

Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium for 2020

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.



TABLE OF CONTENTS

1.	BRIEF DESCRIPTION OF BANK MILLENNIUM GROUP	5
2.	HIGHLIGHTS OF RESULTS AND ACHIEVEMENTS IN 2020	8
2.1.	SUMMARY OF CONSOLIDATED GROUP RESULTS IN 2020	8
2.2.	MAIN AWARDS AND ACHIEVEMENTS IN 2020	10
4.	INFORMATION FOR INVESTORS	14
4.1.	SHARE PRICE PERFORMANCE	14
4.2.	BANK MILLENNIUM'S RATINGS	15
4.3.	INVESTOR RELATIONS	15
4.4.	DIVIDEND POLICY	17
5.	MARKET CONDITIONS AND BUSINESS PROSPECTS	18
5.1.	MACROECONOMIC ENVIRONMENT	18
5.2.	IMPACT OF COVID-19 PANDEMIC ON ACTIVITY OF BM GROUP	19
5.3.	POLISH BANKING SECTOR, BANK'S POSITION AND RISK FACTORS	22
5.4.	STRATEGY AND BUSINESS DEVELOPMENT PROSPECTS	28
6.	FINANCIAL SITUATION	30
6.1.	PROFIT AND LOSS ACCOUNT	30
6.2.	RESULTS OF BUSINESS SEGMENTS	34
6.3.	BALANCE SHEET AND OFF - BALANCE SHEET ITEMS	37
7.	PRESENTATION OF BUSINESS ACTIVITY	46
7.1.	INNOVATION AND HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE	46
7.2.	RETAIL BANKING	47
7.3.	CORPORATE BANKING	55
7.4.	SUBSIDIARIES ACTIVITY	61
8.	RISK MANAGEMENT	65
8.1.	RISK MANAGEMENT	65
8.2.	CAPITAL MANAGEMENT	68
8.3.	CREDIT RISK	73
8.4.	OTHER RISKS	75
9.	HUMAN RESOURCES MANAGEMENT	81
9.1.	PERSONNEL POLICY	81
9.2.	EMPLOYMENT AND STAFF COSTS	83
9.3.	REMUNERATION POLICY	84
10.	PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM	88
10.1.	STATEMENT ON THE PRINCIPLES OF CORPORATE GOVERNANCE APPLIED IN 2020	88
10.2.	SHAREHOLDERS AND GENERAL MEETING OF SHAREHOLDERS	90
10.3.	SUPERVISORY BOARD	92
10.4.	MANAGEMENT BOARD	102
10.5.	INTERNAL CONTROL SYSTEM AND EXTERNAL AUDITOR	107
11.	THE BANK'S CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY	112
12.	ADDITIONAL INFORMATION	118
13.	STATEMENTS OF MANAGEMENT BOARD	119

Dear Sirs,

For a person managing a bank every year is intense and unique. In this respect 2020 was absolutely surprising and unpredictable. The Bank was operating under difficult epidemic conditions, in an environment of significant economic slowdown and decrease of interest rates to historically low levels. The key elements were protection of life of employees and customers and business continuity. To maintain the operational capability of the entire sector, a guarantee of availability of funds, seamless payments done by customers and implementing forms of supporting clients in this stressful times. The banking sector passed the test colours flying. Bank Millennium has shown great flexibility and speed of operation. Experience of 2020 made me realise even more, how important in any organisation are the employees who make-up a great team. I want to thank all employees of Bank Millennium Group for great commitment, harmonious cooperation and for the ability to face-up to difficult situations.

2020 will be remembered by us as the year of the three-fold reduction of interest rates by the Monetary Policy Council to virtually zero level, which permanently lowered credit margins and changed the business model of the entire banking sector in Poland for a long time. In such difficult conditions, the Bank Millennium Group's consolidated net profit, taking into account the large burden of provisions, amounted to PLN 23 million and was much below our aspirations. Adjusted for extraordinary events (in particular, PLN 677 million of provisions for legal risk related to the portfolio of FX mortgage loans granted by Bank Millennium), the net profit would be PLN 709 million, and the adjusted ROE of 7.8%. However, we were distinguished by strong capital ratios - the consolidated TCR/T1 ratios were 19.5%/16.5% respectively, well above the regulatory requirements.

The business results for 2020 were more positive than our expectations. The number of active retail clients exceeded 2.6 million. Mortgage loans achieved record sales of PLN 6.8 billion and increased by 57% compared to the previous year, and the market share reached 12.2%. The four quarters of 2020 also brought solid sales of cash loans worth PLN 4.62 billion. Electronic banking was actively used by over 2.05 million retail clients, and the mobile application was used by 1.7 million. In the third quarter, there was a noticeable start to a recovery in corporate banking activity, that demonstrate a fast reaction of companies to the new environment and a lower economic deterioration that forecasted.

In 2020 many new functionalities were introduced in internet banking, mobile application and branches. As one of the first banks in Poland, Bank Millennium began offering services using the potential of open banking, based on the PSD2 directive. We have also enriched our offer with further non-banking services - we are consistently developing our electronic banking channels, perceiving them as a center for managing every day, not only financial, users' affairs. Innovation is still one of the strategic elements of the Bank's development. The fact that we have been focusing on the development of remote channels for years was extremely important in the year when we had to quickly adapt our services to the new realities and when banking from home became an everyday reality for most of our clients.

The year 2020 has shown even more the importance of the philosophy of running a business and achieving goals, with simultaneous great attention to ethics, responsibility, care for customers, employees, local community and the environment. The business goal of "banking without physical, infrastructural and digital barriers" became particularly important socially in 2020. Thanks to electronic banking, our clients could safely pursue their financial goals during the pandemic, without leaving home. The branch employees supported customers who had so far been less active using the application or online banking, as a result the number of customers using electronic banking increased by 12%, and the number of customers using the mobile application by 18%. Immediately after the outbreak of the pandemic, we launched aid measures by introducing, among others, credit holidays for people and companies experiencing problems with debt repayment, and we helped medium and large enterprises to maintain liquidity. Through the banking platform, our clients could take part in the PFR Financial Shield government program and benefit from financial support for their ventures.

We consistently implemented charity programs. This year, the Bank Millennium Foundation and the Bank provided financial support to the Institute of Bioorganic Chemistry Institute of the Polish Academy of Sciences, which developed the first Polish test for COVID-19. In the event of coronavirus infection, the need to cover the costs of treatment and rehabilitation, we have created a Special Support Fund for Bank Millennium Group employees.

The Bank is a signatory of the partnership for the implementation of the UN Sustainable Development Goals, which sets our course of action. For 11 years Bank is in Warsaw Stock Exchange index, which brings together companies with the highest standards of sustainable development. The Bank attaches great importance to the activity for climate protection, to new European Union regulations resulting from the concept of creating a green economy. In 2020, he formulated a new version of the environmental policy, according to which, inter alia, does not finance projects in the coal sector and declares commitment to the development of renewable energy. For 10 years, the Bank has been reporting the level of its own CO2 emissions. This year, the Bank took second place among Polish enterprises in the ranking "Climate leaders Poland 2021".

The crisis made us even more aware of the importance of financial education. For many years, the Bank Millennium Foundation has been running an educational program aimed at pre-school children, i.e. in the period of shaping habits and attitudes. Children who get to know the world of finance from an early age, in adulthood, especially in crisis situations, cope much better - say the parents of preschoolers who participated in the survey conducted for the Bank Millennium Foundation. These conclusions confirm the sense of our actions. That is why this year, despite the pandemic, we continued the program in the online formula, enriching it with guide materials "Guide for parents - How to teach children to finance", available and promoted on the Internet.

What's ahead of us? The way we have dealt with the unprecedented events of the past months allows us to be optimistic about the coming ones. In the next 1.5-2 years, we want to reach the operating results from before the pandemic. We plan to finalize the cost optimization and operational efficiency program, and improve business results by increasing sales. Taking advantage of all the advantages of our digital maturity, we want to participate even more in the challenges of open banking and the development of non-banking services. In 2021, we will strive to achieve the cost / income ratio at the level of 47% and 40% in the following years, and by constantly improving the quality of service, we will continue to achieve the highest customer satisfaction rates.

We expect that in 2021 economic growth will be in the recovery phase after the crisis, and according to our forecasts, the GDP dynamics will amount to 4.4%. The economy should be supported by consumption of households with a favorable, moderate increase in unemployment and exports. Due to the pandemic, however, the forecasts are subject to increased uncertainty, although the spread of the vaccine may provide an opportunity to improve the economic sentiment. We expect interest rates to remain at record lows in 2021 - the reference rate will be just 0.1% - and inflation to stay around the central bank's target of 2.5%.

We assume that it will be a year of a real return to normal economic and social life and an improvement in the mood of the society.

I cordially invite you to read the report.



Joao Bras Jorge

Chairman of the Management Board of Bank Millennium

1. BRIEF DESCRIPTION OF BANK MILLENNIUM GROUP

Bank Millennium S.A. ('Bank Millennium', 'Bank') 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.

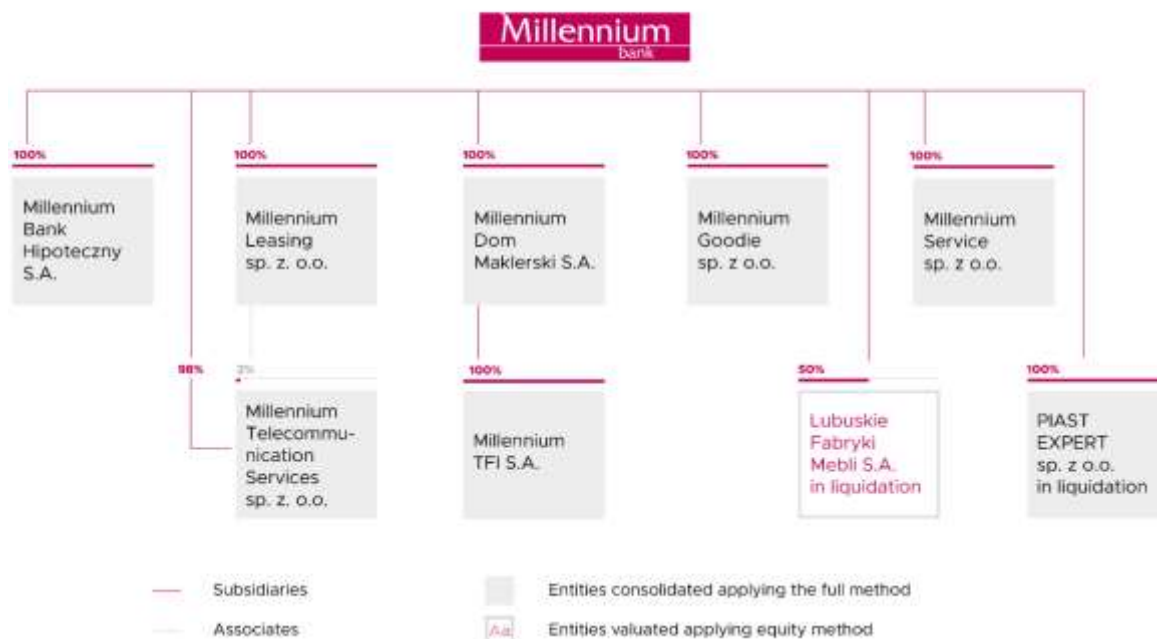
Bank Millennium is a market leader in the area of innovations understood to mean state-of-the-art technology and process improvements. Innovation in Bank Millennium is part of its business strategy.

Bank Millennium, together with its subsidiaries, forms Bank Millennium Group ('BM Group', 'Group') - one of the most innovative and comprehensively developing financial groups in Poland - employing in total 7,493 persons (FTE).

Its most important companies are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage business), Millennium TFI (mutual funds) and Millennium Bank Hipoteczny (obtaining long-term financing through the issue of covered bonds). 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.

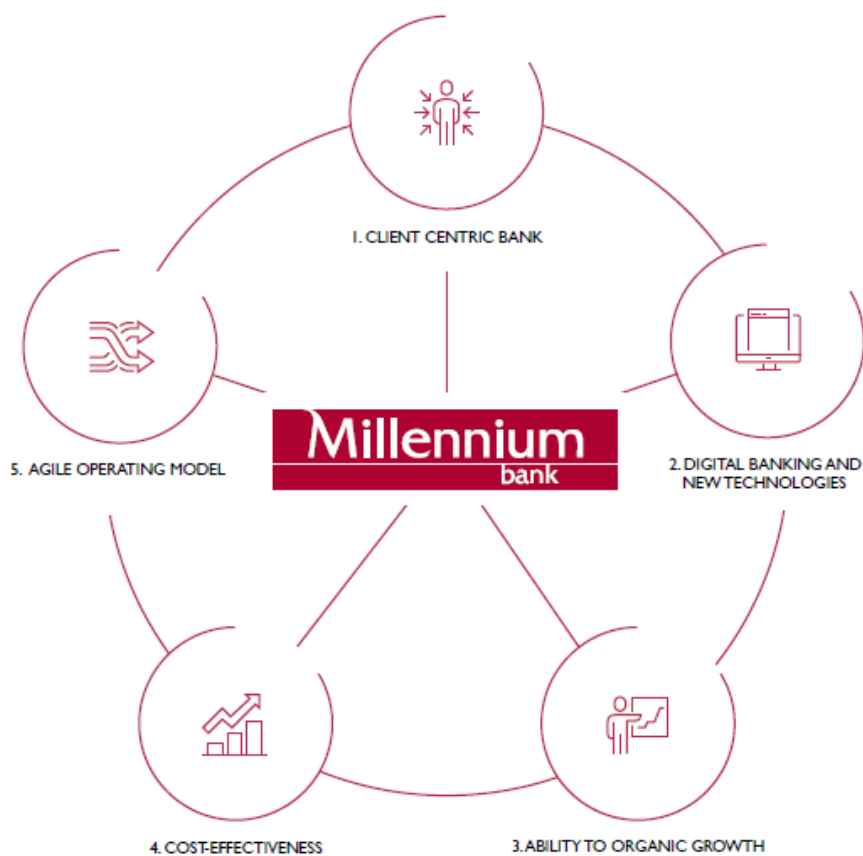
On June 9, 2020 Polish Financial Supervision Authority ('PFSA') issued a permission to Millennium Bank Hipoteczny S.A. and on July 9, 2020 the company Millennium Bank Hipoteczny S.A. was established with Bank Millennium being its sole shareholder. Currently, Millennium Bank Hipoteczny S.A. is in the process of obtaining an approval from the PFSA to commence operating activities.

Bank Millennium SA capital Group as on 31/12/2020



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.

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 2020

2.1. SUMMARY OF CONSOLIDATED GROUP RESULTS IN 2020

Bank Millennium S.A. Capital Group's (the 'Bank', the 'BM Group') consolidated 2020 net profit amounted to PLN23 million and was substantially below this in the previous year. Direct and indirect impact of COVID-19 pandemic (i.a. lower economic activity in parts of the year, an impact of the unprecedented 140bp base interest rate cut in 1Q20-2Q20) and substantial extraordinary negative P&L items were the main burdens on our results. In particular, PLN677 million provisions against legal risk related to FX-mortgage portfolio originated by Bank Millennium, were the main burden on our results this year. The provision balance stood at PLN924 million at YE20. Adjusted for the provision cost, BM Group would report net profit of PLN637 million in 2020 overall. Full year net profit adjusted for all extraordinary items stood at PLN709 million, down 23% y/y. Adjusted ROE of 7.8% compared against 10.6% in 2019. It is worth to remind however that the y/y comparability of 2020 P&L was distorted due to the merger of Euro Bank (acquired on the 31st of May, 2019).

While the 2020 net profit was admittedly well below our aspirations, we are convinced that the initiatives started and related costs endured will pay-off going forward. We swiftly responded to revenue headwinds and as a result our cost growth in 2020 overall (+2% y/y including D&A) was slower than this of revenues (+3%). In 4Q20, HR costs were down 17% y/y and down 10% q/q and we expect the positive momentum to continue in 2021.

Additionally, we increased risk buffers (NPL/DPD90+ coverage ratios at 66%/119% vs. 62%/106% at YE19 respectively; abovementioned provisions against legal FX-mortgage related risks at 6.7% of YE20 portfolio ex-Euro Bank) while our capital ratios remained strong (consolidated TCR/T1 of 19.5%/16.5% respectively against regulatory requirements of 14.1%/11.3%).

Moreover, we shortened the timeline of implementation of merger synergies with Euro Bank. Combined with new efficiency improvement initiatives, this resulted in a 15% reduction of our distribution network (702 outlets vs. 830 at YE19 with 124 or 21% of own branches closed in the period) and 14% reduction of active FTEs to 6.6k. As a result, net synergies became tangible (PLN100 million pre-tax in 2020), recurrent and should double in 2021.

Bar all the negative impacts of the COVID-19 pandemic, we see 2020 as a year accelerating our transformation for a new era in banking. We firmly stood by our customers during the pandemic, as a result strengthening further our relations with them. As a result, cross-sell ratios increased in many categories. We also won new customers despite the challenges brought by the pandemic. The number of active customers increased by 61 thousand to 2.63 million at the end of the year. Origination of mortgage loans reached a new record level of PLN7.2 billion (disbursements PLN6.7 billion, +57% y/y) and a new record high market share (12.2%). Origination of cash loans dropped y/y to PLN4.6 billion but the Bank maintained its market share at the high level of 10.7%. Digitalisation process accelerated significantly, both at the front- and back-end.

Key points of Group BM results in 2020:

Reported results under the impact of COVID-19 pandemic and significant one-off/extraordinary items

- Reported net profit of BM Group in 2020 amounted to PLN23mn, down 96% y/y; full year net profit adjusted for extraordinary items stood at PLN709mn, down 23% y/y
- Reported ROE at 0.2% while C/I ratio at 49.0%

- Adjusted ROE at 6.4% while adjusted C/I ratio at 46.7%
- Additional PLN677mn (pre-tax) provisions against legal risk related to FX-mortgage portfolio originated by Bank Millennium; the provision balance stood at PLN924mn at YE20, an equivalent of 6.7% of the portfolio
- Additional provisions against refund of fees on earlier repaid consumer loans ('small TSUE') of PLN107mn (pre-tax)
- Significant loss of interest income as a result of interest rate cuts (PLN223mn or 8% compared to annualised 4Q19 level)
- Provisions against expected impact of COVID-19 pandemic totalling PLN133mn (pre-tax)

Solid operating results despite the pandemic:

- NII (pro-forma) up 3.3% y/y
- Net fee income up 6.7% y/y
- Operating income up 3.1% y/y
- Operating profit pre-provision up 4.6% y/y

Euro Bank integration - acceleration and combined with other efficiency initiatives yielding tangible and recurrent net synergies

- Shortened timeline of implementation of merger synergies with Euro Bank
- Integration costs in 2020 totalled PLN67mn pre-tax compared with PLN116mn in 2019
- 15% reduction of our distribution network (702 outlets vs. 830 at YE19 with 124 or 21% of own branches consolidated in the period)
- 14% reduction of active FTEs to 6.6k
- Tangible (PLN100mn pre-tax in 2020) and recurrent net synergies which should double in 2021

High quality of assets and high liquidity maintained

- NPE ratio at 4.95%
- Cost of risk of 83bp
- Low loan/deposit ratio of 91%

Solid capital position and lower regulatory buffers

- TCR (Group) at 19.5%, CET1 at 16.5% over 5pp above regulatory minimum levels
- PFSA lowered FX-buffer to 3.35% (Group)

Retail banking

- 2.63mn active customers (+61k y/y)
- 2.05mn digital customers (+12% y/y)
- 1.7mn active mobile customers (+18% y/y)
- >3mn issued debit cards (+145k y/y)
- PLN mortgage loans up 22.4% y/y; record disbursements (PLN6.7bn, up 57% y/y) and market share in originations at 12.2% from 7.3% in 2019
- Cash loans up 1.5% y/y despite lower disbursements (down 7% y/y); maintained market share in originations (10.7%)

Corporate banking

- Deposits at current accounts up 37% y/y
- Loan book (ex-leasing) +1.1% y/y
- Origination of factoring +10% y/y
- Growing number and volume of transactions

Quality and innovations

- One of the best NPS ratios * (53) among banks in Poland
- Best bank in Customer Experience category in KPMG's survey
- 'The Best Consumer Digital Bank in Poland for 2020' in World's Best Digital Banks ranking by Global Finance magazine
- 2.2mn downloads of goodie app, the Bank's smartshopping platform

**Internal customer satisfaction and loyalty surveys 3/04-29/05, 25/08-30/09, 27/11-18/12;*

2.2. MAIN AWARDS AND ACHIEVEMENTS IN 2020



Bank Millennium in the WIG-ESG index

Since September 2019, Bank Millennium has been included in the WIG-ESG index of the Warsaw Stock Exchange. In 2010-2019, the Bank was part of the Respect Index. The WIG-ESG index is published on the basis of the value of the portfolio of companies considered to be socially responsible. The index includes 60 companies included in the WIG20 and mWIG40 indices. The weights of individual companies in the WIG-ESG index depend on the number of shares in free float adjusted for the results of the ESG ranking prepared by Sustainalytics and an assessment of their application of corporate governance principles.



The best digital bank for individual clients in Poland

The Bank received The Best Consumer Digital Bank in Poland for 2020 award in the World's Best Digital Banks contest organized for the 21st time by the Global Finance magazine. Bank Millennium's website was found the best website in The Best Consumer Integrated Bank Site in Central and Eastern Europe for 2020 category.

Bank Millennium among most digitally advanced banks in Europe



Bank Millennium has been acclaimed one of top ten most digitally advanced European banks according to Bain&Company's benchmarking. The benchmarking was made on the basis of analysis of the degree of digitalization of more than 50 banks in Europe. Evaluating the sector experts took into account such factors as development vision, product offering, modern sales channels, customer experience, degree of satisfaction, operational model as well as use of technology and data.



Golden CSR Leaf

Bank Millennium was distinguished with the Golden CSR Leaf, thus joining a small group of institutions whose CSR activities are rated highest. The bank had been awarded the Silver Leaf as many as five times before. These exceptional awards go to firms that apply the highest corporate social responsibility standards in their daily operation.



Technologically responsible company

Bank Millennium was ranked first in this year's TOP CDR Technologically Responsible Company contest twice. The distinctions were awarded for the project titled "Banking without barriers" in the following categories: Digitization and Audience Award.



Bank Millennium is a Solid Employer 2020

As part of the Solid Employer of the Year program, the best employers in Poland are selected on the basis of many standardised criteria. Bank Millennium was recognised for maintaining the best HR practices and creating an environment enabling employee development.



Bank Millennium with best customer reviews in Poland

In the latest release of Banks Ranking - Customer's Choice 2020 by BANK Financial Monthly, Bank Millennium came first. The jurors were 1459 respondents, representing the full spectrum of the Polish society. The survey participants were evaluating particular areas of activity of financial institutions as well as products offered by them. The general classification was won by Bank Millennium. Respondents gave bank highest scores in 5 categories: Recommended by clients, Loyalty, Cost assessment, Quality of remote service and Quality of branches, while altogether bank was among the top three in as many as 13 out of 16 competition categories.

A multiple winner of the Institution of the Year 2020



In the Institution of the Year ranking list, prepared by mojebankowanie.pl (companies are distinguished for their unique and comprehensive approach to customer service quality), the Bank won in as many as five categories: 1) The best service in remote channels; 2) The best remote account opening process; 3) The best Internet banking; 4) The best mobile application; 5) The social dimension of business for the Financial ABCs project.



Growth star and other distinctions

In the Banking Stars 2020 contest organized by Dziennik Gazeta Prawna and PwC, the Bank was on the podium as many as four times. It was ranked 1st in the “Growth star” category for the asset, revenue, net profit and client acquisition growth rate in 2019, 2nd in the “Customer relationship” category, 3rd for its overall activity in the main contest category and in the “Innovation star” category”.



European Customer Centricity Awards

Bank Millennium was awarded the first prize in the Customer Centricity Awards contest in the complaints category for the project titled “Embrace the Problem”, which supports the evolution of complaint handling towards addressing client needs and case-by-case approach.



Millennium was rated highest in Poland in terms of positive client experience building

The Customer Experience survey conducted for KPMG in Poland and published in 2020, the Bank was again considered by clients the Customer Experience leader among banks. Ranked 7th, Millennium moved up in the ranking list of a hundred highest rated brands operating in the Polish market with respect to its last year's position, when it was ranked 9th.



The “Trusted in business” award from CRIF Polska

Millennium Leasing with the “Trusted in business” award from CRIF Polska for building an automatic risk assessment tool integrated with external data sources functioning in real time. As a result, making a credit decision in the Business segment takes less than twenty seconds.



