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

for the 12 month period ended 31 December 2012

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE BANK MILLENNIUM CAPITAL GROUP FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2012

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I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Sirs,

This is the 2012 Annual Report of Bank Millennium Group, where you will find information about activity of the Bank and its subsidiaries last year.

Effective implementation of plans, consistency in action and the ability to respond to the changing economic environment were our recipe for operation in a year, which brought economic slowdown. This was accompanied by deterioration of the economic situation of many industry sectors and companies. The new market situation induced us to reassess our mission, the business goals of which were formulated as the medium-term strategy for the years 2013-2015. Its preparation was based on results attained by Bank Millennium Group in 2012.

Despite unfavourable macroeconomic factors, the year was a good one for Bank Millennium Group. We ended the year with a record-high net profit of PLN 472 million. It was also another year of improving operational efficiency thanks to growth of revenue and consistency in cost control, in result of which the cost to income ratio was reduced to 57.4%. This is its lowest level in years. Bank Millennium, with a Capital Adequacy Ratio of 14.5% and Tier 1 at 12.9% is a well-capitalised, safe organisation with development potential.

In 2012 we continued to strengthen our position on the market. In retail banking we acquired 153,000 new Customers; Customer deposits were up 10.7% over the previous year and sales of cash loans rose 52% year-on-year. We increased the number of businesses served by 8%. Our factoring turnover went up markedly and our leasing offer was traditionally doing fine. This was also a period, during which we implemented innovative mobile banking solutions, both for private as well as business Customers, which made their daily relations with the Bank that much easier.

In 2012 Bank Millennium was again recognised and awarded by Consumers and independent experts in prestigious service quality rankings. These awards confirmed the significant progress, which we have made in the last years as regards the quality of relationship with our Customers.

Together with the Q3 2012 results Bank Millennium also announced the updated Group strategy for the years 2013-2015 with key medium-term targets. We will be attaining these targets coming from strong foundations, which provide the Bank with future growth potential, and with ambition running high to further improve results and market position. The strategy assumes continuation of sustainable growth, keeping high levels of all operational safety parameters, notably: a strong capital base, safe level of liquidity, effective risk management, permanent cost control and optimised processes. It is our aim to quickly improve operational profitability and efficiency, supported by sales of innovative products in the most valuable business areas, relying on advanced distribution channels, in mutually beneficial, long-term and partnership-based relationship with Customers from all segments.

The variable macroeconomic environment in 2013 as well as the possibility that some adverse economic factors appear on the domestic market make us go about implementing the 2013 plan with particular caution. Yet we still want to continue along the path of sustainable growth, running our business in a transparent and ethical way, creating value for Shareholders, Customers and Employees.

Sincerely yours,

Bogusław Kott
Chairman of Bank Millennium Management Board

II. MARKET CONDITIONS IN 2012 AND BUSINESS PROSPECTS

II.1. Macroeconomic environment

In 2012 macroeconomic environment in Poland deteriorated as a consequence of deeper recession in the Eurozone. The GDP growth slowed down to 2.0% in the last year from 4.3% recorded in 2011. Domestic demand deteriorated substantially during 2012 and its annual growth reached merely 0.1%. It resulted from a stagnation in private consumption and a decline of investments driven by vanishing projects in infrastructure. The main pillar of Poland's economic growth in 2012 was the net export that added 1.9 p.p. to the annual GDP growth.

Last year showed substantial slowdown in private consumption. In the first half of last year an individual consumption was supported by Euro 2012 Soccer Tournament, however its impact on the situation in Polish economy was lower than preliminary estimates. In 3rd quarter of 2012 private consumption increased merely 0.1% year-on-year, at the slowest pace since Q1 2003, and in last three months of 2012 it turned into negative territory. Negative impact on private consumption had deteriorating situation in the labour market and increasing concerns about stability of employment, as well as lower dynamics of households' disposable income. Also elevated inflation added to lower consumption as it reduced purchasing power of households' wages. During the year, registered unemployment was higher than in the corresponding months of 2011 and it reached 13.4% in December 2012. Lower demand for labour was confirmed in the data from the corporate sector, where employment were decreasing in each month of 2012, excluding January. Higher unemployment helped to keep wage dynamics at low levels. The average wage in corporate sector increased in 2012 by 3.4% in nominal terms, while its real dynamics was negative because of elevated inflation.

Investments activity slowed down in 2012 after its acceleration in the previous year. Reduction of investments in fixed assets reflected the vanishing projects of investments in infrastructure co-financed by the EU funds as well as reduced propensity of Polish companies to extend their capacity. In the whole year investments in fixed assets increased by 0.6% compared to a growth of 9.0% in 2011, however in the second half of the year annual dynamics of investments in fixed assets was negative. However companies continued investments to renew and modernize their capacity.

External balance had substantial and positive contribution to the economic growth in 2012. Volumes of both exports and imports were declining, however deterioration in domestic demand pushed down imports more substantially. As a consequence, the trade gap narrowed significantly during the last year. The recession in the Eurozone reduced export orders from the euro area. However, Polish companies increased export sales to the non-EU markets, including Central-Eastern-Europe and developing markets, which mitigated lower sales to the Eurozone. Markets' diversification offsets partially the negative impact of the recession in the Eurozone on the Polish economy. We estimate that the current account deficit narrowed to c.a. 3.5% of the GDP from 4.9% in 2011. The deficit is thus at a relatively low level than does not threaten PLN stability.

In the first half of 2012, global risk appetite connected to the situation in the indebted countries of the southern Europe was the key factor for Zloty valuation. Actions taken by the European Central Bank, including LTRO (Long Term Refinancing Operation), bond buying programme focused on the part of the EMU countries, interest rate cut, were gradually improving market sentiment and softening turbulences in Greece. As a result, the EUR/PLN exchange rate was falling gradually during 2012. Upward moves in the EUR/PLN exchange rate were only temporary. In the second half of the year downward trend of the EUR/PLN exchange rate was supported also by domestic factors. Weaker than expected macroeconomic data increased substantially demand for Polish treasury papers, especially among foreign investors who were looking for attractive yields. Despite growing expectations for rate cuts, inflow of foreign capital into the Polish debt market triggered further appreciation of the Zloty. During the previous year the EUR/PLN exchange rate fall down from 4.47 observed at the beginning of the January to 4.07 at the end of December.

Inflation in 2012 remained at elevated levels and during the dominant part of the last year, CPI exceeded the upper band of the central bank's inflation target. Substantial decline in inflation was recorded in the last months of 2012 and in December the annual inflation measured by CPI fell below the NBP target, reaching 2.4%. Average annual inflation declined to 3.7% in 2012 from 4.3% in 2011. The fall in inflation was supported by favourable statistical base effects and vanishing negative supply shocks on food and fuel markets, as well as the economic slowdown and low pressure from the demand side. This was reflected in decline of core inflation measures. Inflation CPI with exclusion of food and energy prices were declining gradually, reached 1.4% year-on-year at the end of 2012 as compared to 3.1% year-on-year in December 2011, reaching the lowest level since November 2010.

Elevated inflation, which still exceeded the NBP target at the beginning of the last year, led the Monetary Policy Council to hike interest rates by 25 basis points in May, despite more visible signs of economic slowdown. In November, just six months after the rate increase, the MPC changed its monetary policy stance and started an easing cycle following deeper slowdown in the economic growth and lower inflation in the second half of the year. In two steps, by 25 basis points each, the reference rate was cut to 4.25%. The monetary policy easing cycle continued in the beginning of 2013 and at the end of February 2013 the reference rate was 3.75%.

Lower economic growth, particularly domestic demand, had negative impact on the budget revenues, particularly from indirect taxes, which performance was much worse than planned. Despite the lower realization of tax revenues, the state budget deficit last year was lower than assumed in the budget bill. The loss of tax revenues was offset by a much higher payment for the budget of the central bank’s profit and a discipline on the expenditure side. The general government deficit in the past year amounted to around 3.5% of the GDP from 5.1% of GDP in 2011 and it was another year of fiscal tightening. European Commission assessed that Poland is making progress in reducing the excessive deficit in the required term, which may lead to the end of the excessive deficit procedure.

In 2012 one could observe slower growth of households’ deposits as a result of deceleration in households’ disposable income and reduction of interest rates. Deposits of household’s sector increased by PLN 37.4 bln during 2012 as compared to an increase of PLN 56.2 bln in 2011. Their annual growth slowed to 7.8% in December 2012 from 13.2% a year ago. Households were more likely to invest in mutual funds than in the previous year. There was a substantial slowdown in deposits of corporate sector, which nominal value in December 2012 was similar to that recorded in the previous year, while their annual growth was close to zero.

In the wake of the economic slowdown in 2012, there was also significant deceleration in lending, both in the household and in the corporate sector. Loans to corporate sector grew by only 2.9% y/y, reflecting, among others, low investment activity of Polish companies. In the household’s segment credit growth reached merely 0.2% y/y and it was only partially the effect of the strengthening of the Zloty, which reduced value of foreign currency loans calculated in PLN. We estimate that excluding the FX movements, loans to households increased by 3.1% y/y. Portfolio of consumer loans decreased during 2012, which was affected by both the economic downturn, but also the strict regulations of the banking supervision, which pushed part of that market outside the banking sector. Lower growth of mortgage loans reflected the deterioration in the real estate market as a result of the economic downturn and rising unemployment, but also the strengthening of the Zloty.

In 2013, as a result of a recession in the Eurozone, we expect economic growth in Poland to deteriorate, which suggest also the latest readings of leading indicators. We expect the GDP growth will reach 1.4%, mainly because of deeper decline of investments in fixed assets. We estimate that in the whole 2013 year, gross fixed capital formation will fall by 3.2% driven by vanishing investments in infrastructure undertaken in the previous years as well as low willingness to extent capacity. We believe that private consumption growth will accelerate slightly, supported by decrease in inflation and higher purchasing power of households’ income. The situation on the labour market is expected to deteriorate and the registered unemployment may slightly exceed 14% at the end of the year. Inflation measured with the consumer price index, in our opinion, should fall, which is related to the vanishing negative statistical base effects and low demand pressure. As a result, the Monetary Policy Council should continue interest rates cuts.

II.2. Implementation of strategy and business development prospects

In 2012 Bank Millennium Group continued to implement its strategy announced in 2009 aimed at business growth with strong focus on sustainability. This focus meant a maintained conservative risk approach and discipline in liquidity and capital management. Bank Millennium Group kept strong capital and liquidity position, measured by Core Tier 1 ratio at 12.9% (much above minimum assumed for medium-term strategy), total CAR at 14.5% and Loan-to-deposit below 100% - a significant strategic milestone.

These capital adequacy ratios take into consideration the conditional approval to use the Internal Rating Based (IRB) approach for capital requirements calculation for most of the retail loan portfolio, which Bank Millennium received at the end of 2012 year from Banco de Portugal (BdP) and Polish Financial Supervision Authority (KNF). However, capital requirements must be temporarily maintained by the Bank at no less than 80% of the respective capital requirement calculated using the standardized approach. Thus, the Bank still did not utilize in 2012 the full potential gain of IRB approach.

While keeping solid capital and liquidity ratios, Bank Millennium Group managed to improve efficiency of its operations. Cost-to-income ratio fell clearly below 60%, as it was assumed in another of the strategic financial goals. In terms of profitability, the net profit grew versus 2011 although return on equity was affected by the higher level of equity (partially induced by financial supervision recommendations, which made most of Polish banks to retain full 2011 profits in the capital base).

Despite some slowdown of the Polish economy noticed since the third quarter 2012, Bank Millennium Group managed to achieve very solid growth of business. During 2012 total customer funds grew visibly by 13%, which is the effect of concentration on sales, price adjustments and targeted product campaigns. Net loan portfolio of Bank Millennium Group reached at the end of 2012 the level of PLN 40.2 billion. Total loans decreased versus end of 2011 due to the effect of foreign exchange. If FX effect on appreciating Polish zloty was eliminated, loan portfolio would have increased by 1.3% yearly.

Consumer loans presented the dynamic growth during the year by 7.4% and in the same period mortgage loans decreased by 3.7% yearly and loans to companies (including leasing) reduced by 2.5% - both being affected by Polish zloty appreciation.

Solid growth of interest earning volumes accompanied by only slightly lower interest margin (despite quickly falling market rates in 2H 2012) allowed for yearly improvement (by 3.1%) of net interest income, which is the main element of the Banks total income. Strict cost control in 2012 allowed that total expenses decreased by 0.3% in comparison to 2011. Total administrative costs and depreciation reduced by 3.7% whereas personnel costs increased by 3.4% yearly. Growing income (by 3.4% yearly), stable operating costs and higher risk provisions (by 37% yearly) brought total net profit in 2012 at PLN 472.2 million, 1.2% higher than net income of 2011.

The Management Board of the Bank intends to propose to Supervisory Board and General Meeting of Shareholders to keep entire profit of 2012 in the Bank's equity. At the same time, the Management Board believes it will be possible to come back to regular dividend distribution from 2014 year onwards.

2012 was also the year of special focus on setting the highest standards in terms of the quality of service rendered to our Customers and other Stakeholders. The special project aimed at quality improvement was implemented in 2011 and covered all key areas of cooperation with customers, including branches, call centres, services of Internet, and the back office of the Bank (headquarter). During 2012 the Bank continued the project and its positive results were confirmed by external recognition for the best quality in various rankings and competitions, including "The Best and Friendliest Internet Bank in Poland and the second most friendly bank for individuals" by Newsweek, "The Best Internet Bank for Clients in Central and Eastern Europe" by Global Finance and "The Medal-winning Bank in the Service Quality Programme" by Polish weekly Wprost. As confirmation, that the Bank follows the highest corporate governance, reporting and investor relations standards, Bank Millennium was once again included into a prestigious Warsaw Stock Exchange RESPECT Index – the first index of socially responsible companies in the Central Eastern Europe.

