

Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium for 2018



MANAGEMENT BOARD REPORT ON THE ACTIVITY OF BANK MILLENNIUM AND CAPITAL GROUP OF BANK MILLENNIUM FOR 2018

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I. LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Sirs,

It is with true pleasure that I invite you to read the 2018 Annual Report; especially that it has been a year full of successes. We had record-high results - best in the Bank's thirty-year history and we took breakthrough decisions, which bring the Bank into a completely new stage of development. In June we applied to the Polish Financial Supervision Authority for permission to create a mortgage bank and in November we signed the agreement on acquisition of Euro Bank.

Best result ever: Continuing organic growth stipulated in our medium-term strategy, in 2018 we posted record-high net profit of 761 million PLN and acquired over 200 thousands new customers. Growth of the number of customers and their increasing activity led to double-digit growths of most business lines, including the portfolio of consumer loans, PLN mortgages as well as business loans. This would not have been possible without the fantastic team of employees who contribute to building the Bank Millennium brand with their everyday commitment.

- **PLN 761 million** - net profit of the Group, best ever
- **22%** - solvency ratio
- **46.5%** - Cost/Income ratio
- **1.8 million** active retail customers

Organic growth to be further boosted by Euro Bank acquisition: on 5 November 2018 we signed an agreement with Société Générale on acquisition of Euro Bank. The transaction involved the purchase of 99.8% shares of Euro Bank. The transaction, which makes effective use of surplus capital and benefits from the liquidity situation, is expected to be closed in the 1st half of 2019, after the necessary permissions have been obtained. The subsequent merger with the Wrocław-based bank, drawing on the experience of both organisations, will significantly raise profit and scale of our operation and in the long run it will bring strong return on the investment.

Satisfied customers and the market: Customer centricity and focus on top quality customer experience were the key to all our activities. Thus growth of the number of customers went hand-in-hand with their satisfaction - 93% retail customers were satisfied with their relationship with us and 53% corporate customers were recommending us to others. In 2018 we were the most often recommended bank in Poland with loyalty measured with the market's highest NPS score of 61. Yet again we were among the top three banks in "Newsweek's Friendly Bank" ranging (i.a. 1st place in the "Mobile Banking" category).

Innovation and further digitalisation: In the age of mass smartphonisation we were continuing our business model based on further digitalisation and development of mobile solutions. We again increased the share of digital channels in product sales, while mobile banking, enriched with a chatbot among other things, was being used by almost 1 million customers. In Deloitte's report, which looks at digital maturity of banks in almost 40 countries in Europe and the Middle East, we came up among digital leaders of the region. We were described as a digitally mature bank, well prepared for the challenges of open banking, already now offering many non-banking services.

Bank without barriers, socially involved: We want all customers including disabled persons to feel comfortable with us. Eliminating digital, infrastructural and physical barriers in access to services was an important part of our strategy for 2018. For adapting the bank's website to the needs of blind and visually impaired persons we won the "Website Without Barriers" competition. We were also engaged in cultural, educational and social projects. Yet again we were included in the Respect Index - index of companies, which operate in compliance with the best CSR standards.

What lies ahead?: The key aim in 2019 will be an effective coupling of further organic growth with effective integration with Euro Bank. Closing the Euro Bank acquisition deal should be in the first half of the year while

the operational merger - in the second half. In parallel we are planning to obtain relevant licenses and to start the operation of our mortgage bank, which will allow us to issue covered bonds. Another step will be the full implementation of the EU PSD2 directive, which will open and thus revolutionise the market of payments and other financial services in Poland. We still want to be a leader of innovation, generate stable profit and focus on customer satisfaction.



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.

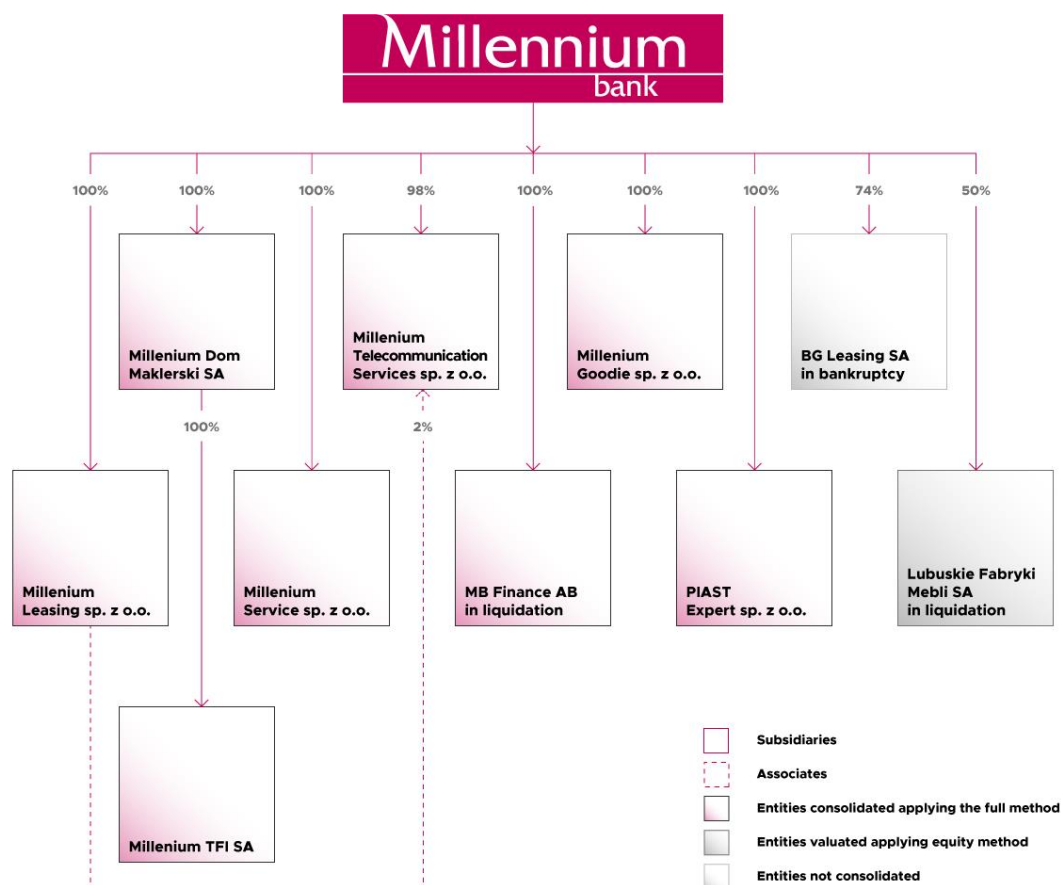
Ever since the start of its activity it has been a trendsetter in Polish banking. For example it was the first Bank to be listed on the Warsaw Stock Exchange and issued the first payment card on the Polish market. The bank satisfies most stringent standards of corporate governance; it implements social 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 6132 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 Group has assets amounting to 80,5 bn PLN and equity amounting to 8,4 bn PLN. At end of 2018 customers' deposits reached 66,2 bn PLN and the Group granted over 52,7 bn PLN loans. The Bank has built its position on the market by working with more than 1,8 million active personal customers, with 1,36 million of them actively using electronic banking and 963 thousands using the mobile app and mobile Millenet. Bank Millennium Group finished the year with a significant liquidity surplus (loans/deposits ratio below 80%) and strong capital ratios (Total Capital Ratio at 21,7%).

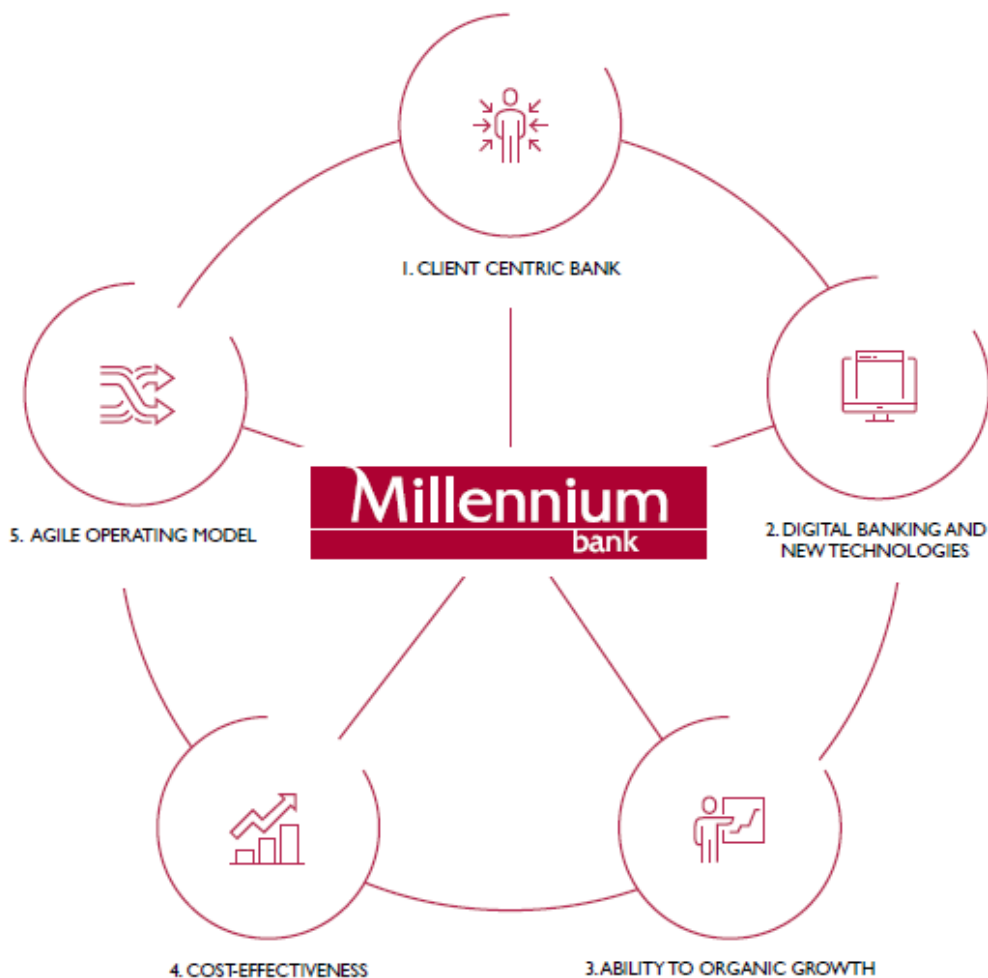


In June 2018 the Bank applied to Polish Financial Supervision Authority for permission to set up a mortgage bank under the name of “Millennium Bank Hipoteczny” with its seat in Warsaw, with Bank Millennium to be its sole shareholder. The new bank is designed to provide medium and long term financing to fuel up further development of real estate financing.

In November 2018 the Bank signed an agreement with Société Générale on acquisition of 99.8% shares of Euro Bank S.A.. The transaction should be closed in the 1st half of 2019, after the necessary permissions have been obtained. The merger with the Wrocław-based bank, drawing on the experience of both organisations, will significantly raise profit and scale of our operation and in the long run it should bring strong return on the investment.

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 four 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 2018

III.1. Summary of consolidated Group results in 2018

Record net profit, improvement of main ratios

- Net profit of 2018 reached 761 million PLN, which means 12% yearly growth; the net result of unconsolidated Bank reached 722 million PLN
- ROE at 9.6%, i.e. 0.3 p.p. higher than in 2017
- Cost/income at 46.5% i.e. 0.3 p.p. lower vs. 2017
- High tax & regulatory burden: 40% effective tax rate on operating profit (or 45% if adding BFG/KNF costs)

Interest income drives the growth; costs under wage inflation pressure and digital related projects

- Net interest income grew 8.1% y/y
- Commissions flat yearly due to adverse capital markets impact
- Operating income grew by 6.1% y/y while costs grew by 5.4% y/y (of which staff costs by 7% y/y)

High asset quality and low cost of risk maintained

- Cost of Risk at 48 b.p. yearly - the lowest level in the last 5 years
- Impaired loans (stage 3) ratio improvement to 4.5% (from 5.2% after IFRS9 introduction on 1.1.2018)

Strong capital and liquidity ratios

- Group's Total Capital Ratio (TCR) at 21.7%, and CET1 (= T1) at 19.8% (without net profit of 2018)
- Further improvement to be achieved after KNF approval of subordinated bond issued in January 2019
- Loans to Deposits ratio at a very low level of 80%

Retail business

- +202 ths in number of active customer acquisition - in line with 600 ths target for 3 years
- 18% growth of customer deposits to reach 47.7 bn PLN
- 3.2 bn PLN new cash loans sold (+39% y/y) and 3.3 bn PLN of mortgages (+31% y/y)
- Almost 1 million active mobile users (+36% y/y)

Companies business

- Strongest pace of loans to companies increase in the last 5 years: +14% y/y
- Maintained double-digit growth in factoring and leasing sales: +15% and +18% y/y
- High growth kept of current account balances: +22% y/y
- Double-digit yearly growth of transfers (domestic and foreign), trade finance and FX transactions

Quality and innovations

- Bank Millennium achieved again very high position in the ranking „Newsweek Friendly Bank 2018”, including top position in „Mobile banking” competition
- ARC Rynek i Opinia recognized the Bank as the best in many quality rankings, including the highest NPS score (61)
- 900 ths apps downloads by Goodie (smartshopping platform developed within Bank's Group)

These achievements of 2018 year indicate, that Bank Millennium Group began successfully fulfilling its 3-year organic growth strategy. Moreover, on 5 November 2018 the Bank announced the agreement on the transaction to buy 99.8% of the shares in Euro Bank S.A., which should be finalized in 1st half of 2019. The planned acquisition of Euro Bank, holding as of June 2018 11,9 bn PLN in loans and 7 bn PLN in deposits, will be followed by a full merger into Bank's structure and systems. This transaction will enable Bank Millennium to become bank no 6 in the attractive segment of retail non-mortgage loans and become no 6 in terms of retail customers in Poland, thanks to adding 1,4 million new customers. The process of finalizing this acquisition is on course: in the end of December the Bank got consent from antimonopoly authority (UOKiK) for the transaction.

III.2. Main awards and achievements in 2018



Satisfaction ranking winner

According to ARC Rynek i Opinia survey:

- **1st place** in main categories: “Satisfaction”, “Interface assessment” and “Assessment of fees and commissions”
- **Highest NPS score (61)** among banks in Poland



Excellent quality - top three for 8 years

In the 17th edition of “Newsweek’s Friendly Bank 2018” Bank Millennium made it to the top three in four categories!:

- 1st place** - “Mobile Banking”
- 2nd place** - “Best retail bank”
- 3rd place** - “Internet banking”
- 3rd place** - “Mortgage banking”



Bank Millennium best in the financial sector in building positive customer experience

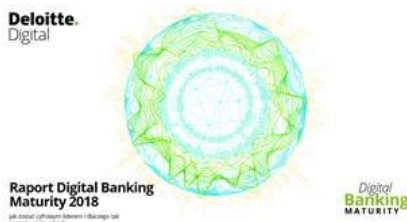
Bank Millennium was acclaimed as the Customer Experience leader in the financial sector on the list of TOP 100 Brands published in the latest KPMG Poland report, which was prepared on the basis of a survey of opinions of consumers evaluating brands with a view to the experience they offer. The Bank was also among the top ten among one hundred best-scoring brands in Poland.



The most innovative Bank

Bank Millennium won the Leaders of the World of Banking and Insurance competition in the Most Innovative category during the Grand Gala of the Leaders of the World of Banking and Insurance

Deloitte.
Digital



Bank Millennium hailed digital leader in Deloitte survey

In the Deloitte report “EMEA Digital Banking Maturity 2018”, assessing digital maturity of financial institutions in 38 countries in Europe and the Middle East, Bank Millennium was ranked among digital leaders of the market as an innovative, digitally mature bank well prepared to face challenges of open banking and already offering many non-banking services.



2018 Service Quality Star

Bank Millennium was again awarded the prestigious title of Service Quality Star. The award is given on the basis of votes of consumers in the Polish Service Quality Programme, collected during the whole year on the www.jakoscobslugi.pl website and by means of a smartphone app.



Złoty Bankier

Golden Banker

1st place for Konto 360° and the title of Safe Bank - best practice. Also the Impresja credit card as well as Financial ABCs educational programme were in the top three



Website Without Barriers

Bank Millennium received an award for adapting the internet service to needs of persons with disabilities in the **“Website Without Barriers”** competition, which promotes access to digital information for disabled, elderly and poor persons as well as those threatened with digital exclusion.

“Website Without Barriers” competition organised by “Fundacja Widzialni” and “Szerokie Porozumienie na Rzecz Umiejętności Cyfrowych”.



CSR Silver Leaf

For the fourth time now Bank Millennium has been awarded the **CSR Silver Leaf**. This award is given to companies, which implement highest corporate social responsibility standards in their daily activity



Bank Millennium among Top 10 most responsible companies in Poland

Bank Millennium came **7th** in general classification and **4th** in the sector classification of Ranking of Responsible Companies 2018. It is a list of Polish companies evaluated from the point of view of quality of corporate social responsibility (CSR) management.



Bank Millennium honoured with Reliable Employer of 2018 Year title

Bank Millennium again received the title of Reliable Employer of the Year 2018 in national category. The Jury appreciated i.a. the stable employment terms and conditions, extensive social benefits pack, investment in staff development, “Parents say YES” project, IMPAKT employee awards programme and CSR activity: Code of Ethics and employee volunteering as well as growth opportunities for students and graduates.



“Parkiet” forecast cup

2nd place for our experts’ team: Grzegorz Maliszewski, Mateusz Sutowicz and Andrzej Kamiński in the ranking of monthly financial and macroeconomic forecasts, prepared by Parkiet newspaper.



Bank Millennium for the 11th time in RESPECT Index

Bank Millennium kept its place in Respect Index. Respect Index brings together public companies, which follow the best management standards in corporate governance, investor relations and also reflecting environmental and social factors. Selected companies undergo three-stage verification carried out by Warsaw Stock Exchange (GPW), the Stock Exchange Issuers’ Association (SEG) and an independent auditor.



International awards for Bank Millennium:

- **The Innovators**, organised by the “Global Finance” magazine. The competition awards financial institutions, which set new trends and design the most innovative solutions. Bank Millennium was recognised for the “Travel assistance” widget - a button to quickly contact the insurer available with travel insurance in the Bank’s mobile app.
- **EFMA Innovation in Insurance** - Bank Millennium won Efma-Accenture Innovation in Insurance Awards 2018 in the Claims Management category thanks to the “Travel assistance” solution available with travel insurance in the Bank’s mobile app. The competition awards the most innovative insurance solutions worldwide.

IV. INFORMATION FOR INVESTORS

IV.1. Changes of share price

Despite the fact that in 2018 the economy in Poland was developing at a high pace of approx. 5%, this found no reflection on the Warsaw Stock Exchange. In 2018 all main indexes fell. The main WIG index was down 9,5%, the WIG 20 index of the largest companies fell 7,5% and the index representing bank share prices fell 12,1%.

At the same time the shares of Bank Millennium fell slightly by 0,8% and this was the best result among all banks comprising the WIG Banks index. Trading in shares of Bank Millennium increased 18,3% in 2018 vs. 2017 exceeding 8 million PLN of average daily trading.

Market ratios	28.12.2018*	29.12.2017*	Change (%) y/y
Number of the Bank's shares (in thous.)	1 213 117	1 213 117	0.00%
Average daily turnover in annual terms (in thous. PLN)	8 006	6 765	18,3%
Bank share price (PLN)	8.87	8.94	-0.8%
Market capitalization of the Bank (million PLN)	10 760	10 845	-0.8%
WIG Banks	7 454	8 482	-12.1%
WIG20	2 277	2 461	-7.5%
WIG30	2 582	2 825	-8.6%
WIG - main index	57 691	63 746	-9.5%

(* last day of listing in 2018 and 2017)

Bank Millennium's shares are included in following indexes on Warsaw Stock Exchange: WIG, WIG Banki, WIG 30, mWIG 40, WIG Poland and Respect Index.

IV.2. Bank Millennium ratings

Rating	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB- (stable outlook)	Baa2 (positive outlook)
National long-term IDR	A (pol) (stable outlook)	-
Short-term deposit rating	F-3	Prime-2
Viability / standalone BCA rating	bbb-	ba1
Counterparty Risk Rating (CRR)		Baa1/Prime-2
Support Rating	4	

On 8 June 2018 Fitch confirmed the Bank's rating at BBB-/F3/bbb- (pol) with a stable outlook.

On 17 October 2018 Moody's raised the Bank's ratings by one notch:

- Long and short-term deposit rating both in the local currency as well as in foreign currency to Baa2/Prime-2 from Baa3/Prime-3.
- baseline credit assessment (BCA) and adjusted BCA ratings were raised to ba1 from ba2
- Counterparty Risk Assessments (CR Assessment) was raised to Baa1(cr) from Baa2(cr) and Counterparty Risk Rating (CRR) to Baa1 from Baa2

At the same time Moody's confirmed short-term CR Assessment rating at Prime-2(cr) and short-term CRR at Prime-2.

The outlook for the Bank's long-term deposit rating from Moody's remains positive.

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 <https://www.bankmillennium.pl/o-banku/relacje-inwestorskie/polityka-informacyjna>

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 2018),
- Participation in conferences and road shows organised for Investors in Poland and abroad (14),
- Face-to-face and group meetings with capital market participants (355 persons),
- Current reports (25) 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 results conferences online with the Management Board (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 2018 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 section <https://www.bankmillennium.pl/o-banku/relacje-inwestorskie/analitycy>).

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 2018 would have allowed payment of 75% were it not for additional K1 and K2 criteria for banks with FX mortgage loan portfolios, which KNF maintained when announcing in January 2019 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.

Due to the above and considering the planned acquisition of Euro Bank S.A., the Bank intends to retain all of its 2018 net profit in own funds in order to strengthen capital ratios. The Bank's Management Board will submit to the General Shareholders Meeting a relevant proposal to retain the full net profit generated in 2018.

If this proposal is accepted, T1 capital ratio as well as Total Capital Ratio (TCR) of the Group would increase by more than 2 p.p. to 21.9% and 23.8% respectively (as of 31 December 2018).

V. MARKET CONDITIONS AND BUSINESS PROSPECTS

V.1. Macroeconomic environment

The year 2018 was a very good period for the Polish economy. The growth in the gross domestic product surprised positively and in the entire 2018 it amounted to 5.1%, which was one of the best results among the European Union member states. It will also mean an improvement in relation to very good 2017, when the GDP grew by 4.8%. The main driving force of the Polish economy was consumption demand. Record low unemployment and growing wages strengthened the optimistic sentiment of households and hence their tendency to consume. Public investments, mainly for infrastructural purposes, supported by further absorption of funds from the European Union budget were also a strong boon to the economy. At the same time investments of private companies grew much slower. In total, domestic demand was growing in 2018 at a dynamic pace, offsetting the impact of the less favourable external environment of the Polish economy and the negative contribution of net exports to economic growth.

However, the end of 2018 brought some signals of slowing economic growth. In particular, industrial production and retail sales in December turned out to be weaker than in previous months and the GDP growth decelerated in Q4 to 4.8% YoY from 5.1% YoY in the preceding quarter.

