

# **Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium for 2017**

## MANAGEMENT BOARD REPORT ON THE ACTIVITY OF BANK MILLENNIUM AND CAPITAL GROUP OF BANK MILLENNIUM FOR 2017

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## I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Madam/Sir,

Personally and on behalf of the Management Board Members I offer you this year's Report.

We have had a hard-working and successful year, which is reflected in good results. Indeed, more importantly so, the results have been recurrent. In 2017 we continued organic growth and expanded the scale of our operation. The Bank demonstrated strong improvement of business profitability and attained the most important objectives of the medium-term strategy for 2015-17 - exceeding the number of 1.6 million active customers; almost 6% share in the market of retail customers' funds as well as cost/income ratio of 46%. This was also a year of further stages of digitalisation, which was of use for customers, employees and the business.

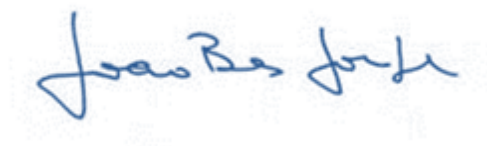
Main achievements:

- The Group's operating revenue totalled PLN 2.5bn, growing 2.1% over the same period of 2016
- The Group's net profit was PLN 681m and on the recurrent basis grew by 31% y/y
- The Bank's share price increased 72% reaching the best result among all banks listed on the Warsaw Stock Exchange
- The Bank paid close to PLN 600m taxes and other public levies

In 2017 we kept our leading position in quality of customer service irrespective of the access channel. In Newsweek's Friendly Bank ranking we were among the top three banks in three out of four categories, including the first place in "Bank for Mr. Kowalski" and "Mobile Banking". We believe we have built a winning business model in such areas as Customer-centricity, digitalisation and cost effectiveness. These are strong foundations for implementing the new medium-term strategy for 2018-2020. According to it in a matter of three years we intend to be among the three most effective banks in Poland. Assuming that the regulatory, legal and fiscal system remains stable, we want to acquire 600,000 customers, generate PLN 1bn net profit in 2020 and ROE at the level of three best banks in Poland. We opt for further digitalisation, customer centricity and mass personalisation.

It must be noted that it is important for us not only to reach the target but also how we get to the top. Together with our financial operations we also engage in cultural, educational and social activities. This is confirmed i.a. by the many years of our presence in Respect Index - an index of companies abiding by best CSR standards and by being awarded by the "Euromoney" magazine the title of "CEE's Best Bank for CSR 2017". We support culture, take care of the environment and employee satisfaction. We are building an innovative model of leadership consistent with the Bank's values and strategy.

What lies ahead? We are optimistic and always "aim higher". Irrespective of next year's challenges (legislation initiatives on CHF mortgages; stringent capital requirements; restrictions on distribution of dividend; high tax burden; new GDPR, PSD2, MiFID2 and other legislation) we should continue to operate in a good macroeconomic environment, which is favourable for development of the banking sector. In fact we are positive on further business development and the possibility of results improvement in 2018.



Joao Bras Jorge

Chairman of the Management Board of Bank Millennium

## II. BRIEF DESCRIPTION OF BANK MILLENNIUM GROUP

Bank Millennium was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of branches, a network of personal advisors as well as electronic and mobile banking.

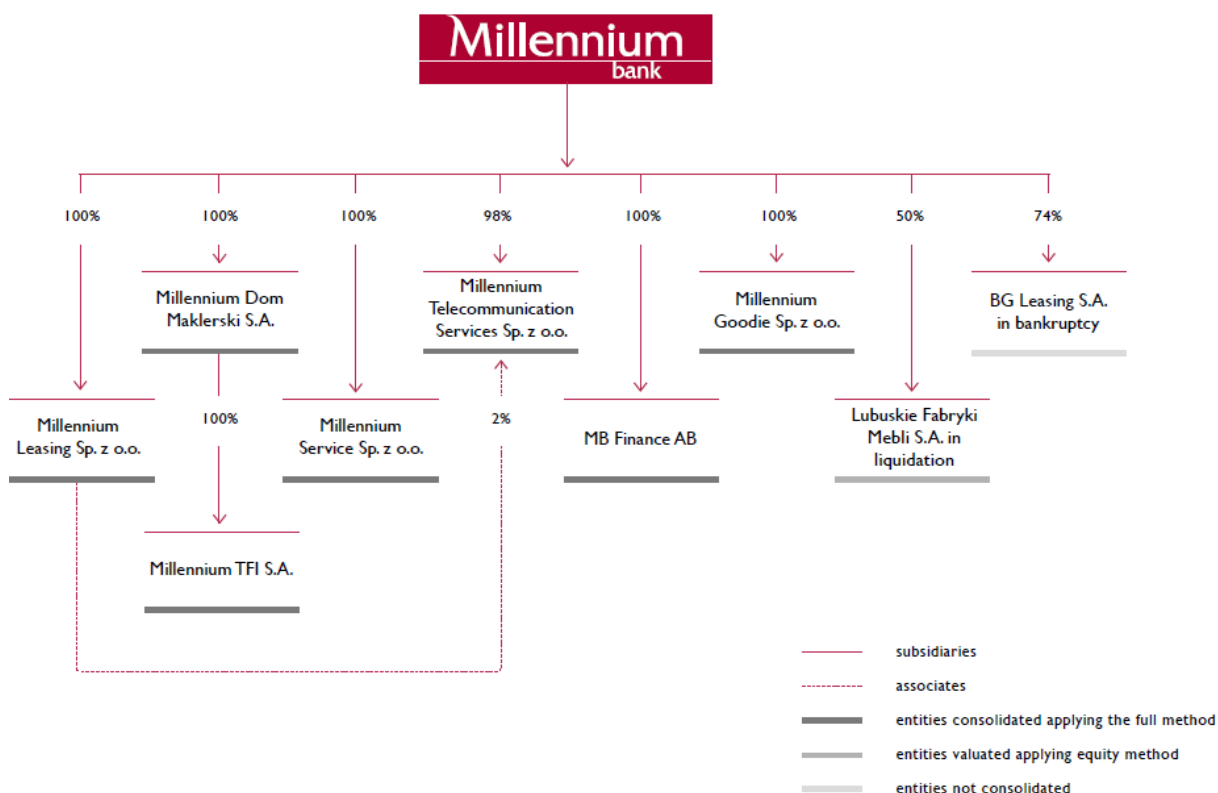
Ever since the start of its activity it has been a trendsetter in Polish banking. For example it was the first Bank to be listed on the Warsaw Stock Exchange and issued the first payment card on the Polish market. The bank satisfies most stringent standards of corporate governance; it implements social programmes to support culture development as well as education of the youth.

Bank Millennium is a market leader in the area of innovations understood to mean state-of-the-art technology and process improvements. Innovation in Bank Millennium is part of its business strategy.

Bank Millennium, together with its subsidiaries, forms Bank Millennium Group - one of the most innovative and comprehensively developing financial groups in Poland - employing the total of over 5800 persons.

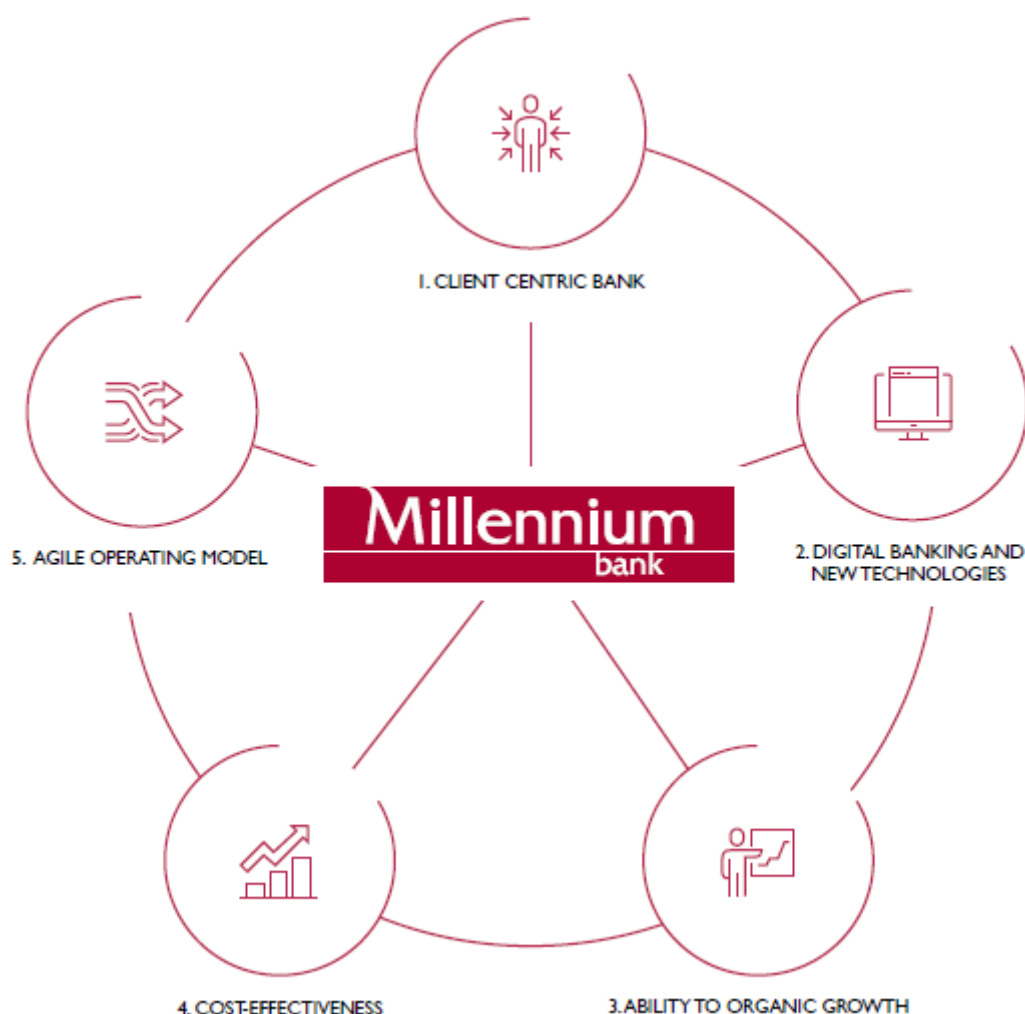
Its most important companies are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage business) and Millennium TFI (mutual funds). Since 2016 Millennium Goodie Spółka z o.o. together with the Bank has been operating a smartshopping platform based on advanced technology. The offering of the above-mentioned companies complements the services and products offered by the Bank.

Bank Millennium has assets amounting to over 71bn PLN while equity is close to 8bn PLN. At the end of 2017 customers' funds reached 67 bn PLN and the Group granted more than 47 bn PLN loans to its customers. The Bank's share in the market of retail deposits is almost 6%. The Bank has built its position by working with more than 1,6 million active personal customers and 13,000 corporate customers. More than 1,1 million of them actively use internet and mobile banking.



## Business model

Bank Millennium operates on the basis of a business model, which rests on five pillars:



### 1. CLIENT-CENTRICITY

We are the most client-centric bank, which keeps developing. We want to be the most personalised bank on a mass scale.

### 2. DIGITALITY AND NEW TECHNOLOGIES

We are a digital banking leader, offering a combination of broad outreach and high quality of services.

### 3. ORGANIC GROWTH CAPABILITY

We are growing fastest among banks as regards acquisition of customer with a main relationship. Moreover we introduced new sustainable growth engines in the 2020 strategy.

### 4. COST-EFFECTIVENESS

We have a cutting-edge cost-effective model built on state-of-the-art technology and flexible in changing to follow growth of the Bank's scale.

### 5. FLEXIBILITY IN RESPONDING TO CHANGES

We have a flexible operating model; an organisational culture, which allows short reaction times as well as digital and data analysis skills.

The business model is founded on **key values**: building relationships based on trust, a passion for quality and innovation, people development and promoting cooperation as well as the ambition to always aim higher.



### III. HIGHLIGHTS OF RESULTS AND ACHIEVEMENTS IN 2017

#### III.1. Summary of consolidated Group results in 2017

##### Improvement of profitability and cost efficiency

- 2017 Net profit of the Group reached PLN 681 million which is 31% higher versus 2016 year profit adjusted for one-offs<sup>1</sup>; the net result of unconsolidated Bank reached PLN 649 million
- High Net profit in 4Q of PLN 180 million (+37% vs. 4Q'16)
- ROE at 9.3%, ROA at 1.0% and Cost to Income ratio at 45.8%

##### Core income as main driver of the improvement

- Core income grew by 12.3% y/y
- Net interest income up by 11.6% y/y
- Net commission strong growth of 14.2% y/y

##### Solid asset quality and liquidity

- Impaired loans ratio at stable 4.6% with 67% coverage by provisions
- Cost of risk at 54 b.p. over total net loans
- Loan to deposits ratio at low 82% level

##### Strong capital ratios

- Group's TCR reached 22% boosted by PLN 700 million Tier 2 issue
- CET1 remained also strong at 20% (without profit from 2017 year)
- TCR is 3.5 p.p. and Tier 1 ratio c.a. 5 p.p. above new minimum capital ratio thresholds <sup>2</sup>

##### Main business strategic goals are being delivered

- Active customers net growth during 3 years reached 351 ths. (target: 300 ths.)
- Market share in retail deposits reached 5.7% (target of 6%)
- Consistent top position in quality of service and Net Promoter Scores rankings
- Regular growth of digital channels usage: 1.1 million active users

##### Other areas are also delivering and are also crucial under new strategy ...

- Investment products grew 26% y/y backed by excellent capital market performance
- Cash loans sale at PLN 2.3 billion in 2017
- Acceleration of PLN mortgage sale to PLN 2.5 billion in 2017
- Loans to companies grew by 12% yearly
- Both factoring and leasing yearly sales grew by 15%

##### ... based on superb quality and innovations

- Again the highest position in the ranking „Newsweek Friendly Bank 2017”
- First position in customer satisfaction survey done by ARC Rynek i Opinia
- “Breakthrough Collaboration in Financial Services” award from BAI Global Innovation for solutions enabling access to e-administration
- Euromoney award for the best bank in CSR in Central and Eastern Europe

<sup>1</sup> Extra capital income from VISA transaction and extraordinary charges in 2016

<sup>2</sup> Current Group's minimum capital thresholds are 18.5% (TCR) and 15.2% (T1) after imposing pillar II FX mortgage buffer of 5.4%, keeping OSII buffer at 0.25% and after full equivalence of Polish capital rules with EU CRR (since January 2018)

### III.2. Main awards and achievements in 2017



#### Excellent quality - on the podium since 7 years

In the 16<sup>th</sup> edition of "Newsweek's Friendly Bank 2017" ranking Bank Millennium stood on the podium in as many as three out of four categories:

**First place** in "Bank for Mr. Kowalski"

**First place** in "Mobile Banking"

**Second place** in "Internet Banking"



#### Bank Millennium wins satisfaction ranking (ARC Rynek i Opinia)

Bank Millennium stood on the podium of a ranking prepared on the basis of an ARC Rynek i Opinia "Satisfaction Monitor of Retail Bank Customers" survey. The Bank came first in the main category "Satisfaction". It was also first in the category of "Assessment of fees and commissions".

According to the "Parkiet" daily - a ranking partner, the customers' highest satisfaction was determined by the Bank's perception, stability as well as benefits from using its products and services. The product offering and quality of service had less importance.



#### BAI Global Innovation Award for innovative solutions in providing access to e-administration services

Bank Millennium has won in the "Breakthrough Collaboration in Financial Services" category in BAI Global Innovation Awards. The award was granted for innovative solutions in providing access to e-administration services.

Bank Millennium was qualified for the final stage of BAI Global Innovation Awards in as many as three categories. Apart from "Breakthrough Collaboration in Financial Services", in which the bank won the award, the other categories were:

- "Product and Service Innovation" - the service of buying city transport tickets and paying for parking with Bank Millennium's mobile app reached the finals.
- "Innovation in User Experience" - also making it to the competition finals was the service offered by Bank Millennium of buying motor insurance fully online, with use of an innovative method of scanning data from the vehicle registration certificate via the mobile app.



#### Best Bank for CSR in Central & Eastern Europe

Bank Millennium was hailed Best Bank for CSR in Central & Eastern Europe. The "Euromoney" international financial magazine appreciated the Bank for transparency of presenting CSR activities, diversity and complexity of programmes and first of all for the innovative approach to customers making it simple and easy to use Bank Millennium's services.



#### Golden Banker

Bank Millennium stood on the podium four times. It won in the category "Personal account", in which the best account was seen to be Konto 360°. Yet again it was acclaimed as one of the safest banks in Poland. The Bank also came second in "Mortgage Loan" and also made it to the top three in "Best Quality of Service"





### Service Quality Star 2017

For the seventh time now Bank Millennium was honoured with the prestigious title of Service Quality Star. The award is given on the basis of customers' votes gathered all year in the Polish Service Quality Programme on [www.jakoscobslugi.pl](http://www.jakoscobslugi.pl) and via a smartphone app.



### Reliable employer of the year 2017

Bank Millennium received the title of "Reliable employer of the year 2017". The Bank was appreciated i.a. for its extensive social package, investing in HR development, for the "Parents say YES" project, the IMPAKT employee awards programme as well as for its CSR activities: Code of Ethics and supporting the natural environment.



### CSR Silver Leaf

For the third time Bank Millennium was awarded the CSR Silver Leaf - an award for CSR in business.

The Polityka weekly and Deloitte consultants awarded the CSR Silver Leaf to companies, which in their day-to-day activity declare that they comply with guidance of the ISO 26000 international CSR standard. The standard applies to seven areas: organisational governance, human rights, labour practices, the environment, fair operating practices, consumer issues and community involvement.



### Best Consumer Digital Bank in Poland

Yet again Bank Millennium was hailed "Best Consumer Digital Bank in Poland" by the Global Finance international financial magazine. In the category of "Best Trade Finance Services" Bank Millennium was awarded the title of "Best Bank in Central & Eastern Europe".



### Bank Millennium among best brands in Poland according to customers

Bank Millennium came second among companies with best perception by Polish consumers in the financial services sector, according to KPMG.



### Bank Millennium in RESPECT Index for the tenth time

Bank Millennium kept its position in Respect Index. The Index includes selected listed companies, which follow best corporate governance and investor relations management standards, as well as taking on board environmental and social factors. The companies selected undergo three-tier verification by the Warsaw Stock Exchange, Stock Exchange Issuers Association and an independent auditor.



FTSE4Good

### FTSE4Good Emerging Index

In 2017 Bank Millennium became part of FTSE4Good Emerging Index, one of the FTSE4Good series of indexes, created by FTSE Russell, member of the London Stock Exchange. The index comprises companies from more than 20 countries, which stand out in terms of environmental protection, corporate social responsibility and corporate governance activities.



### Management Board of the Bank ranked first by market analysts

Leading Polish analysts evaluated management boards of top 10 Polish banks and published results in "Parkiet" magazine. The management of Bank Millennium scored 5.3 and took the first place. The report looked at strategy, growth rate and financial results.

## IV. INFORMATION FOR INVESTORS

### IV.1. Share price evolution

2017 was very good for Poland's economy as well as for the Warsaw Stock Exchange. Inflation remained low, economic growth accelerated and the zloty appreciated to foreign currencies. This positive macroeconomic environment supported the Polish capital market, especially shares of banks. The main WIG index grew 23% in annual terms; the WIG20 index of biggest companies was up by 26% while the WIG Banki index of bank shares grew 35%, with a strong surge in the 2<sup>nd</sup> half of the year.

Bank Millennium grew most among all banks listed on WSE. The annual growth was 72%. Trading in the Bank's shares grew in 2017 by 18.4% as compared with 2016.

Market ratios	29.12.2017*	30.12.2016*	Annual change (%)
Number of Bank Millennium shares (in thous.)	1 213 117	1 213 117	0.00%
Average daily turnover in annual terms (in PLN thous.)	6 765	5 716	18.4%
<b>Bank Millennium share price (PLN)</b>	<b>8.94</b>	<b>5.19</b>	<b>72.3%</b>
Market capitalization of the Bank (PLN million)	10 845	6 296	72.3%
WIG Banks	8 482	6 263	35.4%
WIG20	2 461	1 948	26.4%
WIG30	2 825	2 243	25.9%
WIG - main index	63 746	51 754	23.2%

(\*) last day of listing in 2017 and 2016.

Bank Millennium is the first Polish bank to be listed on the Warsaw Stock Exchange. The first session, in which it took part, was on 13 August 1992. The debut of Bank Millennium (formerly Bank Inicjatyw Gospodarczych) was at the same time the debut of the financial sector as such on the budding capital market. The Bank's market cap in the year of its debut reached PLN 33m (in today's zlotys). In August 2017 Bank Millennium was celebrating the 25<sup>th</sup> anniversary of its presence on the Warsaw Stock Exchange.

The Bank is included in following indices: WIG, WIG Banki, WIG 30, mWIG 40, WIG Poland and Respect Index.

### IV.2. Bank Millennium rating

On 8 December 2017 Fitch confirmed the Bank's rating at BBB-/F3/A- (pol) with a stable outlook.

On 19 December 2017 Moody's raised the Bank's ratings up by one notch:

- Long and short-term deposit rating both in the local currency as well as in foreign currency to Baa3/Prime-3 from Ba1/Not Prime.
- Counterparty Risk Assessment (CRA) to Baa2(cr)/Prime-2(cr) from Baa3(cr)/Prime-3(cr),
- Standalone BCA rating to ba2 from ba3.
- The outlook for the Bank's long-term deposit rating remains stable.

Therefore the long-term deposit rating from Moody's has the same investment grade as the rating from Fitch.

