

## INDEPENDENT AUDITOR'S REPORT

To the General Meeting and the Supervisory Board of Bank Millennium S.A.

### Report on the Audit of the Annual Financial Statements

#### Opinion

We have audited the annual financial statements of Bank Millennium S.A. (the "Bank"), which comprise the balance sheet as of 31 December 2020, and the income statement, the statement of total comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (the "financial statements").

In our opinion, the accompanying financial statements:

- give a true and fair view of the economic and financial position of the Bank as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards ("IFRSs"), as endorsed by the European Union, and the adopted accounting policies;
- comply, as regards their form and content, with the applicable laws and the articles of association of the Bank;
- have been prepared based on properly kept accounting records, in accordance with Section 2 of the Accounting Act of 29 September 1994 (the "Accounting Act", Journal of Laws of 2021, item 217).

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on the same day.

#### Basis for Opinion

We conducted our audit in accordance with the Polish Standards on Auditing ("PSAs") in the wording of the International Standards on Auditing adopted by the National Council of Statutory Auditors and in compliance with the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (the "Act on Statutory Auditors", Journal of Laws of 2020, item 1415) as well as Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation", Official Journal of the European Union L158). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Bank in accordance the principles of professional ethics specified in the International Code of Ethics for Professional Accountants (including International Independence Standards) ("Code of ethics") developed and issued by the International Ethics Standards Board for Accountants and adopted by the National Council of Statutory Auditors, together with the ethical requirements that are relevant to the audit of the financial statements in Poland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. Throughout the audit, both the key statutory auditor and the audit firm remained independent of the Bank in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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## Emphasis of Matter

Please note the disclosure in section 13.2 of the financial statements, in which the Management Board of the Bank provided relevant information on the pending decision of the Civil Chamber of the Supreme Court, which may have an impact on the current status of disputes concerning mortgage loans indexed to Swiss franc (CHF) and the alternative solution concerning the above-mentioned loans which is currently under consideration. Our opinion does not contain qualification in relation to this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They encompass the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarized our response to those risks and, where appropriate, we presented the key findings related to those risks. We do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter
<i>Provisions for litigations concerning the portfolio of mortgage loans indexed to Swiss franc (CHF)</i>	
<p>The Bank has granted foreign currency mortgage loans indexed to CHF ("CHF loans"). The value of mentioned credit portfolio amounted PLN 14.3 billion as of 31 December 2020. As it is described in point 13.1 of the financial statements "Current level of provision for the legal risk", the Bank is a defendant in numerous legal cases which include claims regarding the partial invalidity of the credit agreements, i.e. in terms of indexation provisions or a ruling that the agreements are fully invalid.</p>	<p>Our procedures included, among the others:</p> <ul style="list-style-type: none"> <li>– understanding of the process and controls of the Bank towards creation of individual provisions on CHF loans legal cases and review of the mentioned process and controls with regard to the model applied for the estimation of the provision for CHF loans portfolio,</li> <li>– verification of the methodology of estimating provisions with regard to the legal proceedings related to loans indexed to CHF and the analysis of the rationality and validity of the adopted assumptions as well as the correctness of the input data and the calculation of the provisions estimates, including especially:               <ul style="list-style-type: none"> <li>- the probability of the occurrence of the particular types of verdicts for pending legal cases,</li> <li>- the estimated amount of losses in the event of the each type of verdict,</li> <li>- the assumed inflow of new individual claims and their distribution over the time,</li> </ul> </li> </ul>
<p>Management's judgments regarding the recognition and measurement of provisions for legal cases are inherently burdened with risk and may change in the future due to the fact that the estimated results of the current cases depend on future resolutions.</p>	<ul style="list-style-type: none"> <li>- the probability of the occurrence of the particular types of verdicts for pending legal cases,</li> <li>- the estimated amount of losses in the event of the each type of verdict,</li> <li>- the assumed inflow of new individual claims and their distribution over the time,</li> </ul>
<p>It should be noted that the judgement of the European Union Court of Justice from 3 October 2019 regarding CHF loans increases the uncertainty of estimates of the essential provisions.</p>	<ul style="list-style-type: none"> <li>– verification of the list of claims in which the Bank is a defendant and verification of the opinions of the external lawyers including verification of independent confirmations from external law firms,</li> <li>– assessment of the adequacy and the completeness of provisions for the legal cases identified by the Bank with regard to the existing legal documentation, and analysis of the provision sensitivity to the changes in the most important assumptions,</li> </ul>
<p>Due to the materiality of the CHF loan portfolio, as well as the significant role and complexity of the Management Board's judgments and estimates regarding provisions for the current and potential claims, the recognition and the valuation of the mentioned provision was considered as the key audit matter.</p>	<ul style="list-style-type: none"> <li>– review of the current jurisdiction in case of CHF loans claims,</li> <li>– analysis of the significant data after the balance sheet date in relation to the assumptions adopted by the Bank as at the balance sheet date,</li> <li>– analysis of the accuracy and completeness of disclosures in the financial statement in this respect.</li> </ul>

## Key audit matter

## How we addressed the matter

### *Impairment of loans and borrowings granted to customers*

Detailed information on the methods and models applied by the Bank and the level of impairment losses on loans and advances to customers is presented in point 8.3 Adopted accounting principles, point 9.3 Credit risk and Note 14.21 Loans and advances to customers in the financial statements.

