

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

for the 12 month period ended 31 December 2016



MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE BANK MILLENNIUM S.A. FOR THE 12 MONTH PERIOD ENDED 31 DECEMBER 2016

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I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Sirs,

On behalf of Members of the Management Board of Bank Millennium I wish to invite you to read the 2016 Annual Report.

For us and for the whole sector 2016 was the year of growth, but also the year of challenges in the economic environment as low interest rates and uncertainty about potential regulations regarding mortgage loans in foreign currencies granted in the past. Banks also came under pressure from the new bank tax, which significantly trimmed their earnings, and from growing capital requirements. Functioning of the Polish banking sector was also affected by economic-political international events e.g. BREXIT and the US presidential elections as well as consumer trends characteristic for the entire financial market. From the point of view of a bank focusing on innovation, what turned out to be most important for us, was the unfolding mobility and omnichannel nature of services provided as well as the growing role of the Internet, which becomes increasingly important sphere of the Bank's interaction with customers.

In 2016 we generated consolidated net profit of PLN 701 million. The strong result supported by one-off proceeds from sale of VISA Europe shares, came also as a result of a well-functioning business. The Group's financial situation allows us to realistically think about further stable development in 2017.

Core revenues, consisting of net interest income and commissions, grew at a stronger pace than costs. Consequently, cost to income ratio fell below 50%. Good loans portfolio quality, allowing credit risk provisions to be lower than in previous year, which was another driver of profit increase.

In 2016 we also further significantly strengthened the capital base so the capital ratio TCR reached the level of 17.4%, comfortably above regulatory requirements.

Another medium-term objective, we reached, was to accelerate the rate of acquisition of retail customers via all available channels, traditional and digital, with their profitability sustained. By the end of 2016 the number of active customers went up reaching level of nearly 1.5 million. Among new customers the biggest group was that of young people aged under 26 who were attracted to the Bank by the comprehensive offering of online services and the friendly mobile app.

I can definitely say last year was a year of mobility - the number of people choosing the mobile app as their banking service channel grew nearly by a half, while the number of online banking customers went up and reached 1 million. This was also a year of innovation. Among other things we created Poland's first motor insurance offered in a phone where we used the technology of scanning data from the vehicle's registration certificate. We were also the first in Poland to enable online registration of pre-paid phone SIM cards without the need to visit an operator's outlet.

As part of the digital revolution in Polish administration our customers began to use online banking to submit applications in the "Family 500+" programme, to use ZUS Electronic Services Platform and Trusted Profile, which opens safe and convenient access to a number of public administration websites. This is an excellent example of the positive role the whole banking sector plays in digitalisation of Polish government offices as well as the banks' response to the growing needs of Polish families.

In fact we went even further. Using our internal technological power as well as business capabilities of examining paths, which may generate new revenue streams, in 2016 we launched "goodie", the opened smartshopping platform. The new platform aggregates shopping discounts according to context, blending the experience of Bank Millennium Group in building the best banking systems with a completely new area of shopping apps.

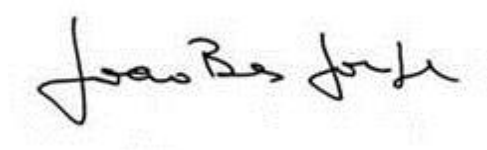
Innovation is not just about products and services offered to customers. Innovation also involves the process of developing a new approach and forging an idea into a product or service. The idea we had to contribute to the debate about innovation was publication of the "Millennium Index - Regional Innovation Potential" report. Perceiving differences in the innovation potential of individual regions we are analysing the broad business context.

Bank Millennium is a versatile institution whose activity reaches above and beyond the financial business. We are consistently implementing a programme of supporting culture and are acting for local communities and the environment. We are training staff in principles of ethical sales and marketing, adjusting offered services to the needs of disabled persons. Currently all cash machines and 90% of branches are adapted to their requirements. By reducing the consumption of materials, electricity, fuel and water we take care of the natural environment. The high standards in running responsible business were confirmed in many surveys as well as the long-standing presence in RESPECT Index - an index of public companies, which follow the best standards of CSR and corporate governance. We offer our Employees a stable working environment as well as the possibility to develop skills by attending specialist training and community actions. We implement social

programmes via Bank Millennium Foundation focusing on three areas: financial education, culture and employee volunteering.

The number one priority of the Bank is to provide customers with the highest quality of service. In our activities we are always driven by the customer and his voice. Every year we hold more than twelve thousand interviews and analyse each claim to see what else we can improve further. Introducing new solutions is a success only when customers not only accept them but also come to like them - then they will start to use the solutions. For some years now we have been working in accordance with “design thinking”, applying service design methodology, which is oriented at customer experience focusing on understanding and satisfying their specific needs. We believe that listening to customers and service quality, which reflect this, are fundamental to business - allowing relations with existing customers to be developed and new customers to be acquired.

Solutions already implemented have contributed not only to growth of customer satisfaction but have also been appreciated by the market. In 2016 Bank Millennium won recognition in the Newsweek’s Friendly Bank competition - it was the only bank to make it to the top three in all four categories: mortgage, internet, traditional and mobile banking. This is best proof of the quality of the services we offer and of the strategy we are successfully implementing.



Joao Bras Jorge

President of Bank Millennium

II. BRIEF DESCRIPTION OF BANK MILLENNIUM GROUP

Bank Millennium ("the Bank") arose in 1989 as one of the first Polish commercial banks. Today it is a nationwide universal bank, which offers its services to all segments of the market via a network of branches, networks of individual advisors as well as electronic and mobile banking.

The Bank's assets are more than PLN 68 billion while equity is almost PLN 7 billion. Millennium is one of top 8 Polish commercial banks in terms of assets and capital.

The Bank has accumulated almost PLN 56 billion in customers' deposits and more than PLN 47 billion loans. Its share in the market of retail customers' funds is 5.8%. The Bank has built its position on the market thanks to working with close to 1.5 million active personal Customers and 13 thousand corporate Customers. Almost 1 million of them are actively using internet and mobile banking.

Bank Millennium is a market leader in innovation understood to mean new technologies and process improvements. The digital platform developed by Bank Millennium enables an omnichannel approach, which assumes full integration of Millenet internet banking, Mobile Banking, TeleMillennium and service in branches.

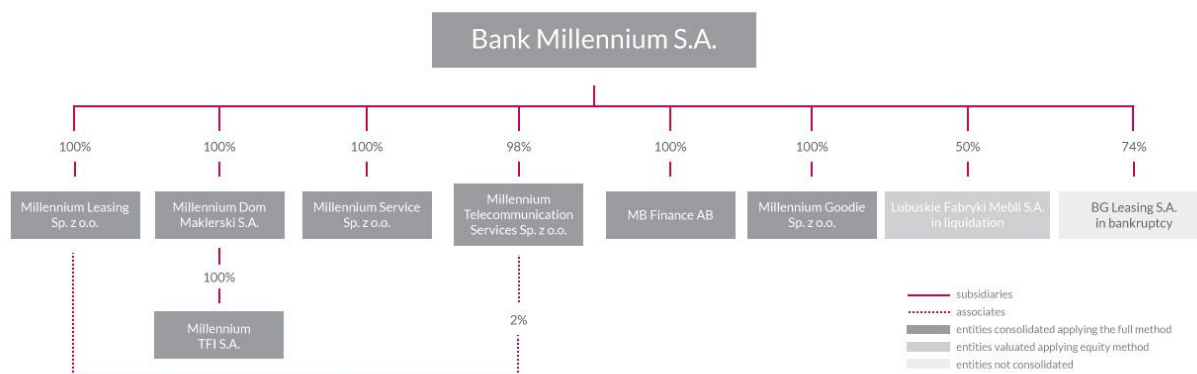
Since the beginning of its activity the Bank saw its role as that of a leader in terms of solutions used in the banking sector: it issued the first VISA card in Poland for business Customers (1991) and began to offer leasing services. In 1992 the Bank's shares - as the first financial institution - had their debut on the Warsaw Stock Exchange.

The Bank is operating under the Bank Millennium brand since 2003, and its business motto is "Traditional Banking with a Modern Twist". The Bank offers services to personal customers (in Retail, Prestige and Private Banking segments), to microbusinesses as well as small, medium and large companies in the Corporate Banking segment.

The Bank's strategic shareholder is Banco Comercial Portugues - Portugal's largest private bank, which holds a 50.1% stake in Bank Millennium.

Bank Millennium, together with its subsidiaries, makes up Bank Millennium Group ("the Group") - one of the most innovative and comprehensively developing financial groups in Poland - employing a total of 5,844 persons.

Scheme of Bank Millennium S.A. Capital Group as on 31.12.2016



The most important companies in the Group are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage house) and Millennium TFI (investment funds). Since 2016 the Bank, via Millennium Goodie Spółka z o.o., has been operating an innovative smart shopping platform. The offering of the above-mentioned companies is complementary to the services and products offered by the Bank. Other companies in the Group provide infrastructural support.

III. HIGHLIGHTS OF RESULTS AND ACHIEVEMENTS IN 2016

III.1. Summary of consolidated Group results in 2016

Record net profit and cost efficiency

- Consolidated Net profit in 2016 at PLN 701 million (+28,3% y/y) - the highest level in the Bank's history. The standalone net profit of the Bank was PLN 653 million.
- New banking tax cost a significant amount of PLN 174.1 million in 2016 year (not tax-deductible)
- Consolidated net profit without new tax and one-offs (VISA and provisions booked in 2Q) at PLN 695 million (+4.1% versus recurrent net profit in 2015: PLN 667.4 million without one-off charges booked in 4Q 2015)
- ROE (Return on average equity) at 10.4% (7.8% without one-off items) versus 9% in 2015
- ROA (Return on average assets) at 1.05%
- Cost to Income at 45% - the lowest yearly level (49.6% without one-offs - in line with strategic target of Bank Millennium Group)

Continued growth of operating income of the Group

- Operating income grew by 23% yearly
- Core income higher by 6% yearly
- Net interest income up by 10% yearly
- Net commission income fell by 2.5% yearly but showed consequent growth since 2Q 2016

Good and stable asset quality and cost of risk

- Impaired loans ratio at low 4.5% and in case of mortgage at 2.5%
- Cost of risk at 49 b.p.s.

Strong capital and liquidity ratios

- Consolidated Total Capital Ratio at 17.4% and Common Equity Tier 1 at 17.3%
- Comfortable fulfilment of regulatory capital adequacy requirements
- Very strong liquidity: loans-to-deposits ratio at low 84% level

Retail business

- 1,492 ths. active customers with 122 ths. net growth during 2016 year
- Retail deposits grew faster than market (+11% y/y) to reach 5.8% market share
- Acceleration of mortgage sale: +30% yearly (to PLN 895 million)
- Consumer loan portfolio grew +11% y/y thanks to robust sale of cash loans: PLN 2.3 billion

Companies business

- Profitability of corporate segment grew by 31% y/y
- Strong sale of leasing and factoring: +7% and +9% yearly
- Growing number of transactions: +9% of domestic payments and +28% of FX transactions (volume)

Innovations/Quality

- One million active users of electronic banking (16% growth y/y)
- Innovation, convenience and simplicity for customers in electronic channels

- Bank Millennium among the top three banks in Newsweek quality ranking since 2011

III.2. Main awards and achievements in 2016



Perfect quality

In the 15th edition of the ranking „Newsweek Friendly Bank 2016” Bank Millennium was the only one awarded in all categories of the ranking:

2nd in the „Internet Bank” category

2nd in the „Mortgage Banking” category

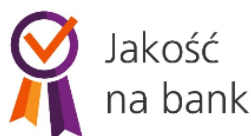
3rd in the „Traditional Banking” category

3rd in the „Mobile Banking” category



2016 Service Quality Star

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



Bank on Quality

Bank Millennium won the „Bank on Quality” survey carried out by TNS Polska research agency. The nationwide survey carried out in October 2016 covered 60 bank branches belonging to 15 banks. The survey was made by mystery shoppers. Evaluation was made on the basis of interviews with bank staff on topics involved with loans or savings, which resulted in a purchase being made (account opening) or product resignation (closing of the account a few days after signing the agreement). The Bank scored 90.6% with an overall average score of 74.2%.



Złoty Bankier

Bank Millennium took third place in the „Złoty Bankier” ranking (The Gold Banker) in category of the highest quality of service organized by „Puls Biznesu” daily and Bankier.pl. TNS Poland and Obserwatorium.biz conducted a full audit of the quality of service banking in branches, call center, ergonomics electronic channels, electronic security systems, the product offer, social communication and banking advertisement. Additionally, the Bank received a special award in the category „The best practice of security systems”



Consumer choice in 2016

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



2016 Award Global Finance

Bank Millennium has won "The 2016 World's Best Consumer Digital Banks in Central & Eastern Europe" award for corporate solutions: "Best mobile banking app" and "Best trade finance services". In this same competition it has also been hailed the national and regional winner in the "Best Online Deposit, Credit and Investment Product" subcategories in Central-Eastern Europe.



Bank Millennium for the ninth time in the RESPECT Index

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



Website without barriers

Bank Millennium was awarded in the competition "Website without barriers" for adapting the website to the needs of people with disabilities, the elderly and exposed to digital exclusion. The competition "Website without barriers", organized by the „Fundację Widzialni” (Foundation Visible) and „Szerokie Porozumienie na Rzecz Umiejętności Cyfrowych” (A Wide Coalition for Digital Skills) is the only such initiative in Poland.



CSR Silver Leaf

For the second time Bank Millennium was awarded the CSR Silver Leaf in a report prepared by Polityka weekly and Deloitte consulting company. The report was based on guidelines of the International ISO 26000 Social Responsibility Standard, which looks at seven areas: Organisational governance, Human rights, Labour practices, Environment, Fair operating practices, Consumer issues and Community involvement and development and also takes on board selected Sustainable Development Goals and Targets announced by the United Nations.



Reliable Employer 2016

Bank Millennium received the title of *Reliable Employer 2016*. The Bank was appreciated i.a. for the generous social benefits pack, investing in staff development; *Parents Say YES* project; IMPAKT employee awards programme as well as CSR activity: Code of Ethics and support for the natural environment. The national Reliable Employer of the Year competition aims to identify the best employers in terms of recruitment policy, employee solutions and human resources management. Evaluation is made of employment terms and conditions; punctuality of payments; social benefits; career path; employment dynamics as well as external and internal opinions about the company.

III.3. Share price performance and ratings

The year 2016 was marked with partial rebound on the Warsaw capital market after significant falls of majority of indices recorded in 2015. In the view of more neutral impact of local factors, the Warsaw Stock Exchange in the last year followed global trends being marked by such significant political developments as a result of referendum in the UK favouring Brexit supporters (negative impact) or the U.S. presidential elections won by D. Trump (positive impact, against expectations). During 2016 the main WIG index at the Warsaw Stock Exchange increased by 11.4%, while „blue chip” index WIG20 recorded a slower increase, by 4.8%.

Some negative regulatory and political factors having impact upon quotation of share prices of banks on the Warsaw Stock Exchange in 2015 continued their presence also in 2016. Thus, WIG banks index recovered only 2.9% of 23.5% drop recorded in 2015. Specifically unfavourable outlook accompanied quotations of banks involved in FX mortgage loans and only the beginning of 2017 brought significant reduction of risk of application of extremely unfavourable solutions relative to these banks.

Bank Millennium share price in 2016 remained under impact of the above factors, especially the specific ones, unfavourable for banks having FX mortgage portfolios, and thus the share price decreased by 6.7% during the year.

Average daily turnover of Bank Millennium shares was lower in 2016 by 35.5% compared to corresponding period of 2015 year (in which Accelerated book-building transaction of selling 15.4% of Bank's shares by its' Parent - Millennium bcp - inflated turnover significantly).

| Market ratios | 30.12.2016* | 30.12.2015* | Change (%) Yearly |
|--|-------------|-------------|----------------------|
| Number of shares of the Bank (in ths.) | 1 213 117 | 1 213 117 | 0.00% |
| Daily trading - average (PLN ths,) | 5 716 | 8 865 | -35.5% |
| Price of the Bank shares (PLN) | 5.19 | 5.56 | -6.7% |
| Market capitalization (PLN million) | 6 296 | 6 745 | -6.7% |
| WIG Banks | 6 263 | 6 087 | 2.9% |
| WIG20 | 1 948 | 1 859 | 4.8% |
| WIG30 | 2 243 | 2 076 | 8.1% |
| WIG - main index | 51 754 | 46 467 | 11.4% |

(*) last day of quotation in 2016 and 2015

During 2016 there were no changes of the two basic ratings assigned to Bank Millennium. On 29 February 2016 Fitch rating agency affirmed Bank's ratings at BBB-/F3/A- (pol) stable outlook. On 22 June 2016 Moody's rating agency affirmed Bank's rating at Ba1 (stable outlook).

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

(*) In March 2015 Moody's replaced former BFSR (bank financial strength rating) with Baseline Credit Assessment (BCA), which is the only indicator of issuers' standalone intrinsic strength and has no outlook assigned.

IV. MARKET CONDITIONS AND BUSINESS PROSPECTS

IV.1. Macroeconomic environment

In 2016 Polish economy remained on the growth path, but the pace of growth has decelerated. Gross Domestic Product in 2016 grew, in real terms, by 2.8% after growing by 3.9% in 2015, much slower as compared to the expectations from the beginning of 2016. Investment slump pushed GDP growth down while consumption accelerated fuelled by social spending as well as favourable labour market conditions. Private consumption increased by 3.6% after growing by 3.2% in 2015 and added 2.1 percentage points to the GDP growth. On the other hand investment in fixed assets declined by 5.5% in a year subtracting 1.1 percentage points from the GDP annual dynamic. Investment decline was caused by delays in the utilization of the EU funds from new financial perspective and growing uncertainty regarding business environment (including taxes and regulatory environment). The external balance added only 0.1 percentage point to the annual growth rate, while a year before the contribution was equal to 0.6 percentage point. The Bank assesses that macroeconomic data show no sign of the build-up of macroeconomic imbalances.

The preliminary estimate showed that in the fourth quarter 2016 GDP deceleration has stopped and growth equalled to 2.7% y/y as compared with 2.5% y/y in the third quarter. The estimated decline of investment was equal to 6.0% y/y vs 7.7% in the third quarter and seasonally adjusted monthly construction data points to positive momentum of investment outlays, suggesting that the economy has probably passed a turning point at the end of 2016 and growth acceleration is on the way.

After a good 2015 year, labour market conditions improved further in 2016 and unemployment rate has reached new record low of 8.2% in October. In December registered unemployment rate was equal to 8.3% and was by 1.4 percentage point lower than in December 2015. Unemployment rate based on the Labour Force Study (BAEL) has also reached a new record low at 5.9% in the third quarter of 2016. The number of job offers registered in the labour offices was growing during a year and in December it was by 15.3% higher than at the end of the previous year. At the same time the number of persons removed from unemployment rolls declined by 20.1% y/y, as labour market flows are relatively low. The number of unemployed per one job offer bears growing problems with finding suitable employees. In June and September it amounted to just 9.5 and was the lowest on record. It may, with time, translate into intensifying wage pressure. Nonetheless the wage growth remains moderate and in December average earnings in the enterprise sector increased by a very modest 2.7% y/y. In the whole year average wage in the national economy increased by 3.8% in nominal and by 4.2% in a real terms.

In November 2016 a 28-month long period of deflation has finally ended. In December 2016 Consumer Price Index increased by 0.8% y/y but the whole-year average figure was still negative, equal to -0.6%. The persistence of negative inflation was the consequence of supply-side shocks on food and fuel markets as well as the very low demand pressure in the economy. At the turn of the year solid acceleration of inflation is observed, as a consequence of growing commodities prices and statistical base effects.

In the environment of lack of inflation pressures, the MPC kept loose monetary policy stance. The reference rate is record-low and currently stands at 1.50%. In the Bank's assessment the NBP official interest rates will remain at current levels in nearest future.

Leading indicators suggest some improvement of the business sentiment, especially in the industrial sector, where the PMI index was at a 22-month high of 54.8 points in January 2017. The Bank assesses that in 2017 the economic growth might accelerate to 3.1%. The structure of the growth may improve as an build-up of public investment is expected. Private consumption will still be the main engine of growth, with additional support in the first half of the year from the social programme Rodzina 500+. The consumption acceleration translates into growing imports and some worsening of external balance. After a solid acceleration at the beginning of the year, the CPI inflation is expected to stabilize below the NBP target of 2.5% causing no need to adjust NBP interest rates.