Improvement of service quality is one of the foundations, which have been constantly developed by the Bank for the last years in order to support business growth. Other foundations, constituting the key existing strengths of the Bank, include: well distributed branch network supported by modern multichannel infrastructure, highly recognized brand and successfully built product franchise in mortgages, credit cards and specialized credit (leasing, factoring).

These key achievements of the Bank were the basis to leverage on when developing and updating strategy for the next 3 years. Bank Millennium announced the new strategy for years 2013-2015 at the end of October 2012 when presenting results after third quarter. The new strategy update was based on macroeconomic background, future prospects, current trends of the banking industry in Poland and also the level of the Bank's ambition to achieve superior performance and generate value for shareholders, clients and employees.

Macroeconomic scenario for Poland assumes a moderately optimistic medium term outlook that is supportive of positive conditions for growth of banking business, despite the volatility that may be induced by the European crisis. On the other hand, unfavourable circumstances like recent economic slowdown and growing unemployment and level of non-performing loans continue to call for prudent and sound risk management practices.

In order to ensure sustainable growth, all strategic initiatives need to fit within the framework ensuring the Bank's stability. This framework includes: high capital base, comfortable liquidity, sound risk management, constant cost control and lean processes.

The main five strategic priorities for Bank Millennium Group for years 2013-2015 include:

1. Sustain focus on valuable areas while redirecting product mix to higher margin product,
2. Further enhance sales effectiveness of the network,
3. Improve balance sheet structure and profitability of corporate franchise,
4. Prepare the Bank for the future by investing in business analytics and multichannel platform,
5. Sustain efficiency advantage through strict platform management and cost savings discipline.

In order to fully seize our opportunities, apart from leveraging on solid foundations, the Bank Millennium Group will focus on the following main key initiatives:

- Increasing consumer lending and its share in total retail loans.
- Becoming a reference bank for savings and transactions, developing broad range of saving opportunities for Customers balancing their needs of liquidity and investment.
- Consistently developing innovative star products supporting customer acquisition.

- Optimising use of multiple sales channels and business analytics for pre-eminent convenience, increased sales productivity and efficient product distribution.
- Catching the next wave of digital banking and striving for leadership in mobile banking.
- Exploring broader target market opportunities in corporate lending combining the focus in SMEs with addressing mid-large companies.
- Establishing strategic partnership relations with key corporate customers.

The main medium-term targets defined for 2015 according to the new updated strategy are the following:

1. Return on equity (ROE) of 14-15%,
2. Cost-to-income ratio at 50%,
3. Loan-to-deposit ratio below 100%,
4. Capital Core Tier 1 ratio higher than 10%,
5. Customer satisfaction above 90% ,
6. Share of corporate loans and leasing in total portfolio at 30-35%.

III. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

III.1. Financial results

2012 was another year of improving operating profitability: growing revenues and strictly controlled costs. Net operating income grew by 3.4% y/y and operating costs decreased by 0.3% y/y, which in consequence brought improvement of operating efficiency: the Group's cost-to-Income ratio further decreased to 57.4% (i.e. 2.1 p.p. lower compared to the ratio of 2011). At the same time cost of impairment provisions grew in 2012 by 37% yearly, mainly as a consequence of higher provisioning to exposures in construction sector. As a result, net profit for 2012 grew slightly, by 1.2% versus 2011 year.

Despite slowdown of the Polish economy noticed since the third quarter 2012, Bank Millennium managed to achieve very solid business growth. Number of retail current accounts during 2012 grew by 153 thousand and total deposits grew visibly by 10.7%, which was the effect of concentration on sales, price adjustments and targeted product campaigns. Overall, net loan portfolio of Bank Millennium Group reached at the end of 2012 the level of PLN 40.2 bn. Total loans decreased due to the effect of foreign exchange. If FX effect on appreciating Polish zloty was eliminated, loan portfolio would have increased by 1.3% yearly.

2012 was also the year of special focus on setting the highest standards in terms of the quality of service rendered to our customers and other stakeholders, which positive results in the form of several external awards achieved by the Bank:

- The Best and Friendliest Internet Bank in Poland and the second most friendly bank for individuals by *Newsweek* - the Bank gained the best scores in most of the examined categories, like: communication channels, operations channels, quality of service, customer acquisition and retention.
- The Best Internet Bank for Clients in Central and Eastern Europe by *Global Finance*.
- The Medal-winning Bank in the Service Quality Program by Polish weekly *Wprost*.
- The second Best Bank for Companies by *Forbes* magazine for the quality of offer and service to SME segment.
- Once again in the composition of RESPECT Index - confirmation that the Bank follows the highest corporate governance, reporting and investor relations standards.

At the end of 2012 Bank Millennium received approval for Internal Rating Based (IRB) approach for calculating capital requirement of credit risk in part of its retail portfolio. The Regulators (Banco de Portugal and KNF) set a temporary minimum floor - equal to 80% of the respective capital requirement calculated using the standardized approach. Total consolidated CAR, based on this rule, stood at the end of 2012 year at 14.5% and Core Tier 1 ratio at 12.9%.

Group profit and loss account

Operating Income (PLN million)	2012	2011	Change 2012/2011
Net Interest Income *	1 227.3	1190.8	*3.1%*
Net Commission Income	546.0	561.8	*-2.8%*
*Core Income***	1 773.3	1 752.6	1.2%
Other Non-Interest Income ***	179.3	136.6	31.3%
- including FX result	*159.9*	*113.7*	*40.6%*
Operating Income	**1 952.6**	**1 889.1**	**3.4%**

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 66.1 million in 2012 and PLN 48.9 million in 2011) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.
(**) sum of Net Interest Income and Net Commission Income
(***) includes FX results, results on financial operations (pro-forma) and net other operating income and costs

Net Interest Income (on pro-forma basis) for 2012 reached PLN 1,227.3 million, which means a 3.1% growth compared to the value for 2011. The improvement of net interest income was achieved in the environment of pressure on interest margin coming from quickly dropping interest rates, especially visible in the last quarter of the year. The Bank managed to decrease its Loan-to-Deposit ratio below 100% with limited impact on Net Interest Margin, which on average fell from 2.5% in 2011 year to 2.4% in 2012 year.

Net Commissions Income slightly decreased (-2.8%) in 2012 compared to 2011 showing that growth in some categories like bancassurance, investment products distribution and lending offset lower commissions from brokerage and custody and the effect of continued promotion of current accounts.

Other non-interest income grew in 2012 by 31.3% y/y thanks to better FX income, which grew by 41% versus 2011 year. As regards non-interest income other than FX income, there could be observed higher income on sale of debt securities from investment financial assets portfolio (an increase by PLN 22.9 million). From the other hand the result on trading in derivative instruments decreased by PLN 35.2 million. This was mainly the impact of cross-currency swaps revaluation, which was negative during entire 2012, amounting to PLN -30.3 million, and was caused by tighter swap market spreads.

Total operating income of the Group grew in 2012 by 3.4% yearly to the amount of PLN 1,952.6 million, whereas total costs decreased yearly by 0.3% to the level PLN 1,120.6 million. Growing income and falling costs brought further improvement of **Cost-to-income** ratio to 57.4% for entire 2012, i.e. lower by 2.1 percentage points compared to 2011.

Operating Costs (PLN million)	2012	2011	Change 2012/ 2011
Personnel Costs	(558.3)	(540.2)	3.4%
Administrative Costs*	(562.4)	(583.9)	-3.7%
Total Operating Costs	(1 120.6)	(1 124.1)	-0.3%
Cost/Income Ratio	57.4%	59.5%	-2.1 p.p.

(*) including depreciation

Personnel costs grew by 3.4% yearly. Total number of employees decreased by 4.6% in annual horizon to the level of 6,001 FTEs. **Other administrative costs** (including depreciation) fell by 3.7% yearly. Depreciation in 2012 reached PLN 55.4 million i.e. 15% (PLN 9.4 million) lower than during 2011.

Total net impairment provisions created by the Group during 2012 amounted to PLN 238.2 million, and were 37.1% higher than the amount of PLN 173.8 million created during 2011. The growth concerned mostly corporate loan portfolio, where some new impaired cases appeared, especially in the construction sector. Provisions for retail portfolio reduced in yearly horizon and showed stable level during 2012 with good trend in consumer loans. Average cost of risk (provisions over net loans) for 2012 stood at 58 bps, slightly above the initial expectations and the level of 45 basis points achieved during 2011 year.

Profit before tax of Bank Millennium Group in 2012 amounted to PLN 596 million and **net profit** amounted to PLN 472.2 million, which is 1.2% higher level than the profit achieved in 2011.

Pre-tax Income and Net Income (PLN million)	2012	2011	Change 2012/2011
Operating Income	1 952.6	1 889.1	3.4%
Operating Costs *	(1 120.6)	(1 124.1)	-0.3%
Impairment provisions	(238.2)	(173.8)	37.1%
Pre-tax Income**	**596.0**	**591.1**	**0.8%**
Income tax	(123.8)	(124.6)	-0.7%
Net Income	**472.2**	**466.5**	**1.2%**

( ) without impairment provisions for financial and non-financial assets*
(**) includes also share in profits of associates

Earnings by Business Segments

The following information below tables provide Profit and Loss data for the Group's two main business segments: Retail and Corporate allowing for comparison of 2012 versus 2011 results.

Retail segment earnings (PLN million)	2012	2011	Change 2012/2011
Net interest income	1 021.3	1 021.7	0.0%
Net commission income	413.3	423.8	-2.5%
Other income *	101.0	87.0	16.1%
Total operating income	**1 535.6**	**1 532.5**	**0.2%**
Total operating expense **	**-849.6**	**-847.6**	**0.2%**
Cost/Income	55.3%	55.3%	0 p.p.
Net impairment provisions	-92.9	-103.0	-9.8%
Pre-tax income	**593.1**	**581.9**	**1.9%**

(*) including FX income
(**) without impairment provisions

The total operating income of the Retail segment in 2012 increased by 0.2% yearly to PLN 1,535.6 million, mainly thanks to the increase of other income (by 16.1%). The main driver here were growing interest on currency swaps, which are used to provide liquidity for currency loans. Net interest income (presented here under accounting method) stayed flat and net commission income decreased slightly by 2.5% yearly. Operating expenses of retail segment increased in 2012 insignificantly by 0.2% yearly. As a result, cost-effectiveness of this business segment stayed on the same level as in 2011 with Cost/Income Ratio at 55.3%. Net impairment provisions decreased by 9.8% yearly. As a results, pre-tax income of Retail segment in 2012 increased to a level of 593.1 million i.e. 1.9% higher than in 2011.

Corporate segment earnings (PLN million)	2012	2011	Change 2012/2011
Net interest income	281.0	264.6	6.2%
Net commission income	124.9	120.4	3.8%
Other income *	36.5	39.7	-8.0%
Total operating income	**442.5**	**424.7**	**4.2%**
Total operating expense **	**-208.0**	**-211.2**	**-1.5%**
Cost/Income	47.0%	49.7%	-2.7 p.p.
Net impairment provisions	-162.3	-80.0	102.7%
Pretax income	**72.2**	**133.5**	**-45.9%**

(*) including FX income
(**) without impairment provisions

The total operating income of Corporate segment in 2012 increased by 4.2% yearly to PLN 442.5 million. The growth was achieved in two main income categories: interest and commissions. At the same time, operating expenses decreased by 1.5% y/y. As a result, the cost / income ratio of the companies segment fell visibly by 2.7 p.p. to 47.0% in 2012. The level of net impairment provisions on loans to companies increased significantly during 2012 year by 103% due to problems in construction sector. Growing loan loss provisions caused the visible decrease of pre-tax profit of Corporate segment by 45.9% to the level of PLN 72.2 million.

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

<u>Assets</u>

The Group's assets as at 31 December 2012 totalled PLN 52,742 million and were 3.7% higher compared to the balance at the end of December 2011. The structure of Group's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	31.12.2012		31.12.2011		Change 2012/2011
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	2 465.9	4.7%	2 017.8	4.0%	22.2%
Loans and advances to banks	1 392.4	2.6%	2 660.4	5.2%	-47.7%
Loans and advances to Clients	40 232.2	76.3%	41 332.3	81.3%	-2.7%
Receivables from securities bought with sell-back clause	17.5	0.0%	2.2	0.0%	690.8%
Financial assets valued at fair value through P&L and hedging derivatives	940.2	1.8%	860.5	1.7%	9.3%
Investment financial assets*	6 764.5	12.8%	3 144.8	6.2%	115.1%
Intangible assets and property, plant and equipment **	228.3	0.4%	244.6	0.5%	-6.7%
Other assets	701.5	1.3%	575.6	1.1%	21.9%
Total assets	**52 742.5**	**100.0%**	**50 838.1**	**100.0%**	**3.7%**

(*) including investments in associates
(**) excluding fixed assets for sale

Higher assets level resulted primarily from growth in Investment financial assets (including investments in associates) by PLN 3,620 million, i.e. 115.1%, first of all debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank).

Loans and advances to Customers

Loans and advances to Clients constitute a dominant position in the asset structure (76.3% as on 31 December 2012). Total loans of Bank Millennium Group reached PLN 40,232 million in the end of 2012 and in nominal terms fell by 2.7% versus end of 2011 due to negative FX effect. If FX effect on appreciating Polish zloty was eliminated, loan portfolio would have increased by 1.3% during 2012 year.