Fast economic growth supported unprecedented improvement in the situation on the labour market. Persisting strong demand for labour brought about an increase in the number of employed persons, which was in Q3 2018, according to the Labour Force Survey, the highest since records began - 16.6 million people. The growth in employment resulted in a decrease in the unemployment rate, which according to the Eurostat methodology, dropped in May 2018 to 3.8%, i.e. to the lowest level in history. Increasing difficulties with recruitment and high level of capacity utilization accelerated wage growth in companies. It was accompanied by increase in the public sector's wages. Overall, growth in the average monthly salary in the whole of the economy reached 7.7% YoY in 4Q 2018 and was the highest in 10 years.

However, the last months of 2018 showed signals of a weakening economic situation on the domestic labour market. The declining trend in unemployment has slowed down, which is in line with the weaker demand in part of the economy as confirmed by the declining number of newly created jobs. In addition, the employment growth rate in the enterprise sector is gradually decelerating - in December it amounted to 2.8% YoY, while in January 2018 it was at 3.8% YoY. This decline was however in part caused by the persisting difficulties of some enterprises to recruit employees with the necessary qualifications.

Despite the high economic activity and rise in labour and production costs, inflationary pressures remained low. Core inflation measured as the CPI index excluding food and energy prices amounted in 2018 to an average of 0.7%, same as a year before. Consumer prices were driven to the greatest extent by supply factors - food prices as well as energy, which was related to oil prices growing significantly for most of the year on world markets. In 2018, however, the impact of these factors was slightly weaker than in the previous year - average annual CPI inflation dropped to 1.6% from 2.0% in 2017.

In the environment of relatively low inflationary pressure the Monetary Policy Council maintained a loose monetary policy stance in 2018. 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 2019 as well.

In 2019, economic growth will normalize, but it will still be one of the fastest in the European Union. Available data indicate a slowdown in economic growth in major economies, including the United States, Germany and China. The global environment will therefore be less favourable than in the previous year. However, internal demand should remain robust and its structure similar to last year's. Private consumption will still be the main driver of the economy. However, along with the slightly weaker growth in the real wage bill the consumption growth rate will be lower than in 2018. GDP growth will also continue to be supported by public investments, mainly in the infrastructure, which will be bolstered by further use of EU funds. However, due to supply constraints in the construction sector their growth will gradually slow down. The increase in private investments, against the backdrop of the weakening economic situation in the country and abroad, gives no grounds for a clear acceleration. Despite a slowdown in global economic activity, the drop in exports' growth should not be strong, as Polish enterprises are highly competitive in price terms and the zloty exchange rate will partially absorb the impact of the less favourable external environment. One factor potentially limiting the scale of the slowing economy in 2019 is fiscal policy in connection with this year's election period in Poland.

Despite weaker economic growth inflation in Poland will accelerate this year. The cost pressure in the economy will increase because the still robust wage growth will be accompanied by a stronger decrease in productivity growth. CPI inflation may thus exceed the NBP's inflation target of 2.5% YoY, but only at the end of the year. However, this forecast is subject to heightened uncertainty due to increases in energy prices on the wholesale market and its impact on prices for households. The expected relatively low CPI inflation will support the

current scenario of the Monetary Policy Council, according to which interest rates will not change for at least a year.

V.2. Polish banking sector, Bank's position and risk factors

Positive trends in the business environment in Poland continued, confirmed with high GDP growth at approx. 5%, and improved results of the Polish banking sector in 2018. The rate of growth of total deposits in the banking sector accelerated to 8.5% annually (NBP data), especially strongly in the households segment (+9.8% per year). Likewise growth of total loans reached the level of 7.6% per year and was only partly supported by appreciation of foreign currencies to PLN. The rate of growth of corporate loans was particularly strong (8.5%), although retail loans also maintained a high growth rate: 7.0% per year. In consequence the Loans/Deposits ratio for the entire sector shrunk slightly during 2018 to a level below 96%.

Strong growth of business volumes brought growth of net interest income, which remained the main factor of profitability improvement in Polish banks in 2018 (+5.2% y/y). The unfavourable situation on capital markets brought a decline of total income from fees and commissions (-10.5% y/y) vs. 2017. Operating costs and risk provisions grew in 2018 as compared with the previous year, nevertheless total net profit of the Polish banking sector was PLN 14.7 bn in 2018 i.e. grew by 7.5% yearly.

The Polish banking sector is also maintaining a very strong capital position. In December 2018 the equity of Polish banks reached PLN 206 bn and solvency ratio rose to 19.1% (Total Capital Ratio - TCR) and to 17.2% (Tier 1 ratio). In 2018 KNF confirmed validity of the same restrictive recommendations as in the previous year relating to dividend policy for banks. At the same time KNF carried out a review of Other Systemically Important Institutions' buffers as well as pillar 2 buffers concerning FX mortgage exposures. Additionally the all-system capital conservation buffer was increased since the start of 2019 by 0.625% to the target level of 2.5%. Maintaining by Polish banks of high buffers and capital ratios is good from the point of view of risk although it does adversely affect return on the equity invested by banks' shareholders (lower ROE and limited dividend).

2018 brought continuation of the process of growing concentration in the Polish banking sector. In November Santander Bank (previously under the name of BZ WBK), the third-largest bank in Poland, finalised the legal and operational merger with the part of Deutsche Bank Polska it acquired. In October the transaction was finalised of acquisition of the majority of Raiffeisen Polska by BGŻ BNP Paribas. In result of this transaction, BNP Paribas Polska moved up to the sixth place among banks in Poland in terms of size of assets. At the end of September 2018 the top 5 Polish banks held 51% of total assets of the whole sector.

At end of 2018 Bank Millennium Group was 7th among top commercial banks in Poland by total assets and deposits. The Bank's market share was 5.3% in deposits and 4.6% in loans. Bank Millennium Group, comprising the Bank itself and the lease company, mutual funds company and brokerage house, keeps a relatively stronger position in the household segment (6.2% in deposits and 5.6% in loans, including 7% in mortgages and 8% in transactions made with credit cards). In the corporate segment, where Bank Millennium has a smaller share than in the retail segment (3.9% in deposits and 3.3% in loans), the Bank's Group maintains a traditionally above-average position in lease and factoring products. The Group continues to distribute its products and services via a network of 361 branches as well as through electronic channels, including cash machines, the internet, phone and mobile apps.

According to the Bank's forecasts, despite the expected slight slowdown of business activity, 2019 should bring a maintained high pace of growth of credit as well as deposit volumes. Lending will be supported by the expected rebound of corporate capital expenditure and also a high level of consumption as well as growing demand on the real estate market. On the deposits side strong growth should continue thanks to still growing income of Polish households.

Despite favourable forecasts for the economic situation of Poland and of the banking sector for 2019, there are also potential threats, which - if materialised - may in the coming year have material influence on the activity and results of the Polish banking sector (Bank Millennium included):

- A stronger-than-expected slowdown in global economic growth as a result of intensified protectionism in global trade, an increase in uncertainty regarding the UK leaving the European Union (Brexit) and high public debt in some of the eurozone countries. Due to the connections within the global production chains, such events in the external environment may have a negative impact on Polish exports and thus on the income situation of domestic enterprises and households.
- Strongly increasing labor costs in Poland and growing problems with finding employees with appropriate qualifications may limit profitability of some enterprises and new investments

- **Introduction of costly legal-regulatory solutions towards FX mortgages.** 2018 year did not bring legal changes towards FX mortgage portfolios. 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. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Conversion 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 Conversion 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 Conversion 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, assessed based on FX mortgage balance (PLN 128 billion in December 2018 according to KNF), equal to up to PLN 2.6 billion in the first year of operation of the Conversion Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables with consideration of stability of the financial system and effective use of money in the Restructuring Fund. After Government's acceptance and voting of several changes by the Parliamentary Sub-Committee, Presidential Bill of 2 August 2017 was sent on 24 January 2019 for the further parliamentary proceedings.

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.

- Potential future increases of contributions to the Banking Guaranteed Fund.
- Continued deterioration of the situation on capital markets, especially on the local market of mutual funds, coupled with further regulatory trimming of income generated by the banking sector on managing and distributing units of these funds, may cause further erosion of commission income of the banking sector, including Bank Millennium Group.

There is also the likelihood of a more favourable macroeconomic scenario than the assumed one, which may lead to better results of the banking sector and Bank Millennium Group, in particular:

- Faster than expected economic growth in Poland, due to the strong consumption of households, would support an increase in the Bank's lending.
- The rebound of business investment in production capital would support the increase in demand for investment loans.
- A favorable income situation of households and enterprises would support the improvement of the quality of the Bank's loan portfolio, and would also increase the inflow of deposit funds.

V.3. Strategy and business development prospects

In 2018 the Bank Millennium Group implemented its medium-term business strategy adopted in October 2017 for the years 2018-2020. It assumed the acceleration of organic growth through adding to retail account acquisition such areas as cash loans, investment products, micro-enterprises and corporate lending. In the main growth area - retail accounts - the Bank achieved acceleration through increasing in 2018 the number of active customers by 200 thousand. This is a good starting point for achieving the goal of growth by 600 thousand (doubling the previous 3-years period) in the strategy's horizon until 2020. In the next strategic area - cash loans - the Bank had a 39% increase of sales through acquiring over 3.2 bn PLN in new loans in 2018, i.e. not much less than new mortgage loans (3.3 bn PLN and 31% growth of sale). A double-digit growth of credit volume was also achieved in the corporate segment, thus considerably exceeding the average growth of

corporate loans in the whole banking system. On the other hand, no growth was noted in the balance of sold non-deposit investment products, because this market was affected by very negative factors, both global (falling share prices on most markets) and local (drop of trust in the market caused by problems of one debt-collecting company). Strengthening the Bank's position in the micro-enterprise segment was helped by organisational changes in order to separate this area within the Bank's structure.

An important area of Bank Millennium's strategy continues to be its focus on customer satisfaction with a mass personalisation in retail and sectoral approach in business, to be supported by a strong utilisation of the digital component in banking (and outside it) as an important competitive edge. 2018 confirmed the Bank's leadership in this area: the Bank became number one in the ARC Rynek i Opinia ranking in many categories, including perhaps the most important one, using the Net Promoter Score to measure customer satisfaction (NPS=61 for the Bank - the market's highest). The achieved success largely results also from new digital solutions, being effectively implemented, which not only improve cost and sale effectiveness, but also help improve the quality of products and services on offer.

The progressing automation of processes allows to contain rising costs of business, particularly personnel costs, which are now under huge pressure in the whole economy, particularly in the banking sector. Bank Millennium tries to win the war for talent by offering an inspiring working environment and responsible conduct vis a vis its Employees, as well Customers and Society.

Strong competition in the banking sector and growth of concentration also prompted Bank Millennium to supplement the above-mentioned organic growth strategy with a takeover transaction. On 5 November the Bank announced the agreement on the transaction to buy 99.8% of the shares in Euro Bank S.A., which should be finalized in 1st half of 2019 without increasing the Bank's equity. The planned acquisition of Euro Bank, holding as of June 2018 11.9 bn PLN in loans (almost half of them cash loans) and 7 bn PLN in deposits, will enable Bank Millennium to become bank no 6 in the attractive segment of retail non-mortgage loans and become no 6 in terms of retail customers in Poland, thanks to adding 1.4 million new customers. Euro Bank's competences in lending to new customers will enable Bank Millennium to strengthen its ability to acquire new customers. Euro Bank will also add a complementary network of branches with significant presence in small towns based on the franchise model. This transaction means for Bank Millennium an advantageous utilisation of capital and liquidity with simultaneously maintaining them at a comfortable level. The transaction should bring a significant rise in efficiency due to economies of scale and synergies, mainly in terms of costs. This should ensure a positive growth of earnings per share at the Bank and solid return on investment in future.

A transaction much smaller in scale (but already implemented) was the incorporation of a credit union SKOK Piast in Tychy in the Bank's structures, which happened as of 1 November 2018.

Development prospects in 2019

The goal of the Bank Millennium Group for 2019 will be a combination of effective implementation of the Euro Bank acquisition transaction with continued solid organic growth accompanied by high innovation level.

As regards the acquisition transaction, after obtaining all the approvals, the Bank assumes the closing of the legal merger in the 3rd quarter of 2019 year, which will enable an effective merger of the organisational structures of both banks. The full operational merger is planned by the end of the year and will be preceded by the migration of all the customers and products of the acquired bank to the platform of Bank Millennium. After the merger the Bank will operate under Millennium logo.

The planned Euro Bank acquisition transaction is the biggest transaction of such scale with Bank Millennium's participation in 20 years. Despite this, the Bank intends to conduct the merger in a way interfering to the minimum extent with its current operations.

Thus, Bank Millennium assumes that the main goals specified in the organic growth strategy for the year 2020 will be implemented in at least the same assumed scale or will be considerably accelerated thanks to the merger. The first group includes tasks for the micro and corporate segment, where it is planned to maintain a high pace of growth despite an expected slight economic slowdown in Poland. In the retail segment the currently fast increase in the number of customers and products will be supplemented by the base of 1.4 million new customers providing the basis for the penetration of the present Bank products. Particularly high acceleration thanks to the merger should take place in consumer loan sales. First of all, there will be an initial doubling of the present portfolio, and secondly the Bank will acquire the competences of Euro Bank in granting such loans to new customers. The Bank is also preparing to increase its exposure in terms of mortgage loans, both thanks to the acquired portfolio and also by maintaining a high rate of selling new loans. In order to

support business development in this area, the Bank started last year the project of setting up a mortgage bank. The obtaining of suitable licenses and starting its operations is planned for 2019, thanks to which the Bank Millennium Group will gain the possibility of issuing covered bonds.

The Bank's task for the coming quarters will also include the effective implementation of the process of utilising the complementary network of branches, mainly in small towns, where Bank Millennium has not been present so far. It is initially estimated that the Euro Bank network (based mainly on the franchise model) will add over 200 of such towns totalling 4.5 million residents. At the same time the process of closing overlapping branches will take place in order to achieve full synergy effects.

The implementation of the growth strategy in the investment product area will depend on capital market trends and the manner and consequences of implementing the MiFID2 regulation, which may cause continuation of the last year's negative trend on this market. The Bank is also preparing in 2019 year for challenges related to the full implementation of the PSD2 payment system directive. Operating in conditions of more openness to competition, from banks and players getting involved in payment services, will more and more depend on the effectiveness in maintaining relations with customers, whose expectations are growing and require more personalisation of services with the use of state-of-the-art solutions and digital technologies. Bank Millennium intends to meet these challenges by maintaining the highest standards in these areas. Keeping leadership position in quality and digitalization remains the Group's target and will be supported in 2019 and following years by needed investments on innovations.

An effective combination of the merger project with maintaining a fast pace of organic growth should enable the Bank to reach or exceed the adopted main medium-term goals of the 2020 strategy.

VI. FINANCIAL SITUATION

VI.1. Profit and Loss Account

Group's Operating Income (PLN million)	2018	2017	Change y/y
Net Interest Income *	1 877.9	1 736.9	8.1%
Net Commission Income	661.1	663.6	-0.4%
Core Income	2 539.0	2 400.4	5.8%
Other Non-Interest Income */**	188.7	171.2	10.2%
Total Operating Income **	2 727.6	2 571.6	6.1%

(*) 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. 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 60.4 million in 2018 and PLN 40.4 million in 2017) 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.

(**) Excludes fair value adjustment of credit portfolio (PLN 19.9 million in 2018), which is moved to pro-forma cost of risk

Net Interest Income (pro-forma) in 2018 reached PLN 1,877.9 million and presented a considerable increase by 8.1% versus the previous year. This increase was driven by growth of business volumes combined with slight improvement of Net Interest Margin to 2.59% y-t-d compared to 2.56% one year ago. In 4Q 2018 Net Interest Income crossed PLN 500 million after increasing by 4.7% vs 3Q 2018 and 12.2% vs 4Q 2017, confirming strong upward quarterly trend.

Net Commission Income in 2018 amounted to PLN 661.1 million and decreased slightly by 0.4% year-on-year. The transactional commissions (including loans and guarantees) together with bancassurance commissions presented considerable growth by PLN 26.7 million. On the other hand, fees from distribution of investment products and capital markets related decreased versus 2017 by PLN 27.9 million. Just in 4Q 2018 the entire mutual fund market in Poland (total assets under management) decreased strongly by more than PLN 18 bn.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 2,539.0 million for 2018 which means a considerable growth of 5.8% yearly.

Other Non-interest Income, which comprise FX Result, Results on Financial Assets and Liabilities (without interest margin on derivatives and fair value adjustment of credit portfolio) and net Other Operating Income and Costs, amounted to PLN 188.7 million in 2018 and increased by 10.2% yearly.

Total operating income (pro-forma) of the Group reached PLN 2,727.6 million in 2018 and recorded robust increase by 6.1% year-on-year.

Group's Operating Costs (PLN million)	2018	2017	Change y/y
Personnel Costs	(638.1)	(596.5)	7.0%
Other Administrative Costs *	(629.9)	(606.2)	3.9%
- of which Banking Guarantee Fund (BFG) fees	(105.5)	(99.3)	6.2%
- of which financial supervision charges	(6.9)	(2.4)	191.5%
Total Operating Costs	(1 268.0)	(1 202.7)	5.4%
Cost/Income	46.5%	46.8%	-0.3 p.p.

(*) including depreciation

Total costs in 2018 amounted to PLN 1,268.0 million, which means an increase by 5.4% versus the previous year.

Personnel costs in 2018 amounted to PLN 638.1 million and grew by 7.0% compared to 2017 year as a result of increase of staff remuneration and employment. The total number of employees in the Group increased by 302 employees compared to the end of 2017, of which 143 persons (FTE) due to incorporation of SKOK Piast (credit union undergoing restructuring) executed in November 2018. Moreover, employment grew in such sale channels as direct and electronic banking. Total number of employees at the end of the year reached 6,132 persons (in Full Time Equivalents).

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

Employment structure (in FTEs)	31.12.2018	31.12.2017	Change y/y
Bank Millennium S.A.	5 785	5 492	5.3%
Subsidiaries	347	338	2.7%
Total Bank Millennium Group	6 132	5 830	5.2%

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

Other administrative costs (including depreciation) in 2018 reached PLN 629.9 million and grew by 3.9% year-on-year. The biggest increase was registered in IT & telecom cost, mostly driven by spending on transaction infrastructure and client related services as well as some higher other taxes and charges as well as marketing costs. Also charges to Banking Guarantee Fund and banking supervision cost increased more visibly, i.e. by PLN 10.8 million altogether compared to the previous year's level. The contribution to BFG funds is a significant item of other administrative cost and amounted to PLN 105.5 million for 2018, including PLN 34.7 million of yearly fee for resolution fund. On the other hand, some positive impact had the decrease in rental costs bringing the annual savings of PLN 11.7 million.

Total number of Bank Millennium **branches** increased from 355 to 361 during last 12 months, which is a result of opening 14 "mini-branches", located in shopping centers, and closure of some other branches (net increase by 6 outlets). Moreover, within the process of incorporation of SKOK Piast, the Bank acquired its branches, the number of which at the end of 2018 was 41. The Bank, after performing detailed analysis of those outlets, will decide about their future utilization within the whole network.

Cost efficiency of the Group improved slightly in 2018: **Cost-to-Income ratio** reached 46.5% i.e. lower by 0.3 p.p. versus the level recorded one year ago.

Group's Net Profit (PLN million)	2018	2017	Change y/y
Operating Income	2 727.6	2 571.6	6.1%
Operating Costs *	(1 268.0)	(1 202.7)	5.4%
Impairment provisions and other cost of risk **	(236.6)	(255.4)	-7.4%
Operating Profit	1 223.1	1 113.5	9.8%
Banking tax	(198.5)	(188.3)	5.4%
Pre-income tax Profit	1 024.6	925.2	10.7%
Income tax	(264.0)	(244.0)	8.2%
Net Profit	760.7	681.2	11.7%

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

(**) includes fair value adjustment of loans presented at fair value through profit and loss (PLN 19.9 million) and result from modification (PLN 14.2 million) in 2018

Total cost of risk (pro-forma), which comprises net impairment provisions, fair value adjustment (of part of credit portfolio) and result on modifications, bore by the Group in 2018, amounted to PLN 236.6 million and

were 7.4% lower than this cost recognized in 2017. The charges for retail segment stood at PLN 176.9 million and were slightly higher than in the previous year while for corporate segment and other amounted to PLN 59.7 million and decreased yearly by PLN 23.3 million. In relative terms, cost of risk (i.e. net charges to average net loans) in 2018 reached 48 bps level (i.e. 6 bps lower when compared to 2017).

Operating profit, as the difference between operating income and costs (including costs of risk), reached PLN 1,223.1 million and increased by 9.8% compared to the previous year, as a consequence of evolution of all described above elements. Then banking tax grew by 5.4% yearly (higher assets) and income tax grew by 8.2% (higher income). When summing both taxes (PLN 463 million) and VAT paid by the Bank (PLN 30 million), effective tax rate reached 40% of operating profit. Additionally, if adding other obligatory payments for public purpose (BFG contribution and KNF costs), effective tax rate increases to 45%. It is also worth mentioning, that due to the cut of obligatory reserve remuneration, done by NBP since January 2018, operating profit of the Bank in 2018 year fell by PLN 17 million.

Gross profit before income tax in 2018 amounted to PLN 1,024.6 million and increased by 10.7% yearly.

Net Profit reported in 2018 amounted to PLN 760.7 million and was 11.7% higher than an year ago. This was the highest yearly profit in Bank's entire history.

The key relative measures of Group's profitability based on net profit generated in 2018 were the following:

- Return on Assets (ROA) of 1.0%
- Return on Equity (ROE) of 9.6%

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

Group's profit structure (PLN million)	2018
Bank Millennium	722.3
Millennium Leasing	40.0
Millennium Dom Maklerski (brokerage house)	10.7
Millennium TFI (mutual fund)	14.3
Other consolidated companies	38.0
Summarised profits	825.3
Consolidation eliminations	-64.6
Consolidated Net Profit of the Group	760.7

Bank's Profit and Loss Account

The evolution of key Profit and Loss Account items of the Bank in 2018, presented in the below tables, was similar to those of the consolidated Capital Group.

Bank's Operating Income (PLN million)	2018	2017	Change y/y
Net Interest Income	1 716.7	1 598.1	7.4%
Net Commission Income	558.1	552.7	1.0%
Core Income *	2 274.8	2 150.7	5.8%
Other Non-Interest Income **	293.5	275.5	6.5%
<i>of which dividends</i>	56.4	74.6	-24.3%
Total Operating Income **	2 568.3	2 426.2	5.9%

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

(**) Excludes fair value adjustment of credit portfolio (PLN 19.9 million in 2018), which is moved to cost of risk

Net Interest Income of the Bank, as in the Group case, recorded considerable growth of 7.4% y/y. Net Commission Income, as opposite to the Group's income, managed to increase, by 1% year-on-year, as the contribution of income from investment products and capital markets had not such negative impact as in the Group's case (including results of mutual funds and brokerage subsidiaries). As a result of the above, Core Income grew by 5.8% year-on-year reaching PLN 2,275 million for 2018.

Other Non-Interest Income of the Bank for 2018 amounted to PLN 293.5 million. Important component of this item are dividends, mostly from subordinated companies of the Capital Group (which are eliminated on the Group's statements level). The dividend income reached PLN 56.4 million in 2018 recording the decrease of 24.3% year-on-year. This however, was compensated by the growth of other components of Non-Interest Income, especially related to the result on financial assets and liabilities. As a result Non-Interest Income grew by 6.5% year-on-year.

Total Operating Income of the Bank for 2018 amounted to PLN 2,568.3 million and presented increase by 5.9% year-on-year - a similar growth pace as in the Group's case.