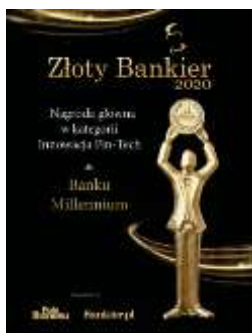
Leader of the “Bank in clients’ opinion 2020”

Leader of the “Bank in clients’ opinion 2020” ranking list prepared by Polski Instytut Badań Jakości based on opinions of individual clients of 14 most popular banks in Poland. The bank won in the general classification. It was rated particularly high for its friendly and competent customer service provided both in outlets and by telephone, for its efficient electronic banking and for its wide ATM network and low costs of services. It was also considered the most recommendable bank..



Bank Millennium as the Service Quality Star

Service Quality Star is an award received from consumers, who rate more than 46 thousand enterprises from 200 industries over the whole year through a multiplatform composed of the jakoscobslugi.pl portal and a mobile application. A CAWI questionnaire survey is also carried out. In addition to service quality rating, each brand is examined also in terms of probability of being recommended (NPS indicator). The title of the Service Quality Star is awarded to the businesses which have received the highest ratings from consumers and in the CAWI survey and which have stood out from the average results in their respective industries.



The Golden Banker ranking list

In 2020, in the Golden Banker ranking list prepared by Puls Biznesu and bankier.pl, a financial portal, Bank Millennium was ranked first in the “Fin-Tech Innovation” category for implementing the Autopay service in the mobile application (together with Blue Media) and second in the “Mortgage loan” category.

4. INFORMATION FOR INVESTORS

4.1. SHARE PRICE PERFORMANCE

Over the major part of 2020, similar to the banks from the peer group, the Bank's share price remained under the pressure related to the investors' fears about negative economic effects of the COVID-19 pandemic and the legal risk of the FX mortgage loans. While after the fall in share prices in March/early April, the following months saw a rapid recovery in the share prices of many companies and sectors, the banks remained in the back. It was partially caused by a negative impact of the reduction in the interest rates on the results of the sector. WIG-Banks Index and share price of Bank Millennium reached their lowest level at the end of October. The end of the year brought a strong rebound of the share prices on a wave of optimism stemming from the faster-than-expected completion of the research into the development of a vaccine against COVID-19. Consequently, WIG-Banks Index and the price share of Bank Millennium finished the year at the level close to this from the mid-March, however, still below this at the end of 2019.

2020 brought drops in all the main indexes. The main WIG index was down 1%, WIG 20, index of the largest companies, fell 8% and WIG-Banks, the index representing bank share prices, fell 30%. At the same time, the price of Bank Millennium shares fell 44%.



In 2020, the annual average daily turnover of Bank Millennium shares (PLN6.8 million) was 13% higher than in the same period of the previous year.

Market ratios	30.12.2020*	28.12.2019*	Change (%) y/y
Number of Bank's shares (in thousands)	1 213 117	1 213 117	0,00%
Average daily turnover in annual terms (PLN'000)	6 832	6 068	12,6%
Bank's share price (PLN)	3,27	5,85	-44,1%
Market capitalization of the Bank (PLNmn)	3 967	7 097	-44,1%
WIG Banks	4 765	6 768	-29,6%
WIG20	1 984	2 150	-7,7%
WIG30	2 313	2 472	-6,5%
WIG - main index	57 026	57 833	-1,4%

(*) last day of listing in 2020 and 2019

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

4.2. BANK MILLENNIUM'S RATINGS

On 30 September 2020, Moody's rating agency completed its periodic review of the financial situation of Bank Millennium and left the bank's ratings unchanged.

On 5 October 2020, Fitch sustained Bank Millennium's long-term rating at BBB- and Viability Rating (VR) at bbb-. The rating outlook remained stable.

The Bank's ratings as of 30 September 2020 are presented in the below table.

Rating	MOODY'S	FITCH
Long-term deposit rating/IDR	Baa1 (stable outlook)	BBB- (stable outlook)
Sovereign long-term IDR	-	A(pol) (stable outlook)
Short-term deposit rating	Prime-2	F-3
Profitability / individual BCA rating	baa3	bbb-
Counterparty's risk rating (CRR)	A3/Prime-2	-
Support rating		4

4.3. 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 [Information policy of Bank Millennium - Bank Millennium](#)

The investor relations website [Investor relations - About the Bank - Bank Millennium](#) always provides up-to-date information, including Bank Millennium share prices on the WSE, shareholding structure,

details of General Meetings, dividend payment history or credit ratings. There are also current and periodic reports, financial results presentations, .xlsx sheets with key financial information and other important information about the Bank. It is worth noting that the website is responsive, which means that it is adapted to mobile devices - tablets and smartphones.

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 2020),
- Participation in conferences organised for Investors in Poland and abroad (9),
- Face-to-face and group meetings with capital market participants (434 persons),
- Current reports (32) and press releases,
- Dedicated website in the Bank's portal on investor relations,
- 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 2020 14 analysts representing local and foreign brokerage houses published reports and recommendations regarding the Bank's shares (their list can be found on the Bank's website in the Investor Relations - in Analysts section [Analysts - Investor relations - Bank Millennium](#))

At YE20, brokerage houses' recommendations for Bank Millennium shares were as follows:

Buy	Hold	Sell
6	5	3

In 2020, 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.

4.4. DIVIDEND POLICY

Bank Millennium's dividend policy assumes distribution of between 35% to 50% of its net profit, provided that recommendations of the PFSA regarding the payment of dividends are met.

On December 16, 2020, the PFSA published its recommendation on the dividend policy of commercial banks in 2021. Taking into consideration significant uncertainty related to further developments in conjunction with COVID-19 pandemic, temporary character of solutions adopted by banks to improve their capital positions during the pandemic, EU's maintained cautious regulatory stance with regards to dividend payments and the change of EBA's recommendations extending credit moratoria, PFSA found necessary to withhold dividend payments by commercial banks in the first half of 2021. On January 13, 2021, the Bank received from the PFSA an analogous individual recommendation on withholding a dividend payment in the first half of 2021.

Given the above recommendations and the PFSA's stance, uncertainty with regards to business conditions related to the COVID-19 pandemic, existing legal/operational risks as well as taking into account the need to provide the required capital support for the growth of the scale of business, the Management Board of the Bank will recommend the Annual General Meeting a motion to retain all of the 2020 net profit in the Bank's capital.

5. MARKET CONDITIONS AND BUSINESS PROSPECTS

5.1. MACROECONOMIC ENVIRONMENT

2020 was unique in the contemporary history of world economy. The COVID-19 pandemic as well as the fight against it caused great economic losses. According to estimates of the International Monetary Fund the world's GDP shrunk by 4.3% in 2020, thus much more than during the 2009 global financial crisis. The size of economic impact caused by the pandemic was an impulse towards an unprecedented scale of monetary and fiscal policy easing in countries affected by the pandemic.

Economic events in 2020 had earlier unseen dynamics. In particular, after the very fast rebound in 3Q20, the October-December period brought reduction of business activity in reaction to the COVID-19 pandemic escalation and restoration of social and business restrictions in many areas. In Eurozone gross domestic product in 4Q20 fell and the European Central Bank again relaxed monetary conditions. In the United States the economic effects of the pandemic in 4Q20 were smaller. Exacerbation of the pandemic did not slow down global trade recovery of industry, which was supported by economic growth in China, reaching 2.9% in the entire 2020. Meanwhile the US economy shrunk in total by 3.5%, and Eurozone by 6.8%.

Also in Poland in 4Q20 the pandemic picked up strongly. In consequence since mid-October restrictions were reintroduced with respect to part of services sector. Meanwhile in November restrictions were extended for trade in shopping centres (temporarily lifted in December). These factors were conducive to the GDP decline in 4Q20 by 2.8% y/y against a drop of 1.5% y/y in 3Q20. Despite a stable labour market the pandemic hit consumption of services the hardest. Investments were also reduced, which is not a surprise considering the uncertainty regarding business activity as well as the transition period between the old and new EU financial perspective. All in all, GDP in Poland shrunk in 2020 by 2.8%, most in its history. However this decrease turned out to be lower than expected in the spring of 2020 and lower than in other countries of the European Union. The extent of the changes was mitigated by the industrial sector as well as exports, which were supported by the global trade recovery, favourable exchange rate of the zloty as well as relatively strong - despite the pandemic - demand for consumer goods from abroad. The less painful economic activity decline results moreover from a lower share in the economy of sectors hit most heavily by restrictions and self-isolation of consumers, significant support from the public authorities: crisis shields and financial shield of Polish Development Fund as well as relaxing monetary stance by Monetary Policy Council. These programmes as well as lower scale of the recession compared with other countries, resulted in relatively mild increase in unemployment. The registered unemployment rate at end of 2020 was 6.2% and was only 1 pp higher than the year earlier, which makes Poland stand-out favourably among European Union member states.

Still relatively good situation on the labour market and limited scale of demand decline resulted in only slight drop of CPI inflation in Poland in 4Q20. During October-December it was on average 2.8% y/y against 3.0% y/y in 3Q. Inflation was fuelled mainly by growth of prices of services, which was sustained during the pandemic. This was happening because operating service providers were able to transfer costs of increased sanitary standards to consumers. In 4Q20 Monetary Policy Council did not modify interest rates and NBP continued (though on a low scale) the programme of repurchasing Treasury Bonds and securities guaranteed by the State Treasury. In December 2020 the National Bank of Poland intervened on the FX market and Monetary Policy Council emphasised the possibility of continuing this as well as the importance of a weak zloty exchange rate to support exports. In the Bank's opinion the current parameters of monetary policy in Poland will be sustained in subsequent quarters as well as the possibility of NBP intervention on the FX market.

In the conditions of stable labour market, restrictions as well as self-isolation of consumers, household deposits in 4Q20 grew stronger than a quarter earlier, which reflects an increase of the rate of savings. On the other hand deposits of non-financial companies did not grow significantly,

which in the Bank's opinion may be associated with extinguishing of support under the PFR financial shield. In case of newly granted consumer loans for households, as well as loans for non-financial businesses, slight improvement was seen in 4Q20, although they fell vs. the same quarter of 2019. Meanwhile the value of new housing loans in 4Q20 was significantly higher than the year before, which was supported by the still good situation on the labour market as well as limited interest in other ways of preserving the value of money.

2021 should bring a significant improvement of business activity. Its scale will depend on the epidemic situation as well as pace of vaccinations against COVID-19. For this reason the expectations for 2021 involve increased uncertainty. The Bank's baseline scenario assumes gradual receding of the pandemic from 2Q21. Start of the vaccination process gives hope for elimination of part of the uncertainty and avoidance of restoration of harsh restrictions, although reaching collective immunity, which offers a chance for return to normal, will take a few quarters. This means that some restrictions will stay in place also in 2021. Latest data however show that the Polish economy is becoming less and less susceptible to the adverse impact of further restrictions. The Bank's expectations regarding improvement of the economic situation in 2021, with only slight decrease of demand for labour, are confirmed by an NBP survey of companies. Investment prospects still remain poor. Thus economic growth in Poland in 2021 will be supported according to the Bank expectations mainly by a rebound of consumer demand as well as export of consumer goods.

In 2021 Poland's economy will be operating in an environment of almost zero NBP interest rates. According to the Bank fiscal policy will also remain very easy, with budgetary deficit still running high. The subsequent increase of public debt will be burden for public finances in the long run, however at present it is not causing tensions on financial markets due to the quantitative easing programme launched by NBP. Such economic policy in an environment of rebound of economic growth as well as increases of regulated prices will support a relatively high rate of inflation.

5.2. IMPACT OF COVID-19 PANDEMIC ON ACTIVITY OF BM GROUP

The outbreak of coronavirus pandemic in 1Q20 resulted in rapid changes in the dynamics of the BM Group's business and enforced changes of its strategic priorities. Business dynamics saw significant volatility during the year reflecting the level of the pandemic, anti-pandemic regulations introduced by the government and their impact of activity of customers of the Group.

Volatile business dynamics, uneven impact of the pandemic on business goals

While the first months of 1Q20 brought strong business volumes (record high origination of mortgages in February, beat by even stronger volumes in March, strong cash loan origination in January and February), in March the outbreak of COVID-19 pandemic resulted in a shift of the Bank's and customers' priorities. As uninterrupted operating performance on the one hand and safety of employees and customers on the other became the new focal points, the second half of the month in particular, brought significant drop in newly originated volumes, especially in cash loans, while additionally extra costs were incurred in conjunction with the pandemic.

Despite this challenging backdrop, 1Q20 overall brought high disbursements of mortgages (PLN1,343 million, up 57% y/y) and cash loans (PLN1,297 million, up 31%), a further continuation of growth in the number of active retail customers (new record of 2.6 million, up 34% y/y), current accounts (3,435 thousand, up 41%), active micro-business clients (96.4 thousand, up 27%) as well as cards (debit cards: 2,911 thousand up 29%, credit cards: 466 thousand, up 25%). Mutual funds managed by Millennium TFI as well as the third-party ones saw significant redemptions in March. In the corporate segment, most sales KPIs were a tad below these in the preceding period but nonetheless, the corporate loan book grew 2% q/q (up 6% y/y), while deposits were only marginally down q/q and up 7% y/y.

Subsequent quarters brought significant volatility in customers' activity and business results of the BM Group as a result (detailed information available in quarterly and semi-annual reports).

2Q20, the most volatile of all quarters of this year, brought new all-time disbursements of mortgages (PLN1.5 billion, up 15% q/q and up 18% y/y) with market share in originations increasing to nearly 16% in June from c7% in June the year before but a drop of new cash loan sales to PLN1.1 billion (down 17% q/q). Mutual funds managed by Millennium TFI as well as the third-party ones saw Inflows returning in May and June after significant redemptions in March and smaller ones in April. Corporate business was initially focused on customer support (facilitation of banking services) and protection (credit holidays, intermediation of support credit facilities from BGK/PFR among others). Later in the period, demand for borrowing remained moderate both at BM group and in the market overall with originations remaining below pre- pre-Covid levels but in some lines of business such as factoring a pick-up was more apparent.

Following the relaxation of pandemic restrictions in June, early weeks of 3Q20 brought a strong rebound of economic activity which translated into an improvement of the transaction volumes in corporate business and a pick-up of lending growth and higher retail customers' activity. The quarter brought a continuation of strong mortgage disbursements to a new record level of PLN1.8 billion (up 15% q/q, market share in originations of 14.5%) while originations of cash loans, albeit less linear, grew q/q to solid PLN1.2 billion. The number of active digital customers crossed the 2 million mark (up 27% y/y), number of active mobile customers exceeded 1.6 million (up 33%) and downloads of goodie application since its launch exceeded 2 million. Mutual funds managed by Millennium TFI as well as the third-party ones saw continuation of inflows (partly a result of conversion of deposits at the Bank) resulting in a 13% q/q growth in AuM in both categories combined (2Q: up 9% q/q). Corporate business continued to support customers (further facilitation of access to banking services including increasing share of digital signage of agreements, improving functionality of FX platform or 3D Secure authorisation of internet card payments, broadened number of products with BGK guarantees, high number of educational webinars etc.) but at the same time customer activity rebounded, returning in several areas to pre-COVID-19 levels. Factoring business increased compared to the respective period of the last year (volumes up 6% y/y, assets up 4% y/y), number of guarantees and LoCs issued increased 4% q/q to pre-COVID-19 level while the y/y growth in the number of transactions returned to a high single digit level. Demand for loans remained subdued owing to excessive liquidity (injections within government anti-crisis schemes) and low corporates' propensity to invest. Totalling PLN18.1 billion (net), corporate loan portfolio decreased 1% q/q and was down 1% y/y while the year-to-date contraction rate of 3% was lower than this of the market overall.

Pandemic safety measures were partly reinstated in 4Q20 but had less impact on consumer sentiment and activity the corporate segment than in spring. Quarterly mortgage loan disbursements exceeded PLN2.0 billion mark (up 19% q/q) translating into PLN 6.8 billion in 2020 overall (up 57% y/y) while market share in new production reached 12.1% in 4Q20 and 12.2% in 2020 (4Q19: 7.9%, 2019: 7.3%). Origination of cash loans dropped to PLN1 billion totalling PLN4.6 billion in 2020 overall (-7% y/y) which translates into a stable market share of 10.7%. The number of debit cards issued crossed 3 million for the first time, number of active digital customers was up 12% y/y to 2.05 million, number of active mobile customers neared 1.7 million (up 18%). AuM of Millennium TFI and third party funds combined grew 7% q/q to over PLN8.4 billion, nearly offsetting outflows in 1Q20. Demand for borrowing remained muted in the corporate segment but nonetheless the total portfolio grew 1% q/q (gross) while the y/y growth rate remained at negative 1% due to the contraction of leasing portfolio. Nonetheless, this was above the market's rate of contraction.

Support for customers during COVID-19 pandemic

In the face of the unprecedented health, economic and social crisis the most important issue for Bank Millennium was to ensure the safety of employees and customers maintaining the continuity and high quality of business and services. Clients remained the priority for Bank Millennium Group through this crisis and a range of comprehensive measures to support our retail and business customers were implemented.

Key solutions implemented at the early stage of the COVID-19 epidemic included:

Retail clients:

- Credit holidays - temporary deferral of principal and interest instalments
- Contactless card transactions up to PLN100 without PIN confirmation
- Most transactions can be done safely and remotely from home
- Fully online current account opening with the use of selfie
- Dedicated website and banner communication on the portal

Micro-companies and corporate customers:

- Application for PFR financial support (subsidy with redemption possibility) in Millenet for micro business and SME
- Temporary suspension of loan instalments, including factoring, leasing and charge cards for all companies (as above)
- Quick and simplified mode of credit renewal for SME and large companies
- BGK guarantees under new, more favourable conditions for micro business and SME (*de minimis* guarantee)
- Launching loans supported by BGK Liquidity Guaranties Fund for medium and large companies
- Temporary suspension of loan instalments for leasing of transport equipment within the framework offered by ARP Leasing
- Remote signing of all agreements for SME and large companies

At the later stage, The Bank continued to facilitate multichannel access to its services and products and to limit paper documents. Mobile authorisation of a part of transactions at branches was introduced. A new version of mobile application was launched, offering an option of tracking a status of mortgage loan application. This functionality will also be available in Millenet. Within Finanse 360° service, the number of external banks set up continued to increase, while application process for a cash loan was enhanced by an introduction of login to another bank to confirm applicant's revenues. The bank also provided access to PUE ZUS platform from Millenet, offering its customers alternative way to obtain a tourist voucher offered by the government.

The increased popularity of remote access channels and greatly facilitated online access to banking services that the outbreak of the pandemic had accelerated, manifested themselves through much higher number of logins to web (Millenet) and mobile access, higher number of electronic transfers and e-commerce card transactions or higher share of digital channels in origination of cash loans and overdrafts. At the same time the number of calls/emails to the contact centre fell from April/May peak to below pre-COVID-19 levels.

As a part of customer support, the BM group introduced a programme of credit moratoria. After the initial spike in late March/early April and in June when a part of retail customers applied for extensions of credit holidays to six months, the number of applications for credit holidays in the retail segment declined significantly. At the end of June, loans with active and approved credit holidays represented 10% of total loan portfolio, less than 12% of retail portfolio, less than 3% of retail portfolio and around 12% of leasing portfolio. On December 31, 2020 there were 9,367 active 'COVID-19 credit holidays' schemes relating to outstanding cash loans and 892 active holidays schemes on mortgage loans with respective loan volumes of PLN267 million and PLN250 million. The public credit moratoria introduced in June by the so called 'Anti-crisis shield 4.0' enjoyed little take up so far with merely 444 applications filed by the end of the year (outstanding balance of PLN53 million). The number of credit holidays for corporate customers also fell significantly (to c50) from levels observed at the end of September with value of loans with deferred exposures totalling PLN44 million. The quality of PLN7.6 billion worth of exposures that had been subject to credit moratoria was solid with c2.5% delayed over 30 days or with default triggers identified. Cash loans were at

YE20 the segment where the proportion was the highest (5.1%), while PLN mortgages showed least quality problems (1.1%).

The impact of pandemic on financial results of BM Group

From the perspective of year 2020 overall, the impact of the pandemic on results of the BM Group was significant despite lower than initially expected negative impact on economic growth and key economic parameters, particularly the unemployment rate. The 2020 net profit was well below our aspirations. Itself, the cumulative NII drop in 2020 compared to the annualised 4Q19 level totalled PLN223 million or 8%. Owing to mitigating actions the negative impact was eventually smaller than our estimates made in 2Q20 (PLN240 million to PLN285 million) but nonetheless it, *ceteris paribus*, resulted in lower NII than would otherwise have been achieved.

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

Polish banking sector

The year 2020 will inseparably be connected with the COVID-19 pandemic. Net profit of the banking sector (commercial banks' segments according to PFSA's data) for the first two months of the year was 48% above this in the corresponding period of the preceding year (partly an effect of lower resolution fund fee). However, the outbreak of the pandemic in March and the resulting restrictions on movement and economic activity (lockdown) as well as uncertainty as to the further development of the pandemic resulted in a proactive creation of 'COVID-19 provision' already in March. As a result, the month of March brought a net loss of the sector, while 1Q20 sector's net profit was down 55% y/y. Interest rate cuts by the MPC (140bp combined in March through May) brought the reference interest rate an unprecedented low level of 0.1% and as a result cause a significant reduction of banks' interest income in the following period. The loss of revenue combined with provisions against return of fees on earlier repaid consumer loans, legal risk related to FX-mortgages and higher cost of risk in general were so significant that even the pick-up of economic activity in summer months and in final months of the year and the resulting increase of demand for banking services and products were insufficient to compensate.

As a result of the combination of the abovementioned factors, net profit of the banking sector in 2020 overall totalled just off PLN7bn and was down 47% y/y (PFSA's preliminary data). Operating trends of the banking sectors deteriorated significantly. The pace of revenue growth decelerated to -4% y/y after 9%/+7%/+4% respectively in 2019 overall, January 2020 and first two months of 2020. Interest income, the main source of revenue growth in the preceding year, contracted 3% y/y after 10% growth in the previous year, while the NIM shrunk to 2.27% (last twelve months to end of November) from 2.63% at YE19. Net fee income grew 12% y/y after 9% growth in the preceding year while its share in total income increased to 23% from 19% in 2019. Banks responded to revenue collapse with cost containing initiatives and as a result 2020 opex fell 1% y/y after 7% y/y increase in the previous year. The cost reduction was achieved despite substantial increase of BFG charges, higher banking tax or provisions on return of fees on from earlier repaid consumer loans. The cost/income ratio for the whole sector worsened however increasing to 55% from 53% in the previous year. The pandemic accelerated sector digitalisation which resulted in an acceleration of branch closure and staff reduction. At the end of December the number of banking branches was 9% lower than at YE19 (2% drop in 2019 overall) while the number of staff decreased by 5% (3%). Increasing risk charges (+42% y/y) were another reason behind the substantial deterioration of the results of the sector. Risk charges were equivalent to 46% of operating profit compared to 30% the year before. Sector's ROE for the 12-months trailing to November fell to 3.2% from 6.7% in 2019. According to PFSA's data, in 2020 25 banks (8 commercial and 17 co-operative ones) posted combined net loss of PLN1.5bn while their share in total assets stood at 8.5%. Moreover, 4Q20 will, according to estimates of brokerage houses' analysts, bring an unprecedented high (40%) share of banks reporting quarterly loss among Poland's top ten largest banks.

Banking balance sheets grew considerably during 2020 (+19% y/y), chiefly due to an inflow of deposits. The latter largely came from the corporate sector which through banks received substantial liquidity support from State owned institutions - PFR and BGK. Since the start of the receivables from the non-financial sector grew by a mere 1% (households: +3%, corporates: -4%) while deposits increased 13% and as a result the overliquidity of the sector increased further. This was evidenced, i.a., by a drop of loan/deposit ratio to 77% from 89% at YE19 or increase of LCR/NSFR ratios to 200%/130%+ from 156%/125% respectively.

The Polish banking sector maintained a very strong capital position. At end of December 2020 the equity of Polish banks reached PLN214bn while capital ratios increased further from the already strong levels at YE19 (TCR at 20.5% at the end of September vs. 19.0% while Tier 1 ratio at 18.4% from 17.0%). In December, PFSA published its recommendation on dividend policy of commercial banks in 2021 in which it informed that it was necessary that banks withhold dividend pay-outs in 1H21 and that PFSA's stance on dividend policy in 2H21 will be presented upon analysis of the financial standing of the sector in 1H21.

2020 brought a continuation of concentration and sector consolidation processes. At end of November the share of top 5 largest banks in total sector's assets was 55% vs. 50% at YE19, while their share in net profit was 88% vs. 76% respectively. The number of commercial banks decreased to 29 from 30 at YE19, after Idea Bank on Dec 31, 2020 became subject of resolution process while substantial part of its balance sheet was taken over by Pekao S.A. on January 3, 2021.

