

Management Board Report on the activity of Bank Millennium S.A.

for the 12 month period ended 31 December 2015



MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE BANK MILLENNIUM S.A. FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2015

CONTENTS

I.	LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD	3
II.	BRIEF DESCRIPTION OF BANK MILLENNIUM	4
III.	HIGHLIGHTS AND MAIN EVENTS IN 2015	5
III.1.	SUMMARY OF THE RESULTS IN 2015	5
III.2.	MARKET INDICATORS AND RATINGS.....	6
III.3.	INFORMATION ON IMPORTANT AGREEMENTS AND EVENTS WHICH IMPACTED BANK'S ACTIVITY	7
III.4.	MAIN AWARDS AND ACHIEVEMENTS OF BANK MILLENNIUM IN 2015.....	9
IV.	MARKET CONDITIONS AND BUSINESS PROSPECTS.....	11
IV.1.	MACROECONOMIC ENVIRONMENT.....	11
IV.2.	BANKING SECTOR IN POLAND AND POSITION OF BANK MILLENNIUM GROUP.....	11
IV.3.	STRATEGY FULFILMENT AND BUSINESS DEVELOPMENT PERSPECTIVES.....	13
V.	FINANCIAL SITUATION OF BANK MILLENNIUM	15
V.1.	THE BANK'S PROFIT AND LOSS ACCOUNT	15
V.2.	BALANCE SHEET AND OFF - BALANCE SHEET ITEMS	17
VI.	PRESENTATION OF BUSINESS ACTIVITY	22
VI.1.	RETAIL BANKING	23
VI.2.	CORPORATE BANKING	28
VI.3.	TREASURY AND INVESTMENT OPERATIONS	31
VII.	RISK MANAGEMENT.....	33
VII.1.	RISK MANAGEMENT FRAMEWORK	33
VII.2.	CAPITAL MANAGEMENT.....	34
VII.3.	CREDIT RISK	37
VII.4.	OTHER RISKS	39
VIII.	HUMAN RESOURCES MANAGEMENT	42
VIII.1.	PERSONNEL POLICY	42
VIII.2.	EMPLOYMENT AND COSTS OF PERSONNEL	42
VIII.3.	REMUNERATION POLICY	43
IX.	PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM	46
IX.1.	STATEMENT ON THE PRINCIPLES OF CORPORATE GOVERNANCE APPLIED IN 2015.	46
IX.2.	SHAREHOLDERS AND GENERAL MEETING OF SHAREHOLDERS.....	47
IX.3.	SUPERVISORY BOARD	49
IX.4.	MANAGEMENT BOARD.....	56
IX.5.	INTERNAL CONTROL, EXTERNAL AUDIT AND COMPLIANCE POLICY.....	60
X.	RESPONSIBLE BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY	63
XI.	ADDITIONAL INFORMATION.....	64
XII.	STATEMENT OF MANAGEMENT BOARD	65

I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders, Customers and Friends of the Company,

I am satisfied to present and encourage you to review the Bank Millennium Group's Annual Report from activity in 2015.

In 2015 the Bank generated the consolidated net profit of PLN 547 million, while with one-off items in the 4th quarter of 2015 it would have amounted to PLN 667 million, showing a growth of 2.5% year on year. The cost base, despite a higher mandatory contribution to the Banking Guarantee Fund, remained in 2015 at the stable level of PLN 1,087 million, which signifies its slight decrease of 2.2% compared to 2014. The core business income fell ever so slightly. The business results yet again sustained a developing trend: the number of active retail customers was up 7%; retail deposits increased by 20% while the value of cash loans granted to customers rose by 19%. The portfolio of corporate loans increased almost 6% last year; leasing exposure grew by 17% gross and factoring turnover went up by 11%.

Last year the Polish economy remained on the path of moderate and sustainable development. According to our estimates, GDP grew at the rate of 3.6%, a sound growth rate of investments and exports was maintained and interest rates were low. At the same time, new external factors unfavourable for the banking sector appeared: bank tax, additional contributions to Banking Guarantee Fund, mandatory contributions to the Borrowers' Support Fund as well as draft legislation regarding foreign exchange mortgages.

The previous year was a period of hard work for our team of employees at the Bank, the effects of which found their confirmation in the financial results and independently endorsed results of customer service quality surveys. A high quality of our products and services was appreciated and Bank Millennium came 1st in three categories of Newsweek's Friendly Bank 2015 ranking: "Bank for Mr Kowalski", "Internet Banks" and "Mortgage Banking".

In line with our strategic plans the focus within customer service is moving towards digital channels. At present they account for 99% transactions, sales of 20-60% products, depending on product type, and acquisition of more than 10% of new clients. Approximately 60% of the Bank's private customers are active users of our Millenet transactional platform.

Bank Millennium remains a socially responsible institution; since 2011 we have been selected, without interruption for inclusion, in the RESPECT Index.


The Bank especially values entrepreneurship, creating a friendly climate for start-ups and development of new technologies and innovations. The Bank was the partner and jury member in "Eagles of Innovation" competitions. The initiative intended to identify young Polish companies. This is in line with the Bank's priorities, striving to be in the mainstream of economic development.

In 2016 the macroeconomic environment in Poland brings a number of challenges and opportunities. The government announced a plan to reduce taxes for microbusinesses, to develop the industry and to spend heavily on innovation and technology projects aimed at making the Polish economy more competitive. The projected economic growth will reach 3.6% per annum in 2016, keeping the pace of 2015. On the other hand, the bank tax and expected solutions to foreign exchange mortgages may significantly reduce the banks' earnings and adversely affect their capital.

Let me underscore that the 2015 results, our business model and capitalisation measured with capital adequacy ratios show that we are a solid and trustworthy bank, ready to face up to the challenges of the coming year. The employees of Bank Millennium, committed professionals with a strong work culture, are a team that makes an important part of our success.

In 2016 we shall continue to implement our strategy for 2015-2017. I am confident that the Bank is well prepared for it.

With regards,



Joao Bras Jorge

Chairman of the Management Board of Bank Millennium

II. BRIEF DESCRIPTION OF BANK MILLENNIUM

Bank Millennium was established in 1989 as one of the first Polish commercial banks; it began to operate under the name of Bank Inicjatyw Gospodarczych BIG SA. The first shareholders of the Bank were both businesses as well as private persons. After the first IPO in 1990 BIG became a private bank. Since the very outset of its activity the Bank saw its role as a banking sector leader in the solutions used. The Bank associated its mission at the time with offering modern financial products and services for corporate Customers. The Bank issued Poland's first VISA card for corporate Customers (1991) and began to offer leasing services. In 1992 the Bank's shares - the first financial institution's equities - made their debut on the Warsaw Stock Exchange. In this way the Bank gained new growth opportunities and the status of a public company significantly enhanced its position with investors and Customers. In that same year the Bank acquired Łódzki Bank Rozwoju SA and implemented a programme of its restructuring. It was the first acquisition of a private bank in the post-war history of the Polish financial market and the first so large a project of restructuring a financial institution.

Steadily expanding its array of products and services, by using a state-of-the-art operating system the Bank's operation evolved towards a bank with a universal offering structure. This development vector was strongly supported by the merger with Bank Gdański SA (1997) and the establishment of BIG Bank Gdański SA, an institution with a clearly universal business profile, catering for the needs of all market segments. A year later - in cooperation with its Portuguese shareholder Banco Comercial Portugues - the Bank launched the modern Millennium retail Customer service network. The appearance in the largest cities in Poland of small bank branches utilising latest technology for serving Customers marked a new era in Polish retail banking.

The Bank is operating under the Bank Millennium brand name since 2003 and its business mission assumes delivering universal innovative financial products and services to all Customer segments and generation of continued growth for shareholders. The Bank offers its services to individuals (in the retail, Prestige and Private Banking segments); to microbusinesses as well as small, medium and large companies in the Corporate Banking segment.

The Bank has built its market position by working with close to 1.4 million active private Customers and 13,000 businesses. Thanks to the nationwide chain of 411 branches as well as state-of-the-art technology (internet, phone, mobile banking) the Customers enjoy 24/7 access to financial services.

The digital platform developed by Bank Millennium enables an omnichannel approach, which assumes full integration of Milenet, Mobile Banking, TeleMillennium and branch service where the Customers receive clear information about the status of their products and services.

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

III. HIGHLIGHTS AND MAIN EVENTS IN 2015

III.1. Summary of the results in 2015

Net profit of Bank Millennium S.A. ("the Bank") in 2015 amounted to PLN 814.2 million, which means a growth by 31.4% versus the 619.5 million net profit booked in 2014. ROE (Return on Average Equity) reached 14% and ROA (Return on Average Assets) reached 1.2%.

The financial results of the Bank were positively influenced by exceptionally high dividends from associates amounting to PLN 331.8 million (first of all the dividend from Millennium Leasing company, including part of the profit for 2015 and retained profits of the previous years). On the other hand 4Q 2015 quarter net result of was negatively affected by four extraordinary elements:

- ✓ PLN 102.5 million extra charge to Banking Guarantee Fund (BFG) for the deposits in the bankrupt Co-operative Crafts and Agriculture Bank in Wotomin,
- ✓ PLN 15.6 million contribution to the newly created Distressed Mortgage Support Fund (FWK),
- ✓ PLN 12.2 million penalty from Authority for Competition and Customer Protection (UOKiK) connected with interchange fees,
- ✓ PLN 10 million of net provisions for tax and other.

The above mentioned one-off charges plus overall more challenging environment for the banking sector in Poland in 2015 year, including lower interest rates and regulatory interventions on some fees, were offset by the Bank with the growth of other revenue streams and reduction of operating costs and impairment provisions.

Other main financial and business highlights of 2015 results are the following:

Core income and costs fell, lower Cost/Income ratio

- Core income only fell 5.3% yearly despite the lower interest rates and the significant reduction in payment card fees. In 4Q, Net interest income continued a gradual recovery from the bottom reached in 2Q.
- Operating costs without BFG annual contribution fell -5.5% y/y, or -2.5% y/y if these fees (that significantly rose by PLN 30 million in 2015) were included.
- Improvement of Cost to income ratio to 46.8% (i.e. by 3.6 p.p.).

High asset quality and low cost of risk kept

- Impaired loans ratio (at consolidated level) at low 4.6% and in case of mortgage at 2.1% (including loans past-due over 90 days at 0.9%).
- Provisions for impaired loans decreased in 2015 by 7.5% versus 2014.

Improving capital and liquidity ratios

- Strong and growing capital ratios: Total Capital Ratio of the Bank at 16.6% and Common Equity Tier 1 at 16.2% in the context of new capital buffers introduced in Poland
- Loans-to-deposits ratio on the whole Capital Group level improved to 87.3%

Deposits/accounts/customers

- Accelerating growth of retail deposits: + PLN 5.9 bn (or 20%) y/y
- 281 thousand new current accounts acquired during 2015 year
- 1,369 thousand active customers at the end of the year (+85 thousand during 2015)
- Growing volume of transactions in corporate business

Loans

- Cash loans portfolio grew by 19% yearly, new sales reached PLN 2.5 billion yearly

- Traditionally good yearly growth in factoring portfolio (+21% year-on-year)

Track record in the service quality improvement

- 1st position in three categories („Traditional Banking”, „Internet Bank” and „Mortgage Banking”) of the Newsweek’s Friendly Bank ranking; always in Top 3 during last 5 years of the ranking.
- Member of WIG RESPECT index comprising companies with the highest standards in corporate governance, investor relations, environmental and social issues.

III.2. Market indicators and ratings

Warsaw Stock Exchange ended 2015 year with strong deterioration of main indexes: WIG fell by 10% and WIG 20 fell by 20%. Only WIG index for small and medium companies registered a slight increase. On top of not positive global trends, especially in the emerging markets, there were specific Polish factors, that negatively affected stock market performance. Increase of political risk, connected with events after change of power in Poland, generous pre-election promises and first new government decisions, have strongly undermined investors’ confidence to the Polish market.

Especially negative drivers concerned banks and overall financial sector, including new capital buffers, introduction of a special new tax on banks and insurers, special payments to the Banking Guarantee Fund and payments to the new Distressed Mortgage Support Fund. Also the idea of further regulatory interventions towards banks with CHF mortgages (including possibility of a forced conversion to PLN with high losses for banks) was constantly repeated during 2015 year.

All of these factors caused sharp correction of banks’ shares prices on Warsaw Stock Exchange (GPW): WIG banking index fell by 23.5% in 2015 and Bank Millennium shares fell by 33%.

During 2015 year, average daily turnover year-to-date of Bank Millennium shares grew significantly by 50%. The main driver was a change of shareholders structure after accelerated book-building (ABB) transaction of selling 15.4% of Bank’s shares by the main shareholder Millennium BCP. In consequence, free-float of the Bank increased from 34.5% to 49.9%.

Market ratios	30.12.2015*	30.12.2014*	Change (%) Yearly
Number of shares of the Bank (in ths.)	1 213 117	1 213 117	0,00%
Daily trading (PLN ths, avg. in the year)	8 865	5 911	50,0%
The Bank’s share price (PLN)	5,56	8,30	-33,0%
Market capitalisation (PLN million)	6 745	10 069	-33,0%
WIG - main index	46 467	51 416	-9,6%
WIG20	1 859	2 316	-19,7%
WIG Banks	6 087	7 961	-23,5%

(*) last day of quotation in 2014 and 2015

During 2015 year the following changes in Bank Millennium main two ratings were done:

On 21st of May 2015 Moody’s rating agency upgraded Bank’s Long-term Deposit Rating to Ba1 from Ba2. At the same time Moody’s announced that it has introduced new rating for banks, called Counterparty Risk (CR) Assessments. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails. Bank Millennium got then CR Assessment of Ba1 (cr)/ Not-Prime (cr).

On 3rd of June 2015 Fitch rating agency changed the support rating from 3 to 4 and confirmed the remaining ratings for Bank Millennium at BBB-/A-(pol)/F3/bbb- (stable outlook).

On 26th of June 2015 Moody’s rating agency affirmed the long and short-term Bank’s deposit ratings at ‘Ba1/Not-Prime/stable outlook’ and upgraded the Baseline Credit Assessment (“BCA”) to ‘ba3’ from ‘b1’ and the CR Assessment to ‘Baa3(cr)/Prime-3(cr)’ from ‘Ba1(cr)/Not-Prime(cr)’.

Main ratings as at 31.12.2015	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB- (stable outlook)	Ba1 (stable outlook)
National Long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	NP
Individual (Viability rating / standalone BCA)	bbb-	ba3*
Counterparty Risk Assessment (CR)		Baa3/Prime-3
Support	4	

(*) In March 2015 Moody's replaced former BFSR (bank financial strength ratings) with Baseline Credit Assessment (BCA), which will be the only indicator of issuers' standalone intrinsic strength and will not have outlook assigned.

III.3. Information on important agreements and events which impacted Bank's activity

- On 26 March 2015, Banco Comercial Português S.A. (BCP), the Bank's parent entity, announced the sale of 186,979,631 shares in Bank Millennium S.A. (15.41% of the Company's share capital) in the mode of Accelerated Book Building (ABB). The transaction valued PLN 1,243 million (EUR 304 million) was completed in a few hours, and the final settlement was performed on 30 March. After the completion of the transaction BCP has 607,771,505 shares in the Bank (50.1% of the share capital). During the ABB transaction the European Bank for Reconstruction and Development (EBRD) purchased 2.6% of the Bank's shares.
- As a result of the ABB transaction conducted on 26 March 2015 Aviva Otwarty Fundusz Emerytalny (open pension fund) increased its shareholding in the Bank to 72,994,101 shares, which gave it a 6.02% share in the Bank's equity. According to the „Annual Structure of Assets” report at year-end 2015 Aviva pension fund had 6.46% of the Bank's share capital.
- On 8 April 2015 the Bank concluded with the National Bank of Poland an agreement on granting a lombard loan and the pledge securing such loan. Pursuant to the Agreement, NBP will provide to the Bank a lombard loan against the pledge of securities denominated in PLN, deposited in the SKARBNET4 system or in the National Depository for Securities SA, or denominated in foreign currencies, upon the terms specified in the Agreement and the Bylaws of Refinancing of Banks with a Lombard Loan and Credit during an Operating Day by the NBP.
- On 22 October 2015 the Supervisory Board of the Bank selected once more PricewaterhouseCoopers sp. z o.o. with its corporate seat in Warsaw (PwC) as an entity entitled to audit financial statement of Bank Millennium S.A. and consolidated financial statement of the Bank Millennium Group for 2016. The Bank used PwC services in the field of consulting, including tax advice.
- On 23 October 2015 the Bank received from the Polish Financial Supervision Authority (KNF) a recommendation to maintain own funds for the coverage of the additional capital requirement at the level of 3.83 p.p. in order to secure the risk resulting from FX mortgage loans for households, which should consist of at least 75% of Tier I capital (which corresponds to 2.87 p.p.). The above-mentioned recommendation should be respected by the Bank from the date of receipt until further notice i.e. until the Polish Financial Supervision Authority (KNF) determines, based on the analysis and supervisory assessment, that the risk associated with FX mortgage loans, being the reason for imposing the additional capital requirement on the Bank, has significantly changed. This means that the minimum required capital ratios of the Bank (and the Group), taking into account the additional capital requirement recommended by the KNF, as at 31 December 2015 were:

- Tier I Capital Ratio (T1) = $9+2.87=11.87\%$
- Total Capital Ratio (TCR) = $12+3.83=15.83\%$.

Actual capital ratios calculated by the Bank as at 31 December 2015 are as follows:

- Tier I Capital Ratio (T1) = 16.17 %
- Total Capital Ratio (TCR) = 16.55 %

Also in October 2015, Polish Financial Supervision Authority (KNF) announced an additional capital conservation buffer of 1.25 p.p. for all banks to be valid from 1st January 2016. The above mentioned new capital buffers are applicable on top of previous applicable base of 12% Total and 9% Tier 1 capital minimum ratios valid in Poland and are to be fulfilled by the Bank (and the Group) until the end of June 2016.

- Based on the resolution No. 87/DGD/2015 issued by the Management Board of Banking Guarantee Fund (BFG), the Bank paid in November 2015 a mandatory fee of PLN 102.5 million which was allocated to the payment of the funds guaranteed for the deposits in the Co-operative Crafts and Agriculture Bank in Wołomin. The above amount influenced the Bank's financial results for Q4 2015.
- As member of Visa Europe Ltd the Bank is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. In accordance with the information published by Visa Inc. the transaction value includes 16.5 billion euros paid upfront to the beneficiaries and in addition potentially up to 4.7 billion euros, contingent on the financial results, in payouts after the fourth anniversary of the transaction's completion, giving the total transaction amount up to 21.2 billion euros. The upfront sum covers a cash payment of 11.5 billion euros and preference shares convertible to ordinary Visa Inc. class A shares valued at 5 billion euros.

On 23 December 2015 the Bank has received the preliminary initial estimates of the amount of payments under the transaction calculated on the basis of the Bank's share in Visa's business in Europe:

- 55.5 million euros in cash
- shares valued at 19 million euros (at the exchange rates as of 18.10.2015)

In accordance with the proposed time-table the above payments will be settled by 30 June 2016. The terms and implementation of the payment time-table are subject to acceptance by the regulatory authorities in particular European markets. The amounts payable by 30 June 2016 are to be finally confirmed by 1 March 2016.

Based on the received information the Bank re-estimated the fair value of VISA shares in the Bank's books as at 31 December 2015 and the effect was recognized in other comprehensive income. Having in mind that the Bank still awaits final confirmation of the amounts to be received (they may change due to transaction costs or possible objections of members Visa Europe for their participation in the settlement) as well as wide time horizon of the transaction (uncertainty and discount factors), the Bank following the principle of prudent valuation recognised in its books as at 31 December 2015 VISA shares at value of EUR 50 million.

- In December 2015 the Bank created a provision in the amount of PLN 15.6 million dedicated for contribution to the newly created Distressed Mortgage Support Fund, according to the Act on Support of Housing Borrowers in a Difficult Financial Situation, which was passed by the Polish Parliament on 9th October 2015. The above provision influenced the Bank's financial results for Q4 2015.

III.4. Main awards and achievements of Bank Millennium in 2015



First place in the *Newsweek* ranking

- 1st in the „Traditional Banking” category
- 1st in the „Internet Bank” category
- 1st in the „Mortgage Banking” category



2015 Service Quality Star

Thanks to positive opinions of its customers, Bank Millennium has again been ranked among the friendliest companies and was awarded the title of 2015 Service Quality Star. The award is given on the basis of consumer votes in the Polish Service Quality Programme, collected through entire year on www.jakoscobslugi.pl , also by smartphone applications.



Consumer choice in 2015

For the second consecutive time Bank Millennium brand won the first place in the CONSUMER CHOICE survey in the Banking Services category, scoring highest among the six evaluated banks in satisfaction and acceptance level. The Consumer Choice title awarded by Centrum Oceny Satysfakcji Konsumenta (Consumer Satisfaction Survey Centre) promotes highest quality products and services in various segments of the market. The 2016 winners were identified on the basis of results of consumer surveys made in 2015.



Bank on Quality

Bank Millennium won in the “Bank on Quality” survey carried out by TNS Polska research agency. The „Mystery Shopper” survey was carried out in 1483 randomly selected bank branches. The survey looked at offers of main personal account to young people and at evaluation process of customer needs carried out by a bank officer. Bank Millennium won with 87.4 points (out of maximum of 100).



The Best Internet bank according to the *Global Finance* magazine

Bank Millennium is the best Digital Corporate Bank according to magazine Global Finance. For the second time Bank Millennium also won the ranking “Best Trade Finance Services”. The winners of the 2015 World’s Best Corporate/Institutional Digital Banks in Central & Eastern Europe have been selected by the editors of Global Finance Magazine, helped by experts from Infosys - one of the global leader in consulting, new technologies and outsourcing

Macroeconomic Research Bureau among top 3 Polish forecasters in 2015

Bank Millennium Economists scored 3rd in the ranking of macroeconomic and financial forecasts organized by the *Parkiet* daily

The 2015 ranking was prepared on the basis of monthly forecasts of macro and financial markets indicators. Macroeconomic part covers inflation, labour market, money supply, balance of payment and domestic demand (production, retail sales, GDP, investments, consumption).



Bank Millennium in the RESPECT Index for the eighth consecutive time

Bank Millennium kept its position in the Respect Index. The index comprises selected public companies operating in compliance with best corporate governance and investor relations standards as well as with consideration of environmental and social factors. The companies undergo three-tier verification made by the Warsaw Stock Exchange (GPW), the Polish Association of Issuers (SEG) and an independent auditor.



Bank Millennium was awarded the CSR Silver Leaf in a survey made by Polityka weekly and Deloitte consulting company.

The survey was based on guidelines provided by the ISO 26000 social responsibility international standard covering seven areas: Human Rights, Consumer Issues, Labour Practices, Organisational Governance, Environment, Fair Operating Principles and Community Involvement and Development

IV. MARKET CONDITIONS AND BUSINESS PROSPECTS

IV.1. Macroeconomic environment

Year 2015 was a period of solid and balanced economic growth in Poland. Gross Domestic Product was in 2015 in real terms by 3.6% higher than in 2014 when it grew by 3.3%. Growth was fuelled by private consumption, that increased by 3.1% after growing by 2.6% a year before, as well as investment in fixed assets. dynamics of which slowed down a bit as compared with 2014 (6.1% vs. 9.8%). The external balance added 0.3 percentage point to the annual growth rate, while a year before the contribution was negative, equal to -1.5 percentage point. The Bank assesses that the economic growth is sustainable and macroeconomic data show no sign of the build-up of macroeconomic imbalances.

The initial data showed that in the fourth quarter 2015 growth accelerated as compared with the previous period and could be equal to 3.8% y/y as compared with 3.5% in the third quarter. The acceleration of consumption, that in the previous quarters grew by 3.1% y/y, was probably observed. It was underpinned by improving labour market conditions and good consumer climate.

After a good 2014, labour market conditions improved further in 2015 and registered unemployment rate in December amounted to 9.8% and was 1.6 percentage point lower than in December 2014. The unemployment is currently the lowest since 2008 and the December reading of below 10% was recorded only for the second time on record. The number of job offers registered in the labour offices was growing during a year and in December it was by 43.2% higher than at the end of the previous year. It is however worth noting that the mismatch between labour demand and supply is growing what is visible in growing number of vacancies unfilled at the end of the month. At the same time decreasing number of unemployed per one job offer bears growing problems with finding suitable employees. In September it amounted to just 12 and was. the lowest on record. It may, with time, translate into intensifying wage pressure. Nonetheless the wage growth remains moderate and in December average earnings in the enterprise sector increased by 3.1% y/y. The data are however interfered by the structural changes: declining employment in mining and growing in low-paid services.

The consumer price index in year-on-year terms has been negative since July 2014. Since the bottom in February 2015 at -1.6% y/y, the deflation has been slowly diminishing and in December was equal to -0.5% y/y. Average annual price decline was equal to 0.9% after the prices did not change in 2014. The persistence of negative inflation is the consequence of supply-side shocks on food and fuel markets, but the demand pressure in the economy is also low.

In the environment of lack of inflation pressures, MPC kept loose monetary policy stance. In March 2015 monetary authority cut interest rates by 50 bps signalling the end of the easing cycle. The reference rate is record-low and currently stands at 1.50%. In the Bank's assessment the NBP rates will remain at current levels in nearest future.

Leading indicators suggest some stabilization of the business sentiment, especially in the industrial sector, where PMI index is only marginally above the neutral level of 50 pts. The Bank assesses that in 2016 the economy may repeat the result from 2015. The structure of growth may however not be so favourable. Private consumption will be the main engine of growth, with additional support in the second half of the year from the social programme 500+, the investment growth will be however limited by some delays in the spending of European funds and growing uncertainty (among others of institutional environment) in the enterprise sector. The consumption acceleration may translate into growing imports and the worsening of external balance. Despite the continued economic growth the deflation may be sustained in the first half of the year, as a consequence of renewed declines of oil prices.

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

During 2015, banks in Poland were operating in an unfavourable market environment (mostly referring to monetary policy and regulatory changes), although with improving macroeconomic climate. The most adverse factors having impact on the Polish banking sector were the following:

- Strong decrease of interchange fees: first regulatory cut since 1st July 2014 and then since 1st January 2015
- Further reduction of interest rates in March 2015 - by 50 b.p. - soon after significant cuts in October of the previous year (including asymmetric cut of Lombard rate)
- Announcement of major increase of mandatory Banking Guarantee Fund (BFG) charges (in force since 2015)

- Announcement by Polish Financial Supervisory Authority (KNF) of Recommendation U, which introduced new rules and some restrictions on sales of insurance products by banks (in force from 1st April 2015)
- January 2015 CHF rate surge caused banks in Poland to introduce program of helping FX mortgage borrowers to mitigate negative impact of CHF appreciation. So called “Six-pack” comprises, among others, application of negative LIBOR and decrease of FX conversion spread, which had negative impact on banks’ profitability. Additionally, a new fund dedicated to support housing borrowers in a difficult financial situation was created in 2015, to which Polish banks contributed PLN 600 million.
- In November 2015 all Polish banks were requested to contribute to the Banking Guarantee Fund a special payment to cover over PLN 2 billion of guaranteed deposits of one big defaulted co-operative bank (Co-operative Crafts and Agriculture Bank in Wolomin).

At the same time the process of growing concentration of the banking sector in Poland continues (merger of BGŻ with BNP Paribas and takeover of Meritum Bank by Alior Bank). Despite that the degree of concentration of banks in Poland is not high, especially compared with many European countries: at the end of Q3 2015 top 10 banks accounted for 69% and top 5 had 50% of total sector assets.

During 2015 year total deposits of the banking sector grew strongly by 8.8% per annum (NBP data), which is remarkable in the context of further cutting of interest rates in Poland to the record low level of 1.5% (reference rate). Especially strong growth was noticed in households segment: +9.5% yearly. Total loans of banks also grew significantly, by 6.8% yearly, being only slightly inflated by CHF appreciation effect (without FX effect loans in Poland would have grown by 5.2% yearly).

Equity of Polish banks increased by 7% during the year reaching a very strong amount of PLN 165 billion. This level of own funds allowed Polish banks to keep very strong solvency ratios: Total Capital Ratio (TCR) at 15.6% and Tier 1 ratio at 14.3% (data for September 2015). New capital buffers, were announced in Poland during 2015 year: specific buffers connected with FX mortgage portfolio risk and system-wide capital conservation buffer.

Liquidity of Polish banks is also kept at a very safe level and improved during 2015 year, with the Loans to Deposits ratio in the entire sector standing at 103% at the end of December.

At end of September 2015 Bank Millennium Group was the 7th biggest among commercial banks in Poland by total assets and deposits. As at the end of 2015 Bank’s market share in deposits reached 5.3% while in loans it stood at 4.6%. Bank Millennium Group, comprising the Bank itself and a leasing company, mutual fund management company as well as a brokerage house, keeps a relatively stronger position in retail loans and credit cards (approx. 6% market share). Other important segments of the Group include leasing (6th place on the market) as well as factoring (the 5th biggest player in the market). Distribution of the Group’s products and services is done through 413 branches as well as electronic channels, including cash machines, the internet, phone and mobile applications.

During 2015 Bank Millennium Group improved market share position especially in two products: cash loans to individuals and retail deposits. At the same time market share in mortgage loans and corporate deposits fell.

In 2016 the Bank is expecting further growth of deposits in the banking sector, though probably at a slower pace than last year. A factor hindering growth of retail deposits may be growing consumption as well as the record-low interest rates in Poland. As regards banking sector loans, the Bank expects them to keep a healthy growth of c.a. 6% annually, supported by low interest rates and growing consumption demand in the economy.

There are also few specific, external factors, which were already decided or are considered to be implemented in 2016 year, which will or might have a significant influence on the activity of the Polish banking sector (and Bank Millennium) in the coming quarters:

- Commencing from February 2016, a new special banking tax will be valid, with 0.44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount. Accordingly Bank’s understanding of methodology to be applied for the tax computation, the preliminary estimation based on balance sheet position and own funds as of 31/12/2015, for all monthly calculations, would amount to PLN 186 million of charge for entire 2016 year. This tax will be implemented on top of other taxes, which the Bank, as each bank in Poland, is regularly paying. The amount of banking tax which will actually be paid in 2016 may ultimately differ from aforementioned estimation mainly due to variable tax basis which will be used for monthly tax calculation.
- Banks in Poland are continuing activities to help FX mortgage borrowers to mitigate negative impact of CHF appreciation (so called “Six-pack” comprises, among others, application of negative LIBOR and decrease of FX conversion spread). Additionally, a new fund dedicated to support housing borrowers in a difficult financial situation was created in 2015, to which Polish banks contributed PLN 600 million. Apart of these, there are other proposals of support to FX mortgage borrowers discussed. On 15th January a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward, however

without an assessment of impact for the banking sector. In these circumstances, it is still difficult for the Bank to assess the impact, but if implemented in the proposed version, this law could significantly deteriorate the Bank's profitability and capital position. According to the Financial Stability Report published by the National Bank of Poland on 10th February 2016, the overall direct costs for the Polish banking sector may reach PLN 44 billion, in addition, in case of compulsory restructuring, a further impact of PLN 21 billion has been estimated. In these estimations are not included neither the costs of closing the currency position nor operational costs. Further estimations are expected to be announced by Polish Financial Supervision Authority.

- As a result of the entry into force, commencing from 1 January 2015, of interpretation number 21 issued by the IFRS Interpretations Committee (IFRIC 21), there are doubts regarding the use of requirements of IFRIC 21 in the Bank's financial reporting in relation to fees paid to the Banking Guarantee Fund (BFG). After obtaining the position of the Ministry of Finance convergent with the position of Polish Financial Supervision Authority, the Bank decided to amortise the expenses paid to BFG over the whole year of 2015, i.e. it employed an analogous approach as in the previous years.

On 25 September 2015, European Securities and Markets Authority (ESMA) has issued an opinion concerning contributions to Deposit Guarantee Schemes under the IFRS regime. According to this interpretation BGF costs should be recognized in the financial statements as soon as the obligating event is identified. On the contrary, on 30 December 2015 Polish Financial Supervision Authority informed banks that Ministry of Finance had indicated that opinions issued by ESMA, as a general rule, are not binding, because binding interpretation of IFRS can only be issued by IFRIC Committee or in case of IFRS adopted for use in the European Union - by EU Tribunal of Justice.

The matter is still being discussed by banking sector and authorities. In result the Bank has not decided yet what methodology will be applied in 2016 (it must be however underlined that impact of amortisation of BFG levies over the year versus upfront recognition will be reducing throughout the financial year, and thus by the end of the year there will be no difference in this respect no matter which methodology is applied).

- The closing of the Visa transaction, described in chapter III.3, will have a positive influence on the results of the Bank in 1st half 2016
- Potential decrease of interest rates in 2016, could negatively influence interest margin of banks (and the Bank).
- Recent increase of currency markets volatility (especially PLN depreciation) and downgrade of Polish sovereign debt rating (by S&P agency on 15th January 2016) may cause an increase of financing costs for Polish banks (and the Bank).

IV.3. Strategy fulfilment and business development perspectives

2015 was the first year of realisation of the updated strategy undertaken by the Bank for 2015-17 years. The current strategy is focusing on value creating organic growth and is based on four pillars:

- I. Accelerating acquisition of retail customers through increased network effectiveness and optimized footprint, digital channels and acquisition of affluent clients, while maintaining profitability of this segment due to focus on higher margin products.
- II. Keeping differentiating through customer experience, transforming digital channels to powerful engagement platforms: omnichannel, mobile payments and maximizing customer value through usage of advanced business analytics.
- III. Keeping the growth momentum in corporate segment while improving profitability, reducing cost of risk, further strengthening position in specialized finance.

- IV. Maintaining operational excellence and strict cost control, through maintaining leading lean and digital operating model, future proofing the IT platform to keep enhancing flexibility, scalability and security.

In retail business, the Bank is on track to deliver 300 thousand net growth of active customers as it managed to increase them by 85 thousand during 2015 year. Acquisition of Clients in retail segment was performed mainly through a current account, which was offered through branch network but also digital channels. Growing number of accounts and retail customers supported solid growth of households deposits, where Bank reached 5.6% market share at the year-end, going towards the above 6% target set in the strategy for 2017.

In digitalization area, the Bank continues fast development of online platform, focusing on omnichannel approach, assuming full integration of Millenet, Mobile Banking, TeleMillennium and Millennium Branches. This gives customers utmost level of service and allows the Bank to use advanced business analytics.

In corporate business, the Bank was concentrating on traditionally well performing and profitable leasing and factoring segments. Other lending to corporates was under strong competition, as regards both volumes and margins, so here market share targets are still an aspiration for the next years. On the other hand, the Bank managed to reduce visibly cost of risk in corporate area, as was assumed in the strategy.

In the infrastructure and operational area, the Bank kept high excellence and cost discipline and managed to reduce main operating costs despite higher obligatory contribution to deposit guarantee fund. Without few extraordinary items, which put burden to all banks in 4Q 2015, Bank Millennium would keep Cost to Income ratio at 50%, the same level as one year ago, which is an achievement having in mind all negative factors affecting banks in Poland during 2015.

Finally, the Bank kept comfortable liquidity buffers and significantly strengthened a lot capital ratios (to 16.6% TCR). This bodes well in the view of new capital buffers introduced recently in Poland. However, in order to meet these buffers, the Bank had to assure the retention of entire 2015 profit in the own funds, resigning for the second consecutive year from a dividend payment.

Going forward, Bank Millennium is continuing its current organic growth strategy, being focused on customer acquisition, digitalization and quality of service development, as well as keeping operational and efficiency excellence. Having in mind the new capital buffers introduced recently in Poland and several other regulatory/external factors, which were already decided (like new banking tax) or could potentially influence negatively Polish banks, it is also very important for the Bank to continue a prudent management of liquidity and capital position.

V. FINANCIAL SITUATION OF BANK MILLENNIUM

V.1. The Bank's profit and loss account

Operating Income (PLN million)	2015	2014	Change y/y
Net Interest Income	1 270.4	1 348.8	-5.8%
Net Commission Income	547.6	570.9	-4.1%
Core Income*	1 818.1	1 919.7	-5.3%
Other Non-Interest Income **	380.5	175.0	117.4%
of which dividends	334.0	28.6	1 067.8%
of which extraordinary charges	(140.3)	-	-
Total Operating Income	2 198.6	2 094.7	5.0%

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

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

Net Interest Income for 2015 reached PLN 1,270.4 million and decreased by 5.8% versus the previous year. Net Interest Income was under pressure after two material Monetary Policy Council rate cuts: in October 2014 and in March 2015.

Net Commission Income for 2015 amounted to PLN 547.6 million, which means a 4.1% decrease year-on-year as a result of lower interchange fees (by PLN 54 million - effect of the new regulations on limits for payment cards' interchange fees in Poland). The decrease in interchange fees was offset to a significant extent by growing commissions from loans, insurances and investment products.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 1,818.1 million for 2015 and increased strongly by 5.3% compared to the previous year. The scale of the decrease may be perceived as not high, taking into consideration significant negative changes on the banking market (mentioned above rate cuts and interchange fees limitation).

Other Non-interest Income, which comprise FX Result, Results on Financial Operations and net other operating income and costs, increased strongly in by PLN 205.5 million (i.e. by 117.4%) reaching the amount of PLN 380.5 million. Such strong growth was mainly driven by dividends from associated companies, which grew in 2015 by PLN 305 million (on consolidated level such dividends are eliminated). Such exceptionally high dividends from associated companies were driven first of all by much higher dividend from Millennium Leasing, including part of 2015 net profit and retain profits from the previous years. From the other hand, Other Non-interest Income was also adversely affected by four charges of extraordinary nature in 4Q 2015:

- payment to Bank Guarantee Fund of PLN 102.5 million (gross) to cover deposits of bankrupted co-operative SK Bank's clients,
- payment to the newly created Fund for supporting distressed mortgage borrowers (FWK) of PLN 15.6 million (not tax deductible),
- penalty payment of PLN 12.2 million as a consequence of upholding by appeal court the UOKiK decision connected with interchange fees (not tax deductible).
- provisions of PLN 10 million for tax and other

Total Operating Income of the Bank reached PLN 2,198.6 million in 2015 and increased by 5% year-on-year .

Total costs in 2015 amounted to PLN 1,029.5 million, which means a decrease by 2.5% when compared to 2014 year, despite higher obligatory contribution to deposit guarantee fund (BFG). Without this contribution, total costs would fall -5.5% year-on-year. In 2015 BFG main annual charge for the Bank increased to PLN 65.5 million from PLN 35.6 million in 2014 (an increase by 84%).

Operating Costs (PLN million)	2015	2014	Change y/y
Personnel Costs	(507.1)	(507.6)	-0.1%
Other Administrative Costs*	(522.5)	(547.9)	-4.6%
- of which BFG main charge**	(65.5)	(35.6)	83.9%
Total Operating Costs	(1 029.5)	(1 055.5)	-2.5%
Cost/Income Ratio	46.8%	50.4%	-3.6 p.p.

(*) including depreciation

(**) the other charge to BFG is booked in Other Operating Costs and reached PLN 17.3 million (PLN 13.2 million in 2014)

Personnel Costs for 2015 amounted to PLN 507.1 million and presented similar level as in the previous year. The total number of employees in the Bank decreased by 195 employees compared to the end of December 2014, to the level of 5,575 persons (in Full Time Equivalents) in line with network optimisation process.

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

Employment in Bank Millennium S.A.	31.12.2015	31.12.2014	Change y/y
Number of employees in the Bank (in FTEs)	5 575	5 770	-3.4%

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

Other Administrative Costs (including depreciation) amounted to PLN 522.5 million in 2015 and fell by 4.6% year-on-year (without BFG charge the decrease would have been even higher: -10.8% year-on-year). The decrease was driven by lower cost of marketing, branches, external services (such as advisory, legal etc.) and depreciation, which offset significant increase of BFG charges imposed on banks in 2015. BFG main annual charge for the Bank increased in 2015 to PLN 65.5 million (0.189% of risk weighted exposure) compared to PLN 35.6 million (0.10%) in 2014, which translated into PLN 29.9 million additional costs in 2015.

Cost-to-Income ratio for 2015 strongly improved from 50.4% in 2014 to 46.8% in 2015.

Net Profit (PLN million)	2015	2014	Change y/y
Operating Income	2 198.6	2 094.7	5.0%
Operating Costs *	(1 029.5)	(1 055.5)	-2.5%
Impairment provisions	(229.9)	(248.4)	-7.5%
Pre-tax Profit	939.1	790.8	18.8%
Income tax	(125.0)	(171.3)	-27.0%
Net Profit	814.2	619.5	31.4%

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

Total net impairment provisions created by the Bank in 2015 amounted to PLN 229.9 million and were 7.5% lower compared to 2014 due to much lower provisions for corporate segment which more than offset higher level of provisions in retail segment (an increase to PLN 198.0 million from PLN 126.0 million in 2014).

Pre-tax Profit for 2015 amounted to PLN 939.1 million, which was 18.8% higher compared to the level of the previous year. Reported **Net Profit** for the analysed period amounted to PLN 814.2 million and was higher by 31.4% compared to the level of 2014.

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

Assets

The Bank's assets as at 31 December 2015 reached PLN 66,065 million, which means an increase by 9.2% compared to the end of 2014. The structure of Bank's assets and the changes of their particular components is presented in the table below:

ASSETS (PLN million)	31.12.2015		31.12.2014		Change 2015/2014 (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	1 946.4	2.9%	2 612.0	4.3%	-25.5%
Loans and advances to banks	2 348.7	3.6%	2 384.7	3.9%	-1.5%
Loans and advances to Clients	46 070.7	69.7%	43 634.3	72.1%	5.6%
Receivables from securities bought with sell-back clause	0.0	0.0%	155.6	0.3%	-100.0%
Debt securities	14 044.3	21.3%	10 176.1	16.8%	38.0%
Derivatives (for hedging and trading)	429.3	0.6%	504.8	0.8%	-14.9%
Shares and other financial instruments*	452.7	0.7%	234.4	0.4%	93.1%
Intangible assets and property, plant and equipment **	204.2	0.3%	195.7	0.3%	4.3%
Other assets	568.9	0.9%	586.4	1.0%	-3.0%
Total assets	66 065.3	100.0%	60 484.1	100.0%	9.2%

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of debt securities by PLN 3,868 million (or by 38.0%), including predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank) as well as from the growth of loans to Clients by PLN 2,436 (or by 5.6%).

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Bank's asset structure (69.7% as on 31 December 2015). Total value of loans reached PLN 46,071 million (in net terms) as at the end of December 2015, which means an increase by 5.6% yearly, influenced partially by CHF appreciation responsible for FX mortgage loans growth.

As at the end of December 2015, loans for individuals amounted to PLN 32,906 million and grew by 4.7%. Mortgage loans remain the biggest part of this portfolio with total net balance of PLN 27,683 million. Growth of this portfolio by 2.9% year-on-year was caused by CHF appreciation after January Swiss National Bank decision to stop interventions on currency market stabilising CHF rate.

Non-mortgage retail loans continue strong growing trend: an increase by 15.3% year-on-year to the level of PLN 5,223 million as at the end of December 2015. The key growing item of the portfolio is cash loans: increase by 18.6% year-on-year (in gross terms). The accumulated sales of cash loans during 2015 year reached PLN 2,484 million, i.e. an increase by 16.6% vs. 2014 year.

Loans to companies amounted to PLN 13,165 million as at 31 December 2015, growing by 7.9% yearly. It includes factoring portfolio, which grew by 21.1% yearly (in gross terms) and the annual turnover in 2015 year reached PLN 13,462 million (11% higher than in the previous year).

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

Loans to Clients (PLN million)	31.12.2015	31.12.2014	Change (value)	Change (%)
Loans to households	32 906.0	31 435.3	1 470.6	4.7%
- <i>mortgage loans</i>	27 683.4	26 906.6	776.8	2.9%
- <i>other loans to households</i>	5 222.6	4 528.7	693.8	15.3%
Loans to companies and public sector	13 164.8	12 199.0	965.8	7.9%
Net Loans & Advances to Clients	46 070.7	43 634.3	2 436.4	5.6%
Impairment write-offs	-1 325.1	-1 225.6	-99.5	8.1%
Gross loans and advances to Clients	47 395.8	44 860.0	2 535.8	5.7%

The average interest rate of the Bank's loan portfolio in 2015 was 4.17%. This interest rate includes interest income on hedging derivative transactions (mostly cross-currency interest rate swaps) connected with loans granted in foreign currencies and compensating for the lower nominal interest rate of such loans.

Debt securities

The value of debt securities equalled PLN 14,044 million at the end of December 2015 and increased strongly by PLN 3,868 million (i.e. 38%) compared to the balance as on 31 December 2014, thus improving substantially the liquidity buffer and accounting for 21.3% of the Bank's Total Assets. Major part of debt securities (i.e. 99.5%) were bonds and bills issued by the Polish State Treasury and the National Bank of Poland (the central bank). Of total debt securities, 97.1% were booked in investment portfolio (financial assets available for sale) and 2.9% were in trading portfolio (financial instruments at fair value through profit and loss).

Derivatives

Value of derivatives (designated for trading and hedging) totalled PLN 429 million at the end of December 2015, which signifies a decrease by 14.9% compared to 31 December 2014.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 2,349 million as at the end of December 2015, which means slight decrease by 1.5% year-on-year.

Shares and other financial instruments

Shares and other financial instruments amounted to PLN 453 million as at the end of December 2015, which means significant increase by PLN 218 million compared to 31 December 2014. This item of Bank's assets grew strongly due to re-estimated valuation of the transaction in Visa Europe, explained in chapter III of this document, in the amount of EUR 50 million.

Intangible assets and property, plant and equipment (capital expenditure)

Intangible assets and property, plant and equipment amounted to PLN 204 million as at the end of December 2015, which means small increase by 4.3% yearly.

Total capital expenditure (CAPEX) of the Bank in 2015 amounted to PLN 56.5 million, of which PLN 27.1 million spent for the Bank's physical infrastructure (branches, ATMs, security) and PLN 29.4 million spent on software and IT infrastructure. The planned investments of Bank Millennium in 2016 are PLN 70.9 million.

Liabilities

The value and structure of the Bank's liabilities as at the end of 2015 and 2014 are shown in the table below:

LIABILITIES (PLN million)	31.12.2015		31.12.2014		Change 2015/2014
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 443.9	2.4%	1 986.1	3.6%	-27.3%
Deposits from Customers	52 920.6	88.5%	47 807.9	86.7%	10.7%
Liabilities from securities sold with buy-back clause	0.0	0.0%	66.8	0.1%	-100.0%
Financial liabilities valued at fair value through P&L and hedging derivatives	2 476.8	4.1%	2 020.1	3.7%	22.6%
Liabilities from issue of debt securities	1 135.5	1.9%	1 740.6	3.2%	-34.8%
Provisions	30.3	0.1%	95.0	0.2%	-68.1%
Subordinated debt	639.6	1.1%	639.7	1.2%	0.0%
Other liabilities*	1 126.4	1.9%	781.1	1.4%	44.2%
Total liabilities	59 773.2	100.0%	55 137.3	100.0%	8.4%
Total equity	6 292.1		5 346.7		17.7%
Total liabilities and equity	66 065.3		60 484.1		9.2%

(*) including tax liabilities

As at the end of December 2015, liabilities accounted for 90.5%, while the Bank's equity accounted for 9.5% of the total liabilities and equity.

As at 31 December 2015, Bank's liabilities amounted to PLN 59,773 million and increased by PLN 4,636 million (or 8.4%) relative to the value as on 31 December 2014. The increase resulted, primarily, from significant growth in Customer deposits (by PLN 5,113 million).

Deposits from Customers

Deposits from Customers constituted the Bank's main liability and as on 31 December 2015 they accounted for 88.5% of total liabilities.

Deposits from Customers provide the main source of financing of the Bank's activities and include, mainly, Customer funds deposited on current, saving and term deposit accounts. As on 31 December 2015 deposits from Customers amounted to PLN 52,921 million and recorded an increase of PLN 5,113 million, i.e. 10.7% relative to the balance as at 31 December 2014. The positive factor supporting increase of deposits was growing number of current accounts and customers.

Especially strong growth can be seen in deposits of individuals, which increased by 19.8% yearly (i.e. by PLN 5,875 million). Such strong growth has been achieved despite relevant re-pricing of deposits resulting from material central bank interest rate cuts.

Deposits of companies and public sector amounted to PLN 17,402 million and decreased by 4.2 % year-on-year. This not significant decrease is correlated with very high growth of deposits of individuals mentioned above and reflects Bank's rigorous pricing policy. Important fact is growing balances of Corporate Segment current accounts: an increase by 20% year-on-year.

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

Deposits of Clients (PLN million)	31.12.2015	31.12.2014	Change (value)	Change (%)
Deposits of individuals	35 518.7	29 643.7	5 875.0	19.8%
Deposits of companies and public sector	17 401.9	18 164.2	-762.3	-4.2%
Total Deposits	52 920.6	47 807.9	5 112.7	10.7%

The average interest rate of deposits placed with the Bank in 2015 was 1.52%.

Deposits from banks

Deposits from banks, including received loans, as at 31 December 2015 amounted to PLN 1,444 million, accounting for 2.4% of the Bank's liabilities. The value of that item decreased by PLN 542 million (i.e. 27.3%) vs the balance as at 31 December 2014, mostly due to maturing one transaction with a foreign bank. The most important items of wholesale long-term and medium-term funding received by the Bank were loans from European Bank for Reconstruction and Development and from European Investment Bank (most of them in EUR, but also in CHF and PLN) with original maturities up to 8 years. The total balance of loans from financial institutions expressed in PLN as at 31 December 2015 was PLN 830 million.

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

Financial liabilities valued at fair value through profit and loss and derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. As at 31 December 2015 the value of this item amounted to PLN 2,477 million and increased by PLN 457 million or 22.6% relative to the balance of 31 December 2014, first of all due to PLN depreciation having the impact on increase of negative valuation of derivatives used for hedging purpose.

Debt securities issued

Debt securities issued by the Bank as at 31 December 2015 amounted to PLN 1,136 million, which means a decrease by PLN 605 million (or by 34.8%) relative to the balance recorded as at 31 December 2014. At the end of December 2015 the value of bank debt securities issued by the Bank and possessed by individual Customers as savings products amounted to PLN 302 million whereas the value of bonds possessed by institutional investors amounted to PLN 834 million (part of which of the nominal value of PLN 500 million are traded on Catalyst - ASO BondSpot debt instruments exchange in Warsaw). The main reason for decrease of liabilities from issued debt securities in 2015 was lower balance of bonds to institutional investors. Debt securities were issued by the Bank in order to raise funds for financing the general Bank's operations and to strengthen the mid-term funding of the Bank.

Subordinated debt

The value of subordinated debt amounted to PLN 640 million as at 31 December 2015 and did not change vs. the balance on the end of the previous year. 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 2015 equity of the Bank grew by PLN 945 million or 17.7% year-on-year to PLN 6,292 million as at the end of the year. The main reason of equity growth was net profit generated during the reported period (PLN 814 million) as well as increase of value of equity instruments available for sale by PLN 173 million mainly thanks to recognition in comprehensive income the transaction on Visa Europe mentioned above in the text.

The Management Board of the Bank will submit to the Annual General Shareholders Meeting a proposal to retain 100% of the net profit of 2015 in equity.

The information about capital adequacy is presented in Chapter VII of this document and in separate report titled "Information on risk, own funds and capital requirements" for 2015.

Contingent liabilities

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

CONTINGENT LIABILITIES (PLN million)	31.12.2015	31.12.2014	Change 2015/2014
Contingent liabilities granted and received	7 923.8	7 930.6	-0.1%
1. Liabilities granted:	7 861.0	7 796.3	0.8%
a) financial	6 713.0	6 691.5	0.3%
b) guarantees	1 148.0	1 104.8	3.9%
2. Liabilities received:	62.8	134.3	-53.2%
a) financial	4.0	60.5	-93.4%
b) guarantees	58.9	73.8	-20.3%

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

As on 31 December 2015, the total value of contingent liabilities of the Bank amounted to PLN 7,924 million, including commitments granted by the Bank: PLN 7,861 million. During 2015 the value of contingent financial liabilities granted by the Bank stayed on similar level, whereas the value of guarantee commitments increased by 3.9%).

More information on contingent liabilities can be found in Chapter 11 of Annual Financial Statements of Bank Millennium for 12 month period ended 31 Dec. 2015.

VI. PRESENTATION OF BUSINESS ACTIVITY

The Bank Millennium Group provides universal, modern financial services based on the product offering of Bank Millennium and Group companies: Millennium Leasing (leasing), Millennium TFI (investment funds) and Millennium Dom Maklerski (brokerage activity).

In 2015, the Group continued to implement the adopted strategy devoting particular attention, in addition to ongoing cooperation with its Clients, to enhancing quality and implementing its business model based on the omni-channel customer service approach.

Quality and Customer Experience

2015 was another year during which retaining its competitive advantage by providing customers with very high service quality was an important element of the Bank's strategy.

Measures taken in recent years led to a significant boost in customer satisfaction and a number of awards.

Over the last 3 years, the number of satisfied Bank clients rose from 33% to 49%. The characteristics our Clients value the most in our Bank and consider to be its strong points include our high quality of customer service (especially in Bank branches), modern technology solutions, competitive offering and conviction that the Bank delivers on its promises.

In 2015, Bank Millennium was the leader in all major service quality rankings in Poland: Quality Star ("Gwiazda Jakości"), Bank Quality ("Jakość na bank") and Newsweek's Friendly Bank ("Przyjazny Bank Newsweeka"). Its landslide victory in Newsweek's ranking saw the Bank take first place in 3 of 4 categories: "Bank for Mr. Smith", "Bank in the Internet" and "Mortgage Banking".

To continue implementation of its strategy in 2015, actions were taken in the following areas:

1) Implementation of a new service model for clients opening accounts in Bank Millennium:

In this model, the Bank abandoned the application of sales conversation scripts, putting special emphasis on opening a new account in a customized manner adapted to each individual Client. The main point was to develop an atmosphere of friendly talk and authenticity, giving Clients the feeling that the discussion is focused on them and their needs and situation.

At a later stage of cooperation with the client, the Bank continues to focus on the client's needs by including him/her in an onboarding program. In this program we make sure that the client is able to use to the fullest extent, as soon as possible, all the products purchased, that is the current account and the card linked to the account, as well as all access channels, such as Internet and mobile banking.

2) Infrastructure quality improvement - Outlets are remodeled to ensure comfort for customers during service. This includes introduction of universal service desks where any request that a Client comes to the Outlet can be fulfilled in a convenient manner. In 2015, 51 Outlets were remodeled with this in mind and in 35 Outlets all of the available desks are universal.

3) Increase of Employee knowledge about products offered to Clients by continuing annual Competence Tests covering all Customer service employees (over 3000 people).

4) Faster and more efficient resolution of clients' problems. In 2015, work was focused predominantly on accelerating the process: a rapid response process was implemented to address possible problems arising in cooperation with the Bank's Business clients. In the case of individual clients, over 50% of complaints are currently examined within 3 days.

More than 75% of the Bank's clients consider the complaints handling process to be satisfactory or very satisfactory. What makes us particularly happy is the fact that, for over 60% of the clients, their experience with complaints improves their opinion about Bank Millennium.

All the problems reported by the Bank's clients are subject to in-depth analysis. As a result of their suggestions, in 2015 we managed to address and implement 56 service improvement initiatives, for example:

- we have changed the way that fee-related information is displayed in the mobile application to ensure more clarity;
- we have introduced a process of sending out information about non-renewal of a credit card;

- we have introduced information for clients about upcoming fees, by sending a text message about the upcoming initial fee for the “Very Helpful Package” insurance or a credit facility renewal fee;
- we have shortened the process of handling applications for a refund of monies sent to an incorrect account number or to an incorrect recipient;
- we have introduced more flexible Client identification rules at the Bank’s outlet;
- we have introduced conditional acceptance of complaints related to cash withdrawals from other banks’ ATMs; in practice this means that the client can use funds subject to the complaint even before the chargeback complaint procedure is completed;
- people applying for an inheritance payment can now select how they receive confirmation;
- we have implemented a process of transmitting confirmation of lifting a seizure by bailiff, by sending it to a fax number;

VI.1. Retail Banking

Bank Millennium has a universal, broad offering of banking services and products for retail clients, which it offers within four specialized business lines: Individuals, Prestige, Private Banking and Small Business.

The principal product offered to individuals is the personal account whose sales figures in 2015 topped 280 thousand and at year-end, the entire portfolio had increased to over 1.7 million accounts in Polish zloty. At the end of 2015, Bank Millennium has accumulated more than PLN 35.6 billion in deposits from Individuals (annual increase of 20%) and additionally PLN 7.1 billion of non-deposit investment products. On the credit side, the financing extended by the Bank to households reached PLN 33.6 billion (annual growth of 5%). Such good performance of the Bank Millennium retail banking segment is driven by consistent expansion and modernization of the product offering, effective sales efforts and maintenance of the exceptional customer service quality.

Personal Account

Individual clients are invariably most interested by the Konto 360° account. At the end of 2015 (20 months after the account was introduced in the Bank’s offering) there were almost 390 thousand Konto 360° accounts. In 2015, 75% of all new accounts were opened by new clients who have had no savings and checking account in Bank Millennium, and over 90% of the accounts were accompanied by a debit card.

The promotion of Konto 360° last year included:

- successive phases of the advertising campaign conveying information on TV, on the Internet and in cinemas;
- special offers, such as “Gain 360 zloty” in which the Bank promoted mobile banking, card transactions and BLIK transactions, offers created in cooperation with group selling websites, such as Groupon, as well as the “I Recommend Bank Millennium” recommendation program, in which the Bank rewarded the clients who recommended its offering.

Additionally, in the period from September to November 2015, a promotional campaign for Konto 360° Student was executed in universities and schools. These activities have been well received by young Clients and resulted in record high account sales numbers in that period.

In September 2015, following an analysis of Client preferences in respect to personal accounts, the Bank launched Prestige World Account, a new product for affluent clients.

Savings Products

In 2015, Bank Millennium achieved significant success in managing its deposit base. The Bank achieved record high volumes on current, savings and term deposit accounts, with an aggregate increase of PLN 5.8 billion. This allowed the Bank to increase its market share from 5.2% to 5.6%. This performance was achieved despite another significant reduction of interest rates in March 2015 and the persisting strong market competition for deposits.

The Bank continued its regular promotions for its flagship product, Konto Oszczędnościowe (Savings Account) with attractive rates for new funds. The promotions were supported by TV and Internet campaigns that encouraged saving while keeping flexible access to the funds.

Millennium was the first bank in Poland to offer its clients the ability to make a Mobile Deposit using the augmented reality functionality (which combines real world images with 3D animation in real time). The product innovation combined with attractive interest rates was devised in order to continue strengthening the Bank's image as a modern institution, which provides access to its products also through remote channels.

On the Children's Day and the Savings Day, Bank Millennium gave its clients a "Happy Hours" promotional offering, prolonging the product availability period and offering interest rates 1% higher than standard rates. The solution is targeted at clients who open their deposits on their own and promotes the Internet banking channel.

In 2015, Bank Millennium also promoted regular, long-term pension savings products. The Bank kept one of the most attractive interest rates on the market for the deposit-based Individual Retirement Account (IKE) at 3% and supported this product with information sent to clients and special-purpose campaigns addressed to selected clients.

By offering savings products, the Bank promoted client loyalty. For example, both the promotional offering of the Savings Account and the mobile solutions offered higher interest rates for clients holding Konto 360 that is the full banking relationship.

Investment Products

In 2015, the Bank continued its efforts to increase the appeal of this product offering group. Bank Millennium maintained high exposure to structured products by conducting 12 issues of Bank Securities with 100% capital protection, targeted at Prestige and Private Banking clients, as well as 24 subscriptions of investment deposits for retail, Prestige and Private Banking clients.

Within the open architecture of investment funds, the Bank offered its clients, in addition to Millennium TFI products, also a number of investment products from other providers. The total number of funds offered to the Bank's clients at the end of 2015 was 128 (including 60 domestic and 68 international).

In respect to investment insurance products, the Bank's offering in 2015 included single-premium insurance with capacity of investing in unit-linked insurance funds. The Multicurrency Investment Programme offered domestic and international capital funds with different investment risk and profit profiles, while the Wygodny Portfel Investment Programme has 4 model portfolios with different investment risk and potential rates of return.

Payment Cards

In connection with the amendment of the Payment Services Act enacted in December 2014, lower interchange fee rates, with different levels for different cards, started to apply in Poland since February 2015. The maximum Interchange Fee level for debit cards and credit cards is 0.2% and 0.3%, respectively. This reduction and the record low level of interest rates in Poland had a significant influence on the business model of the payment card market.

Since 2009, a gradual decline in the number of **credit cards** issued in Poland has been observed. According to the National Bank of Poland, between Q4 2009 and Q3 2015, the number of cards on the Polish market fell by almost 5 million. At the same time, the number and value of card transactions follow an upward trend. This shows that the banking market has decided to reduce availability of this product and review its card portfolios

in terms of quality. It has become much more important for the bank to change the focus: from selling cards to activities promoting more frequent use of the cards by their holders.

In line with this trend, Bank Millennium has taken steps to keep the current number of cards (335 thousand at year end) and to increase the number of transactions.

The largest promotional activities for credit cards in 2015 included weekend discount campaigns entitled “Shopping with Style” conducted together with “Twój Styl” and “Grazia” magazines. The campaign took place on selected weekends in April and October 2015. The “Shopping with Style” participants could get attractive discounts from campaign partners. At that time, the Bank actively promoted Impresja and Alfa credit cards, which increased the share of Impresja cards in new credit card sales up to 70%.

Another important step to boost the appeal of the Bank’s credit card offering was the launch of a new credit card for men - Millennium Alfa. Alfa card users have access to the money back offering on transactions concluded with specially selected partners. The list of partners has been selected on the basis of the analysis of transactional behavior of men (Bank’s current Clients) and is classified into the following purchasing categories: home furnishing, car parts, leisure, sports and recreation, travel, jewellery and cosmetics. In addition to a 5% refund on the purchases from the program’s partners, Millennium Alfa card holders have access to an extensive assistance package and Convenient Installment promotional programs. The card is available through stationary and remote sales channels.

The **debit card** market in 2015 broke the long-lasting upward trend and recorded a decline. According to the National Bank of Poland, in Q3 2015, the number of debit cards issued in Poland was 26.5 million, down by 2.7 million cards over a 12-month period (-9.1% annually).

Contrary to the existing trend, Bank Millennium continued the increase in the number of debit cards and the number of transactions executed with those cards. In 2015, the Bank Millennium portfolio rose by 11.3% per year. With almost 1.4 million cards, the Bank increased its share in the debit card market in Poland to about 5.1%.

The value of transactions generated by Bank Millennium debit card holders increased by 7.6% in 2015 vs. 2014. This growth rate was driven, among others, by a very competitive offering, in particular Konto 360° and Konto 360° Student accounts. Among new debit card holders, the observed trend is a steep increase in the number of transactions executed with cards in the first months after they are issued.

In September 2015, Bank Millennium launched a new Millennium Visa Prestige World debit card for Prestige segment clients with the new Prestige World Account. The new debit card is embossed and supports payWave contactless payments.

Cash loans

In the area of cash loans, 2015 was another record-breaking year for the product’s sales to the Bank’s clients. In the first quarter, emphasis was placed on the consolidation of clients’ liabilities in other banks. A special offering was implemented “Vacation from payments”, which allowed the clients not only to transfer their credits and loans to Bank Millennium with zero commission, but also to defer payment of the first installment up to 3 months. The campaign received marketing support in the form of stickers on the windows of the Bank’s branches and caused an increase in consolidation loan sales by over 40% in terms of value, compared to the period without any promotion.

During the period of elevated demand for consumer loans, i.e. in late August and in September, the Bank introduced another edition of the popular “There is only one such loan” (Jedyna taka pożyczka) campaign, offering 0% commission for loans up to the gross amount of PLN 5,500 with insurance, granted for 24 months.

Strong promotion of the consolidation offering as part of the “Huge reduction of payments” (Wielka obniżka rat) campaign took place in the period from October to December. The offer was applicable to consolidation loans with insurance, where the annual interest rate accruing on the funds used to refinance liabilities in other banks was 4.99%. This offer, combined with a 0% commission on the refinanced amounts (which was part of the standard offering) was one of the best offers of this type on the cash loan market. The clients showed great interest in this proposal, which increased the sales of the consolidation loan by over 30% in terms of value, compared to the period before the promotion.

Over the course of the year, the Bank gradually increased sales of this product through remote distribution channels, with special emphasis put on sales through the mobile application and by telephone. The Bank also continued its work to simplify and shorten the time of processing cash loan applications in the procedures based on the client's income documents. The range of admissible documents certifying the client's income has been increased significantly. The work on improving sales and Customer service processes has been rewarded with a high rating achieved in a study conducted by Net Promoter Score to verify the propensity to recommend the Bank and its offering to the family and friends.

The consistent implementation of the growth strategy in the non-mortgage loan area has allowed the Bank Millennium Group to sell almost PLN 2.5 billion of cash loans in 2015, increasing the outstanding balance of this product by almost 19% year on year, which was much more than the market growth in the same period of time.

Mortgage loans

Following the decisions made by the Swiss National Bank, which resulted in the increase of the CHF exchange rate in January 2015, the actions carried out by Bank Millennium in the first half of 2015 in the mortgage banking area focused on the mitigation of the negative consequences of the exchange rate hike.

From the very beginning of the year, Bank Millennium took into account the negative level of the CHF Libor reference rates in the calculation of mortgage loan rates. This caused a reduction of interest rates charged on the loans. The negative reference rate drives down the CHF installment amount for clients, which offsets the increase of the installment amount (after conversion to PLN) caused by the higher CHF exchange rate.

In late January and early February, the Bank introduced a number of solutions facilitating the service of debt: it made a decision to reduce by half the FX spread for CHF for the purpose of servicing mortgage loans granted in Swiss francs, allowed the Clients interested in converting the loan from CHF to PLN to convert it using the exchange rate equal to the average NBP rate on the date the conversion application is submitted. Additionally, the Bank cancelled the fees for addendums, which were executed to mitigate the consequences of the exchange rate increase, by reducing monthly installment amounts - by applying a grace period for principal repayments, by extending the lending period or applying a repayment break.

Following a recommendation issued by the Polish Bank Association, in April the Bank introduced co-payments to installments of selected FX loan clients, for which the aggregated margin and reference rate are negative.

In June, the Bank prepared a new solution for those interested in eliminating of the currency risk, which also made it easier to service their debt. The bank has published special terms and conditions for currency conversion and prepayment of CHF loans:

- currency conversion of the loan from CHF to PLN with a simultaneous reduction of the current margin by 0.2 percentage points.
- division of the current CHF loan into two loans:
 - one loan equal to 50% of the outstanding CHF debt on the same terms and conditions,
 - another loan equal to 50% of the currently outstanding CHF loan converted into PLN with a margin reduced by 0.2 percentage points.
- reduction of the CHF loan margin resulting from the prepayment of a portion of the current debt.

Client application processing has been simplified, among others in terms of documents required from the clients. In most cases, it is sufficient to submit an application with an attached simulation of terms and conditions after the change.

In September, following the update of the "Apartment for Young Adults" program (a government support program for those purchasing their first apartment) the Bank adjusted its mortgage loan offering to the applicable requirements by adding new groups of beneficiaries: unmarried persons, properties from secondary market and the co-financing level was increased up to 30% for the beneficiaries purchasing an apartment or a house who raise three or more children on the date of the application. Additionally, in September the Bank prepared an attractive residential loan offering with zero commission for granting a mortgage loan under the Apartment for Young Adults program. The changes contributed to an increased supply of eligible properties under the program and a higher Client interest in the mortgage loan offering.

Bank Millennium's efforts to develop its position on the mortgage loan market have been recognized by the market as demonstrated in the rankings prepared by the media. The most notable award was the first place in the "Mortgage Banking" category of the "Newsweek's Friendly Bank" ranking, which is one of the most reputable rankings in Poland. The Bank's position in the ranking resulted from the high quality and friendly atmosphere of the customer service experience.

Prestige Segment

Prestige is an offer for affluent Clients with assets from PLN 100 thousand to PLN 1 million or Clients making monthly payments of at least PLN 10,000 to their account. Bank Millennium Prestige account comes with a broad array of products and services for current financial management: PLN and FX current accounts, savings account, terms deposits, debit and credit cards. The bank also offers a broad range of investment and investment-insurance products, including domestic and foreign investment funds and structured products. As at 31 December 2015, Bank Millennium had about 30 thousand active Prestige Clients.

Private Banking Segment

Private Banking at Bank Millennium is an offer of products and services addressed to the most affluent individual Clients with assets exceeding PLN 1 million, who expect high quality of service and financial product offering tailored to their individual needs.

In 2015 the Bank as part of its offer for affluent clients provided a broad range of products and services used for current financial management: PLN and FX current accounts, savings account, term deposits, debit and credit cards. Additionally, Private Banking Clients could benefit from the Millennium MasterCard® World Elite™ credit card with access to the World MasterCard Reward programme, Priority Pass, World Elite Privileges Programme, an insurance bundle and Assistance and Concierge packages. This offering was supplemented by an extensive range of investment and investment-insurance products, including domestic and foreign investment funds and structured products.

Our Clients' funding needs were satisfied by the offer of cash loans, credit cards, mortgage loans and assets-backed loans. In the lending area, sales activities focused primarily on offering cash loans, credit cards and personal account overdraft facility.

As at 31 December 2015, Bank Millennium had over 3 thousand active Private Banking Clients.

Internet Banking for Individual Clients

Bank Millennium has continued to develop its digital platform. Highly flexible solutions have allowed it to introduce innovative changes without delay. The platform supports the omni-channel approach, which involves full integration of Millenet, Mobile Banking, TeleMillennium and service in outlets, through which the client can receive transparent information about the status of its products and services.

The Bank Millennium Omni-Channel Strategy has been recognized by independent experts. In 2015, Bank Millennium found itself among the most innovative financial service companies in the world. Bank Millennium was recognized as the best bank in the Cool Business Awards in Financial Services competition during the industry conference organized by the reputable Gartner consultancy.

In September 2015, in response to client needs, Bank Millennium launched the new Millenet transaction service using the RWD (responsive web design) technology, in which it automatically adapts to the type of the device (computer, tablet or phone) used by the client, while maintaining full functionality. The implementation was preceded by numerous focus studies, eye-tracking analyses and interviews with Bank Millennium clients.

The changes and the new solutions have allowed the Bank to defend the title of "the Friendliest Bank in the Internet" in the Newsweek ranking. The account opening process online, which was an important part of the evaluation process, again received highest praise. The Bank has also received high marks in the international Global Finance ranking.

All those activities translated into the number of active Millenet users, which reached 806 thousand at the end of December 2015. In 2015, Internet banking confirmed its increasing importance as the Bank's product distribution channel. At present, Millenet is used to open 70% new deposits, 20% cash loans, 35% current account overdrafts and 10% credit cards. Internet banking has also become an important communication channel between the clients and the Bank, through which they may submit their applications, inquiries or complaints.

In the selling process, the Bank provided the chat with an expert functionality with a screen sharing service that is unique on the Polish market. It enables a consultant to support the client directly within the transaction

system. During an online chat, the consultant may directly see what the Client's problem is and help solve it even quicker.

Implementation of the recommendation program entitled "I Recommend Bank Millennium Promotion" deserves a special mention. The first edition, in which the recommendation program lasted about 2 months, met with significant interest of both existing and new Clients.

Mobile Banking for individual clients

In 2015, Bank Millennium launched the new Mobile App for two most common operating systems, iOS and Android. In addition to the access to standard functions, such as product management, transactions or localization of outlets and ATMs, the application takes advantage of cutting-edge technology solutions offering a number of innovative functions to make the daily financial management even easier and to address user needs.

Bank Millennium was also one of the first banks in Poland to introduce fingerprint authentication for logging in the mobile application for the users of fingerprint scanner enabled smartphones. Cash transfer to a phone number is another feature offered to mobile application users. The function allows them to make a transfer without even having the recipient's account number.

The application also offers a very convenient and secure mobile payment system for both stationary and Internet-based stores using a Blik code; the phone can additionally be used to store loyalty cards ensuring discounts in stores and service points without a need to keep plastic cards in the wallet.

Another improvement introduced in 2015 is the ability to synchronize the application with a smart watch. As a result the user may, by looking at the watch: check the balance of accounts and cards, find the nearest Bank Millennium branch or ATM, use the navigation and check current FX rates.

Bank Millennium was the first banking institution in Poland to give its Clients access to cutting edge technology: augmented reality and 3D Touch, through a mobile app. By using the augmented reality technology, which combines actual image with a 3D animation, users may see a special animation and use a virtual banner to open a deposit with a special interest rate.

The new Bank Millennium mobile app is appreciated by the clients. The existing clients received the app very favorably (4.6 rating in the Google Play store, 4+ in AppStore) and the number of new app users (from the moment of its launch in April 2015) increased by nearly 70%, among others through quick responses to clients' comments and needs. The number of mobile app users (logging into the mobile app or Milenet RWD through a mobile device) exceeded 400 thousand at the end of December.

VI.2. Corporate Banking

Corporate Banking at Bank Millennium is a business line, which provides professional and comprehensive services to clients with annual sales revenues above PLN 5 million and public sector institutions and entities. The Bank has continued a long-term, stable, partner cooperation with corporate clients, which is founded on investment trust, commitment and understanding.

Client service in the Corporate Banking segment is provided through an extensive sales network covering the entire country. Clients have at their disposal Relationship Managers and Consultants working in 35 Corporate Centers, supported by Product Advisors specializing in leasing, factoring, trade finance, treasury transactions and transaction banking.

In addition to the direct contact with the bank's employees and access to the TeleMillennium telephone service, clients have the ability to use contemporary tools such as:

- Milenet for Corporates Internet banking system (with the "Trade finance" module),
- mobile banking, that is access to accounts and banking operations through mobile phones.

The comprehensive product offering in the corporate area has allowed the Bank to develop custom cooperation proposals based on the diagnosis of client needs, knowledge of its situation and its industry. All the clients, who begin their cooperation with Bank Millennium, are offered comprehensive support in setting up access through electronic channels (current settlements, FX platform, trade finance service and mobile banking).

Loans

In 2015, Bank Millennium Bank experienced stable growth of financing granted to corporates. In this period, the volume of loans in the Bank Millennium Group portfolio increased by PLN 0.7 billion (i.e. 5.4% yoy) up to PLN 14.2 billion at the end of the year. This growth was achieved despite the persisting limited demand for bank loan financing, which resulted from the good liquidity standing of the companies, allowing them to cover a significant part of the current needs on their own.

In Q1 2015, an umbrella loan was added to the credit product offering. It is a credit limit shared by several companies in a group of affiliated entities, which was introduced in connection with the plan to strengthen the Bank's position in the mid corporate segment. The product offers flexible fund management and has garnered great interest from our clients, as shown by the continuing growth of the product's portfolio.

In order to implement the strategic assumptions for the coming years, including those regarding the investment financing portfolio growth, Bank Millennium has become involved in the distribution of EU funds. In the 2014-2020 financial framework, Poland will receive support of EUR 82.5 billion. Of the funds awarded to Poland in the 2014-2020 financial framework, about EUR 17 billion is designated for the development of entrepreneurship. This is a chance for growth for companies, especially those in the small and medium enterprise segment. In order to develop its cooperation with clients, Bank Millennium prepared a cycle of "business breakfasts" and seminars regarding the acquisition of EU funds in the new financial framework for 2014-2020. One of the steps taken in Q4 2015 to implement the new development plan was the launch of a new product provided in cooperation with BGK as part of the Smart Growth Operational Program. Under the contract, the Bank may offer to SME entities loans financing technological innovation to implement a new technology of producing goods, processes or services that are new or much better than previously produced in Poland. Under the loan for technological innovation, clients may receive a non-refundable support up to PLN 6 million in the form of a technological premium, which is awarded by BGK for the purpose of a partial repayment of a loan granted by Bank Millennium.

To increase convenience in clients' contacts with the Bank, a new functionality was introduced in the Millenet Internet banking system, which allows clients to send an electronic version of documents in the lending process. The new channel for delivering documents was made available to selected clients in a pilot scheme, which will last until the end of Q1 2015.

The Bank consistently develops the portfolio of structured loans. In 2015, agreements worth nearly PLN 1 billion were signed. In this period, Bank Millennium took part in 6 syndicated financing projects and executed several real property projects.

Specialist Financing - Factoring

In 2015 Bank Millennium has achieved factoring turnover of PLN 13.5 billion. The business growth rate was 11%. This performance meant that in 2015, Bank Millennium maintained the 5th place in the ranking of factoring institutions associated in the Polish Factors Association with a 10% market share.

Such a good result is an effect of a regular increase in the number of transactions and amount of factoring limits, while maintaining their high utilization. In 2015, the factoring assets portfolio grew by 21% up to PLN 1.9 billion. At year-end, the amount of factoring limits awarded in transactions was 27% higher than at the end of 2014.

In 2015 the Bank entered into a Trade Receivables insurance Agreement with TU Euler Hermes S.A. under which insured factoring without recourse transactions are executed. TU Euler Hermes S.A. is another Insurer (after Atradius Credit Insurance N.V. S.A.) with which the Bank has started cooperating. The purpose of executing another Policy is to increase the percentage of insured factoring without recourse transactions in the overall factoring portfolio.

Trade Finance

In 2015, the number of opened documentary letters of credit rose by 25% compared to the previous year, which increased the percentage of letters of credit in the entire trade finance portfolio. Also, the amount of granted guarantees and letters of credit facilities increased by 7% to PLN 1.7 billion, while the number of limits grew by 28%.

In "The 2015 World's Best Corporate/Institutional Digital Banks In Central & Eastern Europe" ranking, Bank Millennium won for the second consecutive year in the trade finance category, "The Best Trade Finance Services". These awards were conferred by an independent financial magazine called Global Finance.

The distinguished trade finance services, including bank guarantees and documentary letters of credit are available online through an advanced trade finance module in the Millenet for Corporates Internet banking system. The platform handles transactions requested by the Clients as well as those in which they act as beneficiaries.

In 2015, the Clients using the electronic trade finance platform represented 80% of all clients holding guarantee and letter of credit facilities from Bank Millennium. The number of all requests for guarantees and letters of credit submitted via the platform reached 80%.

Client Settlement Services

Bank Millennium has a comprehensive offering of transaction banking products, supported by an efficient and ergonomic Internet banking system. In transaction-related communication with clients, the Bank has actively used alternative host 2 host channels (report store) and mobile banking. Corporate clients have unlimited access to all the Bank's branches. In cash management they also have access to the cooperating companies' sorting centers and the modernized cash deposit drop box network.

In transaction banking the Bank focuses on solutions providing high client service quality, process simplification according to lean methodology and operating efficiency to expand the base of clients actively using its pallet of transaction solutions.

2015 was another year that witnessed rapid growth in the number of transactions processed and the transaction products utilized by corporate clients. The number of domestic wire transfers trended up by 19% while the number of international wire transfers rose by 17%. As a result, the volume of funds on current accounts grew significantly (by 20%). The ratio of funds on current accounts to the deposit portfolio has also improved steadily. At year end it was 26.7% (up from 22.7% at year end 2014).

In H1 2015 we observed rapid growth in the usage of the web channel for selling payment cards. The new module rolled out in H2 2014 to manage payment cards is actively utilized by clients to purchase debit cards, charge cards and pre-paid cards. More than 40% of the charge cards issued in 2015 were sold via Millenet. The payment card portfolio swelled by 12%, driven mostly by the rapid growth in the number of pre-paid cards. The 6% growth in the number of charge cards is noteworthy; the number of debit cards edged off slightly.

In H1 2015 Millennium MasterCard Prepaid Commercial cards were added to the offer in USD and GBP to complement the card offering in PLN and EUR. The 3D Secure service launched in the latter half of the year for pre-paid cards affords settlement security in the rapidly growing virtual settlement market.

In addition, we are steadily expanding liquidity services by developing cash pooling type solutions and transactions based on MT101 messages to provide comfort and optimize the management of multi-account and multi-entity structures.

Transaction banking activity is noteworthy on the escrow account market for housing purposes offered as open-end and close-end escrow accounts. At year end 2015 the number of active escrow accounts for housing purposes in the accounts portfolio exceeded 300.

Deposits

In 2015 Bank Millennium improved the mix of deposit products for corporate clients by growing the percentage share of current accounts in the total volume of deposits by 4 p.p. 2015 was another year in which the costs of funding originating from corporate term deposits were closely monitored. Over the year they fell slightly by 3.5%, among others, on account of the downward trend in market interest rates. The volume of corporate deposits as at the end of 2015 was PLN 17.2 billion.

Electronic Banking

In 2015 the Bank further developed the Millenet system for Corporates. It is the primary channel to serve corporate clients. The implemented projects such as for instance the ability to submit applications for payment cards in the internet banking system make it possible for clients to perform an ever broader scope of activities electronically. At the end of 2015 clients were given the ability to send electronically the documents used in the loan handling process. The electronic copy of the original document is read into the internet banking system where it is authorized and forwarded to the Bank in a totally secure manner. It is our purpose to continue giving clients more functionalities to provide them with convenience and save their time by shifting important processes to electronic banking.

Last year many new transaction security solutions were introduced. Clients may now use a modern token for authorization to enable them to authorize operations without connecting a device to the computer and installing additional software. The device is compatible with every operating system and browser. Clients also began to use the new login method in which authentication is confirmed using an SMS code.

In 2015 the popularity of mobile banking applications has also grown with the number of users nearly doubling over the year. This application's functionality is constantly being developed. There are plans to introduce operations to buy/sell foreign currencies in this application.

International activity and external funding

Last year the parameters for the functioning of the international loan market, including in particular syndicated loans that in the past formed a major source of stable funding in foreign currencies for the Bank did not undergo significant change. Therefore, no new agreements have been concluded in this area. The servicing and management of the hitherto and new agreements concluded with international financial institutions were however continued, especially the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), that as of 31 December 2015 included the following:

- an agreement concluded with EBRD in December 2015 concerning a medium-term loan for EUR 50 million extended by EBRD under the PolSEFF Leasing project (*Polish Sustainable Energy Financing Facility for Leasing*). The funds from this loan will be made available to the Bank's clients using funding in the form of leasing (through Millennium Leasing), designated to carry out investments to enhance the energy efficiency of the machinery and equipment used and to reduce the costs of energy used. The final loan payment will be made in December 2020.
- an agreement concluded with EBRD in December 2013 concerning a medium-term loan for the equivalent of EUR 75 million designated to increase Bank Millennium's ability to fund SME sector clients in selected regions of the country. This loan was originated in CHF in two tranches with the final repayment deadline for the various tranches falling in December 2018 and December 2019.
- an agreement concluded with EBRD in December 2012 concerning a loan for PLN 60 million designated to expand the funding of projects under the PolSEFF program launched two year earlier (*Polish Sustainable Energy Financing Facility*), with the final repayment deadline in December 2016.
- a loan agreement called Global Loan concluded with EIB in December 2010 for EUR 100 million designated to support the bank's actions to fund investments realized by the small and medium enterprise sector.

Parallel to arrangement of mid-term funding in the international market, Bank Millennium has in recent years successfully issued PLN denominated debt in the domestic market. On 22th June 2015 the Bank issued 3-year unsecured bonds, with total nominal value of PLN 300 million, within private placement offer addressed to institutional investors. The bonds were introduced to trading on the alternative trading system (ASO) operated by BondSpot S.A. and on the Warsaw Stock Exchange. Previous issuance of 3-year bonds, conducted in similar mode, took place in March 2014 and covered then the amount of PLN 500 million.

Last year the Bank continued undertakings related to the process in progress for many years of strengthening the base of credible counterparties and partners on the interbank market, especially in the segment of instruments related to managing medium and long-term liquidity in foreign currencies. One of the important aspects of activities in this area was entering into (and updating existing) ISDA framework agreements with domestic and international banks accompanied in most cases by the Credit Support Annex (Hedge Agreement), which is assumed to be fully symmetrical for both sides. At the same time, the Bank has taken measures related to the gradual implementation of the EMIR Regulation (European Market Infrastructure Regulation) and its applicability to activities related to executing transactions pertaining to the various categories of derivatives on the OTC market.

Irrespective of the above activities, in the past year the Bank performed, on the current basis, all other projects and tasks connected with its overall international activities, in the area of diverse targets involving, inter alia, current financing of the Bank's own and its Clients' needs, servicing of foreign trade transactions, participation in international currency and money market operations, capital market activities. Achievement of the above resulted largely from the process of development of the Bank's cooperation with its foreign partners and counterparties, expanded during more than 25 years. The Bank maintains contacts with nearly a thousand correspondent banks and their units located in all countries significant from the perspective of the structure of Poland's foreign trade and non-trade transaction.

VI.3. Treasury and investment operations

Treasury and investment services

In the framework of the activity pursued by the Treasury Department Bank Millennium provides the Bank's clients access to a broad portfolio of financial instruments: foreign exchange transactions in cash, deposit

products, exchange rate volatility risk management instruments (FX forwards, FX swaps, options) and instruments to manage interest rate volatility (FRA, IRS and CIRS transactions).

The solutions offered by the Bank enable importers and exporters to hedge FX risk, and thereby to calculate their costs and prices correctly. Clients also have the ability to hedge the risk of deterioration in their financial performance as a consequence of unfavorable movement of market interest rates in the future - the proposed solutions make it possible to set a fixed cost of funding and the impact exerted by interest while they do not require any amendments to credit facilities and lease agreements in force.

In 2015 the Treasury Department continued its efforts to sell actively the Millennium Forex Trader transaction platform (as of 2014 it has been integrated with the Millenet electronic banking system for the first time), through which Corporate Banking clients enter into cash and forward foreign exchange transactions and foreign exchange swap transactions.

At the end of 2015 nearly 2.3 thousand clients actively used the Bank's treasury financial instruments.

Bank Millennium is a leading financial institution on the market for offering structured products to Retail Banking clients and Prestige clients.

Custody Services

Bank: Millennium S.A. offers custody services based on an individual permit granted by the Securities and Exchange Commission. Bank: Millennium S.A. is a direct participant in depository and clearing systems such as the National Securities Depository (KDPW), the NBP's Register of Securities and international clearing houses like Euroclear Bank SA/NV and Clearstream Banking Luxembourg etc.

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

Bank Millennium holds a leading position in Poland in terms of the number of domestic and international clients who entrust their assets to us for custody purposes. As at 31 December 2015, the value of assets on clients' securities accounts stood at PLN 46.4 billion, which represented a 44% increase from PLN 32.2 billion in 2014. At the end of 2015 the Bank operated 11,554 securities accounts and acted in the capacity of custodian for 85 investment funds.

VII. RISK MANAGEMENT

VII.1. Risk management framework

The mission of risk management in the Bank Millennium 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 is centralized and 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.

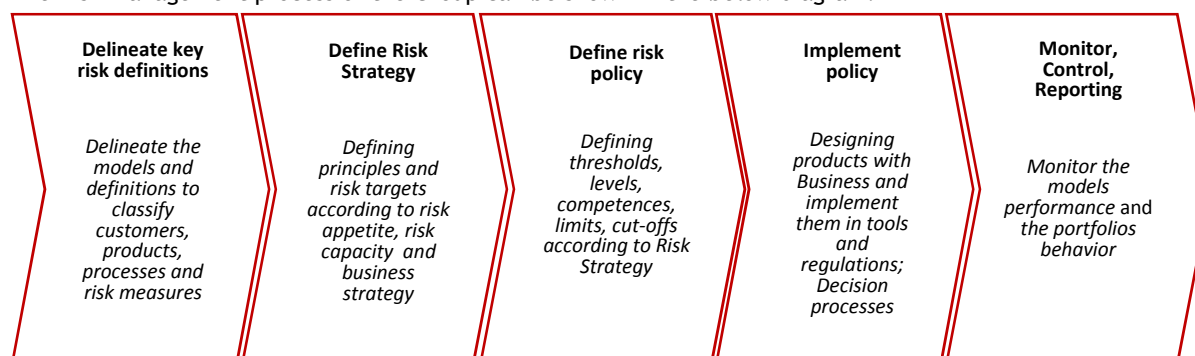
The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, credit 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 employees as regards their responsibility for proper risk management at every level of the Group's organisational structure.

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 Risk management process of the Group can be shown in the below diagram:



In terms of internal organization, the Supervisory Board and Management Board of Bank Millennium are responsible at a strategic level for defining general risk policy, including approving of the risk management strategy and policy, as well as guaranteeing the necessary resources for their implementation. Within the Supervisory Board acts the recently created Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Group's Risk Strategy, including the Group's Risk Appetite and verifying the assets and liabilities prices offered to customers.

At operational level, due to the complexity and diversification of the operations of the 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 additionally five specialized risk committees, i.e.:

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

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 Risk Committee has global responsibility for risk control at the Group. In order to assure such control the Risk Committee monitors the evolution of various types of risks in the Group'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.

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

The Management Board of the Bank attaches particular attention to continuous improvement of the risk management process. One measurable effect of this is a success of the received authorization to the further use of the IRB approach in the process of calculating capital requirements.

Use of Internal Rating Based (IRB) methods

In December 2014 the Bank received authorization by Banco de Portugal (BdP) and the Polish Financial Supervisory Authority (KNF) to ease the previous imposed regulatory IRB floor from 80% to 70% and at the same time it received further conditions to portfolios under IRB and under rollout process.

In the Bank's view, this authorization from regulators represents an external acknowledgement of the significant and continuous improvement of the Group's risk management process.

During 2015, the Group was continuing IRB rollout implementation in cooperation with Supervisory Authorities. In fact, since 2010 the Group has been deeply involved in the process of having the authorization for the use of the IRB methods. The Group considered this project as crucial for two main reasons: first, it ensures that the Group will permanently have the best standards on credit risk management; and second, it is an effective way to optimize the capital management.

Following the IRB approach in a natural way enforces the application of highest standards in credit risk management and this in turn materially affects quality of the credit process, thus the level of credit risk itself. As to assess credit risk of customers and transactions in fully concise manner, IRB method requires utilization of rating systems. Group's rating systems (rating models) are matched to a portfolios/products risk characteristics and were tailored separately to private individuals (retail mortgage loans, cash loans, overdrafts, credit cards), small business, SME and corporates.

Applied risk models enable proper and reliable risk measurement, by employing well developed statistically risk parameters, like:

- probability of default of a customer (PD),
- loss given default for a transaction (LGD),
- exposure at default for a transaction (EaD)

As a rule, a customer applying for a loan, should have assigned internal rating (PD equivalent), what enforce automated assessment of customer default risk. Rating models are automated and fully supported by IT systems. Every risk model (including rating models) have to be regularly monitored and validated in terms of quality, what stems also from IRB rules.

Using uniformed risk parameters in the portfolio regular monitoring reinforces the credit risk management process and helps to take a more accurate decision regarding credit risk controls.

VII.2. Capital management

The Group set the capital management process that is completed based on principles defined by Management Board and Supervisory Board of Bank Millennium SA.

The main goal of the Group is to observe the requirements defined in external regulations (ensuring regulatory capital adequacy) as well as to observe internal long-term targets (limits) defined in the Group Risk Strategy and Risk Appetite Statement.

In 2015, all capital targets were met with a surplus. It relates both to actual ratios, and the same ratios calculated with assumptions of stressed conditions. The Group's capital adequacy is assessed as satisfactory and assuring a smooth and steady development of banking activity.

In a scope of capital management process, there is also a capital planning process. The goal of capital planning is to designate the own funds (capital base that is risk-taking capacity) and capital usage (regulatory capital requirements and economic capital) in a way to ensure that capital targets/limits shall be met, given forecasted business strategy and risk profile - in normal and stressed macroeconomic conditions.

Regulatory capital

According to Capital Requirement Regulation (CRR called also "Basel 3"), the Group is committed to meet a minimum own funds requirements: total capital ratio and Tier 1 capital ratio. At the same time, there are other domestic regulations in force (including the Banking Act) and therefore in the calculation of own funds requirements there are also specific solutions concerning CRR interpretations for Polish Banks, as pointed out by the Polish Financial Supervisory Authority (KNF). It relates among others - to capital requirements on FX loans for households, that are subject to unconditional 100% risk weight under standardized method, while in another EU countries that burden is significantly lower.

The Group assumes to maintain the own funds requirements higher than the minimum set by law and regulatory authorities. Based on that assumption and guidelines and recommendations of Supervisory Authorities, the Group established its capital targets/limits. The definition of the capital targets/limits take into consideration the recommendations of KNF, Banco de Portugal and European Central Bank (called together as "College of Supervision").

Capital risk, expressed in the above ratios, is measured and monitored in a regular manner. As for all capital targets, there were determined some minimum ranges for those values. The Capital ratios in a given range causes a need to take appropriate management decisions or actions. Regular monitoring of capital risk relies on classification of capital ratios to the right ranges and then performing the evaluation of trends and drivers influencing the capital adequacy.

The Group received at the end of 2012 authorization from Supervisory Authorities for the use of the advanced IRB method regarding two loan portfolios: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE). That decision regarding IRB contained a constraint (so-called Regulatory floor), whereby minimum own funds requirements for portfolios covered by the decision must be maintained at no less than 80% of the respective capital requirements calculated using the Standardized method. In the end of 2014, the Supervisory Authorities eased the constraint (Regulatory floor), what means that own funds requirements for portfolios covered by the IRB decision (RRE and QRRE) must be maintained at no less than 70% of the respective capital requirements calculated using the Standardized method.

In 2015 the Group has been continuing works on completion of requirements/recommendations regarding portfolios covered by IRB rollout: other retail exposures and exposures to corporates. Works have been realized with a close cooperation with Supervisory Authorities.

In October 2015, KNF required the Bank to have an additional capital buffer connected with FX mortgage portfolio specific risk of 3.83 p.p. for Total Capital Ratio, of which 2.87 p.p. as Tier 1 Capital. Bank Millennium Group capital ratios as of 31 December 2015 reached 16.72% (TCR) and 16.35% (CET1) and for Bank Millennium solo reached 16.55% (TCR) and 16.17% (CET1), thus the Bank is already covering this additional specific buffer.

Also in October 2015, KNF announced an additional capital conservation buffer of 1.25 p.p. for all banks from 1st January 2016. The new required levels of capital ratios that include the above mentioned new capital buffers, applicable on top of previous recommended by KNF base of 12% TCR and 9% Tier 1 Capital minimum ratios valid in Poland, are to be fulfilled until the end of June 2016 (specific buffer).

Despite that the more stringent local solutions and additional capital requirements imposed by KNF on individual basis, as well as regarding all banks (capital buffers defined in CRR), the Group's capital ratios are on a satisfactory level.

Internal capital

According to the Banking Act, internal capital (aggregate measure of risk in activity) must be fully covered (secured) by financial resources provided by owners (own funds). That requirements is embedded in the Group capital targets - economic capital buffer and economic capital buffer in stressed conditions. These targets were established by the Group at a levels significant higher than the regulatory minimum.

The Group defined an internal (economic) capital estimation process, that is described as an estimated amount needed to cover all material risks identified in the Group activity and changes in economic environment, taking into account the anticipated level of risk in the future. Internal capital accounts for the effect of diversification / correlation between the types of risk, namely the assumption that the potential loss due to the risk incurred is less than the sum of estimated losses on various types of risk (losses materialisation of risks at the same time is imperfectly correlated).

From the technical standpoint, economic capital is an amount of capital, indispensable to cover all future unexpected economic losses, that might occur over a defined time in the future and estimated with the defined probability, without jeopardizing interest/safety of depositors /creditors of the Group. In estimation of internal/economic capital, stress tests results are also used.

The internal capital estimation process consists of the following phases:

- a) risk identification and risk types materiality determination - within that phase, a classification and assessment of risk types is performed, including their materiality and consideration in internal capital estimation;
- b) risk measurement - within that phase, a level of material risk types is expressed in terms of economic capital, including diversification/correlation effect between risk types;
- c) economic capital aggregation - (loss distribution) and consideration of diversification between risk types;
- d) stress tests for internal capital calculation purposes;
- e) reporting.

Evaluation of risk types materiality and methodologies of internal capital estimation are regularly reviewed and updated.

In 2015 both economic capital buffers were met with a surplus. Economic capital adequacy - accounting for a coverage of internal capital by own funds - is assessed as satisfactorily fulfilled.

Internal capital is not used only as a measure for maintaining capital adequacy. As mentioned before, there is in the Group a process of capital allocation in place, based on internal capital. The latter enables a calculation of risk-adjusted performance measures, defining a risk limits, allocation and reallocation of internal capital to portfolios and business lines, and in future - usage of internal capital for another purposes as well.

Capital requirements and ratios of the Group and Bank Millennium as at 31st December 2015 are presented in the below table:

Bank Millennium Group - capital adequacy (PLN million)	31.12.2015	31.12.2014
	IRB with regulatory floor ¹⁾	IRB with regulatory floor ¹⁾
Risk-weighted assets (RWA) for Group	37 129.6	35 257.0
Risk-weighted assets (RWA) for Bank	36 755.7	34 634.5
Own funds requirements for Group	2 970.4	2 820.6
Own funds requirements for Bank	2 940.5	2 770.8
Own Funds for Group	6 208.9	5 368.9
Own Funds for Bank	6 081.3	4 988.4
Total Capital Ratio for Group (TCR)	16.72%	15.23%
Total Capital Ratio for Bank (TCR)	16.55%	14.40%
Common Equity Tier 1 Ratio for Group (CET1 ratio) ²⁾	16.35%	14.53%
Common Equity Tier 1 Ratio for Bank (CET1 ratio) ²⁾	16.17%	13.69%
Leverage ratio for Group ³⁾	9.15%	8.26%
Leverage ratio for Bank ³⁾	9.02%	7.83%

1) Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor” set in the IRB decision issued in December 2014

2) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio

3) Leverage ratio - Ratio of T1 capital to total exposure measure

Dividend policy

The Group's goal is to have a strong capital base, providing a solid support for business development, a buffer for a potential deterioration of macroeconomic situation, and amortisation of a potential adverse changes in regulatory environment. In the normal scenario and assuming no external shocks, the Group does not plan a further own funds increase by new issue of shares. Own funds will be increased due to internal generation of capital (retained earnings).

Thus, the Bank has approved a dividend policy of distributing between 35% to 50% of net profit what is also subject to regulatory recommendations. Considering additional capital requirements to FX mortgage loans for households and capital conservation buffer (described above), the Board of the Bank will submit to the Annual General Shareholders Meeting a proposal to retain 100% of the profit of 2015 in equity.

VII.3. Credit risk

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;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit sub-portfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sub-limits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;
- separate unit responsible for granting rating to corporate Client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

In the area of credit risk, the Group focused in 2015 year on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks, in particular:

- updated the Risk Strategy, for the years 2016-2018;
- improved corporate risk policy;
- updated sector risk classification and limits;
- optimised the methodology, tools, and processes of credit risk management for retail clients.

Within optimization of methodology of credit risk assessment for retail clients in 2015 Bank Millennium Group implemented new solutions regarding, among others, the scope of application of external databases to assess creditworthiness, criteria relating to frequency of use of credit products, the scope of information and documentation acquired from clients in consumer loans process, the rules for calculation of credit limits and rules on mortgage loans. Performed works caused, among other, also an FX improvement of credit offer of the Bank within risk appetite defined in Risk Strategy.

In the corporate segment, the Group focused on adjusting credit policy and regulations to changing economic and legal conditions, improving of the monitoring process as well as the development of used credit risk models. The Group also has updated the sector policy and further developed IT tools supporting credit processes and management information system for the purpose of managing the loan portfolio. All the changes mentioned above should allow the Group to achieve the defined goals referring to the growth dynamics of corporate portfolio while maintaining the level of risk at an acceptable level as defined in the Risk Strategy.

In 2015 the Group reviewed its impairment classification criteria and, as a consequence, adopted in 3rd quarter a more restrictive classification of impaired retail exposures that went under restructuring. This adjustment resulted in the increase of the amount of impaired receivables by PLN 144 million in mortgage and other retail exposures.

In September 2015 the Bank sold PLN 104 million of on balance sheet NPL receivables, with higher than average coverage ratio. The sale included mainly other retail receivables (ca PLN 83 million) and mortgage receivables (ca PLN 21 million).

Loan portfolio quality

The Bank Millennium Group maintains a solid asset quality of the loan portfolio. Although the share of impaired loans in the consolidated portfolio increased during the year from 4.23% to 4.61%, it is much lower compared to the Polish banking system and the share of past-due more than 90 days loans dropped in this time from 2.95% to 2.78%.

The improvement of quality portfolio was observed for leasing portfolio: share of impaired ratio dropped to 4.66% and past-due over 90 days ratio to 1.75%.

In other three portfolios of impaired ratio had some increase: in mortgage portfolio, non-mortgage retail loans and non-leasing corporate portfolio (slight change). The share of past-due over 90 days decreased in 2015 in all portfolios except mortgage portfolio.

The quality of mortgage portfolio remains good, with impaired loans ratio at 2.13% and past due over 90 days at 0.94%. The ratio of impaired loans in the mortgage portfolio at the end of 2015, compared to the banking system remains relatively low.

The coverage ratio, defined as the share of total provisions in total impaired loans, decreased during 2015 year from 71% to 66% (partially due to NPL sale and stricter impairment recognition criteria) while coverage of loans past-due over 90 days significantly increased from 101% to 110%.

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

Total portfolio quality indicators	31.12.2015	31.12.2014
Total impaired loans (PLN million)	2 204	1 923
Loans past-due over 90 days (PLN million)	1 331	1 343
Total impairment provisions (PLN million)	1 461	1 358
Impaired over total loans ratio (%)	4.6%	4.2%
Past-due over 90 days over total loans ratio (%)	2.8%	3.0%
Total impairment provisions/impaired loans (%)	66.3%	70.6%
Total impairment provisions/ Loans past-due over 90 days (%)	109.7%	101.1%

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	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Mortgage	0.94%	0.81%	2.13%	1.56%
Other retail*	8.33%	8.74%	11.77%	10.81%
Leasing	1.75%	1.98%	4.66%	6.65%
Other Corporates	5.22%	6.39%	7.34%	7.19%
Total loan portfolio	2.78%	2.95%	4.61%	4.23%

(*) incl. Microbusiness, annual turnover below PLN 5 million

Concentration of the loan portfolio

Taking into consideration segments and activity sectors concentration risk, the Group defines internal concentration limits in accordance with the risk appetite allowing it to keep a well diversified loan portfolio.

The main item are mortgage loans (58%) and cash loans (9%). The portfolio of loans to companies (including leasing) from sectors like industry and construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 30% of the total portfolio.

Sector name	2015		2014	
	Balance Exposure (PLN million)	share (%)	Balance Exposure (PLN million)	Share (%)
Credits for individual persons	33 615.2	70.3%	32 018.2	70.4%
Mortgage	27 954.6	58.4%	27 138.4	59.7%
Cash loan	4 437.1	9.3%	3 741.4	8.2%
Credit cards and other	1 223.5	2.6%	1 138.4	2.5%
Credit for companies*	14 215.1	29.7%	13 482.8	29.6%
Wholesale and retail trade; repair	3 900.8	8.2%	3 448.2	7.6%
Manufacturing	3 845.3	8.0%	3 422.4	7.5%
Construction	1 012.2	2.1%	1 113.9	2.4%
Transportation and storage	2 137.8	4.5%	1 870.6	4.1%
Public administration and defence	394.9	0.8%	473.7	1.0%
Information and communication	331.3	0.7%	342.9	0.8%
Other Services	609.8	1.3%	450.2	1.0%
Financial and insurance activities	73.6	0.2%	164.2	0.4%
Real estate activities	612.6	1.3%	918.9	2.0%
Professional, scientific and technical services	334.8	0.7%	301.3	0.7%
Mining and quarrying	233.5	0.5%	313.0	0.7%
Water supply, sewage and waste	110.3	0.2%	114.8	0.3%
Electricity, gas, water	180.8	0.4%	161.3	0.3%
Accommodation and food service activities	123.3	0.3%	93.3	0.2%
Education	47.5	0.1%	63.0	0.1%
Agriculture, forestry and fishing	96.7	0.2%	90.6	0.2%
Human health and social work activities	148.2	0.3%	126.8	0.3%
Culture, recreation and entertainment	21.7	0.0%	13.7	0.0%
Total (gross)	47 830.3	100.0%	45 501.0	100.0%

(*) incl. Microbusiness, annual turnover below PLN 5 million

Concentration ratio of the 20 largest customers in the Group's loan portfolio (considering groups of connected entities) at the end of 2015 is 5.2% comparing with 5.9% at the end of 2014. Concentration ratio in 2015 also dropped for the 10 largest customers: to 3.4% from 4.1% at the end of the previous year.

VII.4. Other risks

Market risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the 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 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. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

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. In 4Q 2015, the stress tests scenarios were revised taking under consideration recently observed volatilities and correlation between market risk parameters. The new scenarios will be implemented in 2016. Additionally, in the process of interest rate risk management, the Group also uses interest income sensitivity measure and analyzes repricing gaps.

The impacts of interest change on Net Interest Income is asymmetrical and it is negative in case of decreasing interest rates. This is due to the Polish legal system and the fact that the interest rate of consumer loans and credit cards is limited (cannot exceed four times the Lombard interest rate of the National Bank of Poland and from January 2016 twice Reference Rate of the National Bank of Poland increased by 7 percentage points). The strength of impact on net interest income in face of decrease of the interest rate depends among other factors on the percentage of the loan portfolio that is affected by the new maximum rate. For position in Polish Zloty, in a scenario of immediate parallel yield curve decrease by 100 bps, the impact on net interest income in the next 12 months after 31st December 2015 is negative and equal to -7,3 % of the annualized 4Q2015 net interest income (or +5,5% for a 100 bps increase).

VaR ratios reflect total exposure to market risk in the Group. In 2015, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Group was relatively low during 2015 and was on average equal to PLN 42.1 million compared to the end-of-year internal limit of PLN 280.2 million. In 2015, the total market risk exposure in the Group was kept within limits in place (no excesses were detected).

All eventual excesses of market risk limits are reported, documented and ratified at the proper competence level.

More on market Risk in terms of VaR and management of interest rate risk in Banking Book- see chapter 8 in Annual Financial Statements of the Capital Group of Bank Millennium for 12 month period ended 31 December 2015.

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 2015, the Group's Loan-to-Deposit ratio was kept below 100%. This ratio, including own bond issues sold to individuals and sell-buy back transactions with customers, improved at the end of December 2015 equalled 87% (comparing to level of 92% as of end of December 2014). The liquidity surplus was still invested in the portfolio of liquid assets (Cash, balance with NBP, NBP Bills and Polish Government bonds). The share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 99%. During 2015 this portfolio grew by 39% from PLN 10.1 billion at the end of December 2014 (16.6% of total assets) to approx. PLN 14.0 billion at the end of December 2015 (21.2% of total assets). The portfolio of debt securities available for sale (without trading activity), supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which will overcome crisis situations (see Table below).

Liquidity ratios	31.12.2015	31.12.2014
Loans/Deposits ratio (%) *	87.3%	92.0%
High liquid assets portfolio (PLN million) (**)	15 521	11 761

(*) including bonds for individual Clients and sell-buy-backs with Clients

(**) Cash, Exposures to NBP, NBP Bills and Polish Treasury Bonds qualified as assets available for sell (not Trading activity)

At the end of 2015 total Clients' deposits of the Group reached the level of PLN 52.8 billion. The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grow to approx. 67.4% at the end of December 2015 from 62.6% at the end of December 2014. Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

During 2015 the Bank Millennium Group continued to explore the possibility of raising additional funding from loans from financial institutions and bond issue in order to diversify the source of funding. In January 2015 was received the second tranche of 5-year loan from the EBRD in the amount of CHF 25.1 million (the loan was originally signed in December 2013). Parallel to arrangement of mid-term funding in the international market, in June 2015 Bank Millennium issued 3-year unsecured bonds, with total nominal value of 300 million PLN, within private placement offer addressed to institutional investors. At the end of 2015, the value of bonds placed in institutional investors was kept at relatively high level of PLN 833 million (PLN 1 407 million at the end of December 2014 and PLN 353 million at the end of December 2013).

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

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 2015 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place, including the liquidity coverage requirement (LCR) calculated according to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR). The regulator minimum of 60% for LCR valid in December 2015 was complied by the Group. The measure has been reported on the monthly basis to NBP since March 2014.

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 2015 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 liquidity risk management process is regulated in the internal policy that is a subject of the Bank's Management Board approval. In order to comply with the Recommendation P issued by the KNF in March 2015, the internal policy and other procedures connected with the liquidity risk management were revised and adjusted to the provisions of recommendation.

The Group has also emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least once a year. In 2015, the Liquidity Contingency Plan was tested and revised in order to guarantee that it is operationally robust as well as it comply with provisions of the amended Recommendation P. The Plan was approved by the Supervisory Board in December 2015.

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 manage the fraud risk, the Group has in its structure a special organizational unit to develop, implement and monitor the Group's policy for management of this risk in cooperation with other organisational units of the Group and in accordance with its internal regulations. The Fraud Risk Management Bureau is a centre of competence for the fraud prevention process.

VIII. HUMAN RESOURCES MANAGEMENT

VIII.1. Personnel Policy

Bank Millennium Group has an HR policy defining general principles involved with recruitment, evaluation, development and retention of employees. Based on this policy and business assumptions the Bank created the Human Resources Management strategy. The strategy regulates all areas of HR management, including employment and remuneration.

Bank Millennium Group attaches major importance to the quality of HR management by investing both in development as well as monitoring of the area. The stable policy of personnel and employment costs, in place since some years, is continued.

Competencies and attitudes of managers have a decisive influence on quality of managing people; therefore the Bank attaches much importance to the quality of their work. It makes sure that best practices are applied especially as regards open and full communication with employees and providing employees with feedback about the quality of work performed by them. For some years now the “Manager’s Academy” programme is being consistently implemented. In this programme in previous years managers were attending training to develop leadership skills. In 2015 the new *M#leaders* cycle of improving leadership competencies was started, its purpose being to improve effectiveness and versatility of leaders.

The Bank has been undertaking activities to support building commitment of employees to matters associated with work quality, optimisation of processes, effectiveness and accepting professional challenges i.a. by introducing the IMPAKT employee awards programme.

In 2015 there were also a number of activities performed in the “Parents Say Yes” programme for employees-parents and in “Gortat Camp” and “Color Run” to support physical development and sports interests of employees and their families.

Effectiveness of HR policy is also strongly affected by proper perception of the Bank as an employer. For years Bank Millennium Group has been concentrating on building its profile of attractive employer. Since 2003 the Bank’s Group has been actively participating in job fairs targeted at students and graduates of prestigious universities in Poland, during which diverse development programmes addressed to these people are promoted. Last year students and graduates can take part in Expert Start-Up programmes. The Bank uses them to recruit people with already specified professional interests involving risk, process management, IT and electronic banking (more information about these programmes is available in the Social Responsibility Report). Since 2013 the Bank has been using social media, stepping up its activity in this respect last year.

VIII.2. Employment and costs of personnel

Effective HR management is an important part of the strategy of Bank Millennium Group. The Group monitors both individual personnel cost items as well as the headcount, for some years now following a policy of stable employment costs and headcount. Staff churn is monitored and reported on an ongoing basis, with people leaving the Bank being interviewed - exit interviews. The employment level and effectiveness of use of resources are verified against appropriate market benchmarks.

Employment in the Group (in full FTEs)	31.12.2015	31.12.2014	Change (y/y)
Bank Millennium	5 574.9	5 769.9	-195.0
- including key positions	136.0	132.0	4.0
Subsidiaries	335.8	338,3	-2.5
The Bank’s Group	5 910.7	6 108.2	-197.5

Employment in Bank Millennium Group as of end of 2015 was 5,911 FTEs, which means a decrease as compared with end of 2014 by 198 FTEs (i.e. 3%). The Group’s biggest employer is Bank Millennium, with an end of 2015 headcount of 5,597, which corresponds to 5,575 FTEs. Subsidiaries in Bank Millennium Group as of end of the

year were employing the total of 336 persons-FTEs, with three companies among them having the biggest importance Millennium Leasing, Millennium Dom Maklerski and Millennium TFI.

Employment in the Bank (in full FTEs)	31.12.2015	31.12.2014	Change
Branches and direct sales	3 706.9	3 909.4	-202.5
Head Office	1 868.0	1 860.6	7.5
Total Bank Millennium	5 574.9	5 769.9	-195.0

The structure of employment of Bank Millennium shows a definite majority of people employed directly in sales of banking products and services, above all in 413 outlets of the Bank located all over Poland.

Bank Millennium Group remuneration policy aims to ensure adequacy of remuneration of employees given their current tasks, competencies and scope of responsibility. In particular much attention is attached to proper shaping of base salaries. Remuneration levels are verified with consideration of periodic evaluation of work results as well as possible evolution of the level of skills engaged in performance of tasks of the organisation. Moreover salary information presented in financial market remuneration surveys is also analysed.

The total level of personnel costs in Bank Millennium Group in 2015 and in the previous year was as follows:

Personnel costs (in PLN million)	2015	2014	Change (%)
Bank Millennium	507.1	507.6	-0.1%
Subsidiaries	39.8	39.4	1.1%
Total Bank Millennium Group	546.9	547.0	-0.0%

VIII.3. Remuneration policy

In 2015 Bank Millennium was complying with the “Policy for Remuneration of Persons Occupying Management Positions in Bank Millennium Group”, reflecting recommendations contained i.a. in principles of Corporate Governance valid in institutions supervised by Polish Financial Supervision Authority and incorporating the to-date “Policy for Variable Components of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group”.

Employees

Remuneration of employees of Bank Millennium S.A. is determined in particular with reference to the scope of tasks performed in the particular organisational unit, level of responsibility of the employee and on the basis of analysis of salary information presented in financial market remuneration surveys. Remuneration is verified periodically based on evaluation of work results and market comparisons.

Fixed remuneration of managers occupying key positions is decided by the Personnel Committee of the Bank’s Management Board, additionally with consideration of impact on the Bank’s risk profile.

An important part of managing remuneration in the Bank is the remuneration policy defined for persons occupying management positions in the meaning of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, which is a tool of supporting the management system of Bank Millennium Group and encourages particular care for the Bank’s long-term good as well as avoidance of excessive exposure to risk.

The aim of the policy is attained by deferring a significant part of variable remuneration of persons performing management functions for the period of three years and reviewing the effects of management decisions from

this time perspective. Moreover 50% of this remuneration is paid in financial instruments, the value of which depends on the future price of Bank Millennium shares.

The individual remuneration of persons covered by this policy cannot exceed the adopted % of the reference level (100% currently) with respect to the total annual base salary - in accordance with CRD IV. Moreover the pool assigned for variable components of remuneration of Members of the Management Board of Bank Millennium cannot exceed the share defined by the Supervisory Board in consolidated net profit of Bank Millennium Group (currently 2%).

The annual bonus pool for persons occupying management positions is awarded after prior analysis of the Bank situation as regards:

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

The policy for remuneration of persons occupying management positions was subject in 2015 to review by the Supervisory Board Personnel Committee.

Other employees of Millennium Group in 2015 were covered by bonus systems tailored to the specific nature of the business targets identified for particular units. The bonus pool assigned to appropriate settlement periods in 2015 depended on attainment by the Bank of positive financial results and the degree of fulfilment of the consolidated net profit plan of Bank Millennium Group. Individual bonuses were awarded within the bonus pool on the basis of evaluation of work quality as well as the degree of commitment to fulfilment of targets set for the employees.

In keeping with the Bank's remuneration policy the value of annual variable remuneration of an employee cannot exceed the amount of annual base salary.

Management Board

Determination of the terms and conditions of contracts and remuneration of the Management Board Members falls under the powers of the Supervisory Board. The Personnel Committee of the Supervisory Board considers cases pertaining to the principles of compensation and levels of remuneration for the Management Board Members.

The total remuneration of the Members of the Management Board consists of a fixed and a variable part. The fixed part is the base salary defined as an amount for each Member of the Management Board. The variable part may be an annual bonus, which depends on the Bank's performance compared to the yearly budget and to the performance of peer banks and an individual evaluation of a Member of the Management Board by the Personnel Committee.

Decisions concerning the granting of bonuses to Management Board Members are taken by the Personnel Committee of the Supervisory Board following a performance appraisal with the inclusion of the financial criteria:

- execution of the planned budgets and ratios for the activity area under management,
- comparison with competitors in the same segment of the market,
- market business criteria defined for the period;

as well as non-financial criteria, in particular:

- overall management quality in the area of responsibility,
- effective leadership and contribution to the Bank's development,
- management and supervision over the units in the area of responsibility.

The bonus pool for bonus payments to Management Board Members must not exceed 100% of the value of total annual base salaries and 2% of the Consolidated Net Profit of Millennium Group.

The granting and payment of 50% of the value of the variable remuneration components is done only after the end of the settlement period and after announcement of the financial results, while payment of the remaining 50% of the variable remuneration shall be deferred for 3 years, paid in equal annual instalments. Members of the Management Board shall receive each part of the awarded bonus - paid in the year coming after the assessment period and deferred - half in cash and half in a financial instrument whose value relates to the value of Bank Millennium shares.

The total remuneration for 2015 of all Members of the Management Board performing functions in this year was PLN 16,525.25 thous. The said amount includes remuneration, annual bonus for 2012, 2013 and 2014 (in cash and phantom shares) in the amount of PLN 5,073.18 thous. and additional benefits in the amount of PLN 1,857.23 thous..

In the period from 01.01.2015 to 31.12.2015 a provision was established for annual bonus in the amount of PLN 6,970.5 thous..

Remuneration, bonuses or benefits paid out to Members of the Management Board in 2015 (in PLN ths.)

Surname and name	Remuneration in 2014 plus annual bonus for 2012, 2013 and 2014	Benefits	Total (PLN ths)
Joao Bras Jorge	3 057.34	1 187.33	4 244.67
Fernando Bicho	2 315.95	57.00	2 372.95
Wojciech Haase	1 933.15	146.62	2 079.77
Andrzej Gliński	1 752.61	25.07	1 777.68
Maria Campos	1 935.52	370.38	2 305.90
Michał Gajewski	888.07	0.22	888.29
Julianna Boniuk-Gorzelańczyk *	1 395.84	65.70	1 461.54
Artur Klimczak **	1 389.54	4.91	1 394.45
Total:	14 668.02	1 857.23	16 525.25

(*) additionally paid compensation, severance pension, annual leave equivalent, and after the departure (21.05.2015) from the Management Board annual bonus for 2014 as granted "phantom shares" was paid in November 2015

(**) after the departure (24.04.2015) from the Management Board paid an annual award for 2014 as granted "phantom shares" was paid in November 2015

The decision to award variable remuneration to Management Board Members for 2015 shall be taken by the Supervisory Board Personnel Committee after approval of the Bank's results by the General Meeting of Shareholders.

In 2015 no significant changes were made in Bank Millennium Group in the remuneration policy.

The Supervisory Board Personnel Committee, when making a review of the Remuneration Policy, found that it supports development and safety of the Bank Millennium S.A. Capital Group and that the to-date practice of managing variable remuneration corresponds to targets set in the Policy.

IX. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

IX.1. Statement on the Principles of Corporate Governance applied in 2015.

The set of standards valid in Bank Millennium and comprising the Principles of Corporate Governance, thus the set of standards, which relate to management and supervision as well as relations between shareholders, is sourced from two regulations applying to the area of Polish financial institutions and companies listed on the Warsaw Stock Exchange (WSE). The first of the aforementioned regulations is the document Good Practices of Companies Listed on WSE (Good Practices) adopted by the Board of the Warsaw Stock Exchange, the second one being Principles of Corporate Governance for Supervised Institutions (Principles) adopted by Polish Financial Supervision Authority.

The fundamental standard of the above-mentioned Good Practices is the „comply or explain” rule. This means that the company as a matter of principle is obliged to apply the principles contained in the document and in the event of deviation from use of a particular principle, to clarify the causes of such deviation and to make this fact publicly known in the form of a report by using the WSE Electronic Information Database. In 2015 the Bank observed all the principles contained in the Good Practices except one rule provided for in Chapter IV section 10 item 2 of Good Practices, regarding ensuring the shareholders with opportunity to participate in General Meetings of Shareholders („GMS”) with the use of real-time two-way electronic communication, by means of which the shareholders may take an active part in a General Meeting of Shareholders from a different place than the place of meeting. In the Bank’s opinion the implementation of this rule during a General Meeting carries with itself technical and legal risks to the correct and efficient conducting of the General Meeting and avoiding these threats constitutes a bigger value for the shareholders than the implementation of the rule from Chapter IV section 10 item 2 of Good Practices. At the same time ever since 2008 the Bank has been providing real-time online broadcasting of the proceedings of the GMS, in accordance with the requirement specified in Chapter IV section 10 item 1 of Good Practices. Meanwhile the Bank does not rule out the possibility of ensuring to the shareholders two-way real time communication during the proceedings of a General Meeting, should actual or legal circumstances change.

Guided by the principle of transparency of its actions in shaping corporate and investor relations as well as the highest quality of communication with shareholders, otherwise the Bank was complying with the Good Practices in 2015.

Due to the adoption by the WSE Board of a new set of corporate governance principles under the name of “Good Practices of Companies Listed on WSE 2016”, since 1 January 2016 the Bank is subject to principles mentioned in this document. Its full text is available on the WSE website under the address www.corp.gov.gpw.pl and on the Bank’s website <http://www.bankmillennium.pl/pl/o-banku/wladze-banku-i-lad-korporacyjny/>.

In the “Information on application by the company of recommendations and principles contained in the Good Practices of Companies Listed on WSE 2016” published on the Bank’s website, the Bank confirmed that it follows detailed recommendations and principles. The exception are Recommendations IV.R.2 item 2 and 3 providing for enabling shareholders to take part in a GMS with use of means of electronic communication by providing two-way real-time communication where shareholders may speak in the course of the GMS while being present in a location other than that of the GMS and may personally or by means of an attorney exercise voting rights during the GMS. In this respect the Bank’s position corresponds to the position expressed with respect to the previously valid principles stipulated in Chapter IV sect. 10 item 2 of Good Practices - above.

Since the beginning of 2015 the Bank as a financial institution is also subject to the “Principles of Corporate Governance for Supervised Institutions” (Principles), which are available on the website of Polish Financial Supervision Authority („KNF”):

http://www.knf.gov.pl/Images/Zasady_ladu_korporacyjnego_22072014_tcm75-38575.pdf and of the Bank <https://www.bankmillennium.pl/o-banku/wladze-banku-i-lad-korporacyjny/>.

The Bank’s Management Board and the Supervisory Board passed resolutions on application of the Principles, with the exception of those stipulated in:

- 1) § 8 sect. 4 - principle ordering provision of the possibility to electronically take active part in a meeting of the decision-making body,
- 2) § 16 sect. 1 and § 24 sect. 1 - principles concerning holding of meetings of the Bank’s bodies (Management Board and Supervisory Board) in the Polish language.

With reference to lack of the possibility to electronically take active part in a meeting of the GMS, the position of the Management Board and Supervisory Board is a repetition of the statement made with respect to the principles existing in the Good Practices valid both till the end of 2015 as well as those in force since 1 January 2016 - mentioned above.

With respect to the principles of holding meetings of the Management Board and Supervisory Board in the Polish language the Bank is of the view that knowledge of the English by members of the Management Board enables full mutual understanding and the proper level of communication during the meetings. Moreover the practically applied principle of holding meetings of the Supervisory Board both in Polish as well as in English with assurance of essential assistance of an interpreter also ensures mutual understanding and the proper level of communication.

The GMS in its resolution passed on 21 May 2015 expressed a positive opinion regarding the position of the Management Board and Supervisory Board of the Bank with respect to application of the Principles. At the same time the GMS in the aforementioned resolution regarding principles addressed to the shareholders stated that it is of the view that exercising them should remain within the framework of absolutely binding legal regulations, while whenever the Management Board or the Supervisory Board, acting within their powers, submit matters covered by these principles, requesting consideration of specific matters by GSM, then they will be considered with reflection of the circumstances of such submission.

During the reporting period the Bank for the eighth consecutive time was included in the group of companies in RESPECT Index (the "Index") - Central-Eastern Europe's first index of socially responsible companies. During the review made in December 2015 the Index comprised only 23 companies among all listed on WSE. The companies comprising the Index act on the basis of best standards of corporate governance, information policy, investor relations as well as social relations in the area of HR matters and also environmental protection.

IX.2. Shareholders and General Meeting of Shareholders

As of 31 December 2015 the Bank's shareholders' equity comprised 1,213,116,777 shares (with nominal value of PLN 1 each). Presented below is information about shareholders holding directly or indirectly substantial blocks of shares together with indication of the number of shares held by them, their participation in shareholders' equity and the total number of votes at the Bank's GMS. Due to the fact that the Bank is a public company whose shares are traded on the Warsaw Stock Exchange the Bank does not have detailed information about the structure of shareholding as of 31 December 2015.

According to information available as of 31 December 2015 the Bank had three shareholders holding over 5% of votes at the GMS.

Banco Comercial Portugues S.A. („BCP”), the largest private Portuguese bank - as the strategic investor holds 50.10% of all shares of Bank Millennium. The Bank's significant shareholders are also: the biggest Polish pension fund Nationale-Nederlanden Otwarty Fundusz Emerytalny (former ING OFE), which as of 31 December 2015 held 9.53% shares of the Bank and AVIVA OFE holding 6.46% shares of the Bank. The remaining shares i.e. 33.91% of share capital are widely distributed among Polish and foreign shareholders, both institutional as well as private.

Shareholders of the Bank as of 31 December 2015

Shareholder	Number of shares	% stake in shareholders' equity	Number of votes	% participation in votes at GMS
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden OFE (former ING OFE)	115 615 810	9.53	115 615 810	9.53
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	78 310 605	6.46	78 310 605	6.46

Shareholders of the Bank as of 31 December 2014

Shareholder	Number of shares	% stake in shareholders' equity	Number of votes	% participation in votes at GMS
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
Nationale Nederlanden OFE (former ING OFE)	95 521 053	7.87	95 521 053	7.87

Data in the tables were ascertained according to the rules described below. To the extent concerning BCP these are data collected in connection with registration of shareholders authorised to take part in the Bank's GMS convened for 10 April 2014 and 21 May 2015.

The number of shares held by Nationale-Nederlanden OFE and their stake in the Bank's shareholders' equity was calculated on the basis of the Annual Structure of Assets of the Fund as of 31 December 2014 and 31 December 2015 (published on the website www.nn.pl). Meanwhile data concerning AVIVA OFE - on the basis of the Annual Structure of Assets of the Fund as of 31 December 2015 (published on the website www.aviva.pl). For the purpose of making the mentioned calculations the average price of the Bank's share on these days was assumed of PLN 8.25 for 2014 and PLN 5.6468 for 2015.

BCP, as the majority shareholder, is exercising shareholder's rights specified in the Code of Commercial Companies ("KSH") and in the Bank's Articles of Association. BCP holds corporate control over the Bank. By holding the majority of votes at GMS it can exercise decisive influence on decisions regarding the most important corporate matters such as change of the Bank's Articles of Association, issue of new shares of the Bank, reduction of the Bank's shareholders' equity, issue of convertible bonds, payment of dividend and other activities, which in accordance with KSH require an ordinary or qualified majority of votes at the GMS. BCP also holds a sufficient number of votes to appoint all members of the Supervisory Board, which in turn appoints members of the Management Board. Due to the above corporate authority BCP has the capacity to exercise significant control over the Bank's activity.

The Bank is not aware of any agreements concluded between shareholders regarding their mutual cooperation and the Bank is not aware of any agreements that, in future, might cause changes in the proportions of shares held by existing shareholders.

The Bank's shareholders exercise their rights in the way and within the boundaries defined by effective general laws, the Articles of Association of the Bank as well as the Bylaws of the General Meeting of Shareholders. Each share of the Bank entitles to one vote, however registered founding shares in the outstanding number of 62,200 are preferential in as much as one share entitles to two votes at the GMS. Registered founding shares in total accounted for 0.0051% of the Bank's share capital and 0.0103% of the total number of votes at a General Meeting, as of 31 December 2015.

Founding shares are subject to disposal restrictions, i.e. their disposal subject to consent of, at least, three fourths of the founders, to other founders does not result in their loss of preferential status. A disposal of registered founding shares in all other cases causes loss of their preferential status. There are no restrictions on exercising voting rights under the Bank's shares and none of the holders of securities issued by the Bank has any special controlling rights with respect to the Bank.

Bank Millennium shares are listed on Warsaw Stock Exchange in Warsaw since 13 August 1992 as the first among all banks. Currently 1 213 008 137 shares with code ISIN PLBIG0000016 (WSE symbol: MIL; Reuters: MILP.WA; Bloomberg: MIL PW) are traded on the stock exchange.

In addition, shareholders have 108,640 registered shares of which 62,200 are founder's shares, privileged (right to two votes on GMS). Thus, total number of Bank Millennium shares amounts to 1,213,116,777 shares and total number of votes on GMS amounts to 1,213,178,977.

General Meeting of Shareholders

The highest body of the Bank is General Meeting of Shareholders, which operates in accordance with generally applicable effective laws including, in particular: the Code of Commercial Companies and the Banking Law. Internal procedural rules of the General Meeting of Shareholders are provided for in the form of the Articles of Association and Bylaws and are available from the Bank's website by clicking the bookmark: "About the Bank > Corporate Bodies & Governance". These documents describe, in particular, procedures applicable to General Meeting activities, its competences and, moreover, they indicate specific powers of shareholders to be exercised in the course of a General Meeting.

The competencies of the General Meeting include, inter alia, amending the Articles of Association, which includes an increasing and reduction of shareholders' equity.

IX.3. Supervisory Board

The Supervisory Board is a governing body elected for a fixed term and exercising supervision over the activity of the Bank, whose term of office is three years. The Supervisory Board operates under legal regulations, the Articles of Association of the Bank, resolutions of the General Meeting of Shareholders as well as the Bylaws available on the Bank's website under the bookmark "About the Bank > Corporate Bodies & Governance". The competences of the Supervisory Board comprise, in particular, appointment and recalling of the Members of Management Board (by an ordinary majority of votes) and determination of their remuneration principles.

The meetings of the Supervisory Board are held at least once a quarter and when needed. The Supervisory Board adopts resolutions by a simple majority of votes with at least half of its members present. In the case of equal votes the vote of the Chairman of the Supervisory Board shall prevail.

The Supervisory Board of the Bank is composed of at least five Members elected by the General Meeting of Shareholders, of whom at least half, including the Chairman, are of Polish nationality.

During the period from 1 January to 21 May 2015 the following persons comprised the Supervisory Board of the Bank:

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

On 21 May 2015 the GMS discharged all members of the Supervisory Board from performance by them of duties in 2014 financial year and elected the Supervisory Board of the Bank for the next term, ending upon the holding of the GMS approving the financial report for 2017 financial year.

Therefore from 21 May 2015 the composition of the Supervisory Board is as follows:

1. Bogusław Kott - Chairman of the Supervisory Board

Mr. Bogusław Kott graduated from the Foreign Trade Faculty at SGPiS (present name SGH - Warsaw School of Economics) in Warsaw. For many years he worked at the Ministry of Finance, specializing in foreign trade financing.

He co-founded and co-organised Bank Millennium S.A., and from 1989 when the Bank was established, till 24 October 2013 was Chairman of the Management Board. Currently, he is the Chairman of the Supervisory Board of Bank Millennium S.A.

Mr Bogusław Kott also sits on the Supervisory Board of Yareal Polska Sp. z o.o.

2. Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board

Mr. Nuno Manuel da Silva Amado graduated in Companies Organization and Management at ISCTE (Instituto Superior de Ciencias do Trabalho e da Empresa) and attended the Advanced Management Programme at INSEAD (France).

From 1980 he worked in consulting (KPMG) and financial companies; between 2006-2012 he was Chairman of the Executive Committee and Vice-Chairman of the Board of Directors of Banco Santander Totta

(Portugal). Since 2012 he has been Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Comercial Portugues (BCP), Portugal. Since 20 April 2012 Deputy Chairman of the Supervisory Board of Bank Millennium S.A.

3. Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board (independent member)

Mr. Dariusz Rosati, graduated in International Trade from the Main School of Planning and Statistics - SGPiS (now SGH Warsaw School of Economics) in Warsaw. Professor of economic sciences with the position of Full Professor in the European Union Unit of the SGH Institute of Foreign Trade Policy and European Studies. Professor in the Lazarski University in Warsaw. In 1978-1979 he was a consultant at Citibank in New York.

In 1985-1986 and 1987-1988 - founder and Director of the World Economy Research Institute at SGH. In 1986-1987 he was a Fulbright scholar at the University of Princeton (USA). In 1988-1991 he was the director of the Foreign Trade Research Institute. Since 1990 Professor of Economic Sciences at SGH. In 1991-1995 he worked in the UN Economic Commission for Europe in Geneva (Switzerland) as Head of the Central and Eastern European Section. During 1995 - 1997 Minister of Foreign Affairs of the Republic of Poland. In 1978 - 1991, UNIDO consultant and member of numerous missions to developing countries. In 1988-1991 many times worked as an expert of the World Bank, the United Nations University World Institute for Development Economics Research (WIDER), International Labour Organisation and Commission of the European Communities. Member of the Economic Reform Commission (1987-1989), team of the economic advisors to the Prime Minister (1988 - 1989), the Socio-Economic Strategy Council at the Council of Ministers (1994 - 1998). During the years 1998 - 2006 member of the Committee of Economics at the Polish Academy of Sciences. In 1998-2004 Member of the Monetary Policy Council of the National Bank of Poland and in 2001-2004 he was a member of the Group of Economic Policy Advisors to the President of the European Commission. From 2003 to 2005 Rector of the Lazarski University in Warsaw. In years 2004 - 2009 and currently (elected in 2014) Member of the European Parliament. Member of Parliament of the Republic of Poland of 7th term (2011 - 2014) - he performed the function of the Chairman of the Public Finance Committee. Author of more than 200 scientific papers and publications, including five books on economic policy.

Member of the Supervisory Board of Bank Millennium S.A. since 27 May 2004.

4. Julianna Boniuk-Gorzelańczyk - Member of the Supervisory Board

Ms Julianna Boniuk-Gorzelańczyk graduated from the Faculty of Finances and Statistics at the Main School of Planning and Statistics (present name - Warsaw School of Economics) in Warsaw. She has the rights of certified auditor. For many years she was employed in industry, moving up through many levels in her professional career.

In the Management Board of Bank Millennium S.A. since 17 July 1989, Ms Boniuk-Gorzelańczyk supervised the following areas since the Bank's creation: finances and reporting, accounting control and taxes, to be followed by: operations, IT, management information and lately also: administration and infrastructure, security and business continuity, legal, custody and fraud risk management. She was also sitting on supervisory boards of subsidiary companies. In 1991 she participated in banking practice in Standard Merchant Bank in Johannesburg.

In 1993 she received a certificate from the Austrian Banking College, while in 2003 she attended a BCP Group seminar in INSEAD, Fontainebleau, France.

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

Mr. Miguel de Campos Pereira de Bragança graduated in Company Management and Administration from the Catholic University of Portugal and attended the INSEAD MBA programme (France). Since 1989 he has worked for banks in Portugal, Brazil and Great Britain.

Between 2008-2012 he was Director, responsible for the Finance, Accounting and Control, Marketing and Products Areas in Santander Totta Group in Portugal. Since 2012 Member of the Board of Directors and Vice-Chairman of the Executive Committee of Banco Comercial Portugues (BCP). Since 20 April 2012 Member of the Supervisory Board of Bank Millennium S.A.

6. Agnieszka Hryniewicz-Bieniek - Member of the Supervisory Board (independent member)

Ms Agnieszka Hryniewicz-Bieniek graduated in Economics from the Warsaw School of Economics and completed post-graduate studies in Public Relations at the same School. She built her career in Marketing in

international corporations. Her 11-year experience in this field is derived from working in a variety of industries: from FMCG (Johnson&Johnson), telecommunications (Deutsche Telekom), publishing (Gruner&Jahr) and entertainment (Disney). In 2008 she joined Google and currently oversees the company's strategy and business as Country Director. Her main responsibility is to manage Google's ads business in Poland across products and channels, and directly lead key customer, partner, and industry relationships. She is a founding member and the Audit Committee member of the Marketing 4 Business Association and actively supports women in Technology by serving as a mentor and coach for future women leaders in the industry.

7. Anna Jakubowski - Member of the Supervisory Board (independent member)

Ms Anna Jakubowski graduated with a Bachelor of Business Administration (1990) from Wilfrid Laurier University, Waterloo, Ont. Canada. Her professional career started with Procter & Gamble Canada (1991 - 1993), where she was a National Account Manager. Between 1993 and 1998 she held different positions, from Pharmacy Channel Manager to Trade Marketing Manager and Area Sales Manager in P&G Poland. In 1998 she became Regional Customer Business Development Manager in P&G Central Eastern Europe while between 1999 and 2007 she was New Business Development Manager and (from 2002) Strategy, Business Development Director in P&G Western Europe. She continued her career in Switzerland in the P&G the Fabric Care Division - (2007- 2011) as an Associate Director: Marketing. From 2011 she has connected her professional career with The Coca-Cola Company where she was the International Group Marketing/Strategy Director in Coca-Cola Hellenic Bottling Company (2011 - 2013), Business Capability Director in the Coca-Cola Company (2013) and currently (from 2013) she has held the following positions: Management Board Member in Multivita Sp. z o. o, Management Board Member - Managing Director in Coca-Cola Balti Jookide AS, Management Board Member - Managing Director in Coca-Cola Poland Services Sp. z o.o. and Franchise General Manager - Poland/Baltics The Coca-Cola Company. She has also been involved with the following organizations and associations: Women's International Networking Leadership Forum (2004 - 2012), Board of Advisors, Organization of Women in International Trade, Board of Directors (2005 - 2010) and in 2008 as an Executive Vice President as well as in 2009 as the President, Geneva Women in International Trade as the President (2005 - 2010). In 2011 she was awarded the TIAW - The World of Difference 100 Award (Recognizing individuals whose efforts have advanced the economic empowerment of women). Currently (from 2015): Member of the Board of Directors of American Chamber of Commerce in Poland (Warsaw, Poland) and Patron Member in Polish - Canadian Chamber of Commerce.

8. Grzegorz Jędrzyński - Member of the Supervisory Board (independent member)

Mr Grzegorz Jędrzyński is a graduate of the Production Economics Faculty of Warsaw School of Economics and of a post-graduate course at Warsaw School of Economics in Strategic Marketing Management as well as real estate agency operation. Moreover Mr. Jędrzyński attended many courses and training sessions, i.a. for candidates for members of supervisory boards of State Treasury companies (2008). He began his professional career in 1994 in the Housing Finance and Municipal Advisory Programme for Poland/PADCO - a joint Poland-USAID programme. In 1996 he worked as Manager of the Building Projects Financing Team in Polsko-Amerykański Bank Hipoteczny S.A. In 1997 - 1999 he was employed in Jedenasty Narodowy Fundusz Inwestycyjny S.A., initially as an Investment Analyst, then as Project Director. Between 1999 and 2005 he was Investment Director in Trinity Management Sp. z o.o. - a company, which managed the assets of Jupiter NFI S.A. as well as Pekao Fundusz Kapitałowy Sp. z o.o. In 1997 - 2005 he sat on Supervisory Boards of many companies.

Starting from 2005 he has been Head of the Poland's Representative Office of the Polish American Freedom Foundation.

Since 11 April 2013 he has been Member of the Supervisory Board of Bank Millennium S.A.

9. David H. Klingensmith - Member of the Supervisory Board (independent member)

Mr David H. Klingensmith graduated from Tulane University New Orleans in economics and history. He continued his education at Johns Hopkins University School of Advanced International Studies Washington; between 1976 and 1978 he was an International Economist at the Office of International Development Banks of U.S. Department of the Treasury. In 1979 he joined the Chase Manhattan Bank where he worked till 1990 in various positions in different countries, including: Columbia, Pakistan and Hong Kong. Between 1991 and 1995 he worked at the Asian Development Bank as a Senior Investment Officer at the ADB's Private Sector Department Manila (1991 - 1994) and Head of the Credit Risk and Portfolio Group at the ADB's Private Sector Group Manila (1994 - 1995). From 1996 to 2013 he held several positions at the European Bank for Reconstruction and Development London in the area of risk management, finally in the position of Managing

Director in the area of Risk Management. Between 2013 and 2015 he was an elected Independent Board Member at Romgaz (Romania). Since 2013 he is an Independent consultant with expertise in banking, analysis and minimisation of enterprise risks, corporate governance, investment appraisal, and risk training and in this respect he worked i.a. with KfW (German Development Bank) and the Bill and Melinda Gates Foundation. Currently he holds the following positions: Investment Committee Member of Financial Sector Fund (Tunis) (since 2014), Senior Advisor on Risk Governance, Nestor Advisors (London) (since 2015). Mr Klingensmith has extensive experience of working in different cultures and corporate environments in multiple sectors, both through involvement in investments as well as residence for extended periods in South America, Asia, Europe and the US.

10. Andrzej Koźmiński - Member of the Supervisory Board

Mr Andrzej Koźmiński graduated from the Main School of Planning and Statistics (now Warsaw School of Economics) in Economics in 1963 and in 1964 graduated from Warsaw University in Sociology.

Correspondent Member of Polish Academy of Sciences, for eighteen years Rector of Kozminski University in Warsaw, currently its President, Chairman of the ALK Board of Trustees, President of the Management Board of Międzynarodowa Szkoła Zarządzania S.A., Head of the Management Chair until 2014. In 1981 - 1987 he was the Dean of the Management Faculty at Warsaw University and in 1991 - 1996 he was the Director of the International Management Centre of Warsaw University. In 1990 - 1996 he was a lecturer at the University of California in Los Angeles, invited every year for a semester. In 1982 - 1989 he was a lecturer at the University in Orleans, France. Visiting professor in many renowned foreign universities. Professor of economic sciences, with specialisation in "organisation and management", he has published over 400 research papers in this area in many languages, including 50 books. He is an elected Member of the International Academy of Management, Academie Europeene and Academie des Sciences Commerciales in Paris and Warsaw Scientific Society. He is an Honorary Vice-President of the Central and East European Management Development Association (CEEMAN), until 2008 he was a member of the Accreditation Committee of the European Foundation for Management Development (EFMD) in Brussels and Member of the International Committee of the American Association of Collegiate Schools of Business (AACSB). Member of the Scientific Board of UNESCO CEPES (European Center for Higher Education in Bucharest). He is a Member of the Presidium of the Committee of Organisation and Management Sciences at the Polish Academy of Sciences. Since 2012 Chairman of the Scientific Council in the OPI Information Processing Centre of the Ministry of Science and Higher Education; since 2009 member of the Board of Arbiters of the Polish Chamber of Commerce and member of the Programme Council in Leopold Kronenberg Banking Foundation; since 2014 Chairman of the Team for Identification of Council Members of the National Science Centre of the Ministry of Science and Higher Education. In May 2015 he received the title of Doctor Honoris Causa from the Szczecin University.

Member of the Supervisory Board of Orange Polska S.A. Since 1 August 2000 Member of the Supervisory Board of Bank Millennium S.A.

11. Miguel Maya Dias Pinheiro - Member of the Supervisory Board

Mr Miguel Maya Dias Pinheiro graduated from Instituto Superior das Ciencias do Trabalho e da Empresa (ISCTE) with a Licenciatura Degree in Corporate Organization and Management. He also completed the Corporate Senior Management Programme (PADE) - AESE and Advanced Management Programme - INSEAD.

From 1987 to 1990 he held commercial and financial functions in an industry sector SME. Between 1990 and 1995 he was employed by Banco Portugues de Atlantico, with functions in the commercial and companies areas, in charge of coordinating the Economic and Financial Research Office. Since 1990 he has been working for BCP Group in several functions in Portugal and Spain. During the 2007 - 2009 period he was Head of the Office of the Chairman of the Executive Board of Directors of BCP. Between 2009 and 2012 he held the position of Member of the Executive Board of Directors of BCP and Member of the Board of Directors of Fundação Millennium BCP.

Currently Vice-Chairman of the Executive Committee and Member of the Board of Directors of BCP, Chairman of the Board of Directors of Interfundos - Gestao de Fundos de Investimento Imobiliario, S.A., Manager of BCP Africa, SGPS, Lda and Member of the Board of Directors of Banco Millennium Angola, S.A. (Angola).

12. Rui Manuel da Silva Teixeira - Member of the Supervisory Board

Mr Rui Manuel da Silva Teixeira, graduated from Electronic Engineering Department of the University of Oporto. From 1987 he held managerial positions at Banco Comercial Portugues (BCP). Between 2003 and 2006 he was a Member of the Management Board of Bank Millennium S.A. (Poland) and between 2009 and

2010 he was Deputy Chairman of the Management Board of Bank Millennium S.A. (Poland). Between 2011 and 2012 he was Member of the Executive Board of Directors of Banco Comercial Portugues. Since 2012 Member of the Board of Directors and Member of the Executive Committee of Banco Comercial Portugues, Portugal.

Since 20 April 2012 Member of the Supervisory Board of Bank Millennium S.A.

Audit Committee

The Audit Committee as a standing committee of the Supervisory Board was established in 2000. Its task is to monitor the Bank's financial reporting systems and processes, as well as risk management. In particular the Audit Committee is responsible for exercising on behalf of the Supervisory Board of control over the functioning of the Bank's internal audit.

In compliance with the Act on auditors and their self-government, entities entitled to audit financial reports and on public supervision (Act on Certified Auditors) the Audit Committee must consist of at least three members and at least one of the Members of the Audit Committee must satisfy the independence requirements and have qualifications in accounting or financial auditing. The Audit Committee meets on a regular basis (once every quarter) and in the extraordinary mode. It is convened by the Chairman of the Supervisory Board on his own initiative or at the request of a Member of the Supervisory Board or a Member of the Management Board. The duties of the Audit Committee include specifically: (i) constant monitoring of the activities of the Bank's auditor and issuing opinions regarding independence of the auditor and any other relations between the auditor and the Bank, (ii) constant monitoring of the systems and processes of financial reporting and risk management of the Bank; and (iii) evaluation and monitoring of internal procedures for accounting and auditing as well as appropriate control systems, including acceptance and handling complaints and doubts concerning them.

From 1 January until 21 May 2015 the Audit Committee was composed of the following Supervisory Board members:

1. Dariusz Rosati - Chairman, (independent)
2. Maciej Bednarkiewicz,
3. Miguel de Campos Pereira de Bragança,
4. Luis Maria Franca Castro Pereira Coutinho,
5. Grzegorz Jędryś, (independent)
6. Bogusław Kott.

On 21 May 2015 the Supervisory Board of the new term of office elected following Supervisory Board members to the Audit Committee:

1. Dariusz Rosati - Chairman until 4.12.2015, (independent),
2. Grzegorz Jędryś - Deputy Chairman, since 4.12.2015 Chairman (independent),
3. Julianna Boniuk-Gorzelańczyk,
4. Miguel de Campos Pereira de Bragança,
5. David H. Klingensmith, (independent)
6. Bogusław Kott.

Until 4 December 2015 Mr Dariusz Rosati was Chairman of the Audit Committee. After this date the function of Chairman of the Audit Committee was assumed by Mr Grzegorz Jędryś. Mr Dariusz Rosati remained in the Audit Committee as its member. The composition of the Audit Committee satisfied criteria stipulated in Art. 86, section 4 of the Act on Certified Auditors.

Personnel Committee

The Personnel Committee as a standing committee of the Supervisory Board was established in 2000. The duties of the Personnel Committee include in particular: (i) evaluation of the candidates for Members of the Management Board; (ii) establishment of the terms of employment of newly appointed Members of the Management Board; (iii) negotiation of amendments to the terms of employment of the Members of the Management Board, (iv) establishment of the terms of termination of employment of the Members of the Management Board; and (v) implementation of activities in the area of policy of variable components of remuneration.

During the period from 1 January to 21 May 2015 the composition of the Personnel Committee was as follows:

1. Maciej Bednarkiewicz - Chairman,
2. Nuno Manuel da Silva Amado,
3. Luis Maria Franca Castro Pereira Coutinho,

4. Marek Furtek,
5. Bogusław Kott.

On 21 May 2015 the Supervisory Board of the new term of office elected the following members of the Personnel Committee:

1. Andrzej Koźmiński - Chairman,
2. Nuno Manuel da Silva Amado,
3. Miguel de Campos Pereira de Bragança,
4. Bogusław Kott.

Strategic Committee

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

During the period from 1 January to 21 May 2015 the composition of the Strategic Committee was as follows:

1. Bogusław Kott - Chairman,
2. Nuno Manuel da Silva Amado,
3. Miguel de Campos Pereira de Bragança,
4. Luis Maria Franca Castro Pereira Coutinho,
5. Andrzej Koźmiński,
6. Dariusz Rosati.

On 21 May 2015 the Supervisory Board of the new term of office elected the following members of the Strategic Committee:

1. Bogusław Kott - Chairman,
2. Nuno Manuel da Silva Amado,
3. Miguel de Campos Pereira de Bragança,
4. Agnieszka Hryniewicz-Bieniek,
5. Anna Jakubowski,
6. Andrzej Koźmiński,
7. Miguel Maya Dias Pinheiro
8. Dariusz Rosati.

Risk Committee

On 4 December 2015 in connection with art. 9cb sect. 1 and 3 of Banking Law, in keeping with which a significant bank has i.a. a risk committee, which comprises persons appointed from among members of the Supervisory Board, the Supervisory Board set up the standing Risk Committee of the Bank's Supervisory Board and decided on its following composition:

1. Dariusz Rosati - Chairman,
2. Miguel de Campos Pereira de Bragança,
3. David H. Klingensmith,
4. Bogusław Kott,
5. Miguel Maya Dias Pinheiro.

By 21 May 2015 pursuant to the GMS resolution on the method of defining remuneration of Members of the Supervisory Board, the amount of remuneration for participation in work of the Supervisory Board was defined by the Personnel Committee of the Supervisory Board as a percentage of the average monthly remuneration in the corporate sector (base rate). The remuneration was paid for every meeting of the Supervisory Board at the end of the month.

For participation in the work of standing committees of the Supervisory Board (Audit, Personnel and Strategic Committee) their members received remuneration in the month, in which the committee met. This remuneration was also defined as a percentage of the average monthly remuneration in the corporate sector. Additionally the following persons were also eligible for receiving specific monthly amounts connected with the base rate: Mr Maciej Bednarkiewicz for exercising individual supervision over legal aspects of the Bank's operation, Mr Marek Furtek for individual supervision over implementation of resolutions and recommendations of the Supervisory Board and Mr Dariusz Rosati for individual supervision in the area of internal audit.

On 21 May 2015 the General Meeting of Shareholders of the Bank passed a resolution in the matter of approval of "Policy of Remuneration of Members of the Supervisory Board of Bank Millennium S.A." (the Policy), bearing in mind in particular the indications stipulated in the Principles. In keeping with the adopted Policy members of the Supervisory Board of the Bank are eligible for monthly remuneration for sitting on the Supervisory Board. The amount of the remuneration is defined by a resolution adopted by the GMS with consideration of principles stipulated in the Policy, including the principle of its adequacy given the scale of the Bank's operation. The remuneration may be diversified with consideration of function performed in the Supervisory Board and should be correlated with commitment to the work of the Supervisory Board and the level of remuneration received by members of supervisory bodies of institutions with a similar scope and scale of operation. Irrespective of remuneration for sitting on the Supervisory Board members of standing committees of the Supervisory Board are eligible for separate remuneration in connection with tasks performed by them in these committees. In case of delegation by the Supervisory Board of its member to permanent individual exercising of supervision, the Supervisory Board may assign to such Supervisory Board member additional remuneration for the duration of delegation, however its monthly amount cannot exceed 100% of the base remuneration for sitting on the Supervisory Board. In case of standing committees of the Supervisory Board the remuneration is payable for participation in their meetings. The total remuneration due to a Supervisory Board member for participation in meetings of committees of the Supervisory Board in a given financial year cannot exceed 100% of his base remuneration for sitting on the Supervisory Board of the Bank. In connection with the remuneration paid the Bank shall make appropriate deductions under relevant legal regulations. Each of the Supervisory Board members may make a declaration regarding refraining from collection of all or part of the remuneration. Declarations to such effect shall be submitted to the Chairman of the Supervisory Board.

Remuneration paid to members of the Supervisory Board in 2015 (in PLN ths)

Name and Surname	Remuneration for 2015	Benefits	Total (PLN ths)
Kott Bogusław *	256.80	21.58	278.38
Koźmiński Andrzej	120.48	0.00	120.48
Rosati Dariusz	222.88	0.00	222.88
Jędrzy Grzegorz	141.20	0.00	141.20
Nuno Manuel Da Silva Amado	136.08	0.00	136.08
Miguel De Campos Pereira De Braganca	151.20	0.00	151.20
Rui Manuel Da Silva Teixeira	100.48	0.00	100.48
Boniuk-Gorzelańczyk Julianna **	90.00	0.00	90.00
Hryniewicz-Bieniek Agnieszka	80.00	0.00	80.00
Jakubowski Anna	80.00	0.00	80.00
David H. Klingensmith	90.00	0.00	90.00
Miguel Maya Dias Pinheiro	80.00	0.00	80.00
Bednarkiewicz Maciej	209.92	13.51	223.43
Furtek Marek	142.08	0.00	142.08
Rocki Marek	20.48	0.00	20.48
Luis Maria Franca Castro Pereira Coutinho ***	71.68	0.00	71.68
Maria Da Conceicao Mota Soares De Oliveira Calle Lucas	20.48	0.00	20.48
Total	2 013.76	35.09	2 048.85

(*) additionally for the period of office of the President of the Management Board, was paid an annual award for the years 2012 and 2013 in the amount of PLN 349.51 thousand and compensation for non-competition clause in the amount of PLN 681.50 thousand

(**) after the departure from the Management Board also paid compensation for the non-competition clause in the amount of PLN 693.50 thousand

(***) additionally for the period of office of a Member of the Management Board, was paid a reward outstanding in the amount of PLN 1 200 thousand

In 2015, Members of the Supervisory Board did not receive any remuneration or additional benefits from the Bank subsidiary companies.

Bank's shares held by Supervisory Board Members (performing their functions on 31 December 2015):

Name and surname	Function	Number of shares 31.12.2015	Number of shares 31.12.2014
Bogusław Kott	Chairman of the Supervisory Board	4 465 791	4 465 791
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Dariusz Rosati	Deputy Chairman and Secretary of the Supervisory Board	0	0
Julianna Boniuk - Gorzelańczyk	Member of the Supervisory Board	492 248	492 248
Miguel de Campos Pereira de Braganca	Member of the Supervisory Board	0	0
Agnieszka Hryniewicz-Bieniek	Member of the Supervisory Board	0	-
Anna Jakubowski	Member of the Supervisory Board	0	-
Grzegorz Jędryś	Member of the Supervisory Board	0	0
David H. Klingensmith	Member of the Supervisory Board	0	-
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	-
Rui Manuel da Silva Teixeira	Member of the Supervisory Board	0	0

IX.4. Management Board

The Management Board is the executive authority of the Bank and manages the entirety of the Bank's operations. The Management Board operates pursuant to the Code of Commercial Companies and other regulations, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders and the Supervisory Board, as well as provisions of the Bylaws of the Management Board adopted by the Supervisory Board, which are available on the Bank's website in the "About the Bank > Corporate Bodies and Governance" tab. The competences of the Management Board include all matters that are not restricted to other authorities of the Bank.

The Management Board makes decisions in the form of resolutions. Resolutions of the Management Board are adopted by an ordinary majority of votes present at the Management Board meeting. In the case of equal votes the Chairman of the Management Board has the casting vote. Resolutions of the Management Board may be adopted, if at least half of the Management Board Members are present.

Representations of will on behalf of the Bank are made by: (i) the Chairman of the Management Board individually; (ii) two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with a registered proxy or two registered proxies acting jointly; or (iii) attorneys-in-fact acting individually or jointly within the scope of the power of attorney granted thereto. Until 26 May 2015 Mr. Jerzy Andrzejewicz was a joint proxy. Attorneys-in-fact operating independently within the limits of their authorisation may be appointed to perform actions of a specified type. The Management Board is composed of at least three Members, of whom at least half have Polish nationality. The Management Board is appointed by the Supervisory Board. The term-of-office of the Management Board is 3 years. A Member of the Management Board may be recalled by the Supervisory Board at any time.

The composition of the Management Board in the period from 1 January till 24 April 2015 was as follows:

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

Mr Artur Klimczak tendered his resignation from the function of a Management Board Member - Deputy Chairman of the Management Board as of 24.04.2015. The Supervisory Board on 24.04.2015 filled the Management Board vacancy by electing Mr Michał Gajewski as a Member of the Management Board.

Thus the composition of the Management Board of the Bank in the period from 24.04.2015 till 21.05.2015 was as follows:

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

On 21.05.2015 the Supervisory Board elected the following persons as the Management Board for the term of office ending as of the date of the General Meeting of Shareholders approving the financial report for the financial year 2017:

1. Joao Bras Jorge - Chairman of the Management Board



Mr Joao Nuno Lima Bras Jorge has a Degree in Management from Universidade Catolica Portuguesa. He also completed the Advance Management Program, PADE - AESE.

He started his career as a stockbroker in 1990 and during the next 10 years made a career in investment banking. Among others was a board member of an investment bank and was on the board of the Lisbon Stock Exchange.

Prior to his move to Poland he had 5 years of experience in Retail Banking, namely as Head of the Customer Division and as Coordinator of the Retail Network of Millennium bcp.

Since 19 July 2006 he has been a Member of the Management Board of Bank Millennium S.A. In 2006 - 2008 in charge of Retail Banking, and from 2009 Corporate Banking. From 22 April 2010 he was Deputy Chairman of the Management Board, and since 24 October 2013 Chairman of the Management Board of Bank Millennium S.A. responsible for the work of the Management Board, internal audit, compliance, legal support, retail marketing (until 31 December 2015), personnel, marketing communication and PR.

2. Fernando Bicho - Deputy Chairman of the Management Board



Mr Fernando Maria Cardoso Rodrigues Bicho graduated from the Economic Department at Universidade Catolica Portuguesa in 1984. In 1993 he obtained an MBA from Universidade Catolica Portuguesa.

He gained his professional experience inter alia in the Portuguese Foreign Investment Institute, Lloyds Bank Plc in Lisbon and Uniao de Banco Portugueses (UBP), later renamed Banco Mello.

He performed duties as fund manager and later in the bank's Financial Division he was in charge, among others, of treasury and capital markets, securities operations, asset and liabilities management, issues on international capital markets, capital management and investor relations.

After Banco Mello's purchase by Banco Comercial Portugues (BCP) in 2000, Mr. Fernando Bicho worked in the BCP Corporate Centre and from June 2001 he was the head of the Asset and Liabilities Management Division of the BCP Group.

Since August 1, 2002 Member of the Management Board of Bank Millennium. Supervises the areas of planning and management information, Treasury, capital investments and investor and financial institutions relations, reporting and financial control, accounting, taxes and central procurement.

3. Wojciech Haase - Member of the Management Board



Mr. Wojciech Haase graduated from the Faculty of Production Economics at Gdańsk University.

He worked at the National Bank of Poland in Gdańsk to be then transferred to the group organising Bank Gdański SA. In 1989-1997 he worked at Bank Gdański SA - first in the Credit Department and then in the Treasury Department. From 1993 he was Deputy Chairman of the Management Board of Bank Gdański SA and then acting Chairman of the Management Board of that Bank.

Since 27 June 1997 Member of the Management Board of Bank Millennium. Since 4 December 2015 occupying the post of the supervisor of the risk material to the Bank's operations. Supervises the area of risk, credit and rating processes, workout of receivables and Treasury control.

4. Andrzej Gliński - Member of the Management Board



Mr. Andrzej Gliński graduated from the Poznań University of Technology (1994) and completed his post-graduate studies in banking and finance at the Warsaw School of Economics. He has worked in the financial sector for more than 20 years: he worked at Bank Handlowy S.A. in Warsaw - in management positions as Branch Director and Sales Director in the Assets Financing Department.

In 2001-2004 he was Vice President of Handlowy Leasing S.A. He has been working in the Bank Millennium Group since 2004, first as Chairman of Millennium Leasing Sp. z o.o. and next as Head of the Corporate Banking Area at Bank Millennium SA.

Member of the Management Board since 22 April 2010. Supervises the area of corporate banking, factoring and trade finance, structured finance and custody.

5. Maria Jose Campos - Member of the Management Board



Mrs Maria Jose Henriques Barreto De Matos De Campos graduated in the field of Electronics and Telecommunications from Aveiro University (1990), Portugal. She started her professional career in the same year at an electronics and telecommunications R&D company. In 1994 she joined the Macao Post Office and Telecommunications Authority, heading its IT division, supporting both the postal bank and mail services.

She joined Millennium BCP Group in 1999, initially integrating the operational IT platform of Banco Comercial de Macao, as head of the IT division. Then, from 2001 she was responsible in Bank Millennium S.A. for the IT Area. From 2006 she had also responsibility in BCP Group for IT Europe, a division at group level supervising the IT areas for European operations.

Since 22 July 2011 Member of the Management Board of Bank Millennium. She supervises the area of IT, processes and operations as well as complaints, service quality, administration and infrastructure, security and continuity, sales campaigns, control and settlement of Treasury transactions.

6. Michał Gajewski - Member of the Management Board

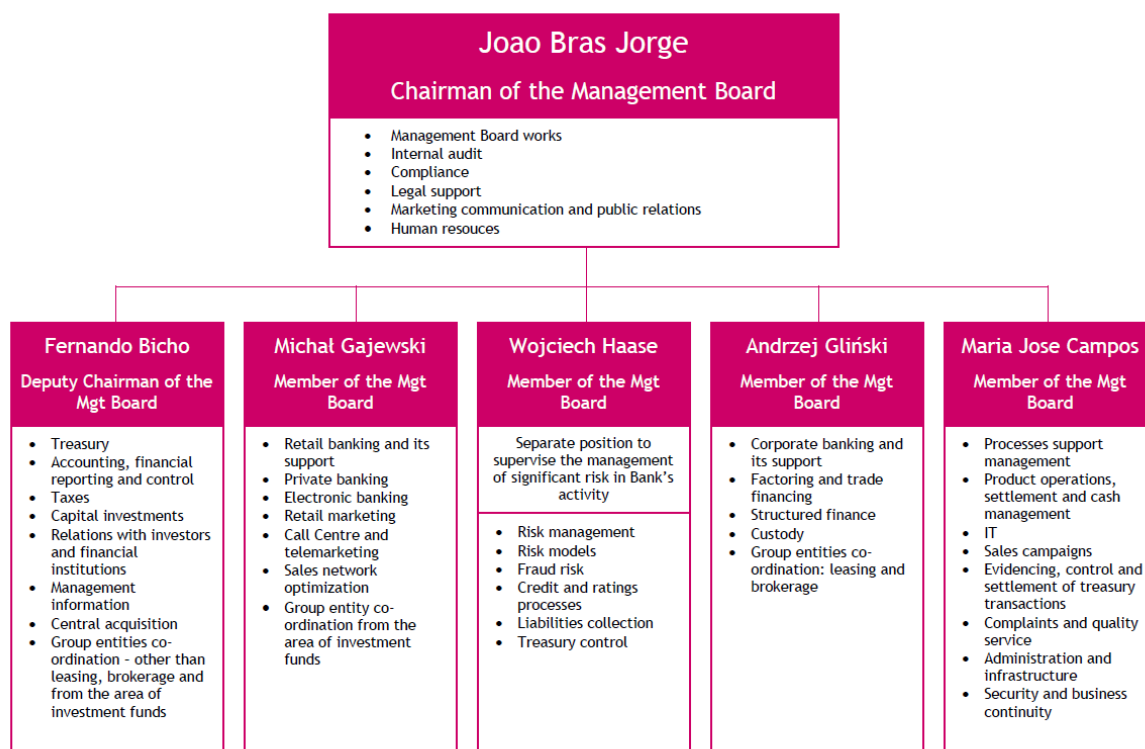


Mr Michał Gajewski is a graduate of the Law Department at the Adam Mickiewicz University in Poznań. He also studied at the Northwestern University in Chicago and London Business School.

Since 1992 he has worked in the banking sector. Before his employment in 2012 at Bank Millennium S.A. he performed the function of Deputy Chairman of the Management Board at BGŻ S.A., where he was responsible for the retail business and SME banking. In 1992-2008 he was professionally involved with WBK S.A. Capital Group and then BZWBK S.A., where he performed a number of functions, starting from working at a branch, through medium and higher-level management functions, up to the position of Member of the Management Board of BZ WBK S.A., responsible for the retail banking area.

Before his appointment as Member of the Management Board of the Bank he was Macroregional Director in the Retail Banking Division. Member of the Management Board of Bank Millennium S.A. since 24 April 2015. He supervises the area of private, retail, electronic banking, retail marketing (since 1 January 2016), call center and telemarketing.

Organization structure of the Bank Millennium is consistent with strategy, modern approach to business and complies with principles of corporate governance for financial institutions. The division of tasks between the members of Management Board of the Bank is presented on the following diagram:



The principles of remuneration of the Board Members with the amount of salaries, bonuses and other benefits in 2015 can be found in chapter VIII of this report in Part 3, entitled "Remuneration policy".

Bank shares held by Members of the Management Board (performing functions on 31 December 2015):

Name and Surname	Function	Number of shares 31.12.2015	Number of shares 31.12.2014
Joao Bras Jorge	Chairman of the Management Board	111 000	51 000
Fernando Bicho	Deputy Chairman of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	7 494
Andrzej Gliński	Member of the Management Board	0	0
Maria Jose Campos	Member of the Management Board	0	0
Michał Gajewski	Member of the Management Board	0	-

IX.5. Internal Control, External Audit and Compliance Policy

Internal control system

The Bank has an internal control system adjusted to the organisational structure whose scope covers the organisational units of the Bank's head office, branches and subsidiaries. This system comprises internal control procedures defined in the form of internal control bylaws for particular units of the Bank, and internal control mechanisms which cover, among others, control principles, limits and procedures, and any other types of operations whose purpose is to control the quality and correctness of the tasks implemented at the Bank.

The Internal Audit Department is a specialist unit of institutional control whose purpose is an independent and objective assessment of adequacy, correctness and effectiveness of the internal control and management systems, including risk management. In particular, this is connected with the assessment of quality, correctness and security of running banking operations. In implementing its mission Internal Audit takes into account strategic objectives and tasks of the organisation specified by the Management Board and Supervisory Board of the Bank. The audit process is implemented according to the Internal Audit Methodology fostering international standards of internal audit and good banking practices.

The activity of Internal Audit is planned and based on an annual audit plan. The basis of the planning process is the assessment of risk of particular areas and processes at the Bank in order to identify increased risk and support the specification of priorities and resources for the implementation of tasks. The planning process takes into account consultations with higher level management and owners of key processes. The annual audit plan is approved by Bank's Supervisory Board and implemented on a quarterly basis by experienced and highly qualified professionals.

Internal audit provides opinions on regulations being implemented and updated at the Bank, it independently and objectively assesses and advises particular units with respect to the audited area and builds positive relations with audited units in order to work out common added value to streamline the Bank's operations. Advisory activities can be provided, if they do not undermine the objectiveness and independence of the internal auditor.

In 2015, the Internal Audit Department implemented audit tasks at the Bank, the Bank's subsidiaries, external entities to which the Bank, to the extent permissible by regulations, outsourced banking and bank-related operations, as well as within the BCP Group. The planned activity of the Department covered among others audits of key business and support processes, as well as financial audits, outlet audits and those of compliance with external regulatory environment. The tasks performed by the Internal Audit Department also include investigations and spot checking (prevention). The Internal Audit Department is an independent unit reporting to the Chairman of the Management Board of the Bank and the results of its activities are reported by it to the Audit Committee of the Supervisory Board and the Supervisory Board of the Bank. The results of a review of the entire internal control system are also regularly presented and reviewed by the Audit Committee of the Supervisory Board of the Bank.

Internal Control System with respect to the Process of Preparing Financial Reports

Solutions described above regarding internal control system protect to a significant extent the Bank against financial reporting errors and provide the Bank Management with information facilitating evaluation of preparation of financial reports or its correctness, efficiency and security in order to ensure the highest possible effectiveness in managing identified type of risks accompanying the process.

The internal control system, introduced by the Management Board of the Bank and incorporating the financial report preparation process, has been designed to facilitate the controlling of process risk while maintaining appropriate supervision of correctness of the gathering, processing and presentation of data necessary for preparation of financial reports in keeping with effective laws.

According to effective laws, the Bank's reports (non-consolidated) and those of the Bank Capital Group (consolidated) are subject to, respectively: review (semi-annual statements) or audit (annual statements), performed by an independent entity authorised to audit financial statements - i.e. the External Auditor. The External Auditor is selected by the Supervisory Board on the basis of a recommendation issued by the Audit Committee of the Supervisory Board. In addition, considering the quality of financial data presented in remaining published quarterly reports, the Bank, jointly with the External Auditor, implemented cooperation procedures ensuring the consultation of important issues connected with recognition of economic events in the Bank accounts and financial reports, on a current basis. At the meetings of the Audit Committee of the Supervisory Board the External Auditor presents key findings relative to financial reporting. Furthermore, the external auditing firm also performed, in 2015, a review of the adequacy and effectiveness of a part of the Bank's internal control system supporting the financial information preparation and publication process (financial reporting) and issued relevant opinions. In 2015 the Bank's External Auditor was PricewaterhouseCoopers Sp. z o.o. In October 2015, the Bank Supervisory Board decided to select PricewaterhouseCoopers Sp. z o.o. to be the Bank's External Auditor in 2016. The Bank is covered by the consolidated financial statement of the BCP Group. Therefore, the annual review of the Bank's system of internal control in support of the process of preparing and publishing financial information is also subject to the terms and requirements of consolidated supervision, which is performed by the Bank of Portugal and the European Central Bank.

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

In 2015 the audit of Bank's financial statements was performed by PricewaterhouseCoopers sp. z o.o. On 24 October 2014 the Supervisory Board of the Bank adopted a resolution on selection of PricewaterhouseCoopers sp. z o.o. to perform audits of annual financial statements of Bank Millennium and Bank Millennium Group for 2015. The audit agreement was concluded on 24 March 2015.

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)	2015	2014
Examination of annual financial statement	613	555
Certification services, including review of financial statement	729	1 233
Tax advisory services	0	0
Other services	0	20

Compliance policy

Lack of legal compliance of internal regulations and the ensuing risk of legal or regulatory sanctions, material losses or reputation risk is one of the areas threatening the activity of every bank. Therefore Bank Millennium has the Compliance Department, the task of which is to ensure compliance with Acts of Law, secondary

legislation, rules, related self-regulatory organisation standards as well as codes of conduct, relating to banking activity. Monitoring compliance with both internal as well as external regulations, Bank Millennium Group considers the following to be particularly important:

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

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

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

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

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

The Anti-Money Laundering and Counter Terrorism Financing Programme (AML/CTF), applied by Bank Millennium, is a comprehensive system of identification of threats related to money laundering crimes.

Actions launched under this programme include in particular:

- application of financial security measures to Customers, depending on the degree of risk and based on „Know your Client” or KYC principle - the key concept of the programme,
- transaction registration and reporting,
- identification of suspected transactions,
- cooperation with the General Inspector of Financial Information.

Bank Millennium adjusts its reports to the analysis of suspected transactions on the on-going basis, taking into account up-to-date patterns (sectors, cash-flow routes, Customer behaviour) for effective identification and reporting of transactions suspected of money laundering.

Our internal procedures, organisational solutions and employee training programmes ensure efficient operation of the Programme.

Bank Millennium with view to protecting Clients who invest their funds in investment products with varied degree of risk strictly monitors compliance of these products, their offering and handling process with relevant internal regulations, laws and external guidelines - on the domestic and European Union level (MiFID).

Consumer loans and insurance products directed to consumers are also subject to the special programme of compliance monitoring.

X. RESPONSIBLE BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY

The activities and principles involved with corporate social responsibility are part of the Bank's plans and are included in the medium-term **strategy of Bank Millennium Group for 2015-2017**. Strategic targets primarily apply to the Bank's main Stakeholders: Customers, Employees, Investors, Business Partners, Community and the Natural Environment and are being implemented in individual areas of the Bank's activity.

The current business strategy identifies **aspects, on which the company concentrates in cooperating with its environment**. These include highest quality of customer service, ethical marketing and sales, ensuring security of funds entrusted by customers, launching innovative products. The Bank also puts emphasis on creating a stable and appealing work environment, minimising the adverse impact on the natural environment, also engaging in programmes for local communities.

The Bank sees cooperation with non-governmental and community institutions as an important part of its social mission. The key areas of cooperation with them are:

- Culture
- Education
- Charity

The Bank carries out its sponsoring activity, mainly with respect to cultural events of the premium quality (such as musical events, theatres, museums and art galleries). Cultural activity has for years been the most important part of Bank Millennium's social activity. It is planned on the basis of medium-term action plans and following assumptions:

- support is provided not to institutions but to programmes, which they are implementing,
- preference is given to long-term programmes with clearly defined objectives,
- the supported programmes should have widespread public reception and also be available via the media,
- the partners in cultural programmes should above all be cultural institutions, non-governmental organisations and the media.

Most important cultural projects of Bank Millennium in 2015:

- "Golden Sceptre" - annual award, one of the highest in Poland (PLN 110,000 plus PLN 11,000 for a debutante) for a Polish artist/author for eminent artistic achievement. The awards gala and accompanying concert had television coverage, were broadcast by TVP 2 channel and enjoyed an audience of almost 103,000.
- Polish Radio Theatre and Polish Television Theatre "Two Theatres" Festival - a festival and competition to select the best radio and TV theatrical plays. The audience of TVP programmes as well as people attending the Festival's competitions and accompanying events was almost 500,000.
- "Docs Against Gravity Film Festival" in Warsaw - the Bank is a sponsor of the largest world documentary film festival in Poland and of the accompanying events (workshops, discussions, concerts). The Bank is also the sponsor of the Festival's main award - the "Millennium Award". The total audience of the Festival in 2015 (including its editions outside Warsaw) was 40,000.

Information regarding implementation by the Bank of CSR principles is provided in the "Responsible Business 2015" report, which was prepared in keeping with Global Reporting Initiative Sustainability Guidelines (GRI G4). The report presents key aspects of the Bank's impact on sustainable economic, social and environmental development with respect to the main groups of Stakeholders: Customers, Employees, Shareholders, Business Partners, Community and the Natural Environment.

Compliance by the Bank with principles of sustainable development and an ethical approach to running the business were confirmed in third-party assessments. Since 2011 the Bank has been part of the RESPECT Index, which includes socially responsible companies listed on the Warsaw Stock Exchange. The Bank was also awarded the POLITYKA CSR Silver Leaf - given to companies, which implement sustainable development actions and also won the title of 2014 Ethical Business in a competition organised by the Puls Biznesu daily.

XI. ADDITIONAL INFORMATION

Other information regarding:

- Numbers and values of the execution titles issued by the bank,
- Guarantees and sureties granted,
- Transactions with related companies,
- List of the biggest court cases, arbitration proceedings before an authority or public administration,

can be found in "Financial Statements of Bank Millennium S.A. for 2015".

XII. STATEMENT OF MANAGEMENT BOARD

Presentation of asset and financial position of Bank Millennium S.A. in the financial report

According to the best knowledge, the Annual Financial Statements of the Bank Millennium S.A. as at 31 December 2015 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Bank and its financial result. This Annual Management Board Report on the activity of the Bank contains a true picture of development, achievements and condition of the Bank.

Selection of an entity authorized to audit financial

The entity authorized to review financial reports that audits these Annual Financial Statements of Bank Millennium S.A. as at 31 December 2015, 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
25.02.2016	Joao Bras Jorge	Chairman of the Management Board
25.02.2016	Fernando Bicho	Deputy Chairman of the Management Board
25.02.2016	Wojciech Haase	Member of the Management Board
25.02.2016	Andrzej Gliński	Member of the Management Board
25.02.2016	Maria Jose Campos	Member of the Management Board
25.02.2016	Michał Gajewski	Member of the Management Board