



**Management Board Report on the
activity of Bank Millennium and
Capital Group of Bank Millennium
for 2019**



SPIS TREŚCI

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Dear Sirs,

I have the pleasure of giving you the Annual Report of Bank Millennium Group.

2019 was for us an extremely intense and important year, abounding with experiences. Unquestionably the most significant challenge was the acquisition and the merger with Euro Bank, which resulted in complete success. Last year proved that we are able to focus on several key areas at the same time - consolidation of the banks, innovation and effective implementation of the current organic growth strategy. One of the most important objectives of this strategy was to accelerate the pace of acquisition of new active retail customers to 600,000 during three years. In 2019 the Bank increased their base by the record-high number of 734,000, which constitutes 40% annual growth.

Stronger by acquiring Euro Bank - after the merger, Bank Millennium Group, with Head Offices in Warsaw, Wrocław and Gdańsk, serves 2.6 million active retail customers. By expanding the branch network with Euro Bank's branches it has increased its presence in many new smaller towns. Record-high sales of cash loans and the merger effect brought doubling of the value of the consumer loans portfolio to PLN 15.1 billion. Customers' deposits reached PLN 81.5 billion and loans stood at PLN 69.8 billion. The Group finished the year with a significant liquidity surplus and strong capital ratios.

Result - the Group's consolidated net profit totalled PLN 561 million. Were it not for one-off cost and provisions mainly for integration with Euro Bank and legal risk of the portfolio of FX mortgage loans, it would have been PLN 889 million (+17% y/y).

Consistent organic growth - despite huge commitment to the process of merging with Euro Bank, the last 12 months brought double-digit organic growth and further business development - i.a. record high sales of mortgage loans - PLN 4.2 billion (+26%y/y) and cash loans - also PLN 4.1 billion (+28% y/y). We are growing faster than planned, which is a good forecast as regards strategy implementation in 2020, the last year of its validity.

Innovation and customer satisfaction - without taking advantage of digital potential and focusing on positive customer satisfaction, the excellent results and effective merger would not have been possible. Consumers see and highly appreciate it. In the customer behaviour and preference survey by Bain&Company advisory company we had the highest NPS among Polish banks; in the Banking Stars competition we won the title of "Customer Relationship Star"; in KPMG's TOP 100 brands report we became the leader in "Customer Experience" of the Polish financial sector and among first ten best brands in Polish economy. In 2019 the Bank offered entirely new online banking service and entirely new banking app as well as aligned its services to the requirements of PSD2. Next year it is planning further development of open banking, including aggregation of accounts and information about accounts in other banks in the mobile app and the Millenet system.

What lies ahead - in 2020 economic growth will be slowing down gradually and according to our forecasts it will be down to 3.2%. Despite the slowdown, Poland's economy will remain one of the fastest-growing among EU countries. This will be supported by a still good situation on the labour market, social transfers as well as reduction of income taxes. Although inflation will be highest

since 2012 (3.4% y/y according to forecasts), due to poor prospects regarding CAPEX projects, the Monetary Policy Council shall strive to stabilise interest rates. In these circumstances the overriding goal of the Bank will still be strong organic growth, profitability improvement and fast pace of customer acquisition. Apart from cost synergy, we will be integrating as a team and harmonising processes.



Joao Bras Jorge

Chairman of the Management Board of Bank Millennium

1. 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.

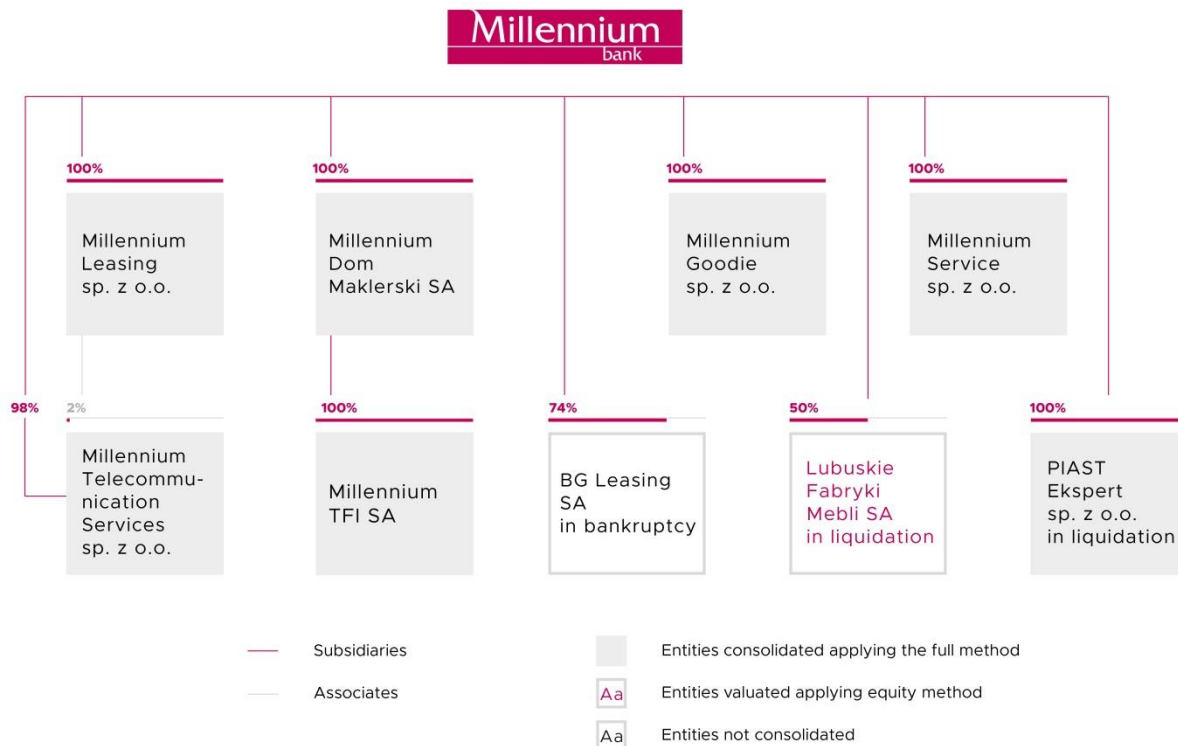
Bank Millennium, together with its subsidiaries, forms Bank Millennium Group - one of the most innovative and comprehensively developing financial groups in Poland - employing the total of 8,464 persons.

Its most important companies are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage business) and Millennium TFI (mutual funds). Since 2016 Millennium Goodie Sp. 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.

On 5 November 2018 the Bank announced the agreement on the transaction to buy 99.8% of the shares in Euro Bank S.A. On 28 December 2018 the Bank received consent for the merger from antimonopoly authority (UOKiK) and on 28 May 2019 a non-objection from the Polish Financial Supervision Authority (KNF). The transaction was closed on 31 May 2019 and from that date Euro Bank S.A. became part of the Bank Millennium Group. As at the end of May 2019 Euro Bank had total assets of PLN 14.5 billion, loans of PLN 12.3 billion and deposits of PLN 8.0 billion.

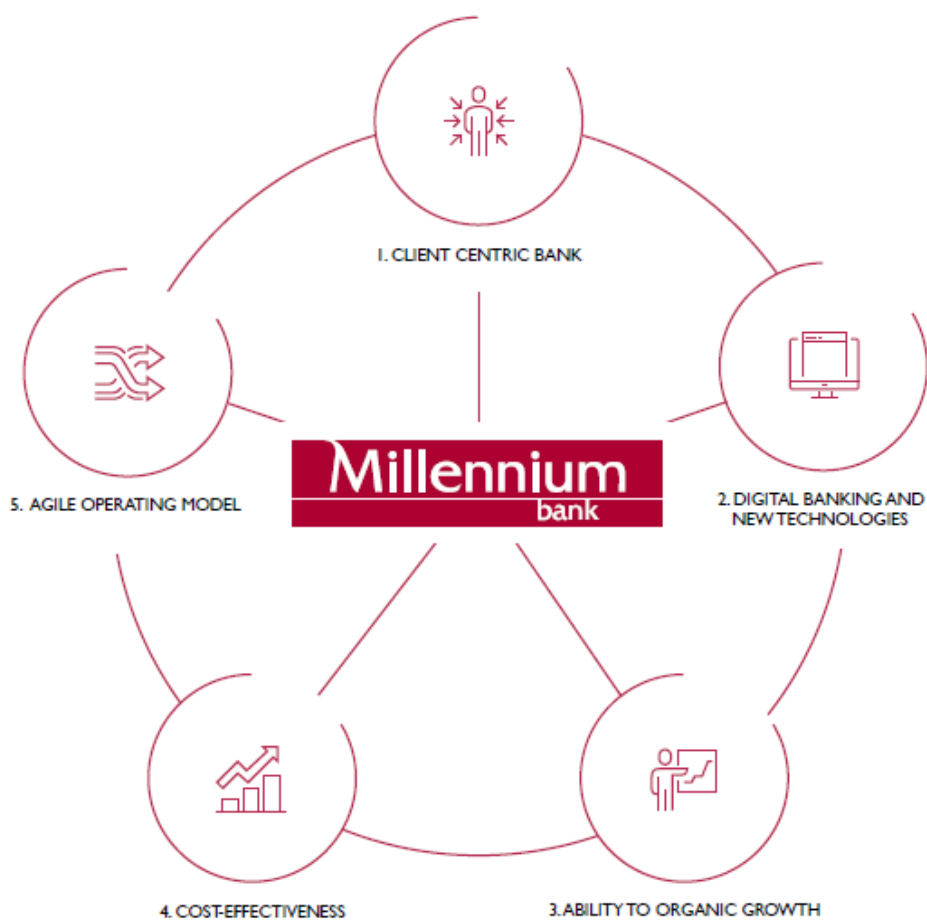
After approvals from General Meetings of Bank Millennium and Euro Bank shareholders as well as from KNF, the legal merger of both banks was concluded on 1 October 2019. The operational merger of both banks ended on 11 of November 2019.

After the merger, at the end of 2019, the Bank Millennium Group had assets amounting to PLN 98.1 bn and equity amounting to PLN 8.9 bn. Customer deposits reached PLN 81.5 bn and the Group's loans reached PLN 69.8 bn. The number of active individual customers reached 2.6 million, both through the effective implementation of organic growth and merger with Euro Bank. As at the end of 2019 1.8 million clients actively use electronic banking, while 1.4 million the mobile app and mobile Millenet. The Group ended the year with a significant liquidity surplus (loans/deposits ratio below 86%) and strong capital ratios (TCR at 20.1%).



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.

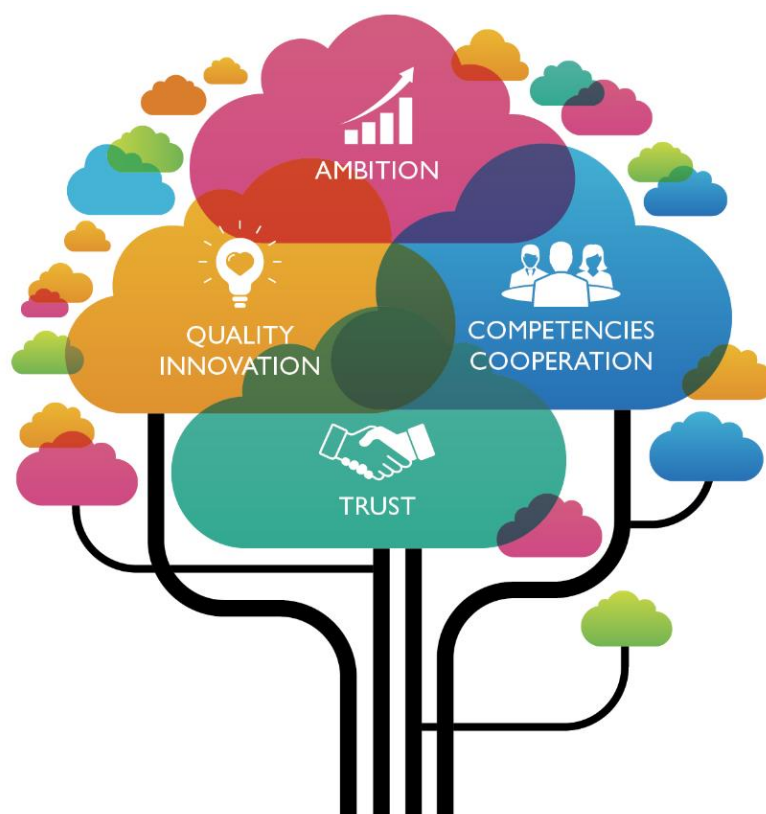
4. COST-EFFECTIVENESS

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.



2. HIGHLIGHTS OF RESULTS AND ACHIEVEMENTS IN 2019

2.1. SUMMARY OF CONSOLIDATED GROUP RESULTS IN 2019

Solid operational profitability affected by Euro Bank acquisition and legal risk provisions

- Net profit of 2019 at PLN 561 million, meaning 26% y/y decrease or 17% growth when adjusted for one-offs
- PLN 205 million of Euro Bank related integration costs and provisions
- PLN 223 million provisions for FX mortgage legal risk
- ROE at 6.4% and cost/income at 49.7%
- Adjusted* ROE at 10.2% and adjusted cost/income at 47.4%

Income and costs influenced by the acquisition and merger of Euro Bank

- Operating income grew by 27% y/y
- Net interest income grew by 33% y/y
- Operating costs up by 36% y/y (28% without integration costs).
- Provision for cash loans fees returns after Court of Justice of EU ruling: PLN 66 million

High asset quality and liquidity kept

- Impaired loans ratio at 4.56%
- Adjusted Cost of Risk** at 57 bp
- Loans to Deposits ratio at low level of just off 86%

Solid capital position and lower regulatory buffers

- Group's Total Capital Ratio (TCR) at 20.1% and CET1 ratio at 16.9% (incorporating 1H 2019 profit)
- KNF reduced FX mortgage related Pillar 2 buffer to 4.9% and dividend related Stress Test buffer to 3%

Retail business

- 2.6 million active clients (+40% y/y) with +494k from Euro Bank acquisition and +240k achieved organically
- 28% y/y growth of deposits (+10% without Euro Bank)
- 44% y/y growth of loans (+9% without Euro Bank)
- Over PLN 4 billion sale of cash loans and mortgages each with high y/y growth of +28% and +26% respectively
- Cash loans sale in 4Q 2019 affected by Euro Bank migration, adjusted risk appetite and price
- Doubling pace of new microbusiness accounts acquisition (26% opened on-line)

- 89 thousand total number of active micro business clients at year end

Companies business

- Current accounts volumes grew by +19% y/y
- Growth of loans to companies: +7% y/y; + PLN 1.2 billion y/y
- 6.5% annual growth in factoring sales
- Growing number and volume of transactions in corporate business

Quality and Innovations

- The highest NPS ratio*** (52) among banks in Poland
- The Best Web Site Design in Central and Eastern Europe according to the Global Finance magazine
- 1.5 million apps downloads by goodie - Bank's smartshopping platform

(*) without one-offs (pre-tax): 1. integration costs (PLN 116 million) and extra risk provisions (PLN 89 million) for merged Euro Bank, 2. PLN 27 million release of tax asset provision (1Q 2019), 3. PLN 45 million of positive revaluation of shares in PSP (3Q 2019), 4. PLN 223 million provisions for FX mortgage legal risk (4Q 2019).

(**) total net provisions (including FV adjustment and modification effect) to average net loans, without extra IFRS9 provisions on Euro Bank acquired portfolio and without provisions on FX mortgage legal risk

(***) based on ARC Opinia i Rynek survey

2.2. MAIN AWARDS AND ACHIEVEMENTS IN 2019



Satisfaction ranking won

According to ARC Rynek i Opinia survey:

- **1st place** in main categories: “Satisfaction”, “Assessment of fees and commissions” and 3rd place in “Interface assessment”
- **Highest NPS score (52)** among banks in Poland



Golden Banker Ranking

- **1st place** - “Socially Sensitive Bank” - Financial ABCs were considered to be the best social programme - it is a proprietary kindergarten kids financial education programme of Bank Millennium Foundation
- **2nd place** - “Best multichannel service quality”
- **2nd place** - “Safe Bank - Best Practice”



The best bank in Poland according to Global Finance Magazine

Bank Millennium was hailed **Best Bank in Poland** in the annual Best Bank Awards competition organised by Global Finance Magazine.

The winning banks were selected by the editors of Global Finance Magazine after extensive consultations with banking experts from all over the world.



Customer Relationship Star

The Bank was among the top three as many as three times in the Stars of Banking 2019 competition organised by Dziennik Gazeta Prawna and PwC:

- 1 place in the “Customer Relationship” category and receiving the title of “Customer Relationship Star” (the ranking was based on clients’ feedback)
- 2nd place in the “Innovation” and “Growth” categories



2019 Banks’ ranking of the Bank Financial Monthly

Bank Millennium was:

- 1st in the “Availability” category
- 2nd in “Bank for Young People” in the 2019 Banks’ ranking of the Bank Financial Monthly



The ranking of banks by Bank Financial Monthly aims to identify banks, which focus on efficiency, development of new technologies as well as innovative financial services, seeking the best solutions in customer relationship management and enjoying the best customer reviews. Activity in corporate social responsibility and openness to persons with disabilities is also rewarded.



The most transparent company among companies included in mWIG40 index

In 2019 Bank Millennium won the “Transparent Company of the Year 2018” ranking. The ranking recognises companies, which communicate with the market in the most transparent and regular way. Bank Millennium scored the highest number of points among all ranked companies.



2019 Service Quality Star

Bank Millennium received the title of Service Quality Star awarded by Polish Service Quality Standard to businesses with highest customer service standards.



Bank Millennium with Best Web Site Design in Central and Eastern Europe according to Global Finance magazine

Bank Millennium's website was hailed the best in Best Consumer Digital Banks competition organised for the 20th time by the international Global Finance Magazine. The design and functionalities of the website were appreciated.



CSR Silver Leaf

For the fifth 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 was among the Responsible Business Leaders in the Ranking of Responsible Companies 2019. 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 the Year 2019 title

Bank Millennium again received the title of Reliable Employer of the Year in national category. The title is proof of recognition of the Bank as a financial institution with stable foundations and structure, which makes efforts to take care of the employees, developing their social package, investing in their growth and carrying out extensive and diversified CSR activities.



“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 12th time in RESPECT Index

Bank Millennium kept its place in Respect Index. The index comprises selected companies on the stock market, which follow the best management standards in corporate governance and 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.



Bank Millennium in new WIG-ESG index

According to GPW communique of 3 September 2019, which announced the portfolio of the new WIG-ESG index, **Bank Millennium was among the 4 top-scoring companies**. Bank Millennium reached the highest result as regards assessment of applying environmental, social and corporate governance factors (ESG of 1,0) as well as assessment of compliance with principles of Code of Best Practice (KDP of 1,0).

The index comprises 60 companies from WIG20 and mWIG40 indices.

3. Information for investors

3.1. CHANGES OF SHARE PRICE

The Warsaw Stock Exchange main index remained practically unchanged at end of 2019 vs end of 2018 (+0.2%). This was an outcome of growths of smaller companies as well as drops of share prices of larger constituents including banks. WIG20, an index of the largest companies, was down 5.6%, while the index representing bank share prices fell 9.2% during 2019.

Banks' quotations during the better part of the year were affected by information and concern relating to legal risk of FX mortgages, exacerbated by the preliminary opinion and then official reply of the Court of Justice of the European Union to requests for preliminary ruling submitted by a Polish court with respect to these loans. This led to drops of prices of banks, which hold FX mortgages in their portfolios.

One of these banks is Bank Millennium, whose share price dropped 34% in 2019. Trading in shares of Bank Millennium (average daily) fell 24% in 2019 vs. 2018. The decline of trading in the Bank's shares was partly caused by the trading slump on all WSE. The total value of shares trading on the WSE's main market in December 2019 was 7.5% lower than in December 2018.

Market ratios	28.12.2019*	29.12.2018*	Change (%) y/y
Number of the Bank's shares (in '000)	1 213 117	1 213 117	0.00%
Average daily turnover in annual terms (in PLN'000)	6 068	8 006	-24.2%
Bank share price (PLN)	5,85	8,87	-34.0%
Market capitalization of the Bank (PLN million)	7 097	10 760	-34.0%
WIG Banks	6 768	7 454	-9.2%
WIG20	2 150	2 277	-5.6%
WIG30	2 472	2 582	-4.2%
WIG - main index	57 833	57 691	0.2%

(* last day of trading in 2019 and 2018)

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

3.2. BANK MILLENNIUM RATINGS

On 2 April 2019 Moody's rating agency increased the Bank's long-term deposit rating to Baa1 from Baa2.

At the same time the baseline credit assessment (BCA) and adjusted BCA have been increased to baa3 from ba1, long term Counterparty Risk Assessment (CR Assessment) has been increased to A3(cr) from Baa1(cr) and long-term Counterparty Risk Ratings (CRRs) to A3 from Baa1.

At the same the outlook of long-term deposit ratings was changed from positive to stable.

On 15 October 2019 Fitch sustained Bank Millennium's long-term rating at BBB- and Viability Rating (VR) at bbb-. The rating outlook remained stable.

Ratings of the Bank as on 31 December 2019 are presented in the table below:

Rating	MOODY'S	FITCH
Long-term deposit rating/IDR	Baa1 (stable outlook)	BBB- (stable outlook)
National long-term IDR	-	A(pol) (stable outlook)
Short-term deposit rating	Prime-2	F-3
Viability / standalone BCA rating	baa3	bbb-
Counterparty Risk Rating (CRR)	A3/Prime-2	-
Support Rating		4

3.3. 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 - in section of 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 2019),
- Participation in conferences and road shows organised for Investors in Poland and abroad (12),
- Face-to-face and group meetings with capital market participants (360 persons),
- Current reports (30) 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 2019 13 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 - in Analysts section <https://www.bankmillennium.pl/o-banku/relacje-inwestorskie/analitycy>.

In 2019, the Bank complied with the corporate governance principles contained in the document 'Good practices of companies listed on the WSE' in the scope of relations with investors and the market. The only exception was the lack of two-way communication in real time during the Bank's General Meeting. In the Bank's opinion the implementation of this rule during a General Meeting carries technical and legal risks to the correct and efficient conducting of a General Meeting. In the Bank's opinion, avoiding these risks constitutes a bigger value for the Shareholders. At the same time, the Bank does not rule out the possibility of ensuring to the shareholders real-time two-way communication during the proceedings of General Meetings in future, should factual or legal circumstances change. Full information on compliance with corporate governance principles can be found in Chapter 9 of this report.

3.4. DIVIDEND POLICY

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

The high capital ratios at the end of 2019 would allow the payment of dividend, were it not for the additional K1 and K2 criteria for banks with FX mortgage loan portfolios, which KNF maintained when it announced in December 2019 its recommendation on banks' dividend policy. The K1 criterion is based on the share of FX mortgages in the total portfolio and the K2 criterion is based on the share of 2007-2008 vintages in the total FX mortgage portfolio.

Notwithstanding the above and taking into account the takeover of, and later merger with, Euro Bank conducted in 2019 (without a share issue) the Bank intends to retain the entire net profit for the year 2019 in its own funds in order to strengthen the capital ratios. Hence, the Bank's Management Board will submit to the General Meeting of Shareholders an appropriate proposal to retain the entire net profit for the year 2019.

If the proposal to retain the entire net profit for 2019 is accepted by the General Meeting of Shareholders, the positive impact on the T1 and TCR ratio will be approximately 0.4-0.5 pp (to levels of 17.4% and 20.6% for Group, respectively). It should be reminded that capital ratios as at the end of 2019 already incorporated the 1st half 2019 net profit, according to the positive decision of KNF upon the Bank's request.

4. MARKET CONDITIONS AND BUSINESS PROSPECTS

4.1. MACROECONOMIC ENVIRONMENT

In 2019 economic growth slowed down to 4.0% from 5.1% recorded in the previous year, and drop in GDP growth rate materialised in two separate stages. In 1 half 2019, GDP grew, on average, at 4.7% y/y which was only slightly slower than in 2018. In 2 half 2019 economic growth recorded a stronger slowdown, according to our estimates to 3.0% y/y in Q4 2019, i.e. to reach the lowest level in the last three years. Despite slowdown, the economic growth in 2019 distinguished Poland positively, against the European Union thereby confirming partial resistance to negative impact from abroad connected with drop in the global trade activities.