As on 31 December 2012, mortgage loans accounted for 67.7% of the net balance of loans to Customers and constituted the largest component of the Group's loan portfolio. The value of mortgage loan portfolio, as on 31 Dec. 2012, totalled PLN 27,235 million, which means a decrease by 3.7% compared to the level of 31 December 2011 - mainly resulting from FX effect. Selling new mortgages exclusively in PLN, Bank managed to increase share of PLN loans in total mortgage portfolio to 30%.

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

Loans and advances to Clients *(PLN million)*	31.12.2012	31.12.2011	Change (value)	Change (%)
Loans to households	30 226.3	31 067.9	*-841.6*	-2.7%
- mortgage loans	*27 235.3*	*28 283.0*	*-1 047.6*	*-3.7%*
- other loans to households	*2 991.0*	*2 784.9*	*206.1*	*7.4%*
Loans to companies	10 005.9	10 264.5	*-258.5*	-2.5%
- leasing	*3 222.1*	*3 256.8*	*-34.7*	*-1.1%*
- other loans to companies	*6 783.8*	*7 007.7*	*-223.9*	*-3.2%*
Net Loans & Advances to Clients	**40 232.2**	**41 332.3**	**-1 100.1**	**-2.7%**
Impairment write-offs	1 237.6	1 217.4	20.2	1.7%
Gross loans and advances to Clients	**41 469.8**	**42 549.7**	**-1 079.9**	**-2.5%**

The value of other loans granted to individual Customers (cash loans, credit cards, overdrafts etc.) as at the end of 2012 totalled PLN 2,991 million and increased by 7.4% as a result of accelerating quarterly sales of cash loans.

Loans to companies (including public sector) totalled PLN 10,006 million and fell by 2.5% yearly, partially due to negative FX effect and partially due to few bigger loans repaid at the end of the year.

The balance of provisions for impairment losses on loans and advances extended to customers increased by PLN 20 million (or 1.7% y/y) driven by increased impairment in corporate sector (mainly in infrastructure construction sector), whereas provisions for retail loans decreased.

The average basic interest rate of loans granted by the Bank throughout 2012 was 4.74% for retail clients and 6.70% for corporate and public sector clients. The lower average interest rate in loans granted to retail Clients is partially due to the lower nominal interest rate of mortgage loans in foreign currencies, which represent a bigger share of the retail loan portfolio.

Investment financial assets

The value of investment financial assets (including investments in associates) equalled PLN 6,764 million at the end of December 2012 and increased by PLN 3,620 million i.e. 115.1% compared to the balance as on 31 December 2011 mainly due to PLN 3,609 million increase in the portfolio of debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank). The increase resulted from the visible improvement of liquidity situation of the Group noticed during 2012 year (higher growth of deposits than loans). Investment financial assets portfolio (including investments in associates) was composed in 98.1% of debt securities issued by the Polish State Treasury and the National Bank of Poland.

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

Value of the financial assets valued at fair value through profit and loss and hedging derivatives totalled PLN 940 million at the end of December 2012, which signifies a PLN 80 million increase (i.e. 9.3%) compared to 31 December 2011. This increase compounds of a growth in assets from valuation of derivatives (designated for trading and hedging) by PLN 351 million limited by a decrease by PLN 269 million in State Treasury debt securities. The discussed assets portfolio as at 31 December 2012 comprised mainly assets from valuation of derivatives designated for trading and hedging that together accounted for 95.0% share. The remaining instruments were practically debt securities issued by the Polish State Treasury, as the share of equity instruments in the portfolio was negligible.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 1,392 million as at the end of December 2012, which means a decrease by PLN 1,268 million (i.e. 47.7%) year-on-year. Collateral deposits for transactions hedging risk were a primary cause of this item's drop, which resulted from changes in valuation of these transactions, mainly as a consequence of foreign exchange rate changes.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment amounted to PLN 228 million as at the end of December 2012, which means a decrease by 6.7% yearly, mainly as a result of lower value of property, plant and equipment, whereas intangible assets (practically it refers to software) increased.

Liabilities

The value and structure of the Group's liabilities as at the end of 2012 and 2011 are shown in the table below:

LIABILITIES (PLN million)	31.12.2012		31.12.2011		Change 2012/2011
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 491.7	5.2%	1 831.6	4.0%	36.0%
Deposits from customers	41 434.1	86.5%	37 427.8	80.9%	10.7%
Liabilities from securities sold with buy-back clause	174.8	0.4%	1 606.6	3.5%	-89.1%
Financial liabilities valued at fair value through P&L and hedging derivatives	1 582.8	3.3%	2 872.3	6.2%	-44.9%
Liabilities from issue of debt securities	900.0	1.9%	1 071.2	2.3%	-16.0%
Provisions	44.8	0.1%	35.4	0.1%	26.5%
Subordinated debt	613.6	1.3%	663.2	1.4%	-7.5%
Other liabilities*	676.5	1.4%	743.7	1.6%	-9.0%
Total liabilities	**47 918.3**	**100.0%**	**46 251.9**	**100.0%**	**3.6%**
Total equity	**4 824.2**		**4 586.2**		**5.2%**
Total liabilities and equity	**52 742.5**		**50 838.1**		**3.7%**

(*) including tax liabilities

As at the end of 2012, liabilities accounted for 90.9%, while Group's equity accounted for 9.1% of the total liabilities and equity.

As on 31 December 2012, deposits from Customers constituted the Group's main liability item accounting for 86.5% of the Group's total liabilities.

As on 31 December 2012, Group's liabilities amounted to PLN 47,918 million and increased by PLN 1,666 million i.e. 3.6% relative to PLN 46,252 million as on 31 December 2011. The increase resulted, primarily, from a considerable growth in customer deposits (by PLN 4,006 million).

Deposits from Customers

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

Deposits of Clients *(PLN million)*	31.12.2012	31.12.2011	Change (value)	Change (%)
Deposits of individuals	26 018.0	23 013.0	3 004.9	13.1%
Deposits of companies and public sector	15 416.1	14 414.8	1 001.3	6.9%
Total Deposits	**41 434.1**	**37 427.8**	**4 006.2**	**10.7%**

Deposits from Customers provide the main source of financing of the Group's activities and include, mainly, customer funds deposited on current, saving and term deposit accounts. As on 31 December 2012 deposits from customers amounted to PLN 41,434 million and recorded an increase of PLN 4,006 million i.e. 10.7% relative to the balance as on 31 December 2011.

As on 31 December 2012 deposits from individual customers amounted to PLN 26,018 million and accounted for 62.8% of the total balance of deposits from customers. Their value increased by PLN 3,005 million i.e. by 13.1% compared to the balance as on 31 December 2011, which was supported by strong new customers acquisition as well as promotional campaigns during 2012.

Deposits from companies and public sector at the end of December 2012 equalled PLN 15,416 million and accounted for 37.2% of Group's total deposits. Throughout 2012 the value of these deposits increased by PLN 1,001 million (i.e. by 6.9%).

The average basic interest rate of deposits placed with the Bank throughout 2012 was 4.10% for retail clients and 4.81% for corporate and public sector clients.

Deposits from banks

Deposits from banks, as on 31 December 2012, amounted to PLN 2,492 million accounting for 5.2% of the Group's liabilities. Their value increased by PLN 660 million (i.e. 36.0%) relative to the balance as on 31 December 2011. The main items of wholesale medium-term funding received by the Group included loans from European Investment Bank totalling EUR 100 million and loans from European Bank for Reconstruction and Development (EBRD) of the total balance of EUR 101.7 million.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Group concludes short-term transactions with buy-back clause both with banks and Customers (mainly financial institutions). The transactions are based on the State Treasury debt securities. As on 31 December 2012, liabilities from securities sold with buy-back clause amounted to PLN 175 million decreasing by PLN 1,432 million relative to the balance as on 31 December 2011. The decrease resulted mainly from matured transactions with other banks.

Financial liabilities valued at fair value through profit and loss and hedging derivatives

Financial liabilities valued at fair value through profit and loss and hedging derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. The value of this item amounted to, as on 31 December 2012, PLN 1,583 million and decreased by PLN 1,290 million i.e. 44.9% relative to the balance of 31 December 2011.

Debt securities issued

As on 31 December 2012 liabilities from issue of debt securities amounted to PLN 900 million recording a decrease by PLN 171 million relative to the balance recorded as on 31 December 2011. At the end of December 2012 the value of bonds and bank debt securities issued by the Bank and offered to individual customers in connection with savings products amounted to PLN 413 million whereas the value of bonds offered to institutional investors amounted to PLN 354 million. Besides the above-mentioned bonds, the item also includes liabilities from December 2007 agreements, regarding securitisation of receivables under the leasing portfolio, which as on 31 December 2012 amounted to PLN 132 million and decreased compared to the end of 2011 by PLN 244 million as the transaction is being gradually amortised. The above-mentioned debt securities were issued in order to obtain funds to finance general activities of the Group.

Subordinated debt

The value of subordinated debt decreased during 2012 year by 7.5% to the level of PLN 614 million as on 31 December 2012 due to FX rates changes. This item includes only the liabilities from ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

During 2012 equity of the Group grew by 5.2% yearly and amounted to PLN 4,824 million as on 31 December 2012. Net profit generated during the reported period was the only reason of the growth of equity whereas revaluation reserve decreased by PLN 234 million driven by negative revaluation of hedging instruments portfolio.

The information about capital adequacy is presented in Chapter V of this document.

Contingent liabilities

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

CONTINGENT LIABILITIES (PLN million)	31.12.2012	31.12.2011	Change 2012/2011
Contingent liabilities granted and received	**7 821.9**	**10 036.0**	-22.1%
1. Liabilities granted:	6 909.2	8 695.5	-20.5%
a) financial	5 610.7	6 641.3	-15.5%
b) guarantees	1 298.5	2 054.2	-36.8%
2. Liabilities received:	912.8	1 340.5	-31.9%
a) financial	817.6	883.4	-7.4%
b) guarantees	95.1	457.2	-79.2%

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

As on 31 December 2012, the total value of contingent liabilities of the Group amounted to PLN 7,822 million, including commitments granted by the Group: PLN 6,909 million. During 2012 the value contingent financial liabilities granted by the Group decreased by PLN 1,031 million (i.e. 15.5%) and the value of guarantee commitments decreased by PLN 756 million (i.e. 36.8%).

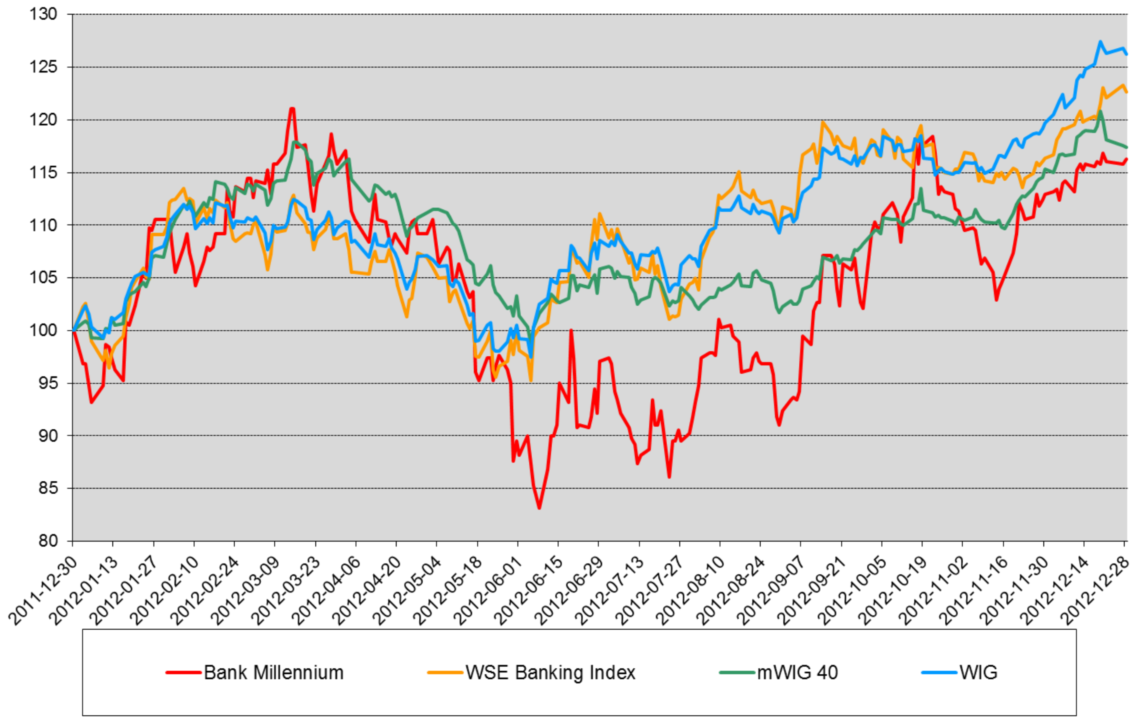
More information on contingent liabilities can be found in Chapter XI of Annual Financial Statements of the Capital Group of Bank Millennium for 12 month period ended 31 Dec. 2012.

III.3. Market indicators and rating

Despite still uncertain evolution of global and European economic situation, 2012 year brought recovery of most of market indexes, including the ones in Warsaw, which gained strong double-digit increases. WIG index grew by 26.2%, the WIG Banks index grew by 22.6% and mWIG40 index, which comprises the shares of Bank Millennium, increased by 17.4% during 2012. In the same period Bank Millennium share price grew by 16.3%.