The Bank's position

At end of 2020 Bank Millennium ranked 7th among top commercial banks in Poland by total assets and deposits. The Bank's market share in deposits was 5.3% (6.0% at end of 2019) and 6.1% (5.7%) in loans. Bank Millennium Group had a relatively stronger position in the household segment (loans at 8.0% vs. 7.7% at YE19, deposits at 6.7% and 7.2% respectively, in particular in mortgage loans segment (8.6% vs. 8.3%), non-mortgage loans (8.6% vs. 8.2%) or transactions made with cards (7.8% in 3Q20 vs. 7.6% at YE19). In the companies' segment, where the Group has a lower share than in the retail segment (3.2% in deposits and 4.2% in loans), the Group maintains a traditionally above-average position in factoring products. The Group continues to distribute its products and services via a network of 702 branches (own and franchise ones), as well as through electronic channels, including cash machines, the Internet, phone and mobile apps.

Factors of macroeconomic uncertainty for the economy and Bank Millennium Group

In 4Q20 and in early 2021 the main risk factor for the economy and the Bank Millennium Group, as indicated in previous reports i.e. strong spreading of the COVID-19 pandemic and implementation of new restrictions, was materialising.

According to the Bank, development of the COVID-19 pandemic resulting in sustaining of administrative restrictions in Poland and at the most important trade partners of Poland still remain the most important risk factor. It seems however that economies are operating better and better under the restrictive conditions. A worse than expected development of macroeconomic situation could impact the BM Group through:

- stronger increase of unemployment and drop of income of households, which would weaken demand for banking products. Moreover, a deterioration of economic prospects and lack of recovery of business investments would contribute to a lowered corporate demand for investment loans;
- a stronger than expected deterioration of the income situation of households and businesses could translate into a decrease of quality of BM Group's loans portfolio;
- increase of uncertainty on financial markets and further interventions of the central bank on the FX market resulting among others in a depreciation of the zloty. This would push up the costs of financing in foreign currencies as well as the value of required collateral and would increase the PLN value of FX debt thus having potentially an impact upon the

- repayment of liabilities due to BM Group by households and businesses. It would also increase potential losses in case of unfavourable court verdicts regarding FX mortgage loans;
- subsequent interest rate cuts in Poland that would additionally decrease the Group's income.

There is also a chance that in 2021 the economic situation will be more favourable than in the Bank's current baseline scenario. They would first of all involve a lower scale of COVID-19 infections as well as fast development of collective immunity thanks to efficient execution of the vaccination programme. Economic growth higher than forecasted by the Bank could be supported by greater fiscal easing in Poland and abroad, especially earlier than planned implementation of the EU Recovery plan after the pandemic, with Poland as one of the biggest beneficiaries. Effective implementation of these actions would help prevent occurrence of the above-mentioned main negative uncertainty factors or mitigate their impact on BM Group's results.

Other risk factors

Despite improving prospects for the Polish economy and the banking sector in 2021, there are, however, potential risks, which, if materialised, might have significant impact, upon operations and results generated by the Polish banking sector (including Bank Millennium):

- Slower-than-expected recovery of global economic growth resulting from slower-than-expected lessening of the impact of the coronavirus pandemic a return of protectionist trends 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 coronavirus upon Poland's and global economies as well as the progress of populations' immunity may have a direct impact on the pace of recovery of economic growth, while the effectiveness of government's support programmes aimed at the most impacted industries/companies as well as the pace of relaxation/lifting of restrictions may in turn have a direct and indirect impact on demand for banking products/services and quality of banks' loan book, including this of the BM Group (more details are available later in this report).
- Risk related to unprecedented low level of interest rates. After the base rate cut by the MPC to 0.1%, interest income of the banking sector, including the Bank Millennium, saw a significant contraction. Banks have partly neutralised the lower income by lowering interest rates on deposits, however the net impact of lowered interest on the sector's profitability, including this of the BM Group, was negative and material. Under a scenario of maintained low interest rates (the Bank's base scenario) compensation of lost revenues will be possible only in the mid-term, provided the demand for banking loans recovers. Additionally, banks, including the BM Group, are undertaking cost adjustment initiatives, however their impact on the results will likely be spread over time, while the sector's profitability, including this of the BM Group, will remain under pressure.
- FX-mortgage loans legal risk. On 31 December 2020, the Bank had 5 018 loan agreements and additionally 496 loan agreements from former Euro Bank (98% loans agreements before the Court of first instance and 2% loans agreements before the court of second instance) under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 562.4 million and CHF 34.3 million (Bank Millennium portfolio: PLN 508.2 million and CHF 33.4 million and former Euro Bank portfolio: PLN 54.1 million and CHF 0.9 million). The outstanding amount of the loan agreements under individual court cases as at 31.12.2020 was PLN 1 794 million.

Until 31.12.2020 only 69 cases were finally resolved (49 in claims submitted by clients against the Bank and 20 in claims submitted by the Bank against clients i.e. debt collection cases).

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 affects the number of 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 3,281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. On 11 August 2020, the claimant requested granting interim measures to secure the claims against the Bank. In a decision of 18 August 2020, the request for granting interim measures was dismissed. On 26 October 2020, the claimant filed another application for granting interim measures to secure claims against the Bank concerning two group members. By decision of 6 November 2020, the application was rejected. The court's decision dismissing the request for interim measures with a justification has not yet been served. During the session on 26 October 2020 the Court conducted a hearing of parties' position and afterwards postponed the session without setting the next term. The outstanding amount of the loan agreements under the class action proceeding was PLN 1 000 million as at 31.12.2020.

The Bank continues to be open to its customers in order to reach amicable solutions on negotiated terms. 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. The Bank has already reached agreement and settlement with 117 borrowers that participated in the class action.

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes had been 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) the proportion has adversely changed and majority of court cases have been lost by banks.

Taking into consideration the increased legal risk related to FX mortgages, in 2019 Bank Millennium created provisions totalling PLN 223 million while in 2020 PLN 713 million in total which included PLN 677 million provision for legal risk for Bank Millennium originated portfolio and PLN 36.4 million for ex-Euro Bank originated portfolio. 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.

On 31 December 2020, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 924 million, and PLN 36.4 million for the portfolio originated by ex-Euro Bank. Legal risk from ex-Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

The Bank analysed the sensitivity of the methodology for calculating provisions, for which a change in the parameters would affect the value of the estimated loss to the legal risk of litigation:

Parameter	Scenario	Impact on loss due to legal risk related to the portfolio of mortgage loans in convertible currencies
Change in the number of lawsuits	Additionally, 1 p.p. of active clients file a lawsuit against the Bank	PLN 33 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 25 million

The CJEU judgment in Case C-260/18 issued on 3 October 2019, 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 have already been filed and may still be filed with potential impact on the outcome of the court cases.

In this context, taking into consideration the recent negative evolution in the court verdicts regarding FX mortgage loans, and if such trend continues, the Bank will have to regularly review and may need to continue to increase the balance of provisions allocated to court litigations.

Invalidity of the Bank Millennium loan agreements currently under individual court and class action cases could have a pre-tax cost up to PLN 2 385 million.

On 29 January 2021, it was published a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Supreme Court which may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court has been requested for answering the questions concerning key matters related to FX mortgage agreements: (i) is it permissible to replace - with the law provisions or with a custom - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/denominated credit agreement - is it permissible to keep the agreement still valid in its remaining scope; as well as (iii) if in case of invalidity of the CHF credit there would be applicable the theory of balance (i.e. does arise a single claim which is equal to the difference between value of claims of bank and the customer) or the theory of two *condictions* (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court has also been requested for answering the question on (iv) from which point in time there shall be starting the limitation period in case of bank's claim for repayment of amounts paid as a loan and (v) whether banks and consumers may receive remuneration for using their pecuniary means by another party. The date of the meeting of the Supreme Court is scheduled for 25 March 2021. The Bank will assess in due time the implications of the potential decisions of the Supreme Court on the level of provisions for the legal risk.

On December 8, 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority ('PFSA') proposed a 'sector' solution to address the sector risks related to FX mortgages. The solution would consist in offering by banks to their clients a

voluntary possibility of concluding arrangements based on which a client would conclude with the bank a settlement as if his/her loan from the very beginning had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loan.

Following that public announcement, the idea has been subject of consultations between banks under the auspices of the PFSA and Polish Banking Association. Banks in general have been assessing the conditions under which such solution could be implemented and consequent impacts.

In the view of the Management Board of the Bank, important aspects to take into consideration when deciding on potential implementation of such program are : a) favourable opinion or at least non-objection from important public institutions; b) support from National Bank of Poland to the implementation; c) level of legal certainty of the settlement agreements to be signed with the borrowers; d) level of the financial impact on a pre- and after tax basis; e) capital consequences including regulatory adjustments in the level of capital requirements associated with FX mortgage loans.

At the time of publishing this report, neither the Management Board nor any other corporate body of the Bank took any decision regarding implementation of such program. If/when a recommendation regarding the program would be ready, the Management Board would submit it to the Supervisory Board and General Shareholders meeting taking into consideration the relevance of such decision and its implications.

According to preliminary calculations, implementation of a solution whereby loans would be voluntarily converted to Polish zloty as if from the very beginning they had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the current portfolio would be converted) with a pre-tax impact between PLN 4,100 million to PLN 5,100 million (non-audited). The impacts can significantly change in case of variation of the exchange rate and several assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk weighted assets and the decrease or elimination of Pillar 2 buffer. The above mentioned impact would be substantially higher than the estimated impact of PLN 500 million to PLN 600 million (non-audited) in the scenario of replacing the exchange rate applied in the contracts by the average NBP exchange rate. Finally, it should be mentioned, that the Bank, as at 31.12.2020, had 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 3.41 p.p. (3.36 p.p. at the Group level), part of which was allocated to operational/legal risk.

Due to the complexity and uncertainty regarding the outcome of court cases, as well as from potential implementation of KNF Chairman solution or from potential Supreme Court decisions, it is difficult to reliably estimate potential impacts of such different outcomes and their interaction as at the date of publication of the financial statements.

- 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. In 2020, the provision was increased by additional PLN142mn. The provision was estimated based on the maximum amount of potential returns and the probability of payment being made.
- Risk of financing costs increase due to a need of MREL eligible instruments issuance. The decision of the Banking Guarantee Fund on 26 March 2020 to extend by one year the date of full implementation of MREL requirements as well as no-obligation to reach an interim level in 2020 provides more time to assess the new requirements and flexibility in their achievement. Additionally, the systemic risk buffered lowered to 0% from 3% also decreases the future level of MREL requirements. 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.

- Risk of reduced franchise network. The franchise network has significantly increased the Bank's distribution network in 2019 along with the take-over of Euro Bank. Its size remained practically unchanged since. In late 2020, the Bank offered its franchisees new terms of co-operation reflecting new market reality, unprecedented low interest rates level included. At the moment, franchise Partners managing close to 90% of outlets signed co-operation agreements with the Bank on new terms.
- 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 PSD2 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.

Other risk factors are discussed in detail later in the report

5.4. STRATEGY AND BUSINESS DEVELOPMENT PROSPECTS

The unprecedented scale of change of the business environment caused by the outbreak of COVID-19 pandemic in early 2020, combined with dynamic changes of customers' behavioural patterns have dramatically increased the challenges that banks face, limited the visibility and increased uncertainty to an exceptional level. As a result, the BM Group decided to extend its 2018-20 strategy by additional year and prepare a new one for the years 2022-2024.

Outlook for 2021

The Bank aims to recover like for like operational results affected by the COVID-19 crisis and its direct and indirect consequences within 1.5 to 2 years. This is to be achieved by completion of the current cost streamlining program, introduction of new operational efficiency program as well as an improvement business results through improved pricing and sales increase in core products.

In 2021, the Bank will remain fully focused on operational efficiency through re-engineering of processes, automatization, standardisation and simplification. We intend to further optimise the branch network, continue tight cost control despite higher legal and IT expenses to achieve cost to income ratio of 47% and targeting c40% in the mid-term vs. 49% in 2020.

We are aiming at full digitalization, implementing a proactive migration of customers to digital and exceeding the 80% share of digital clients by the end of 2021.

We intend to keep the pace of customer acquisition based on quality of service and high NPS. In retail we aim to increase the portfolio of active clients, leveraging off the digital acquisition as well as franchise and mini-branch channels. Our aspiration is to increase origination of cash loans by double digits in percentage terms and to increase origination of mortgage loans while at the same time focusing on fee growth. We intend to maximize sales and volumes in investment funds capturing our natural market share 7% in the medium term. In the corporate business we plan to

focus on existing exposures and with active approach to new clients in low- and mid-risk sectors to grow portfolio by over PLN1.0 billion including leasing and factoring. In leasing, we plan to return origination to its level from 2019 (PLN3.5 billion) after PLN2.5 billion in 2020. All of the credit growth, in both retail and corporate segments, must be achieved maintaining portfolio cost of risk below 80 bps and with a prudent monitoring on the economic evolution in this COVID-19 environment. We plan to keep the NPE ratio below the 5.0% threshold (4.9% at YE20).

BM Group also assumes that in 2021, Millennium Bank Hipoteczny, a mortgage bank, will commence its operating activity which would allow a start of transfer of mortgage loans and issuance of covered bonds.

6. FINANCIAL SITUATION

6.1. PROFIT AND LOSS ACCOUNT

Group's operating income (PLNmn)	2020	2019	Change y/y
Net interest income *	2 583.1	2 499.4	3.3%
Net commission income	746.1	699.2	6.7%
Core income	3 329.1	3 198.5	4.1%
Other non-interest income **	248.7	273.0	-8.9%
Total operating income **	3 577.8	3 471.5	3.1%

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to apply hedge accounting principles. Starting from that date, the margin from these operations is reflected in Net Interest Income. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN34.5mn in 2020 and PLN62.5mn in 2019) 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 (PLN42.9mn in 2020 and PLN23.4mn in 2019), which is included in the pro-forma cost of risk

Net interest income (pro-forma) in 2020 reached PLN2,583mn and increased 3% compared to the level recorded in the previous year. The growth was supported by income from transactions with clients of acquired Euro Bank which helped to offset the negative impact of much lower market interest rates in most of 2020. Net interest margin (over average interest earning assets) (NIM) in the whole 2020 reached 2.61% and was lower by 17 basis points than in 2019. 4Q20 showed that the negative trend in margin reverted and average NIM increased slightly by 4 basis points versus the previous quarter to the level of 2.53%. The contraction of NIM stemmed from unprecedented interest rates cuts by the MPC (down 140 basis points in March through May) and leveraged impact of the maximum interest rate (cut by 280 basis points from 10% to 7.2%). The high concentration of the cuts and their immediate impact on remuneration of interest earning assets (especially consumer loans) amplified the impact in the short term due to the time needed for the Bank to adjust its funding (deposit) cost accordingly. Moreover, when compared with the previous year, interest margin was undermined by the return of fees on early repayments of consumer loans.

Net commission income in 2020 amounted to PLN746mn, growing 7% y/y. The key source of this growth were commissions from insurance and cards. Investment products distribution fees and brokerage fees showed a rebound. On the other hand, loan fees contracted as lending activity decelerated during the reported year, especially in corporate and consumer loans. Management fees on mutual funds and transactional fees decreased as well due to the lowered regulatory cap and significant outflows in 1Q20.

Core income, defined as a combination of net interest and net commission income, reached PLN3,329mn in 2020, translating into a y/y increase of 4% partially owing to the merger with Euro Bank.

Other non-interest income, which comprises FX result, results on financial assets and liabilities (without interest margin on derivatives and fair value adjustment on credit portfolio) and net other operating income and costs, amounted to PLN249mn in 2020 and decreased by 9% y/y due to extraordinary items: provisions for the return of commissions from loans repaid earlier by clients which was partly offset by the income from revaluation of shares in VISA in 4Q20 with pre-tax impact of PLN53.7mn and valuation of indemnities provided by Societe Generale in the context of Euro Bank acquisition.

Total operating income (pro-forma) of the Group reached PLN3,578mn in 2020 showing an increase by 3% y/y).

Operating costs (PLNmn)	2020	2019	Change y/y
Personnel costs	(856.3)	(836.4)	2.4%
Other administrative costs *	(896.5)	(889.7)	0.8%
- o/w Banking Guarantee Fund (BFG) fees	(167.2)	(123.5)	35.4%
Total operating costs	(1 752.8)	(1 726.1)	1.5%
- o/w integration and restructuring costs **	(66.1)	(113.0)	-41.5%
Total costs without BFG	(1 585.6)	(1 602.6)	-1.1%
Total costs without integration and restructuring costs **	(1 686.7)	(1 613.1)	4.6%
Total costs without integr. and restr. costs and BFG **	(1 519.5)	(1 489.6)	2.0%
Cost/income ytd - reported	49.0%	49.7%	-0.7pp
Cost/income ytd - adjusted ***	46.7%	46.9%	-0.2pp

(*) including depreciation

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

(***) without, one-off income and without integration costs

Total costs amounted to PLN1,753mn in 2020 translating into 2% increase compared to the 2019 level. Apart from higher costs resulting from incorporation of staff and sales infrastructure of former Euro Bank, the Bank created a provision for staff restructuring in the amount of PLN41mn in 2020 (including provisions for group redundancies and retention bonus). The total value of integration costs (a small part of which is also presented in other operating cost) in the reporting period was PLN67mn and it was lower than in 2019 (PLN116mn). Total costs ex-BFG and integration in 2020 amounted to PLN1,520mn showing a 2% increase y/y.

Personnel costs amounted to PLN856mn and grew 2% y/y. After incorporating employees coming from Euro Bank (2.4 thousand FTEs) the Group reduced its personnel to 7,493 FTEs at the end of December 2020 which translates into an annual reduction of 971 FTEs (-11% y/y). Without employees absent due to long leaves, the number of so called active FTEs was much lower, i.e. at 6,602.

Employment (FTEs)	31.12.2020	31.12.2019	Change y/y
Bank Millennium (with Euro Bank)	7 164	8 118	-11.7%
Subsidiaries	329	347	-5.1%
Total BM Group	7 493	8 464	-11.5%
Total BM Group (active* FTEs)	6 602	7 646	-13.7%

(*) active FTEs denote employees not on long-term leaves

Other administrative costs (including depreciation) reached PLN896mn and grew 1% y/y. Costs connected directly with the integration of Euro Bank in 2020 amounted to PLN24.7mn and were 78% lower than in 2019.

Euro Bank acquisition resulted in an initial very strong increase in the number of outlets which subsequently saw a reduction in line with the Bank's branch network optimisation policy. At the end of December 2019 the total number of branches (including Euro Bank) was 830 and has since been reduced by 128 units (mostly Bank's own branches) to 702 outlets at the end of December 2020.

The Bank currently estimates that total cumulative integration expenses (P&L and capex) connected with Euro Bank acquisition will be c25% below the original plan.

Effective accomplishment of restructuring process allowed capturing synergies in the amount of PLN168mn pre-tax in 2020 overall (revised upwards from the original budget). First net tangible synergies were achieved already in 4Q19 (PLN23.4mn), while in the whole 2020 these amounted to over PLN100mn pre-tax.

Cost-to-income ratio without extraordinary items (mainly integration costs, revaluation of VISA shares and the above mentioned provision in other operating income and cost) reached 46.7% in 2020 and was 0.2 percentage points lower compared to the last year level.

Net profit (PLNmn)	2020	2019	Change y/y
Operating income	3 577.8	3 471.5	3.1%
Operating costs *	(1 752.8)	(1 726.1)	1.5%
Impairment provisions and other cost of risk **	(621.3)	(439.0)	41.5%
- of which COVID-19 risk related provision	(133.3)	-	-
FX legal risk related provision	(713.6)	(223.1)	219.8%
Banking tax	(279.1)	(248.0)	12.6%
Pre-tax profit	210.9	835.3	-74.7%
Income tax	(188.1)	(274.6)	-31.5%
Net profit - reported	22.8	560.7	-95.9%
Net profit - adjusted***	709.5	921.1	-23.0%

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

(**) including fair value adjustment on loans (PLN-42.9mn in 2020 and PLN-23.4mn in 2019) and loans modification effect (PLN -13.6mn in 2020 and PLN-11.7mn in 2019)

(***) without extraordinary items

Total cost of risk, which comprised net impairment provisions, fair value adjustment (of a part of credit portfolio) and result on modifications, bore by the Group amounted to PLN621mn in 2020 and was 42% higher than in 2019. The higher level of provisions resulted from the incorporation of the loan book of Euro Bank, changes in the risk model in the retail segment with introduction of more conservative default definition, but also from additional provisions for risk related to COVID-19 impact amounting to PLN133mn in 2020.

Risk charges for retail segment in 2020 stood at PLN408mn, while for the corporate segment and other they amounted to PLN80mn (all excluding extra COVID-19 provisions). In relative terms, the cost of risk (i.e. net charges to average gross loans) for 2020 reached 83 basis points (65 bps without COVID-19 charge) compared to 68 basis points in 2019.

In 2H20, the Bank sold portfolios of consumer NPLs. The transactions contributed positive PLN19mn to the risk charge line. The bank also recovered receivables at former SKOK Piast formerly classified as NPLs which resulted in cPLN20mn positive contribution to the risk charge line in the P&L.

Additionally, in 2020 the Bank continued to create provisions for legal risk related to FX-mortgage portfolio which reached PLN714mn in 2020 (PLN677mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees), especially in 4Q20 (PLN416mn in total o/w PLN380mn excluding provisions for loans from former Euro Bank) and strongly undermined the Group's profitability in the period. The balance of provisions increased to PLN960mn or PLN924mn excluding loans originated by Euro Bank, the latter being an equivalent of 6.7% of the FX-mortgage portfolio originated by Bank Millennium.

Pre-income tax profit in 2020 amounted to PLN211mn and in 4Q20 the Group recorded the pre-tax loss of PLN102mn. This was mostly the result of the above mentioned high overall provisions as the pre-provision profit amounted to PLN1,825mn and was up 5% y/y.

Net profit reported in 2020 decreased to PLN23mn (net loss of PLN109mn in 4Q20) and was 96% lower vs the previous year. Net profit of 2020 adjusted for the abovementioned extraordinary items (first of all, extra provisions for FX mortgage legal risk) would reach PLN709mn compared to PLN921mn adjusted net profit for 2019 which translates into a decrease by 23% y/y.

Reported 2020 return on equity (ROE) stood at 0.2% but when adjusted for extraordinary items it reached 7.8% compared to 10.6% in 2019. Return on Assets (ROA) reported was 0.02%

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

Group's profit structure (PLN million)	2020
Bank Millennium	18.6
Millennium Bank Hipoteczny (mortgage bank)	-0.3
Millennium Leasing	-9.6
Millennium Dom Maklerski (brokerage house)	16.2
Millennium TFI (mutual fund)	25.0
Other consolidated companies	34.0
Summarised profits	83.9
Consolidation adjustments	-61.1
Consolidated Net Profit of the Group	22.8

Bank's Profit and Loss Account

Changes of particular key items of the Bank's Profit and Loss Account in 2020 are shown in the table below.

Bank's Operating Income (PLN million)	2020	2019	Change y/y
Net interest income	2 455.9	2 100.2	16.9%
Net commission income	639.7	593.2	7.8%
Core Income *	3 095.6	2 693.4	14.9%
Other non-interest income **	325.9	390.7	-16.6%
<i>of which dividends</i>	39.3	45.2	-13.1%
Total operating income **	3 421.5	3 084.1	10.9%

(*) Sum of net interest income and net commission income.

(**) Excludes fair value adjustment of credit portfolio (PLN42.9 million in 2019 and PLN23.4 million in 2019), which is moved to cost of risk

The Bank's 2020 net interest income saw significant growth by 17% y/y, partly in result of the takeover from October 2019 of Euro Bank. Net commission income grew 8% y/y, slightly more than in case of the Group. In view of the above, core income grew 15% year-on-year to reach PLN3,096mn in 2020.

Other non-interest income of the Bank in 2020 stood at PLN326mn and decreased by 17% y/y, first of all due to significant decrease in other operating income and cost line, resulting from provisions created for the return of commissions from consumer loans earlier repaid by the clients. This item includes dividends, largely from the Capital Group's subsidiaries (eliminated in reports on Group level). Dividend income in 2020 reached PLN39mn, which means a 13% y/y decline.

As a result of the evolution of the abovementioned items the Bank's total **operating income** in 2020 amounted to PLN 3,422mn, which means a robust growth of 11% y/y.

Bank's net profit <i>(PLN million)</i>	2020	2019	Change y/y
Operating income	3 421.5	3 084.1	10.9%
Operating costs *	(1 693.5)	(1 520.9)	11.3%
Impairment provisions and other cost of risk **	(541.5)	(235.1)	130.3%
<i>Provision for legal risk related to FX mortgage loans</i>	<i>(713.6)</i>	<i>(223.1)</i>	<i>219.8%</i>
Banking tax	(279.1)	(236.9)	17.8%
Pre-income tax profit	193.7	867.9	-77.7%
Income tax	(175.1)	(267.3)	-34.5%
Net profit	18.6	600.7	-96.9%

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

(**) including fair value adjustment of loans (PLN42.9mn in 2020 and PLN23.4mn in 2019) as well as the effect of modification of loans (PLN13.6mn in 2020 and PLN11.7mn in 2019)

The Bank's **operating costs** reached the total amount of PLN1,693mn in 2020. The growth of the Bank's costs was 11% year-on-year and was much higher vs the growth rate of costs for the whole Group, which began consolidation of Euro Bank back in June 2019 whereas the merger with the Bank took place in October 2019. Apart from integration of Euro Bank, the growth of costs resulted also from much higher BFG fees by 35% compared to the level of 2019. As in the Group's case, which was described above in this text, the operating costs include costs incurred in relation to Euro Bank's integration. Cost/income ratio for the Bank in 2020 was 49.5%, so it was only slightly higher (by 0.2 p.p.) than in 2019.

Impairment write-offs and other costs of risk of the Bank were PLN542mn in 2020, which means growth by 130% y/y caused by loan portfolio of acquired Euro Bank as well as additional provisions related to the impact of COVID-19 pandemic, as it was explained for the whole Group's case.

Besides provisions for credit risk, in 2020 the Bank created a provision for legal risk related to FX mortgage loans in the amount of PLN 714mn, which was explained above in the part referring to the whole Group.

The Bank's pre-tax profit in 2020 was PLN 194mn and decreased strongly by 78% vs. the level of 2019 first of all due to extraordinary provisions commented above.

The Bank's 2020 **net profit** was PLN19mn, which means a decrease by 97% y/y. Return on the Bank's assets (ROA) reached 0.02%.

6.2. 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 PLN5mn). 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 2020 was PLN2,258mn million, which represents a decrease of -8% y/y. Net interest income of the retail segment fell -11% as a result of market interest rate cuts mentioned earlier in the text, while net commission income grew +8% y/y. Operating costs of the retail segment grew slightly by 2% y/y.

As a result of the abovementioned evolution of operation income and costs, total retail segment pre-provision income decreased visibly by 21% vs. the level of 2019. The cost of risk of the segment grew strongly by 38% due to higher standard loan loss provisions for Euro Bank's portfolio taken over on 31 May 2019 (on Group level) and additional provisions resulting from COVID-19 pandemic.

Operating profit of the retail segment for 2020 - after consideration of the provisions - amounted to PLN357mn and showed a decrease by 50% y/y.

Retail segment (PLN million)	2020	2019	Change y/y
Net interest income *	1 635.4	1 836.9	-11.0%
Net commission income	587.9	545.1	7.8%
Other income**	34.7	68.5	-49.3%
Total operating income	2 258.0	2 450.5	-7.9%
Total operating costs	(1 410.5)	(1 379.2)	2.3%
Pre-provision income	847.5	1 071.3	-20.9%
Impairment provisions and other cost of risk**	(490.5)	(354.5)	38.4%
Operating profit	357.1	716.8	-50.2%

(*) 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 42.9mn in 2020 and PLN23.4mn in 2019) 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 2020 stood at PLN 520 million, i.e. 2% lower compared to the level of 2019. This was mostly the result of lower net interest income (-5% y/y), whereas net commission income grew slightly by 1% y/y. Operating costs of the corporate segment saw a 3% increase y/y. As a result of the above pre-provision income fell -6% y/y. Value of net impairment write-offs regarding loans to companies increased considerably by 48% during the year due to additional provisions for COVID-19 impact. Thus operating profit of the corporate segment saw a strong decrease of -25% y/y to the level of PLN173mn in 2020.

Corporate segment (PLN million)	2020	2019	Change y/y
Net interest income *	305.7	323.0	-5.4%
Net commission income	154.2	152.9	0.9%
Other income	60.1	55.0	9.2%
Total operating income	520.0	530.9	-2.1%
Total operating costs	(223.9)	(217.3)	3.0%
Pre-provision income	296.1	313.6	-5.6%
Impairment provisions and other cost of risk**	(123.0)	(83.4)	47.6%
Operating profit	173.1	230.3	-24.8%

(*) 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 2020 was PLN800mn, which represents a strong 63% y/y growth. The main reason for this growth was the increase of net interest income by 119% as a result of higher income from ALM operations including from the bond portfolio. Operating costs decreased -9% y/y. Operating profit of the entire segment grew by 87% y/y and reached PLN674mn for 2020.

Treasury, ALM and other segment (PLN million)	2020	2019	Change y/y
Net interest income*	607.6	277.1	119.3%
Net commission income	3.9	1.1	257.6%
Other income	188.3	211.9	-11.1%
Total operating income	799.8	490.1	63.2%
Total operating costs	(118.4)	(129.6)	-8.6%
Pre-provision income	681.4	360.5	89.0%
Impairment provisions and other cost of risk**	(7.8)	(1.2)	550.0%
Operating profit	673.5	359.4	87.4%

(*) 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 PLN714mn in 2020 and PLN223mn in 2019, were not allocated to the above segments.

6.3. BALANCE SHEET AND OFF - BALANCE SHEET ITEMS

Assets

The Group's assets as at 31 December 2020, amounted to PLN 97,772mn, and stayed on similar level as at the end of 2019. 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)	31.12.2020		31.12.2019		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	1 460.3	1.5%	2 203.4	2.3%	-33.7%
Loans and advances to banks	625.4	0.6%	784.3	0.8%	-20.3%
Loans and advances to clients	74 088.3	75.8%	69 615.4	71.1%	6.4%
Receivables from securities bought with sell-back clause	66.4	0.1%	205.4	0.2%	-67.7%
Debt securities	18 971.6	19.4%	22 865.7	23.4%	-17.0%
Derivatives (for hedging and trading)	176.0	0.2%	155.6	0.2%	13.1%
Shares and other financial instruments*	230.6	0.2%	96.5	0.1%	139.0%
Tangible and intangible fixed assets**	956.6	1.0%	1 009.0	1.0%	-5.2%
Other assets	1 196.6	1.2%	981.0	1.0%	22.0%
Total assets	97 771.8	100.0%	97 916.4	100.0%	-0.1%

(*) including investments in associates

(**) excluding fixed assets for sale

The most visible moves within assets in 2020 were growth of loans by PLN4.5bn and decrease of debt securities by PLN3.9bn.

Loans and advances to Clients

Total **net loans** of Bank Millennium Group reached PLN74,088mn as at the end of December 2020 and grew 6% y/y. The growth of loans without foreign currency mortgage portfolio was higher, at 9% y/y. FX mortgage loans decreased by 2% y/y. The share of FX mortgage loans (excluding these taken over with Euro Bank) in total gross loans has dropped during the year to 17.4% on December 2020 from 19.1% a year before.

The net value of loans to households amounted to PLN55,697mn at the end of December 2020, up 9% y/y. Within this item PLN mortgages grew strongly by 22% y/y but growth rate of consumer loans slowed to 2% y/y.

In 2020, origination of mortgage loans was much higher than in 2019 and reached PLN6.8bn translating into an outstanding annual growth of 57% with 4Q20 sales setting a new quarterly record of PLN2.1bn worth of loans.

The net value of consumer loans reached PLN15,296mn growing +2% y/y. Origination of cash loans decelerated and amounted to PLN4.6bn for 2020 (-7% y/y). It was mostly affected by the COVID-19 pandemic which resulted in lower demand for the product and consequently pushed the annual sale level below the high level recorded in the previous year.

Net value of loans to companies amounted to PLN18,931mn as at the end of December 2020 and decreased slightly by 1% yearly as the COVID-19 pandemic had a considerable adverse effect on new lending to companies. The decrease referred mostly to leasing portfolio (-5% y/y) which was more vulnerable to decelerating investments, whereas other loans grew by 1% y/y, above the market growth rate.

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

Loans and advances to clients (PLN million)	31.12.2020	31.12.2019	Change y/y
Loans to households	55 697.4	50 998.2	9.2%
- <i>PLN mortgage loans</i>	26 273.9	21 469.5	22.4%
- <i>FX mortgage loans</i>	14 127.9	14 464.1	-2.3%
- <i>of which Bank Millennium loans</i>	13 139.8	13 492.7	-2.6%
- <i>of which ex-Euro Bank loans</i>	988.1	971.4	1.7%
- <i>consumer loans</i>	15 295.6	15 064.6	1.5%
Loans to companies and public sector	18 390.9	18 617.2	-1.2%
- <i>leasing</i>	6 303.5	6 659.9	-5.4%
- <i>other loans to companies and factoring</i>	12 087.4	11 957.3	1.1%
Net loans & advances to clients	74 088.3	69 615.4	6.4%
<i>Net loans and advances to clients excluding FX mortgage loans</i>	59 960.4	55 151.3	8.7%
Impairment write-offs	2 489.4	2 046.1	21.7%
Gross* loans and advances to clients	76 577.7	71 661.5	6.9%

(*) 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 2020 was 3.8%. 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 PLN18,972mn at the end of December 2020, which means a decrease of 17% y/y as a consequence of assets/liabilities and interest margin management policy resulting in decrease of term deposits. An important part of the debt securities portfolio (99.5%) 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 19.4% at end of 2020, pointing to a strong liquidity position.

Derivative instruments

The value of derivatives (for trading and hedging) totalled PLN176mn at end of December 2020, which constitutes an increase of 13% vs 31 December 2019.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN625mn at the end of December 2020, which means a decrease by 20% y/y, largely in result of lower of balances on current accounts but also lower balances of term deposits.

Shares/equities and other financial instruments

Value of equities/shares and other financial instruments amounted to PLN231mn at the end of December 2020 and increased by 139% y/y 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 PLN957mn at the end of December 2020 and declined by 5% y/y, mainly as a result of lower value of tangible fixed assets.

Total investment of the Group in 2020 amounted to PLN100.4mn. Outlays for the bank's physical infrastructure (branches, ATMs, security etc.) amounted to PLN17.7mn and PLN81.9mn for software and IT infrastructure. Value of other outlays i.e. PLN0.8mn, relates to Bank's subsidiaries.

The Bank Millennium Group plans investment capital expenditures in 2021 in the amount of PLN125.2mn, out of which ca. 80% will be allocated to IT projects (i.e. further internet and mobile banking developments and capacity extensions).

Bank's unconsolidated assets, as on 31 December 2020 reached the value of PLN97,016mn and stayed on similar level as at the end of 2019. Structure of the Bank's assets and changes of individual components are presented in table below:

Bank's Assets (PLN million)	31.12.2020		31.12.2019		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	1 460.3	1.5%	2 203.4	2.3%	-33.7%
Loans and advances to banks	625.4	0.6%	784.2	0.8%	-20.3%
Loans and advances to clients	73 501.4	75.8%	68 689.2	71.0%	7.0%
Receivables from securities bought with sell-back clause	66.4	0.1%	205.4	0.2%	-67.7%
Debt securities	18 955.7	19.5%	22 852.1	23.6%	-17.1%
Derivatives (for hedging and trading)	177.2	0.2%	156.6	0.2%	13.1%
Shares and other financial instruments	438.9	0.5%	184.9	0.2%	137.4%
Tangible and intangible fixed assets*	915.0	0.9%	954.5	1.0%	-4.1%
Other assets	875.4	0.9%	654.9	0.7%	33.7%
Total assets	97 015.6	100.0%	96 685.2	100.0%	0.3%

* excluding fixed assets for sale

The key difference between the level of assets of Bank standalone 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 PLN73,501mn at the end of December 2020, representing the growth of 7% y/y. 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 PLN18,956mn at the end of December 2020. 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 2020, amounted to PLN439mn, recording high increase by 137% y/y, so very similar growth rate as for the whole capital Group.

The Bank's fixed assets and intangibles amounted to PLN915mn at the end of December 2020 i.e. recording a decrease by 4% y/y (for reasons similar as in the case of the Group).

Values and annual changes to other asset groups presented in the table above are similar to the corresponding items of consolidated Group, as described earlier 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)	31.12.2020		31.12.2019		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	1 057.7	1.2%	1 578.8	1.8%	-33.0%
Deposits from customers	81 510.5	91.9%	81 454.8	91.5%	0.1%
Liabilities from securities sold with buy-back clause	248.6	0.3%	90.7	0.1%	174.0%
Financial liabilities valued at fair value through P&L and hedging derivatives	907.4	1.0%	779.8	0.9%	16.4%
Liabilities from issue of debt securities	558.6	0.6%	1 183.2	1.3%	-52.8%
Provisions	607.7	0.7%	165.2	0.2%	267.9%
Subordinated debt	1 540.2	1.7%	1 546.2	1.7%	-0.4%
Other liabilities*	2 250.2	2.5%	2 176.1	2.4%	3.4%
Total liabilities	88 680.8	100.0%	88 974.9	100.0%	-0.3%
Total equity	9 091.0		8 941.5		1.7%
Total liabilities and equity	97 771.8		97 916.4		-0.1%

* including tax liabilities

At the end of December 2020 liabilities accounted for 90.7%, while equity of the Group - for 9.3% of total liabilities and equity capitals.

As on 31 December 2020 Group's total liabilities amounted to PLN88,681mn and were on similar level relative to their value as on 31 December 2019.

Customers' deposits

Customer deposits constituted the main line item under the Group's accounting for, as on 31 December 2020, 91.9% 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)	31.12.2020	31.12.2019	Change y/y
Deposits of individuals	61 874.9	61 091.9	1.3%
Deposits of companies and public sector	19 635.6	20 362.9	-3.6%
Total deposits	81 510.5	81 454.8	0.1%

Total deposits amounted to PLN81,511mn as at 31 December 2020 and their y/y growth decelerated to nearly zero percent. Deposits fell 5% quarterly which resulted from tighter margin management and decreasing term deposits. The outflow of term deposits in 4Q20 was especially visible in corporate segment (PLN-2.4bn vs. the end of September 2020) probably as a result of introduction of fees on deposits.

Deposits of individuals reached PLN61,875mn as at 31 December 2020 growing 1% y/y and staying flat vs the end of the previous quarter. The Bank did not compete actively for retail term deposits and had to make significant cuts in the deposit interest rates after strong Monetary Policy Council interest rates cut. Within deposits, current and saving accounts continued to grow at a high pace (up 16% y/y), so their share in total deposits of individuals increased to 82%, which is correlated with higher customers' transactionality. On the other hand, term deposits of individuals dropped 36% y/y.

Deposits from companies and public sector decreased -4% y/y to PLN19,636mn as at the end of December 2020. Term deposits fell very strongly by 55% y/y, especially in 4Q20: -45% vs the end of the previous quarter. The drop was partly compensated by the dynamic growth of current accounts: +37% y/y. Similar to the retail deposits case, this was mainly the effect of strong reduction of central bank interest rates.

Average interest rate on all deposits in the Bank in 2020 amounted to 0.5%

Deposits from banks

Deposits of banks, including credits received, as on 31 December 2020, amounted to PLN1,058mn, accounting for 1.2% of the Group's liabilities. Value of this item declined by PLN521mn (or by 33%) relative to the balance as on 31 December 2019, mainly in effect of lower, by PLN645mn, balance of credits received from financial institutions. 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 2020, amounted to PLN907mn, recording an increase by 16% relative to the balance as on 31 December 2019, mainly due to increasing negative valuation of hedging derivatives (mainly FX swaps) by PLN 312mn y/y. The above was caused, primarily, by changing FX rates and interest rates cuts on the Polish market.

Provisions

The value of provisions as on 31 December 2020 was PLN608mn which signifies strong growth by PLN442mn or 268% y/y. The reason for the increase was creating new provisions for legal issues, especially claims related to FX mortgage loans agreements.

Debt securities issued

Securities issued by the Group amounted to PLN559mn as on 31 December 2020 recording significant decrease by PLN625mn (or 53%) relative to the balance as on 31 December 2019. The decrease resulted from repurchase of securities issued by the Bank and its subsidiary Millennium Leasing. The biggest repurchases included PLN300mn Banks' bonds series for institutional investors (in 1H20). The repurchase of Millennium Leasing bonds amounted to PLN106mn.

Subordinated debt

The value of subordinated debt amounted to PLN1,540mn as on 31 December 2020, and stayed on similar level vs. the end of 2019 (a very minor difference results from interest accrued). The subordinated debt line includes ten-year subordinated bonds in PLN at the total nominal value of PLN830mn maturing in January 2029 and ten-year bonds in PLN at the total nominal value of PLN700mn maturing in December 2027.

Equity

As on 31 December 2020, equity capital of the Group amounted to PLN9,091mn and recorded increase by PLN149mn or 2% y/y. Apart from the net profit generated in 2020 the main factor of the growth of equity was positive valuation of securities of PLN143mn since 31 December 2019.

The Bank Management Board will present, to the General Meeting of Shareholders, proposal to retain the entire net profit for 2020 in own funds.

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 2020".

The non-consolidated Bank's liabilities as at 31 December 2020 reached the value of PLN88,180mn million and stayed on similar level compared to the end of 2019. 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)	31.12.2020		31.12.2019		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	563.9	0.6%	849.5	1.0%	-33.6%
Deposits from customers	81 832.5	92.8%	81 637.5	92.8%	0.2%
Liabilities from securities sold with buy-back clause	248.6	0.3%	90.7	0.1%	174.0%
Financial liabilities at fair value through P&L and hedging derivat.	907.4	1.0%	779.9	0.9%	16.4%
Liabilities from issue of debt securities	484.7	0.5%	1 003.7	1.1%	-51.7%
Provisions	607.4	0.7%	164.7	0.2%	268.7%
Subordinated debt	1 540.2	1.7%	1 546.2	1.8%	-0.4%
Other liabilities*	1 995.4	2.3%	1 923.0	2.2%	3.8%
Total liabilities	88 179.9	100.0%	87 995.2	100.0%	0.2%
Total equity	8 835.7		8 690.1		1.7%
Total liabilities and equity	97 015.6		96 685.2		0.3%

(*) 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 PLN74mn (presented in the Group's statements).

The value of customer deposits of the Bank reached PLN81,832mn as on 31 December 2020 and was higher by PLN322mn than the balance for the Group (mainly effect of intra-group elimination). Deposits, similar to the Group's case, were flat year-on-year.

The values and annual changes of such liabilities lines of the Bank's balance sheet as Liabilities from securities sold with buy-back clause, Financial liabilities at fair value through P&L and hedging derivatives, Provisions and Subordinated debt are similar to those of their equivalents in the consolidated reports for the Group, as discussed above in this part of the report.

Bank's own equity, as on 31 December 2020, amounted to PLN8,836mn and recorded increase by 2% y/y (similar level of growth as in the case of Group's consolidated equity).

Contingent liabilities

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

Group's Contingent Liabilities (PLN million)	31.12.2020	31.12.2019	Change y/y (%)
Total contingent liabilities	15 722.7	12 169.9	29.2%
1. Liabilities granted:	14 177.2	11 629.6	21.9%
a) financial	12 420.9	9 883.1	25.7%
b) guarantees	1 756.3	1 746.6	0.6%
2. Liabilities received:	1 545.6	540.3	186.1%
a) financial	0.0	0.0	
b) guarantees	1 545.6	540.3	186.1%

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 2020, the total value of conditional liabilities of the Group amounted to PLN15,723mn, including liabilities granted by the Group at the level of PLN14,177mn. In 2020, the value of conditional financial liabilities granted by the Group increased by 22%, mainly financial liabilities, which grew by 26% due to higher value of commitments related to lending activity.

More information on the issue of conditional liabilities can be found in Chapter 13 of the Financial Statements of Bank Millennium S.A. Capital Group for the period of 12 months ending on 31 December 2020.

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

Bank's Contingent Liabilities (PLN million)	31.12.2020	31.12.2019	Change y/y (%)
Total contingent liabilities	16 589.2	12 995.3	27.7%
1. Liabilities granted:	15 040.7	12 452.0	20.8%
a) financial	12 478.7	9 939.5	25.5%
b) guarantees	2 562.0	2 512.5	2.0%
2. Liabilities received:	1 548.4	543.2	185.0%
a) financial	0.0	0.0	
b) guarantees	1 548.4	543.2	185.0%

The total value of conditional liabilities granted and received by the Bank amounted to PLN16,589mn, recording increase by 28% 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 PLN789mn. 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.

7. PRESENTATION OF BUSINESS ACTIVITY

7.1. INNOVATION AND HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE

High quality of customer service is one of the basic values for Bank Millennium. Thanks to the constant analysis of customer expectations and optimization of offer and servicing model to the changing needs, Bank Millennium is invariably at the forefront of institutions that provide service at the highest level.

Thanks to the constant monitoring of customer opinions and market trends in all business lines, also at the height of the pandemic, the Bank implemented many solutions in line with the current needs and expectations of customers in terms of the product offer, service facilities and access to transactions in contact channels. In 2020, the Bank's activities focused on:

- ensuring the safety of employees and customers serviced in branches,
- digitization of processes and services,
- monitoring the expectations and needs of customers and the level of service quality,
- developing solutions that increase customer satisfaction in all contact channels.

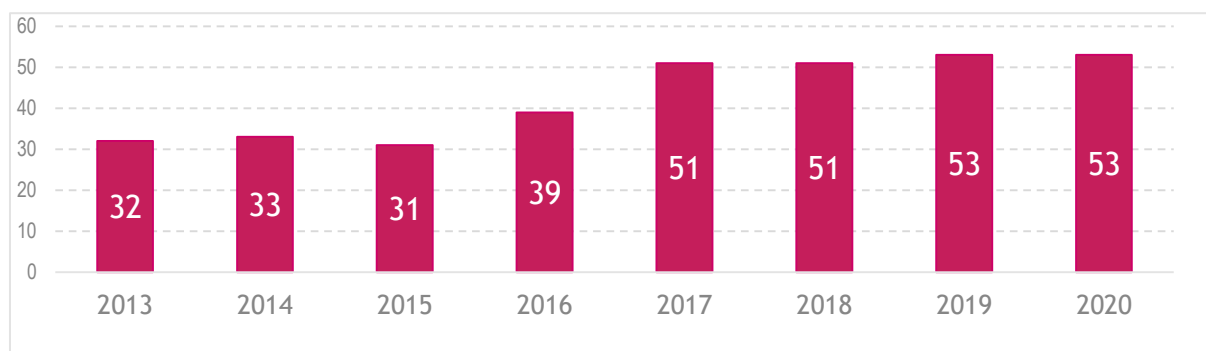
To take care of the safety of employees and customers, Bank Millennium introduced procedures and work standards in accordance with the requirements of the sanitary regime. Service models in bank branches, from all business lines, have been adapted to the new situation - providing customers with comfort of service with a simultaneous emphasis on enabling them self-service in transaction devices or remote channels and employee support in this area.

The Bank offered its clients solutions enabling independent execution of basic banking transactions with simultaneous support of the Bank's employee through electronic contact (chat, e-mail) or telephone.

Bank Millennium, continued its strategy in the area of electronic banking, in the period of the pandemic particularly intensified activities aimed at digitization of the Bank's current clients, enabling them to conveniently bank through the mobile application and Millenet transaction system without leaving their home. A number of solutions have been introduced to facilitate access to remote channels and the possibility of executing instructions in the telephone channel.

Building processes and solutions based on the customer's perspective translates into their loyalty and satisfaction as well as positive banking experience. Customers expect newer and more innovative solutions, and the Bank designs them together with customers, taking care of positive experiences. According to the results of an internal satisfaction survey, 94% of retail clients were satisfied with the cooperation with Millennium, and the level of clients' recommendations remained at a very high level, (NPS index in 2020 - 53).

Net Promotor Score for Retail Segment - internal study



In the area of satisfaction, loyalty and NPS, Bank Millennium is one of the highest rated banks in Poland, which was confirmed by the Customer Satisfaction Monitor survey carried out by ARC Rynek i Opinia. The Bank's high satisfaction ratings and recommendations are particularly pleasing after the successful merger with Euro Bank. The data confirm the fact that former Euro Bank customers appreciate the level of cooperation with Bank Millennium. As in previous years, as the bank's strengths, customers indicate a competitive offer (most frequently Konto 360), high quality of service, as well as modern solutions (mobile and internet banking).

The quality activities carried out by the Bank were also appreciated in the Institution of the Year 2020 competition by being among the winners in the category "Best service in remote channels" and the title of "Best banking facility in Poland" for 19 Millennium branches. In 2020 in the Banking Stars ranking - organized by Dziennik Gazeta Prawna and the consulting company PwC - based on customers evaluation - Bank Millennium took second place in the "Customer Relationship" category. The Bank also received the main prize in the prestigious European Customer Centricity Awards competition in the complaints category. The ECAA competition organized by ARCET is one of the largest European competitions that promotes "customer centricity" and the perspective of Customer Experience in business.

7.2. RETAIL BANKING

Retail banking constitutes an important area in Bank Millennium activities. The Bank has a broad range of universal banking services and products designed for individual clients, affluent individual clients (Prestige), Private Banking and business clients. Clients have access to products and services through the branch network, internet banking, mobile and telephone banking and the network of ATMs, thereby having an opportunity to manage their finances in a convenient and safe way.

In 2020, the implementation of client acquisition targets proceeded in line with strategic assumptions, however its dynamics, specifically in physical channels, was affected by the pandemic both in Poland and worldwide. From the beginning of the year the Bank increased its active client base by 61.2 thousand. As on 31 December 2020, the Bank provided services to more than 2.63 million active retail clients. Altogether 2.05 million clients were active electronic banking users, while the mobile app was used by 1.66 million clients (annual increase by 18%).

Personal account

The sale of current accounts in 2020 was almost 380 thousand. The key product in support of new client acquisition was the Konto 360° account, for several years now one of the most preferred

personal accounts in Poland. In 2020, the number of Konto 360° accounts in the Bank portfolio exceeded 1.72 million, with a definite majority opened by clients who had not yet used personal accounts in Bank Millennium. After 3Q20 the Bank came 6th in the market in terms of growth of new accounts for individual clients, with a market share above 7% (according to PRnews report).

The promotion of Konto 360° accounts in 2020 was supported by:

- new rounds of advertising campaigns on TV channels and the Internet;
- promotional activities involving the use of the goodie shopping app and in cooperation with external internet portals - almost 26% personal accounts were acquired online;
- new rounds of the „Like it! Share it” referral programme, under which you may receive attractive prizes for recommending Konto 360° or Konto 360° Student to others. In 2020 almost 240 thousand clients registered in consecutive rounds of the programme.

Savings/investment products

Year 2020 was very challenging for the Bank in terms of deposit base management. The Bank's results in the savings area were largely impacted by interest rate cuts of the Monetary Policy Council in response to the COVID'19 outbreak. The reference rate dropped in total by 1.4 pp. (from 1.50% to 0.10% due to the MPC decision of 17 March, 8 April and 28 May).

The Bank took decisions to lower interest on term deposits and savings accounts. From March to June a number of decisions were taken on successive interest rate cuts on all savings accounts (main changes of interest rates in June, July and September) and term deposits (main changes of interest rates in April and June).

No possibility of interest rate cuts on current accounts (interest at the level of 0%), while interest rate cuts on savings products did not fully compensate for cuts in market interest rates.

Despite the cuts in interest rates and continued record-low interest rates, both nominal and real (due to inflation), the deposit market for retail clients went up in 2020 by PLN71.1 billion, i.e. by PLN0.3 billion more than in 2019 (growth by PLN70.8 billion).

The growth of retail deposit volumes at Bank Millennium in 2020 was PLN1.96 billion (PLN0.78 billion without Business segment clients) and occurred mainly on current accounts (+PLN8.4 billion). The volume on savings accounts went up by PLN5 billion with a drop of term deposits by PLN6.4 billion.

Business activities with respect to savings products in 1H 2020 focused on adjusting the interest on products to successive interest rate cuts by the MPC and relevant communication to clients, and in 2H20 on acquiring and retention of volumes among others through campaigns, expanding the group of addressees for savings products retention offers or additional promotions on selected savings accounts.

In investment products the Bank continued its strategy of offering a diversified portfolio of investment products including both own solutions and products offered by external partners. Depending upon the client segment the offer included structured products, mutual funds, insurance/investment products and bonds.

In response to changes in the economic environment connected with the outbreak of the COVID-19 pandemic the Bank focused on the digitisation of the investment product offer. In 2020 the Bank made available the possibility of opening and processing the Millennium Investment Programme with Millennium TFI Funds in internet banking channels. In addition, this Programme together with the structured deposit were first two investment products offered in the Bank's mobile application.

In order to make its offer more attractive, the Bank launched regular promotional campaigns of funds focusing on lowering sales commission. A special strategy was also introduced of rewarding the use of remote channels through a reduction to 0% of sales commission for Millennium TFI units purchased through Millenet.

Cash Loans

The beginning of 2020 began in line with business expectations, but nevertheless, the positive development of the sales situation was disrupted already in March by the limitations related to preventing the spread of the COVID-19 pandemic. Despite the situation, which throughout 2020 was characterized by high volatility in terms of a decline in consumer sentiment indicators, a reduction in demand for new financing and restrictions related to the availability of bank branches for customers, sales throughout the year reached the value of PLN4.6 billion, thanks to which the market share in sales remained stable compared to the previous year (10.66% in 2020 compared to 10.68% in 2019).

At the same time, the bank recorded an increase in the portfolio of cash loans by 2% y/y which allowed to achieve a market share in the size of the loan portfolio at the level of 8.51% (increase by 0.1 pp y/y)

In response to the limitations of customer service in traditional channels, the Bank adapted the sales processes of loan products to the new situation and prioritized sales in remote channels. This had a significant impact on the increase in loan sales in 2020 in digital channels (59% share of digital channels in sales in 4Q20 compared to 52% in 4Q19).

The Bank also supported its clients by offering credit holidays (suspension of loan repayments) for clients who needed help in paying off their liabilities.

In 2Q20, the Bank was one of the first on the market to introduce the possibility of confirming the client's income during the cash loan application process, based on the account history at another bank. The solution is based on the mechanisms introduced by the PSD2 directive.

In 2020, the sale of a cash loan was supported by special offers:

- the offer "PLN120 instalment for each PLN5,000 loan" for loans in the amount of PLN5,000, PLN10,000, PLN15,000 or PLN20,000 granted for a period of 58 months with an instalment known in advance of PLN120, PLN240, respectively, PLN360 or PLN480.
- continuation of the offer for employees of the financial sector

Overdraft

The year 2020 can be described as a year of stable portfolio growth, maintaining an attractive offer and operating in unfavourable conditions caused by the COVID-19 pandemic. Despite the challenges, the Bank maintained its strategy of developing a competitive offer and sales process. The sale was supported by the following actions:

- the "Overdraft for PLN 0" offer addressed to new customers of the Bank, enabling the use of the product in the first year without additional costs - the commission for activating the limit is PLN0. These conditions are among the most attractive on the market.
- 7-day interest-free period, which allows you to use the limit without incurring interest costs in each settlement month.

Payment cards

Acquisition results and transaction rate for payment cards in 2020 were strongly affected by COVID-19 constraints, which resulted in a smaller mobility and activity of card users.

In terms of credit card acquisition, after a drop of sales at the beginning of the pandemic, in the next months the situation returned to the level from before the lockdown, thanks to numerous sale supporting campaigns. In Q4 2020 the Bank's actions focused on acquiring cards with higher credit

limits and higher revenue potential. Consequently, the end of the year brought a drop in the number of sold credit cards and simultaneously an improvement of qualitative parameters of new cards.

Thanks to intensive marketing activities in 2020 the Bank achieved a growth on the credit card portfolio by over 12 thousand cards (2.6%). The dynamics of portfolio growth was higher than changes in the market, where the number of credit cards fell by over 5%. At the end of 2020 the credit card portfolio was 477 thousand cards. Flagship products continued to be Impresja and Alfa cards, which provide their holders with a 5% cashback for spending at the Partners of such cards.

The number of debit cards went up along with the growth of the number of personal accounts, where the main sales product was the debit card issued for the Konto 360 account. The debit card portfolio in the Bank at the end of 2020 reached over 3 million cards, which means its y/y growth by 145 thousand (+5%).

At the end of 3Q20 Bank Millennium's market share in the number of issued cards was 8.7% for credit cards (vs. 8.0% at the end of 2019) and 8.3% for debit cards. In terms of the value of card transactions the share was at the level of 9.3% for credit cards and 7.7% for debit cards.

Mortgage Banking

2020 was a record-high year for Bank Millennium both in terms of the volume of newly concluded agreements for a mortgage loan and for disbursed loans. The Bank significantly increased its market share, which was 12.2% for the whole year (data acc. to SARFIN ZBP), which constitutes significant growth - by 4.5 percentage points - compared to the previous year. The Bank concluded 24.8 thousand new agreements totalling PLN7.2 billion (y/y increase by over 53%). At the same time the value of disbursed loans was PLN6.8 billion.

Throughout the year the Bank was actively working on making its offer more attractive and refining the lending process in terms of efficiency. The purpose of process improvements was to shorten the credit application process time through introducing the possibility of transferring applications by brokers cooperating with the Bank in the form of scans, enabling the preparation and printout of the application for information about a loan from the Bank's system and supporting the client in the process of obtaining a property valuation, which is one of the documents necessary to apply for a loan. Additionally, in order to ensure that the client receives information about the submitted application on an on-going basis, the Bank introduced a system of informing the client about the status of applications via the mobile app and text messages. This solution is available both for persons who are bank clients and for those who are not such clients yet. All these innovations were very well received by clients and partners, which is confirmed by the Bank's lending results. Also, the Bank conducted a large-scale process of training in the construction of the product, credit process, reminding this way how to clearly, faithfully and transparently communicate the details of the offer available to the client.

The Bank's lending activities, like in the previous year, were based on the offering of an unconditional 0% loan origination fee and 0% early repayment fee. The price offer was kept at a stable level in main LTV buckets, even in the difficult pandemic period.

During the pandemic the Bank offered to its clients support in the form of loan repayment holidays, i.e. suspension of loan instalment repayments.

In 2020 the Bank continued its activities in the scope of offering special terms to CHF borrowers i.e. conditions involving currency conversion, repayment of the loan in part or in full. It continued to conduct proactive negotiations on the exchange rate and loan parameters after currency conversion or partial loan repayment, which involved a customised approach to the client's situation and their expectations.

Bancassurance

In 2020, the Bank continued offering life and non-life insurance in various distribution channels, bank branches as well as all remote channels, which became more and more important in pandemic situation. The Bank's clients could use a wide range of insurance products offered by Bank Millennium in cooperation with many insurance companies. The distribution of insurance related to cash loans and mortgage products had significant share in the revenues from bancassurance. In 2020, customers could take advantage of many special offers, including the promotion "Get PLN100 for buying a car insurance at Millennium Bank", "With more insured, you get twice".

Prestige and Private Banking segment - offer for affluent clients

Prestige is an offer designed for affluent persons having assets from PLN100 thousand to PLN1 million or making monthly payments into an account in the minimum amount of PLN10,000. Private Banking addresses the needs of the most affluent individual clients having assets above PLN1 million, expecting high quality service and offers of financial products tailor-made to meet their individual needs. The Bank offers to these clients a broad range of investment products and insurance/investment products - domestic and foreign investment funds (mutual funds), investment programmes, structured products and selected corporate bonds. Private Banking clients can use credit cards Millennium MasterCard® World Signia/Elite™ with access to the World MasterCard Rewards programme, World/Elite Privileges Partnership Programme, insurance package, as well as Assistance and Concierge packages.

In 3Q20 the Bank added to its offer a new investment fund company, Templeton Asset Management (Poland) Towarzystwo Funduszy Inwestycyjnych S.A. The new offer of funds was made available to Private Banking Clients who were given access to Franklin Templeton Luxembourg funds investing in various classes of assets, as well as funds investing in specific sectors, such as new technologies or innovations, as well as natural resources. Thanks to expanding the offer clients will now also be able to draw on the many years of experience of Franklin Templeton as regards investments on developing markets by means of a series of regional and global emerging market funds. Most of the funds are available in PLN, USD and EUR.

As on 31 December 2020 Bank Millennium had 34.6 thousand active Prestige clients and more than 4.1 thousand active Private banking clients.

Business client segment - offer for business clients

Business is an offer addressed to sole traders and civil law and commercial law companies generating annual revenues up to PLN5 million.

In 2020 over 26 thousand new business accounts were opened thanks to:

- possibility of opening business accounts in the Millenet internet banking system for new and existing retail clients of the Bank. In 2020 the Bank made available the possibility of remotely setting up a business account with the use of open banking. Thanks to the implemented solutions 30% of business accounts were opened online.
- functioning of special offers for clients opening online bank accounts.
- increasing the level of cross-selling to business accounts in the Bank's branches.

The Bank offers to its Business Clients a broad range of transactional and credit products including, in particular, an attractive leasing offer and state-of-the-art internet and mobile banking.

In 2020 the value of loans to Business segment clients was over PLN165 million. The use of *de minimis* guarantees of Bank Gospodarstwa Krajowego increased considerably.

At the end of December 2020 the portfolio of business loans in the Business segment was over PLN495 million.

As of 31 December 2020 the number of active clients of the Business segment was almost 104 thousand, which means a growth by 17% compared to the end of the previous year.

Millenet and mobile app - new initiatives and improvements for individual clients

Bank Millennium's digital channels provide easy access to financial services and many non-banking options. The offer available in the mobile application and internet banking system is constantly expanded to provide new convenient and helpful solutions in line with the customer-centred approach. Digital channels users' opinions are constantly monitored and clients are included in the process of creating new services. At the same time, the Bank remains flexible and vigilant to react immediately to the changing business and social environment. The Bank cooperates with partners from the public administration, fin-tech and other industries, and implements innovations, e.g. using the artificial intelligence or biometrics.

In the face of the COVID-19 pandemic and the lockdown, the Bank was able to support its clients and maintain business continuity, ensuring access to services and product offer without leaving home. At the same time, work on projects aimed at full digitization of services, additional opportunities in the area of client self-service, as well as digital education of clients and active promotion of electronic banking, with particular emphasis on people who have used it to a limited extent or not at all. In 2020, the number of active users of electronic channels exceeded 2 million.

The year 2020 was also exceptional due to the changes resulting from the EU directive PSD2. Taking full advantage of the opportunities offered by the new regulations, from the beginning of the year, the Bank developed open banking services. It was possible to offer clients a full picture of their finances, also in other banks, but also to take the existing services to an even higher level.

At the same time, while introducing the changes required by the European Union, the Bank put emphasis on minimizing the resulting discomfort for customers as much as possible. The most noticeable for customers were the changes in online card payments using the 3-D Secure service. A new process was designed with the use of strong authentication for customers using SMS P@sswords and the migration of customers with an active application to mobile authorization (meeting the requirements imposed by the directive) was carried out.

An important decision, responding to the needs of customers using mobile banking, was starting cooperation with Huawei and making the Bank Millennium mobile application available in AppGallery at the end of 2020. Adaptation of the application to Huawei Mobile Services is planned for the first quarter of 2021.

Digitalisation and daily banking

Bank Millennium refreshed several of the most popular services, such as transfers or applying for a cash loan, and introduced new solutions in online services, including investment products. Services in electronic channels, such as transaction authorization using a mobile application, have been included in the branches.

In addition, during the lockdown, educational activities were strengthened to support customers in using online channels. In response to the increased need to use online services during the pandemic, a website was created to help clients to start using bank service on their computers and smartphones: www.bankmillennium.pl/pierwszykrokonline. At the same time, the "First step online" campaign was launched in branches and ATMs. Digitization activities were part of the strategy of the entire Bank. Also branch employees (with the help of Digital Ambassadors) proactively support clients in taking their first steps in electronic banking.

New transfer form. Bank Millennium refreshed the service most frequently chosen by customers in electronic banking, which is domestic transfer. The introduced changes allow clients to make payments even faster. One of the most important is the form itself, which has been simplified to three fields. The form dynamically develops as the filling progresses. At the same time, it reduces the amount of data needed to enter it to a minimum.

New cash loan process. Bank Millennium refreshed the process of applying for loan products in line with the omnichannel approach. Clients can apply for additional funds through any channel, fully remotely or hybrid - online with the support of an employee of the hotline or facility. The process aggregates in an improved form, on one application, the existing options, such as remote consent of the spouse or consolidation of external loans, and soon also, for example, solutions facilitating the adjustment of the loan amount and instalment amount to the client's financial capabilities. In addition, the solution in Millenet and mobile app got a modern and more intuitive design.

Mortgage application status. In Millenet and the mobile application, the customer can check the progress of the submitted mortgage application at any time. Additionally, they receive a notification each time the status of the application changes. In addition, the Bank has made available an extra layer for the mobile application that allows viewing the application for non-customers. The functionality also enables an easy way of online contact with the Bank's employee processing the application. This was the first stage of the Bank's mortgage digitization project.

Investment products available online. Bank Millennium has enabled clients to invest their money via internet banking and mobile app. Clients can purchase the Millennium Investment Program or open a structured deposit from a computer, tablet or phone. In both processes clients can complete the MIFID questionnaire and better adjust the products to their capabilities, knowledge and experience.

Opening an account with a selfie. Bank Millennium has given new customers the ability to open a personal account using confirmation of identity based on photos of an ID card and a selfie. An account is created in a few minutes, without the need to contact a consultant or print documents. Instructions on how to start using electronic channels are sent to the e-mail address of the new customer.

Recovering login data. In order to make it as easy as possible for customers to log in to the account, Bank Millennium has made available on its website the process of secure data recovery for logging into internet banking (login and password).

Mobile Authorization in branches. As part of the omnichannel approach, Bank Millennium has made available the possibility of confirming some of the transactions carried out in branches using Mobile Authorization. Thus, the customer, instead of signing the paper confirmation, approves it on the phone using the Bank Millennium mobile application.

Credit holidays. In response to the economic situation caused by the pandemic, Bank Millennium provided individual customers with an online application for suspension of loan instalments repayment for three months, and then the possibility of extending loan holidays by another three months.

Transaction limits. In response to customer expectations, we have added the option to set Mobile limit and BLIK limits in the mobile application. In addition, the maximum daily transaction limits in Millenet and the mobile application have been increased.

System working 24/7. Bank Millennium extended processing of operations at night. Thus, own transfers ordered during these hours will immediately be on the indicated accounts, and external transfers are posted on an ongoing basis. The opening or termination of a deposit and investment products is immediately visible on the account, regardless of the time at which the client makes the instruction.

Changes in live chat. Bank Millennium has started a project to improve the operation of live chat, which is the most-chosen communication channel, especially in the mobile application (an average

of 25,000 chats per month, which is approx. 50% of all, including those in Millenet and on the portal). A new platform has been implemented, fully integrated with the Customer Service System in the Contact Center. This change also has a positive effect on the work of consultants who have gained additional tools, including for advanced management of the ticket queue. In 2021, this customer service channel will become an even more important element of the app, as customers will be able to initiate a chat with a consultant from the level of various processes, e.g. applying for a cash loan.

Development of open banking services

After the entry into force of the EU PSD2 directive, banks could offer their clients a more complete picture and control of their finances. In line with the strategy of building a financial management platform in digital channels, Bank Millennium has been successively implementing new services using the potential of open banking from the beginning of 2020.

Finance 360°. As one of the first banks in Poland, Millennium offered the service of aggregating accounts from other banks to its own electronic banking. Thanks to the service, customers can check the balance and transaction history of their accounts in nine largest Polish banks by logging in to the Bank Millennium account.

Possibility to initiate payments from accounts in other banks. Bank Millennium was the first bank in Poland to offer a service allowing customers to order transfers from their accounts in other banks via Millenet. Currently, the service is available for six banks.

Confirmation of income when applying for a cash loan. The Bank has launched an omnichannel service that allows customers applying for a loan to confirm their income by logging into another bank in Bank Millennium's electronic channels. The service is available for accounts in eight banks.

Confirmation of identity when opening Mój Biznes business account for entrepreneurs running a sole proprietorship (new to Bank). To confirm their identity, all the clients need to do is log in to an account at another bank. Currently, the solution is available for six Polish banks, but more will be added gradually. This is the first such application of open banking for clients in Poland. Additionally, the application is partially automatic thanks to downloading data from the central register (CEIDG). The Bank's customers can easily set up a business account from the level of electronic channels.

Projects with public administration

Bank Millennium has been cooperating with government agendas for years and has contributed to building a digital society and popularizing e-administration. In the year of the pandemic, projects implemented jointly with the public administration were particularly important both for individual clients and for those running a business.

Financial Shield of the Polish Development Fund. The Bank participates in both editions of the program of distribution of funds for companies affected by the pandemic. The application process for microbusiness has been made available in the Millenet system from the level of the company account. The transfer of documents, getting the decisions and conclusion of an agreement with PFR, as well as the possibility of appealing to PFR decisions, is carried out via the banking system. Subsidy transfers are made directly to the beneficiaries' bank accounts.

Even more convenient updating of an identity document. The service is available to customers who use Polish IDs. In order to verify the entered data, the banking system communicates directly with the public administration systems. As a result, both the customer and the bank can be sure that the data has been entered correctly.

Tourist voucher. On the PUE ZUS platform, to which clients can log in via Millenet, they can pick up a travel voucher to be used for holiday trips and more. To log in to the platform, a client only needs to select MilleAdministration tab from the menu, and then PUE ZUS.

Value added services

We aim to make the Bank's electronic channels, and especially the mobile application, a platform aggregating various functions that facilitate everyday life. Therefore, we provide our clients with further services that go beyond the banking area.

Purchase of cinema tickets. Customers can check the repertoire at the nearest Helios cinema directly in the Bank Millennium mobile app, read film descriptions, select a film and venues, and then pay for tickets - the fee is charged from the current account or credit card. The purchased tickets can be presented to the cinema staff in the application. There is no need to download or print them, or log into other applications. Moreover, purchased tickets can be shared with other people (sent directly from the banking app). The customer goes through the entire process conveniently and quickly in one place.

Access to the goodie purchasing platform. The users of the mobile application can go to goodie directly from the application and conveniently use numerous promotions, as well as receive returns for online purchases made by goodie cashback.

	2020	2019	różnica
Active digital banking users	2 052 806	1 838 363	12%
Active mobile banking users	1 658 554	1 410 855	18%
Client using Mobile Authorization	1 394 169	223 060	525%
Clients using open banking (Finance 360°)	36 300	-	-

7.3. CORPORATE BANKING

Corporate Banking is a business line which provides professional and comprehensive services to companies generating annual sales revenues above PLN5 million, as well as public sector institutions and units. The Bank creates comprehensive financial solutions tailor-made to meet the unique needs of a specific client business supported by modern digital solutions shortening the time of client involvement in operational activities connected with a client's Bank relationship. Our objective is to assure the highest quality of service and the shortest reaction time on the side of the Bank. Therefore, our internal processes relating to customer service have been consistently automated. At the same time in response to environmental challenges we support our clients in their implementation of projects reducing the environmental impact of their businesses - by financing projects connected with renewable energy, innovations reducing the demand for energy and natural resources and more effective waste management.

In its 31 corporate centres the Bank employs top-class professionals guaranteeing a comprehensive service for corporate banking clients. Relationship Managers, who are the first line of contact with the client, are supported by product specialists in transactional banking, treasury products, trade finance products and leasing. Moreover, specialists in transactional systems and consultants who support our clients in operational issues are available locally. The team working with the Client is augmented by sector specialists and experts in M&A funding.

Very high customer satisfaction with the quality of service is confirmed by the results of annual internal satisfaction surveys. In accordance with a study conducted in July 2020 the bank's NPS ratio was 48 points, NPS for the Relationship Manager 78 points, while 87% of clients were very satisfied with the operational service provided by their consultants.

Support of enterprises during the pandemic

At the beginning of the pandemic we focused on the one hand on maintaining the continuity of client service and on the other on reacting to our clients' new needs connected with the changed situation relating to their business. Due to concerns for the safety of employees and clients direct contacts in the form of meetings were reduced, nevertheless the banking service was conducted to the full extent in all locations. Relationship managers, product specialists and corporate service consultants intensified in that period their contacts with clients through electronic and telephone channels, ensuring the continuity of support and banking service, as well as actively informing about assistance programmes for corporates.

Already in early April there was introduced the possibility of using a qualified electronic signature for agreements, applications and certificates relating to loan agreements and security agreements, transactional banking, factoring, trade finance and treasury products. A remote and safe circulation of bank documents was thus provided, allowing both parties to avoid potential problems with transferring paper-based documents. In Q4 2020 43% of agreements were signed with the use of an electronic signature. In parallel we observed a rise in the use of remote channels in the full scope of their functionality. The number of Millenet users went up by 12.2% and of mobile application users by 15.8%. The number of additional bank accounts opened by our clients on their own in the internet application went up in 2Q20 to 87%, and the number of cards issued remotely is at the level of 50% and cash management applications 60%. There was also growing client interest in using electronic orders to issue a guarantee and open an L/C with the use of the online trade finance platform achieving the level of 90%. The volume of transactions processed on the Forex Trader platform went up by 41% and exceeded at the end of the year PLN1 billion a month.

The number of entrepreneurs using the services of automatic integration of financial and accounting systems with Millenet Link, the bank's transactional system, grew five times. Accounting departments are provided with clear benefits, such as automatic (no need for logging into the banking system) feeding the accounting system with data on operations booked on accounts: loading statements of account, as well as downloading histories of operations at any time of a day or updating a balance.

Loan repayment holidays

June saw the implementation of the principles relating to the suspension of credit liabilities developed by the Polish Bank Association on the basis of the EBA (European Banking Authority) guidelines. The implemented solutions constituted a joint approach of the Polish banking sector to the suspension of credit and leasing instalments, and factoring settlements for enterprises which had a good financial standing, but experienced temporary problems caused by the pandemic.

The holidays were used by clients representing 2.1% of the loan portfolio.