As a result of the social and economic consequences of the crisis caused by the COVID-19 virus, including the introduction of credit moratoria on the market and other events, the most important elements of the judgment made by the Bank's Management Board relate to the potential impact of the mentioned factors on these judgments, increase in credit risk and impairment and the valuation of collateral and future cash flows related to credit receivables owned by the Bank.

This matter was considered by Deloitte to be the key audit matter due to the significant impact of impairment allowances on valuation of credit receivables as well as due to the fact that they require a significant judgement of the Bank's Management Board and adoption of significant assumptions in the process of their estimation, including the adopted macroeconomic estimates, especially with regard to the estimation of credit risk parameters in models of expected credit losses calculation in accordance with the requirements of the International Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9").

We have critically analyzed the design and implementation of the process and policy of calculation of the impairment allowances on credit exposures and we have assessed the control system in this process, including automated controls in the Bank's IT systems, considering also possible omission of controls.

Our audit procedures included reconciliation of the loan database with the general ledger of the Bank to confirm the completeness of the recognition of credit receivables that are the basis for impairment losses calculation, as well as the value of these impairment allowances on loans.

With regard to the verification of the correct application of the requirements of IFRS 9, our procedures included, among the others:

- evaluation of the methodology applied by the Bank with respect to the classification and valuation of financial assets in terms of their compliance with the requirements of IFRS 9 and with the market practice,
- evaluation of the Bank's impairment methodology from the perspective of compliance with the requirements of IFRS 9, in particular as regards the application of SICR criteria, which means a significant increase in credit risk from the moment of granting a loan, for a selected sample of loan exposures, definition of default, adopted PD and LGD parameters and taking into account prospective information in the calculation of expected credit losses,
- assessment of the completeness and correctness of the disclosures, especially as regards the credit risk of financial assets.

For the collectively assessed loans, we have performed, among the others, the following procedures:

- analysis of the applied methodology of estimating allowances for expected credit losses, including adequacy of risk parameters used by the Bank,
- independent recalculation of the expected loss allowances for randomly selected exposures and portfolios in the portfolio approach,
- evaluation of changes in the assumptions made for the construction of models used for the measurement of credit risk and the applied approach to the verification of models based on historical data (so-called "back-tests").

With regard to the impairment estimated on the basis of the individual method we have performed the following procedures:

- analysis of the correctness of the process of identifying the triggers for impairment,
- assessment of the correctness of the estimation of write-

Key audit matter	How we addressed the matter
	<p>offs for the selected sample of the credit exposures with identified evidences of the impairment in terms of the correctness of the assumed values of collaterals and assumptions concerning other cash flows.</p> <p>With reference to the impact of the Covid-19 on credit receivables and the impairment process, our procedures included:</p> <ul style="list-style-type: none"> <li>– inclusion in the credit review entities from the industries of the increased risk and which have benefited from the credit moratoria,</li> <li>– analysis of protocols from the Diagnostic Committee of the Bank in response to the outbreak of the Covid-19,</li> <li>– analysis of the loan database including exposures where clients as at year end have benefited from the credit moratoria.</li> </ul>
<i>Revenue recognition of interest income and fee and commission income</i>	
<p>Interest income and fee and commission income are presented in detail in Note 14.1 Interest income and other of similar nature and Note 14.3 Fee and commission income and expenses in the financial statements.</p> <p>We assess this as key audit matter due to the share of interest and commission income in the Bank's total income and the fact that they are the key elements of the Bank's profitability assessment.</p>	<p>Our procedures included, among the others:</p> <ul style="list-style-type: none"> <li>– analysis of the internal control environment in terms of the recognition and presentation of the interest income and the fee and commission income,</li> <li>– review of the accounting policy with regard to the revenue recognition and assessment of the rules for determining the effective interest rate on interest income on loans, including automatic controls in the IT systems of the Bank,</li> <li>– analysis of trends in interest and commission income recognition, including explanation of unusual events and one-off transactions,</li> <li>– detailed verification of revenues recognized as one-off,</li> <li>– evaluation of the existence and valuation of revenues based on a sample of transactions.</li> </ul>

## Responsibilities of the Management Board and the Supervisory Board for the Financial Statements

The Bank's Management Board is responsible for the preparation – based on properly kept accounting records – of financial statements which give a true and fair view of the economic and financial position of the Bank and of its financial performance in accordance with the applicable International Financial Reporting Standards, as endorsed by the European Union, the adopted accounting policies as well as the applicable laws and articles of association, and for such internal control as the Management Board of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board of the Bank is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Bank either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Management Board of the Bank and members of the Supervisory Board of the Bank are obliged to ensure that the financial statements meet the requirements of the Accounting Act. Members of the Supervisory Board of the Bank are responsible for overseeing the Bank's financial reporting process.



## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The scope of an audit does not include an assurance about the future profitability of the Bank or the effectiveness or efficiency of the Management Board of the Bank in managing the Bank's affairs at present or in the future.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Management Board;
- conclude on the appropriateness of the Bank's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank's Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank's Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board of the Bank, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Other Information, Including the Report on the Activities**

Other information includes a report on the Bank's activities in the financial year ended December 31, 2020 (the "Report on the Activities"), together with a statement of compliance with corporate governance principles and a non-financial information statement, as referred to in Article 49b. 1 of the Accounting Act, which constitute separate parts of the report (together: the "Other Information").

The report of the Management Board on the activities of the Bank Millennium Group and the Bank for 2020, in accordance with Article 55(2a) of the Accounting Act, has been prepared jointly.

### *Responsibilities of the Management Board and the Supervisory Board*

The Bank's Management Board is responsible for the preparation of the Report on the Activities in accordance with the applicable laws.

The Management Board of the Bank and members of the Supervisory Board of the Bank are obliged to ensure that the Report on the Activities, along with the separate parts, meet the requirements of the Accounting Act.

### *Auditor's Responsibilities*

Our opinion on the financial statements does not cover the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our auditor's report. Additionally, under the Act on Statutory Auditors we are obliged to express an opinion on whether the Report on the Activities has been prepared in accordance with the applicable laws and whether it is consistent with the information contained in the financial statements. In addition, in accordance with the requirements of Article 111a(3) of the Law of 29 August 1997 on Banking Law (Journal of Laws of 2019, item 2357, as amended), hereinafter referred to as "Banking Law", it was our responsibilities to analyze the indicated financial information contained in the Report on the Activities. Furthermore, we are obliged to state whether a non-financial information statement has been prepared by the Bank and to express an opinion on whether the Bank has included the necessary information in the statement of compliance with corporate governance principles.

## **Opinion on the Report on the Activities**

Based on our work performed during the audit, we are of the opinion that the Report on the Activities:

- has been prepared in accordance with Article 49 of the Accounting Act and par. 70 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (the "Current Information Regulation", Journal of Laws of 2018, item 757, as amended);
- is consistent with the information contained in the financial statements.

Furthermore, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified any material misstatements of the Report on the Activities.

## **Opinion on the Statement of Compliance with Corporate Governance Principles**

In our opinion, the statement of compliance with corporate governance principles contains all the information referred to in par. 70.6.5 of the Current Information Regulation. We are also of the opinion that the information referred to in par. 70.6.5(c)-(f), (h) and (i) of the Regulation, as contained in the statement of compliance with corporate governance principles, is in accordance with the applicable laws and consistent with the information included in the financial statements.

## **Information on Non-Financial Information**

In accordance with the requirements of the Act on Statutory Auditors, we would like to inform you that the Bank does not prepare a non-financial information statement, relying on the exemption under Article 49b.9 of the Accounting Act.

In the Report on the Activities, the Bank included information concerning the preparation of a separate non-financial report and publication on the Bank's website on 22 February 2021.

## **Report on Other Legal and Regulatory Requirements**

### **Information on the compliance with the binding prudence principles**

The Management Board of the Bank is responsible for compliance with prudent principles determined by the Banking Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervisory Authorities. Based on the performed audit our responsibility was to present information whether the Bank complied with the binding prudence principles. Our objective was not to express an opinion on adherence to those principles.

Based on the work conducted during the audit we would like to inform you that we did not identify any breach of the prudent principles and we did not identify discrepancies that might have significant influence on the financial statement of the Bank, especially in the area of correctness of calculation of capital ratio.

### **Statement Concerning Provision of Non-Audit Services**

To the best of our knowledge and belief, we represent that non-audit services which we have provided to the Bank and to its subsidiaries are not prohibited under Article 5.1 of the EU Regulation and Article 136 of the Act on Statutory Auditors. The non-audit services which we provided to the Bank and to its subsidiaries in the audited period have been listed in the Report on the Activities.

### **Appointment of the Auditor**

We were appointed as the auditor of the Bank's financial statements by resolution 36/2018 of Supervisory Board of the Bank of 26 October 2018. Our total uninterrupted period of engagement to audit the Bank's financial statements is two consecutive financial years, i.e. starting from the financial year ended 31 December 2019.

The key statutory auditor on the audit resulting in this independent auditor's report is Dorota Snarska-Kuman.

Acting on behalf of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered seat in Warsaw, entered under number 73 on the list of audit firms, in the name of which the financial statements have been audited by the key statutory auditor:

Dorota Snarska-Kuman  
Registered under number 9667

Warsaw, 22 February 2021

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