Market ratios	28.12.2012	30.12.2011	Change 2012/2011
Price of Bank Millennium shares (PLN)	4.42	3.80	16.3%
Market capitalization of Bank Millennium (PLN million)	5 362.0	4 609.8	16.3%
Daily turnover of Bank Millennium shares - avg. in the year (PLN thousand)	2 975.4	5 634.5	-47.2%
WIG - main index	47 460.6	37 595.4	26.2%
WIG Banks	6 648.5	5 421.0	22.6%
mWIG 40	2 552.5	2 173.9	17.4%
Total turnover on WSE (PLN billion)	202.9	268.1	-24.3%

Evolution of Bank Millennium share price versus main WSE indices
(percentage changes vs. 30 December 2011)



On 11th December 2012, Fitch rating agency confirmed Bank Millennium ratings of BBB-/A-(pol)/F3/bbb- with a stable outlook. In particular, Fitch pointed out Bank Millennium's sizeable and relatively stable franchise in Poland, its granular deposit funding, strengthened capitalisation, above average asset quality and improved liquidity profile.

On 14th December 2012 Moody's rating agency downgraded long-term deposit rating of Bank Millennium from 'Baa3' to 'Ba2' (with a negative outlook), short-term deposit rating from Prime-3 to Not Prime and the Bank's financial strength rating ("stand-alone") from 'D/(ba2)' to 'E+/(b1)' with a stable outlook. This rating action followed the downgrade of the ratings of the Bank's parent Banco Comercial Portugues, done by Moody's on 4th December 2012.

The table below presents the ratings of Bank Millennium as on 31 December 2012:

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

IV. BUSINESS ACTIVITY OF BANK MILLENNIUM GROUP

Bank Millennium Group offers universal, modern financial services based on the product offer provided by Bank Millennium and other companies – members of the Group: Millennium Leasing (leasing), Millennium TFI (mutual funds) and Millennium Dom Maklerski (brokerage services). In 2012, despite visible economic slowdown, Group companies consistently implemented the Group's strategy focusing – besides on-going cooperation with Clients – in particular on improving service quality and introducing new banking products and services to the offer.

IV.1. Retail banking

Bank Millennium is a universal bank offering a wide range of banking products and services to individual Clients. The Bank cooperates with them within the framework of four specialised business lines: Individual Clients, Prestige, Private Banking and Business.

The Bank operates one of the largest in Poland Client service networks of 447 outlets located in the biggest towns in Poland. Clients can use the banking services through the Internet banking system (Millenet), telephone banking and a network of multi-function ATMs. This way the Bank's services are available 24 hours round for 7 days a week. Keeping in line with development of new technologies and, therefore, increasing Client expectations, the Bank consistently developed its electronic channels of distribution and banking product servicing, including, in particular, the Internet, mobile and telephone banking systems. The Bank continued to successfully take advantage of cross-selling opportunities via its outlet network and telemarketing.

The Bank has gained strong position on the Polish retail banking market by way of effective implementation of its strategic goals adopted for the years 2010-2012, with the objective to increase its product and service market share and to gain the position of the first choice bank for retail Clients. One of the priority objectives during the period was to improve service quality and the level of Client satisfaction. The service quality improvement programme implemented by the Bank generated measurable effects in the form of many prestigious awards granted both by experts and Bank Clients in direct Internet polls.

The Bank achieved spectacular success in the ranking „Newsweek's Friendly Bank 2012" recognised as the most prestigious ranking in Poland. The ranking is prepared in effect of examinations performed by specialist auditors looking at the institution from the perspective of real Clients („Mystery Shopper" method), and evaluating practically all important elements of activity in both traditional and electronic service channels.

In 2012 Newsweek ranked the Bank as the best and the most friendly Internet Bank in Poland (The Bank moved upwards in the ranking from 3rd position in 2011 to 1st in 2012). The Bank achieved this success by having obtained best grades in majority of categories under evaluation such as attracting and retaining clients, communication and operational channels and service quality.

In 2012, Bank Millennium was again ranked the first in the ranking „The Best Internet Bank for Individual Clients in Poland" and the „Bank Offering the Best Internet Service of Deposits, Credits and Investments in CEE" by prestigious international „Global Finance" magazine.

In the general ranking of service quality provided to individual Clients Bank Millennium was ranked second (3rd in 2011). The Bank achieved this excellent position in effect of high grades achieved in all sub-categories: outlet features, service quality and ability to attract and retain Clients.

At the end of December 2012, Bank had more than 1.2 million active retail Clients including 32 thousand Prestige Clients, 2 thousand Private Banking Clients and 64 thousand Business segment Clients.

„Millenet" Internet banking

Year 2012 was marked with implementation of new products and services within the Internet banking:

- Finance Manager: a tool to support household budget management (expenses and incomes). The Bank was one of the first in Poland to introduce the solution and, as at the end of 2012, it is used by more than half a million Clients.
- Immediate transfers: facilitating execution of immediate external transfers. Bank Millennium was one of the first banks to introduce the service and the first to provide it to individual and business Clients.

Besides offering new products and functionalities in Internet banking, the Bank continues to undertake systematic efforts, within Internet banking, to improve Internet site functionality. Changes and improvements are introduced on the basis of eye-tracker tests, questionnaires as well as comments and suggestions obtained from Clients. As an example, one of the changes introduced in 2012 involved modification of the outlook of the page after login. Besides graphic changes, Clients are provided with site content personalisation option.

The number of registered Millenet Clients, as at the end of December 2012, amounted to 1,434 thousand, recording an increase by 16% from the beginning of the year.

Indicator reflecting use of Internet banking (measured by the number of Millenet Clients executing at least one transfer per month) has been increasing year by year. In 2012, it increased by 25%. Individual Clients execute 96.5% of all external transfers through Millenet (transfers to accounts in other banks).

As in December 2012, majority of active Millenet Clients generated their account statements electronically (671 thousand) recording an increase in number of electronic statements by 46% year-on-year.

In addition, Millenet provides an important distribution channel supporting sales of: deposits/saving accounts, current accounts, cash loans, debit/credit/pre-paid cards, cash advances from credit cards, investment products. More than 50% of standing orders and many other banking services are opened and performed through Millenet.

Mobile banking

Services offered by the Bank to users of mobile devices constituted a fast growing group in 2012. This was due to the Bank's intention to meet growing expectations of its Clients.

Main, new solutions introduced in the area of mobile banking in 2012 include, as follows:

- Finance Manager on mobile platform: Bank Millennium was the first to introduce the service on the mobile banking application (iPhone)
- Introduction of micro-enterprise support service (SOHO)
- Introduction of Happy Hours deposits in Millenet
- Review of incoming payments
- Supporting payment of bills by way of scanning QR codes in mobile applications (under way)

The number of mobile banking Clients, at the end of 2012, was 51 thousand recording an increase by 82% year-on-year.

Telephone banking (Telemillennium)

In 2012, the Bank carried out the second stage of IVR system implementation in TeleMillennium to ensure improvements and provide for new Client service opportunities. Introduction of this solution involves, first of all, as follows:

- IVR on the 24Help line used to provide support to Millenet users: ensuring effective management of connection distribution.
- Telemillennium – Call back: functionality supporting call backs to Clients waiting from connection with Bank consultants.
- Dynamic management of messages in IVR facilitating launching of a message in case of e.g. bank system failure and marketing messages.

In 2012, the number of Clients using Telemillennium increased. Relative to 200 thous. calls made in 2011, their number increased in 2012 by ca. 25%.

Personal account

In 2012, Bank Millennium recorded again very good personal account sales result, as it opened nearly 300 thous. new current accounts. The „Dobre Konto" current account, introduced into the offer for individual Clients already in 2011, confirmed its attractiveness to the market in 2012. This account type accounted for as much as 71% of all new accounts. „Dobre Konto" popularity has to be underscored in view of very high activity ratio represented by holders of the account. Nearly 70% of „Dobre Konto" holders have been executing non-cash transactions using cards issued to the account and ensuring inflows to the accounts at the level of, at least, 1000 PLN monthly.

Attractiveness of „Dobre Konto" account has also been proven, besides Client opinions, by prizes and awards granted in many rankings. Throughout 2012, the account never left the top three positions in the quarterly renewed ranking of Internet services Wyborcza.biz and Kontomierz.pl to be ranked as the Least Expensive account for "Mr. Smith". In November, the account was given a top prize for the best current account in the ranking maintained by the Open Finance Portal and won, for the second time, the ranking TotalMoney.pl having the best personal account from among all accounts with Internet access. „Dobre Konto" was also ranked the top in the March ranking maintained by Bankier.pl, as an account facilitating Clients with monthly inflows of not less than 5 thous. PLN to earn the most.

Savings products and other Client funds

In 2012 Bank Millennium maintained balance between growth in the volume of deposit products and proper care of the margins. The Bank focused its promotion activities on Konto Oszczędnościowe, but the offer, overall, included also other products encouraging savings.

In the Q1 2012, a new 12-month deposit Lokata Słodki Zysk with offering disbursement of interest every month to the Client's current account was added into the Bank's offer. This product structure was met with significant interest and the product balance at the end of December reached the amount of PLN 940 million.

A promotional term deposit package combined with payments into Individual Retirement Account with TFI Millennium Funds constitutes the next new product. This structure provided Clients with 7% gain on the 3-months deposit while investing funds in a chosen Millennium TFI fund. This was a form of promotion and a way to draw Clients' attention to the need to save for future retirement.

After several months of focusing on deposit margin improvement, the Bank introduced, in 2012, promotion of Konto Oszczędnościowe. The first campaign was addressed to Clients depositing lower value savings (up to PLN 25 thousand) with the Bank. Promotion was supported by nationwide campaign carried out in the press and radio. The second campaign focused on attracting new Clients and new funds. The Bank offered an exceptionally advantageous formula ensuring promotional interest rate for 3 months from the first investment. The rate was conditional upon the balance and reached up to 6.5% for amounts of up to PLN 25 thousand. The promotion was used by the total of 120 thousand existing and new Bank Clients.

Throughout the year, the Bank offered interesting solutions in the area of structured deposits to its Clients. In 2012 Clients invested more than PLN 950 million in these deposit products.

In effect of actions completed in 2012, deposits of Retail Banking Clients increased in 2012 by more than PLN 3 billion.

Payment cards

The Bank offers a broad range of payment cards to its retail Clients including debit, credit and charge cards issued under three payment systems – Visa, MasterCard and American Express.

In March 2012, the Bank's offer was supplemented with new debit card Millennium Maestro Voyager – a card issued to the accounts maintained in EUR. This card ensures that payment in trade and service outlets and withdrawals from ATMs are settled in EUR via accounts linked to the card without currency conversion and currency conversion fees. Karta Millennium Maestro Voyager stands out with its modern, vertically oriented graphical image.

Another new item introduced into the Bank's offer in December 2012 was a prepaid card Millennium MasterCard Prepaid. The card can be used by any person indicated by the Client provided that he/she is older than 13 years of age. The card is not linked to any account and may be topped up many times with any amount.

In 2012 the number of debit cards in the Bank Millennium portfolio increased by 14%. This result is significantly above the average market growth during the period (7% according to NBP, on Q3 2012). Excellent result achieved by the Bank in this area is an effect of, *inter alia,* several successful promotional campaigns linked with the offering of Dobre Konto. Bank Millennium, with 1 144 thous. debit cards, already has market share above 4% relative to debit cards issued to retail Clients. In 2012, the number of debit card transactions significantly increased, by more than 28%. At the same time, the average number of transactions per card increased by nearly 13%.

Year 2012 was marked by declining trend started in 2009 on the credit card market. According to NBP, in Q3 2012 the credit card market shrinked by 7% (y-o-y). The rate of decrease in the number of Bank Millennium credit cards recorded in 2012 was significantly lower at 4%. The Bank, at the same time, strengthened its position gaining, at the end of 2012, share in the credit card market at above 7% and 9% in terms of transaction value. Furthermore, activities of Bank Millennium credit card holders increased as reflected by nearly 7% growth in the number of transactions and more than 2% increase of their value. During the same period, the average number of transactions per single card increased by nearly 12%.

In July 2012, the Bank completed the process of replacement of cards with magnetic stripe by hybrid carts i.e. cards provided with microprocessor and magnetic stripe.

Cash loans

One of the major Bank's objectives for 2012 was to significantly increase sales of cash loans and to reach out to new Client segments with its offer. In the first half of the year, the Bank focused on modernisation of important offer components from product features through the loan granting process up to ways of communication to the market.

In effect of these efforts, key product parameters were changed and the lending process itself was better adjusted to market expectations by introduction of improvements in document requirements and shortening the credit application processing times.

In November 2012, the Bank introduced a proportional offer to its Clients under the name Gwarancja Najniższego Oprocentowania (Lowest Interest Rate Guarantee) involving granting by the Bank, to every Client willing to make use of the loan during the promotion campaign, a 30-day guarantee of the lowest interest rate. In case the Client provides the Bank with written confirmation of receiving lower interest rate relative to the same amount and the same lending term in another bank, Bank Millennium would provide the Client with the same conditions of the loan. The offer was supported by nationwide media campaign using TV, press, Internet and outdoor advertising carriers.

These activities brought fruit in the form of increase in value of cash loan sales in the second half of 2012 by as much as 35% relative to the first half of the year and increase, five times, of percentage share of Bank Clients in the product sales. In effect of consistent implementation of the Bank's strategy targeted towards provision of the highest quality service and product offer to its Clients, the bank recorded, in 2012, an increase of the balance of retail cash loans by above 9% to the level of PLN 2.3 billion as at the end of the year, while, at the same time, maintaining the level of interest margin. It is worthwhile to notice the entire market recording decrease by more than 6%.

Mortgage banking

Bank Millennium activities in the area of mortgage banking in the last 12 months focused on improvement of the lending process and service quality to meet market expectations, increasing competition and to implement the Bank's plans.