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

During 2016, banks in Poland were operating in a difficult market environment, caused mainly by introduction of (from February 2016) a new special banking tax, with 0.44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount. On the other hand, 2016 year did not bring so strong new regulatory interventions on interest or fee income, like the ones which happened in 2015 (e.g. cut of market interest rates, cut of maximum interchange fees, creation of a new Mortgage Borrowers Support

Fund or an increase of obligatory Banking Guarantee Fund charges), but was still affected by implementation on new regulations on insurance business. There was also smaller extra charge to Banking Guarantee Fund connected with bankruptcy of co-operative banks: PLN 140 million in 2016 compared to over PLN 2 billion in 2015.

2016 year did not bring any regulatory solution to FX denominated mortgage loans, although there are currently three different draft acts submitted to the Polish parliament, including presidential proposal of legislation aimed at supporting FX mortgage borrowers in the form of reimbursement of part of FX spread applied by banks. Such situation has generated some uncertainty that affected market valuations of most banks listed on the Warsaw Stock Exchange, despite the fact of comfortable average quality of FX mortgage portfolio in Polish banking system and strong capital position of Polish banks.

2016 year also brought further higher capital requirements from banks, including a new capital conservation buffer of 1.25% (obligatory in Poland since January 2016) and other systematically important institution buffer, imposed on the biggest Polish banks in the amount between 0.75% and 0.25%. In the second half of 2016 year Polish Financial Supervision Authority (KNF) also revised special pillar 2 buffers to cover risk resulting from FX mortgage loans granted to households. It was also announced that further capital requirements may be imposed for the banks in connection with FX mortgage loans. Such situation drives up equity of Polish banks mainly by limiting possibility of paying dividends. Equity of Polish banks increased by 6% during the year reaching a very high amount of PLN 184 billion. This level of own funds allowed Polish banks to keep very strong solvency ratios: Total Capital Ratio (TCR) at 17.6% and Tier 1 ratio at 16% (data for September 2016). Strong capital position of Polish banks, positive from the point of view of safety, creates however another negative pressure on banks' market valuations, due to lower ROE ratios and no dividends.

At the same time the process of growing concentration of the banking sector in Poland continues, mainly due to acquisition activity of state-controlled entities (PKO BP, PZU SA and PFR - Polish Development Fund). At the end of 2016 year Unicredit Bank, owner of the second biggest bank in Poland, agreed to sell 32.8% stake in Pekao SA to PZU and PFR. When concluded, this transaction would increase share of banks with predominant domestic capital (mainly controlled by the State) in the Polish system to around 50%. At the end of Q3 2016 top 10 banks accounted for 68% and top 5 had 50% of total sector assets.

During 2016 year total deposits of the banking sector grew strongly by 8.9% per annum (NBP data), which is the second consecutive such strong growth, despite cutting of interest rates in Poland in 2014 and 2015 year to the record low level of 1.5% (reference rate). Especially strong growth was noticed in households segment: +9.4% yearly. Total loans of banks grew less remarkably, by 4.6% yearly, with disappointing 3.7% growth of loans to corporate sector. As a consequence, liquidity of Polish banks improved during 2016 year: Loans to Deposits ratio in the entire sector dropped from 103% at the end of 2015 to 96% at the end of December 2016.

At end of September 2016 Bank Millennium Group was the 8th biggest among commercial banks in Poland by total assets and deposits. As at the end of 2016 Bank's market share in deposits reached 5.1% while in loans it stood at 4.5%. Bank Millennium Group, comprising the Bank itself and a leasing company, mutual fund management company as well as a brokerage house, keeps a relatively stronger position in retail loans and credit cards (approx. 5.7% market share). Other important segments of the Group include leasing (7th place on the market) as well as factoring (the 4th biggest player in the market). Distribution of the Group's products and services is done through 369 branches as well as electronic channels, including cash machines, the internet, phone and mobile applications. During 2016 Bank Millennium Group improved market share position in retail deposits, while market share in mortgage loans and corporate deposits fell.

In 2017 the Bank is expecting deceleration of deposits growth in the banking sector, mainly due to growing consumption as well as competition of other, non-deposit saving products. As regards banking sector loans, the Bank expects them to accelerate, supported by expected rebound in companies' investments.

There are also potential external factors, which might have a significant influence on the activity of the Polish banking sector (and Bank Millennium) in the coming quarters:

- On August 2nd 2016 a presidential proposal of legislation aimed at supporting FX mortgage borrowers was put forward. The draft Act covers all foreign currency loans concluded from 1st July 2000 to 26th August 2011 (date of entry into force so called anti-spread Act). Aforementioned draft Act envisages reimbursement of part of FX spread applied by banks. It was also announced that further capital requirements may be imposed for the banks in order to restructure FX mortgage loans. Including the above mentioned draft Act, there are currently three different draft acts submitted to the Polish parliament and as a consequence it is not possible to estimate the impact of this potential regulation on the banking sector. However, announced legislative intentions on spread return, if implemented and made mandatory for banks, could significantly deteriorate the Bank's profitability and capital position.

- On January 13th 2017 Financial Stability Committee (KSF) in Poland released set of recommendations regarding restructuring of FX mortgage loans. The proposed supervisory instruments aimed to support banks and borrowers in the direction of taking decisions on restructuring include, among other: to increase risk weight for FX mortgage exposures, to increase the minimum value of LGD parameter for FX mortgages, to allow utilize Mortgage Borrowers Support Fund for supporting voluntary restructuring of loans, to update BION/SREP methodology in order to assign appropriate level of capital surcharge to further risk factors connected with FX mortgage loans (operational, market and risk of a collective default of the borrowers) and to supplement currently used Pillar 2 additional capital buffers with these risk factors. KSF suggested also that KNF should issue a recommendation regarding good practices of restructuring FX mortgage loans. Finally KSF suggests, that BFG should take risks connected with FX mortgage loans into consideration in the method of determining fees for the Banking Guarantee Fund. It is not possible with the available information to analyse the impacts of these recommendations, but implementation of part or all recommendations may have influence on the results and capital ratios of the banks, including Bank Millennium, although it is possible that there will be some offsetting effects.
- Increased uncertainty over consequences of Brexit, policy of the new U.S. President D. Trump and elections in Europe might undermine outlook for the global economy, triggering volatility in the financial markets and reducing scope for economic recovery in Poland.
- Possible recovery in corporate investments, especially in the second half of the year, thanks to expected increase in utilization of the EU funds, might support growth of investment loans. However, because of good financial results and high liquidity of Polish companies, demand for financing from corporate sector might remain moderate.
- Potential increase of yields of Polish bonds driven by higher borrowing needs, global sentiment and expected rate hikes in interest rates in Poland in 2018 year.
- Still good situation in labour market and growing households' income, partially because of programme Rodzina 500+ (Family 500+), should support demand for households credit and quality of loans portfolio.

IV.3. Strategy fulfilment and business development perspectives

During 2016, Bank Millennium continued implementing its strategic plan for 2015-17, keeping the main direction with adjustments needed in face of negative impacts caused by new tax and regulatory developments. The main medium term objectives are focused on protection and rebuilding profitability affected by the new banking tax, together with:

- To reach 1.6 million active Retail Customers;
- Increase of market share in Retail Customer funds to more than 6%;
- Cost-to-income in the interval of 45%-47%;
- Loans to deposits ratio at less than 95%.

The main initiatives, for the purposes of implementing the Bank's strategic plan, aim to improve results by focusing on both the income and costs items in the Retail and Companies segments and are based on four pillars:

- i) Acceleration of the acquisition of Retail Customers focused on gaining scale on digital world and the value of new Customers seen on a marginal cost/revenues, while maintaining the focus on products with a higher margin in order to maintain the profitability of the segment;
- ii) Maximize Customer value and increase the efficiency in Customer retention through advanced analytical methods;
- iii) Maintain the momentum in the Companies segment, by keeping profitability through stronger focus in assets optimization and value creation than loan growth, reducing the cost of risk and reinforcing the Banks positioning in specialized financing;
- iv) Maintenance of an operational excellence and rigorous cost control, through a simplified digital operational model, preparing the IT platform for the future.

During 2016, the Bank increased active retail customers by 122 thousand being close to 1.5 million such customers at year-end. This growth was accompanied by the growth of retail deposits, by 11% yearly, which outperformed the market allowing to reach 5.8% share. The Group maintained also double digit growth of cash loan portfolio (+11% yearly) and accelerated sale of Polish Zloty mortgage loans (+30% yearly). In companies business, profitability growth was a main goal: gross profit grew by 31% yearly, supported by much lower cost of risk. Implementation of 2015-2017 strategy allowed Bank Millennium to consolidate its position as a leading quality and technologically advanced bank and to fulfil most of its targets. New banking tax introduced in Poland since 2016 and no dividend distribution affected ROE target.

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

In the infrastructure and operational area, the Bank kept high excellence and cost discipline and maintained operating costs at low growth, much lower than operating and core income growth. Therefore, Bank Millennium managed to keep Cost to Income ratio at 45% (or 50% without one-off items), which indicates continuation of a positive trend began few years ago.

Finally, the Bank improved a lot liquidity buffers (Loan to Deposits at 84%) and kept comfortable high capital ratios (TCR on Group level at 17.4%). This bodes well in the view of past and expected new capital buffers introduced in Poland. However, due to KNF position in the matter of the dividend policy of banks issued in December 2016, the Management Board of the Bank will submit to the General shareholders meeting a proposal to retain in own funds the full net profit of 2016.

Going forward, Bank Millennium is continuing its current organic growth strategy, being focused on customer fast acquisition, while consolidating its position as a leading quality and technology advanced bank. Sustainable growth of retail deposit base, change of asset mix with increasing share of consumer loans, strict risk and profitability criteria in loan growth and leveraging digital platform to maximize sales are other strategic objectives for the Bank in 2017 year.

V. FINANCIAL SITUATION OF BANK MILLENNIUM

V.1. Information on important events which impacted Bank's activity

- As previously reported, as member of Visa Europe Ltd the Bank is among the beneficiaries of the transaction concluded on 2 November 2015 between Visa Inc. and Visa Europe Ltd. In result of the conversion the Bank received EUR 59.2 million in cash, 21 493 preference shares and is entitled to a deferred payment of approx. EUR 5 million minus adjustments. The closing of the Visa transaction took place on 21st June 2016, and had a significant positive influence on the results of the Bank in the 1st half 2016: the gross impact on revenues totalled PLN 283 million. In order to determine the fair value of deferred payments and preferred shares, the time value of money, the time line for conversion of preferred stock in common stock of VISA and adjustments resulting from litigations (on-going or potential) against VISA and the Bank were considered. In the fourth quarter of 2016, taking into account the practice adopted by the banking sector, as well as probability of potential litigations, the Bank reassessed the fair value of VISA transaction settlement. As a result deferred payment component was adjusted by PLN 22.6 million. Following the above, the Bank recognized income from the change in fair value of a deferred payment component which increased gross revenue on VISA settlement recognized in the first half of the year by additional amount of PLN 22.6 million.
- On October 28th 2016, the Bank received from the Bank Guarantee Fund resolution concerning contribution of PLN 7.1 million to BGF to pay guaranteed funds to depositors of Bank Spółdzielczy in Nadarzyn.
- On October 10th 2016 Bank received the decision of Polish Financial Supervision Authority (KNF), regarding identification of the Bank as other systematically important institution and imposing on the Bank and on the Group the other systematically important institution buffer in the equivalent of 0.25% of total amount of the risk exposure (only on common equity Tier 1 capital). This decision was issued on the basis of article 39 section 1 and 3 in connection with art. 5 of the Act of 5.08.2015 on macro-prudential supervision of the financial system and on crisis management in the financial system.
- In October and December 2016, Bank and Group received from KNF a recommendation to maintain own funds for the coverage of additional capital requirements at the level of 3.09 p.p. (Bank) and 3.05 p.p. (Group) in order to secure the risk resulting from FX mortgage loans granted to households, which should consist of at least 75% of Tier 1 capital (which corresponds to 2.32 p.p. in Bank and 2.29 p.p. in Group), and should consist of at least 56% of common equity Tier 1 capital (which corresponds to 1.73 p.p. in Bank and 1.71 p.p. in Group). That recommendation replaces the previous one, to maintain the Banks's own funds for the coverage of additional capital requirements at the level of 3.83 p.p., which should have consisted of at least 75% of Tier 1 capital (which corresponded to 2.87 p.p.).

V.2. Bank's Profit and Loss Account

| Operating Income (PLN million) | 2016 | 2015 | Change y/y |
|--|----------------|----------------|---------------|
| Net Interest Income | 1 403.9 | 1 270.4 | 10.5% |
| Net Commission Income | 490.3 | 547.6 | -10.5% |
| Core Income* | 1 894.1 | 1 818.1 | 4.2% |
| Other Non-Interest Income ** | 419.3 | 380.5 | 10.2% |
| of which dividends | 46.1 | 334.0 | -86.2% |
| of which extraordinary incomes and charges | 231.5 | (140.3) | - |
| Total Operating Income | 2 313.5 | 2 198.6 | 5.2% |

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

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

Net Interest Income for 2016 reached PLN 1,403.9 million and increased by 10.5% versus the previous year, thanks to both volume growth and margin improvement after the period of margin compression resulting from significant central bank rates cuts in previous years.

Net Commission Income for 2016 amounted to PLN 490.3 million, which means 10.5% decrease year-on-year due to weaker capital markets related commissions (e.g. lower fees from investment products distribution) as well as lower insurance fees, but positive fact is that the level of fees and commissions from loans and guarantees increased by PLN 17.8 million versus the previous year.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 1,894.1 million for 2016 and increased by 4.2% compared to the previous year as a result of abovementioned rebound in Net Interest Income.

Other Non-interest Income, which comprise FX Result, Results on Financial Operations, dividends and net other operating income and costs, increased by 10.2%. This income line included one-off incomes and charges, which had altogether positive impact in 2016 year and visibly negative impact in 2015 year. The one-off items (pre-tax) in 2016 included mainly income from the transaction on Visa Europe shares of PLN 283 million and other one-off charges of PLN 51.5 million booked in 2nd quarter of the year. The value of one-off items in 2015 comprised mainly payment to Bank Guarantee Fund related to bankrupted co-operative bank in Wołomin and payment to the Fund for supporting distressed mortgage borrowers (plus other one-off charges) that amounted in total to PLN -140.3 million (pre-tax). On the other hand in 2015 the Bank recorded exceptionally high dividends from associated companies, driven first of all by much higher dividend from Millennium Leasing, including part of 2015 net profit and retain profits from the previous years. The dividend more than offset the one-off charges mentioned above.

Total Operating Income of the Bank for 2016 reached PLN 2,313.5 million and increased by 5.2% year-on-year.

Total costs in 2016 amounted to PLN 1,051.8 million, which means an increase by 2.2% when compared to 2015 year.

| Operating Costs (PLN million) | 2016 | 2015 | Change y/y |
|----------------------------------|------------------|------------------|---------------|
| Personnel Costs | (517.0) | (507.1) | 2.0% |
| Other Administrative Costs* | (534.8) | (522.5) | 2.4% |
| Total Operating Costs | (1 051.8) | (1 029.5) | 2.2% |
| Cost/Income Ratio | 45.5% | 46.8% | -1.4 p.p. |

(*) including depreciation

Personnel Costs for 2016 amounted to PLN 517.0 million and increased slightly by 2.0% compared to the previous year. The total number of employees in the Bank decreased by 78 employees compared to the end of December 2015, to the level of 5,497 persons (in Full Time Equivalents) in line with network optimisation process.

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

| Employment structure (in FTEs) | 31.12.2016 | 31.12.2015 | Change y/y |
|------------------------------------|--------------|--------------|--------------|
| Bank Millennium S.A. | 5 497 | 5 575 | -1.4% |
| Subsidiaries | 347 | 336 | 3.3% |
| Total Bank Millennium Group | 5 844 | 5 911 | -1.1% |

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

Other Administrative Costs (including depreciation) amounted to PLN 534.8 million and increased by 2.4% year-on-year mainly due to higher IT costs, cost of external services (such as legal, advisory, etc.) and depreciation (+10.1% yearly).

Cost-to-Income ratio for 2016 stood at 45.5%, and was lower by 1.3 p.p. compared to the level of the previous year of 46.8%, with some positive impact of the one-off income mentioned above.

Total net impairment provisions created by the Bank in 2016 amounted to PLN 209.2 million and were 8.9% lower compared to 2015 due to much lower provisions for corporate segment supported by positive recovery effect (a net release of PLN 19 million compared to PLN 32 million created in the previous year), which more than offset higher level of provisions in retail segment (an increase to PLN 228.5 million from PLN 198.0 million in 2015).

Net Profit for the analysed period amounted to PLN 652.7 million and was lower by 19.8% compared to the level of the previous year due to exceptionally high dividend income in 2015 mentioned above and, even more, due to banking tax. Commencing from February 2016 a new special banking tax was introduced, with 0.44% annual rate on the balance of total assets less own funds, Treasury bonds and PLN 4 billion tax-exempt amount. Bank Millennium was charged in 2016 with PLN 174.1 million of this tax.

| Net Profit (PLN million) | 2016 | 2015 | Change y/y |
|-----------------------------|--------------|--------------|---------------|
| Operating Income | 2 313.5 | 2 198.6 | 5.2% |
| Operating Costs * | (1 051.8) | (1 029.5) | 2.2% |
| Impairment provisions | (209.5) | (229.9) | -8.9% |
| Banking tax | (174.1) | - | - |
| Pre-tax Profit | 878.1 | 939.1 | -6.5% |
| Income tax | (225.5) | (125.0) | 80.4% |
| Net Profit | 652.7 | 814.2 | -19.8% |

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

V.3. Balance Sheet and Off - Balance Sheet items

Assets

The Bank's assets as at 31 December 2016 reached PLN 68,395 million, which means an increase by 3.5% compared to the end of 2015. The structure of the Bank's assets and the changes of their particular components is presented in the table below:

| ASSETS (PLN million) | 31.12.2016 | | 31.12.2015 | | Change 2016/2015 (%) |
|--|-----------------|---------------|-----------------|---------------|----------------------------|
| | Value | Structure | Value | Structure | |
| Cash and operations with the Central Bank | 1 778.8 | 2.6% | 1 946.4 | 2.9% | -8.6% |
| Loans and advances to banks | 1 267.8 | 1.9% | 2 348.7 | 3.6% | -46.0% |
| Loans and advances to Clients | 46 593.4 | 68.1% | 46 070.7 | 69.7% | 1.1% |
| Receivables from securities bought with sell-back clause | 90.5 | 0.1% | 0.0 | 0.0% | - |
| Debt securities | 17 390.7 | 25.4% | 14 044.3 | 21.3% | 23.8% |
| Derivatives (for hedging and trading) | 268.1 | 0.4% | 429.3 | 0.6% | -37.6% |
| Shares and other financial instruments* | 255.0 | 0.4% | 452.7 | 0.7% | -43.7% |
| Intangible assets and property, plant and equipment ** | 212.9 | 0.3% | 204.2 | 0.3% | 4.3% |
| Other assets | 537.4 | 0.8% | 568.9 | 0.9% | -5.5% |
| Total assets | 68 394.6 | 100.0% | 66 065.3 | 100.0% | 3.5% |

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of debt securities by PLN 3,346 million (or by 23.8%), including predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank) as well as from the growth of loans to Clients by PLN 523 million (or by 1.1%).

Loans and advances to Clients

Loans and advances to Clients constitute a dominant position in the Bank's asset structure (68.1% as on 31 December 2016). Total value of loans reached PLN 46,593 million (in net terms) as at the end of December 2016, which means an increase by 1.1% yearly.

As at the end of December 2016, loans for individuals amounted to PLN 33,242 million and grew by 1.0%. Mortgage loans remain the biggest part of this portfolio with total net balance of PLN 27,492 million which means a decrease by 0.7% year-on-year due to natural amortisation of this portfolio. The decrease would have been even higher if not the CHF/PLN rate increase versus the end of 2015. PLN mortgage loans (gross) grew by 2.5% year-on-year driven by higher disbursements of new loans in 2016: PLN 895 million, which means an increase by 30% year-on-year.

Non-mortgage retail loans (cash loans, credit cards, overdrafts etc.) amounted to PLN 5,750 million as at the end of December 2016 and grew strongly by 10.1%, or PLN 527 million, year-on-year. The increase was mainly driven by robust new cash loans sales, which amounted to PLN 2,265 million in 2016.

Loans to companies amounted to PLN 13,352 million as at 31 December 2016, growing by 1.4% yearly.

