

Report on activities of the Supervisory Board of Bank Millennium S.A. in 2016 ("the Report")

This report comprises the following:

1. Summary of activities of the Supervisory Board (hereinafter the "Board") in 2016 and its committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for Risk Matters, with self-assessment of the work of the Board, pursuant to the principle II.Z.10.2. of „Good Practices of the companies listed at the WSE 2016” (hereinafter the „Good Practices”).
2. Report on assessment of functioning of the remuneration policy in Bank Millennium S.A., pursuant to § 28 item 3 and 4 of „Principles of corporate governance for supervised institutions” (hereinafter „Principles”), adopted by the Polish Financial Supervision Authority („KNF”).
3. Assessment of application of „Principles of corporate governance for supervised institutions”, adopted by KNF, pursuant to § 27 of the Principles and assessment of performance of the disclosure duties concerning „Good practices of the companies listed at the WSE 2016”, pursuant to principle II.Z.10.3. of Good practices.
4. Report on assessment of reasonableness of sponsoring, charitable or other activity of similar character, conducted by Bank Millennium S.A., pursuant to principle II.Z.10.4. of Good Practices.
5. Report on assessment of the Management Board reports on activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group as well as financial statements of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for the financial year 2016, as well as the Management Board’s motion regarding distribution of profits for the financial year 2016, pursuant to art. 382 § 3 of the Code of Commercial Companies.
6. Concise assessment of Bank Millennium S.A. situation in the year 2016, including assessment of performance of the internal control system, the risk management system, compliance and function of the internal audit, pursuant to principle II.Z.10.1. of Good Practices.

1. Summary of the Supervisory Board’s activities in 2016 and its committees: the Audit Committee, the Personnel Committee, the Strategic Committee and the Committee for Risk Matters with self-assessment of the work of the Board.

Composition of the Supervisory Board

In the reporting period including the year 2016, the composition of the Bank Millennium S.A. Supervisory Board was, as follows:

1. Bogusław Kott – Chairman of the Supervisory Board.
2. Nuno Manuel da Silva Amado – Deputy Chairman of the Supervisory Board.
3. Dariusz Rosati – Deputy Chairman and Secretary of the Supervisory Board.
4. Julianna Boniuk-Gorzelańczyk – Member of the Supervisory Board.
5. Miguel de Campos Pereira de Bragança – Member of the Supervisory Board.
6. Agnieszka Hryniewicz-Bieniek – Member of the Supervisory Board.

7. Anna Jakubowski – Member of the Supervisory Board.
8. Grzegorz Jędrys – Member of the Supervisory Board.
9. David H. Klingensmith – Member of the Supervisory Board.
10. Andrzej Koźmiński – Member of the Supervisory Board.
11. Miguel Maya Dias Pinheiro – Member of the Supervisory Board.
12. Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

According to effective regulations at least half of the Supervisory Board composition including the Chairman is of Polish citizenship. In addition, the Good Practices and Principles impose upon stock exchange listed companies the duty to elect appropriate number of independent members to the Supervisory Board. In the Board of Bank Millennium S.A. the independence criteria, in the past term, were met by, as follows: Mr. Dariusz Rosati, Ms. Agnieszka Hryniewicz-Bieniek, Ms. Anna Jakubowski, Mr. Grzegorz Jędrys and Mr. David H. Klingensmith. In addition, Mr. Dariusz Rosati and Mr. Grzegorz Jędrys represented qualifications in the area of accounting and financial audit in accordance with art. 86 section 4 of the Act of 7 May 2009 on statutory auditors, their self-governing organisation, entities authorised to audit financial statements and on public oversight. To the best knowledge, the Board had not found any links or circumstances, which might influence the compliance of the above mentioned Board Members with independence criteria during the reporting period.

To meet the generally applicable corporate governance principles including, in particular, the Good Practices and the Principles, the Supervisory Board, hereby, confirms that its composition assures high qualifications, professional experience and knowledge of the Polish financial market as well as the Board's versatility and diversity in terms, *inter alia*, of sex, education attained and age. Professional CVs of the Board Members can be found on the Bank Millennium S.A. web site.

Activities of the Supervisory Board in the reporting period.