The Bank modernised the real property valuation process offering Clients with opportunity to value real properties using intermediation of the Bank and directly by property appraisers preferred by the Bank. Prospective borrowers applying for mortgage loan were offered an opportunity to obtain preliminary credit decision on the basis of the statement of property value without the need to deliver actual property appraisal and incur costs connected with valuation.

In October 2012, the Bank expanded its mortgage credit special offer by introducing further opportunities for Clients, who actively use their personal accounts.

In addition, the Bank undertook efforts to optimise and automate the mortgage loan portfolio servicing by implementing solutions designated to significantly shorten processes and, thereby, reduce costs connected with credit application handling.

In 2012, Bank Millennium recorded, similarly to the market, a decline in the total amount of newly granted loans. The value of disbursements amounted to PLN 1,959 million and was lower by 6% than in 2011. At the end of the year, the Bank Millennium mortgage portfolio reached the value of PLN 27.2 billion.

Prestige line - for affluent Clients

Bank Millennium offered the group of the most exacting, affluent Clients expecting to receive the highest quality service and financial product offer tailored to their individual needs service by specialist advisors under specially designed business lines.

Prestige is an offer addressed by Bank Millennium to affluent Clients with assets amounting from 100 thous. PLN or making payments to their accounts amounting to , at least, 10 thousand PLN monthly.

Within the Prestige account, the Client receives a broad range of products and services used to ensure on-going finance management as well as a broad range of investment as well as insurance and investment products including domestic and foreign investment funds, Wielowalutowy Program Inwestycyjny (Multicurrency Investment Programme), Polisę Gwarancyjną (Guarantee Policy) and structured products.

In 2012, Bank Millennium conducted 22 issues of Banking Debt Securities being the base for structured savings products, all denominated in PLN and featuring different time horizons, underlying assets and disbursement forms – always with guarantee of pay-back at least an entire invested capital. Clients expressed very high interest in subscribing for the Banking Debt Securities based on gold and oil quotations.

Financing needs of the Clients were satisfied by cash loans, credit cards, mortgage loans and asset backed loans offered by the Bank. Sales activities focused, primarily, on cash loans, credit cards and personal account overdrafts.

Throughout 2012, Bank organised investment seminars for existing and potential Prestige Clients. Investment seminars enjoyed high level of interest and turned out to be an effective means to inform participants about market changes and Prestige products.

At the end of 2012, Bank Millennium serviced nearly 32 thousand active Prestige Clients.

Private Banking

Private banking in Bank Millennium includes an offer of products and services designated to the most affluent Clients having assets in value exceeding PLN 1 million.

For these Clients, the Bank prepared an expanded product offer including attractive personal account, savings and investment products, brokerage services, credit products including credit card Millennium MasterCard® World Signia™. The card in 2012 repeated the previous year's success and again was ranked the first in the ranking of credit cards for the most affluent Clients maintained by Forbes monthly. The victory was ensured by packages of practical and unconventional value added services such as high limit – even up to two million for VIP version – and no fee for card issue. Given to the Bank awards and Client opinions confirm that the Bank's objective i.e. creation of the market best black card meeting expectations and needs of the most affluent Clients was actually achieved.

The Private Banking Clients can take advantage of an extensive offer of investment and insurance products – more than 100 Polish and foreign investment funds denominated in EUR, USD and PLN and offered by respectable partners. The offer also includes structured products, brokerage services, life insurance policies and a broad range of deposits, savings accounts and retirement accounts with attractive interest rates.

At the end of 2012, Bank Millennium serviced nearly 2 thousand Private Banking Clients.

Business Client segment

Within the retail banking Bank Millennium offers a broad range of products and services designed to satisfy current and long-term financial needs of the Business Segment Clients (the smallest businesses generating annual turnovers of up to PLN 5 million). The Bank provides highly professional and comprehensive support to Small and Medium Size Enterprises focusing on systematic improvement of its offer addressing the needs of this Client group.

In August 2012, the Bank expanded its offer to Business segment Clients by adding a new product „Kredyt Hipoteka na Rozwój Firmy" (mortgage loan to finance company development). The loan is granted to finance current needs of entrepreneurs and to refinance loans granted to finance business operations by other banks. The loans are designated for existing and new Clients of Bank Millennium providing an interesting alternative to other forms of business operation financing.

Year 2012 was marked with success in terms of developing long-term business growth foundations. The Bank opened, during the period, more than 19.6 thousand new current accounts for Business segment Clients. The greatest interest among Clients was raised by Konto Biznes Trade, designated for Clients holding MAKRO Cash and Carry cards. The Konto Biznes Start offered to new market entrants was the next in line.

In 2012, Biznes Profesja account was ranked top among account for professionals in the October ranking by Bankier.pl. In addition, in 2012 Bank Millennium was ranked second by Forbes magazine among the best bank offers for companies. The ranking covered 29 biggest banks.

At the end of December 2012, in the Bank's business segment portfolio there were nearly 64 thousand active Clients marking and increase by 5% relative to the preceding year. The number of accounts serviced within the Business segment amounted to 123 thousand, and the balance of Client funds reached the amount of PLN 2,225 million.

IV.2. Corporate banking

Corporate Banking focuses on comprehensive and professional servicing of companies generating sales revenue above PLN 5 million and public sector institutions as well as units. As on 31 December 2012, the Bank actively cooperated with more than 10 thousand Clients representing the segment (at the end of 2011 the number was less than 9.5 thousand). The overriding objective of the Bank in the area of Corporate Banking is to develop sustainable and valuable relationships with Clients and consistently adjust the bank's offer to meet their current and long-term needs.

In 2012, striving to achieve the above mentioned objectives, the Bank systematically expanded its product offer for corporate Clients and extended its network of professional relationship managers servicing this Client segment. These achievements are reflected in the level of Client satisfaction. According to results of the last year's Client satisfaction survey, the level of Client satisfaction is high or very high.

Despite the next wave of financial market crisis in Europe, the corporate segment is achieving its objectives. The result on banking operations in the Corporate Banking area in 2012 amounted to PLN 443 million i.e. grew by 4% when compared to the result of 2011 (PLN 425 million). The result was achieved under significant impact of more difficult conditions of corporate operations specifically in the construction sector.

Distribution channels

Corporate banking Clients are serviced through expanded, nationwide sales network. As on 31 December 2012, Clients could cooperate with 128 Bank Advisors and 74 Consultants working in 34 Corporate Centres. Corporate Centres could also take advantage of support from 64 Product Advisors – specialists in leasing, factoring, trade financing, treasury transactions and transaction banking.

Besides direct contacts with Bank staff, Clients have also access to Electronic Banking systems such as:

- Internet banking system Millenet for Companies,
- Telemillennium telephone service,

Ensuring permanent, affordable, fast and secure access to information on current account balance and capacity to execute transactions. Besides available contacts to highly specialist Advisors, the Corporate banking Clients can take advantage of services provided within nationwide network of 447 Bank Branches.

Internet Banking for Companies

In 2012, the Bank introduced new solutions into Internet banking Millenet for Companies:

- Immediate transfers i.e. external payments (outside of Bank Millennium) executed in real time, up to the amount of 100 thousand PLN.
- Electronic Cash Withdrawal (ECW) i.e. capacity to settle cash withdrawal with beneficiary in case the beneficiary has no bank account or in case the beneficiary's bank account number is not known. Instruction is submitted by the Client exclusively via Internet banking system Millenet for Companies. However, withdrawals are executed in any branch of Bank Millennium after verification of beneficiary's data.

Volume of transactions executed by Clients of Millenet for Companies increased by nearly 185% year-on-year: from 512 thousand in December 2011 to 1,460 thousand in 2012. The Bank managed to generate this increase by introduction of effective solutions connected with payment processing. Furthermore, continuation of Client migration from the offline ESOBIG system to Internet banking Millenet was, by all means, quite helpful.

The work on further development of Millenet for Companies will continue in 2013. The bank plans to improve usability and intuitiveness of service, simplification of start-up and configuration changes and extension of information presented in transaction part of Millenet for Companies.

Mobile banking

In 2012, Bank Millennium was the first in Poland to introduce application supporting full servicing of company accounts for corporate Clients via their telephones and tablets. Application is supported by operational systems Android and iOS.

In 2013, efforts to expand the functionalities of mobile banking for companies will continue.

Credit products

Despite unstable macro-economic situation, Bank Millennium is actively seeking the most favourable conditions of financing for its Clients. This is particularly important when funds of both national and regional operational programmes made available under EU co-financing within the Perspective 2007-13 are depleting. Bank Millennium participated, *inter alia,* in the Polish Sustainable Energy Financing Facility (PolSEFF). The Programme was implemented in cooperation with the European Bank for Reconstruction and Development to improve energy efficiency of the Polish SME sector. Under the PolSEFF Programme the Millennium Group has been financing more than 200 projects by way of loans and Eko Energia leasing with consecutive 100 projects prepared by our Clients remain in the pipeline under review by PolSEFF engineers. These results induced EBRD to grant a new tranche of funds to Bank Millennium thus allowing the Bank to continue offering preferential financing to the Clients. Bank effectiveness in fostering the Programme assumptions was recognised by EBRD, who awarded the Bank with a prize for New Marketing and Distribution Channels.

Moreover, Bank Millennium participated in the Technological Loan Programme in which the Bank Clients use EU co-financing designated to support innovations. Bank Millennium also took part in all rounds of application seeking campaign actively supporting its Clients in the application process.

Striving to ensure high level of satisfaction of its corporate banking Clients in 2012 the Bank undertook intensive work to develop tools supporting lending area in order to shorten the time required to render service and to optimise Client service processes.

In mid-2012 the bank carried out a project to strengthen its pricing policy foundations in the corporate banking area. The new policy facilitates effective loan portfolio management while maintaining individualised and flexible approach to Client needs.

Factoring

In 2012, Bank Millennium realised factoring turnover at the level of PLN 6,436 million, generating an increase by 20,8% relative to 2011 (during the same period, turnovers recorded by entities offering factoring services in Poland increased by 19.9%). The Bank was ranked 6 on the factoring service market in Poland in terms of the value of receivables purchased in 2012.

For several years Bank Millennium has been gradually developing its factoring offer.

In 2012, the Bank implemented a consecutive product i.e. Factoring without Recourse with Client Insurance Policy addressing the needs of companies having concluded trade receivable insurance contracts.

Under this product, the Bank finances receivables and takes over counterparty insolvency risk within the area covered by insurance agreement and under terms and conditions provided for, in detail, in the factoring agreement.

Clients using factoring offer are provided by the Bank with a modern Client application accompanying by professional system reporting the status of factoring settlements and the module of electronic data exchange. In 2012, majority of Clients were already granted an option to obtain financing on the basis of list of receivables to be delivered electronically thereby significantly shortening the time required to disburse funds.

Trade financing

Bank Millennium has rendered trade financing services since 1993. The Bank offers a complete range of risk minimising instruments both in domestic and foreign trade. Business operations involve purchase of raw materials, goods and commodities and sale of products at home or abroad. The key role in the process is performed by the need to conduct purchase and sale transaction in a safe way.

In order to mitigate trade transaction risks Bank Millennium offers the following products:

- Documentary collections,
- Documentary letters of credit (LC),
- Bank guarantees,
- Civil law sureties and avals,
- Discounts of documentary LCs and promissory notes,
- Bank guarantee Civil law surety and documentary LC lines,
- Multi-product lines.

Within the scope of the above products, the Bank provides an opportunity to issue bank guarantees, civil law sureties and documentary LCs.

Besides traditional products referred to above, Bank Millennium also offers structured products and related services. The team of trade finance experts offers the Bank Clients with individual advisory services and assistance in selecting appropriate solutions – both in terms of costs as well as trade transaction risk mitigation.

In 2012, Bank introduced a series of product changes to improve product performance including, *inter alia,* as follows:

- Introduction of new and simplification of existing forms to be filled in by Clients.
- Structuring Service Price List to improve legibility and to bring fees and commissions charged on trade finance products to market levels.

Furthermore, the Bank commenced the process of implementation of an electronic platform for Clients to support trade finance transactions. The platform will be provided through the Internet banking system Millenet, and will be made available to the Client from 2013.

The volume of exposure in guarantees and LCs issued amounted to, in December 2012, PLN 1.5 billion.

Transaction banking

The year 2012 was marked by further, gradual development of product offer for a broad spectrum of enterprises – companies, capital groups, state budget financed units – providing comprehensive and highly competitive service.

In October 2012, the bank introduced a comprehensive package of product changes based on Master Agreement. Master Agreement provides a new quality to cooperation with Clients and covers majority of products (other than financing) without the need to conclude consecutive agreements relative to both products included in the offer as at the date of the agreement and those to be included in the future. At the same time, the bank introduced a number of improvements to facilitate use of the Bank services including: expanded power of attorney, universality of closed payments, decision not to verify company seals, processes without pre-defined PIN for payment cards.

In the first half of 2012, the Bank implemented a functionality supporting flexible adjustment of a price of domestic transfer in PLN until submission of order for a given KIR session. This highly innovative solution is offered to Clients by only a limited number of banks and helps to manage transfer price in a flexible manner and, thereby, optimise operational costs.

Immediate transfers executed via Express ELIXIR system operated by the National Clearing House (KIR) is another innovative solutions introduced to the Bank offer in June 2012. The system supports immediate, on-line inter-bank transfers 24 hours a day for 365 days a year. Bank Millennium was the first to undertake cooperation with KIR in this project and the first to offer this service to its Clients.

In May 2012 the Bank commissioned an Electronic Cash Withdrawal service i.e. an opportunity to submit cash disbursement orders via the Internet banking system Millenet to receivers having no bank account to be collected in Bank Millennium branches.

Furthermore, the Bank adjusted its custody accounts to requirements of the Act on protection of rights of housing unit or single family house buyers of 16 Sep. 2011 by introducing housing escrow accounts – closed and opened – to the Bank’s offer.

In the second half of the last year the bank carried out a cycle of training courses "Millenet System as a Basic Channel for Client’s Communication with the Bank” increasing competence of Relationship Managers and Consultants in main transaction banking products available in the Internet banking system.

In 12 months of 2012 funds of corporate banking Clients on current and term deposit accounts increased by PLN 2.5 bn to reach the level of PLN 14 bn (increase by 21%), while, at the same time, the market grew by only 1.2%. In addition, the structure of funds improved with 8 per cent increase of Client funds on current accounts from PLN 2.38 bn in December 2011 to PLN 2.57 bn in December 2012.

The number of corporate banking card holders increased from 2.9 to 3,7 thous. i.e. increased by 30%. The number of cards increased from 11,0 to 17,0 thous. i.e. increased by 54%. The number of pre-paid cards issued increased from 4.5 to 9.1 thous., and the number of Clients holding pre-paid cards increased by 150%.

The number of current account transactions processed (incoming and outgoing, including transfers, direct debit, postal money orders) increased by 28% yearly from 5.3 million to 6.8 million items.

IV.3. Treasury and investments operations

Treasury operations

Bank Millennium Treasury Department provides the bank Clients with access to a broad range of financial instruments. In 2012 the Treasury Department's offer for Corporate Banking Clients included the same range of products as in 2011: FX spots, deposit products, FX rate risk management instruments (fx forward, fx swap, options) and interest rate risk management instruments (FRA, IRS, CIRS type transactions).

In 2012, Treasury Department continued to actively offer transaction platform Millennium Forex Trader, to Corporate Banking Clients to conclude FX spot and forward transactions and currency swaps themselves.

Millennium Forex Trader is a tool ensuring fast and secure access to financial markets facilitating Clients to efficiently conclude transactions without the need to call Treasury Department dealer. The Platform helps to minimise service costs by providing direct access to inter-bank market quotations.

At the end of 2012, nearly 1300 Clients used the Platform generating average monthly revenue from transactions concluded on the Platform accounting for ca. 20% of total income from treasury transactions concluded by Corporate Banking Clients.

Bank Millennium is a leading financial institution in the area of offering structure products to Retail banking and Prestige segment Clients.

Last year the Bank continued operations on the structured product market; results of this operation received recognition – in the European ranking maintained by StructureRetailProducts.com Bank Millennium was ranked 1 and 2 in the category of the best sales and the best results among all institutions offering structured products.

Investment activities

At the end of 2012, the value of securities portfolios amounted to 6.6 bln PLN, against 3.4 bln PLN as at the end of 2011. This value increased due to significant increase of Client deposit base and increasing trend in Treasury bond market. The favourable trends in the CCS market helps to receive better conditions relative to obtaining foreign currencies including, in particular, CHF to meet the needs of the mortgage loan portfolio. Therefore, FX swaps were used only to support short-term management of the Bank's FX liquidity position.

During 2012 Bank issued PLN 350 mln 3-year bonds among financial institutional investors. Obtained funds were used for Bank's general operations.

In the last year the growing trend on the interest rate market reversed and the Bank took advantage of this change by concluding interest rate swaps to hedge the Bank's position against interest rate drops.

In 2012, the Bank was given the status of Treasury Securities Dealer and Money Market Dealer for 2013.

Custody services

Bank Millennium renders custodial services on the basis of individual permit granted by the Securities and Exchange Commission. Bank Millennium is a direct participant of the depository and clearing systems such as the National Securities Depository, Securities Registry of the NBP and the Euroclear International Clearing House in Brussels.

Value of assets on Client securities accounts, as on 31 December 2012, amounted to 28.46 bln PLN, and, relative to 27.7 bln PLN as on 31 December 2011, increased by 2.74 %. At the end of 2012, the Bank maintained 11,048 securities accounts i.e. more by 11.46% than in 2011.

The baseline offer is supplemented by additional services including comprehensive service of Depository Bank rendered to Investment Funds. At the end of December 2012 the Bank performed depository function for 57 Investment Funds i.e. their number increased by 16.33% relative to 2011.

The Bank's offer is gradually improved. In 2011-2012 the Bank implemented a number of projects resulting in improvement of the Bank's custodial service quality including one of the major project involving implementation of a new IT system supporting register of securities. In 2012, the Bank expanded its offer to include consecutive foreign markets by conclusion of agreement with Clearstream Banking Luxembourg.

IV.4. Business activity of subsidiaries

Leasing

Millennium Leasing sp. z o.o. is a Bank subsidiary offering leasing service. Company activities include both financing of movables (mainly means of transport as well as machines and equipment for use in all sectors of economy and services) and real properties. Millennium Leasing was ranked fourth in the ranking of leasing companies in Poland in terms of real estate value leased in 2012 and fifth in terms of all leased items with market share of, respectively 6,6% and 6,5% according to data of the Polish Leasing Association. Most of leasing Clients are also Clients of the Bank: micro-entrepreneurs and corporate Clients.

Millennium Leasing was established in 1991 and is one of the players with the longest operational history on the leasing market in Poland. The scale of company operations is best illustrated by nearly 123 thousand leasing agreements signed with nearly 40 thousand Clients to the total amount of 16,2 bln PLN. At present, the company's leasing portfolio includes 12,3 thous. Clients. Leasing sales activity is performed by leasing advisors in 67 outlets operating countrywide and by Relationship Managers in the Bank Millennium branch network.

Brokerage services

Brokerage activity in the Bank Millennium Group is performed by Millennium Dom Maklerski S.A., offering a broad range of brokerage services including, in particular, services connected with execution of purchase or disposal orders regarding financial instruments to the account of the principal, purchase or disposal of financial instruments on own account , maintaining securities accounts and cash accounts for the purpose of securities account servicing, investment advisory services, provision of advice to companies in the area of capital structure and strategies, mergers, divisions and acquisitions of companies, offering of financial instruments, rendering services in performance of investment or service sub-issues, preparation of financial and investment analyses and other recommendations relative to financial instruments.

In 2012, the stock exchange turnover recorded by Millennium DM on the equities market amounted to PLN 4,143 million providing the company with the market share of 1.1% according to the WSE data. As on 31 December 2012, Millennium DM maintained 61,946 investment accounts and operated at market maker and issue market maker for 7 WSE listed companies.

In 2012, Millennium DM as a Lead Manager carried out public offering of Vantage Development S.A. implemented in connection with division of the company Impel S.A. In addition, a secondary offering of Trans Polonia S.A. shares was conducted. In 2012 Millennium DM performed a process of share buyback of shares in: Emperia S.A. and Muza S.A.

Mutual funds

Year 2012 was profitable with respect to the investment fund market. Positive rates of return were achieved by all categories of funds. The highest interest among investors was raised by debt funds although the end of the year brought about an increased interest in equities' investment funds. TFI Millennium took advantage of the positive situation to improve its market position. Expansion of the offer and continued good investment results encouraged investors to more extensively use forms of saving other than bank deposits. Net asset value of the mutual funds managed by Millennium TFI amounted, at the end of 2012, to PLN 2,951.7 million, recording an increase relative to the end of 2011 by 756 mln PLN i.e. by 34.4%. In particular, significant increase in assets was recorded by Subfundusz Depozytowy (deposit sub-fund). Moreover, the structure of participants in Millennium funds recorded a positive change. Average value of assets per participant increased from PLN 16,480 at the end of 2011 to PLN 22,490 at the end of 2012. Net profit generated by the Associations in 2012 increased by 14% relative to the previous year i.e. from PLN 11,185 thousand to PLN 12,460 thousand.

The Association, in 2012, introduced the following new products into its offer:

- Investment Programme „Maluch" facilitating systematic saving by under-age clients,
- Subfundusz Obligacji Korporacyjnych (Corporate Bond Sub-fund) (converted from European Bond Sub-fund),
- Subfundusz Absolute Return (from conversion of z przekształcenia Subfunduszu Akcji Europejskich).

All sub-funds recorded positive rates of return and three significantly exceeded relevant benchmarked levels. The rate of return of Millennium FIO Akcji (Equities) reached 21.9% against the benchmark of 19,3%, the rate of return of Millennium FIO Dynamicznych Spółek (Dynamic Companies) amounted to 19.1% against the benchmark of 14.1% while the rate of return of Millennium FIO Depozytowy (deposit) amounted to 5.4% against the benchmark of 3.4%.

Concurrently, Subfundusz Depozytowy (Deposit Sub-fund) received one of the top investment grades in the ranking Analiz Online.

In 2012 Association remained one of the leaders of the offer of products in systematic savings for retirement managing more than 50 thousand of Individual Retirement Accounts (IKE).

IV.5. International activity and institutional funding

In view of the fact that in 2012 the market of international syndicated loans was continuously, not performing properly; the market is expected, in future, to be the main source for the Bank to obtain stable financing in foreign currencies – no new agreements were concluded in this area. On the other hand, servicing of existing and management of new agreements concluded with international financial institutions including, in particular, European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) continued. These agreements, as on 31 December 2012, included, as follows:

- Agreement with EBRD of November 2009, providing for medium-term loan of EUR 100 million, for purpose of increasing Bank Millennium capacity to finance SME sector Clients with final maturity in November 2014.
- Agreement with EBRD of December 2010, providing for a loan of EUR 35 million, with the purpose to finance capital projects connected with energy efficiency in SME sector, implemented under EBRD launched PolSEFF programme for Poland (Polish Sustainable Energy Financing Facility), supported additionally by initial grants for investors from EU funds. The loan matures in 2015.
- Agreement with EBRD of December 2012 on the loan of PLN 60 million, for the purpose of expanding financing of PolSEFF programme with final maturity in December 2016.
- Global Loan concluded in December 2010 with EIB, in the amount of EUR 100 million, to support Bank activities in the area of financing capital projects implemented within the SME sector.

During 2012 Bank issued PLN 350 million 3-year bonds among financial institutional investors.

In the last year the Bank continued projects connected with on-going, for several years already, expansion of the base of credible counterparties and partners in the inter-bank market including, in particular, in the segment of instruments used for purposes of medium and long-term management of FX liquidity. One of the most important aspects of these activities was to open more than ten new (or updating existing ones) ISDA master agreements concluded with domestic and international banks, accompanied with fully symmetric on either side the so-called Credit Support Annex. In parallel, the bank undertook preparation efforts relative to launching of activity linked to execution of transactions relative to individual categories of derivative instruments on the OTC market (in particular, international) and covering them by EU EMIR (European Market Infrastructure Regulation), while basing their settlement on the Central Clearing Counterparty model.

Irrespective of the above activities, in the past the Bank performed, on the current basis, all other projects and tasks connected with its overall international operations to achieve diverse targets involving, *inter alia,* working capital financing of Bank's own and Clients' needs, servicing of foreign trade transactions, participation in international money and currency market transactions, capital market activities.

V. RISK MANAGEMENT AT BANK MILLENNIUM GROUP

V.1. Risk management framework

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

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

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

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

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

- Development of risk management strategies, policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of the Group's employees as regards their responsibility for proper risk management at every level of the Group's organisational structure,
- In 2012, in the area of risk management the initiatives undertaken by the Group focused primarily on activities related to further improve the process of identifying, measuring, monitoring and reporting of credit risk.

At the end of 2012, Banco de Portugal (as the consolidating Supervisor) and Polish Financial Supervision Authority granted a conditional consent to use from 31.12.2012 onwards the Internal Rating Based (IRB) approach by Bank Millennium to calculate the capital requirements for credit risk for most of retail portfolios (retail exposures to individual persons secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE).

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

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

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

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

The Risk Committee has global responsibility for risk control at the Bank Millennium Group. In order to assure such control the Risk Committee monitors the evolution of various types of risks in the Bank's operations and decides on the general risk policy accordingly to the goals defined on the Risk Strategy (approved by the Supervisory Board). All the Bank's Management Board members are members of the Risk Committee. Specialized Committees are chaired by Management Board members and incorporate responsibilities for the main areas related to origination, monitoring and management of the specific risks.

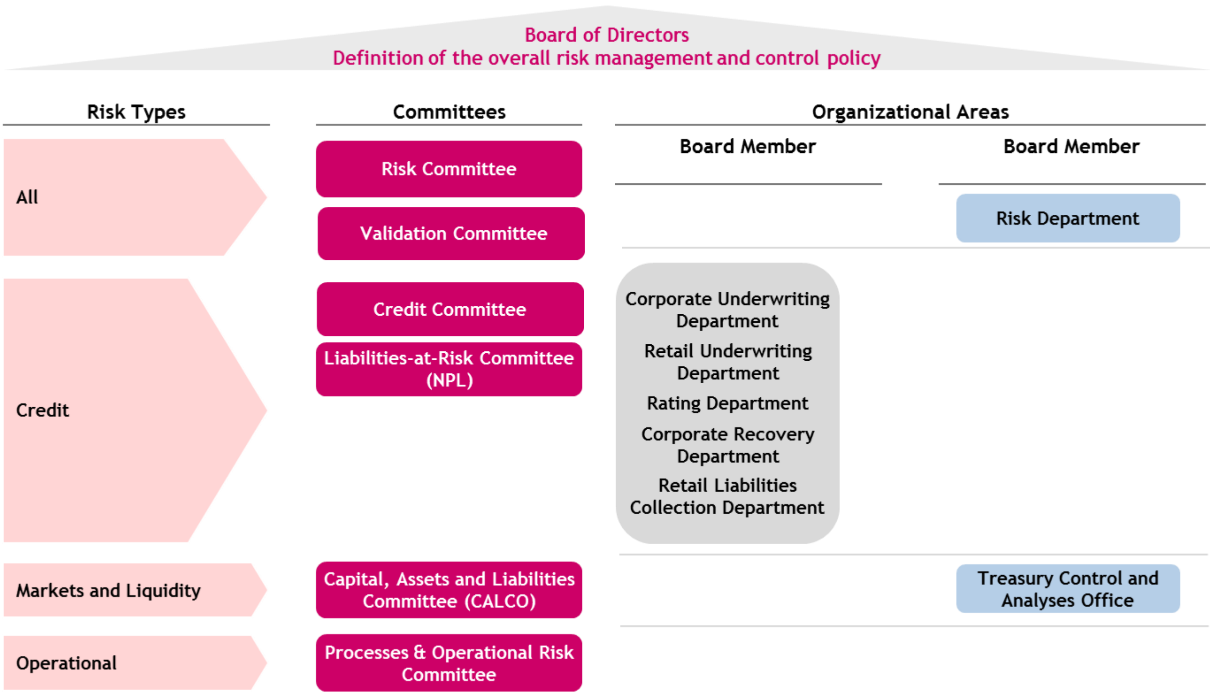
The on-going risk management is centrally conducted by the Bank's dedicated unit – Risk Department and its subunits - specializing in particular types of risk or process stages. The goal of the Risk Department is proposing and implementing the Bank's policy regarding the management of credit, market,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

The scope of the Risk Department's tasks includes:

- defining models and methodologies for risk measurement,
- defining rules for risk management,
- measuring and reporting risk exposures,
- modelling and implementing credit processes,
- calculating the credit impairment provisions,
- calculating the risk weighted exposures for capital requirements under Standardized and IRB methods.

The Risk Department is responsible for the control of risk in the entire Group by assuring the overall risk monitoring and harmonizing of concepts, policies and methodologies between various business lines and Group entities. The Risk Department is also responsible for informing all the committees on the levels of risk and for proposing the ways of strengthening its control and also for implementation the limits of risk.

The risk governance model in Bank Millennium Group is presented below:



V.2. Capital management

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

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

This assessment is also supported by the impacts of the decision taken at the end of 2012 by Banco de Portugal (BdP), in cooperation with Polish Financial Supervisory Authority (PFSA), for applying Internal Ratings Based method (IRB) to the calculation of capital requirements for credit risk in retail exposure class, in the following subclasses: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE).

The approval is conditional, i.e. the Bank should fulfil some conditions defined by BdP and PFSA, in pre-defined deadlines.

The approval also contains a regulatory constraint that the capital requirements calculated for the classes using the IRB approach must be temporarily maintained at no less than 80% of the respective capital requirements calculated using the Standardized approach . This constraint is applied until the fulfilment of the conditions is confirmed by BdP and PFSA, but will not cease before 30 June 2014.

Capital requirements and ratios of the Bank Millennium Group in the three approaches, as at 31st December, 2012, are presented in the below table:

Bank Millennium Group - capital ratios (PLN m) for:	31.12.2011 STD*	31.12.2012		
		STD	IRB constrained[1)]	IRB full[2)]
Credit risk	2 617.4	2 915.8	2 534.5	1 497.4
Market risk	38.7	24.8	24.8	24.8
Operational risk	225.5	226.5	226.5	226.5
Total capital requirements	**2 881.6**	**3 167.1**	**2 785.8**	**1 748.7**
Own Funds	**4 766.6**	**5 218.0**	**5 032.7**	**5 032.7**
Consolidated capital adequacy ratio (CAR)	**13.2%**	**13.2%**	**14.5%**	**23.0%**
Consolidated Core Tier 1 ratio	**11.4%**	**11.6%**	**12.9%**	**20.5%**

(*) Standardized approach
1) Calculated including regulatory constraint
2) Without the 80% constraint, before the fulfilment of the conditions defined by BdP and KNF and before the inclusion of the remaining portfolios in the IRB

The Capital position expressed in capital adequacy ratio, calculated in line with IRB regulatory constraint, improved comparing to the standardized approach by 1,3 p.p. Total potential advantage stemming from IRB method (for portfolios under approval of Supervisors) is 9,8 p.p. (i.e., without the 80% constraint and before the fulfillment of the conditions defined by BdP and KNF).

Analysing economic capital adequacy, the Group’s internal capital – expression for material risk in activity - is covered with a surplus by the available financial resources.

V.3. Credit risk

1. The main principles

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

The credit policy pursued in the Group is based on a set of principles such as:

- centralization of the credit decision process;
- using specific scoring/rating models for each Client segment/type of products;
- using IT information (workflow) in order to support the credit process at all stages;
- high level of standardizing credit decisions;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit sub-portfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sub-limits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;
- separate unit responsible for granting rating to corporate client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

2. Major initiatives in credit risk

In the area of credit risk the year of 2012 was particularly productive in new deliverables. Bank Millennium Group focused on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks , in particular:

- updated the new Risk Strategy, for the years 2013-2015
- introduced a new rating model dedicated to corporate clients;
- introduced a new application rating model for cash loans
- introduced a new application rating model for mortgage loans
- introduced a new rules concerning specialized lending assessment (income producing real estate finance, project finance, object finance);
- modified the documentation requirements in the process of granting credit transactions;
- introduced a new Risk framework for credit campaigns for individual customers
- introduced a new concentration limits regulation;
- introduced a new framework for data quality management;
- introduced a new framework for IRB change management policy;
- introduced a new policy for Risk Reporting;
- introduced a new Stress Tests Program framework;
- introduced a new model management framework, covering models development, documentation, validation and calibration.

In 2012, in the retail area, the Group dedicated a leading role in the credit policy to the activities related to further optimization of the form and the use of the tools for credit risk assessment. For this purpose there has been a set of solutions implemented or modified in such areas as risk filters and scoring models. The Group was strongly involved in improvement of the credit process and IT tools for the portfolio of consumer loans. In case of small companies the significant role was played by the works related to the introduction of the loan collateralized with mortgage for the company development to the Bank's offer.

The changes in the credit methodologies are based on objective and measured levels of risk. All the changes mentioned above should bring increase the credit portfolio but keeping the level of risk at an acceptable level defined in the Risk Strategy.

3. Loan portfolio quality

Loan portfolio quality ratios were stable during 2012. The ratio of impaired loans divided by gross loans stood at 5.1% and the ratio of loans past-due over 90 days to total portfolio reached 2.8% in December 2012.

The coverage of impaired loans by total provisions improved during entire 2012 from 58% to 59%.

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

Total portfolio quality indicators	31.12.2012	31.12.2011
Total impaired loans (PLN million)	2 111	2 104
Loans past-due over 90 days (PLN million)	1 160	990
Total provisions (PLN million)	1 238	1 217
Impaired over total loans ratio (%)	5.1%	4.9%
Past-due >90d over total loans ratio (%)	2.8%	2.3%
Total provisions/impaired loans (%)	59%	58%
Total provisions/Past-due 90 d loans (%)	107%	123%

During the year 2012 the quality of retail loans continued to improve (at the end of 2012 the ratio amounted to 15.5% compared to 17.2% at the end of 2011), except mortgage loans, where share of impaired exposure slightly increased from 0.95% at the end of 2011 to 1.11% at 31.12.2012, mainly due to the ageing of the portfolio. The corporate portfolio deteriorated slightly as well. The impaired ratio in this segment grew up from 11.7% at the end of 2011 to 12.0% at the end of 2012. The ratio increase was mainly driven by worsening quality of construction portfolio.

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

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans ratio	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Mortgage	0.54%	0.35%	1.11%	0.95%
Other individuals	11.0%	12.7%	15.5%	17.2%
Companies	6.0%	4.4%	12.0%	11.7%
Total loan portfolio	2.8%	2.3%	5.1%	4.9%

4. Industry structure of the loan portfolio

Taking into consideration concentration risk within sectors of activity, the Group's portfolio is well diversified. The main item are mortgage loans (66%) and other retail loans (8%). The portfolio of loans to companies from sectors like industry and construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 26% of the total portfolio.

Structure of Group's credit portfolio as at 31 Dec. 2012

Sector name	Balance Exposure (PLN million)	share (%)
Credits for retail	**30 804.4**	**74.3%**
Mortgage	27 392.9	66.1%
Cash loan	2 329.2	5.6%
Credit cards and other	1 082.3	2.6%
Credit for companies	**10 665.4**	**25.7%**
Wholesale and retail trade; repair	2 225.2	5.4%
Manufacturing	2 153.3	5.2%
Construction	1 598.7	3.9%
Transportation and storage	1 257.8	3.0%
Public administration and defence	590.7	1.4%
Information and communication	633.3	1.5%
Other Services	517.5	1.2%
Financial and insurance activities	372.9	0.9%
Real estate activities	562.0	1.4%
Professional, scientific and technical services	254.4	0.6%
Mining and quarrying	70.7	0.2%
Water supply, sewage and waste	100.1	0.2%
Electricity, gas, water	71.4	0.2%
Accommodation and food service activities	64.6	0.2%
Education	58.7	0.1%
Agriculture, forestry and fishing	59.8	0.1%
human health and social work activities	46.8	0.1%
Culture, recreation and entertainment	27.7	0.1%
Total (gross)	**41 469.8**	**100.0%**

The share of particular sectors in the Group's portfolio is similar to the structure presented as of 2011 year end. In the year 2012, the share of construction sector decreased (including construction of infrastructure, which decreased to PLN 460 million). During 2012, the off-balance exposure to construction sector decreased significantly by approx. PLN 1 billion.

V.4. Other risks

1. Market risk

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

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement.

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for the portfolios that are subject to high market risk.

VaR ratios presented in the table below reflect total exposure to market risk in the Group. In 2012, open positions included just interest-rate instruments and FX risk instruments. The total risk exposure was low during 2012 and was on average equal to PLN 21.5 million compared to the internal limit of PLN 95.3 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents.

Market Risk in terms of VaR (Group data, mln PLN)	End of December 2012		VaR (From 1st January 2012 to 31st December 2012)			End of December 2011	
	Exposure	Use of limit	Average	Maximum	Minimum	Exposure	Use of limit
Total risk	**11.4**	**12%**	**21.5**	**44.5**	**11.4**	**19.9**	**22%**
Generic risk	8.4	9%	18.7	41.8	8.4	16.9	19%
Interest Rate VaR	*8.4*	*9%*	*18.7*	*41.8*	*8.4*	*16.9*	*19%*
FX Risk	*0.02*	*0%*	*0.27*	*2.37*	*0.01*	*0.09*	*1%*
Equity risk	*0.0*	*n.a.*	*0.0*	*0.3*	*0.0*	*0.0*	*n.a.*
Diversification Effect	*0.2%*					*0.0%*	
Non-linear risk	0	0%	0	0	0	0	0%
Commodities risk	0	0%	0	0	0	0	0%
Specific risk	3.0	7%	2.8	3.1	2.6	2.8	7%

2. Liquidity risk

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

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

In 2012 the Group's liquidity significantly improved. Strong increase of deposits accompanied by nominal drop of loans allowed to achieve during 2012 the significant milestone of decreasing the Group's Loan-to-Deposit ratio below 100% - from 106.8% in December 2011 to 95.4% level in December 2012. This improvement of liquidity position enabled to rebuild portfolio of liquid assets (Cash, balance with NBP, NBP Bills and Polish Government bonds), which grew during the year by 71% from PLN 5.4 billion to PLN 9.1 billion at the end of the year.

	31.12.2012	31.12.2011
Loans/Deposits ratio (%) *	95.4%	106.8%
High liquid assets Portfolio (PLN million)	9 149	5 258

(*) including obligations (bonds) on leasing securitization, bonds for individual Clients and sell-buy-backs with Clients

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. At the end of 2012 total Clients' deposits of the Group reached the level of PLN 41.4 billion.

At the same time, the net loans portfolio decreased by 3%. However, the decrease of loan portfolio was mainly due to PLN appreciation. The share of FX loans in the Group's total loan portfolio (gross) decreased during 2012 year to the level of 50% from 55% at the end of 2011.

The Group manages its FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Group has signed a Credit Support Annex to the master agreements. During 2012, the FX swaps funding needs fell from PLN 19.8 to PLN 16.4 billion as of the end of December 2012.

In 2012 the Bank's own bonds and bank debt securities issue had a positive impact on the level of stable sources of funding. The outstanding amount increased to PLN 768 million in December 2012 (from PLN 395 million in December 2011). This increase allowed to compensate to large extent the decrease of liabilities from leasing securitisation, which are being gradually amortised.

The estimation of the Group's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. In 2012 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place.

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2012 all the liquidity gaps were maintained at the levels significantly above the minimum limits, both for normal as well as stress scenarios.

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

The Group has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan is updated on a quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

3. Operational risk

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

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

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

These tools are the basis of the operational risk management model and are essential for the continuous process of the Group processes improvement. In particular, in 2012 risk indicators database defined for the Group has been verified and updated.

VI. HUMAN RESOURCES MANAGEMENT

VI.1. Human resources policy

In 2012, Bank Millennium Group pursued the strategy of sustainable management of human resources as outlined in the Bank Millennium Personnel Policy adopted in 2011. This Policy defines the general goals of recruitment, management, development and retention of employees, as well as principles for planning and monitoring the human resources required to fulfil the strategic business targets of Bank Millennium Group. As part of the Personnel Policy, the Management Board of the Bank may and does define the detailed goals of human resources management.

The basic principles for setting objectives in the specific areas of the Personnel Policy of Bank Millennium are as follows:

Recruitment

Bank Millennium defines the principles for selection of job candidates on the grounds of competence profiles specified by Heads of the units. The Bank supports also the in-house rotation. Job offers are first of all addressed to the employees of Bank Millennium Group. To this end, there is a dedicated Website for in-house job offers available, the so-called 'Internal Job Exchange.