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

| Loans to Clients (PLN million) | 31.12.2016 | 31.12.2015 | Change (value) | Change (%) |
|--|-----------------|-----------------|-------------------|---------------|
| Loans to households | 33 241.6 | 32 906.0 | 335.7 | 1.0% |
| - mortgage loans | 27 492.0 | 27 683.4 | -191.4 | -0.7% |
| - other loans to households | 5 749.6 | 5 222.6 | 527.0 | 10.1% |
| Loans to companies and the public sector | 13 351.8 | 13 164.8 | 187.0 | 1.4% |
| Net Loans & Advances to Clients | 46 593.4 | 46 070.7 | 522.7 | 1.1% |
| Impairment write-offs | 1 235.8 | 1 325.1 | -89.3 | -6.7% |
| Gross loans and advances to Clients | 47 829.2 | 47 395.8 | 433.4 | 0.9% |

The average interest rate of the Bank's loan portfolio in 2016 was 4.10%. This interest rate includes interest income on hedging derivative transactions (mostly cross-currency interest rate swaps), connected with loans granted in foreign currencies, which are compensating for the lower nominal interest rate of such loans.

Debt securities

The value of debt securities equalled PLN 17,391 million at the end of December 2016 and increased strongly by PLN 3,346 million (i.e. 23.8%) compared to the balance as on 31 December 2015 thus improving substantially the liquidity buffer. Major part of debt securities (i.e. 99.2%) were bonds and bills issued by the Polish State Treasury and the National Bank of Poland (the central bank). The share of debt securities in Group's Total Assets increased to 25.4% from 21.3% as at the end of 2015.

Derivatives

Value of derivatives (designated for trading and hedging) totalled PLN 268 million at the end of December 2016, which means a decrease by 37.6% compared to 31 December 2015.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 1,268 million as at the end of December 2016, which means a visible decrease by 46.0% year-on-year due to lower value of collateral deposits securing hedging transaction placed in counterparty banks. This resulted mostly from active management of the currency swaps portfolio, different structure of hedging instruments and different conditions of renewed hedging contracts.

Shares and other financial instruments

Shares and other financial instruments amounted to PLN 255 million as at the end of December 2016, which means a strong decrease by PLN 198 million compared to 31 December 2015. This change results from the closing of transaction on shares in Visa Europe Ltd on 21st June 2016, explained in details at the beginning of the chapter.

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

Intangible assets and property, plant and equipment amounted to PLN 213 million as at the end of December 2016, which means small increase by 4.3% yearly.

Total capital expenditure (CAPEX) of the Bank during 2016 amounted to PLN 51.2 million, of which PLN 27.1 million spent for the Bank's physical infrastructure (branches, ATMs, security etc.) and PLN 24.1 million spent on software and IT infrastructure. The planned investments of Bank Millennium in 2017 are PLN 69.6 million.

Liabilities

The structure of the Bank's liabilities and equity and the changes of their particular components is presented in the table below:

| LIABILITIES (PLN million) | 31.12.2016 | | 31.12.2015 | | Change 2016/2015 |
|--|-----------------|---------------|-----------------|---------------|---------------------|
| | Value | Structure | Value | Structure | (%) |
| Deposits from banks | 1 270.7 | 2.1% | 1 443.9 | 2.4% | -12.0% |
| Deposits from Customers | 55 988.2 | 90.8% | 52 920.6 | 88.5% | 5.8% |
| Liabilities from securities sold with buy-back clause | 0.0 | 0.0% | 0.0 | 0.0% | - |
| Financial liabilities valued at fair value through P&L and hedging derivatives | 1 488.7 | 2.4% | 2 476.8 | 4.1% | -39.9% |
| Liabilities from issue of debt securities | 1 113.2 | 1.8% | 1 135.5 | 1.9% | -2.0% |
| Provisions | 48.6 | 0.1% | 30.3 | 0.1% | 60.6% |
| Subordinated debt | 664.0 | 1.1% | 639.6 | 1.1% | 3.8% |
| Other liabilities* | 1 079.6 | 1.8% | 1 126.4 | 1.9% | -4.2% |
| Total liabilities | 61 653.1 | 100.0% | 59 773.2 | 100.0% | 3.1% |
| Total equity | 6 741.5 | | 6 292.1 | | 7.1% |
| Total liabilities and equity | 68 394.6 | | 66 065.3 | | 3.5% |

(*) including tax liabilities

As at the end of December 2016, liabilities accounted for 90.1%, while Banks's equity accounted for 9.9% of the total liabilities and equity.

As at 31 December 2016, the Banks's total liabilities amounted to PLN 61,653 million and increased by PLN 1,880 million (or 3.1%) relative to the value as on 31 December 2015. The increase resulted, primarily, from visible growth in Customer deposits (by PLN 3,068 million).

Deposits from Customers

Deposits from Customers constituted the Bank's main liability and as on 31 December 2016 they accounted for 90.8% of total liabilities.

Deposits from Customers provide the main source of financing of the Bank's activities and include, mainly, Customer funds deposited on current, saving and term deposit accounts. As on 31 December 2016 deposits from Customers amounted to PLN 55,988 million and recorded an increase of PLN 3,068 million i.e. 5.8% relative to the balance as at 31 December 2015.

As at 31 December 2016 deposits from individual Customers amounted to PLN 39,565 million and accounted for 70.7% of the total balance of deposits from Customers. This group of deposits increased strongly by PLN 4,046 million or by 11.4% year-on-year supported by growing number of current accounts and customers. Current and saving accounts were the main driver of this growth (higher by 35% year-on-year) and constituted 58% of total deposits from individuals.

Deposits of companies and public sector amounted to PLN 16,423 million as at 31 December 2016 and decreased by 5.6% year-on-year, which is in line with Bank's Asset-Liability-Management and pricing policy and correlated with high growth of deposits of individuals, mentioned above.

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

| Deposits of Clients (PLN million) | 31.12.2016 | 31.12.2015 | Change (value) | Change (%) |
|---|-----------------|-----------------|-------------------|-------------|
| Deposits of individuals | 39 564.9 | 35 518.7 | 4 046.3 | 11.4% |
| Deposits of companies and public sector | 16 423.3 | 17 401.9 | -978.6 | -5.6% |
| Total Deposits | 55 988.2 | 52 920.6 | 3 067.6 | 5.8% |

The average interest rate of deposits placed with the Bank in 2016 was 1.27%.

Deposits from banks

Deposits from banks, including received loans, as at 31 December 2016 amounted to PLN 1,271 million, accounting for 2.1% of the Bank's liabilities. The value of that item decreased by PLN 173 million (i.e. 12.0%) vs. the balance as at 31 December 2015, mostly due to lower value of deposits from other banks, whereas the balance of loans from financial institutions increased by 8.2% year-on-year and amounted to PLN 898 million (expressed in PLN) as at 31 December 2016. These were mainly loans from European Bank for Reconstruction and Development and loans from European Investment Bank (most of them in EUR, but also in CHF and PLN) with original maturities up to 8 years, which were the important items of wholesale long-term and medium-term funding received by the Bank.

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

Financial liabilities valued at fair value through profit and loss and derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. As at 31 December 2016 the value of this item amounted to PLN 1,489 million and decreased by PLN 988 million or 39.9% relative to the balance of 31 December 2015, first of all due to the decrease of negative valuation of derivatives used for hedging purpose (mainly CIRS). This resulted mostly from active management of the currency swaps portfolio, different structure of hedging instruments and different conditions of renewed hedging contracts.

Debt securities issued

Debt securities issued by the Bank as at 31 December 2016 amounted to PLN 1,113 million, which means an decrease by 2.0% relative to the balance recorded as at 31 December 2015. At the end of December 2016 the value of bank debt securities issued by the Bank and possessed by individual Customers as savings products amounted to PLN 279 million, whereas the value of the Bank's bonds possessed mostly by institutional investors amounted to PLN 834 million (most of which, with the balance sheet value of PLN 804 million, are traded on Catalyst - ASO BondSpot debt instruments exchange in Warsaw). Debt securities were issued by the Bank in order to raise funds for financing the general Bank's operations and to strengthen the mid-term funding of the Bank.

Subordinated debt

The value of subordinated debt amounted to PLN 664 million as at 31 December 2016 and increased by 3.8% vs. the balance as at the end of 2015, only as a result of EUR/PLN rate increase. This item includes liabilities from ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

As at 31 December 2016 the equity of the Bank amounted to PLN 6,742 million and grew by PLN 449 million or 7.1% year-on-year. The main reason of the growth of equity was net profit generated during the 2016 financial year, without payment of any dividend for 2015 as decided by AGM of the Bank held on 31 March 2016. The impact of revaluation reserve changes on this growth was negative (PLN 203 million, most of which was related to the transaction on Visa Europe shares).

On 6th December 2016, KNF issued its position in the matter of the dividend policy of banks (among other entities) in 2017. Based on this recommendations, the Management Board of the Bank will submit to the General shareholders meeting a proposal to retain in own funds the full net profit of 2016.

The information about capital adequacy is presented in Chapter VII of this document and in a separate report titled “Information on risk, own funds and capital requirements” for 2016.

Contingent liabilities

Structure of contingent liabilities of the Group is presented in the table below:

| CONTINGENT LIABILITIES (PLN million) | 31.12.2016 | 31.12.2015 | Change 2016/2015 (%) |
|---|----------------|----------------|----------------------------|
| Total contingent liabilities | 8 241.4 | 7 923.8 | 4.0% |
| 1. Liabilities granted: | 8 134.3 | 7 861.0 | 3.5% |
| a) financial | 7 014.2 | 6 713.0 | 4.5% |
| b) guarantees | 1 120.2 | 1 148.0 | -2.4% |
| 2. Liabilities received: | 107.0 | 62.8 | 70.3% |
| a) financial | 0.0 | 4.0 | -100.0% |
| b) guarantees | 107.0 | 58.9 | 81.8% |

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

As on 31 December 2016, the total value of contingent liabilities of the Bank amounted to PLN 8,241 million, including commitments granted by the Bank of PLN 8,134 million. During 2016 the value of contingent financial liabilities granted by the Bank increased by 4.5%, whereas the value of guarantee commitments decreased by 2.4%.

More information on contingent liabilities can be found in Chapter 11 of Annual Financial Statements of Bank Millennium S.A. for 12 month period ended 31 Dec. 2016.

VI. PRESENTATION OF BUSINESS ACTIVITY

VI.1. Digital transformation

For some years now the financial sector as a whole and Bank Millennium in particular has been absorbing new technologies and changing in response to new customers' expectations. This transformation has affected our company and the sector as a whole not only on the structural or strategic level, but indeed on all levels of activity, tasks and processes. Mobile technologies are playing a particular role in this respect.

Digitalisation is inscribed in the Bank's strategy, which dwells in transformation of digital channels into powerful platforms engaging customers, omnichannel, mobile payments as well as maximising the value of customer relationships thanks to using advanced business analytics.

For Bank Millennium digitalisation means changes in three areas:

- First of all this is about changing the business model and improving processes
- Secondly this is about how we use digital tools to accumulate and process knowledge about customers
- Thirdly it provides customers with tools to communicate with the Bank, which offer them new opportunities and unique experiences

In the Bank's opinion the additional value of digitalisation is that it connects various technologies for the purpose of transforming the value chain - from customer acquisition to provision of services and creating greater value for customers by means of such product features and technologies, which better respond to their needs. The omnichannel customer service model introduced by the Bank refers exactly to this approach. Integrating channels allows continuity to be offered to customers in every step, irrespective of the method of contact used: the internet, by phone or direct contact with a branch. Omnichannel enables sending of information about applications and contacts of the customer with the Bank in real time, irrespective of the channel.

The Bank's competitive advantage is the way, in which it makes use of technologies, continuously introducing innovative solutions for customers and at the same time enabling the Bank to attain operational efficiency and to be better prepared for ever faster changes.

The Bank is developing its Millenet platform, introducing attractive internet and mobile offers. It has reached the skill of offering products and services and advising customers in a way, which gives new unique value. The Bank has recently expanded its offering to include new non-banking services: insurance, ticketing, parking fees, aggregated finances management etc. In reference to strategy it places customer experience excellence on the top of the list.

The process integrates advanced analytics but also makes use of our technological prowess and business capabilities of surveying new ways and testing new business models, which can generate new revenue streams and support banking operation.

The Bank is investing in its real-time intelligent data platform, with open banking, high level of security, artificial intelligence and outstanding customer experience. Together with customers Bank is constantly preparing for the future and we are now preparing it for the next future.

VI.2. Quality and Customer Experience

Over the last years, high quality of service and exceptional customer experience have been the Bank's strategic objectives. In 2016, Bank continued its efforts to strengthen its competitive edge in this area focusing mainly on:

Good understanding of the needs of its clients.

For this the Bank has been using not only traditional qualitative and quantitative studies, but also new approaches such as surveys in the service design processes, UX or user experience and ethnographic studies. Ethnographic studies were applied, among others, last year in our works to develop a new branch format. Concepts of new solutions in the self-service area, new approach to the use of digital devices in branch space and new service model were created and, following pilot implementations in a number of branches, they will

be launched in the entire network. When designing novelty solutions the Bank looks for inspiration outside the service sector and follow consumer trends.

Another valuable driver for us is feedback from clients (for instance in the claim review process). For many years there has been inter-department VOC (Voice of Customers) Programme operating in the Bank. In 2016, several dozens of initiatives were developed, many of them to be implemented later. Upon Bank Millennium's initiative, 15 Polish banks, IT Card and Euronet led to a change in the MasterCard and Visa card regulations in force on the Polish market: chargeback claims times for withdrawals from domestic ATMs were cut down from 45 to 20 days. This allows closing these claims a lot faster.

Designing solutions for appropriate customer experience.

To this end we started to use methods of service design. Solution proposals have been developed in multidisciplinary groups based on the information on customer needs. Next, these proposals are changing into prototypes and tested with clients in order to develop the final solution.

Last year, as part of these projects the Bank implemented, inter alia, the client conversation model for savings and investment products. The model serves as a template for the consultants' talks held with clients on savings and investments introducing some new tools applied in the conversation. It streamlines and simplifies the dialogue about complex and varied saving and investment products. From the employee's side, the model guarantees that the conversation and presentation of the Bank's product offer is conducted in a fair and ethical manner with all the due formalities required by the law. Implementation of the above-mentioned model was supported by a vast training programme attended by more than 3 000 branch employees.

Our actions have been highly appreciated by clients. 92% of our individual clients are satisfied with the services provided by the Bank (50% of them are very satisfied). In their assessment, clients appreciate mostly such components of the Bank's competitive edge as the high level of customer service (in particular, inbranches), state-of-the-art technological solutions (both in the internet and mobile application), competitive offer and conviction that the Bank fulfils its promises. Our branch employees are perceived by clients as nice, pleasant and oriented on customer needs. Also the quality of our electronic channels have been highly appreciated. Bank's clients recognise the scope of the functionalities on the offer, easy navigation in the services and security.

High recommendation rate among clients (more than half of the clients recommends the Bank) demonstrates that Bank's actions correspond to the needs of the clients. In the corporate client group more than 40% of companies recommend Bank Millennium. Over the last years we have been observing a by-far positive up trend in customer satisfaction at the Bank.

VI.3 Retail Banking

Bank Millennium has a universal, broad offering of banking services and products for retail clients, which it offers within four specialized business lines: Individuals, Prestige, Private Banking and Small Business. The core product offered to individual clients has been personal account, with 2016 sales figures close to 320 thousand, the entire portfolio had increased to almost 2 million current accounts at the year-end.

Personal Account

Individual clients are invariably most interested in Konto 360° accounts. At the end of 2016 their number reached more than 631 thousand and more than 80% of all the new accounts were opened by new clients who did not have current account in Bank Millennium. 95% of these accounts were opened with a debit card.

Last year promotion of Konto 360° account was supported by:

- successive phases of the advertising campaign conveying information on TV, on the internet and in cinemas;
- successive rounds of “Gain 360 zloty” special offer in which the Bank promoted mobile banking, card and BLIK transactions;
- offers created in cooperation with group sales portals - for instance: Groupon;
- “I Recommend Bank Millennium” recommendation program, in which the Bank rewarded the clients who recommended its offering.

Additionally, in the period from September to November 2016, a promotional campaign for Konto 360° Student was executed in universities and schools. This action was supported by special offer Konto 360° Student with free ISIC card' prepared in cooperation with the Association that issues the International Student Identity Card in Poland. These activities were well received by young clients and resulted in record high account sales numbers in that period.

Based on the analyses of clients preferences as regards current account, in May 2016 the Bank introduced new product 'My Business' account for entrepreneurs.

Savings Products

2016 was for Bank Millennium a year of significant successes in the deposit base management. In the volume of individual deposits the Bank achieved total growth of PLN 4.1 billion (11% y/y) to the level of PLN 39.7 billion. These results were recorded despite the low interest rate environment and aggressive competitive offers in the first half of 2016.

The Bank continued its acquisition efforts promoting comprehensive Konto 360 current account and Savings Account with attractive interest rate for new funds, supported by TV and internet campaigns encouraging savings with flexible access to funds. Consequently, the market share in individual deposits increased from 5.69% at the end of 2015 up to 5.76% at the end of November 2016.

Due to the low interest rate environment, in May 2016 the Bank presented to its clients an improved offer of savings and investment products for better diversification of funds. The offer featured the novelty - Convenient Duo - combination of a deposit and Convenient Portfolio insurance and investment programme. Also a new formula of deposits with Millennium TFI investment funds was introduced - DuetPlus, where instead of a fee for purchasing the units, client pays the costs only upon earlier sale of the fund units.

In response to the growing clients' needs as regards placement of their surpluses in foreign currencies, in July 2016 the Bank introduced to its offer savings accounts in EUR and USD. An additional incentive was promotional interest rate for new funds.

One of the significant initiatives taken in 2016 was implementation of a savings and investment model, i.e. model for client conversations about growing funds, starting from deposit products (term deposits, savings accounts) to investment deposits, investment funds, bancassurance products and regular savings plans. The effect is significant improvement in the quality of sales of products and communicating to clients the most reliable information about the products on the offer.

In 2016, Bank Millennium encouraged also regular, long-term pension savings and maintained the most attractive interest rate on the market: 3% on the Individual Retirement Account deposit.

Cash Loans

Over the period from January to September 2016, in the cash loan category the Bank promoted the liabilities consolidation service offering its clients, in two rounds of „Great Instalment Reduction” promotion, lower interest rates for the loans transferred from other banks to Bank Millennium. The offer concerned the consolidated amount with repayment insurance and guaranteed clients fixed interest rate of 4.99% in the first and 5.99% in the second round. Another strong point of the standard offer was lack of commission on the consolidated amount. The promotion was popular among the clients, which translated into higher value of sales of the consolidation loan - up 20% per month versus the regular period. Between April and October, the new Bank's clients who decided to purchase the loan with simultaneous purchase of the repayment insurance did not pay the cost of origination commission. More than 2/3 of the cash loans involved purchase of insurance. The special „Welcome Promotion” offer was met with high clients' interest and resulted in doubling the value of sales in the target clients' group.

Over the period from June to August 2016 a number of simplifications were introduced into the credit process for all the clients, who are planning to use cash loans. The changes concerned a loan available in the so called Fast Credit Process, where client may get a loan under simplified principles on the basis of declaration on the amount of their income. Clients with credit worthiness and credit capacity may get a loan ranging from the amount equivalent to average monthly pay in the corporate sector up to the multiple of this amount, depending on the length and extent of their history of cooperation with the Bank. Client may purchase such loan at the Bank's branch, over the phone on the recorded line or „on-click” in the transactional banking system. Last year, the cash loan portfolio grew 11% up to PLN 4.92 billion and 2016 sales were slightly lower than assumed and totalled PLN 2,265 million.

In 2016, in the area of cash loans through internet banking system and mobile application the cash loan application process for the Bank's clients was reengineered and thus the application/agreement conversion rate was increased. The change consisted mainly in improved friendliness of the user interface and reduced number of steps in the process of filling out the application to conclude the agreement.

In November, a special offer „Promotion 3,2,1...start!” was introduced. It was addressed to all the clients who in the last 12 months before applying for the loan in the promotion, did not have this product in the Bank, decide to purchase also repayment insurance and want to spread the amount of the loan into instalments. In this promotion, the client who fulfils the terms and conditions gets fixed loan interest rate at 3% with 2% origination commission.

Mortgage Banking

The value of new mortgages sold in 2016 amounted to PLN 895 million growing by 30% compared to 2015, after the promotional campaigns in the 4th quarter of 2016.

In the entire 2016 Bank Millennium continued application of a number of improvements for CHF mortgage borrowers - in particular, reduction of FX spread to 3% as well as offered its clients CHF to PLN loan conversion at the NBP's average rate with simultaneous reduction in the up-to-date loan margin.

Furthermore, at the beginning of the year the Bank offered its clients with FX loans and LTV above 100% a new solution supporting change in the loan security into the property to be purchased, using so called security deposit account.

In connection with the effective date of the Act of 9th of October 2015 on Support for Borrowers in Distress, who had taken housing loan, starting from 19th of February, the Bank offered applications for support from the Borrowers' Support Fund. It is worth to point out, however, that the quality of mortgages at Bank Millennium is high, and the ratio of impaired loans remained stable and amounted at the end of the year 2.5%.

2016 is yet another year of the Home for the Young programme. Throughout the year, the Bank offered loans in the Home for the Young programme under „0% Commission for Mortgage Granting” promotion, thanks to which the costs of granting such loans were significantly reduced.

Payment Cards

In 2016, the credit card market recorded a change in the up-to-date trend, which both in Q2 and Q3 materialised as increase in the card portfolio by 0.6% and 0.4%, quarterly respectively. The same pattern was also followed by Bank Millennium, which recorded the first increment in the portfolio, by 0.2%, in Q3 2016. This tendency was consistently maintained until the end of the year, whereby in 2016 Bank Millennium credit card portfolio grew by more than 2 600 cards, which was significant improvement on the previous year (in 2015 the portfolio shrank by 18 thous.).

Importantly, the Bank increased the card portfolio in the time of difficult business decisions such as withdrawal of AMERICAN EXPRESS credit card from the offer and consequential higher number of closings. Better results were also observed in the area of retention, where the so-called save ratio was the highest since 2015 and in December totalled 36%.

However, first and foremost, in 2016, thanks to intensive marketing actions, acquisition of credit cards was doubled, growing from 2.7 thous. in December 2015 to more than 5 thous. in December 2016.

The key credit card sales channel are still branches that deliver 79.4% of the new cards. Nonetheless, a material and systematic increase was also recorded in the telephone and online channels. Impresja and Alfa credit cards held their place as the flagship products with 84.2% share in the result.

Throughout the previous year, the number of debit cards on the Polish market was growing systematically. Thanks to its successfully selling product - 360 account, Bank Millennium has been following the market trend. Importantly, the positive dynamics of the Bank Millennium portfolio was higher than the market. Number of debit cards of Bank Millennium amounted to 1,572 thous.

Bancassurance Products

In 2016 the income was driven mostly by two factors: regulatory changes (Recommendation U and the new Insurance Act) and the level of cash loan sales. Last year the bancassurance market concentrated on adjustment to the new regulatory and market environment.

In the due time, the Bank adjusted its activity to the new Act on Insurance Activity and developed, in the structures of the Bank Millennium Group, the competencies to be the agent performing agency services for the group insurance portfolios of PZU SA, PZU Życie SA, Europ Assistance and Generali. Last year, we introduced into the Bank's offer some new insurance products with our new partner (Ergo Hestia Group). Since 3 November Bank was selling motor insurance (TPL/extra coverage car insurance, Assistance, NNW, car glass) through Millenet and mobile application using in the sales process the technique of scanning the Aztec code from the vehicle registration certificate. The huge advantage for the Bank's clients is also the possibility to spread the premium into monthly payments, especially in the context of significant hikes in TPL premiums.

Customer Service - omnichannel

Bank Millennium bearing in mind the needs of its customers and the latest trends, successfully launched omnichannel in communication with customers including branch offices, call centers, Internet banking and mobile. It is worth noting an increase in the share of digital sales channels, products and services of the bank - in 2016 23% of cash loans and 41% of new quotas and increases in the account has been granted the use of electronic channels. Online being carried out 99% of transfers, remote-expected 87% of term deposits.

At the end of 2016 the number of branches totalled 369. According to the strategy, Bank continuously modernizes and improves functionality and increases the efficiency of branches. Modern architectural interior, strengthening the role of advisory services team, attractive customer area, the introduction of modern information media are the main advantages of the new branches. New service centers were opened in shopping malls, frequented by customers C.H. Manufaktura in Lodz C.H. Matarnia in Gdansk and in the Katowice downtown.

Internet Banking for Individual clients

2016 brought further development of e-banking. Bank Millennium offered numerous innovative functions and for some of them as the first on the market.

One of the key projects implemented in 2016 was sale of motor insurance, fully online, in the Bank Millennium Millenet internet system and mobile application, or through both channels simultaneously. The purchase process is innovative and has been developed in-house. As the first one on the market, Bank Millennium applied the technology of scanning the Aztec code from the vehicle registration certificate. After scanning the code, the vehicle's data are automatically fed into the application form and, which is unique on the market, the data are seen both in the application and in the online banking system. Client's personal data are also automatically fed into the form and the insurance purchase is finalised with a password. Client's application may be saved and according to the omnichannel philosophy, the process may be continued on any device.

Throughout 2016, Bank Millennium supported development of e-administration allowing its clients, as one of the first on the market, to access public administration services through Millenet online banking system.

Early April 2016, in cooperation with the Ministry of Family, Labour and Social Policy and the Ministry of Digital Affairs, Polish Bank Association, Social Insurance Company and, at the final stage, Municipal and Communal Welfare Centres, Bank Millennium implemented the Family 500+ project. The Bank's clients were given an option to file their applications for the benefits from the governmental programme through Millenet. Some of the data required to fill out the form are automatically retrieved from the system and the finished application is directly sent to the office indicated by the client. Thus, the application may be filed with no visit to the office needed.

Continuing its cooperation with the Ministry of Family, Labour and Social Policy and the Ministry of Digital Affairs, in October 2016, Bank Millennium provided its clients access to ZUS Electronic Service Platform through its online banking system.

As the first on the market, Bank Millennium provided in its online system the SIM card registration function. Thus, clients with prepaid phones may perform their card registration duty without the need to visit their operator's outlet - fully online and free of charge.

In 2016 Bank Millennium optimised the online cash loans process. The process was shortened and modified according to the so-called *user experience*, which significantly increased the conversion rate. Furthermore, a cash loan process was implemented for those who are not the Bank's clients yet. An important improvement in the use of credit products through online banking is also the function of spreading the credit card transaction payments into instalments. Moreover, for increased security, an option was provided to set transaction limits on payment cards for online shopping.

For more effective assistance to the Millenet clients, a consultant chat function was provided, featuring a screen sharing service - a unique solution in Poland. It allows direct support of the client inside the transaction system. In the online chat session consultant may see what the client's problem is and may help him to solve it even faster. All these actions translated into the number of active Millenet clients, which at the end of December 2016 reached 980 thousands.

Mobile Banking for Individual clients

2016 brought in further development of the mobile application and innovative solutions, and at the end of December, the number of mobile banking users exceeded 596 thousand rising almost 38% y/y.

As the first on the market, Bank Millennium introduced the functionality to approve 3D Secure card transactions in the internet with fingerprint and also offered the first-in-Poland motor insurance, which can be purchased fully online.

A significant project was introduction of mobile contactless payments - a service that supports smartphone payments similar to those with a contactless card. This solution is based on HCE technology and supports issuance of a virtual payment card in the bank mobile application. Thus, clients may make fast and convenient payments with no need to carry around cash or plastic cards. At the end of 2016, banks in Poland had in total 234 thous. active HCE cards and since November 2016 after 2 first months i.e. from introduction of the HCE debit card at Bank Millennium as many as 17 thous. users received such card and have been actively using it since.

Another novelty in the mobile application was introduction of PUSH messages about the account and card transactions. Also chat function was provided - an additional communication and support channel for the Bank's clients. Fingerprint login option was implemented for Android 6.0 system devices and this solution has been becoming increasingly more popular among the users.

Moreover, Bank Millennium prepared a new version of application for the Windows Phone systems. Now users of Windows Phone smartphones may enjoy comfort of mobile banking - make payments, withdrawals, transfers and issue BLIK cheques. Also the application for BlackBerry-based phones was up-dated.

Furthermore, the Bank released an application for the users of Android Wear - the most popular system for smartwatches. This application supports BLIK payments, reception of PUSH messages, balance checks and assists you in finding your closest ATM or checking FX rates.

In 2016, the promotion of the Mobile Deposit - a deposit opened with use of Augmented Reality technology - was continued. In this way, clients could open a three-month deposit at a premium interest rate. The solution turned out to be extremely popular - Bank Millennium clients opened the highest number of deposits with mobile application on the market.

In the area of credit products available in mobile banking, the mortgage loan process was revamped and a Convenient Instalments option for card transactions was introduced.

Also mobile BLIK payments were developed. One-ClickShopping function was introduced whereby paying with BLIK in online shops has become even simpler. Instead of copying your BLIK code, now you just need to make one click in your application.

Prestige and Private Banking Segment - offer for affluent clients

Prestige is an offer for affluent Clients with assets from PLN 100 thous. to PLN 1 million or clients making monthly payments of at least PLN 10,000 to their accounts.

Private Banking in Bank Millennium is an offer addressed to more affluent individual clients with assets above 1 million PLN, expecting high quality customer service and customised financial product offer. The Bank offers also an extensive range of investment and investment-insurance products, including domestic and foreign investment funds, investment programmes and structured products. Additionally, Private Banking clients could benefit from the Millennium MasterCard® World Signia/Elite™ credit card with access to the World MasterCard Rewards programme, World Signia/Elite Privileges Programme, an insurance bundle and Assistance and Concierge packages.

As at 31 December 2016 Bank Millennium had more than 33 thousand active Prestige clients and more than 3.5 thous. active Private Banking clients.

Awards and Achievements

High quality of products and services offered by Bank Millennium was met with wide recognition on the domestic and international markets.

In 2016, Bank Millennium yet again was awarded in the independent ranking "Newsweek's Friendly Bank". Moreover, for the first time ever and as the only bank in the to-date history of this ranking, our Bank reached the top 3 in all 4 categories (2nd place in the Bank in the internet category, 2nd place in Mobile Banking, 3rd place in Traditional Banking category and 3rd place in "Mortgage Banking" category).

Yet again, the Bank triumphed also in the competition organised in the independent magazine „Global Finance". The Bank was awarded as the best online bank in Poland and recognised for its best online deposit, credit and investment products in the Central and Eastern Europe.

VI.4. Corporate Banking

Corporate Banking at Bank Millennium is a business line, which provides professional and comprehensive services to clients with annual sales revenues above PLN 5 million, as well as public sector institutions and agencies. Its hallmark is our long-term, stable, partnership cooperation with corporate clients, which is founded on mutual trust, commitment and understanding. A comprehensive product offer in the corporate area allows us to build customized relationship proposals based on a diagnosis of customer needs, knowledge of his circumstances and the sector he represents.

Loans

The year 2016 was marked by a stable credit base, given difficult market conditions, resulting from moderate needs for company financing, as enterprises continue to have limited demand for banking product financing, which results from their good liquidity and possibility to cover a substantial part of current needs without recourse to credit funds. The volume of Corporate Banking credit products went up in 2016 by 0.6% up to PLN 14,301 million.

Bank Millennium has a comprehensive offer of credit products out of which the relationship manager selects products best suited to the client's needs, i.e. loans for funding current financial needs, investment loans, leasing, trade finance products or products co-financed with EU funds.

In accordance with the plan of further strengthening of the Bank's position in financing medium-sized companies the Bank plays an active role in financing clients belonging i.a. to capital and economic groups. The main product in implementing this task is the umbrella loan. This is a joint credit limit for enterprises, which form a group of related entities. The umbrella loan has functioned at the Bank for over a year now and is very popular among clients, as reflected in a steadily increasing number and value of granted loans.

Bank Millennium is actively involved in financing with EU funds. It offers among others the loan for technological innovations, which is one of the most popular SME programmes in the current EU perspective.

For almost 4 years the Bank has also actively participated in the national de minimis guarantee programme. In March 2016 - thanks to the use of funds under the Innovative Economy Operational Programme the existing guarantee programme was expanded by free (for the client) „guarantees for innovation”. The „guarantee for innovation” programme was run on a pilot basis and ended on 25 January 2017.

Specialist financing - factoring and trade finance

In 2016 Bank Millennium had a factoring turnover of 14.6 million PLN. The business growth rate was 8.8%. In 2016 Bank Millennium moved from 5th to 4th place in the ranking of factoring institutions associated in the Polish Factors Association with a 9.2% share in this market. Factoring assets at the end of 2016 stood at PLN 1.93 billion.

In 2016 the Bank established cooperation with a specialised external entity, thanks to which we receive on an ongoing basis information about the occurrence of negative events regarding counterparties. As shown by statistics published by the Polish Factors Association the highest growth rate in terms of realised turnover comes from factoring without recourse. Bank Millennium is also moving in this direction. In 2016 over a half of its turnover value was realised this way.

In 2016 the amount of new limits granted by Bank Millennium for guarantees and letters of credit went up by 36% and stood at PLN 540.3 million.

A definite majority (80%) of guarantees and LC orders is realised through an e-platform and for letters of credit this ratio exceeds 95%. The number of clients with access to the on-line Trade Finance service went up by 16%.

The flexibility and broad functionality of the on-line Trade Finance module offered by Bank Millennium was appreciated (for the third time in a row) by the Global Finance magazine. The services available in it have been awarded in the ranking: „The 2016 World's Best Corporate/Institutional Digital Banks In Central & Eastern Europe”, as the best in „The Best Trade Finance Services” category.

Client service model

Client service in the Corporate Banking segment is provided through an extensive sales network covering the entire country. Clients have at their disposal Relationship Managers (being the first line of contact with the clients, taking care of them and looking for new solutions) and Consultants working in 31 Corporate Centres, supported by Product Advisors. They are very well trained professionals supporting clients in purchasing, sales and investment policy and current operation of accounts.

Thanks to a unique Bank Millennium development programme the Bank's RMs regularly take part in training and knowledge sharing ending with specialist certification. Together with a team of product specialists they guide

the Bank's clients in adjusting products to individual company needs. Knowing the organisational specificity and business profile of enterprises in cooperation with various bank units they prepare new solutions attractive for the clients.

Our clients' operations are conducted by Consultants. Bank Millennium runs a special development programme for them, thanks to which our services are constantly adjusted to current corporate client needs. This increases client satisfaction with banking services, as evidenced in annual satisfaction surveys.

Corporate banking clients can use modern tools, such as:

- user-friendly Millennium for Corporates internet banking system (with the „Trade Finance” module and Millennium FX Trader platform),
- mobile banking, i.e. access to accounts and banking operations and FX transactions through the mobile application,
- dedicated host to host communication

They have also unlimited use of all Bank branches. Cash management - apart from an extensive branch network - is also effected through the services of cooperating companies and a nightdrop network. There has been launched a payment machine service enabling the automatic settlement of regular and one-off payments for bank clients from the local government segment. Client payments are also possible in all Polish Mail branches.

The system logging process is secured by additional one-off passwords, supplied in a text message or generated by a special hardware token. This guarantees the highest security level and is also simple and reliable in use. No computer connection is required and indeed it can be used irrespective of the client's device or internet browser.

June brought the expansion of the scope of insurance for all corporate cards. Attractive changes were introduced for clients in the „Pakiet Podróżny” accident insurance. The card management module in the internet channel was enhanced by the pre-approval process and a number of other improvements. The number of card transactions in 2016 went up by 7%.

In the second half of the year the critical process was the update of FATCA statuses (Foreign Account Tax Compliance Act). Bank Millennium has met all the requirements of the new regulations, thus fulfilling all the compliance principles. We have also completed the adjustment to the EU Sepa end-date regulation by implementing the BIC application with IBAN.

2016 was also another year of consistent growth in the number of processed transactions and transactional products used by corporate clients. There was posted a 21% growth in the number of foreign transfers and 9% growth in the number of domestic transfers. The volumes of funds deposited on current accounts went up by 16%, thus improving the ratio of current funds to the total deposit volume by 7%.

Electronic banking for corporates

The year 2016 was a continuation of intensive improvements in Millenet for Corporates.

The system has been enhanced by a module enabling the attachment and sending of documents required in the credit process. With this tool the client no longer has to personally deliver the documents to the branch or RM, but he prepares them and signs them on his own. It is enough to scan and attach the documents and then send them to the Bank. Thus transferred documents reach in real time the team which operates credit products. In addition, based on a signed statement, the clients do not have to manually sign all the documents. It is just enough to attach them in pdf, excel or word file and they will be included in the credit analysis process.

The solution met with great interest - at the end of 2016 it was used by 20% of loan clients and there is an upward trend.

In response to client needs Bank Millennium has also provided the possibility of importing payment orders to a file in the XML format. The new function allowed clients to adapt to EU regulations in the framework of SEPA changes and facilitated the data exchange process.

Yet another change in order to meet market expectations was to enhance Millenet by the possibility of creating JPK_WB reports on clients demand in the format required by the Ministry of Finance. This service is a considerable improvement for entrepreneurs who must provide to tax audit authorities files in this particular format.

In order to increase service quality the „Virtual Advisor” function was launched. This solution allows a Bank employee to indicate on the user screen the elements of the Millenet system, which are being explained. This increases the effectiveness of support provided to the user and allows to be faster in solving any problems.

In March 2016 there was activated the SMS notification service. Clients can now receive text messages about the most important events connected with Bank services, e.g. debiting the account or card operation.

In 2016 the mobile banking application for entrepreneurs was enhanced by new functions.

In May Bank Millennium made available to corporate clients a mobile version of the Millennium Forex Trader platform. This is a modern and technologically advanced solution which enables comfortable access to the FOREX market and currency exchange directly in the mobile application. This offer meets the expectations of corporate banking clients who are increasingly turning to mobile solutions and gives them with the possibility of currency exchange and purchase at the most convenient time. It is among others thanks to such solutions that in 2016 the number of mobile banking users went up by 60%.

Bank Millennium was awarded for its activities in the area of electronic banking for business clients by „Global Finance” independent magazine in a ranking of Best Digital Banks 2016. The Bank was awarded in two categories: „Best Mobile Banking Application for Corporates in Central & Eastern Europe” and „Best Trade Finance Services in Central & Eastern Europe”.

Treasury activity

Through the services of its Treasury Department Bank Millennium provides Bank clients with access to a broad portfolio of financial instruments. In 2016 the growth rate went up by 28%. The offer of the Treasury Department for Corporate Banking Clients covered a broad array of products: spot foreign exchange transactions, deposit products, FX volatility risk management instruments (FX forwards, FX swaps, options) and instruments to manage interest rate volatility (FRA, IRS and CIRS transactions).

The solutions offered by the Bank enable both importers and exporters to hedge FX risk, and thereby to calculate their costs and prices correctly. Clients may also hedge the risk of deterioration in their financial performance as a consequence of adverse movements in market interest rates in the future - the proposed solutions make it possible to set a fixed cost of funding and interest income without any amendments to existing credit facilities or lease agreements.

In 2016 the Treasury Department continued its efforts to sell actively the Millennium Forex Trader transaction platform, through which Corporate Banking clients enter, on their own, into spot and forward foreign exchange transactions and foreign exchange swap transactions as part of the integrated Millenet transactional platform. At the end of 2016 the Bank's platform was actively used by 2,000 clients.

Custody services

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

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

Bank Millennium is one of the leaders in Poland in terms of the number of domestic and international clients who entrust their assets to us for custody purposes. As at 31 December 2016, the value of assets on clients' securities accounts stood at PLN 41.5 billion. At the end of 2016 the Bank operated 12,583 securities accounts and acted in the capacity of the custodian for 85 investment funds.

International Activity and External Funding

Last year the parameters for the functioning of the international loan market, including in particular syndicated loans that in the past formed a major source of stable funding in foreign currencies for the Bank did not undergo significant change. Therefore, no new agreements were concluded in this area. The servicing and management of the hitherto and new agreements concluded with international financial institutions were nevertheless continued, especially with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). As of 31 December 2016 those included the following:

- Agreement concluded with EIB in December 2016 for granting a loan in the amount of 100 million EUR intended for increasing the possibility of the Bank's financing SMEs (including in the form of leasing).
- Agreement concluded with EBRD in December 2015 concerning a medium-term loan for EUR 50 million extended by EBRD under the PolSEFF Leasing project (*Polish Sustainable Energy Financing Facility for Leasing*). The funds from this loan will be made available to the Bank's clients using funding in the form of leasing (through Millennium Leasing), intended for investments to enhance the energy

efficiency of operated machinery and equipment and to reduce the costs of utilised energy. The final loan repayment will be made in December 2020.

- Agreement concluded with EBRD in December 2013 concerning a medium-term loan for the equivalent of EUR 75 million intended to increase Bank Millennium's ability to fund SME sector clients in selected regions of the country. This loan was originated in CHF in two tranches with the final maturity for the various tranches falling in December 2018 and December 2019.
- Global Loan concluded with EIB in December 2010 for EUR 100 million in support of the bank's actions to fund investments implemented by the small and medium enterprise sector. The loan shall be repaid in 2017-2019 (depending on the date of paid-in tranche).

Last year the Bank continued projects related to the process (continued for many years) of strengthening the base of credible counterparties and partners on the interbank market, especially in the segment of instruments related to managing medium and long-term liquidity in foreign currencies. One of the important aspects of activities in this area was to manage the portfolio of agreements with domestic and foreign banks (including ISDA and GMRA), which must be regularly adjusted to variable regulations and market requirements. At the same time the Bank took measures related to the gradual implementation of the EMIR Regulation (European Market Infrastructure Regulation) and its applicability to activities related to executing transactions pertaining to the various categories of derivatives on the OTC market.

Irrespective of the above activities, last year the Bank carried out on an on-going basis all other tasks connected with its overall international activities, in various areas involving, inter alia, current financing of the Bank's own and its clients' needs, servicing of foreign trade transactions, participation in international money market and currency operations, capital market activities. Achieving the above objectives resulted largely from the process of development of the Bank's cooperation with its foreign partners and counterparties, over more than 25 years. The Bank maintains contacts with nearly a thousand correspondent banks and their units located in all countries significant in terms of the structure of Poland's foreign trade and non-trade transactions.

In parallel to arrangement of mid-term funding in the international market Bank Millennium has in recent years successfully issued PLN denominated debt in the domestic market (in 2014 with the nominal value of PLN 500 million and in 2015 year PLN 300 million).

VII. RISK MANAGEMENT

VII.1. Risk management framework

The mission of risk management in the Bank Millennium Group is to ensure that all types of risks are managed, monitored and controlled as required for the risk profile (risk appetite), nature and scale of the Group's operations. Risk management is centralized for the Group and takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk.

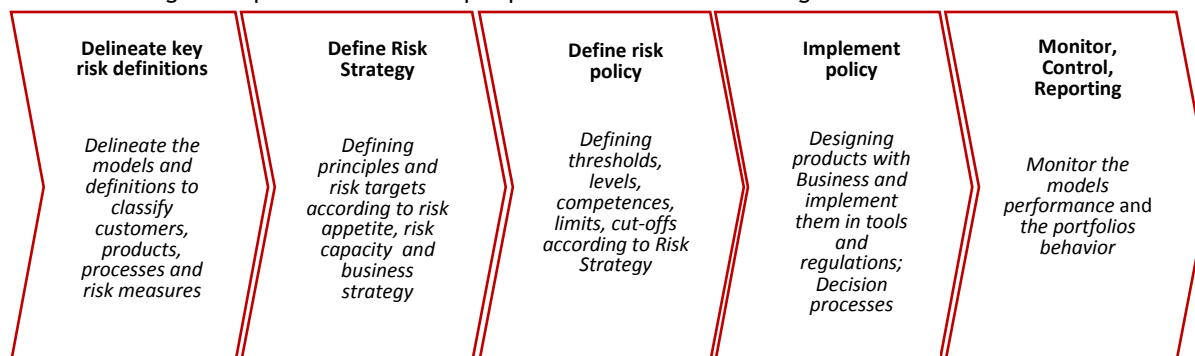
The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, credit policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of employees as regards their responsibility for proper risk management at every level of the Group's organisational structure.

The risk management and control model at the Group's level is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the segregation of duties between risk origination, risk management and risk control.

The Risk management process of the Group is presented in the below diagram:



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

At operational level, due to the complexity and diversification of the operations of the Group, the risk management function is supported by specialized committees with their competences specified by the Bank's Management Board. This is reflected in the works of the Risk Committee and additionally five specialized risk committees:

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

Specialized Committees are chaired by Management Board members and incorporate responsibilities for the main areas related to origination, monitoring and management of the specific risks.

The Risk Committee has global responsibility for risk control at the Group. In order to assure such control the Risk Committee monitors the evolution of various types of risks in the Group's operations and decides on the general risk policy accordingly to the goals defined on the Risk Strategy (approved by the Supervisory Board). All the Bank's Management Board members are members of the Risk Committee.

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

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

Use of Internal Rating Based (IRB) methods

The Group received at the end of 2012 authorization from Supervisory Authorities (Banco de Portugal - BdP and the Polish Financial Supervisory Authority - KNF) for the use of the advanced IRB method regarding two loan portfolios: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE). That decision regarding IRB contained a constraint (so-called "Regulatory floor"), whereby minimum own funds requirements for portfolios covered by the decision must be maintained at no less than 80% of the respective capital requirements calculated using the Standardized method. In December 2014 the Group received authorization to ease the previously imposed regulatory IRB floor from 80% to 70% and at the same time it received further conditions to portfolios under IRB and under rollout process.

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

During 2016, the Group was continuing IRB rollout implementation in cooperation with Supervisory Authorities. In fact, since 2010 the Group has been deeply involved in the process of having the authorization for the use of the IRB methods. The Group considered this project as crucial for two main reasons: first, it ensures that the Group will permanently have the best standards on credit risk management; and second, it is an effective way to optimize the capital management.

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

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

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

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

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

VII.2. Capital management

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

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

In 2016, all capital targets were met with a surplus. It relates both to actual ratios, and the same ratios calculated with assumptions of stressed conditions. The Group's capital adequacy is assessed as satisfactory and assuring a smooth and steady development of banking activity.

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

Regulatory capital

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

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

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

For portfolios covered by the IRB decision (RRE and QRRE) the Bank has to maintain own funds requirements at no less than 70% of the respective capital requirements calculated using the Standardized method (to keep "Regulatory floor").

Bank, similarly to other banks in Poland, is obliged to maintain the capital conservation buffer of 1,25% from 2016.

Bank received in October 2016 the decision of KNF regarding identification of the Bank as other systematically important institution and imposing on the Bank and on the Group the other systematically important institution buffer in the equivalent of 0.25% of total amount of the risk exposure (only on common equity Tier 1 capital).

In October and December 2016, Bank and Group received from KNF a recommendation to maintain own funds for the coverage of additional capital requirements at the level of 3.09 p.p. (Bank) and 3.05 p.p. (Group) in order to secure the risk resulting from FX mortgage loans granted to households, which should consist of at least 75% of Tier 1 capital (which corresponds to 2.32 p.p. in Bank and 2.29 p.p. in Group), and should consists of at least 56% of common equity Tier 1 capital (which corresponds to 1.73 p.p. in Bank and 1.71 p.p. in Group). That recommendation replaces the previous one, to maintain Bank's own funds for the coverage of additional capital requirements at the level of 3.83 p.p., which should have consisted of at least 75% of Tier 1 capital (which corresponded to 2.87 p.p.).

As a result of the above decisions and recommendations, and another requirements defined in CRR, as well as KNF recommendation for Polish banks (TCR of 12% and Tier 1 Capital Ratio of 9% as the expected minimum base in Poland), Group has to comply with the following minimum capital ratios:

- Tier 1 Capital Ratio (T1) = $9\% + 1.25\% + 0.25\% + 2.29\% = 12.79\%$ (12.82% for the Bank)
- Total Capital Ratio (TCR) = $12\% + 1.25\% + 3.05\% = 16.30\%$ (16.34% for the Bank)

It need to be emphasized that presented above expected by KNF levels of capital ratios are significantly higher than these required by Basel 3 European regulations.

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

Internal capital

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

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

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

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

In 2016 both economic capital buffers were met with a surplus. Economic capital adequacy - accounting for a coverage of internal capital by own funds - is assessed as satisfactorily fulfilled.

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

Capital requirements and ratios of the Group and Bank Millennium are presented in the below table:

| Capital adequacy indicators (PLN million) | 31.12.2016 | 31.12.2015 |
|--|--|--|
| | IRB with regulatory floor ^(*) | IRB with regulatory floor ^(*) |
| Risk-weighted assets (RWA) for Group | 36 730.6 | 37 129.6 |
| Risk-weighted assets (RWA) for Bank | 36 198.7 | 36 755.7 |
| Own funds requirements for Group | 2 938.4 | 2 970.4 |
| Own funds requirements for Bank | 2 895.9 | 2 940.5 |
| Own funds for Group | 6 390.7 | 6 208.9 |
| Own funds for Bank | 6 252.4 | 6 081.3 |
| Total Capital Ratio for Group (TCR) | 17.40% | 16.72% |
| Total Capital Ratio for Bank (TCR) | 17.27% | 16.55% |
| Common Equity Tier 1 Ratio for Group ^(**) | 17.31% | 16.35% |
| Common Equity Tier 1 Ratio for Bank ^(**) | 17.18% | 16.17% |
| Minimum Total Capital Ratio for Group | 16.30% | 15.75% |
| Minimum Total Capital Ratio for Bank | 16.34% | 15.83% |
| Leverage ratio for Group ^(***) | 8.97% | 9.15% |
| Leverage ratio for Bank ^(***) | 8.86% | 9.02% |

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

(**) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio

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

More information on capital adequacy is presented in a separate report titled “Capital Adequacy, Risk and Remuneration Policy for 2016”.

Dividend policy

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

Thus, the Bank has approved a dividend policy of distributing between 35% to 50% of net profit what is also subject to regulatory recommendations. Considering additional capital requirements to FX mortgage loans for households and capital conservation buffer (described above), and presented below KNF dividend policy, the Management Board of the Bank will submit to the Annual General Shareholders Meeting a proposal to retain in own funds the full profit of 2016 year.

In December 2016 KNF published its position on dividend policy for banks (among other entities) in 2017. KNF recommends 50% dividend ratio may be paid out in banks meeting together all below criteria:

1. Bank is not under rehabilitation program
2. BION (SREP) score not worse than 2.5
3. Financial leverage higher than 5%
4. T1 ratio higher than 15.82% (value calculated as for Bank Millennium SA based on KNF criteria for OSII)
5. TCR higher than 16,59% (value calculated as for Bank Millennium SA based on KNF criteria for OSII)).

At the same time KNF published for banks materially involved in FX denominated mortgage loans granted to households, two additional corrective criteria, based on the share of the given portfolio in total portfolio and the share of loans granted in years 2007 and 2008 in the given portfolio. The Bank and the Group meet all 5 main criteria enabling 50% dividend payout, nevertheless given corrective criteria, dividend payout is not possible.

VII.3. Credit risk

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

The credit policy pursued in the Group is based on a set of principles such as:

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

In the area of credit risk, the Group focused in 2016 year on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks, in particular:

- updated the Risk Strategy, for the years 2017-2019;
- developed of a new rating model for corporate customers;
- updated sector risk classification and limits;
- optimised the methodology, tools, and processes of credit risk management for retail clients

During 2016 the Bank sold PLN 315 million on balance sheet impaired receivables and PLN 110 million off balance (written off in charge of provisions), with higher than average coverage ratio. The balance sale included corporate portfolio (PLN 187 million) and retail portfolio (PLN 128 million).

Loan portfolio quality

Bank Millennium Group maintains a solid asset quality of the loan portfolio. The share of impaired loans in the consolidated portfolio decreased during the year from 4.61% to 4.50%, it is much lower compared to the Polish banking system and the share of past-due more than 90 days loans dropped in this time from 2.78% to 2.63%.

The improvement of quality portfolio was observed for leasing and other corporates portfolios. Impaired ratio in leasing dropped to 4.45% and past-due over 90 days ratio to 1.34%. These ratios for other corporates decreased respectively to 5.30% and 3.55%.

Two other portfolios of impaired ratio registered some increases: higher in mortgage portfolio and non-material in non-mortgage retail loans. However, quality of mortgage portfolio remains very good, with impaired loans ratio at 2.47% and past due over 90 days at 1.18%. These ratios remain lower when compared to the Polish banking system average.

The coverage ratio, defined as the share of total provisions in total impaired loans, decreased during 2016 year from 66% to 63% (partially due to impaired portfolio sale) and coverage of loans past-due over 90 days decreased from 110% to 107%.

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

| Total portfolio quality indicators | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| Total impaired loans (PLN million) | 2 179 | 2 204 |
| Loans past-due over 90 days (PLN million) | 1 273 | 1 331 |
| Total impairment provisions (PLN million) | 1 365 | 1 461 |
| Impaired over total loans ratio (%) | 4.5% | 4.6% |
| Past-due over 90 days over total loans ratio (%) | 2.6% | 2.8% |
| Total impairment provisions/impaired loans (%) | 62.6% | 66.3% |
| Total impairment provisions/ Loans past-due over 90 days (%) | 107.2% | 109.7% |

The evolution of the Group's loan portfolio quality by main products groups:

| Portfolio quality by products: | Loans past-due > 90 days ratio | | Impaired loans ratio | |
|--------------------------------|-----------------------------------|--------------|-------------------------|--------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Mortgage | 1.18% | 0.94% | 2.47% | 2.13% |
| Other retail (*) | 8.39% | 8.33% | 11.82% | 11.77% |
| Leasing | 1.34% | 1.75% | 4.45% | 4.66% |
| Other Corporates | 3.55% | 5.22% | 5.30% | 7.34% |
| Total loan portfolio | 2.63% | 2.78% | 4.50% | 4.61% |

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

Concentration of the loan portfolio

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

The main items of loan book are mortgage loans (57%) and cash loans (10%). The portfolio of loans to companies (including leasing) from different sectors like industry, construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 30% of the total portfolio.

| Sector name | 2016 | | 2015 | |
|---|-----------------------------------|---------------|-----------------------------------|---------------|
| | Balance Exposure (PLN million) | share (%) | Balance Exposure (PLN million) | share (%) |
| Credits for individual persons | 34 084.2 | 70.4% | 33 615.2 | 70.3% |
| Mortgage | 27 815.7 | 57.5% | 27 954.6 | 58.4% |
| Cash loan | 4 919.0 | 10.1% | 4 437.1 | 9.3% |
| Credit cards and other | 1 349.5 | 2.8% | 1 223.5 | 2.6% |
| Credit for companies* | 14 300.7 | 29.6% | 14 215.1 | 29.7% |
| Wholesale and retail trade; repair | 3 706.8 | 7.7% | 3 900.8 | 8.2% |
| Manufacturing | 3 967.2 | 8.2% | 3 845.3 | 8.0% |
| Construction | 914.2 | 1.9% | 1 012.2 | 2.1% |
| Transportation and storage | 2 293.1 | 4.7% | 2 137.8 | 4.5% |
| Public administration and defence | 308.4 | 0.6% | 394.9 | 0.8% |
| Information and communication | 408.9 | 0.8% | 331.3 | 0.7% |
| Other Services | 696.7 | 1.4% | 609.8 | 1.3% |
| Financial and insurance activities | 144.7 | 0.3% | 73.6 | 0.2% |
| Real estate activities | 715.7 | 1.5% | 612.6 | 1.3% |
| Professional, scientific and technical services | 337.9 | 0.7% | 334.8 | 0.7% |
| Mining and quarrying | 118.5 | 0.2% | 233.5 | 0.5% |
| Water supply, sewage and waste | 99.0 | 0.2% | 110.3 | 0.2% |
| Electricity, gas, water | 111.9 | 0.2% | 180.8 | 0.4% |
| Accommodation and food service activities | 157.0 | 0.3% | 123.3 | 0.3% |
| Education | 31.8 | 0.1% | 47.5 | 0.1% |
| Agriculture, forestry and fishing | 103.6 | 0.2% | 96.7 | 0.2% |
| Human health and social work activities | 161.9 | 0.3% | 148.2 | 0.3% |
| Culture, recreation and entertainment | 23.4 | 0.0% | 21.7 | 0.0% |
| Total (gross) | 48 385.0 | 100.0% | 47 830.3 | 100.0% |

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

Concentration ratio of the 20 largest customers in the Group's loan portfolio (considering groups of connected entities) at the end of 2016 is 5.4% comparing with 5.2% at the end of 2015. Concentration ratio in 2016 also increased marginally for the 10 largest customers: to 3.7% from 3.4% at the end of the previous year, in line with risk appetite policy of the Bank.

More information on credit risk management can be found in chapter 8 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2016.

VII.4. Other risks

Market risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse market movement. The framework of market risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the BCP Group.

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model - an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for the portfolios that are subject to high market risk. In 2016 the results of stress test were regularly reported to the Capital, Assets and Liabilities Committee (CALCO). There were no excesses of the established limits detected. Additionally, in the process of interest rate risk management, the Group also uses interest income sensitivity measure and analyzes repricing gaps.

The impacts of interest change on Net Interest Income is asymmetrical and it is negative in case of decreasing interest rates. This is due to the Polish legal system and the fact that the interest rate of consumer loans and credit cards is limited (from January 2016 it cannot exceed twice Reference Rate of the National Bank of Poland increased by 7 percentage points). The strength of impact on net interest income in face of decrease of the interest rate depends, among other factors, on the percentage of the loan portfolio that is affected by the new maximum rate. For position in Polish Zloty, in a scenario of immediate parallel yield curve decrease by 100 bps, the impact on net interest income in the next 12 months after 31st December 2016 is negative and equals to -5,9 % of the annualized 4Q 2016 net interest income (or +4,4% for a 100 bps yield curve increase).

VaR ratios reflect total exposure to market risk in the Group. In 2016, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Group was relatively low during 2016 and was on average equal to PLN 44.0 million compared to the end-of-year internal limit of PLN 318.1 million. In 2016, the total market risk exposure in the Group was kept within limits in place (no excesses were detected).

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

More information on market risk management can be found in chapter 8 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2016.

Liquidity risk

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Group's obligations.

The process of the Group's planning and budgeting covers the preparation of a Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In 2016, the Group's Loan-to-Deposit ratio was kept well below 100%. This ratio, including own bond issues sold to individuals and sell-buy back transactions with customers, improved at the end of December 2016 and equalled 84% (comparing to level of 87% as of end of December 2015). The liquidity surplus was still invested in the portfolio of liquid assets (Cash, balance with NBP, NBP Bills and Polish Government bonds). The share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 99%. During 2016 this portfolio grew by 23% from PLN 14.0 billion at the end of December 2015 (21% of total assets) to approx. PLN 17.3 billion at the end of December 2016 (25% of total assets). The portfolio of debt securities (especially available for sale, without trading activity), supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which will overcome crisis situations (see Table below).

| Liquidity ratios | 31.12.2016 | 31.12.2015 |
|---|------------|------------|
| Loans/Deposits ratio (%) * | 84% | 87% |
| High liquid assets portfolio (PLN million) (**) | 18 722 | 15 521 |

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

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

Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. The source of medium-term funding remains also medium-term loans, subordinated debt, own bonds issue and bank's securities.

The Group manages its FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements.

The estimation of the Group's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. In 2016 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place, including

the liquidity coverage requirement (LCR) calculated according to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR). The regulator minimum of 70% for LCR valid in 2016 was complied by the Group (as of the end of December 2016 the LCR reached the level of 124%). The measure has been reported on the monthly basis to NBP since March 2014.

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2016 all the liquidity gaps were maintained at the levels significantly above the minimum limits.

Liquidity stress tests are performed at least quarterly, in order to understand the Group's liquidity-risk profile and to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the Liquidity Contingency Plan and management decisions.

The liquidity risk management process is regulated in the internal policy that is a subject of the Bank's Management Board approval

The Group has also emergency procedures for situations of increased liquidity risk - the Liquidity Contingency Plan. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is tested and revised at least once a year.

More information on liquidity risk management can be found in chapter 8 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2016.

Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organisational structure. Current management of the specific processes, including the management of the profile of process operational risk, is entrusted to Process Owners, who report to all other units participating in the risk management process and are supported by these units.

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

VIII. HUMAN RESOURCES MANAGEMENT

VIII.1. Personnel Policy

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

HR Policy and the HR Management Strategy, which is based on it, supports business needs of Bank Millennium Group. Activity is conducted in particular in the following areas:

Further service quality improvement by strengthening staff skills.

2016 saw the launch of “Akademia Mistrzów” (Masters’ Academy) comprehensive retail banking employees’ competencies development programme. Its aim is further improvement of the quality of services offered to customers of Bank Millennium Group. It comprises a number of workshops concerning quality of service and understanding customers’ needs. The programme’s unique value is that it engages experienced employees in imparting their knowledge to less experienced colleagues.

The same assumptions underlie Corporate Banking programmes of certification of competencies of Relationship Managers and Consultants.

Bank Millennium Group recognises and rewards employee attitudes, which lead to improvement of work quality as well as optimisation of processes, effectiveness and taking up professional challenges. In 2016 the “Impakt” employee awards programme was continued where Group employees themselves nominate candidates for the awards.

Support of development of digital technologies by acquiring employees with specialised skills.

Bank Millennium Group relies in its development on IT. These technologies are used in building customer service systems for branches and in electronic and mobile banking. In 2016 Bank Millennium Group increased employment in the area of digital technologies by 17%, while the headcount in the entire Group fell 1% approximately. Talent acquisition is being done not only by means of regular recruitment activities but also through expert programmes and cooperation with student organisations.

Leadership development

Innovations and high quality require good leadership. In 2015 the M#leaders leadership skills development programme was set up, with its subsequent editions being launched in 2016. The programme is based on such values as personal development, trust, honesty, commitment to building real relationships as well as development of associates. By taking part in the workshops the managers have an opportunity not only to study leadership theory but above all to share experience with other participants and implement the developed solutions in practice.

Building a friendly workplace

In 2016 an employee satisfaction survey was carried out in Bank Millennium Group. The survey demonstrated both increase of satisfaction as well as motivation of the employees as compared with the survey from the previous period, with the level of motivation reaching the highest ratio in the survey’s history.

Bank Millennium Group supports physical development and sports activities of the employees. In 2016 Bank Millennium co-financed participation of employees in sports events including “Color Run”, “Runmagedon”, “Bieg Firmowy” (Company Run), while in Head Office “Tydzień dla Zdrowia” (Health Week) was organised. A large part of the employees also use subscription cards for sports activities.

As in previous years a number of activities were implemented to support rest and recreation of employees-parents and their children in the “Rodzice na tak” (Parents Say Yes) programme.

VIII.2. Employment and costs of personnel

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

| Employment in the Group (in full FTEs) | 31.12.2016 | 31.12.2015 | Change (y/y) |
|---|--------------|--------------|--------------|
| Bank Millennium | 5 497 | 5 575 | -78 |
| - including managerial functions | 130 | 136 | -6 |
| Subsidiaries | 347 | 336 | 11 |
| Total Bank Millennium Group | 5 844 | 5 911 | -67 |

Employment in Bank Millennium Group as of end of 2016 was 5,844 FTEs, which means a decrease as compared with end of 2015 by 67 FTEs (i.e. 1%). The Group's biggest employer is Bank Millennium, with an end of 2016 headcount of 5,520, which corresponds to 5,497 FTEs. Subsidiaries in Bank Millennium Group as of end of the year were employing the total of 347 persons-FTEs, with three companies among them having the biggest importance Millennium Leasing, Millennium Dom Maklerski and Millennium TFI.

| Employment in the Bank (in full FTEs) | 31.12.2016 | 31.12.2015 | Change |
|--|--------------|--------------|------------|
| Branches and Direct Sales | 3 577 | 3 707 | -130 |
| Head Office | 1 920 | 1 868 | 52 |
| Total Bank Millennium | 5 497 | 5 575 | -78 |

The structure of employment of Bank Millennium shows a definite majority of people employed directly in sales of banking products and services, above all in 369 outlets of the Bank located all over Poland.

Bank significantly increased employment in the area of digital technologies.

| Employment (in FTEs) | 31.12.2016 | 31.12.2015 | Change (%) |
|------------------------------|--------------|--------------|------------|
| Direct Banking | 463 | 418 | 45 |
| Digital Technologies | 377 | 323 | 54 |
| Retail and Corporate Banking | 3249 | 3423 | -174 |
| Support Units | 1409 | 1411 | -3 |
| Total Bank Millennium | 5 497 | 5 575 | -78 |

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

The total level of personnel costs in Bank Millennium Group in 2016 and in the previous year was as follows:

| Personnel costs (in PLN million) | 2016 | 2015 | Change (%) |
|-------------------------------------|--------------|--------------|-------------|
| Bank Millennium | 517,0 | 507,1 | 2,0% |
| Subsidiaries | 41,8 | 39,8 | 4,8% |
| Total Bank Millennium Group | 558,8 | 546,9 | 2,2% |

VIII.3. Remuneration policy

Bank Millennium Group conducts stable remuneration policy, tailored to the individual business lines and employee groups. In the last financial year no significant changes have been introduced to the policy.

Remunerations are determined with reference to the scope of tasks performed in the particular organisational units, level of responsibility of the employee and on the basis of analysis presented in financial market remuneration surveys. Remuneration is verified periodically based on evaluation of work results and market comparisons.

Variable remuneration components are a motivational part of the total remuneration. They are paid on a monthly, quarterly, semi-annual or annual basis - depending on the time horizon of assessed work results.

Employees of Millennium Group have been subject to bonus systems tailored to the specific nature of the business targets set for particular units. The bonus pool depended on the level of the consolidated net profit plan of Bank Millennium Group.

Individual bonuses were awarded within the bonus pool on the basis of evaluation of work quality as well as the degree of commitment to fulfilment of targets set for the employees.

An important part of managing remuneration in the Bank is the remuneration policy defined for persons occupying management positions. It is a tool of supporting the management system of Bank Millennium Group and encourages particular care for the Bank's long-term good as well as avoidance of excessive exposure to risk. It is described in "Report capital adequacy, risk and remuneration policy in 2016".

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

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

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

Remuneration of Management Board

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

The total remuneration of the Members of the Management Board consists of a fixed and a variable part. The variable part may be an annual bonus.

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

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

- market business criteria defined for the period;

as well as non-financial criteria, in particular:

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

The total remuneration for 2016 of all Members of the Management Board performing functions in this year was PLN 15,821.5, thousand. The said amount includes remuneration and part of annual bonus for 2012, 2013, 2014 and 2015 (in the form of cash and phantom shares) in the amount of PLN 5,134.6 thousand as well as additional benefits and annual leave equivalent.

Remuneration, bonuses and benefits paid to Board Members in 2016 (in PLN thousand):

| Name | Remuneration in 2016*** including annual reward for 2012, 2013, 2014 and 2015 | Benefits | Total |
|----------------------|---|----------------|-----------------|
| Joao Bras Jorge | 3 554,4 | 1 111,3 | 4 665,7 |
| Fernando Bicho | 2 703,2 | 95,5 | 2 798,7 |
| Wojciech Haase | 2 206,8 | 22,9 | 2 229,7 |
| Andrzej Gliński | 1 985,9 | 25,1 | 2 011,0 |
| Maria Campos | 2 206,8 | 345,9 | 2 552,7 |
| Wojciech Rybak (*) | 755,0 | 1,9 | 756,9 |
| Michał Gajewski (**) | 806,6 | 0,1 | 806,8 |
| Total | 14 218,7 | 1 602,8 | 15 821,5 |

(*) from 06.06.2016 - Member of the Management Board

(**) to 13.05.2016 - Member of the Management Board - after the departure from the Management Board also paid compensation for the non-competition clause in the amount of PLN 660.0 thousand and in November 2016 annual award for 2015 in the form of phantom shares in amount of PLN 118.0 thousand.

(***) without variable remuneration for 2016

Apart from the above remuneration in 2016 was paid to Mr Artur Klimczak - former Deputy Chairman of the Management Board, annual award for 2012, 2013, 2014 in the form of cash and phantom shares in amount of PLN 376.6 thousand.

In the period from 01.01.2016 to 31.12.2016 a provision was established for annual bonus in the amount of PLN 5,763.0 thousand.

The decision to award variable remuneration to Management Board Members for 2016 shall be taken by the Supervisory Board Personnel Committee after approval of the Bank's results by the General Meeting of Shareholders.

The Supervisory Board Personnel Committee, when making a review of the Remuneration Policy, found that it supported development and safety of the Bank Millennium S.A. Capital Group and that the to-date practice of managing variable remuneration corresponded to targets set in the Policy. Flexibly managed bonus systems were supportive to business priorities adopted and reflected financial results achieved by Bank Millennium Group business lines.

IX. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

IX.1. Statement on the Principles of Corporate Governance applied in 2016.

Corporate governance is a set of standards addressed to governing bodies of companies and their members as well as defining relations with shareholders and investors. Application of corporate governance principles will increase transparency of company operations and strengthen observance of shareholder rights also relative issues not regulated by generally applicable laws. In Bank Millennium a set of standards comprising the Principles of Corporate Governance is effective. These standards are sourced, *inter alia*, from two regulations applying to the area of Polish financial institutions and companies listed on the Warsaw Stock Exchange. The first of the aforementioned regulations is the document Good Practices of Companies Listed on WSE 2016 adopted by the Board of the Warsaw Stock Exchange, the second is the Principles of Corporate Governance for Supervised Institutions adopted by Polish Financial Supervision Authority.

Good Practices of Companies Listed on WSE 2016 are stipulated in the document effective since 1 January 2016. The complete document is published at https://www.gpw.pl/lad_korporacyjny_na_gpw WSE website and the Bank's website at <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>.

The fundamental standard of the above-mentioned Good Practices is the „comply or explain” rule. This means that the company as a matter of principle is obliged to apply the principles contained in the document and in the event of deviation from use of a particular principle, to clarify the causes of such deviation and to make this fact publicly known in the form of a report by using the WSE Electronic Information Database.

In 2016 the Bank observed all the principles contained in the Good Practices except one rule provided for in Recommendation IV.R.2 items 2 and 3, regarding ensuring the shareholders with opportunity to participate in General Meetings of Shareholders with the use of real-time two-way electronic communication, by means of which the shareholders may take an active part in a General Meeting of Shareholders from a different place than the place of meeting and exercise, in person or via proxy, their voting rights in the course of the GMS. In the Bank's opinion the implementation of this rule during a General Meeting carries with itself technical and legal risks to the correct and efficient conducting of the General Meeting. Avoiding these threats constitutes a bigger value for the shareholders than the implementation of the rule from Chapter IV of Recommendation IV.R.2, item 2 of Good Practices. At the same time ever since 2008 the Bank has been providing real-time online broadcasting of the proceedings of the GMS, in accordance with the requirement specified in Chapter IV, Recommendation IV.R.2 item 1 of Good Practices. Meanwhile the Bank does not rule out the possibility of ensuring to the shareholders two-way real time communication during the proceedings of a General Meeting, should actual or legal circumstances change. Guided by the principle of transparency of its actions in shaping corporate and investor relations as well as the highest quality of communication with shareholders, otherwise the Bank was complying with the Good Practices in 2016. In the “Information on application by the company of recommendations and principles contained in the Good Practices of Companies Listed on WSE 2016” published on the Bank's website, the Bank confirmed that it follows recommendations provided for in the Good Practices.

Since the beginning of 2015, the Bank as a financial institution is also subject to the above mentioned Principles of Corporate Governance for Supervised Institutions, which are available on the website of KNF at: http://www.knf.gov.pl/dla_ryнку/zasady_ladu_korporacyjnego/index.html and the Bank's website at: <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>.

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

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

With reference to lack of the possibility to electronically take active part in a meeting of the GMS, the position of the Management Board and Supervisory Board is a repetition of the statement made with respect to the principles existing in the Good Practices - as referred to above.

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

The GMS in its resolution passed on 21 May 2015 expressed a positive opinion regarding the position of the Management Board and Supervisory Board of the Bank with respect to application of the Principles. At the same time the GMS in the aforementioned resolution regarding principles addressed to the shareholders stated that it is of the view that exercising them should remain within the framework of generally applicable legal regulations, while whenever the Management Board or the Supervisory Board, acting within their powers, submit matters covered by these principles, requesting consideration of specific matters by GSM, then they will be considered with reflection of the circumstances of such submission. Furthermore, GMS, by its Resolution of 31 March 2016, accepted the assessment of compliance with the Principles and that of the manner of performance of information duties regarding compliance with Good Practices, as presented by the Supervisory Board in its Report on the Bank Millennium S.A. Supervisory Board activities in 2015.

During the reporting period the Bank for the ninth consecutive time was included in the group of companies in RESPECT Index- Central-Eastern Europe's first index of socially responsible companies. Following the review made in December 2016 the Index comprised only 25 companies among all listed on WSE. The companies comprising the Index operate on the basis of best standards of corporate governance, information policy, investor relations as well as social relations in the area of HR matters and also environment protection.

IX.2. Shareholders and General Meeting of Shareholders

As of 31 December 2016 the Bank's shareholders' equity comprised 1,213,116,777 shares (with nominal value of PLN 1 each). Presented below is information about shareholders holding directly or indirectly substantial blocks of shares together with indication of the number of shares held by them, their participation in shareholders' equity and in the total number of votes at the Bank's GMS. Due to the fact that the Bank is a public company whose shares are traded on the Warsaw Stock Exchange the Bank does not have detailed information about structure of shareholders holding less than 5% share in shareholders' equity capitals. According to information available, as on 31 December 2016, the Bank had three shareholders holding more than 5% of votes on GMS.

Banco Comercial Portugues S.A., the largest private Portuguese bank - as the strategic investor holds 50.10% of all shares of Bank Millennium. The Bank's significant shareholders are also: the biggest Polish pension fund Nationale-Nederlanden Otwarty Fundusz Emerytalny (former ING OFE), which as of 31 December 2016 held 9.94% shares of the Bank and AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK holding 5.45% shares of the Bank.

The remaining shares i.e. 34.51% of share capital are widely distributed among Polish and foreign shareholders, both institutional as well as private.

Shareholders of the Bank as of 31 December 2016.

| Shareholder | Number of shares | % stake in shareholders' equity | Number of votes | % participation in votes at GMS |
|--|------------------|---------------------------------|-----------------|---------------------------------|
| Banco Comercial Portugues S.A. | 607 771 505 | 50,10 | 607 771 505 | 50,10 |
| Nationale-Nederlanden OFE (former ING OFE) | 120 634 080 | 9,94 | 120 634 080 | 9,94 |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK | 66 136 567 | 5,45 | 66 136 567 | 5,45 |

Shareholders of the Bank as of 31 December 2015

| Shareholder | Number of shares | % stake in shareholders' equity | Number of votes | % participation in votes at GMS |
|--|------------------|---------------------------------|-----------------|---------------------------------|
| Banco Comercial Portugues S.A. | 607 771 505 | 50,10 | 607 771 505 | 50,10 |
| Nationale-Nederlanden OFE (former ING OFE) | 115 615 810 | 9,53 | 115 615 810 | 9,53 |
| AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK | 78 310 605 | 6,46 | 78 310 605 | 6,46 |

Data in the tables were ascertained according to the rules described below. To the extent concerning BCP these are data collected in connection with registration of shareholders authorised to take part in the Bank's GMS convened for, respectively, 31 March 2016 and 21 May 2015.

The number of shares held by Nationale-Nederlanden OFE and their stake in the Bank's shareholders' equity was calculated on the basis of the Annual Structure of Assets of the Fund as of 31 December 2015 and 31 December 2016 published on the website www.nn.pl. Meanwhile data concerning AVIVA OFE - on the basis of the Annual Structure of Assets of the Fund as of 31 December 2015 and 31 December 2016, as published on the website www.aviva.pl. For the purpose of making the above mentioned calculations the average price of the Bank's share on these days was assumed at PLN 5,6468 for 2015 and PLN 5,1481 for 2016.

BCP, as the majority shareholder, is exercising shareholder's rights specified in the Act of 15 September 2000 - the Code of Commercial Companies and in the Bank's Articles of Association. BCP holds corporate control over the Bank. By holding the majority of votes at GMS it can exercise decisive influence on decisions regarding the most important corporate matters such as change of the Bank's Articles of Association, issue of new shares of the Bank, reduction of the Bank's shareholders' equity, issue of convertible bonds, payment of dividend and other activities, which in accordance with Code of Commercial Companies (KSH) require an ordinary or qualified majority of votes at the GMS. BCP also holds a sufficient number of votes to appoint all members of the Supervisory Board, which in turn appoints members of the Management Board. Due to the above corporate authority BCP has the capacity to exercise significant control over the Bank's activity.

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

The Bank's shareholders exercise their rights in the way and within the boundaries defined by effective generally applicable laws, the Articles of Association of the Bank as well as the Bylaws of the General Meeting of Shareholders. Each share of the Bank entitles to one vote, however registered founding shares in the outstanding number of 61,800 are preferential in as much as one share entitles to two votes at the GMS. Registered founding shares in total accounted for 0.0051% of the Bank's share capital and 0.0102% of the total number of votes at a General Meeting, as of 31 December 2016.

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

Bank Millennium shares are listed on Warsaw Stock Exchange in Warsaw since 13 August 1992 as the first among all banks. Currently 1 213 008 737 shares with code ISIN PLBIG0000016 (WSE symbol: MIL; Reuters: MILP.WA; Bloomberg: MIL PW) are traded on the stock exchange.

In addition, shareholders have 108,040 registered shares of which 61,800 are founder's shares, privileged (right to two votes on GMS). Thus, total number of Bank Millennium shares amounts to 1.213.116.777 and total number of votes on GMS amounts to 1.213.178.577.

General Meeting of Shareholders

The highest body of the Bank is General Meeting of Shareholders, which operates in accordance with generally applicable effective laws including, in particular: the Code of Commercial Companies and the Act of 29 August 1997 - the Banking Law. Internal procedural rules of the General Meeting of Shareholders are provided for in the form of the Articles of Association and Bylaws and are available from the Bank's website by clicking the bookmark: "About the Bank > Corporate Bodies & Governance". These documents describe, in particular, procedures applicable to General Meeting activities, its competences and, moreover, they indicate specific powers of shareholders to be exercised in the course of a General Meeting.

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

IX.3. Supervisory Board

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

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

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

On 31 March 2016, GMS discharged all members of the Supervisory Board, performing duties in 2015, from performance of their duties in the accounting year 2015.

During the period from 1 January to 31 December 2016 the following persons comprised the Supervisory Board of the Bank:

1. Bogusław Kott - Chairman of the Supervisory Board

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

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

Mr Bogusław Kott is also the Member of the Supervisory Board of Yareal Polska Sp. z o.o.

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

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

From 1980 he worked at consulting (KPMG) and financial companies, between 2006 - 2012 he was Chairman of the Executive Committee and Vice-Chairman of the Board of Directors of Banco Santander Totta (Portugal). Since 2012 he has been Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Comercial Portugues (BCP), Portugal.

Deputy Chairman of the Supervisory Board of Bank Millennium S.A. since 20 April 2012.

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

Mr Dariusz Rosati graduated in International Trade from the Main School of Planning and Statistics - SGPiS (now the SGH Warsaw School of Economics) in Warsaw. Professor of Economic Sciences, in the position of Full Professor in European Union Unit of the SGH Institute of Foreign Trade Policy and European Studies at SGH.

In 1978 - 1979 he was a consultant at Citibank in New York. In 1985 - 1986 and 1987 - 1988 - founder and Director of the World Economy Research Institute at SGH. In 1986 - 1987 he was a Fulbright scholar at the University of Princeton (USA). In 1988 - 1991 he was the director of the Foreign Trade Research Institute. Since 1990 Professor of Economic Sciences at SGH. In 1991 - 1995 he worked in the UN Economic Commission for Europe in Geneva (Switzerland) as Head of the Central and Eastern European Section. In 1995 - 1997 the Minister of Foreign Affairs of the Republic of Poland. In 1978 - 1991, UNIDO consultant and member of numerous missions to developing countries. In 1988 - 1991 many times worked as an expert of the World Bank, the United Nations University World Institute for Development Economics Research (WIDER), International Labour Organisation and European Commission. Member of the Economic Reform Commission (1987 - 1989), team of the economic advisors to the Prime Minister (1988 - 1989), the Socio-Economic Strategy Council at the Council of Ministers (1994 - 1998). Since 1997 Member of the Committee

of Economics at the Polish Academy of Sciences. In 1998 - 2004 Member of the Monetary Policy Council of the National Bank of Poland. In 2001 - 2004 he was a member of the Group of Economic Policy Advisors to the President of the EU Commission. From 2003 to 2005 Rector of the Lazarski University in Warsaw. In years 2004 - 2009 and currently (elected in 2014) Member of the European Parliament. Member of Parliament of the Republic of Poland of 7th term - he performed the function of the Chairman of the Public Finance Committee. Author of more than 200 scientific papers and publications, including five books on economic policy.

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

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

Ms Julianna Boniuk-Gorzelańczyk graduated from the Faculty of Finances and Statistics at the Main School of Planning and Statistics (present name - Warsaw School of Economics) in Warsaw. She has the rights of certified auditor.

For many years she was employed in industry, moving up through many levels in her professional career.

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

In 1991 she participated in banking practice in Standard Merchant Bank in Johannesburg. In 1993 she received a certificate from the Austrian Banking College, while in 2003 she attended a BCP Group seminar in INSEAD, Fontainebleau, France.

Member of the Supervisory Board of Bank Millennium S.A. since 21 May 2015.

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

Mr Miguel de Campos Pereira de Bragança, has a Licenciante Degree in Management and Administration from the Catholic University of Portugal and an MBA from INSEAD.

Since 1989 he has worked at banks in Portugal, Brazil and Great Britain. Between 2008-2012 he was Director, responsible for the Financial, Accounting and Management Control, Marketing and Products Areas, at Banco Santander Totta and Banco Santander de Negocios (Portugal). Since 2012 Member of the Board of Directors and Vice-Chairman of the Executive Committee of Banco Comercial Portugues (BCP), Portugal.

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

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

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

She built her career in new technologies as well as marketing and sales in international corporations. Her many years of marketing experience covers a variety of industries: from FMCG (Johnson&Johnson), telecommunications (Deutsche Telekom), publishing (Gruener&Jahr) and entertainment (Disney). In 2008 she joined Google and currently oversees the company's strategy and business as Country Director. Her main responsibility is to manage Google's ads business in Poland across products and channels, and directly lead key customers and partners.

Ms A. Hryniewicz-Bieniek is a member of Advisory Committee of "Leadership Academy for Poland". Actively supports women in new technology by serving as a mentor and coach for future women leaders in the business.

Member of the Supervisory Board of Bank Millennium S.A. since 21 May 2015.

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

Ms Anna Jakubowski graduated with a Bachelor of Business Administration (1990) from Wilfrid Laurier University, Waterloo, Ont. Canada.

Her professional career started with Procter & Gamble Canada (1991 - 1993), where she was the National Account Manager. Between 1993 and 1998 she held different positions, from Pharmacy Channel Manager to Trade Marketing Manager and Area Sales Manager in P&G Poland. In 1998 she became Regional Customer Business Development Manager in P&G Central Eastern Europe while between 1999 and 2007 she was New Business Development Manager and (from 2002) Strategy, Business Development Director in P&G Western Europe. She continued her career in Switzerland in the P&G the Fabric Care Division (2007 - 2009) as an Associate director: Marketing. Between 2011 and 2016 she connected her professional career with The Coca-Cola Company where she held the following positions: the International Group Marketing/Strategy Director in Coca-Cola Hellenic Bottling Company (2011 - 2013), Business Capability Director in the Coca-Cola Company (2013) and from 2013-2016 Management Board Member in Multivita Sp. z o. o., Management Board Member - Managing Director in Coca-Cola Balti Jookide AS, Management Board Member - Managing Director in Coca-Cola Poland Services Sp z o.o. and Franchise General Manager - Poland/Baltics The Coca-Cola Company. Across 2015-2016 she served as a Member of the Board of Directors of American Chamber of Commerce in Poland.

She has also been involved with the following organizations and associations: Women's International Networking Leadership Forum (2004 - 2012), Board of Advisors, Organization of Women in International Trade, Board of Directors (2005 - 2010) and in 2008 as an Executive Vice President as well as in 2009 as the President, Geneva Women in International Trade as the President (2005 - 2010).

Currently she serves as a Management Board Member of the International Association of Advertising (IAA) in Poland (Warsaw, Poland), Patron Member in the Polish - Canadian Chamber of Commerce and Adviser and Mentor in the Global Shapers - Mentor4Starters initiative.

In 2011 she was awarded the TIAW - The World of Difference 100 Award (Recognizes individuals whose efforts have advanced the economic empowerment of women) and in 2016 she was awarded Woman of Charisma: Business & Social Enterprise Award (Poland).

Member of the Supervisory Board of Bank Millennium S.A. since 21 May 2015.

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

Mr Grzegorz Jędrys graduated of the Production Economics Faculty of Warsaw School of Economics and of a post-graduate course at Warsaw School of Economics in Strategic Marketing Management as well as real estate agency operation. Moreover,

Mr G. Jędrys attended many courses and training sessions, i.a. for candidates for members of supervisory boards of State Treasury companies (2008).

He began his professional career in 1994 in the Housing Finance and Municipal Advisory Programme for Poland/PADCO - a joint Poland-USAID programme. In 1996 he worked as Manager of the Building Projects Financing Team in Polsko-Amerykański Bank Hipoteczny S.A. In 1997 - 1999 he was employed in Jedenasty Narodowy Fundusz Inwestycyjny S.A., initially as an Investment Analyst, then as Project Director. Between 1999 and 2005 he was Investment Director in Trinity Management Sp. z o.o. - a company which managed the assets of Jupiter NFI S.A. as well as Pekao Fundusz Kapitałowy Sp. z o.o. In 1997 - 2005 he sat on Supervisory Boards of many companies. Starting from 2005 he has been Head of the Poland's Representative Office of the Polish American Freedom Foundation.

Member of the Supervisory Board of Bank Millennium S.A. since 11 April 2013.

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

Mr David H. Klingensmith graduated with honours from Tulane University in New Orleans in economics and history. He continued his education at Johns Hopkins University's School of Advanced International Studies Washington.

Between 1976 and 1978 he was an international economist at the Office of International Development Banks in the U.S. Department of the Treasury. In 1979 he joined the Chase Manhattan Bank where he worked till 1990 in various positions in different countries, including: United States, Colombia, Pakistan and Hong Kong. Between 1991 and 1995 he worked at the Asian Development Bank as a Senior Investment Officer in the Private Sector Department, Manila and then continued as head of the Credit Risk and Portfolio Group. From 1996 to 2013 he held successive key credit and risk positions at the European Bank for Reconstruction and Development London, ultimately in the position of Managing Director Risk Management. Between 2013 and 2015 he was an elected independent board member at Romgaz (Romania). At the same time since 2013 he has been an independent consultant using his expertise in banking, corporate governance, investment

appraisal, and risk training. In this respect he has worked among others with KfW (German Development Bank) and the Bill and Melinda Gates Foundation. Currently he holds the following positions: Investment Committee Member of the Financial Sector Fund of Africinvest (Tunis) (since 2014) and Senior Advisor on Risk Governance, Nestor Advisors (London) (since 2015).

Member of the Supervisory Board of Bank Millennium S.A. since 21 May 2015.

10. Andrzej Koźmiński - Member of the Supervisory Board

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

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

Member of the Supervisory Board of Bank Millennium S.A. since 1 August 2000.

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

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

From 1987 to 1990 he held commercial and financial functions in an industry sector SME. Between 1990 and 1995 he was employed by Banco Português do Atlântico, with functions in the commercial and companies areas, in charge of coordinating the Economic and Financial Research Office.

Since 1990 he has been working for BCP Group in several functions in Portugal and Spain. During the 2007 - 2009 period he was Head of the Office of the Chairman of the Executive Board of Directors of BCP. Between 2009 and 2012 he held the position of Member of the Executive Board of Directors of BCP and Member of the Board of Directors of Fundação Millennium BCP. Throughout the period from 2012 to 2016

Mr Miguel Maya held the position of Chairman of the Board of Directors of Banco Millennium Angola, S.A. In 2016, following the merger of this institution with Banco Privado Atlantico, S.A. which resulted in the creation of Banco Millennium Atlantico, S.A., Mr Miguel Maya was appointed as Vice-Chairman and Member of the Board of Directors of the new entity - position that he currently holds. Moreover, he also holds the following functions: Vice-Chairman of the Executive Committee and Member of the Board of Directors of BCP, Chairman of the Board of Directors of Interfundos - Gestao de Fundos de Investimento Imobiliario, S.A., Manager of BCP Africa, SGPS, Lda.

Member of the Supervisory Board of Bank Millennium S.A. since 21 May 2015.

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

Mr Rui Manuel da Silva Teixeira has a Licentiate degree in Electronic Engineering from the University of Oporto.

From 1987 he held managerial positions at Banco Comercial Portugues (BCP). Between 2003 and 2006 he was a Member of the Management Board of Bank Millennium S.A. (Poland) and between 2009 and 2010 he was Deputy Chairman of the Management Board of Bank Millennium S.A. (Poland). Between 2011 and 2012 he was Member of the Executive Board of Directors of Banco Comercial Portugues. Since 2012 Member of the Board of Directors and Member of the Executive Committee of Banco Comercial Portugues, Portugal.

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

Audit Committee

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

In compliance with the Act of 7 May 2009 on auditors and their self-government, entities entitled to audit financial reports and on public supervision („Act on Certified Auditors”), the Audit Committee must consist of at least three members and at least one of the Members of the Audit Committee must satisfy the independence requirements and have qualifications in accounting or financial auditing. The Audit Committee meets on a regular basis (once every quarter) and in the extraordinary mode. It is convened by the Chairman of the Supervisory Board on his own initiative or at the request of a Member of the Supervisory Board or a Member of the Management Board. The duties of the Audit Committee include specifically: (I) constant monitoring of the activities of the Bank's auditor and issuing opinions regarding independence of the auditor and any other relations between the auditor and the Bank, (II) constant monitoring of the systems and processes of financial reporting and risk management of the Bank; and (III) evaluation and monitoring of internal procedures for accounting and auditing as well as appropriate control systems, including acceptance and handling complaints and doubts concerning them.

From 1 January until 31 December 2016 the Audit Committee was composed of the following Supervisory Board members:

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

The composition of the Audit Committee satisfied criteria stipulated in Art. 86, section 4 of the Act on Certified Auditors.

Personnel Committee

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

During the period from 1 January until 31 December 2016 the composition of the Personnel Committee was as follows:

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

Strategic Committee

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

During the period from 1 January until 31 December 2016 the composition of the Strategic Committee was as follows:

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

Risk Committee

The Risk Committee as a standing committee of the Supervisory Board was appointed on 4 December 2015. Competences of the Risk Committee include tasks stipulated for such committees in the Banking Law and specified in other regulations applicable to banks as well as supervisory recommendations implemented by the Bank.

From 1 January until 31 December 2016 the Risk Committee composition was, as follows:

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

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

Remuneration paid to members of the Supervisory Board in 2016 (in PLN ths):

| Name and surname | Remuneration for 2016 | Benefits | Total (thous. PLN) |
|--------------------------------------|-----------------------|-------------|--------------------|
| Bogusław Kott (*) | 320.0 | 21.6 | 341.6 |
| Andrzej Koźmiński | 160.0 | 0.0 | 160.0 |
| Dariusz Rosati | 195.0 | 0.0 | 195.0 |
| Grzegorz Jędrys | 170.0 | 0.0 | 170.0 |
| Nuno Manuel Da Silva Amado | 145.0 | 0.0 | 145.0 |
| Miguel De Campos Pereira De Braganca | 190.0 | 0.0 | 190.0 |
| Rui Manuel Da Silva Teixeira | 120.0 | 0.0 | 120.0 |
| Julianna Boniuk-Gorzelańczyk (**) | 145.0 | 0.0 | 145.0 |
| Agnieszka Hryniewicz-Bieniek | 130.0 | 0.0 | 130.0 |
| Anna Jakubowski | 130.0 | 0.0 | 130.0 |
| David H. Klingensmith | 165.0 | 0.0 | 165.0 |
| Miguel Maya Dias Pinheiro | 150.0 | 0.0 | 150.0 |
| Total: | 2 020.0 | 21.6 | 2 041.6 |

(*) additionally for the period of office of the President of the Management Board, was paid an annual award for the years 2012 and 2013 in the form of cash and phantom shares in the amount of PLN 324.3 thousand.

(**) after the departure from the Management Board also paid compensation for the non-competition clause in the amount of PLN 1,016.5 thousand and annual award for the years 2012, 2013, 2014 in the form of cash and phantom shares in the amount of PLN 282 thousand.

In 2016, Members of the Supervisory Board did not receive any remuneration or additional benefits from the Bank subsidiary companies.

Bank's shares held by Supervisory Board Members (performing their functions on 31 December 2016):

| Name and surname | Function | Number of shares 31.12.2016. | Number of shares 31.12.2015 |
|--------------------------------------|--|------------------------------|-----------------------------|
| Bogusław Kott | Chairman of the Supervisory Board | 4 465 791 | 4 465 791 |
| Nuno Manuel da Silva Amado | Deputy Chairman of the Supervisory Board | 0 | 0 |
| Dariusz Rosati | Deputy Chairman and Secretary of the Supervisory Board | 0 | 0 |
| Julianna Boniuk - Gorzelańczyk | Member of the Supervisory Board | 492 248 | 492 248 |
| Miguel de Campos Pereira de Braganca | Member of the Supervisory Board | 0 | 0 |
| Agnieszka Hryniewicz-Bieniek | Member of the Supervisory Board | 0 | - |
| Anna Jakubowski | Member of the Supervisory Board | 0 | - |
| Grzegorz Jędrys | Member of the Supervisory Board | 0 | 0 |
| David H. Klingensmith | Member of the Supervisory Board | 0 | - |
| Andrzej Koźmiński | Member of the Supervisory Board | 0 | 0 |
| Miguel Maya Dias Pinheiro | Member of the Supervisory Board | 0 | - |
| Rui Manuel da Silva Teixeira | Member of the Supervisory Board | 0 | 0 |

IX.4. Management Board

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

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

Representations of will on behalf of the Bank are made by: (I) the Chairman of the Management Board individually; (II) two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with a registered proxy or two registered proxies acting jointly; or (III) attorneys-in-fact acting individually or jointly within the scope of the power of attorney granted thereto. The Management Board is composed of at least three Members, of whom at least half have Polish nationality. The Management Board is appointed by the Supervisory Board. The term-of-office of the Management Board is 3 years. A Member of the Management Board may be recalled by the Supervisory Board at any time.

The composition of the Management Board in the period from 1 January until 13 May 2016 was as follows:

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

Mr. Michał Gajewski tendered his resignation from the function of a Management Board Member as of 13 May 2016. The Supervisory Board, on 6 June 2016, filled the Management Board vacancy by electing Mr. Wojciech Rybak to the position of the Bank Management Board Member.

Thus the composition of the Management Board of the Bank in the period from 6 June until 31 December 2016 was as follows:

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

1. Joao Bras Jorge - Chairman of the Management Board



Graduate of the Management Studies at Universidade Catolica Portuguesa and PADE Advance Management Programme under AESE.

He started his professional career as stockbroker in 1990. In the ensuing 10 years he worked in investment banking, inter alia, as Member of the Management Board at an investment bank. He also sat on the Board of the Lisbon Stock Exchange.

During 5 years, prior to his move to Poland, he held position of Head of the Retail Banking Customer Division and Coordinator of the Retail Network at Millennium bcp.

Since July 19 2006 - Member of the Management Board of Bank Millennium S.A., in the years 2006-2008 Head of the Retail Banking Division and since 2009 - Head of the Corporate Banking Area. Since April 22 2010 - Deputy Chairman of the Management Board and since October 24 2013 - Chairman of the Management Board of Bank Millennium S.A.

He manages the Management Board works and supervises areas of: internal audit, compliance, legal support, retail marketing, human resources, electronic banking, call centre and telemarketing, marketing communication and public relations.

2. Fernando Bicho - Deputy Chairman of the Management Board



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

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

He performed duties as fund manager and later in the bank's Financial Division he was in charge of inter alia the treasury and capital markets, securities operations, asset and liabilities management, issues on international capital markets, capital management and investor relations. After Banco Mello purchase by Banco Comercial Portugues (BCP) in 2000, Mr Fernando Bicho performed functions in BCP Corporate Centre and from June 2001 he was the head of the Asset and Liabilities Management Division of the BCP Group.

Since August 1, 2002 Member of the Management Board of Bank Millennium S.A. (CFO), supervising areas of: planning and management information, treasury, capital investments, relations with investors and financial institutions, accounting, financial reporting and control, taxes and central acquisition.

3. Wojciech Haase - Member of the Management Board



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

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

Since 27 June 1997 Member of the Management Board of Bank Millennium S.A., supervising areas of: risk, credit and rating processes, liabilities collection and treasury control.

4. Andrzej Gliński - Member of the Management Board



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

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

Member of the Management Board since 22 April 2010, supervising areas of: corporate banking, factoring and trade financing, structured finance and custody.

5. Maria Jose Campos - Member of the Management Board



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

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

for IT Europe, a division at group level supervising the IT areas for European operations.

Since 22 July 2011 Member of the Management Board of Bank Millennium S.A., supervising areas of: IT, processes and operations, complaints and quality of service, administration and infrastructure, security and business continuity, sales campaigns, control and settlement of treasury transactions.

6. Wojciech Rybak - Member of the Management Board

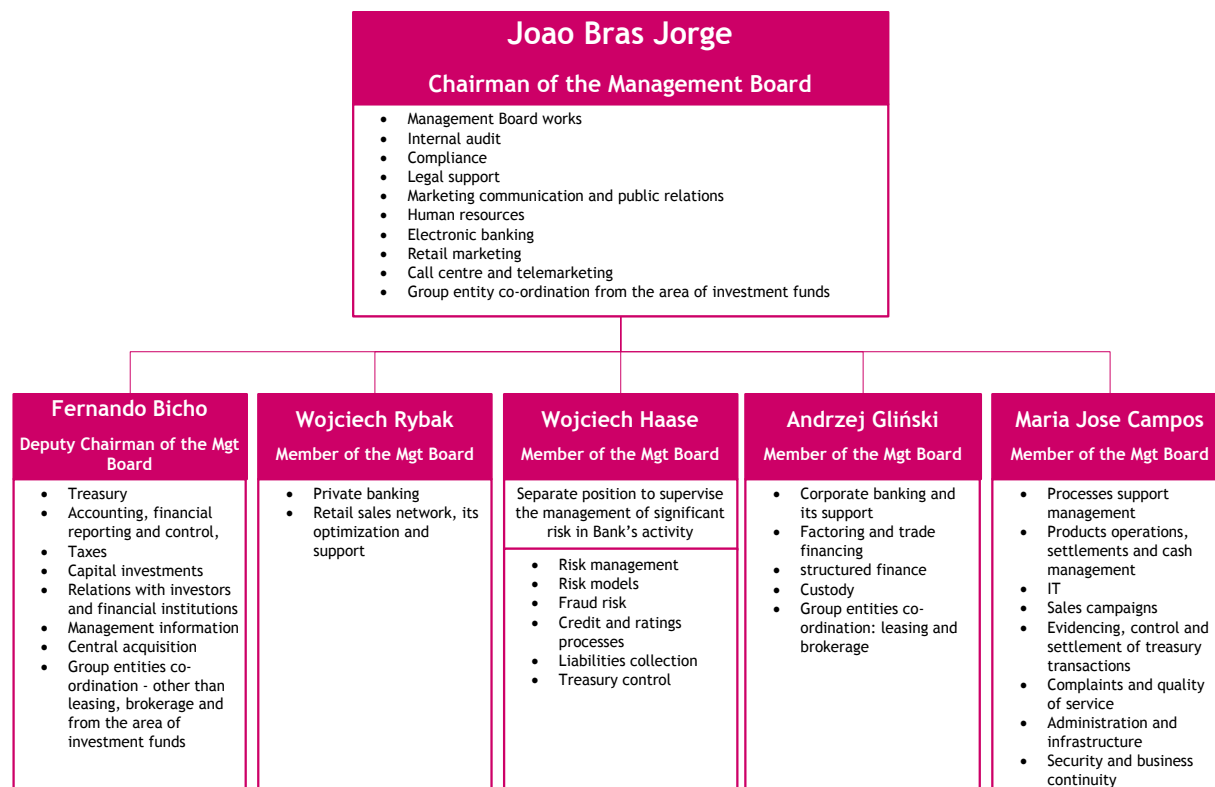


Mr Wojciech Rybak graduated from economics in the University of Szczecin (1993) and Tempus - Portassist Programme of the University of Antwerp (1992).

Since the beginning of his professional career he has been linked with banking. From September 1992 until August 1994 worked in Bank Morski S.A. as Credit Inspector and, subsequently, Manager of Business Credit Team. During the period from September until November 1994 - Head of Credit Sub-unit in Bank Przemysłowo-Handlowy S.A., from December 1994 until September 1995 - specialist in the Capital Investment Department of

Pomorski Bank Kredytowy S.A., and subsequently until April 1996 - Director of Branch PBB „Invest-Bank” S.A. in Szczecin. Since May 1996 he has been working in the Bank Millennium S.A. Group initially as a Director of the Bank Branch in Szczecin (until March 2001), and, subsequently, as a Director in the Bank Head Office Client Cooperation Centre (until August 2003). From September 2003, he performed the function of the Member of the Management Board of Millennium Leasing Sp. z o.o. supervising, *inter alia*, the sales network and from June 2009 until June 2016 - Chairman of Millennium Leasing Sp. z o.o. Management Board. Member of the Bank Management Board from 6 June 2016, supervising retail sales network, its optimisation and support and private banking.

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



The principles of remuneration of the Board Members with the amount of salaries, bonuses and other benefits in 2016 can be found in chapter VIII of this report in Part 3, entitled "Remuneration policy".

Bank shares held by Members of the Management Board (performing functions on 31 December 2016):

| Name and Surname | Function | Number of shares 31.12.2016 | Number of shares 31.12.2015 |
|-------------------|---|--------------------------------|--------------------------------|
| Joao Bras Jorge | Chairman of the Management Board | 111 000 | 111 000 |
| Fernando Bicho | Deputy Chairman of the Management Board | 0 | 0 |
| Wojciech Haase | Member of the Management Board | 7 494 | 7 494 |
| Andrzej Gliński | Member of the Management Board | 0 | 0 |
| Maria Jose Campos | Member of the Management Board | 0 | 0 |
| Wojciech Rybak | Member of the Management Board | 0 | - |

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

Internal control system

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

Functioning in the Bank, the internal control system takes into account the regulatory requirements arising from amended in 2015 the Banking Law, extending the objectives of the internal control system, the implementation of which have to be ensured by the banks. These objectives include: the effectiveness and efficiency of the Bank's operations, reliability of financial reporting, observance of the principles of risk management in the Bank, compliance of the Bank's operations with the law, internal regulations and market standards.

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

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

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

In 2016, the Internal Audit Department implemented audit tasks at the Bank, the Bank's subsidiaries, external entities to which the Bank, to the extent permissible by regulations, outsourced banking and bank-related operations, as well as within the BCP Group. The planned activity of the Department covered among others audits of key business and support processes, as well as financial audits, outlet audits and those of compliance with external regulatory environment. The tasks performed by the Internal Audit Department also include investigations and spot checking (prevention). The Internal Audit Department is an independent unit reporting to the Chairman of the Management Board of the Bank and the results of its activities are reported to the Audit Committee of the Supervisory Board and the Supervisory Board of the Bank. The results of a review of the entire internal control system, as well as its selected elements, are also periodically presented and subject to evaluation by the Audit Committee of the Supervisory Board of the Bank.

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

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

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

According to effective laws, the Bank's reports (non-consolidated) and those of the Bank Capital Group (consolidated) are subject to, respectively: review (semi-annual statements) or audit (annual statements), performed by an independent entity authorised to audit financial statements - i.e. the External Auditor. The External Auditor is selected by the Supervisory Board on the basis of a recommendation issued by the Audit Committee of the Supervisory Board. In addition, considering the quality of financial data presented in remaining published quarterly reports, the Bank, jointly with the External Auditor, implemented cooperation procedures ensuring the consultation of important issues connected with recognition of economic events in the

Bank accounts and financial reports, on a current basis. At the meetings of the Audit Committee of the Supervisory Board the External Auditor presents key findings relative to financial reporting. Furthermore, the external auditing firm also performed, in 2016, a review of the adequacy and effectiveness of a part of the Bank's internal control system supporting the financial information preparation and publication process (financial reporting) and issued relevant opinions. In 2016 the Bank's External Auditor was PricewaterhouseCoopers Sp. z o.o. In December 2016, the Bank Supervisory Board decided to select PricewaterhouseCoopers Sp. z o.o. to be the Bank's External Auditor in 2017. The Bank is covered by the consolidated financial statement of the BCP Group. Therefore, the annual review of the Bank's system of internal control in support of the process of preparing and publishing financial information is also subject to the terms and requirements of consolidated supervision, which is performed by the Bank of Portugal and the European Central Bank.

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

In 2016 the audit of Bank's financial statements was performed by PricewaterhouseCoopers sp. z o.o. On 22 October 2015 the Supervisory Board of the Bank adopted a resolution on selection of PricewaterhouseCoopers sp. z o.o. to perform audits of annual financial statements of Bank Millennium and Bank Millennium Group for 2016. The audit agreement was concluded on 8 April 2016.

Remuneration received by auditor on account of services provided to the Capital Group of Bank Millennium S.A under concluded agreements:

| Auditor's Remuneration (in PLN '000) | 2016 | 2015 |
|---|------|------|
| Examination of annual financial statement | 916 | 613 |
| Certification services, including review of financial statement | 577 | 729 |
| Tax advisory services | 0 | 0 |
| Other services | 0 | 0 |

Compliance policy

Lack of legal compliance of internal regulations and the ensuing risk of legal or regulatory sanctions, material losses or reputation risk is one of the areas threatening the activity of every bank. Therefore Bank Millennium has the Compliance Department, the task of which is to ensure compliance with Acts of Law, secondary legislation, rules, related self-regulatory organisation standards as well as codes of conduct, relating to banking activity. Monitoring compliance with both internal as well as external regulations, Bank Millennium Group considers the following to be particularly important:

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

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

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

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

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

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

Actions launched under this programme include in particular:

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

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

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

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

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

In 2016 the Bank implemented the requirements of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation - MAR), which entered into force in Poland on 3rd of July 2016. The implementation consisted among others in introducing changes in the principles of reporting confidential information by the Bank as an issuer and reporting on insider transactions. In particular, there have been adopted individual standards of reporting by the Bank as an issuer, criteria of qualifying events as reportable, there was established the principle of maintaining the list of insiders and notification by them of transactions on forms following the model adopted by the European Commission pursuant to MAR.

An internal regulation was introduced specifying the principles and guidelines pertaining to managing information subject to current reporting, including confidential information, covering issues regarding the management of confidential information, criteria of identifying information and principles of notification by persons discharging managerial responsibilities and persons closely associated with them with respect to transactions in shares and other financial instruments of the Bank. In particular, there was also implemented the principle of running the list of confidential information and of persons who have access to it in electronic form.

X. RESPONSIBLE BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY

Activities and principles of the corporate social responsibility remain a part of the Bank's plans and found their way into medium term strategy of the Bank Millennium Group for 2015-2017. Strategy objectives focus on main Bank Stakeholders:

- Clients: ensuring top service quality and security of funds entrusted by clients, ethical marketing and sales, taking advantage of client opinions to improve products and services, ensuring access to financial services for the elderly and the disabled.
- Employees: supporting diversity in organisation (including parenthood), ensuring stable and attractive work conditions and professional development capabilities, promoting culture of dialogue and knowledge sharing within the organisation.
- Business partners: objective selection of suppliers, incorporation of ethical and environmental clauses in agreements, ensuring obligation of suppliers to comply with the Bank's Code of Ethics.
- Social environment: financial education programmes with participation of Bank employees - voluntary workers, taking account of social and environmental factors when financing corporate investments.
- Environment - monitoring of energy, water, fuel and office materials consumption, introduction of pre-environmental products, environmental education provided to both clients and employees.

Clients

Ensuring the top service quality remains one of the Bank's priorities. Analysing opinions of clients with use of creative methods such as design thinking, the bank develops services to meet client expectations. The Bank intends to provide clients with innovative solutions to help them use our financial services in the simplest way. In 2016 the bank introduced, *inter alia*, confirmation, by fingerprint, of 3D Secure transactions, purchase of TPL/extra coverage car insurance by scanning car registration certificate, HCE i.e. contactless payments made by phone, goodie smart shopping platform.

We would like all Client groups, including the disabled, to feel comfortable in contacts with the Bank. Therefore, the Bank has introduced many improvements - branches, ATMs and service provision adjusted to the needs of persons with disabilities.

The Bank strives to ensure compliance with ethical sales principles. Branch employees are obliged to comply with ethical standards provided for in the Bank Millennium Code of Ethics and with sales principles applicable to individual products e.g. personal accounts or credit products. All employees of the Bank participate in Code of Ethics training courses and are provided with opportunity to notify cases of breach cases within the Whistleblowing scheme.

Solutions implemented in the service quality area contributed not only to growth of client satisfaction but were also appreciated by the market. In 2016 Bank Millennium was recognised in the prestigious ranking „Newsweek's Friendly Bank” as the only bank ranked in the top three in all four categories: mortgage banking, internet, traditional and mobile banking.

Employees

In developing quality culture, well-motivated employees perform the most important role. The Bank provides its employees with attractive conditions of work and development offering tailored training programmes. One of such programmes is *M#leaders* - an innovative programme developing management competences. By participation in a cycle of meetings combining workshops, case studies with group coaching, managers effectively develop their leadership skills.

The „Parents Say Yes” programme has been developed to maintain balance between professional and private lives of employees. The Project includes a number of initiatives focusing on parents and children: promoting knowledge on parenthood and parents' rights, excursions co-financed by the Bank, events and competitions fostering family leisure.

Millennium Active Zone is a programme designed to promote physical activeness among Employees and developing knowledge on healthy life style. Within the programme, employees took part in team runs, relaxing activities, sport events and training.

Employees also participate in events organised with participation of the Bank to the benefit of local communities. Bank's voluntary workers offer classes in finance for students of lower secondary schools under the BAKCYL Programme and carry out their own voluntary projects within the grant programme Millantrop.

Business partners

The Bank cooperates with many business partners as buyer of goods and services from various market segments. Suppliers are selected through tenders and thereby the bank can apply objective selection criteria. Important components of procurement regulations include the use of ethical and/or environmental clauses in agreements wherever such provisions can apply. Every supplier participating in the tender by signing a statement commits itself to comply with principles stipulated in the Bank Millennium Code of Ethics.

Social environment

1. Social and community programmes

Social and community programmes are implemented via the Bank Millennium Foundation and focus on the following three areas:

a) financial education - programmes for pre-school and school children:

- Financial ABC - flag-ship educational programme of the Bank Millennium Foundation. Launched in 2016, proprietary financial education programme for pre-school children prepared and implemented by the Bank employees in collaboration with an NGO. The programme objective is to explain to the youngest, through play and games, the basic financial concepts. During 236 workshops implemented under the programme nearly 6 000 children were trained from 70 kindergartens throughout Poland. To meet the programme objectives, a special set of educational materials was prepared - books featuring Mr. Sebastian presenting the contents, colouring books and stickers. These materials were created with the help of parents - Bank Millennium employees. The books will be available also in kids corners in the Bank branches. The programme is implemented under honorary sponsorship of the patronage of the Children's Ombudsman and received positive opinion from Professor Marek Belka - the Chairman of the National Bank of Poland's Management Board in 2010-2016. The work on developing concept for programme continuation is currently under way.
- BAKCYL - the financial education programme for lower secondary school students implemented in collaboration with the Warsaw Banking Institute. Since 2014, 39 voluntary workers from Bank Millennium have taught 173 lessons in schools in 9 Voivodships in Poland.

b) cultural education - promoting knowledge on arts and ways to invest in works of art. And promoting achievements of young Polish artists. In 2016, the Bank Millennium Foundation sponsored two educational events - Warsaw Art Fair and Young Arts Compass - ranking of the most promising young Polish artists.

c) employee volunteering - the Foundation runs the Millantrop programme. The programme involves provision of grants, by way of competition, to support implementation of social campaigns by Bank employees. Projects in the area of financial education, development of enterprise, inter-generation projects and projects for children and youth, supporting persons threatened by social exclusion and environment protection projects may be submitted for competition. Campaigns involving many volunteers and benefiting the greatest number of receivers and having long term impact upon local community stand the highest Chance to win. In 2016, the Foundation allocated 4 grants to support implementation of employee volunteering programmes.

2. Sponsoring culture

Activities in the area of culture have been, for more than 25 years already, an important part of social involvement of Bank Millennium. This activity is planned on the basis of medium term action plans and the following assumptions:

- Bank prefers cooperation within multiyear plans, having clearly specified objectives,
- Bank supported programmes should enjoy a broad public interest and should be accessible through the media,
- Partners in programme implementation should include, primarily, institutions of culture, NGOs and media.

The most important cultural programme managed by Bank Millennium in 2016 was the documentary films' festival Millennium Docs Against Gravity.

Since 2006 Bank Millennium has been a sponsor of the biggest festival of documentary films from all over the world organised in Poland and accompanying events (workshops, discussions, concerts). In 2016, the Bank was a title sponsor of the event thereby positively influencing the Bank's recognition as a partner of the festival. Shows and festival events took place in 25 towns throughout Poland. The event promoting campaign was carried out with use of various means including, *inter alia*, posters in all branches of the Bank, texts in

traditional and social media, and competitions with awards in the form of cinema tickets for clients and employees. We wanted to specifically recognise the latter by providing them with 1000 tickets for film shows. For more than a decade, the Bank has been also a founder of the main festival award. Millennium Docs Against Gravity communication continues throughout the year - by organisation of special film shows in cinemas, distribution of DVDs among Bank partners and in the form of additions to nationwide press, promotions in the traditional and social media.

Other cultural events sponsored by Bank Millennium:

- Sacrum Profanum - one of the most interesting contemporary European music festivals. The festival won a large number of various awards and recognitions and was entered into the official calendar of the Poland's Presidency in the Council of European Union and it is recommended by prestigious music magazines. Festival events are covered, year by year, by more than 160 Polish and foreign journalists.
- Gdańsk Music Festival - since 2013 the bank has been a sponsor of a festival featuring outstanding classical music performances.

3. Supporting innovation

Bank Millennium promotes culture of innovation 360°. It means that we offer innovative solutions externally to our clients and internally - offering our employees with work culture fostering creative thinking. The Bank also reviews innovation trends in its environment. The Bank Millennium experts developed a report „Millennium Index - Regional Innovation Potential”, revealing disproportions in innovation development in Polish voivodships. As a partner of the strategic competition „Eagles of Innovation” the Bank also promotes innovation development in the Polish economy.

Bank Millennium was a Strategic Partner of the 2nd round of the competition „Eagle of Innovation”. The competition is organised by „Rzeczpospolita” daily. This year, companies entered into the competition competed for the title Sponsor of Innovation and an Innovative Project award. The competition, the chapter of which was composed of: Jadwiga Emilewicz - Undersecretary of State in the Ministry of Economic Development, Andrzej Gliński - Member of Bank Millennium Management Board, Alicja Adamczak - Chair of the Patent Office of the Republic of Poland, Marcin Chłodziński - Chairman of the Industrial Development Agency Management Board, Krzysztof Skóra - Chairman of the KGHM Polska Miedź Management Board, Stanisław Dyrda, PhD. - Expert for Research and Development in the area of ICT in the National Research and Development Centre, Jerzy Kalinowski - Partner, KPMG and Marcin Piasecki - from „Rzeczpospolita” daily, had the objective to promote spirit of innovation and enterprise in the Polish economy. Distinguished guests of the competition final gala ceremony included, among others, Ms. Jadwiga Emilewicz, Undersecretary of State in the Ministry of Economic Development and Deputy Prime Minister, Minister of Science and Higher Education - Mr. Jarosław Gowin.

During „Eagles of Innovation” accompanying events we presented report prepared by Bank Millennium experts „Millennium Index - Regional Innovation Potential”.

Publication presents a ranking of voivodships by their innovation potential and described conditions fostering innovation development in Poland and worldwide. The Report was a contribution to a public debate on conditionality of regional development in Poland and on reduction of inequalities between regions. The Report contains analysis of factors promoting and hampering innovation development in each Polish voivodship. It also contains comments provided by a broad group of experts - economists, academics and practitioners - heads of the most innovative firms and government institutions (including, among others, Jerzy Kwieciński - Secretary of State in the Ministry of Economic Development, Andrzej Koźmiński - President of the Kozminski University, Agnieszka Hryniewicz Bieniek - Country Director Google Poland, Małgorzata Starczewska - Krzysztozek - Chief Economist of the Confederation Lewiatan, Władysław Ortyła - Marshall of Podkarpackie Voivodship, Elżbieta Mączyńska - President of the Polish Economic Society). It is a very valuable publication constituting the source of knowledge for local government authorities on equal opportunities for regions in Poland.

References to the Report appeared many Times in national and regional media while the report itself was presented at the European Economic Forum in Katowice and Economic Forum in Krynica. This helped the question of innovation development in Poland to reach a broad audience rising their interest in the issue.

4. Supporting events connected with economy

In 2016, Bank Millennium was a partner in events linked with matters of economy:

European Economic Congress - international forum to discuss new directions in thinking about economic future of Europe. The Forum brought together nearly 8 thous. guests from European countries and from Asia and Africa. Within two days, more than 120 debates were attended by nearly 700 lecturers while in European Start-up Days altogether 2 thous. guests were registered.

At the Congress opening celebration the Government was represented by the Prime Minister Beata Szydło, with Deputy Prime Minister Mateusz Morawiecki and the chief initiator of the EEC, prof. Jerzy Buzek, former Prime Minister and the President of the European Parliament.

Bank Millennium representatives also took part in the event - Chairman of the Management Board Joao Bras Jorge, Management Board Members: Andrzej Gliński and Wojciech Rybak, Head of the Structured Finance Department Tomasz Tomasiak and member of Millennium Leasing Management Board - Marcin Balicki. In the panel „Technologies, innovation market”, Mr. Joao Bras Jorge, Chairman of the Management Board presented the report prepared by the Bank’s expert team „Index Millennium - Regional Innovation Potential”.

Debates were covered continuously on Twitter and Bank representatives gave interviews to national and expert media including Gazeta Wyborcza daily and portal wnp.pl.

Forbes Diamonds - the Bank was a partner in the ranking „Forbes Diamonds”, awarding the fastest growing companies in Poland. In the ranking, organised for the 9th time, awards are given to firms selected from enterprises which in the last three years increased, most dynamically, their values. Awarded companies were divided into three categories according to sales revenues. In the current round of the ranking, more than 1,9 thous. enterprises were recognised i.e. 12 per cent more than year before.

Meetings conducted during the „Forbes Diamonds” event provided opportunity to become acquainted with enterprises operating in a given region, to exchange experience and set up business relationships. Mr. Grzegorz Maliszewski, Chief Economist of Bank Millennium, took part in the event and discussed opportunities and challenges currently faced by companies.

Congress of Family Companies - Bank Millennium was a strategic partner of the congress organised by the Family Business Institute. In 2016 the event was organised under the slogan „Between tradition AND INNOVATION” and gathered 350 participants. In the course of two days, 15 lectures were presented, there were 6 panel discussion sessions focusing on themes connected with innovation, finance, law and management and participants could actively attend workshops.

Representatives of Bank Millennium were among lecturers: Maria Campos - Member of the Bank Millennium Management Board took part in the panel „Accelerating world is the world of new opportunities” and talked about contemporary world changes speeding up in effect of faster and faster growing technological capacities. Marcin Stefaniuk, Director of Factoring and Trade Finance Department, discussed new forms of family business financing focusing on options to use factoring and underscoring related benefits and risks. The Congress ended with gala ceremony at which a reward Family Business of the Year 2016 was handed out. The statue, in the category of large Family Company was given to FAKRO SA by Andrzej Gliński - Member of the Bank Millennium Management Board.

Next Generation Congress - the Bank was a strategic partner of the Congress „Next Generation - Strengths of the Second Generation”, an event organised by the Family Business Institute and addressed to successors of Polish family companies. During the event, Mr. Andrzej Gliński, Member of the Bank Management Board gave a presentation and the event was attended by representatives of corporate and private banking. Representatives of science and business also took part in the Congress Next Generation as well as more than a hundred successors to well known, large Polish family companies and smaller enterprises conducting their businesses locally.

5. Environment

The Bank periodically monitors consumption of energy, water, fuels, office materials and implements actions to reduce consumption of resources. Furthermore, the Bank’s offers environment supporting products e.g. WWF credit card, with part of revenue generated is transferred to WWF Foundation Polska or Leasing Eko Energia supporting investments in energy saving machinery and equipment. The Bank also promotes environmental friendly behaviour among employees and clients issuing brochures offering guidelines to resource saving and participating in the annual environmental campaign „Earth Hour” organised by Foundation WWF Polska.

Information regarding the bank’s compliance with CSR principles can be found in the Report „Responsible Business 2016”, prepared in keeping with Global Reporting Initiative Sustainability Guidelines (GRI G4). The Report presents key aspects of the Bank’s impact upon sustainable economic, social and environmental development relative to main Stakeholder groups: Clients, Employees, Shareholders, Business Partners, Society and Natural Environment.

Bank’s compliance with sustainable development principles has been confirmed by external assessments. Since 2011, the Bank has been included in the RESPECT Index the Index of socially responsible companies listed on the Warsaw Stock Exchange. The Bank was awarded with CSR Silver Leaf of POLITYKA magazine - awarded to companies implementing sustainable development activities.

XI. ADDITIONAL INFORMATION

Other information regarding:

- Guarantees and sureties granted,
- Transactions with related companies,
- List of the biggest court cases, arbitration proceedings before an authority or public administration,

can be found in the Financial Statements of Bank Millennium S.A. for the 12-month period ending 31st December 2016

XII. STATEMENT OF MANAGEMENT BOARD

Presentation of asset and financial position of the of Bank Millennium in the financial report

According to the best knowledge, the Annual Financial Statements of the Bank Millennium S.A. as at 31 December 2016 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Bank and its financial result. This Annual Management Board Report on the activity of the Bank contains a true picture of development, achievements and condition of the Bank.

Selection of an entity authorized to audit financial

The entity authorized to review financial reports that audits these Annual Financial Statements of Bank Millennium S.A. as at 31 December 2016, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURES:

| Date | Name and surname | Position/Function | Signature |
|------------|-------------------|---|-----------|
| 02.03.2017 | Joao Bras Jorge | Chairman of the Management Board | |
| 02.03.2017 | Fernando Bicho | Deputy Chairman of the Management Board | |
| 02.03.2017 | Wojciech Haase | Member of the Management Board | |
| 02.03.2017 | Andrzej Gliński | Member of the Management Board | |
| 02.03.2017 | Maria Jose Campos | Member of the Management Board | |
| 02.03.2017 | Wojciech Rybak | Member of the Management Board | |