In 2016 the Supervisory Board held seven meetings – all with presence of the number of Board Members exceeding the minimum quorum, as required to adopt resolutions. At the meetings, the Board discussed, *inter alia*, issues related to:

- The budget and liquidity plan for the Bank Millennium S.A. Capital Group for the years 2017-2019;
- Bank Millennium S.A. Capital Group results;
- Audit Plan for the year 2016;
- Analysis of results of business lines;
- Expansion of the programme of Bank Millennium S.A. bond issue to allow for the issue of subordinated bonds;
- Updates of the „Policy of Remuneration of Persons Holding managerial Positions in the Bank Millennium Group”;
- Updates of the principal Bank Millennium S.A. organisational structure;
- Selection of auditor for the Bank Millennium S.A. and the Bank Millennium S.A. Capital Group;
- Hypothetical „Recovery and Resolution Plan for the Bank Millennium S.A. Capital Group”, as prepared in accordance with KNF requirements issued in connection with the new Act on the bank Guarantee Fund;
- Updating the „Principles of management and Capital Planning” and the „Principles of Internal Capital Estimation”;
- Updating „Principles Governing Performance of Stress Tests”;
- Motions and issues submitted to the General Meeting of Shareholders for consideration;
- Regulation (EU) no. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Regulation MAR);

- Information regarding risk management in Bank Millennium S.A.;
- Development of digitalisation in Bank Millennium S.A.;
- Report on the IT area including IT security (in accordance with KNF Recommendation D requirements);
- Housing FX loans including potential impacts of draft regulations in this area.

The Supervisory Board appointed Mr. Wojciech Rybak to the position of the Member of the Bank Millennium S.A. Management Board.

Besides engagement in the workings of the Supervisory Board, its Members were also actively involved in the work of the Board's Standing Committees.

Activities of the Audit Committee in the reporting period.

In the reporting period of the year 2016 the Audit Committee was composed of, as follows:

1. Grzegorz Jędrzyński – Chairman.
2. Bogusław Kott.
3. Julianna Boniuk-Gorzelańczyk.
4. Miguel de Campos Pereira de Bragança.
5. David H. Klingensmith.
6. Dariusz Rosati.

The scope of activities of the Audit Committee of the Supervisory Board is provided for in the Bank's Articles of Association.

In 2016 the Audit Committee of the Supervisory Board held five meetings. The following issues constituted subject matters of permanent reviews at meetings of the Audit Committee of the Supervisory Board in 2016:

1. Performance of the Internal Audit Department, including material findings, recommendations issues and effectiveness of relevant implementation process monitoring.
2. Review of efficiency, adequacy and effectiveness of the Bank's Internal Control System (ICS).
3. Monitoring of activities performed by the Bank's External Auditor including Auditor's independence and key findings relative to the financial reporting process.
4. Issues relative to the areas of risk, finance, compliance and Client complaints analysed on the basis of information presented by Bank's units and the bank's External Auditor.
5. Supporting activities to increase effectiveness and improve quality of internal audit function performance.
6. Relations with supervisory bodies including, in particular, information on the course and results of KNF inspections as well as recovery actions undertaken by the Bank to implement post-inspection recommendations.

The Audit Committee meetings included issues incorporated in the permanent agenda of the Committee meetings, as accepted by the Board and supplemented with information on Client complaints (after Q1 and Q3 of the year).

The Audit Committee systematically analysed and assessed activities of the Internal Audit Department including the extent to which Audit Plan was implemented, assessed risk inherent in audited areas, material findings identified by the audit and effectiveness of monitoring of post-audit recommendation implementation. The Committee supported actions aiming at systematic improvement of internal audit performance in the Bank. The Committee

acknowledged and accepted the Internal Audit Department Strategy for 2016-2018, containing a framework multi-year plan defining the Strategic Audit Tasks to be performed in 2016-2018.

Members of the Audit Committee remained in continuous and direct contact with the Head of the Internal Audit Department. The Audit Committee also discussed the Internal Audit Department staffing and auditors' remuneration policy.

The Committee positively assessed performance of institutional control in the Bank, performer with assurance of independence, in line with planned scope of activities and effectively identifying control mechanism weaknesses while, at the same time, providing substantive support for other units of the Bank.

The Committee actively cooperated with the Bank's External Auditor relative to financial reporting in the Bank. The Audit Committee and the Auditor in their discussions focused on draft regulations governing FX housing loans. Current and systematic communication between the Committee and the External Auditor supported assurance of proper independence and required standards as well as appropriate quality of the financial audit function performance. The Audit Committee adopted resolution recommending selection, by the Supervisory Board, of PricewaterhouseCoopers Sp. z o.o. to perform the function of Bank Millennium S.A. and the Bank Millennium S.A. Group's statutory auditor for the year 2017.

The Committee monitored the financial reporting process relative to its compliance with accounting standards applied by the Bank Millennium S.A. Group with legal regulations, supervised compliance with accounting principles applied by the Group and compliance with reporting deadlines as well as monitored changes having potentially negative impact upon the reporting process.

The Audit Committee acknowledged results of the Internal Control System Review 2015, as carried out in the Bank and the Bank Millennium S.A. Group Companies. The requirement to perform review of the Internal Control System in the Bank is the effect of supervisory regulations effective both in Poland and in Portugal and the review is performed in line with uniform guidelines followed within the BCP Group.

On the basis of results of the Review, the Committee adopted Resolution in the matter of issuance of the „Supervisory Board Audit Committee Opinion on Adequacy and Effectiveness of the Internal Control System”. In the opinion, the Internal Control System as a whole (including control environment, risk management system, information and communication system and internal control monitoring) was found to ensure appropriate and effective reaction in all material aspects in accordance with regulatory requirements. The Committee's Opinion together with the Opinion of the External Auditor of the BCP Group (KPMG) is attached to the Report on Internal Control System Review in Bank Millennium S.A., which was delivered to the Bank of Portugal.

The Audit Committee also focused on the bank's relations with supervision bodies including, in particular, the Polish Financial Supervision Authority (KNF) and the Bank Guarantee Fund („BFG”). The Audit Committee was informed on implementation, by the Bank, of its compliance policy and on activities performer by the Compliance Department.

In the course of its meetings held during the past year, the Committee analysed main goals of the Compliance Policy, Compliance Risk Map, focused on monitoring of compliance risk relative to consumer loans, insurance and investment products, implementation of the programme of counteracting money laundering and financing of terrorism, results of identification of suspicious transactions and implementation of the Compliance Department initiatives.

The Audit Committee acknowledged information on the Bank's relations with Clients, in particular, in the context of client complaints. Client complaints submitted for information of the Supervisory Board were subject to specific scrutiny.

Activities of the Personnel Committee during the reporting period.

In the reporting period of the year 2016, the composition of the Personnel Committee was, as follows:

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

The composition of the Personnel Committee ensures appropriate level of supervision of relevant areas of the Bank's activities while individual Members ensure due performance of duties in view of their level of education and professional experience.

The competences of the Personnel Committee are provided for in § 18 point 6 of the Bank Millennium S.A. Articles of Association and in § 6 point 8 of the Bank Millennium S.A. Supervisory Board Bylaws and cover, in particular, as follows:

- 1) Evaluation of candidates for the position of Members of the Bank Management Board,
- 2) Determining conditions of employment for newly appointed Members of the Bank Management Board,
- 3) Negotiation of changes of employment conditions of Bank Management Board Members,
- 4) With respect to Management Board members, determining evaluation criteria, assessment of performance (taking account of the policy of variable components compensation for persons holding managerial positions) and determining annual bonuses,
- 5) Determining conditions of termination of Bank Management Board Member employment,
- 6) Formulation of opinions and monitoring of the policy of variable components of compensation and, in addition, issuance of recommendations, formulated on the basis of reports on payments made, on, as follows:
 - Amounts and components of remuneration, bearing in mind prudent and stable management of risk, capital and liquidity and long-term good of the Bank,
 - Variable compensation components for persons holding managerial positions in the Bank, connected with risk management and the area of Bank's compliance with the effective laws and internal regulations.

In 2016, the Committee conducted its activities in keeping with the determined scope of its tasks both at the Committee meetings and separately within the framework of direct consultations and meetings of the Committee Members with other persons including Members of the Bank Management Board relative to, *inter alia*, supporting, developing and implementation of remuneration policy adopted in the Bank.

The Board's Personnel Committee, in line with the scope of its competences, issued positive opinion regarding the proposed updates of the „Remuneration Policy with Respect to Persons Holding Managerial Positions in the Bank Millennium Group” (hereinafter also the „Policy”) involving addition of provisions more precisely determining procedure of annual identification of Risk Takers. The Supervisory Board adopted proposed changes to the Policy.

The Personnel Committee of the Supervisory Board held, in 2016, three meetings. In the course of the meetings, the Committee verified again Members of the Bank Management Board and

determined principles of disbursement of a part of retained bonus due to the Management Board Members for the years 2012, 2013 and 2014. Furthermore, the Committee assessed performance of individual Bank Management Board Members in 2015 and awarded bonuses, to individual Management Board Members for the said term in accordance with principles provided for in the Policy. Moreover, the Personnel Committee performed evaluation and recommended a candidate for the position of the Bank Management Board Member and assessed performance of duties by a Management Board Member, who had resigned from the position.

All Committee Members took active part in meetings thereby ensuring proper performance of the Committee's duties.

Activities of the Strategic Committee during the reporting period.

In the reporting period of the year 2016, the composition of the Strategic Committee was, as follows:

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

The composition of the Committee ensures proper level of supervision of relevant area of the bank's activities and individual Committee Members ensure due performance of the duties in view of their education level and professional experience.

Competences of the Committee, as provided for in § 18 point 7 of the Bank Millennium S.A. Articles of Association and in § 6 point 8¹ of the Bank Millennium S.A. Supervisory Board Bylaws, include, in particular, as follows:

- 1) Examining macro-economic trends;
- 2) Examining new trends, developments and new solutions applied in the banking sector;
- 3) Analysis of the bank's competitive position and benchmarks;
- 4) Analysing and recommending long-term strategy, objectives and tasks to be performed by the Bank.

In the reporting period the Committee Members were interested primarily in matters connected with evaluation of the Bank's strategic assumptions in the context of macro-economic situation and the extent to which development objectives adopted in the previous years had been implemented as well as matters relating to global trends in the area of innovative IT solutions and adaptability of the most interesting solutions of this in this area to the Bank's digitalisation strategy. The work was conducted at the Committee meetings and during informal meetings and consultations.

In 2016, the Committee held two meetings. All Committee members took active part in individual meetings thereby ensuring proper performance of the Committee work.

Activities of the Committee for Risk Matters during the reporting period.

In the reporting period of the year 2016 the composition of the Committee for Risk Matters was, as follows:

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

The scope of activities of the Committee for Risk Matters is provided for in the Bank's Articles of Association. In 2016 the Committee for Risk Matters held four meetings.

Information on risk management was subject to periodical reviews at the meetings of the Committee. In particular, the review covered key elements of the risk map including, primarily: credit risk and credit risk parameters relative to main business segments; market risk and interest rate risk with detailed analysis of relevant limits established by the Bank and interest rate sensitivity analysis; operational risk and capital and liquidity management.

Furthermore, the Committee analysed and discussed legal risk and, in particular, performed detailed review of court cases involving the Bank.

In addition, issues connected with draft regulations relative to FX housing loans constituted a subject matter of a detailed analysis performed by the Committee.

Assessment of performance of the Supervisory Board in 2016.

In accordance with guidelines stipulated in Good Practices and Principles, the Supervisory Board evaluated its performance in 2016. In effect, the Supervisory Board confirmed fair, due and reliable performance of duties by its Members. Significant commitment of the Supervisory Board Members in its work was reflected in high turnout at meetings and active participation in discussions on matters included in meeting agendas. In addition, 11 out of 12 Supervisory Board Members are involved in workings of the Board Committees.

In the opinion of the Board, in the reporting period of the year 2016, its work and the work conducted by the Board Committees were highly effective transparent and remained in line with the best market standards of stock exchange listed companies.

In view of the above, the Supervisory Board moves for discharging all members of the Bank governing bodies from performance of their duties in 2016.

2. Report from assessment of the implementation of remuneration policy in Bank Millennium S.A.

Remuneration provided to employees of Bank Millennium S.A. is determined relative to the scope of tasks performed in a given organisational unit, level of responsibility of individual employees and on the basis of analysis of payroll information presented in review of remuneration schemes followed in the market of financial institutions.

With respect to the Bank Management Board Members and key managers remuneration scheme is governed by the principles of the „Remuneration Policy Relative to Persons Holding Managerial Positions in the Bank Millennium Group”, meeting criteria of the „Principles of

Corporate Governance for Supervised Institutions”. An important objective of the Policy is to ensure formal framework for development of remuneration practices relative to members of governing body and key managers, taking account of corporate governance perspective, safety of the Bank Capital Group and appropriateness of remuneration vis a vis condition, scale of operation and development potential of the Group. Principles of policy of variable remuneration components i.e. a tool supporting the management system in the Bank Millennium S.A. Capital Group constitute an integral part of the Policy.

The Personnel Committee of the Supervisory Board evaluates individual performance for purpose of granting variable components of remuneration to the Members of the Bank Management Board while with respect to persons holding managerial positions – evaluation is carried out by the Bank’s Personnel Committee.

The Bank Management Board submitted to the Personnel Committee of the Supervisory Board a periodical information on implementation of the remuneration policy in the Bank Millennium S.A. Group and the level of variable remuneration disbursed in the previous bonus period (2015) to employees holding managerial positions identified as Risk Takers having impact upon risk profile of the Bank Millennium S.A. Group. The level of bonus pool for the year 2015 was presented as well as current value of the deferred pool in the form of phantom shares to be paid out under previous years’ programmes. The Personnel Committee acknowledged also the level of total remuneration due to persons responsible for risk management, audit and compliance areas.

In the reporting period the “Policy of Variable Remuneration Components for Persons Holding managerial Positions in the Bank Millennium S.A. Group” was reviewed. The review of practices applied to granting variable remuneration components to persons holding managerial positions („Risk Takers”) was carried out in relation to main Policy objectives i.e.:

- Specific care for long-term good of the Bank,
- Protection of best interests of Bank Millennium S.A. Group’s Clients and investors,
- Avoidance of excessive risk exposure.

The review covered, in particular, the level of variable remuneration components paid out, principles of calculation of total remuneration amount and scheme of disbursements.

Policy provisions with regard to establishment variable remuneration budgets are implemented in practice – budgets are established after prior review of business results generated by the entire Bank Millennium S.A. Capital Group as well as liquidity and capital adequacy indicators, thus contributing to safety and sustainable development of the Group. In terms of the value of variable remuneration component, as granted by the Personnel Committees, 50% is paid out in cash while the other 50% is converted into financial instruments in line with the price quotation of the Bank Millennium S.A. shares on the Warsaw Stock Exchange. Thus, 50% of the value of variable remuneration component was paid out upon granting while the disbursement of remaining 50% is deferred for the period of 3 years.

The Bank, in 2016, in accordance with the new regulations, verified persons currently subjected to such regulations and, in consequence, the list of identified Risk Takers was expanded for purposes of the bonus programme 2017 by adding persons heading key functions connected with the Bank’s IT development. At the end of 2016, the list of Risk Takers included 6 Members of the Bank Management Board and 30 employees – members of Key Staff of the Bank Millennium S.A. Group.

The level of variable remuneration adopted for the Risk Takers was found to have sufficiently high share to expect its positive impact as incentive and motivation for this group of employees. At the same time, its relative value – significantly greater than base salary – does

not create conditions and incentive, according to the Supervisory Board, for managers to undertake excessive risks.

The Supervisory Board, in the reporting period of 2016, supervised, on the current basis, implementation of the Policy and believes that relevant guidelines and principles resulting therefrom have been implemented properly and fairly by the Bank and in accordance with the Bank Millennium S.A. Group's long-term strategy.

3. Assessment of compliance with „Principles of corporate governance for supervised institutions”, as adopted by KNF and assessment of the way information duties are performed relative to application of „Good practices of companies listed on WSE 2016”.

Supervisory Board, after acknowledging relevant reports, states that the Bank in 2016 properly implemented „Principles of Corporate Governance for Supervised Institutions”, as adopted by KNF, within the framework established by governing bodies of the Bank (Resolution no. 24 of the General Meeting of 21 May 2015, Resolution no. 12/2014 of the Supervisory Board of 12 December 2014 and Resolution no. 95/2014 of the Bank Management Board of 10 December 2014). Solutions and mechanisms applied in the Bank to implement the Principles duly take account of objectives contained in the Principles in combination with the need for optimum organisation of the Bank's operations. Similarly, relative to effective in 2016 Good Practices of Companies Listed on WSE, the Supervisory Board assesses that the Bank properly fulfilled its information duties in the area of implementation of the “apply or explain” principle as well as in scope of current and periodical reporting. In 2016, as in preceding years, the Bank complied with all principles contained in the set of Good Practices except for one as the Bank duly informed about that via WSE Electronic Information Base.

4. Report on assessment of rationality of Bank Millennium S.A. sponsoring, charity or similar activities.

Bank Millennium S.A., in collaboration with non-government and civil society institutions has been implementing programmes in the area of financial education, culture promoting programmes, projects supporting development of local communities and development of innovation in the Polish economy.

Social activities

Social and community programmes are implemented, in majority, via the Bank Millennium Foundation („Foundation”) and are focused on the following three areas:

- Financial education – programmes addressed to meet the needs of pre-school and school children:
 1. Financial ABC – a flagship educational programme of the Foundation. Launched in 2016, unique financial education programme for pre-school children prepared and implemented by the Bank's employees in collaboration with an NGO. Its objective is to fun teach the youngest the basic definitions from the area of finance. In 236 workshops conducted under the programme nearly 6000 children were taught out of 70 kindergartens from all around Poland. The programme is implemented under the honorary patronage of the Ombudsman for the Rights of Children.
 2. BAKCYL – financial education programme for lower secondary school students implemented in collaboration with the Warsaw Banking Institute. Since 2014

altogether 39 voluntary workers from Bank Millennium S.A. conducted 173 classes at schools in 9 voivodships in Poland.

- Cultural education – promoting knowledge on different arts and ways to invest in art and promoting achievements of young Polish artists.
In 2016 the Foundation sponsored two educational events – Warsaw Art Fair and Young Art Compass – a ranking of the most promising young Polish artists.
- Employee volunteering.
The Foundation manages a Millantrop programme which, on the basis of competition, assigns grants to support social actions and campaigns carried out by the Bank employees. The competition involves projects connected with financial education, enterprise development, inter-generation projects and projects addressed to children and youth, projects supporting people threatened with social exclusion and environment protection projects. To win a grant, campaign must engage many voluntary workers supporting the greatest number of beneficiaries and projects having long-term impact upon the life of local community. In 2016, the Foundation allocated 4 grants to support implementation of employee volunteering projects.

Sponsoring of culture

Activity in this area has been, for more than 25 years now, an important part of social and community activity of Bank Millennium S.A. This activity is planned on the basis of medium term plans based on the following assumptions:

- Cooperation under multi-year programmes with clearly specified objectives is preferred,
- Support is provided to programmes that should enjoy broad social reception and be accessible also through the media,
- Institutions of culture, NGOs and media should be partners in implementation of cultural programmes.

The most important culture projects carried out by Bank Millennium S.A. in 2016:

- Millennium Docs Against Gravity Film Festival – since 2006 Bank Millennium S.A. has sponsored the biggest international festival of documentary films in Poland and accompanying events (workshops, discussions, concerts). In 2016 festival shows and events were organised in 25 towns in Poland;
- Sacrum Profanum – one of the most interesting European contemporary music festivals. The festival won a number of recognitions and awards and has been entered into official calendar of the Poland's Presidency in the Council of the European Union and is recommended by prestigious music magazines. Festival events are covered, each year, by more than 160 journalists from Poland and abroad;
- Gdańsk Music Festival – since 2013 the Bank has sponsored the festival presenting outstanding classical music performances.

Supporting innovation development

In its social activities Bank Millennium S.A. analyses trends in innovation in market environment. The Bank's experts developed a report „Millennium Index – Regional Innovation Potential” describing disproportions in innovation development between Polish voivodships. As a strategic partner of the competition for firms „Eagles of Innovation” the Bank promotes innovation development in the Polish economy.

The competition „Eagles of Innovation” is organised by „Rzeczpospolita” daily. The competition jury composition includes, besides Andrzej Gliński, Member of the Bank Millennium S.A. Management Board, also, *inter alia*, Jadwiga Emilewicz – Undersecretary of State in the Ministry of Economic Development and representatives of leading research

institutions in Poland (Patent Office of the Republic of Poland, Industrial Development Agency, National Research and Development Centre).

The report „Millennium Index – Regional Innovation Potential” is prepared by Bank Millennium S.A. experts and constituted contribution into public debate on factors influencing regional development in Poland and reducing inequalities between regions. The report contains analysis of factors supporting and hampering innovation development in each Polish voivodship. It also contains comments provided by a broad group of experts – economists, academicians and practitioners, heads of the most innovative firms and government institutions. This way, the report has become a valuable publication and the source of knowledge for local governments on creation of equal opportunities for regions in Poland.

Supporting economic events and developments

In 2016 Bank Millennium S.A. was a partner in events relating to economic issues. In panels and discussions accompanying the events Members of the Management Board and subsidiaries as well as other Bank experts took part.

The most important events where Bank Millennium was a partner:

- European Economic Congress – an international forum focusing on new directions of thinking about Europe’s economic future. The forum gathered nearly 8 thousand guests from European countries and from Asia and Africa;
- Forbes Diamonds – ranking of the most dynamically developing enterprises in Poland;
- Congress of Family Companies – this event addressed to representatives of family companies included debates and workshops on innovation, finance, law and management themes.

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

Compliance by the Bank with sustainable development principles was confirmed by external rankings. Since 2011, the bank has been included in the RESPECT Index including socially responsible companies listed on the Warsaw Stock Exchange. The Bank was awarded the CSR Silver Leaf of POLITYKA weekly given to companies implementing activities in the area of sustainable development.

The Supervisory Board believes the social, community, sponsoring and educational activities conducted by the Bank to be rational and socially useful, involving not only provision of direct financial support to projects but also positively contributing to development of culture, education and economy. According to the Supervisory Board, this attitude builds positive image and trust in the Bank as a financial institution focusing not only on maximising its profits but also following the rules of corporate social responsibility.

5. Report on assessment of Management Board reports on activity of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group as well as financial statements of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for the financial year 2016, as well as the Management Board’s motion regarding distribution of profits for the financial year 2016.

Acting pursuant to art. 382 § 3 of the Code of Commercial Companies and § 17 sec. 3 of the Bank Articles of Association, the Supervisory Board, at its meeting of 3 March 2017, assessed the following documents submitted by the Management Board: (I) The management Board Report on Bank Activities in 2016, (II) Bank Millennium S.A. Financial Statement for 2016, (III) The management Board Report on Activities of the Bank Millennium S.A. Capital Group in 2016, (IV) Consolidated Financial Statements of the Bank Millennium S.A. Capital Group for the Accounting Year 2016. The Supervisory Board also acknowledged the opinion of the statutory auditor regarding the above mentioned documents. On this basis, the Supervisory Board believes that the Management Board Report on the Bank's Activities and the Financial Statements for the accounting year 2016, as well as the report on Activities of the Bank Millennium S.A. Capital Group and the Consolidated Financial Statements for the Accounting Year 2016, have been properly prepared in substantive and formal terms and remain consistent with the facts and books providing true and accurate picture of financial results and Bank activities and well as those of the Bank Millennium S.A. Capital Group in accounting year 2016.

The Supervisory Board recommends to the General Meeting of Shareholders adoption of the above documents in their versions as presented by the Management Board together with statutory auditor's opinion.

The Supervisory Board considers the motion submitted by the Management Board on distribution of the Bank's net profit for 2016 in the amount of 652 651 155,79 PLN in a way to allocate the entire profit to reserve capital as rational. The above decision of the Bank Management Board has been driven by the position of the Polish Financial Supervision Authority adopted on 6 December 2016 – in the matter of dividend policies of banks (and other entities) in 2017. On the basis of this recommendation, the Bank Management Board will present to the General Meeting of Shareholders a proposal to retain the entire net profit generated in the year 2016 in the bank's own capitals.

Considering the above and the fact that strong capital base provides proper support to business and constitutes protection against potential deterioration of macro-economic and regulatory situation, the Supervisory Board unanimously recommends approval, by the General Meeting, of the said motion of the Management Board.

6. Brief assessment of the situation of Bank Millennium S.A. in 2016 including the assessment of the internal control, risk management systems, compliance and the internal audit function.

This part of the Report provides assessment of the Bank's situation, as expressed by the Supervisory Board with regard to requirements of the Principle II.Z.10.1. of „Good Practices of the companies listed at the WSE 2016”.

The Supervisory Board, in order to prepare a proper assessment of the Bank's situation in 2016, acknowledged and thoroughly analysed, *inter alia*, the parameters listed below and relating to main areas of operation of both the Bank and the Bank Capital Group:

Consolidated net profit of the Bank Millennium S.A. Group for 2016 reached the highest level in the Bank's history and amounted to 701,3 mln PLN i.e. was higher by 28,3% than the net profit generated in 2015. This record level of profit was achieved, *inter alia*, due to combined effect of one-off positions including the highest i.e. extraordinary income from VISA transaction concluded in 2015 and having positive impact upon the Bank's revenues in Q2 2016. The positive net impact of the VISA transaction and several one-off charges amounted, in total in Q2 of 2016, to the total of 180,3 mln PLN. In addition, from February 2016, a new,

special banking tax was introduced in Poland creating a burden upon the Bank Millennium result in a significant amount of 174,1 mln PLN in 2016. Thus, without extraordinary incomes and charges as well as the banking tax, the net profit of Bank Millennium for 2016 would reach 695 mln PLN i.e. higher by 4.1% than the recurrent net profit for the year 2015 amounting to 667,4 mln PLN (i.e. excluding extraordinary write offs booked in Q4 2015).

ROE (i.e. return on average own capital) reached, in 2016, 10,4% i.e. higher than the level of 9% achieved in 2015. Without one-off items, ROE in 2016 would reach 7,8%, while without such items and the banking tax, ROE would reach the level of 10,3%. ROA (i.e. return on average assets) reached in 2016 the level of 1,05%.

Increase of operational income significantly higher than that of costs help the Bank improve its cost/income ratio to 45%. Even after elimination of one-off items, the cost/income ratio would remain below 50%, thereby remaining consistent with strategic objective set up for the Bank Millennium S.A. Group.

Other important financial and business items influencing the result for 2016 are, as follows:

Continuing growth of operational income

- Operational income increased by 23% y/y
- Result on core operations higher by 6% y/y
- Net interest result increased by 10% y/y
- Net commission income decreased by 2,5% y/y, indicating, however, a slight quarterly increase commencing from Q2 of 2016.

Good and stable quality of assets and the level of cost of risk

- NPL ratio at low level of 4,5%, the ratio for mortgage loans at 2,5%
- Cost of risk at the level of 49 b.p.

Strong capital and liquidity ratios

- Total Capital Ratio (TCR) in consolidated terms at 17,4%, while CET1: 17.3%
- Comfortable compliance with regulatory requirements
- Very high level of liquidity: loans/deposits at a low level of 84%

Retail banking

- 1.492 thous. active clients with net increase by 122 thous. in 2016
- Retail deposits showed increase above the market (+11% r/r), ensuring market share at 5,8%
- Acceleration in the sale of mortgage loans: +30% p.a. (up to 895 mln PLN)
- Portfolio of consumer loans increased by +11% y/y in effect of very good result of cash loan sales – at the level of 2,3 bln PLN

Corporate banking

- Corporate segment result increased by 31% y/y
- Very good level of sales in leasing and factoring: +7% and +9% p.a.
- Growing number of transactions: +9% in domestic payments and +28% in FX transactions (volume)

Innovations/quality

- 1 million pf active users of electronic banking (increase by 16% y/y)
- Innovation, comfort and simplicity for clients in electronic channels
- Bank Millennium among the top three banks in Newsweek quality ranking, continuously since 2011

Considering the above, the Supervisory Board believes that the Bank, in 2016, successfully faced many challenges and effectively implemented many tasks. In difficult environment, the Bank achieved satisfactory financial results, significantly improved capital ratios and quality of assets. The number of clients grew dynamically – Bank has now nearly 1,5 million clients and the flagship product of the Bank – ‘Konto 360°’, is held by more than 600 thousand account holders. Corporate banking also closed the year with improved result – gross profit in the segment grew by 31%.

After thorough review of financial statements and results of Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for 2016 and the strategic plans for upcoming years, the Supervisory Board has positively assessed the Bank’s and the Group’s financial situation as well as perspective of their further operations.

The Supervisory Board, via the Audit Committee of the Board, has been monitoring, on current basis, the quality of the internal control system and proper performance of its functions by the Internal Audit Department. Among other activities performed in 2016, the Bank Millennium S.A. statutory auditor was selected. In effect of recommendation presented by the Audit Committee, the Supervisory Board selected PricewaterhouseCoopers Sp. z o.o. to perform the function of statutory auditor for Bank Millennium S.A. and the Bank Millennium S.A. Capital Group in 2017.

Considering supervisory activities and on the basis of rational assessments, the Supervisory Board ensures that the internal control system as a whole, including the risk management, compliance, information and communication systems and the internal audit function, meet, effectively and properly, regulatory requirements, remains adequate with the Bank’s size and its exposures to risk inherent in the operations performer by the Bank and the Bank Millennium S.A. Capital Group.

With satisfaction, the Supervisory Board has noted very good financial and business results generated by Bank Millennium S.A. and the Bank Millennium S.A. Capital Group for 2016. The Supervisory Board also indicates very good cooperation with the bank Management Board, based upon effectiveness, transparent information flow and proper implementation of the Capital Group’s strategy and tasks to be performer by the Management Board. The Board, hereby, would like to express its appreciation to the Bank Millennium S.A. Capital Group

Management Board and staff for fruitful and productive cooperation in consecutive year and for further strengthening of the Bank's position on the Polish financial market.

[Signatures of Members of the Bank Supervisory Board]