Management

Human resources planning is performed in annual cycles, whereas the personnel budget is monitored on a monthly basis and at the level of each organisational unit, and it includes employees evaluation and bonus system. The policy and the main principles of remuneration of the employees of Bank Millennium are described in the next chapter. At every stage of the HR management process, proper principles are applied to ensure protection of employees' interest, employer's interest and confidentiality of information. HR management in Bank Millennium Group covers also such supportive elements for the employees as fringe and social benefits.

Development

Professional development of employees is one of the organisational values to which Bank Millennium attaches special attention. Managers are a group which is especially responsible for employees' development. The Human Resources Department supports mangers through trainings focused on improvement of people management, enabling individual coaching as well as analysing leadership styles.

Retention of employees

The Bank monitors rotation of employees on an on-going basis, and this includes also number of employees leaving the organisation, as well as periodically checks the employees' reasons for leaving through interviews conducted with the leaving employees. The Bank regularly monitors employees' job satisfaction through annual online surveys covering all the employees. These surves probe a wide scope of issues, including employees" opinion on remuneration, employee management, motivation and training. The conclusions from these surveys are communicated to the employees.

VI.2. Employment

At the end of 2012, employment at Bank Millennium Group reached 6001 full time equivalents, which is a decline compared to the end of 2011 – down by 288 full time equivalents (or 4,6%). With 5 646 persons employed at the end of 2012, equal to 5 627 full time equivalents, Bank Millennium is by far the largest employer in the Group. The total headcount at the subsidiaries of Bank Millennium Group was 374 full time equivalents, with three companies Millennium Leasing, Dom Maklerski and Millennium TFI being the main contributors.

Employment in Bank Millennium Group

(full time equivalents)	31.12.2012	31.12.2011	Change
Number of Group's employees	6 001	6 289	-288
Number of Bank's employees	5 627	5 886	-259
- including key positions	127	128	-1
Employment in subsidiaries	374	403	-29

The employment structure of Bank Millennium demonstrates significant predominance of the persons employed directly in sales of bank products and services, mostly in 447 branches of the Bank distributed across the country.

Employment in Bank Millennium

(full time equivalents)	31.12.2012	31.12.2011	Change
Branches and direct sales	3 746	3 944	-197
Head Office	1 880	1 942	-62
Total	5 627	5 886	-259

Recruitment of new employees for Bank Millennium Group follows the principles set forth in the Personnel Policy and if there are no proper and interested applicants inside the organisation, the recruitment efforts target a wide circle of potential employees with the required competencies and qualifications. One of the groups of particular interest in the process of recruitment are the most talented graduates and students in their last years of studies who – when recruited – are supported by the Bank with programmes of further professional development.

The examples of such promotional programmes of the Bank in the academic circles and further development of the acquired young employees are „Come and Grow with Us", „People Grow", „e-Expert Start Up" and „IT Expert Start Up" programme (for more information on these programmes see the report corporate social responsibility report).

The essential element of the employee development programmes at Bank Millennium is training. In 2012, the training process – providing continuous product support - for the new Employees of the sales network was improved. The training was conducted in e-learning and workshop formats, focussing on, among others, consumer loans, TFI funds or mortgage loans. New retail branch managers may take part in workshops on sales team management.

At the same time, the new Employees of Prestige network were given certification training for selling new insurance products and training in new Prestige customer service model. Also, the process of training for the Corporate Banking Employees was continued, whereby in 2012 participants were trained in new banking computer systems and transaction banking products, as well as negotiations, customer value assessment and effective telephone calls.

VI.3. Remuneration policy

Remuneration of the employees of Bank Millennium is shaped in particular according to the scope of tasks performed by a given organisational unit, level of responsibility of the employees and on the grounds of analysis of the pay information presented in the studies on remuneration in the financial sector.

Apart from the basic remuneration, the employees are awarded a bonus linked to the bonus pool established for a given settlement period. The amount of the budgets assigned to pay-out of the bonus in particular units is linked to achievement of positive financial results by the Bank and this unit, as well as degree of implementation of the total net profit plan of Bank Millennium Group.

Within the budgets granted, the bonuses are varied, depending on the individual assessment of employees' performance. Performance evaluation is adjusted to the specific targets set for particular groups of employees. In 2012, compared to the previous years, a relatively bigger weight was put on the analysis of the qualitative evaluation criteria, with special emphasis on cooperation between the units, customer service level, as well as knowledge and competence sharing between the employees.

Also last year, "Policy on variable remuneration components for persons in management positions", as understood by Resolution no 258/2011 of the Polish Financial Supervision Authority, adopted by the Supervisory Board of the Bank and then implemented, was developed in a more detailed manner. As part of this Policy, a list of the persons with material impact on the risk profile and risk control processes was drawn up. It was assumed that part of the variable remuneration assigned to these employees will be subject to re-assessment in terms of the long-term results of the decisions taken on these positions, whereas the final decision on the amount of this part of the remuneration will be taken every 3 to 5 years. Additionally this part of the total variable remuneration of this group of employees in 2012 will be converted into financial instruments in accordance with the price of Bank Millennium stocks at the Warsaw Stock Exchange.

VII. ADDITIONAL INFORMATION

VII.1. Information about important agreements and events with impact on the Group's activity

- On 2 February 2012 an annex was signed to the agreement, under which the Bank's parent shareholder - Banco Comercial Portugues S.A. – has extended to it a credit facility in the amount of EUR 200 million, extending validity of the facility until 1 February 2013. Then on 1 February 2013 the tenor of the agreement was extended by another year till 31 January 2014.

- On 30 November 2012 the Supervisory Board of the Bank approved the second issue of Bank Millennium bonds with nominal value not greater than PLN 2,000 million and the second programme of issuing banking debt securities (BDS) with nominal value not greater than PLN 2,500 million. The bonds and the banking debt securities shall be paperless. They will be denominated in PLN, EUR, USD or CHF. Maximum maturity shall not be longer than 10 years. The bonds and BDS will be available for issuing until the end of 2017 and will not be secured. The programmes will permit raising additional monies to fund the Bank's general activity. Key terms and conditions of the programmes as well as fundamental debt security parameters have been defined for the bond and BDAS issuance programme. However issuance of individual series of debt securities shall be made on the basis of case-by-case decisions of the Management Board, taking on board current market conditions.

- On 20 December an agreement was signed between Bank Millennium S.A. ("Bank") and the European Bank for Reconstruction and Development (EBRD) on incurring by the Bank of a medium-term facility in the amount of 60 million PLN, under the EBRD PolSEFF (Polish Sustainable Energy Financing Facility) project in Poland. The loan proceeds are being used for financing by the Bank of SME (Small and Medium Enterprises) projects connected with energy efficiency or renewable energy. This facility constitutes an extension of the first and still active agreement on financing through PolSEFF, which was signed by Bank Millennium S.A. and EBRD on 1 December 2010, under which EBRD granted to the Bank a medium-term facility in the amount of 35 million EUR.

VII.2. Internal control, compliance policy and corporate social responsibility

Internal control

The Bank has an internal control system, which is adapted to its organisational structure, spanning organisational units of the Bank's Head Office, its branches as well as subsidiaries. The system comprises internal control procedures defined in the form of internal control regulations for individual units of the Bank as well as internal control mechanisms, which include i.a. control rules, limits and procedures as well as all and any activities, which aim to control the quality and correctness of tasks performed in the Bank.

The Internal Audit Department is a specialised unit of institutional control, which has the purpose of performing independent and unbiased assessment of adequacy, correctness and effectiveness of internal control and management systems, including risk management. In particular this is connected with assessment of the quality, correctness and security of conducting banking activities. In performance of its mission the Internal Audit Department reflects the strategic targets and tasks of the organisation, as defined by the Management Board and Supervisory Board of the Bank. The process of auditing is performed according to the methodology of Internal Auditing, which promotes international standards of internal auditing and best banking practice.

Internal Audit activity is planned and based on an annual audit plan. The basis for the planning process is an assessment of risk of individual areas and processes, which is used for identifying increased risk and supports setting of priorities and resources for performance of tasks. The planning process includes consultations with senior management as well as owners of key processes. The annual audit plan, approved by the Supervisory Board Audit Committee, is carried out on a quarterly basis by experienced and highly skilled professionals.

Internal audit describes regulations introduced and updated in the Bank; independently and objectively evaluates and advises units on the audited area and builds positive relations with the audited units for the purpose of generating joint added value to improve operation of the Bank. Advisory activities may be performed if their nature does not violate the principle of objectivity and independence of the internal auditor.

In 2012 the Internal Audit Department was performing auditing tasks in the Bank, in the Bank's subsidiaries, in third parties, to which the Bank outsourced performance of banking and banking-related activities to the extent permitted by law, as well as within Millennium BCP Group. Planned activity covered i.a. performance of process, financial, outlet and IRF audits (IRF - Independent Review Function), the latter function being performed in keeping with requirements of the New Capital Accord as regards processes of management of credit, market and operational risk. Tasks performed by the Internal Audit Department also include investigations and preventive inspections.

The Internal Audit Department is an independent unit, reporting to the Chairman of the Bank's Management Board and it reports audit results to the Supervisory Board Audit Committee.

Compliance policy

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

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

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

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

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

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

The Bank Millennium Anti Money Laundering (AML) and Terrorism Financing Programme is a comprehensive system for identifying areas of threat, transactions eligible for registration and transactions which may be involved with money laundering or financing of terrorism, taking appropriate actions towards them as well as organisational procedures and solutions, ensuring efficient operation of the programme.

Key matters covered by the Bank Millennium Programme involve:

- Detailed guidelines in the matter of identification of natural and legal persons, organisational units without legal personality as well as their representatives. Such guidelines contain specification of necessary data and lists of documents necessary for building a relevant dossier,
- Guidelines and procedures concerning mandatory registration of transactions with value above EUR 15,000 as well as monthly reporting on such transactions to GIIF (General Inspector of Financial Information),
- Key methods of identifying suspicious transactions, especially connected with money laundering,
- Exhaustive guidelines, lists of criteria, warning and alarm signals, used for identifying or surveying of suspicious transactions,

- Supervision and control over implementation of the AML Programme, distribution of duties between individual organisational units, annual report to the Bank's Management Board on implementation of the Programme. The AML Programme also contains detailed procedures concerning following matters:
  - Monitoring, analysis of transactions and internal reporting in case of suspicion or identification of a possible case of money laundering,
  - Suspicious Activity Reports (SAR) – preparation, examination, internal acceptance and delivery to GIIF,
  - Preparation and potential suspension of transactions and/or blocking of accounts,
  - Delivering information to a prosecution office and/or GIIF.

Corporate Social Responsibility

A source of inspiration for the corporate social responsibility policy of Bank Millennium Group are declarations contained in the mission statement and the values associated with its brand. They have been reflected both in the updated medium-term strategy for the years 2013-2015, which was published in 2012, as well as during the building of operational plans for individual areas of the Bank's activity. In this respect the bank deems it to be particularly important to continue its development in a sustainable way and to work with Customers on the basis of trust, respect and observance of rules.

The Bank attaches special importance to building long-term relations with the key groups of its Stakeholders: Customers, employees, suppliers, shareholders, social partners and local communities.

In 2012 the Bank prepared and adopted the Bank Millennium Group Code of Ethics, the implementation of which was planned for 2013. It lays down the standards of ethical conduct of employees of the group during performance of professional duties.

In 2012 the Bank remained part of the RESPECT Index – the first index in Central and Eastern Europe of socially responsible companies, listed on the Warsaw Stock Exchange.

The Bank has put its corporate social responsibility actions together and will present them in the annual "Responsible Business 2012" report, which will be the seventh such paper on this subject. The report is available in printed and electronic version, in Polish and in English. The presented scope of information and the report structure meet criteria provided for reporting in keeping with the Global Reporting Initiative Sustainability Guidelines (GRI G3.1). In the report, the key aspects of the influence of the Bank on economic, social and environmental sustainable development were defined with reference to major groups of Stakeholders: Customers, Employees, Shareholders, Business Partners, Society and Natural Environment. Among issues brought up in the report, conducted by the Bank in the CSR context, were support of artistic, cultural and educational activity.

In 2013 the Bank will work on creating a medium-term CSR strategy for Bank Millennium Group.

VII.3. Information on the agreements with the entity authorised to audit financial reports

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

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

Auditor's Remuneration (in PLN '000)	2012	2011
Examination of annual financial statement	1 229	1 229
Certification services, including review of financial statement	1 178	562
Tax advisory services	0	0
Other services	0	0

VII.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 ”Corporate governance report”, which is an integral part of this Report.

Other information regarding:

- Numbers and values of the execution titles issued by the bank,
- Guarantees and sureties granted,
- Transactions with related companies,
- List of the biggest court cases, arbitration proceedings before an authority or public administration,
- General information about issuer and the issuer’s capital group

can be found in ”Consolidated financial statement of the Bank Millennium Group for 2012”.

VIII. STATEMENT OF 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 2012 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 on the activity of Bank Millennium Group contains a true picture of development, achievements and condition of the Capital Group.

Selection of an entity authorized to audit financial

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 2012, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
27.02.2013	Bogusław Kott	Chairman of the Management Board	....
27.02.2013	Joao Bras Jorge	First Deputy Chairman of the Management Board	....
27.02.2013	Fernando Bicho	Deputy Chairman of the Management Board	....
27.02.2013	Artur Klimczak	Deputy Chairman of the Management Board	....
27.02.2013	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
27.02.2013	Wojciech Haase	Member of the Management Board	....
27.02.2013	Andrzej Gliński	Member of the Management Board	....
27.02.2013	Maria Jose Campos	Member of the Management Board	....