

## **Report on activities of the Supervisory Board of Bank Millennium S.A. in 2014 ("the Report")**

This report comprises:

1. Summary of activity in 2014 of the Supervisory Board and its committees: Audit Committee, Personnel Committee and Strategic Committee,
2. Report on assessment of functioning of the remuneration policy in Bank Millennium S.A.,
3. Report on assessment of Management Board reports on activity of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group as well as financial statements of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for the financial year 2014, as well as the Management Board's motion regarding distribution of profits for the financial year 2014,
4. Concise assessment of the Bank Millennium S.A. situation in the year 2014 including assessment of performance of the internal control system and the risk management system.

### **1. Summary of the Supervisory Board's activities in 2014 and activities of its committees: the Audit Committee, the Personnel Committee and the Strategic Committee.**

#### Composition of the Supervisory Board

During the reporting period, comprising the year 2014, the composition of the Supervisory Board was as follows:

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

In the opinion of the Supervisory Board the above composition constitutes a premise for the statement that the Supervisory Board guarantees proper performance of the delegated responsibilities. Members of the Supervisory Board have competencies for proper performance of supervisory duties, resulting from their education, knowledge and skills, backed with many years of experience.

Supervisory Board Member Mr Dariusz Rosati satisfied criteria of independence and was holding qualifications in accounting or financial auditing, in keeping with art. 86 sect. 4 of the Act of 7 May 2009 on Statutory Auditors, Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight. Criteria of independence were also satisfied by Supervisory Board Member Mr Grzegorz Jędrys. At the same time both the above-mentioned Supervisory Board Members were members of the Supervisory Board Audit Committee, whereas Mr Dariusz Rosati was performing the function of Chairman of the Audit Committee.

#### Activities of the Supervisory Board during the reporting period.

The Supervisory Board operates on the basis of the Code of Commercial Companies, Articles of Association of the Bank, Bylaws of the Supervisory Board and in keeping with Principles of Corporate Governance.

During the reporting period the Supervisory Board, with a view to proper and safe operation of the Bank, observing highest diligence, was exercising permanent supervision over its activity in all aspects, also as regards the functioning of risk management systems, internal control, remuneration policy – directly and by means of the Committees.

In 2014 there were 6 Supervisory Board meetings convened and held – all with participation permitting passing of resolutions. In the course of the work, following the example of previous years, the Supervisory Board was focusing its attention both on strategically important matters as well as those concerning the day-to-day operation of the Bank. Within its range of authority the Supervisory Board was considering information, analyses and motions submitted by the Management Board of the Bank as well as by Committees active within the structure of the Supervisory Board. These materials comprised not only matters concerning the Bank's activity directly but also macroeconomic analyses and analyses of activity of banks in Poland, thanks to which the Supervisory Board had knowledge concerning the Bank's market environment and position with respect to other financial institutions. The Supervisory Board was also kept informed about most important events and decisions of the Management Board, occurring between meetings.

During the meetings the Supervisory Board fully carries out the work agenda adopted for 2014. Out of concern for the Bank's development the Supervisory Board analysed in detail and approved:

- The Strategic Plan for Bank Millennium S.A. for the years 2015 – 2017,
- IT Strategy,
- Plan and Budget of the Capital Group of Bank Millennium S.A. for the years 2015 – 2017, in which the Supervisory Board accepted the Risk Strategy, Budget, Liquidity Plan and Capital Plan.

The Supervisory Board reviewed and approved in due time changes of following documents:

- “Principles of Calculating Internal Capital”,
- “Principles of Capital Management and Planning”,

- “Management System in Bank Millennium S.A.” (comprising i.a. the Bank’s organisational structure),
- “Policy on Variable Components of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group”.

Moreover the Supervisory Board took decisions regarding approval of the audits plan for 2014; the Supervisory Board agenda for 2015; gave an opinion on materials for the Bank’s General Meeting and took a position in the matter of applying “Principles of Corporate Governance for Supervised Institutions” adopted by the Polish Financial Supervision Authority. The Supervisory Board also adopted the uniform text of the Articles of Association, reflecting changes made by the General Meeting and connected with changes in the law and with regulations of the Polish Financial Supervision Authority as well as establishment of the Strategic Committee of the Supervisory Board and extension of powers of the Personnel Committee of the Supervisory Board.

Performing its statutory duties, the Supervisory Board selected PricewaterhouseCoopers Sp. z o.o. (“PwC Sp. z o.o.”) for purposes of examination of the financial reports of Bank Millennium S.A. and the Bank’s Capital Group on 2015.

