

**Management Board
Report on the activity of
Bank Millennium and
Capital Group of Bank
Millennium in 2021**

This document is not the official version of the Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium of 2021. Official Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium of 2021 was prepared in accordance with the ESEF requirements.

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.

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Ladies and Gentlemen,

The year 2021 was another unusual and difficult period in our business. Although the economic outlook after the end of the first waves of the pandemic was good, and vaccines gave hope for the normalization of life, the second half of the year brought inflation, economic uncertainties and ... new variants of the coronavirus. However, I close the year with a sense of fulfilment and satisfaction with the effects we have achieved. This was possible thanks to the commitment and harmonious cooperation of all employees of the Bank Millennium Group, whom I wholeheartedly thank for this.

In 2021, we achieved good operational and business results, while actively managing and mitigating the different risks related to the banking activity. It was a year of high growth in retail lending, led by record sales of new mortgage loans and a rebound in consumer loan sales. As befits a leader in digital customer experience, the number of active digital customers exceeded 2.3 million (an increase of 10% y/y) and mobile customers 1.9 million (an increase of 16% y/y). We increased our core revenues (interest and commission revenues) and decreased operating costs. The quality of the loans portfolio improved, which allowed a lower cost of credit risk. The financial loss in the amount of PLN 1,332 million was caused by the creation of provisions for legal risk related to the portfolio of foreign currency mortgage loans (excluding Euro Bank) in the amount of PLN 2,086 million, additional costs incurred with individual amicable settlements with FX mortgage borrowers and with legal costs. Excluding these provisions and costs, the Group's net profit would amount to PLN 1,098 million net.

Undoubtedly, this year was important to speed up solving the issue of Swiss franc loans. As a result of signing settlements with our customers, the number of active FX mortgage loans decreased by 8,449 in 2021 compared to over 57,800 active loan agreements at the end of 2020. The number of amicable settlements was higher than the influx of new court cases.

The event of the year for the Bank was undoubtedly the announcement of our new Strategy for 2022-2024 entitled "Inspired by people". The document is the result of the work of many teams and derives directly from the knowledge and inspiration of employees. The strategy assumes smart growth, solid business development and further technological progress. We want to maintain high operational efficiency and strengthen customer acquisition based on the growth engines developed in recent years - the sales of personal accounts, cash and mortgage loans, and selective growth in corporate. The key values of our activities remain unchanged. These are customer centricity, offering high quality of service, continuous innovation, accelerated digitalization, with the mobile app at its core, and a commitment to society and the environment.

The Bank is a signatory to the partnership for the implementation of the UN Sustainable Development Goals, which sets the direction for our activities. For 11 years, the Bank has been part of the index of the Warsaw Stock Exchange, which brings together companies with the highest standards of sustainable development. Bank Millennium Group does not provide financing for new coal mines and investments in coal-based energy, with the exception of new investments related to the reduction of pollution. A few years ago, the Bank decided to significantly reduce the exposures financing the coal industry. As a result, the portfolio's exposures involved in coal and hydrocarbon mining are close to zero. For the coming years, we have set ourselves specific climate goals. The Bank's plans are to reduce its own greenhouse gas emissions by 50% in 2022 compared to 2020 and to achieve climate neutrality in terms of its own emissions by 2027. It will also actively support corporate clients in their decarbonization activities, in developing their investment plans related to the package of the European funds, especially green finance.

Following a long period of only virtual activity of the Bank Millennium Foundation due to the pandemic, in 2021 its activity returned to real life. We continued the employee volunteering project #stuchaMYwspieraMY and the educational program "Financial ABCs". We conducted 200 workshops in kindergartens throughout Poland and over 2 600 people in a difficult life situation received help from us. After the very popular 18th edition of the Millennium Docs Against Gravity festival, we have extended our cooperation with its organizer for another three years.

What lies ahead? In accordance with the new strategy for the years 2022-2024, the Bank plans to meet the growing, post-pandemic expectations of customers and shareholders. By 2024, we intend to achieve PLN 2 billion of net profit (excluding costs related to the portfolio of foreign currency mortgage loans) and ROE (without the above-mentioned costs) at the level of approx. 14%. Ambitious efficiencies and smart business growth will be made possible by further increasing the number of active customers to over 3 million in 2024 and improving a cost-effective, scalable operating platform allowing to achieve cost/income ratio of less than 37% in 2024.

We expect that in 2022 the Polish economy will remain on the positive path, although economic growth will slow down when compared to 2021. The economy will continue to be supported by household consumption, driven by the expected further decline in the unemployment rate and wage growth. However, high inflation and interest rate hikes will limit the dynamics of consumer spending. 2022 may also be a year of rebuilding investments, especially if European funds start to flow into Poland in a wider stream. The pandemic remains a factor of uncertainty, despite the fact that in 2021 the economy largely adapted to operate in its conditions. High inflation remains a risk, which may force higher than expected interest rate increases, which could imply a stronger slowdown of the economy.

Looking ahead to the coming year, I am optimistic. Bank Millennium is fully prepared for the challenges of the future and poised to implement ambitious, strategic goals. I hope that working on them will be a source of satisfaction for every employee. 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

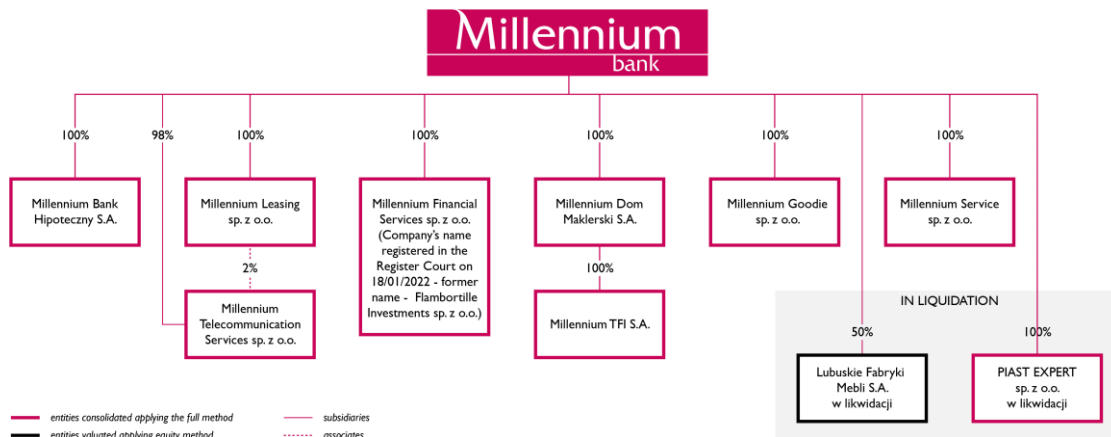
Bank Millennium S.A. ('Bank Millennium', 'Bank') was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of branches, a network of personal advisors as well 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.

