

Report on the Activity of the Bank Millennium S.A. Supervisory Board in 2017

Acting pursuant to Article 382 § 3 of the Commercial Company Code, provisions of the “Best Practice for GPW Listed Companies 2016” adopted by the Warsaw Stock Exchange (“Best Practice”) and the “Corporate Governance Principles for Supervised Institutions” (“Principles”) adopted by the Polish Financial Supervision Authority (“KNF”), the Supervisory Board of Bank Millennium S.A. (hereinafter: “the Bank”) hereby submits this *Report on the Activity of the Bank Millennium S.A. Supervisory Board in 2017* (“Report”) to the Bank’s General Meeting.

This Report includes:

1. Summary of the activities of the Supervisory Board (hereinafter also referred to as “the Board”) and its committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for the Risk Matters, together with a self-assessment of the Supervisory Board’s work, pursuant to rule II.Z.10.2. of the Best Practice,
 2. Report on the evaluation of the remuneration policy in Bank Millennium S.A. pursuant to § 28 items 3 and 4 of the Principles,
 3. Assessment of the application of the “Corporate Governance Principles for Supervised Institutions”, adopted by KNF in accordance with § 27 of the Principles and assessment of the satisfaction of disclosure requirements related to the application of the “Best Practice for GPW Listed Companies 2016”, pursuant to rule II.Z.10.3. of the Best Practice,
 4. Assessment report on the reasonability of Bank Millennium S.A.’s policy related to sponsorship activities, charitable activities or other activities of a similar nature, pursuant to rule II.Z.10.4 of the Best Practice,
 5. Report on the evaluation of the Management Board’s joint report on activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group and financial statements of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for the 2017 financial year as well as the Management Board’s motion on profit distribution for the 2017 financial year, pursuant to Article 382 § 3 of the Commercial Company Code,
 6. Evaluation of the Bank Millennium S.A.’s standing in 2017, including evaluation of the internal control system, risk management system, compliance system and the internal audit function, pursuant to rule II.Z.10.1. of the Best Practice.
- 1. Summary of the activities of the Supervisory Board and its committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for the Risk Matters, together with a self-assessment of the Supervisory Board’s work**

The Bank's Supervisory Board acts pursuant to the Banking Law Act, the Commercial Company Code, the Bank’s Articles of Association and the Supervisory Board Bylaws. Pursuant to § 13 sec. 1 of the Bank’s Articles of Association, the Supervisory Board’s term of office is 3 years.

Composition of the Supervisory Board

In the reporting period that includes year 2017, the Bank's Supervisory Board was composed of:

1. Bogusław Kott – Supervisory Board Chairman,
2. Nuno Manuel da Silva Amado – Supervisory Board Deputy Chairman,
3. Dariusz Rosati – Supervisory Board Deputy Chairman and Secretary,
4. Julianna Boniuk-Gorzelańczyk – Supervisory Board Member,
5. Miguel de Campos Pereira de Bragança – Supervisory Board Member,
6. Agnieszka Hryniewicz-Bieniek – Supervisory Board Member,
7. Anna Jakubowski – Supervisory Board Member,
8. Grzegorz Jędrys – Supervisory Board Member,
9. David H. Klingensmith – Supervisory Board Member (till 31 March 2017),
10. Andrzej Koźmiński – Supervisory Board Member,
11. Miguel Maya Dias Pinheiro – Supervisory Board Member,
12. Rui Manuel da Silva Teixeira – Supervisory Board Member.

Mr. David H. Klingensmith submitted his resignation from the position of a Supervisory Board Member effective on 31 March 2017. Accordingly, pursuant to recommendation II.R.5. of the Best Practice, the Bank's General Meeting adopted resolution No. 26/2017 of 31 March 2017, in which the Supervisory Board's composition of eleven people was established.

Pursuant to the regulations in force, at least half of the Supervisory Board members, including its Chairman, hold Polish citizenship. The Best Practice and the Principles also introduce an obligation on listed companies to select an appropriate number of independent members. In the reporting period, the following persons met the independence criteria in the Bank Millennium S.A.'s Supervisory Board: Ms. Agnieszka Hryniewicz-Bieniek, Ms. Anna Jakubowski, Mr. Grzegorz Jędrys and Mr. David H. Klingensmith (sitting on the Board until 31 March 2017). Mr. Dariusz Rosati and Mr. Grzegorz Jędrys were also qualified in accounting or auditing. To its best knowledge, the Supervisory Board did not find any relationships or circumstances that could influence the satisfaction of the independence criteria by the above-mentioned Supervisory Board members in the reporting period.

The Supervisory Board believes that its composition provided the guarantee of high competence, professional experience and knowledge of the Polish financial market and provided the guarantee of appropriate performance of the assigned tasks. The individual Supervisory Board members were competent to properly perform supervisory duties due to their education, knowledge and skills. The composition of the Supervisory Board also varied in terms of gender and age. Professional bios of Supervisory Board Members are published on the Bank's website.

Supervisory Board's activities in the reporting period

In order to ensure the proper and safe functioning of the Bank, the Supervisory Board exercised - with utmost care - to supervise the Bank's activities, mainly during its meetings, taking the required decisions. The Supervisory Board meetings were also regularly attended by Management Board Members and other invited guests who presented specific issues to the Supervisory Board.

Five Supervisory Board meetings were held in 2017, all of them attended by the number of Supervisory Board members that exceeded the minimum quorum requirement needed to adopt valid resolutions. Issues from the following areas in particular were discussed at the meetings:

1) finance, including:

- approving the Strategy for the Bank and the Bank Capital Group for the years 2018-2020,
- approving the Bank Capital Group Budget for the years 2018-2020,

- establishing the Bank's Third Bank Securities Issue Programme with a nominal value up to PLN 1,500,000,000,
 - opining on transaction with the subsidiary Millennium Leasing Sp. z o.o.,
 - analysing current results of the Bank Capital Group and its business lines,
- 2) audit, including:
- selecting an audit firm for the Bank and the Bank Capital Group in 2018,
 - approving the audit plan for 2017,
 - information on the internal control system,
 - compliance report,
- 3) monitoring the effectiveness of the Bank's risk management system, including:
- approving the Risk Strategy for the Bank Capital Group for the years 2018-2020,
 - ongoing risk management analysis,
 - approving the capital plan and capital contingency plan for the Bank Capital Group,
 - approving the Bank Capital Group liquidity plan and the Bank's liquidity contingency plan and reviewing it,
 - updating Capital Management and Planning Framework,
 - information on the review of the Rules on Internal Capital Calculation,
 - information on the progress of work on statutory initiatives aimed at resolving the problem of mortgage loans in foreign currencies,
- 4) other business, including:
- approving changes in the internal allocation of powers of the Bank's Management Board Members,
 - naming the Supervisory Board member and the Bank's Management Board member competent to report violations of the law and the ethical standards and procedures in place in the Bank and approving the "Rules governing reporting breaches of regulations to Bank Millennium S.A. Supervisory Board",
 - changing the composition of the Supervisory Board's committees,
 - updating the remuneration policy for managers of the Bank Capital Group, in respect to the list of persons approving risk,
 - assessing the degree to which the standards specified in the IT guidelines for investment firms introduced by KNF have been implemented in the Bank,
 - updating the IT strategy and IT security. Periodic report on IT area, including IT security (in accordance with the requirements of KNF's Recommendation D),
 - approving the "Recovery Plan for the Bank Millennium S.A. Group" in accordance with the requirements of the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Mandatory Restructuring,
 - adopting the uniform text of the Bank Millennium S.A.'s Articles of Association,
 - approving documents submitted to the General Meeting.

Moreover, the Supervisory Board was informed about the most important events and decisions of the Management Board taking place between the meetings and about the macroeconomic situation and activities of competitive banks, as a result of which it had adequate knowledge about the market environment and the Bank's position in relation to other financial institutions.

In addition to the work in the Supervisory Board, its members also worked in the Supervisory Board standing committees.

ACTIVITY OF SUPERVISORY BOARD COMMITTEES

A. Activity of the Audit Committee in the reporting period

From 1 January 2017 to 31 March 2017, the Audit Committee of the Bank's Supervisory Board was composed of the following:

Committee Chairman:	Mr. Grzegorz Jędrys
Committee Member:	Mr. Bogusław Kott
Committee Member:	Ms. Julianna Boniuk-Gorzelańczyk
Committee Member:	Mr. Miguel de Campos Pereira de Bragança
Committee Member:	Mr. David H. Klingensmith
Committee Member:	Mr. Dariusz Rosati

Following the resignation of Mr. David H. Klingensmith from the position of the Supervisory Board and Audit Committee Member effective on 31 March 2017, on 21 April 2017 the Supervisory Board appointed Ms. Anna Jakubowski to the Audit Committee (Supervisory Board Resolution No. 11/2017). In connection with the entry into force of the new Act of 11 May 2017 on Chartered Auditors, Audit Firms and Public Supervision and the resulting need to ensure appropriate representation of independent members in the composition of the Supervisory Board Audit Committee, the Audit Committee members: Mr. Dariusz Rosati and Ms. Julianna Boniuk-Gorzelańczyk, stepped down from their positions in the Committee. On 27 October 2017, the Supervisory Board appointed Ms. Agnieszka Hryniewicz-Bieniek to the Audit Committee (Supervisory Board Resolution No. 19/2017).

As at 31 December 2017, the Audit Committee of the Bank Millennium S.A.'s Supervisory Board was composed of:

Committee Chairman:	Mr. Grzegorz Jędrys <i>independent member</i>
Committee Member:	Mr. Bogusław Kott
Committee Member:	Mr. Miguel de Campos Pereira de Bragança
Committee Member:	Ms. Anna Jakubowski <i>independent member</i>
Committee Member:	Ms. Agnieszka Hryniewicz-Bieniek <i>independent member</i>

Thus, the Bank fulfilled the requirements of Article 129 sec. 3 of the Act on Chartered Auditors, Audit Firms and Public Supervision, ensuring that the majority of Audit Committee members, including its Chairman, meet the independence criteria.

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

In 2017, five meetings of the Audit Committee were held and once the Committee took decisions by circulation (16 November 2017).

The following issues were the subject of constant analysis during the Committee's meetings in 2017:

1. Activity of the Internal Audit Department together with identified significant findings, recommendations issued and effective monitoring of their implementation.
2. Review of the efficiency, adequacy and effectiveness of the Bank's Internal Control System.
3. Monitoring the activities of the Bank's External Auditor, including its independence and key findings relating to the financial reporting process.
4. Issues related to risk, finance, compliance and customer complaints based on information presented by the Bank's units and the External Auditor.

5. Supporting actions to improve the efficiency and quality of the implementation of the internal audit function.
6. Relationship with supervisory bodies, in particular information about the course and results of KNF's inspections and actions taken by the Bank to implement post-inspection recommendations.

The agenda of the Audit Committee included the issues specified in the permanent agenda of the Committee's meetings approved by the Supervisory Board.

The following issues were discussed during the meetings of the Supervisory Board's Audit Committee held in 2017:

1. **Activity reports of the Internal Audit Department** ("DAW"), including risk assessment of audited processes and the degree of execution of tasks specified in the 2017 Audit Plan approved by the Supervisory Board.

The Bank's Internal Audit activity was subject to regular oversight and evaluation by the Audit Committee. The Audit Committee positively evaluated and recommended to the Supervisory Board for approval the Annual Audit Plan for 2017 prepared on the basis of a risk area analysis and accepted information on the performance of the 2016 Plan. During the individual Committee meetings, significant findings identified by the audit were discussed along with agreed remedial measures. The process of monitoring the implementation of post-audit recommendations, including the top priority H recommendations, was analyzed in detail. KRIs [Key Risk Indicators] are used to assess the effectiveness of monitoring the implementation of recommendations.

The Audit Committee supported activities to gradually improve the quality and working standards of the Bank's internal audit function. At the October 2017 meeting, it reviewed and approved the results of the Internal Audit Department's Quality Self-Assessment conducted by Internal Audit Department employees. In 2017, significant changes were made to the regulatory environment of internal audit: (a) the Regulation issued by the Minister of Development and Finance on 6 March 2017 on risk management and internal control system, remuneration policy as well as detailed manner of internal capital valuation in banks, and (b) the new Recommendation H issued by KNF in April 2017 on the internal control system. In order to adapt the Bank's activity to the new regulations, the "Audit Charter - Rules of internal audit activity in Bank Millennium" has been developed, which replaced the existing "Internal Audit Performance Bylaws". The "Audit Charter" was approved by the Committee at its meeting on 26 October 2017. At the same meeting, the Committee approved the "DAW Employee Competence Growth Program for 2018-20".

The Head of Internal Audit enjoys permanent and direct contact with Committee Members and, at one of the meetings in a year, during a closed part of the meeting, the personnel situation of the Internal Audit Department and the auditor remuneration policy is discussed with him.

The Committee has a positive opinion about the operation of the Bank's institutional control activities, which are carried out independently, in accordance with the planned scope, effectively identifying weaknesses in control mechanisms and, at the same time, providing technical support to other Bank entities.

2. **Monitoring activities of Bank's External Auditor** PricewaterhouseCoopers Sp. z o.o. ("PwC") reports on material findings about the Bank's financial reporting, following the quarterly reviews conducted by the External Auditor, were discussed at four Committee meetings in 2017.

Apart from discussions on the auditor's current findings about financial reporting, the Committee and the External Auditor paid special attention to and discussed the amended Act of 11 May 2017 on Chartered Auditors, Audit Firms and Public Supervision, which introduced a number of changes in the operating principles of statutory auditors, such as mandatory rotation of audit firms and material changes in reporting performed by the auditor.

The ongoing and regular communication of the External Auditor with the Audit Committee is designed to ensure adequate independence and required standards and also the proper quality of the financial audit function. At the same time, non-audit services and extension of the scope of audit services commissioned to the External Auditor had to be approved by the Audit Committee.

The Audit Committee examined the Management Board's motion and adopted a resolution recommending to the Supervisory Board to select PwC as the audit firm for the Bank and the Bank Capital Group for the next year, 2018.

- 3. Monitoring of financial reporting.** At its first meeting in 2017, the Finance and Reporting Department provided the Committee with information on the financial reporting process, which pertained to: monitoring consistency of the accounting standards applied by the Bank Millennium Capital Group with the law, supervision over the accounting principles applied by the Group, as well as the keeping of reporting deadlines and monitoring of the changes that may adversely affect the reporting process.

In 2017, the key challenges in the financial reporting area were the continued implementation of IFRS 9 and adaptation of the reporting process to new requirements resulting from the entry into force of IFRS 9. IFRS 9 presents a new approach to the reporting of credit losses in the Bank's financial statements. From the impairment point of view, it replaces the incurred loss model in IAS 39 with the "expected credit loss" (ECL) model. IFRS 9 will come into effect as of 1 January 2018 and its application will result in an increase in the level of provisions and a corresponding reduction in equity upon first-time adoption of the standard. The "IFRS 9 in the Millennium Group Project" was implemented in cooperation with KPMG, and the finally developed solutions were reviewed by the External Auditor - PwC.

The first session of the Audit Committee in 2017 was also devoted to the analysis of the Management Board's information on the 2016 Annual Financial Statements of the Bank and the Group and to the conclusions from the audit of the financial statements prepared by the Statutory Auditor, PwC. Taking into account the positive Opinion of the Statutory Auditor, the Audit Committee adopted a Resolution recommending a positive evaluation of the 2016 Annual Financial Statements to the Supervisory Board.

In December 2017, the Audit Committee received, by circulation, a detailed report on the implementation of IFRS 9 approved by the Bank's Management Board and Risk Committee, presenting the key assumptions, rules and models and the estimated impact of the Standard on the level of impairment charges and the Bank's capital position.

- 4. Results of the Annual Review of the Internal Control System (ICS) 2017** carried out at the Bank and Group companies for the period from 1 June 2016 to 31 May 2017.

The requirement to review the Bank's internal control system is based on both the Polish and Portuguese supervisory regulations and, in accordance with the uniform guidelines adopted for the BCP Group, in 2017 it was implemented in cooperation with BCP Group's External Auditor, Deloitte.

The results of the review were used by the Committee to adopt a resolution on issuing an "Opinion of the Supervisory Board Audit Committee on adequacy and effectiveness of the Internal Control System". The opinion concluded that the Internal Control System as a whole (including the control environment, risk management system, information and communication system and internal control monitoring system) ensures adequate and effective response in all material respects, in accordance with the regulatory requirements. The Committee's opinion, along with the opinion of the External Auditor of the BCP Group (Deloitte), is attached to the Report on the Review of the Bank Millennium Internal Control System, which was provided to the Bank of Portugal.

- 5. Supervisory authorities.** The Audit Committee devoted much of its attention to the Bank's relations with the supervisory authorities, in particular KNF. At each Audit Committee meeting, the Internal Audit Department presented and discussed the status of implementation of KNF's recommendations issued as part of post-inspection activities and in connection with the application for the IRB approach. All the recommendations issued by the KNF were performed in accordance with the schedule adopted by the Bank.

The Audit Committee also acquainted itself with the Recovery Plan for the Bank's Group, which had to be adjusted in 2017 in line with the comments made by the KNF.

Moreover, an analysis of correspondence sent to the Bank by the KNF was a permanent element of the Audit Committee meetings. These issues concerned in particular: the BION process and the scores received by the Bank, the results of the Problem-Specific Inspection carried out at the Bank in 2017 and the timetable of recommendations issued in its aftermath, as well as additional capital requirements.

6. **Information on the performance of the Bank's Compliance Policy** and activity of the Compliance Department.

Last year, the Committee analyzed the following topics during its meetings: the main objectives of the Compliance Policy, the Compliance Risk Map, compliance risk monitoring in individual areas of the Bank's activity, including consumer loans, insurance and investment products, implementation of the anti-money laundering and terrorist financing prevention programme, results of identification of suspicious transactions, scope of cooperation with external institutions, initiatives implemented by the Compliance Department, especially those related to regulatory changes in the organisation of the internal control system (Recommendation H - KNF, Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system) and implementation of such changes in the Bank.

In addition, in connection with the entry into force of the Act on Chartered Auditors, Audit Firms and Public Supervision of 11 May 2017, the Compliance Department had developed and the Audit Committee approved the "Audit Firm Selection and Cooperation Policy", which implemented the relevant provisions of this Act.

7. The Audit Committee carefully reviewed information on the **correctness of development of the Bank's customer relations**, especially in the context of complaints received. At each meeting, the materials provided by the Internal Audit Department presented conclusions concerning complaints received by the Bank through the KNF. Information on complaints submitted by the Bank's Clients, prepared by the Quality Department, was also presented at two meetings during the year.

In addition, due consideration was given in this respect to complaints sent by the Bank's customers with a carbon copy to the Bank's Supervisory Board. In 2017, the Committee was informed about actions taken by the Bank in response to complaints lodged by the Clients. The Committee made no objections to the Bank's actions in those cases.

Additionally, in connection with the entry into force of the Act on Chartered Auditors, Audit Firms and Public Supervision of 11 May 2017, the existing "Supervisory Board Audit Committee Bylaws" were reviewed and adapted to the requirements of the new Act. The amendments pertained to, among others: composition of the Committee (number of members that are independent of the Bank), the quorum required for making decisions, the requirements concerning the knowledge and skills of Committee members, the competence and list of tasks performed by the Committee, verification and monitoring of the chartered auditor's independence, development of a policy for selecting an audit firm to conduct an audit, the policy for an audit firm to provide permitted non-audit services, definition of an audit firm selection procedure and the possibility of taking decisions without a meeting (by circulation).

B. Activity of the Personnel Committee in the reporting period

During the reporting period 2017, the composition of the Personnel Committee of the current term of office did not change and was as follows:

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

The composition of the Committee ensures appropriate supervision over the identified areas of the Bank's activity and the individual members guarantee due performance of their duties, which is supported by their education and professional experience.

The powers of the Committee are set forth in § 18 sec. 6 of the Bank's Articles of Association and § 6 item 8 of the Bank Millennium S.A. Supervisory Board Bylaws and include in particular:

- assessing candidates for members of the Bank's Management Board,
- defining the terms and conditions of employment of newly appointed members of the Bank's Management Board,
- negotiating changes in the terms and conditions of employment of the Bank's Management Board members,
- with respect to the Management Board members, defining the evaluation criteria, performing the evaluation of their work (including the policy of variable remuneration components for managers) and setting annual bonuses,
- defining the conditions of cessation of employment of the Bank's Management Board members,
- issuing opinions and monitoring the policy of variable remuneration components; also, based on the reports of payments made, issuing recommendations on:
 - o the level and components of remuneration, based on prudent and stable management of risk, capital and liquidity and the Bank's well-being in the long term,
 - o variable remuneration of the persons holding management positions at the Bank related to risk management and compliance of the Bank's activity with the law and internal regulations.

In 2017, in order to properly perform the Committee's tasks, members of the Committee took actions both during and outside the meetings, through mutual consultations, meetings and discussions with other persons, including members of the Bank's Management Board, in particular to support the Bank's bodies in defining and implementing the Bank's remuneration policy.

In the period under analysis, a single Committee meeting was held, at which all members of the Committee were present; they analyzed the information provided and made the appropriate decisions in the form of resolutions. The following items were on the agenda:

- information on decisions concerning the 2016 bonus for the "Risk Takers" who are not members of the Bank's Management Board;
- reassessing individual members of the Bank's Management Board and defining the rules of payment of the retained part of the bonus for 2013, 2014 and 2015 to the Bank's Management Board members who held office in those years;
- evaluating performance of individual members of the Bank's Management Board in 2016 and awarding bonuses to individual members of the Bank's Management Board for this period in accordance with the rules set forth in the Remuneration Policy for managers at the Bank Millennium S.A. Group;
- analysis of the process of determining the amounts of fixed and variable remuneration components for managers in accordance with the remuneration policy and in particular in accordance with the detailed principles for granting and paying out variable remuneration components, taking into account the Bank's long-term well-being, care for the client's interests and avoiding excessive risk exposure.

C. Activity of the Strategic Committee in the reporting period

In 2017, the composition of the Supervisory Board Strategic Committee ("Committee") of the current term of office did not change and was as follows:

- 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 composition of the Committee ensures appropriate supervision over the identified areas of the Bank's activity and the individual members guarantee due performance of their duties, which is supported by their education and professional experience.

The powers of the Committee are set forth in the Bank Millennium S.A.'s Articles of Association (§ 18 sec. 7) and in the Bank Millennium S.A. Supervisory Board Bylaws (§ 6 item 8¹) and include in particular:

- analysis of macroeconomic trends,
- analysis of new trends, developments and new solutions in the banking sector,
- analysis of the Bank's competitive position and its benchmarks,
- analysis and recommendation of the Bank's long-term strategy, goals and tasks.

In the period under analysis, the Committee's work was carried out both in formal meetings and in other individual meetings and consultations.

In 2017, two meetings of the Committee were held, in which the Committee exercised special care to analyze the issues associated with the development of the assumptions and the Bank's development goals included in the Strategy for Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for the years 2018-2020. The results of the analyses conducted by the Strategic Committee were submitted to the Management Board and the Supervisory Board and were reflected in the final updated Strategy document published in Q4 2017, which was adopted by the Bank. The Committee members were also interested in issues related to the macroeconomic situation and the unique economic and regulatory position of the Polish banking sector and in the analysis of trends in innovative IT solutions and their possible using to grow the banking business.

All the members took an active part in the individual Committee meetings ensuring that the work was carried out properly.

D. Activity of the Committee for the Risk Matters in the reporting period

In 2017 the composition of the Committee for the Risk Matters changed as of 31 March 2017 as a result of Mr. David H. Klingensmith's resignation and election of Mr. Grzegorz Jędrys in his place. Additionally, on 27 October 2017, Ms. Julianna Boniuk-Gorzelańczyk was elected to the Committee and currently its composition is as follows:

- Mr. Dariusz Rosati – Chairman
- Mr. Bogusław Kott
- Mr. Miguel de Campos Pereira de Bragança
- Mr. Miguel Maya Dias Pinheiro
- Mr. Grzegorz Jędrys
- Ms. Julianna Boniuk-Gorzelańczyk

The Committee composition ensure appropriate supervision over the entrusted area of the Bank's activity and individual members give a warranty of due performance of their duties following from their education, knowledge and professional experience.

In 2017 there were four Committee meetings. The Committee meetings carried out periodic analyses of risk management information, including in particular:

- General information about credit risk, review of the level of "risk appetite", key loan growth factors, the level of credit risk parameters and profitability of the key operation segments,

- market risk and interest rate risk together with a detailed analysis of the limits set by the Bank and analysis of sensitivity to interest rates;
- Liquidity management, analysis of the Bank's liquidity position, compliance with the limits and monitoring key liquidity ratios;
 - Operational risk, presentation of key operational risk events and their impact on the Bank's functioning;
 - Information on capital management, in particular on the level of capital ratios and internal capital;
 - Information on the Bank's bancassurance activity, analysis of the Bank's offering and the status of the business in terms of volumes and profitability, taking into account operational risk, compliance and legal risk of this activity.

In addition, on one of the meetings the Committee analysed and discussed the legal risk with special analysis of the court procedures with the Bank's participation.

The Committee meetings also discussed other issues, such as:

- Recommendations of the Financial Stability Committee and the bill on refund of FX spreads charged on mortgage loans;
- Bank Millennium S.A.'s factoring activity;
- Capital position and increase of the required capital ratios;
- Results of stress tests in Bank Millennium S.A.;
- Report on model risk management in Bank Millennium S.A.;
- Information on the progress of work on statutory initiatives aimed at resolving the problem of mortgage loans in foreign currencies.

Assessment of the activity of the Supervisory Board in 2017

In 2017 the Supervisory Board exercised constant and current supervision over the Bank's activity in accordance with its powers and legal requirements pertaining to joint stock companies and banks.

Pursuant to the guidelines laid down in the Best Practices and Principles the Supervisory Board assessed its activity in 2017. As a result of this assessment the Supervisory Board has concluded that its members performed their duties honestly, fairly and duly. The engagement of the members in the Supervisory Board's work has translated into high attendance at the meetings and active participation in the discussions pertaining to the matters presented at them. In the Supervisory Board's opinion, in the reporting period comprising 2017, both its work and the work of the Supervisory Board Committees were characterized by high efficiency, transparency and was consistent with the best market standards of listed companies.

The Supervisory Board has not identified any conflicts of interests as a result of the professional or non-professional activity of any Supervisory Board member that might have negative impact on its reputation.

Considering the results and overall operations of the Bank, the Supervisory Board moves for discharging all members of the Bank's governing bodies on the performance of the duties in 2017.

2. Report on the evaluation of the remuneration policy in Bank Millennium S.A.

The Supervisory Board asserts that the actions taken within the remuneration policy applied in the Bank Millennium Capital Group did reflect the requirement of managing variable remuneration components in a safe manner and of reacting to changing market environment, in particular:

- justified differentiation of the variable remuneration rules were applied depending on the impact on the bank's results, uniqueness of the tasks and impact on the risk profile of the Bank Millennium Capital Group,
- the variable remuneration budget granted to individual employee groups constituted additional incentive remuneration – bonuses did not constitute the main source of income in any line of business or company,
- the remuneration policy applied to Management Board Members is assessed as satisfying its purpose – remunerating consistent implementation of an effective business strategy of the Group bringing the desired effects,
- as part of a project preparing for implementation of MIFiD2, a comprehensive review of the bonus rules in terms of a potential conflict of interest between the employees and Bank's clients - the principle of monitoring of all bonus rules by the Compliance Department has been introduced.

In the reporting period the Bank's Management Board presented to the Supervisory Board Personal Committee periodic information regarding the functioning of the remuneration policy in the Bank Millennium Capital Group, with special focus on the level of variable remuneration for the previous bonus period (2016) to employees on executive positions and identified as takers of decisions impacting the Bank Millennium Capital Group's risk profile. The bonus pool for 2016 was presented and the total current deferred value in the form of phantom shares outstanding under plans from previous years. The Personal Committee has familiarized itself with the total remuneration of the persons responsible for risk management, audit and compliance.

The Supervisory Board hereby expresses a positive opinion on the remuneration policy applied in the Bank Millennium Capital Group.

3. Assessment of the application of the "Corporate Governance Principles for Supervised Institutions", adopted by the Polish Financial Supervision Authority and assessment of the satisfaction of disclosure requirements related to the application of the "Best Practice for GPW Listed Companies 2016"

The Supervisory Board, having familiarized itself with pertinent reports, concludes that in 2017 the Bank properly followed the "Corporate Governance Principles for Supervised Institutions" adopted by the Polish Financial Supervision Authority to the extent defined in the resolutions adopted by the Bank's governing bodies (Resolution no. 24 adopted by the General Meeting on 21 May 2015, Resolution no. 12/2014 adopted by the Supervisory Board on 12 December 2014 and Resolution no. 95/2014 adopted by the Bank's Management Board on 10 December 2014). The solutions and mechanisms used in the Bank for implementation and execution of the Principles duly take into account the objectives defined in the Principles aligned with the need to ensure optimum organization of the Bank's operations.

Similarly, with regard to the Best Practices prevailing in 2017, the Supervisory Board assesses that the Bank correctly fulfilled its reporting duties with regard to the principle "apply or explain" and with regard to current and periodic information. In 2017, just like in previous years, the Bank complied with all the principles laid down in the Best Practice file, except for one, which the Bank reported and published pertinent information on its website.

4. Assessment report on the reasonability of Bank Millennium S.A.'s policy related to sponsorship activities, charitable activities or other activities of a similar nature

The Bank, in cooperation with non-governmental and social organizations, executes financial education programs, programs promoting culture, supporting development of local communities and development of innovation in the Polish economy.

The Bank's adherence to sustainable development principles has been confirmed by external assessments. Since 2011 the Bank has been in the RESPECT Index consisting of socially responsible companies listed on the Warsaw Stock Exchange. In 2017 the Bank also joined the FTSE4Good Emerging Index. This is one of the indices administered by FTSE Russell that evaluates the largest financial institutions in terms of their activities for the benefit of environmental protection, social responsibility and corporate governance. Its determination in building a balanced firm has received recognition in Poland and abroad. The Bank received a distinction in the Ranking of Responsible Firms – a list of the largest companies in Poland assessed with an eye to the quality with which they manage Corporate Social Responsibility (CSR) and it received the CSR Silver Leaf. Bank Millennium was also recognized as the Best Bank in Central and Eastern Europe in the Corporate Social Responsibility (CSR) category. Euromoney, an international financial industry magazine showed its appreciation for the Company's transparent method of showing its CSR activities, the variety and comprehensiveness of its programs and above all its innovative approach to clients making it simple and easy to use Bank Millennium's services. As a patron of the Millennium Docs Against Gravity film festival the Bank was nominated to receive the prestigious cultural award of *Gasps 2017 (Wdechy 2017)*. All these awards confirm that our corporate social responsibility activities are a constant part of our firm's day-to-day business activity.

Social activity

Social programs are run in most cases through the Bank Millennium Foundation ("Foundation") and focus on three areas:

a) Financial education

The Foundation runs its flagship program Financial ABC, addressed to pre-school children. This proprietary financial education program for preschool children launched in 2016 has been crafted and is delivered by Bank Millennium employees in collaboration with a non-governmental organization. Its objective is to explain to these young children some basic financial concepts through fun and games. Children learn, among other things: where does money come from, what is the value of money, what is a credit card used for and why is it worth saving up. So far two editions of the program have been organized. In total, during nearly 600 workshops held during the program, approx. 15,000 children from 200 preschools across Poland took part in this training. This program is being run under the honorary patronage of the Minister of Education and the Ombudsman for Children's Rights, which confirms its high educational value.

b) Cultural education

One of the Bank Millennium Foundation's major objectives is to advance knowledge about art and how to invest in art and promote the accomplishments of young Polish artists. For several years the Bank Millennium Foundation has been a partner for the ranking of young Polish artists and an exhibition of their work: Youth Art Compass. The fundamental role played by Compass, in addition to education, is to engage in efforts to build a professional art market in Poland. Collectors, artists, owners of galleries and auction houses and investors treat this ranking as a source of valuable information about the position of young artists. The Foundation has also funded a prize for the winner of this ranking. The results of Youth Art Compass are published every year in the Rzeczpospolita daily and they are accompanied by educational articles pertaining to contemporary art, thereby making it possible to reach a higher number of people.

c) Employee volunteerism

The Foundation runs a program entitled Millantrop under which grants are awarded in a contest format for Bank employees to conduct social campaigns. Projects concerning financial education and entrepreneurial development, intergenerational projects, projects for children and youth, projects supporting persons at risk of social exclusion and environmental protection may be submitted under this contest. Those campaigns in which many volunteers are involved, with the highest number of beneficiaries and with a long-term impact on the local community have the greatest chances of winning. This program has been running since 2016 and a total of 312 volunteers (Bank employees, their families and friends) have taken part by conducting 11 projects for schools, care centers, children and youth and environmental protection.

Sponsorship of culture

Our activity in the field of culture has constituted an important part of the social activities pursued by Bank Millennium for nearly 30 years. They are planned based on medium-term action plans and the following assumptions:

- cooperation in long-term programs with clearly defined goals is preferred,
- supported programs should have a broad public audience and be available through the media too,
- major partners in pursuing cultural programs should be first of all cultural institutions, non-governmental institutions and the media.

Bank Millennium supports cultural undertakings with a national and local range alike. It as a 360° patron of culture as it promotes art in nearly all its manifestations, including music, painting, sculpture, film, theater, photography, literature and performance. Bank Millennium's interest spans niche and popular culture. Its assumption is to be a long-distance partner. For 17 years it funded the Golden Scepter prize for outstanding creators of culture. For 11 years "Millennium Pearls" ("Perły Millennium") has been a joint program of Bank Millennium and Polish TV (TVP), whose purpose is to produce, promote and present artistic events in the high art realm on Polish TV. For 15 years it has sponsored the Złota Tarka [Golden Grater] Old Jazz Meeting, an International Traditional Jazz Festival. For 6 years it has been associated with the Sacrum Profanum contemporary music festival and for 5 years it has been associated with the Gdańsk Music Festival and for more than 5 years with the Bella Skyway Festival – a multimedia spectacle staged by an international group of artists. For 7 years it was associated with the Two Theaters Festival. It also supported the Mozart Festival in the Warsaw Chamber Opera and many others.

The most important cultural project in which the Bank is a patron is the Millennium Docs Against Gravity Film Festival. This is the largest, global documentary film festival in Poland with accompanying events (workshops, discussions and concerts). In 2017, projections and festival events took place in 26 cities in Poland. Bank Millennium has partnered with Millennium Docs Against Gravity for 12 years. In 2016 it assumed the role of titular patron over this festival.

Support for innovation development

As part of social activity Bank Millennium analyzes the trends in innovation in the market environment. The Bank's experts prepare an annual report entitled "Millennium Index Report – Regions' Innovation Potential" which describes disproportions in development of innovations in Polish voivodships. As the strategic partner of the Eagle of Innovation contest the Bank also promotes development of innovation in Polish economy.

Bank Millennium has been the Strategic Partner in the Eagle of Innovation contest since 2015. This contest's principal objective is to select and reward businesses that conduct research and development and market new products and services thereby achieving business successes. This year the contest jury consisting of representatives of this initiative's partners, including among others Bank Millennium, the National Center for Research and Development, the Warsaw University of Technology, the Industrial Development Agency and led by the organizer of the contest, the Rzeczpospolita daily selected the winners.

The "Millennium Index Report – Regions' Innovation Potential" is a report prepared by Bank Millennium experts and was our contribution to getting involved in the public debate concerning the drivers of regional development in Poland and to level the inequalities that exist between them. In 2017 the second edition of the report was published. This edition contains an analysis of the factors fostering and inhibiting the development of innovation in each one of Poland's regions. The report has been enriched to include commentaries from an extensive group of experts: economists, academics and practitioners, i.e. the heads of the most innovative companies and governmental institutions. This makes it a valuable publication and a source of knowledge for local government authorities on how to level the playing field for regions in Poland.

Supporting academic education

For years the Bank has been involved in the life of the academic community by giving students and graduates an opportunity to hone their competences and interests and gain their initial professional experience. The Millennium Bankers paid internship program, the regularly recurring Expert Start-up development programs and free of charge training sessions and workshops are permanent elements of this offering.

The Bank also cooperates with universities. In 2017 it continued cooperation with the Student Statistics Club at the Warsaw School of Economics, organizing among others conferences and workshops. In the same year Bank Millennium also became a member of the Warsaw School of Economics' Partners Club, thanks to which it became the university's key partner. Bank representatives take part in meetings with the Council of the Warsaw School of Economics' Partners Club during which elements of the university's strategy and the possibilities of educating students on key competences are discussed. The opening of the first academic co-working space to support the development of entrepreneurship among interested students regardless of their various courses of study is to be the fruit of this cooperation.

Reporting CSR activity

The information about implementation of the rules of Corporate Social Responsibility (CSR) is presented in the non-financial part of the Bank Millennium Annual Report for 2017. This report will be drafted in accordance with the guidelines of the amended Accounting Act and international reporting guidelines – Global Reporting Initiative Sustainability Guidelines (GRI G4). The report will present the key aspects of the Bank's impact on sustainable economic, social and environmental development with regard to the key Stakeholder groups: Clients, Employees, Shareholders, Business Partners, Society and Natural Environment.

Supervisory Board's assessment

The Supervisory Board assesses the social, sponsorship and educational activities of the Bank as rational and socially useful, providing not only direct financial support for executed projects, but also making positive contribution to development of culture, education and economy. In the opinion of the Supervisory Board, such an attitude builds the positive image and trust in the Bank as a financial institution concentrating not only on maximizing profits but also applying the rules of corporate social responsibility.

5. Report on the evaluation of the Management Board's joint report on activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group and financial statements of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for the 2017 financial year as well as the Management Board's motion on profit distribution for the 2017 financial year

Acting pursuant to Article 382 § 3 of the Commercial Company Code and § 17 Section 3 of the Bank's Articles of Association, the Supervisory Board, at the meeting on 23 February 2018, assessed the documents submitted by the Management Board: (I) the Bank Millennium S.A. financial statement for 2017, (II) the financial statement of Capital Group of Bank Millennium S.A. for 2017, (III) the Management Board's joint report on the activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for 2017. The Supervisory Board has also familiarized itself with the statutory auditor's opinion on the aforementioned documents. On this basis the Supervisory Board concludes that the Management Board report on Bank Millennium S.A. financial statements in 2017 and the financial statements of Bank Millennium S.A. Capital Group in 2017 as well as the Management Board's joint report on the activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for 2017 have been prepared correctly from a substantive and formal perspective, are consistent with the factual status and the accounts and give a reliable picture of the financial results and operations of the Bank and the Bank Capital Group in the 2017 financial year.

The Supervisory Board recommends to the Bank's General Meeting that it accept the foregoing documents in the version presented by the Management Board along with the chartered auditor's opinion.

The Supervisory Board is of the opinion that the Bank's Management Board's motion is justified on the matter of the distribution of the Bank's net profit for 2017 totaling PLN 648,945,143.38 in such a manner that the entire profit will be allocated to other reserve capital. The Bank's Management Board's foregoing motion ensues from the stance taken by the Polish Financial Supervision Authority of 24 November 2017 pertaining to dividend policy. Relying on the Polish FSA's stance, the Bank's Management Board will present a proposal to the General Meeting to retain all of the net earnings generated in 2017 as part of the Bank's own funds.

Having the foregoing in mind, in particular KNF's stance, and having regard for the fact that a strong capital basis affords the proper amount of support to our business activity and offers protection in the event of a deteriorating macroeconomic and regulatory position, the Supervisory Board unanimously recommends to the General Meeting that it accept the Management Board's motion in question.

6. Evaluation of Bank Millennium S.A.'s standing in 2017, including an evaluation of the internal control system, risk management system, compliance system and the internal audit function

This part of the Report forms the Supervisory Board's assessment of the Bank's standing in reference to the requirements laid down by the Principle in II.Z.10.1. of the Best Practices.

To assess the Bank's standing in 2017 properly the Supervisory Board reviewed and meticulously analyzed the parameters enumerated below referring to the core business areas in the Bank and the Bank Capital Group:

The most important financial and business data concerning the 2017 results are presented as follows:

- the Bank Capital Group's net profit reached PLN 681 million which is 31% higher versus 2016 year profit adjusted for one-offs (such a positive result of Bank Capital Group achieved in 2017 comes predominantly from positive result of the Bank itself which achieved net profit of PLN 649 million),
- ROE, i.e. return on equity was 9.3%,
- the annual cost/income ratio was 45.8%,
- core income grew by 12.3 % y/y
- net interest income up by 11.6% y/y,
- net commission income grew by 14.2% y/y,
- impaired loans ratio at stable 4.6% with 67% coverage by provisions,
- cost of risk at 54 p.b.,
- loan to deposits ratio at low 82 % level,
- strong consolidated Total Capital Ratio (TCR) at 22 % level boosted by PLN 700 million Tier 2 issue,
- strong CET1: 20% (without profit from 2017 year),
- TCR is 3.5 p.p. and Tier 1 ratio c.a. 5 p.p. above new minimum capital ratio thresholds,
- active customers net growth during 3 years reached 351 ths. (target: 300 ths.),
- market share in retail deposits reached 5.7%,
- consistent top position in quality of service and Net Promoter Scores rankings,
- regular growth of digital channels usage: 1.1 million active users,
- growth of investment products by 26% y/y backed by excellent capital market performance,
- cash loans sale at PLN 2.3 billion,
- acceleration of PLN mortgage sale to PLN 2.5 billion,
- growth of loans to companies by 12% yearly,
- growth of factoring and leasing yearly sales by 15%,
- again the highest position in the ranking „Newsweek Friendly Bank 2017”,
- first position in customer satisfaction survey done by ARC Rynek i Opinia,
- “Breakthrough Collaboration in Financial Services” award from BAI Global Innovation for solutions enabling access to e-administration,
- Euromoney award for the best bank in CSR in Central and Eastern Europe.

Having regard for the foregoing, the Supervisory Board is of the opinion that in 2017 the Bank has once again generated very robust results in all its business segments and achieved its most important strategic objectives planned for 2015 - 2017. The number of active retail clients, including mobile banking clients grew; its market share of retail deposits expanded, its retail loan portfolio, including PLN-denominated mortgage loans grew and the number of payment cards rose. This growth trend was also witnessed in the corporate banking segment - in the loan and deposit portfolio and in leasing and factoring. The Bank is continuing its digitization process to facilitate the development of internet banking and mobile banking, which also involves offering innovative solutions and convenience to clients with respect to financial products and to help them handle their everyday issues, for instance, by supporting Poland's e-administration and the development of the smart shopping platform. The Bank also places great emphasis on the quality of the services it renders, and this is amply reflected by the prizes and distinctions it has received. On top of its financial activities, the Bank's commitment to cultural, educational and social undertakings also merit recognition. In the year 2017 Bank paid close to PLN 600 million taxes and other public levies. The Supervisory Board finds that the Bank's robust performance, its favorable capital and liquidity ratios coupled with its strict cost monitoring form a solid basis for the Bank's ongoing development in subsequent years in accordance with the objectives set forth in the strategy adopted for 2018-2020.

After thoroughly familiarizing itself with the financial statements and results generated by Bank Millennium S.A. and Capital Group of Bank Millennium S.A. in 2017 and with the strategic plans slated for the upcoming years, the Supervisory Board rates the financial standing of the Bank and the Capital Group and their future business prospects as being positive.

On an ongoing basis the Supervisory Board monitors, on its own and through the Supervisory Board's Audit Committee, the quality of the internal control system and the Internal Audit Department's proper performance of its functions. Among others, the auditor of Bank Millennium S.A. was selected in 2017: in connection with the Audit Committee's recommendation, the Supervisory Board selected PricewaterhouseCoopers Sp. z o.o. as the audit firm for the Bank and the Bank Capital Group in 2018.

Considering the supervisory activities undertaken and making its assessment on the basis of reasonable premises, the Supervisory Board warrants that the internal control system as a whole, coupled with the risk management system, compliance system, information and communication system and the internal audit function, effectively and properly meet the regulatory requirements, and since it is managed efficiently, it is suitable for the Bank's magnitude and the risk exposure related to the business conducted by the Bank and the Bank Millennium S.A. Capital Group.

It is with satisfaction that the Supervisory Board takes note of the very robust financial and business results generated by Bank Millennium S.A. and the Bank Millennium S.A. Capital Group in 2017 and it would like to underscore the very good cooperation it has with the Bank's Management Board, predicated on effectiveness and the transparent flow of information. The Supervisory Board hereby extends expressions of its recognition to the Management Board and the employees of the Bank Millennium S.A. Capital Group, thanking them for their fruitful and productive collaboration in yet another year and for continuing to strengthen the Bank's position on the Polish financial market.

[Signatures of the Bank's Supervisory Board members]