Rating	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB- (stable outlook)	Baa3 (stable outlook)
National long-term IDR	A-(pol) (stable outlook)	-
Short-term deposit rating	F-3	Prime-3
Viability / standalone BCA rating	bbb-	ba2
Counterparty Risk Assessment (CR)		Baa2/Prime-2
Support Rating	4	

### IV.3. Investor relations

Communicating with the investors' community the Bank assures a high level of transparency and proper access to information for all its recipients. Accurate and up-to-date information is provided in keeping with relevant legal regulations. The list of information published by the Bank, defining the frequency and place of publication, is available on the Bank's website in the Investor Relations section - Information Policy of Bank Millennium <https://www.bankmillennium.pl/about-the-bank/investor-relations/information-policy>

The Bank makes use of diverse communication channels to reach current and potential Shareholders, primarily such channels as:

- Periodic conferences with the Management Board about quarterly results of the Bank's Capital Group (4 during 2017),
- Participation in conferences and road shows organised for Investors in Poland and abroad (10),
- Face-to-face and group meetings with capital market participants (373),
- Current reports (36) and press releases,
- Dedicated website in the Bank's portal on investor relations (since 2014 it is adapted to mobile devices),
- Encouraging participation in annual General Meetings of the Bank,
- Day-to-day contacts with market participants (via e-mail or phone).

In keeping with best practice on equal access to information from 2006 the Bank has been assuring unrestricted access to conferences online (video streaming in Polish and in English) and by phone. A recording of each conference is available on the Bank's website. The Bank also provides video streaming of General Meetings. A recording of the deliberations and the resolutions adopted are also available on the website.

In 2017 14 analysts representing local and foreign brokerage houses published reports and recommendations regarding the Bank's shares (their list can be found on the Bank's website in the Investor Relations - Analysts <https://www.bankmillennium.pl/about-the-bank/investor-relations/analysts>).

### IV.4. Dividend policy

Bank Millennium has a dividend policy of distributing between 35% to 50% of net profit, assuming that the recommendations of the Polish Financial Supervision Authority (KNF) regarding the payment of dividends will be met.

The high capital ratios at the end of 2017 would allow to pay 75% if not additional K1 and K2 criteria for banks with FX mortgage loan portfolio, which KNF maintained when announcing in November 2017 a recommendation on the banks' dividend policy. K1 criterion is based on FX mortgage share in total portfolio and K2 criterion is based on share of 2007-2008 vintages in total FX mortgage portfolio.

In connection with the above, the Bank's Management Board of the Bank will submit to the General Shareholders Meeting a proposal to retain in own funds the full net profit of 2017. Assuming acceptance of this proposal by AGM, positive impact on T1 ratio will be approximately 2 p.p.

## V. MARKET CONDITIONS AND BUSINESS PROSPECTS

### V.1. Macroeconomic environment

The state of the Polish economy in 2017 was clearly better than expected at the beginning of the previous year. After a drop to 2.9% in 2016, GDP growth rate increased to 4.6% and was the highest since 2011. Private consumption was the main driver of economic growth in 2017. Its growth rate accelerated to 4.8% compared to 3.9% in 2016. Growth in private consumption was supported by the increase in disposable income of households due to very good situation on the labour market, social transfers under the "Family 500 plus" program and raising the minimum wage. The favourable sentiment and the historically low NBP interest rates also bolstered consumer spending. The economic activity benefited also from the rebound in investment, which increased by 5.7%, after a deep breakdown in 2016, when this category plummeted by 7.9%. The increased absorption of EU funds was conducive to a recovery of investments. The balance of foreign trade in 2017 had a close to neutral impact on economic growth, while in 2016 it raised GDP growth rate by 0.7 p.p. According to the flash estimate by the Central Statistical Office, economic growth in Q4 2017 accelerated to 5.1% y/y from 4.9% y/y in Q3 2017 and was the fastest since the end of 2011. Calculations based on annual data indicate that it was supported by strong growth in consumer demand as well as in investment, which grew in this period by more than 11.0% y/y compared to 3.3% y/y in the previous quarter.

2017 was a period of unprecedented improvement on the domestic labour market. High economic activity in Poland and abroad translated into an increase in labour demand. In 2017, the number of jobs in the enterprise sector increased by 266,000, which is the best result since comparable data are available. Furthermore, according to the Labour Force Survey (LFS), the number of employed in the entire economy increased in Q3 2017 to 16.5 million people, the highest level in history. Growing employment drove a gradual decline in the registered unemployment rate, which in November 2017 fell to 6.5%, the lowest level in history. The unemployment rate based on the LFS statistics also reached in Q3 2017 value of 4.7%, the lowest since the beginning of the survey. The growing employment intensified problems with finding suitable employees. The results of a survey carried out among enterprises by National Bank of Poland name this factor as one of the greatest barriers to their development. Along with the improvement in the economic activity and intensifying pressure from employees on pay raises, the growth rate of nominal wages picked up to 5.4% in 2017 from 3.7% in preceding year.

After the end of the deflation in November 2016, the past year brought intensification of inflationary pressure. The consumer prices increased on average by 2.0% in 2017 against deflation of 0.6% in 2016. In November 2017, the CPI inflation reached the NBP's inflation target of 2.5% y/y, for the first time in 5 years. Acceleration of CPI inflation was mainly the result of fast-growing prices of food energy as well as energy resources. Growing economy boosted the inflationary pressure from the demand side, although core inflation in 2017 remained at a relatively low level - the average annual CPI index excluding food and energy prices reached 0.7% last year.

In the environment of relatively low inflationary pressure, the Monetary Policy Council maintained a loose monetary policy stance in 2017. 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 coming months.

Coincident and leading business cycle indicators signal that economic growth in Q1 2018 will be at a high level, although in the following quarters its pace will be slightly decreasing. The main driver of economic growth this year will still be households' consumption underpinned by further improvement in the labour market. GDP growth will also be boosted by public investments supported by absorption of funds from the current financial perspective of the European Union. They will stimulate, against a record high capacity utilization and limited possibilities of hiring suitable employees, further rebuilding of enterprises' investments. The continuation of the economic expansion in Poland this year will support employment growth, but increasing labour supply constraints may limit this growth. The tightening on the labour market will translate into intensified wage pressure, as confirmed by NBP's survey of enterprises. It shows an increase in the percentage of companies planning pay raises this year. Economic expansion and rising labour costs will result in gradual intensification of inflationary pressure in Poland in 2018. This will have an impact, in addition to the prolonged period of negative real interest rates and economic growth above potential, on gradual decline in the comfort of Monetary Policy Council members, who until now have opted for the stabilization of money cost.

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

Improving macroeconomic environment, with GDP growth at 4.6% driven mainly by high consumption and record low unemployment had an overall positive impact on the Polish banking sector performance during 2017 year. Total deposits of the banking sector decelerated versus December 2016 year to 4.0% growth y/y (NBP data), being impacted by a negative real interest rate at the end of the year (CPI reached 2.1% while central bank reference rate remained unchanged on 1.5%) and stronger competition from other saving options, like real estates or mutual funds. Nominal growth of total loans at 3.5% was slightly lower than in 2016 year (4.6%), but when excluding impact of PLN appreciation versus foreign currencies (esp. CHF and USD), the growth of loans accelerated: in retail segment from 4.2% to 4.9% yearly. Loans to companies accelerated even stronger, from 3.7% in 2016 to 6.4% in 2017 (in nominal terms). As a consequence, Loans to Deposits ratio of the entire sector remained in December 2017 on similar 97% level as in December 2016.

Solid growth of business volumes together with interest margin improvement, after low base in 2016 driven by earlier interest rate cuts, brought a strong growth of interest income, which was the main source of earnings improvement for Polish banks in 2017 year (+12.1%). Commission income also showed solid growth (+9.1%) driven by higher number of new products sold and services provided to customers. Such strong growth of core banking income allowed Total operating income to grow in 2017 versus 2016 year, in which Polish banks received extraordinary capital gain of c.a. PLN 2 billion from VISA transaction. Operating costs and risk provisions also grew in 2017 versus the previous year, so net profit of the sector in 2017 year achieved PLN 13.6 bn and was slightly lower than result achieved in 2016 year.

The 4Q 2017 year brought also further clarifications and changes to capital requirements for banks, including implementation of the new Systemic risk buffer (3%), valid for all banks from 2018, which replaced earlier KNF specific additional buffers. Polish regulators revised also Other Systemic Important Institutions buffers and specific Pillar 2 buffers connected with FX mortgage exposure. Finally, capital conservation buffer has been increased by 0.625% from 2018 to reach 1.875% level. In November 2017 KNF set dividend policy recommendation for banks with the following additional buffers above minimum required for TCR for dividend distribution: +1.5% to pay 50%; additional 0.625% (full conservation buffer 2.5%) to pay 75%; additional individually defined stress test add-on to pay 100%. KNF kept additional criteria for banks with FX mortgage portfolio (K1 based on FX mortgage share in total portfolio and K2 based on share of 2007-2008 vintages in total FX mortgage portfolio). Such situation will prevent many banks from paying dividend from 2017 profits which will drive up already very high equities and capital adequacy ratios of Polish banks. In November 2017 total equity of Polish banks reached PLN 204 billion and solvency ratios grew to 18.6% (Total Capital Ratio) and to 17.2% (Common equity Tier 1 ratio - data for September 2017). Strong capital position of Polish banks is positive from risk point of view but is negative from investors' return point of view (depressed ROE and limited dividends).

Process of growing concentration of the banking sector in Poland continued in 2017 year after announcement of BZ WBK (3<sup>rd</sup> largest bank) to intend to buy part of Deutsche Bank Polska (12<sup>th</sup> biggest commercial bank). Also acquisition of controlling stake in Pekao SA by state-controlled entities (PZU SA and PFR - Polish Development Fund) increased share of State-controlled banks in the entire system to ca. 35%. At the end of November 2017 top 5 banks accounted for 48% of total sector assets.

At end of September 2017 Bank Millennium Group was the 7<sup>th</sup> biggest among commercial banks in Poland by total assets and 6<sup>th</sup> biggest by deposits. As at the end of 2017 Bank's market share stood at 5% in deposits and 4.4% in loans. Bank Millennium Group, comprising the Bank itself and leasing company, mutual fund management company as well as brokerage house, keeps a relatively stronger position in retail segment (5.7% in deposits and 5.5% in loans, including 6% in payment cards, 7% in mortgages and 8% in credit cards transactions). Within companies segment, Bank Millennium Group has above average market share in leasing and factoring products. Distribution of the Group's products and services is done through 355 branches as well as electronic channels, including cash machines, internet, phone and mobile applications.

In 2018 the Bank is expecting acceleration of loans volumes, thanks to expected rebound in companies' investments and continued growth in mortgage and cash loans sale. On deposits side solid growth should be kept supported by growing disposable income of Polish households.

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

- On 2 August 2016 the President's Bill on support for FX mortgage borrowers was submitted to the Parliament. The proposed law is to apply to FX (all currencies) loan agreements signed from 1 July 2000 to 26 August 2011 (when the "Anti-spread Act" came into force). This Bill concerns the return of



part of FX spreads applied by banks. On 2 August 2017 a new Presidential Bill appeared in Parliament regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. On 13 October 2017 the first reading of the Bill took place in the Sejm and it was sent to a Parliamentary Committee. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Restructuring Fund. As regards the Supporting Fund, the Bill aims to increase availability of money from the fund by means of: relaxing criteria, which must be satisfied by a borrower applying for support; increasing the maximum amount of support; extending the period, for which the support is granted; forgiving part of the support granted conditional on punctual repayment to the fund. The Restructuring Fund is to be used for currency conversion of FX mortgages to PLN. The Bill contains very general regulations and does not specify criteria of eligibility for such currency conversion and its rules. Quarterly payments to the Restructuring Fund made by lenders are not to exceed the equivalent of the FX mortgage portfolio and the rate of 0.5%. The maximum costs for the entire sector, estimated by KNF, are up to PLN 2.8bn in the first year of operation of the Restructuring Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables for restructuring with consideration of stability of the financial system and effective use of money in the Restructuring Fund. The two above Bills included, so far four draft Acts have been submitted to Parliament and in consequence it is not possible to estimate the impact of the proposed legislation on the banking sector and the Group. However if any of the Bills is adopted and begins to bind banks, this may lead to significant reduction of the Group's profitability and its capital position.

- An increase in uncertainty related to the situation on global financial markets and geopolitical factors (e.g. D.Trump's administration policy, Brexit) may lower the growth prospects of the global economy and limit scale of economic expansion in Poland.
- A faster-than-expected recovery of enterprises' investments could contribute to a stronger growth in investment loans. However, good financial results and high liquidity of Polish companies may limit demand for external financing from corporate sector.
- Potential increase of yields of Polish bonds driven by higher borrowing needs, global sentiment and expected rate hikes in interest rates in Poland.
- 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. The increase in labour costs may, on the other hand, cause deterioration of financial situation of some enterprises.

### V.3. Strategy fulfilment and business development perspectives

In October 2017 Bank Millennium announced its new medium-term strategy for the period 2018-2020 taking as starting point current macroeconomic background and fast changing trends in the banking environment. Macroeconomic situation in Poland is favourable with expected solid growth going forward. New financial market trends include raising expectations on customer experience standards and personalization, digitizing services and customers' lives, growing and concentrating banking market in Poland, increasing pressure on efficiency and upcoming regulatory changes (PSD2, MiFID2).

As an answer to these challenges, the Bank is pursuing a strategy with the following main directions:

- Complementing current growth engine in retail (increase in the number of active clients through current accounts acquisition) with new engines (cash loan, investment products and micro business)
- Accelerate the growth in corporate through lending and enhanced sales force efficiency
- Focus growth around client satisfaction, in retail with mass personalization and in business with sectorial knowledge approach
- Strong leverage of digital in banking and beyond as competitive edge
- Opportunistic approach to inorganic growth options
- Win the war for talent thanks to engaging and inspiring work environment
- Acting responsibly towards clients, colleagues and being a good citizen

The Bank also decided to launch the project of a mortgage bank to support business growth.

Main mid-term goals targeted by Bank Millennium Group by 2020 year include:

1. Core business income growth by c.a. 30% (versus 2017)
2. Double-digit volume growth in core selected areas
3. To double the pace of active clients acquisition
4. To maintain Top 3 in customers NPS among leading Polish banks
5. Cost to Income ratio of 40%
6. Cost of risk in line with historical trends
7. Net profit of PLN 1 billion in 2020 \*)
8. ROE within top 3 leading Polish banks \*)

*\*) excluding extraordinary legal, regulatory and tax events*

## VI. FINANCIAL SITUATION

### VI.1. Profit and Loss Account

Group's Operating Income (PLN million)	2017	2016	Change y/y
Net Interest Income *	1 736.9	1 556.5	11.6%
Net Commission Income	663.6	581.0	14.2%
<b>Core Income **</b>	<b>2 400.4</b>	<b>2 137.5</b>	<b>12.3%</b>
Other Non-Interest Income ***	124.7	334.7	-62.7%
<i>of which extraordinary incomes and charges ****</i>	-	231.5	-
<b>Total Operating Income</b>	<b>2 525.2</b>	<b>2 472.2</b>	<b>2.1%</b>
<i>Total Operating Income (without one-offs)****</i>	<i>2 525.2</i>	<i>2 240.7</i>	<i>12.7%</i>

(\*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date the margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 40.4 million in 2017 and PLN 50.6 million in 2016) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

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

(\*\*\*) Includes FX results, Results on Financial Operations and net other operating income and cost.

(\*\*\*\*) VISA transaction and extraordinary costs in 2Q16

**Net Interest Income** (pro-forma) for 2017 reached PLN 1,736.9 million and increased by 11.6% versus the corresponding period of the previous year. This considerable increase was driven by improving Net Interest Margin and growth of business volumes. On the loans side, these were especially consumer loans, corporate and PLN mortgages, which altogether grew by 13.7% y/y and increased their share in total portfolio to 70%. On deposits side, continued change of mix towards current and saving accounts was also visible: they increased by 10.9% year-on-year and their share in total deposits grew to almost 58%. As a consequence, total Net Interest Margin (over average interest earning assets) for 2017 improved visibly to 2.56% from 2.39% in 2016. In 4Q 2017 Net Interest Income stabilised, as there was limited room for further decrease in deposits cost and some increased competition on deposits was noticed at the end of 2017 year.

**Net Commission Income** in 2017 amounted to PLN 663.6 million, which means strong increase by 14.2% year-on-year. Insurance and investment products related fees were the main drivers of the growth, but also transactional and loans commissions presented visible increase.

**Core Income**, defined as a combination of net interest and commission income, reached the amount of PLN 2,400.4 million for 2017 which means a remarkable increase of 12.3% yearly.

**Other Non-interest Income**, which comprise FX Result, Results on Financial Operations and net other operating income and costs, amounted to PLN 124.7 million in 2017 and decreased strongly by PLN 210 million due to the impact of one-off incomes and charges, which had altogether positive, PLN 231.5 million impact in 2016.

**Total operating income** of the Group reached PLN 2,525.2 million in 2017 and increased by 2.1% year-on-year despite significant decrease in other income. Without taking into consideration one-off incomes and charges mentioned above, the total operating income for 2017 would present a substantial annual growth of 12.7%.



<b>Group's Operating Costs</b> (PLN million)	2017	2016	Change y/y
Personnel Costs	(596.5)	(558.8)	6.8%
Other Administrative Costs*	(559.7)	(553.6)	1.1%
<b>Total Operating Costs</b>	<b>(1 156.3)</b>	<b>(1 112.3)</b>	<b>3.9%</b>
<b>Cost/Income - reported</b>	<b>45.8%</b>	<b>45.0%</b>	<b>0.8 p.p.</b>
<b>Cost/Income - excluding one-offs **</b>	<b>45.8%</b>	<b>49.6%</b>	<b>-3.8 p.p.</b>

(\*) including depreciation

(\*\*) without VISA transaction and other one-offs

**Total costs** in 2017 amounted to PLN 1,156.3 million, which means an increase by 3.9% when compared to 2016. The reason of the increase is mostly growing personnel costs.

**Personnel costs** for 2017 amounted to PLN 596.5 million and grew by 6.8% compared to the previous year as a result of increase of average salary and variable compensation. The total number of employees in the Group decreased by 14 employees compared to the end of December 2016, to the level of 5,830 persons (in Full Time Equivalents).

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

<b>Employment structure (in FTEs)</b>	31.12.2017	31.12.2016	Change y/y
Bank Millennium S.A.	5 492	5 497	-0.1%
Subsidiaries	338	347	-2.6%
<b>Total Bank Millennium Group</b>	<b>5 830</b>	<b>5 844</b>	<b>-0.2%</b>

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

**Other administrative costs** (including depreciation) in 2017 reached PLN 559.7 million and increased by 1.1% year-on-year. The increase was mainly driven by higher marketing, IT & telecom and advisory & legal costs, whereas physical infrastructure costs (mostly rental costs) decreased substantially by 16.4 million year-on-year. Total number of branches fell during last 12 months from 369 to 355.

**Cost-to-Income ratio** for 2017 reached low level of 45.8% - much lower by 3.8 p.p. compared to the level for 2016 (without one-off incomes and charges for 2016) of 49.6%. This level was exactly within 45-47% range projected at the beginning of 2015-2017 strategy cycle.

<b>Group's Net Profit</b> (PLN million)	2017	2016	Change y/y
Operating Income	2 525.2	2 472.2	2.1%
Operating Costs *	(1 156.3)	(1 112.3)	3.9%
Impairment provisions	(255,4)	(231,2)	10.5%
Banking tax	(188,3)	(174,1)	8.2%
<b>Pre-income tax Profit**</b>	<b>925,2</b>	<b>953,3</b>	<b>-2.9%</b>
Income tax	(244,0)	(252,0)	-3.2%
<b>Net Profit</b>	<b>681,2</b>	<b>701,3</b>	<b>-2.9%</b>
<b>Net Profit (without one-offs)</b>	<b>681,2</b>	<b>521,0</b>	<b>30.8%</b>

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

(\*\*) includes share in profits of associates

**Total net impairment provisions** created by the Group in 2017 amounted to PLN 255.4 million and were 10.5% higher than provisions created in 2016. The provisions for retail segment decreased visibly from PLN 228.5 million in 2016 to PLN 172.4 million in 2017. On the other hand, the provisions for corporate segment and other increased from only PLN 2.7 million in 2016 (as a result of sale of impaired loans and extraordinary recoveries) to more "normal" PLN 83 million level in 2017. In relative terms, cost of risk (i.e. net provisions created to the average net loans) in 2017 reached 54 bps level (i.e. 5 bps higher compared to 2016), which was within expected range for 2017 year.

**Pre-income tax profit** in 2017 amounted to PLN 925.2 million, and decreased by 2.9% compared to the previous year, as a consequence of evolution of all described above elements and increase of banking tax by 8.2% (due to 1 month longer taxation period).

**Net Profit** for 2017 amounted to PLN 681.2 million and was 2.9% lower than an year ago. When excluding above mentioned one-off incomes and charges (especially gain on VISA transaction in 2Q 2016), net profit of the Group would have grown by 30.8% year-on-year.

The key relative measures of Group's profitability based on net profit generated in 2017 were the following:

- Return on Assets (ROA) of 1.0%
- Return on Equity (ROE) of 9.3%

The breakdown of Group's Net Profit by the Group's companies is presented in the table below:

<b>Group's profit structure (PLN million)</b>	<b>2017</b>
Bank Millennium	648.9
Millennium Leasing	47.0
Millennium Dom Maklerski (brokerage house)	11.6
Millennium TFI (mutual fund)	15.3
Other consolidated companies	42.0
<b>Summarised profits</b>	<b>764.9</b>
Consolidation eliminations	(83.7)
<b>Consolidated Net Profit of the Group</b>	<b>681.2</b>

### Bank's Profit and Loss Account

The evolution of key Profit and Loss Account items of the Bank in 2017, presented in the below tables, was similar to those of the consolidated Capital Group.