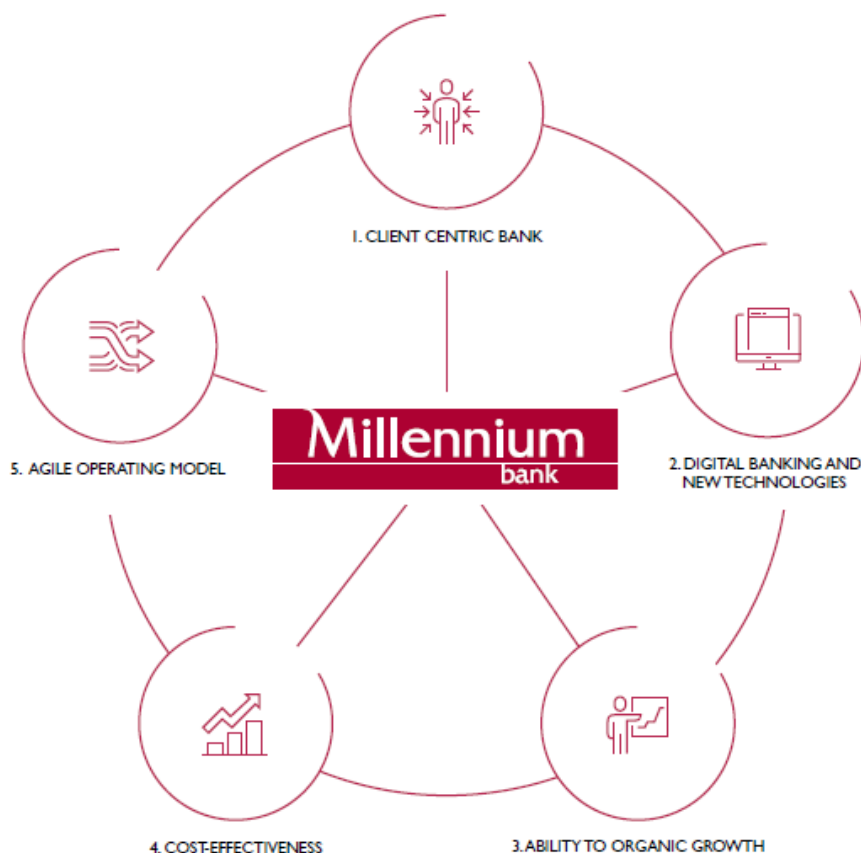
Bank Millennium, together with its subsidiaries, forms Bank Millennium Group ('BM Group', 'Group') - one of the most innovative and comprehensively developing financial groups in Poland - employing in total 6,942 persons (FTE).

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.



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.

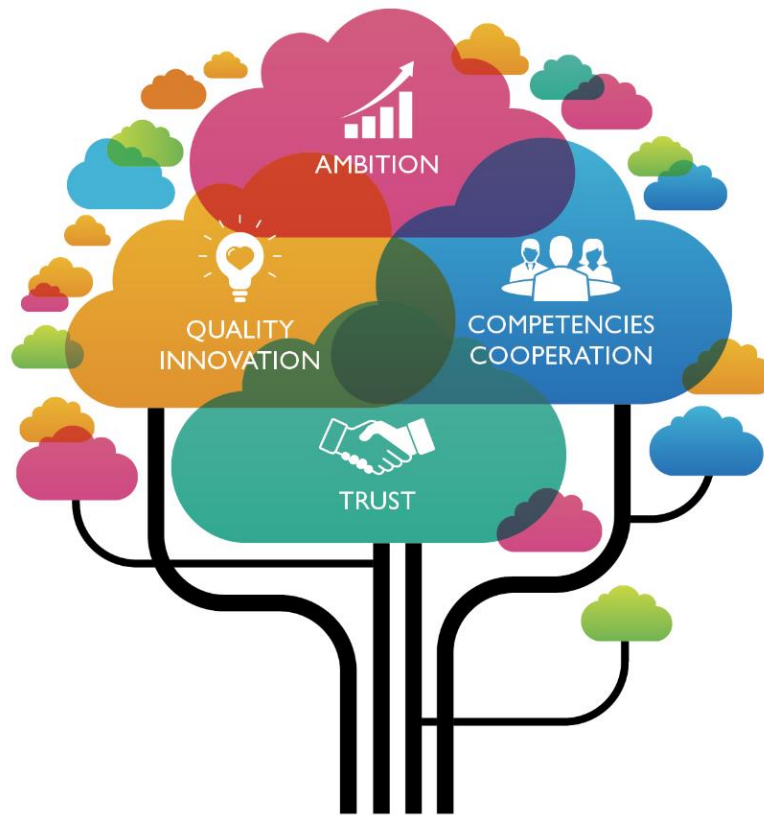
4. COST-EFFECTIVENESS

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 2021

2.1. SUMMARY OF CONSOLIDATED GROUP RESULTS IN 2021

In 2021, Bank Millennium S.A. Capital Group's (the 'Bank', the 'BM Group') posted a consolidated net loss of PLN1,332 million. This followed net profit of PLN23 million in the preceding year. Year 2021 was to some extent a mirror image of the year 2020, when due to direct and indirect impact of COVID-19 pandemic and increasingly challenging economic background, operating results of the BM Group and its peers were deteriorating as the year progressed. In contrast, after a slow start, 2021 brought a gradual recovery of the business and as a result record high operating (ex-FX mortgage related costs) quarterly profit of BM Group in 4Q21.

BM Group's annual results (management accounting approach)

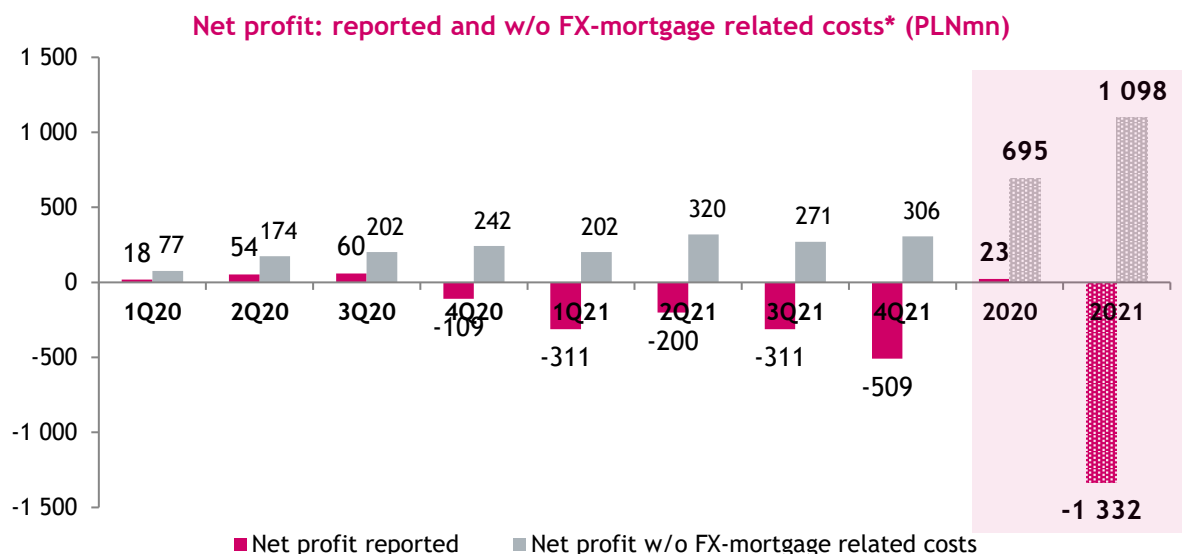
(PLNm)	2019*	2020	2021	y/y
NII	2,499	2,549	2,713	6%
Net fees	699	746	831	11%
Other income	273	283	14	-95%
Operating income	3,472	3,578	3,558	-1%
Operating income adj. **	-	3,589	3,703	3%
Operating expenses	-1,726	-1,753	-1,642	-6%
Operating expenses adj. ***	-	-1,560	-1,458	-7%
Operating result before risk charges	1,745	1,825	1,916	5%
Risk charges	-439	-621	-299	-52%
FX-mortgage legal risk	-223	-714	-2 305	223%
Bank tax	-248	-279	-313	12%
Pre-tax	835	211	-1 001	n/a
CIT	-275	-188	-331	76%
Net result reported	561	23	-1,332	n/a
Net profit w/o FX-mortgage related costs	-	695	1,098	58%
Loans net	69,542	73,639	78,603	7%
Deposits	81,455	81,511	91,448	12%
Equity	8,942	9,091	6,697	-26%

*NII/other income on pro-forma basis with interest in derivatives presented in NII; ** w/o result on FV portfolio, amicable conversions and netting-off EB's FX-mortgage provisions; *** w/o BFG and legal costs

FX-mortgage related costs were an even heavier burden to our core-business

Having said that, it is important to stress that it was again costs related to FX-mortgage portfolio originated by Bank Millennium (provisions related to legal risk, costs of conversions to PLN mortgages or early conversions both agreed on negotiated terms with FX-mortgage borrowers - 'amicable conversions' - and legal costs among others) that were the main burdens on bottom line and the main reasons for the BM Group's net loss in 2021. Totalling PLN2,430 million post tax (legal risk provisions alone: PLN2,082 million) these compared to PLN673 million (PLN614 million) in 2020. Adjusted for these, BM Group would in 2021 report record high net profit of PLN1,098 million, compared to adjusted net profit of PLN695 million in 2020.

Full year 2021 net profit adjusted for all extraordinary items (above mentioned FX-mortgage related costs, revaluation of Visa shares and provision against a corporate court case) stood at PLN1,123 million, up 46% y/y. Adjusted ROE of 13.8% compared to 8.4% in 2020.

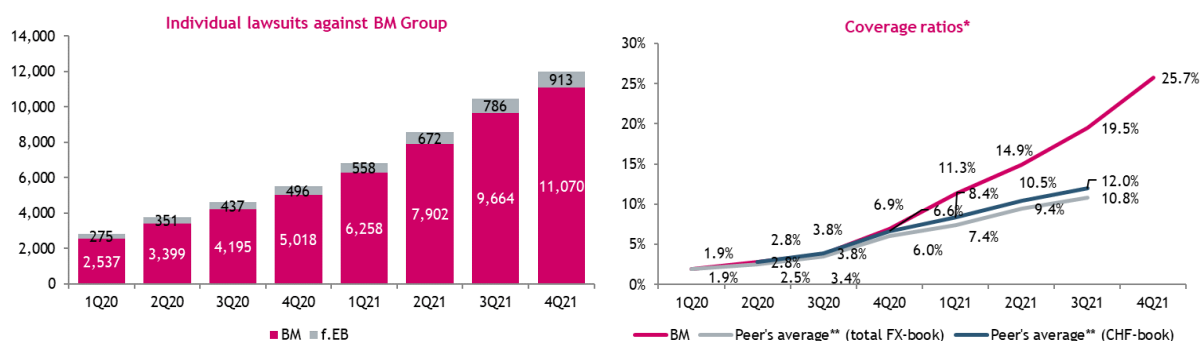


* adjusted for provisions against legal risk, legal costs related to FX-mortgages and costs of amicable conversions

The significant increase in the above-mentioned FX-mortgage related costs resulted from more conservative inputs into the Bank's provisioning methodology, reflecting, *inter alia*, a more challenging environment, significantly higher number of amicable conversions and finally higher legal costs, due counterclaims, among others.

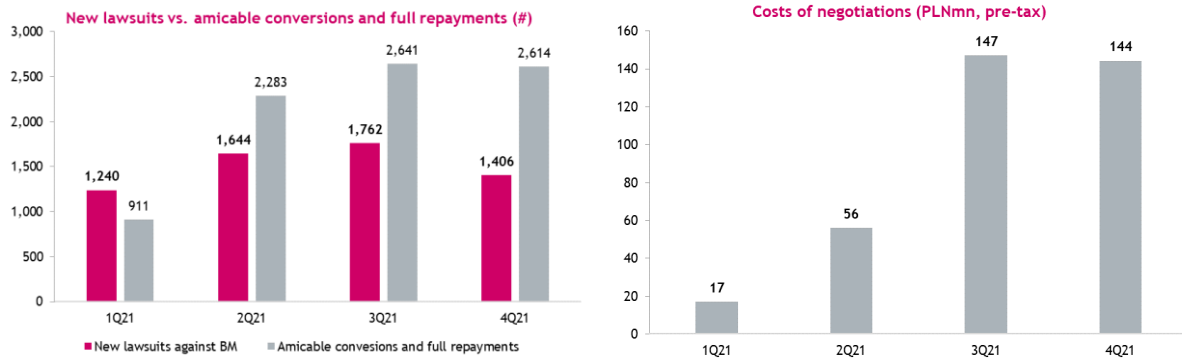
2021 overall brought a significant increase of the number of individual lawsuits related to loan agreements originated by the Bank. These reached 11,070 at end of December 2021 compared to 5,018 at YE20. The inflow of new cases against the Bank was not linear during the year with 3Q21 bringing the thus far highest number (1,762) and inflow in 4Q21 remaining high but lower than in the two preceding quarters. At the same time, negative court verdicts for banks continued (details regarding litigations against the BM Group can be found further in the report).

At the end of December 2021, the balance of provisions for the portfolio originated by the Bank stood at PLN3,079 million (end of December 2020: PLN924 million), an equivalent of 25.7% of the outstanding FX-mortgage grossed-up book (YE20: 6.9%).



* Legal risk provisions/gross FX mortgage book (ex-EB portfolio in case of BM), ** average of nine largest banks listed at WSE w/o PKO BP's 4Q20 provisions for 'KNF conversions'

At the same time, the Bank continued to be open to its customers in order to reach amicable solutions regarding FX-mortgages on negotiated terms. As a result of these negotiations and other natural drivers, in 2021 the number of active FX-mortgage loans decreased by over 10,000, compared to over 57,800 active loans agreements at the end of 2020. In recent quarters (and in 2021 overall), the reduction of the number of active FX-mortgage loans was higher than the inflow of new individual court cases against the Bank.



Quarterly trends/operating dynamics

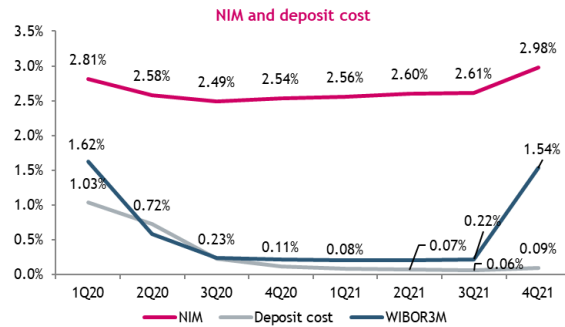
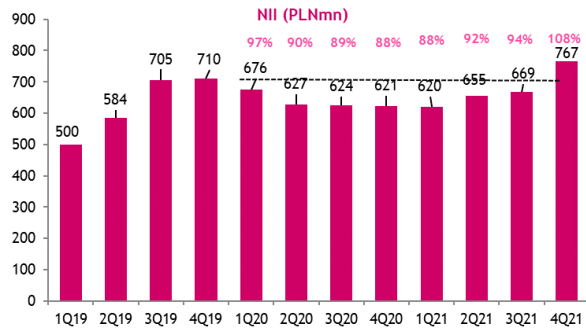
It is worth to highlight that 2021 was another ‘non-linear’ year for both BM Group and Poland’s banking sector overall. Similarly to the previous year, year 2021 brought significant swings in Poland’s macroeconomic background and as a result volatility in our business. Early part of the year remained under the influence ultra-low interest rates, was marred by the second wave of the pandemic and negative macroeconomic background. Summer months saw wave of coronavirus tapering out, relaxation of pandemic restrictions and fast recovery of economic activity. Finally, the second part of the year was chiefly under the influence of soaring inflation (and the resulting late albeit vigorous start of the rate tightening cycle) with the third wave of pandemic taking only small (if any) some toll on the bank’s operating activity and business.

As result of these factors and trends, 4Q21 was the strongest quarter in the year as far as operating results are concerned. The improvement of our operating results in the quarter was of such a high magnitude that, in many metrics, full year 2021 results finished above the respective levels in 2020. Reported quarterly revenues were up 4% y/y in 4Q21 (2021: up 2% y/y), while opex (excluding charges for Banking Guarantee Fund (‘BFG’) and legal costs) was flat y/y (2021: down 7% y/y). Core income was particularly strong in the period with the 13% q/q increase taking the y/y growth of full year 2021 core revenues to 6% from 2% in 9M21 and -1% in 1H21. NII, the main driver, increased 15% q/q to above pre-pandemic levels, while full year 2021 NII grew 5% y/y following the 1% y/y contraction in 9M21. This strong performance was driven by a combination of higher interest rates (average 3M WIBOR of 1.53% in 4Q21 compared to 0.22% in 3Q21) and solid 3% q/q growth of loans (ex-FX mortgage portfolio). Record high disbursements of PLN mortgages (4Q21: PLN2.8 billion, up 33% y/y, 2021: PLN9.8bn, up 46% y/y) and much accelerated originations in leasing (4Q21: PLN1.1 billion, up 39% y/y, 2021: PLN3.9 billion, up 57% y/y) were the key contributors. In 2021 overall, the Bank’s market share in originations of mortgages reached 12.5% (2020: 12.2%), putting us at #3 position on the market (2020: #4).

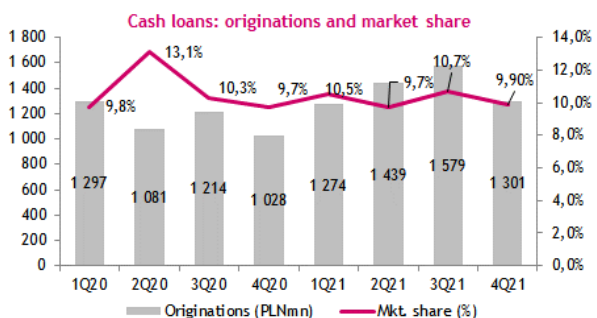
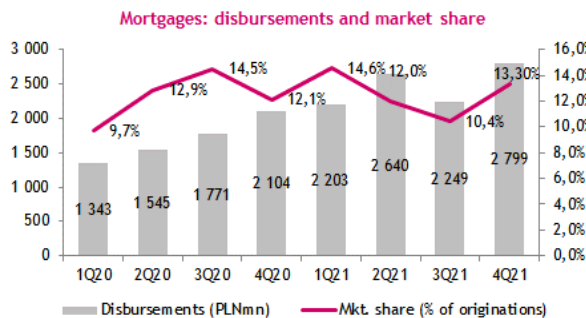
Key points of Group BM results in 2021

The key developments in the last twelve months that drove the y/y improvement of the results and which, we believe, are particularly worth highlighting are as follows:

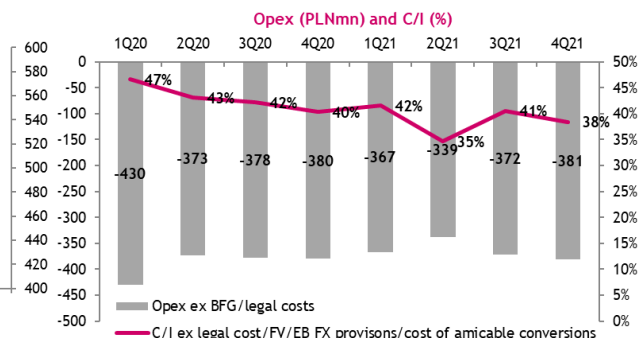
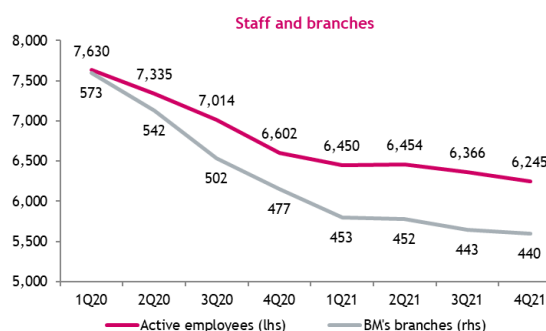
- M much accelerated recovery of NII** with 4Q21 bringing 15% q/q growth to 108% of the previous record high NII of 4Q19; in 2021 overall NII grew 5% y/y;
- M accelerated improvement of quarterly NIM** (298bps in 4Q21 from 261bps in 3Q21, to just 1bp below the 3Q19 peak of 299bps and 49bps up from the low of 249bps in 3Q20); full year 2021 NIM stood at 270bps compared to 261bps in 2020;



M above-market loan growth (net loans +7% y/y in 2021) despite strong reduction of the FX-mortgage portfolio; solid originations of retail loans played a key role but the 4% y/y growth of the corporate book overall (leasing portfolio up by noteworthy 7% y/y) also had a positive contribution; disbursements of mortgages in 4Q21 reached a new all time high of PLN2.8bn, up 33% y/y (2021: PLN9.8bn, up 46% y/y) with market share in originations of 13.3% vs. 12.2% in 4Q20 (2021: 12.5% vs. 12.2% in 2020); 4Q21 origination of cash loans of PLN1.3bn, though down q/q, remained well above this in the respective period of last year (2021: PLN5.6bn, up 21% y/y); on a separate count our gross FX-mortgage book contracted 28% y/y due to a combination of repayments, provisioning (in line with IFRS9 most of legal risk provisions are booked against gross value of loans under court proceedings) and amicable conversions (pure gross FX-mortgages ex-EB in CHF down 17% y/y); as a result, the share of FX-mortgages in total gross loans decreased to 12.4% (BM originated: 11.4%) from 18.3% (17.0%) at YE20;