The Supervisory Board particularly closely analysed information presented quarterly about results of the Bank, management of risk, capital and liquidity. The Supervisory Board also analysed annual reports on internal control and compliance.

Moreover in keeping with supervisory regulations of the Polish Financial Supervision Authority, the Supervisory Board was presented with information concerning:

- The portfolio of mortgage loans and the portfolio of other retail loan,
- Mortgage-backed corporate banking exposure,
- Long-term liquidity management and
- IT reporting, including IT security.

The Supervisory Board was also presented with information about implementation of recommendations of the Polish Financial Supervision Authority, issued after the problem-specific inspection in 2013, about the status of IRB project, the Asset Quality Review (AQR) and results of Stress Tests.

#### Activities of the Audit Committee during the reporting period.

In the reported period the Audit Committee of the Supervisory Board of Bank Millennium S.A. was composed of the following persons:

Chairman of Committee:	Mr Dariusz Rosati
Member of the Committee:	Mr Bogusław Kott
Member of the Committee:	Mr Maciej Bednarkiewicz
Member of the Committee:	Mr Luis Pereira Coutinho
Member of the Committee:	Mr Miguel de Campos Pereira de Bragança
Member of the Committee:	Mr Grzegorz Jędrzys

The scope of activity of the Audit Committee of the Supervisory Board is specified in the Bank’s Articles of Association.

In 2014 there took place five meetings of the Audit Committee of the Supervisory Board. The following issues were subject to regular analysis during the meetings of the Audit Committee of the Supervisory Board in 2014:

1. The activity of the Internal Audit Department along with identified important findings, issued recommendations and effectiveness of monitoring of the process of their implementation.
2. Review of effectiveness, adequacy and efficiency of the Internal Control System (ICS) at the Bank.
3. Monitoring of activities of the External Auditor at the Bank, including his independence and key findings with respect to the financial reporting process.
4. Issues in the areas of risk, finances and compliance based on information presented by Bank units and the External Auditor.
5. Supporting of steps with respect to increasing the efficiency and improving the quality of implementing the internal audit function.
6. Relations with supervisory authorities, in particular information about the process, results of KNF examinations and remedial actions undertaken by the Bank in order to implement post-examination recommendations.

The agenda of the Audit Committee covered issues specified in the permanent agenda of Committee meetings approved by the Supervisory Board at the meeting on 31 January 2013.

During the meetings of the Audit Committee of the Supervisory Board in 2014 the following issues were discussed:

1. **Reports from the activity of the Internal Audit Department** containing the assessment of risks of the audited processes and degree of implementation of the tasks enumerated in the Audit Plan for 2014 approved by the Supervisory Board.

The activity of Internal Audit at the Bank was subject to regular supervision and assessment by the Audit Committee. The Audit Committee positively assessed and recommended for approval to the Supervisory Board the annual Audit Plan for 2014 prepared on the basis of analysing the risk areas and accepted information on fulfilling the Plan for 2013. During particular meetings of the Committee there were discussed important findings identified by audit along with the agreed remedies. Analysed in detail was the process of monitoring post-audit recommendations, including recommendations H with the highest implementation priority. KRI ratios are used for monitoring the implementation of the recommendations.

The Audit Committee supported activities whose purpose was to constantly increase the quality and work standards of the Bank's internal audit and studied with interest, at the January 2014 meeting, the results of the Independent Assessment of the Audit Function conducted by PwC.

The Head of Internal Audit has an assured constant and direct contact with Members of the Committee, and one meeting in a year, during its closed part, includes a discussion with him of the staffing situation of the Internal Audit Department and remuneration policy for auditors.

The Committee positively assesses the activity of institutional control at the Bank, which is carried out with the assurance of independence, in accordance with the planned scope, effectively identifying weaknesses of controls, and simultaneously provides methodical support for other units of the Bank.

2. **Monitoring the scope of activities of the Bank's External Auditor.** PwC information on material findings in the scope of financial reporting at the Bank, as a result of quarterly reviews conducted by the External Auditor was discussed at four meetings of the Committee in 2014. The Committee paid special attention among others to such issues as:

correctness of creating revaluation charges for credit exposures, valuation of financial instruments, completeness of disclosures in financial reports or occurrence of comments/qualifications submitted by external control and supervisory institutions and was also informed regarding new standards, interpretation etc. The purpose of current and systematic communication of the External Auditor with the Audit Committee is to assure proper independence of the financial audit function. At the same time non-audit services and expansion of the scope of audit services entrusted to the External Auditor were subject to the Audit Committee's approval.

3. **Monitoring of financial reporting.** The Audit Committee familiarized itself with the basic challenge for 2014 in the area of financial reporting, which was to adjust the Bank to uniform European requirements with respect to reporting by credit institutions and investment companies, in keeping with the requirements defined by the European Banking Authority as part of the ITS package – technical standards pertaining to supervisory reporting.
4. **Results of the annual Review of the Internal Control System.** Based on the results of the review the Committee took a Resolution concerning the issuing of the Opinion of the Audit Committee of the Supervisory Board on the adequacy and effectiveness of the internal control system. In the opinion it was recognised that the Internal Control System as a whole (including the control environment, risk management system, system of information and communication and internal control monitoring) assures an appropriate and effective reaction in all important aspects, in keeping with regulatory requirements. The Committee's opinion along with the opinion of the External Auditor of the BCP Group (KPMG) was attached to the Report from the review of the Internal Control System at Bank Millennium, which was transferred to the Bank of Portugal.
5. **Supervisory organs.** The Audit Committee paid much attention to the Bank's relationships with supervisory organs, in particular KNF. At each meeting of the Audit Committee, the Internal Audit Department presented and discussed the implementation status of KNF recommendations issued as part of post-examination recommendations or in connection with the application for IRB method employment. All the recommendations issued by KNF were implemented in accordance with the time-table adopted by the Bank.
6. **Information on Compliance Policy implementation by the Bank** and the activity of the Compliance Department. The main objectives of Compliance Policy, scope of conducting training in the AML area, results of identifying suspicious transactions, scope of cooperation with external institutions and initiatives of the Compliance Department under implementation were subject to analysis during Committee meetings last year.
7. The Audit Committee paid careful attention to information on the **correctness of developing the Bank's relations with clients**, particularly in the context of claims/complaints received. In the materials of the Internal Audit Department at each meeting conclusions were presented pertaining to complaints received by the Bank by means of KNF.

Moreover, subject to due attention in this regard were Bank Client complaints sent for the information of the Supervisory Board of the Bank. In 2014 the Committee obtained information on the activities undertaken by the Bank in connection with one Client complaint. The Committee did not raise any objections to the Bank's activities in this matter.

#### Activities of the Personnel Committee during the reporting period.

During the reporting period of 2014 the Personnel Committee ("the Committee") was operating with the following composition:

- Maciej Bednarkiewicz – Chairman

- Nuno Manuel da Silva Amado
- Luis Maria França de Castro Pereira Coutinho
- Marek Furtek
- Bogusław Kott

The scope of authority of the Committee is stipulated in § 18 item 6 of the Articles of Association of Bank Millennium S.A. and in § 6 item 8 of the Bylaws of the Supervisory Board of Bank Millennium S.A. This authority comprises in particular the following areas of competence:

- evaluating candidates for Members of the Management Board of the Bank,
- determining terms and conditions of employment of the newly appointed Members of the Management Board of the Bank,
- negotiating changes of terms and conditions of employment of Members of the Management Board of the Bank,
- determining terms and conditions of cessation of employment of Members of the Management Board of the Bank,
- performing tasks as regards policy for variable components of remuneration.

In the period in question 3 formal meetings of the Committee were held. The meetings were held in particular when there was need to pass a resolution and also to discuss current business. Members of the Committee attended the meetings in numbers permitting proper proceedings.

During the meetings Members of the Committee focused particular attention on following matters:

- performance of a review of implementation of the Policy on Variable Components of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group;
- taking decisions concerning the awarding of variable remuneration to Members of the Management Board of the Bank for completed evaluation periods (including variable remuneration with deferred payment term).

The Personnel Committee also exercised its competence out of formal meetings, i.a. in the course of direct consultation between its members as well as at meetings with other persons and institutions.

#### Activities of the Strategic Committee during the reporting period.

Composition of the Strategic Committee of the Supervisory Board (the „Committee”) in the reporting period covering the year 2014 was as follows:

- Bogusław Kott – Chairman
- Nuno Manuel da Silva Amado
- Miguel de Campos Pereira de Bragança
- Luis Maria França de Castro Pereira Coutinho
- Andrzej Koźmiński
- Dariusz Rosati

Competences of the Committee are provided for in § 18, item 7 of the Bank Millennium S.A. Articles of Association and in § 6, item 8<sup>1</sup> of the Bylaws of the Bank Millennium S.A. Supervisory Board and include, in particular, as follows:

- examination of macroeconomic trends,
- examination of new trends, developments and new solutions in the banking sector,
- analysis of the bank’s competitive position and benchmarks,

- analysis and recommendation of long-term strategy, goals and objectives to be pursued by the Bank.

In 2014 the Committee held two formal meetings. Committee Members attended individual meetings in numbers ensuring proper work of the Committee.

Besides formally convened meetings, the Committee Members undertook also actions resulting from the scope of activity of the Committee by way of direct contacts and consultations with other persons and institutions.

The meetings of the Strategic Committee in 2014 focused on discussion of the retail outlet network optimisation project and issues connected with development of the strategic plan for Bank Millennium S.A. for the period 2015 – 2017.



The Supervisory Board thanks the Management Board and employees of the Bank Millennium S.A. Capital Group for commitment and effective work in 2014, which i.a. contributed to generation by the Bank Millennium S.A. Capital Group of the highest annual profit in history. The Supervisory Board gave a very good opinion about activities of the Management Board performed in 2014; particularly notable is the continued commitment of the Management Board to maintaining the position of Bank Millennium S.A. as one of the leaders among banks in Poland, which is also reflected in awards and recognitions granted to the Bank.

At the same time the Supervisory Board states that during the reporting period it was maintaining supervision over the Bank's entire operation in a sound and duly diligent manner.

Considering the above the Supervisory Board moves for discharging all members of the Bank's bodies from performance of their duties in 2014.

## **2. Report from evaluation of functioning of the remuneration policy in Bank Millennium S.A.**

### Policy description and main principles

Remuneration of employees of Bank Millennium S.A. is determined in particular depending on the scope of tasks performed in the particular organisational unit, the level of responsibility, which the employees are faced with as well as on the basis of analysis of remuneration information presented in financial market remuneration surveys.

Fixed remuneration of managers in key positions is defined by the Personnel Committee of the Management Board of the Bank, additionally with consideration of the impact on the risk profile of the Bank. The remuneration is verified periodically – during reviews conducted 2 times a year based on transparent criteria.

Moreover the Bank has the Policy on Variable Components of Remuneration of Persons Occupying Management Positions, approved by the Supervisory Board in 2013, which constitutes an instrument of supporting the management system of the Bank Millennium S.A. Capital Group and of adopted risk management strategies as regards operational risk. Its purpose is to consolidate the propensity of managers – by means of the remuneration mechanisms used – to take particular care of the long-term good of the Bank, to protect the interests of customers and investors of Bank Millennium S.A. Capital Group and to avoid excessive exposure to risk.

The policy is targeted at “Risk Takers” - managers who have significant influence on the risk profile of Bank Millennium S.A. Capital Group or on risk control processes, in accordance with the Management System in Bank Millennium S.A.

### Review

In the reporting period the Supervisory Board reviewed “The Policy on Variable Components of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group”. A review of practice as regards awarding variable remuneration to persons in management positions (“Risk Takers”) was carried out with respect to the main aims of introduction of the Policy i.e.:

- Particular care for the long-term good of the Bank,
- Protection of interests of customers and investors of Bank Millennium S.A. Capital Group,
- Avoidance of excessive exposure to risk.

The review concerned in particular the amounts of variable remuneration paid, the principles for determining the total amount of remuneration as well as the pattern of payments.

It was found that the level of variable remuneration adopted for Risk Takers has such a significant share, that its positive impact on commitment and motivation of this group of employees can be assumed. Its relative size – significantly lower than of the base salary – in the opinion of the Supervisory Board does not create conditions and stimuli for the Risk Takers to take excessive risks.

Provisions of the Policy regarding determination of budgets for variable compensation are observed in practice – the budgets are ascertained after prior analysis of business results of the entire Bank Millennium S.A. Capital Group as well as liquidity and capital adequacy ratios – which is conducive both to security as well as sustainable development of the Group.

### Conclusion

The remuneration policy is conducive to development and security of Bank Millennium S.A. Capital Group, while the practice to-date of managing variable remuneration corresponds to the goals defined in the Policy.

At the same time the recommendation was given to the Bank’s authorities to verify in 2015 the relevant policy based on preliminary guidelines on sound remuneration policies in the meaning of Directive 2013/36/EU, as conveyed by EBA (European Banking Authority) in March 2015.

### **3. Report on assessment of Management Board reports on activity of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group as well as financial statements of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for the financial year 2014, as well as the Management Board’s motion regarding distribution of profits for the financial year 2014.**

Acting pursuant to art. 382 § 3 of the Commercial Companies Code and § 17 section 3 of the Bank’s Articles of Association, the Supervisory Board, at its meeting on 24 April 2015, assessed the following documents submitted by the Management Board: (i) Management Board report on the Bank’s activities, (ii) the Bank’s financial statement for the financial year 2014 (iii) Management Board report on the Bank Millennium S.A. Capital Group Activities, (iv) consolidated financial statement of the Bank Millennium S.A. Capital Group for the financial Year 2014. The Supervisory Board also acknowledged the opinion of the Auditor on the above documents. On this basis, the Supervisory Board has established that the Management Board report on Bank’s activities and the financial statement for the financial



year 2014, as well as report on activities of the Bank Millennium S.A. Capital Group and consolidated financial statement for the financial year 2014, have been prepared correctly in terms of their substance and form and comply with facts and books and truly and accurately present the financial results and activities of the Bank and Bank Millennium S.A. Capital Group in the financial year 2014.

The Supervisory Board, hereby, recommends that the General Meeting should approve the above documents in their versions submitted by the Management Board together with the opinion of the Auditor.

The Supervisory Board assesses as justified the motion, presented by the Management Board, on the distribution of net profits for the year 2014, so that the entire profit will go to additional reserve capital. The above decision of the Bank's Management Board results from the recommendation, sent to the Bank in the letter of 31 March 2015, from the Polish Financial Supervision Authority to retain all net profit generated in 2014 until the supervisor has defined any additional potential capital requirement for the Bank. Because to-date the supervisor has not defined an additional capital requirement for the Bank, the Bank's Management Board moves for retaining the entire net profit in the Bank.

In consequence of the position of Polish Financial Supervision Authority, the Supervisory Board unanimously recommends to the General Meeting to accept this motion of the Management Board.

#### **4. Brief assessment of the situation of Bank Millennium S.A. in 2014 including the assessment of the internal control and risk management systems.**

This part of the Supervisory Board report constitutes the assessment of the Bank's situation, as expressed by the Supervisory Board in keeping with requirements of the Rule III.1.1) on „Good Practices of Companies Listed on the WSE”.

In the opinion of the Supervisory Board 2014 – another year of successful implementation of the “Medium-term Strategy of Bank Millennium for the Years 2013-2015” was a period of effective operation in a macroeconomic environment, full of challenges caused by sustained low interest rates; decrease of interchange fees and a highly competitive market. The Bank's strong position, arrived-at in 2014, at the same time provides a sound basis for further development and attainment of ambitious business plans, laid down in the modified strategy for the years 2015 - 2017.

In evaluating the Bank's situation, the Supervisory Board analysed the key areas of its activity, looking i.a. at the following parameters:

- net profit of the Bank Capital Group reached the historically highest value of PLN 651m, which means a growth of 21.5% y/y,
- ROE (identifying the rate of return on equity), which rose to 11.8% over 10.6% last year,
- Total operating income, which rose 10.4% y/y,
- Stable Cost/Income ratio, which came down to 50.2% as compared with 54.3% in 2013,
- Impaired loans ratio, which fell to 4.2% and is the lowest since 6 years,
- Cash loans portfolio, which rose 24% y/y,
- Retail deposits portfolio, which grew 12.7% y/y,
- Loans/Deposits ratio, which stood at the safe level of 92%,

- Total Capital Ratio (TCR), which stood at 15.2% and CET 1 ratio – at 14.5%.

The Supervisory Board is satisfied to state that in the reporting period the Bank and the Bank's Capital Group maintained a high rate of growth and achieved major successes in many fields of activity, i.a.: profitability grew, core income was up, a record-high result in sales of cash loans, very high growth of retail deposits and new current accounts, faster-than-the-market average growth of corporate loans and factoring turnover, significant growth in the leasing area, with operating costs kept stable at the same time. The Bank attained a very good quality of assets, stable liquidity and improved capital ratios, which is particularly important in a complicated business environment. Such good results in 2014 could be reached i.a. thanks to excellent organisation of the management and control system, focus on high quality of services provided, competence and commitment of staff as well as implementing innovative products.

After carefully reviewing the financial statements and results of the Bank and the Bank Millennium S.A. Capital Group in 2014 and after familiarising itself with the strategic plans for subsequent years, the Supervisory Board has formulated a positive assessment of the Bank's and the Group's financial situation and prospects for future operations.

The Supervisory Board, taking account of supervisory activities and the fact that the Audit Committee of the Supervisory Board performed on-going control of the internal control system quality, and assessing the situation on the basis of reasonable assumptions, ensures that the internal control system as a whole, including risk management system, information and communication systems and internal control monitoring system effectively and suitably corresponds to the regulatory requirements and, being effectively managed, is adequate to the size of the Bank and its exposures to risks connected with the operations conducted by the Bank.

*[Signatures of the Members of the Supervisory Board of the Bank]*