Changes in financing programmes with BGK guarantee support available in the Bank's offer

Loans with *de minimis* guarantee, dedicated to entrepreneurs from the SME sector, were modified in connection with the pandemic in order to more broadly provide companies with access to credit. The guarantee period was extended to 39 months for working capital loans and 96 months for investment loans, the guarantee limit was increased to 80% of the loan amount (maximum 3.5 million PLN) and the BGK commission was completely abolished. The programme originally planned to end on 31 December 2020 has been extended until 30 June 2021 on even better conditions - the

maximum value of a guarantee increased to the equivalent of EUR3.5 million, while periods of lending extended to maximum 75 months for working capital loans and 120 months for investment loans, while maintaining a 0% commission for the first year of guarantee duration.

A programme of loans with a guarantee of the BGK Liquidity Guarantee Fund was introduced as an element of the government's anti-crisis shield for medium-sized and large business entities. Guarantees secure up to 80% of the principal (maximum PLN200 million), with the maximum period of duration 27 months. The programme was extended until 30 June 2021.

Medium-sized and large companies were also offered the option to conclude **factoring transactions with liquidity guarantees** provided by Bank Gospodarstwa Krajowego. The guarantee covers the repayment of the client's liability resulting from a concluded reverse factoring agreement. This guarantee can be used by enterprises as part of applying for a new factoring limit or its extension or increasing. A guarantee is granted for a period no longer than 24 months up to 80% of the factoring limit (maximum PLN200 million, however this value is the joint limit of the available liquidity guarantee for loans and factoring).

At the same time from July the bank's offer was expanded by the variant of accepting a liquidity guarantee as security for a multiproduct limit agreement covering among others a line for guarantees and LCs, as well as for a revolving loan dedicated to disbursements under guarantees and LCs granted as part of a related line for guarantees and LCs.

Another assistance instrument implemented in 2020 is the **loan with subsidies to interest**. Subsidies from the BGK Subsidised Interest Fund are granted for a period of 12 months from signing the agreement and are 2.2 pp for small and medium-sized enterprises and 1 pp for other enterprises.

PFR subsidy service

In connection with the implementation by the Polish Development Fund of the assistance programme for entrepreneurs (the so-called PFR Financial Shield) it took the Bank merely several weeks to build an electronic system for accepting applications for a subsidy, channel of automatic data transfer between the Bank and PFR, process of subsidy disbursements and consideration of complaints. The Bank actively supported its clients in the application process by sharing knowledge through dedicated www pages, webinars and Relationship Managers' direct support in clarifying all doubts connected with the process of applying for subsidies.

1,637 corporate banking clients used PFR assistance through the Bank.

Continued development of digitising and automation of transaction service processes

The Bank continues to develop electronic banking channels by implementing its client support strategy in terms of limiting and facilitating operations connected with the processing of settlements with the observance of highest security standards. There is a parallel development of both solutions based on direct interactions with users of internet and mobile banking, and host-to-host integrations allowing to automate information interchange between client systems and Bank systems.

At the beginning of the year the Bank expanded in the internet banking system the functionality to verify **information on the account in the register of the Head of the National Tax Administration** under Art. 96b of the Act of March 11, 2004 on Tax on Goods and Services, the so-called White List, enabling automatic verification in the process of submitting a transfer, also in the case of orders submitted in the so-called batches of orders. There was also added the possibility of downloading a notification to the Tax Office containing information about a transfer which the Client must provide to the Tax Office.

For clients expecting the cutting of costs and time, as well as elimination of errors through the automation of **data interchange processes in factoring services** the Bank introduced and further develops the functionality which enables direct communication between the financial accounting system of the client and the factoring system by means of network services. Thanks to this clients may report receivables for financing directly from the level of their financial and accounting system and receive in it feedback information about current settlements with counterparties.

The Bank made available to its clients a new version of the Millennium Forex Trader currency exchange platform. The new platform was created with the use of modern technology (HTML 5) enabling more convenient and faster access in any browser without installing additional software.

Also, a **new manner of authorising transactions performed on the Internet with the use of payment cards** was implemented. The 3D Secure 2.0 solution meets the 'strong client authentication' requirements, this being authorisation with at least two different elements. Corporate banking clients are given the possibility of authorising internet transactions by means of passwords received as text messages and a dedicated password, while users of cards with access to Milenet for Corporates have the possibility of authorising transactions in the same manner as they log into Milenet.

Supporting Clients in their development - educational initiatives

In the conditions of a pandemic the bank continued its education activities directed to clients, but limited them to remote forms. Numerous webinars were implemented, both organised on our own and with the bank's partners such as CFO Club, BGK, PFR or Comarch. The subjects raised during the virtual meetings related to the areas of crisis management from the point of view of the CFO, digitalisation and automation in the area of finance, working capital management during the crisis, guarantee programmes for entrepreneurs, applying for PFR subsidies, cybersecurity, as well as macroeconomic issues. The Bank also continued its cooperation with the Forbes Family Firm Forum - initiative oriented to the integration and sharing of experience between the owners and persons managing the best family businesses in Poland. Bank Millennium's monthly Bulletins were also cyclically published, containing information about legal and tax changes having an impact on the business of our clients, macroeconomic analyses and articles on selected products and services of the bank.

Financing

Despite the limited market demand for financing, the volume of all credit products - loans to finance current needs, investment loans, leasing, trade finance products and products with the participation of EU funding - remained in 2020 at the same level as last year - PLN18.6 billion net.

Despite a drop of average utilisation of credit lines to 36%, which was connected with a record-high level of funds on Client accounts, the maintaining of the volume results among others from strengthening the Bank's position in investment loans.

Factoring

In 2020 the Bank posted record-high growth rates in the factoring area. Realised factoring turnover stood in that period at PLN 23.2 billion, i.e. +10,4%. In terms of realised turnover value, the Bank was ranked 6th among the factoring institutions associated in the Polish Factors Association with an 8.0% market share. Factoring assets as of the end of 2020 were PLN2.85 billion.

Bank Millennium added to its offer a new product, Receivables Financing, in order to augment the offer of credit and factoring products whose purpose is to provide the Client with funding backed by receivables which due to their limited marketability cannot be purchased by the Bank.

Since October 2020 Bank Millennium has been also offering the option to conclude factoring transactions with a liquidity guarantee provided by Bank Gospodarstwa Krajowego. The guarantee covers the repayment of the client's liability resulting from a concluded reverse factoring agreement.

Trade finance

In trade finance a 6.3% growth was posted in the volume of granted guarantees and letters of credit, which reached the level of PLN904 million. 2020 was yet another year of growing popularity of e-guarantees; 39% of all issued guarantees were e-guarantees.

In 2Q20 there was implemented a new version of the operating system used for processing guarantees and letters of credit, whose purpose is to facilitate the issuing of guarantees and documentary letters of credit through the use of new system functionalities.

Transactional and electronic banking

Corporate banking clients have access to a comprehensive offer of transactional banking products for companies, supported by an efficient and ergonomic internet banking system, mobile app and solutions based upon web service technology and SWIFT network. With respect to transactional products and services the Bank offers solutions in support of the management of receivables collection, payment settlements, liquidity management. The high quality of offered remote services led to a consistent growth of the transactional activity of Clients.

The year 2020, due to a temporary introduction of administrative restrictions which have an impact on business operations of many sectors, showed much volatility of transactional activities. Compared to the previous year the total number of domestic settlements was maintained at the same level and the total number of foreign ones went up by 9.8%. At the same time due to a drop of retail sale and pandemic-related incentives to make cash-free payments the volume of processed cash fell 16.9% compared to the previous year (in the first quarter by 5.5%, in the second quarter by 28%, in the third quarter by 14%, and the fourth quarter by 19%). Suspending by entrepreneurs their business travels and business travel expenses in the period of the pandemic pushed down the number of business payment card transactions by almost a half. Despite transaction volatility the volume of funds on current accounts of corporates supported by assistance programmes went significantly up and achieved in Q4 a record-high average balance of PLN12.23 billion (+69.8% y/y). The total value of funds deposited by corporate banking clients at the end of the year was PLN17.44 billion (+ 2.8% y/y), while the share of funds on current accounts in the deposit portfolio at the end of December reached a record-high share of 70.8%.

Cuts of the base interest rate by 140 b.p. in the first half of the year significantly affected the deposit offer, which was adjusted to new market conditions.

Treasury activities

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

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

In 2020 a 4% decrease of FX turnover for corporate banking clients was recorded, which resulted from the pandemic outbreak and restrictions on trade, in particular in the period of 2Q and 3Q 2020 with a simultaneous growth of profitability by 4%.

In recognition of its FX treasury services Bank Millennium was hailed The Best Foreign Exchange Provider in Poland for 2021 in a competition organised for the 21st time by Global Finance Magazine.

Custodial services

Bank Millennium provides custodial services on the basis of an individual permit issued by the Securities and Exchange Commission (now the Polish Financial Supervision Authority). The Bank is a direct participant of the deposit and settlement systems such as the National Deposit of Securities (kdpw_stream), NBP Register of Securities (RPW), Euroclear Bank SA/NV (Brussels) and Clearstream Banking Luxembourg.

Custodial Department customers include domestic and foreign financial institutions (global custodial banks, banks - depositories of global depositary receipts, investment banks, asset management institutions, insurance companies, collective investment institutions, investment funds) and other legal persons actively participating in capital and money market transactions, requiring comprehensive and customised service and advanced ICT and infrastructural solutions.

In terms of the number of domestic and foreign clients entrusting us with their assets, the Bank holds one of the top spots in Poland. The total value of assets on securities accounts of customers as on 31 December 2020 reached PLN 32.5 billion.

International activity and external funding

With respect to financing obtained on the international market, last year the Bank continued its collaboration and management of agreements concluded with International Financial Institutions including, primarily, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which, as on 31 December 2020, covered as follows:

- agreement concluded with the EBRD in August 2018 on a medium term loan in the amount of 300 million PLN, granted by the EBRD under the PolGEFF (Polish Green Energy Financing for Leasing) project. Millennium Leasing is the borrower under this agreement, on the basis of a guarantee issued by Bank Millennium. Loan proceeds will be used by ML to finance leasing agreements connected with the purchase of machines and equipment contributing to the transformation of the Polish economy in the direction of the so-called 'green economy' including, in particular, in the area of energy and resource efficiency, renewable energy, water management and waste management. The loan will be paid back in full in August 2023.
- agreement concluded with the EBRD in November 2017 (by the former Euro Bank) on a medium term loan in the amount of PLN 40 million (with the option of expansion to PLN100 million), granted by the EBRD under the PolGEFF (Polish Green Energy Financing for Leasing) project. Funds from the loan have been made available to the Bank's retail clients with the allocation for the implementation of purchases connected with the replacement or upgrading of the standard of selected equipment or installation, whose purpose is to reduce the consumption of energy (electric power or heat energy) and/or water in the housing real estate owned by them. The loan will be paid back in full in November 2022.
- loan agreement concluded in December 2016 with EIB, to the amount of EUR100 million with Millennium Leasing being the borrower and allocated for supporting activities in the area of financing leasing agreements concluded with companies from the SME sector. The loan was disbursed in four tranches in the period between June and December 2018. The loan balance at year-end 2020 was about EUR41.7 million.

The Bank also continued projects connected with the multiyear process of strengthening the base of credible counterparties and partners on the interbank market, including, in particular, in the segment of instruments involving medium and long-term liquidity management in FX. One of the important aspects of the activities in the area was managing the portfolio of agreements with domestic and foreign banks (including agreements of ISDA and GMRA types) whose form requires regular adjustment to a changing regulatory environment and market standards. A considerable part of the activity was also connected with the finalisation of Brexit, broadly understood compliance issues (including growing demands in the KYC/AML area and sanctions), as well as with the identification and recognition of the structure and market of the instruments ultimately meeting the MREL criteria.

Irrespective of the above activities, in the past period the Bank performed, on an on-going basis, all other tasks connected with the overall carrying out of international operations, in areas of implementing various objectives including, inter alia, processing payments and settlements, current financing of own needs and those of Bank clients, processing foreign trade transactions, participating in international money and FX market transactions, operating on the capital market. The achievement of these objectives was supported, to a large extent, by an almost thirty-year long process of developing the Bank's cooperation with its foreign partners and counterparties. The Bank maintains ongoing contacts and relations with selected reputable correspondent banks and their units located in all important countries in terms of the structure of turnover of Polish foreign trade and non-trade transactions.

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

7.4. SUBSIDIARIES ACTIVITY

Millennium Goodie

In 2020 the goodie app, which has already been downloaded by more than 2.2 million people, saw record-breaking interest of users in online shopping and goodie cashback programme. During the past 12 months more than 2.7 million online transactions were made in goodie with cashback (+292% y/y) in the amount of more than PLN331 million (+349% y/y). Almost PLN9 million were accrued on goodie cashback accounts (+224% y/y). Since the launch of cashback in goodie 3.4 million transactions were made in the total amount of over PLN413 million, with more than PLN12 million going to the users. Significant results in 2020 were also generated by sales of gift eCards, targeted at private and business customers. No less than 30,000 were sold.

June saw the completion of work on a new version of goodie in which both the app and the www site acquired a new look, while goodie changed into an even more convenient companion to your shopping. In the new goodie it is much easier to check the balance of your own cashback account, browse fliers and offers for users of 59 different loyalty programmes. An important change in goodie programmes was a more convenient way of adding stamps for purchases and swapping them for prizes. Intensive marketing activities and cooperation with a partner - the Grycan company - led to increase of the number of stamps added in the app.

During the pandemic goodie has been supporting business partners - shopping centres - by offering free marketing tools and assistance in reaching a selected group of recipients. During operation of

the shopping centres it has also been initiating sales-boosting campaigns with prizes for shopping, including goodie eCards.

The app is continuing its cooperation with Bank Millennium, by offering gift e-Cards as well as increased cashback as an additional benefit when setting up a Konto 360° account. In 2020 it also launched goodie cashback as an integral functionality of the Bank's mobile app. Additionally in the "Razem pomagamy bardziej!" (Helping more together) campaign, businesses - customers of Bank Millennium affected by the pandemic, could get free advertising in goodie.

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 2020 amounted to PLN2.5 billion. Signing more than 244 thousand lease agreements from the beginning the company's existence for a total amount of PLN37.3 billion speaks to the company's business volume. As at 31 December 2020, the value of capital engaged in in-force lease agreements is PLN6.5 billion, signifying 5.2% decrease y/y.

As a socially-responsible organization, Millennium Leasing undertakes activities to create awareness and ensure financial profitability of energy-efficient business activity. For this purpose, 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 2020, the company used also programs organized by EBRD (PolGEFF).

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 2020, Millennium Leasing also started offering electronic signature for clients from corporate banking sector, intending to develop the sale of leasing products through Bank Millennium's electronic networks and channels.

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 62 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 2020, the company managed customer assets worth PLN 4.5 billion. At the end of 2020, Millennium funds had more than 130 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 2020, Millennium TFI, by managing funds, faced up to the threats arising from the situation related to COVID-19. Despite the unprecedentedly huge wave of redemptions on the investment fund market, in March and April, Millennium funds carried out all transactions of the Participants without any problems, maintaining the liquidity of assets throughout the period. The operational continuity of the company was also maintained. The transition to the remote work of the employees took place without disturbances for the processes.

In the first half of 2020, Millennium funds recorded a decrease in assets of a total value of PLN780 million. In the second half of the year, the value of managed assets was systematically rebuilt. At the end of the year, the assets of the funds under management reached the January level. In 2020 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.

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 2020 in cooperation with its partners, Millennium TFI actively participated in the offering of modern system tools to employers to launch and operate Employee Capital Schemes in the 2nd and 3rd phase of the program.

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 33 thousand customers, with the total asset value of PLN400 million. At the end of 2020, the total value of assets invested in various savings products was approximately PLN1 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 2020, Millennium DM's turnover on the equity market was PLN 3.46 billion, giving the company 0.6% market share according to the Warsaw Stock Exchange's data. As at 31 December 2020 Millennium DM had provided services to 24.8 thousand investment accounts and acted as a market maker and as an issuer's market maker for companies listed on the Warsaw Stock Exchange.

In 2020, Millennium DM also acted as an intermediary in three stock buyback campaigns of public companies. As a member of a distribution consortium, Millennium DM also participated in several new issues of shares, including the initial public offering of Allegro.

In 2020, 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 capital group, as well as research related to specific sectors, public and private companies.

8. RISK MANAGEMENT

8.1. 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 appetite), 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.

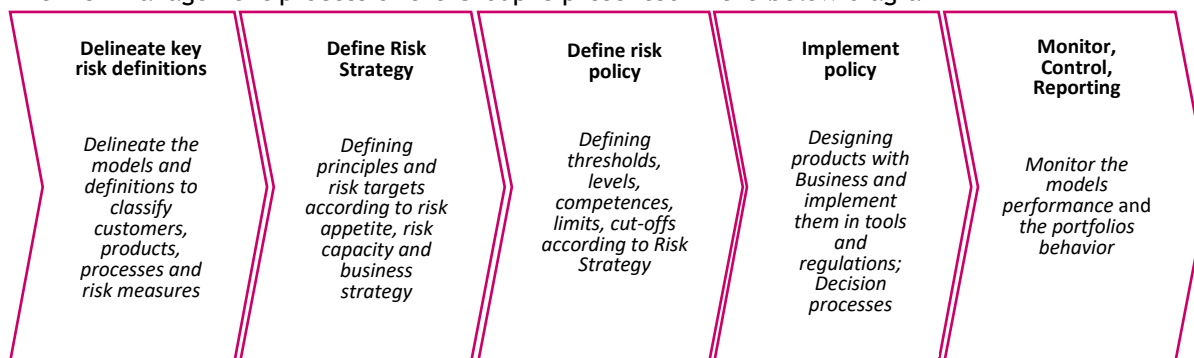
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk appetite) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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. Legal and litigation risk also are subject to specific attention;
- 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 Appetite;
- 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 Sub-Committee for Court Cases is responsible for expressing opinions and taking decisions in matters regarding court proceedings, for the cases when value of the dispute or direct effect for assets value as a consequence of court verdict exceeds 1 mln PLN or as result of multiple cases with the same nature, , excluding cases belonging to the restructuring and recovery portfolio of Bank's receivables managed by the Corporate Recovery Department and Retail Restructuring and Debt Collection Department. The Litigation Risk Sub-Committee is also competent for disputes in the portfolio of the Retail Restructuring and Debt Collection Department, which the nature of the dispute corresponds to the nature of court disputes supervised by the Court Cases Risk Sub-committee referred to in the first sentence above and matters relating to the determination of terms of settlement as to the effects of legal relationships at the pre-trial stage or in circumstances indicating a significant likelihood of litigation, and if materialized, would fall within the competence of the Court Cases Risk Sub-committee, excluding cases managed by Corporate Recovery Department;
- 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;
 - The Anti-fraud Sub-unit has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. The Sub-unit 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 Legal Department has responsibility for handling the litigation cases of the Bank, with support of external legal offices and legal experts whenever necessary.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2021-2023". 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 appetite,
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 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
- k. Program of counteracting Anti-Money Laundering and financing terrorism.

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.

8.2. 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 and December 2020 in the level of 3.41pp (Bank) and 3.35pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.56pp in Bank and of 2.52pp in Group, and which corresponds to capital requirements over CET 1 ratio of 1.91pp in Bank and 1.88pp 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 0.25%, and the value is set by KNF every year**;
 - Systemic risk buffer at the level of 0% in force from March 2020, in line with Regulation of Ministry of Development and Finance;
 - 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 2019, to maintain own funds for the coverage of additional capital requirements at the level of 4.96pp (Bank) and 4.87pp (Group) as for TCR, which should have consisted of at least 3.72pp (Bank) and 3.65pp (Group) as for Tier 1 capital and which should have consisted of at least 2.78pp (Bank) and 2.73pp (Group) as for CET1 capital*

*(**) In November 2020 KNF issued the decision on identification the Bank as other systemically important institution and imposing OSII Buffer*

The below table presents these levels as at 31 December 2020. The Bank will inform on each change of required capital levels in accordance with regulations.

Minimum levels of capital ratios		31.12.2020	
CET1 ratio		Bank	Group
Minimum		4.50%	4.50%
Pillar II RRE FX		1.91%	1.88%
TSCR CET1 (Total SREP Capital Requirements)		6.41%	6.38%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.25%	0.25%
Systemic risk buffer		0.00%	0.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		2.75%	2.75%
OCR CET1 (Overall Capital Requirements CET1)		9.16%	9.13%
T1 ratio		Bank	Group
Minimum		6.00%	6.00%
Pillar II RRE FX		2.56%	2.52%
TSCR T1 (Total SREP Capital Requirements)		8.56%	8.52%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.25%	0.25%
Systemic risk buffer		0.00%	0.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		2.75%	2.75%
OCR T1 (Overall Capital Requirements T1)		11.31%	11.27%
TCR ratio		Bank	Group
Minimum		8.00%	8.00%
Pillar II RRE FX		3.41%	3.35%
TSCR TCR (Total SREP Capital Requirements)		11.41%	11.35%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.25%	0.25%
Systemic risk buffer		0.00%	0.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		2.75%	2.75%
OCR TCR (Overall Capital Requirements TCR)		14.16%	14.10%

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 measurable 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 2020, 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 2020 was as follows:

Capital adequacy measures (PLN million)	31.12.2020 Group	31.12.2019 Group	31.12.2020 Bank	31.12.2019 Bank
Risk-weighted assets	51 138.0	48 124.6	50 757.4	47 267.6
Own Funds requirements, including:	4 091.0	3 850.0	4 060.6	3 781.4
▪ Credit risk and counterparty credit risk	3 677.0	3 495.2	3 688.3	3 455.8
▪ Market risk	26.7	24.2	26.6	24.2
▪ Operational risk	382.6	326.9	340.7	297.7
▪ Credit Valuation Adjustment CVA	4.8	3.6	4.9	3.7
Own Funds, including:	9 969.0	9 668.5	9 726.6	9 454.5
▪ Common Equity Tier 1 Capital	8 439.0	8 138.5	8 196.6	7 924.5
▪ Tier 2 Capital	1 530.0	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	19.49%	20.09%	19.16%	20.00%
Minimum required level	14.10%	18.37%	14.16%	18.46%
Surplus(+) / Deficit(-) of TCR ratio (pp)	+5.39	+1.72	+5.00	+1.54
Tier 1 Capital ratio (T1)	16.50%	16.91%	16.15%	16.77%
Minimum required level	11.27%	15.15%	11.31%	15.22%
Surplus(+) / Deficit(-) of T1 ratio (pp)	+5.23	+1.76	+4.84	+1.55
Common Equity Tier 1 Capital ratio (CET1)	16.50%	16.91%	16.15%	16.77%
Minimum required level	9.13%	12.73%	9.16%	12.78%
Surplus(+) / Deficit(-) of CET1 ratio (pp)	+7.37	+4.18	+6.99	+3.99
Leverage ratio	8.30%	8.11%	8.06%	7.94%

As at 2020 end, capital adequacy in Bank Millennium Group remained on very high and safe level. Total Capital Ratio stayed at year end at 19.49% level for the Group (19.16% for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 16.50% for the Group (16.15% 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 0.6pp (by 0.8pp for the Bank). It was caused by a faster risk-weighted assets than own funds growth. In 2020, risk-weighted assets of the Group went up by ca PLN3bn (i.e. by 6.3%), mainly as a result of a loan portfolio growth. The Group's Own Funds rose by ca PLN300mn in 2020, mainly as a result of retention of net earnings (net earnings for the second half of 2019 amounted to PLN227mn).

Bank Millennium has a dividend policy of distributing from 35% to 50% of net profit, subject to regulatory recommendations. In December 2020 KNF presented its position in the matter of dividend policy of banks (and other entities) in 2021 with recommendation on suspension of a dividend payment in the first half of 2021 and in January 2021 KNF sent the individual recommendation to the Bank Millennium on suspension of a dividend payment in the first half of 2021.

Based on the above recommendations and position of PFSA, considering a uncertainty in business activity due to COVID-19 pandemic, and also seeing the need to assure a reliable capital support for growth of business activity and existing operational/legal risks, the Management Board of the Bank will submit to AGM a proposal of full retention of 2020 net profit in Bank's own funds.

Leverage ratio stood at the safe level of 8%-9%, with small periodic changes and considerably exceeds a value deemed as safe (3%).

In a long perspective, capital adequacy level of Bank and Group is evaluated as satisfactory.

According to the announcement of the Bank Guarantee Fund, the mid-term MREL targets set for the end of 2020 are not considered obligatory by the Fund, and in the next planning cycle the Fund will apply both the extended target date, i.e. January 1, 2024, as well as indicate the date of meeting the first binding mid-term target - January 1, 2022. The bank expects to receive updated MREL requirements in the 2nd quarter of 2021.

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 2020".

8.3. 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 2020 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 2021-2023;
- adapting the Group's activities to changed conditions caused by the COVID-19 coronavirus pandemic;
- optimised the methodology, tools and processes of credit risk management for retail and corporate clients;
- updated sector risk classification and limits.