M improving cost efficiency owing to a combination of a steady increase in the digitalisation of our business and relations with clients with strong cost response to revenue pressures earlier in the year; falling headcount (number of active employees down 357 or 5% since YE20), ongoing optimisation of our physical distribution network (own branches down by 37 units or 8% in the last twelve months) complemented the increasing share of digital services (digital customers: nearly 2.3 million, up 10% y/y, number of active mobile customers: 1.9 million, up 16% y/y); cost optimisation initiatives not only resulted nominal reduction of opex but also translated into much improved cost efficiency; reported C/I ratio in 2021 dropped to 46.2% from 49.0% in 2020, C/I adjusted excluding BFG, FV portfolio, costs of amicable conversions offered to FX-mortgage borrowers and netting-off of FX-mortgage provisions on f.EB book dropped y/y to 39.4% from 43.5% in 2020;



- M stable loan book quality** resulting in a low cost of risk (2021: 37bps vs. 2020: 83bps) with positive underlying trends in quality of both retail and corporate books and continued NPL disposals (PLN56mn in 2021 overall vs. PLN19mn in 2020); NPL ratio eased to below 4.4% at the end of December 2021 from nearly 5.0% the year before;
- M customer deposits were up significantly (12%) up in the year** with corporate ones up 29% y/y and retail ones up 6%; the liquidity of the Bank remained very comfortable with L/D ratio at 86.0% compared to 90% at YE20;
- M capital ratios fell during the year** (Group TCR: 17.1%/T1: 14.0% vs. 19.5%/16.5% respectively at YE20) as the drop of T1 capital (net loss in the year and part of unrealised losses on securities) outweighed the drop of RWAs;
- M AuM of Millennium TFI and third party funds combined increased 6% y/y** to just over PLN8.9 billion.

2.2. MAIN AWARDS AND ACHIEVEMENTS IN 2021



The Best Bank in Poland for 2021

Bank Millennium was hailed The Best Bank in Poland for 2021 in the annual Best Bank Awards competition organised by the renowned Global Finance Magazine. All selections were made by the editors of Global Finance after extensive consultations with corporate financial executives, bankers and banking consultants, and analysts throughout the world.



Złoty Bankier 2021 - Millennium with the best mortgage

- 1st place in the Mortgage loan category
- 2nd place in the Socially Sensitive Bank category for supporting the project as part of corporate social responsibility
- 3rd place in the Best Multichannel Service Quality category



Millennium second in the ranking of the best banking and financial services employers 2021 in the Forbes and Statista ranking

Poland's Best Employers 2021 is a list of 300 companies operating in Poland, whose achievements in the field of HR have been honoured with the title of the best employer. In the category of banks and financial services, Millennium came second. Ranking, prepared and published by Forbes magazine. The content partner of the project is Statista.



"Best Bank 2021" competition

Bank Millennium took second place in the "Best Bank 2021" competition in the group of small and medium-sized commercial banks. The competition is organized by "Gazeta Bankowa". Statuettes in the competition were awarded in the following categories: cooperative banks, small and medium-sized commercial banks and large commercial banks.



Golden CSR Leaf

As in the previous year, the Bank was awarded the Golden CSR Leaf of the Polityka weekly, received by companies whose activities in the field of corporate social responsibility and sustainable development are rated the highest. In the previous years, the Bank won the Silver Leaf five times.



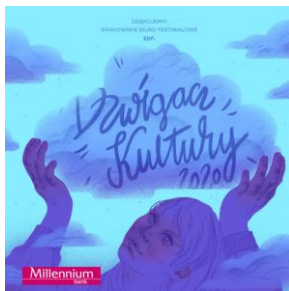
Celent Model Bank in Open Banking

Bank Millennium won the Celent Model Bank award for its open banking services, implemented systematically in 2020. The bank's solutions were assessed as an excellent example of good practices in project implementation, having a significant impact on business results and the entire industry.



Bank Millennium is the Innovator of 2021 according to Global Finance magazine

Bank Millennium in the poll conducted by Global Finance magazine was recognized as an outstanding innovator in retail banking for its open banking services - 2021 Outstanding Innovator in Retail Banking for "Bank Millennium Open Banking Services" (Special Honours). This is yet another international award this year for the bank's innovative solutions.



Dźwigacz Kultury (Culture Elevator) for Bank Millennium

For the sixth time now Bank Millennium was awarded Dźwigacz Kultury (Culture Elevator) by the Cracow Festival Office for sponsoring the Sacrum Profanum festival. This is yet another award this year for the bank for supporting cultural events despite the pandemic.

**Institution of the Year 2021 - Millennium is the best bank in mortgage services and the winner in most other categories**

In this year's Institution of the Year Bank Millennium has been recognised as the best bank in mortgage service. The Bank was also among the winners in most categories: Best Bank in Poland, Best Service in Branch, Best Service in Remote Channels. Best Mobile Application and Best Account Opening Process and 11 bank branches were on the list of bank banking branches in Poland. Bank Millennium Foundation projects have been given special recognition in the Corporate Social Responsibility category.

**Contact Center teams are winners in the competitions of the Golden Handset and Telemarketer of the Year**

The Golden Handset was awarded to: the Mortgage Product Service Team, Quality Department of the Direct Banking Dept., Justyna Witkowska and EasyBanking project. Contact Center employees also won the Telemarketer of the Year competition. The competition for the best Customer Care projects in Poland is organized by the Direct Marketing Association.

**Banking Stars - 3rd place in the category "Star of customer relations"**

The bank was among the banks distinguished in the Banking Stars ranking organized by Dziennik Gazeta Prawna and PwC. In the "Star of customer relations" competition, in which the assessment is made by bank customers Bank Millennium came third (in the second edition of the previous edition).

**Bank Millennium is the best digital bank in Poland according to Global Finance Magazine**

Bank Millennium was hailed The Best Consumer Digital Bank in Poland for 2021 in the World's Best Digital Banks competition organised by the renowned Global Finance Magazine. This is yet another international award for the bank's achievements this year.

NAJLEPSZE POLSKIE MARKI 2021				
Miejsce w rankingu	Miejsce w kategorii	Marka	Kategoria	Wartość w mln PLN
1	1	BIEDRONKA	Sprzedaż detaliczna żywności	4 587
2	1	ORLEN	Paliwa	1 721
3	1	BANK MILLENNIUM	Banki	1 699
4	2	PKO BP	Banki	1 642
5	3	MBANK	Banki	1 541
6	4	ING BANK SŁĄSKI	Banki	1 494
7	-	ALLEGRO	Sprzedaż detaliczna	1 475
8	5	ALIOR BANK	Banki	1 392

Bank Millennium comes third in the TOP 200 Best Polish Brands ranking.

In the “Forbes” magazine TOP 200 ranking of Best Polish Brands Bank Millennium took the high third place (top scoring bank on the list). The TOP 200 Best Polish Brands ranking shows the position and value of brands from the perspective of their strength in the minds of customers and their role in generating revenue.



Winning this year's edition of “Newsweek's Friendly Bank” ranking

1st in the “Bank for Mr. Kowalski” category

1st place in the “Remote Banking” category

Bank Millennium became the winner of this year's Newsweek Friendly Bank ranking. This is the Bank's comeback to rating peaks in great style. Millennium was ranked strictly at the top in all aspects of services evaluation, especially mobile banking evaluation. It is precisely mobile banking, awarding a big number of points in both rankings, that decided about the victories in the jubilee edition of the competition.



Bank Millennium is in the “European Diversity Leaders 2022” ranking

The most recent Financial Times listing out of 15000 companies selected 850 employers who support and promote diversity in their organisations. Bank Millennium is one of them. The ranking was prepared on the basis of the opinions of 100000 employees and experts dealing with human resources and recruitment. The substantive partner of the project is the Statista research company.



Mój Biznes account is the number one for microbusinesses

In the Bankier ranking out of 11 banks it was our company account which came first. Mój Biznes account is an ideal solution for persons who conduct a single person business activity and modern, multifunction tool to manage a company's finance. We have recently worked a lot on the offer for business.

**CSR Bank Millennium among the top three in the developers' ranking**

For the 15th time, developers associated in the Polish Union of Development Companies evaluated banks in terms of their financing relationship and services provided to housing development projects - Bank Millennium made it to the podium, coming third.

**The Bank wins the “Wrocław without barriers” plebiscite in the Corporate Social Responsibility category**

The certificate was awarded for facilities in the use of digital banking and the implementation of architectural adaptations for people with disabilities as well as for providing training for staff in the service of people with special needs. The organizers also appreciated our activities to shape a socially responsible brand.

3. INFORMATION FOR INVESTORS

3.1. SHARE PRICE PERFORMANCE

In 2021, investors' sentiment towards banking stocks improved markedly. Rotation into 'value' companies at the start of the year, improving macro forecasts, accelerating pace of vaccinations against the coronavirus as well as higher than expected inflation readouts and ensuing expectations about imminent interest rate hikes were supporting banking share prices throughout Europe in the early part of the year. In the second half of May, just after the Poland's Supreme Court postponed the verdict regarding Swiss francs to an indefinite future, share prices of Polish banks improved further. In the second half of June, news of the rapidly spreading new delta variant of the coronavirus as well as lower than expected inflation readout undermined banking share prices in Poland.

In subsequent months, stubbornly higher than expected inflation readouts and ensuing expectations about imminent interest rate hikes put banking share prices back *en vogue*.

Finally in 4Q21, the long-awaited increases of interest rates took place with the reference rate increased in three steps to 1.75% from 0.1%. While the hikes were positive from the bank sector perspective, yet some investors had discounted these earlier (since the start of 2021 WIG-Banki, the banking index, was one of the strongest performing sector indices) and as a result banking shares lost part of their lustre.

During the twelve months ending 31 December 2021, WIG broad market index grew 22%, WIG20 index of largest companies grew 14% while WIG Banks index gained 81%. At the same time, the share price of Bank Millennium increased 151%, making it the 2nd best performing banking stock on the WSE.

Annual change of Bank Millennium share performance vs. WIG Banks index



In 2021, daily turnover of Bank Millennium shares averaged at PLN8.2 million and was 20% higher than in the preceding year.

Market ratios	30.12.2021*	30.12.2020*	Change y/y
Number of Bank's shares ('000)	1 213 117	1 213 117	0.00%
Average daily turnover in annual terms (in PLN'000)	8 177	6 832	19.7%
Bank's share price (PLN)	8.195	3.27	150.6%
Market capitalisation of the Bank (PLNmn)	9 941	3 967	150.6%
WIG Banki	8 640	4 765	81.3%
WIG20	2 267	1 984	14.3%
WIG30	2 765	2 313	19.6%
WIG - main index	69 296	57 026	21.5%

(*) last day of listing in 2021 and 2020

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

3.2. BANK MILLENNIUM'S RATINGS

On 16 March 2021, Fitch Ratings placed the Bank's ratings: IDRs (issuer default rating), Viability Rating and national ratings on Rating Watch Negative / RWN (details in CR 8/2021, [Current reports - Investor relations - Bank Millennium](#)).

On 10 September 2021, rating agency Fitch Ratings removed rating of Bank Millennium from Negative Rating Watch list with negative outlook and affirmed Long-term Issuer Default Rating at 'BBB-' with a negative outlook (details in CR 29/2021, [Current reports - Investor relations - Bank Millennium](#)).

On 27 January 2022, Moody's affirmed Bank Millennium's rating with stable outlook.

The Bank's ratings, as at 31 December 2021, please find in the table below.

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

3.3. INVESTOR RELATIONS

Communicating with the investors' community the Bank assures a high level of transparency and proper access to information for all its recipients. Accurate and up-to-date information is provided in keeping with relevant legal regulations. The list of information published by the Bank, defining the frequency and place of publication, is available on the Bank's website in the Investor Relations section - in section of Information Policy [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 2021),
- Participation in conferences organised for Investors in Poland and abroad (8),
- Face-to-face and group meetings with capital market participants (431 persons),
- Current reports (36) 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.

Bank Millennium is analysed by 12 analysts representing local and international brokerage houses who publish their reports and recommendations for Bank Millennium shares. The full list can be found on the Bank's website [Analysts - Investor relations - Bank Millennium](#)

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](#))

In 2021, brokerage houses issued, to the knowledge of the Bank, 49 recommendations regarding Bank Millennium shares, of which 16 were "Buy", 17 "Hold", 4 "Neutral" and 12 "Sell". As at 31 December 2021, the structure of recommendations (not older than 6 months) was as follows:

Buy	Hold	Sell
5	2	2

3.4. 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.

On June 24, 2021 PFSA published a set of new relaxed dividend recommendations, allowing banks, upon meeting certain criteria, pay-outs from 2020 profits, among others. The Bank's Management Board did not revisit the merits of a dividend pay-out given, among others, fairly symbolic net profit posted in 2020, and the Bank's AGM on March 23, 2020, unanimously voted for a 100% retention of 2020 profit.

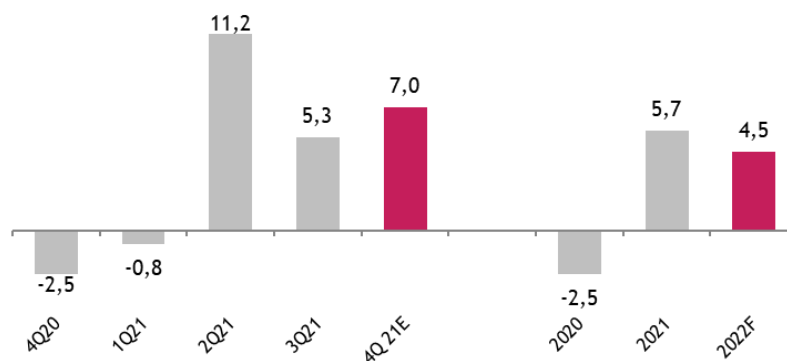
The Bank posted a net loss in 2021, hence there are no grounds for a dividend pay-out. Consequently, the Management Board does not intend to recommend shareholders a dividend pay-out in 2022.

4. MARKET CONDITIONS AND MACRO RISK FACTORS

4.1. MACROECONOMIC ENVIRONMENT

The year 2021 was a period when economies were rebuilding after pandemic shock of 2020 and adapting to situation of epidemic as supported by progress in vaccination programme against SARS-CoV-2. The Poland's GDP already in mid-2021 made up for COVID-19 pandemic related losses and in 2H21 dynamic economic recovery continued. Household consumption was the main factor responsible for GDP growth, increasing by 6.2% after drop by 3.0% in 2020. Its recovery was supported by expansionary fiscal and monetary policy, low unemployment rate, fast wage increase and savings accumulated in the period of severe restrictions. Reconstruction of inventories by enterprises had a strong impact upon the GDP growth, specifically in 2H20, in response to problems with supply of materials and intermediate production goods under conditions of a strong, synchronised demand growth worldwide. Despite those difficulties, the industrial sector supported by exports largely contributed into recovery of the Polish economy in 2021. Furthermore, investments in fixed assets increased in 2021, although had not reached the level of 2019, the year prior to the outbreak of the pandemic, mainly due to limited activity of the public sector. This was an effect of the initial phase of the new European Union budget perspective. With recovery of inventories, the foreign trade balance generated a strong negative impact upon the GDP growth. Finally, in 2021 GDP calculated in constant prices increased by 5.7% after decrease by 2.5% a year before and was higher by 3.0% than 2019 level, thereby distinguishing Poland in a positive way from among the EU member states.

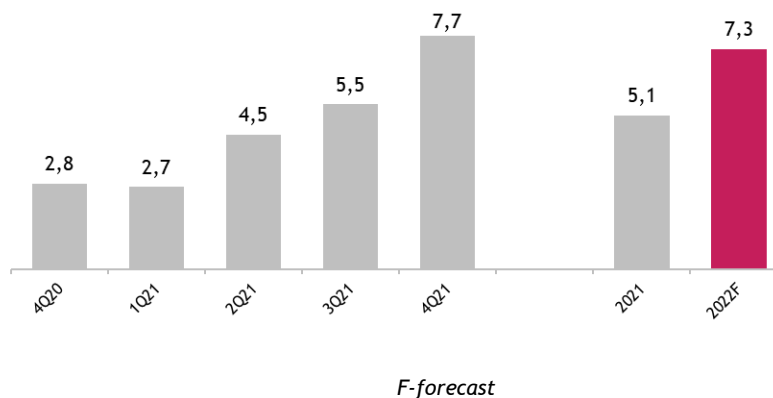
Evolution of GDP growth in Poland



F-forecast, E-estimate

Growing demand was a factor driving increase in prices worldwide. Furthermore, in Poland, with low unemployment and favourable income situation of households, enterprises were able to transfer some increase of business operation costs upon consumers thereby strongly increasing inflation. In 2021 inflation rate, on average, increased to 5.1% y/y from 3.4% y/y in preceding year, while in Dec'21 alone it reached 8.6% y/y, the highest value in the last 20 years. In view of high demand for work, fast economic growth, high inflation and its unfavourable outlook, the Monetary Policy Council, in 4Q21 increased interest rates of the National Bank of Poland. Reference rate, from historical low at 0.10% in Sep'21 increased to 1.75% at the end of 2021. Tightening of monetary policy is continued in 2022.

Evolution of CPI inflation



Fast economic growth and high inflation supported significant growth of deposits in the banking sector in 2021. For households it reached 6.7% y/y, and for non-financial enterprises it reached 10.4% y/y. In the environment of record low interest rate, the banking sector lending activity increased. In 2021 the total value of newly granted housing loans for households increased by 49.0% compared to the level in 2020, and that of consumer loans - by 26.7%. Recovery was also clearly noted in corporate loans albeit it was limited to overdrafts. With very good results of companies, the demand for investment loans remained subdued. In 4Q21, together with increasing interest rates, demand for loans in the household segment slightly decreased.

Available data indicate that GDP growth in 4Q21 slowed down to ca. 1.0% q/q from 2.3% q/q in 3Q21 (seasonally adjusted data), mainly in effect of slowdown, under conditions of high inflation and interest rate increases, earlier pent-up consumer demand as well as supply limitations in industry. According to the Bank, Polish economy in 2022 will remain on growth path, although high inflation, extended tensions in supply chain, tightening of monetary policy as well as delays in acceptance of the National Recovery Plan by the European Commission will slow GDP growth down to 4.5%. The deceleration should be limited by consumption-oriented changes in the “Polish Deal” programme after proper structuring of its implementation. In the Bank’s view, unemployment will continue to decrease albeit at a slower pace due to insufficient number of candidates for jobs having desired qualifications. International trade, despite the favourable export perspectives, will most probably contribute negatively to GDP growth due to imports growing stronger.

The inflation 2022 outlook remains unfavourable. The Government’s anti-inflation shields i.e. a set of tax changes including, i.a. temporary decrease of VAT rates on electrical energy, gas and fuels will reduce only the peak of CPI in 2022 but will increase price growth rate after those solutions expire. Labour market will support strong and continuing pressure on wages. In this environment, according to the Bank, average annual CPI inflation in 2022 will increase to 7.3% y/y, and monetary policy will continue to be tightened. In the baseline scenario of the Bank, the NBP reference rate will increase at the end of 2022 to 4.00%, however the slowdown of economic growth expected in 2H22 will restrict higher scale of increases. The course of the pandemic remains a factor of uncertainty for these expectations, but the data so far point to an increasing resilience of the economy to successive waves of disease and their lower impact on social mobility. Consumer reaction to high inflation and accompanying increases of interest rates are becoming more and more important risk factors.

4.2. FACTORS OF UNCERTAINTY FOR THE ECONOMY AND BANK MILLENNIUM GROUP

The summary list below presents the most important, in the Bank’s opinion, negative macroeconomic factors constituting risks for the economy and the Bank Millennium Group.

- Higher than expected growth in prices, which could result from inflation-wages spiral drive-up, worsening of relation between labour costs and productivity, increase of food and energy

prices and continuing, longer than expected, supply difficulties in industry. In the face of inflation higher than projected inflationary expectations of households and companies could increase stronger, household purchasing power would deteriorate (thus increasing the level of credit risk), and demand growing slower would increase pressure on margins and financial performance of companies thereby hampering payment of liabilities and investment growth.