The household consumption was the main economic growth driver in 2019; this growth slowed down only slightly relative to 2018. This situation was supported by good sentiment among consumers connected with the record low unemployment rate and expansion of the 500 plus programme as well as reduction of income taxes in 2 half of the year. The above factors to large extent netted off the impact of declining dynamics of real wages. In the 1 half 2019, investments significantly supported economic growth, largely driven by public sector outlays co-financed with European Union budget funding. The situation, however, changed in 2 half of the year and current data on construction output indicate drops in annual terms in infrastructural investment. Economic growth in 2019 was also supported by balance of trade turnover with foreign countries; it is even better news since taking account of global economic slowdown resulting from, *inter alia*, protectionist trade policies and uncertainties related to global business activity.

Impact of the economic environment upon the national economy was largely compensated by consumer demand supported by labour market situation. In Q3 2019, unemployment rate, according to the Labour Force Survey, decreased to 3.1% i.e. the lowest historical value. Additionally, according to the Bank's estimates, wage growth in 2019 was similar to the level recorded in 2018. Economic growth slowdown contributed to weaker demand for labour and this, together with supply constraints in certain sectors due to low unemployment, triggered only slight increase in the number of people employed. Furthermore, negative trend in declining number of economically active persons continued due to the process of population aging - outflows from the labour market are not sufficiently netted off by young workers entering their professional careers.

Solid growth of nominal wages under conditions of slowdown of economic growth in 2019 drove CPI inflation, which, on average throughout the year, reached 2.3% y/y against 1.6% y/y a year before. What is more, in December, the CPI inflation reached 3.4% y/y i.e. the highest level since October 2012. Costs of labour and electrical energy contributed, in particular, to inflation of service prices, which at the end of the last year reached 6.1% y/y. Entrepreneurs, under conditions of robust consumption demand, could transfer certain costs upon customers to improve financial results after 2018 which was worse for companies' financial results. CPI inflation was additionally driven up by supply factors connected with rapid increase of prices of vegetables and also meat as a result of strong demand from China suffering from spreading ASF.

Under conditions of weakening economic growth and CPI inflation remaining within the range of permissible deviations from target level (2.5% y/y +/- 1.0%) the Monetary Policy Council decided to maintain rates at the existing levels. Despite the forecast of consumer inflation increasing in Q1 2020 closer to the level of 4.0% y/y, this policy, according to the Bank's expectations, will not change also in 2020.

Economic growth slowdown observed in IHH of the year will continue through 2020. Household consumption will continue to be the main GDP pillar, although its increases will be more and more restricted. Growth in incomes from work will be slowing down and transfers under social programmes generate progressively lower demand stimulus. In addition, inflation higher than in 2019 will reduce purchasing power of disposable incomes. Investment outlook for 2020 is more and more pessimistic. Investment activity of public sector will be lower than the last year. Furthermore, private investments are highly unlikely to accelerate under conditions of economic growth slowdown and production capacity decline. Low investment demand will have a hampering impact upon imports; foreign trade balance should, therefore, positively contribute to GDP growth despite expected economic slowdown abroad.

4.2. POLISH BANKING SECTOR, BANK'S POSITION AND RISK FACTORS

Polish banking sector

In 2019 economic growth in Poland slowed, however it continued to shape up favourably compared with the region and the European Union. However it is worth noting the strong growth deceleration in the second half of the year as above mentioned. Growth rate of loans in the sector also slowed: 5.2% y/y growth vs 7.6% in 2018 (according to NBP data), where retail loans at 6.0% compared with 7.6%, and loans to companies at 3.9% vs 8.5%. The rate of growth of deposits in 2019 remained at the same level of 8.5% y/y as in the previous year. In consequence liquidity of the banking sector in Poland, measured with the Loans/Deposits ratio, improved to 93% from 96% at end of the previous year.

Banking sector's profit was 2% y/y up after 11 months (according to KNF data), however bearing in mind the significant size of provisions for FX mortgages, created by banks in December, 2019 annual profit will probably be below the previous year's result. Operating trends of the sector deteriorated materially. The pace of income growth remained solid (+9% y/y) thanks to 11% growth of net interest income and almost 7% increase of net commission income. However the rate of growth of costs also accelerated (almost 9% y/y). The growing level of provisions (+16% y/y) as well as higher effective tax rate (27% vs 25% in the comparable period of the previous year) also adversely affected the sector's profitability. However when analysing sector data it must be remembered that they have limited comparability y/y due to consolidation processes.

The Polish banking sector maintained a very strong capital position. At end of November 2019 the equity of Polish banks reached PLN 210 billion and solvency ratio was 18.9% (Total Capital Ratio - TCR) and 17.0% (Tier 1 ratio). In November KNF somewhat changed dividend criteria (payment of 100% of profit), however most criteria remained unchanged. Likewise, capital buffers and minimum capital ratios resulting from them remained relatively high. 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 committed by banks' shareholders (lower ROE and limited dividend).

2019 brought continuation of consolidation processes. In November BNP Paribas Poland finalised the merger with Raiffeisen Polska and Bank Millennium with Euro Bank. In result the number of commercial banks fell to 30 from 32 at the end of 2018. At end of September the share of top 5 banks in the total assets of the entire sector was 53% vs. 51% in the same time of the previous year.

According to the Bank's projections, 2020 should bring a further deceleration of economic growth (GDP: +3.2%), mainly due to decrease of the rate of growth of investments (2020: +2.1% y/y following 7.8% estimated in 2019). The expected stable growth of household income should involve a continued high rate of growth of retail deposits, while the expected maintaining of high private consumption and demand for real estate should support the balance of loans in the personal customers segment.

The Bank's position

At end of 2019 Bank Millennium Group was 7th among top commercial banks in Poland by total assets and deposits. The Bank's market share in deposits was 6.0% (5.3% at end of 2018) and 5.7% (4.6%) in loans. Bank Millennium Group kept a relatively stronger position in the segment of household deposits (7.2% vs 6.2% at end of 2018), mortgages (8.3% vs 6.8% at end of the previous year) and transactions made with credit cards (8.6% vs 8.0%). In the companies' segment, where the Group has a lower share than in the retail segment (4.0% in deposits and in loans), the 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 830 branches, as well as through electronic channels, including cash machines, the Internet, phone and mobile apps.

Risk factors

Despite the fact that there are no major threats to the Polish economy and the banking sector in 2020 there are, however, potential risks, which, if materialised, might have significant impact, in the coming year, upon operations and results generated by the Polish banking sector (including Bank Millennium):

- Stronger than expected global economic growth slowdown resulting from increasing protectionist policy in global trade and worsening global economic sentiment. In view of links within global production chains, incidents of this type in external environment could have negative impact upon Polish exports and, thereby, upon incomes of domestic enterprises and households
- Increasing inflation expectations of households could significantly increase wage demands and wind the wage-inflation spiral. High inflation would decrease consumer purchasing power thereby limiting economic activity; this effect would be additionally strengthened by interest rates' increases by monetary authorities.
- Uncertainty connected with impact of spreading corona-virus upon global economy, protectionist actions in global trade and perspectives for trade agreements between the European Union and the United Kingdom might trigger financial market volatility.
- FX mortgage loans legal risk. On 3 October 2019, the Court of Justice of the European Union ('the CJEU') issued the judgment in Case C-260/18 in connection with the preliminary questions formulated by the District Court of Warsaw in the case against Raiffeisen Bank International AG. The judgment of the CJEU, in connection with the interpretation of European Union law made therein, is binding on domestic courts. The judgment in question interpreted Article 6 of Directive 93/13 in its answers to the preliminary questions. In the light of the subject matter judgment, Article 6 of Directive 93/13: must be interpreted as meaning that (i) the national court may, on the basis of national law, conclude that a credit agreement cannot continue to exist without unfair terms on the ground that the removal of those unfair terms would alter the nature of the main subject-matter of the contract; (ii) the effects for the consumer's situation resulting from the cancellation of the contract as a whole must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and that the will of the consumer is decisive as to whether he wishes to maintain the contract and avoid those effects; (iii) Article 6 of the Directive precludes the filling in of gaps in the contract caused by the removal of unfair terms from the contract (even if the non-filling of those gaps would result in detrimental for consumer falling of the contract), solely on the basis of national legislation of a general nature which provides that the effects expressed in the content of a legal act are to be supplemented, in particular, by principles arising from equity rules or established customs; (iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract (even if their

removal would result in the contract being annulled to the detriment of the consumer) if the consumer has not consented to the maintenance of such terms.

The CJEU judgment concerns only the situation where the national court has previously found the contract term to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be regarded as abusive in the circumstances of the case. It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court may also be filed with potential impact on the outcome of the court cases.

As at the end of 2019, the Bank had 2010 loan agreements under individual litigations concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 203 million. Until 31.12.2019 only 19 cases were finally resolved and the vast majority of such judgments were in accordance with the Bank's interest. The claims formulated by the Clients in individual proceedings primarily concern the declaration of invalidity of the contract or payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domain to encourage claims against banks may lead to an increase of the number of future court disputes. In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3281. The case is still before its first hearing, which is scheduled for March 2020.

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved in favour of banks until 2019 year. However, after the Court of Justice of the European Union (CJEU) judgment issued on 3 October 2019 (Case C-260/18) there is a risk, that so far mostly positive for banks line of verdict in courts may change.

Taking into consideration the increased legal risk related to FX mortgages, Bank Millennium created PLN 223 million provisions for legal risk. The methodology developed by the Bank is based on the following main parameters: (1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk as regard FX mortgage loans portfolio. The Bank is open to negotiate case by case favourable conditions for early repayment (partial or total) or conversion of loans to PLN. On the other hand, the Bank will continue to take all possible actions to protect its interests in courts while at the same time being open to find settlement with customers in the court under reasonable conditions.

Finally, it should be mentioned, that the Bank has to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 4.96 pp (4.87 pp at the Group level), which corresponds to PLN 1.85 billion, part of which is allocated to operational/legal risk.

- Risk connected with cash loans fees return in case of early repayment. On 11 September 2019 The Court of Justice of the European Union ruled in the case of Lexitor against SKOK Stefczyka, Santander Consumer Bank and mBank (case C 383/18) in which it stated that consumer has rights to demand the reduction of the total loan cost corresponding to interest and costs for the remaining term of the agreement in case of early repayment of loan. Taking into consideration this verdict, Bank Millennium Group created in 2019 a provision in the amount of PLN 66.4 million (split between Net Interest Income and Other Operating Costs), for potential returns to the clients. The provision was estimated based on the maximum amount of potential returns and the probability of payment being made. The adequateness of such reserve will be checked through time and will depend on the clarification of the implications of the verdict and on the number of agreements and values to be returned.
- Potential increase of fees paid to Banking Guarantee Fund (BFG). Following the nearly 27% y/y increase of fees paid by Polish banks to BFG in 2019, 2020 may bring a further increase of the charge. According to available information, BFG may increase the total fee by 12% in 2020. The bulk of the increase is to be driven by higher contributions to deposit guarantee scheme (28% of fees in 2019, 56% in 2018). Given the Bank Millennium's relatively higher share in contributions to the deposit guarantee scheme than to the resolution scheme, this may lead to an above average increase of overall BFG fees paid by the Bank in 2020. Furthermore, given the targeted size of the funds to be achieved in the long term and the potential use of such funds, a risk of ad-hoc additional intra-year contributions to either deposit or resolution schemes cannot be entirely ruled out.
- Risk of financing costs increase due to a need of MREL eligible instruments issue. The Bank received a letter from BFG regarding the minimum level of own funds and liabilities subject to write down or conversion (MREL). In accordance with the regulation, the MREL requirement should be achieved by January 1, 2023 and maintained at all times from that date. BFG has determined a linear path to reach the required target. The MREL limit for the Bank was set on the basis of data as at December 31, 2018 and the value of required buffers valid as at January 1, 2019. As at December 31, 2019, the Bank fulfils the MREL limits set up by BFG. In order to fulfil and maintain required MREL limits, the Group may issue MREL eligible instruments that could cause increase of financing costs for the Group.
- Cyber-risk is among the highest ranked risks that banks are facing globally and the Polish banking market is no exception. The rapid development of new technologies, digitalisation of the economy and increasingly sophisticated cyber-attacks make cyber-risk a likely constant risk factor that banks going forward will need to put increasing resources to mitigate.
- Regulatory environment remains a big challenge for the banking sector and further tightening of rules and introduction of new ones by either European or local regulators cannot be ruled out.
- Competition is becoming increasingly intense in the financial services sector. While historically banks had to mostly combat threats from their peers, the relaxation of access to customer data that results from the recent introduction of PDS2 directive accelerates the potential entry of bigtechs and fintechs onto the market. Furthermore, the ongoing consolidation of the domestic banking market is likely to further increase competitive pressures further out. As a result larger players are likely to benefit from the economies of scale to the detriment of smaller banks. The increasing share of State owned/controlled banks in the sector is another risk factor worth highlighting.

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 domestic economic growth due to strong household consumption would support increase of the Bank's lending activity.
- Rebounding investments of enterprises into production capital would directly support demand for investment lending.
- Favourable situation of households and enterprises would contribute to improvement of the bank's credit portfolio quality and increase inflows of deposits to this portfolio.

4.3. STRATEGY AND BUSINESS DEVELOPMENT PROSPECTS

2019 saw the effective implementation of the existing organic growth strategy. One of the most important objectives of this strategy was to accelerate the pace of acquisition of new active clients to 600 thousand during the three years of this strategy, i.e. until 2020. At the end of September, i.e. one day before the merger with Euro Bank, the Bank had already crossed the threshold of 2 million active retail customers. This meant an increase by 421 thousand in the first two years of the strategy or by 240 thousand in 2019, significantly ahead of the strategic objectives.

Last year, the Bank Millennium Group implemented with equal success an extremely important project: acquisition of another bank. On 5 November 2018 the Bank announced the conclusion of the transaction to acquire 99.8% of Euro Bank S.A. shares. On 31 May 2019 after obtaining the necessary approvals, the transaction was finalized. Subsequently, the Bank obtained supervisory and General Meeting approvals for conducting the merger of both banks, which effectively took place on 1 October. The final, very important element of the acquisition transaction carried out in 2019 was the migration of the systems, branches, brand and clients of Euro Bank to Bank Millennium. This extremely difficult process was successfully completed on 11 November 2019. Thus, one year after the announcement, the Euro Bank acquisition transaction was effectively completed.

After the merger the Bank Millennium Group has almost 3.8 million clients and, at the end of 2019, 830 branches, including 602 own branches and 228 franchise branches. The Euro Bank network increased the Group's presence in many new towns, especially smaller ones, where the acquired bank operated on the basis of the franchise model. The merged Bank has almost 700 ATMs and modern mobile and electronic banking tools. Thanks to the merger the Bank climbed to 7th place on the domestic market in terms of the number of clients.

The Bank's position in the consumer loan segment also increased strongly, this segment being another (and very important) element of the Group's strategy. Bank Millennium's accelerated sales of cash loans and the merger effect doubled the value of the portfolio to PLN 15.1 billion. This has moved the Group up 3 positions to fifth spot on the domestic market in the consumer loan segment.

Euro Bank's acquisition transaction was carried out without increasing the Bank's share capital. This means a good use of the capital and liquidity of the Bank Millennium Group and should bring about a significant increase in efficiency and return on capital through economies of scale and through the realisation of synergies.

The area of quality improvement and implementation of state-of-the-art digital and mobile solutions remains an important area of the strategy pursued by the Bank Millennium Group. In 2019 the Bank once more achieved the highest score among financial institutions in the customer satisfaction category, including the highest NPS among banks - of 52 points (according to ARC Rynek i Opinia). One example of a successful application of mobile solutions is an over 50% increase in the number of downloaded apps of goodie (100% Group subsidiary) to 1.5 million at the end of 2019.

Development prospects in 2020

The Bank Millennium Group's objective for 2020 will be to successfully carry out restructuring after the merger with Euro Bank and to return to being one of the fastest growing banks on the market.

The successful migration of all branches, clients and products of Euro Bank to the logo and platform of Bank Millennium has paved the way towards realising the benefits of the merger. First of all, the expanded network of branches (830 of them at the end of 2019) and base of 3.8 million clients enables the process of increasing sales of Bank Millennium products in new places and to new

clients. At the same time, the process of closing overlapping branches will begin (initial plan of 60 outlets in 2020), accompanied by reducing the level of employment in the merged Bank. This second, difficult process has already started. The natural turnover in the Bank has been filled in by internal sources which reduce the size of employment reduction. Secondly, at the beginning of 2020 the Bank began negotiations with employee representatives on the severance packages offered to redundant workers which finished with agreement on 24 of January 2020. Under group layoffs the Bank is planning to lay off 260 employees in Q1 2020. These actions will open the way for the implementation of the planned cost synergies resulting from the merger of the two banks.

Also in 2020 the Bank will continue projects using the possibilities after the implementation of the new PSD2 payment system directive. Maintaining a leading position in the area of the quality of services and their digitalisation invariably remains an objective of the Bank Millennium Group and will continue to be supported in 2020 and subsequent years with the necessary investment in innovation.

The Bank Millennium Group also hopes to be able to launch this year a mortgage bank which will give the possibility of issuing covered bonds.

5. FINANCIAL SITUATION

5.1. PROFIT AND LOSS ACCOUNT

Group's Operating Income (PLN million)	2019	2018	Change y/y
Net Interest Income *	2 499.4	1 877.9	33.1%
Net Commission Income	699.2	661.1	5.8%
Core Income	3 198.5	2 539.0	26.0%
Other Non-Interest Income **	273.0	188.7	44.7%
Total Operating Income **	3 471.5	2 727.6	27.3%

(*) 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 62.5 million in 2019 and PLN 60.4 million in 2018) 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.

(**) Without fair value adjustment of credit portfolio (PLN 23.4 million in 2019 and PLN 19.9 million in 2018), which is included in the pro-forma cost of risk

Net Interest Income (pro-forma) in 2019 reached PLN 2,499.4 million and increased by 33.1% versus the previous year. The growth was supported by 7 months interest income of Euro Bank. Blended with Euro Bank, average Net Interest Margin (over average interest earning assets) in 4Q 2019 reached 2.94% which was 30 bps better than NIM in 4Q 2018. The growth of NIM was limited by the provision created to cover potential returns of fees on cash loans.

Net Commission Income in 2019 amounted to PLN 699.2 million, which means an increase by 5.8% y/y. Contribution of Euro Bank to this line of income was small, as most of commissions collected by this bank was recognized in interest income through effective interest rate mechanism. Insurance, loans and cards related fees grew most during the year, while capital market related ones visibly decreased.

Core Income, defined as a combination of net interest and commission income, reached the amount of PLN 3,198.5 million which means a y/y increase of 26%, partially owing to the merger.

Other Non-interest Income, which comprises FX Result, Results on Financial Operations (without interest margin on derivatives and fair value adjustment on credit portfolio) and net other operating income and costs, amounted to PLN 273.0 million in 2019 and increased visibly by 44.7% y/y. This line of results included PLN 27 million one-off tax asset recovery booked in 1Q 2019, PLN 45 million of positive revaluation of Bank Millennium's shares in PSP company (an owner of BLIK) and PLN 32 million negative impact of provision to cover potential returns of up-front fees on cash loans. The total provision of PLN 66 million was split between Net Interest Income and Other Operating Costs.

Total operating income (pro-forma) of the Group reached PLN 3,471.5 million in 2019 and increased 27.3% y/y and was flat q/q.

Group's Operating Costs (PLN million)	2019	2018	Change y/y
Personnel Costs	(836.4)	(638.1)	31.1%
Other Administrative Costs *	(889.7)	(629.9)	41.2%
- of which Banking Guarantee Fund (BFG) fees	(123.5)	(105.5)	17.0%
- of which Euro Bank integration costs **	(116.3)	-	-
Total Operating Costs	(1 726.1)	(1 268.0)	36.1%
Total costs without integration costs **	(1 609.8)	(1 268.0)	27.0%
Cost/Income - reported	49.7%	46.5%	3.2 pp
Cost/Income - adjusted ***	47.4%	46.5%	0.9 pp

(*) including depreciation

(**) additional administrative costs directly related to Euro Bank acquisition, merger and integration processes

(***) without PLN 27 million extra release of tax asset provision in 1Q 2019 and PLN 45 million of positive revaluation of shares in PSP (3Q 2019), and also without integration costs

Total costs in 2019 amounted to PLN 1,726.1 million translating into 36.1% increase compared to the 2018 level. Integration costs of PLN 116.3 million, related to the acquisition and merger of Euro Bank, had a strong impact on cost evolution. The BFG resolution fee increase additionally increased the costs level. When excluding one-off integration costs, the growth of the Groups' operating costs would be 27% y/y in 2019.

Personnel costs in 2019 amounted to PLN 836.4 million and grew 31.1% compared to the previous year. This growth, apart from taking over of more than 2.4 thousand employees of Euro Bank, was also caused by the market wide high average salary increase observed in Poland for a long time. The number of the Group's staff increased strongly as a consequence of Euro Bank acquisition to the total of 8,464 employees (full time equivalents).

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

Employment structure (in FTEs)	31.12.2019	31.12.2018	Change y/y
Bank Millennium S.A.	8 118	5 785	40.3%
Subsidiaries	347	347	0.0%
Total Bank Millennium Group	8 464	6 132	38.0%

More information about employment structure and remuneration is presented in Chapter 8 of this document.

Other administrative costs (including depreciation) in 2019 reached PLN 889.7 million and grew 41.2% y/y. Costs connected directly with the integration of Euro Bank (mainly legal, advisory and IT in the total amount of PLN 116.3 million) as well as increased BFG contribution were the main reasons for the increase. Without all these items, the yearly growth of Group's administrative costs would be 20%.

Euro Bank acquisition resulted in a very strong increase in the number of outlets: from 361 Millennium branches year ago to total of 830 outlets as at the end of December 2019. This number included 602 own branches and 228 franchise branches.

Finishing of the Bank's restructuring process after the merger will imply optimisation of the branch network with mergers of overlapping branches and a reduction of the number of employees. The

current plan assumes a reduction of 60 branches in 2020 and 260 FTE reductions in 1Q 2020. Thus, integration expenses will still be incurred in 2020 but in materially lower amount than originally planned. For 2020 PLN 80 million integration expenses (partially as investments are planned). The Bank currently estimates total cumulative integration expenses connected with Euro Bank acquisition at below PLN 300 million. Apart from PLN 116 million integration opex in 2019, PLN 37 million was recognized in goodwill through purchase price adjustment and PLN 33 million was settled as capital expenditure. Effective accomplishment of restructuring process should allow capturing synergies in the amount of at least PLN 100 million already in 2020.

Cost-to-Income ratio in 2019 without one-offs (mainly integration costs), reached 47.4% (0.9 pp higher compared to last year level) still before synergies after merger with Euro Bank.

Group's Net Profit <i>(PLN million)</i>	2019	2018	Change <i>y/y</i>
Operating Income	3 471.5	2 727.6	27.3%
Operating Costs *	(1 726.1)	(1 268.0)	36.1%
Impairment provisions and other cost of risk **	(439.0)	(236.6)	85.6%
Cost of risk without extra on Euro Bank ***	(350.4)	(236.6)	48.1%
Provision for legal risk related to FX mortgage loans	(223.1)	-	-
Banking tax	(248.0)	(198.5)	24.9%
Pre-income tax Profit	835.3	1 024.6	-18.5%
Income tax	(274.6)	(264.0)	4.0%
Net Profit - reported	560.7	760.7	-26.3%
Net Profit - adjusted****	889.1	760.7	16.9%

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

(**) including PLN 12.9 million fair value adjustment on loans (PLN 23.4 million in 2019 and PLN 19.9 million in 2018) and loans modification effect (PLN 11.7 million in 2019 and PLN 14.2 million in 2018)

(***) without Day 1 provisions created for Euro Bank loan portfolio (IFRS9 initial impact and extra provisions on performing portfolio) of the total PLN 88.6 million pre-tax, most of which in 2Q 2019

(****) without one-offs (pre-tax): 1. integration costs (PLN 116 million) and extra risk provisions (PLN 89 million) for merged Euro Bank, 2. PLN 27 million release of tax asset provision (1Q 2019), 3. PLN 45 million of positive revaluation of shares in PSP (3Q 2019), 4. PLN 223 million provisions for FX mortgage legal risk (4Q 2019).

Total cost of risk, which comprises net impairment provisions, fair value adjustment (of part of credit portfolio) and result on modifications, bore by the Group in 2019 amounted to PLN 439 million and was 86% higher than in 2018. Impairment losses of 2019 were inflated by PLN 88.6 million initial provisioning on the fair value of Euro Bank performing portfolio as part of IFRS9 impact related to Day 1 acquisition. Without these one-off provisions, the total cost of risk grew 48% y/y to PLN 350.4 million, including PLN 255.8 million on 'old' Millennium Group's portfolio and PLN 94.6 million on Euro Bank's portfolio.

Risk charges for retail segment stood at PLN 354.5 million (PLN 265.9 million without Day 1 impact), while for the corporate segment and other they amounted to PLN 85.0 million. In relative terms, the cost of risk (i.e. net charges to average net loans) reached 57 bps level (without Day 1 provisions) compared to 48 bps in 2018, influenced by the higher share of consumer loans in the total loan portfolio. Cost of risk for 'old' Millennium Group (without Euro Bank) in 2019 stood at the same level as a year ago: 48 bps.

Besides write-offs for credit risk, in Q4 2019 the Bank created a provision for legal risk involved with FX mortgages in the amount of PLN 223.1 million, which encumbered the result before taxes.

Pre-income tax profit in 2019 amounted to PLN 835.3 million and decreased by 18.5% vs. 2018 as a consequence of due to aforementioned one-offs i.e. provisions for legal risk of FX mortgages, costs

of integration and provisions for Euro Bank's portfolio. Additionally profit was adversely affected by higher BFG fees and growth of banking tax 25% in annual terms.

Net Profit reported in 2019 amounted to PLN 560.7 million and was 26.3% lower than a year ago. Net profit of the year 2019 adjusted for the abovementioned one-offs (mainly integration costs and extra provisions) would reach PLN 889.1 million and would be up 16.9% y/y.

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

- Return on Assets (ROA) reported of 0.7%
- Reported full year Return on Equity (ROE) stood at 6.4%, but when adjusted for one-offs it reached 10.2% (i.e. a higher level than the 9.6% reported in 2018).

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

Group's profit structure <i>(PLN million)</i>	2019
Bank Millennium	600.7
Millennium Leasing	2.5
Millennium Dom Maklerski (brokerage house)	-3.0
Millennium TFI (mutual fund)	18.2
Euro Bank *	23.7
Other consolidated companies	35.7
Summarised profits	677.8
Consolidation eliminations	-117,1
Consolidated Net Profit of the Group	560.7

(*) from 1.06.2019 till 30.09.2019

Bank's Profit and Loss Account

Changes of particular key items of the Bank's Profit and Loss Account in 2019 are shown in the table below.

Bank's Operating Income <i>(PLN million)</i>	2019	2018	Change y/y
Net Interest Income	2 100.2	1 716.7	22.3%
Net Commission Income	593.2	558.1	6.3%
Core Income *	2 693.4	2 274.8	18.4%
Other Non-Interest Income **	390.7	293.5	33.1%
<i>of which dividends</i>	45.2	56.4	-19.8%
Total Operating Income **	3 084.1	2 568.3	20.1%

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

(**) Excludes fair value adjustment of credit portfolio (PLN 23.4 million in 2019 and PLN 19.9 million in 2018), which is moved to cost of risk

The Bank's 2019 net interest income, as in the Group's case, saw significant growth by 22.3% y/y, partly in result of the takeover from October 2019 of Euro Bank. Net commission income grew 6.3% year-on-year, thus slightly more than in case of the Group, because the decrease of income on investment and capital market products did not have such a strong adverse impact on result as in the Group's case (which reflected results generated by subsidiaries dealing with management of mutual funds as well as brokerage activity). In view of the above, core business result grew 18.4% year-on-year to reach PLN 2,693.4 million in 2019.

Other non-interest income of the Bank in 2019 stood at PLN 390.7 million. This item includes dividends, largely from the Capital Group's subsidiaries (eliminated in reports on Group level). Dividend income in 2019 reached PLN 45.2 million, which means a 19.2% y/y decline. This drop was offset by increase of other non-interest incomes, especially net income on financial assets and liabilities. In result the Bank's non-interest income grew 33.1% year-on-year.

The Bank's total **operating income** in 2019 was PLN 3,084.1 million, which represents a strong 20.1% y/y growth.

Bank's Net Profit <i>(PLN million)</i>	2019	2018	Change y/y
Operating Income	3 084.1	2 568.3	20.1%
Operating Costs *	(1 520.9)	(1 205.3)	26.2%
Impairment provisions and other cost of risk **	(235.1)	(205.6)	14.4%
<i>Provision for legal risk related to FX mortgage loans</i>	(223.1)	-	-
Banking tax	(236.9)	(198.5)	19.4%
Pre-income tax Profit	867.9	958.9	-9.5%
Income tax	(267.3)	(236.6)	13.0%
Net Profit	600.7	722.3	-16.8%

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

(**) including fair value adjustment of loans (23.4 million PLN in 2019 and 19.9 million PLN in 2018) as well as the effect of modification of loans (11.7 million PLN in 2019 and 14.2 million PLN in 2018)

The Bank's **operating costs** reached the total amount of PLN 1,520.9 million in 2019. Growth of the Bank's costs was 26.2% year-on-year and was much lower vs the growth rate of costs for the whole Group, which began consolidation of Euro Bank back in June 2019. As in the Group's case, which was described above in this text, the growth of operating costs resulted largely from one-off costs incurred in relation to Euro Bank's integration, but also from the increase of BFG resolution fund fee. 2019 cost/income ratio for the Bank was 49.3%.

Impairment write-offs and other costs of risk of the Bank were PLN 235.1 million in 2019, which means a 14.4% per annum growth caused largely by the Euro Bank acquisition.

Besides provisions for credit risk, in Q4 2019 the Bank created a provision for legal risk involved with FX mortgages in the amount of PLN 223.1 million, which encumbered the result before taxes.

The Bank's pre-tax profit in 2019 was PLN 867.9 million and was 9.5% lower than in 2018 due to the growth rate of all components described above as well as owing to increase of banking tax by 19.4% in annual terms.

The Bank's 2019 **net profit** was PLN 600.7 million, which means a 16.8% year-on-year decrease. Return on the Bank's assets (ROA) reached 0.7%

5.2. RESULTS OF BUSINESS SEGMENTS

Presented below are data regarding the Profit and Loss Account for the Group's three key business segments: retail segment, corporate segment and treasury operations, assets/liabilities management and the other segment. The retail segment comprises services provided to individual customers on the mass market, affluent customers, sole traders as well as services to small companies (with annual turnover below PLN 5 million). The corporate segment involves services to medium and large companies as well as public sector entities. The treasury operations, assets/liabilities management and other business comprises the Group's treasury investments, interbank market transactions, taking positions in debt securities, brokerage activity as well as other transactions not classified in the first two segments.

Total operating income of the retail segment in 2019 was PLN 2,450.5 million, which represents a very strong 35.2% y/y growth. The main reason of such strong growth was the acquisition of Euro Bank, thanks to which the last 7 months of 2019 included this bank's results (basically entirely operating in the retail segment). Apart from the Euro Bank acquisition effect, the strong organic growth of Bank Millennium - in accordance with its strategy - is also reflected in improvement of the segment's results. Annual growth of net interest income of the retail segment reached the exceptionally high rate of +47.8%, while net commission income grew +8.9% y/y (most commissions charged by Euro Bank were recognized in interest income by means of effective interest rate mechanism).

Operating costs of the retail segment also recorded high growth (43.2% y/y) related to the Euro Bank acquisition effect, including additional costs of integration in the amount of PLN 112.9 million (mainly legal, advisory and IT costs in relation to the acquisition, legal and operational merger concluded on 11 November 2019). Despite these additional costs the total retail segment pre-provision income grew significantly by 26.2% vs 2018. In the cost of risk write-offs item, apart from current write-offs for Euro Bank's portfolio taken over on 31 May (on Group level), there was also a one-off write-off in the amount of PLN 88.6 million for Euro Bank's portfolio as impact of the IFRS9 standard in relation to the takeover on 31 May (the item appeared only in the Group's consolidated results). In relation to this and also to the process of gradually tailoring the principles of calculation of write-offs for credit risk of Millennium Group for the acquired portfolio of Euro Bank, total write-offs for impairment and other costs of risk in the retail segment were doubled during year to reach the value of PLN 354.5 million.

Operating profit of the retail segment - after consideration of the provisions - grew 6.9% per annum to reach the level of PLN 724.5 million.

Retail segment <i>(PLN million)</i>	2019	2018	Change <i>y/y</i>
Net interest income *	1 836.9	1 242.4	47.8%
Net commission income	545.1	500.7	8.9%
Other income**	68.5	69.5	-1.5%
Total operating income	2 450.5	1 812.6	35.2%
Total operating costs	(1 371.5)	(957.8)	43.2%
Pre-provision income	1 078.9	854.8	26.2%
Impairment provisions and other cost of risk**	(354.5)	(176.9)	100.4%
Operating profit	724.5	678.0	6.9%

(*) 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 23.4 million in 2019 and PLN 19.9 million in 2018) has been moved to pro-forma cost of risk. Cost of risk includes also result from modification.

Total operating income for the corporate segment in 2019 stood at PLN 530.9 million, i.e. unchanged vs 2018. Although net interest income grew strongly (10.9% year-on-year), however net commission income was down (6.6% year-on-year), also other income fell (27% year-on-year). Operating costs of the corporate segment saw a 3.7% decline in annual terms, thanks to which total income grew - before provisions - by 2.8% y/y. Value of net impairment write-offs regarding loans to companies increased 40.8% during the year to the amount of PLN 83.4 million. In result of the above operating profit of the corporate segment saw a slight decrease (6.1% annually) reaching the level of PLN 237.0 million in 2019.

Corporate segment (PLN million)	2019	2018	Change y/y
Net interest income *	323.0	291.2	10.9%
Net commission income	152.9	163.7	-6.6%
Other income	55.0	75.3	-27.0%
Total operating income	530.9	530.3	0.1%
Total operating costs	(210.6)	(218.6)	-3.7%
Pre-provision income	320.3	311.7	2.8%
Impairment provisions and other cost of risk**	(83.4)	(59.2)	40.8%
Operating profit	237.0	252.5	-6.1%

(*) 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.

Total operating income of the Treasury, ALM and other segments in 2019 was PLN 490.1 million, which represents a strong 27.4% y/y growth. Operating costs also increased strongly (57.2% y/y) due to growth of BFG fees. Nevertheless operating profit of the entire segment grew 17.9% y/y to PLN 345.0 million in 2019.

Treasury, ALM and other segment (PLN million)	2019	2018	Change y/y
Net interest income*	277.1	283.8	-2.4%
Net commission income	1.1	(3.4)	-
Other income	211.9	104.2	103.4%
Total operating income	490.1	384.7	27.4%
Total operating costs	(143.9)	(91.5)	57.2%
Pre-provision income	346.2	293.1	18.1%
Impairment provisions and other cost of risk**	(1.2)	(0.5)	147.5%
Operating profit	345.0	292.7	17.9%

(*) 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)

It should be noted that the provision connected with FX mortgage legal risk of PLN 223 million, was not allocated to the above segments.

5.3. BALANCE SHEET AND OFF - BALANCE SHEET ITEMS

Assets

The Group's assets as at 31 December 2019, amounted to PLN 98,056 million, recording 21,9% growth vs end of 2018. Structure of the Group's assets as well as changes of their particular components have been presented in the table below:

Group's Assets (PLN million)	31.12.2019		31.12.2018		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 203.4	2.2%	2 450.2	3.0%	-10.1%
Loans and advances to banks	784.3	0.8%	731.3	0.9%	7.3%
Loans and advances to Clients	69 754.9	71.1%	52 711.7	65.5%	32.3%
Receivables from securities bought with sell-back clause	205.4	0.2%	250.3	0.3%	-17.9%
Debt securities	22 865.7	23.3%	22 886.0	28.4%	-0.1%
Derivatives (for hedging and trading)	155.6	0.2%	226.9	0.3%	-31.4%
Shares and other financial instruments*	96.5	0.1%	51.0	0.1%	89.1%
Tangible and intangible fixed assets**	1 009.0	1.0%	307.1	0.4%	228.5%
Other assets	981.0	1.0%	844.6	1.0%	16.2%
Total assets	98 055.9	100.0%	80 458.9	100.0%	21.9%

(*) including investments in associates

(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of loans to clients by PLN 17,043 million (or by 32.3%) mainly as a result of the acquisition of Euro Bank and its consolidation since 31 of May, 2019.

Loans and advances to Clients

Total net loans of Bank Millennium Group reached PLN 69,755 million as at the end of December 2019 after the strong growth of 32.3% y/y. The growth of loans without foreign currency mortgage portfolio presented much higher growth rate of 43.7% y/y reflecting dynamic increases in all key groups of lending activity (PLN mortgage, consumer loans and companies). FX mortgage portfolio continued to decrease at a fairly rapid rate - not only due to natural amortisation, but also thanks to early repayments. Without FX portfolio taken over from Euro Bank (c.a. PLN 1 billion), FX mortgage loans of Bank Millennium decreased by 4.8% y/y (or by 7.5% y/y in original currency) and its share in total gross loans has dropped during the year to the level of 19.2%.

The net value of loans granted to households as at the end of December 2019 totalled PLN 51,138 million and was 45.1% higher compared to the balance recorded the year ago. All main product categories, except FX mortgage loans, presented very strong annual growth rates supported by acquired Euro Bank's portfolios: PLN mortgages +59.2% y/y and consumer loans of +102.5% y/y.

Net value of loans to companies amounted to PLN 18,617 million as at the end of December 2019 and grew by 6.6% yearly.

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

Loans and advances to Clients (PLN million)	31.12.2019	31.12.2018	Change y/y
Loans to households	51 137.7	35 247.8	45.1%
- PLN mortgage loans	21 469.5	13 485.8	59.2%
- FX mortgage loans	14 603.6	14 321.0	2.0%
- of which Bank Millennium loans	13 632.3	14 321.0	-4.8%
- of which ex-Euro Bank loans	971.4	-	-
- consumer loans	15 064.6	7 441.1	102.5%
Loans to companies and public sector	18 617.2	17 463.8	6.6%
- leasing	6 659.9	6 333.6	5.2%
- other loans to companies and factoring	11 957.3	11 130.2	7.4%
Net Loans & Advances to Clients	69 754.9	52 711.7	32.3%
<i>Net Loans and Advances to Clients excluding FX mortgage loans</i>	55 151.3	38 390.7	43.7%
Impairment write-offs	2 046.1	1 831.8	11.7%
Gross* loans and advances to Clients	71 801.1	54 543.5	31.6%

(*) 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.

Average interest rate on the Bank's portfolio in 2019 was 4.61%. This rate reflects net interest income on hedging derivatives (mainly FX and interest rate SWAPs) regarding loans granted in foreign currencies, which offsets the nominally lower interest rate on these loans.

Debt securities

Value of debt securities reached PLN 22,866 million at the end of December 2019, which means a slight decrease of 0.1% in annual terms. An important part of the debt securities portfolio (99.3%) were bonds and bills issued by the Polish State Treasury and National Bank of Poland (Central Bank). The share of debt securities in the Group's total assets was 23.3% at end of 2019, pointing to a strong liquidity position.

Derivative instruments

The value of derivatives (for trading and hedging) totalled PLN 156 million at end of December 2019, which constitutes a significant drop of 31.4% vs 31 December 2018 in result of FX rate changes (mainly in result of depreciation of the Polish currency to the Swiss franc).

Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN 784 million at the end of December 2019, which means a 7.3% increase in annual terms, largely in result of growth of balances on current accounts.

Shares/equities and other financial instruments

Value of equities/shares and other financial instruments amounted to PLN 96 million at the end of December 2019 and constituted immaterial balance sheet item with the share of as low as 0.1%. Value of this line item increased by 89.1% in annual terms in connection with higher valuation of equities and shares held.

Tangible fixed assets and intangibles and goodwill (investment outlays)

Tangible fixed assets and intangibles and goodwill of the Group amounted to PLN 1,009 million at the end of December 2019 i.e. very significant increase by PLN 702 million i.e. by 229% y/y, mainly in effect of acquisition of Euro Bank assets, including recognition of initial right to use real property in the amount of PLN 370 million and booking of the goodwill in the amount of PLN 162.8 million. The other relevant impact came from implementations of IFRS16.

Total investment outlays of the Group in 2019 amounted to PLN 147.9 million, including PLN 33.0 million allocated to Euro Bank integration. Outlays to the bank's physical infrastructure (branches, ATMs, security etc.) amounted to PLN 49.0 million (including PLN 8.9 million for integration), and PLN 97.2 million for software and IT infrastructure (including integration at PLN 24 million). Value of other outlays i.e. PLN 1.7 million, relates to Bank's subsidiaries.

The Bank Millennium Group plans investment capital expenditures in 2020 in the amount of PLN 154.1 million (including further PLN 24.5 million allocated to finance integration, mainly in the area of Bank's physical infrastructure). Without integration expenditures, ca. 60% of capital expenditures will be allocated to IT projects including further internet and mobile banking development.

Bank's unconsolidated assets, as on 31 December 2019 reached the value of PLN 96,825 million, i.e. increase by 22.1% relative to the end of 2018 i.e. slightly higher growth dynamics was recorded relative to the consolidated Group. Structure of the Bank's assets and changes of individual components are presented in table below:

Bank's Assets (PLN million)	31.12.2019		31.12.2018		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	2 203.4	2.3%	2 450.2	3.1%	-10.1%
Loans and advances to banks	784.2	0.8%	731.2	0.9%	7.3%
Loans and advances to Clients	68 828.8	71.1%	51 786.8	65.3%	32.9%
Receivables from securities bought with sell-back clause	205.4	0.2%	250.3	0.3%	-17.9%
Debt securities	22 852.1	23.6%	22 872.4	28.9%	-0.1%
Derivatives (for hedging and trading)	156.6	0.2%	228.2	0.3%	-31.4%
Shares and other financial instruments	184.9	0.2%	140.7	0.2%	31.3%
Tangible and intangible fixed assets*	954.5	1.0%	287.4	0.4%	232.1%
Other assets	654.9	0.7%	531.9	0.7%	23.1%
Total assets	96 824.8	100.0%	79 279.0	100.0%	22.1%

* excluding fixed assets for sale

The key difference between the level of assets of Bank in solo terms and the consolidated Group is the value of loans to customers. In the first place it relates to receivables due from leasing company customers (although significant part of the said receivables was acquired by the Bank) and relates

to elimination of mutual transactions between the Bank and other companies from the Capital Group in consolidated financial statements.

Total Loans to customers in the Bank amounted to PLN 68,829 million at the end of December 2019, representing high growth, by 32.9% p.a., largely in connection with acquisition of Euro Bank credit portfolio but also due to growth of Bank's own portfolio. Except for leasing receivables, values and annual changes of other key components of Bank credits are similar or exactly the same as for the Capital Group.

Value of debt securities in the Bank's assets reached PLN 22,852 million at the end of December 2019 and remained nearly unchanged in annual terms. Both the portfolio dynamics and structure remained similar as in the case of the Group (as described above).

Equities/shares and other financial instruments presented in the Bank's financial statements, unlike in the case of Group reports, incorporated valuation of shares in subsidiaries. Value of this item, as on 31 December 2019, amounted to PLN 185 million, recording high increase by 31.3% yearly.

The Bank's fixed assets and intangibles amounted to PLN 954 million at the end of December 2019 i.e. recording more than double increase (by 232%) y/y for reasons similar as in the case of the Group.

Values and annual changes to key asset line items are similar to line items included in consolidated Group reports, as described above in this document.

Liabilities

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

Group's Liabilities and Equity (PLN million)	31.12.2019		31.12.2018		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	1 578.8	1.8%	1 788.9	2.5%	-11.7%
Deposits from Customers	81 454.8	91.4%	66 243.8	91.9%	23.0%
Liabilities from securities sold with buy-back clause	90.7	0.1%	50.3	0.1%	80.3%
Financial liabilities valued at fair value through P&L and hedging derivatives	779.8	0.9%	608.4	0.8%	28.2%
Liabilities from issue of debt securities	1 183.2	1.3%	809.7	1.1%	46.1%
Provisions	304.7	0.3%	112.5	0.2%	171.0%
Subordinated debt	1 546.2	1.7%	701.9	1.0%	120.3%
Other liabilities*	2 176.1	2.4%	1 759.1	2.4%	23.7%
Total liabilities	89 114.4	100.0%	72 074.5	100.0%	23.6%
Total equity	8 941.5		8 384.4		6.6%
Total liabilities and equity	98 055.9		80 458.9		21.9%

* including tax liabilities

At the end of December 2019 liabilities accounted for 90.9%, while equity of the Group - for 9.1% of total liabilities and equity capitals.

As on 31 December 2019 Group's total liabilities amounted to PLN 89,114 million, i.e. recorded strong increase by PLN 17,040 million (or 23.6%) relative to their value as on 31 December 2018. The increase was primarily an effect of significant increase of customer deposits (by PLN 15,211 million).

Customers' deposits

Customer deposits constituted the main line item under the Group's accounting for, as on 31 December 2019, 91.4% of total liabilities. Customer deposits constitute the main source of financing of Group's activities and incorporate, primarily, customer funds on current and saving accounts as well as on term deposit accounts.

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

Customer Deposits (PLN million)	31.12.2019	31.12.2018	Change y/y
Deposits of individuals	61 091.9	47 730.3	28.0%
Deposits of companies and public sector	20 362.9	18 513.5	10.0%
Total deposits	81 454.8	66 243.8	23.0%

Total deposits increased by 23% annually to the level of PLN 81,455 million. Euro Bank deposits constituted the main source of this growth (practically in majority retail segment deposits) in the amount of PLN 8,791 million. But even without Euro Bank deposits, Bank Millennium recorded a strong increase of deposit base: at 9.7% y/y.

Household deposits amounted to PLN 61,092 million as on 31 December 2019 after solid growth of 28% p.a. Within this volume of deposits, current and saving accounts continued to grow at a very fast pace i.e. by 33% p.a.; therefore their share in total individual customer deposits increased to the level of 72%.

Corporate and public sector deposits clearly increased by 10% within the year reaching the value of PLN 20,363 million. The said increase resulted, primarily, from current accounts (increase by 19% y/y).

Average interest rate on all deposits in the Bank in 2019 amounted to 1.08%

Deposits from banks

Deposits of banks, including credits received, as on 31 December 2019, amounted to PLN 1,579 million, accounting for 1.8% of the Group's liabilities. Value of this item declined by 11.7% relative to the balance as on 31 December 2018, mainly in effect of lower, by PLN 135 million, value of term deposits opened by banks (mainly in effect of lower level of deposits opened by banks-counterparties to secure hedging transactions) while the balance of credits received from financial institutions dropped by PLN 62 million (or by 5.1%) y/y amounting to PLN 1,162 million (expressed in PLN) as on 31 December 2019. The said credits include funds received from the European Investment Bank and the European Bank for Reconstruction and Development (in EUR, CHF and PLN) with original maturities of up to 7 years, constituting an important line item within long-term and medium-term wholesale financing obtained by the Group.

Financial liabilities valued at fair value through Profit and Loss Account and derivative instruments

Financial liabilities valued at fair value through Profit and Loss Account and derivative instruments included, primarily, negative valuation of derivatives for trading or hedging and liabilities resulting from securities subject to short sale. Value of this item, as on 31 December 2019, amounted to PLN 780 million, recording high increase by 28.2% relative to the balance as on 31 December 2018, mainly due to increasing negative valuation of hedging derivatives (mainly FX swaps) by PLN 93 million y/y. The above was caused, primarily, by changing FX rates as described above in the part on valuation of derivatives in assets. In addition, liabilities resulting from short sale of securities increased by PLN 79 million in effect of adoption of trading position relative to activities of market maker.

Debt securities issued

Securities issued by the Group amounted to PLN 1,183 million as on 31 December 2019 recording significant increase by PLN 374 million (or 46.1%) relative to the balance as on 31 December 2018. The increase was recorded mainly in effect of liabilities under Euro Bank S.A. bonds taken over at nominal value ads on 31.12.2019 amounting to PLN 250 million.

As at the end of December 2019, the value of debt securities issued by the Bank and undertaken by individual customers as saving products amounted to PLN 451 million while the value of Bank bonds taken up by institutional investors amounted to PLN 301 million (bonds are traded on the Catalyst market - debt instrument exchange ASO BondSpot in Warsaw). Besides Bank's debt securities and bonds, Bank subsidiary - Millennium Leasing - issued bonds placed amongst private and institutional investors. The balance sheet value of bonds issued by the said company, as on 31 December 2019, amounted to PLN 180 million.

Subordinated debt

The value of subordinated debt amounted to PLN 1,546 million as on 31 December 2019, showing significant increase by 120.3% y/y. In January 2019, the Bank issued ten-year subordinated bonds in PLN to the total nominal value of PLN 830 million besides already outstanding ten-year bonds in PLN at the total nominal value of PLN 700 million. Issue of subordinated debt supports capital adequacy of the Group and the Bank and constitutes stable, long-term source of financing of business activity.

Equity capital

As on 31 December 2019, equity capitals of the Group amounted to PLN 8,942 million and recorded increase by PLN 557 million or 6.6% year-on-year. Equity increase resulted from, in the first place, the net profit generated in 2018 at the level of PLN 561 million, without payment of dividend for 2018 in accordance with decision of the Bank's AGM, which took place on 25 March 2019. Other Total Income (mainly valuation of debt securities and instruments in hedge accounting) had no significant impact upon the value of own equity PLN -4 million).

The Bank Management Board will present, to the General Meeting of Shareholders, proposal to retain the entire net profit for 2019 in own funds to support capital ratios.

Information on capital adequacy was presented in Chapter 7 of this document and in a separate report untitled "Report on capital adequacy, risk and remuneration policy in the Bank Millennium Capital Group for 2019".

The non-consolidated Bank's liabilities as at 31 December 2019 reached the value of PLN 88,135 million, i.e. increased by 23.9% relative to the end of 2018 nearly identical growth rate as in the case of the Group in consolidated terms. Structure of the Bank's liabilities and own equity capitals as well as changes of their particular components are presented in the table below:

Bank's Liabilities and Equity (PLN million)	31.12.2019		31.12.2018		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	849.5	1.0%	1 055.7	1.5%	-19.5%
Deposits from Customers	81 637.5	92.6%	66 399.8	93.3%	22.9%
Liabilities from securities sold with buy-back clause	90.7	0.1%	50.3	0.1%	80.3%
Financial liabilities at fair value through P&L and hedging derivat.	779.9	0.9%	608.4	0.9%	28.2%
Liabilities from issue of debt securities	1 003.7	1.1%	620.0	0.9%	61.9%
Provisions	304.3	0.3%	112.0	0.2%	171.6%
Subordinated debt	1 546.2	1.8%	701.9	1.0%	120.3%
Other liabilities*	1 923.0	2.2%	1 594.9	2.2%	20.6%
Total liabilities	88 134.7	100.0%	71 143.1	100.0%	23.9%
Total equity	8 690.1		8 136.0		6.8%
Total liabilities and equity	96 824.8		79 279.0		22.1%

(*) 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 180 million (presented in the Group's statements).

The value of deposits opened by customers in the Bank reached PLN 81,638 million as on 31 December 2019 and was higher by PLN 183 million than the balance for the Group (mainly effect of intra-group elimination). Deposits increased by 22.9% in annual terms (rate of increase was similar to that of the Group's deposits). Values of annual changes of important liability line items of the Bank are similar to those of their equivalents in the consolidated reports for the Group, as discussed above in this part of the report.

In total, Bank's own equity, as on 31 December 2019, amounted to PLN 8,690 million, i.e. recorded increase by 6.8% y/y (similar level of growth as in the case of Group's consolidated equity capital).

Contingent liabilities

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

Group's Contingent Liabilities (PLN million)	31.12.2019	31.12.2018	Change y/y (%)
Total contingent liabilities	12 169.9	10 229.6	19.0%
1. Liabilities granted:	11 629.6	9 855.7	18.0%
a) financial	9 883.1	8 423.8	17.3%
b) guarantees	1 746.6	1 431.9	22.0%
2. Liabilities received:	540.3	373.9	44.5%
a) financial	0.0	0.0	-
b) guarantees	540.3	373.9	44.5%

Through these operations the Group executes transactions generating conditional liabilities. The main items under conditional liabilities (granted) are as follows: (i) financial liabilities mainly relative to loan prolongation (including, *inter alia*, not utilised credit card limits, not utilised overdraft facilities, not utilised tranches of investment loans) and (ii) guarantees, including mainly guarantees and letters of credit issued by the Group (to secure performance of obligations undertaken by Group's customers vis a vis third parties). Granted conditional liabilities result in Group's exposures to various risks, including credit risk. The Group creates provisions against irrevocable risk based conditional liabilities booked in the line item "Provisions" on the liability side of the balance sheet.

As on 31 December 2019, the total value of conditional liabilities of the Group amounted to PLN 12,170 million, including liabilities granted by the Group at the level of PLN 11,630 million. In 2019, the value of conditional financial liabilities granted by the Group increased by 17.3%, and the value of liabilities under guarantees increased by 22%.

More information on the issue of conditional liabilities can be found in Chapter 13 of the Financial Report for the Bank Millennium S.A. Capital Group for the period of 12 months ending on 31 December 2019.

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

Bank's Contingent Liabilities (PLN million)	31.12.2019	31.12.2018	Change y/y (%)
Total contingent liabilities	12 995.3	10 994.6	18.2%
1. Liabilities granted:	12 452.0	10 617.9	17.3%
a) financial	9 939.5	8 424.5	18.0%
b) guarantees	2 512.5	2 193.4	14.6%
2. Liabilities received:	543.2	376.7	44.2%
a) financial	0.0	0.0	-
b) guarantees	543.2	376.7	44.2%

The total value of conditional liabilities granted and received by the Bank amounted to PLN 12,995 million, recording increase by 18.2% in annual terms. The main difference between this value and the value of the Group's conditional liabilities is the balance of guarantees granted: at the Bank's level guarantees granted to Group companies are presented to be netted off at the level of the Group. The key items among these guarantees were guarantees securing repayment of loans granted to Millennium Leasing to the total amount of PLN 754 million. Evolution in the area of other granted and received conditional liabilities of the Bank remains similar to that recorded for the Group, as described above.

6. PRESENTATION OF BUSINESS ACTIVITY

6.1. INNOVATION AND HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE

The quality of customer service is one of Bank Millennium's fundamental values: it is the DNA of the organization and an important element of its competitive advantage. Effective merger with Euro Bank was the key priority in the quality area in 2019. A focus study conducted in the spring this year showed that the Millennium and Euro Bank brands are perceived as similar, among others in respect to their contemporary nature and convenience of services. Therefore, we have made every effort to ensure that the integration of the banks, including their different banking systems, goes smoothly and without being noticed and that, after the migration, all customers of the merged bank (including the new ones) log in as usual, without surprises, quickly and conveniently. The goal of most of the activities in the quality area were aimed at unifying service standards and implementing the best practices of both banks in all points of contact (including the combined branch network).

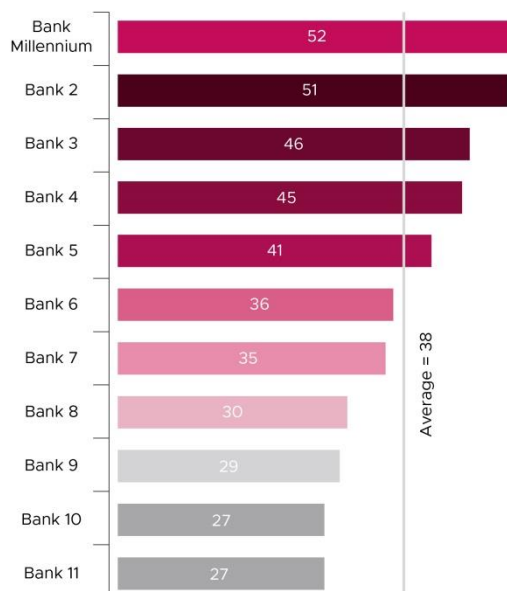
In November 2019, the IT infrastructure and the banking application ecosystem were merged and all the Euro Bank customers were transferred to the Millennium electronic banking system. We were committed to carry out the migration of customers and products efficiently and online only. The electronic channel activation process had been prepared in a user-friendly form of a migration wizard, which automated as many actions as possible. With this tool, Euro Bank customers were able, for example, to log into Millenet using their previous login. They also received full information about the new system in an accessible form of personalized videos, which made it easier to make their first steps in the new electronic banking environment. They were also able to use the chat function to ask about details and request assistance when in doubt.

The process created in the migration wizard was simple, consisted of just one stage and had an intuitive customer experience layer. In just a few days it helped activate about 200 thousand clients with a nearly 100% conversion rate. The success was made possible by the Bank's technological advancement, perfect preparation (a detailed action plan for the operational merger date contained more than 3,000 tasks) and customer focus - putting customer needs and satisfaction first. In order to understand the needs of Euro Bank customers and dispel any concerns related to the change, the Bank conducted a number of interviews and studies to test how they assess Millennium products and services. Their responses were positive.

The main purpose of all the activities, which were undertaken not only in connection with the bank merger project, was continuous care for the highest quality positive customer experience. We believe that, in this day of universal digitization and rapid development in technology, the success of a company is decided by its ability to build long-term, solid and trust-based relationships with customers.

The customers notice and appreciate it. In the December study of customer behaviours and preferences by consulting firm Bain & Company, Bank Millennium received the highest NPS ratio among Polish banks, describing the propensity of customers to recommend services to acquaintances. In the 2019 Banking Stars competition, we stood on the podium thrice, among others winning the "Customer Relations" category and receiving the title of a "Customer Relations Star". In the TOP 100 brands ranking developed by KPMG, we became the "Customer Experience" leader in the Polish financial sector and we were ranked among the top ten of the one hundred best rated brands in Poland. According to the results of the internal customer satisfaction survey conducted in

Q3 2019, 93% retail customers were satisfied with the cooperation with us. We were also the most frequently recommended bank in Poland, with loyalty at the highest NPS indicator measured on the market of 52 (“2019 Bank Customer Satisfaction Monitor”, ARC Rynek i Opinia).



As one of the quality leaders in remote customer service, the Bank champions an individual approach to each customer. For that purpose, it uses advanced analytical tools, also based on artificial intelligence, appropriate “matching” of a consultant to the assigned customer, anticipation of customer expectation, but mainly focuses on the professionalism and engagement of employees. The Bank has in place innovative digital solutions that allow Bank employees to be continuously available to customers - when necessary, customers may use assistance of the Bank’s consultants 24 hours a day, through phone, chat or mail. It is the customer that chooses the most convenient contact channel and through each of them the Bank provides quick and comprehensive assistance in a single contact session.

When working on modern products and continuous improvement of the services it proposes, the Bank places great emphasis on the adaptation of solutions also to the expectations of its employees. This is why, in 2019, to a greater extent than in previous years, it carried out research projects aimed at listening to their voice and engaging first-line employees in designing pro-consumer solutions.

The Bank continued its business model based on continuing digitization and development of mobile services. It increased the share of digital channels in acquisition and product sales. In order to meet the expectations of the customers who want to have everything at hand, preferably in one application, the Bank expanded the offer by adding several services from outside its core business. Without leveraging the digitization potential to the fullest extent, the record organic growth and the successful integration with Euro Bank would not be possible.

The Bank has been intensively developing its strategic growth pillars in electronic channels, including lending processes and access to investment products. In the Internet banking system and the mobile application, among others it introduced the option of filing applications for credit products on a 24/7 basis and using promotional offers. Additionally, both in Millenet and in the mobile application, customers are now able to consolidate the loans held in Millenet (except for the

pre-approval offer), as a result of which they can now pay a single instalment rather than several. The processes of purchasing motor insurance and opening a corporate account for sole proprietorships were also optimized.

The intensive increase in sales of products and services through electronic banking channels was visible in the most important product groups, where 53% of cash loans and 90% of term deposits were sold online in 2019, but also in non-banking products and services. Sales of city transport tickets increased by 50% y/y, mobile prepaid credits by 21% y/y, BLIK transactions by 99% and the number of HCE cards by 362% annually (HCE is a technology enabling contactless card payments through a telephone).

6.2. RETAIL BANKING

Retail banking is a major area of Bank Millennium's activity. The Bank offers a broad range of universal banking services and products for individual customers, affluent individuals (Prestige), Private Banking and business clients. Customers may access the products and services through a branch network, internet banking, mobile and telephone banking and a network of ATMs; as a result, customers are able to manage their finance in a convenient and secure manner.

In 2019, the customer acquisition targets progressed in accordance with the strategic assumptions. Since the beginning of the year, the Bank increased its active customer base by a record number of 734 thousand, up 40% in a year. In terms of new individual clients, the Bank ranked 2nd on the market in Q3 2019 with a market share of 26.3% (according to PRNews). As at 31 December, the Bank catered to 2.6 million active retail clients. 1.8 million clients actively used electronic banking (+32% y/y) and the mobile application had 1.41 million users, increasing by 44% over the year.

Personal Account

In 2019, the sale of savings and checking accounts increased by 15% compared to the previous year, exceeding 495 thousand accounts (from November 11, sales were carried out in a combined network of banks). The key product driving the acquisition of new customers was Konto 360°, invariably one of the most frequently opened personal accounts in Poland. In 2019, the number of Konto 360° accounts in the Bank's portfolio exceeded 1.5 million, out of which most were opened by customers who had no prior personal accounts in Bank Millennium.

The promotion of Konto 360° accounts in 2019 was supported by:

- successive stages of advertising campaigns in TV stations and cinemas;
- promotional activities using the goodie shopping app and in cooperation with external Internet portals - more than 21% of personal accounts were acquired online;
- new editions of the "Lubię to polecam" recommendation program, in which attractive prizes were available for recommending Konto 360° or Konto 360° Student accounts. By December 31, more than 670 thousand customers were registered in the program.

Additionally, in the period from September to, a promotional campaign for Konto 360° Student accounts was executed in schools and universities. These activities, as well as the option to open Konto 360° Junior accounts in the internet banking system encountered great interest among young customers and parents.

Savings / Investment Products

The year 2019 was full of challenges in the management of the deposit base. Despite the unfavourable market environment with low interest rates, competition from other banks, real

estate market and retail treasury bonds, as well as additional tasks related to the acquisition of Euro Bank, the Bank managed to take advantage of the funds of individuals growing on the market. The amount of deposits of retail clients, including acquisition, increased by PLN 13.9 billion (+28% y/y) up to PLN 63.7 billion. Acquisition of deposits from SKOK Piast and Euro Bank, combined with an organic growth of Millennium customer deposits, allowed the Bank to increase its market share by 1.1 pp up to 7.26% in November 2019. Despite the dynamic growth of its deposit portfolio, the Bank still managed to improve its profitability to 0.56% (up from 0.52% at the end of 2018), reducing the cost of financing by 4 bps.

Following a thorough rebuilding of the basic savings products offering in 2017 and 2018, in 2019 the Bank focused on taking over the deposit portfolios of the acquired banks, improving the profitability of its liabilities, and in the context of acquiring new volumes on actively promoting and marketing the Konto Oszczędnościowe Profit savings account with attractive interest rates for new funds. It enjoyed unfaltering interest among customers, as a result of which the funds accumulated on Konto Oszczędnościowe Profit accounts increased by more than 1/3. Addressing the growing market need to deposit surplus funds in foreign currencies, the Bank continued the offering of promotional interest rates on savings accounts in euro and US dollars, driving an increase in the funds deposited there by over 30%.

The Bank consistently implemented the strategy of offering a diversified portfolio of investment products, which consisted of its own solutions as well as products provided by external partners. Depending on the customer segment, the offer consisted of structured products, investment funds, unit-linked insurance products or bonds.

The Bank developed an attractive offering of savings and investment products providing customers with diverse vehicles for investing funds. In early 2019 it introduced Millennium TFI investment plans to its offering. At present, three plans are available with different potential profit and risk levels. In each of the plans, money is invested in Millennium TFI funds. The Bank does not charge any handling fees for the purchase of fund units and the minimum investment amount is PLN 500. The new offering is available to customers in each segment and in the mass client segment it constitutes the main portion of the investment offer.

The Bank also launched regular promotional campaigns, offering promotional fees for the purchase of fund units. It also continued the strategy of rewarding the customers for using remote channels, by reducing the handling fees for the purchase of fund units by an additional 50%.

To ensure compliance with the law, the Bank sent out ex-post reports presenting costs incurred by customers who held investment products in 2018. The Bank also took ongoing action to align its activity with UKNF's positions on the acceptance of the so-called performance incentives.

Cash Loans

Since the beginning of 2019, the Bank's retail lending activity continued to increase; organic sales of cash loans at Bank Millennium reached PLN 4.1 billion (+28% y/y) (Euro Bank data from 9th of November 2019). This was driven by a competitive product offering and attractive promotions targeted at new customers and selected market segments. As a result, the high rate of sales was maintained for the entire year. Another important factor was the quick pace of growth of loan sales through electronic channels (48% y/y), in particular in the mobile channel (141% y/y). Excellent sales and the merger effect brought doubling of the value of the consumer loans portfolio to PLN 15.1 billion.

In 2019, cash loan sales were supported by:

- "PLN 100 of instalment for each PLN 5,000 of a loan" offer for loans in the amounts of PLN 5,000, PLN 10,000 or PLN 15,000 granted for 60 months, with monthly instalments known in advance in the amount of PLN 100, PLN 200 or PLN 300, respectively.
- continuation of the offer for financial sector employees

Clients interested in a favourable transfer of debts outstanding in other banks to Bank Millennium were able to use a debt consolidation loan as part of special offers with repayment insurance, lower interest rates and without any commission on the transferred amounts. The debt consolidation loan was supported by:

- promotional offer with a 5.7% interest rate if optional insurance is used or 6.7% for uninsured loans.
- further development of consolidation loan sales through telephone channels

Overdraft

The year 2019 may be described as a year of stable growth and a continuing attractive offer. The Bank continued to pursue the strategy of developing a competitive offering and sales process. The growth of sales was supported by the following campaigns:

- “Overdraft for PLN 0” offering for new customers, allowing them to use the product during the first year without any additional costs - the commission for launching the limit is PLN 0. These terms are among the most attractive on the market.
- 7-day interest-free period, during which the overdraft may be used without any interest expenses in each settlement month.

According to the NBP data, as at the end of 2019 the Bank Millennium’s market share was 7.2%.

Payment Cards

As a result of intensive marketing activities, in 2019, the Bank set another sales record for credit cards. Impresja and Alfa cards remain the flagship products, offering their holders a 5% refund of purchases made with the cards’ Partners. Organic growth supported by the merger with Euro Bank translated into growth of the credit card portfolio by 101 thousand (+28%) compared to the end of December 2018.

The number of debit cards also increased as the numbers of personal accounts rose and with a significant contribution of cards taken over from Euro Bank. At the end of 2019, the Bank’s debit card portfolio contained 2.86 million cards, increasing by 701 thousand (+32%) y/y.

In Q3 2019, Bank Millennium’s market share in terms of the volume of cards issued was 6.7% for credit cards and 7.2% for debit cards. In terms of the value of the transactions made with cards, the share was at 8.6% for debit cards and 6.9% for credit cards.

During the first 3 quarters of 2019, the growth rate of both the credit card and debit card portfolios at Bank Millennium was higher than the market average, while the operational merger with Euro Bank strengthened the Bank’s position even more.

Mortgage Banking

In 2019, Bank Millennium maintained its high position on the mortgage loan sales market. Their sales reached the solid value of 4.2 billion PLN (+26% y/y) (Euro Bank data from 9th of November 2019). This growth was well above the 17% rate, at which the market grew over the same period. This resulted in the sixth place on the ranking of mortgage lending, with a market share of 7.3%.

The excellent relations with sales partners (financial intermediaries) contributed to the best sales result over this channel in the Bank’s entire history (PLN 3.1 billion). Total sales in 2019 reached the highest result in the Bank’s history for lending activity in PLN.

In the first quarter of 2019, the Bank modified its mortgage loan offer by lowering margin and in the second quarter of the year it additionally modified the rules for adopting a commission for

increased risk until an entry is made in the land and mortgage register. Both changes were very well received by customers, which were confirmed by the results of the Bank's lending activity.

In 2019, the Bank implemented a large-scale training program on product features and the lending process. It used this opportunity to reiterate how details of the offering should be provided to customers in a clear, accurate and transparent manner. The training exercise reached a group of more than 1000 individuals, both employees of the Bank's own sales network, as well as external sales partners.

In 2019, the Bank continued to offer special terms to customers holding a CHF loan, such as currency conversion, partial and full repayment of the loan. It continued to negotiate the terms governing exchange rates and loan parameters after the currency conversion or partial repayment, taking a case-by-case approach to the customer's situation and expectations.

Bancassurance

In 2019, the Bank continued to offer life and property insurance in bank outlets and in remote channels. An important share in bancassurance revenues was contributed by the distribution of insurance linked to credit products, in particular cash loan insurance. In 2019, customers were able to take advantage of special offers, including the promotions entitled "Up to PLN 200 cash-back for TPL and MOD insurance" or "Cinema Tickets for Car Insurance". As a result of the merger of Bank Millennium and Euro Bank, customers of the combined Bank were able to use a broad range of insurance products offered by Millennium in cooperation with several insurance companies.

Prestige and Private Banking Segment - an offer for affluent customers

Prestige is an offer for affluent customers with assets from PLN 100 thousand to PLN 1 million or customers making monthly payments of at least PLN 10,000 to their account. Private Banking is addressed to the most affluent individual customers with assets exceeding PLN 1 million, who expect high quality of service and financial product offering tailored to their individual needs. To those customers, the Bank offers a broad range of investment and unit-linked insurance products, domestic and foreign investment funds, investment programs, structured products and closed-end investment funds available through subscription. Private Banking customers can benefit from the Millennium MasterCard® World/Elite™ credit cards with access to the World MasterCard Reward program, World/Elite Privileges Programme partnership program, an insurance bundle and Assistance and Concierge packages.

As at 31 December 2019, Bank Millennium had about 38.2 thousand active Prestige customers and 4.3 thousand active Private Banking customers.

Biznes segment - an offer for business customers

Biznes is an offer addressed to individuals running sole proprietorship businesses, partnerships and commercial law companies with annual revenues up to PLN 5 million.

In 2019, the Bank achieved the highest level of acquisition of accounts for Biznes clients, posting a 97% y/y increase in business account sales. The increase in the number of new clients by more than 22 thousand was possible as a result of:

- utilization of the capacity to open business accounts in the Millenet internet banking system for the Bank's current retail clients running a business - 23% of the accounts were opened online.
- launch of a special offer entitled "Bonus for Your Business"
- increase in the level of cross-selling of business accounts in the Bank's outlets.

The Bank offers a broad range of transaction banking and credit products to Biznes clients, in particular an attractive leasing offer as well as modern internet and mobile banking services.

As at 31 December 2019, Bank Millennium had above 89 thousand active Biznes segment customers.

New Millenet and mobile application solutions for individual customers

2019 was a year of intensive development of electronic banking, providing modern, innovative solutions on the Polish market, such as:

automatic payments for motorways - the Bank was the first bank in Poland to offer Autopay, automatic payment for motorways operated by Blue Media, in its mobile app. Our clients may travel a motorway without having to stop at toll gates. Toll payments are collected automatically from an account or a credit card specified by the customer, after exiting the motorway. Several vehicles may be registered in the service, including company cars, and an invoice can be downloaded directly in the Bank Millennium application, after each trip or once a month. The Autopay automatic payment system covers the A1 motorway from Nowa Wieś to Rusocin and the A4 motorway from Krakow to Katowice. The service continues to be developed and soon it will be available on other motorways as well.

Apple Pay - users with iOS operating system devices may now use the Apple Pay service to make quick and convenient payments anywhere contactless payments are accepted. The service is available for debit and credit Visa and Mastercard cards.

new generation banking - in March the Bank launched the new Millenet internet banking system and the new edition of its mobile app, which constitute the new generation of banking activity. The technologies and solutions used for its development are new on the Polish market and, together with the unique design, offer our customers a completely new digital experience. The new application and Millenet contain offers tailored to individual needs of customers and their unique ways of managing their finances. New sections offer easier access to the functions that are used most frequently, which the customer may manage, based on preferences. For example, the "Collection" add-on makes it easier to monitor payments from many sources to a specific goal, for example when collecting money for a gift or a class trip from several persons.

access to e-administration - in 2019 important changes were also made aimed at supporting e-administration and government programs in the Millenet system. Among other things, the Bank provided:

- ✓ the possibility to apply for family benefits in the Family 500+ and Good Start 300+ programs based on the new assumptions. Starting on 1 July 2019, the 500+ benefit is also given to the first and each successive child, without the income criterion. On this occasion, the Bank prepared a special promotion: clients applying for the 500+ benefit may be eligible for a bonus up to PLN 300 and additional rewards. Applying for the benefits is simple and intuitive. After logging in, an appropriate document must be filled out in the MilleUrząd tab and confirmed with an SMS code/ approved in the mobile application.
- ✓ possibility of paying taxes via Millenet directly on the Twój e-PIT website. Customers with a tax underpayment can now pay the due amount to the tax office without having to leave the tax website. All the transfer data (details of the appropriate tax office, payment amount, type of return) are filled out automatically. Millenet users can additionally log into the Twój e-PIT website without stating their tax ID details.

POS payment terminals for Biznes clients - the Bank in collaboration with a card acquirer PayTel S.A. extended its offering for Biznes segment customers to include a comprehensive POS terminal rental service, including acceptance of payments and maintenance of the terminals. Within the service, the Bank offers a broad choice of stationary and mobile terminals capable of being integrated with fiscal cash registers. The terminals offer support for BLIK and contactless payments, acceptance of VISA and Mastercard cards, also with the DCC option (Dynamic Currency Conversion, or payment in the card currency) and additional services such as CashBack or sale of mobile prepaid credits.

temporary blockade of cards in the mobile app and unblocking of passwords in Millenet - among new solutions, customers may use convenient, temporary blocking of payment cards in the application (the blockade may be turned on and off any number of times) and quick fully-online unblocking of passwords to the Millenet system without a need to contact the hotline.

Open banking and adaptation to PSD2 standards

In 2019, Bank Millennium adapted its services to the requirements of the EU PSD2 directive. It introduced a new method of activating electronic channels (including the mobile application) and additional safety measures for logging in and authentication of operations. The account opening and activation process conducted in a branch has also been adapted to the requirements of the directive. In order to prepare clients for the change, the Bank conducted numerous profiled communication and education campaigns in the banking system, on its website and by text messages. Information was also provided through the hotline and in branches. As a result, the changes were very well received by customers and the implementation process was exceptionally smooth.

In March, the Bank as one of the first market players published the documentation and testing environment and then a production interface for open banking using the PolishAPI standard. Then, as the first payment institution on the Polish market it received a release from the obligation to maintain an emergency interface. That confirmed the highest quality of the production API and satisfaction all the requirements regarding account access and initiation of payments under PSD2 and regulatory technical standards RTS for individual and corporate customers.

Additionally, in order to develop open banking-based services, the Bank launched a pilot for the account aggregation and account information function for accounts held in other banks in its mobile application and internet system. The name of the new service is *Finanse 360°*.

6.3. CORPORATE BANKING

In the corporate banking segment, the Bank provides comprehensive services to customers with annual sales revenues above PLN 5 million and public sector institutions and entities. It is based on individual approach to each and every customer, which is made possible by a comprehensive analysis of financial needs, understanding of business challenges, the relevant industry and region. Our distinguishing feature is long-term, stable and partnership cooperation with businesses based on mutual trust, engagement and understanding. As a result, the Bank creates comprehensive financial solutions tailored to customers' business activities. We support them by cutting-edge digital solutions, which reduce the time devoted by customers to the operational activities related to our cooperation. Our goal is to ensure the highest quality of our services and the shortest response time on the Bank's side. This is why we continue to automate internal processes related to the service of corporate customers.

Customer service model

In 31 corporate centres, the Bank employs top class professionals who provide comprehensive services to corporate banking customers. Relationship Managers, who are the first line of contact with the customer, are supported by product specialists responsible for transaction banking, treasury, trade finance and leasing products. Transaction system specialists and consultants are also available locally, supporting customers in any operational matters. The customer support team is supplemented by industry experts and merger and acquisition financing experts.

Very high customer satisfaction with service quality is confirmed by results of annual internal satisfaction surveys. In 2019, the NPS measure for the bank was 42, NPS for Relationship Managers - 75, while 89% of customers were very satisfied with the operational support provided by consultants.

Financing

Despite the limited demand for financing on the market, the volume of all credit products - loans to finance current needs, investment loans, leasing, trade finance products and products with the EU funds component - increased in 2019 by 7% y/y to reach the level of PLN 18.6 billion net. The growth was also observed in current financing (up 13% y/y) and investment loans (up 8% y/y).

In 2019, the Bank cooperated with BGK to introduce the possibility of applying for additional collateral for credit transactions in the form of Biznesmax guarantees while using the environmental path. It offers access to significant support for the execution of investment projects aimed at increasing energy efficiency.

The loan offering was also supplemented by a renewable facility, in which technology advancements allow for a fully-remote exchange of documents with the Bank. Additional projects are carried out to optimize credit processes, achieve automation and improve customer satisfaction.

2019 was a period of a considerable increase of the Bank's exposure to specialized lending. That consisted of consortium transactions and specialized bilateral loans. Activity in the technology and telecommunications sector contributed the most to the portfolio growth. Significant part of the lending activity involved financing of commercial real estate and mergers and acquisitions. In 2020, the Bank plans to continue its current strategy, with particular focus on the financing of the RES sector.

Factoring and trade finance

In 2019, the Bank recorded further growth in factoring. The factoring turnover achieved in the period was PLN 21 billion. In terms of the value of the turnover, the Bank was ranked 6th among factoring institutions associated in the Polish Factors Association, with a 7.5% market share. At the end of 2019, factoring assets amounted to PLN 2.7 billion. We have also implemented changes in the handling of factoring transactions, aimed at achieving the optimum integration of factoring processes with lending processes.

In the trade finance area, a significant increase was observed in the amount of new limits; they went up by 36% y/y up to PLN 693 million. The value of the active guarantee and letter of credit portfolio reached PLN 878 million. In 2019, the popularity of e-guarantees increased and every fourth guarantee was issued in an electronic form (as an e-guarantee).

Transaction banking and electronic platforms

Corporate banking clients use a comprehensive range of transaction banking products supported by an efficient and ergonomic internet banking system, a mobile application and solutions based on the web service technology and SWIFT networks. With respect to transactional products and services, the Bank offers management of receivables collection, settlement of payments and liquidity management. The high quality of services drives a continuous increase of the customers' transaction activity. In 2019, the number of domestic transfers increased by 3%, international by 8% and the number of card transactions by 7%.

In result of high quality of services offered and the increasing penetration of customer relations, the transaction rate grew further. In consequence in 2019 this brought growth of the volume of funds on

current accounts, reaching the record-high level of PLN 11.4 billion (+19% y/y) in December. The total value of deposits of business customers (including SME) was PLN 20.4 billion, growing 10% in annual terms.

In 2019, the Bank introduced important changes in its electronic banking channels, driven by its business strategy as well as changes in the applicable law. The key assumption was a parallel development of online channels in the areas of direct interaction with customers (mobile and internet banking) and host to host integration, which enables automated exchange of information.

In August, the Bank offered the customers a hardware token with a code reader, an innovative device that may be used to log in and authorize orders. That was the first solution in Poland based on the proprietary Cronto technology by OneSpan. The device offers the highest level of security and good user experience that is unique for devices of this type. The implementation of the new solution was preceded by user testing, which confirmed the comfort and ease of the use of the device.

In December, as one of the first banks, Millennium launched a function that offers verification of an account on the white-list of VAT taxpayers directly in the transfer form in the electronic banking system. This service shortens considerably the time that a business needs to effect a transfer to a business partner (before the service was launched, verification of an account on a taxpayer white-list was an additional and time-consuming activity).

During the same period, by making appropriate changes in the process of managing payments in internal and client applications, the Bank completed the work related to the “Witraz” project implemented by the Ministry of Finance. By doing that, it implemented a dedicated micro-account for tax payments for each taxpayer. It is an intuitive process, which informs the customer which account should be used for a specified form. For example, if VAT is handled then the system notes that an Individual Tax Account should be entered (including a micro-account of the tax office assigned to the customer). It is possible to record it in the system, which makes it much easier to pay taxes in the future. For example, if the form name is “other” then the system displays the account number depending on the tax office selected by the customer.

In cooperation with Millennium Leasing, the Bank developed an internet module for servicing leasing products, available to customers as a section of the Millenet system. The module offers an online view of the key information on leasing agreements, related insurance products and also browsing invoices and payments for invoices.

Web services technology (Millenet Link)

The Bank systematically develops its IT systems to ensure that they support the accounting and financial processes carried out by customers as efficiently as possible. Within the Millenet Link service, which is a direct communication channel with ERP (Enterprise Resource Planning) systems of the largest corporate clients, the Bank enables integration of its services with the client’s systems. In this area, Millennium cooperates with the leading manufacturers and companies implementing ERP systems on the market (Comarch, SAP, SAGE, Microsoft). As a result, the integration process is faster and easier and happens on specially-negotiated preferential terms. Since 1 July, as a result of cooperation with Comarch, all users of its systems have been able to integrate with the Bank’s system directly in their applications without incurring the cost of individual integration. Since June, Millenet Link has also enabled the transfer of authorized orders using an electronic signature with a qualified digital certificate, which supports automation of payments at the client’s side. As one of the first banks on the market, Millennium also launched a solution that automatically communicates the client’s accounting and financial system with the Bank’s factoring application.

Open Banking

In June, the Bank published its special open banking access interface based on the PolishAPI standard. It is one of the elements of adapting the banking services to the requirements of the PSD2 directive and the Payment Services Act of 20 June 2019. The interface allows the Bank's customers to access all the services required by law (payment initiation, account history inquiry, confirmation that funds are available on an account linked to a payment card) via certified third parties.

Mobile Application

In March 2019, in the mobile application for corporates, the Bank launched a foreign transfer management function. Similarly as in the internet banking website, the users are now able to select the procedure used to execute the transaction, transfer dates and a negotiated exchange rate. In each instance, the customers are informed about the costs of making the transfer according to the selected settings. The number of companies using the mobile application continues to grow and the number of users has already reached nearly 10 thousand.

Transaction services

In April, Millennium Mastercard Corporate Executive charge cards were added to the payment card offering. The card combines a corporate payment card with a bundle of privileges, available previously only to the most affluent individual clients. The new card was designed to ensure comfort and safety of management board members and business owners who travel frequently. It offers numerous unique benefits, such as access to exclusive airport lounges, a broad range of concierge services, insurance as well as Priceless Specials and Inspirations programs.

Regulatory changes implemented by the Bank in the corporate banking system:

- PSD2 - adaptation to the Act of 10 May 2018 amending the Payment Services Act and certain other acts (Journal of Laws 2018, item 1075) coming into force on 14 September 2019. The act concerns the implementation of the PSD2 and new technical standards for strong customer authentication and common and secure open standards of communication.
- White List - alignment with the Act of 9 February 2019 amending the Value Added Tax Act. This refers to tax sanctions for payments to accounts from outside of the list kept by the Ministry of Finance.
- Split payment - alignment with the Act of 19 July 2019 amending the Value Added Tax Act and Certain Other Acts, i.e. mandatory split payment mechanism for selected groups of goods.
- CBP 2019 - alignment with Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges (transfers in Euro (SEPA) from business accounts).
- Witraz by the Ministry of Finance - alignment with the Act of 4 February 2019 amending the Value Added Tax Act and Certain Other Acts (Journal of Laws of 2019 Item 1520). This refers to the introduction of individual tax accounts (IRP) or tax micro-accounts, which will replace the existing accounts assigned to the individual Tax Offices.

Partnership cooperation

The Bank continued to build its brand on the corporate banking market by sharing the knowledge of important financial, tax, legal and market matters with companies. It also co-organized events offering the opportunity for the corporate customers to share their experiences with each other.

In 2019, it cooperated among other with the "Forbes" in two strategic initiatives: as a strategic partner for the Family Business Forum and the twelfth edition of Forbes' Diamonds, which included a ranking of polish companies prepared by the magazine.

Forbes' Diamonds - this year's edition started with the debate entitled "Financing development and innovation in Polish companies" with the participation of a Bank Millennium representative. During regional galas, awards were given to the companies, which increased their value the fastest over the last three years. The meetings also featured discussion panels with Bank Millennium and Millennium Leasing representatives, devoted to the topic of financing innovation growth. The Bank's chief economist delivered his presentation on barriers and opportunities that Polish economy faces.

Forbes' Family Business Forum is a long-term project organized by the magazine's editors, in which the key element is the ranking of family businesses developed in cooperation with Bisnode. Its goal is to support and integrate family businesses, enable exchange of experience and to reward the best. During the regional meetings of this year's edition of the Forum, the Bank's representatives shared their knowledge and experience in discussion panels and through a presentation entitled "From a charismatic founder to a creativity culture in a family business".

The Bank continued its cooperation with the CFO Club established by the publisher Harvard Business Review Polska with the mission of sharing knowledge, facilitating exchange of experience and providing tools to modern CFOs. The club has more than 400 members throughout Poland. As part of the Club, the Bank's representatives participated in meetings, prepared publications and co-run two webinars ("How to maintain liquidity in a volatile environment?" and "Alternatives to credit: where to get money for your business"). Three club meetings were held devoted to strategic risk management in companies, cyber security from a CFO's perspective and development of leadership skills by CFOs and financial officers in the company. Meetings of the CFO Club offer their participants not only knowledge and substantive value, but are also a priceless opportunity to establish business relations and exchange experiences.

Treasury Activity

The offer of the Treasury Department covers a broad range of products: spot foreign exchange transaction, deposit products, exchange rate volatility risk management instruments (*FX forwards, FX swaps, options*) and instruments to manage interest rate volatility (*FRA, IRS and CIRS* transactions).

The solutions offered by the Bank enable importers and exporters to hedge FX risk, and thereby to calculate their costs and prices correctly. Clients also have the ability to hedge the risk of deterioration in their financial performance as a consequence of unfavourable movement of market interest rates in the future. The proposed solutions allow clients to adopt a fixed cost of financing and interest proceeds and do not require any amendments to the existing loan or leasing agreements.

In 2019, the Treasury Department recorded a 3% increase in the group of very active corporate clients, which entailed an increase of foreign currency volumes by 8%, while profitability fell by 3%.

Custody Services

Bank Millennium provides custody services based on an individual permit from the Polish Securities and Exchange Commission (currently Polish Financial Supervision Authority) The Bank is a direct participant in depository and clearing systems such as the National Depository for Securities (*kdpw_stream*), the NBP's Register of Securities (*RPW*), Euroclear Bank SA/NV (Brussels) and Clearstream Banking Luxembourg (Luxembourg).

The Custody Department's clients are domestic and international financial institutions (global custody banks, promoters of global depository receipt issues, investment banks, asset management institutions, insurance companies, mutual fund institutions, investment funds) as well as other legal persons actively participating in capital market and money market operations who require comprehensive and customized service and advanced telecommunications and IT and infrastructural solutions.

The Bank holds a leading position in Poland in terms of the number of domestic and international clients who entrust their assets to us for custody purposes. As at 31 December 2019, the value of assets on clients' securities accounts stood at PLN 37.7 billion. At the end of 2019 the Bank operated 13,077 securities accounts and deposit accounts and acted in the capacity of Custodian for 25 Investment Funds and for one fund it performed the statutory role of a liquidator.

In the context of the pension system reform introduced in 2019, in which legal grounds were created for the operation of Employee Capital Schemes (PPKs) in the form of a special group of specialized open-end investment funds (SFIO), the Banks shows growing activity in serving as a custodian of PPK investment funds and provide transaction handling services.

International activity and external funding

In respect to the financing raised on the international market, last year the cooperation and management of the agreements signed with international financial institutions were continued, especially the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which as at 31 December 2019 included the following:

- agreement concluded with EBRD in August 2018 concerning a medium-term loan for PLN 300 million extended by EBRD under the PolSEFF Leasing project (*Polish Sustainable Energy Financing Facility for Leasing*). Under the agreement, the borrower is Millennium Leasing based on the guarantee extended by Bank Millennium. The funds raised within a loan are used by ML to finance leasing agreements related to the purchase of hardware and devices contributing to the transformation of the Polish economy towards the so-called "green economy", in particular in respect to the efficiency of using energy and resources, renewable energy, water management and waste management. The final maturity of the loan will be in August 2023.
- agreement concluded with EBRD in November 2017 (by the former Euro Bank) concerning a medium-term loan for PLN 40 million (with an option of expansion to PLN 100 million) extended by EBRD under the PolSEFF Leasing project (*Polish Sustainable Energy Financing Facility for Leasing*). Proceeds from the loan were made available to the Bank's retail clients, to be used for purchases related to the replacement or upgrade of selected equipment or installation in order to reduce consumption of energy (electricity or heat) and/or water in their residential properties. The final maturity of the loan will be in August 2022.
- agreement concluded with EBRD in December 2015 concerning a medium-term loan for EUR 50 million extended by EBRD under the PolSEFF Leasing project (*Polish Sustainable Energy Financing Facility for Leasing*). The funds from this loan will be made available to the Bank's clients using funding in the form of leasing (through Millennium Leasing), designated to carry out investments to enhance the energy efficiency of the machinery and equipment used and to reduce the costs of energy used. The final maturity of the loan will be in December 2020.
- loan agreement concluded in 2016 with EIB in the amount of EUR 100 million, in which Millennium Leasing is the borrower, designated for the support of financing of lease

agreements signed with SME sector companies. The loan was disbursed in 4 tranches in the period between June and December 2018. The last instalments within the individual tranches will be repaid in 2025.

The Bank also continued undertakings related to the process in progress for many years of strengthening the base of credible counterparties and partners on the interbank market, especially in the segment of instruments related to managing medium and long-term liquidity in foreign currencies. One of the important aspects of activities undertaken in this area was management of the portfolio of agreements with domestic and international banks (including ISDS and GMRA type agreements), whose design requires regular adaptation to the changing regulatory environment and market standards.

In this context, the Bank carried out, among others, activities related to the implementation of the further stages of the EMIR regulation, as well as the selected requirements and standards applicable internationally and/or in the states, in which its main international business partners have their headquarters. An important portion of activity in this area was related to Brexit (and preparation of the Bank for different possible dates and scenarios), to broadly defined compliance matters (including the increasing challenges in the KYC/AML and sanctions area) and identification and recognition of the structure and market of instruments to ultimately satisfy the MREL criteria.

Irrespective of the above activities, in the past period the Bank performed its other international tasks on an ongoing basis, in order to achieve diverse objectives, which included, among others, handling the service of payments and settlements, ongoing satisfaction of own and clients' financing needs, handling foreign trade transactions, participating in operations on the international money and FX markets, operations on the capital market. The achievement of these goals was supported largely by the process of developing the Bank's cooperation with its foreign partners and business associates, which has been continuing for over thirty years. The Bank maintains relationships and contacts on an ongoing basis with several hundred correspondent banks and their outlets located in all countries of the world that are important in the context of Polish foreign trade and non-commercial transactions.

In parallel to medium-term financing raised on the international market, in recent years the Bank successfully issued senior debt denominated in PLN in the form of bonds placed among institutional investors on the domestic market (with the nominal value of PLN 500 million in 2014, PLN 300 million in 2015 and 300 million in 2017) as well as subordinated debt (PLN 700 million in December 2017 and PLN 830 million in January 2019).

6.4. SUBSIDIARIES ACTIVITY

Millennium Goodie

In 2019, the goodie platform (consisting of a mobile application and a goodie.pl website) strengthened its position on the market, as confirmed by a stable increase in all activities and launch of new attractive functionalities. By 31 December, the goodie app has been downloaded to nearly 1.5 million phones, out of which 570 thousand in 2019 alone. 825 thousand loyalty cards have already been registered in 59 different loyalty programs and in the program for scanning receipts in sales campaigns conducted by shopping malls. The users transferred nearly 100 thousand traditional plastic loyalty cards to the app.

The year 2019 was a period of dynamic development of goodie's flagship functionality, i.e. the cashback program. The sum of turnover generated by users exceeded PLN 85 million and the total amount of cashback for online purchased was nearly PLN 3.5 million.

The new functionalities worth mentioning are the program of collecting stamps for restaurant orders, to be exchanged to rewards. The application regularly added new virtual maps of the largest shopping malls (37 at the end of December). Also in December, gift eCards were launched, a gift that may be personalized and sent to another person. Goodie has also implemented a functionality of locating users inside buildings based on a beacon network.

Millennium Leasing

Millennium Leasing Sp. z o.o., a subsidiary of Bank Millennium, was formed in 1991 and is one of the leasing companies with the longest operating history on the market in Poland. Its activities include financing of any fixed assets: passenger cars and trucks, machinery and equipment for most industries, heavy vehicles (for road, rail, water and air transport) and real properties.

The aggregate value of the leasing agreements disbursed by the company in 2019 amounted to PLN 3.5 billion, which was at the 2018 level. Signing more than 231 thousand lease agreements from the beginning the company's existence for a total amount of PLN 35.7 billion speaks to the company's business volume. As at 31 December 2019, the value of capital engaged in in-force lease agreements is PLN 6.8 billion, signifying 5.4% growth y/y.

As a socially-responsible organization, Millennium Leasing undertakes activities to create awareness and ensure financial profitability of energy-efficient business activity. In 2019, the company used programs organized by EBRD (PolGEFF) for this purpose but also, such as in the case of the Leasing Eko Energia product, refunded a portion of financing costs to customers with its own resources. In the past year, Millennium Leasing encouraged customers to use the offer of financing environmentally-friendly solutions as part of the MilleSun program to finance photovoltaic equipment. The product is offered through a streamlined procedure and selection of a supplier authorized by Millennium Leasing is a factor that makes it easier to receive financing.

In the real estate financing area, Millennium Leasing promoted the Built&Lease product. It is a comprehensive method of financing the process of building and using real properties with manufacturing plants or other large commercial facilities. It combines the benefits of flexible credit financing during the construction period with the operating lease formula after the property is commissioned for use.

In 2019, Millennium Leasing also offered the Autokomfort+ service launched three years before, which enabled convenient, quick and economic service of vehicles in the up to 3.5 tons category. In the service, customers receive access to the wholesale purchase of parts and maintenance services in attractive discounted prices that are fixed across Poland, also in authorized service stations.

Acting through a broker, the company enabled the customers to select services offered by leading insurance companies in order to insure risks associated with the leased assets comprehensively. Millennium Leasing customers were able to choose their preferred options of property insurance, motor insurance (including long-term policies with fixed insurance rates over the entire term of the agreement) as well as additional insurance products.

The services offered by Millennium Leasing are sold by leasing advisors in 67 outlets across Poland. They are actively supported by relationship managers in retail branches and Bank Millennium's corporate banking network. As a result, the company offers businesses a broad range of financial services, which include both leasing and banking products. Millennium Leasing advisors are also able to tailor the offer to the individual needs of their clients. Through a well-developed sales network, Millennium Leasing services are available throughout Poland.

Millennium TFI investment funds

Millennium Towarzystwo Funduszy Inwestycyjnych S.A is a licensed financial institution operational since 2001 as an entity creating and managing investment funds. At the end of 2019, the company managed customer assets worth PLN 4.5 billion, up 7% from the previous year. The growth was driven by an increasing value of investments in funds and positive net sales at PLN 186 million. At the end of 2019, Millennium funds had more than 120 thousand participants.

The main goal of Millennium TFI's activity is delivering attractive and effective investment solutions to clients and providing professional customer service. The fund managers are consummate professionals with long years of experience and excellent insight into financial markets.

In H1 2019, Millennium TFI established 8 target-date sub-funds under the Millennium PPK SFIO umbrella fund and was entered in the PPK Register kept by Polski Fundusz Rozwoju S.A. Accordingly, the company now meets the formal requirements for operating Employee Capital Schemes (PPKs) and entering into agreements to manage and operate PPKs. In cooperation with its partners, the company actively participated in the offering of modern system tools to employers to launch and operate Employee Capital Schemes in the 1st phase of the program.

At present, Millennium TFI S.A. currently manages four funds: the Open-End Investment Fund with 6 separate sub-funds investing on the Polish market (Millennium FIO), Specialist Open-End Investment Fund with 6 separate sub-funds investing on the global markets (Millennium SFIO), Millennium PPK Specialist Investment Fund with 8 separate sub-funds and the private Millennium Dividend Closed-End Investment fund dedicated to Bank Millennium's Private Banking customers. Through its open-ended funds, the Company offered participation units in 20 investment sub-funds with different investment strategies and different risk levels. In 2019 most of the investment sub-funds brought participants positive and competitive rates of return compared to other products, up to 20% for the most risky equity strategies.

The company's broad offering includes also various savings products based on the investment funds it manages. Its most popular products include the Millennium Investment Plan, which allows customers to purchase several funds within the pre-defined investment structures, and Individual Retirement Accounts. Millennium TFI is one of the leading fund management companies on the market in terms of the number of managed Individual Retirement Accounts (IKE). Millennium TFI currently manages IKE programs for 35 thousand customers, with the total asset value of PLN 390 million. At the end of 2019, the total value of assets invested in various savings products was approximately PLN 1 billion.

Brokerage activity - Millennium DM

The brokerage activity in the Bank Millennium Group is run by Millennium Dom Maklerski S.A. It renders a broad range of brokerage services, especially the execution of buy or sell orders for financial instruments for the principal's account, buying and selling financial instruments for its own account, running securities accounts and cash accounts to serve them, investment advisory services, advisory services concerning capital structure and strategy as well as combining, splitting and acquiring businesses, offering financial instruments, rendering services to perform firm and standby underwriting agreements, preparing investment and financial analyses and other recommendations related to financial instruments.

In 2019 Millennium DM's stock trading volume on the equity market was about PLN 2 billion, giving the company a 0.5% market share according to the Warsaw Stock Exchange's data. As at 31 December 2019 Millennium DM had provided services to more than 25 thousand investment accounts and acted as a market maker and as an issuer's market maker for companies listed on the Warsaw

Stock Exchange and for corporate bonds listed on BondSpot. Millennium DM also acted as an intermediary in four stock buyback campaigns of public companies. We also participated in a stock squeeze-out on the WSE announced by a group of investors.

In 2019, Millennium DM also provided analysis and consulting services to external clients as well as group companies. The most relevant of these included: investment advisory service related to unit-linked insurance funds for one of the leading domestic insurers, due diligence of investment funds and insurance companies cooperating with the group, as well as research related to specific sectors, public and private companies.

7. RISK MANAGEMENT

7.1. 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.

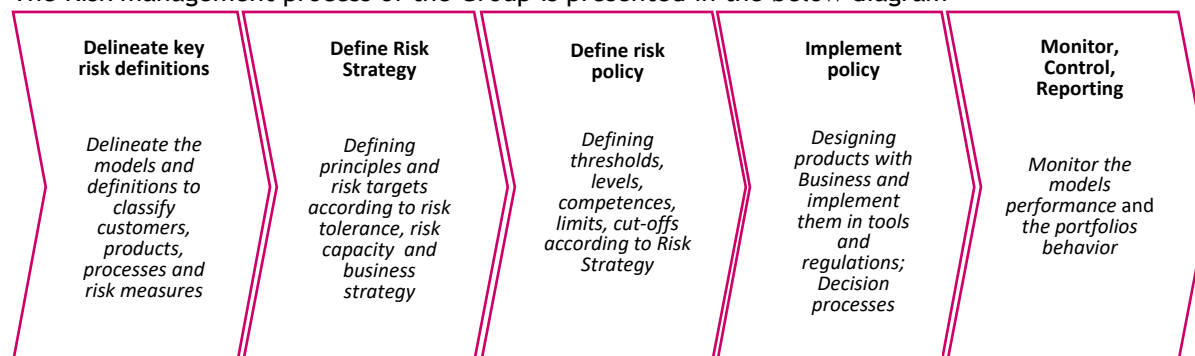
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk tolerance) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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, analysing, 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, Mortgage Credit Underwriting Department and Consumer Finance Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analysing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Monitoring and Collection Department and Retail Liabilities Restructuring and Recovery Department have 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 in the Security Department has responsibility for implementation and monitoring the Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence centre for anti-fraud process;
- The Compliance Department has the responsibility to ensure compliance with legal regulations, related regulatory standards, market principles and standards as well as internal organization regulations and codes of conduct.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2020-2022". 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 appetite - the maximum amount or type of risk the Group is prepared to accept and tolerate to achieve its financial and strategic objective. Three zones are defined in accordance with warning / action required level.

Risk strategy is one of the crucial features that determine the risk profile of the Bank/Group.

Risk appetite has to ensure that business structure and growth will respect the forward risk profile. Risk appetite was reflected through defined indicators in several key areas, such as:

- Solvency
- Liquidity and funding
- Earnings volatility and Business mix
- 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 appetite.

The Risk Management 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. Policy, Rules and Principles of the Model Risk Management
- j. Stress tests policy.

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

- Risk appetite status - green zone means a measure within risk appetite, yellow zone means an increased risk of risk appetite breach, red zone means risk appetite breach
- Escalation process of actions/decisions taken - bodies/organizational entities responsible for decisions and actions in a particular zones
- Risk appetite monitoring process.

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.

7.2. 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 November 2019 in the level of 4.96 pp (Bank) and 4.87 pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 3.72 pp in Bank and of 3.65 pp in Group, and which corresponds to capital requirements over CET 1 ratio of 2.78 pp in Bank and 2.73 pp in Group *;

- Combined buffer - defined in Act on macro prudential supervision over the financial system and crisis management - that consists of:
 - Capital conservation buffer at the level of 2.5%;
 - Other systemically important institution buffer (OSII) - at the level of 0%, and the value is set by KNF every year **;
 - Systemic risk buffer at the level of 3% in force from the beginning of 2018;
 - Countercyclical buffer at the 0% level.

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), 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.

() That recommendation replaces the previous one from 2018, to maintain own funds for the coverage of additional capital requirements at the level of 6.41 pp (Bank) and 6.27 pp (Group) as for TCR, which should have consisted of at least 4.81 pp (Bank) and 4.70 pp (Group) as for Tier 1 capital and which should have consisted of at least 3.57 pp (Bank) and 3.51 pp (Group) as for CET1 capital*

*(**) In August 2019 KNF informed the Bank was not identified as other systemically important institution in 2019*

The below table presents these levels as at 31 December 2019. The Bank will inform on each change of required capital levels in accordance with regulations.

Minimum levels of capital ratios		31.12.2019	
CET1 ratio		Bank	Group
Minimum		4.50%	4.50%
Pillar II RRE FX		2.78%	2.73%
TSCR CET1 (Total SREP Capital Requirements)		7.28%	7.23%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.00%	0.00%
Systemic risk buffer		3.00%	3.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		5.50%	5.50%
OCR CET1 (Overall Capital Requirements CET1)		12.78%	12.73%
T1 ratio		Bank	Group
Minimum		6.00%	6.00%
Pillar II RRE FX		3.72%	3.65%
TSCR T1 (Total SREP Capital Requirements)		9.72%	9.65%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.00%	0.00%
Systemic risk buffer		3.00%	3.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		5.50%	5.50%
OCR T1 (Overall Capital Requirements T1)		15.22%	15.15%
TCR ratio		Bank	Group
Minimum		8.00%	8.00%
Pillar II RRE FX		4.96%	4.87%
TSCR TCR (Total SREP Capital Requirements)		12.96%	12.87%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.00%	0.00%
Systemic risk buffer		3.00%	3.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		5.50%	5.50%
OCR TCR (Overall Capital Requirements TCR)		18.46%	18.37%

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 2019, 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 2019 was as follows:

Capital adequacy measures (PLN million)	31.12.2019 Group	31.12.2018 Group	31.12.2019 Bank	31.12.2018 Bank
Risk-weighted assets	48 124.6	36 635.5	47 267.6	36 012.8
Own Funds requirements, including:	3 840.0	2 930.8	3 781.4	2 880.9
▪ Credit risk and counterparty credit risk	3 495.2	2 593.9	3 455.8	2 570.6
▪ Market risk	24.2	20.3	24.2	20.3
▪ Operational risk	326.9	313.1	297.7	286.4
▪ Credit Valuation Adjustment CVA	3.6	3.5	3.7	3.6
Own Funds, including:	9 668.5	7 943.0	9 454.5	7 738.5
▪ Common Equity Tier 1 Capital	8 138.5	7 243.0	7 924.5	7 038.5
▪ Tier 2 Capital	1 530.0	700.0	1 530.0	700.0
Total Capital Ratio (TCR)	20.09%	21.68%	20.00%	21.49%
Minimum required level	18.37%	19.15%	18.46%	19.29%
Surplus(+) / Deficit(-) of TCR ratio (pp)	+1.72	+2.53	+1.54	+2.20
Tier 1 Capital ratio (T1)	16.91%	19.77%	16.77%	19.54%
Minimum required level	15.15%	15.58%	15.22%	15.69%
Surplus(+) / Deficit(-) of T1 ratio (pp)	+1.76	+4.19	+1.55	+3.86
Common Equity Tier 1 Capital ratio (CET1)	16.91%	19.77%	16.77%	19.54%
Minimum required level	12.73%	12.89%	12.78%	12.97%
Surplus(+) / Deficit(-) of CET1 ratio (pp)	+4.18	+6.88	+3.99	+6.57
Leverage ratio	8.11%	8.78%	7.94%	8.57%

As at 2019 end, capital adequacy in Bank Millennium Group remained on very high and safe level. Total Capital Ratio stayed at year end at 20.09% level for the Group (20.00% for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 16.91% for the Group (16.77% for the Bank). Therefore, minimum capital levels required by KNF for Bank and Group were achieved with a surplus.

TCR of the Group decreased during one year period by ca 1.6 pp (by 1.5 pp for the Bank). It was caused by a faster risk-weighted assets than own funds growth. In 2019, risk-weighted assets of the Group went up by ca PLN 11.5 billion (i.e. by 31%), mainly as a result of Euro Bank takeover. The Group's Own Funds raised by ca PLN 1.7 billion in 2019, mainly as a result of retention of net earnings (total net earnings for 2018 and net earnings for first half of 2019), and subordinated debt issue.

Bank Millennium has a dividend policy of distributing from 35% to 50% of net profit, subject to regulatory recommendations. In December 2019 KNF sent the individual dividend policy recommendation, in which it set the following additional buffers for dividend distribution (above the minimum required as at 2019 end for TCR): + 1.5% to pay 75%; + additional Stress test add-on to pay 100%. That add-on was measured as the Bank's sensitivity to an adverse macroeconomic scenario and was set at 3.01% on the top of TCR, including regulatory adjustments. KNF kept also 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).

Capital ratios at the end of 2019 would allow paying dividend if not additional K1 and K2 criteria for banks with FX mortgage loan portfolio. Taking above into account and to provide a reliable capital support for growth a business activity, the Management Board of the Bank will submit to AGM a proposal of full retention of 2019 net profit in Bank's own funds. Assuming acceptance of this proposal by AGM, positive impact on T1 and TCR ratio will be approximately 0.4-0.5 pp (to levels 17.4% and 20.6% for Group, respectively).

Leverage ratio stood at the safe level of 8%-9%, with 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.

The Bank received a letter from "BFG regarding the minimum level of own funds and liabilities subject to write down or conversion (MREL). In accordance with the regulation, the MREL requirement should be achieved by January 1, 2023 and maintained at all times from that date. BFG has determined a linear path to reach the required target. The MREL limit for the Bank was set on the basis of data as at December 31, 2018 and the value of required buffers valid as at January 1, 2019. As at December 31, 2019, the Bank fulfils the MREL limits set up by BFG. In order to fulfil and maintain required MREL limits, the Group may issue MREL eligible instruments that could cause increase of financing costs for the Group.

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 2019".

7.3. 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 2019 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 2020-2022;
- 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 behavioural 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 of the above changes in both the retail and corporate segment enabled the Group to achieve defined goals in terms of credit portfolio growth and maintaining the risk at an acceptable level defined in the Risk Strategy.

Loan portfolio quality

Share of impaired loans, including stage 3 portfolio and POCI Assets (Purchased or Originated Credit Impaired) in default, in total loan portfolio was at the end of December 2019 on the level of 4.56%. This means a slight increase from 4.52% a year ago, but when looking into its evolution during this year in the scope 4.3% - 4.6% we can observe stabilisation in this area. 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 increased slightly during last year from 2.5% in 2018 to 2.7% in December 2019.

Coverage ratio of impaired loans, now defined as relation of all risk provisions for stage 3 loans and POCI in default, had decreased during the year from 74% in December 2017 to 62%. This change is directly related to the acquisition of the Euro Bank portfolio. Pursuant to the provisions of the IFRS 3 standard, at the time of acquisition, the Euro Bank portfolio was valued and disclosed in the books of Bank Millennium at fair value. In the case of an impaired portfolio, which at the time of the acquisition was shown in the books of Bank Millennium as POCI, the fair value was close to the net value of this portfolio in the books of Euro Bank, and the value of balance sheet provisions for this portfolio at the time of acquisition was 0 (zero), which had a direct negative impact on provision coverage ratio. Without this effect, the loan coverage ratio would be 74.8%. Coverage by total provisions of loans past-due more than 90 days also decreased from 133% one year ago to 106% now.

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

Group loans quality indicators	31.12.2019	31.12.2018
Total impaired loans (PLN million)	3 276	2 463
Total provisions (PLN million)	2 046	1 832
Impaired over total loans ratio (%)	4.56%	4.52%
Loans past-due over 90 days /total loans (%)	2.69%	2.52%
Total provisions/impaired loans (%)	62.45%	74.4%
<i>Pro-forma coverage ratio (no PPA effect *)</i>	<i>74.8%</i>	<i>n/a</i>
Total provisions/loans past-due (>90d) (%)	105,8%	133,1%

(*) Purchase Price Allocation (PPA) implied consolidation of Euro Bank impaired (stage 3) portfolio at net value

Impaired loan ratios by segment show a downward trend in the retail portfolio from 4.8% to 4.7% (including mortgage loans from 2.81% to 2.53%), while this ratio for the corporate portfolio increased during the year from 3.9% to 4.1% (to the same extent for both the leasing portfolio and other enterprises). Last year, the value of foreign currency mortgage loans increased by less than 2% year-on-year (in PLN terms), as a result of purchasing of approx. PLN 1 billion in FX mortgage loans in connection with acquisition of Euro Bank. However, it should be noted that ex-Euro Bank

mortgage portfolio enjoys a guarantee and indemnity from Société Générale. Excluding this portfolio, the share of FX mortgage loans in the total loan portfolio fell from 26.6% to 19.2%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN and also the acquired PLN portfolio of Euro Bank.

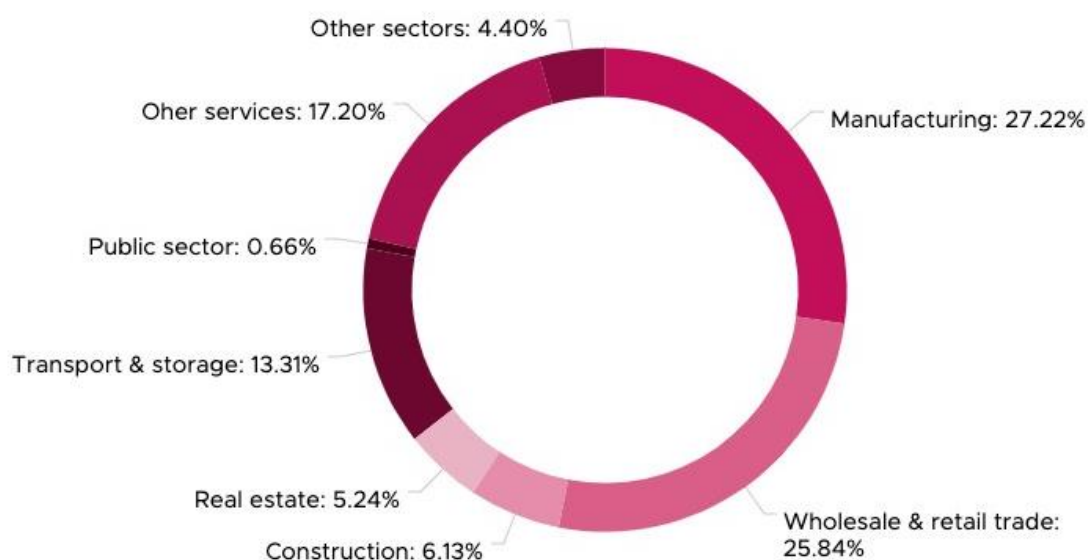
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Mortgage	1.19%	1.24%	2.53%	2.81%
Other retail*	6.31%	7.19%	9.51%	11.30%
Total retail* clients	2.79%	2.63%	4.71%	4.80%
Leasing	2.28%	1.92%	4.12%	3.89%
Other loans to companies	2.51%	2.52%	4.15%	3.93%
Total companies	2.42%	2.30%	4.14%	3.92%
Total loan portfolio	2.69%	2.52%	4,56%	4.52%

(*) 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 sectors of the economy. Participation The 10 largest exposures remain at a safe, low level of 4.1% (decrease in 2019 from 4.8%).

The share of main sectors in the Group's portfolio is presented in the chart below:



7.4. OTHER RISKS

Market risk and interest rate risk in Banking Book (IRRBB)

The 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 (prices).

The interest rate risk arising from Banking Book activities (IRRBB) encompasses current or prospective impact to both the earnings and the economic value of the Group's portfolio arising from adverse movements in interest rates that affect interest rate sensitive instruments. The risk includes gap risk, basis risk and option risk.

The framework of market risk and interest rate 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 for Global Bank, Banking Book and Trading Book considering the effect of the diversification that exists between the particular portfolios.

VaR ratios reflect total exposure to market risk in the Group. In 2019, open positions included just interest-rate instruments and FX risk instruments. In 2019 the total risk exposure for the Group, that is jointly Trading Book and Banking Book, were relatively low and remained on average at the level of approx. PLN 27.3 million (12 % of the internal limit) and VaR indicators for Trading Book stayed on average at approx. PLN 1.8 million (6 % of the internal limit). FX open position (Intraday as well as Overnight) remained below 2% of Own Funds and well below the maximum limits in place.

In 2019, the total market risk exposure in terms of VaR as well as FX open position 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.

Apart from daily measurement at the level of each book and market risk area, the VaR model is mainly applicable and analysed at the Trading Book level, where the policy intention is to trade positions on the regular basis (mostly daily). On contrary, following the supervisory guidelines, the interest rate risk in Banking Book is additionally covered by both earnings-based and economic value measures, in particular by measuring:

- the impact on the net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of upward/downward yield curve shift by 100 basis points,
- the impact on the economic value of equity (EVE) resulting from different upward/downward basis points shocks, including scenarios defined by the supervisor (standard, supervisory test assuming sudden parallel +/-200 basis points shift of the yield curve as well supervisory outlier test, SOT with set of six interest rate risk stress scenarios).

In 2019, the further steps were taken in order to implement the revised Guidelines on the management of interest rate risk arising from non-trading book activities (EBA Guidelines, EBA/GL/2018/02) that came due on 30th June 2019. In May 2019, the Capital, Assets and Liability Committee revised and approved the behavioural assumptions for measurement IRRBB (behaviour of customer with embedded customer optionality and accounts without specific repricing dates) as

well as adjust the IRRBB measurement tools in order to monitor and report on regular basis the results of six stress tests scenarios under supervisory outlier test (SOT) according to the EBA IRRBB Guidelines.

The supervisory stress tests results as at December 2019 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

The impact of interest rate 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 (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 2019 (based on annualized 4Q 2019 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	31.12.2019	31.12.2018
parallel yield curve increase by 100 bp	+1.2%	+3.4%
parallel yield curve decrease by 100 bp	-3.4%	-4.6%

More information on market risk and interest rate risk management can be found in chapter 9.4 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2019.

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 2019, the Group was still characterized by solid liquidity position, despite deterioration of all the supervisory and internal liquidity indicators at the day of Euro Bank's acquisition. However, all ratios remained within limits in place (no excesses for both supervisory as well as internally defined limits).

Due to merge of Bank Millennium with Euro Bank, the Group's Loan-to-Deposit ratio increased and was equalled to 86% at the end of December 2019 (comparing to level of 80% as at the end of December 2018). Apart from the increase, the Group kept its Loan-to-Deposit ratio well below 100% in line with its risk appetite defined for 2019.

Keeping the comfortable liquidity position was possible mainly due to actions planned by and taken by the Group before the merge with Euro Bank. The Group mainly increased stable deposit base from individuals and issued ten years subordinated bonds in total nominal amount of PLN 830.0 million with maturity date on 30 January 2029, so that in advance allowed to improve its liquidity buffer and as at Euro Bank's acquisition date enable the Group to repay Euro Bank's external financing as well as completely covered the purchase price by liquidating part of accumulated

liquidity surplus (liquidity assets portfolio). Thanks to this no additional sources of funding was required with simultaneous safe liquidity position kept.

The liquidity assets portfolio, that is portfolio of government debt securities, 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. After finalizing the transaction of Euro Bank's acquisition, any liquidity surplus was again invested in the portfolio of liquid assets in order to rebuild liquidity buffer. At the end of 2019, the share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 99% and allowed to reach the level of approx. PLN 22.5 billion (23% of total assets), that is the level observed at the end of December 2018 (PLN 22.7 billion, 28% of total assets) (see Table below).

Main liquidity ratios	31.12.2019	31.12.2018
Loans/Deposits ratio (%)	86%	80%
Liquid assets portfolio (PLN million) *	22 795	22 836
Liquidity Coverage requirement, LCR (%)	171%	212%

(*) *Liquid Assets Portfolio: The sum of cash, exposure to Central Bank (the surplus above the required obligatory reserve), Polish Government debt securities, NBP-Bills and due from banks with maturity up to 1 month. The debt securities portfolio is reduced by NBP haircut for repo transactions and 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 2019 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 2019 was complied by the Group (as at the end of December 2019 the LCR reached the level of 171%). After Euro Bank's acquisition, the LCR was kept at comfortable level mainly due to increase of the number of active retail Clients connected with the merge and maintenance of high share of funds from individuals. At the end of 2019 total Clients' deposits of the Group reached the level of PLN 81.5 billion, of which the share of individuals equalled to approx. 75.0% (respectively PLN 66.2 billion and 72,1% at the end of December 2018).

In 2019, the Group also regularly calculated net stable funding requirement (NSFR). In each of the quarter, the NSFR was above planned supervisory minimum of 100% (supervisory minimum will be valid in June 2021).

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 2019 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 9.5 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2019.

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. Fraud Risk Management Team in the Security Department is a centre of competence for the fraud prevention process.

Non-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,
- Monitoring 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:

- 1) informing about changes in law,
- 2) periodically reviewing all internal normative acts binding at the Bank in terms of compliance with applicable laws and standards,
- 3) analysing new products and services,
- 4) measuring compliance risk in processes operating at the Bank,
- 5) issuing opinions,
- 6) participating in key implementation projects, and
- 7) staff training.

The Bank's operations may generate a conflict of interest between Bank's interests and the interests of Customers. The Bank's main principle is to take all reasonable steps to identify a conflict of interest between the Bank 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 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, 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 suspicious 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. Implemented internal procedures, organizational 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 programme also covers consumer loans and insurance products (including insurance - investment 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 (the 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.

8. HUMAN RESOURCES MANAGEMENT

8.1. PERSONNEL POLICY

Bank Millennium Group has personnel policy, which defines general principles involved with recruitment, evaluation, development and retention of staff. Based on this Policy as well as business assumptions the Bank has created the Human Resources Management strategy. The strategy regulates all areas of human resources management, including employment and remuneration.

Personnel policy and the HR Management strategy based on it, support business needs of Bank Millennium Group. Activities are carried out in particular in following areas:

Growth of service quality by means of enhancing employees' competencies.

