambitious people, who would like to develop their competencies and interests at Bank Millennium. All the pro-student actions are performed within a special dedicated programme "Come and Grow with us".

Under "Come and Grow with us" programme we organise and promote the following:

- Practical training and internships. The Bank organises programmes of paid practices for the students from all the years and lines of studies in the Bank's Head Office departments in Warsaw and Gdańsk, as well as branches all over the country. This offer allows ambitious students already in the first years of their studies to undertake practical training and get some initial professional experience.
- A Two Year Programme of Developing Management Competencies "People Grow" addressed to the best students in the last years of their studies and graduates.
- Competitions for creative and ambitious students, developing their expertise and interests.

In the academic year 2007/2008 we accepted 331 trainees, who gained experience working under the guidance of their mentors. Last year (2008) we also received about 335 applications for the 7th round of the "People Grow" programme and 11 persons were accepted for the programme. The Bank also received 330 applications to participate in competitions.

During the summer holidays we organised also a number of meetings for our trainees, whereby they could get to know the Bank better, its values as well as opportunity to exchange experiences. An additional benefit from the practices is opportunity to extend co-operation after successful completion of internships. Thus, in 2008 year 135 persons were employed on the basis of labour contracts.

In 2008 we created the Recruitment Guide, which students may use on the Bank's Website. We are trying to help young people to find work of their dreams and we share with them our recruitment expertise and experience. A material point of the Guide is an Internet Career Navigator, which indicates potential direction of students' development at the Bank. To obtain information on this area of the Bank, which seems to be interesting from the point of view of individual student's potential interests, one has just to answer four simple questions regarding professional preferences.

## **V.2. Development**

In an effort to meet employees' expectations and with intention to provide an increasingly better training offer, in 2006 "Akademia Millennium" (Millennium Academy) was established, with five categories of specific training areas:

- Professional training
- Management training
- Trainer training
- Development programmes
- "One Voice" Program

Creation of Akademia Millennium gave start to a highly intensive growth in the number of training programmes organised in the consecutive years. The dynamic growth of sales network, both retail (started in 2006) and corporate (which commenced in 2008), contributed to the increase in the number of induction training programmes for new employees and product training programmes. As a result of these efforts the number of induction training programmes for new employees almost doubled and number of product training programmes went up by 64%.

2008 was the year of the development of e-learning programmes, starting with programmes, which promoted e-learning, through training programmes related to the Bank's operation and training in soft skills. In 2008 implementation of the e-learning platform, which commenced in 2007, bore fruit in the form of 30 000 trained persons. In response to the expectation of the Bank's employees, we launched English language e-learning programme that has covered more than 250 persons from all over the country.

The beginning of 2008 marked a breakthrough in the process of improvement in customer service at Bank Millennium. During the training all the employees of the Bank reviewed the following standards:

1. Principles of behaviour
2. Communication principles
3. Sales model
4. Customer service standards
5. Standards for employee development support through coaching.

In 2008 we continued cooperation with training companies that offer courses co-financed by the European Social Fund, in particular in the area of MS Office training programmes.

In 2008 Bank Millennium continued the idea of the development programmes for the Bank's staff, which had been implemented in 2006. The purpose of the programme is to accelerate the pace of development of the employees, who thanks to their involvement, motivation and willingness to develop within the organisation, will be able to assume managerial positions at the Bank in the future. In 2008 the 3rd edition of development



programmes was launched. In total, the development programmes covered 89 employees (Grow Fast - 71, Grow Plus - 18).

### **V.3. Incentive system**

The incentive system at Bank Millennium is based on a periodic performance appraisal, which:

- Promotes positive attitudes and performance, employees' orientation on professional development,
- Is one of the measures to accentuate company's organisational values - through practical reference to these values in the evaluation,
- Reflects employees' contribution to achievement of the company's business objectives.

Bank Millennium attaches high importance to the reliability of the evaluation systems applied in order to provide the employees quality information about the potential for further growth in the organisational structures, whereas the assessment criteria are adjusted to the specific nature of the tasks faced by the employees in their units. Furthermore, periodic performance evaluation is the basis for bonus recommendation of the employees.

The history of performance evaluation is source of information in the process of employee career development in the organisation and therefore it links the quality of employee's current work and operation with future prospects of professional career at the Bank.

### **Employment structure**

EMPLOYMENT IN THE BANK MILLENNIUM GROUP (full time equivalents)

	31.12.2008	31.12.2007
Number of the Group's employees	7 049	6 067
Number of the Bank's employees	6 618	5 657
- including managerial positions	160	148

EMPLOYMENT STRUCTURE IN BANK MILLENNIUM (full time equivalents)

	31.12.2008	31.12.2007
Branches and direct sales	4 334	3 602
Head Office	2 284	2 055
Total	6 618	5 657

## **VI. ADDITIONAL INFORMATION**

### **VI.1. Information on major events with impact on Bank's activity**

On 12 September 2008 an Agreement was concluded between Bank Millennium S.A. and a consortium of international banks, concerning mid-term (Club Term Loan Facility) extended to Bank Millennium S.A., for total amount of EUR 175 million, constituting - on the date of signing - the equivalent of ca. PLN 600 million. Interest rate of the loan is based on EURIBOR and margin specified in the Agreement. The loan is scheduled for repayment in September 2010, with an option for extension - at consent of the parties - for an additional annual period (i.e. till 2011).

#### **INFORMATION ON MAJOR EVENTS AFTER THE BALANCE SHEET DATE**

At its meeting on 12 February 2009, the Supervisory Board recalled Mr Luis Pereira Coutinho from the function of Member of the Management Board and Deputy Chairman of the Bank, the Supervisory Board also recalled Mr Zbigniew Kudaś and Mr Piotr Romanowski from the function of Member of the Management Board.

At the same time the Supervisory Board appointed Mr Rui Manuel Teixeira and Artur Klimczak to the Management Board. Mr Rui Manuel Teixeira assumed the function of Deputy Chairman of the Bank.

Mr Rui Manuel Teixeira is connected with Millennium BCP Group since 1987. In BCP he held management positions in retail banking. He was also Head of the BCP Group's Quality Division and managed the BCP Group Mortgage Banking Division. In the years 2003 - 2006 he was Head of the Retail Banking Division and Member of the Management Board of Bank Millennium S.A.. Recently he was Director of BCP IT Global Division, responsible for worldwide organisation of IT solutions.

Mr Artur Klimczak is connected with Bank Millennium since 2005 and recently he was Director of the Retail Banking Department. He began his banking career in 1990 in the United States. He worked for Citigroup, first as loan advisor, moving up to Regional Director. Then he continued his professional career in Poland in Citigroup, where he headed the affluent customers area in Poland, Czech Republic and Hungary.

## **VI.2. Information on safety and transparency of Bank's operations**

### **1. Compliance policy**

Each Bank may suffer from incompliance and related risks of legal or regulatory sanctions as well as material or reputation losses. Consequently, Bank Millennium created the Compliance Department to administer the above mentioned group of risks and has the task to ensure observance of Acts of law, executive regulations, principles, relevant self-regulatory organisational standards and codes of conducts, related to banking activity. Monitoring observance of both internal and external regulations, Bank Millennium finds the following of special importance:

- a. Counteracting money laundering and financing terrorism;
- b. Ensuring compliance between the internal normative acts of Bank Millennium with the effective laws as well as recommendations issued by supervisory authorities,
- c. Management of conflicts of interests,
- d. Limitation of personal transactions and protection of confidential information related to Bank Millennium, financial instruments issued by the Bank, as well as information connected to sales / purchase of such instruments.

Companies from the Bank Millennium Group take proper actions and apply appropriate measures for current and continuous monitoring of the changes in the effective laws as well as for ongoing monitoring of the recommendations and guidelines issued by both domestic and European Union supervisory authorities.

### **2. MIFID directive**

In spite of the obligation of implementation by Poland of the European Union Directives on the financial instrument market to the domestic regulations by 31 January 2007, so far it has not been done.

The draft Act on trading in financial instruments, which implements MIFID principles and had been adopted by Sejm on 4 September 2008, was not signed by the President of the Republic of Poland and was sent to the Constitutional Tribunal. So far the Tribunal has not pronounced its opinion on the issue in question.

In 2008 the Millennium Group applied MIFID principles to the extent implemented in 2007. Complete adjustment to the European Union Markets in Financial Instruments Directive (MIFID) will take place after the domestic regulations come into force.

### **3. Internal audit**

Internal Audit Department is a specialised unit of institutional control, which aims at independent assessment of adequacy, correctness and effectiveness of functional control (performed on an ongoing basis by other

organisational units within their responsibilities). In particular, this is related to assessment of quality and correctness of banking activities. Thus, units are provided an independent and objective assessment and advice in the audited areas. Internal audit supports actions aimed at assessment and improvement of efficiency of risk management, internal control system and management processes for the entire organisation. The audit process is performed according to the Internal Audit Approach, which applies banking requirements and standards in force. The Annual Audit Plan, consulted with the Risk Officer and Members of the Management Board of the Bank and then approved by the Audit Committee at the Supervisory Board of the Bank, is implemented in quarterly periods by experienced and highly qualified professionals.

In 2008 the Internal Audit Department, composed of 50 persons, performed 1776 audit tasks in the Bank, Bank's subsidiaries as well as within Millennium BCP Group, including IRF audits (IRF – independent review function, in accordance with the requirements of the New Capital Accord) of risk management processes for credit, market and operational risks. The Internal Audit Department is independent and reports to the Chairman of the Management Board of the Bank whereas audit results are reported to the Audit Committee at the Supervisory Board of the Bank.

Pursuant to the legal regulations in force the reports of Bank Millennium (solo reports) and Bank Capital Group (consolidated reports) are subject to a review (semi-annual report) or examination (annual report), respectively, by an independent entity authorised to examine financial reports – External Auditor. Also, for correctness of presentation of financial data in other periodic quarterly reports for publication, in a joint effort with the External Auditor, the Bank implemented co-operation procedures, which provide for on-going consultations on material issues related to capturing economic events in books and financial reports.

### **VI.3. Information on the agreements with the entity authorised to audit financial reports**

As in the recent years, KPMG Audyt Sp. z o.o. is Bank's external auditor for the 2008 reports. KPMG belongs to one of the largest companies offering so-called professional services (audit, tax and business advisory services).

Stated below is remuneration received by KPMG Audyt Sp. z o.o. on account of examination/review of financial reports of the Capital Group of Bank Millennium S.A under concluded agreements:

<b>Auditor's Remuneration:</b>	(PLN thous.)	<b>2008</b>	<b>2007</b>
- for examination and agreed procedures connected with review of periodical consolidated reports with respect to the dominating entity		1 350	2 085
- for examination with respect to subsidiaries		947	973
- for related services		29	14

(1) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of the Bank's and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 29.06.2007 on examination regarding 2007 and 2008 accounting year) as well as the review of the semi-annual Bank's and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 29.06.2007 on review of the semi-annual financial report on the half-year ending on 30.06.2007 and 30.06.2008);

(2) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of financial reports of subsidiaries under concluded agreements.

(3) The remuneration for related services comprises the remaining amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. under concluded agreements. These cover certifying services connected with the examination or review of financial reports of the dominating entity and subsidiaries, however not included under (1) above.

### **VI.4. Other information**

The detailed information on the Shareholders, Supervisory Board, Management Board (including the remuneration of the members of the Management Board and Supervisory Board), as well as observance of the principles of the corporate governance can be found in a separate "Corporate governance report", which was published together with this Report.

Other information regarding:

- Numbers and values of the execution titles issued by the bank
- Guarantees and sureties granted
- Transactions with related companies,

can be found in "Consolidated financial statement of the Bank Millennium Group for 2008".

## VII. STATEMENT OF THE MANAGEMENT BOARD

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

According to the best knowledge, the Annual Consolidated Financial Statements of the Bank Millennium S.A. Capital Group as at 31 December 2008 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 Capital Group and its financial result. This Annual Management Board Report of Bank Millennium Group contains a true picture of development, achievements and condition of the Capital Group (including the description of key risks and threats).

### Selection of an entity authorized to audit financial statements

The entity authorized to review financial reports that audits these Annual Consolidated Financial Statements of the Bank Millennium SA Capital Group as at 31 December 2008, 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:

<b>Data</b>	<b>Imię i nazwisko</b>	<b>Stanowisko/Funkcja</b>	<b>Podpis</b>
27.02.2009	Bogusław Kott	Prezes Zarządu	.....
27.02.2009	Rui Manuel Teixeira	Wiceprezes Zarządu	.....
27.02.2009	Fernando Bicho	Członek Zarządu	.....
27.02.2009	Julianna Boniuk-Gorzelańczyk	Członek Zarządu	.....
27.02.2009	Wojciech Haase	Członek Zarządu	.....
27.02.2009	Joao Bras Jorge	Członek Zarządu	.....
27.02.2009	Artur Klimczak	Członek Zarządu	.....