<b>Bank's Operating Income (PLN million)</b>	<b>2017</b>	<b>2016</b>	<b>Change y/y</b>
Net Interest Income	1 598,1	1 403,9	13,8%
Net Commission Income	552,7	490,3	12,7%
<b>Core Income *</b>	<b>2 150,7</b>	<b>1 894,1</b>	<b>13,5%</b>
Other Non-Interest Income **	229,0	419,3	-45,4%
<i>of which dividends</i>	74,6	46,1	61,9%
<i>of which extraordinary incomes and charges ***</i>	-	231,5	-
<b>Total Operating Income</b>	<b>2 379,7</b>	<b>2 313,5</b>	<b>2,9%</b>
<i>Total Operating Income (without one-offs)***</i>	<i>2 379,7</i>	<i>2 082,0</i>	<i>14,3%</i>

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

(\*\*) Includes FX results, Results on Financial Operations and net other operating income and cost.

(\*\*\*) VISA transaction and extraordinary costs in 2Q16

Net Interest Income and Net Commissions Income of the Bank, as in the Group case, recorded high annual growth rates exceeding visibly 10%: 13.8% and 12.7% respectively. As a result of the above, Core Income grew by 13.5% year-on-year reaching PLN 2,151 million for 2017.

Total Operating Income growth in 2017 was much lower, as it was under the same impact of one-off gain of 2016 as in the Group's case, which is commented above in the text explaining the evolution Profit and loss Account items of the Group. Total Operating Income of the Bank grew 2.9% y/y, reaching PLN 2,380 million. The growth without above mentioned one-off factors would be 14.3% y/y.

Important component of Bank's Other Non-Interest Income are dividends, mostly from subordinated companies of the Capital Group (which are eliminated on the Group's statements level). The dividend income reached PLN 74.6 million in 2017 recording the substantial growth of 61.9% year-on-year.

<b>Bank's Net Profit</b> (PLN million)	<b>2017</b>	<b>2016</b>	<b>Change y/y</b>
Operating Income	2 379,7	2 313,5	2,9%
Operating Costs *	(1 095,5)	(1 051,8)	4,2%
Impairment provisions	(231,1)	(209,5)	10,3%
Banking tax	(188,3)	(174,1)	8,2%
Pre-income tax Profit	864,9	878,1	-1,5%
Income tax	(215,9)	(225,5)	-4,2%
<b>Net Profit</b>	<b>648,9</b>	<b>652,7</b>	<b>-0,6%</b>

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

The growth of Bank's Operating Costs in 2017 was 4.2% year-on-year and was similar as in the Group. The costs amounted to PLN 1,095.5 million in the reporting year. Cost-to-Income ratio for 2017 for the Bank reached 46%.

Impairment provisions amounted to PLN 231.1 million in 2017 and grew by 10.3% year-on-year (similar scale of growth as for the consolidated Group).

Net profit of the Bank for 2017 amounted to PLN 648.9 million and presented slight decrease of 0.6% year-on-year due to the positive impact of one-off items in 2016, mentioned above. Return on Bank's Assets (ROA) reached 0.94%.

## VI.2. Results of Business Segments

The following information provide Profit and Loss data for the Group's three business segments: Retail, Corporate and Treasury, ALM and Other. Retail segment includes services to mass market individual Clients, affluent Clients, individual entrepreneurs and small businesses (of annual turnover below PLN 5 million). Corporate segment includes services to medium and large companies as well as public sector entities. The segment of Treasury, ALM (assets and liabilities management) and Other covers the Group's activity as regards investments on Bank's own account, brokerage, inter-bank market transactions, taking positions in debt securities and other operations, which are not assigned to other segments.

<b>Retail segment</b> (PLN million)	<b>2017</b>	<b>2016</b>	<b>Change 2017/2016</b>
Net interest income *	1 131,1	1 002,0	12,9%
Net commission income	504,4	429,2	17,5%
Other income	-1,9	41,8	-
<b>Total operating income</b>	<b>1 633,5</b>	<b>1 473,0</b>	<b>10,9%</b>
<b>Total operating expense</b>	<b>(892,4)</b>	<b>(835,4)</b>	<b>6,8%</b>
<b>Pre-provision income</b>	<b>741,1</b>	<b>637,6</b>	<b>16,2%</b>
Net impairment provisions	(172,4)	(228,5)	-24,6%
<b>Operating profit</b>	<b>568,8</b>	<b>409,1</b>	<b>39,0%</b>

(\*) Part of interest income generated by this segment (so called liquidity premium) has been recognized in the third segment of "Treasury, ALM and other" in accordance to Recommendation P of the Polish regulator (KNF)

The total operating income of the Retail segment in 2017 amounted to PLN 1,633.5 million and increased strongly by 10.9% yearly mainly thanks to high dynamics of Net interest income (+12.9% year-on-year) and Net commission income (+17.5% year-on-year). Operating expenses of retail segment increased less in 2017, i.e. by 6.8% year-on-year. As a result of the above factors, Pre-provision income grew by 16.2%. Net impairment provisions decreased strongly by 24.6% yearly as a result of cost of risk optimisation in this segment. This decrease had positive impact on Operating Profit of Retail segment, which recorded very high increase by 39% year-on-year to the level of PLN 568.8 million.

Corporate segment (PLN million)	2017	2016	Change 2017/2016
Net interest income *	265,7	241,6	10,0%
Net commission income	156,1	147,1	6,1%
Other income	50,7	54,2	-6,6%
<b>Total operating income</b>	<b>472,5</b>	<b>442,9</b>	<b>6,7%</b>
<b>Total operating expense</b>	<b>(207,5)</b>	<b>(223,1)</b>	<b>-7,0%</b>
<b>Pre-provision income</b>	<b>264,9</b>	<b>219,8</b>	<b>20,6%</b>
Net impairment provisions	(81,8)	0,7	-
<b>Operating profit</b>	<b>183,1</b>	<b>220,4</b>	<b>-16,9%</b>

(\*) Part of the interest income generated by this segment (so called liquidity premium) has been recognized in the segment of "Treasury, ALM and other" in accordance to Recommendation P of the Polish regulator (KNF)

The total operating income of Corporate segment in 2017 amounted to PLN 472.5 million and increased by 6.7% yearly, thanks to visible increase of core income groups: Net interest income (by 10% year-on-year) and Net commission income (by 6.1% year-on-year). Operating expenses decreased by 7.0% year-on-year strengthening efficiency improvement. The abovementioned factors resulted in a significant growth of Pre-provision income by 20.6% year-on-year. The value of net impairment provisions on loans to companies increased visibly in 2017 year by PLN 82.5 million (from net release of PLN 0.7 million in 2016), which reflects a return to more typical provisioning level after the 2016 period, where there was favourable impact of extraordinary recoveries and sale of NPLs. Higher provisions resulted in a decrease of Operating profit of Corporate segment by 16.9% to the level of PLN 183.1 million.

Treasury, ALM and other segment (PLN million)	2017	2016	Change 2017/2016
Net interest income	299,7	262,2	14,3%
Net commission income	3,1	4,7	-34,8%
Other income	116,4	289,3	-59,8%
<b>Total operating income</b>	<b>419,2</b>	<b>556,3</b>	<b>-24,7%</b>
<b>Total operating expense</b>	<b>(56,3)</b>	<b>(53,8)</b>	<b>4,8%</b>
<b>Pre-provision income</b>	<b>362,8</b>	<b>502,5</b>	<b>-27,8%</b>
Net impairment provisions	(1,2)	(3,4)	-65,1%
<b>Operating profit</b>	<b>361,7</b>	<b>499,2</b>	<b>-27,5%</b>

The total operating income of Treasury, ALM (assets and liabilities management) and Other segment in 2017 amounted to PLN 419.2 million and decreased strongly by 24.7% yearly, due to significant one-off gain from Visa transaction in 2016, mentioned above in the text. However, Net interest income, being the key item of Total operating income, recorded visible growth by 14.3% year-on-year. Operating expenses increased by 4.8% year-on-year. Operating profit of this segment decreased by 27.5% year-on-year to the level of PLN 361.7 million.

### VI.3. Balance Sheet and Off - Balance Sheet items

#### Assets

The Group's assets as at 31 December 2017 reached PLN 71,141 million, which means an increase by 3.4% compared to the end of 2016. The structure of Group's assets and changes of their particular components are presented in the table below:

Group's Assets (PLN million)	31.12.2017		31.12.2016		Change 2017/2016 (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 080.2	2.9%	1 778.8	2.6%	16.9%
Loans and advances to banks	254.2	0.4%	1 267.8	1.8%	-79.9%
Loans and advances to Clients	47 411.1	66.6%	47 020.0	68.4%	0.8%
Receivables from securities bought with sell-back clause	0.0	0.0%	90.5	0.1%	-
Debt securities	19 355.2	27.2%	17 406.7	25.3%	11.2%
Derivatives (for hedging and trading)	1 078.5	1.5%	267.9	0.4%	302.6%
Shares and other financial instruments*	50.2	0.1%	43.2	0.1%	16.2%
Tangible and intangible fixed assets**	265.6	0.4%	226.4	0.3%	17.3%
Other assets	646.4	0.9%	691.4	1.0%	-6.5%
<b>Total assets</b>	<b>71 141.4</b>	<b>100.0%</b>	<b>68 792.8</b>	<b>100.0%</b>	<b>3.4%</b>

(\*) including investments in associates

(\*\*) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of debt securities by PLN 1,948 million (or by 11.2%), 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 derivatives by PLN 811 million.

#### *Loans and advances to Clients*

Loans and advances to Clients constitute a dominant position in the Group's asset structure (66.6% as on 31 December 2017). Total net loans of Bank Millennium Group reached PLN 47,411 million as at the end of December 2017, which means 0.8% growth year-on-year.

This modest growth was a combination of faster reduction of foreign currency mortgage portfolio (-19.6% year-on-year, partially driven by FX rate change) and accelerated growth of all other segments, which in total grew by solid 13.7% yearly (in net terms). Thanks to this evolution, share of FX mortgage loans in total gross portfolio dropped to 30% as at the end of 2017 year.

The net value of loans granted to households as at the end of December 2017 totalled PLN 32,013 million and was -3.7% lower compared to the balance recorded in the previous year. But when excluding quickly amortising FX mortgage loans, all other segments presented strong annual growth rates: PLN mortgages, exceptionally high, +19.4% year-on-year, and consumer loans of +8.9% year-on-year. The sale of new PLN mortgages accelerated during 2017 year (annual sale grew by 183% year-on-year) reaching the level of PLN 2,537 million. The sale of new cash loans was also high in 2017 and amounted to PLN 2,304 million.

Loans to companies amounted to PLN 15,398 million as at the end of December 2017 and grew by 11.8% yearly. The growth was very balanced, at high pace in all main product groups: factoring (+11%), leasing (+9%) and other loans (+13% y/y). Leasing and factoring sale showed consistent growth to reach new records in 4Q 2017 and to finish entire year with +15% y/y growth in sales (in both).

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

<b>Loans and advances to Clients (PLN million)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Change y/y</b>
Loans to households	32 012.8	33 241.6	-3.7%
- <i>PLN mortgage loans</i>	11 176.9	9 360.9	19.4%
- <i>FX mortgage loans</i>	14 575.9	18 131.1	-19.6%
- <i>consumer loans</i>	6 260.0	5 749.6	8.9%
Loans to companies and public sector	15 398.3	13 778.4	11.8%
- <i>leasing</i>	5 605.8	5 132.4	9.2%
- <i>other loans to companies and factoring</i>	9 792.5	8 646.0	13.3%
<b>Net Loans &amp; Advances to Clients</b>	<b>47 411.1</b>	<b>47 020.0</b>	<b>0.8%</b>
<i>Net Loans and Advances to Clients excluding FX mortgage loans</i>	32 835.2	28 888.9	13.7%
Impairment write-offs	1 497.2	1 364.9	9.7%
<b>Gross loans and advances to Clients</b>	<b>48 908.3</b>	<b>48 385.0</b>	<b>1.1%</b>

The average interest rate of the Bank's loan portfolio in 2017 was 4.11%. 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 19,355 million at the end of December 2017 and increased strongly by PLN 1,948 million (i.e. 11.2%) year-on-year. Major part of debt securities (i.e. 99.3%) 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 from 25.3% to 27.2% as at the end of 2017, thus making a strong liquidity buffer.

#### *Derivatives*

Value of derivatives (designated for trading and hedging) totalled PLN 1,079 million at the end of December 2017, which means a strong increase by 302.6% compared to 31 December 2016, due to FX rates changes (mainly appreciation of Polish currency vs. Swiss Franc).

#### *Loans and advances to banks*

Loans and advances to banks (including interbank deposits) amounted to PLN 254 million as at the end of December 2017, which means a strong decrease by 79.9% year-on-year due to significantly lower value of collateral deposits securing hedging transaction placed in counterparty banks, as a result of changes in the valuation of such transactions.

#### *Shares and other financial instruments*

Shares and other financial instruments amounted to PLN 50 million as at the end of December 2017 and were the minor item in the balance sheet with only 0.1% share. The item increased by 16.2% year-on-year.

#### *Tangible and intangible fixed assets (capital expenditure)*

Group's tangible and intangible fixed assets amounted to PLN 266 million as at the end of December 2017, which means an increase by 17.3% yearly.

Total capital expenditure (CAPEX) of the Group during 2017 amounted to PLN 73.5 million, of which PLN 21.9 million spent for the Bank's physical infrastructure (branches, ATMs, security etc.) and PLN 44.0 million spent on software and IT infrastructure. The remaining expenditures, i.e. PLN 7.6 million, refers to the Bank's subsidiaries. The Bank Millennium Group plans to increase investment expenditures to PLN 96.3 million in 2018.

About 50% of the investments refers to IT area, especially - to further development of internet and mobile banking.

The non-consolidated Bank's assets as at 31 December 2017 reached PLN 70,637 million, presenting an increase by 3.3% compared to the end of 2016, so it was similar scale growth as for the consolidated Group. The structure of Bank's assets and the changes of their particular components is presented in the table below:

Bank's Assets (PLN million)	31.12.2017		31.12.2016		Change 2017/2016 (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 080,2	2,9%	1 778,8	2,6%	16,9%
Loans and advances to banks	254,2	0,4%	1 267,8	1,9%	-80,0%
Loans and advances to Clients	47 144,5	66,7%	46 593,4	68,1%	1,2%
Receivables from securities bought with sell-back clause	0,0	0,0%	90,5	0,1%	-100,0%
Debt securities	19 341,7	27,4%	17 390,7	25,4%	11,2%
Derivatives (for hedging and trading)	1 079,0	1,5%	268,1	0,4%	302,5%
Shares and other financial instruments	134,1	0,2%	255,0	0,4%	-47,4%
Tangible and intangible fixed assets*	246,5	0,3%	212,9	0,3%	15,8%
Other assets	356,8	0,5%	537,4	0,8%	-33,6%
<b>Total assets</b>	<b>70 637,0</b>	<b>100,0%</b>	<b>68 394,6</b>	<b>100,0%</b>	<b>3,3%</b>

(\*) excluding fixed assets for sale

The key difference of non-consolidated Bank's and Group's assets is the value of loans to clients. First of all it refers to receivables from clients of the leasing company (although significant part of those receivables was acquired by the Bank) and also to elimination of mutual transactions between the Bank and other companies of the Capital Group in consolidated financial statements.

Total net loans to clients of the Bank reached PLN 47,145 million as at the end of December 2017, which means 1.2% growth year-on-year. With the exception of leasing receivables, the value and annual changes of other key components of Bank's loans are very similar or the same as for the Capital Group.

Shares and other financial instruments presented in the financial statements of the Bank, unlike Group's statements, included valuation of shares in subsidiaries (of the total value of PLN 84 million). The value of this item as at 31 December 2017 amounted to PLN 134 million, which means a decrease by 47.4% year-on-year resulted by the return of capital contribution by a subsidiary company.

Tangible and intangible fixed assets of the Bank amounted to PLN 247 million as at the end of December 2017, which means an increase by 15.8% year-on-year.

The values and annual changes of other key assets items are similar compared to those of the consolidated Group, which have been commented above in the text.



## Liabilities

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

Group's Liabilities and Equity (PLN million)	31.12.2017		31.12.2016		Change 2017/2016
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 353.1	3.7%	1 270.7	2.1%	85.2%
Deposits from Customers	57 273.3	90.4%	55 875.6	90.3%	2.5%
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	367.0	0.6%	1 488.7	2.4%	-75.3%
Liabilities from issue of debt securities	1 156.5	1.8%	1 313.8	2.1%	-12.0%
Provisions	67.8	0.1%	49.4	0.1%	37.1%
Subordinated debt	702.0	1.1%	664.0	1.1%	5.7%
Other liabilities*	1 449.3	2.3%	1 189.3	1.9%	21.9%
<b>Total liabilities</b>	<b>63 368.8</b>	<b>100.0%</b>	<b>61 851.6</b>	<b>100.0%</b>	<b>2.5%</b>
<b>Total equity</b>	<b>7 772.6</b>		<b>6 941.2</b>		<b>12.0%</b>
<b>Total liabilities and equity</b>	<b>71 141.4</b>		<b>68 792.8</b>		<b>3.4%</b>

(\*) including tax liabilities

As at the end of December 2017, liabilities accounted for 89.1%, while Group's equity accounted for 10.9% of the total liabilities and equity.

As at 31 December 2017, Group's total liabilities amounted to PLN 63,369 million and increased by PLN 1,517 million (or 2.5%) relative to the value as on 31 December 2016. The increase resulted, primarily, from growth in Customer deposits (by PLN 1,398 million).

### Deposits from Customers

Deposits from Customers constituted the Group's main liability and as on 31 December 2017 they accounted for 90.4% of total liabilities.

Deposits from Customers provide the main source of financing of the Group's activities and include, mainly, Customer funds deposited on current, saving and term deposit accounts. As on 31 December 2017 deposits from Customers amounted to PLN 57,273 million and recorded an increase of 2.5% relative to the balance as at 31 December 2016.

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

Customer Deposits (PLN million)	31.12.2017	31.12.2016	Change y/y
Deposits of individuals	40 343.6	39 681.7	1.7%
Deposits of companies and public sector	16 929.7	16 193.9	4.5%
<b>Total deposits</b>	<b>57 273.3</b>	<b>55 875.6</b>	<b>2.5%</b>

Deposits from individual Customers amounted to PLN 40,344 million which means an yearly growth of 1.7%.



Strong growth in number of customers and accounts together with promotions of savings accounts allowed for visible increase of current and saving accounts volume by 9.1% year-on-year and their share in total deposits of individuals reached 62%. At the same time term deposits of individual Customers decreased by 8.5% year-on-year.

Deposits of companies and public sector amounted to PLN 16,930 million as at 31 December 2017 and increased by 4.5% year-on-year. Like in retail segment, current accounts remain as the main driver of growth: +17% versus the end of December 2016.

The average interest rate of all deposits placed with the Bank in 2017 was 1.09%.

#### *Deposits from banks*

Deposits from banks, including received loans, as at 31 December 2017 amounted to PLN 2,353 million, accounting for 3.7% of the Group's liabilities. The value of that item increased strongly by PLN 1,082 million (i.e. 85.2%) vs. the balance as at 31 December 2016, first of all due to higher value of deposits from other banks, by PLN 1,019 million (+274%, mostly driven by higher collateral deposits from counterparty banks securing hedging transactions) whereas the balance of loans from financial institutions increased by 7.1% year-on-year and amounted to PLN 961 million (expressed in PLN) as at 31 December 2017. These loans included financing from European Bank for Reconstruction and Development and loans from European Investment Bank (most of them in EUR and CHF) with original maturities up to 8 years, which were the important items of wholesale long-term and medium-term funding received by the Group.

#### *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 2017 the value of this item amounted to PLN 367 million and decreased by PLN 1,122 million or 75.3% relative to the balance of 31 December 2016, first of all due to the decrease of negative valuation of derivatives used for hedging purpose (mainly CIRS). This resulted mostly from changes in FX rates, which is commented above in the text regarding derivatives valuation in assets.

#### *Debt securities issued*

Debt securities issued by the Group as at 31 December 2017 amounted to PLN 1,156 million, which means a decrease by PLN 157 million (or by 12.0%) relative to the balance recorded as at 31 December 2016. At the end of December 2017 the value of bank debt securities issued by the Bank and possessed by individual Customers as savings products amounted to PLN 247 million, whereas the value of the Bank's bonds possessed mostly by institutional investors amounted to PLN 631 million (most of which, with the balance sheet value of PLN 601 million, are traded on Catalyst - ASO BondSpot debt instruments exchange in Warsaw). Apart from the Bank's debt securities and bonds, the Bank's subsidiary Millennium Leasing issued bonds for private and institutional investors. The balance sheet value of bonds issued by this company as at 31 December 2017 was PLN 278 million. The main reason of the yearly decrease of the balance of Group's liabilities from issued debt securities was maturing series of bonds for institutional holders, partly offset by issuance of new series of bonds in June 2017 of the total nominal value of PLN 300 million.

#### *Subordinated debt*

The value of subordinated debt amounted to PLN 702 million as at 31 December 2017 and increased by 5.7% vs. the balance as at the end of 2016. The Bank issued in December 2017 ten-year subordinated bonds in PLN of the total nominal value PLN 700 million in place of ten-year subordinated bonds of nominal value of EUR 150 million, issued by the Bank in December 2007, which matured in December 2017. The new issue of subordinated debt supports Group's and Bank's capital adequacy and is the stable long-term source for funding of business activity.

#### *Equity*

As at 31 December 2017 the equity of the Group amounted to PLN 7,773 million and grew by PLN 831 million or 12.0% year-on-year. The main reason of the growth of equity was net profit generated during the 2017 financial year, without payment of any dividend for 2016 as decided by AGM of the Bank held on 31 March 2017. The impact of revaluation reserve changes on this growth was positive (PLN 150 million).

On 24th November 2017, KNF issued its position in the matter of the dividend policy of banks 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 2017.

The information about capital adequacy is presented in Chapter VIII of this document and in a separate report titled "Capital Adequacy, Risk and Remuneration Policy Report of Bank Millennium Capital Group for 2017".

The non-consolidated Bank's liabilities as at 31 December 2017 reached PLN 63,096 million, which means an increase by 2.3% compared to the end of 2016, so it was similar scale of the growth as for the consolidated Group. The structure of Bank's Liabilities and Equity and the changes of their particular components are presented in the table below:

Bank's Liabilities and Equity (PLN million)	31.12.2017		31.12.2016		Change 2017/2016
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 353.1	3.7%	1 270.7	2.1%	85.2%
Deposits from Customers	57 398.9	91.0%	55 988.2	90.8%	2.5%
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	367.1	0.6%	1 488.7	2.4%	-75.3%
Liabilities from issue of debt securities	879.0	1.4%	1 113.2	1.8%	-21.0%
Provisions	66.8	0.1%	48.6	0.1%	37.5%
Subordinated debt	702.0	1.1%	664.0	1.1%	5.7%
Other liabilities*	1 329.5	2.1%	1 079.6	1.8%	23.1%
<b>Total liabilities</b>	<b>63 096.5</b>	<b>100.0%</b>	<b>61 653.1</b>	<b>100.0%</b>	<b>2.3%</b>
<b>Total equity</b>	<b>7 540.5</b>		<b>6 741.5</b>		<b>11.9%</b>
<b>Total liabilities and equity</b>	<b>70 637.0</b>		<b>68 394.6</b>		<b>3.3%</b>

The key difference between non-consolidated Bank's and Group's liabilities is the value of liabilities from issued securities of the leasing company (presented in Group's statements).

The value of Bank's deposits from customers amounted to PLN 57,399 million as at 31 December 2017 and recorded an increase by 2.5% year-on-year (the same as the growth of Group's deposits).

The values and annual changes of other key liabilities items of the Bank are similar compared to those of the consolidated Group, which has been commented above in this part of the report.

The Bank's total shareholder equity as at 31 December 2017 amounted to PLN 7,541 million and increased by 11.9% year-on-year (similar growth as for consolidated Group's equity).

## Contingent liabilities

The structure of contingent liabilities of the Group is presented in the table below:

Group's Contingent Liabilities (PLN million)	31.12.2017	31.12.2016	Change 2017/2016 (%)
<b>Total contingent liabilities</b>	<b>9 166.6</b>	<b>8 202.3</b>	<b>11.8%</b>
1. Liabilities granted:	9 121.5	8 097.7	12.6%
a) financial	7 899.3	7 014.0	12.6%
b) guarantees	1 222.2	1 083.7	12.8%
2. Liabilities received:	45.1	104.6	-56.9%
a) financial	0.0	0.0	-
b) guarantees	45.1	104.6	-56.9%

In the course of its operations, the Group 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 Group (providing security for performance, by the Group Customers, of their commitments relative to third parties). Contingent liabilities granted cause that the Group is exposed to various risk types including credit risk. The Group 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 2017, the total value of contingent liabilities of the Group amounted to PLN 9,167 million, including commitments granted by the Group of PLN 9,122 million. During 2017 the value of contingent financial liabilities granted by the Group increased by 12.6% and the value of guarantee commitments increased by 12.8%.

More information on contingent liabilities can be found in Chapter 12 of the Annual Report of Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2017.

The structure of contingent liabilities of the non-consolidated Bank is presented in the table below:

Bank's Contingent Liabilities (PLN million)	31.12.2017	31.12.2016	Change 2017/2016 (%)
<b>Total contingent liabilities</b>	<b>9 204.5</b>	<b>8 241.4</b>	<b>11.7%</b>
1. Liabilities granted:	9 156.6	8 134.3	12.6%
a) financial	7 900.7	7 014.2	12.6%
b) guarantees	1 256.0	1 120.2	12.1%
2. Liabilities received:	47.9	107.0	-55.3%
a) financial	0.0	0.0	-
b) guarantees	47.9	107.0	-55.3%

The evolution of the contingent liabilities granted and received by the Bank is similar as in the Group's case, described above.

## VII. PRESENTATION OF BUSINESS ACTIVITY

### VII.1. Digital transformation, quality and client satisfaction

The Bank's strategy for 2015-2017 assumed further digitalisation and more extensive use of internet and mobile channels to offer products to clients and, on the other hand, digital analysis of client behaviour. Among strategic priorities, the Bank included also high service quality and providing clients with delivery of experience, unique on the market, irrespective of the service channel. The objective of this approach is to make clients day-to-day lives easier and ensure the best available experience in contacts with Bank.

Innovation and further digitalisation provided the Bank with significant competitive advantage. The share of digital channels in sale of Bank Millennium products in 2017 was higher than market average. This, combined with advanced business analysis, facilitated construction of modern platforms engaging clients and maximising value of relations with them. Broader product offer, even higher operational effectiveness and the top quality of service have derived from this approach.

Since the borderline between digital and real world is continuously blurred, the Bank has been developing new business models in digital environment. In the new environment, the Bank has been more and more frequently using artificial intelligence, machine learning, conversation systems, virtual and augmented reality. Bank also developed remote access channels. The Bank's mobile application already today provides a centre of convenient and fast management of day-to-day matters (not only financial) i.e. has become a necessary component of our daily lives. According to this philosophy, besides strictly banking products, the application offers, *inter alia*, motor insurance, tourist insurance and capacity to execute mobile payments for parking or city transport tickets.

Digital transformation covers not only the IT area but all internal processes reaching a new and more effective dimension. In the case of Bank Millennium, innovation applies to all aspects of operation of the organisation and the entire value chain - from client acquisition through products, organisational culture to service provision. Implementation of innovation strategy changed processes, products, ways to perform work, sales and, above all, peoples' mentality. This way an inspiring and modern work environment for talented employees was created.

Implementation of innovation strategy requires the Bank to be open to non-standard solutions and to create multi-discipline teams within the organisation to cooperate in accordance with start-up concept. Smart shopping platform *goodie* is the best example of a project following these principles.

High service quality and client satisfaction constitute the Bank's priority. It was appreciated, in 2017, by independent auditors and the clients themselves. Bank Millennium was, *inter alia*, ranked first in the prestigious ranking the „Newsweek's Friendly Bank" in traditional banking category and in mobile banking wand. According to survey conducted by ARC Rynek i Opinia, the Bank Millennium clients show the highest level of satisfaction and loyalty on the market. They are also most willing to recommend the Bank to others. The Bank received all its awards in effect of consistent and effective efforts in key areas for client relations. These areas are, as follows:

- Continuous monitoring of client satisfaction;
- In-depth understanding of client needs;
- Ensuring best client's experience at any moment of client's relations with the Bank;
- New methods to reach out with survey results to organisation's staff;
- Training of employee on the basis of client opinions.

Bank Millennium has been conducting periodical tracking surveys to measure and monitor client satisfaction and loyalty. The surveys, by delivering knowledge about clients, help respond to business needs appearing *ad hoc*. According to internal retail client satisfaction surveys, the NPS (measuring client loyalty towards the Bank) reached, in 2017, its historically highest level of 51, and among mobile application users it went up to as high as 69. As many as 91% of clients are satisfied with their cooperation with the Bank.

Responding to the business needs, the Bank employed traditional qualitative and quantitative research including specific - specifically useful in reviewing remote channels - UX surveys involving examination of all impressions experienced by user when using an interactive product. To verify client experience in branches, tools developed on the basis of behavioural economy principles were used. Research also supported projects managed with use of Service Design methodology, where full understanding of client needs is the key.

In the first half of the year, the Bank introduced, in branches, a refreshed model for opening relation with a new client. The model, together with conversation accompanying tools, involves offering a package of services accompanying personal account i.e. services tailored to clients expectations and life style. The model,

accompanying with a training programme designed for branch employees, is designed to ensure complete transparency of information delivered and client education.

In the area of remote channels, the Bank worked on adjustments to meet changing client expectations and habits relative to use of various contact channels. Efforts were undertaken to ensure maximum usability and high service quality in the new chat channel and in e-mail correspondence.

## VII.2. Retail Banking

Bank Millennium offers a wide range of universal banking services and products for retail clients through four specialist business lines: Individual Clients, Prestige Clients, Private Banking and Business. The main product offered by the Bank is Konto 360° account. Sale of this product in 2017 exceeded 350 thousand, the portfolio of PLN accounts increased, at the end of year, to more than 2 million. As on 31 December 2017 the Bank had more than 1.6 million active individual clients.

### Personal account

Clients, continuously, are interested primarily in Konto 360° offer; the number of the accounts, as at the end of 2017, reached nearly 900 thousand. In 2017, more than 80% of all accounts were opened by new clients i.e. persons having no saving and settlement account in Bank Millennium before. At the same time, 96% of accounts were opened together with debit card.

Promotions of the Konto 360° account last year were accompanied by:

- Consecutive rounds of advertising campaigns in TV stations, internet and cinemas
- Consecutive rounds of the special offer „Zyskaj 360 zł” (“To gain PLN 360”)
- And offers created in collaboration with internet portals

In addition, from September until November 2017, Konto 360° Student promotion campaign was carried out at schools and universities. This activity was received with great interest among young clients and generated into very good sales results.

In March 2017, on the basis of analysis of client preferences relative to banking services, the Bank launched a recommendation programme „Like it? Share it!”, rewarding both clients recommending account and persons opening the account following recommendation. The programme is available through all service channels including through internet system and mobile application (with option to register, recommend, verify results, select a reward etc.). The „Like it? Share it!” programme and other promotional activities translated into nearly 25% growth y/y in the number of new clients acquired online.

### Saving/Investment Products

The year 2017 was marked for Bank Millennium with important challenges in managing deposit base. On the one hand, the key task was to improve portfolio profitability level while on the other to build up new volumes on a market weakened by low interest rates and lowering incentives to open deposits. Despite unfavourable environment - low interest rates and fierce competition from other banks, real estate market and retail treasury bonds - the Bank recorded annual growth of the volume of deposits from individuals by PLN 0.7 billion (+2% y/y) achieving the level of PLN 40.3 billion.

Also in 2017, the Bank completely restructured its offer of basic saving products. Promotion of existing three types of saving accounts (Konto Oszczędnościowe, Konto Oszczędnościowe Codziennie Więcej and Konto Oszczędnościowe Twój Cel) were replaced by promotion of a new product i.e. Konto Oszczędnościowym Profit (Saving Account Profit) bearing attractive interest rate accruing on new funds. In response to growing client needs in terms of investing surplus funds in foreign currencies, the Bank continued to offer promotional interest rate on saving accounts in EUR and USD.

In view of improving situation on capital market, the Bank provided its clients with an attractive offer of saving and investment products supporting diversification. In effect, volumes of deposit and investment products increased by PLN 2.7 billion and market share reached the level of 5.6% (as in November 2017).

In its offer the Bank introduced, *inter alia*, Przyszłość+ (Future +) Investment Programme i.e. an opportunity for persons planning to save even small amounts on regular basis and invest accumulated resources in domestic, European and global capital markets. The Programme is based upon participation units in six sub-funds operating within the Millennium SFIO umbrella fund, and the funds have to be split between, at least, two sub-funds. Clients do not bear costs of programme opening and management and they do not pay for purchase of participation units. Investment strategy can be changed any number of times without charges for change of fund allocation.

The Bank also encouraged regular and long term saving for retirement by maintaining the market's most attractive interest rate of 3% on the Individual Retirement Account.

### **Prestige and Private Banking Segments - offer for affluent clients**

Prestige is an offer addressing the needs of affluent clients with assets from PLN 100 thousand to PLN 1 million or executing monthly payments into their accounts at, at least, PLN 10 thousand. Private Banking focuses on the most affluent individual clients with assets at the level above PLN 1 million expecting high quality service and offers of financial products prepared to meet their individual needs. Bank provides these clients with an offer including a broad mix of investment and insurance-based investment products - domestic and foreign investment funds, investment programmes, structured products as well as closed investment funds available through subscriptions. Private Banking clients can use credit cards Millennium MasterCard® World Signia/Elite™ with access to the World MasterCard Rewards programme, partnership World Signia/Elite Privileges Programme, insurance as well as *Assistance* and *Concierge* packages.

As on 31 December 2017, Bank Millennium had 37.8 thousand active Prestige clients and more than 4.4 thousand active Private Banking clients.

### **Cash Loans**

In 2017 the Bank continued to follow its strategy involving development of competitive offer of products and sales process. Acquisition of cash and consolidation loans was supported by attractive promotions addressed to new clients and selected market segments. In April, Bank introduced a very attractive offer for financial sector employees. Product acquisition was supported by:

- „Promocja 3,2,1,” for clients having no loan in Bank Millennium. The offer of interest rate at 3% and fee at 1% applied to loans in the amount from 1,000 to 150,000 PLN with insurance, repaid within 12 months. New clients could undertake this loan in branches while Bank's clients could do it by phone, through the internet banking system and mobile application.
- Promotional offer „Dream or get it” to obtain cash loan with insurance and interest rate at 4.99% for loan amounts from 1,000 to 20,000 PLN repayable in maximum 36 instalments.
- Offer „100 PLN instalment for each 5,000 PLN of loan” involving loans in the amount 5,000 PLN, 10,000 PLN or 15,000 PLN granted for the term of 60 months with instalment known in advance in the amount, respectively, 100 PLN, 200 PLN or 300 PLN. Promotion prices are among the most attractive on the market for these most popular loan amounts and lending terms. Interest rate was 7.42% p.a. and the origination fee was not collected.

During the year, clients interested in transferring, under attractive conditions, liabilities due to other banks to Bank Millennium, could take advantage of consolidation loan under special offers with repayment insurance, lower interest rate and without fee calculated against the amount of funds transferred. Consolidation loan was supported by:

- Promotional campaign „Niska rata, wygodna spłata” (low and convenient instalment) with interest rate at 5.55%
- Offer „Poczuj lekkość niskiej raty” (feel the lightness of low instalment) with interest rate at 5.67% and
- Offer „Zmień bank swojego kredytu na Bank Millennium” (change your lending bank to Bank Millennium) with interest rate at 5.7%.

In April, in mobile application the Bank implemented new options to purchase loans designed to repay other loans undertaken in the Bank through a fast and intuitive process. In August, in the Millenet internet banking system, a modernised and simplified process of selling loans on the basis of declaration and documented client incomes was launched. In effect, the Bank recorded significant, much higher than ten per cent growth of the value of sales under this model.

In 2017, the consumer loan portfolio increased by 9.3% y/y to PLN 6.8 billion, and the sale level increased by 2% versus 2016 and reached PLN 2.3 billion.

### **Payment Cards**

The summary picture of the Polish credit card market in 2017 reveals that the number of cards started to grow despite a single drop in Q2. The drop was triggered, primarily, by actions undertaken by banks to maintain good quality portfolio. In Q1 and Q3, the market recorded increases by, respectively, 1.3% and 0.4%.

The Bank Millennium credit card portfolio increased, during the time, by 8.7 thousand cards translating into growth, relative to 2016, by 2.4% y/y. Importantly enough, the Bank achieved this growth at time of difficult business decisions such as withdrawal of *American Express* credit card from its offer and, thereby, greater number of closures. Contrary to this development, the save ratio remained flat at 34%. Due to intensive marketing activities, acquisition of credit cards remained at the highest, in several years, level of 4.7 thousand cards monthly. Credit cards *Impresja* and *Alfa* continued to be flagship products and accounted for 80% of the result.



Branches remained the key credit card sales channel accounting for 78% of production. Significant and systematic growth was recorded, however, in telephone channel and in internet banking.

Furthermore, the number of debit cards both on the market and in Bank Millennium was systematically increasing. Debit card portfolio, as at the end of 2017, amounted to 1.85 million cards i.e. increased by 274.4 thousand. (16.1% y/y). It is worth stressing that, as in 2016, Bank portfolio growth rate has exceeded that of the market.

### **Mortgage Banking**

In 2017, Bank Millennium restored its position on the mortgage loan market. During the year, the Bank concluded 11.5 thousand new agreements to the total value of nearly PLN 2.9 billion i.e. three times higher than in 2016. This result ensured the Bank with fifth position in the ranking of lenders with market share at the level of 6.5%.

The result was achieved in effect of several key initiatives among which the following should be distinguished: introduction of 0% origination fee and 0% fee for early loan repayment as well as efficient adjustment of the banking procedure to the requirements of the new Act on Mortgage Loan of 22 July 2017.

The year 2017 was a consecutive year of continuation of the Home for the Young programme, in which young Poles can obtain Government subsidy to their own contribution to purchase of real property. Throughout the year, the Bank offered loan within the HFY programme with „0% of fee for granting a mortgage loan”. During the time, the Bank concluded more than 1,400 agreements under this programme to the total value of nearly PLN 285 million (ca. 12% of the total Bank production in the mortgage area), and clients received Government co-financing to the total of ca. PLN 43.5 million (on average PLN 15 thousand of subsidy per loan).

The Bank also offered several new solutions to FX borrowers. They could take advantage, at any time, of a special offer involving early repayment in part or in full or conversion of FX mortgage loan into PLN. The solutions also included an option of lowering the bank's margin constituting a component of interest rate. In case of partial early repayment, margin could have been reduced for repayments of not less than 10% of the current outstanding balance of the debt. In case of early repayment in full, solution involved an option to establish individual repayment conditions. This special Bank's offer has been effective with no interruptions (albeit with small modifications) since 2015.

### **Bankassurance Products**

The level of sales of insurance linked with credit products including, in particular, cash loan insurance, had a significant impact upon the level of *bancassurance* revenue in 2017. Relative to the previous year, impact of the Bank adjustment to the Act on insurance activity as amended in 2016 was clearly noticeable. The *bancassurance* market in 2017 prepared itself to meet new, consecutive regulatory requirements, Directive of the European Parliament on insurance distribution determining consecutive necessary changes in performance of the insurance market in Poland (entry into force planned for 2018).

In 2017, the Bank successfully continued offering insurance products in collaboration with several insurance firms through both traditional and remote distribution channels and offering property insurance distribution through internet and mobile banking. Insurance product offer accessible through electronic channels was expanded by adding tourist insurance. Both the Millenet internet banking system and Bank Millennium mobile application offered access to purchase insurance of this type together with innovative service „Pomoc w podróży” (travel assistance) facilitating, by use of geo-location, fast contact with an insurer. Moreover, the Millenet internet banking system offers access to motor insurance renewal process to clients, who purchased policies in the Bank. This insurance is made available in cooperation with Ergo Hestia Group.

### **Internet and mobile banking for individual clients**

Continued offering innovative solutions to its clients, appreciated by both the clients themselves and by independent experts. The key project involved an option to gain access to investment products fully online. With use of Millenet internet banking system, clients are provided with fast and convenient activation of access to investment products and open the Future+ investment programme. The second important project involved offering tourist insurance to clients through mobile application and in Millenet. On first days of the year, the Bank implemented, in its mobile application, a service supporting purchase of city transport and parking tickets. This illustrates the Bank's consistent strive to make the mobile application a specific integrator of banking and other services. The Bank want it to become a flexible platform open to various partners and various types of services.

The year 2017 brought about further developments in the area of contactless payments with use of a phone in HCE technology. The service was expanded by adding opportunity to issue a virtual Visa Card and option to create virtual equivalents of plastic cards. Bank Millennium was the first Bank in Europe to use Visa tokenisation in its own payment solution. This way, the Bank's clients can, in an easy and fast way, use mobile application, create virtual equivalent of any payment card (debit, credit or prepaid, Visa or Mastercard) they have and use it in parallel with plastic, traditional card.

In 2017, Bank Millennium continued to support development of the Polish e-administration. The Bank was one of a few banks to provide access, in first days of the year, through its Millenet internet banking system, to establishment of the Trusted Profile. The Trusted Profile provides round-the-clock access to public administration services via internet. Furthermore, internet banking application for benefits available in the Family 500+ Programme was adjusted to meet requirements of the new Act.

In December a new and easier way to execute transfers to the Social Insurance Institution (ZUS) was introduced in accordance with changes effective from 1 January 2018. The new functionality is available in both internet system and in mobile application. The next solution helping clients resolve official matters involved introduction of instant transfers Express Elixir to ZUS, tax and customs offices.

In 2017, the Bank consistently optimised existing solutions. Access was provided, in both internet banking Millenet system and in mobile application, to new presentation of transaction history relative to personal accounts and payment cards. Due to the unique option to add attachments (photos of bills, descriptions, tags or location) searching for and identification of desired transactions were simplified.

Following user suggestions, the Bank's mobile application received a new and more intuitive menu and option of direct connection with consultant by phone without the need to log on to the system. Furthermore, application was provided with mail box fully integrated with the revamped box in the Millenet system. The Bank also optimised the login site and sales processes in electronic channels. For instance, in the refreshed loan application process, client will find, *inter alia*, calculation of loan instalment in real time and opportunity to attach income confirmation.

In the mobile application the Bank also provided access to consolidation loan procedure facilitating borrowing of additional funds with a comfortable single instalment solution. In effect of implementation of this process and ongoing optimisation of credit procedures both in mobile application and in internet banking, the share of electronic channels in the number of loans sold in 2017 accounted for 41%.

At the end of December 2017, the number of active Millenet clients reached 1,144 thousand, and the number of mobile banking users exceeded 711 thousand growing by 39% y/y.

### VII.3. Corporate Banking

Corporate Banking is a business line providing professional and comprehensive services to companies with annual sales revenues exceeding PLN 5 million and institutions and units of the public sector. Long term, stable and partnership cooperation with clients based upon mutual trust, engagement and understanding are distinguishing features of the segment. Its comprehensive product offer offers an opportunity to develop tailor-made cooperation proposals based upon diagnosing of clients' needs and knowledge of industry they operate in.

In the new strategy of the Bank for 2018-2020 the Corporate Banking area is one of the four new growth engines. The Bank's offer for SME and corporate clients will be based upon optimised sectoral approach, sales planning and even better digital offer. By 2020 the Bank want to increase corporate client base by 19%.

#### Loans

The year 2017 in the economy was marked by a stable growth of corporate loans supported by positive market environment. However, some companies continued to show only moderate demand for financing with banking products due to their good liquidity situation and sufficient own funds to cover certain current needs. Volume of Corporate banking credit products - loans to finance current needs, investment loans, leasing, trade finance products and products with participation of EU funding - increased in 2017 by more than 12% y/y to reach the level of PLN 16.0 billion (in gross).

In accordance with the plan to strengthen the Bank's position in the sector of medium size companies, the Bank have been actively involved in financing of clients belonging to capital and economic groups. Implementation of this plan is facilitated, primarily, by umbrella loan - a credit limit common for all enterprises creating a group of affiliated companies. The umbrella loan enjoys significant client interest reflected by a growing number and value of loans granted. The Bank equally actively supports SME sector clients in their utilisation of EU funds, offering, *inter alia*, loan to finance technological innovations - one of the most popular programmes in the current EU financial perspective.

Participating, for four years already, in a national *de minimis guarantee* programme, the Bank jointly with BGK Bank has been actively supporting SME sector companies in accessing investment and innovation financing. In 2017, the Bank entered into, *inter alia*, consecutive portfolio guarantee programme preparing an offer for



innovative companies and companies implementing innovative capital projects. Under the Operational Programme Smart Development (OPSD) guarantees are provided to secure repayment of investment loans even up to 80% of the loan amount with maximum guarantee amount at EUR 2.5 million, and validity of as long as 20 years.

### **Specialist financing - factoring and trade finance**

In 2017, Bank Millennium achieved consecutive record breaking factoring turnover at PLN 16.8 billion. With two digit (15%) growth rate of the value of turnover, the Bank was ranked fifth among factoring institutions associated in the Polish Factors Association with market share of 9.1%. Increases achieved by the Bank are similar to those generated by market leaders.

Factoring assets, as at the end of 2017, amounted to PLN 2.14 billion and It was the best result in the Bank's history accounting for 11% increase y/y. Amount of limits granted for guarantees and letters of credit reached, as at the end of December, PLN 1.5 billion i.e. increased by 15% y/y. The amount of active guarantees, as at the end of December 2017, increased by 12% and reached the value of PLN 722 million. All letters of credit opened in 2017 amounted to PLN 263 million i.e. increased by 52% y/y.

More than 80% of clients using guarantee and L/C limits submitted orders by way of electronic platform and the number of clients with access to *Trade Finance on-line* service increased by 18% y/y. Flexibility and broad functionality of the service was recognised for the fourth time already by the „Global Finance” Magazine as the best in the category „The Best Trade Finance Services” in the ranking „The 2017 World's Best Corporate/Institutional Digital Banks In Central & Eastern Europe”.

### **Client service model**

Corporate Banking service network includes the best trained professionals supporting clients in procurement, sales, investment policies and ongoing account servicing. In 31 locations countrywide, clients have access to Bank's advisors taking care of substantive solutions and consultants providing operational service. Banking advisors, besides participating in a unique development programme ending with special certificate, participate, on regular basis, in training courses and workshops to improve their competence. On the other hand, consultants attend development programmes including product and process training and service standards. The Bank stands out against the market with exceptional quality constituting important component of competitive advantage. To ensure the top client service quality the Bank have been utilising *customer design* philosophy and simplify processes and operational efficiency in keeping with *Lean* methodology. Improvements are implemented on the basis of active use of complaint consideration process, continuous *Moment of truth* surveys as well as process and product NPS.

### **Transactional and electronic banking**

The year 2017 brought about further improvement of income generated by term deposits while retaining stable deposit base - the total value of deposits at the end of December amounted to PLN 16.9 billion (4,5% y/y). Volume of current accounts reached a record level of PLN 7.9 billion, growing by 17% y/y. The share of funds on current accounts in deposit portfolio, at the end of the year, amounted to 47%.

In 2017, the Bank continued to develop electronic access channels for corporate clients - adding new products and services and improving existing functionalities. Among other improvements, in the first half of the year the Bank completed implementation of hardware token (a new authorisation tool) increasing safety of internet transactions. In transaction communication alternative channels *host 2 host*, *web service* and mobile banking are actively used.

Furthermore, additional methods of use of payment cards were introduced to increase their security such as issue, for every card, of consent for execution of transactions outside of the European Union. Since April, all cards offered to corporate clients - debit, charge and prepaid - received contactless functionality. In the internet banking, the card management module was rebuilt to increase usability of presented information and new functionalities (payment management outside of the EU). The number of clients using payment cards increased by 3.8% and the transaction volume by 7.8%. Overall, 54% of debit cards and 69% charge cards are sold remotely via Millenet system.

In 2017, the Bank launched the cash deposit service in ATMs having the CDM function to facilitate automated deposits of cash to accounts. The service is available in 296 Bank's own machines. Continuing the digitalisation programme, in the internet banking system, Bank launched the first component of cash product package - open deposits and expanded the ECW (*electronic cash withdrawal*) service by adding deposits in EUR, USD, GBP, CHF

together with text message notices. The volume of processed cash increased by 6%. In the area of cash servicing outside of branches, access is provided to cash sorting facilities operated by cooperating firms and the network of Bank's own night safes.

Bank Millennium as the first bank on the market offered, in March, transfers to ZUS and Tax offices in the Express Eliksir system. The number of Express Eliksir transfers increased in 2017 by 67%. Due to obligation imposed since 1 January 2018 to pay all amounts due to ZUS into a single bank account dedicated to an entrepreneur, the Bank offered access to a new, intuitive ZUS transfer form in the Millenet electronic banking system.

In the middle of the year, in cooperation with Industrial & Commercial Bank of China (ICBC), Bank implemented a comprehensive settlement offer in Chinese Yuan renminbi- settlement account, transfers, spot and forward FX transactions, letters of credit, guarantees, re-guarantees, collections.

Within the Polish Bank Association and in collaboration with National Clearing House (KIR) and other banks, Bank have launched an innovative service „Invoices and bills” to facilitate delivery of payment information directly to electronic banking of a client/payer. The service is designed for mass invoice issuers planning to provide their clients with convenient payment methods through electronic means.

### **Marketing activities**

The following marketing activities were implemented:

Under the cooperation with the Instytut Biznesu Rodzinnego Bank Millennium was a strategic partner for the IV International Family Business Congress „Two Generations - Two Worlds. Future Competences in Family and Business” and the Congress „Next Generation”. The latter was addressed to family business successors preparing themselves to take over management of their family companies.

Bank Millennium was a partner of The CFO Club - a comprehensive development undertaking created by ICAN Institute, publisher of „Harvard Business Review Polska”. The initiative is addressed to members of management board responsible for financial matters, chief accounting officers and persons responsible for finances in their organisations to facilitate exchange of knowledge and review of the newest trends and business tools. Within the activities of the CFO Club, a webinarium was organised „Work Environment Transformation. Challenges for CFO” and webinarium on cyber security as perceived by a financial director. Within networking meetings in 2017 the role of financial director in contemporary organisations was discussed.

In 2017, the Bank organised a cycle of business breakfasts for clients and potential clients under the title: „Świadomy CFO. Bezpieczny internet w pracy i życiu prywatnym” (conscious CFO. Safe internet at work and in private life). The cycle was addressed to persons responsible in companies for finances - financial directors and Chief accounting officers.

### **Treasury operations**

The Treasury department's offer includes a broad range of products: FX spot transactions, deposit products, FX rate volatility risk management instruments (*fx forward, fx swap, options*) and interest rate volatility risk management instruments (*FRA, IRS, CIRS type transactions*).

Solutions offered by the Bank provide exporters and importers with hedge against FX risk and, thereby, help them properly calculate costs and prices. Clients can also hedge against risk of worsening of financial result due to unfavourable future impact of market interest rates. Proposed solutions help clients define stable cost of financing and interest inflows without the need to change existing loan or leasing agreements.

In 2017, the Treasury Department implemented a new version of transaction platform Millennium Forex Trader, used by clients to execute, independently, spot and forward FX transactions and FX swaps. In view of entry into force in 2018 of the regulatory package MiFID II/MiFIR (regulations of the Directive of the European Parliament and of the Council no. 2014/65/EU and Regulation of the European Parliament and of the Council no. 600/2014 and related delegated legislation), in 2017 the Bank carried out intensive works connected with adjustment of its innovative services to meet requirements of the new regulations.

### **Custody services**

Bank Millennium offers custody services on the basis of individual permit issued by the Securities and Stock Exchange Commission and remains a direct participant of the deposit and settlement systems such as National

Deposit of Securities, NBP Register of Securities or International Clearing Houses including: Euroclear Bank SA/NV, Clearstream Banking Luxembourg.

Among the Custody Department clients there are domestic and foreign financial institutions (global custodian banks, banks - depositories of global deposit certificates, investment banks, asset management institutions, insurance firms, collective investment institutions, investment funds) and other legal persons participating in capital and money market transactions and requiring both comprehensive and tailor made service.

In terms of numbers of foreign and domestic clients entrusting their assets into the custody of the Bank, Bank Millennium holds one of the leading positions in Poland. Value of assets on securities accounts of clients, as on 31 December 2017 amounted to PLN 42.4 billion. At the end of 2017, Bank maintained 12,570 securities accounts and deposit accounts and performer Depository function for 61 Investment Funds.

### **International Activity and External Funding**

As regards financing obtained on the internal market, last year saw a continued servicing and management of active agreements concluded with international financial institutions, especially with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). As of 31 December 2017 those included the following:

- Agreement concluded with EBRD in December 2015 concerning a medium-term loan of EUR 50 million extended by EBRD under the PolSEFF Leasing project (*Polish Sustainable Energy Financing Facility for Leasing*). The proceeds of this loan are 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 disbursed in CHF in two tranches with the final maturity for the various tranches 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-sized enterprise sector. The first tranche of the loan was repaid in December 2017, while the remaining tranches will mature in December 2018 and May 2019.

At the same time there were implemented activities connected with the disbursement of funds under the agreement concluded with EIB in December 2016 concerning the granting of a loan up to EUR 100 million intended for financing SME clients through Millennium Leasing. The loan was not disbursed as of the end of last year, however preparations (including with respect to documentation) continued for starting this process in 2018.

As part of its activities connected with the diversification of sources of medium-term financing in foreign currencies, on 8 August 2017 the Bank concluded an agreement with Industrial and Commercial Bank of China (Europe) S.A., Branch in Poland (ICBC Europe) regarding a three-year unsecured loan (*senior loan*) in the amount of EUR 80 million. The loan was disbursed in full and will be repaid by the Bank in one lump-sum payment in August 2020.

Last year the Bank continued projects relating to the process (implemented for many years now) of strengthening the base of credible counterparties and partners on the interbank market, especially in the segment of instruments relating 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 agreements), whose form must be regularly adjusted to the changing regulatory environment and market standards.

In this context the Bank took among others steps connected with the entry into force (starting from March 2017) of successive EMIR regulations (concerning the *Variation Margin* and resulting in the need to amend the *Credit Support Annex* to ISDA agreements), as well as MiFID II regulations in force from the beginning of 2018 (also in the part applicable directly to international market cooperation).

Irrespective of the above-mentioned activities, last year the Bank carried out on an on-going basis all other tasks connected with the overall functioning of its international activities, in various areas involving, inter alia, settlement service, current financing of the Bank's own and its clients' current needs, processing of foreign trade transactions, participation in international money market and currency market operations, capital market activities. Achieving the above objectives resulted largely from the process of developing the Bank's cooperation with its foreign partners and counterparties, over more than 25 years. The Bank maintains on-

going 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.

#### **VII.4. Services provided by subsidiaries**

##### **Millennium Leasing**

Millennium Leasing sp. z o.o., a subsidiary of Bank Millennium established in 1991 is one of the longest-operating companies on the leasing market in Poland. The Company's business includes financing of movables: cars and vans, heavy transport, machines and equipment for sectors of the economy as well as of real estate. The value of lease agreements disbursed in 2017 totalled PLN 3 billion, which means 15% y/y growth. According to the Polish Leasing Association the Company ranks 7<sup>th</sup> among leasing companies in Poland in terms of value of all leased assets with a 6% market share. Proof of the large scale of its operation is the signing of more than 191,000 agreements in the total amount of PLN 28.2 billion. As of 31 December 2017 the value of funds committed to active lease agreements was PLN 5.7 billion, which means 9% growth y/y.

Currently there are 19,700 customers in the Company's portfolio. Service are sold via leasing advisors in 67 outlets all over Poland, supported by active cooperation with banking advisors in retail branches as well as the corporate banking network of Bank Millennium.

##### **Millennium TFI mutual funds**

Millennium Towarzystwo Funduszy Inwestycyjnych S.A. manages three funds: Fundusz Inwestycyjny Otwarty with separate subfunds (Millennium FIO), Specjalistyczny Fundusz Inwestycyjny Otwarty with separate subfunds (Millennium SFIO) as well as the non-public Fundusz Inwestycyjny Zamknięty Millennium Dywidendowy dedicated to Bank Millennium's Private Banking Customers. In 2017 the Company was using its open-ended funds to offer participation units of 12 mutual funds, which gave the possibility to invest in investment strategies with various risk levels.

Last year the Company had very good performance as regards increase of the value of assets under management while most of its subfunds generated good or very good rates of return. The total value of managed assets increased from PLN 4 billion at end of December 2016 to PLN 4.5 billion in the middle of the year (up by 14.1%) and to PLN 5 billion at end of December 2017 (up by 24.6% y/y).

Rates of return on investments in participation units of particular subfunds under Millennium FIO were positive and good. Most of the individual subfunds as of the last day of valuation i.e. 29 December 2017 had rates of return at a satisfactory level in comparable groups - Subfundusz Akcji (growth by 10.55%), Cyklu Koniunkturalnego (4.25%), Stabilnego Wzrostu (4.74%), Instrumentów Dłużnych (4.29%) and Depozytowy (2.663%). The Millennium FIO Dynamicznych Spółek equities subfund performed worse with a rate of return of only 2.83%. This had to do with deterioration on the market of small and medium companies listed on the Warsaw Stock Exchange.

As in Millennium FIO, among the subfunds separated-out under Millennium SFIO, five generated positive rates of return. Particularly good performance came from Subfundusz Globalny Akcji, which earned 13.83% and ranked up with the best among comparable funds. The remaining four returned from 1.49% to 5.13%. The worst performer was Subfundusz Absolute Return, which had a rate of return this year of -0.34%. In 2017 the rate of return of closed-end Millennium Dywidendowy FIZ fund, which comprised only change of pricing of investment certificate, was negative and stood at -3.04%. However netting-in dividends paid during the year the yield on this investment was positive at 2.02%.

The range of mutual funds offered by the Company did not change in 2017. It is worth noting however that the participation units of the new Subfundusz Konserwatywny, launched back in 2016 under Millennium SFIO, became available only in 2017. Customers from the Private Banking segment were offered 4 consecutive issues of investment certificates of Fundusz Inwestycyjny Zamknięty of Millennium Dywidendowy FIZ and all were placed successfully.

##### **Millennium DM - brokerage business**

Brokerage activity is carried out by Millennium Dom Maklerski S.A., which provides a broad range of brokerage services, especially as regards executing orders to buy or sell financial instruments on the account of the ordering party; buying or selling on own account; keeping securities accounts and money accounts for purposes of their servicing; investment advice; advice to companies on capital structure and strategy as well as merging, splitting and acquiring companies; offering financial instruments; providing services under contracts on

investment and service issuances; preparing investment and financial analyses as well as other recommendations regarding financial instruments.

In 2017 the trading volume of Millennium DM on the stock market was PLN 3.8 billion, which gave the Company 1% market share (GPW data). As of 31 December 2017 Dom Maklerski had 25,647 investment accounts under management and was acting as general market maker and an issuer's market maker for companies listed on GPW as well as for corporate bonds listed on BondSpot.

In 2017 Millennium DM acting as agent was involved with four public tender offers, two of which involved foreign companies listed on the Warsaw Stock Exchange. In the second half of 2017 the sale of shares of Benefit Systems S.A. worth more than PLN 50 million was completed via Millennium DM. Dom Maklerski was also involved as member of the distribution consortium in several public offerings, selling shares as well as bonds to its customers.

In 2017 it was also providing analytical-advisory services to external customers and companies from the capital group. The most important of them are: investment advice concerning insurance equity funds of a leading national insurer; due diligence of mutual funds and investment and insurance funds cooperating with the capital group as well as analyses and recommendations concerning sectors as well as public and non-public companies.

### **Millennium Goodie**

Millennium Goodie Sp. z o.o. is a company from Bank Millennium Group, created as an internal start-up in 2016. Goodie is a platform, which aggregates information about deals and rebate programmes and facilitates making purchases. The goodie mobile app and the [www.goodie.pl](http://www.goodie.pl) website present offers from more than 600 traditional and online shops and restaurants as well as information about more than 1,600 deals, promotions and sales. In 2017 the number of goodie installations exceeded 112,000; the app has close to 16,000 users every day. The platform also features artificial intelligence and geolocation solutions, thus providing users with personalised offers and product information. Goodie also presents promotional offers tailored to particular preferences and your location (e.g. a specific shopping centre). The goodie platform creates a unique ecosystem of vendors, shops, shopping centres and customers, which - by means of mutual interactions - generates value for all parties involved.

Such dynamic development of goodie was attained merely a year after its launch. In the meantime popular brands joined the platform; also the unique option was introduced of electronically setting up loyalty cards in the mobile app. Thus customers can enjoy deals from selected shopping centres, which offer loyalty cards to their customers. The loyalty scheme management system developed by the Millennium Goodie team is so flexible that it can simultaneously support programmes in e.g. Galeria Arkadia, Galeria Mokotów and Galeria Wileńska in Warsaw as well as CH Wroclavia in Wroclaw and also launch new solutions for business partners. Goodie is also the exclusive loyalty programme provider to CH Blue City shopping centre in Warsaw. Similar programmes will soon be available in other Polish cities. Events organised by the company in shopping centres as well as nationwide promo actions in cooperation with renowned brands were a major success. During these events the app users could enjoy special deals.

## VIII. RISK MANAGEMENT

### VIII.1. Risk Management rules

The mission of risk management in the Bank Millennium Group is to ensure that all types of risks, financial and non-financial, are managed, monitored and controlled as required for the risk profile (risk tolerance), nature and scale of the Group's operations. Important principle of risk management is the optimization of the risk and profitability trade-off - the Group pays special attention to ensure that its business decisions balance risk and profit adequately.

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.

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. Within risk management system, a broad range of methods is used, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

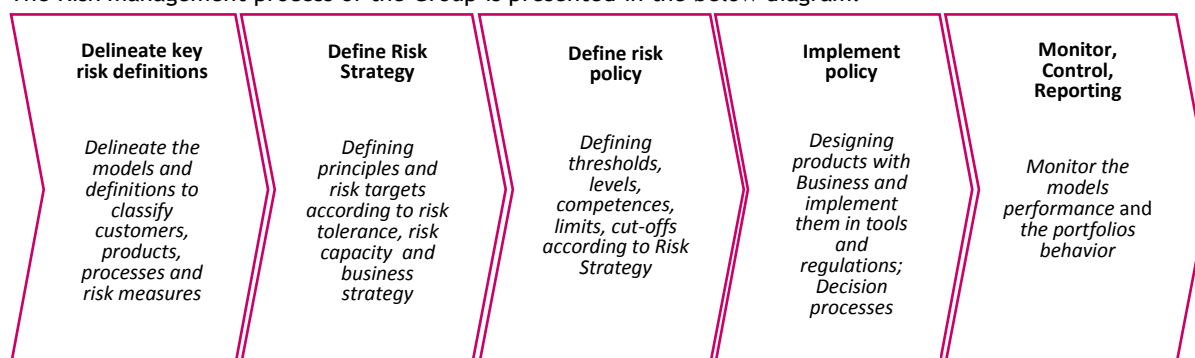
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk tolerance) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed.

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:





The split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Group's risk-taking policy with the Group's strategy and its financial plan. Within the Supervisory Board acts the 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 Tolerance and verifying the assets and liabilities prices offered to customers.
- The Management Board is responsible for the effectiveness of the risk management system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board;
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee and the Management Board to make decisions with respect to risk management;
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models analysis and validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs;
- Fraud Risk Management Team has responsibility for implementation and monitoring the Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence centre for anti-fraud process;
- The Compliance Department has the responsibility to ensure compliance with legal regulations, related regulatory standards, market principles and standards as well as internal organization regulations and codes of conduct.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2018-2020" (2017-2019 version was in force previously). The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, Capital Plan.

The Risk Strategy bases on the two concepts defined by the Group:

1. Risk profile - current risk profile in amount or type of risk the Group is currently exposed. The Group should also have a forward looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk tolerance,
2. Risk tolerance - the maximum amount or type of risk the Group is prepared to accept to achieve its financial and strategic objective.

Goal of Risk Strategy is to define a risk profile and to maintain a risk profile for all risk types within the limits set in the risk tolerance.

Risk tolerance measures consider both the current and forecasted target risk profile. They have been defined in the key areas, listed below:

1. Solvency (including assets quality)
2. Liquidity and funding
3. Earnings volatility and business mix
4. Franchise and reputation.

The Group has a clear risk strategy, covering retail credit, corporate credit, markets activity and liquidity, operational and capital management. For each risk type and overall the Group clearly defines the risk tolerance.

The Risk Tolerance of the Group is mainly defined through the principles and targets defined in Risk Strategy and complemented in more detail by the principles and qualitative guidelines defined in the following documents:

- a. Capital Management and Planning Framework
- b. Credit Principles and Guidelines
- c. Rules on Concentration Risk Management
- d. Principles and Rules of Liquidity Risk Management
- e. Principles and Guidelines on Market Risk Management on Financial Markets
- f. Principles and Guidelines for Market Risk Management in Banking Book
- g. Investment Policy
- h. Principles and Guidelines for Management of Operational Risk
- i. Stress tests policy.

Within risk tolerance, the Group has defined tolerance zones (build up based on the “traffic lights” principle). As for all tolerance zones have been set:

- Escalation process of taken decisions/actions (bodies/organizational entities responsible for decisions and actions)
- Catalogue of decisions/actions on risk controls and mitigation
- Risk tolerance monitoring procedures.

The Group 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.



## VIII.2. Capital management

### Capital management and planning

Capital management relates to two areas: capital adequacy management and capital allocation. For both areas, management goals were set.

The goal of capital adequacy management is: (a) meeting the requirements specified in external regulations (regulatory capital adequacy) and (b) ensuring the solvency in normal and stressed conditions (economic capital adequacy/internal capital). Completing that goal, Bank strives to achieve internal long-term capital limits (targets), defined in Risk Strategy.

Capital allocation purpose is to create value for shareholders by maximizing the return on risk in business activity, taking into account established risk tolerance.

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 adequacy

The Group is obliged by law to meet minimum own funds requirements, set in art. 92 of the EU Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending EU Regulation No. 648/2012 (CRR). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Minimum levels expected by KNF;
- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of the buffer is defined for particular banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is - in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in November and December 2017 in the level of 5.53 p.p. (the Bank) and 5.41 p.p. (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 4.15 p.p. (the Bank) and of 4.06 p.p. (the Group), and which corresponds to capital requirements for CET 1 ratio of 3.10 p.p. (the Bank) and 3.03 p.p. (the Group) <sup>3</sup>;
- Combined buffer - defined in Act on macroprudential supervision over the financial system and crisis management - that consists of:
  - Capital conservation buffer at the level of 1.25%, and from the beginning of 2018 increased to 1.875%, and from the beginning of 2019 increased to target value of 2.5%;
  - Other systemically important institution buffer (OSII) - at the level of 0.25%, and the value is set by KNF every year;
  - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
  - Countercyclical buffer at the 0% level.

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), Bank defined minimum levels of capital ratios, being at the same time capital targets/limits. These are OCR (overall capital requirements) as for particular capital ratios.

<sup>3</sup> These recommendations replaced the previous ones from 2016: 3.09 p.p. (Bank) and 3.05 p.p. (Group) for Total Capital Ratio; 2.32 p.p. (Bank) and 2.29 p.p. (Group) for Tier 1 capital and 1.73 p.p. (Bank) and 1.71 p.p. (Group) for CET1 capital

The below table presents these levels as at 31 December 2017 and in 2018.

Capital ratio minimum requirements	31.12.2017		2018	
CET1	Bank	Group	Bank	Group
Minimum	4.50%	4.50%	4.50%	4.50%
KNF recommendation	4.50%	4.50%	n.a.	n.a.
Pillar II FX mortgage (RRE FX)	3.10%	3.03%	3.10%	3.03%
<i>CET1 Total SREP Capital Requirements (TSCR)</i>	<i>12.10%</i>	<i>12.03%</i>	<i>7.60%</i>	<i>7.53%</i>
Capital Conservation Buffer	1.25%	1.25%	1.875%	1.875%
OSII Buffer	0.25%	0.25%	0.25%	0.25%
Systemic risk buffer	n.a.	n.a.	3.00%	3.00%
Countercyclical capital buffer	0%	0%	0%	0%
<i>Combined buffer</i>	<i>1.50%</i>	<i>1.50%</i>	<i>5.125%</i>	<i>5.125%</i>
<b>CET 1 Overall Capital Requirements (OCR)</b>	<b>13.60%</b>	<b>13.53%</b>	<b>12.725%</b>	<b>12.655%</b>
T1	Bank	Group	Bank	Group
Minimum	6.00%	6.00%	6.00%	6.00%
KNF recommendation	3.00%	3.00%	n.a.	n.a.
Pillar II FX mortgage (RRE FX)	4.15%	4.06%	4.15%	4.06%
<i>T1 TSCR</i>	<i>13.15%</i>	<i>13.06%</i>	<i>10.15%</i>	<i>10.06%</i>
Capital Conservation Buffer	1.25%	1.25%	1.875%	1.875%
OSII Buffer	0.25%	0.25%	0.25%	0.25%
Systemic risk buffer	n.a.	n.a.	3.00%	3.00%
Countercyclical capital buffer	0%	0%	0%	0%
<i>Combined buffer</i>	<i>1.50%</i>	<i>1.50%</i>	<i>5.125%</i>	<i>5.125%</i>
<b>T1 OCR</b>	<b>14.65%</b>	<b>14.56%</b>	<b>15.275%</b>	<b>15.185%</b>
TCR	Bank	Group	Bank	Group
Minimum	8.00%	8.00%	8.00%	8.00%
KNF recommendation	4.00%	4.00%	n.a.	n.a.
Pillar II FX mortgage (RRE FX)	5.53%	5.41%	5.53%	5.41%
<i>TCR TSCR</i>	<i>17.53%</i>	<i>17.41%</i>	<i>13.53%</i>	<i>13.41%</i>
Capital Conservation Buffer	1.25%	1.25%	1.875%	1.875%
OSII Buffer	0.25%	0.25%	0.25%	0.25%
Systemic risk buffer	n.a.	n.a.	3.00%	3.00%
Countercyclical capital buffer	0%	0%	0%	0%
<i>Combined buffer</i>	<i>1.50%</i>	<i>1.50%</i>	<i>5.125%</i>	<i>5.125%</i>
<b>TCR OCR</b>	<b>19.03%</b>	<b>18.91%</b>	<b>18.655%</b>	<b>18.535%</b>

Capital risk, expressed in the above capital targets/limits, is measured and monitored in a regular manner. As for all capital targets, there are determined some minimum ranges for those values. A capital ratios in a given range causes a need to take an appropriate management decision or action. 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 capital adequacy.

### Own funds capital requirements

The Group is during a project of an implementation of internal ratings based method (IRB) for calculation of own funds requirements for credit risk and calculates its own funds minimum requirements using the IRB and standardise method for credit risk and standardise methods for other risk types.

In the end of 2012, Banco de Portugal (consolidating Regulator) with cooperation of Polish Financial Supervision Authority (KNF) granted an approval to the use of IRB approach as to following loan portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE). According to the mentioned approval, minimum own funds requirements calculated using the IRB approach should be temporarily maintained at no less than 80% ("Regulatory floor") of the respective capital requirements calculated using the Standardized approach.

During 2014, the Bank submitted to Regulatory Authorities an IRB approval pack regarding the remaining loan portfolios "other retail" and "corporate" portfolios. The Bank also submitted to Regulatory Authorities an IRB roll-out plan for the remaining portfolios - "other retail" and "corporate" portfolios.

In the end of 2014, the Bank received another decision by Regulatory Authorities regarding the IRB process. According to its content, for the RRE and QRRE loan portfolios, the minimum own funds requirements calculated using the IRB approach had to be temporarily maintained at no less than 70% ("Regulatory floor") of the respective capital requirements calculated using the Standardized approach until the Bank fulfils further defined conditions.

As it was presented in half-year report ended June 2017, the Bank received the decision of Competent Authorities (ECB cooperating with KNF) in July 2017 on approval the material changes to IRB LGD models and revoking "Regulatory floor". The positive impact of that decision was in a large extent neutralized by the mentioned above increasing Pillar II FX mortgage buffer in the end of 2017.

### Internal capital

The Group defines internal capital according to Polish Banking Act, as the estimated amount needed to cover all identified, material risks found in the Group's activity and changes in economic environment, taking into account the anticipated level of risk in the future.

Internal capital is used in capital management in following processes: economic capital adequacy management and capital allocation. The Group defined an internal (economic) capital estimation process. To this end, as for measureable risk types, mathematic and statistic models and methods are used.

Maintaining economic capital adequacy means a coverage (provision) of internal capital (that is an aggregated risk measure) by available financial resources (own funds). An obligation to banks to have in place that sort of risk coverage stems from Banking Act. It was mirrored in the Group's capital targets/limits: economic capital buffer and economic capital buffer in stressed conditions.

In 2017, both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

At the same time internal capital is utilised in capital allocation process, to assign an internal capital to products/business lines, calculating risk-adjusted performance measures, setting risk limits and internal capital reallocation.

## Capital adequacy results

Capital adequacy evolution of the Group and the Bank during 2017 was as follows:

Capital adequacy measures	31.12.2017 Group	31.12.2016 * Group	31.12.2017 Bank	31.12.2016 * Bank
Risk-weighted assets	32 693.6	36 730.6	31 927.7	36 198.7
Own Funds requirements, including:	2 615.5	2 938.4	2 554.2	2 895.9
- Credit risk and counterparty credit risk	2 297.7	2 621.8	2 260.4	2 601.2
- Market risk	18.3	23.4	18.3	23.4
- Operational risk	293.4	279.0	269.4	257.0
- Credit Valuation Adjustment CVA	6.1	14.3	6.2	14.3
Own Funds, including:	7 190.6	6 390.7	7 002.3	6 252.4
- Common Equity Tier 1 Capital	6 548.8	6 356.8	6 360.5	6 218.5
- Tier 2 Capital	641.8	33.9	641.8	33.9
<b>Total Capital Ratio (TCR)</b>	<b>21.99%</b>	<b>17.40%</b>	<b>21.93%</b>	<b>17.27%</b>
Minimum required level	18.91%	16.55%	19.03%	16.59%
Surplus(+) / Deficit(-) of TCR ratio (p.p.)	+3.08	+0.85	+ 2.9	+ 0.68
<b>Tier 1 Capital ratio (T1)</b>	<b>20.03%</b>	<b>17.31%</b>	<b>19.92%</b>	<b>17.18%</b>
Minimum required level	14.56%	12.79%	14.65%	12.82%
Surplus(+) / Deficit(-) of T1 ratio (p.p.)	+5.47	+4.52	+ 5.27	+ 4.36
<b>Common Equity Tier 1 Capital ratio (CET1)</b>	<b>20.03%</b>	<b>17.31%</b>	<b>19.92%</b>	<b>17.18%</b>
Minimum required level	13.53%	12.21%	13.60%	12.23%
Surplus(+) / Deficit(-) of CET1 ratio (p.p.)	+6.50	+5.10	+ 6.32	+ 4.95
<b>Leverage ratio</b>	<b>8.88%</b>	<b>8.85%</b>	<b>8.68%</b>	<b>8.74%</b>

(\*) As of 31.12.2016 risk-weighted assets and own funds requirements were calculated with 70% „Regulatory floor”.

As at 2017 end, capital adequacy, measured by Common Equity Tier 1 Capital ratio and Total Capital Ratio, improved in one year period, both for the Bank and the Group, by 2.7 p.p. (CET1) and by 4.6 p.p. (TCR).

In 2017, risk-weighted assets went down by ca PLN 4 billion (by 11%), mostly because of revoking the mentioned above Regulatory floor in July 2017. Own Funds raised in 2017 as a result of retaining of the rest on net earnings for 2016 (net earnings for first half of 2016 has been already included in Own Funds as of 2016 end) and issuance of subordinated bonds in amount of PLN 700 million, that was included in Tier 2 capital.

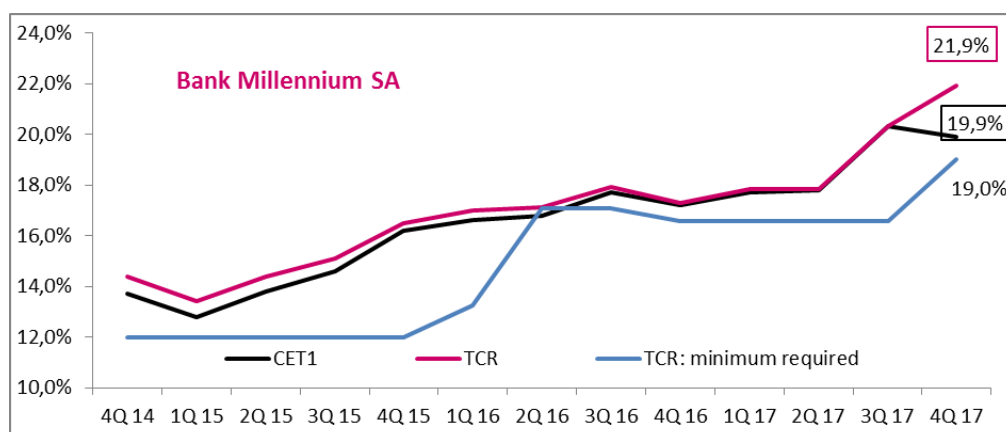
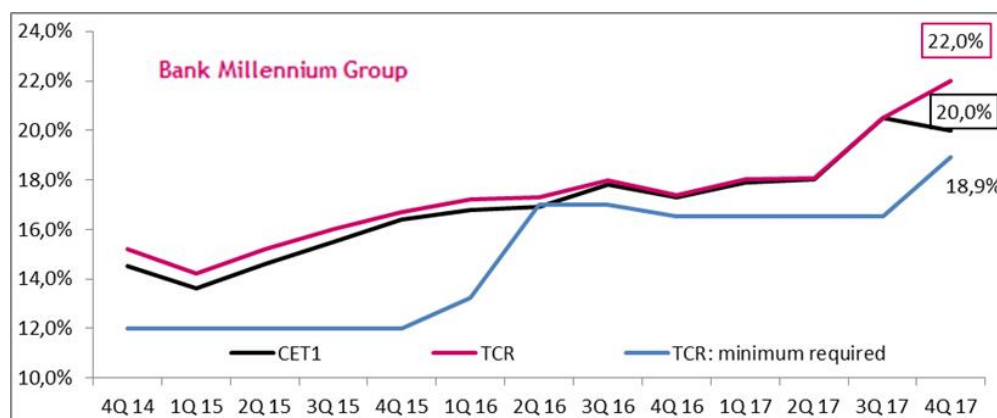
Thus, the minimum capital levels required by KNF for both Bank and the Group, have been achieved with a significant surplus. As at 2017 end, the surplus of Group TCR was at 3.1 p.p. and the surplus of CET1 was at 6.5 p.p. The surplus over new 2018 minimum levels was for Group TCR at 3.5 p.p. and for CET1 ratio at 7.4 p.p.

KNF dividend policy recommendation for banks (announced in November 2017) set the following additional buffers above minimum required for TCR for dividend distribution: +1.5% to pay 50%; additional 0.625% (full conservation buffer 2.5%) to pay 75%; + Stress test add-on (3.47% for the Bank/Group) to pay 100%. KNF kept additional criteria for banks with FX mortgage portfolio (K1 based on FX mortgage share in total portfolio and K2 based on share of 2007-2008 vintages in total FX mortgage portfolio).

Bank Millennium has a dividend policy of distributing between 35% to 50% of net profit, subject to regulatory recommendations. The high capital ratios (as at 2017 year-end) would allow to pay 75% if not additional K1/K2 criteria. Therefore, the Management Board of the Bank will submit to AGM a proposal of full retention of 2017 net profit in Bank's equity. Assuming acceptance of this proposal by AGM, positive impact on T1 ratio will be approximately 2 p.p.

Leverage ratio stood at the safe level close to 9%, with a small quarterly changes and exceeds ca. three times a value deemed as safe (3%).

In a long perspective, capital adequacy level of Bank and Group is evaluated as satisfactory. Capital ratios are in long-term increasing trend, and their levels significantly exceed values defined in regulations. CET1 and TCR ratios over the last 3 years are shown on the below graphs.



More information about capital management and adequacy is presented in a separate report titled “Capital Adequacy, Risk and Remuneration Policy Report of Bank Millennium Capital Group for 2017”.

### VIII.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 2017 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 2018-2020;
- optimised the methodology, tools, and processes of credit risk management for retail clients
- rebuilding rating models using new data sources to increase their discriminatory power.
- developed of a new rating model for corporate customers;
- updated sector risk classification and limits;

In retail segment particular attention was focused on the implementation of changes in the area of consumer lending policy, but also on development in the area of mortgage loans. The new solutions concerned, among others:

- scope and sources of information and documentation obtained from clients in the process of granting consumer loans;
- the rules for granting credit products to customers with a relationship with Bank Millennium;
- improvements in the area of making credit decisions in the mortgage process;
- new processes in electronic sales channels.

In the corporate segment, the Group focused on adapting its lending policies and regulations to changing legal conditions (particularly restructuring and bankruptcy law) and on measures to streamline and accelerate credit processes. The new rating model has been introduced, including behavioral data in addition to financial and qualitative data. The industry policy and risk tolerance for particular sectors were also updated. As in previous periods, work was continued on the improvement of IT tools supporting processes, particularly the monitoring process and the extension of credit offer.

All the changes mentioned above should allow the Group to achieve the defined goals referring to the growth dynamics of corporate portfolio while maintaining the level of risk at an acceptable level as defined in the Risk Strategy.

#### Loan portfolio quality

The Group enjoys also one of the best asset quality among Polish banks: share of impaired loans in total loan portfolio remains on a low 4.6% level. Share of loans past-due more than 90 days in total portfolio grew slightly during last year from 2.6% in 2016 to 2.9% in December 2017.

Coverage ratio of impaired loans improved during the year from 63% in 2016 to 67%. Coverage by provisions of loans past-due more than 90 days remains at a stable 107%.

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

Group loans quality indicators	31.12.2017	31.12.2016
Total impaired loans (PLN million)	2 233	2 179
Total provisions (PLN million)	1 497	1 365
<b>Impaired over total loans ratio (%)</b>	<b>4.57%</b>	<b>4.50%</b>
Loans past-due over 90 days /total loans (%)	2.87%	2.63%
<b>Total provisions/impaired loans (%)</b>	<b>67.1%</b>	<b>62.6%</b>
Total provisions/loans past-due (>90d) (%)	106.9%	107.2%

Impaired loans ratios in particular product segments showed strong reduction in companies portfolio (from 5.6% to 4.9%), whereas the ratio for retail portfolio grew slightly during the year from 4.0% to 4.4% (of which for mortgage loans from 2.47% to 2.52%).

Last year the value of the FX mortgage loans decreased by ca. 20% (in PLN) due to the exchange rate variation (-13% year-on-year) and higher repayment of the portfolio. As a result, its share in the total mortgage portfolio has been reduced by ca. 10 p.p. up to 56%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in the sale of loans in PLN.

At the same time, there is a decline in the risk of the total mortgage loan portfolio due to a decrease in FX loan installments (as a result of declining exchange rates), a significantly lower avg. LtV for the portfolio

(decrease by 12 p.p. to 71%), a significant drop in Debt to Income ratio (DTI) as a result of increase in clients' incomes and decrease of the amount of installments.

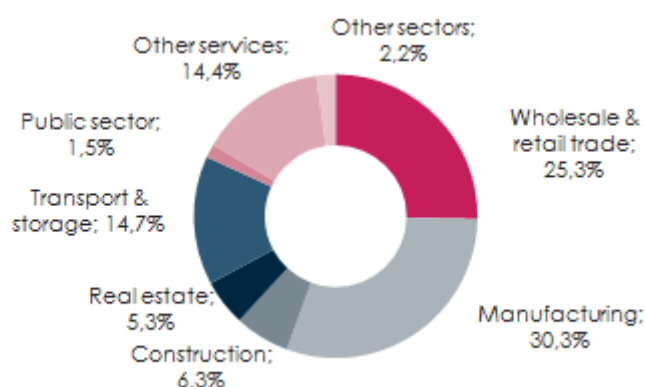
The risk profile of the remaining retail portfolio also improved due to a significant decrease in the average of real DTI level for new sale (down by over 5 p.p. year-on-year). In addition, the good situation on the labor market has a positive impact.

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Mortgage	1.30%	1.18%	2.52%	2.47%
Other retail (*)	8.69%	8.39%	12.22%	11.82%
Leasing	1.71%	1.34%	4.57%	4.45%
Other Corporates	3.30%	3.55%	4.18%	5.30%
<b>Total loan portfolio</b>	<b>2.87%</b>	<b>2.63%</b>	<b>4.57%</b>	<b>4.50%</b>

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

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in the economy sectors. The share of the 10 largest exposures remains at a safe level of 4.1%. The share of main sectors in the Group's portfolio is presented in the figure below:



## VIII.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 2017 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.

The impact on net interest income in the next 12 months after 31st December 2017 (based on 4Q 2017 net interest income), in a scenario of immediate parallel yield curve decrease for position in Banking Book in Polish Zloty, is the following:

Sensitivity of NII for PLN interest rate change	31.12.2017	31.12.2016
parallel yield curve increase by 100 b.p.	+5.7%	+4.4%
parallel yield curve decrease by 100 b.p.	-7.0%	-5.9%

VaR ratios reflect total exposure to market risk in the Group. In 2017, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Group was relatively low during 2017 and was on average equal to PLN 22.1 million compared to the end-of-year internal limit of PLN 210.6 million. In 2017, 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 2017.

### 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 2017, 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, decreased at the end of December 2017 and equalled 82% (comparing to level of 84% as of end of December 2016). 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 2017 this portfolio grew by 211% from PLN 17.3 billion at the end of December 2016 (25% of total assets) to approx. PLN 19.2 billion at the end of December 2017 (27% 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	31.12.2017	31.12.2016
Loans/Deposits ratio (%) *	82%	84%
Liquid assets portfolio (PLN million) (**)	18 735	16 950
Liquidity Coverage requirement, LCR (%)	153%	124%

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

(\*\*) Liquid Assets Portfolio: The sum of cash, exposure to Central Bank (the surplus above the required obligatory reserve) and Polish Government debt securities, NBP-Bills and due from banks with maturity up to 1 month. The debt securities portfolio is reduced by securities encumbered for non-liquidity purposes.

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 2017 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 80% for LCR valid in 2017 was complied by the Group (as of the end of December 2017 the LCR reached the level of 153%). 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 2017 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 2017.

## 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.

## Compliance risk

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 banking activity. By monitoring compliance with both internal and external regulations, Bank Millennium considers it 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,
- Counteracting and 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 II.

Bank Millennium undertakes 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.

In order to ensure compliance of the Bank's operation with the generally applicable laws, the Compliance Department undertakes a number of activities such as: informing about changes in law, periodically reviewing all internal normative acts binding at the Bank in terms of compliance with applicable laws and standards, analysing new products and services, measuring compliance risk in processes operating at the Bank, issuing opinions, participating in key implementation projects, or staff training.

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.

The Bank Millennium Group undertakes 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. The policy of Bank Millennium Group is to maintain strict control as regards protection of the flow of Confidential Information (including in accordance with the requirements of Regulation No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on abuses on the Market Abuse Regulation MAR). The Bank prohibits the use and disclosure of Confidential Information in any 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 program,
- 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 Customers 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.

A specific compliance monitoring program also covers consumer loans and insurance products addressed to consumers.

In 2017, the Bank changed the mechanisms and internal regulations allowing for anonymous reporting of violations of law and internal regulations and ethical standards (so-called whistleblowing) to the Chairman of the Management Board and in the case of notification concerning a Member of the Management Board - to the Supervisory Board. The Bank will verify each application, ensuring that the reporting person will be protected by acts of repressive, discriminatory and unfair nature.

## IX. HUMAN RESOURCES MANAGEMENT

### IX.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.**

In 2017 ‘Akademia Mistrzów’ (Masters’ Academy) comprehensive retail banking employees’ competencies development programme, launched in 2016, was continued. 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 2017 Bank Millennium Group increased employment in the area of digital technologies by 8%, while the headcount in the entire Group fell 0,2% 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**

In 2015 the M#leaders leadership skills development programme was set up, which has been subsequently developed. Its aim is to build leaders attitudes and support leaders actions focussed not only on results, but also on developing employee trust and relations. The role of the programme is also fostering proper attitudes - including overcoming stereotypes and promotion of openness to diverse convictions of employees and shaping responsibility of managers and their subordinates. 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.

Since 2017, the Leader’s Code that constitutes translation of BM Group’s values into specific leaders behaviour has been in force in Bank Millennium Group. The Code indicates what behaviours support the Group’s values and what behaviours constitute breach of these values.

#### **Building a friendly workplace**

In 2017 Bank Millennium was granted a title of Solid Employer (Solidny Pracodawca) for the next consecutive year. 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) and “Bieg Mikołajów” (Santa Clause Run). 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.

## Diversity Policy

In 2017 Diversity Policy was implemented in Bank Millennium Group. According to this Policy Group operates with respect for human dignity and observes right to equal treatment regardless of age, sex, ethnic and national origin, religion, denomination, family status, sexual orientation, health status, convictions, trade union affiliation and other characteristics exposing to discriminatory behaviour.

Bank Millennium Group has incorporated the principle of respect for diversity in its Labour Regulations, Code of Ethics and other material regulations in the area of HR management, and executes this principle in the following areas: recruitment and employment, access to payroll and positions, support to employees' parents, equal access to benefits, support to persons facing difficulties in their lives, development of value based leadership and freedom of speech and open communication.

In the Bank Millennium Group the knowledge is being developed and employees' awareness is being built as regards ethics and issues of respect for diversity. All employees go through mandatory training in ethical issues. Additionally, all the managerial staff is subject to mandatory training in counteracting mobbing and discrimination at workplace. Bank Millennium Group implemented an anti-mobbing and anti-discriminatory procedure. There is an abuse reporting system in place which is irrespective of the chain of command.

## IX.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	31.12.2017	31.12.2016	Change (y/y)
(in full FTEs)			
Bank Millennium	5 492	5 497	-5
- including managerial functions	141	130	11
Subsidiaries	338	347	-9
<b>Total Bank Millennium Group</b>	<b>5 830</b>	<b>5 844</b>	<b>-14</b>

Employment in Bank Millennium Group as of end of 2017 was 5,830 FTEs, which means a decrease as compared with end of 2016 by 14 FTEs (i.e. 0,2%). The Group's biggest employer is Bank Millennium, with an end of 2017 headcount of 5,511, which corresponds to 5,492 FTEs. Subsidiaries in Bank Millennium Group as of end of the year were employing the total of 338 persons-FTEs, with three companies among them having the biggest importance Millennium Leasing, Millennium Dom Maklerski and Millennium TFI.

Employment in the Bank	31.12.2017	31.12.2016	Change
(in full FTEs)			
Branches and Direct Sales	3 678	3 577	101
Head Office	1 814	1 920	-106
<b>Total Bank Millennium</b>	<b>5 492</b>	<b>5 497</b>	<b>-6</b>

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 355 outlets of the Bank located all over Poland.

Bank increased employment in the area of digital technologies.

Employment in the Bank (in FTEs)	31.12.2017	31.12.2016	Change
Direct Banking	504	463	41
Digital Technologies	401	377	24
Retail and Corporate Banking	3 174	3 249	-75
Support Units	1 413	1 409	4
<b>Total Bank Millennium</b>	<b>5 492</b>	<b>5 497</b>	<b>-5</b>

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 2017 and in the previous year was as follows:

Personnel costs (in PLN million)	2017	2016	Change (%)
Bank Millennium	552,3	517,0	6,8%
Subsidiaries	44,2	41,8	5,9%
<b>Total Bank Millennium Group</b>	<b>596,5</b>	<b>558,8</b>	<b>6,8%</b>

### IX.3. Remuneration policy

The Policy of Remuneration of Employees Holding Managerial posts in Bank Millennium Group operates in the Bank, and applies also to all of the Bank's subsidiaries. Based on it, due to regulatory requirements - Millennium Brokerage House and TFI Millennium developed their own policies, which strictly refer to the principles adopted by the Bank for the Group.

Base salaries in the Bank constitute the main component of remuneration and are shaped taking into account the scope of employee responsibility, complexity and type of tasks and information on market levels of remuneration at similar positions in institutions with a similar profile and scale of operation. Salaries are periodically verified.

Depending on the time horizon of work performance evaluation, variable components of remuneration are awarded as part of different bonus systems. All employees of the Bank Millennium Group are subject to bonus systems.

The Group makes every effort to ensure that the bonus mechanisms used, being adapted to the specific business objectives of particular units, take into account the best interests of the Clients.

The amount of bonus budgets allocated for bonus payments is determined depending on the level of execution of the total net profit plan of the Bank Millennium Group and - in the case of employees of business lines - execution of their business goals. Due to the good results of work in 2017, the average individual employee bonus level in the Bank Millennium Group increased compared to 2016 by 1.4 p.p. of basic salary, while the average basic salary increased by 4.2%.

Individual bonuses were awarded as part of the bonus pool based on the assessment of the quality of work and the degree of commitment to achieving the objectives set for employees.



The Bank Millennium Group attaches great importance to the proper formation of remuneration of people holding managerial positions - with care that decisions made against these employees encourage them to care for the Bank's long-term good and avoid excessive exposure to risk.

The remuneration policy for this group is described in more detail in the "Capital Adequacy, Risk and Remuneration Policy Report of Bank Millennium Capital Group in 2017".

The rules for granting the annual bonus pool for persons holding managerial positions are the same as in previous years: It is awarded after prior analysis of the Bank's situation in the scope of:

- 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.

The Bank Millennium Group pursues a stable remuneration policy, in the last financial year no significant changes were introduced to it - constant monitoring of compliance of the applied solutions and incentive mechanisms with the MiFID2 regulations was introduced.

### Management Board Remuneration

The remuneration policy for Members of the Management Board also did not change compared to previous years. Determining the terms of contracts and remuneration for members of the Management Board is within the competence of the Supervisory Board. The Personnel Committee of the Supervisory Board determines and approves the remuneration components of Members of the Management Board of Bank Millennium, defines criteria and conditions for granting bonuses for each period.

They are awarded after analyzing the results taking into account 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 of Members of the Management Board for performing this function in 2017 was PLN 8 935.4 thousand. Additionally, Members of the Board were paid part of an annual bonus for 2013, 2014, 2015 and 2016 years (in the form of cash and phantom shares) as well as additional benefits.

**Fixed remuneration for the membership of management board paid to Management Board Members in 2017 (in PLN thousand):**

Name	Period	Fixed Remuneration
Joao Bras Jorge	01.01.2017 - 31.12.2017	2 040.0
Fernando Bicho	01.01.2017 - 31.12.2017	1 618.0
Wojciech Haase	01.01.2017 - 31.12.2017	1 318.3
Andrzej Gliński	01.01.2017 - 31.12.2017	1 319.1
Maria Campos	01.01.2017 - 31.12.2017	1 320.0
Wojciech Rybak	01.01.2017 - 31.12.2017	1 320.0



**Additional benefits of Management Board Members in 2017 (in PLN thousand):**

Name	Period	Benefits
Joao Bras Jorge	01.01.2017 - 31.12.2017	1 142.6
Fernando Bicho	01.01.2017 - 31.12.2017	73.4
Wojciech Haase	01.01.2017 - 31.12.2017	14.9
Andrzej Gliński	01.01.2017 - 31.12.2017	25.1
Maria Campos	01.01.2017 - 31.12.2017	319.2
Wojciech Rybak	01.01.2017 - 31.12.2017	3.8

The additional benefits are mainly connected with accommodation of foreign members of the Management Board and healthcare benefits.

**Variable remuneration paid in 2017 to Management Board Members and to persons who performed this function in prior years (in PLN thousand):**

Name	Awards paid (for the years 2013, 2014, 2015 and 2016)	
	In cash	In phantom shares
Joao Bras Jorge	880.1	957.9
Fernando Bicho	638.3	695.0
Wojciech Haase	533.8	583.9
Andrzej Gliński	450.7	494.4
Maria Campos	533.8	583.9
Wojciech Rybak	175.0	205.7
Artur Klimczak	155.5	133.8
Michał Gajewski	33.2	39.8
Juliana Boniuk-Gorzelańczyk	117.6	101.4
Bogusław Kott	106.3	86.5

In the period from 01.01.2017 to 31.12.2017 a provision was established for annual bonus in the amount of PLN 8,940.00 thousand.

The decision to award variable remuneration to Management Board Members for 2017 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.

## X. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

### X.1. Statement on the Principles of Corporate Governance applied in 2017.

Corporate governance is a set of rules addressed to governing bodies of companies and their members as well as defining relations with shareholders and investors. Application of corporate governance principles increases transparency of company operations and strengthens protection of shareholder rights, also relative issues not regulated by generally applicable laws. The set of rules covering the area of Polish financial institutions and companies listed on the Warsaw Stock Exchange is composed in particular of “2016 Good Practices of Companies Listed on WSE” adopted by the Board of the Warsaw Stock Exchange and “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 1st January 2016. The complete document is published on the WSE web site, at [https://www.gpw.pl/pub/GPW/onas/DPSN2016\\_EN.pdf](https://www.gpw.pl/pub/GPW/onas/DPSN2016_EN.pdf) and the Bank’s web site 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. It means that the company is obliged to apply the principles stipulated 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 2017 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 GSM. 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 GSM, 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 2017. 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: [https://www.knf.gov.pl/knf/en/komponenty/img/principles\\_of\\_corporate\\_governance\\_39736.pdf](https://www.knf.gov.pl/knf/en/komponenty/img/principles_of_corporate_governance_39736.pdf) 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 21st 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 2017, 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 2016.

During the reporting period the Bank for the tenth 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 2017 the Index comprised only 28 companies from among all the companies listed on WSE. The companies comprising the Index operate on the basis of best standards of corporate governance, information policy and investor relations, including ecological, social and employee issues.

## X.2. Shareholders and General Meeting of Shareholders

The General Meeting is the highest body of the Bank. It operates on the grounds of the imperative laws, and in particular Code of Commercial Companies as well as the Banking Law. The Articles of Association of the Bank and the Regulations of the General Meeting, i.e. internal provisions of the Bank defining the operation of the General Meeting, are available on the Bank's website in the bookmark "About the Bank > Corporate bodies and governance". These documents define in a detailed manner the operation of the General Meeting and scope of its competencies as well as indicate specific rights of the shareholders in the course of the debates of the General Meeting. The competencies of the General Meeting include inter alia amendments to the Articles of Association, including change in the amount of the share capital.

As of 31st December 2017 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 31st December 2017, the Bank had three shareholders holding more than 5% of votes on GM.

Banco Comercial Portugues S.A., the largest private Portuguese bank - as the strategic investor holds 50.10% of all shares of the Bank. The Bank's significant shareholders are also: Nationale-Nederlanden Otwarty Fundusz Emerytalny (former ING OFE), which as of 31st December 2017 held 8.99% shares of the Bank and AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK holding 5.44% shares of the Bank.

The remaining shares i.e. 35.47% of share capital are widely distributed among Polish and foreign shareholders, both institutional as well as private.

### Shareholders of the Bank as of 31<sup>st</sup> December 2017.

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 (d. ING OFE)	109 020 881	8.99	109 020 881	8.99
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	66 018 868	5.44	68 018 868	5.44

### Shareholders of the Bank as of 31<sup>st</sup> 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 (d. 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

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 GSM convened for, respectively, 31<sup>st</sup> of March 2017 and 31<sup>st</sup> of May 2016.

As regards NN OFE, the number of shares and their stake in the Bank's share capital was calculated on the basis of the Annual Structure of Assets of the Fund as of 31<sup>st</sup> of December 2016 and 29<sup>th</sup> of December 2017, published on the website [www.nn.pl](http://www.nn.pl). Meanwhile data concerning AVIVA OFE - on the basis of the Annual Structure of Assets of the Fund as of 31<sup>st</sup> of December 2016 and 29<sup>th</sup> of December 2017, as published on the website [www.aviva.pl](http://www.aviva.pl). For the purpose of making the above mentioned calculations, for 2017 the volume weighted average price (VWAP) of the Bank's share was taken at PLN 8,9053 and for 2016 simply average of the Bank's share was taken at PLN 5,1481.

BCP, as the majority shareholder, is exercising shareholder's rights specified in the Act of 15<sup>th</sup> 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 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<sup>st</sup> December 2017.

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<sup>th</sup> 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.

### X.3. Supervisory Board

The Supervisory Board is a body exercising constant 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 as well as the Bylaws available on the Bank's website under the bookmark "About the Bank > Corporate bodies and 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 whom at least half, including the Chairman, are of Polish nationality.

On 31<sup>st</sup> of March 2017, GSM discharged all Members of the Supervisory Board, performing duties in 2016, from performance of their duties in the accounting year 2016.

During the period from 1<sup>st</sup> of January to 31<sup>st</sup> of March 2017 the following persons comprised the Supervisory Board of the Bank:

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

Mr David H. Klingensmith tendered his resignation from the function of the Member of the Supervisory Board effective as of 31<sup>st</sup> March 2017. On 31<sup>st</sup> March 2017, the General Meeting of the Bank established that the Supervisory Board would be composed of 11 Members. Therefore, as at 31<sup>st</sup> December 2017, the composition of the Supervisory Board was as follows:

#### **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 24th 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 international banks (Citibank and Deutsche Bank) in Portugal, 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<sup>th</sup> April 2012.

### 3. Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board

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<sup>th</sup> 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<sup>th</sup> 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<sup>st</sup> 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<sup>th</sup> 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 (Gruner&Jahr) and entertainment (Disney). In 2008 she



joined Google and currently oversees the company's strategy and business in Poland 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<sup>st</sup> 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 - Managing Director in Coca-Cola Poland Services Sp z o.o. and Franchise General Manager - Poland/Baltics The Coca-Cola Company, Management Board Member in Multivita Sp. z o. o, Management Board Member - Managing Director in Coca-Cola Balti Jookide AS. In 2018 she commenced responsibility as General Manager for Poland and Baltics for Marie Brizard Wine & Spirits Sp. z o.o.

She has also been involved with the following organizations and associations: Women's International Networking Leadership Forum - Board of Advisors (2004 - 2012), 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 (2005 - 2010) in Geneva Women in International Trade, across 2015-2016 she served also as a Member of the Board of Directors of American Chamber of Commerce in Poland. 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<sup>st</sup> May 2015.

#### **8. Grzegorz Jędryś - Member of the Supervisory Board (independent member)**

Mr Grzegorz Jędryś 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. Jędryś 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<sup>th</sup> April 2013.

#### **9. 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 and the title of Doctor Honoris Causa from ESCP Europe Board of Governors.

Member of the Supervisory Board of Bank Millennium S.A. since 1<sup>st</sup> August 2000.

#### 10. 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, the Advanced Management Programme - INSEAD and the Corporate Governance Programme - AESE.

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 has 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 and Vice-Chairman of the Board of Directors of Banco Internacional de Moçambique, S.A.

Member of the Supervisory Board of Bank Millennium S.A. since 21<sup>st</sup> May 2015.

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

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

From 1987 he held several 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). Since 2011 he is 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<sup>th</sup> April 2012.

### **Audit Committee**

The Audit Committee is a standing committee of the Supervisory Board, established in 2000 and supporting the Supervisory Board in supervision of execution of the internal audit function in the Bank. Furthermore, the Audit Committee focuses on financial reporting, internal control and risk management at the Bank.

Pursuant to the Act of 11<sup>th</sup> of May 2017 on statutory auditors, audit firms and public oversight the Audit Committee consists of at least three Members. At least one of the Members of the Audit Committee has knowledge and skills in accounting or financial auditing. The majority of the Members of the Audit Committee, including its Chairman, are independent from the Bank. The Committee meets on a regular basis (once every quarter) and in the extraordinary mode and 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 main responsibilities of the Audit Committee include specifically: (i) monitoring the process of financial reporting, (ii) monitoring effectiveness of the internal control systems and risk management systems, and internal audit, (iii) monitoring financial audit activities and independence of the auditor and audit company, including approval of performing additional permitted services by the auditor as well as (iv) performing periodic assessment of adequacy and effectiveness of the internal control system and its selected components.

From 1<sup>st</sup> of January until 31<sup>st</sup> of March 2017 the Audit Committee was composed of the following Supervisory Board Members:

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

Mr David H. Klingensmith tendered his resignation from the function of the Member of the Supervisory Board effective as of 31<sup>st</sup> of March 2017. The Supervisory Board which convened on 21<sup>st</sup> of April 2017, appointed Ms Anna Jakubowski as Member of the Audit Committee. Hence, as of this day its composition was as follows:

1. Grzegorz Jędrys - Chairman (independent),
2. Dariusz Rosati,
3. Julianna Boniuk-Gorzelańczyk,
4. Miguel de Campos Pereira de Bragança,
5. Anna Jakubowski (independent),
6. Bogusław Kott.

As of 17<sup>th</sup> of October 2017 Mr Dariusz Rosati and on 21<sup>st</sup> of October 2017 Ms Julianna Boniuk-Gorzelańczyk tendered their resignations from performing their functions as Members of the Audit Committee. On 27<sup>th</sup> of October 2017, the Supervisory Board appointed Ms Agnieszka Hryniewicz-Bieniek as Member of the Audit Committee, the composition of which was as of that day as follows:

1. Grzegorz Jędrys - Chairman (independent),
2. Agnieszka Hryniewicz-Bieniek (independent),
3. Miguel de Campos Pereira de Bragança,
4. Anna Jakubowski (independent),
5. Bogusław Kott.

The composition of the Audit Committee satisfied criteria stipulated in Art. 129 section 1 and 3 of the Act on Certified Auditors.

### **Personnel Committee**

The Personnel Committee is a standing committee of the Supervisory Board, established in 2000. It's responsibilities 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 December 2017 the composition of the Personnel (V) implementation of tasks in the area of policy of variable remuneration components.

During the period from 1<sup>st</sup> of January to 31<sup>st</sup> of December 2017 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<sup>st</sup> of January to 31<sup>st</sup> of December 2017 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 is a standing committee of the Supervisory Board. The Personnel Committee is a standing committee of the Supervisory Board, established on 4<sup>th</sup> of 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<sup>st</sup> of January to 31<sup>st</sup> of March 2017 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,

Mr David H. Klingensmith tendered his resignation from the function of Member of the Supervisory Board effective as of 31<sup>st</sup> of March 2017. The Supervisory Board which convened on 21<sup>st</sup> of April 2017, appointed Mr Grzegorz Jędryś as Member of the Risk Committee. Hence, as of this day its composition was as follows:

1. Dariusz Rosati - Chairman,
2. Miguel de Campos Pereira de Bragança,
3. Bogusław Kott,
4. Miguel Maya Dias Pinheiro,
5. Grzegorz Jędryś.

The Supervisory Board which convened on 27<sup>th</sup> of October 2017 appointed Mrs Julianna Boniuk-Gorzelańczyk as Member of the Risk Committee. Hence, as of this day its composition was as follows:

1. Dariusz Rosati - Chairman,
2. Miguel de Campos Pereira de Bragança,
3. Bogusław Kott,
4. Miguel Maya Dias Pinheiro,
5. Grzegorz Jędryś,
6. Julianna Boniuk-Gorzelańczyk.

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 2017 (in PLN ths)

Name and surname	Remuneration for 2017	Benefits	Total (in PLN ths)
Kott Bogusław	310.0	21.6	331.6
Koźmiński Andrzej	140.0	0.0	140.0
Rosati Dariusz	195.0	0.0	195.0
Jędrys Grzegorz	180.0	0.0	180.0
Nuno Manuel Da Silva Amado	135.0	0.0	135.0
Miguel De Campos Pereira De Braganca	180.0	0.0	180.0
Rui Manuel Da Silva Teixeira	120.0	0.0	120.0
Boniuk-Gorzelańczyk Julianna	145.0	0.0	145.0
Hryniewicz-Bieniek Agnieszka	130.0	0.0	130.0
Jakubowski Anna	145.0	0.0	145.0
David H. Klingensmith (*)	40.0	0.0	40.0
Miguel Maya Dias Pinheiro	150.0	0.0	150.0

(\*) Member of the Supervisory Board until 31<sup>st</sup> March 2017.

In 2017, 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<sup>st</sup> December 2017):

Name and surname	Function	Number of shares at	Number of shares at
		31 Dec. 2017	31 Dec. 2016
Bogusław Kott	Chairman of the Supervisory Board	1000	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

#### X.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 of the Bank in the period from 1<sup>st</sup> of January to 31<sup>st</sup> of December 2017 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 is responsible for the work of the Management Board, internal audit, compliance, legal support, HR management, marketing communication and public relations; electronic banking, retail marketing, call centre and telemarketing.



## 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<sup>st</sup>, 2002 Member of the Management Board of Bank Millennium S.A. (CFO). He supervises treasury, accounting, financial reporting and control, taxes, capital investments, relations with investors and financial institutions, management information 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<sup>th</sup> June 1997 Member of the Management Board of Bank Millennium S.A. Since 4<sup>th</sup> of December 2015, Bank's material risk management supervisor. Moreover, he supervises risk management, risk models, credit and rating processes, recovery 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<sup>th</sup> April 2010. He supervises corporate banking and its support, 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<sup>th</sup> July 2011 Member of the Management Board of Bank Millennium S.A. She supervises processes

management support; products, settlements and cash management operations; IT, sales campaigns; recording, control and settlement of treasury transactions, complaints and quality of service, administration and infrastructure, security and business continuity.

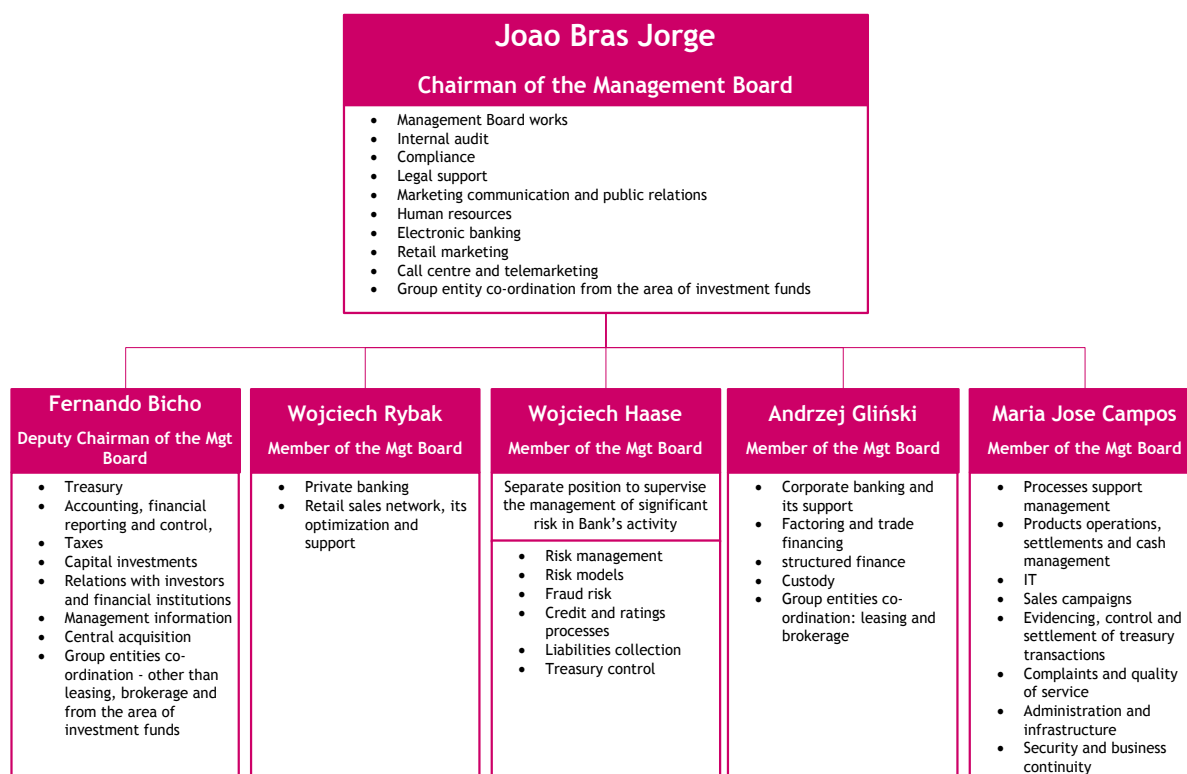
## 6. Wojciech Rybak - Member of the Management Board



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<sup>th</sup> June 2016, supervising the private banking area as well as retail sales network its optimisation and support.

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 Management Board Members with the amount of salaries, bonuses and other benefits received in 2017 can be found in chapter IX of this report, Part 3 entitled "Remuneration policy".



Bank shares held by Members of the Management Board (performing functions on 31<sup>st</sup> of December 2017):

Name and Surname	Function	Number of shares 31 Dec. 2017	Number of shares 31 Dec. 2016
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	-

## X.5. Internal Control System and external Auditor

### *Internal Control System*

The Bank has the internal control system covering all organizational units of the Bank and its subsidiaries. It is organized in the framework of three independent levels of the so-called *three lines of defence*.

On the *first line of defence* there is risk management within the Bank's operational units. The *second line of defence* consists of units responsible for risk management in the Bank and Compliance Department in the scope of non-compliance risk management. Within the *third line of defence*, Internal Audit Department is performing. In all *three lines of defence*, employees, as part of their assigned duties, respectively: use control mechanisms or independently monitor their functioning.

The Bank's internal control system is functioning in a manner that ensures achievement of objectives, that include: effectiveness and efficiency of Bank's operations, credibility of financial reporting, obeying Bank's risk management principles and compliance of the Bank's operations with law, internal regulations and market standards.

The Bank has control mechanisms, adjusted to the above-mentioned objectives of the internal control system, the degree of process complexity, the risk of irregularities occurring, the Bank's activities specifics, organizational solutions implemented, system solutions used and available resources. For identified key processes there was introduced documenting of connection of key control mechanisms with objectives of internal control system and estimated risk of non-achieving them in the form of so-called internal control matrixes. Control matrixes describe also the way of monitoring key controls. During the annual review of the Bank's internal control system, on the basis of updated internal control matrixes for significant processes, the Bank's Internal Control System Matrix is created, that is presented to the Audit Committee of the Supervisory Board and the Supervisory Board of the Bank.

Supervision and annual assessment of the implementation and ensuring of the functioning of adequate and effective internal control system is exercised by the Supervisory Board of the Bank.

### *Internal Audit (third line of defence)*

Internal Audit Department is within of the internal control system, a specialized unit of the *third line of defence*, which carries out an independent review of processes and internal control in the Bank and the BM Group, verifying the implementation of tasks assigned to the first and second line of defence. The aim of the activities performed is to provide the Bank's Management with assessment of effectiveness and adequacy of the risk management system and the internal control system, as well as adding value and streamlining processes in the Bank and the BM Group. Within 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 performed according to the Audit Charter and Internal Audit Methodology, fostering international standards of internal audit and good banking practices.

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 activity of Internal Audit is planned, continuous, resulting from the implementation of mission and objectives, as well as adopted Department's Strategy activity, based on an annual audit plan. The basis of the planning process is the assessment of risk of particular areas and processes of 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 performs independent and objective assurance and consulting activities. Assurance activity is carried out as part of process audits, independent review function, outlets audits, preventive audits and explanatory proceedings. The assurance activity includes assessment of the adequacy and effectiveness of risk management system and internal control system in all areas of banking activity. Advisory services are aimed at supporting the organization in achieving its goals and are provided, as far as their nature does not threaten independence, effectiveness and objectivity of assurance activity of Internal Audit, nor is it related to the design of control mechanisms and risk management system.

In 2017, Internal Audit Department performed audit tasks in 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 and also financial audits, outlet audits and those of compliance with external regulatory requirements. The tasks performed by Internal Audit Department also included investigations and prevention controls.

The results of the review of functioning of the entire internal control system as well as selected components, carried out by Internal Audit Department with cooperation of External Auditor of BCP Group, are presented cyclically and are subject to evaluation by the Audit Committee of the Bank's Supervisory Board and once a year by the Bank's Supervisory Board.

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

Implemented solutions regarding internal control system protect to a significant extent the Bank against financial reporting errors and provide the Bank's Management with information facilitating evaluation of correctness, efficiency and security of process of preparation of financial reports, as well as 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 control of process risk while maintaining appropriate supervision of correctness of gathering, processing and presentation of data necessary for preparation of financial reports in keeping with effective laws.

An important element of the internal control system in the process of preparing financial reports is cooperation of the Audit Committee of the Bank's Supervisory Board with an auditing company providing financial audit services. These rules are defined in the approved by the Audit Committee's *Policy of Selecting and Cooperation with Audit Firms*. It sets out the principles for the selection of an audit firm to carry out the audit of annual consolidated financial statements of the Bank Millennium Capital Group and annual financial statements of the Bank (statutory audit), as well as rules of providing services and cooperation with auditing companies.

The External Auditor is selected by the Supervisory Board on the basis of 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, consults with the Audit Committee with draft reports and proposes an approach to the audit of the annual financial statement.

In 2017 the Bank's External Auditor was PricewaterhouseCoopers Sp. z o.o. In October 2017, the Bank Supervisory Board decided to select PricewaterhouseCoopers Sp. z o.o. to be the Bank's External Auditor in 2018.

The Bank is covered by the consolidated financial statement of the BCP Group. Therefore, the annual review of the Bank's internal control system supporting the process of preparing and disclosure of 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. The BCP Group External Auditor participated in 2017 in the review of adequacy and effectiveness of a part of the Bank's internal control system supporting the process of preparing and disclosure of financial information (financial reporting) and issued an appropriate opinion in this respect.

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

In 2017 the audit of Bank's financial statements was performed by PricewaterhouseCoopers sp. z o.o. On 2 December 2016 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 2017. The audit agreement was concluded on 11 April 2017.

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)	2017		2016	
	Bank	Subsidiaries	Bank	Subsidiaries
Statutory audit within the meaning of art. 2 point 1 of the Act on Certified Auditors	744	321	599	317
Other assurance services	406	113	469	109
Tax advisory services				
Other services	100			

#### Services other than statutory audit:

- a review of the stand-alone and consolidated interim condensed financial statements of Bank Millennium S.A. drawn up as at June 30, 2017.
- review of the interim condensed financial statements of Millennium TFI SA investment funds prepared as at June 30, 2017.
- audit of the consolidation package prepared as at December 31, 2017, related to the audit of the consolidated financial statements of BCP Group.
- review of the consolidation package as at June 30, 2017 and September 30, 2017, related to the review of the consolidated financial statements of BCP Group.
- verification of the consolidation package prepared as at 31 March 2017.
- attestation service regarding requirements for customer asset retention for 2017 for Bank Millennium S.A. and Dom Maklerski Banku Millennium S.A.
- an assurance service regarding the assessment of the adequacy of the risk management system in 2017 at Millennium TFI S.A.
- consultancy service on regulatory requirements regarding the recovery plan

## XI. THE BANK'S CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Full information about compliance by the Bank with principles of Corporate Social Responsibility, also containing all non-financial information required by the law, is shown in the **Report on non-financial information of Bank Millennium and Capital Group of Bank Millennium in 2017 year**. This Report is prepared in keeping with guidelines of the amended Accounting Act as well as Global Reporting Initiative Sustainability Guidelines (GRI Standards).

The most important elements of the Bank's corporate social and environmental responsibility are presented below.

In Bank Millennium activities in favour of the society are an integral part of the strategy and support attainment of business objectives. In keeping with the strategic guidelines the priority is to assure highest quality of Customer service; to do ethical marketing and sales and also to facilitate the usage of banking and non-banking services (e.g. e-administration) by means of introducing innovative products and services. The second important group, to which CSR activities are addressed, are the Employees. Programmes carried out for them concern first of all supporting diversity in the organisation (including parenthood); assuring stable and attractive terms of employment as well as offering the opportunity to engage in social activity. Social programmes are implemented via Bank Millennium Foundation and focus on three areas: financial education, culture and employee volunteering.

### WE ARE DEDICATED TO CREATE SHARED VALUES AND MAKE CLEAR COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY



**Bank Millennium has been consistently ranked in Respect Index of WSE since 2010**

Bank Millennium Group carries out CSR activities in favour of key Stakeholders: Customers, Employees, Business Partners, the Community and Environment.

### 1. Customers

Assuring highest quality of service is one of the most important values of the Bank. Analysing Customers' opinions with use of such modern methods as behavioural economics, service design or UX research, services are being designed, which reflect their expectations. The Bank provides Customers with solutions, thanks to which they can not only manage their finances, but also use non-financial services. With the app and website of the Bank Customers get i.a. access to e-administration, the opportunity to purchase city transport tickets or motor insurance. A number of improvements were introduced for Customers with disabilities: website, branches and service method adapted to the needs of this group of Customers.

The Bank takes care of observing ethical sales principles. Branch staff are required to comply with ethical standards contained both in the Bank Millennium Code of Ethics as well as in principles of selling particular

products. All Employees of the Bank undergo mandatory training in the Code of Ethics and can use the Whistleblowing system to report cases of unethical behaviour.

The solutions, which were implemented in the area of quality of service, have contributed not only to improvement of Customer satisfaction but were also appreciated by the market. In 2017 in the most opinion-leading ranking “Newsweek’s Friendly Bank” Bank Millennium was the only Bank in Poland to stand on the podium in 3 out of 4 surveyed categories (1st place in “Bank for Mr. Kowalski”; 1st place in “Mobile banking”; 2nd in “Internet Bank”).

## 2. Employees

Bank Millennium responds to the needs of Employees in many areas. Apart from assuring attractive terms and conditions of work, development and social support, it offers programmes for working parents, the opportunity to take part in charity activities and employee volunteering as well as Millennium Active Zone events, which promote a healthy lifestyle. It also supports development of the Employees’ passions by co-financing via MilleKlub of sports, cultural and recreational projects.

All Employees of the Bank undergo training on the Code of Ethics of Bank Millennium Group, which i.a. describes the matter of respect for human rights and counter-corruption policy.

Detailed information about Bank Millennium Group’s HR policy is in the “Human Resources Management” chapter.

## 3. Business Partners

The Bank works with many business partners as buyer of goods and services from diverse market segments. Suppliers are selected in tenders, which permits use of objective selection criteria. An important part of purchasing regulations is the requirement to use ethical and/or environmental clauses in agreements, where such clauses may be applied. Each provider bidding in a tender signs a statement undertaking to observe principles contained in the Bank Millennium Code of Ethics. A clause requiring observance of principles of the Code of Ethics is also included in agreements signed with suppliers.

## 4. The social environment

### 4.1. Social programmes

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

#### a) Financial education

Started in 2016, the proprietary “Financial ABCs” programme of financial education of kindergarten kids was prepared and is carried out by Employees of Bank Millennium in cooperation with a non-governmental organisation. It aims to use play to explain financial terms to the kids. Altogether during the almost 600 workshops carried out in the programme approximately 15,000 children were trained from around 200 kindergartens all over Poland. The programme enjoys honorary patronage of the Minister of Education and the Children’s Ombudsman, which is evidence of its high educational value.

#### b) Cultural education

One of the key aims of Bank Millennium Foundation is to promote knowledge about art and ways of investing in art and also to promote the works of young Polish artists. For some years now Bank Millennium Foundation has been a partner of Young Art Compass - a ranking of young Polish artists coupled with an exhibition of their works.

#### c) Employee volunteering

The Foundation is carrying out the Millantrop programme, which by way of a competition gives grants to finance social actions by the Bank’s Employees. The programme has been under way since 2016 and altogether 312 volunteers (Bank Employees, their families and friends) took part in it implementing 11 projects for schools, care centres, children and the youth as well as environmental protection.

### 4.2. Culture sponsoring

Activity in the area of culture has been an important part of Bank Millennium’s activity for close to 30 years. The Bank supports national as well as local cultural projects. It is a sponsor of culture 360°, because it promotes art in almost all its forms, including: music, painting, sculpture, film, theatre, photography, literature and performance. For 17 years it was sponsoring the “Golden Sceptre” award for eminent culture creators. For 11 years “Pearls of Millennium” - a joint programme of the Bank and Polish National Television,

which was aimed at production, promotion and presentation on TVP television of high culture artistic events. For 15 years it has been sponsoring the International Festival of Traditional Jazz "Old Jazz Meeting - Złota Tarka". For 6 years it has been with the "Sacrum Profanum" contemporary music festival and for 5 years with Gdańsk Music Festival; more than 5 years with Bella Skyway Festival - a multimedia show prepared by an international group of artists. For 7 years the Bank was involved with the "Two Theatres" Festival and was also supporting the Mozart Festival in the Warsaw Chamber Opera as well as many others.

The most important cultural project sponsored by the Bank is Millennium Docs Against Gravity Film Festival. It is the biggest world documentary films festival in Poland as well as accompanying documents (workshops, discussions and concerts). In 2017 film shows and events in the Festival took place in 26 cities in Poland. Bank Millennium has been a partner of Millennium Docs Against Gravity since 12 years. In 2016 it became the Festival's title sponsor.

#### 4.3. Supporting innovations

In its CSR activities Bank Millennium analyses trends concerning innovations in the market environment. The Bank's experts every year prepare the "Millennium Index - Regional Innovation Potential" report, which describes disparities in the development of innovations in Polish Voivodeships. As the strategic partner of the "Eagles of Innovation" competition for businesses the Bank promotes development of innovations in Poland's economy.

#### 4.4. Supporting university education

For many years the Bank has been engaged in the life of academic communities by offering students and graduates the opportunity to develop their skills and gain first professional experiences. The Bank's offering includes such permanent solutions as "Millennium Bankers" - a programme of paid internships; regular "Expert Start-up" development programmes as well as free training and workshops.

The Bank also cooperates with universities. In 2017 cooperation continues with SKN Statystyki SGH in Warsaw, which i.a. involved conferences and workshops. This year Bank Millennium has also become a member of the SGH Partners' Club, thus becoming a key partner of the university.

### 5. Environment

The Bank regularly monitors consumption of electricity, water, fuels, office supplies and introduces measures to reduce consumption of resources. Its offering includes pro-environment products e.g. the WWF credit card, part of the proceeds from which is transferred to WWF Polska Foundation or Leasing Eko Energia, which supports investments in energy-efficient machines and equipment. The Bank also organises environmental educational events, such as planting trees.

Application by the Bank of principles of sustainable development has been confirmed by third-party assessments. Since 2010 the Bank is included in RESPECT Index, which comprises socially responsible companies listed on the Warsaw Stock Exchange. In 2017 the Bank was also included in FTSE4Good Emerging Index. This is one of the series of indices of FTSE Russell who evaluate biggest financial institutions in terms of activities for environmental protection, social responsibility and corporate governance. The Bank was also recognised in the Ranking of Responsible Companies - a list of Poland's biggest companies evaluated from the point of view of quality of CSR management and was awarded the CSR Silver Leaf. Bank Millennium was also acclaimed as Central and Eastern Europe's best bank for CSR 2017. The international financial sector magazine Euromoney appreciated the company for the transparent way of presenting CSR activities, diversity and complexity of programmes and first of all for an innovative approach to Customer, which makes using Bank Millennium's services simple and easy. As sponsor of the Millennium Docs Against Gravity Film Festival the Bank was nominated for the "Wdech 2017" prestigious cultural award. All these awards are proof that CSR activities have become part-and-parcel of everyday business activity of the company.

## XII. 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 Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2017



### XIII. STATEMENT OF MANAGEMENT BOARD

#### Presentation of asset and financial position of the Bank and Capital Group in the financial reports

According to the best knowledge, the Annual Financial Statements of Bank Millennium and Capital Group of Bank Millennium S.A. as at 31 December 2017 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 Capital Group of Bank Millennium and their financial results. This Annual Management Board Report on the activity of Bank Millennium and the Group contains a true picture of development, achievements and condition of Bank Millennium and the Capital Group of Bank Millennium.

#### Selection of an entity authorized to audit financial reports

The entity authorized to review financial reports that audits these Annual Financial Statements of Bank Millennium and the Capital Group of Bank Millennium SA as at 31 December 2017, 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
23.02.2018	Joao Bras Jorge	Chairman of the Management Board	.....
23.02.2018	Fernando Bicho	Deputy Chairman of the Management Board	.....
23.02.2018	Wojciech Haase	Member of the Management Board	.....
23.02.2018	Andrzej Gliński	Member of the Management Board	.....
23.02.2018	Maria Jose Campos	Member of the Management Board	.....
23.02.2018	Wojciech Rybak	Member of the Management Board	.....