Bank's Net Profit (PLN million)	2018	2017	Change y/y
Operating Income	2 568.3	2 426.2	5.9%
Operating Costs *	(1 205.3)	(1 141.9)	5.6%
Impairment provisions and other cost of risk **	(205.6)	(231.1)	-11.0%
Banking tax	(198.5)	(188.3)	5.4%
Pre-income tax Profit	958.9	864.9	10.9%
Income tax	(236.6)	(215.9)	9.6%
Net Profit	722.3	648.9	11.3%

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

(**) includes fair value adjustment of loans presented at fair value through profit and loss (PLN 19.9 million) and result from modification (PLN 14.2 million) in 2018

The growth of Bank's Operating Costs in 2018 was 5.6% year-on-year and was similar as in the Group. The costs amounted to PLN 1,205.3 million in the reporting year. Cost-to-Income ratio for 2018 for the Bank reached 46.9%.

Impairment provisions and other cost of risk amounted to PLN 205.6 million in 2018 and fell by 11% year-on-year i.e. higher scale of decrease than for the consolidated Group.

Net profit of the Bank for 2018 amounted to PLN 722.3 million and presented an increase of 11.3% year-on-year. Return on Bank's Assets (ROA) reached 1.0%.

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.

The total operating income of the Retail segment in 2018 amounted to PLN 1,812.6 million and increased strongly by 9.0% yearly mainly thanks to high dynamics of Net interest income (+9.8% year-on-year), whereas Net commission income decreased slightly (-0.7% year-on-year). Operating costs of retail segment increased less than Total operating income i.e. by 7.3% year-on-year. As a result of the above factors, Pre-provision income grew in 2018 by 10.9%. Net impairment provisions presented small increase by 2.6% yearly, thus Operating Profit of Retail segment grew even stronger than Pre-provision income, i.e. by 13.3% year-on-year to the level of PLN 678.0 million.

Retail segment (PLN million)	2018	2017	Change y/y
Net interest income *	1 242.4	1 131.1	9.8%
Net commission income	500.7	504.4	-0.7%
Other income**	69.5	27.4	153.7%
Total operating income	1 812.6	1 662.9	9.0%
Total operating costs	(957.8)	(892.4)	7.3%
Pre-provision income	854.8	770.5	10.9%
Impairment provisions and other cost of risk**	(176.9)	(172.4)	2.6%
Operating profit	678.0	598.1	13.3%

(*) 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)

(**) Fair value adjustment of credit portfolio (PLN 19.9 million in 2018) has been moved to pro-forma cost of risk. Cost of risk includes also result from modification.

The total operating income of Corporate segment in 2018 amounted to PLN 530.3 million and presented a robust increase by 8.4% yearly, thanks to visible increase of its all main items: Net interest income (by 9.6% year-on-year), Net commission income (by 4.9% year-on-year) and Other income (by 11.9% year-on-year). Operating costs increased by 5.4% year-on-year. The abovementioned factors resulted in a strong growth of Pre-provision income by 10.7% year-on-year. The value of net impairment provisions on loans to companies decreased visibly in 2018 year by PLN 22.6 million (or by 27.6%) year-on-year, which was a very positive factor strengthening profitability of that segment. As a result, Operating profit of Corporate segment recorded very high increase of 26.4% to the level of PLN 252.5 million.

Corporate segment (PLN million)	2018	2017	Change y/y
Net interest income *	291.2	265.7	9.6%
Net commission income	163.7	156.1	4.9%
Other income	75.3	67.3	11.9%
Total operating income	530.3	489.1	8.4%
Total operating costs	(218.6)	(207.5)	5.4%
Pre-provision income	311.7	281.6	10.7%
Impairment provisions and other cost of risk**	(59.2)	(81.8)	-27.6%
Operating profit	252.5	199.8	26.4%

(*) 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)

(**) Cost of risk includes also result from modification.

The total operating income of Treasury, ALM (assets and liabilities management) and Other segment in 2018 amounted to PLN 384.7 million and decreased by 8.3% yearly. Operating costs decreased more than Total operating income, i.e. by 10.9% year-on-year. Pre-provision income of this segment for 2018 amounted to PLN 293.1 million recording a decrease by 7.5%. The contribution of impairment and other cost of risk was negligible - only PLN -0.5 million in 2018, as a result of that Operating profit of Treasury, ALM and Other segment recorded a similar scale decrease, i.e. by 7.3% year-on-year to the level of PLN 292.7 million for 2018.

Treasury, ALM and other segment (PLN million)	2018	2017	Change y/y
Net interest income*	283.8	299.7	-5.3%
Net commission income	(3.4)	3.1	-
Other income	104.2	116.8	-10.8%
Total operating income	384.7	419.6	-8.3%
Total operating costs	(91.5)	(102.8)	-10.9%
Pre-provision income	293.1	316.8	-7.5%
Impairment provisions and other cost of risk**	(0.5)	(1.2)	-59.2%
Operating profit	292.7	315.7	-7.3%

(*) Part of the interest income generated by other segments (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)

(**) Cost of risk includes also result from modification.

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

Assets

The Group's assets as at 31 December 2018 reached PLN 80,459 million, which means an increase by 13.1% compared to the end of 2017. The structure of Group's assets and changes of their particular components are presented in the table below:

Group's Assets (PLN million)	31.12.2018		31.12.2017		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 450.2	3.0%	2 080.2	2.9%	17.8%
Loans and advances to banks	731.3	0.9%	254.2	0.4%	187.7%
Loans and advances to Clients	52 711.7	65.5%	47 411.1	66.6%	11.2%
Receivables from securities bought with sell-back clause	250.3	0.3%	0.0	0.0%	-
Debt securities	22 886.0	28.4%	19 355.2	27.2%	18.2%
Derivatives (for hedging and trading)	226.9	0.3%	1 078.5	1.5%	-79.0%
Shares and other financial instruments*	51.0	0.1%	50.2	0.1%	1.6%
Tangible and intangible fixed assets**	307.1	0.4%	265.6	0.4%	15.6%
Other assets	844.6	1.0%	646.4	0.9%	30.7%
Total assets	80 458.9	100.0%	71 141.4	100.0%	13.1%

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of loans to clients by PLN 5,301 (or by 11.2%) and debt securities by PLN 3,531 million (or by 18.2%), including predominantly debt securities issued by the Polish State Treasury and the National Bank of Poland (the central bank), which was accompanied by strong decrease of derivatives by PLN 852 million.

Loans and advances to Clients

Total net loans of Bank Millennium Group reached PLN 52,712 million as at the end of December 2018, which means a considerable growth of 11.2% year-on-year.

The growth of loans without foreign currency mortgage portfolio presented strong pace of 16.9% year-on-year reflecting dynamic increase in all key groups of lending activity (PLN mortgage, consumer loans and companies), whereas FX mortgage portfolio continues its gradual amortisation (a yearly decrease by 1.7% or 7,6% in currency) limited by strengthening CHF to PLN in 2nd half of the year.

The net value of loans granted to households as at the end of December 2018 totalled PLN 35,248 million and grew by 10.1% compared to the balance recorded a year ago. But when excluding amortising FX mortgage loans, all other segments presented strong annual growth rates: PLN mortgages +20.7% year-on-year and consumer loans +18.9% year-on-year. Annual sale of new cash loans and PLN mortgages presents high dynamics well exceeding the rate of 30% and achieving the levels of PLN 3.2 billion and PLN 3.3 billion respectively.

Net value of loans to companies amounted to PLN 17,464 million as at the end of December 2018 and grew strongly by 13.4% year-on-year, recording the fastest growth of companies loans in the last 5 years.

The growth was well balanced, at high pace in all main product groups (gross): factoring (+22% y/y), leasing (+13% y/y) and other loans (+12% y/y). Leasing and factoring maintained double-digit growth in yearly sales: +15% y/y and +18% y/y respectively.

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

Loans and advances to Clients (PLN million)	31.12.2018	31.12.2017	Change y/y
Loans to households	35 247.8	32 012.8	10.1%
- PLN mortgage loans	13 485.8	11 176.9	20.7%
- FX mortgage loans	14 321.0	14 575.9	-1.7%
- consumer loans	7 441.1	6 260.0	18.9%
Loans to companies and public sector	17 463.8	15 398.3	13.4%
- leasing	6 333.6	5 605.8	13.0%
- other loans to companies and factoring	11 130.2	9 792.5	13.7%
Net Loans & Advances to Clients	52 711.7	47 411.1	11.2%
<i>Net Loans and Advances to Clients excluding FX mortgage loans</i>	<i>38 390.7</i>	<i>32 835.2</i>	<i>16.9%</i>
Impairment write-offs	1 831.8	1 497.2	22.3%
Gross* loans and advances to Clients	54 543.5	48 908.3	11.5%

(* Including, besides provisions for credit risk, also fair value adjustment of loan portfolio presented in fair value as well as modification. Includes also IFRS9 initial adjustment. Gross loan portfolio in this case presents value of loans and advances before mentioned provisions and adjustments.

The average interest rate of the Bank's loan portfolio in 2018 was 4.33%. 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 22,886 million at the end of December 2018 and increased strongly by PLN 3,531 million (i.e. 18.2%) 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 during the year from 27.2% to 28.4% as at the end of 2018, thus making a strong liquidity surplus.

Derivatives

Value of derivatives (designated for trading and hedging) totalled PLN 227 million at the end of December 2018, which means a strong decrease by 79% compared to 31 December 2017, due to FX rates changes (mainly depreciation of Polish currency vs. Swiss Franc).

Loans and advances to banks

Loans and advances to banks (including interbank deposits) amounted to PLN 731 million as at the end of December 2018, which means a strong increase by 187.7% year-on-year due to the increase of value of collateral deposits securing hedging transaction placed in counterparty banks, as a result of changes in the valuation of such transactions (mainly due to FX rate variation).

Shares and other financial instruments

Shares and other financial instruments amounted to PLN 51 million as at the end of December 2018 and were the minor item in the balance sheet with only 0.1% share. The item increased slightly by 1.6% year-on-year.

Tangible and intangible fixed assets (capital expenditure)

Group's tangible and intangible fixed assets amounted to PLN 307 million as at the end of December 2018, which means an increase by 15.6% yearly.

Total capital expenditure (CAPEX) of the Group during 2018 amounted to PLN 84.8 million, of which PLN 30.7 million spent for the Bank's physical infrastructure (branches, ATMs, security etc.) and PLN 51.4 million spent on software and IT infrastructure. The remaining expenditures, i.e. PLN 2.7 million, refers to the Bank's subsidiaries. The Bank Millennium Group plans to increase investment expenditures to PLN 135.3 million in 2019. About 60% of the investments refers to IT area, especially - to further development of internet and mobile banking.

Bank's Assets

The non-consolidated Bank's assets as at 31 December 2018 reached PLN 79,279 million, presenting an increase by 12.2% compared to the end of 2017, so it was only slightly lower scale of growth compared to 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)	31.12.2018		31.12.2017		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 450.2	3.1%	2 080.2	2.9%	17.8%
Loans and advances to banks	731.2	0.9%	254.2	0.4%	187.7%
Loans and advances to Clients	51 786.8	65.3%	47 144.5	66.7%	9.8%
Receivables from securities bought with sell-back clause	250.3	0.3%	0.0	0.0%	-
Debt securities	22 872.4	28.9%	19 341.7	27.4%	18.3%
Derivatives (for hedging and trading)	228.2	0.3%	1 079.0	1.5%	-78.9%
Shares and other financial instruments	140.7	0.2%	134.1	0.2%	4.9%
Tangible and intangible fixed assets*	287.4	0.4%	246.5	0.3%	16.6%
Other assets	531.9	0.7%	356.8	0.5%	49.0%
Total assets	79 279.0	100.0%	70 637.0	100.0%	12.2%

(*) 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 51,787 million as at the end of December 2018, which means 9,8% 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.

The value of debt securities in the Bank's assets equalled PLN 22,872 million at the end of December 2018 and increased strongly by 18.3% year-on-year. The evolution and composition of this portfolio was very similar as for the Group (as described above).

Shares and other financial instruments presented in the financial statements of the Bank, unlike Group's statements, included valuation of shares in subsidiaries. The value of this item as at 31 December 2018 amounted to PLN 141 million, which means an increase by 4.9% year-on-year.

Tangible and intangible fixed assets of the Bank amounted to PLN 287 million as at the end of December 2018, which means an increase by 16.6% 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)	31.12.2018		31.12.2017		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	1 788.9	2.5%	2 353.1	3.7%	-24.0%
Deposits from Customers	66 243.8	91.9%	57 273.3	90.4%	15.7%
Liabilities from securities sold with buy-back clause	50.3	0.1%	0.0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	608.4	0.8%	367.0	0.6%	65.8%
Liabilities from issue of debt securities	809.7	1.1%	1 156.5	1.8%	-30.0%
Provisions	112.5	0.2%	67.8	0.1%	66.0%
Subordinated debt	701.9	1.0%	702.0	1.1%	0.0%
Other liabilities*	1 759.1	2.4%	1 449.3	2.3%	21.4%
Total liabilities	72 074.5	100.0%	63 368.8	100.0%	13.7%
Total equity	8 384.4		7 772.6		7.9%
Total liabilities and equity	80 458.9		71 141.4		13.1%

(*) including tax liabilities

As at the end of December 2018, liabilities accounted for 89.6%, while Group's equity accounted for 10.4% of the total liabilities and equity.

As at 31 December 2018, Group's total liabilities amounted to PLN 72,075 million and increased strongly by PLN 8,706 million (or 13.7%) relative to the value as on 31 December 2017. The increase resulted, primarily, from growth in Customer deposits (by PLN 8,971 million).

Deposits from Customers

Deposits from Customers constituted the Group's main liability and as on 31 December 2018 they accounted for 91.9% 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.

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

Customer Deposits (PLN million)	31.12.2018	31.12.2017	Change y/y
Deposits of individuals	47 730.3	40 343.6	18.3%
Deposits of companies and public sector	18 513.5	16 929.7	9.4%
Total deposits	66 243.8	57 273.3	15.7%

Deposits of Bank Millennium Group grew strongly by 15.7% yearly reaching total balance of PLN 66,244 million as at 31 December 2018.

Deposits of households reached PLN 47,730 million as at 31 December 2018, after remarkable growth of 18.3% yearly, which has accelerated in the last quarter: PLN 3,5 billion and 8% growth. Strong growth in number of customers and accounts caused a visible increase of current and saving accounts volume by c.a. 31% year on year and their share in total deposits of individuals extended to the level of c.a. 69%.

Deposits from companies and public sector increased visibly by 9.4% during the year to PLN 18,514 million, with especially high growth rate in 4Q 2018: +15.4% q/q. Currents accounts were the main driver growing by c.a. 22% year-on-year.

The average interest rate of all deposits placed with the Bank in 2018 was 1.09%.

Deposits from banks

Deposits from banks, including received loans, as at 31 December 2018 amounted to PLN 1,789 million, accounting for 2.5% of the Group's liabilities. The value of that item decreased strongly by 24% vs. the balance as at 31 December 2017, first of all due to PLN 838 million lower value of deposits from other banks (mostly driven by lower collateral deposits from counterparty banks securing hedging transactions), whereas the balance of loans from financial institutions increased by PLN 263 million (or by 27.4%) year-on-year and amounted to PLN 1,224 million (expressed in PLN) as at 31 December 2018. These loans included financing from European Investment Bank and European Bank for Reconstruction and Development (in EUR, CHF and PLN) with original maturities up to 7 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 well as the liabilities from securities sold short. As at 31 December 2018 the value of this item amounted to PLN 608 million and increased by PLN 241 million (or 65.8%) relative to the balance of 31 December 2017, first of all due to the increase of negative valuation of derivatives used for hedging purpose (mainly CIRS) by PLN 118 million year-on-year. This resulted mostly from changes in FX rates, which is commented above in the text regarding derivatives valuation in assets. In addition to that, the liabilities from securities sold short increased by PLN 124 million due to trading positions related to market making activities.

Debt securities issued

Debt securities issued by the Group as at 31 December 2018 amounted to PLN 810 million, which means a decrease by PLN 347 million (or by 30.0%) relative to the balance recorded as at 31 December 2017. At the end of December 2018 the value of bank debt securities issued by the Bank and possessed by individual Customers as savings products amounted to PLN 318 million, whereas the value of the Bank's bonds possessed mostly by

institutional investors amounted to PLN 301 million (which 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 2018 was PLN 190 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 of the total nominal value of PLN 330 million.

Subordinated debt

The value of subordinated debt amounted to PLN 702 million as at 31 December 2018 and did not change year-on-year. The Bank issued in December 2017 ten-year subordinated bonds in PLN of the total nominal value PLN 700 million. The issue of subordinated debt supports Group's and Bank's capital adequacy and constitute the stable long-term source for funding of business activity.

Equity

As at 31 December 2018 the equity of the Group amounted to PLN 8,384 million and grew by PLN 612 million or 7.9% year-on-year. The main reason of the growth of equity was net profit generated during the 2018 financial year, without payment of any dividend for 2017 as decided by AGM of the Bank held on 26 March 2018. The impact of changes in Other comprehensive income (mainly revaluation of financial instruments) on this growth was positive (PLN 94 million). On the other hand, corrections resulting from implementation of IFRS 9 on the balance opening day resulted in the decrease of the Group's equity by PLN 243 million.

In connection with KNF maintained position on banks' dividend policy (announced in January 2019) and the planned acquisition of Euro Bank S.A., the Bank intends to retain entire net profit of 2018 year in its Own Funds in order to strengthen capital ratios. Based on this intention, 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 2018.

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 2018".

Bank's Liabilities and Equity

The non-consolidated Bank's liabilities as at 31 December 2018 reached PLN 71,143 million, which means an increase by 12.8% compared to the end of 2017 - a little smaller pace of growth vs. 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)	31.12.2018		31.12.2017		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	1 055.7	1.5%	2 353.1	3.7%	-55.1%
Deposits from Customers	66 399.8	93.3%	57 398.9	91.0%	15.7%
Liabilities from securities sold with buy-back clause	50.3	0.1%	0.0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	608.4	0.9%	367.1	0.6%	65.7%
Liabilities from issue of debt securities	620.0	0.9%	879.0	1.4%	-29.5%
Provisions	112.0	0.2%	66.8	0.1%	67.6%
Subordinated debt	701.9	1.0%	702.0	1.1%	0.0%
Other liabilities*	1 594.9	2.2%	1 329.5	2.1%	20.0%
Total liabilities	71 143.1	100.0%	63 096.5	100.0%	12.8%
Total equity	8 136.0		7 540.5		7.9%
Total liabilities and equity	79 279.0		70 637.0		12.2%

(*) including tax liabilities

The key difference between non-consolidated Bank's and Group's liabilities is the value of liabilities from issued securities of the leasing company of PLN 190 million (presented in the Group's statements).

The value of Bank's deposits from customers amounted to PLN 66,400 million as at 31 December 2018 and were higher by PLN 156 million than the balance for the Group (mostly the impact of intragroup eliminations). The deposits recorded an increase by 15.7% year-on-year (the same as the increase 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 2018 amounted to PLN 8,136 million and increased by 7.9% 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)	31.12.2018	31.12.2017	Change y/y (%)
Total contingent liabilities	10 229.6	9 353.3	9.4%
1. Liabilities granted:	9 855.7	9 121.5	8.0%
a) financial	8 423.8	7 899.3	6.6%
b) guarantees	1 431.9	1 222.2	17.2%
2. Liabilities received:	373.9	231.8	61.3%
a) financial	0.0	0.0	-
b) guarantees	373.9	231.8	61.3%

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 2018, the total value of contingent liabilities of the Group amounted to PLN 10,230 million, including commitments granted by the Group of PLN 9,856 million. During 2018 the value of contingent financial liabilities granted by the Group increased by 6.6% and the value of guarantee commitments increased by 17.2%.

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 2018.

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

Bank's Contingent Liabilities (PLN million)	31.12.2018	31.12.2017	Change y/y (%)
Total contingent liabilities	10 994.6	9 391.2	17.1%
1. Liabilities granted:	10 617.9	9 156.6	16.0%
a) financial	8 424.5	7 900.7	6.6%
b) guarantees	2 193.4	1 256.0	74.6%
2. Liabilities received:	376.7	234.5	60.6%
a) financial	0.0	0.0	-
b) guarantees	376.7	234.5	60.6%

The value of total contingent liabilities granted and received by the Bank amounted to PLN 10,995 million and increased by 17.1% year-on-year. The main difference between this value and the value of Group's contingent liabilities was the balance of guarantees granted: on the Bank's level there were presented guarantees granted for the Group's companies, which are eliminated on the Group's level. The key item of those guarantees were loan repayment guarantees granted to Millennium Leasing company in the total amount of PLN 730 million. The evolution of the other contingent liabilities granted and received by the Bank is similar as in the Group's case, described above.

VII. PRESENTATION OF BUSINESS ACTIVITY

Important dates in 2018

25 May - Bank Millennium completed all essential work involved with implementation of GDPR in processes relating to customer information management and is compliant with GDPR in all key areas.

28 June - Bank Millennium applied to Polish Financial Supervision Authority for permission to set up a mortgage bank under the name of “Millennium Bank Hipoteczny” with its seat in Warsaw.

1 November - on the basis of the Polish Financial Supervision Authority’s decision of 17.10.2018 Bank Millennium took over management of assets of the Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast credit union (SKOK Piast).

5 November - Bank Millennium and Société Générale signed an agreement on Euro Bank acquisition by Bank Millennium. The transaction involved acquisition by Bank Millennium of approx. 99,79% of shares in Euro Bank. On 28 December 2018 UOKiK agreed to the takeover of control over Euro Bank.

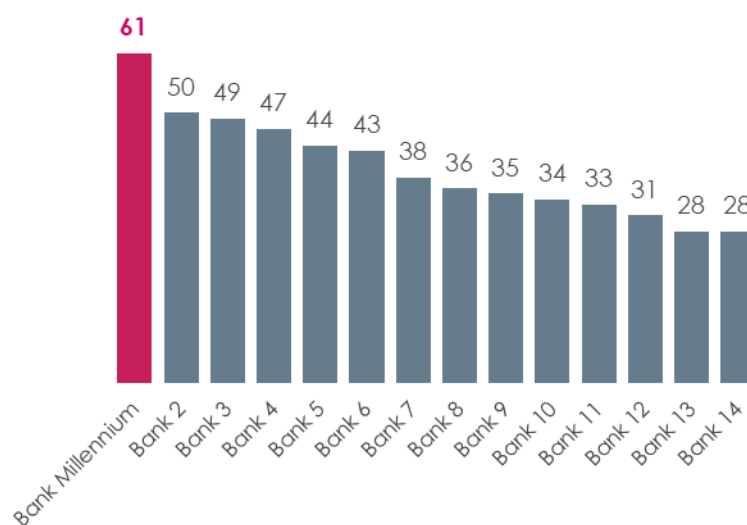
20 December - Bank Millennium implemented all required changes of the Payment Services Act, which transposed PSD2. As a payment institution it is fully prepared to provide customer service in accordance with the new rules.

VII.1. Quality and innovation in the era of widespread digitalisation

Customer centricity and focus on top quality customer experience were the key for all the activities performed by the bank. Innovation and high quality service, as one of strategic objectives of the Bank, constituted an important element of competitive advantage. Effective management of customer experience, especially in the era of widespread digitalisation and rapid technology development demands great attention on our side. Hence, the Bank focused not on creation of “innovative fireworks” but on making customers’ everyday life easier and providing the best possible experience.

In 2018 quality related activities were appreciated by independent auditors and consumers - 93% retail customers were satisfied with their relationship with the Bank and 53% corporate customers were recommending it to others. We were the most often recommended bank in Poland with loyalty measured with the market’s highest NPS score of 61 (survey by ARC Rynek i Opinia).

Bank’s NPS in Poland



Source: ARC Rynek i Opinia „Customer satisfaction monitor of retail banks”

Work on quality improvement is a continuous effort divided into several stages such as recognition and understanding of expectations, designing experiences together with their implementation in contact channels and monitoring of key processes and interfaces to ensure their continuous improvement. Customer experience is manageable and designable. For some years now we have been working according to the *design thinking* methodology, which is focused on customer experience, on identifying and satisfying his specific needs.

The key to design the best experience is to *empathise* i.e. in-depth understanding of customer needs. In order to learn and understand needs changing over time, the Bank conducted regular and comprehensive opinion polls and, to identify areas for improvement, analysed every complaint. Discovering customer needs was a permanent, initial element of each project targeted at changing a process, product, communication or service model. Solutions developed, prior to their implementation, were tested by customers during surveys and discussions.

The Bank also developed classical methods of customer service quality monitoring to support achievement of business objectives and development of sales skills while upholding the customer centricity concept. For example, *Mystery Shopping* surveys show not only the level of compliance with defined customer service standards. They also provide the tool for attitude development by way of communication, designated roles and tasks within the quality improvement work. We have founded the quality monitoring philosophy upon two pillars: *moments of truth* and *close the loop*. Following the above approach, in order to strengthen relations and seek opportunities to improve processes, procedures and products, customer experience was measured at carefully selected moments.

The Bank continued its business model based upon further digitalisation and development of mobile solutions. The share of digital channels in product sales increased again while mobile banking was enriched by, *inter alia*, a chatbot a unique solution in the Polish banking sector. In the Deloitte report „EMEA Digital Banking Maturity 2018”, published in April 2018, assessing digital maturity of financial institutions in 38 countries in Europe and Middle East, Bank Millennium was ranked among digital leaders of the market as innovative, digitally mature bank well prepared to face challenges of open banking and already offering many non-banking services.

The Bank intensively developed strategic pillars of growth in electronic channels including, *inter alia*, lending processes and access to investment products. It offered an option to apply for credit products 24h/day within the internet banking system and to take advantage of promotional offers in application. Rapid development of product and service sales in electronic banking channels was clear to see both in the most important product categories (see: table below) and in the group of non-banking products and services. Sale of city transport tickets increased by 173% y/y, tourist and transport insurance - by 75% y/y, phone top ups - by 26% y/y, and the number of HCE cards by 109% in a year (HCE is technology enabling contactless payment by phone).

Share of electronic channels in sales volume of key products y/y

Personal accounts*	Cash loans	Current account overdrafts	Term deposits	Savings accounts
22%	43%	41%	89%	30%

*process launched in electronic channel

Acquisition actions undertaken in-house and in cooperation with third parties, including special sales actions for personal online accounts with additional benefits have resulted in increase of the number of acquired new online customers by 79% vs. 2017.

Care for the highest quality customer experience has been a driver for provision of access, in June of this year, to the new, refreshed web site together with improved login site for individual customers. Changes were preceded with a series of surveys collecting opinions of thousands of users. On this basis we have changed the information arrangement and visual layout of the site, we have adjusted the site to meet the newest market trends and optimised for use on mobile devices.

In 2018, several important regulatory changes were made, which the Bank gradually implemented. By 25 May, the date of GDPR (General Data Protection Regulation) entry into force, the Bank completed all essential work involved with implementation of the new regulations in processes relating to customer information management and is compliant with GDPR in all key areas. On 20 December transition period relative to amended Payment Services Act, which transposed PSD2 expired. The Bank implemented all required changes and as a payment institution is, since that moment, fully prepared to provide customer service in accordance with the new rules. The work on provision of access to services initiated by third parties, which will enable, in the future, access for third parties to information about payment accounts and other open banking services is under way.

VII.2. Retail banking

Retail banking constitutes an important area in Bank Millennium activities. The Bank has a broad catalogue of universal banking products and services designed for individual customers, affluent individuals individual customers (Prestige), Private Banking and business customers. Customers have access to products and services through branch network, internet banking, mobile and telephone banking and the network of ATMs. In effect of the omni-channel approach, customers gain comprehensive experience in contacts with the Bank and manage their finances in a convenient and safe manner.

In 2018, the objective set for customer acquisition was achieved in line with strategic assumptions. Since the beginning of the year the Bank increased its active customers' base by the record-high figure of 202 thous. and as of 31 December 2018 was serving more than 1,8 million active retail customers. 1,36 million customers were using electronic banking while the mobile app and mobile Millenet were in use by 963 thous. (increase by 36% y/y).

Personal accounts

Sale of current accounts increased in 2018 by 23% relative to the previous year and exceeded 430 thous. Continuously, the Konto 360° account was the key product supporting acquisition of new customers - one of the most preferred personal account in Poland. In the competition „Golden Banker”, the account was ranked the best in the market for the second consecutive year. In 2018, the number of Konto 360° accounts in the Bank portfolio exceeded 1,2 mln, with majority opened by customers who did not use personal accounts in earlier used personal accounts in Bank Millennium earlier.

Promotion of Konto 360° accounts in 2018 was supported by:

- consecutive rounds of advertising campaigns in TV stations and cinemas
- intensive promotional activities involving the use of goodie shopping app and in cooperation with external internet portals - more than 22% personal accounts were acquired online
- consecutive rounds of special offering „Get 360 PLN”
- new rounds of referral programme „Like it! Share it” under which attractive prizes are awarded for recommendation of Konto 360° or Konto 360° Student to others people. Until 31 December more than 377 thous. customers registered in the programme

In addition, as in the previous year, within the period from September until November 2018 a Konto 360° Student promotion campaign was conducted in schools and universities. The above activities, supported by an opportunity to open Konto 360° Junior accounts in internet banking were welcomed with great interest among young customers and their parents.

Savings/investment products

Year 2018 was very successful for the Bank in the area of deposit base management. Despite unfavourable environment - low interest rates and increasing competition from banks, real estate market or retail state treasury bonds - the Bank took advantage of growing funds of natural persons on the market and the value of personal deposits grew by 7,6 bn PLN (+18% y/y) to reach the level of 47,7 bn PLN. Rapid increase of customer deposits supported growth of the Bank's market share by nearly 0,5 pp. to reach the level of 6,2%. Despite dynamic growth of the deposit portfolio, the bank maintained its profitability at the level similar to that recorded in the previous year.

After comprehensive reconstruction of offer of basic savings products in 2017, in 2018 the Bank focused on active promotion and offering of Konto Oszczędnościowe Profit with attractive interest rate applied to new funds. The account enjoyed major interest on the part of customers. Responding to growing market needs in investing surplus funds in foreign currencies, the Bank continued to offer promotional interest on savings accounts in EUR and USD, thus triggering growth in deposited funds by nearly 50%.

The Bank introduced and developed attractive offer of savings and investment products supporting diversification of deposits. Among other solutions, the Bank introduced into its offer the Deposit in Investment Duo - an attractive combination of interest bearing term deposit with investment fund. Deposited funds are

split in half: 50% of funds are applied to 3 or 6-month Deposit in Duo, while the remaining 50% are allocated as investment in a selected sub-fund within the Millennium FIO Investment Plan.

The Bank also encouraged regular and long-term saving for retirement. To this end, the most attractive interest rate on the market at 3% was maintained on the Individual Retirement Account.

The Bank continued its strategy of offering a diversified investment products portfolio which was built both from own solutions as well as third party products. Depending on client segment the Bank offered structured products, mutual funds and investment linked insurance products.

In June, in order to make the offer more attractive, the Bank improved its bundle offer of terms deposit and Millennium TFI funds. Second half of the year was a period of upgrading the third party mutual funds offer by adding three new proposals. The Bank launched also a promotion for Millennium TFI funds by waving up-front fee during the promotional period. Also the new digital service allowing to track results and characteristics of mutual funds was offered to clients.

During 2018 major regulatory changes were imposed on investment products line. The Bank implemented and stabilized MiFID2, new RODO regulations and Insurance Distribution Directive, which covered investment linked insurance products.

Prestige and Private Banking segments - offer for affluent customers

Prestige is an offer designed for affluent persons having assets from 100 thous. to 1 mln PLN or making monthly payments to the account in the minimum amount of 10 thous. PLN. Private Banking addresses the needs of the most affluent individual customers having assets above 1 mln PLN, expecting high quality service and offers of financial products prepared to meet their individual needs. Bank offers to these customers a broad range of investment products and investment and insurance products - domestic and foreign investment funds, investment programmes, structured products and closed investment funds available through subscription. Private Banking customers can use credit cards Millennium MasterCard® World Elite™ with access to World MasterCard Rewards programme, World Elite MasterCard Privileges Partnership Programme, insurance package as well as *Assistance* and *Concierge* package.

As on 31 December 2018 Bank Millennium had 39.3 thous. active Prestige customers and more than 4.1 thous. active Private banking customers.

Cash loans

In 2018 the Bank continued to implement its development strategy of competitive product offer and sales process, as launched in previous years. This brought fruit of record growth in sales by 39% y/y. Sales amounted to 3.2 bn PLN, including 809 mln PLN generated in Q4 (41% of growth q/q). Acquisition of cash and consolidation loans was supported by attractive promotional offers addressed to new customers and selected market segments thereby keeping high sales growth rate throughout the year.

In 2018 cash loan acquisition was supported by:

- offer „100 PLN instalment for every 5 000 PLN of loan” applicable to loans in the amount of 5 000 PLN, 10 000 PLN or 15 000 PLN granted for 60 months with instalment, known in advance, in the amount respectively of 100 PLN, 200 PLN or 300 PLN. Pricing conditions under promotion are among the most attractive on the market. The offer was expanded by the amount of 20 000 PLN and loan version with insurance.
- continuation of offer for financial sector employees
- development and strong support in electronic channels resulting in increase of the share of non-branch channels (electronic or phone) from 34% in 2017 to 43% in Q4 2018.

Customers interested in beneficial transfer of their liabilities repaid in other banks to Bank Millennium could take advantage of a consolidation loan under special offers with repayment insurance, lower interest rate and no fee calculated against amounts transferred. Consolidation loan was supported by:

- offer „Change the bank of your loan to Bank Millennium” with interest rate of 5.7%
- launching the consolidation loan sales process in phone channel

In 2018 cash loan portfolio grew above average by 21% y/y (+1.04 bn PLN) and the growth rate 2.5 times higher than market rate and three times higher than in 2017. The total value of cash loans, as on 31 December 2018 reached the value of 6,5 bn PLN.

Current account overdrafts

Year 2018 may be described as a year of stable growth and maintaining attractive offer. The Bank continued its competitive offer and sales process development strategy, which resulted in acceleration of the acquisition rate by 9,5% y/y. Sales growth was supported by the following campaigns:

- offer „Overdraft for 0 PLN” designed to be offered to new Bank customers facilitating the use of the product, in the first year, with no additional costs - overdraft disbursement fee was 0 PLN. These conditions are among the most attractive on the market.
- 7-day interest free period facilitating the use of the limit without interest costs in each accounting month.

Overdraft portfolio in 2018 increased by 9% y/y. According to NBP data, as at the end of December 2018 the relevant Bank Millennium market share reached 7.6%.

Payment cards

In effect of intensive marketing activities, credit card acquisition maintained the highest level in several years. Flagship products included, continuously, Impresja and Alfa cards providing their holders with 5% cash back for payments made at card Partners.

Credit card portfolio increased by more than 21 thous., translated, in comparison to 2017, into 6% growth. Bank Millennium reached, at the end of December, 6% share in the credit card market and in 3 quarter 8% share in transactions with credit cards.

In addition, the number of debit cards also grew systematically both on the market at large and in Bank Millennium. Debit card portfolio in the Bank at the end of 2018 reached 2,16 mln cards i.e. increased by 312 thous. annually (+16%). It is also worth mentioning that, as in the entire previous year, the rate of the bank portfolio growth remained above the market.

Mortgage Banking

In 2018 Bank Millennium continued to keep a high position on the mortgage sales market. During the year the Bank concluded 13,700 new agreements with the total value of almost 3.3 bn PLN (+31% y/y). This result allowed the Bank to take the sixth place in a lenders' ranking with market share of more than 6.5%. It is important to note that these results were achieved with the average loan margin remaining at a very attractive level (above the market average). The main success factor was full control over the process time and significant shortening of its pace. In Q4 2018 the Bank's customers were getting a preliminary credit decision in merely 5 working days.

Lending by the Bank in 2018, as was the case in 2017, was based on the offering of unconditional 0% fee for loan approval and 0% fee for early loan repayment. Such a structure of the bank's offering was highly popular in particular among those customers who have only 10% own participation and who are particularly keen to reduce the upfront costs of the mortgage to a bare minimum.

In 2018 the Bank continued to introduce interesting solutions for FX borrowers. Customers had the opportunity at all times to benefit from a special offer of partial or full early repayment or currency conversion of an FX mortgage to PLN. Within the framework of these solutions the Bank could reduce its margin, which makes part of the interest rate. In case of partial early repayment the margin would be reduced with no less than 10% of debt outstanding being repaid. In case of full early repayment individual conditions could be negotiated. Unless the parties agreed otherwise, the instructions were carried out at a rate equal to the average NBP rate published on the day of execution of the instructions. The Bank's special offer has remained valid non-stop

(with minor modifications) since 2015. Unless the parties agreed otherwise, the instructions were carried out at a rate equal to the average NBP rate published on the day of execution of the instructions. The Bank's special offer has remained valid non-stop (with minor modifications) since 2015.

In June 2018 the Bank applied to Polish Financial Supervision Authority for permission to set up a mortgage bank under the name of "Millennium Bank Hipoteczny" with its seat in Warsaw, with Bank Millennium being its sole shareholder. The new bank is designed to raise medium and long term financing through covered bonds to fuel up further development of real estate financing.

The total value of all loan types to individuals referred to above as on 31 December 2018 reached the value of 36,4 bn PLN gross.

Insurance products (bancassurance)

The level of sale of insurance linked with credit products including, in particular, cash loan insurance had a key impact upon the level of bancassurance revenue in 2018. The Bank successfully continued to offer also the insurance products in collaboration with several insurance institutions ensuring access through both bank branches and remote channels. The Bank offered also opportunity for customers to purchase credit card and current account insurance in mobile app upon the opening of an account or credit card.

With respect to travel insurance, available fully online in mobile app and Millenet transaction system, innovative service „Travel assistance” was appreciated in international competitions The Innovators, organised by „Global Finance” magazine and EFMA Innovation in Insurance. The year 2018 was also marked by regulatory changes. The Bank adjusted its bancassurance operations to meet requirements of the Act on insurance distribution, which entered into force on 1 October 2018.

New solutions in Millenet and mobile app for individual customers

The year 2018 was marked by extremely intensive development of electronic and mobile banking, thus providing solutions, which are innovative on the Polish market. New solutions were based upon the state-of-the-art technologies and offered more convenient ways of using Millenet and app. Customer centricity and proper care for the highest quality customer experience were the key to all changes introduced by the Bank - we have carefully listened to customers, observed their preferences and tested services with them in the banking User-Experience Lab.

Within the process of developing personalised offer using augmented reality technology, access was provided in mobile app to the process of Birthday Deposit opening bearing 3% interest rate p.a. The app was also enriched by a function of application for credit card (service available for persons having preliminary assessment of their credit capacity). In addition, the Bank also introduced the possibility of creating a virtual counterpart of an inactive card (debit and credit). In this way you can start using the card immediately for contactless payments with your phone, without having to wait for the plastic. New solutions also included a service of cash deposit with BLIK without use of the card. Such payment can be made on all Bank Millennium ATMs and requires BLIK code only. Bank Millennium was one of the first banks in Poland to introduce this service.

Other enhancements include:

Milla transactional chatbot - a chatbot, which is unique in the Polish banking sector and allows i.e. sending a transfer (also BLIK), history search, topping up a prepaid card and phone. Milla has been based on NLU mechanisms (understanding intentions and parameters); ASR voice modules (speech to text conversion, thanks to which you can talk to the chatbot) as well as TTS (text to speech conversion, which allows Milla to give voice replies).

opening account in mobile app by persons, who are not Bank customers yet - after downloading app from a store the option is available of applying for Konto 360⁰ account. Just fill-in the application in a few simple steps and a courier will deliver the agreement.

refreshing outlay of home page of mobile app and location of entry to the form of BLIK transfer to phone (P2P payment) at the screen level immediately after login. When making P2P payment you can see, right away, which friends from your phone contact list are registered in the service (BLIK icon will appear by the contact name on the form).

extending PayByLink type internet payments by adding BLIK - when doing shopping, after selecting “Millennium - internet payments” you can choose the way to authorise transaction. Besides traditional method (login to internet banking and confirming with SMS P@ssword) you can choose BLIK authorisation.

expanding e-administration services by adding online application for the “Good Start” and “Family 500+” programmes for the new benefit period after adjusting to this year’s regulations.

convenient update of data from ID in the Millenet transactional system and the mobile app - in a simple two-stage process you can quickly and conveniently make an online change of the Personal Identity Card number, its issue and expiry date and also update the address.

option to apply for credit products on a 24/7 basis as well as getting promo deals. Expansion of the investment offering available in Millenet involved the possibility to buy and trade in four new external TFI funds.

Konto 360° Junior opened in Millenet - parents do not have to go out to open an account for a child aged over 13. They can do it through internet banking service. The process is fully online and the child can start managing the account immediately and make contactless payments with a phone (bank provides possibility of tokenising a card before its physical delivery).

still easier online payments - expanded local transfer form combines functions of a standard transfer and BLIK transfer to phone number, with the option of easily finding of addressee in the contact list on a smart-phone. This means an opportunity to make transfer to account or phone number from the same form.

implementing PAD directive on basic account - in the regulations area the Bank effectively implemented the PAD directive on basic payment account, which customers can open since August of this year

mobile authorisation i.e. a new and more convenient way to approve transactions executed in the internet banking system - thanks to the new solution transactions can be confirmed in the Bank’s mobile app without the need enter SMS P@sswords. All you need is to logon to the mobile app and confirm the transaction with one click on the screen.

reminder of the option to take advantage of travel insurance prior to departure - a relevant message is sent to customers who gave the necessary approvals, including location acceptance, and have been at the airport for a longer period. The mechanism works at all airports in Poland.

VII.3. Corporate Banking

Corporate banking is a business line supporting, in professional and comprehensive manner, companies, which generate annual sales revenue above 5 mln PLN as well as institutions and public sector units. It features long term, stable and partnership cooperation with customers based upon mutual trust, commitment and understanding. The Bank’s strategy for 2018 - 2020 assumes increase of customer base by 19% in the Corporate Banking area.

Bank’s relations with companies are based upon individual approach to cooperation founded on precise and comprehensive analysis of customer’s financial needs, understanding of business challenges, sector of economy and region. This way the Bank creates comprehensive financial solutions tailor-made to meet unique needs of specific customer business supported by modern digital solutions to cut down the time of customer involvement in operational activities connected with cooperation with the Bank. In order to ensure the highest service quality, the shortest possible time for the Bank to respond and access for the customers, the Bank has consistently automated internal processes connected with service provision. The priority is to ensure the highest quality customer experience in all transactional and relation developing interactions. Among digital communication tools the Bank offers solutions allowing customers to save time and more effectively achieve their objectives connected with financial services. The most modern technology solutions facilitate integration of processes also on the part of the customer.

Customer Service model

Services to Corporate Banking customers are provided by an expanded sales network of nationwide outreach. Relationship Managers offer their services in 31 locations. This is the first line of contact where client’s needs are taken care of and new solutions are proposed, additionally consultants provide operational support. RMs and Consultants are supported by Product Specialists with expert knowledge on performance of products and services designed for companies. RMs, Consultants and Product Specialists are highly trained professionals,

supporting customers in purchase, sales, investment policies, liquidity management and flow organisation as well as transaction security.

Bank Millennium attaches specific importance to consistent development of sales force competences. RMs, besides a unique development programme ending with certification, improve their competences by participating in regular trainings and workshops. This way, they are able to present innovative solutions meeting customers' needs. The Bank also provides development programme for Consultants including training on products and processes as well as service standards. This aims to have the service continuously adjusted to current customer needs.

In the area of corporate banking, the Bank focuses on solutions ensuring high service quality. To this end, with use of methodology *design thinking* and *lean* to simplify internal processes and improve operational efficiency. The need to carefully listen to customer voice in key moments of cooperation with the Bank is the basis for enhancements to be implemented. Year by year Bank Millennium has been raising its service quality and this translates into growing customer satisfaction.

Loans

In lending area, 2018 was the record breaking year. Despite limited demand for financing, specifically with respect to corporate investments, the loan portfolio grew fast and evenly throughout all categories with growth dynamics greater than the market. Volume of all credit products - loans to finance current needs, investment loans, leasing, trade finance products and products with participation of EU funding - increased in 2018 by 14% y/y to reach the level of 18.1 bn PLN gross and it was the highest growth in the last 5 years.

Currently, the bank is working on automation and optimisation of credit processes to shorten the customer's time committed to operational matters to help the customer focus on key business challenges.

Specialist financing - factoring and trade financing

The year 2018 marked a consecutive record breaking year in the area of factoring. Factoring turnover generated by Bank Millennium stood at the record-high level of 19.8 bn PLN. With two-digit dynamics y/y at 18% growth of turnover value, Bank was ranked 5th in the ranking of factoring institutions associated in the Polish Factors Association with market share at 8.1%. Factoring assets as of end of 2018 were 2.6 bn PLN i.e. they grew 22% y/y.

The factoring transaction support system used by the Bank has been expanded by functionality allowing, within supplier financing programmes offered by the Bank, to confirm receivables by supplier directly in the system. This solution has enhanced operational support of programmes of this type and speeds up disbursement of funds to suppliers.

Trade finance area recorded also significant increases of portfolio of guarantees and letters of credit. The value of active guarantee portfolio reached nearly 0.9 bn PLN i.e. grew by 23% y/y. In 2018 the Bank introduced e-guarantee into its offer i.e. bank guarantee issued in electronic format (PDF file) with use of qualified electronic signatures of the Bank's authorised representatives. The main advantages of this product include express delivery of the guarantee to indicated e-mail address or to be downloaded in Millenet system and no costs of paper logistics. It marks the next step to ensuring the highest service quality and to reduce paper documentation to bare minimum.

Transactional and electronic banking for companies

The year 2018 brought about further improvement of income on term deposits with unchanged interest rates while maintaining deposit base stability. The total value of corporate banking deposit funds (including SME), as on 31 December 2018 reached the value of 18.5 bn PLN i.e. showing 9% growth y/y.

Corporate banking customers have access to comprehensive offer incorporating transactional banking products for companies, supported by efficient and ergonomic internet banking system, mobile app and solutions based upon web service technology. In 2018, the Bank offered, in addition, SWIFT Net service to facilitate sending files with payments through the SWIFT network via SWIFT FileAct solution. With respect to transactional

products and services, the bank offers solutions supporting management of collection of receivables, payment settlements, liquidity and financial surplus management and payment cards.

In effect of consistent development of services and electronic systems a significant increase in transaction rate has been recorded. In 2018 the number of domestic transfers increased by 13%, 17% increase in number of foreign transfers was recorded as well as 21% increase in number of card transactions. This brought growth of the volume of money on current accounts, reaching the record-high level of 9.6 bn PLN (+22% y/y) in December 2018. The share of funds on current accounts in deposit portfolio amounted to 39.5%. The total value of deposits funds of business customers (including SME) was 18.5 bn PLN (+9 % y/y).

In 2018 a new cash management module in the Millenet system was made available. The new functionalities facilitate management of one-off and periodical open withdrawals. Currently, more than 50% withdrawals are ordered automatically through Millenet.

Another improvement for customers using cash products included provision of access to open and close payments in Poczta Polska outlets and provision of armoured transport service. These services are specifically important for customers selling goods in small townships or out of town location with limited access to bank branches. Furthermore, electronic Banking Payment Evidence (eBDW) containing the QR code was implemented to accelerate the process of close payment booking and improve booking quality.

In the Millenet internet banking system the cross-border transfer module was improved and this led to a significant increase to almost 100% of the ratio of transactions done completely automatically. In addition, an option was offered to open, in the system, consecutive PLN and FX accounts. Already in the second month after opening of the service, nearly 40% of accounts were opened this way.

The Bank also conducted implementation projects resulting from changes in applicable regulations. According to the Act of 15 December 2017 amending the act on value added tax and certain other acts, on 1 July 2018 the Bank offered to companies a split payment mechanism available in the electronic banking system. In this service the Bank opened an additional VAT account for every company and introduced a new type of bank transfer, also online - split payment transfer/VAT transfer. Information on the new solution was delivered, inter alia, during the cycle of 10 business breakfasts.

The Bank has been intensively developing MillenetLink (a module of direct communication between the ERP systems of companies and electronic banking) to enable automation of sending transactions as well as recovering banking information. The service permits strong reduction of costs of everyday banking transactions; hence for many companies it is a basic necessity solution. MillenetLink supports data exchange in standards popular on the market thereby facilitating implementation and integration of many banks from the ERP system level.

In the second half of the year the Bank performed a pilot launch of the new Millennium Leasing customer electronic service system. Companies, which are simultaneously customers of Millennium Leasing and Bank Millennium, can have access to lease products in Millenet without the need for an additional logon. The lease module enables access to current information about agreements, the schedule of lease payments as well as receiving electronic invoices.

Partnership cooperation

The Bank continued to build its brand name recognition on the corporate banking market sharing its knowledge on important financial, tax, legal and market issues with companies. The Bank also co-organised events offering opportunity for companies to exchange experience between them.

In 2018 Bank conducted two series of business breakfast meetings addressed to persons responsible in companies for financial matters. The first series was devoted to amendments to the tax act. During the series of meetings, the Bank and Deloitte experts discussed practical impacts of split payment introduction. The second series of breakfasts covered issues related to cyber-security - Bank experts discussed examples of tactics followed by cyber criminals and provided guidelines on designing safe and efficient payment execution processes.

Cybercrime fraud prevention was a theme of the meeting of the Polish Corporate Treasurer Association with the Bank being its partner again. During session performed in the form of case studies risks inherent in the corporate payment process were presented as well as schemes employed by cyber criminals and security principles were developed to protect against attacks and extortion in corporate electronic banking.

The Bank also joined initiatives connected with family business. Within partnership cooperation with the Family Business Institute, the Bank representatives prepared publications for information services and delivered presentations at congresses organised by the Institute. The Forbes' Family Business Forum with the Bank being co-initiator and main partner was a leading initiative in the family business area. During more than ten regional

meetings at which local ranking results were announced relative to the fastest growing family companies, the Bank experts made presentations on current macro-economic situation and took part in panel discussions.

The Bank continued its cooperation with the CFO Club established by publisher of Harvard Business Review Polska, whose mission is to disseminate knowledge, facilitate exchange of experiences and delivering tools to modern CFOs. Within the Club activities, the bank representatives participated in meetings, prepared publications and co-chaired webinars. The main themes in 2018 included the CFO role in strategic risk management, issues relating to compliance and FX risk management.

Treasury activities

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

Solutions offered by the Bank help exporters and importers hedge against FX risk and, thereby, properly calculate costs and prices. Customers also can hedge against risk of deterioration of financial results due to unfavourable future changes of market interest rates. The proposed solutions facilitate calculation of fixed cost of financing and inflows of interest without requiring any changes to be introduced to existing loan or leasing agreements.

In 2018 the Treasury Department recorded 27% increase of materially active corporate customers, thus generating increase in profitability by 5.5% at the growth in FX volumes by 9%.

Custodial services

Bank Millennium provides custodial services on the basis of individual permit issued by the Securities and Exchange Commission. The Bank is a direct participant of the deposit and settlement systems such as National Deposit of Securities, NBP Register of securities, Euroclear Bank SA/NV and Clearstream Banking Luxembourg.

Among the Custodial Department customers there are domestic and foreign financial institutions (global custodial banks, banks - depositories of global depository receipts, investment banks, asset management institutions, insurance companies, collective investment institutions, investment funds) and other legal persons actively participating in capital and money market transactions, requiring comprehensive and individualised service.

In terms of the number of domestic and foreign clients receiving the service and entrusting their assets to out custody, the Bank holds one of the leading positions in Poland. The total value of assets on securities accounts of customers, as on 31 December 2018 reached the value of 37,5 bn PLN. As at the end of 2018 the Bank maintained 12,5 thous. securities accounts and deposit accounts and performed depository function for 23 Investment Funds.

International operations and external financing

With respect to financing undertaken on international market, in 2018 the Bank continued its collaboration and managed active earlier and new agreements concluded with International Financial Institutions including, primarily, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which, as on 31 December, covered, as follows:

- agreement concluded with EBRD in August 2018 on medium term loan in the amount of 300 mln PLN, granted by EBRD under the PolGEFF (Polish Green Energy Financing for Leasing) Project. Millennium Leasing is the borrower under this agreement, on the basis of guarantee issued by Bank Millennium. The loan proceeds will be used by ML to finance leasing agreements connected with purchases of machines and equipment contributing to transformation of the Polish economy in the direction of the so-called 'green economy' including, in particular, in the area of energy and resource efficiency, renewable energy, water management and waste management. The loan will be paid back in full in August 2023.

- loan agreement concluded in December 2016 with EIB, to the amount of 100 mln EUR with Millennium Leasing acting as borrower and allocated to supporting activities in the area of financing of leasing agreements concluded with companies from SME sector. The loan was disbursed in four tranches within the period between June and December 2018. The last instalments will be repaid under individual tranches in 2025.
- agreement concluded with EBRD in August 2015 on medium term loan in the amount of 50 mln PLN, granted by EBRD under the PolSEFF (Polish Sustainable Energy Financing Facility for Leasing) Project. The loan proceeds will be made available to the bank customers using leasing financing (via Millennium Leasing), to fund implementation of project facilitating improvement of energy efficiency of machines and equipment and reduction of energy consumption costs. The loan will be paid back in full in December 2020.
- agreement concluded with EBRD in December 2013 on medium term loan in the equivalent amount of 75 mln EUR, designated to increase Bank Millennium capacity to finance SME sector customers in selected regions of the country. The loan was disbursed in CHF in two tranches with final maturity falling in December 2019.

In 2018 the Bank continued projects connected with the process, lasting already for many years, of strengthening the base of credible counterparts and partners on the inter-bank market, including, in particular, in the segment of instruments involving management of medium and long term liquidity in FX. One of the important aspects of the said activities was managing portfolio of agreements with domestic and foreign banks (including agreements of ISDA and GMRA types), which require regular adjustment to changing regulatory environment and market standards.

In this context, the bank implemented, *inter alia*, activities connected with entry into force of consecutive EMIR regulations, and MiFID II regulations effective since the beginning of 2018 (also in part directly relating to cooperation in the inter-bank market).

Irrespective of the above activities, during the past year Bank performed, on current basis, all other tasks connected with overall performance of international operations, in areas of implementation of various objectives including, *inter alia*, supporting settlements, ongoing financing of own needs and needs of Bank c, supporting foreign trade transactions, participating in international money and FX market transactions, operating on capital market. Achievement of these objectives was supported, to large extent, by the process of development of cooperation of the Bank with its foreign partners and counterparts, lasting for more than 25 years already. The Bank has been maintaining ongoing contacts with several hundred correspondent banks and their units located in all countries deemed important from the perspective of the structure of turnover of the Polish foreign trade and transactions of non-commercial nature.

In parallel to medium term financing obtained on international market, in recent years the bank has successfully carried out senior debt issues denominated in PLN in the form of bonds placed among institutional investors on domestic market (in 2014 at the nominal value of 500 mln PLN, in 2015 300 mln PLN and in 2017 300 mln PLN), and subordinated debt (700 mln PLN in December 2017 and 830 mln PLN in January 2019).

VII.4. Subsidiaries activity

Millennium Goodie

Bank Millennium together with Millennium Goodie have been offering innovative smartshopping platform goodie since 2016. The platform, based upon mobile app and web site, constitutes a state-of-the-art open ecosystem of sellers, shops, commercial centres and customers. Using geo-location solutions, it provides users with the best, personalised promotional offers, offering also many additional benefits.

2018 has been a year of particularly strong development of the goodie smartshopping platform. The total number of app downloads reached the level of 900 thous., including as many as 790 thous. installations in 2018 only. At the end of the year, the goodie mobile app and goodie.pl web site presented 1150 brand names of traditional stores, internet shops and restaurants, informing about 2500 offers, discounts and sales. In goodie other consecutive loyalty programmes were launched for the first time allowing to set up, in total, 36 loyalty

cards in commercial malls throughout Poland. Intense marketing campaigns including events in individual malls generated, in total, 400 thous. registered cards.

The breakthrough came with the launch of cashback service i.e. return of part of the money spent on online purchases. During merely four months nearly 10 000 people benefited from it with 59 000 transactions being made. The newest goodie function is loyalty card virtualisation. It is a way to conveniently collect all loyalty cards held into a single app.

Millennium Leasing

Millennium Leasing sp. z o.o., a subsidiary company of Bank Millennium, was established in 1991 and is one of the longest operating companies on the leasing market in Poland. Its activities cover financing of all fixed assets: motor cars and delivery vans, machines and equipment as well as equipment for majority of industries, heavy duty transport means (including: road, rail, water and air transport), and real estate.

The value of leasing agreements disbursed in 2018 amounted to the total of 3.5 bn PLN marking increase by 15% y/y. According to data of the Polish Leasing Association, the company is ranked 9 among leasing companies in Poland in terms of value of all leased items, with 4.9% market share. The scale of operation is illustrated by conclusion of more than 211 thous. agreements to the total of 31.6 bn PLN. As on 31 December 2018 the value of capital committed into active leasing agreements reached 6.5 bn PLN, i.e. increased by 13% y/y.

Millennium Leasing, as a socially responsible organisation, has been promoting awareness building and financial viability actions under energy efficient business operation. In 2018 the Company continued its programme „Leasing Eko Energia”, promoting energy efficient business in Poland. Company customers, when choosing assets to be financed from a broad range of energy efficient machines and equipment, could obtain a flexible bonus growing through years, at the level of up to 5%, depending upon the term of financing.

In 2018 Millennium Leasing also offered service Autokomfort+, introduced in 2016, which facilitates convenient, fast and economic maintenance of vehicles of up to 3.5 t of carrying capacity. This service provides customers with access to wholesale purchase of spare parts and maintenance and repair services at attractive, nationwide fixed discount also in authorised car repair garages.

In order to ensure comprehensive protection against risk connected with leased items, via broker intermediation, the company provides customers with a choice of services offered by leading insurance firms.

Services are sold by leasing advisers in 67 outlets located throughout Poland and supported by active cooperation with banking advisers in retail branches and in corporate banking network of Bank Millennium.

Investment funds Millennium TFI

Millennium Towarzystwo Funduszy Inwestycyjnych S.A. manages, at present three funds: Open Investment Fund with separate subfunds (Millennium FIO), Specialist Open Investment Fund with separate subfunds (Millennium SFIO) and non-public Closed Investment Fund Millennium Dividend dedicated for Bank Millennium Private Banking customers. Within open funds the Company offered, in 2018, participation units in 12 investment subfunds offering investment options covering investment strategies of various levels of risk.

In the last year, after very good 2017, the Company had to face a drop of value of assets it managed by more than 762 mln PLN, both due to drop in market value of capital market assets and negative balance of net inflows. Total value of assets managed by Millennium TFI amounted to, as at the end of December 2018, 4.22 bn PLN i.e. it decreased by 14.9% relative to the value as at the end of December 2017.

Year 2018 was extremely difficult for investors and asset management firms - majority of asset classes generated negative or very low rates of return and it had a negative impact upon rates of return generated by investment funds. In addition, turbulences on the Polish capital market triggered a decrease in investors' confidence and significant outflows from investment funds in Q3 and Q4 2018.

Rates of return on investments in participation units in subfunds separated within Millennium FIO were negative except for Deposit subfund recording rate of return, as on the last day of valuation i.e. 28 December 2018 amounting to 0.73%. Among the Millennium SFIO separated subfunds, all recorded negative rates of return during 2018. Results were poorer due to, primarily, bearish market of equities listed on the WSE, accompanied by a drop of corporate bonds prices, as well as drop of emerging markets' assets.

The Company's investment fund offer, within 2018, remained unchanged. However, it is worth noticing that in view of the planned launching of the PPK (Employee Capital Programme), the Company, as from 2.01.2019, established a new umbrella fund Millennium PPK incorporating 6 target date subfunds.

Brokerage activity - Millennium DM

Brokerage activities are performed, in the Bank Millennium Group, by a company Millennium Dom Maklerski S.A., offering broad range of brokerage services including, in particular, relative to execution of orders to purchase or disposal of financial instruments on the ordering party's account, purchasing or disposal on own account of financial instruments, maintaining securities accounts and monetary accounts for purpose of servicing the former, investment advisory services, advisory services for entrepreneurs relative to capital structures and strategies as well as mergers, divisions, and acquisitions of enterprises, offering financial instruments, rendering services under performance of contracts on investment and service sub-issues, preparation of investment, financial analyses and other recommendations in the area of financial instruments.

In 2018 trading by Millennium DM on the equities market amounted to more than 3bn PLN, and this, according to the Stock Exchange data, provided the company with market share at 0.8%. As on 31 December 2018 Millennium DM serviced 25 thous. investment accounts, acted as market maker and issuer market maker for Stock Exchange listed companies and BondSpot listed corporate bonds.

In 2018 Millennium DM, as intermediary, cooperated in two public calls for subscription for shares of Warsaw Stock Exchange listed companies. Millennium DM intermediated also in purchase of shares in Konsorcjum Stali S.A. announced by the Company.

In 2018 Millennium DM also rendered analytical and advisory services to external customers and to companies from the Capital Group. The most important services included: provision of investment advice on insurance capital funds of one of the leading domestic insurers, due-diligence of investment funds and insurance associations cooperating with the Capital Group and analyses regarding sectors as well as public and non-public companies.

VIII. RISK MANAGEMENT

VIII.1. Risk Management

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 organizational 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.

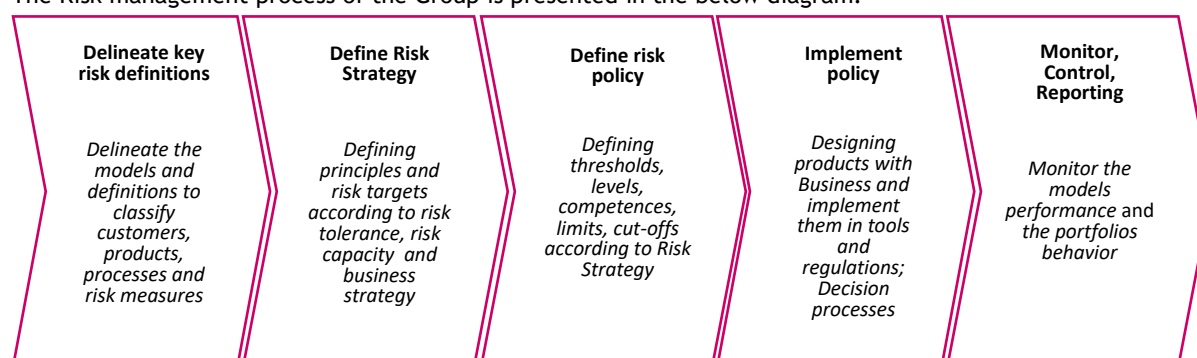
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk tolerance) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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;
- 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 center 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 2019-2021" (2018-2020 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, and Capital Plan.

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

1. Risk profile - current risk level expressed in amount or type of risk the Group is currently exposed. The Group also has 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
2. Assets quality
3. Liquidity and funding
4. Earnings volatility
5. Business mix
6. 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 pays 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 appetite.

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:

- Pillar II RRE FX buffer - 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 that 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 October and November 2018 in the level of 6.41 p.p. (Bank) and 6.27 p.p. (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 4.81 p.p. in Bank and of 4.70 p.p. in Group, and which corresponds to capital requirements over CET 1 ratio of 3.59 p.p. in Bank and 3.51 p.p. in Group¹;
- 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 1.875%, and from the beginning of 2019 increased to target value of 2.5%;
 - Other systemically important institution buffer (OSII) - at the level of 0%, and the value is set by KNF every year²;
 - 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), the 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.

¹ That recommendation replaces the previous one from 2017, to maintain own funds for the coverage of additional capital requirements at the level of 5.53 p.p. (Bank) and 5.41 p.p. (Group) as for TCR, which should have consisted of at least 4.15 p.p. (Bank) and 4.06 p.p. (Group) as for Tier 1 capital and which should have consisted of at least 3.10 p.p. (Bank) and 3.06 p.p. (Group) as for CET1 capital

² In August 2018 Bank informed about the decision of KNF on the rescinding the decision on identification of the Bank as other systemically important institution (O-SII) and on imposing on the Bank an O-SII buffer

The below table presents these levels as at 31 December, 2018 and from 1 January 2019.

Capital ratio	31.12.2018		2019	
	Bank	Group	Bank	Group
CET1 ratio				
Minimum	4.50%	4.50%	4.50%	4.50%
Pillar II RRE FX	3.59%	3.51%	3.59%	3.51%
TSCR CET1 (Total SREP Capital Requirements)	8.09%	8.01%	8.09%	8.01%
Capital Conservation Buffer	1.875%	1.875%	2.50%	2.50%
OSII Buffer	0.00%	0.00%	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%	0.00%
<i>Combined buffer</i>	4.88%	4.88%	5.50%	5.50%
OCR CET1 (Overall Capital Requirements CET1)	12.97%	12.89%	13.59%	13.51%
T1 ratio				
Minimum	6.00%	6.00%	6.00%	6.00%
Pillar II RRE FX	4.81%	4.70%	4.81%	4.70%
TSCR T1 (Total SREP Capital Requirements)	10.81%	10.70%	10.81%	10.70%
Capital Conservation Buffer	1.875%	1.875%	2.50%	2.50%
OSII Buffer	0.00%	0.00%	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%	0.00%
<i>Combined buffer</i>	4.88%	4.88%	5.50%	5.50%
OCR T1 (Overall Capital Requirements T1)	15.69%	15.58%	16.31%	16.20%
TCR ratio				
Minimum	8.00%	8.00%	8.00%	8.00%
Pillar II RRE FX	6.41%	6.27%	6.41%	6.27%
TSCR TCR (Total SREP Capital Requirements)	14.41%	14.27%	14.41%	14.27%
Capital Conservation Buffer	1.875%	1.875%	2.50%	2.50%
OSII Buffer	0.00%	0.00%	0.00%	0.00%
Systemic risk buffer	3.00%	3.00%	3.00%	3.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%	0.00%
<i>Combined buffer</i>	4.88%	4.88%	5.50%	5.50%
OCR TCR (Overall Capital Requirements TCR)	19.29%	19.15%	19.91%	19.77%

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. Capital ratios in a given range cause 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 (PFSa) 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.

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. In July 2017 the Bank received the decision of Competent Authorities (ECB cooperating with KNF) on approval the material changes to IRB LGD models and revoking the “Regulatory floor”.

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 Bank’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 Bank 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 2018, 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 evaluation

Capital adequacy evolution of the Group and the Bank during 2018 was as follows:

Capital adequacy measures	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	Group	Group	Bank	Bank
Risk-weighted assets	36 635.5	32 693.6	36 012.8	31 927.7
Own Funds requirements, including:	2 930.8	2 615.5	2 880.9	2 554.3
- Credit risk and counterparty credit risk	2 593.9	2 297.7	2 570.6	2 260.4
- Market risk	20.3	18.3	20.3	18.3
- Operational risk	313.1	293.4	286.4	269.4
- Credit Valuation Adjustment CVA	3.5	6.1	3.6	6.2
Own Funds, including:	7 943.0	7 190.6	7 738.5	7 002.3
- Common Equity Tier 1 Capital	7 243.0	6 548.8	7 038.5	6 360.5
- Tier 2 Capital	700.0	641.8	700.0	641.8
Total Capital Ratio (TCR)	21.68%	21.99%	21.49%	21.93%
Minimum required level	19.15%	18.91%	19.29%	19.03%
Surplus(+) / Deficit(-) of TCR ratio (p.p.)	+2.53	+3.08	+2.20	+ 2.9
Tier 1 Capital ratio (T1)	19.77%	20.03%	19.54%	19.92%
Minimum required level	15.58%	14.56%	15.69%	14.65%
Surplus(+) / Deficit(-) of T1 ratio (p.p.)	+4.19	+5.47	+3.86	+ 5.27
Common Equity Tier 1 Capital ratio (CET1)	19.77%	20.03%	19.54%	19.92%
Minimum required level	12.89%	13.53%	12.97%	13.60%
Surplus(+) / Deficit(-) of CET1 ratio (p.p.)	+6.88	+6.50	+6.57	+ 6.32
Leverage ratio	8.62%	8.88%	8.41%	8.68%

As at 2018 end, capital adequacy in Bank Millennium Group remained on very high and safe level. Total Capital Ratio stayed at year end at 21.68% level for the Group (21.49% for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 19.77% for the Group (19.55% for the Bank). Therefore, minimum capital levels required by KNF for Bank and Group were achieved with a surplus.

Capital adequacy ratios of the Group decreased slightly during one year period by ca 0.3 p.p. due to faster RWA growth than own funds. In 2018, risk-weighted assets of the Group went up by ca PLN 3.9 billion (i.a. by 12%), as result of the growth of loan portfolio. The Group's Own Funds raised by ca PLN 753 million in 2018, mainly as a result of 100% retention of 2017 net earnings.

In January 2019 KNF sent to Bank the individual dividend policy recommendation, in which it set the following additional buffers for dividend distribution above minimum required as at 2018 end for TCR: +1.5% and full conservation buffer 2.5% to pay 75%; + additional Stress test add-on (3.14% 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 from 35% to 50% of net profit, subject to regulatory recommendations. The high capital ratios (as at 2018 year-end) would allow paying 75% if not additional K1/K2 criteria. Taking above into account and considering the planned acquisition of Eurobank SA, the Management Board of the Bank will submit to AGM a proposal of full retention of 2018 net profit in Bank's own funds. Assuming acceptance of this proposal by AGM, positive impact on T1 and TCR ratio will be approximately 2.1 p.p. (to levels 21.85% and 23.76% for Group, respectively).

After the reporting period, i.e. on 17 January 2019 the Bank has taken decision on the issue of PLN 830 million of subordinated bonds which were fully paid and subscribed as on 30 January 2019. The Bonds, after approval of KNF will constitute Bank's Tier II instruments and will result in further increase of Group's TCR ratio by ca 2.3 p.p. to the level of 26.02% (based on 31.12.2018 data, including retention of full 2018 net profits).

Leverage ratio stood at the safe level of 8%-9%, with a small periodic changes and exceeds almost 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.

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 2018".

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 2018 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 2019-2021;
- 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 year 2018 brought the new reporting standard IFRS9, which required a change of definition of some asset quality ratios. Share of impaired loans in total loan portfolio, now based on stage 3 portfolio, was at the end of December 2018 on the level of 4.52%. This means a decrease from 4.57% a year ago, but when looking into its evolution during this year using the same accounting standard, the ratio decreased from 5.17% at the beginning of 2018 and from 4.68% quarter before, which means a consequent improvement of the quality of the loan portfolio during 2018 year. Thus, the Group still enjoys one of the best asset quality among Polish banks

Share of loans past-due more than 90 days in total portfolio has decreased slightly during last year from 2.9% in 2017 to 2.5% in December 2018.

Coverage ratio of impaired loans, now defined as all risk provisions over stage 3 loans, improved during the year from 67% in December 2017 to 74% now, partially thanks to the effect of increasing provisions after implementation of IFRS9 reporting standard. Coverage by total provisions of loans past-due more than 90 days also increased from 107% one year ago to 133% now.

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

Group loans quality indicators	31.12.2018	31.12.2017
Total impaired loans (PLN million)	2 463	2 233
Total provisions (PLN million)	1 832	1 497
Impaired over total loans ratio (%)	4.52%	4.57%
Loans past-due over 90 days /total loans (%)	2.52%	2.87%
Total provisions/impaired loans (%)	74.4%	67.1%
Total provisions/loans past-due (>90d) (%)	133.1%	106.9%

Impaired loans ratios in particular product segments showed strong reduction in corporate portfolio (from 4.3% to 3.9%), whereas the ratio for retail portfolio grew slightly during the year from 4.7% to 4.8% (of which for mortgage loans from 2.52% to 2.81%).

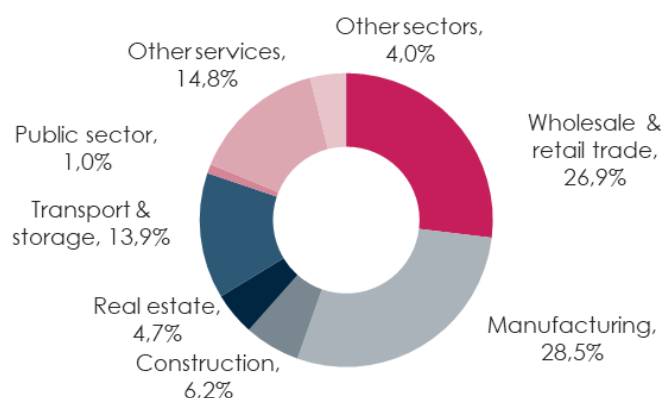
Last year the value of the FX mortgage loans decreased by ca. 1% (in PLN) despite the exchange rate variation (+7% year-on-year) and due to higher repayment of the portfolio. As a result, its share in the total loans has been reduced to 26.6%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in the sale of loans in PLN.

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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>Mortgage</i>	1.24%	1.30%	2.81%	2.52%
<i>Other retail*</i>	7.19%	8.69%	11.30%	12.22%
Total retail* clients	2.63%	2.94%	4.80%	4.67%
<i>Leasing</i>	1.92%	1.71%	3.89%	4.57%
<i>Other loans to companies</i>	2.52%	3.30%	3.93%	4.18%
Total companies	2.30%	2.71%	3.92%	4.33%
Total loan portfolio	2.52%	2.87%	4.52%	4.57%

(*) 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 is at a safe level of 4.8%. The share of main sectors in the Group's portfolio is presented in the chart 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 2018 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 2018 (based on annualized 4Q 2018 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	31.12.2018	31.12.2017
parallel yield curve increase by 100 b.p.	+3,4%	+5.7%
parallel yield curve decrease by 100 b.p.	-4,6%	-7.0%

VaR ratios reflect total exposure to market risk in the Group. In 2018, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Group was relatively low during 2018 and was on average equal to PLN 22.0 million compared to the end-of-year internal limit of PLN 210.6 million. In 2018, 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 2018.

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 2018, the Group's Loan-to-Deposit ratio was kept well below 100%. This ratio decreased at the end of December 2018 and equalled 80% (comparing to level of 83% as of end of December 2017). 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 2018 this portfolio grew by 18% from PLN 19.2 billion at the end of December 2017 (27% of total assets) to approx. PLN 22.7 billion at the end of December 2018 (28% 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	31.12.2018	31.12.2017
Loans/Deposits ratio (%)	80%	83%
Liquid assets portfolio (PLN million) (*)	22 836	18 735
Liquidity Coverage requirement, LCR (%)	212%	153%

(*) 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 2018 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 100% for LCR valid in 2018 was complied by the Group (as of the end of December 2018 the LCR reached the level of 212%). The yearly increase of LCR was mainly connected with high share of funds from individuals. At the end of 2018 total Clients' deposits of the Group reached the level of PLN 66.2 billion, of which the share of individuals equalled to approx. 72.1% (respectively PLN 57.3 billion and 70.4% at the end of December 2017).

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 2018 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 2018.

Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organizational 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 organizational units of the Group and in accordance with its internal regulations. The Fraud Risk Management Bureau is a center 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.

The Bank has 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.

By 25 May 2018 the Bank aligned its activity in all key areas with GDPR. The Bank's approach is based on an assessment of risk involved with processing of personal data and its impact on the rights and freedoms of data subjects. In the project the Bank adjusted its internal data processing processes and also built new information processes, which it made available to data subjects. For this purpose the Bank implemented processes for handling enquiries and requests resulting directly from the rights of data subjects introduced by GDPR and was working on transparency of presented information about processed data.

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.

Bank Millennium attaches great importance to the quality of customer service. “Akademia Mistrzów” (Masters Academy), a comprehensive program of competence development for retail banking employees, has continued since 2016. 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 2018 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 2018 Bank Millennium Group increased employment in the area of digital technologies by 18%. 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 2018 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 2018 Bank Millennium co-financed participation of employees in sports events including „Color Run”, „Runmagedon”, „Bieg Firmowy”, „Bieg Mikołajów”, „Potop Rowerowy”, Kaszebe Runda” and „Lotto Poland Bike & Mazovia MTB Marathon”. 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

Diversity Policy in Bank Millennium Group was implemented in 2017. 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.

Women at Bank Millennium make up the majority of employees - almost 70% of them. Considering their share in the total, women are underrepresented in the Bank's senior management, - they constitute about 28 % of the group. However this share has grown in the last 5 years by 5 percentage points. In 2018 the share of women in broadly understood Bank management, starting from the position of branch manager, was around 61%.

The Bank's strategy, including e.g. building customer service units for foreigners working in Poland, also helps increase employee diversity in terms of nationality: in 2018 40 foreigners were employed.

The age structure of employees is fairly balanced, both labour market entrants and people at the end of their careers are hired. The biggest group of employees are persons between 30 and 40 years of age - 37% and persons between 40 and 50 years of age - 33%.

In connection with its long-term development strategy the Bank in its HR management policy will seek, as up now, to embrace diversity in terms of skills and professional experience of employees. An increased recruitment of employees having diverse professional experience is envisaged in the area of new technologies, communication and new marketing strategies.

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 (in full FTEs)	31.12.2018	31.12.2017	Change (y/y)
Bank Millennium	5 785	5 492	293
- including managerial functions	138	141	-3
Subsidiaries	347	338	9
Total Bank Millennium Group	6 132	5 830	302

Employment in Bank Millennium Group as of end of 2018 was 6 132 FTEs, which means an increase as compared with end of 2017 by 302 FTEs (i.e. 5,2%). The Group's biggest employer is Bank Millennium, with an end of 2018 headcount of 5 805, which corresponds to 5,785 FTEs. Subsidiaries in Bank Millennium Group as of end of the

year were employing the total of 347 persons-FTEs, with three companies among them having the biggest importance Millennium Leasing, Millennium Dom Maklerski and Millennium TFI.

Employment in the Bank (in full FTEs)	31.12.2018	31.12.2017	Change (y/y)
Branches and Direct Sales	3 759	3 678	81
Head Office	2 026	1 814	212
Total Bank Millennium	5 785	5 492	293

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 361 outlets of the Bank located all over Poland.

Bank increased employment in the area of digital technologies as well as in the areas of customer service and sales. Increase of employment in support units come from the fact of taking over Credit Union SKOK Piast in Tychy on a basis of KNf decisions.

Employment in the Bank (in FTEs)	31.12.2018	31.12.2017	Change (y/y)
Direct Banking	542	504	38
Digital Technologies	473	401	72
Retail and Corporate Banking	3 217	3 174	43
Support Units	1 553	1 413	140
<i>Including Credit Union SKOK Piast</i>	<i>143</i>		
Total Bank Millennium	5 785	5 492	293

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 2018 and in the previous year was as follows:

Personnel costs (in PLN million)	2018	2017	Change (%)
Bank Millennium	592.2	552.3	7.2%
Subsidiaries	45.9	44.2	3.8%
Total Bank Millennium Group	638.1	596.5	7.0%

IX.3. Remuneration policy

The Bank Millennium Group has a common „Employee Remuneration Policy in the Bank Millennium SA Group”, which formulates the assumptions used while determining the fixed and variable remuneration components for all employees of the Group. The expanded Policy contains both the binding principles from the earlier „Remuneration Policy for Persons Holding Managerial Positions in the Bank Millennium Group”, as well as those applied to the remaining groups of employees.

For employees identified as having a material impact on the risk profile (risk takers) the scheme of awarding and paying the bonus is additionally regulated by the document: „The Rules for Granting and Paying Variable Remuneration Components for Risk Takers at the Bank Millennium Group”.

On the basis of the Group’s policy, due to regulatory requirements - Millennium Dom Maklerski and TFI Millennium prepared own policies which strictly refer to the rules adopted by the Bank for the Group. According to the policy the main source of employee income is base salary resulting from the employment agreement. Variable remuneration is an additional, motivating element of the total remuneration package.

An employee’s base salary is adjusted to tasks implemented in a given organisational unit, scope of responsibility, qualifications, impact on the company’s risk profile and based on analysing pay information presented in payroll surveys on the financial market.

Cyclical reviews of remuneration and positions take place at the Bank. Based on the assessment of the Group’s financial condition and business environment the Bank’s Management Board may decide to allocate a pool of funds intended for changing base salaries of employees. Remuneration levels are verified taking into account the periodic appraisal of work performance, skills and are compared with market pay information.

Variable remuneration is determined as part of diversified bonus systems intended to incentivise employees to carry out business and organisational plans. Bonus systems and criteria of periodic appraisal at the Bank Millennium Group are adapted to the specifics of the employees’ activities in particular areas of the Group. The amount of bonus budgets awarded for bonus payment is determined on the basis of the degree of implementation of the total net profit plan for the Bank Millennium Group and in the case of business line employees - implementation of particular line targets. It is assumed that individual bonuses cannot exceed 100% of the total annual base salary. Bonuses are awarded as part of the bonus pool on the basis of the appraisal of work quality and degree of dedication to the implementation of the targets for particular employees.

The Bank Millennium Group attaches importance to the appropriate remuneration of persons holding managerial positions - making sure that decisions taken with respect to such persons motivate them to take care of the long-term interest of the Bank and avoid excessive exposure to risk.

The remuneration policy with respect to this group of employees is described in more detail in Capital Adequacy, Risk, Remuneration Policy Report of Bank Millennium Capital Group as at 31 December 2018.

The individual remuneration of risk takers, including Management Board Members, must not exceed the adopted percentage-based reference level (currently 100%) with respect to the total annual base salary. Moreover, the pool intended for variable remuneration components of Bank Millennium’s Management Board Members must not exceed the share - established by the Supervisory Board - in the consolidated net profit of the Bank Millennium Group (currently 2%).

The annual bonus pool for persons holding managerial positions is allocated after prior analysis of the Bank’s situation with respect to

- Achieved business results: net profit, result on banking activity, cost to income ratio, return on equity (ROE);
- liquidity: loan/deposit ratio, value of liquid assets;
- capital adequacy ratios with respect to the KNF reference level

Management Board Remuneration

Establishing the terms of contracts and remuneration for Management Board Members is a prerogative of the Supervisory Board. The Personnel Committee of the Supervisory Board handles matters relating to the principles of remuneration and the amount of remuneration of Management Board Members.

The total remuneration of Management Board Members consists of two parts: fixed and variable. The variable part of the remuneration can be the annual bonus, which depends on the Bank’s result compared to the annual budget, result compared to peer banks and the Management Board Member’s individual evaluation by the Personnel Committee.

Decisions relating to granting bonuses to Management Board Members are taken by the Personnel Committee of Supervisory Board after having analysed the results with the inclusion of the financial criteria:

- implementation of planned budgets and ratios established for the managed activity area,
- comparison with competitive banks of similar size,
- business market criteria established for a given period;

and non-financial criteria, in particular:

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

Members of the Supervisory Board receive exclusively fixed remuneration for their work in Board meetings and Committees which is adequate to the function performed by them and scale of activity of the Bank Millennium Group.

The total remuneration of Members of the Management Board for performing this function in 2018 was PLN 9,713.0 thousand. Additionally, Members of the Board were paid part of an annual bonus for 2014, 2015, 2016 and 2017 years (in the form of cash and phantom shares) as well as additional benefits.

Fixed remuneration for the membership of Management Board paid to the Members in 2018 (in PLN thousand):

Name	Period	Fixed Remuneration
Joao Bras Jorge	01.01.2018 - 31.12.2018	2 224.55
Fernando Bicho	01.01.2018 - 31.12.2018	1 620.00
Wojciech Haase	01.01.2018 - 31.12.2018	1 320.00
Andrzej Gliński	01.01.2018 - 31.12.2018	1 320.00
Wojciech Rybak	01.01.2018 - 31.12.2018	1 320.00
Maria Campos	01.01.2018 - 20.04.2018	440.00
Antonio Pinto Junior	20.04.2018 - 31.12.2018	918.50
Jarosław Hermann	01.08.2018 - 31.12.2018	550.00

Additional benefits of Management Board Members in 2018 (in PLN thousand):

Name	Period	Benefits
Joao Bras Jorge	01.01.2018 - 31.12.2018	1 027.23
Fernando Bicho	01.01.2018 - 31.12.2018	74.35
Wojciech Haase	01.01.2018 - 31.12.2018	13.31
Andrzej Gliński	01.01.2018 - 31.12.2018	25.07
Wojciech Rybak	01.01.2018 - 31.12.2018	3.83
Maria Campos	01.01.2018 - 20.04.2018	114.60
Antonio Pinto Junior	20.04.2018 - 31.12.2018	679.91
Jarosław Hermann	01.08.2018 - 31.12.2018	2.80

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

Variable remuneration paid in 2018 to Management Board Members and to persons who performed this function in prior years (in PLN thousand):

Name	Awards paid (for the years 2014, 2015, 2016 and 2017)	
	In cash	In phantom shares
Joao Bras Jorge	968.40	1 084.77
Fernando Bicho	730.00	817.68
Wojciech Haase	605,00	677.73
Andrzej Gliński	538.20	603.00
Wojciech Rybak	388.10	433.28
Maria Campos	605.00	677.73
Artur Klimczak	75.60	79.39
Michał Gajewski	33.20	39.84
Julianna Boniuk-Gorzelańczyk	58.80	61.75

In the period from 01.01.2018 to 31.12.2018 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 2018 shall be taken by the Supervisory Board Personnel Committee after approval of the Bank's results by the General Meeting of Shareholders.

Policy Evaluation

The Bank Millennium Group maintains a stable remuneration policy. Additionally in 2018 in the Bank's retail network a programme was introduced in support of personnel stabilisation guaranteeing an appropriate level of fixed remuneration after meeting certain conditions.

The body supervising the activity of Bank Millennium, having reviewed the remuneration policy, has found that it is conducive to the development and security of the Bank Millennium SA Capital Group and the existing practice of managing variable components corresponds to the goals established in the Policy.

X. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

X.1. Statement on the Principles of Corporate Governance applied in 2018.

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.

The set of rules covering the area of Polish financial institutions and companies listed on the Warsaw Stock Exchange (GPW) are in particular „Best Practice for GPW Listed Companies 2016” adopted by the Board of the Warsaw Stock Exchange, binding from 1 January 2016, as well as the “Principles of Corporate Governance for Supervised Institutions” adopted by the Polish Financial Supervision Authority by its resolution of 22 July 2014, which have been binding since 1 January 2015.

The application of corporate governance principles guarantees the transparency of company operations and strengthens the protection of shareholder rights, also with respect to issues not regulated by generally applicable laws.

The complete text of the document „Best Practice for GPW Listed Companies 2016” is published on the GPW website, https://www.gpw.pl/pub/GPW/o-nas/DPSN2016_EN.pdf and the Bank’s website <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>

The most important standard of the above-mentioned Best Practice is the „comply or explain” rule, which means that a company is obliged to apply the principles stipulated in the document. However, in the event of deviation from use of a particular principle the company must clarify the causes of such conduct and make this fact publicly known in the form of a report by using the GPW Electronic Information Database.

Like in previous years, in 2018 the Bank observed the principles contained in Best Practice. As regards recommendation IV.R.2 item 2 and 3, regarding ensuring for the shareholders the opportunity to participate in a General Meeting of Shareholders (hereinafter, also “General Meeting” or “GMS”) with the use of real-time bilateral electronic communication where shareholders may take the floor during a General Meeting of Shareholders from a location other than the General Meeting and exercise, in person or through a plenipotentiary, their voting rights in the course of the GMS - in the Bank’s opinion - the implementation of this rule during a General Meeting carries with itself technical and legal risks to the correct and efficient conducting of a General Meeting. Avoiding these risks constitutes a bigger value for the shareholders than the implementation of the rule from part IV, Recommendation IV.R.2, item 2 of Best Practice. The Bank, ever since 2008, has been providing real-time online broadcasts of the proceedings of General Meetings, in accordance with the requirement specified in part IV, Recommendation IV.R.2 item 1 of Best Practice. Meanwhile, the Bank does not rule out the possibility of ensuring to the shareholders real-time bilateral communication during the proceedings of General Meetings in future, should factual 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, the Bank complied with the principles of Best Practice in 2018. The confirmation of employing the recommendations contained in Best Practice is the document “A statement on the company’s compliance with the corporate governance recommendations and principles contained in Best Practice for GPW Listed Companies 2016” published on the Bank’s website.

The Bank as a financial institution has been subject, since the beginning of 2015, also to the „Principles of Corporate Governance for Supervised Institutions” referred to at the outset, which are available on the website of the Polish Financial Supervision Authority https://www.knf.gov.pl/knf/en/komponenty/img/principles_of_corporate_governance_39736.pdf and on the Bank’s website <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>.

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

- 1) § 8 sect. 4 - principle mandating the provision of the possibility to actively electronically participate in a meeting of a decision-making body,
- 2) § 16 sect. 1 and § 24 sect. 1 - principles concerning the holding of meetings of the Bank’s governing bodies (Management Board and Supervisory Board) in the Polish language.

With reference to lack of the possibility to actively electronically participate in a GMS, the position of the Management Board and Supervisory Board repeats the statement made with respect to the principle existing in Best Practice - as referred to above.

The knowledge of the English language by members of the Management Board enables full mutual understanding and a proper level of communication during meetings. Moreover, the practically implemented

principle of holding meetings of the Supervisory Board both in Polish and in English, with the assurance of essential assistance of an interpreter, also ensures mutual understanding and a proper level of communication.

The General Meeting in its resolution passed on 21 May 2015 expressed a positive opinion regarding the position of the Management Board and Supervisory Board of the Bank about the scope of application of the Principles. At the same time the GMS in the aforementioned resolution regarding the 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, and whenever the Management Board or the Supervisory Board, acting within their powers, submit matters covered by these principles, requesting a consideration of specific matters by the GMS, then they will be considered taking into account the circumstances of such submission. In successive years General Meetings accepted the assessment of employing the Principles and assessment of the manner of carrying out the information duties relating to the employment of Best Practice. Likewise, in 2018 the General Meeting by its Resolution of 26 March 2018 accepted the assessment of compliance with the Principles and of the manner of carrying out the information duties regarding the compliance with Best Practice, as performed by the Supervisory Board in the Report on activities of the Supervisory Board of Bank Millennium S.A. in 2017. The Bank's Supervisory Board by its Resolution No 2/2018 of 1 February 2018 found that the Bank had correctly implemented the Corporate Governance Principles for institutions supervised by the Polish Financial Supervision Authority.

During the reporting period the Bank for the eleventh consecutive time (starting from 2008) was included in the group of companies in the GPW RESPECT Index - Central and Eastern Europe's first index of socially responsible companies. In its 2018 edition the Index comprised 31 companies from among all the companies listed on GPW. The companies included in 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's authorities. It operates in particular on the basis of the Code of Commercial Companies and the Banking Law, as well as the Bank's internal regulations, i.e. the Articles of Association and the Regulations of the General Meeting. The Bank's Articles of Association and Regulations of the General Meeting are available from the Bank's website on the tab: "About the Bank > Corporate bodies and governance". Link to website <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>. These documents describe in detail the functioning of the General Meeting and scope of its competencies as well as indicate specific rights of the shareholders during the deliberations of a General Meeting. The competencies of the General Meeting include inter alia making amendments to the Articles of Association, including change in the amount of the share capital.

As of 31 December 2018, the Bank's shareholders' equity was PLN 1 213 116 777 and was divided into 1,213,116,777 shares (with the nominal value of PLN 1 each). In the reporting period no shares were converted from registered shares to bearer shares. Below please find information, in accordance with the data held by the Bank, about the shareholders holding directly or indirectly substantial blocks of shares together with the 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 General Meeting. Due to the fact that the Bank is a public company whose shares are traded on a Stock Exchange the Bank does not have detailed information about the structure of shareholders holding less than 5% of the shares in shareholders' equity. According to information available, as of 31 December 2018, the Bank had four shareholders holding more than 5% of the votes at a General Meeting.

Banco Comercial Portugues S.A., the largest private Portuguese bank - as the strategic investor - holds 50.10% of all the shares of the Bank. The Bank's significant shareholders are also: Nationale-Nederlanden Otwarty Fundusz Emerytalny (former ING OFE), which as of 31 December 2018 held 8,66% of the Bank's shares, Otwarty Fundusz Emerytalny PZU „Złota Jesień”, which as of 31 December 2018 had 6,29% of the Bank's shares and AVIVA Otwarty Fundusz Emerytalny AVIVA Santander (former Aviva OFE BZ WBK) holding 5,61% of the Bank's shares.

The remaining shares i.e. 29,34% of the share capital, are dispersed among Polish and foreign shareholders, both institutional and private.

Shareholders of the Bank as of 31 December 2018.

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	105 018 325	8,66	105 018 325	8,66
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	76 301 553	6,29	76 301 553	6,29
AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	68 043 397	5,61	68 043 397	5,61

Shareholders of the Bank as of 31 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	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

Data in the tables were ascertained according to the rules described below. With respect to BCP these are data collected in connection with the registration of shareholders authorised to take part in the Bank's General Meetings convened for, respectively, 26 March 2018 and 31 March 2017.

However, as regards Nationale-Nederlanden Otwarty Fundusz Emerytalny and Aviva Otwarty Fundusz Emerytalny Aviva Santander the number of shares and their stake in the Bank's share capital were calculated on the basis of the Annual Structure of Assets of the above-mentioned Funds as of 31 December 2018 and 29 December 2017. (as published on the websites: www.nn.pl and www.aviva.pl, respectively).

Data relating to Otwarty Fundusz Emerytalny PZU „Złota Jesień” were calculated on the basis of the Annual Structure of Assets of the Fund as of 31 December 2018 (published on the website www.pzu.pl).

For the purpose of making the above-mentioned calculations the volume weighted average price (VWAP) of the Bank's shares was taken: for 2018 at the level of 8,8258 PLN, and for 2017 at the level of 8,9053 PLN.

Banco Comercial Portugues S.A., as the majority shareholder, exercises a shareholder's rights specified in the Act of 15 September 2000 - the Code of Commercial Companies and in the Bank's Articles of Association. BCP holds corporate control over the Bank. By holding a majority of votes at a GMS it can exercise decisive influence over 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 shareholders' equity of the Bank, issue of convertible bonds, payout of a dividend and other activities, which in accordance with Code of Commercial Companies require an ordinary or qualified majority of votes at a 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. In connection with the above-mentioned corporate rights BCP has the capacity to exercise significant control over the Bank's activity.

The Bank is not aware of any agreements concluded between its 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 corporate rights in the way and within the limits defined by 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 founder shares in the outstanding number of 61,800 are preferential in as much as one share entitles to two votes at a GMS. Registered founder shares in total accounted for 0.0051% of the Bank's share capital and 0.0102% of the total number of votes at a General Meeting, as of 31 December 2018.

Founder shares are subject to disposal restrictions, i.e. their disposal subject to the 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 founder 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 have been listed on the Warsaw Stock Exchange since 13 August 1992 (first bank to be listed). Currently 1 213 008 737 shares with the code ISIN PLBIG0000016 (GPW 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 preferential founder shares (right to two votes at a GMS). Thus, the total number of Bank Millennium shares is 1.213.116.777 and total number of votes at a GMS is 1.213.178.577.

X.3. Supervisory Board

The Supervisory Board exercises constant supervision over the activity of the Bank. It operates under legal regulations, including the Articles of Association of the Bank, resolutions of the General Meeting as well as the Bylaws of the Supervisory Board available from the Bank's website on the "About the Bank > Corporate bodies and governance" tab.

The meetings of the Supervisory Board are convoked once a quarter and if such need arises. The competences of the Supervisory Board comprise, in particular, the appointment and recalling of Members of the Management Board (by an ordinary majority of votes) and determination of their remuneration principles. Resolutions are adopted by a simple majority of votes with at least half of its members present. In the case of an equal number of votes the Chairman of the Supervisory Board has a casting vote.

The Supervisory Board of the Bank consists of at least five Members, of whom at least half, including the Chairman, are of Polish nationality. Members of the Supervisory Board are appointed at a General Meeting for a three-year term of office.

During the period from 1 January 2018 to 26 March 2018 the Supervisory Board of the Bank consisted of the following persons:

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

On 26 March 2018 the General Meeting discharged all Members of the Supervisory Board performing their functions in 2017 from the performance of their duties in the accounting year 2017.

Moreover, the General Meeting of the Bank established that the Supervisory Board would be composed of 12 Members and elected the members of the Supervisory Board for a new term of office. In connection with this the composition of the Supervisory Board as of 31 December 2018 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 24 October 2013 was the Chairman of the Management Board.

Since 24 October 2013 he has been the Chairman of the Supervisory Board of Bank Millennium S.A.

Mr Bogusław Kott has been a member of the Polish Business Roundtable since 1994. From 16 June 2014 to 2 October 2018 he was a member of Supervisory Board of Yareal Polska Sp. z o.o. Since 1 September 2018 he has been a member of Board of Trustees of Kozminski University in Warsaw.

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 in 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). From 2012 to 2018 he was Vice-Chairman of the Board of Directors and CEO of the Executive Committee of Banco Comercial Portugues (BCP), Portugal. Since July 2018 he has been Chairman of the Board of Directors of BCP.

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

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 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 was the Chairman of the Public Finance Committee. Author of more than 200 scientific papers and publications, including five books on economic policy.

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

4. 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 (France).

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.

Since 20 April 2012 he has been Member of the Supervisory Board of Bank Millennium S.A.

5. 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 cover 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. In October 2018 she also acquired the additional function Head of Google for Startups in Poland and Central-Eastern Europe.

Ms A. Hryniewicz-Bieniek is a member of the Advisory Board of "Leadership Academy for Poland". Actively supports women in new technology by serving as a mentor and coach for future women leaders in business. Since 21 May 2015 Member of the Supervisory Board of Bank Millennium S.A.

6. 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 in The Coca-Cola Company, Management Board Member in Multivita Sp. z o. o, Management Board Member - Managing Director in Coca-Cola Balti Jookide AS. Since 2018 she has been 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 the 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).

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

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

Mr Grzegorz Jędrys graduated from the Production Economics Faculty of the Warsaw School of Economics and from a post-graduate course at the Warsaw School of Economics in Strategic Marketing Management as well as real estate agency operation. Moreover, Mr G. Jędrys attended many courses and training sessions, i.a. for candidates for members of supervisory boards of State Treasury companies (2008). He began his professional career in 1994 in the Housing Finance and Municipal Advisory Programme for Poland/PADCO - a joint Poland-USAIID programme. In 1996 he worked as Manager of the Building Projects Financing Team in Polsko-Amerykański Bank Hipoteczny S.A. From 1997 to 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. From 1997 to 2005 he was a Member of Supervisory Boards of many companies. Starting from 2005 he has been Head of the Poland's Representative Office of the Polish American Freedom Foundation.

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

8. 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 the 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 ALK Interdisciplinary Centre, Head of the Management Chair until 2014. In 1981 - 1987 he was 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 the Leopold Kronenberg Banking Foundation; in 2014 - 2018 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 Szczecin University and in December 2017 the title of Doctor Honoris Causa from the Board of Governors of ESCP Europe in Paris.

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

9. Alojzy Nowak - Member of the Supervisory Board (independent member)

Mr Alojzy Nowak in 1984 graduated from the Warsaw School of Economics; earned a Ph.D in 1991 and Habilitation in 1995; and in 1992 he studied economics at the University of Illinois at Urbana - Champaign, USA, M.A. in economics. In 1993 he completed studies in banking, finance and capital markets at Exeter, UK, in 1996 economic studies at the Free University of Berlin, and in 1997 in International Economics at RUCA. In 2002 he became Professor of Economics.

He has won a number of prestigious awards, including the Rector's Award for Scientific Achievements (annually since 1997), Award of the Minister of Education for the book "Integracja europejska. Szansa dla Polski?" and the book „Banki a gospodarstwa domowe - dynamika rozwoju”. Member of scientific organizations and professional editorial boards of periodicals, among others "Foundations of Management" (member of the editorial board), "Journal of Interdisciplinary Economics" (editor-in-chief), "Yearbook on Polish European Studies", "Mazovia Regional Studies"; "Gazeta Bankowa" and a reviewer in PWE SA Warszawa publishing company. For many years committee member of "Teraz Polska" Award and scientific council member of "Studia Europejskie".

He gained his professional experience working among others as Head of the International Business Relations Section at the Management Faculty, University of Warsaw, Head of the National Economy Chair at the Management Faculty, University of Warsaw, Director of European Center at the University of Warsaw, Deputy Dean in charge of foreign cooperation at the Management Faculty, University of Warsaw, dean at the Management Faculty, University of Warsaw and Deputy Rector in charge of scientific research and

cooperation, University of Warsaw. He is a lecturer at the University of Warsaw, and also in France, UK, USA, Russia, China and Korea.

Further, he worked as: advisor to the Prime Minister, to the Minister of Agriculture, CEO of the University Sports Association in Poland and at the University of Warsaw, member of the NewConnect advisory committee at the Management Board of the Warsaw Stock Exchange, member of the Foundation Council of the National Bank of Poland, chairman of the Scientific Council of the National Bank of Poland.

Over the years he sat on supervisory boards of various institutions, including among others: PZU S.A., PTE WARTA S.A., PKO BP S.A., JSW S.A., Chairman and Deputy Chairman of the Supervisory Board in EUROLOT S.A.

He is a member of the National Development Council appointed by President Andrzej Duda. Since December 2018 he has been a member of the Scientific Council of the Institute of New Structural Economics at the University of Beijing, where he is among 22 outstanding scientists from around the world, including 4 Nobel laureates in the field of economic sciences.

Since 26 March 2018 Member of the Supervisory Board of Bank Millennium S.A..

10. José Miguel Bensliman Schorcht da Silva Pessanha - Member of the Supervisory Board

Mr José Miguel Bensliman Schorcht da Silva Pessanha has a Master's Degree in Economics from Université Catholique de Louvain and a Master's Degree in Operational Investigation (academic portion) from Instituto Superior Técnico and also has a Licentiate Degree in Economics, Universidade Católica Portuguesa. He attended the PADE (Corporate Senior Management Programme) at Associação de Estudos Superiores de Empresa (AESE), the Eureko Program in INSEAD, he had a Scholarship from Invoitan (NATO) and received a scholarship linked to the Award Joseph Bech, granted by the Government of Luxembourg for commitment to the European Union.

From 1982 to 1989 he worked as a financial services advisor - Banco Português do Atlântico, Banco Nacional Ultramarino, Banco Espírito Santo, Manufacturers Hannover Trust, between 1982 - 1995 he was Professor in charge of the courses of Statistics I and II and Econometrics - Universidade Católica Portuguesa. He was responsible for the risk control, ALM, financial markets research and capital markets areas of the Financial Division - Banco Português do Atlântico, S.A. from 1989 to 1995 and Advisor to the Chairman of the Plan National Council from 1990 to 1993. Between 1993 and 2002 he was a Member of the Board of Directors of Corretora Atlântico - Soc. Financeira de Corretagem S.A. and of Servimédia - Sociedade Mediadora de Capitais, S.A. and Chairman of the Board of Directors of Servimédia - Sociedade Corretora S.A. and Head of the Assets and Liabilities Management Division of BPA (1995 - 1998), and of BCP (1998 - 2000). At Banco Comercial Português, S.A. he was Head for the "Year 2000" Project of Group BCP (1999 - 2000) and was responsible for the design, development and launching of the "cidadebcp" bank website (2000 - 2002). From 1998 to 2003 he coordinated the Investment Products Unit of Banco Comercial Português, S.A. From 2003 to 2015 he was the Group Risk Officer of Banco Comercial Português, S.A. In 2014 he was a lecturer responsible for the banking in a global context course at Universidade Católica Portuguesa. Currently he is a Member of the Board of Directors and of the Executive Committee of Banco Comercial Português, S.A. Chairman of the Audit Board of Millennium bcp Ageas Grupo Segurador, SGPS, S.A., Vice-Chairman of the Board of Directors and Chairman of the Audit Board of Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Vice-Chairman of the Board of Directors and Chairman of the Audit Committee of Ocidental - Sociedade Gestora de Fundos de Pensões, S.A. (formerly Pensões Gere - Sociedade Gestora de Fundos de Pensões, S.A.). He is also Member of the Board of Directors of BIM - Banco Internacional de Moçambique, S.A., Member of Board of Directors of Banque Privée BCP (Suisse), S.A. and Member of the Board of Directors and Chairman of the Audit Committee of Banco Millennium Atlântico, S.A.

Since 26 March 2018 Member of the Supervisory Board of Bank Millennium S.A.

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

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

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

Since 1990 he has been working for BCP Group in several functions in Portugal and Spain. During the 2007 - 2009 period he was Head of the Office of the Chairman of the Executive Board of Directors of BCP. Between 2009 and 2012 he held the position of Member of the Executive Board of Directors of BCP and Member of the Board of Directors of Fundação Millennium BCP. Throughout the period from 2012 to 2016 Mr Miguel Maya held the position of Chairman of the Board of Directors of Banco Millennium Angola, S.A. In 2016, following the merger of this institution with Banco Privado Atlantico, S.A. which resulted in the creation of Banco Millennium Atlantico, S.A., Mr Miguel Maya was appointed 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: Chief Executive Officer (CEO) and Vice-Chairman 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 Member of the Board of Directors of Banco Internacional de Moçambique, S.A.

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

12. Lingjiang Xu - Member of the Supervisory Board

Mr Lingjiang Xu has a Bachelor's Degree in German from the Foreign Studies University of Beijing, a Master's Degree in World Economics from the Nan Kai University, Tianjin and a Master's Degree in Finance from the London Business School.

From July 1993 to February 1995 he worked as Desk Officer at the European Affairs Department of the Chinese Ministry of Foreign Trade and Economic Cooperation in Beijing. He was Third Secretary of the Commercial Office of the Chinese Consulate General in Hamburg from February 1995 to October 1998. Between October 1998 and February 2006 he was the Division Director of the European Affairs Department of Chinese Ministry of Commerce in Beijing. From February 2006 to January 2010 he was the First Secretary of the Commercial Office of the Chinese Embassy in London. In September 2011 he was elected Associate Director of Vermilion Partner LLP (London) (to March 2012). From March 2012 to December 2013 was Partner to RH Regent Investment Management Co Ltd (Shanghai). During the years of 2015 to 2017, he was -Non-Executive Director of Luz Saúde, S.A. and Non-executive Director of Multicare - Seguros de Saúde, S.A., as well as Non-executive Director of the Board of Directors of Fidelidade Assistência - Companhia de Seguros S.A. From 18 October 2016 to 31 March 2017 he held the position of Non-executive Member of the Board of Directors of Chiado (Luxembourg) S.à.r.l. From 2015 to 2018 he also held the managerial position in Fosun Management (Portugal), Lda. Currently he is Non-executive Member of the Board of Directors, Member of the Committee for Nominations and Remunerations and Chairman of the Committee for Corporate Governance, Ethics and professional Conduct of Banco Comercial Português, S.A. He is also Non-executive Member of the Board of Directors of Fidelidade - Companhia de Seguros, S.A. and Chairman of the Board of Directors of Longrun Portugal, SGPA,S.A.

Since 26 March 2018 Member of the Supervisory Board of Bank Millennium S.A.

Standing Committees of the Supervisory Board

As of the day of holding of the General Meeting of the Shareholders of Bank Millennium S.A. approving the financial report for 2017, i.e. as of 26 March 2018, there expired the term of office of the Bank's Supervisory Board and committees operating as its part. The General Meeting of Shareholders after discharging the Members of the Bank's Supervisory Board from their duties for the accounting year 2017 elected the Supervisory Board for the new term of office to end as of the day of holding the General Meeting of Shareholders approving the financial report for 2020. The Supervisory Board for the new term of office, at its first meeting on 26 March 2018, determined the composition of the Standing Committees of the Supervisory Board, i.e. the Audit Committee, Personnel Committee, Strategic Committee and Risk Committee.

Audit Committee

The Audit Committee is a standing committee of the Supervisory Board, established in 2000 and supporting the Supervisory Board in supervision over the 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 May 2017 on statutory auditors, audit firms and public oversight the Audit Committee consists of at least three Members. All the Members of the Audit Committee have knowledge and skills in accounting or financial auditing, as well as in the banking sector, which is confirmed by the history of their professional career and the duties hitherto performed by them. The majority of the Members of the Audit Committee, including its Chairman, are independent from the Bank. The Audit Committee meets on a regular basis (once every quarter) upon the initiative of the Chairman of the Committee and in the extraordinary mode it is convened by the Chairman of the Supervisory Board on his own initiative or at the request of a Member of the Supervisory Board or a Member of the Management Board. The main responsibilities of the Audit Committee include specifically: (i) monitoring the process of financial reporting, (ii) monitoring the effectiveness of the internal control systems and risk management systems, and internal audit, including in the area of financial reporting, (iii) monitoring financial audit activities, (iv) preparing for the Supervisory Board opinions providing the basis of performing by the Supervisory Board assessments on the adequacy and effectiveness of the internal control system, including the annual review of the adequacy and effectiveness of the control function, Compliance Department and Internal Audit Department and (v) controlling and monitoring the independence of a statutory auditor and audit firm, particularly in the case when other services than audit are provided for the Bank by an audit firm.

In 2018 six meetings of the Audit Committee of the Supervisory Board took place on the following days: 31 January 2018, 23 February 2018, 19 April 2018, 4 June 2018, 24 July 2018, 25 October 2018 and an additional one, "by circulation", on 18 September 2018.

Detailed information regarding the issues raised during the meetings of the Committee in 2018 is to be found in the „Report on activities of the Supervisory Board of Bank Millennium S.A. in 2018” in the chapter „Activities of the Audit Committee in the reporting period”.

From 1 January 2018 to 26 March 2018 the Audit Committee of the Supervisory Board of Bank Millennium SA was composed of the following members:

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

On 26 March 2018 the Supervisory Board elected the Audit Committee for a new term of office (Resolution no 11/2018 of the Supervisory Board).

Consequently, from 26 March 2018 to 31 December 2018 the Audit Committee of the Bank's Supervisory Board consisted of the following persons:

1. Grzegorz Jędrzyś - Chairman (independent)
2. Bogusław Kott
3. Miguel de Campos Pereira de Bragança
4. Anna Jakubowski (independent)
5. Alojzy Nowak (independent)

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

Personnel Committee

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

In 2018 the composition of the Personnel Committee did not change in connection with the election of the Supervisory Board for the new term of office at the meeting on 26 March 2018. The Supervisory Board elected the same Supervisory Board representatives who performed the duties of the members in the preceding term of

office. Thus, during the period from 1 January to 31 December 2018 the composition of the Personnel Committee was 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 existed at the Bank since 2013. The tasks of the Strategic Committee are in particular: (I) examination of macroeconomic trends, (II) analysing new trends and solutions in the banking sector, (III) analysing the Bank's competitive position and reference models, (IV) analysing and recommending a long-term strategy, objectives and tasks of the Bank.

During the period from 1 January to 26 March 2018 the Strategic Committee consisted of the following persons:

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

During the period from 26 March to 31 December 2018 the Strategic Committee consisted of the following persons:

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. Lingjiang Xu
8. Dariusz Rosati

Risk Committee

The Risk Committee is a standing committee of the Supervisory Board set up on 4 December 2015. Its competences include the tasks stipulated for such committee in the Banking Law and allocated to it in other regulations applicable to banks as well as supervisory recommendations implemented by the Bank.

During the period from 1 January to 26 March 2018 the Risk Committee consisted of the following persons:

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

During the period from 26 March to 31 December 2018 the Risk Committee consisted of the following persons:

1. Dariusz Rosati - Chairman
2. Miguel de Campos Pereira de Bragança
3. Bogusław Kott
4. Grzegorz Jędrzyś
5. José Miguel Bensliman Schorcht da Silva Pessanha

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 entitled to monthly remuneration for sitting on the Supervisory Board. The amount of the remuneration is defined by a resolution adopted by the GMS with the consideration of the principles stipulated in the Policy, including the principle of its adequacy to the scale of the Bank's operation. The remuneration may be diversified in view of the function performed in

the Supervisory Board and should be correlated with the involvement in 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 the remuneration for sitting on the Supervisory Board, members of standing committees of the Supervisory Board are entitled to separate remuneration in connection with the tasks performed by them as part of these committees. If the Supervisory Board delegates its member to individually exercise supervision on a permanent basis, the Supervisory Board may assign to such Supervisory Board member additional remuneration for the duration of the 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 accounting 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 to refrain 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 2018 (in PLN ths)

Name and surname	Remuneration for 2018	Inne świadczenia	Razem (tys zł)
Bogusław Kott	305,0	21,6	326,6
Andrzej Koźmiński	135,0	0,0	135,0
Dariusz Rosati	165,0	0,0	165,0
Grzegorz Jędryś	200,0	0,0	200,0
Nuno Manuel Da Silva Amado	130,0	0,0	130,0
Miguel De Campos Pereira De Braganca	180,0	0,0	180,0
Miguel Maya Dias Pinheiro	125,0	0,0	125,0
Agnieszka Hryniewicz-Bieniek	135,0	0,0	135,0
Anna Jakubowski	155,0	0,0	155,0
Rui Manuel Da Silva Teixeira (*)	30,0	0,0	30,0
Julianna Boniuk-Gorzelańczyk (*)	35,0	0,0	35,0
Alojzy Nowak (**)	110,0	0,0	110,0
Jose Miguel Pessanha (**)	105,0	0,0	105,0
Lingjiang Xu (**)	95,0	0,0	95,0
RAZEM :	1 905,0	21,6	1 926,6

(*) Member of the Supervisory Board until 26 March 2018

(**) Member of the Supervisory Board since 26 March 2018

In 2018, Members of the Supervisory Board did not receive any remuneration or additional benefits from the Bank subsidiary companies.

The Bank's shares held by Supervisory Board Members (performing their functions on 31 December 2018):

Name and surname	Function	Number of shares at 31.12.2018	Number of shares at 31.12.2017
Bogusław Kott	Chairman of the Supervisory Board	1 000	1 000
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
José Miguel Bensliman Schorcht da Silva Pessanha	Member of the Supervisory Board	0	-
Miguel de Campos Pereira de Braganca	Member of the Supervisory Board	0	0
Agnieszka Hryniewicz-Bieniek	Member of the Supervisory Board	0	0
Anna Jakubowski	Member of the Supervisory Board	0	0
Grzegorz Jędrys	Member of the Supervisory Board	0	0
Alojzy Nowak	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	0
Lingjiang Xu	Member of the Supervisory Board	0	-

X.4. Management Board

The Management Board is the executive authority of the Bank and manages the entirety of the Bank's operations. In legal terms, 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 from the Bank's website on the "About the Bank > Corporate Bodies and Governance" tab. The competences of the Management Board include all matters that are not reserved for other bodies 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 of those present at the Management Board meeting. In the case of equal votes the Chairman of the Management Board has a casting vote. Resolutions of the Management Board may be adopted, if at least half of the Management Board Members are present at the meeting.

The following persons are authorized to make declarations of will regarding the Bank's property rights and obligations and to sign documents on behalf of the Bank: (I) the Chairman of the Management Board individually; (II) two other Members of the Management Board acting jointly or one Member of the Management Board acting jointly with a registered proxy or two registered proxies; or (III) attorneys-in-fact acting individually or jointly within the scope of the power of attorney granted. The Management Board of the Bank is composed of at least three persons, including the Chairman of the Management Board. At least half of the Members of the Management Board should be Polish nationals. The Management Board is appointed by the Supervisory Board. The term of office of a Management Board is 3 years. A Member of the Management Board may be recalled by the Supervisory Board at any time.

The Supervisory Board of the new term of office, at its first meeting on 26 March 2018 elected the Bank's Management Board in the unchanged composition for the next term of office ending with the holding of the General Meeting approving the financial statement for 2020. As of 20 April 2018 Mrs Maria Jose Henriques Barreto De Matos De Campos tendered her resignation from the position of Member of the Bank's Management Board.

Consequently, the Management Board of the Bank during the period from 1 January 2018 to 20 April 2018 consisted of the following persons:

- 1) Joao Nuno Lima Bras Jorge - Chairman of the Management Board
- 2) Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board
- 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

The Supervisory Board, on 20 April 2018, took the decision to increase the number of the Bank's Management Board Members to seven and appointed as the Bank's Management Board Members: as of 20 April 2018 - Mr António Ferreira Pinto Júnior and as of 1 August 2018 - Mr. Jarosław Hermann. Consequently,

- the Bank's Management Board during the period from 20 April 2018 to 1 August 2018 consisted of the following persons:

- 1) Joao Nuno Lima Bras Jorge - Chairman of the Management Board
- 2) Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board
- 3) Wojciech Haase - Member of the Management Board
- 4) Andrzej Gliński - Member of the Management Board
- 5) Wojciech Rybak - Member of the Management Board
- 6) António Ferreira Pinto Júnior - Member of the Management Board

- the Bank's Management Board during the period from 1 August 2018 to 31 December 2018 consisted of the following persons:

- 1) Joao Nuno Lima Bras Jorge - Chairman of the Management Board
- 2) Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board
- 3) Wojciech Haase - Member of the Management Board
- 4) Andrzej Gliński - Member of the Management Board
- 5) Wojciech Rybak - Member of the Management Board
- 6) António Ferreira Pinto Júnior - Member of the Management Board
- 7) Jarosław Hermann - Member of the Management Board

1. Joao Bras Jorge - Chairman of the Management Board



Mr. Joao Nuno Lima Bras Jorge, graduate of the Management Studies at Universidade Catolica Portuguesa and PADE Advance Management Programme under AESE.

He started his professional career as a 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 the 5 years prior to his move to Poland he held the position of Head of the Retail Banking Customer Division and Coordinator of the Retail Network at Millennium bcp.

Since 19 July 2006 - Member of the Management Board of Bank Millennium S.A., in the years 2006-2008 Head of the Retail Banking Division and from 2009 - Head of the Corporate Banking Area. From 22 April 2010 - Deputy Chairman of the Management Board and since 24 October 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, marketing communication & public relations, and personal data protection.

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, as Head of the 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 the purchase of Banco Mello by Banco

Comercial Portugues (BCP) in 2000, Mr Fernando Bicho worked in the BCP Corporate Centre and from June 2001 he was Head of the Asset and Liabilities Management Division of the BCP Group.

Since 1 August 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, mortgage bank project, as well as coordination of Group entities (other than leasing, brokerage and from the area of investment funds).

3. Wojciech Haase - Member of the Management Board



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

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

Since 27 June 1997 Member of the Management Board of Bank Millennium S.A. Since 4 December 2015 the Bank's material risk management supervisor. Moreover, he supervises risk management, risk models, credit and ratings processes, liabilities collection and treasury control.

4. Andrzej Gliński - Member of the Management Board



Mr Andrzej Gliński graduated from the Poznań University of Technology (1994) and completed his post-graduate studies in banking and finance at the Warsaw School of Economics.

From the beginning of his professional career he has worked in the financial sector: at Bank Handlowy S.A. in Warsaw - on management positions as Branch Director and Sales Director in the Assets Financing Department. Between 2001-2004 he was Vice President of Handlowy Leasing S.A. He has been working in the Bank Millennium Group since 2004, first as Chairman of Millennium Leasing Sp. z o.o. and next as Head of Corporate Banking Area at Bank Millennium S.A.

Member of the Management Board since 22 April 2010. He supervises corporate banking and its support, factoring and trade financing, structured finance, custody, as well coordination of the Group entities: leasing and brokerage.

5. Wojciech Rybak - Member of the Management Board



Mr Wojciech Rybak graduated in economics from 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 associated with banking. From September 1992 until August 1994 he worked in Bank Morski S.A. as a Credit Inspector and, subsequently, Manager of the Business Credit Team. 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 - Branch Director at PBB „Invest-Bank” S.A. in Szczecin.

Since May 1996 he has been working in the Bank Millennium S.A. Group, initially as a Branch Director in Szczecin (until March 2000), and, subsequently, as Director in the Customer Relationship Centre at the Bank's Head Office (until August 2003).

From August 2003 he was 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 the Management Board of Millennium Leasing Sp. z o.o.

Member of the Management Board of Bank Millennium S.A. since 6 June 2016. He supervises the retail sales network, its optimization and support, private banking and direct banking.

6. António Ferreira Pinto Júnior - Member of the Management Board



Mr António Ferreira Pinto Júnior graduated in Economics (1985-1990) from Oporto University and Corporate Finance from Minho University (1993-1994).

He started his professional career in Banco Português do Atlântico (1990), since 1994 part of Millenniumbcp Group, gaining experience in Retail and Corporate Banking by holding managerial positions in the marketing and sales support areas.

Between 2002 and 2011 he worked in Bank Millennium, S.A., as Head of Departments in charge of Marketing, Quality, Processes and Operations, and, from April 2010, as a Member of the Management Board.

In the following 7 years, he held the position of Head of Retail Banking Marketing Department in Millenniumbcp in Portugal, and between July 2016 and May 2018 was also a non-executive Member of Management Board of ActivoBank.

Since 20 April 2018 Member of the Management Board of Bank Millennium S.A. He supervises electronic banking, sales campaigns, retail marketing, processes support management, administration and infrastructure, complaints and quality of services, coordination of Group entities from the area of investment funds and startups.

7. Jarosław Hermann - Member of the Management Board



Mr Jarosław Hermann graduated from the Applied Mathematics and Physics Faculty at the Warsaw University of Technology in 1994 and Carlson School of Management MBA program in 2002.

He gained broad IT & Operations practice working on managerial positions in PepsiCo, Pioneer Financial Services and Accenture, where he conducted mid / large scale projects in the banking sector in Poland and CEE countries.

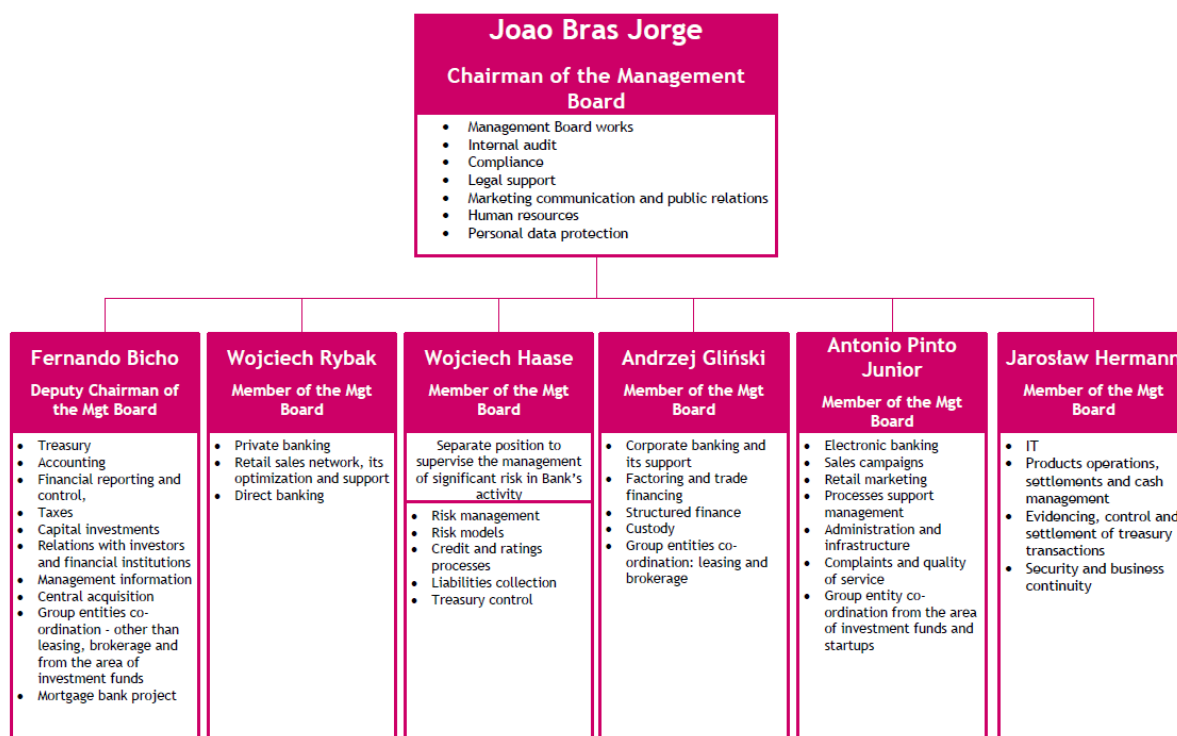
Between 2005-2010 he was Board Member of First Data Poland responsible for providing operational services for card acquiring and financial solutions business lines.

Between 2010-2016 he was Board Member of AXA companies in Poland responsible for IT & Operations.

From 2016 to 2018 he was Vice President of Polskie ePłatności, emerging card acquirer.

Since 1 August 2018 Member of the Management Board of Bank Millennium S.A. He supervises IT, product operations, settlement and cash management, recording, control and settlement of treasury transactions, security and business continuity.

The organizational structure of the Bank is consistent with strategy, modern approach to business and complies with the principles of corporate governance for financial institutions. The division of the 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 2018 can be found in chapter IX of this report, Part 3 entitled "Remuneration policy".

Bank shares held by Members of the Management Board (performing their functions on 31 December 2018):

Name and surname	Function	Number of shares 31.12.2018	Number of shares 31.12.2017
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
António Ferreira Pinto Júnior	Member of the Management Board	0	-
Wojciech Rybak	Member of the Management Board	0	0
Jarosław Hermann	Member of the Management Board	0	-

X.5. Internal Control System and external Auditor

Internal Control System

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

On the first line of defence risk is managed within the Bank's operational units. The second line of defence consists of units responsible for risk management in the Bank and the Compliance Department in the scope of non-compliance risk management. The third line of defence includes, in turn, the Internal Audit Department. In all three lines of defence, employees (as part of their assigned duties) respectively use controls or independently monitor their functioning.

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

The Bank has controls adjusted to the above-mentioned objectives of the internal control system, complexity degree of processes, risk of irregularities, specificity of the Bank's activity, implemented organizational solutions, employed system solutions and available resources. For identified significant processes there was introduced the documenting of the relationship between key controls and the objectives of the internal control system and the estimated risk of non-achieving them in the form of so-called internal control matrices. Control matrices 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 matrices for significant processes, the Bank's Internal Control System Matrix is created to be 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 an adequate and effective internal control system is exercised by the Supervisory Board of the Bank.

Internal Audit (third line of defence)

The Internal Audit Department is within 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 is to provide the Bank's Management with an assessment of the 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. When implementing its mission Internal Audit takes into account the strategic objectives and tasks of the organization, as laid down 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.

The Internal Audit Department is an independent unit, reporting to the Chairman of the Management Board of the Bank and the results of its activities are reported to the Audit Committee of the Supervisory Board and the Supervisory Board of the Bank.

The activity of Internal Audit is a planned and continuous activity, resulting from the implementation of the mission and objectives, as well as the adopted Department Strategy and based on an annual audit plan. The basis of the planning process is the assessment of the 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 senior management and owners of key processes. The annual audit plan is approved by the 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, branch audits, preventive audits and investigations. Assurance activity includes assessment of the adequacy and effectiveness of the 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 put under threat the independence, effectiveness and objectivity of Internal Audit's assurance activity, nor is related to the designing of control mechanisms and risk management system.

In 2018 Internal Audit Department performed audit tasks in the Bank, its subsidiaries, external entities to which the Bank, to the extent permitted 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, branch audits and those of compliance with external regulatory requirements. The tasks performed by the Internal Audit Department also included investigations and prevention audits.

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

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

Implemented solutions regarding the internal control system protect to a significant extent the Bank from financial reporting errors and provide the Bank's Management with information which helps evaluate the correctness, efficiency and security of the process of preparing financial reports, also in order to ensure the highest possible effectiveness in managing identified types 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 over the correctness of gathering, processing and presentation of data necessary for the 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 the cooperation of the Audit Committee of the Bank's Supervisory Board with an audit firm providing financial audit services. The Bank prepared the policy of selecting an audit firm for carrying out an audit and policy for providing by an audit firm carrying out an audit, by entities connected with such audit firm and by a member of an audit firm network - permitted services not being an audit. The above-mentioned scope of information is captured in the document „Policy of Selecting and Cooperation with Audit Firms”, which was approved by the Audit Committee on 26 October 2017. The policy specifies:

1. The principles of selecting the audit firm to conduct:
 - a. statutory audit, i.e. annual audit of the consolidated financial report of the Bank's Capital Group or annual audit of the Bank's financial report whose duty to conduct results from art. 64 of the Accounting Act of 29 September 1994 (Dz. U. of 2016, i.e. item 1047 and 2255 and of 2017, item 61, 245, 791 and 1089) (hereinafter „the Accounting Act”), provisions of other acts or provisions of the EU law,
 - b. voluntary audit, i.e. annual audit of the financial report which is conducted pursuant to the Bank's decision, and not on the basis of art. 64 of the Accounting Act of 29 September 1994, provisions of other acts or provisions of the European Union law, conducted in accordance with national or other audit standards, as well as auditing the consolidated annual financial report of the Bank's Capital Group conducted in accordance with standards other than national audit standards;
2. Principles of providing permitted services not being a statutory or voluntary audit by:
 - c. audit firm conducting a statutory audit or voluntary audit at the Bank or at Millennium BCP,
 - d. entities connected with the audit company conducting a statutory or voluntary audit at the Bank or at Millennium BCP, and
 - e. member of an audit firm network conducting a statutory or voluntary audit at the Bank or at Millennium BCP.
3. Principles of the Bank's communication with audit firms, entities connected with an audit firm or members of an audit firm network with respect to conducting statutory or voluntary audits and providing permitted services.

The External Auditor is selected by the Supervisory Board on the basis of a recommendation issued by the Audit Committee of the Supervisory Board. In addition, in the interest of the quality of financial data presented in the remaining published quarterly reports, the Bank, together with the External Auditor, has implemented cooperation procedures ensuring - on an on-going basis - the consultation of important issues connected with the recognition of economic events in the Bank accounts and financial reports. 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 draft reports and proposes an approach to the audit of the annual financial statement.

Pursuant to the Supervisory Board decision of October 2017 PricewaterhouseCoopers Sp. z o.o. was the audit firm auditing the financial report of the Bank and the Bank's Group for 2018. The audit was carried out on the basis of the agreement extended for the last fifth year of cooperation. Bearing in mind the mandatory rotation of audit firms resulting from legal regulations and the five-year period of cooperation with PwC, coming to an end, in 2018 the Bank conducted the process of selecting a new audit firm. The process was conducted in accordance with the „Policy of Selecting and Cooperation with Audit Firms” adopted by the Audit Committee on 26 October 2017. At the meeting of 25 October 2018, the Audit Committee familiarised itself with the report of the Task Force running for the Bank the process of selecting the audit firm containing the conclusions

from the selection procedure and indicating the audit firm recommended for conducting the statutory audit. Based on the Report the Audit Committee recommended to the Supervisory Board the selection of Deloitte Sp. Z o.o. Sp. k. as the Statutory Auditor of Bank Millennium S.A. and the Bank Millennium Group for the years 2019-20. This recommendation was formulated on the basis of the selection procedure organised by the Bank meeting the binding criteria. The Supervisory Board on 26 October 2018 approved the selection of Deloitte Sp. Z o.o. Sp. k. as the Statutory Auditor of Bank Millennium S.A. and the Bank Millennium Group for the years 2019-20.

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 2018 in the review of adequacy and effectiveness of the 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 2018 the audit of Bank's financial statements was performed by PricewaterhouseCoopers sp. z o.o. On 27 October 2017 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 2018. The audit agreement was concluded on 5 April 2018.

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)	2018		2017	
	Bank	Subsidiaries	Bank	Subsidiaries
Statutory audit within the meaning of art. 2 point 1 of the Act on Certified Auditors	745	321	744	321
Other assurance services	402	113	406	113
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, 2018.
- review of the interim condensed financial statements of Millennium TFI SA investment funds prepared as at June 30, 2018.
- audit of the consolidation package prepared as at December 31, 2018, related to the audit of the consolidated financial statements of BCP Group.
- review of the consolidation package as at June 30, 2018 and September 30, 2018, related to the review of the consolidated financial statements of BCP Group.
- verification of the consolidation package prepared as at 31 March 2018.
- attestation service regarding requirements for customer asset retention for 2018 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 2018 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 2018 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 acting for the community is part of the business strategy. It is the priority to assure highest quality of Customer service, conducting ethical marketing and sales as well as facilitating the use of banking and non-banking services (e.g. e-administration) by introducing enhancements for disabled persons as well as innovative services. CSR actions are also targeted at Employees. Apart from assuring stable and attractive conditions of employment as well as offering the opportunity to engage in social actions, the Bank promotes diversity in the organisation. Programmes for the community are carried out via Bank Millennium Foundation and involve financial education as well as development of 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 actions for the benefit of the main Stakeholders: Customers, Employees, Business Partners, the Community and Environment.

1. Customers

One of the Bank's most important values is assuring highest quality of service. Analysing Customers' opinions with use of such modern methods as behavioural economics, service design or UX (user experience) surveys, services are 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. The Bank's app and website gives Customers i.a. access to e-administration, the opportunity to buy public transport tickets or to get motor insurance. After the 2018 introduction of a chatbot in the near future we plan to launch robo advisory service, thanks to which daily banking will become even easier. A number of improvements were introduced for Customers with disabilities i.a. website, branches, cash machines and service adapted to the needs of this

group of Customers. For adapting the bank's website to the needs of blind persons in 2018 Bank Millennium won the "Website Without Barriers" competition.

The Bank is focused on compliance with ethical sales principles. Branch Employees are required to observe ethical standards contained in the Bank Millennium Code of Ethics as well as in rules for selling particular products. All Employees of the Bank obligatorily take part in Code of Ethics training and have the possibility to report unethical behaviour via the Whistleblowing system.

Solutions, which were implemented in the area of service quality, have contributed not only to improvement of Customer satisfaction but were also appreciated by the market. In 2018 93% retail customers were satisfied with their relationship with the Bank and 53% corporate customers were recommending it to others. Bank Millennium was the most often recommended commercial bank in Poland with loyalty measured with the market's highest NPS score of 61. Yet again it was among the top three in all categories of "Newsweek's Friendly Bank" ranking (i.a. 1st place in the "Mobile Banking" category).

2. Employees

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

In 2018 the Bank signed the Diversity Charter - an international initiative promoted by the European Commission. It is a commitment signed by organisations deciding to introduce a ban on discrimination in the workplace and to act towards creating and promoting diversity.

Detailed information about HR policy of Bank Millennium Group is in the "Human Resources Management" chapter.

3. Business Partners

Purchasing regulations include the requirement to use ethics and/or environmental clauses in contracts where such provisions may be applied (e.g. OHS clauses in contracts on construction services; environmental clauses in recycling contracts). Moreover every supplier bidding for a contract signs a commitment to observe principles stipulated in the Code of Ethics of Bank Millennium Group. Contracts signed in 2018 had a clause, which confirmed compliance by the suppliers with the Code of Ethics.

4. The Community

4.1. Community programmes

Community programmes are largely implemented via Bank Millennium Foundation and focus on two areas:

a) Financial education

The proprietary "Financial ABCs" kindergarten children education programme, which started in 2016, was prepared and is being implemented by Employees of Bank Millennium in cooperation with a non-governmental organisation. Its purpose is to explain to the children - through play and games - the meaning of basic financial terms. In total more than 1300 workshops were held in the programme to train almost 33,000 children from approx. 400 kindergartens all over Poland. The programme is carried out under the honorary sponsorship of the Minister of Education and the Children's Ombudsman, which confirms its strong educational value.

c) Employee volunteering

The Foundation carries out its Millantrop programme, in which, by way of competition it awards grants to finance social activities undertaken by the Bank's Employees. The programme is in place since 2016 and in total it has involved more than 440 volunteers (the Bank's Employees, their families and friends) in 20 projects for schools, care centres, children and youth as well as environmental protection.

4.2. Sponsoring of culture

For 30 years now Bank Millennium has been supporting national and local cultural events. It is a sponsor of culture 360° - promoting 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 artists; for 11 years a sponsor of “Pearl of Millennium” - a joint project of the Bank and TVP, which aimed to produce, promote and present high culture artistic events on TVP channels. For 16 years it has been sponsoring the International Festival of Traditional Jazz “Old Jazz Meeting - Złota Tarka”. Since 7 years together with “Sacrum Profanum” contemporary music festival and for more than 6 years with Bella Skyway Festival - a multimedia show prepared by an international group of artists. For 7 years it was involved with the “Two Theatres” Festival; for 5 years with Gdańsk Music Festival, it was also supporting the Mozart festival in Warsaw Chamber Opera and many others.

The most important cultural project currently supported by the Bank is Millennium Docs Against Gravity Film Festival. It is the biggest world documentary film festival in Poland together with accompanying events (workshops, discussions and concerts). Bank Millennium has been a partner of Millennium Docs Against Gravity since 13 years. In 2016 it became the festival’s naming rights sponsor.

4.3. Supporting innovation

In its social activity Bank Millennium analyses trends concerning innovation in the market environment. Every year the Bank’s experts prepare the “Millennium Index - Regional Innovation Potential”, which describes disparities in development of innovation in Polish Voivodeships. As a strategic partner of the “Eagles of Innovation” competition it promotes development of innovation in Poland’s economy.

4.4. Supporting academic education

The Bank offers students and graduates the opportunity to develop their skills, interests and to gain first professional experience by means of offering a programme of “Millennium Bankers” paid internships, “Expert Start-up” development programmes as well as free training and workshops.

As a member of the WSE Partners Club the Bank makes a substantive and employer branding contribution to academic life. In 2018 the Bank opened the first academic co-working space in WSE, which allows an exchange of experience and supports development of entrepreneurship among students.

In 2018 the Bank was an “Artificial Intelligence” partner at the Science Festival in Warsaw. Almost 50,000 people attended more than 1000 lectures, debates, workshops and presentations, which took place during the festival in Warsaw’s universities.

5. Environment

The Bank regularly monitors consumption of electricity, water, fuels, office supplies and undertakes actions to reduce usage of the resources. Its offering now includes environmentally-minded products for example the WWF Credit Card, part of the proceeds from which is given to the WWF Polska Foundation or Eko Energia Lease, which supports projects to acquire energy-efficient machines and equipment. The Bank also organises environmental education actions for employees.

Information concerning implementation by the Bank of principles of corporate social responsibility is available in the non-financial part of Bank Millennium’s Annual Report - 2018. The report is prepared in keeping with the guidelines of the amended Accounting Act as well as Global Reporting Initiative Sustainability Guidelines (GRI Standards).

Compliance by the Bank with principles of sustainable development has been confirmed in third-party assessments. Since 2011 the Bank is included in Respect Index, which comprises socially responsible companies listed on Warsaw Stock Exchange. In the Ranking of Responsible Companies prepared by Responsible Business Forum, Bank Millennium was in the top ten most socially responsible companies in Poland. It was also awarded the CSR Silver Leaf in Polityka weekly’s ranking. The company also supports UN Sustainable Development Goals (SDG). Joining the business and government administration partnership for attaining these Goals Bank Millennium declared it would undertake activities especially as regards financial education of children and the youth.

XII. ADDITIONAL INFORMATION

Other information regarding:

- Guarantees and sureties granted,
- Transactions with related companies,
- List of the relevant 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 2018.

XIII. STATEMENTS 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 2018 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 2018, 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
22.02.2019	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
22.02.2019	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
22.02.2019	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
22.02.2019	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
22.02.2019	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
22.02.2019	António Ferreira Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
22.02.2019	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature