

Report on activities of the Supervisory Board of Bank Millennium S.A. in 2015 ("the Report")

This report comprises the following:

1. Summary of activities of the Supervisory Board ("Board") in 2015 and its committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for Risk Matters, with self-assessment of the work of the Board, pursuant to the principle II.Z.10.2. of „Good practices of the companies listed at the WSE 2016” („Good practices”).
2. Report on assessment of functioning of the remuneration policy in Bank Millennium S.A., pursuant to § 28 item 3 and 4 of „Principles of corporate governance for supervised institutions” („Principles”), adopted by the Polish Financial Supervision Authority („KNF”).
3. Assessment of application of „Principles of corporate governance for supervised institutions”, adopted by KNF, pursuant to § 27 of the Principles and assessment of performance of the disclosure duties concerning „Good practices of the companies listed at the WSE 2016”, pursuant to principle II.Z.10.3. of Good practices.
4. Report on assessment of reasonableness of sponsoring, charitable or other activity of similar character, conducted by Bank Millennium S.A., pursuant to principle II.Z.10.4. of Good practices.
5. Report on assessment of the Management Board reports on activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group as well as financial statements of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for the financial year 2015, as well as the Management Board’s motion regarding distribution of profits for the financial year 2015, pursuant to art. 382 § 3 of the Code of Commercial Companies.
6. Concise assessment of Bank Millennium S.A. situation in the year 2015, including assessment of performance of the internal control system, the risk management system, compliance and function of the internal audit, pursuant to principle II.Z.10.1. of Good practices.

1. Summary of the Supervisory Board’s activities in 2015 and its committees: the Audit Committee, the Personnel Committee, the Strategic Committee and the Committee for Risk Matters with self-assessment of the work of the Board.

Composition of the Supervisory Board

In the reporting period covering 2015, the term of the Supervisory Board was completed and Supervisory Board was selected for a new term ending with the occurrence of Bank’s General Meeting of Shareholders approving financial report for 2017.

Therefore, the composition of the Bank’s Supervisory Board in the period from 1 January to 21 May 2015 was as follows:

1. Bogusław Kott – Chairman of the Supervisory Board,
2. Maciej Bednarkiewicz – Deputy Chairman of the Supervisory Board,
3. Nuno Manuel da Silva Amado – Deputy Chairman of the Supervisory Board,
4. Marek Furtek – Secretary of the Supervisory Board,

5. Miguel de Campos Pereira de Bragança – Member of the Supervisory Board,
6. Luís Maria França Castro Pereira Coutinho – Member of the Supervisory Board,
7. Grzegorz Jędrys – Member of the Supervisory Board,
8. Andrzej Koźmiński – Member of the Supervisory Board,
9. Maria da Conceição Mota Soares de Oliveira Callé Lucas – Member of the Supervisory Board,
10. Marek Rocki – Member of the Supervisory Board,
11. Dariusz Rosati – Member of the Supervisory Board,
12. Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

On 21 May 2015 the Bank's General Meeting of Shareholders elected the Supervisory Board of the Bank for the new term in the following composition:

1. Bogusław Kott – the Chairman the Supervisory Board,
2. Nuno Manuel da Silva Amado – Deputy Chairman of the Supervisory Board,
3. Dariusz Rosati – Deputy Chairman of and Secretary of the Supervisory Board,
4. Julianna Boniuk-Gorzelańczyk – Member of the Supervisory Board,
5. Miguel de Campos Pereira de Bragança – Member of the Supervisory Board,
6. Agnieszka Hryniewicz-Bieniek – Member of the Supervisory Board,
7. Anna Jakubowski – Member of the Supervisory Board,
8. Grzegorz Jędrys – Member of the Supervisory Board,
9. David H. Klingensmith – Member of the Supervisory Board,
10. Andrzej Koźmiński – Member of the Supervisory Board,
11. Miguel Maya Dias Pinheiro – Member of the Supervisory Board,
12. Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

All the Members of the Supervisory Board filed proper declarations on fulfilment or non-fulfilment of the independence criteria. According to these declarations, these criteria are met by the following Members of the Supervisory Board: Ms Agnieszka Hryniewicz-Bieniek, Ms Anna Jakubowski, Mr Grzegorz Jędrys, Mr David H. Klingensmith and Mr Dariusz Rosati, who also has qualifications in the area of accounting or financial audit, pursuant to art. 86 section 4 of the Resolution of 7 May 2009 on auditors and their government, entities authorised to audit financial statements and public supervision.

Mr Grzegorz Jędrys, Mr David H. Klingensmith and Mr Dariusz Rosati are at the same time Members of the Audit Committee of the Supervisory Board, whereas Mr Dariusz Rosati, until 4 December 2015, performed the function of the Chairman of the Audit Committee, which was then taken over by Mr Grzegorz Jędrys.

According to their best knowledge, the Supervisory Board did not find existence of the connections or circumstances that may impact fulfilment of the independence criteria by the above-mentioned Members of the Supervisory Board.

In the assessment of the Supervisory Board, personal composition of the Supervisory Board, both in the previous and current term, constitutes a premise to state that the Supervisory Board in the reporting period warranted due performance of the tasks it was entrusted. The Members of the Supervisory Board have competencies for proper exercise of the supervisory duties resulting from their education, knowledge and skills supported by many years of professional experience. Furthermore, the composition of the Supervisory Board varied in terms of sex and age. For the professional curriculum vitae of the Members of the Supervisory Board see the Bank's website.

Activities of the Supervisory Board in the reporting period.

The Supervisory Board operates on the grounds of the Code of Commercial Companies, the Banking Law, the Articles of Association, the Bylaws of the Supervisory Board and in accordance with „Principles of corporate governance for supervised institutions” and „Good practices of the companies listed at the WSE”.

In the reporting period the Supervisory Board, guided by due care for correct and secure operation of the Bank, with due diligence, exercised constant supervision over its activity in all the aspects, including, functioning of the risk management systems, internal control, remuneration policy - directly and through standing Committees of the Supervisory Board.

In 2015 there were six meetings of the Supervisory Board held, including four meetings in the new composition elected by the General Meeting of Shareholders on 21 May 2015 – all with the presence of the Members of the Supervisory Board in the number significantly in excess of the minimum quorum required for adoption of resolutions.

The Supervisory Board, at its first meeting in the new composition, took a number of organisational decisions, including election of the Chairman, Deputy Chairmen, Secretary of the Supervisory Board, established compositions of standing Committees of the Supervisory Board and number of Members of the Management Board of the Bank and elected the Chairman, Deputy Chairman and Members of the Management Board of the Bank, and also authorised the Chairman of the Supervisory Board to sign management contracts with Members of the Management Board of the Bank, including the Chairman and Deputy Chairman.

In order to adjust the internal regulations in the Bank to the new legal regulations, including in particular to „Principles of corporate governance for supervised institutions” adopted by KNF, the Supervisory Board approved amendments to „Operational Bylaws of the Management Board of Bank Millennium S.A.”, „Bylaws of the Supervisory Board of Bank Millennium S.A.” and established the consolidated text of the Articles of Association of Bank Millennium S.A., including the amendments approved by the General Meeting of Shareholders. Furthermore, in connection with the new requirements resulting from the amended Banking Law, the Supervisory Board of the Bank established the Committee for Risk Matters of the Supervisory Board of the Bank, constituting standing committee of the Supervisory Board and defined its tasks and composition, as well as approved the internal division of competencies among the Members of the Management Board of the Bank.

Guided by care over successful development of the Bank, the Supervisory Board focussed its work both on the aspect of strategic analyses and the issues concerning current operations of the Bank, acting on the grounds of the analyses, conclusions and information submitted by the Management Board of the Bank and Committees of the Supervisory Board. Furthermore, the Supervisory Board was informed both about the major events and decisions of the Management Board in between the meetings and the macroeconomic situation and activity of competitive banks, whereby it had proper knowledge of the market environment and position of the Bank in relation to other financial institutions.

Pursuing its 2015 Work plan, the Supervisory Board subject to most in-depth analysis the quarterly reports on the Bank’s results, risk management, capital and liquidity management. It also analysed the annual statements on the internal control system and compliance. Performing its statutory responsibilities, the Supervisory Board selected PricewaterhouseCoopers Sp. z o.o. („PwC Sp. z o.o.”) to audit 2016 financial statements of Bank Millennium S.A. and the Bank’s Capital Group.

Within its competencies, the Supervisory Board took decisions on approval or opinion in particular as regards the following documents:

- 2015 Audit plan.
- Conclusions and matters submitted to the General Meeting of Shareholders.
- Policy of selection and assessment of qualifications Members of the management organ and persons performing the most important functions in Bank Millennium Group.
- Motion on establishment of the Third programme of Bank Millennium S.A.’s Bond Issue.

- Remuneration policy for the persons on management positions in Bank Millennium Group.
- Bank Millennium S.A.'s policy concerning disclosure of information on risk, own funds, capital requirements, policy for remuneration and other information.
- Plan and Budget of the Capital Group of Bank Millennium S.A. for the years 2016 – 2018, within which the Supervisory Board accepted the risk strategy, budget, liquidity plan with long-term liquidity analysis, contingency liquidity plan and capital plan and contingency capital plan.

Furthermore, the Supervisory Board subject to a review the following documents in force in the Bank, approving proper amendments, if required:

- Compliance policy – principles and guidelines.
- Management system in Bank Millennium S.A. (covering inter alia the organisational structure of the Bank).
- Principles concerning stress tests in Bank Millennium S.A.
- Principles for calculation of internal capital.
- Principles capital management and planning.

At the same time, pursuant to the supervisory regulations of the Polish Financial Supervision Authority, the Supervisory Board was presented information on:

- portfolio of mortgage loans and portfolio of other retail loans,
- bancassurance activity in Bank Millennium S.A.,
- claims filed by clients of Bank Millennium S.A.,
- mortgage-backed exposure to the corporate banking sector,
- IT area, including IT security.

The Supervisory Board was also presented information related to the portfolio of mortgage loans indexed CHF, especially in the context of hike appreciation of CHF, which had place in January 2015 and in connection with draft regulations announced during the year as regards FX conversion of these loans. Each time such information was analysed in terms of the impact of a given event both on the current situation of the Bank and the potential consequences in the future.

The Supervisory Board was also informed about execution of the recommendations of the Polish Financial Supervision Authority issued after the problem specific inspection in 2014, implementation of the KNF's recommendations for the area of anti-money laundering, status of IRB project, Asset Quality Review, Supervisory Review and Evaluation Process - 2013 SREP, results of the Stress Tests and schedule of fulfilment of the recommendations in connection with KNF's problem specific inspection in 2015.

Activities of the Audit Committee in the reporting period.

In the reporting period the Audit Committee of the Supervisory Board of Bank Millennium S.A. operated in the following composition:

From 1 January 2015 to 21 May 2015:

Chairman of the Committee:	Mr Dariusz Rosati
Member of the Committee:	Mr Bogusław Kott
Member of the Committee:	Mr Maciej Bednarkiewicz
Member of the Committee:	Mr Luís Maria França Castro Pereira Coutinho
Member of the Committee:	Mr Miguel de Campos Pereira de Bragança
Member of the Committee:	Mr Grzegorz Jędryś

From 21 May 2015 to 31 December 2015 (the Supervisory Board of the Bank, appointed for the new term by the Bank's General Meeting of Shareholders on 21 May 2015, established new composition of the Audit Committee):

Chairman of the Committee <i>till 4 December 2015</i> :	Mr Dariusz Rosati
Deputy Chairman	
<i>from 4 December 2015 the function of the</i> Chairman:	Mr Grzegorz Jędrzys
Member of the Committee:	Mr Bogusław Kott
Member of the Committee:	Ms Julianna Boniuk-Gorzelańczyk
Member of the Committee:	Mr Miguel de Campos Pereira de Bragança
Member of the Committee:	Mr David H. Klingensmith

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

In 2015 there were five meetings of the Audit Committee of the Supervisory Board and three circulatory-procedures held.

The following issues were subject to regular analysis during the meetings of the Audit Committee of the Supervisory Board in 2015:

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

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

During the meetings of the Audit Committee of the Supervisory Board in 2015 the following issues were discussed:

1. **Reports from the activity of the Internal Audit Department** containing the assessment of risks of the audited processes and degree of implementation of the tasks enumerated in the Audit Plan for 2015 approved by the Supervisory Board.
The activity of Internal Audit at the Bank was subject to regular supervision and assessment by the Audit Committee. The Audit Committee positively assessed and recommended for approval to the Supervisory Board the annual Audit Plan for 2015, prepared on the basis of analysing the risk areas, and accepted information on fulfilment of the 2014 Plan. During individual meetings of the Committee important findings, identified by audit along with the agreed remedies, were discussed.

The Committee assessed that the activity of the institutional control at the Bank is carried out with the assurance of independence, in accordance with the planned scope, effectively

identifying weaknesses of controls, and simultaneously provides substantive support for other units of the Bank.

2. **Monitoring the scope of activities of the Bank's External Auditor.** PwC information on material findings in the scope of financial reporting at the Bank, as a result of quarterly reviews conducted by the External Auditor was discussed at four meetings of the Committee in 2015. The Committee paid special attention to, among others such issues as the proposed solutions regarding further policies of banks in the area of FX housing loans in CHF and the Ministry of Finance and KNF's position regarding recognition of charges for the Bank Guarantee Fund in the financial statements. At the last meeting in October 2015 the Audit Committee reviewed the motion of the Management Board and adopted the Resolution about recommending to the Supervisory Board the selection of PwC Sp. z o.o. as the auditor of Bank Millennium S.A. and Bank Millennium Group for the next year 2016.
3. **Monitoring of financial reporting.** The Committee reviewed the information from the Department of Finance and Reporting pertaining to the process of financial reporting covering: monitoring the compliance of accounting standards employed by Bank Millennium Group with external regulations, identification of changes to key principles of accounting, as well as keeping the reporting deadlines and monitoring changes which may negatively impact the reporting process.
Before the publication, the Audit Committee analysed the Management Board's information on the Annual Report of the Bank and the Group for 2014, and the conclusions of Statutory Auditor PwC concerning the above mentioned reports. Taking into consideration the positive opinion of the Statutory Auditor, the Audit Committee adopted a Resolution on recommending, to the Supervisory Board, a positive assessment of the Annual Reports for 2014.
4. **Results of the annual Review of the Internal Control System (ICS) 2014** conducted at the Bank and Companies of the Bank Millennium Group for the period from 1 June 2014 until 31 May 2015. The requirement to review the internal control system at the Bank results from supervisory regulations - both Polish and Portuguese ones, and in accordance with the uniform guidelines for the BCP Group, in 2015 it was implemented in cooperation with the External Auditor of the BCP Group - KPMG.
Based on the results of the review the Committee took a Resolution concerning issuing of the Opinion of the Audit Committee of the Supervisory Board on the adequacy and effectiveness of the internal control system.
5. **Supervisory organs.** The Audit Committee paid much attention to the Bank's relationships with supervisory organs, in particular KNF. At each meeting of the Audit Committee, the Internal Audit Department presented and discussed the implementation status of KNF recommendations issued as part of post-examination recommendations as a result of asset quality review AQR and Supervisory Review and Evaluation BION/SREP or in connection with the application for IRB approach. All the recommendations issued by KNF were implemented in accordance with the time-table adopted by the Bank.
As regular part of the meetings of the Audit Committee was to analyse the correspondence addressed in key issues to the Bank from KNF.
6. **Information on implementation of the Compliance Policy by the Bank** and the activity of the Compliance Department. The main objectives of the Compliance Policy, Non Compliance Risk Map, monitoring of consumer loans compliance risk, insurance and investment products, implementation of the anti-money laundering and anti-terrorist financing program, results of identifying suspicious transactions, scope of cooperation with external institutions and initiatives of the Compliance Department under implementation were subject to analysis during the Committee's meetings last year.
7. The Audit Committee carefully reviewed the information on the **correctness of developing the Bank's relations with clients**, particularly in the context of claims received.

Activities of the Personnel Committee during the reporting period.

In the reporting period comprising the year 2015, the composition of the Personnel Committee (Committee) was as follows:

From 1 January 2015 to 21 May 2015:

- Maciej Bednarkiewicz – the Chairman
- Nuno Manuel da Silva Amado
- Luis Maria França Castro Pereira Coutinho
- Marek Furtek
- Bogusław Kott

From 21 May 2015 to 31 December 2015 (selection of the Personnel Committee in the new composition results from the election of the Supervisory Board of the Bank for a new term by the Bank's General Meeting of Shareholders on 21 May 2015):

- Andrzej Koźmiński – the Chairman
- Nuno Manuel da Silva Amado
- Miguel de Campos Pereira de Bragança
- Bogusław Kott

The composition of the Committee ensured an appropriate level of supervision over the assigned areas of activity of the Bank and the individual Members guaranteed proper performance of duties as a result of their education and professional experience.

The scope of authority of the Committee was defined in § 18 item 6 of the Articles of Association of Bank Millennium S.A. and in § 6 item 8 of the Bylaws of the Supervisory Board of Bank Millennium S.A. and it comprises in particular:

- evaluating candidates for Members of the Bank's Management Board,
- defining terms and conditions of employment of newly appointed Members of the Bank's Management Board,
- negotiating change of terms and conditions of employment of Members of the Bank's Management Board,
- with respect to Members of the Management Board, defining evaluation criteria, evaluating work (including policy on variable components of remuneration of persons in management positions) as well as deciding on annual bonuses,
- determining terms and conditions of termination of employment for the Members of the Bank's Management Board,
- issuing opinion on the policy on variable components of remuneration, and moreover on the basis of reports on payments made, issuing recommendations regarding:
 - o remuneration amounts and components, guided by prudential and stable risk, capital and liquidity management as well as long-term benefit of the Bank,
 - o variable remuneration of persons occupying management positions in the Bank and involved in risk management and compliance of the Bank's activity with legal and internal regulations.

During the reporting period comprising the year 2015 the Committee was undertaking activities on an ongoing basis within the area of its competence. During this period 3 meetings of the Committee were held. The meetings were convened especially when the need arose to hold a broad discussion preceding adoption of resolutions and also for the purpose of discussing current business. All Members of the Committee actively participated in the meetings, guaranteeing proper flow of its work.

During the meetings Members of the Committee took a number of decisions, focussing in particular on:

- analysis of the CV and professional career of the candidate for Member of the Management Board, Mr Michał Gajewski i.a. from the point of view of meeting the criteria defined by Polish Financial Supervision Authority in the document “Principles of Corporate Governance for Supervised Institutions” and presenting appropriate recommendations to the Supervisory Board as well as defining terms and conditions of employment of the newly appointed Member of the Bank’s Management Board;
- analysis of the document “Policy of Selection and Evaluation of Qualifications of Members of the Managing Body and Persons Performing Most Important Functions in Bank Millennium S.A. Group” and issuing an opinion regarding the a/m Policy and presenting to the Supervisory Board the recommendations concerning adoption of this document for use in the Bank;
- analysis of the document “Policy of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group” and issuing an opinion regarding the a/m Policy and presenting to the Supervisory Board the recommendations concerning adoption of this document with attachments for use in the Bank.

Moreover, the Personnel Committee also reviewed implementation of the Policy of Remuneration of Persons Occupying Management Positions in Bank Millennium S.A. Group. In particular, the Committee verified fulfilment of criteria and conditions justifying variable remuneration components before payment of all or part of this remuneration. The verification confirmed application of the adopted rules and their compliance with requirements and standards.

In the course of its work the Personnel Committee also undertook activities beside its meetings, consisting in direct consultations of its Members and meetings with other persons and institutions i.a. in connection with the Banking Law provision valid since 1 November 2015, according to which the Remuneration Committee (in Bank Millennium S.A. this is the Personnel Committee) evaluates and monitors the bank’s remuneration policy and supports the bank’s bodies as regards formulation and implementation of this policy. Members of the Committee cooperated on an ongoing basis with Members of the Bank’s Management Board to realise these tasks.

Activities of the Strategic Committee during the reporting period.

In the year 2015 the composition of the Strategic Committee of the Supervisory Board (the „Committee”) was renewed, because of expiration of the term of office of the Members of the previous Supervisory Board and appointment of the Supervisory Board Members of the consecutive term of office by the Bank’s General Meeting of Shareholders on 21 May 2015.

In view of the above, in the reporting period covering the year 2015, the composition of the Strategic Committee was as follows:

From 1 January 2015 to 21 May 2015:

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

From 21 May 2015 to 31 December 2015:

- Bogusław Kott – Chairman
- Nuno Manuel da Silva Amado
- Miguel de Campos Pereira de Bragança
- Agnieszka Hryniewicz-Bieniek
- Anna Jakubowski
- Andrzej Koźmiński
- Miguel Maya Dias Pinheiro
- Dariusz Rosati

The Committee's composition in the entire reporting period ensured appropriate level of supervision of the entrusted area of the Bank's operations and individual Members warranted due and diligent performance of duties, as a result of their education and professional experience.

Competences of the Committee, as provided for in Bank Millennium S.A.'s Articles of Association (§ 18, item 7) and in Bank Millennium S.A.'s Supervisory Board Bylaws (§ 6, item 8¹), in 2015 were not changed and they include, in particular, areas such as:

- assessment of macro-economic trends,
- assessment of new trends, developments and new solutions in the banking sector,
- analysing the Bank's competitive position and reference benchmarks,
- analysing and recommending long-term strategy, objectives and tasks to be carried out by the Bank.

In the year 2015, Members of the Committee focused on monitoring of the current trends in the macroeconomic processes, both in the domestic as well as international dimension, and also on monitoring how they translated into projections and forecasts worked out during the previous year with regard to prospective areas of the Bank's development as well as established strategy of building the business model. The character of the actions undertaken by the Supervisory Board Members supported informal exchange of remarks between the Committee Members, with no need to convene formal meetings. In particular, during the reporting period there was no need to adopt any resolutions and take other formal decisions.

The scope of the Committee Members' interest included also issues from the area of analysing new trends and solutions in the banking sector and the Bank's position on the Polish financial market.

Activities of the Committee for Risk Matters during the reporting period.

The Bank Supervisory Board, on 4 December 2015, in performance of art. 9cb sections 1 and 3 of the Banking Law Act, according to which a significant bank has in place, *inter alia*, the risk committee matters made up of persons appointed from membership of the bank supervisory board, acting pursuant to § 18 section 1 of the Bank's Articles of Association, appointed a standing Committee for Risk Matters of the Bank Supervisory Board (the „Committee”) and established its 5 member composition, as follows:

- Mr Dariusz Rosati – Chairman,
- Mr Bogusław Kott,
- Mr Miguel de Campos Pereira de Bragança,
- Mr Miguel Maya Dias Pinheiro,
- Mr David H. Klingensmith.

The composition of the Committee secures appropriate level of supervision of the entrusted areas of Bank operations and individual members guarantee due and diligent performance of their duties ensured by their education level attained and professional experience.

The Committee's responsibilities involve, in particular, as follows:

- provision of opinions on overall, current and future readiness of the Bank to undertake risk,
- provision of opinions on the strategy of management of risk inherent in the Bank operations, as developed by the Bank Management Board and on information regarding implementation of the said strategy, as submitted by the Bank Management Board,
- provision of support to the Bank Supervisory Board in supervision of implementation of the risk management strategy relative to the Bank operations by the Bank's senior management staff,
- verification whether prices of assets and liabilities offered to Clients fully take into account the bank's business model, its risk strategy and in case the prices fail to reflect types of risk appropriately and in keeping with the said model and strategy, submission of proposals to the Bank Management Board to ensure adequacy of prices of assets and liabilities relative to relevant types of risk.

The establishment of this Committee was approved by Supervisory Board decision of 4 December 2015. The initial actions undertaken by the Committee in 2015 focused on organisational issues, directed towards developing of the most effective work methods to ensure performance, by the Committee, of its duties and tasks.



The Supervisory Board concludes that in the reporting period individual Members of the Board performed their functions in a fair, reliable and diligent manner, performing oversight of overall Bank activities using objective and independent judgment. Necessary commitment into the Board's activities was reflected, *inter alia*, by high turnout at meetings and active participation in discussions. In addition, 11 out of 12 Members of the Board are members of Supervisory Board Committees – being preoccupied in the Committees' work. At the same time, the Supervisory Board does not see any conflict of interests in effect of professional or other activities carried out by any Member of the Supervisory Board potentially having impact upon reputation of such Member.

According to the Supervisory Board, in the reporting period its direct activity and activities performed by its standing Committees was characterised by effectiveness and was performed in line with the best standards.

Considering the above the Supervisory Board moves for discharging all members of the Bank's bodies from performance of their duties in 2015.

2. Report from assessment of the implementation of remuneration policy in Bank Millennium S.A.

Policy description and main principles

Remuneration of Bank Millennium S.A. employees is determined, in particular, in relation to the tasks carried out in a given organisational unit, level of responsibility faced by employees and on the basis of analysis of payroll information presented in compensation surveys of the financial market.

With respect to Members of the Bank Management Board and key managers, remuneration principles defined in the „Policy of remuneration for persons holding managerial positions in

the Bank Millennium S.A. Group” („Policy”) are effective. These principles meet criteria of the „Principles of corporate governance for supervised institutions” adopted by KNF. The basis objective of the Policy is to ensure formal frameworks for the practice of compensating members of governing body and key managers including corporate governance perspectives, safety of the Bank Capital Group and the need to match remuneration with the condition, scale of operation and the development potential of the Group. Principles of variable remuneration component policy constitute the integral part of the Policy. These principles provide a tool to support management system in the Bank Millennium S.A. Capital Group as well as risk management strategy in the area of operational risk with the objective to strengthen managerial staff focus upon special care for long-term good of the Bank, to protect interests of Clients and Investors in the Capital group and to avoid excessive risk exposures.

The Personnel Committee of the Supervisory Board – with respect to Members of the Bank Management Board and the Bank’s Personnel Committee with respect to persons holding managerial positions – perform evaluation of their work relative to granting variable remuneration components.

Remuneration of the Members of the Supervisory Board is established by the General Meeting. The General Meeting of Bank Millennium S.A., on 21 May 2015, adopted resolution in the matter of approval of the „Remuneration Policy Relative to Members of the Bank Millennium S.A. Supervisory Board”, unifying and systematising effective relevant standards.

Review

In the reporting period, the Personnel Committee of the Bank Millennium S.A. Supervisory Board reviewed the „Policy of variable remuneration components for members holding managerial positions in the Bank Millennium S.A. Group”. The review of practices applied in the area of granting variable remuneration to persons holding managerial positions (“Risk Takers”) was performed with the view of the main objectives of the Policy i.e.:

- special care for long-term good of the Bank,
- protection of interests of clients and investors in the Bank Millennium S.A. Capital Group,
- avoidance of excessive risk exposure.

The review focused, in particular, on the level of variable remuneration paid, principles of determining total amounts of remunerations and scheme of disbursements.

Provisions of the Policy regarding determination of variable remuneration budgets are implemented in practice – budgets are determined after prior analysis of business results generated by entire Bank Millennium S.A. Capital Group and liquidity and capital adequacy ratios – to foster both safety and balanced development of the Group. 50% of the value of variable component granted by the Personnel Committees is paid out in cash while the other 50% is recalculated into financial instruments according to the price of Bank Millennium S.A. shares listed on the Warsaw Stock Exchange. 50% of the variable component was paid out upon assignment while payment of the remaining 50% was deferred for the period of 3 years.

At the end of 2015 the list of Risk Takers included – 6 Members of the Management Board of Bank Millennium S.A. and 29 employees i.e. Key Managerial Staff of the Bank Millennium S.A. Group.

It was found that the level of variable remuneration adopted for Risk Takers accounts for sufficiently significant share to expect its positive impact upon commitment and motivation of employees. At the same time, its relative level – significantly lower than base salary – does not, in the opinion of the Supervisory Board, create conditions and incentives for managers to undertake excessive risk.

Conclusion

It has been concluded that existing practices in variable remuneration management matches objectives defined in the Policy.

In addition, on 21 December 2015, the EBA (European Banking Authority) published guidelines on reliable remuneration policies in the meaning of Directive 2013/36/EU, which will be effective relative to European financial institutions commencing from 2017. The Bank authorities were provided with recommendation regarding performance of review of effective policies and practices in the light of the published document.

3. Assessment of compliance with „Principles of corporate governance for supervised institutions”, as adopted by KNF and assessment of the way information duties are performer relative to application of „Good practices of companies listed on WSE 2016”.

Supervisory Board, after acknowledging relevant reports, states that the Bank in 2015 properly implemented „Principles of Corporate Governance for Supervised Institutions”, as adopted by KNF, within the framework established by governing bodies of the Bank (Resolution no. 24 of the General Meeting of 21 May 2015, Resolution no. 12/2014 of the Supervisory Board of 12 December 2014 and Resolution no. 95/2014 of the Bank Management Board of 10 December 2014). Solutions and mechanisms applied in the Bank to implement the Principles duly take account of objectives contained in the Principles in combination with the need for optimum organisation of the Bank’s operations.

Furthermore, relative to effective in 2015 Good Practices of Companies Listed on WSE, the Supervisory Board assets that the Bank properly fulfilled its information duties in the area of implementation of the “apply or explain” principle. In 2015, as in preceding years, the Bank complied with all principles contained in the set of Good Practices except for one as the Bank duly informed about that via WSE Electronic Information Base.

In view of adoption, by 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 has confirmed the fact of following the recommendation and detailed principles except for one Recommendation as disclosed by the Bank on the Bank’s web site in the document „Information on application by the Company of recommendations and principles contained in the set „Good Practices of Companies Listed on WSE 2016.”

4. Report on assessment of rationality of Bank Millennium S.A. sponsoring, charity or similar activities.

Bank Millennium S.A., in collaboration with NGOs and social organisations, is involved in implementation of programmes preventing social exclusion, supporting development of culture and education of the youth.

Social programmes are implemented, in majority, with support provided by Bank employees – voluntary workers and involve financial education of students, provision of support to groups threatened with social exclusion (persons with sickness and disabilities) and organisation of special purpose actions such as e.g. charity donations, auctions and charity runs. Its social programmes the Bank addresses also to students and graduates. Within its educational activity – by organising training and internships – the company helps these groups to gain first professional experiences and knowledge in banking and finance. The Bank also cooperates with student organisations and supports their activities both substantively and financially.

The Bank performs its sponsoring activities mainly by supporting cultural events in the so-called high culture (sponsoring of musical and theatre events, museums, art galleries). The Bank's activities in the area of culture is planned on the basis of medium-term action plans and the following assumptions:

- support is provided not to institutions themselves but to programmes implemented by these institutions,
- Bank prefers cooperation under multi-year programmes having clearly defined objectives,
- supported programmes should have a broad social outreach and should be accessible also through the media,
- partners in implementation of cultural programmes should include primarily institutions of culture, NGOs and media.

The most important culture projects carried out by Bank Millennium S.A. in 2015:

- „Golden Sceptre” – annual reward given to a Polish author for outstanding artistic achievements.
- Festival of the Theatre of the Polish Radio and Theatre of the Polish TV „Two Theatres” – festival and competition for the best radio production and TV performance.
- Festival „Docs Against Gravity Film Festival” in Warsaw – Bank is a sponsor of the biggest world documentary film festival in Poland and accompanying events (workshops, discussions, concerts), and the founder of the main award of the festival i.e. „Millennium Award”.

The fact that the Bank follows balanced development principles and conducts its business in ethical manner has been confirmed by external assessments. Among other, since 2011 the Bank has remained in the composition of RESPECT Index covering socially responsible companies listed on the Warsaw Stock Exchange.

According to assessment of the Supervisory Board, charity and sponsoring activities performed by the Bank are rational and socially beneficial and constitute not only financial support or support in kind for persons, especially children, the sick, persons with disabilities, children living in orphanages and also positively contributing to development of culture and education. According to the Supervisory Board this attitude develops positive image and trust in the Bank as financial institution and institution following principles of corporate social responsibility.

5. Report on assessment of Management Board reports on activity of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group as well as financial statements of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for the financial year 2015, as well as the Management Board's motion regarding distribution of profits for the financial year 2015.

Acting pursuant to art. 382 § 3 of the Commercial Companies Code and § 17 section 3 of the Bank's Articles of Association, the Supervisory Board, at its meeting on 4 March 2016, assessed the following documents submitted by the Management Board: (i) Management Board report on the Bank's activities in 2015, (ii) the Bank's financial statement for the financial year 2015 (iii) Management Board report on the Bank Millennium S.A. Capital Group activities in 2015, (iv) consolidated financial statement of the Bank Millennium S.A. Capital Group for the financial year 2015. The Supervisory Board also acknowledged the opinion of the Auditor on the above documents. On this basis, the Supervisory Board has established that the Management Board report on Bank's activities and the financial statement for the financial year 2015, as well as report on activities of the Bank Millennium S.A. Capital

Group and consolidated financial statement for the financial year 2015, have been prepared correctly in terms of their substance and form and comply with facts and books and truly and accurately present the financial results and activities of the Bank and Bank Millennium S.A. Capital Group in the financial year 2015.

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

The Supervisory Board assesses as justified the motion of the Management Board on the distribution of Bank's net profit for the year 2015 in the amount of PLN 814 157 477.61 in such a way that the entire profit will go to additional reserve capital. The above decision of the Bank's Management Board results from the position of the Polish Financial Supervision Authority on the dividend policy of banks in 2016 for the year 2015, adopted on 15 December 2015. Moreover, taking into consideration the additional capital requirements concerning FX mortgage loans for households and necessity of keeping the level of capital conservation buffer, the Bank's Management Board moves for retaining the entire net profit in the Bank.

Taking above into account and having regard to the fact that strong capital base provides proper support for business development and protection in the event of deteriorating macroeconomic and regulatory situation, the Supervisory Board unanimously recommends to the General Meeting to accept subject matter motion of the Management Board.

6. Brief assessment of the situation of Bank Millennium S.A. in 2015 including the assessment of the internal control, risk management systems, compliance and the internal audit function.

This part of the Supervisory Board report constitutes the assessment of the Bank's situation, as expressed by the Supervisory Board in keeping with requirements of the Rule II.Z.10.1. on „Good Practices of Companies Listed on the WSE 2016”.

Supervisory Board, in order to properly assess the Bank's situation in 2015, acknowledged and thoroughly reviewed, *inter alia*, parameters relating to main areas of the Bank's and the Bank Capital Group's operations, as listed below:

- Bank Capital Group's net profit for 2015 in the amount of 547 PLN mln (net profit excluding one-off developments described below would amount to 667 PLN mln),
- ROE ratio determining the rate of return on equity, at the level 9.1% (11,1% excluding one-off developments),
- annual costs/income ratio at the level of 53,9% (50,4% excluding one-off developments),
- interest income: decrease by only 3% y/y while the average WIBOR during the period dropped by 75 b.p.,
- balance sheet customer funds: 53.1 PLN bln – significant increase by 11% y/y, historically the Bank's highest level,
- corporate loans together with leasing and factoring: increase by 5% y/y ,
- cash loans: increase by 19% y/y,
- NPL ratio at the level of 4.6%,
- provision coverage ratio at the level of 66%,
- cost of risk: amounted to 52 b.p. against net loans – lower than in 2014,
- loans/deposits ratio amounting to 87.3%, i.e. the best liquidity position since 2008,
- solvency ratio of Bank Capital Group TCR at the level of 16.72% relative to 15.23% at the end of 2014 and CET1 ratio at the level of 16.35% relative to 14.53% in the last year,

- Bank's TCR solvency ratio of Bank and CET1 ratio respectively at the level of 16.55% (14.40% in 2014) and 16.17% (13.69% in 2014).

The Supervisory Board also acknowledged factors having significant negative impact upon the annual result:

- one-off developments recorded in Q4 2015:
 - extraordinary contribution to the Bank Guarantee Fund at 102,5 mln PLN gross (83,1 mln PLN net), in connection with the bankruptcy of one of the co-operative banks,
 - contribution to the mortgage Borrowers' Support Fund at 15,6 PLN mln net,
 - penalty imposed by OPCC in connection with card interchange at 12,2 PLN mln net,
 - negative impact of resolutions in the area of tax in the amount of 40 mln, partially neutralised by provisions against outstanding court cases (in total impact on net profit in amount of 10 PLN mln),
- economic factors:
 - reduction of interchange fee,
 - interest rate cuts (in October 2014 and in March 2015).

Considering the above, the Supervisory Board believes that, apart from unpredictable, one-off developments that occurred in Q4 and constituted the main cause for reporting of net profit lower than planned in the budget, the Bank achieved satisfactory results in many areas of its activities: in the retail area – an increase in number of active clients, increase of portfolios of deposits and cash loans; in corporate area – increase of portfolio of current accounts and of the credit portfolio, increase in leasing and factoring. Achievement of so good results despite difficulties was possible, *inter alia*, due to excellent organisation of the management and control system, monitoring of cost discipline, digital transformation facilitating fast implementation of modern and innovative solutions, due care for high level of service and competences and commitment of the employee team.

In summary, it is necessary to underscore that the Bank, is undertaking all adequate actions to implement its medium-term strategy adopted for 2015-2017. Favourable capital, liquidity and loan portfolio quality indicators achieved in 2015 constitute the basis for ensuring safe position for activities in upcoming year expected to be full of challenges connected with, *inter alia*, planned legal regulations applicable to the financial services' sector.

After thorough analysis of financial statements and results generated by the Bank and the Bank Millennium S.A. Capital Group in 2015 and after acknowledging the strategic plans for subsequent years, the Supervisory Board has formulated positive assessment of the Bank and the Group's financial situation as well as future perspectives of their operations.

The Supervisory Board, acting via the Supervisory Board's Audit Committee, performs ongoing monitoring of the quality of the internal control system and proper performance of its functions by the Internal Audit Department. *Inter alia*, in 2015, a review of internal control system was performed in collaboration with KPMG – external auditor of the BCP Group, confirming that the system ensures appropriate and effective reactions in all important aspects.

The Supervisory Board, considering supervisory activities under way, assessing on the basis of rational assumptions ensures that the internal control system, as a whole, together with risk management system, compliance, information and communication system and the internal audit function properly and effectively respond to regulatory requirements and, in view of its efficient management, remain adequate to the Bank's size and to exposures to risks connected with activities performed by the Bank.

Considering the above, the Supervisory Board has commended the Management Board and the Staff of the Bank Millennium S.A. Capital Group for the consecutive year of hard work,

effective and performed with commitment. The Supervisory Board, with satisfaction, appreciates the Management Board efforts directed towards achievement of high position among banks in Poland and to strengthen recognition of the Bank Millennium S.A. brand name on the Polish financial market. These activities are also reflected by awards given to the Bank, specifically in the area of customer service and implementation of innovative technological solutions.

[Signatures of Members of the Bank Supervisory Board]