Bank Millennium attaches great weight to customer service quality. 2019 saw continuation of the "Masters' Academy" comprehensive programme of developing competencies of retail banking staff, which was started in 2016. The key role in success of this project is played by regional coaches, selected from among those branch employees who stand out in sales performance and quality. The key assumption of the project involves passing on of best - performance-proven - hands-on selling skills. Its aim is to improve the quality of services offered to customers of Bank Millennium Group. It comprises a number of workshops on quality of service and understanding customers' needs.

In relation to the merger with Euro Bank, on 1st October 2019 a broad inception training process was started, which is to enable Euro Bank staff to seamlessly and calmly start working in the structures of Bank Millennium. Training was planned throughout Poland in Bank Millennium standards, products and systems. Additionally professional e-learning programmes were prepared specifically for this purpose.

In the corporate banking area work proceeds on building a culture of growth and development of an effective organisation, based on giving and receiving feedback. All the work is being done on the basis of the sales model, which is in place in corporate banking and reflects the particulars of work of persons involved. This work is intended to assimilate the model as well as possible, the need to apply it in practice to attain the highest effectiveness as well as accommodation of essential relevant behaviours, practices and attitudes.

In this area a training programme is also continued with the purpose of improving Advisers' skills as regards building a professional image based on excellent knowledge of products, ability to make an in-depth analysis of Customers' needs and structuring of transactions, negotiation skills and the ability to effectively close transactions. The programme comprises a series of product e-learning courses, training workshops provided by 2 independent companies as well as knowledge exams. Moreover all corporate banking Advisers attended training aimed at improving sales effectiveness as well as introducing regeneration and stress management techniques. Additionally corporate banking advisers and product specialists were invited to attend storytelling training where they developed methods of building a list of their own sales pitches. To enhance the training a video course made up of 12 chapters was added.

The training programme for Prestige Advisers remains an important part of retail staff development in Bank Millennium. The training comprises knowledge about financial markets and investing, products offered by Bank Millennium in the Prestige segment, techniques for handling doubts and objections based on the Customer's personality typology as well as methods of effective closing of a sale.

Bank Millennium Group recognises and rewards employee attitudes, which lead to growth of work quality as well as optimisation of processes, effectiveness and facing-up to professional challenges. In 2019 the “Impakt” employee awards programme was continued, where the Group’s employees themselves propose candidates for the award.

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

In its development Bank Millennium Group relies on information technologies. They are used in building customer service systems in branches as well as in electronic and mobile banking. In 2019 Bank Millennium Group increased employment in the area of digital technologies by 55% (by 44% in result of the merger with Euro Bank). Acquiring talents is done not only through regular recruitment activities but also expert programmes and cooperation with student organisations.

Leadership development

Since 2015 BM Group has been steadily carrying out the M#leaders leadership development programme. Its aim is to build attitudes and to support leaders not only towards achieving results but building trust and relationships with staff. The programme’s role is also to enhance proper attitudes - including overcoming of stereotypes and promoting openness to diversified beliefs of the employees and also developing responsibility - personal as well as among subordinates. The programme is based on such values as personal development, trust, integrity, commitment to building genuine relationships and developing associates. By taking part in workshops, managers have the opportunity not only to learn leadership theory but above all to share experience with other participants and to implement the developed solutions in practice.

Since 2017 Bank Millennium Group has had the Leader’s Code, which translates the values of Bank Millennium Group to specific leadership behaviours. The Code identifies behaviours, which support the Group’s values and those, which violate them.

Building a friendly workplace

In 2019 another year in a row Bank Millennium received the Reliable Employer title. Bank Millennium Group supports physical development and sports activities of employees. In 2019 Bank Millennium co-financed the participation of employees in such sports events as i.e.: “Color Run”, “Bieg Firmowy”, “Potop Rowerowy”. A large part of the employees were also using subscription cards for sports activities.

As in previous years, a number of activities to support employees’ - [parents as well as children in the “Parents Say Yes” programme.

Diversity policy

In keeping with the Diversity Policy introduced in Bank Millennium Group in 2017, the Group operates with respect for human dignity and observes the right to equal treatment irrespective of age, gender, ethnicity and nationality, religion, denomination, family status, sexual orientation, health status, convictions, trade union membership as well as other factors exposing to discriminatory behaviours

Bank Millennium Group takes on board the principle of respecting diversity in the Work Regulations, Code of Ethics as well as in other important regulations on human resources management and applies them in: recruitment and employment, access to remuneration and positions, support of

employees parents, equal access to benefits, support of persons in a difficult living situation, development of leadership based on values as well as freedom of speech and open communication.

In Bank Millennium Group knowledge is developed and awareness built of employees as regards ethics and matters of respect for diversity. All employees undergo mandatory training in ethical matters. Additionally all management staff take obligatory training in preventing mobbing and discrimination in employment. Bank Millennium Group implemented an anti-mobbing and anti-discriminatory procedure. There is an abuse reporting system in place, which is independent of service hierarchy.

In Bank Millennium women constitute the majority of persons employed - close to 70%. Their participation in the Bank's management (starting from the position of branch manager) was approx. 59%. Although during recent years participation of women in senior management has been steadily growing, they are still under-represented and constitute only 31% of this group.

The Bank's strategy, including the building of cells to serve expatriates working in Poland, is also conducive to raising diversity of staff in terms of nationality: in 2019 there were 52 foreigners employed.

The age structure of the employees is relatively balanced; persons entering the labour market as well as those towards the end of their professional career are employed. The biggest of employees are persons aged between 30 and 40 - 43% as well as young persons under 30 - 26%.

In relation to the long-term development strategy, in its HR management policy the Bank will strive to further reflect diversity as regards competencies and professional experience of employees. Growth of employment is expected in the area of new technologies, communication and new marketing strategies with diversified professional experience.

8.2. EMPLOYMENT AND STAFF COSTS

Efficiency of human resources management is an important part of Bank Millennium Group's strategy. The Group monitors particular staff cost items as well as the number of FTEs, for some years now pursuing a policy of stable headcount. Staff rotation is monitored and reported on an ongoing basis. Headcount and efficiency of use of resources are verified against relevant market benchmarks.

Employment in the Group <i>(in FTEs)</i>	31.12.2019	31.12.2018	Change (y/y)
Number of Bank's employees	8 117.8	5 784.8	2 333.0
- including key positions	200.0	138.0	62.0
Subsidiaries	346.6	347.5	-0.9
BM Group total	8 464.4	6 132.3	2 332.2

Employment in Bank Millennium Group at end of 2019 reached 8,464 FTEs, which means growth vs end of 2018 by 2,332 FTEs (i.e. 38%). The biggest employer in the Group is Bank Millennium, with a headcount at end of 2019 of 8,118 FTEs. Bank Millennium Group subsidiaries at the end of the year were employing in total 347 FTEs, with the following three companies having highest significance: Millennium Leasing, Millennium Dom Maklerski and Millennium TFI.

Employment in the Bank <i>(in FTEs)</i>	31.12.2019	31.12.2018	Change (y/y)
Branches and direct sales	5 225.4	3 758.9	1 466.6
Head Office	2 892.4	2 025.9	866.5
Total Bank Millennium	8 117.8	5 784.8	2 333.0

The structure of employment in Bank Millennium demonstrates a definite majority of persons employed directly in sales of banking products and services, in particular in the network of the Bank's branches located throughout Poland.

The Bank increased employment in the area of digital technologies as well as in customer service, service sales as well as support areas, which was related to the acquisition of Euro Bank.

Employment in the Bank <i>(in FTEs)</i>	31.12.2019	31.12.2018	Change (y/y)
Direct Banking	746.9	542.0	204.9
Digital	730.4	472.6	257.7
Retail and corporate banking	4 478.6	3 216.9	1 261.7
Support units	2 162.0	1 553.3	608.7
Total Bank Millennium	8 117.8	5 784.8	2 333.0

Remuneration policy of Bank Millennium Group aims to assure the staff remuneration is adequate given currently performed tasks, competencies and scope of responsibility. In particular much weight is attached to proper levels of base salary. Remuneration levels are verified with consideration of periodic evaluation of performance as well as possible evolution of the level of skills employed in performance of the organisation's tasks. Also remuneration information presented in surveys of salaries on the financial market are analysed.

The total level of staff costs in Bank Millennium Group in 2019 and in the previous year was as follows:

Staff costs <i>(in PLN million)</i>	2019	2018	Change (y/y)
Bank Millennium	715.3	592.2	20.8%
Subsidiaries	121.1	45.9	163.8%
Total Bank Millennium Group	836.4	638.1	31.1%

8.3. REMUNERATION POLICY

The Bank Millennium Group has the "Employee remuneration policy in the Bank Millennium SA Group", which formulates the assumptions used to shape fixed and variable remuneration components for all employees of the Group.

The Bank Millennium Group pays attention to properly shape the remuneration of employees in managerial positions - making sure that decision-making process concerning their remuneration encourage care for the long-term good of the Bank and avoiding excessive risk exposure.

In 2019, the employees identified as having a significant impact on the risk profile in the Bank Millennium Group were subject to additional regulations: "Rules for granting and paying variable remuneration to persons taking risks" - separate for the Management Board and other Risk Takers. In 2019, variable remuneration for 2018 was paid in accordance with the following rules:

Risk Takers - Members of the Management Board of Bank Millennium

The award and payment of 50% of the variable remuneration value took place after the end of the accounting period and after the publication of the financial results, and the payment of 50% of the variable remuneration is postponed for 3 years, payable in equal annual instalments. Members of the Management Board receive each part of the bonus awarded - those paid out in the year following the settlement period and the deferred ones - half in cash and half in financial instrument (phantom shares), the value of which relates to the value of Bank Millennium shares.

Other Risk Takers - Bank Millennium

The variable remuneration (annual bonus) paid for 2018 in 2019 was subject to the following rules: The bonus was paid in 50% in cash in the year following the given financial year. The remaining 50% was allocated in the financial instrument related to the value of Bank Millennium shares (phantom shares) - which, after re-evaluation, will be acquired in equal annual instalments during 3 years.

Other Risk Takers - former Euro Bank

The variable remuneration (annual bonus) paid for 2018 in 2019 was subject to the following rules:

- 60% of the variable remuneration was not deferred (granted in advance).
- 40% of the variable remuneration was deferred and can be acquired proportionally over a period of 3 years, which includes three deferral periods (1-year deferral period - 14%, 2-year deferral period - 13% and 3-year deferral period - 13%).
- 50% of the non-deferred variable remuneration component consists of cash and 50% of financial instruments.
- 100% of the deferred variable remuneration component consists of financial instruments, which by resolution of the Supervisory Board was defined as Euro Bank shares. After the merger with Bank Millennium, the shares of Euro Bank granted under bonus programs were - by the decision of the Supervisory Board of Bank Millennium - converted into Bank Millennium own shares in accordance with the adopted conversion rate.

By the decision of the Supervisory Board of November 29, 2019, the Bank implemented modified remuneration rules under which 50% of variable remuneration for Risk Takers will be paid in the Bank's own shares listed on the Warsaw Stock Exchange. Rules are stipulated in "the Remuneration Policy with respect to Risk Takers in the Bank Millennium Group SA". and will apply to the payment of variable remuneration starting from 2020.

The remuneration policy for this group of employees is presented in more detail in the Report on capital adequacy, risk and remuneration policy of the Bank Millennium Capital Group as at December 31, 2019.

Execution of the remuneration policy in 2019

According to the policy, in the Bank Millennium the main source of employees' income is the base salary resulting from the employment contract. Variable remuneration is an additional, motivational element of total remuneration. The employee's basic salary is shaped in relation to the tasks performed in a given organizational unit, the scope of responsibility, qualifications, impact on the company's risk profile and based on the analysis of payroll information presented in payroll research on the financial market.

The Bank regularly reviews salaries and positions. 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 to change the base salary of employees. Salary levels are verified taking into account periodic assessment of work results, skills and are compared with market remuneration benchmarks information.

Variable remuneration is shaped within various bonus systems, which aim to motivate employees to implement business and organizational plans. Bonus systems and periodic assessment criteria in the Bank Millennium Group are adapted to the specific nature of employees' activities in individual areas of the Group. The amount of bonus budgets allocated for the payment of bonuses is determined depending on the degree of implementation of the total net profit plan of the Bank Millennium Group and in the case of business line employees - the implementation of the objectives of business lines. It is assumed that individual bonuses may not exceed 100% of the total annual base salary. Bonuses are awarded within the bonus pool based on an assessment of the work and the degree of commitment to achieving the goals set for employees.

Harmonization of remuneration policies at Bank Millennium and Euro Bank

Bank Millennium and Euro Bank had a similar approach to remuneration policy, which supported relative smoothness of the harmonization process. A comparative analysis of bonus systems and levels of remuneration in merging banks was carried out in order to introduce the working conditions of employees in units originating from Euro Bank in line with those existing in Bank Millennium.

Changes in remuneration in organizational units, introduced into the organizational structure in 2019 as a result of the merger, mainly concerned the unification of the bonus level in relation to the basic remuneration.

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 value of base remuneration of Members of the Management Board for performing this function in 2019 was PLN 10,474.79 thousand. Additionally, Members of the Board were paid part of an annual bonus for 2015, 2016, 2017 and 2018 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 2019
(in PLN thousand):**

Name	Period	Fixed remuneration (PLN'000)
Joao Bras Jorge	01.01.2019 - 31.12.2019	2 280.00
Fernando Bicho	01.01.2019 - 31.12.2019	1 620.00
Wojciech Haase	01.01.2019 - 31.12.2019	1 317.48
Andrzej Gliński	01.01.2019 - 31.12.2019	1 299.83
Wojciech Rybak	01.01.2019 - 31.12.2019	1 320.00
Antonio Pinto Junior	01.01.2019 - 31.12.2019	1 320.00
Jarosław Hermann	01.01.2019 - 31.12.2019	1 317.48

Additional benefits of Management Board Members in 2019 (in PLN thousand)

Name	Period	Benefit (PLN'000)
Joao Bras Jorge	01.01.2019 - 31.12.2019	1 007.38
Fernando Bicho	01.01.2019 - 31.12.2019	74.65
Wojciech Haase	01.01.2019 - 31.12.2019	13.31
Andrzej Gliński	01.01.2019 - 31.12.2019	25.07
Wojciech Rybak	01.01.2019 - 31.12.2019	3.83
Antonio Pinto Junior	01.01.2019 - 31.12.2019	707.95
Jarosław Hermann	01.01.2019 - 31.12.2019	6.72

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

Variable remuneration paid in 2019 to Management Board Members and to persons who performed this function in prior years (in PLN thousand):

Name	Awards paid for years 2015, 2016, 2017 and 2018 (PLN'000)	
	In cash	In phantom shares
Joao Bras Jorge	928.82	915.70
Fernando Bicho	715.96	701.22
Wojciech Haase	590.16	579.51
Andrzej Gliński	556.66	539.31
Wojciech Rybak	464.66	428.90
Antonio Pinto Junior	198.00	158.39
Jarostaw Hermann	123.75	99.00
Maria Campos	392.16	421.10
Michał Gajewski	33.60	40.32

In the period from 01.01.2019 do 31.12.2019 r. a provision was established for annual bonus in the amount of PLN 8,940 thousand.

The decision to award variable remuneration to Management Board Members for 2019 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. 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.

9. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

9.1. STATEMENT ON THE PRINCIPLES OF CORPORATE GOVERNANCE APPLIED IN 2019.

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” (hereinafter referred to also as „Best Practice”) 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” (hereinafter referred to as the “Principles”) 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 and Principles 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 (in the case of Best Practice) or by means of a website (in the case of the Principles).

Like in previous years, in 2019 the Bank 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. 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.

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 “GM”) with the use of real-time two-way electronic communication where shareholders may address 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 General Meeting - in the Bank’s opinion - the implementation of this rule during a General Meeting carries 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. At the same

time, the Bank does not rule out the possibility of ensuring to the shareholders real-time two-way communication during the proceedings of General Meetings in future, should factual or legal circumstances change.

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:

- 1) § 8 sect. 4 - 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 - 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 General Meeting, the position of the Management Board and Supervisory Board reiterates 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 General Meeting 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 General Meeting, 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 2019 the General Meeting by its Resolution of 25 March 2019 accepted the Report on the Activity of the Bank Millennium S.A. Supervisory Board in 2018 covering the assessment of compliance with the “*Principles of Corporate Governance for Supervised Institutions*” and of assessment the manner of carrying out the information duties regarding the compliance with the “*Code of Best Practice for WSE Listed Companies (2016)*”, the Bank’s Supervisory Board by its Resolution No 2/2019 of 1 February 2019 found that the Bank in 2018 correctly implemented the Principles to the extent established by resolutions of the Bank’s governing bodies.

In 2019 the Bank for the twelfth consecutive time (starting from 2008) was included in the GPW RESPECT Index - Central and Eastern Europe’s first index of socially responsible companies. In its 2019 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.

On September 3, 2019 the Warsaw Stock Exchange announced in a communiqué that it launched the publication of a new index WIG-ESG comprising 60 companies included in the WIG20 and mWIG40 indices. Weights of companies in WIG-ESG depend on the number of free float shares adjusted for the results of the ESG ranking prepared by Sustainalytics and the assessment of the application of the principles of corporate governance.

According to the GPW communique of 3 September 2019, which announced the portfolio of the WIG-ESG index, Bank Millennium was among the 4 top-scoring companies. Bank Millennium reached the highest score both in the assessment of the application of environmental, social and corporate governance factors (the ESG ratio of 1.0) and in the assessment of compliance with the principles of the Code of Best Practice (KDP ratio of 1.0).

At the same time, WSE informed that as at 1st of January 2020 it would end the publication of the RESPECT Index. Until the end of 2019 WSE was simultaneously publishing the WIG-ESG and RESPECT Index indices.

WIG-ESG will be the underlying instrument for the passive fund managed by NN Investment Partners TFI.

9.2. SHAREHOLDERS AND GENERAL MEETING OF SHAREHOLDERS

The General Meeting is the highest governing body of the Bank's authorities operating 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 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 at 31 December 2019, the Bank's share capital was PLN 1,213,116,777 and was divided into 1,213,116,777 shares (with the nominal value of PLN 1 each). 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 the share capital 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 the Warsaw Stock Exchange the Bank does not have detailed information about the structure of shareholders holding less than 5% of the shares in the share capital. According to information available, as at 31 December 2019, the Bank had four shareholders holding more than 5% of the votes at a General Meeting.

Banco Comercial Portugues (BCP), 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 at 31 December 2019 held 8.24% of the Bank's shares, AVIVA Otwarty Fundusz Emerytalny AVIVA Santander (former Aviva OFE BZ WBK), which as at 31 December 2019 held 6.33% of the Bank's shares, and Otwarty Fundusz Emerytalny PZU „Złota Jesień”, which as at 31 December 2019 held 5.57% of the Bank's shares.

The remaining shares, i.e. 29.76% of the share capital, are dispersed among Polish and foreign shareholders, both institutional and private.

Shareholders of the Bank as at 31 December 2019

Shareholder	Number of shares	% stake in share capital	Number of votes	% participation in votes at GM
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden OFE	100 000 368	8.24	100 000 368	8.24
AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	76 760 317	6.33	76 760 317	6.33
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	67 593 025	5.57	67 593 025	5.57

Shareholders of the Bank as at 31 December 2018

Shareholder	Number of shares	% stake in share capital	Number of votes	% participation in votes at GM
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
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	76 301 553	6.29	76 301 553	6.29
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	68 043 397	5.61	68 043 397	5.61

Data in the tables were ascertained according to the rules described below. With respect to Banco Comercial Portugues S.A. these are data collected in connection with the registration of shareholders authorised to take part in the Bank’s Extraordinary General Meeting and General Meeting convened for, respectively, 27 August 2019 and 26 March 2018.

However, as regards Nationale-Nederlanden Otwarty Fundusz Emerytalny, Aviva Otwarty Fundusz Emerytalny Aviva Santander and Otwarty Fundusz Emerytalny PZU „Złota Jesień” 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 at 31 December 2019 and as at 31 December 2018 (as published on the websites: www.nn.pl, www.aviva.pl and www.pzu.pl respectively).

For the purpose of making the above-mentioned calculations the volume weighted average price (VWAP) of the Bank’s shares was taken: for 2019: PLN 5.8339, and for 2018: PLN 8.8258.

Banco Comercial Portugues S.A., as the majority shareholder, exercises a shareholder’s rights specified in 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 General Meeting 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 share capital of the Bank, issue of convertible bonds, payment of a dividend and other activities, which in accordance with Code of Commercial Companies require an ordinary or qualified majority of votes at a General Meeting. 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 Regulations of the General Meeting of Shareholders. Each share of the Bank entitles to one vote, however registered founder shares in the outstanding number of 61,600 items are preferential in as much as one share entitles to two votes at a General Meeting. 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 at 31 December 2019.

Registered 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 1,213,008,937 shares with the code ISIN PLBIG0000016 (GPW symbol: MIL; Reuters: MILP.WA; Bloomberg: MIL PW) are traded on the stock exchange.

Shareholders have 107.840 registered shares, of which 61,600 are preferential founder shares (right to two votes at a General Meeting). Thus, the total number of Bank Millennium shares is 1,213,116,777 and total number of votes at a General Meeting of Shareholders is 1,213,178,377.

9.3. SUPERVISORY BOARD

The Supervisory Board exercises constant supervision over the activity of the Bank operating 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.

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 a simple 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 a 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.

The composition of the Supervisory Board of the current term of office was determined by the General Meeting on 26 March 2018 and as at 31 December 2019 remained unchanged and 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. From 31 May 2019 to the day of merger

with Bank Millennium S.A., i.e. 1 October 2019, also the Chairman of the Supervisory Board of Euro Bank S.A.

Mr Bogusław Kott has been a Member of the Polish Business Roundtable since 1994. 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 Business Degree 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 auditing (KPMG) and in international banks (Citibank, Deutsche Bank and Banco Santander) in Portugal. Between 2006 - 2012 he was Vice-Chairman of the Board of Directors and CEO of Banco Santander Totta (Portugal). From 2012 to 2018 he was Vice-Chairman of the Board of Directors and CEO 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 Emeritus of Economic Sciences, Institute of International Economic Policy 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 he was Minister of Foreign Affairs of the Republic of Poland. In 1998 - 2004 Member of the Monetary Policy Council of the National Bank 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 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 2014 - 2019 Member of the European Parliament. Member of Parliament of the Republic of Poland of 7th term in 2011 - 2014 - he was the Chairman of the Public Finance Committee - and of 9th term, elected in 2019. Author of more than 200 scientific papers and publications, including six 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 Licentiate 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 a Member of the Supervisory Board of Bank Millennium S.A. From 31 May 2019 to the day of merger with Bank Millennium S.A. i.e. 1 October 2019, also Member of the Supervisory Board of Euro Bank 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 where until June 2019 she supervised the company's strategy and business in Poland as Country Director. Her main responsibility was 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 of Head of Google for Startups in Poland and Central-Eastern Europe. Since July 2019 she became the Global Director of Google for Startups, where she leads the company's programs and partnerships to support startups around the world.

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. In 2018 she held the role of General Manager for Poland and Baltics for Marie Brizard Wine & Spirits Sp. z o.o. Currently she holds the role of General Manager of Avon Cosmetics Polska 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, 2015 - 2018 as a Management Board Member, Vice President International Association of

Advertising (IAA) in Poland (Warsaw, Poland). Currently is a Member of the Board of the Polish - Canadian Chamber of Commerce, an Adviser and Mentor in the Global Shapers - Mentor4Starters initiative, and a mentor of the CFA Society Poland.

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. From 31 May 2019 to the day of merger with Bank Millennium S.A. i.e. 1 October 2019, also Member of the Supervisory Board of Euro Bank 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-USAID 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. From 31 May 2019 to the day of merger with Bank Millennium S.A., i.e. 1 October 2019, also Member of the Supervisory Board of Euro Bank 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 the Dean of the Management Faculty at Warsaw University and in 1991 - 1996 he was the Director of the International Management Centre of Warsaw University. In 1990 - 1996 he was a lecturer at the University of California in Los Angeles, invited every year for a semester. In 1982 - 1989 he was a lecturer at the University in Orleans, France. Visiting professor in many other 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. From 31 May 2019 to the day of merger with Bank Millennium S.A., i.e. 1 October 2019, also Member of the Supervisory Board of Euro Bank 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. Moreover in 1992 - as part of an annual scholarship from the A. Mellon Foundation - he studied economics at the University of Illinois at Urbana-Champaign, USA; in 1993, as a scholarship holder of the United Kingdom Government under the Know-How Fund, he studied banking, finance and capital markets at the University of Exeter; in 1996, as part of a semester scholarship from the German Government, he studied economics at Freie Universität in Berlin, and in 1997 as part of a semester scholarship of the Belgian Government, he studied international economics at the RUCA University in Antwerp. 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 many 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*". Author of over 300 publications in Poland and abroad.

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 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 Vice-Rector for Research and Liaison, 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 Council of the Foundation 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 Eureka Program in INSEAD, he had a Scholarship from Invotan (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 risk control, ALM, financial markets research and capital markets areas in 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 Business Organization and Management, having also completed the 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 manufacturing SME industry. Joined Banco Português do Atlântico in 1990, institution where he assumed functions in the corporate banking area and led the coordination of the Economic and Financial Research Office.

Between 1996 and 2007 he assumed several senior management functions within BCP Group both in Portugal and Spain, namely head of the Corporate Banking Marketing of BCP, Coordinator of the retail banking network of NovaRede, CEO of Manager Land in Barcelona, head of Innovation and Commercial Division of BCP. From 2007 to 2009 he was Head of the Office of the Chairman of the Executive Board of Directors of BCP. In 2009 Mr Miguel Maya was appointed 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 he was Chairman of the Board of Directors of Banco Millennium Angola, S.A and 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 still holds. From 2012 to 2019 Mr Miguel Maya was Chairman of the Board of Directors of Interfundos - Gestao de Fundos de Investimento Imobiliario, S.A.

Currently Mr Miguel Maya holds the following functions: Chief Executive Officer (CEO) and Vice-Chairman of the Board of Directors of BCP, Manager of BCP Africa, SGPS, Lda and Member of the Board of Directors of Banco Internacional de Moçambique, S.A.

Since 21 May 2015 he has been a 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., Chairman of the Board of Directors of Longrun Portugal, SGPA,S.A. and since November 2019 Member of the Board of Directors of Luz Saude, S.A.

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

Standing Committees of the Supervisory Board

The Supervisory Board may establish standing or ad hoc committees to carry out specific tasks. The Standing Committees of the Supervisory Board are: the Audit Committee, Personnel Committee, Strategic Committee and Risk Committee. The compositions of the committees of the present term of office, referred to below, were established by the Supervisory Board as at 26 March 2018 and remained unchanged as at 31 December 2019.

Detailed information regarding the issues raised during the meetings of the Committees in 2019 is to be found in the „*Report on activities of the Supervisory Board of Bank Millennium S.A. in 2019*”, published on Bank Millennium's website.

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 auditing of financial statements, 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 of 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 of 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 of financial statements are provided for the Bank by an audit firm.

In 2019 seven meetings of the Audit Committee of the Supervisory Board took place on the following days: 31 January 2019, 21 February 2019, 6 May 2019, 17 June 2019, 25 July 2019, 23 October 2019 and an additional one - "by circulation" - of 4 April 2019.

Detailed information regarding the issues raised during the meetings of the Committee in 2019 is to be found in the „*Report on activities of the Supervisory Board of Bank Millennium S.A. in 2019*” in the chapter „*Activities of the Audit Committee in the reporting period*”.

From 1 January 2019 to 31 December 2019 the Audit Committee of the Supervisory Board of Bank Millennium SA was composed of the following members:

1. Grzegorz Jędrys - 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 of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

Personnel Committee

The Personnel Committee has existed at the Bank since 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.

During the period from 1 January 2019 to 31 December 2019 the composition of the Committee was as follows:

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

Strategic Committee

The Strategic Committee 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 2019 to 31 December 2019 the 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. Dariusz Rosati
8. Lingjiang Xu

Risk Committee

The Risk Committee was 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 2019 to 31 December 2019 the Committee consisted of the following persons:

1. Dariusz Rosati - Chairman
2. Miguel de Campos Pereira de Bragança

3. Grzegorz Jędrys
4. Bogusław Kott
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 General Meeting, 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 General Meeting 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 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 2019 (in PLN thousand):

Name and surname	Remuneration for 2019	Other benefits	Total (PLN'000)
Bogusław Kott	330.0	21.58	351.6
Nuno Manuel Da Silva Amado	145.0	0.0	145.0
Dariusz Rosati	180.0	0.0	180.0
Miguel De Campos Pereira De Bragança	200.0	0.0	200.0
Agnieszka Hryniewicz-Bieniek	130.0	0.15	130.15
Anna Jakubowski	160.0	0.0	160.0
Grzegorz Jędrys	205.0	0.0	205.0
Andrzej Koźmiński	160.0	0.0	160.0
Alojzy Nowak	150.0	0.0	150.0
José Miguel Bensliman Schorcht da Silva Pessanha	145.0	0.0	145.0
Miguel Maya Dias Pinheiro	120.0	0.0	120.0
Lingjiang Xu	130.0	0.0	130.0
TOTAL:	2 055.0	21.73	2 076.7

In 2019, Members of the Supervisory Board did not receive any remuneration or additional benefits from the Bank’s subsidiary companies.

The Bank's shares held by Supervisory Board Members (performing their functions on 31 December 2019):

Name and surname	Function	Number of shares 31.12.2019	Number of shares 31.12.2018
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
Miguel de Campos Pereira de Bragança	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	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
José Miguel Bensliman Schorcht da Silva Pessanha	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	0

9.4. 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 a simple majority of votes of the Management Board Members 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 Bank's Management Board during the period from 1 January 2019 to 31 December 2019 remained unchanged and 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 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. From 3 June 2019 until the day of merger with Bank Millennium S.A. i.e. 1 October 2019, also First Deputy Chairman of the Management Board of Euro Bank S.A., Acting Chairman of the Management Board.

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 - Chief Financial Officer) and since 20 April 2012 Deputy Chairman of the Management Board. From 3 June 2019 until the day of merger with Bank Millennium S.A., i.e. 1 October 2019, also Deputy Chairman of the Management Board of Euro Bank S.A.

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 - Portassis 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 a 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. From 3 June 2019 until the day of merger with Bank Millennium S.A., i.e. 1 October 2019, also Deputy Chairman of the Management Board of Euro Bank S.A.

He supervises the retail sales network, its optimization and support, private banking and direct banking.

6. António Pinto Júnior - Member of the Management Board



Mr António 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 the Management Board of ActivoBank.

Since 20 April 2018 Member of the Management Board of Bank Millennium S.A. From 3 June 2019 until the day of merger with Bank Millennium S.A., i.e. 1 October 2019, also Deputy Chairman of the Management Board of Euro Bank 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.

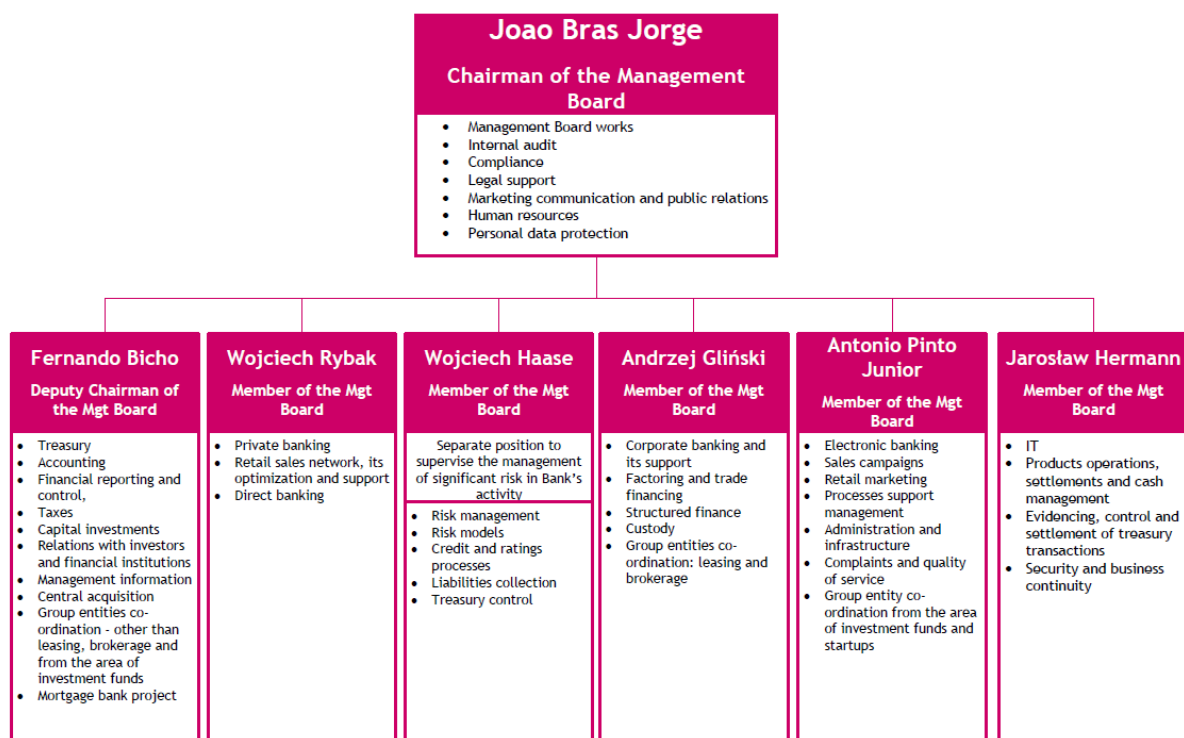
Between 2005-2010 he was Board Member of First Data Poland responsible for providing IT and operational services for card acquiring and financial solutions business lines.

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. From 3 June 2019 until the day of merger with Bank Millennium S.A., i.e. 1 October 2019, also Deputy Chairman of the Management Board of Euro Bank 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 the 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 2019 can be found in chapter 8 of this report, Part 3 entitled "Remuneration policy".

Bank shares held by Members of the Management Board (performing their functions on 31 December 2019):

Name and surname	Function	Number of shares 31.12.2019	Number of shares 31.12.2018
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 Pinto Júnior	Member of the Management Board	0	0
Wojciech Rybak	Member of the Management Board	0	0
Jarosław Hermann	Member of the Management Board	0	0

9.5. INTERNAL CONTROL SYSTEM AND EXTERNAL AUDITOR

Internal Control System

The Bank's internal control system is organised in the framework of the so-called three independent lines of defence, which comprise:

- 1st line - the Bank's operating units not belonging to the 2nd and 3rd line of defence,
- 2nd line - Compliance Department and other units managing particular risks,
- 3rd line - Internal Audit Department.

The internal control system covers all organisational units of the Bank and subsidiaries belonging to the capital group.

The main objectives of the internal control system are to ensure:

- effectiveness and efficiency of the Bank's operations,
- credibility of financial information (including: completeness, correctness and comprehensiveness of administrative and accounting procedures and fair and true internal and external reporting),
- observance of risk management principles at the Bank,
- compliance of the Bank's activity with laws, internal regulations and market standards.

Based on the developed selection criteria the Bank identified material processes, and then linked them to the general and specific objectives of the internal control system. For material processes the Bank selected controls (control mechanisms) functioning within such processes and selected out of them certain controls of key importance for achieving the objectives of the internal control system assigned to a given process. Key controls have been covered by the monitoring of their observance, such monitoring performed independently by organisational units belonging to the 1st and the 2nd line of defence in the internal control system.

The linking of the general objectives of internal control and specific objectives isolated as part of them with material processes functioning at the Bank and key controls and principles of independent monitoring of their observance is documented in the form of the Control Function Matrix. The Bank in the Matrix also specified the responsibility of particular organizational units for employing control mechanisms, as well as their independent monitoring.

The Bank has a formalized path of reporting about the results of monitoring controls, ascertained irregularities and status of implementing remedial and disciplining measures. From time to time this information is also transferred to the Internal Audit Department, the Bank's Management Board and Audit Committee of the Supervisory Board.

The Bank's Management Board is responsible for the implementation and functioning of an adequate, effective and efficient internal control system.

The Bank's Supervisory Board exercises supervision and performs the annual evaluation of the implementation and ensuring that the internal control system is adequate, effective and efficient, as a whole and in its parts (including the control function, Compliance Department, Internal Audit Department).

Internal Audit (3rd line of defence)

The Internal Audit Department is within the internal control system a specialized unit of the 3rd line of defence which carries out an independent review of processes and internal control in the Bank and the capital group, verifying the implementation of tasks assigned to the 1st and 2nd line of defence.

The aim of the activities is providing 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 capital 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, directly reporting to the Chairman of the Management Board of the Bank and the results of its activities are reported to the Management Board, 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 2019 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 Capital 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 functioning 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 policies are captured in the document „*Policy of Selecting and Cooperation*

with *Audit Firms*”, which was approved by the Audit Committee of the Supervisory Board on 26 October 2017. The policy specifies:

1. the principles of selecting the audit firm to conduct:
 - a) statutory audit, i.e. audit of the annual consolidated financial report of the Bank’s capital group or audit of the Bank’s annual financial report whose duty to conduct results from art. 64 of the Accounting Act of 29 September 1994, (hereinafter „**the Accounting Act**”), provisions of other acts or provisions of European Union law,
 - b) voluntary audit, i.e. audit of the annual financial report which is conducted pursuant to the Bank’s decision, and not on the basis of art. 64 of the Accounting Act, provisions of other acts or provisions of European Union law, conducted in accordance with national or other audit standards, as well as auditing the annual consolidated 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:
 - a) audit firm conducting a statutory audit or voluntary audit at the Bank or at Millennium BCP,
 - b) entities connected with the audit company conducting a statutory or voluntary audit at the Bank or at Millennium BCP, and
 - c) 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 cooperation 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 books and financial reports. At meetings of the Audit Committee of the Supervisory Board the external auditor presents key findings relative to financial reporting, consults with the Audit Committee of the Supervisory Board draft reports and proposes an approach to the audit of the annual financial report.

Bearing in mind the mandatory rotation of audit firms resulting from legal regulations and the five-year period of cooperation with PricewaterhouseCoopers Sp. z o.o. (i.e. the entity which up to then audited the Bank’s financial reports), 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 of the Supervisory Board on 26 October 2017. At the meeting of 25 October 2018, the Audit Committee of the Supervisory Board familiarised itself with the report of the task force (dedicated to conducting the bidding procedure) on the procedure of selecting the audit company for conducting statutory audits for Bank Millennium S.A. and the Bank’s capital group containing the conclusions from the selection procedure and indicating the audit firm recommended for conducting statutory audits. Based on the recommendation of the Audit Committee of the Supervisory Board, the Management Board of the Bank recommended to the Supervisory Board the selection of Deloitte Sp. Z o.o. Sp. k. as an entity authorized to audit financial reports of Bank Millennium S.A. and the Bank Millennium capital group for the years 2019 and 2020. 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. in accordance with the presented proposal.

The Bank is covered by the consolidated financial report of the Millennium BCP capital group. In this connection, 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 external auditor of the Millennium BCP capital group participated in 2019 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

On 26 October 2018 the Supervisory Board of the Bank approved the selection of Deloitte Sp. z o.o. Sp. k. as an entity authorised to perform audits of financial reports of Bank Millennium S.A. and the Bank's capital group for the years 2019 and 2020. The audit agreement was concluded on 23 April 2019.

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

Auditor's Remuneration <i>(in PLN'000)</i>	2019		2018	
	Bank	Subsidiaries	Bank	Subsidiaries
Statutory audit within the meaning of art. 2 point 1 of the Act on Statutory Auditors	910	464	745	321
Other assurance services	1 215	220	402	113
Tax advisory services	-	-	-	-
Other services	-	-	-	-

Services other than statutory audit:

- a review of the stand-alone and consolidated interim condensed financial reports of Bank Millennium S.A. drawn up as at June 30, 2019,
- review of the interim condensed financial reports of Millennium TFI SA investment funds prepared as at June 30, 2019,
- audit of the consolidation documentation and the reporting package of Bank Millennium S.A. capital group for the period of 12 months, ended on 31 December 2019, prepared in accordance with instructions and group rules of BCP capital group,
- procedures for verification of consolidation documentation and the reporting package of the Bank Millennium S.A. capital group for the period of 3 months, ended on 31 March 2019, prepared in accordance with group principles,
- procedures for verification of consolidation documentation and the reporting package of the Bank Millennium S.A. capital group for the period of 9 months, ended 30 September 2019, prepared in accordance with group principles,
- assurance service concerning requirements for safekeeping of customers' assets for 2019 for Bank Millennium S.A. and Millennium Dom Maklerski S.A.,
- assurance service concerning evaluation of adequacy of the risk management system in 2019 in Millennium TFI S.A.

- assurance service in accordance with MSUA 3000, concerning verification of the internal control system of Bank Millennium S.A. and Millennium Leasing, in accordance with instructions of the group auditor for the period from 1 June 2018 to 31 May 2019,
- assurance service in accordance with MSUA 3000: Statement of the independent auditor issued on behalf of the entity authorized to audit financial statements on the conformity of methods and principles of valuation of the Fund's assets described in the prospectus with the regulations on accounting of investment funds, as well as on the conformity and completeness of these principles with the investment policy adopted by the Fund,
- assurance service in accordance with MSUA 3000: independent verification of the non-financial data presented within CSR Report.

10. THE BANK'S CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Social and environmental responsibility of Bank Millennium (CSR)

In Bank Millennium acting for the community is an integral 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.



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 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 give Clients i.a. access to e-administration, the opportunity to buy public transport tickets, to get motor insurance or pay motorway toll. 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 Clients. Bank Millennium is extending its concept of a world without barriers to other areas, in which it is active, including culture

sponsoring. By providing cinema films with audiodescription during Millennium Docs Against Gravity, Poland's biggest documentary films festival, it was facilitating access to the world of culture for persons with sight impairments. In 2019 the Bank came **1st in the "Access" category in the Ranking of Banks by Miesięcznik Finansowy Bank.**

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 (93% satisfied with their relationship with the Bank) but were also appreciated by the market. In 2019 in a survey by Bain & Company advisers, Bank Millennium had **the highest NPS** result among Polish banks, which describes the willingness of customers to recommend services to acquaintances. In the Stars of Banking 2019 competition the Bank made it to the podium three times, winning i.a. in the "Customer Relationship" category. The Bank was acclaimed as the Customer Experience leader in the Polish financial sector on the list of TOP 100 Brands prepared by KPMG and was in the top ten out of one hundred best brands in Poland. It was also the most often recommended bank in Poland with loyalty measured with the market's highest NPS score of 52 ("Bank customers satisfaction monitor 2019", ARC Rynek i Opinia).

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. The Bank is also signatory of 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 8 of this report.

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 since 2018 have a clause, which confirms 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:

Financial education

The proprietary "Financial ABCs" kindergarten children education programme has been prepared and is being implemented by Employees of Bank Millennium in cooperation with a non-governmental organisation. Its goal is to explain through fun and play the basic notions from the world of finance to the youngest. In total almost 2200 workshops were held in the programme to train approximately 53,000 children from approx. 620 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. In

2019 the Financial ABCs came **first** in the “Golden Banker” competition in the “Socially Conscious Bank” category.

Employee volunteering

For over 10 years Bank employees have been implementing and participating in various charitable and educational campaigns in all Poland, often in cooperation with non-governmental organisations. The most important volunteer programme is “Millantrop” run by the Bank Millennium Foundation. This is a grant competition addressed to Bank Millennium employees under which the best social projects are awarded. So far the initiatives financed with these grants have included more than 500 volunteers, who implemented programmes for more than ten thousand beneficiaries.

In 2019 Bank Millennium and ex-Euro Bank employees also joined a charity campaign, „Our People 3”: Together to the Moon”. It consisted in sports activities, mileage accumulation and jointly “covering” the distance between the Earth and the Moon. For every kilometre covered by an employee Bank Millennium donated PLN 1 for social causes - for beneficiaries of the “I Have a Dream” Foundation and DKMS - and for grants awarded in the “Millantrop” competition for the best volunteer projects. „Our People 3” involved over 1 250 people and over PLN 380 thousand was donated for social causes.

4.2. Sponsoring of culture

For more than 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 funded the “Golden Sceptre” award for eminent artists; for 11 years was the sponsor of “Pearls of Millennium” - a joint project of the Bank and TVP, which aimed to produce, promote and present artistic events in the high art realm on Polish TV. For 17 years it has been sponsoring the International Festival of Traditional Jazz “Old Jazz Meeting - Złota Tarka”. For 8 years it has been with the “Sacrum Profanum” contemporary music festival and for 8 years with Bella Skyway Festival - a multimedia show prepared by an international group of artists. For 7 years it was associated with the Two Theatres Festival; for 5 years with the Gdańsk Music Festival, it also supported the Mozart festival at the Warsaw Chamber Opera and many others.

The most important cultural project sponsored by the Bank is the Millennium Docs Against Gravity Film Festival. This is Poland’s biggest world documentary film festival together with side events (workshops, discussions and concerts). In 2019 festival shows and events were held in 6 cities in Poland and had an audience of more than 92,000 (vs. 4,500 in 2004). Bank Millennium has been a partner of Millennium Docs Against Gravity for 14 years now and in 2016 it became the naming rights sponsor of the festival. In 2019 particular attention was given to the availability of culture to persons with vision and hearing impairments. Selected films were available with audio description and voice overs available in the AudioMovie app at shows in Warsaw and Wrocław.

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.

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, free training and workshops as well as the opportunity to become the Bank’s ambassador at leading universities in Poland.

The Bank is also a partner of coworking SGH - a venue for meetings, networking, consultations with business theoreticians and practitioners from the School and the Bank. The coworking centre enables students and graduates, who established or are planning to establish a start-up and want to clash their ideas with the business reality, to work in an unrestricted environment.

5. Environment

Climate protection issues have always been important for the Bank. The Bank carried out activities aimed at reducing emissions in the organization and in commercial projects, although historically the involvement in financing the coal mining and coal energy sector was significantly lower than the average for the banking sector. In 2019, the Bank formalized its approach to the climate issue and developed the **“Bank Millennium Group Environmental Policy”**. The Document defines three key areas of environmentally-minded activity: own environmental activities aimed at reducing consumption of materials, electricity, water and fuel; approach to financing investments and environmental education of clients, counterparties and employees.

In reference to the Policy, the Bank regularly monitors consumption of electricity, water, fuels, office supplies and undertakes actions to reduce usage of resources. In its lending regulations the Bank introduced restrictions regarding financing of activities, which harm the environment. The Bank’s 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. **“Bank Millennium Group Environmental Policy”** is a general document, which defines commitment of the Group to climate protection and in the future will be expanded to include further matters.

Since 2011 the Group has been reporting on its environmental impact, including disclosure of data regarding Scope 1 and Scope 2 greenhouse gas emissions. As regards Scope 3 the Group is working on analysis of existing methodologies and possibility of defining a methodology to allow accurate reporting on data about indirect emissions. It broadens knowledge about this by taking part in conferences and expert workshops (organised e.g. by Stowarzyszenie Emitentów Giełdowych /Stock Exchange Issuers Association/and WISE Europa) and participates in the work of the Polish Bank Association.

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 - 2019. The report is prepared in keeping with the guidelines of the amended Accounting Act as well as Global Reporting Initiative Sustainability Guidelines (GRI Standards) and has been verified by Deloitte.

The Bank’s compliance with principles of sustainable development has been confirmed in third-party assessments. In 2019 Bank Millennium was included in the WIG-ESG index on the Warsaw Stock Exchange. In 2010-2019 the Bank was listed in the Respect Index. In the Ranking of Responsible Companies, prepared by the Responsible Business Forum, Bank Millennium was among the top ten most socially responsible companies in Poland. It was also awarded with the CSR Silver Leaf in Polityka weekly’s ranking. The company also supports UN Sustainable Development Goals. 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.

11. 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 2019.

The Bank prepares the separate report comprising non-financial information, which will be published on the Bank's web site on February 14, 2020.

12. 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 2019 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 Annual Financial Statements of Bank Millennium and the Capital Group of Bank Millennium SA as at 31 December 2019, 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
14.02.2020	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
14.02.2020	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
14.02.2020	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
14.02.2020	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
14.02.2020	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
14.02.2020	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
14.02.2020	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature