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**REPORT OF THE MANAGEMENT BOARD**

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**dated June 6<sup>th</sup> 2019**

**prepared by the Management Board of Bank Millennium Spółka Akcyjna  
pursuant to Art. 501 of the Commercial Companies Code**

**justifying the merger of**

**BANK MILLENNIUM SPÓŁKA AKCYJNA  
and  
EURO BANK SPÓŁKA AKCYJNA**

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## REPORT OF THE MANAGEMENT BOARD

This report of the Management Board (hereinafter referred to as the "**Report of the Management Board**") was prepared on the basis of Article 501 of the Act of 15 September 2000 – Commercial Companies' Code (Journal of Laws of 2000 no. 94 item 1037 with changes; the "**Commercial Companies Code**") and relates to the intended merger of **Bank Millennium S.A.** ("**Bank Millennium**") and **Euro Bank S.A.** ("**Euro Bank**", hereinafter jointly referred to as the "**Merging Companies**" or the "**Banks**") as described in the merger plan executed by the Merging Companies on June 6<sup>th</sup> 2019.

### 1. DEFINITIONS

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|--|---|
| <b>Additional Payment</b>                      | – an additional payment in cash to be received by those eligible shareholders of Euro Bank who will not receive a fractional part of a Merger Share to which the shareholder was entitled to in accordance with the Share Exchange Ratio;   |
| <b>Bank Millennium or Absorbing Company</b>    | – Bank Millennium S.A. with its registered office in Warsaw, address: ul. Stanisława Żaryna 2A, 02-593 Warsaw, entered into the Register of Entrepreneurs of the National Court Register, kept by District Court in Warsaw, XIII Commercial Department of National Court Register under No. 0000010186; |
| <b>Banking Law</b>                             | – the Act of 29 August 1997 – Banking Law (Journal of Laws of 1997, no. 140 item 939, with changes);  |
| <b>Civil Code</b>                              | – the Act of 23 April 1964 – Civil Code (Journal of Laws of 1964, no. 16 item 93, with changes);  |
| <b>Commercial Companies Code</b>               | – the Act of 15 September 2000 – Commercial Companies' Code (Journal of Laws of 2000, no. 94 item 1037, with changes);  |
| <b>Competition and Consumer Protection Act</b> | – the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, no. 50 item. 331, with changes);   |
| <b>Euro Bank or Target Company</b>             | – Euro Bank S.A. with its registered office in Wrocław, address: ul. św. Mikołaja 72, 50-126 Wrocław, entered into the Register of Entrepreneurs of the National Court Register, kept by District Court in Wrocław-Fabryczna, VI Commercial Department of National Court Register under No. 0000025313; |
| <b>GM or General Meeting</b>                   | – the general meeting of Bank Millennium or the general meeting of Euro Bank, as the context indicates;   |
| <b>KNF</b>                                     | – the Polish Financial Supervision Authority ( <i>Komisja Nadzoru Finansowego</i> );  |

<b>Labour Code</b>	the Act of 26 June 1974 – Labour Code (Journal of Laws of 1974, no. 24 item. 141, with changes);
<b>Management Board</b>	– the management board of Bank Millennium or the management board of Euro Bank, as the context indicates;
<b>Merger</b>	– the merger of Bank Millennium, as the absorbing company, and Euro Bank, as the target company, in accordance with Article 492 § 1 item 1 of the Commercial Companies Code, i.e. by way of the transfer of all the property of Euro Bank in exchange for the Merger Shares, which Bank Millennium will deliver to the eligible shareholders of Euro Bank (merger through takeover);
<b>Merger Day</b>	– the day on which the Merger is entered in the register of entrepreneurs of the National Court Register by the registry court competent for Bank Millennium's registered office;
<b>Merger Plan</b>	– the merger plan of Bank Millennium and Euro Bank;
<b>Merger Shares</b>	– the existing dematerialised shares of Bank Millennium, admitted to trading and listed on the regulated market of the Warsaw Stock Exchange, with ISIN code: PLBIG0000016, to be allocated and delivered to the eligible shareholders of Euro Bank;
<b>Merging Companies or Banks</b>	– jointly Bank Millennium and Euro Bank;
<b>Report or Report of the Management Board</b>	– this document;
<b>Share Exchange Ratio</b>	– the exchange ratio at which Euro Bank shares are to be exchanged for Bank Millennium shares indicated in point 5.1;
<b>Statutes</b>	– the statutes of Bank Millennium;
<b>Warsaw Stock Exchange</b>	– the Warsaw Stock Exchange ( <i>Gięda Papierów Wartościowych w Warszawie S.A.</i> ).

## 2. INTRODUCTION

On June 6<sup>th</sup> 2019, the Management Boards of Bank Millennium and Euro Bank signed the Merger Plan which sets out, pursuant to Article 499 § 1 of the Commercial Companies Code, the method of the Merger and the Share Exchange Ratio, among other things. Therefore, acting pursuant to Art. 501 of the Commercial Companies Code, the Management Board of Bank Millennium prepared this Report justifying the Merger.

### 3. TYPE, NAME AND THE SEAT OF THE MERGING COMPANIES

#### 3.1. The Absorbing Company

Full name:	Bank Millennium S.A.
Address of the registered office:	ul. Stanisława Żaryna 2A 02-593 Warsaw
Share capital:	PLN 1,213,116,777.00
Registration:	Entered into the Register of Entrepreneurs of the National Court Register, kept by District Court in Warsaw, XIII Commercial Department of National Court Register under No. 0000010186.

The Absorbing Company is a public company within the meaning of the Act on Public Offerings.

#### 3.2. The Target Company

Full name:	Euro Bank S.A.
Address of the registered office:	ul. św. Mikołaja 72 50-126 Wrocław
Share capital:	PLN 563,096,032.05
Registration:	Entered into the Register of Entrepreneurs of the National Court Register, kept by District Court in Wrocław-Fabryczna, VI Commercial Department of National Court Register under No. 0000025313.

### 4. GENERAL INFORMATION

#### 4.1. Legal basis and method of the Merger

The merger shall take place pursuant to Article 492 § 1 point 1 of the Commercial Companies Code by a take-over of Euro Bank by Bank Millennium, that is by way of a transfer of all of the assets and liabilities of Euro Bank to Bank Millennium in exchange for shares in Bank Millennium (the "**Merger Shares**") and delivered to the shareholders of Euro Bank other than Bank Millennium (the "**Merger**").

The Merger will come into effect on the day of the registration of the Merger in the Register of Entrepreneurs of the National Court Register by the court competent for Bank Millennium's registered office (the "**Merger Day**").

As a result of the Merger, on the Merger Day:

- (a) Bank Millennium will assume, on the basis of universal succession, all rights and obligations of Euro Bank and Euro Bank will be wound-up without liquidation proceedings; and
- (b) Euro Bank's property (all assets and liabilities) will be transferred to Bank Millennium.

The Merger shall take place on the basis of resolutions taken by the General Meetings of Bank Millennium and Euro Bank. The draft resolutions are set out in the Attachments 1 and 2 to the Merger Plan.

#### **4.2. Merger Shares**

The share capital of Bank Millennium is PLN 1,213,116,777.00 and is divided into 1,213,116,777 shares of a nominal value of PLN 1.00 each.

In connection with the Merger, the existing dematerialised shares of Bank Millennium (i.e. the Merger Shares) will be allocated and delivered to the shareholders of Euro Bank other than Bank Millennium, pursuant to the terms of allotment of the Merger Shares set out in point 6.

#### **4.3. Required consents of the regulatory authorities**

The Merger will not be effected until all required regulatory consents and approvals related to the Merger will be obtained, including:

- (a) the decision on consent to the Merger of the KNF, pursuant to the provisions of Article 124 Section 1 of the Banking Law; and
- (b) the KNF's consent for the amendments to the Statutes of Bank Millennium, pursuant to the provisions of Article 34 of the Banking Law.

The consent of the President of the Office of Competition and Consumer Protection to the Merger is not required pursuant to Article 14 point 5 of the Competition and Consumer Protection Act, as the Merging Companies belong to the same capital group.

#### **4.4. Resolutions of the GMs of the Banks**

Pursuant to Article 506 § 2 and 4 of the Commercial Companies Code, the grounds for the Merger, will be certain resolutions adopted by the General Meeting of Bank Millennium and the General Meeting of Euro Bank, containing, in particular, consent to:

- (a) the Merger Plan,
- (b) the proposed amendments to the Statutes of Bank Millennium related to the Merger, as presented in Attachment 3 to the Merger Plan.

#### 4.5. Specific succession provisions

Pursuant to the provisions of Article 494 § 2 and § 5 of the Commercial Companies Code, the absorbing company takes over, effective on the Merger Day, the permits, concessions and relief that had been granted to the target company, unless: (i) statutes or the decision granting the permit, concession or relief stipulate otherwise, or (ii) in the case of permits or concessions granted to a financial institution, if the authority that issued the permit or concession objected to it within one month of the publication of the Merger Plan.

Moreover, pursuant to the provisions of Article 23<sup>1</sup> of the Labour Code the employment undertaking of Euro Bank will be transferred to Bank Millennium as of the Merger Day. Therefore, on the Merger Day all of the employees of Euro Bank will become, by operation of law, employees of Bank Millennium which, by operation of law, will enter into all of the rights and obligations of Euro Bank on the Merger Day.

### 5. RATIO OF EXCHANGE OF EURO BANK SHARES TO BANK MILLENNIUM MERGER SHARES

#### 5.1. Share Exchange Ratio

The following ratio of exchange of Euro Bank shares to Bank Millennium Merger Shares ("Share Exchange Ratio") will be applied:

<b>Euro Bank shares</b>	<b>Bank Millennium Merger Shares</b>
1	4.1

This means that in exchange for 1 (one) share of Euro Bank with a nominal value of PLN 11.29 each, an Euro Bank's shareholder (other than Bank Millennium) will receive 4.1 Merger Shares of Bank Millennium with a nominal value of PLN 1.00 each.

#### 5.2. Methods used to calculate the Share Exchange Ratio

The Share Exchange Ratio was calculated as the arithmetic mean of ratios estimated using three different methodology, taking into account:

- (a) valuations of both banks (carried out using three methods - income including dividends, implied multipliers method and market indicators method),
- (b) equity value (net asset value method) and
- (c) transactions carried out on bank shares (transaction method).

#### 5.3. Examination of the Merger Plan by the expert auditor

The Merger Plan will be examined by the auditor appointed by the registry court. The opinion of an expert auditor opinion will at least: (i) state whether the share exchange ratio was determined correctly; (ii) indicate the method or methods used in arriving at the share exchange ratio proposed in the Merger Plan, together with an evaluation of grounds for the application thereof; and (iii) indicate any special difficulties related to the valuation of shares of the Merging Companies.

#### 5.4. Opinions of external financial advisors

In preparing the valuation of the Merging Companies as well as in establishing the Exchange Ratio the Management Board of Bank Millennium took into account, amongst other matters, the opinion dated June 6<sup>th</sup> 2019, issued by KPMG Advisory Spółka z ograniczoną odpowiedzialnością sp.k.as to the fairness opinion from a financial point of view, of the exchange ratio pursuant to the Merger Plan attached as Attachment 6 to the Merger Plan.

### 6. RULES OF ALLOTMENT OF SHARES

#### 6.1. Allocation of the Merger Shares

The Merger Shares will be allocated to the eligible shareholders of Euro Bank, i.e. shareholders other than Bank Millennium, on the Merger Day. The Merger Shares are the existing dematerialised shares of Bank Millennium, admitted to trading and listed on the regulated market of Giełda Papierów Wartościowych w Warszawie S.A. (the "**Warsaw Stock Exchange**"), with ISIN code: PLBIG0000016.

The number of the Merger Shares which will be allocated to each of the eligible shareholders of Euro Bank will be calculated as a product of the number of shares of Euro Bank held by a given shareholder on the Merger Day and a value of the Share Exchange Ratio. The result of the operation described in the preceding sentence will be rounded down to the nearest integer (unless the result itself is an integer).

A shareholder of Euro Bank who – as a result of the rounding down process described above – will not receive a fractional part of a Merger Share to which the shareholder was entitled to in accordance with the Share Exchange Ratio, will receive an additional payment in cash (the "**Additional Payment**").

The Additional Payment will be calculated in accordance with the following formula:

$$D = U \times A$$

where: **D** – means the amount of the Additional Payment, **U** – means the fractional part of the Merger Share that has been rounded down and has not been allocated to the eligible shareholder of Euro Bank, whereas **A** – means the amount that is an arithmetic mean of the volume weighted average daily quoted prices of Bank Millennium's shares on the Warsaw Stock Exchange from 30 (thirty) consecutive Session Days immediately preceding the Merger Day. The amount of the Additional Payment due will be rounded up to 1 grosz (PLN 0.01).

#### 6.2. Rules of delivery of the Merger Shares to the eligible shareholders of Euro Bank

The Merger Shares will be delivered by way of recording them in the securities accounts of the shareholders of Euro Bank entitled to receive them in the number resulting from the application of the agreed Share Exchange Ratio.

Bank Millennium will not issue any new shares in relation to the Merger. The Merger Shares to be allocated and delivered to the eligible shareholders of Euro Bank will be purchased on the Warsaw



Stock Exchange in the secondary trading by Millennium Dom Maklerski S.A. under instructions of Bank Millennium issued pursuant to Art. 515 § 2 of the Commercial Companies Code. The Merger Shares will be acquired following the GMs of both of the Banks adopt resolutions approving the Merger.

Therefore, in order for Bank Millennium to take actions necessary for the delivery of the Merger Shares, the eligible shareholders of Euro Bank are requested to provide Millennium Dom Maklerski S.A. with information on numbers of securities accounts in which the Merger Shares are to be recorded and numbers of related cash accounts to which the amounts of Additional Payments can be transferred if they are due under the agreed Share Exchange Ratio and the rules of determination of Additional Payments set out in point 6.1 above. The information provided should be appropriately probable and should indicate the name and surname, address, telephone number, ID number and PESEL number of the authorized shareholder of the Euro Bank who is the holder of the above-mentioned accounts.

The information referred to in the preceding paragraph should be provided to the following correspondence addresses:

**Millennium Dom Maklerski S.A.**

ul. Stanisława Żaryna 2a  
02-593 Warszawa, Poland

With an annotation: **Delivery of the Merger Shares**

copy to:

**Bank Millennium S.A.**

ul. Stanisława Żaryna 2a  
02-593 Warszawa, Poland

With an annotation: **Delivery of the Merger Shares**

along with a copy sent by e-mail to the following addresses: [fuzja@millenniumdm.pl](mailto:fuzja@millenniumdm.pl) and [fuzja@bankmillennium.pl](mailto:fuzja@bankmillennium.pl).

**7. SPECIFIC DIFFICULTIES RELATED TO THE VALUATION OF THE BANKS**

While preparing the valuation of the assets of the merging Banks and the valuation of their shares, no specific difficulties were discovered.

**8. THE DAY AS OF WHICH THE MERGER SHARES WILL PARTICIPATE IN THE PROFIT**

If the Merger Shares are recorded in the securities accounts of the eligible shareholders of Euro Bank) by (and including) the dividend date, referred to in Art. 348 § 4 of the Commercial Companies Code, set for 2020, they will participate in profit as of 1 January 2019, whereas if the Merger Shares are recorded in the securities accounts of the eligible shareholders of Euro Bank after the dividend date, referred to in Art. 348 § 4 of the Commercial Companies Code, set for 2020, the Merger Shares will participate in profit as from 1 January 2020.

**9. THE RIGHTS GRANTED BY BANK MILLENNIUM TO THE SHAREHOLDERS OR OTHER SPECIALLY PRIVILEGED PERSONS IN EURO BANK**

No additional rights in Bank Millennium shall be granted to the shareholders or other specially privileged persons in Euro Bank.

**10. CONSEQUENCES OF THE MERGER FOR SHAREHOLDERS, CREDITORS AND EMPLOYEES**

**10.1. Consequences of the Merger for Shareholders**

As the Merger Shares to be allocated and delivered to the eligible shareholders of Euro Bank will be the existing shares of Bank Millennium, the Merger will not result in any changes to the legal status of current Bank Millennium shareholders nor will lead to their dilution.

Pursuant to Art. 494 § 4 of the Commercial Companies Code, Euro Bank shareholders will automatically become Bank Millennium shareholders on the Merger day, as a result of being granted the Merger Shares according to the procedure set out in point 6 above. Furthermore, certain Euro Bank Shareholders may be entitled to receive the Additional Payment in accordance with point 6 above.

Additionally, as specified in clause 11, both Banks expect that the merger will bring tangible financial effects that may translate to the increase of value of Bank Millennium's shares and, at the same time, to financial benefits for the shareholders.

**10.2. Consequences of the Merger for creditors**

In accordance with the principles of general succession set out in clause 4.1, Bank Millennium will assume all the rights and obligations of Euro Bank as at the Merger Day, and Euro Bank will be wound up without liquidation proceedings being conducted.

Therefore, creditors of Euro Bank will become, by operation of law, creditors of Bank Millennium.

**10.3. Consequences of the Merger for employees**

In accordance with the information set out in clause 4.5, pursuant to the provisions of Article 23<sup>1</sup> of the Labour Code, the employment undertaking of Euro Bank will be transferred to Bank Millennium as of the Merger Day. Therefore, on the Merger Day all of the employees of Euro Bank will become, by operation of law, employees of Bank Millennium.

**11. ECONOMIC RATIONALE FOR THE MERGER**

In the last couple of years, maintaining a strong position and further dynamic development in the Polish banking sector has become increasingly challenging due to the growing competition on the part of banks and other financial sector players, as well as due to the consolidation of the Polish banking sector. The mounting competition forces ever faster implementation of new product offers, the optimization of current business processes and continuous development of innovations, to avoid losing the existing competitive advantages. Thanks to the consolidation, individual banks are able to

achieve superior performance and present to customers an improved product offer. This is driven by achieved synergies, which enable market players to take advantage of economies of scale and offer more efficient service to the merged customer bases.

The merger of Euro Bank and Bank Millennium enables the acquisition of new complementary competencies and the scaling-up of current business models. Both Banks are characterized by complementary features, which include but are not limited to:

- Strong focus on the service quality and customer satisfaction in both Banks, which translates into NPS>40 and resulted in multiple awards in prestigious rankings (Golden Banker, Newsweek's Customer-Friendly Bank);
- High number of new clients acquired (100+ thousand a year at Euro Bank and 300+ thousand a year at Bank Millennium);
- Complementary distribution network of own branches (Bank Millennium is strong in large metropolis, meanwhile Euro Bank is strong in small and medium-sized towns and cities) and a wide network of Euro Bank's franchise branches;
- The business model pertaining to the acquisition of new business (Euro Bank: credit products offered to new customers, Bank Millennium: everyday banking and a wide array of additional products offered to the current customer base).

From the Acquiring Bank's perspective, the acquisition of Euro Bank is fully compliant with the 2018-2020 Strategy and translates into profitable utilisation of the bank's surplus capital and liquidity. The merger will create a much larger and more competitive bank, occupying a clear seventh place in the marketplace in terms of assets, deposits and loans, with a particularly strong position in the consumer lending segment. Moreover, the merger will generate significant synergies and savings to the Acquiring Bank.

The positive outcome of the merger will also be felt directly by Euro Bank customers who will gain access to the Bank Millennium wide product offer, including new products such as structured deposits and a wide array of insurance products. Additionally, customers will gain access to innovative digital platforms and sales channels, as well as have an opportunity to take advantage of a much wider network of branches and ATMs on a nation-wide basis.

## **12. CONCLUSIONS AND RECOMMENDATIONS**

Taking into account the economic and financial circumstances of the Merger, both from the perspective of the Banks and their shareholders, in particular the circumstances specified in the Economic Rationale for the Merger set out above, it should be recognised that the Merger remains purposeful from a strategic and operational perspective and due to the possibility of lowering the costs and taking into consideration the experience of the merging Banks.

In light of the above, the Management Board of Bank Millennium hereby recommends that the General Meeting adopt a resolution on the Merger of Bank Millennium and Euro Bank and grant a consent to the amendment to the Statutes of Bank Millennium, set out in Attachment 3 do the Merger Plan.

Moreover, the Management Board of Bank Millennium shall also adopt a resolution pursuant to Art. 515 § 2 of the Commercial Companies Code enabling acquisition of Bank Millennium's own shares of an aggregate nominal value of not more than 10% of the Bank Millennium's share capital to be offered as the Merger Shares to the eligible shareholders of Euro Bank. The said resolution will entry into force following the GMs of both of the Banks adopt resolutions approving the Merger.

This Report of the Management Board of Bank Millennium, justifying the Merger, was executed on June 6<sup>th</sup> 2019.

**ON BEHALF OF BANK MILLENNIUM SPÓŁKA AKCYJNA**