In the retail segment, special attention was paid to the implementation of changes in the area of credit policy consisting in adapting to the market situation during the COVID-19 coronavirus pandemic and further digitization of credit processes. At the same time, the focus was on development in the area of mortgage loans.

In the corporate segment, the Group initially focused on activities aimed at improving and accelerating credit processes, including decision-making processes. As in previous periods, work continued on improving IT tools supporting the credit process. The outbreak of the COVID-19 coronavirus pandemic led the Group to take several risk measures. In the corporate segment in the first half of year the Group has focused on portfolio and industry analyses to identify major risks, namely focusing on the top 250 clients with the highest exposures and on the economic sectors more exposed to impacts of the COVID-19 pandemic. The other area of Bank's interest was analyses of legal regulations, as well as adaptation of internal regulations, credit processes and monitoring to changed credit conditions for clients.

In the corporate segment, the sector and credit policy was updated. The group offered credit holidays to corporate clients who had temporary financial problems resulting from the COVID-19 coronavirus pandemic and allowed corporate clients to take advantage of support measures introduced by local authorities (BGK guarantees, interest subsidies). In the second half of the year, the Group continued strict monitoring of the credit portfolio as well as individual monitoring of the largest exposures. Work on the improvement of monitoring and credit processes, including decision-making processes, was continued - in particular, credit competencies were verified and updated. The Group has also adapted regulations, processes and IT systems to service entrepreneurs - consumers.

All of the above changes in both the retail and corporate segment enabled the Group to maintain the risk at an acceptable level defined in the Risk Strategy as well as prepared the Group to new challenges and to act in changed conditions.

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 2020 on the level of 4.95%. This means a slight increase from 4.56% a year ago, but when looking into its evolution during this year in the scope 4.7% - 4.85% we can observe stabilisation in this area including significant growth just in December due to reclassification of significant exposures from corporate sector to stage 3. 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 2.69% in 2019 to 2.74% in December 2020.

Coverage ratio of impaired loans, now defined as relation of all risk provisions for stage 3 loans and POCI in default, has increased during the year from 62% in December 2019 to 66%. Coverage by total provisions of loans past-due more than 90 days also increased from 106% one year ago to 119% now.

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

Group loans quality indicators	31.12.2020	31.12.2019
Total impaired loans (PLN million)	3 792	3 276
Total provisions (PLN million)	2 489	2 046
Impaired over total loans ratio (%)	4.95%	4.56%
Loans past-due over 90 days /total loans (%)	2.74%	2.69%
Total provisions/impaired loans (%)	65.7%	62.45%
Total provisions/loans past-due (>90d) (%)	118.8%	105.8%

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

Impaired loan ratios by segment show an upward trend both in the retail portfolio from 4.7% to 4.9% (only mortgage portfolio had a decreasing characteristics from 2.53% to 2.48%), as well as in the corporate portfolio, in which the ratio increased during the year from 4.1% to 5.1% (in leasing portfolio reported growth equalled to 0.35pp while for other corporate portfolio it was +1.31pp). Last year, the value of foreign currency mortgage loans decreased by app. 3% year-on-year (in PLN terms). Additionally, it should be noted that ex-Euro Bank mortgage portfolio, in amount app PLN1 billion, enjoys a guarantee and indemnity from Société Générale. Excluding this portfolio, the share of FX mortgage loans in the total loan portfolio fell from 19.2% to 17.4%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN.

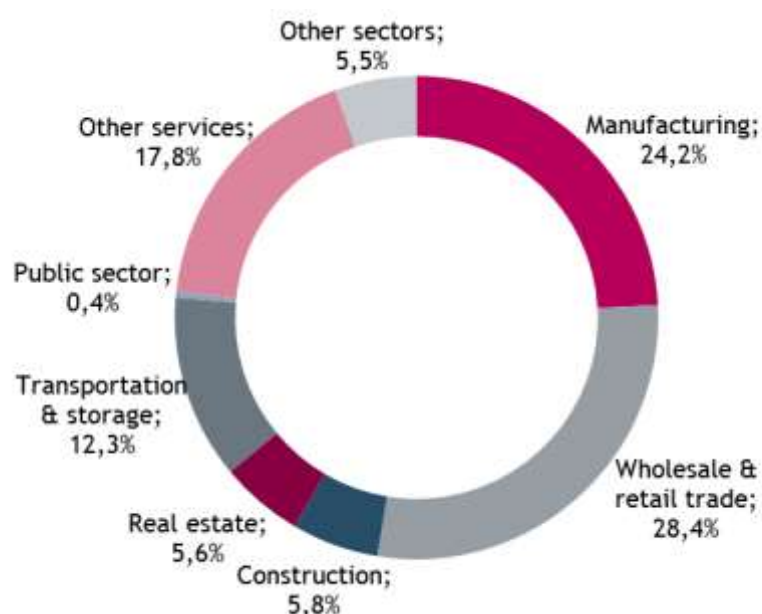
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
<i>Mortgage</i>	1.00%	1.19%	2.48%	2.53%
<i>Other retail*</i>	7.30%	6.31%	10.70%	9.51%
Total retail clients*	2.86%	2.79%	4.90%	4.71%
<i>Leasing</i>	2.16%	2.28%	4.47%	4.12%
<i>Other loans to companies</i>	2.44%	2.51%	5.46%	4.15%
Total companies	2.34%	2.42%	5.11%	4.14%
Total loan portfolio	2.74%	2.69%	4.95%	4.56%

(*) incl. Microbusiness, annual turnover below PLN5 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 of The 10 largest exposures remain at a safe, low level of 5.0% (increase in 2020 from 4.1%).

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



8.4. 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.

Within the current market environment, the Group continued to act very prudently. The strong market volatility in connection with the global COVID-19 pandemic resulted in increase of the Group's market and interest rate risk.

In 2020, open positions included just interest-rate instruments and FX risk instruments. In 2020, the VaR for the Group, that is jointly Trading Book and Banking Book, increased due to market volatility caused by the COVID-19 pandemic but still were below maximum limits in place. In 2020 the VaR indicators for the Group remained on average at the level of PLN72.5 million (29% of the limit) and PLN96.9 million (39% of the limit) as of the end of December 2020. FX open position (Intraday as well as Overnight) remained below 2% of Own Funds and well below the maximum limits in place.

In 2020, 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).

The supervisory stress tests results as at December 2020 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 results of COVID-19 pandemic and its negative impact on the economic environment, as well as the reductions of the reference rates by the Monetary Policy Council at its meetings on 17th March, 8th April 2020 and 28th May 2020 had a negative impact on the activity and financial results of the Group. Before above mentioned three interest rate cuts, the NBP Reference rate was set at 1.5%, so that the maximum interest rate for loan portfolio could not exceed 10% annually. On March the maximum interest rate dropped immediately to 9%, in April to 8% and then in May to 7.2%.

The above-mentioned decisions of the Monetary Policy Council to reduce interest rates to its historical minimum (decrease reference rate to 0.10% and the Lombard rate to 0.50%) as well as the decision regarding change in the parameters of the obligatory requirement, had altogether a significant negative impact on the Group's net interest income. The cumulative decrease in net interest income for 2020 compared to the annualized level of 4Q19 amounted to a total of PLN223 million or 8%. Mainly due to the quick remedial actions taken by the Bank, the negative impact was eventually smaller than already disclosed estimates published on the Current Reports published on 14th April and 2nd June 2020 (PLN240 million to PLN285 million) but nonetheless, ceteris paribus, it resulted in lower NII than would otherwise have been achieved.

In such a low interest rate environment in Poland, the results of sensitivity of NII for the next 12 months after 31st December 2020 and for position in Polish Zloty in Banking Book in a scenario of further decrease of interest rates by 100bps, is negative and equal to -16.7% of the annualized 4Q 2020 net interest income (+9.9% for a 100bps increase). The asymmetrical impact is connected mainly with the specificity of the Polish legal system mentioned above with simultaneous limitation on further decrease on deposits side (minimum interest rate set at 0%). The NBP Reference rate is currently set at 0.10%, so that in case of decrease by 100bps the maximum interest rate for loan portfolio could not exceed 5.2% annually in comparison to currently valid 7.2%. In order to limit negative impact on NII sensitivity in case of further interest rate decrease, the interest rate swaps were concluded in 4Q 2020.

The impact on net interest income in the next 12 months after 31st December 2020 (based on annualized 4Q 2020 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	31.12.2020	31.12.2019
parallel yield curve increase by 100bp	+9.9%	+1.2%
parallel yield curve decrease by 100bp	-16.7%	-3.4%

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 2020.

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 2020, the COVID-19 pandemic had an impact on global financial markets resulting in depreciation of Polish Zloty, limited confidence among market participants through lower possibilities of financing as well as a temporary, sharp decline in activity on the treasury securities market. Despite COVID-19's implications observed in the market mentioned above, the Bank did not observe any threat to its liquidity position due to the spread of COVID-19. The Group continued to be characterized by solid liquidity position.

The liquid 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. At the end of 2020, the share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 98% and allowed to reach the level of approx. PLN18.4 billion (19% of total assets), whereas at the end of December 2019 was at the level of approx. PLN22.5 billion (23% of total assets), (see Table below).

Main liquidity ratios	31.12.2020	31.12.2019
Loans/Deposits ratio (%)	91%	86%
Liquid assets portfolio (PLN million)*	18 250	22 795
Liquidity Coverage requirement, LCR (%)	161%	171%

(*) *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. According to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR); the Group is calculating the liquidity coverage requirement (LCR). The regulatory minimum of 100% for LCR valid in 2020 was compiled by the Group (as of the end of December 2020 the LCR reached the level of 161%). The measure is calculated daily and has been reported on the monthly basis to NBP since March 2014. Internally, the LCR is estimated daily and reported to the areas responsible for the management and control of the liquidity risk in the Group.

In 2020, 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 2020 all the liquidity gaps were maintained positive however, in time buckets below 1 month, temporary below the minimum limits. The Group adopted very conservative limits of 12% of the balance sheet total for the short-term gaps. Hence, exceeding the limits for the liquidity gap should not be equated with any liquidity risk.

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. The revised Plan was approved by the Supervisory Board in October 2020.

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 2020.

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.

On 3 March 2020 the Bank's Management Board appointed the COVID-19 Pandemic Activities Coordination Team, which meets twice a month reporting the activity plan and status of particular tasks to the Bank's Management Board. The Team comprises representatives of the Bank's key areas.

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 the 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 Millennium 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 Millennium will verify each application, ensuring that the reporting person will be protected by acts of repressive, discriminatory and unfair nature.

9. HUMAN RESOURCES MANAGEMENT

9.1. 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. In 2020, due to the COVID-19 pandemic, a special issue was ensuring the safety of employees and adapting the bank to the requirements of remote work.

Safe working environment

Already at the start of the pandemic, the Bank's Management Board appointed a special committee whose task was to monitor the safety of employees in terms of epidemiology, monitor the pandemic situation in the country and the regulations of competent authorities, make decisions on procedures ensuring epidemiological safety at the Bank and assess the impact of the pandemic on the functioning of business areas.

An extensive communication campaign has been undertaken to prevent infections. Employees were regularly informed about the applicable security procedures, available protection measures and proceedings in the event of an infection. The obligation to keep distance was implemented, business trips were suspended, rules for the use of masks were defined, and each case of infection was monitored. Protection measures have also been introduced: disinfecting liquids, protecting glass covers for employees and protective masks.

The organization of work has also been changed. The bank enabled employees to work remotely. To prevent contamination, employees worked on a rotational basis for most of the year, 1 week in the office, 2 weeks at home.

Continuation of competence development programs in the remote learning system

A very big challenge for the bank was the reorganization of the training system and the transition from stationary trainings only to e-learnings and remote trainings. With great effort, the most important training programs were adapted to the remote training requirements. As a result, effective introductory trainings for branch employees were provided, training courses for the Prestige segment were continued and a development program for corporate banking employees was implemented. Managerial training courses were conducted for managers of retail branches. The training program also covers the issues of remote work, communication and cooperation in dispersed teams.

The Bank Millennium Group notices and rewards employees' attitudes leading to an increase in the quality of work, as well as process optimization, efficiency and taking up professional challenges. In 2020, the 'Impakt' employee awards program was continued, under which the Group's employees propose candidates for the award themselves.

The Millennium Campus program was also continued remotely. The selection of topics was aimed at supporting employees in a pandemic situation and focused on the organization of remote work, counteracting isolation and burnout, medical problems related to COVID-19 and the impact of the pandemic on the economy.

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

For years, the Bank Millennium Group has based its development on IT technologies. They are the basis for the progressive digitalisation of customers through the development of remote customer service systems - electronic and mobile banking. Although in 2020 the Bank Millennium Group slightly reduced employment in the area of digital technologies, this was only due to the optimization of processes and the closure of duplicate IT systems in connection with the merger with Euro Bank.

Building a friendly workplace

In 2020, for the next year in a row, Bank Millennium was awarded the Reliable Employer (Solidny Pracodawca) title. So far, the Bank Millennium Group has very broadly supported the physical development and sports activities of its employees. In 2020, due to the limitations resulting from the COVID-19 pandemic, it was not possible to continue the existing programs. Therefore, the bank focused on various forms of employee support.

Already in April 2020, by the decision of the Bank's Management Board, a fund supporting the costs of COVID-19 treatment of employees and their relatives was created. The amount of this fund is PLN 1 million. Social benefits were also launched in the form of money. The amount of the so-called a Christmas allowance and allowance for people with the lowest income was paid.

The "Parents for Yes" (Rodzice na Tak) program, which enjoys great interest among employees and their families, received considerable financial support in the form of a benefit from a social fund intended to support remote education of children and youth, because the limitations related to the pandemic prevented traditional forms of joint recreation, trips and family meetings.

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 68%. Their participation in the Bank's management (starting from the position of branch manager) was approx. 56%. 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 teams to serve expatriates working in Poland, is also conducive to raising diversity of staff in terms of nationality: in 2020 there were 42 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 majority of employees are persons aged between 30 and 50 - 67% while young persons under 30 - 24%.

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.

9.2. 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>	31.12.2020	31.12.2019	Change (y/y)
Number of Bank's employees	7 164	8 118	-954
- including key positions	159	200	-41
Subsidiaries	329	347	-18
BM Group total	7 493	8 464	-972

Employment in Bank Millennium Group at end of 2020 reached 7,493 FTEs, which means decrease vs end of 2019 by 972 FTEs (i.e. 11.5%). The biggest employer in the Group is Bank Millennium, with a headcount at end of 2020 of 7,164 FTEs. Bank Millennium Group subsidiaries at the end of the year were employing in total 329 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>	31.12.2020	31.12.2019	Change (y/y)
Branches and direct sales	4 572	5 225	-653
Head Office	2 592	2 892	-301
Total Bank Millennium	7 164	8 118	-954

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 reduced employment in all areas as a result of employment optimization after the merger with Euro Bank.

Employment in the Bank <i>(in FTEs)</i>	31.12.2020	31.12.2019	Change (y/y)
Direct Banking	738	747	-9
Digital	652	730	-78
Retail and corporate banking	3 834	4 479	-644
Support units	1 940	2 162	-222
Total Bank Millennium	7 164	8 118	-954

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 is analysed.

The total level of staff costs in Bank Millennium Group in 2020 and in the previous year was as follows:

Staff costs <i>(in PLN million)</i>	2020	2019	Change (y/y)
Bank Millennium	813.8	715.3	13.8%
Subsidiaries	42.5	121.1	-64.9%
Total Bank Millennium Group	856.3	836.4	2.4%

* Euro Bank was a subsidiary between 31 May and 30 September 2019

9.3. REMUNERATION POLICY

The Bank Millennium Group functions 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.

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.

The Bank Millennium Group pay attention to properly shape the remuneration of employees in managerial positions (Risk Takers). The principles of awarding variable remuneration for Members of the Management Board of Bank Millennium and other Risk Takers are included in the "Policy of remuneration of employees having a significant impact on the risk profile in the Bank Millennium SA Group". The policy is reviewed annually.

The bonus pool for Risk Takers is determined after prior analysis of the Bank's situation in terms of:

- business results achieved;
- liquidity: loans / deposits ratio, value of liquid assets;
- capital adequacy ratios in relation to the KNF reference level.

The evaluation of the results includes financial and non-financial criteria and takes place over a period of at least three years.

Rules for the payment of variable remuneration paid in 2020 for 2019:

Risk Takers - Members of the Management Board of Bank Millennium

Awarding and payment of 50% of the value of variable remuneration components takes place after the end of the settlement period and after the announcement of the financial results. The payment of 50% of the variable remuneration is deferred for 3 years, payable in equal annual instalments. Members of the Management Board will receive each part of the bonus granted - paid in the year following the accounting period and deferred - half in cash and half in own shares.

The rest of Risk Takers

Granting and payment of 60% of the variable remuneration components for 2019 takes place after the end of the settlement period. The payment of the remaining 40% of the variable remuneration is deferred for 3 years, payable in equal annual instalments. A minimum of 50% of the variable remuneration is paid in treasury shares.

Management Board remuneration

Determining the terms of contracts and remuneration for Members of the Management Board is the responsibility of the Supervisory Board, taking into account the recommendations of the Personnel Committee of the Supervisory Board responsible for supervising the remuneration policy.

The total remuneration of the members of the Management Board consists of a fixed and a variable part. The variable part of the remuneration may be an annual bonus, which depends on the Bank's performance, the result compared to banks of a similar size and the individual assessment of the Management Board Member.

Decisions on granting bonuses to Management Board members are made after analysing the results, taking into account the financial criteria:

- implementation of planned budgets and indicators set for the managed area of activity,
- comparisons with other banks of a similar size,
- business market criteria established for the period;

and non-financial criteria, in particular:

- overall quality of management in the area of responsibility,

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

Members of the Supervisory Board receive only fixed remuneration for their work in the Supervisory Boards and Committees which is adequate to their function and the scale of operations of the Bank Millennium Group.

The total value of base remuneration of Members of the Management Board for performing this function in 2020 was PLN 10 498.31 thousand. Additionally, Members of the Board were paid part of an annual bonus for 2016, 2017, 2018 and 2019 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 2020 (in PLN thousand):

Name	Period	Fixed remuneration (PLN'000)
Joao Bras Jorge	01.01.2020 - 31.12.2020	2 280.00
Fernando Bicho	01.01.2020 - 31.12.2020	1 620.00
Wojciech Haase	01.01.2020 - 31.12.2020	1 320.00
Andrzej Gliński	01.01.2020 - 31.12.2020	1 318.31
Wojciech Rybak	01.01.2020 - 31.12.2020	1 320.00
Antonio Pinto Junior	01.01.2020 - 31.12.2020	1 320.00
Jarosław Hermann	01.01.2020 - 31.12.2020	1 320.00

Additional benefits of Management Board Members in 2020 (in PLN thousand)

Name	Period	Benefits (PLN'000)
Joao Bras Jorge	01.01.2020 - 31.12.2020	1 076.19
Fernando Bicho	01.01.2020 - 31.12.2020	57.05
Wojciech Haase	01.01.2020 - 31.12.2020	13.31
Andrzej Gliński	01.01.2020 - 31.12.2020	25.07
Wojciech Rybak	01.01.2020 - 31.12.2020	3.83
Antonio Pinto Junior	01.01.2020 - 31.12.2020	747.35
Jarosław Hermann	01.01.2020 - 31.12.2020	4.56

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

Variable remuneration vested in 2020 to Management Board Members and to persons who performed this function in prior years (in PLN thousand):

Name	Awards for 2016, 2017, 2018 i 2019 (PLN'000)		
	cash	phantom shares	own shares *
Joao Bras Jorge	787.31	385.04	306.00
Fernando Bicho	616.07	298.46	243.00
Wojciech Haase	506.96	247.17	198.00
Andrzej Gliński	498.56	240.45	198.00
Wojciech Rybak	464.96	213.57	198.00
Antonio Pinto Junior	263.74	52.59	198.00
Jarostaw Hermann	239.09	32,87	198.00
Maria Campos	243.23	194.57	0.00

* Part of the non-deferred bonus in Bank Millennium shares is subject to Retention for a period of 12 months, counted from the date of vesting, i.e. from 03.07.2020

In the period from 01.01.2020 do 31.12.2020 r. a provision was established for annual bonus in the amount of PLN 5 605 thousand.

The decision to award variable remuneration to Management Board Members for 2020 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.

10. PRINCIPLES OF CORPORATE GOVERNANCE AT BANK MILLENNIUM

10.1. STATEMENT ON THE PRINCIPLES OF CORPORATE GOVERNANCE APPLIED IN 2020.

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. This rule means that a company is obliged to apply the principles stipulated in the document, and 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 2020 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 is working on implementation of possibility of ensuring to the shareholders real-time two-way communication during the proceedings of General.

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 2020 the General Meeting by its Resolution of 20 March 2020 accepted the Report on the Activity of the Bank Millennium S.A. Supervisory Board in 2019 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 3/2020 of 31 January 2020 found that the Bank in 2019 correctly implemented the Principles to the extent established by resolutions of the Bank's governing bodies.

Bank Millennium has been included in the WIG-ESG index since 2019. Previously, for 12 years, it belonged to the Respect index, which was withdrawn on January 1, 2020 and was replaced by the WIG-ESG index. 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. 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.

10.2. 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 2020, 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 2020, 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 2020 held 9.06% of the Bank's shares, Otwarty Fundusz Emerytalny PZU „Złota Jesień”, which as at 31 December 2020 held 7.06% of the Bank's shares and AVIVA Otwarty Fundusz Emerytalny AVIVA Santander (former Aviva OFE BZ WBK), which as at 31 December 2020 held 6.33% of the Bank's shares.

The remaining shares, i.e. 27.45% of the share capital, are dispersed among Polish and foreign shareholders, both institutional and private.

Shareholders of the Bank as at 31 December 2020

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	109 924 704	9.06	109 924 704	9.06
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	85 697 263	7.06	85 697 263	7.06
AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	76 760 035	6.33	76 760 035	6.33

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

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 Meetings convened for, respectively, 3 July 2020 and 27 August 2019.

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 2020 and as at 31 December 2019 (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 2020: PLN 3.3088 and for 2019: PLN 5.8339.

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 2020.

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 1,213,009,169 shares with the code ISIN PLBIG0000016 (GPW symbol: MIL; Reuters: MILP.WA; Bloomberg: MIL PW) are traded on the stock exchange.

Shareholders have 107.608 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.

10.3. 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, link to website <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>.

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 2020 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 and since May 2020 Honorary Member. 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 Ciências 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 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 Board Member, 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. In 2019 - 2020 she held the role of General Manager of Avon Cosmetics Polska Sp. z o.o. and is currently the Managing Director and investor in Life Institute Sp. z o.o. Sp. k.

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 Jędrzyński - Member of the Supervisory Board (independent member)

Mr Grzegorz Jędrzys 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. Jędrzys 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. Since 9 July 2020 acting as a Member of the Supervisory Board of Millennium Bank Hipoteczny 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, President of KU until 2020, currently its Honorary President, Vice Chairman of the KU 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 450 research papers in this area in many languages, including 51 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. Since June 2020 he has become the rector of Warsaw University, elected for the 4-year term of office. 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 was 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 Board of Ageas-Sociedade Gestora de Fundos de Pensões, S.A. (formerly called Ocidental- Sociedade Gestora de Fundos de Pensões, S.A.). He is also Member of the Board of Directors and Chairman of the Audit Board 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 Mr Miguel Maya 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., member of the Board of Curators of Fundação millennium BCP and chairman of the Board of directors of ActivoBank since October 2020.

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 2020.

Detailed information regarding the issues raised during the meetings of the Committees in 2020 is to be found in the „*Report on activities of the Supervisory Board of Bank Millennium S.A. in 2020*”, 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 2020 took place six meetings of the Audit Committee of the Supervisory Board at the following dates: 30 January 2020, 13 February 2020, 7 May 2020, 20 July 2020, 17 September 2020, 22 October 2020 and one additional meeting by circulation on 7 February 2020.

Detailed information regarding the issues raised during the meetings of the Committee in 2020 is to be found in the „*Report on activities of the Supervisory Board of Bank Millennium S.A. in 2020*” in the chapter „*Activities of the Audit Committee in the reporting period*”.

From 1 January 2020 to 31 December 2020 the Audit Committee of the Supervisory Board of Bank Millennium SA was composed of the following members:

1. Grzegorz Jędrzyński - 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) evaluating candidates for Members of the Bank’s Management Board,
- (II) defining and conditions of employment of newly appointed Members of the Bank’s Management Board,
- (III) negotiating change of terms and conditions of employment of Members of the Bank’s Management Board,
- (IV) with respect to Members of the Management Board defining evaluation criteria, evaluating work as well as deciding on annual bonuses,
- (V) determining terms and conditions of termination of employment of Members of the Bank’s Management Board,
- (VI) evaluating policy on variable components of remuneration, and issuing recommendations regarding:

- a) remuneration amount and components, guided by prudential and stable risk, capital and liquidity management as well as long-term benefit of the Bank,
- b) variable remuneration of persons occupying management positions in the Bank involved with risk management and with compliance of the Bank's activity with legal and internal regulations.

During the period from 1 January 2020 to 31 December 2020 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) study of macroeconomic trends,
- (II) study new trends, developments and new solutions in the banking industry,
- (III) analyse Bank competitive position and benchmarking,
- (IV) analyse and recommend long-term strategy, goals and objectives for the Bank.

During the period from 1 January 2020 to 31 December 2020 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

Committee for the Risk Matters

The Committee for the Risk Matters 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, in particular:

- (I) provision of opinions on overall, current and future readiness of the Bank to undertake risk,
- (II) provision of opinions on the strategy of management of risk inherent in the Bank operations, as developed by the Bank Management Board and on information regarding implementation of the said strategy, as submitted by the Bank Management Board,
- (III) provision of support to the Bank Supervisory Board in supervision of implementation of the risk management strategy relative to the Bank operations by the Bank's senior management staff,
- (IV) verification whether prices of assets and liabilities offered to Clients fully take into account the Bank's business model, its risk strategy and in case the prices fail to reflect types of risk appropriately and in keeping with the said model and strategy, submission of proposals to the Bank Management Board to ensure adequacy of prices of assets and liabilities relative to relevant types of risk.

During the period from 1 January 2020 to 31 December 2020 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 2020 (in PLN thousand):

Name and surname	Remuneration for 2020	Other benefits	Total (PLN'000)
<i>Bogusław Kott</i>	325.0	21.58	346.58
<i>Nuno Manuel Da Silva Amado</i>	145.0	0.0	145.0
<i>Dariusz Rosati</i>	175.0	0.0	175.0
<i>Miguel De Campos Pereira De Bragança</i>	200.0	0.0	200.0
<i>Agnieszka Hryniewicz-Bieniek</i>	125.0	1.87	126.87
<i>Anna Jakubowski</i>	155.0	0.0	155.0
<i>Grzegorz Jędrys</i>	205.0	0.0	205.0
<i>Andrzej Koźmiński</i>	165.0	0.0	165.0
<i>Alojzy Nowak</i>	145.0	0.0	145.0
<i>José Miguel Bensliman Schorcht da Silva Pessanha</i>	145.0	0.0	145.0
<i>Miguel Maya Dias Pinheiro</i>	120.0	0.0	120.0
<i>Lingjiang Xu</i>	125.0	0.0	125.0
TOTAL:	2 030.0	23.45	2 053.45

In 2020, Members of the Supervisory Board received additional remuneration from the Bank’s subsidiary companies (in PLN thousand):

Name and surname	Remuneration for 2020	Other benefits	Total (PLN'000)
Grzegorz Jędrys	17.50	0.0	17.50

The Bank's shares held by Supervisory Board Members (performing their functions on 31 December 2020):

Name and surname	Function	Number of shares 31.12.2020	Number of shares 31.12.2019
<i>Bogusław Kott</i>	Chairman of the Supervisory Board	1 000	1 000
<i>Nuno Manuel da Silva Amado</i>	Deputy Chairman of the Supervisory Board	0	0
<i>Dariusz Rosati</i>	Deputy Chairman and Secretary of the Supervisory Board	0	0
<i>Miguel de Campos Pereira de Bragança</i>	Member of the Supervisory Board	0	0
<i>Agnieszka Hryniewicz-Bieniek</i>	Member of the Supervisory Board	0	0
<i>Anna Jakubowski</i>	Member of the Supervisory Board	0	0
<i>Grzegorz Jędrys</i>	Member of the Supervisory Board	0	0
<i>Alojzy Nowak</i>	Member of the Supervisory Board	0	0
<i>Andrzej Koźmiński</i>	Member of the Supervisory Board	0	0
<i>José Miguel Bensliman Schorcht da Silva Pessanha</i>	Member of the Supervisory Board	0	0
<i>Miguel Maya Dias Pinheiro</i>	Member of the Supervisory Board	0	0
<i>Lingjiang Xu</i>	Member of the Supervisory Board	0	0

10.4. 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 "Bank Millennium S.A. Management Board's Operations bylaws" adopted by the Supervisory Board, which are available from the Bank's website on the "About the Bank > Corporate Bodies and Governance" tab, link to website <https://www.bankmillennium.pl/about-the-bank/corporate-bodies-and-governance>.

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 2020 to 31 December 2020 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 (excluding corporate banking marketing), 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. In 2011 - 2016 a member of the Executive Committee of the Polish Leasing Association, including its Chairman in 2015 - 2016.

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 and corporate banking 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.

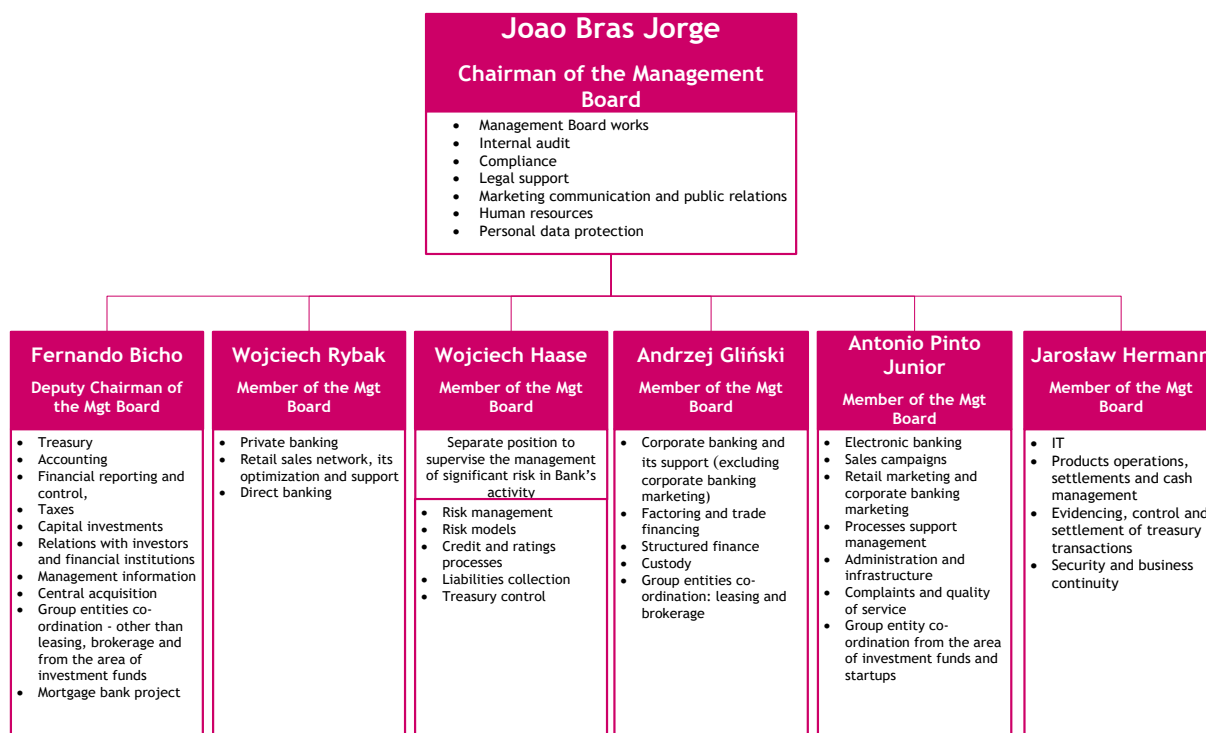
Between 2005-2010 he was Board Member of First Data Poland responsible for providing IT and operational services for card acquiring and financial solutions business lines.

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, products operations, settlement and cash management, evidencing, control and settlement of treasury transactions, security and business continuity.

The organisational 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 2020 can be found in chapter 8 of this report, Part 3 entitled "Remuneration policy".

In accordance with the above-mentioned principles of remuneration, in 2020 Members of the Bank's Management Board were granted Bank's shares as part of the implementation of the incentive program. Therefore, the status of shares owned by the Management Board Members (who performed their functions on 31 December 2020) was as follows:

Name and surname	Function	Number of shares 31.12.2020	Including received under the incentive program (*)	Number of shares 31.12.2019
Joao Bras Jorge	Chairman of the Management Board	247 021	96 021	111 000
Fernando Bicho	Deputy Chairman of the Management Board	76 252	76 252	0
Wojciech Haase	Member of the Management Board	69 625	62 131	7 494
Andrzej Gliński	Member of the Management Board	62 131	62 131	0
António Pinto Júnior	Member of the Management Board	62 131	62 131	0
Wojciech Rybak	Member of the Management Board	62 131	62 131	0
Jarostaw Hermann	Member of the Management Board	62 131	62 131	0

(*) shares blocked on investment accounts until July 3, 2021.

10.5. 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 and effective, 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 2020 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 and updated on 21 February 2019. 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.

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 Audyt 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>	2020		2019	
	Bank	Subsidiaries	Bank	Subsidiaries
Statutory audit within the meaning of art. 2 point 1 of the Act on Statutory Auditors	928	464	910	464
Other assurance services	880	208	1 215	220
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, 2020,
- review of the interim condensed financial reports of Millennium TFI SA investment funds prepared as at June 30, 2020,

- audit of the consolidation documentation and the reporting package of Bank Millennium S.A. capital group for the period of 6 months, ended on 30 June 2020, and for the period of 12 months, ended on 31 December 2020, 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 2020, 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 2020, prepared in accordance with group principles,
- assurance service concerning requirements for safekeeping of customers' assets for 2020 for Bank Millennium S.A. and Millennium Dom Maklerski S.A.,
- assurance service concerning evaluation of adequacy of the risk management system in 2020 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 2019 to 31 May 2020,
- 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,
- Deloitte Audyt Sp. z o.o. sp. k. also provided attestation service according to ISAE 3000 concerning verification of internal control systems of Bank Millennium S.A. and Millennium Leasing S.A. , in accordance with the instructions of the group auditor for the period from 1 June 2020 to 31 January 2021. The net remuneration amounting to PLN 119 thousand this service will be presented in the financial statements for the 12-month period ended 31 December 2021, as the period to which the service relates ends on 31 January 2021.

11. THE BANK'S CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The basis defining the Bank Millennium approach to the issue of sustainable development is the declaration of implementation of the Sustainable Development Goals as adopted by the United Nations (UN) signed by the Bank in 2017. The Bank joined coalition of business, state administration and non-governmental organisations for sustainable development in Poland, as initiated by the Ministry of Development. The Polish perspective was described in the Government Strategy based upon assumption of sustainable development of the entire country in economic, social, environmental and territorial terms.

The Bank has recognised all 17 goals adopted within the document as important and in particular the greatest weight is attached to implementation of the tasks, as follows: economic (8. Economic growth and decent work, 9. Innovation, industry and infrastructure, 4. Good quality of education), social (3. Good health and quality of life, 5. Gender equality), environmental, i.e. 13. Actions in the climate area and 17. Partnership for Goals.



The main aspects of sustainable development management are stipulated in the Bank Millennium Group Strategy and have been implemented in individual areas of activity of the Bank and the Companies.



Bank Millennium is also a signatory of the Diversity Charter - an undertaking described by organisations, which strive to eliminate discrimination at work place and act to create and foster diversity.

In the area of ecology and climate protection, the Bank is following environmental policy defining own environment oriented activities, approach to financing of environmental investments and education.

Following principles of sustainable development by the Bank has been confirmed by external rankings. Since 2010, the Bank has been listed in the index of the Warsaw Stock Exchange (WSE) including companies meeting the highest standards of the Corporate Social Responsibility. In 2010-2019 the Bank belonged to the Respect Index, and since 2019 has been included in WIG-ESG index, which is created by assigning companies with additional weight i.e. ESG (Environmental, Social and Governance) score published by global company Sustainalytics, and evaluation of corporate governance performed by the WSE.

Bank Millennium, in 2020, was awarded, inter alia, CSR Golden Leaf in the ranking of 'Polityka' weekly and came in second in the ranking "Climate Leaders Poland 2021" of the Forbes Magazine for its activity in the area of sustainable development.

1. Counteracting coronavirus

The year 2020 was marked with pandemic and economic crises. The Bank undertook many actions designed to protect health of employees, clients and local community while taking proper care for maintaining operational capacity and smooth management of client finances.

The Bank Millennium Foundation and Bank Millennium already in April joined the struggle against coronavirus by donating PLN 500,000 to the Institute of Bioorganic Chemistry of the Polish Academy of Sciences, which developed first Polish tests for SARS-CoV-2. Tests entered mass production and the Institute is continuing its R&D work on new generation tests.

The Bank also set up a special Fund for subsidising costs of treatment and rehabilitation of Bank Millennium Group employees infected with coronavirus.

2. Clients and banking without barriers

Ensuring the highest possible quality of service remains one of the top values for Bank Millennium. Services meeting client expectations are designed on the basis of client opinions and analysis of their needs with use of modern methods such as behavioural economy, service design or UC surveys.

Objective of the Bank, as a socially responsible company, is to eliminate barriers in access to financial and non-financial services for the elderly and persons with disabilities who are a significant and continuously growing part of the society. According to information disclosed by the Office of the Government Plenipotentiary for Disabled People, depending upon adopted criterion of the disability level, population of people with disabilities in Poland could reach from 4.9 million to 7.7 million persons. The demographic data indicate also the fact that Poland's society is getting older. Therefore, the Bank is introducing many improvements and offering not only easy access to branches, ATMs, telephone service, service method but also digital channels today gaining importance in managing finance and organising day-to-day matters.

The Bank Millennium web site, Millenet internet banking system and Bank Millennium mobile app are continuously adjusted to meet the needs of the blind and people with sight impairment. The services are written in a simple language easy to understand by users and may be read by text reading devices. Users with sight impairment may take advantage of the web site using only the keyboard (without need to use mouse to navigate the portal). In addition, the site features option to enlarge text and is adjusted to high contrast display. Users having phones with fingerprint scanners can log into the app with fingerprint. The same way users can approve card transactions in internet with 3D-Secure protection. In addition, iPhone X and newer version owners can log on with the FaceID service. The mobile app is also adjusted to meet the needs of the blind and people with sight impairment as it is compatible with access enhancement services such as Google TalkBack (Android), VoiceOver (iOS) and offering presentation of information by way of speech. Bank Millennium was one of the first companies in Poland to adjust its internet site to meet needs of persons with disabilities. In past years, for ensuring access to web site for persons with disabilities, Bank Millennium was awarded with the „Site without Barriers” prize given by the Foundation „Widzialni” (the Visible). On the other hand, for digitalisation of services and banking without barriers, the Bank, in April 2020, was awarded with prize in competition „Technologically Responsible Company”.

It is an important goal for the Bank to combat digital exclusion also in the area of non-financial services. By increasing access to mobile solutions including, inter alia, e-administration, purchase of transport tickets, payment of parking and motorway tolls, the Bank offers access to banking and non-banking services in every location and at any time.

In response to increasing demand for online services due to the pandemic, the Bank web site featured educational portal Eduportal (access at the address www.bankmillennium.pl/pierwszykrokonline and directly from the home page, tag „Wsparcie” /support/) and the “First step online” campaign encouraging use of digital channels, explaining how to start using Millenet and mobile app.

All Bank's own ATMs and more than 70% of Bank Millennium branches are adjusted to meet the needs of persons with disabilities. When reconstructing and modernising outlets the Bank takes proper care to ensure that architectural barriers are eliminated. Seated client service desks with wheelchair access are available in nearly 300 branches (more than 60%). Clients calling the Bank's call centre, instead of using the numerical keypad of the handset, can use voice commands during telephone service.

Bank Millennium is expanding the community without barriers concept also to initiatives, in which it takes part. In 2020, for the second consecutive year, during Millennium Docs Against Gravity - documentary film festival, with Bank Millennium as the main sponsor, selected films were available with audio description and voice over, making it easier for persons with sight impairments to access the world of culture.

3. Employees

The Bank ensures attractive work, development conditions and social support. It offers programmes for working parents, opportunities to take part in charity campaigns and employee volunteering. Due to the pandemic, many of activities were limited in 2020. The Bank focused on ensuring safe work conditions for employees including remote performance of work. The Bank modernised its offices and lighting in the main head office to improve work comfort. Within the limitations supported development of employees' hobbies in sports, cultural and recreational projects. The Bank is also signatory of the Diversity Charter. Detailed information on the staff policy of the Bank Millennium Group can be found in chapter 8 of this report i.e. „Human Resource Management”.

4. Business partners

Bank Millennium collaborates with many business partners by purchasing goods and services from various market segments. Main counterparties render services involving lease and supporting branches and office space, IT services and hardware acquisition, providing protection and marketing services. Principles governing Bank Millennium cooperation with providers are described in the „Instruction on selection of suppliers and procurement”. It defines, inter alia, organisation of procurement process, roles of individual process participants and supplier selection criteria. Suppliers are selected through tenders thus allowing the use of objective selection criteria. To ensure procurement process transparency, substantive and commercial evaluation of bids are conducted by independent units of the Bank.

5. Social environment

a. Social programmes

Social programmes are carried out by the Bank Millennium Foundation („the Foundation”) and in 2020 they concentrated on financial education of children at preschool age and on preparing guides for parents wanting to deliver the training themselves.

The Bank Millennium Foundation has been running the proprietary “Financial ABCs” kids financial education programme since 2016. In 2020 despite the pandemic the Foundation continued the Financial ABCs programme with a new format. Due to the epidemic situation the classes held so far in kindergartens were suspended until recall; however the Foundation made sure the educational materials, which may be used by kindergarten staff as well as parents, are available online. The Foundation created a series of modern online educational materials.

In 2020 Bank Millennium Foundation commissioned and analysed results of an opinion survey of parents of kids of preschool age about financial education (the survey was carried out by GfK institute for Bank Millennium Foundation in May 2020 on a national sample of 1 000 parents of children aged 3-7, with use of CAWI methodology). The survey results confirm that the Foundation's focus on financial education of youngest children is a good decision. In the survey 65% parents of pre-schoolers said that the earlier financial education of children begins, the better they cope in adult life in crisis situations, such as the crisis caused by the coronavirus. With a view to the aforementioned survey results, Bank Millennium Foundation introduced a new guide series for parents about financial education of kindergarten kids called - Parents' Guide “How to teach finances to children”. The programme objective is to teach good habits related to savings, respect for work and for money. The materials were prepared by the Bank's experts in cooperation with an expert in psychology and pedagogics.

b. Cultural sponsorship

Bank Millennium for more than 30 years has been supporting cultural projects on both national and local outreach. It is a 360° sponsor of culture, because it promotes art in almost all its forms, including: music, painting, sculpture, film, theatre, photography, literature and performance. Bank Millennium reaches for niche and popular culture. It is by design a long-term partner.

The most important cultural project of 2020 sponsored by the Bank is the Millennium Docs Against Gravity Film Festival. This is Poland's biggest world documentary film festival and an important festival worldwide. Bank Millennium has been a partner of the festival for 15 years now and in 2016 it became its naming rights sponsor. Due to the current pandemic, last year's 17th edition of the festival was postponed to autumn of 2020, nevertheless still in May, during the lockdown, a special event was organised DOCS AGAINST ISOLATION, when viewers could see 50 films online from the previous editions, half of them with free access. In September 2020 the 17th edition of the Millennium Docs Against Gravity festival was held in hybrid format for the first time in history. Bank Millennium together with its organiser faced-up to the needs and expectations of the entire culture audience, offering them access to 150 documentary films from the entire world in cinemas in seven cities and in virtual space. There was also no shortage of accompanying events. The hybrid edition of the Festival attracted a record-high audience of 170 000 viewers. Director of the festival was awarded with a prestigious prize Paszport "Polityki" for hybrid form of the event.

Another cultural project, which Bank Millennium has been supporting for many years, is the Sacrum Profanum contemporary music festival. The Bank has been working with its organiser - Kraków Festival Bureau (KBF) since 2012. In 2020 KBF and Bank Millennium paved new roads as regards the form and formula, taking the entire event online. The 18th edition of the festival for the first time in its history took place online - on the Play Kraków platform.

c. Supporting innovation

In its social activity Bank Millennium S.A. 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 Voivodships. The "Millennium Index - Regional Innovation Potential" is the Bank's contribution to the public debate concerning regional development drivers in Poland and reducing inequalities that exist between them. In 2020 the fifth edition of the report was published. The main theme of this edition of the survey, apart from statistical data, were the limitations but also opportunities resulting from the crisis involved with the COVID-19 pandemic. Traditionally experts and practitioners in business, science, government and non-governmental institutions were invited to comment on results in particular regions. They shared their experience about what helps and what obstructs development of innovative projects, in what way the pandemic changed the approach to innovation and how to support its development in the second half of 2020. Thus the Report is a valuable source of knowledge for local government authorities on how to level the playing field for regions in Poland.

d. Supporting university education

In 2020, the Bank continued cooperation with respectable universities including, inter alia, SGH Warsaw School of Economics and the University of Warsaw supporting the universities in improving their infrastructure and changing their operational models at times of the pandemic, as well as students and graduates in developing their competences. The co-working centre created by Bank Millennium and SGH provide an example of such cooperation. It is a place of real life and virtual meetings, networking, consultations with business theoreticians and practitioners from the university and the bank. The co-working centre supports students and graduates, who established or

are planning to establish a start-up and want to clash their ideas with the business reality. Due to the pandemic most of the activities were carried out online.

Another example of cooperation is provided by scholarship programme of the University of Warsaw, Camões Institute and Bank Millennium. The Bank sponsored a scholarship for the best BA student of Portuguese Studies at the University of Warsaw. The Bank has been sponsoring scholarships since 2013.

6. Environment

Activities to support environment constitute integral part of the Bank Millennium's Corporate Social Responsibility, covering many initiatives in mitigating or eliminating negative impacts upon natural environment. The Bank defined its approach towards these issues in the „Bank Millennium Group's Environmental Policy”. The document underscores three main areas of environmental activity aiming at reduction of consumption of materials, energy, water and fuels and ecological education of the clients, counterparties and employees, as well as approach to finance investments; it is also necessary to stress that historically, the exposure of the Bank in financing of coal mining and coal based power generation was significantly lower than average for the banking sector.

Since 2011 the Group has been reporting on its own impact upon environment including data on GHG emission, expanding knowledge on the matter by participating in consultations, conferences and expert workshops (organised by e.g. WWF, Polish Association of Listed Companies, or Polish Confederation Lewiatan) and taking part in the work conducted by the Polish Bank Association. In 2020 Bank Millennium was ranked second in the ranking “Climate Leaders Poland 2021” of the Forbes Magazine scoring 34% of annual reduction of GHG emission intensity. Thus, it was the first bank in this ranking with the best result. The ranking was created by calculating annual accumulated rate of GHG reduction (CARR), adjusted for revenues.

In addition, the Bank carried out many activities aiming at reduction of consumption of energy, water and other materials and modernised office space and rooms in the main head office to meet pro-ecological requirements. One of the most important initiatives was an exchange of lighting into energy saving one thereby reducing energy consumption for this purpose by 54% relative to the previous year's figures and reducing CO2 emission by another 500 tones p.a. The Bank is using offers of Polish companies to avoid unnecessary and environmentally harmful transport. Interior is provided with greater numbers of plants to improve air quality. In the main Bank head offices aerators are installed facilitating, by aerating water stream, to reduce water consumption by as much as 80%. The Bank is also applying systemic solutions facilitating operation of equipment in time programme systems to reduce equipment work time and, thereby, energy consumed. All Bank's branches are equipped with LED external panels with time controlled shining to reduce energy consumption even by half relative to other types of lighting. Besides of-the-shelf and certified solutions, Bank Millennium designs and implements proprietary actions to improve environment quality and cleanliness. These include, inter alia, waste segregation and many activities aiming at increasing environment protection awareness among employees. The Bank encourages employees to segregate and recycle waste. In addition, the Bank systematically increases the number of bicycle parking places to encourage employees to use more environmentally friendly forms of transport.

7. Reporting CSR activity

Information concerning implementation by the Bank of principles of corporate social responsibility is available in the non-financial part of Bank Millennium's 2020 Annual Report. The report is prepared in keeping with the guidelines of the amended Accounting Act, the international Global Reporting Initiative Sustainability Reporting Standards, the European Union recommendations for reporting climate-related information and underwent independent, external assurance by Deloitte. The report will present the key aspects of the Bank's impact on sustainable economic, social and

environmental development with regard to the key Stakeholder groups: Clients, Employees, Shareholders, Business Partners, Society and the Natural Environment.

12. 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 2020.

The Bank prepares the separate report comprising non-financial information, which will be published on the Bank's web site on February 22, 2021.

13. 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 2020 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 2020, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURES:			
Date	Name and surname	Position/Function	Signature
22.02.2021	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
22.02.2021	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
22.02.2021	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
22.02.2021	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
22.02.2021	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
22.02.2021	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
22.02.2021	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature