

Report on the Activity of Bank Millennium S.A. Supervisory Board in 2018

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 (hereinafter also: “Best Practice”) and the “Corporate Governance Principles for Supervised Institutions” (hereinafter also: “Principles”) adopted by the Polish Financial Supervision Authority (hereinafter also: “KNF”), the Supervisory Board of Bank Millennium S.A. (hereinafter also: “the Bank”) hereby submits this *Report on the Activity of Bank Millennium S.A. Supervisory Board in 2018* (“Report”) to the Bank’s General Meeting.

This Report includes:

1. Summary of the activities of the Supervisory Board (hereinafter also: “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 together with the report on non-financial information 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 2018 financial year, pursuant to Article 382 § 3 of the Commercial Company Code (hereinafter also: “CCC”) and in connection with § 70 sec. 1 pt. 14 as well as § 71 sec. 1 pt. 12 of the “Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent” (hereinafter also: “Ordinance”).
 6. Report on the evaluation of the Management Board’s motion on profit distribution for the 2018 financial year, pursuant to Article 382 § 3 of the CCC.
 7. Evaluation of Bank Millennium S.A.’s standing in 2018, 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 covering 2018, along with the General Meeting of the Bank approving the 2017 financial statement, the term of the Supervisory Board came to a close. On 26 March 2018, the General Meeting of the Bank decided to increase the number of Members of the Supervisory Board up to 12 and elected the Supervisory Board for the new term ending upon completion of the General Meeting of the Bank approving the 2020 financial statement. Therefore, in 2018 the composition of the Supervisory Board of the Bank looked as follows:

- from 1 January 2018 to 26 March 2018:
 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. Andrzej Koźmiński – Supervisory Board Member,
 10. Miguel Maya Dias Pinheiro – Supervisory Board Member,
 11. Rui Manuel da Silva Teixeira – Supervisory Board Member.

- from 26 March 2018 to 31 December 2018:
 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. Miguel de Campos Pereira de Bragança – Supervisory Board Member,
 5. Agnieszka Hryniewicz-Bieniek – Supervisory Board Member,
 6. Anna Jakubowski – Supervisory Board Member,
 7. Grzegorz Jędrys – Supervisory Board Member,
 8. Andrzej Koźmiński – Supervisory Board Member,
 9. Alojzy Nowak – Supervisory Board Member,
 10. José Miguel Bensliman Schorcht da Silva Pessanha – Supervisory Board Member,
 11. Miguel Maya Dias Pinheiro – Supervisory Board Member,
 12. Lingjiang Xu – Supervisory Board Member.

According to the proposed declarations made by the above-mentioned persons when running for the function of Member of the Supervisory Board, Members of the Supervisory Board, in the reporting period, met the criteria defined in the binding laws, including in particular in the Banking Law, Principles and Good practices: 7 Members of the Supervisory Board, including its Chairman, are of Polish nationality, 4 Members of the Supervisory Board fulfil the independence criteria: Ms Agnieszka Hryniewicz-Bieniek, Ms Anna Jakubowski, Mr Grzegorz Jędrys and Mr Alojzy Nowak. According to its best knowledge, the Supervisory Board did not find material connections or circumstances that could affect fulfilment of the independence criteria by the above-mentioned Members of the Supervisory Board. Furthermore, the composition of the Supervisory Board was varied in terms of gender and age. Professional curricula vitae of the Members of the Supervisory Board are posted on the Bank's website.

Supervisory Board's activities in the reporting period

While performing its statutory rights with due diligence, the Supervisory Board exercised permanent supervision of the overall activity of the Bank, following objective assessment and judgement, and care for correct and secure operation of the Bank. The Supervisory Board conducted its works mainly during the meetings, taking required decisions. The meetings of the

Supervisory Board were permanently attended by the Members of the Management Board and other invited persons presenting individual issues.

In 2018 there were eight meetings of the Supervisory Board held, in which the attendance rate each time exceeded the quorum necessary to take resolutions – average attendance percentage rate of Members of the Supervisory Board at the meetings (including, using devices for remote communication) totalled 91%. Furthermore, the Supervisory Board adopted three resolutions without a meeting - in the procedure defined in § 12 and § 13 of the By-laws of the Supervisory Board of Bank Millennium S.A.

In the reporting period, the Supervisory Board subject to analysis and took proper decisions in particular in the matters concerning the following issues:

1) finances, including:

- approval of the Budget of the Bank Capital Group for the years 2019-2021,
- increase in the nominal value of the Third Bank Bond Issue Programme and determination of its additional conditions,
- opining the transaction to grant guarantee to subsidiary Millennium Leasing Sp. with o.o. as collateral for the loan from EBRD,
- analysis of the current results of the Bank Capital Group and business lines,

2) internal audit and compliance units, including:

- selection of Deloitte Sp. with o.o. Sp. k. as the auditor (also statutory auditor) of 2019-2020 Bank's financial statement and consolidated financial statement of the Bank Capital Group and other statements for the periods within the above time bracket,
- approval of audit plan for 2018,
- analysis of information concerning the internal control system in 2017,
- analysis of 2017 compliance report,
- approval of changes in the document „Compliance Policy. Principles and guidelines”,
- approval of changes in the document „Management system of Bank Millennium S.A.”,
- approval of the document „Audit card – principles of operation of the internal audit of Bank Millennium S.A.”,

3) risk management in the Bank, including:

- current analysis of risk management, therein update of information on legislative initiative regarding FX mortgage loans,
- approval of the Risk Strategy of the Bank Capital Group,
- approval of the Capital Plan and Contingency Capital Plan of the Bank Capital Group,
- approval of the Liquidity Plan of the Bank Capital Group and analysis of the long-term liquidity of the Bank,
- update of the Contingency Liquidity Plan of the Bank,
- update of „Principles for Capital Management and Planning”,
- analysis of the information on the review of „Principles for Internal Capital Calculation”,

4) change in the term of office of the authorities of the Bank, including:

- election of the Chairman, Vice-chairmen and Secretary of the Supervisory Board,
- determination of the composition of the standing Committees of the Supervisory Board,
- determination of the number of Members of the Management Board of the Bank,
- election of the Chairman, the Deputy Chairman and Members of the Management Board of the Bank,
- authorisation of the Chairman of the Supervisory Board to sign management contracts with Members of the Management Board,

5) other matters, including:

- approval of the change of the internal division of competencies of the Members of the Management Board of the Bank,
- making changes in the composition of the Management Board of the Bank,
- approval of „Policy of Employee Remuneration in Bank Millennium Group” and its update,
- update of „Policy of Bank Millennium S.A. concerning disclosure of information about risk, own funds, capital requirements, remuneration policy and other information”,
- analysis of the periodic report on IT, including IT security (in accordance with the requirements of KNF’s Recommendation D),
- approval of „Recovery Plan for the Capital Group of Bank Millennium S.A.”,
- review of the information on the organisational structure of Bank Millennium S.A.,
- determination of the uniform text of the Articles of Association of Bank Millennium S.A.,
- approval of the documents submitted to the General Meeting.

The Supervisory Board was also informed on a quarterly basis about the major events and decisions of the Management Board between the individual meetings and two times about the macroeconomic situation and activity of the competitive banks, whereby it had appropriate knowledge on the market environment and position of the Bank in relation to other financial institutions. Also, current events were discussed on the on-going basis in the context of their potential impact on the Bank’s development plans and achievement of the assumed results in the short- and medium-term perspective.

Furthermore, in 2018, the Supervisory Board was involved in the works related to the process of takeover of SKOK Piast and Euro Bank S.A. (hereinafter also: „Eurobank”) and the project of setting up a mortgage bank, and took appropriate decisions in these matters.

Irrespective of the works within the Supervisory Board, the majority of its Members (11 from among 12 Members of the new term) worked also in the standing Committees of the Supervisory Board.

ACTIVITY OF SUPERVISORY BOARD COMMITTEES

During the reporting period comprising 2018 - on the day of holding the General Meeting of Bank Millennium S.A., approving the 2017 financial statement i.e. on 26 March 2018 - the term of office of the Bank’s Supervisory Board and the committees acting within it came to an end. After discharging Members of the Bank’s Supervisory Board of performance of duties in 2017 financial year, the General Meeting elected the Supervisory Board for the new term of office to end on the day of holding the General Meeting to approve the 2020 financial statement.

A. Activity of the Audit Committee in the reporting period

AUDIT COMMITTEE COMPOSITION

In the period **01.01.2018 – 26.03.2018** the Audit Committee of the Supervisory Board of Bank Millennium S.A. was composed of the following persons:

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

On **26.03.2018** the Supervisory Board approved the new composition of the Audit Committee and thereby the Audit Committee as at **31.12.2018** was composed of the following persons:

Chairman of Committee:	Mr. Grzegorz Jędrys	<i>independent Member</i>
Member of Committee:	Mr. Bogusław Kott	
Member of Committee:	Mr. Miguel de Campos Pereira de Bragança	
Member of Committee:	Ms. Anna Jakubowski	<i>independent Member</i>
Member of Committee:	Mr. Alojzy Nowak	<i>independent Member</i>

Thus, the Bank fulfilled the provisions of Art. 129. item 3 of the *Act on statutory auditors* [...] ensuring that the majority of Audit Committee Members, including its chairman, meet the independence criteria.

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

AUDIT COMMITTEE ACTIVITY

In 2018 took place six meetings of the Audit Committee of the Supervisory Board at the following dates: **31.01.2018**, **23.02.2018**, **19.04.2018**, **04.06.2018**, **24.07.2018**, **25.10.2018** and one additional meeting by circulation on **18.09.2018**.

The following issues were subject to regular analysis during the meetings of the Audit Committee of the Supervisory Board in 2018:

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

The agenda of the Audit Committee covered issues specified in the permanent agenda of Committee meetings approved by the Supervisory Board at the meeting on 31 January 2013. In 2016 to the regular items of the agenda the information on client's complaints was included (after 1 and 3 quarter of the year).

During the meetings of the Audit Committee of the Supervisory Board in 2018 the following issues were discussed:

1. **Reports from the activity of the Internal Audit Department (DAW):** containing the assessment of risks of the audited processes and degree of execution of the tasks enumerated in the Audit Plan for 2018 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 2018 prepared on the basis of analysing the risk areas and accepted information on fulfilling the Plan for 2017. During particular meetings of the Committee there were discussed important findings identified by audit along with the agreed remedies. Analysed in detail was the process of monitoring post-audit recommendations, including recommendations H with the highest implementation priority. KRI ratios [Key Risk Indicators] are used for monitoring the implementation of the recommendations.

The Audit Committee supported activities aimed at systematically improving the quality and work standards of the Bank's internal audit:

- a. At the meeting in April 2018 approved performance of the external "Independent review of the internal audit in Bank Millennium S.A." and selection the advisory firm to conduct the review. In accordance with the provisions of the KNF's Recommendation H revised in 2017, the assurance and consulting activities of the internal audit unit should be subject to regular, independent external evaluation, but not less frequently than every five years. The last external review took place in 2013. The current external evaluation took place in 3 and 4 Q2018.
- b. Following significant changes in the legal environment of the internal audit, in 2017 the *Audit Charter – rules governing internal audit activities in Bank Millennium* was prepared ensuring regulatory compliance. In 2018, adjustment work continued in the methodological area and lower-order regulation, amending "*Organisational Bylaws Of Internal Audit Department*", "*Memorandum On Control Of The Financial Reporting Process For The Purpose Of Bank Millennium S.A. Group Consolidated Statement And Operation Of The Internal Control System In Group's Companies*", "*Agreement on Provision of Internal Auditing Services (for Millennium Dom Maklerski)*" and the "*Internal Audit Manual (Methodology)*". The Methodology was approved by the Audit Committee at its meeting on 24.07.2018.

The Head of Internal Audit has an assured constant and direct contact with Members of the Committee, and one meeting in a year, during its closed part, includes a discussion with him of the staffing situation of the Internal Audit Department and remuneration policy for auditors. The staffing situation was assessed as adequate to the scope of the tasks being performed, taking into account both the level of resources and the competences of auditors, including the ongoing development process.

The Committee positively assesses the activity of internal audit at the Bank, which is carried out with the assurance of independence, in accordance with the planned scope, effectively identifying weaknesses of controls, and simultaneously within provided consulting activity gives methodical support for other units of the Bank.

2. **Monitoring the scope of activities of the Bank's External Auditor:** In the period 2014-2018– the PwC company is the external auditor of the Bank. 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 (quarterly) meetings of the Committee in 2018. Additionally, as part of the meeting on 23.02.2018, the Auditor's conclusions were presented on the audit of the Bank's and the Bank's financial statements for 2017, along with the Statement of Independence and the Management Letter for 2017.

The purpose of current and systematic communication of the External Auditor with the Audit Committee is to assure proper independence and required standards and quality of services provided by the financial audit function.

Taking into account the new reporting requirements to the Audit Committee, at the last meeting in 2018, the Statutory Auditor presented planned scope and dates of an annual audit of the financial statements, which includes new elements of communication with the Audit Committee, the Report for the Audit Committee regarding the audit planning was also submitted. After internal consultation, the Audit Committee did not comment on the proposed reporting templates.

3. **Audit firm selection:** Considering the mandatory rotation of audit firms resulting from the law and the upcoming five-year period of cooperation with PwC, in 2018 the Bank conducted the process of selecting a new auditing company.

In September 2018 the Audit Committee following the Management Board motion, approved by circulation mode, the manner and method of implementation of the process of the new audit firm selection, to audit the financial statements of Bank Millennium S.A. and Bank Millennium Capital Group for 2019-20 (including statutory audit). According to the *Policy of selection and cooperation with audit firms* adopted by the Audit Committee on 26.10.2017, cooperation with the same audit company cannot last longer than for a period of consecutive

five years. The 5-year cooperation period with PwC is ending upon completion of the audit of the Bank's and Group's 2018 financial statement.

At the last meeting in October 2018 the Audit Committee, has got acquainted with the *Report* of the Task Team¹ conducting the process of selection of the audit firm for the Bank, indicating the audit firm recommended to perform the statutory audit. Based on the *Report*, the Audit Committee Recommended to the Supervisory Board selection of Deloitte Sp. Z o.o. Sp. k. as the Statutory Auditor of Bank Millennium S.A. and Bank Millennium Group for the years 2019-20.

Following the *Policy on selection and cooperation with audit firms*, Audit Committee has been analysing the motions provided and approving the selection of audit firms to provide services other than statutory audit.

4. **Monitoring of financial reporting:** At the first meeting in 2018 the Department of Finance and Reporting conveyed to the Committee information pertaining to the process of financial reporting in 2017, covering: monitoring the compliance of accounting standards employed by Bank Millennium Group with regulations, supervision over accounting principles applied by the Group, as well as keeping the reporting deadlines and monitoring changes which may negatively impact the reporting process.

In the course of 2017 there were no significant changes in the financial reporting process, that may affect its stability or the ability of the Group for the preparation of reliable financial statements within the reporting deadlines.

Financial statements of the Bank and the Group are prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. Special attention was paid to IFRS9 obligatory commencing from 1st January 2018 describing the new standards in the impairment process and modifications regarding the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

It was underlined, that the biggest challenge for 2018 remains the completion of IFRS 9 implementation at the Bank, adjustment of the reporting process, ensuring data availability and preparation procedure alignment. The scope of information and format of the following financial statements/reports will have to be altered: (1) FINREP solo and consolidated basis, (2) reporting package provided to parent company for BCP consolidation purposes, (3) published financial statements.

At the same meeting – the Risk Department presented information summarizing the impact of IFRS9 implementation on the open balance of the Bank. The Committee received information concerning estimated impact of IFRS9 implementation on the Bank's balance sheet equity: (1) impairment interest adjustment, (2) minority shares valuation, (3) revaluation of provisions.

Information on the implementation of IFRS 9 was provided to the Audit Committee in December 2017, after the Bank finished the implementation of the new IFRS 9 Standard. Detailed report summarizing the results of the project, primary discussed at the Management Board and Risk Committee meetings, was next forwarded to the Audit Committee Members. In addition the Bank organized a working meeting with the Chairman of the Audit Committee on the 11.01.2018 during which the issues of standard implementation were discussed in detail and any questions related to it were explained.

The next meeting of the Audit Committee in 2018 was devoted primarily to the analysis of the Management Board information on the Annual Report of the Bank and the Group for 2017, and the conclusions of Statutory Auditor PwC concerning above mentioned reports. Based on the audit, the PwC has issued an unmodified audit opinion on Bank Millennium Group consolidated financial statements and an unmodified audit opinion on Bank Millennium standalone financial statements as of 31st December 2017. Taking into consideration the positive opinion of the Statutory Auditor, the Audit Committee has adopted a Resolution on the recommendation the Supervisory Board of a positive assessment of the Annual Reports for 2017.

¹ Task Team consist at least the Heads of the following Departments: Finance and Reporting, Internal Audit, Central Acquisition and Compliance Department.

5. **Results of the annual Review of the Internal Control System:** ICS 2018 conducted at the Bank and Bank Millennium Group Companies for the period from 1 June 2017 until 31 May 2018. The requirement to review the internal control system at the Bank results from supervisory regulations both Polish and Portuguese, and in accordance with uniform guidelines for the BCP Group it was implemented in 2018 in cooperation with the External Auditor of the BCP Group - Deloitte.

Based on the results of the review the Committee took a Resolution concerning the issuing of the “Opinion of the Audit Committee of the Supervisory Board on the adequacy and effectiveness of the Internal Control System”. In the opinion it was recognised that the Internal Control System as a whole (including the control environment, risk management system, system of information and communication and internal control monitoring) assures an appropriate and effective reaction in all important aspects, in keeping with regulatory requirements. The Committee’s opinion along with the opinion of the External Auditor of the BCP Group (Deloitte) was attached to the Report from the review of the Internal Control System at Bank Millennium, which was transferred to the Bank of Portugal.

6. **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 and in connection with the application for IRB method employment. All the recommendations issued by KNF were implemented in accordance with the time-table adopted by the Bank.

The Audit Committee acknowledged also the KNF and BFG’s remarks to the Recovery Plan for Bank Millennium Capital Group, which was discussed with Supervisor in 2017.

In addition, a regular part of the meetings of the Audit Committee was to analyse the correspondence addressed in key issues to the Bank from KNF. These issues concerned primarily the SREP process and the Bank’s assessments, the results of the Problem Specific Inspections carried out at the Bank in 2018 and the schedule of recommendations issued as a result of them, additional capital requirements imposed over Bank due to its qualification to the group of other institution of systemic importance and imposition, as well as the KNF position concerning the dividend policy of the Bank.

7. **Information on Compliance Policy implementation by the Bank** and the activity of the Compliance Department. The subject to analysis during Committee meetings last year were the main objectives of Compliance Policy, Non Compliance Risk Map, monitoring of the compliance risk of individual areas of the Bank’s operations, including consumer loans, insurance and investment products, the implementation of the anti-money laundering and terrorist financing program, results of identifying suspicious transactions, scope of cooperation with external institutions, initiatives of the Compliance Department under implementation especially with regard to regulatory changes.

8. The Audit Committee paid careful attention to information on the **correctness of developing the Bank’s relations with clients**, particularly in the context of claims/complaints received. At two meetings a year, detailed information on complaints submitted by the Bank’s Customers prepared by the Quality Department was presented. In the materials of the Internal Audit Department, in the semi-annual periods, the conclusions were presented pertaining to complaints received by the Bank by means of KNF. The Audit Committee was informed about the resolution concerning the clients’ complaints addressed to the Supervisory Board, as well as about the results of explanatory actions carried out by the DAW in this regard.

Considering all the activities carried out by the Audit Committee in 2018, including materials provided by the Internal Audit Department, Compliance Department, Statutory Auditor, results of the Internal Control System Review 2018 carried out in the BCP Group and supervisory activities and inspections of the KNF, we state that the components of the internal control system (control function, DZZ and DAW) present the appropriate ability to identify possible

irregularities and weaknesses in banking processes and ensure proper effectiveness of management of identified problems in terms of continuous and systematic improvement of the

functioning control mechanisms. Assessing on the basis of rational grounds, including the implementation of improvement measures, in the opinion of the Audit Committee, the internal control system as a whole, as well as its individual components, effectively and properly meet regulatory requirements and being well-managed are adequate to the size of the Bank and exposure to risks related to the operations carried out by the Bank and the Capital Group of Bank Millennium S.A.

Bearing in mind the information obligations of the Supervisory Board formulated in the *"Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent,"* the Audit Committee states that:

- I. With reference to the selection² of an audit firm that audits the annual financial statements of Bank Millennium and the Bank Group:
 - a) the audit firm and the Members of the audit team met the conditions for drawing up an impartial and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and professional ethics,
 - b) the applicable regulations related to the rotation of the audit firm and the key statutory auditor as well as mandatory grace periods are observed,
 - c) The Bank has a policy regarding the selection of an audit firm and a policy for providing the Bank by an auditing company, an entity related to an auditing company or a Member of its network of additional non-audit services, including conditionally exempt services from an audit firm.

- II. With reference to the appointment, composition and functioning of the Audit Committee³:
 - a) The provisions regarding the appointment, composition and operation of the Audit Committee of the Supervisory Board in Bank Millennium S.A., including the fulfilment by its Members of independence criteria and requirements regarding knowledge and skills in the finance industry as well as in the field of accounting or auditing of financial statements are met.
 - b) the Audit Committee of the Supervisory Board in Bank Millennium S.A. performed the tasks of the audit committee provided for in the applicable regulations.

B. Activity of the Personnel Committee in the reporting period

During the reporting period comprising 2018 - on the day of holding the General Meeting of Bank Millennium S.A., approving the 2017 financial statement i.e. on 26 March 2018 - the term of office of the Bank's Supervisory Board and the committees acting within it came to an end. After discharging Members of the Bank's Supervisory Board of performance of duties in 2017 financial year, the General Meeting elected the Supervisory Board for the new term of office to end on the day of holding the General Meeting to approve the 2020 financial statement.

At its first meeting on 26 March 2018 the Supervisory Board of the new term of office determined the composition of the Personnel Committee ("the Committee") by electing the same representatives of the Supervisory Board who had been performing functions of Members of the Personnel Committee in the previous term of office. Therefore in 2018 the composition of the Personnel Committee was as follows:

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

² § 70.1. 7) a) b) c) Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic ...

³ § 70.1. 8) a) c) Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic ...

The composition of the Committee assured an appropriate level of supervision over the entrusted areas of the Bank's activity and the particular Members guaranteed proper performance of duties resulting from 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 comprises in particular:

- evaluating candidates for Members of the Bank's Management Board,
- defining 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 (with consideration of 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 of Members of the Bank's Management Board,
- evaluating policy on variable components of remuneration, and moreover on the basis of reports on payments made, issuing recommendations regarding:
 - o remuneration amount 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 involved with risk management and with compliance of the Bank's activity with legal and internal regulations.

During the period discussed two meeting of the Committee were held, during which Members of the Committee analysed delivered documents and information and also took relevant decisions in the form of resolutions. Following matters were discussed:

- assessment of results of work of the Bank's Management Board and its Members elected for the term of office ending on the day of holding the General Shareholders' Meeting , approving the 2017 financial statement;
- evaluation and recommendation of candidates for the Bank's Management Board (also as regards their areas of responsibility) for the term of office ending on the day of holding the General Shareholders' Meeting approving the 2020 financial statement, made in accordance with the "Policy on selection and evaluation of qualifications of Members of the managing body as well as persons performing most important functions in Bank Millennium Group", including overall assessment of adequacy of the new composition of the Management Board after the change;
- analysis of Information from a review of implementation of "Policy on remuneration of persons occupying management positions in Bank Millennium Group", with exception of Bank's Management Board Members in 2017, with a view to the Bank's good in the long-term, care for the interest of investors and customers as well as avoiding excessive exposure to risk;
- repeated evaluation of particular Management Board Members and determining the principles of payment of part of retained bonus for 2014, 2015 and 2016 to Members of the Bank's Management Board who were performing functions in those years;
- evaluation of performance of particular Management Board Members in 2017 and awarding to particular Management Board Members a bonus for this period under principles stipulated in "Policy on remuneration of persons occupying management positions in Bank Millennium Group";
- evaluation of Ms. Maria Jose Campos related to her resignation from function of Member of the Bank's Management Board;
- evaluation and recommendation of candidates for the Bank's Management Board of: Mr. Antonio Pinto Junior and Mr. Jarosław Hermann, made in keeping with "Policy on selection and evaluation of qualifications of Members of the managing body as well as persons performing most important functions in Bank Millennium Group";

- defining terms and conditions of employment for Members of the Management Board elected for the term of office ending on the day of holding the General Meeting approving the 2020 financial statement. The Committee decided that the terms and conditions of contracts with all persons performing functions in the Management Board during the current term of office (including those appointed in the future) shall remain consistent with the key parameters of management contracts (employment contracts) concluded in previous terms of office of the Bank's Management Board, considering differences as appropriate for contracts concluded with the Chairman and Deputy Chairman of the Management Board. Members of the Management Board shall have the right to a base salary and annual bonus. The Committee determined the base salary of Members of the Management Board. Data in this respect shall be published in the Bank's annual report;
- expressing opinion about the internal distribution of competence between Members of the Bank's Management Board with 7-person composition.

During both meetings all Members of the Committee were present.

For the purpose of proper performance of tasks, in 2018 Committee Members worked not only during the Meetings but also out of them - during mutual consultations as well as meetings and discussions with other persons, also with Members of the Bank's Management Board, in particular with a view to comprehensive assessment of the Bank's Management Board as a whole and of particular Members as well as selection of candidates for the Bank's Management Board and also supporting the Bank's bodies as regards formulation and implementation of remuneration policy valid in the Bank.

The Committee was monitoring Management Board decisions on an ongoing basis as regards actions in remuneration policy (in particular the value of bonus budgets and changes with respect to fixed remuneration of persons identified as risk takers) and deemed them consistent with the targets of long-term remuneration policy adopted by the Group.

Moreover another matter, on which Members of the Committee focused their attention in 2018, was initiation - in relation to coming into force of the Minister of Finance's Regulation of 7 May 2018 in the matter of detailed scope of tasks of the committee on nominations in significant banks - of actions aimed at approving the principles of diversity policy in the composition of the Bank's Management Board. This work will be continued in this term of office of the Committee with a view to reasonableness of approving systematised principles concerning the applied policy of diversity with respect to Members of the Bank's Management Board in the context of age, gender, education, professional experience, with simultaneous need to maintain stability of operations of the Management Board in attainment of planned strategic objectives.

C. Activity of the Strategic Committee in the reporting period

On the day of holding the General Meeting of Bank Millennium S.A. (hereinafter also "the Bank"), i.e. on 26 March 2018 the term of office of the Supervisory Board and thus also of the standing committees operating within it, came to an end. The newly elected Supervisory Board at its first meeting on 26 March 2018 elected the Members of the Strategic Committee (hereinafter also "the Committee") for the new term of office ending on the day of holding the Bank's General Meeting approving the 2020 financial statement. Therefore in 2018 the composition of the Strategic Committee was as follows:

- from 1 January 2018 to 26 March 2018:
 - 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,
- from 26 March 2018 to 31 December 2018:
 - Bogusław Kott – Chairman,
 - Nuno Manuel da Silva Amado,
 - Miguel de Campos Pereira de Bragança,
 - Agnieszka Hryniewicz-Bieniek,
 - Anna Jakubowski,
 - Andrzej Koźmiński,
 - Dariusz Rosati,
 - Lingjiang Xu.

The Committee's composition assures an appropriate level of supervision over the entrusted area of the Bank's operations and individual Members provide a guarantee of due and diligent performance of their duties in effect of their education and professional experience.

The competence of the Committee, as provided for in Bank Millennium S.A. Articles of Association (§ 18, item 7) and in Bank Millennium S.A. Supervisory Board Bylaws (§ 6, item 8¹), includes in particular such areas as:

- review of macro-economic trends,
- review of new trends, developments and new solutions in the banking sector,
- analysing the Bank's competitive position and benchmarks,
- analysing and recommending long-term strategy, objectives and tasks of the Bank.

During the reported period, the Committee took actions appropriate to the needs and circumstances, with a view to support the Management Board in defining and implementing the strategic goals.

In 2018 one meeting of the Committee was held, during which Members of the Committee saw a presentation concerning plans in relation to the Bank's digital transformation. An analysis was made the Bank's position vs. competitive banks in the context of the possibility of digitalisation. The Committee emphasised materiality of development of electronic banking, especially mobile banking, as services of crucial importance for the Bank's expansion on the Polish financial market and consolidating its perception as an innovative Bank, offering traditional services in modern form and thus reaching a broader group of customers. Eventually Members of the Committee concluded that taking a key position as regards degree of progress in the digitalisation process allows gaining a competitive advantage on the market of financial services.

Moreover, Members of the Committee held a number of informal meetings and consultations, also with Members of the Bank's Management Board, supporting the Bank's Management Board in pursuit of the development strategy, in particular by acquiring Eurobank.

As in each year, Members of the Committee followed and consulted matters of the macroeconomic situation in Poland, in Europe and worldwide.

All Members of the Committee took an active part in work of the Committee, guaranteeing its proper functioning.

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

In the year 2018, the initial composition of the Committee for Risk Matters (Committee) was 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.

On 26 March 2018, the Supervisory Board approved the new composition of the as follows:

- Mr. Dariusz Rosati – Chairman,
- Mr. Bogusław Kott,
- Mr. Miguel de Campos Pereira de Bragança,
- Mr. Grzegorz Jędrys,
- Mr. José Miguel Bensliman Schorcht da Silva Pessanha.

The Committee composition secures appropriate level of supervision of the entrusted areas of Bank operations and individual Members give guarantee of due and diligent performance of their duties ensured by their education level attained, knowledge 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.

In 2018 there were four meetings of the Committee for the Risk Matters, respectively: 31.01.2018; 19.04.2018; 24.07.2018 and 25.10.2018.

The information on Risk Management were subject to regular analysis during the meetings of the Committee, namely:

- General information on credit risk, reviewing the risk tolerance statement, the main drivers of credit growth, the evolution of the credit risk parameters and the profitability of the main segments of activity, market and interest rate risk, with detailed analysis of the limits set by the Bank and also analysing the interest rate sensitivity;
- Liquidity management, analysing the liquidity position of the Bank, the fulfilment of the limits set and monitoring the evolution of the major liquidity ratios;
- Operational risk, presenting the major operational risk events and impacts on functioning the Bank;
- Information on Capital Management, namely on the evolution of the capital ratios and internal capital;
- Update on legislative initiatives regarding FX mortgage loans, analysing the implementation likelihood and potential impacts of those initiatives;
- Information on bancassurance activity in Bank Millennium S.A., analysing the banks offer and the evolution of the business in terms of volumes and profitability. It is also presented the operational, compliance and legal risks of this activity.

Once a year legal risk has been analysed and discussed by the Committee, with detailed analysis of the court litigation involving the Bank.

During the meetings of the Committee other issues were also discussed:

- Competition and Consumer Protection Office (UOKiK) proceedings related to CHF - indexed mortgage loans;
- Factoring in Bank Millennium;
- Leasing portfolio analysis (microbusiness);
- Sector policy management;
- Report on model risk management in Bank Millennium;
- Results of Supervisory stress tests.

The Committee followed thoroughly the risk management of the Bank. All questions raised were answered and all information requests were provided.

Committee considers that:

1. The Bank uses methods to identify and measure or assess risk, control risk, and monitor and reporting on the risks associated with its operations, adapted to the size and risk profile of the Bank.
2. The frequency of risk measurement or estimation is adjusted to the size, profile and types of risk in the Bank's operations.
3. The methods of measuring or estimating the risk used by the Bank take into account the currently conducted and planned bank's activity and criteria for credit granting in accordance with the banking regulations.
4. The Bank took the adequate measures to ensure a reliable risk measurement or estimation.
5. The bank applies limits adapted to the size and risk profile of the risk occurring in the Bank.
6. As part of risk control, the bank determines the procedure to be followed if the limits are exceeded, defines the measures to eliminate any excess and corrective measures to prevent such situations in the future.
7. Risk monitoring is carried out at a frequency enabling the Committee for Risk Matters of the Supervisory Board to be adequately informed about any changes in the risk profile of the Bank.

The Committee expresses a positive opinion on the Bank risk management.

Assessment of the activity of the Supervisory Board in 2018

In the 2018 reporting period, according to the Supervisory Board, its personal composition warranted high level of qualifications, competencies and diverse professional expertise, as well as knowledge of the Polish financial market, thus ensuring appropriate level of the collegial supervision of all the areas of activity of the Bank. At the same time, individual Members of the Supervisory Board had specialist competencies for appropriate exercising of their supervisory responsibilities resulting from their education, knowledge and skills, thus providing warranty for due performance of the tasks they were entrusted with.

The Supervisory Board performed constant and on-going supervision of the activity of the Bank in accordance with its competencies and legal requirements concerning joint stock companies and banks.

Following the guidelines contained in the Good Practices and Principles, the Supervisory Board assessed its activity in 2018. Following this assessment, the Supervisory Board ascertained fair, reliable and due performance of the responsibilities by its Members. Intensive involvement of the Members of the Supervisory Board in its works translated into the high attendance rate at the meetings and active participation in the debates concerning the issues presented there. In the

opinion of the Supervisory Board, throughout 2018, the works performed by its Members both within the Supervisory Board and within the Committees of the Supervisory Board were characterised by high effectiveness and transparency, and they were in accordance with the best market standards for the listed companies.

The Supervisory Board did not find any of the following:

- conflict of interest due to the professional or non-professional activity of any of the Members of the Supervisory Board that could have a negative impact on his or her reputation,
- existence of connections or circumstances which could affect fulfilment of the independence criteria by the independent Members of the Supervisory Board.

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 2018.

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

The Supervisory Board states that the actions taken within Bank Millennium Group's remuneration policy reflected the requirement of secure management of variable remuneration components and requirement of responding to the changing market environment, in particular:

- Comprehensive version of the formal „Remuneration Policy” concerning all the employees of the Group was developed and implemented;
- Justified diversification of the principles for variable remuneration for different employee groups was applied – depending on the impact on the results of the bank, specificity of their tasks and impact on the risk profile of Bank Millennium Group;
- Budget of variable remuneration granted to individual employee groups constituted an additional incentive remuneration – in none of the business line or company the bonuses constituted the main source of income;
- The remuneration policy applied towards the Members of the Management Board is assessed as the one that achieves its purpose – remuneration for consistent implementation of effective and efficient business strategy of the Group and care for its long-term development;
- In the retail sales network a seniority and skills-based programme of remuneration verification was implemented aiming at supporting retention of the experienced and competent employees.

In the reporting period, the Management Board of the Bank presented to the Personnel Committee of the Supervisory Board the periodic information on functioning of the remuneration policy in Bank Millennium Group, with special emphasis on the value of payments of the variable remuneration for the previous bonus period (2017) to the employees in management positions and those identified as decision makers with impact on the risk profile of Bank Millennium Group. The 2017 bonus pool and total current value of the deferred bonus in the form of phantom stocks outstanding from the previous years' programmes were presented. The Personnel Committee reviewed also 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 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 2018, 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 2018, 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. According to **CSR Ranking** conducted by Forum Odpowiedzialnego Biznes/Responsible Business Forum, the Bank was ranked among top 10 socially responsible companies in Poland. It was also awarded with **CSR Silver Leaf** in Polityka weekly's ranking.

In 2018, the Bank joined the Diversity Charter – an international initiative promoted by the European Commission. It is a commitment signed by organisations that decide to introduce a ban on discrimination at workplace and take actions for creation and promotion of diversity. The company supports also implementation of the UN's Sustainable Development Goals or SDGs. While joining the business and governmental administration partnership for SDGs, Bank Millennium declared to conduct actions in particular in the area of financial education for children and young people.

1. Social activity

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

a) Financial education of children

Bank Millennium Foundation has been running „Financial ABC” project since 2016. It is an original programme of pre-school financial education under the honorary patronage of the Minister of Education and Children's Ombudsman. It was prepared by employees of Bank Millennium in cooperation with a non-governmental organisation. Its goal is to explain through play the basic notions from the world of finance to the youngest. During the workshops organised in kindergartens children learn basic financial notions: what money is, where money comes from and what the value of money is, what ATM and credit card are used for, what the difference between a need and want is, and why saving is a worthwhile effort. The classes involve volunteers – employees of Bank Millennium.

So far there have been four rounds of the programme. In total, during more than 1300 workshops executed within the programme, almost 33 000 children from approx. 400 kindergartens from all over Poland were trained. Apart from organising workshops in kindergartens, the Foundation has

been conducting open workshop in public spaces for all willing children. In 2018, on the Children's Day, for a three days in a row, the youngest could participate in the workshops at the Blue City Shopping Centre in Warsaw and during two September weekends, as part of the Science Festival in Warsaw, they could attend financial education workshops. Some dedicated educational materials were prepared for the programme – books featuring the main hero, Mr Sebastian who presents the content, colouring books and stickers. The materials were developed with some help of the parents – Bank Millennium employees. The books are also available in kids' corners in the Bank's branches.

b) 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. So far the initiatives financed with these grants have been supported by more than 300 volunteers who executed programmes for a few thousand beneficiaries. The Bank's employees have been delivering highly diverse projects – from renovation works to education and ecology projects. The volunteers have already renovated school classrooms and a playground at an orphanage, equipped a therapy room for the disabled, laid new floor in a scout's room or even built a school sports field. They have also conducted financial education workshops for children in care institutions, promoted readership and encouraged young people to take part in sports and live a healthy lifestyle. They organised a campaign for an animal shelter and planted a forest.

Such formula of supporting people and institutions in need has been very successful. Projects are entered by employees, who know very well the needs of their local communities. Therefore, help finds its way to those who really need it – often in small towns or villages where support from other sources is difficult to obtain.

2. Barrier-free banking

As socially responsible company, the Bank's objective is to eliminate infrastructural, digital and physical barriers to access financial and non-financial services. The Bank has been aiming at providing all its clients, including the disabled, with convenient access to financial services. Therefore, numerous access enabling solutions were introduced for the blind, persons with impaired vision and those on wheelchairs. These inclusive solutions concern both easy-access to branches, ATMs, telephone service, website and the service procedures. In 2018, for adjustment of its website to the needs of the blind users, Bank Millennium won the contest „Barrier-free Website/”Strona Internetowa bez Barrier” organised by „Widzialni” Foundation.

The Bank has been removing not only the barriers in access to its financial services. It has been also broadening the access to the solutions facilitating clients' every-day lives, anytime and anywhere. For clients, the Bank is not only a financial service centre, but also the first access channel for other services - for instance, in the mobile application, client may buy municipal transport tickets, pay for carpark or buy automotive insurance only through scanning the registration book code. The Bank supports also remote contact with Polish authorities. In online banking service you may create your free electronic signature that opens 24/7 online access to public administrative services. As client's identity is confirmed by the Bank, to create the signature you do not have to visit any office. These solutions perfectly match the idea of creating common value – both for the company and its environment.

3. 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, theatre, 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 Sceptre" prize for outstanding creators of culture, for 11 years it was the sponsor of "Millennium Pearls" ("Perły Millennium") - 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 16 years it has sponsored the Złota Tarka [Golden Grater] Old Jazz Meeting, an International Traditional Jazz Festival. For 7 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 6 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 Theatres Festival, for 5 years - with Gdańsk Music 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). Bank Millennium has partnered with Millennium Docs Against Gravity for 13 years. In 2016 it assumed the role of titular patron over this festival.

For several years, the Bank has also been the partner of the only in Poland ranking of young artists and the exhibition of their works - the Compass of Young Art (Kompas Młodej Sztuki). The aim of this initiative, in addition to the promotion of recognized young creators, is to work on building a professional art market in Poland and education on trends in art. The Compass of Young Art is a great guide for collectors, gallery owners, auction houses and investors who treat the ranking as a source of valuable information about the position of young artists. The Bank is also the founder of prizes for the laureates of the ranking. The results of the Compass of Young Art are annually published in the Rzeczpospolita daily and are accompanied by educational articles on contemporary art, which allows reaching a larger number of recipients.

4. Support for innovation development

As part of social activity Bank Millennium analyses 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.

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 2018 the third 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.

5. 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.

Since 2017 Bank Millennium has been member of the Warsaw School of Economics' Partners Club, thanks to which it became the university's key partner involved in the academic life – with its specialist input and as part of employer branding. 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. In spring 2018, the Bank opened the first academic co-working space at the Warsaw School of Economics to support the development of entrepreneurship among interested students regardless of their various courses of study. The Bank's experts conducted a number of lectures, seminars and workshops demonstrating to the young people the opportunities for use of their knowledge, in various departments and bank processes.

In 2018, also the 16th round of **the Ambassador programme** was finalised – a programme that serves as a bridge between the academic environment and the employer, through direct student cooperation. During the academic year students coordinated cooperation projects with student bodies, performed employer branding analysis of the local market and represented the company at external events.

6. Reporting CSR activity

The information about implementation of the rules of Corporate Social Responsibility (CSR) is presented in the non-financial part of Bank Millennium Annual Report for 2018. 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.

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 together with the report on non-financial information 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 2018 financial year

Acting pursuant to Article 382 § 3 of the Commercial Company Code, § 17 Section 3 of the Bank's Articles of Association and in connection with § 70 sec. 1 pt. 14 as well as § 71 sec. 1 pt. 12 of the "Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent", the Supervisory Board, at the meeting on 25 February 2019, assessed the documents submitted by the Management Board: (I) Bank Millennium S.A. financial statement for 2018, (II) the financial statement of Capital Group of Bank Millennium S.A. for 2018, (III) the Management Board's joint report on the activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for 2018 together with the report on non-financial information of Bank Millennium S.A. and Bank Millennium S.A. Capital Group in 2018. 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 2018 and the financial statements of Bank Millennium S.A. Capital Group in 2018 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 2018 together with the report on non-financial information of Bank Millennium S.A. and Bank Millennium S.A. Capital Group in 2018 have been prepared correctly from a substantive and formal perspective, are consistent with the books and documents as well as with the factual status and give a reliable picture of the financial results and operations of the Bank and the Bank Capital Group in the 2018 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.

6. Report on the evaluation of the Management Board's motion on profit distribution for the 2018 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 finds as justified the position of the Management Board of the Bank on division of the Bank's 2018 net profit in the total of 722.300.047,72 zł so that:

- the amount of 235.413.586,56 zł shall be assigned to covering the effect of implementing the International Financial Reporting Standard 9 (IFRS 9);
- and the outstanding amount of 486.886.461,16 zł shall be fully assigned to the reserve capital.

In the justification of the above position, the Management Board of the Bank evoked the requirements of the Polish Financial Supervision Authority defined in the letter of 15 January 2019 on the dividend policy of banks (and other entities) in 2019 and in the letter of 18 January 2019 addressed to Bank Millennium S.A., in which minimum levels of capital ratios for the Bank were defined. Based on the KNF's position and considering the planned actions related to the takeover of Eurobank, in order to reinforce its capital ratios, the Management Board of the Bank shall present to the General Meeting the proposal to retain the entire 2018 net profit in the equity of the Bank.

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.

7. Evaluation of Bank Millennium S.A.'s standing in 2018, 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.

The Supervisory Board, in order to conduct appropriate assessment of the situation of the Bank in 2018, reviewed and subject to in-depth analysis, inter alia, the below-mentioned parameters, referring to the basic areas of activity of the Bank and the Bank Capital Group.

The most important financial and business data concerning the results of the Bank Capital Group for 2018 look as follows:

- net profit of the Bank Capital Group totalled 760,7 m PLN and was 11,7% higher y/y (such favourable result of the Bank Capital Group achieved in 2018 comes mostly from the result of the Bank alone, which recorded net profit in the total of 722,3 m PLN),
- ROE at the level of 9,6%,
- annual cost/income ratio at the level of 46,5%,
- operating income increased 6,1% y/y,
- result on core activity increased 5,8% y/y,
- net interest income increased 8,1% y/y,
- net commission income remained unchanged y/y due to the unfavourable impact of capital markets,
- impaired loan ratio at the level of 4,5%,
- cost of risk at the level of 48 b.p.,
- loan/deposit ratio at a low level 79,6%,
- high Total Capital Ratio of the Group (TCR) at the level of 21,7% (without 2018 profit),
- high CET1: 19,8% (without 2018 profit),
- number of the active acquired clients: 202 thousand,
- increase in the number of active clients of mobile banking 36% y/y,
- increase in retail deposits by 18% y/y,
- significant increase in the sale of cash loans 39% y/y (3,2 bn PLN of the sold new cash loans),
- significant increase in the sale of mortgage loans in PLN 31% y/y (3,3 bn PLN sold mortgage loans),
- high growth rate of loans for companies 14% y/y,
- continued high increase in the sale of factoring 15% y/y and leasing 18% y/y,
- top again in all the categories of „2018 Newsweek’s Friendly Bank” ranking, including the highest place in „Mobile banking”,
- consistently, top positions in customer service rankings (inter alia in the surveys conducted by ARC Rynek i Opinia, including the highest NPS (Net Promoter Score) - 61,
- for the 11th time in GPW RESPECT Index, comprising public companies, which follow the best management standards in corporate governance, investor relations and also reflecting environmental and social factors,
- high tax and regulatory burden at the level of 40% of the operating profit (or 45% after inclusion of BFG and KNF’s costs).

In 2018 reporting period under review there was an improvement of key financial items and ratios recorded, including interest income – the main component of the Bank’s result. Continuing increase in the number of active clients was reflected in the growth of volumes of the majority of products, including especially cash loans, mortgage loans in PLN and retail deposits. Also the highest increase in the value of loans to companies in the last 5 years was recorded and the growth rate of sale of factoring and lease products was maintained. Low cost of risk, high capital and liquidity ratios demonstrate high development potential and create possibilities for further expansion while maintaining high pace of organic growth. The Bank has been also constantly emphasising development of digital banking, offering innovative solutions facilitating use of Millenet and mobile application, which was positively reflected and contributed to increased activity of mobile banking clients, including a significant number of downloads of Goodie application – innovative smart-shopping platform which is being developed in the Bank Capital Group. At the same time the Bank has been constantly maintaining high level of its services, for many years at the top of quality rankings. Apart from its financial activity, also the Bank’s participation in cultural, educational and social projects should be highlighted.

In view of the above, the Supervisory Board states that in 2018 the Bank, achieving yet again record results in the key segments of its activity, fulfilled its most important strategic objectives despite high tax and regulatory liabilities. The Bank launched also some initiatives of key

importance for further development and increase in the scale of the company's operations such as launching the mortgage bank project and planned takeover of Eurobank. Execution of these projects in the years 2018 – 2019 (especially the takeover of Eurobank) is connected mainly with incurring costs, whereas the positive effects in terms of business growth and improved results will appear only in 2020 and the ensuing years.

After an in-depth review of the financial statement and results of Bank Millennium S.A. and the Capital Group of Bank Millennium S.A. in 2018, and the strategic plans for the upcoming years, the Supervisory Board made a positive assessment of the financial situation of the Bank and the Group and perspectives for their further activity.

The Supervisory Board, personally and through the Committees of the Supervisory Board: Audit and Risk Committees, have been monitoring on an on-going basis the quality of risk management, compliance, internal control system as well as due performance of their functions by the Internal Audit Department and information policy maintained by the Bank, inter alia through approval of appropriate internal regulations, plans and strategies, in-depth analysis of the submitted reports and information and appropriate reviews and inspections.

Considering the supervisory activities undertaken, also on the grounds of the opinion of the Audit Committee and Risk Committee, expressed inter alia in the Reports on Committees' activity, the Supervisory Board states that:

- the components of the internal control system (control function, Compliance Department and Internal Audit Department) present the appropriate ability to identify possible irregularities and weaknesses in banking processes and ensure proper effectiveness of management of identified problems in terms of continuous and systematic improvement of the functioning control mechanisms;
- the risk management system for both financial and non-financial risk, includes elements such as identification, measurement, control as well as risk monitoring and risk reporting. The methods and frequency of tasks performed within the above components of the risk management process are adjusted to the size and profile of the Bank's risk and provide the Supervisory Board with adequate information on changes in the size and profile of risk. The methods of risk measurement and risk assessment applied by the Bank take into account both the Bank's current and planned operations. In the risk measurement process, the Bank applies, among others, stress tests and risk control takes place, on the basis of a system of limits adjusted to the size and risk profile of the Bank. As part of risk control, the Bank specifies the procedures to be followed in the event of exceeding the limits as well as defines measures to eliminate overruns and defines corrective measures;
- the Bank has been conducting a transparent information policy towards all its shareholders, investors, media, clients and other stakeholders, the scope of the information disclosed by the Bank fulfils requirements of the Banking Law, Commercial Companies Code, Public Offering and Trading in Financial Acts, EU Market Abuse Regulation as well as other specific requirements resulting from being a financial institution and public company with shares quoted on the Warsaw Stock Exchange, when realizing its information policy, the Bank as a public company and a supervised institution, complies also with confidentiality and information protection rules, the Bank's information policy complies also with corporate governance principles, in particular it ensures adequate access to information to all the shareholders and investors.

Assessing on the basis of rational grounds, including the implementation of improvement measures, in the opinion of Supervisory Board, the internal control system as a whole, comprising its individual components, coupled with the risk management system as well as information and communication system, effectively and properly meet regulatory requirements

and being well-managed are adequate to the size of the Bank and exposure to risks related to the operations carried out by the Bank and the Capital Group of Bank Millennium S.A.

In view of further robust development of the Bank, the Supervisory Board highly appreciates the very good financial and business results of Bank Millennium S.A. and the Capital Group of Bank Millennium S.A. achieved in 2018 and the development initiatives that were launched, and the Board highlights also the very good cooperation with the Management Board, based on effective and transparent flow of information. The Supervisory Board hereby expresses its sincere appreciation for both Members of the Management Board of the Bank and the employees of the Capital Group of Bank Millennium S.A., with thanks for yet another year of fruitful work and involvement.

[Signatures of the Bank's Supervisory Board Members]