- Strong and fast tightening of monetary conditions resulting in decrease of demand for credit, deterioration of quality of the loans portfolio of BM Group as well as deterioration of valuation of the Group's portfolio of Treasury securities.
- Rapid expansion of COVID-19 pandemic (e.g. vaccine-resistant mutations of the SARS-CoV-2 virus) and new anti-epidemic restrictions hampering demand growth in the economy and increasing credit risk exposure of the Group.
- Delay or lack of European Commission's acceptance of the National Recovery Plan in result of increasing legal dispute between the Polish government and the European Union, which would lead to investments growth being slower than in the baseline scenario.
- Military activities between Russia and Ukraine significantly increasing the level of uncertainty on financial markets, which could result in parts of portfolio capital flowing out of Poland and worsening of outlook for companies having exposure to Eastern European markets.

Nevertheless, there is the likelihood of better economic performance in Poland, which could result i.a. from faster than assumed implementation of the National Recovery Plan, stronger than assumed impact of tax changes announced in the 'Polish Deal' programme, or faster elimination of gridlocks in supply chains. According to the Bank, the balance of risk factors for the GDP forecast is assessed to be slightly skewed to the downside while inflation expectations to the upside.

4.3. POLISH BANKING SECTOR AND BM/BM GROUP'S POSITION

Polish banking sector

The year 2020 was inseparably connected with the Covid-19 pandemic. A combination of the so called Covid-provisions with low interest rates (and pressure on NII/NIM as a result) and moderated economic activity substantially undermined banking sector's profitability. High provisions against legal risk related to FX-mortgage portfolios were an additional significant burden. Following the unprecedented nearly PLN6bn net loss in 4Q20 (above-mentioned legal charges were the main reason), the commercial banks ended the full year 2020 with a combined net loss of nearly PLN0.7bn.

Year 2021, although still disrupted and influenced by next waves of the pandemic, was more about recovery and adaption to 'new pandemic' reality. The first two quarters of the year were characterised by continued contraction of NII which in 3Q21 reached a multi-year low (c90% of the pre-pandemic peak from 3Q19). However, simultaneously other sources of income, fees in particular, started to gradually improve. Combined with broadly stable opex (lower BFG charges and cost savings) and, most of all, lower risk charges, these translated into significant improvement of the banking sector's net profit in 1Q21 and 2Q21. 9M21 saw net profit growing nearly 60% y/y, but 4Q21 again brought a significant growth of FX-mortgage related legal risk provisions. The latter more than outweighed the strong recovery of NII, an early impact of 165 bps increase of base interest rates by Poland Central Bank. As a result, the sector overall again posted a net loss in the quarter (PLN0.2bn) undermining somewhat the otherwise strong y/y growth. In 2021 overall, commercial banks combined earned PLN8.7bn (PFSA's preliminary data) following the PLN0.7bn net loss in 2020 and PLN13.2bn net profit in 2019.

Operating trends of the banking sectors improved markedly during the year. The pace of y/y revenue growth accelerated to 10% from -2% in 1H21. Interest income, the main source of revenue growth in pre-pandemic years, contracted 1% y/y following the 3% drop in the previous year (4Q21 NII already up 16% y/y), while NIM recovered to 2,07% (last twelve months to end of December) from the low of 2.02% in September 2021 and compared to 2.26% in 2020. Net fee income grew 16% y/y after 12% growth in the preceding year while its share in total income increased to 26% from 23% in 2020. Banks continued to respond to revenue challenges with cost containing initiatives (additional tailwind from lower BFG charges) but increasing inflation and wage pressure translated into 1% y/y growth of opex in 2021 overall, following 1% contraction in 2020. The cost/income ratio for the whole sector improved

to 59% from 63% in the previous year. The pandemic continued to accelerate sector digitalisation which, among others, resulted further branch closures and staff reduction. At the end of December 2021, the number of banking branches was 6% lower than at YE20 (9% drop in 2020 overall) while the number of staff decreased by 4% (5%). Decreasing risk charges (-48% y/y) were one of the main reasons behind the substantial improvement the results of the sector. Risk charges were equivalent of less than 20% of operating profit compared to over 30% the year before. The share of stage 3 loans decreased well below 6% from nearly 7% at YE20, while the coverage ratio increased to 60% from below 59% respectively. Sector's ROE for the 12-months trailing to December 2021 improved to over 4% from a negative value in 2020 and 6.7% in 2019. According to PFSA's data, in 2021, nine commercial banks posted combined net loss of nearly PLN4.0bn (PLN1.5bn in 2020) while their share in total sector's assets nearly doubled to ca. 16%.

Banking balance sheets grew considerably during 2021 (+10% y/y), though slower than in 2020 (+18%) with inflow of deposits being the main driver. The latter largely came from the corporate sector but the gap between the growth of corporate deposits (+12% y/y) and retail ones (7%) narrowed from 18%/11% y/y in respectively in the preceding year. Since the start of the year, receivables from the non-financial sector (gross) grew by a 5% (2020: +1%) with these of households and corporates growth at the same pace (+5%). Total deposits increased 8% (2020: 13%) and as a result the over-liquidity of the sector increased further. This was evidenced, i.a., by a drop of loan/deposit ratio to 74% from 76% at YE20 or increase of NSFR ratios to 150% (end of September 2021 data) from 125% at YE20.

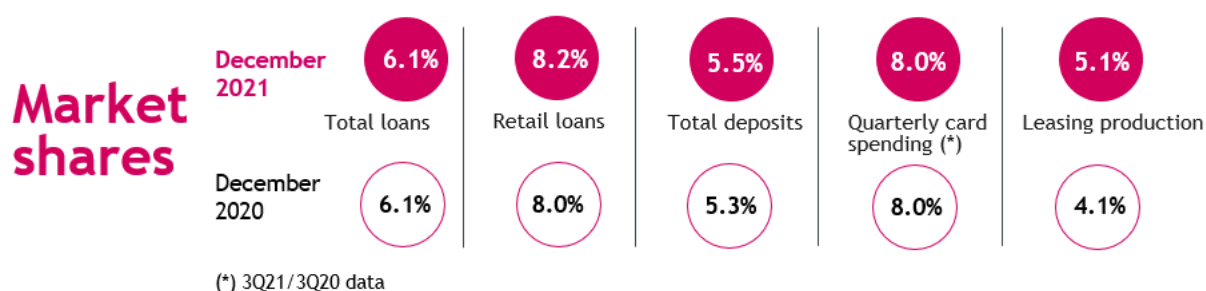
The Polish banking sector maintained a very strong capital position. At end of September 2021, the equity of Polish banks reached PLN228bn while capital ratios were not that far off from YE20 levels (TCR at 20.0% at the end of September vs. 19.1% while Tier 1 ratio at 18.1% from 17.0%). In December 2021, PFSA published its recommendation on dividend policy of commercial banks in 2022 in which it allowed dividend pay-outs on terms similar to these in the pre-pandemic period.

2021 brought a continuation of concentration and sector consolidation processes. At end of December 2021, the share of top five largest banks in total sector's assets was 57% vs. 48% at YE20, while their share in full year net profit was 122% vs. 67% respectively. The number of commercial banks remained unchanged at 30 units.

The Bank's and BM Group' position on the market

At end of 2021 Bank Millennium ranked 7th among top commercial banks in Poland by total assets and deposits. The Bank's market share in deposits was 5.5% (5.3% at end of 2020) and 6.1% (6.1%) in loans. Bank Millennium Group had a relatively stronger position in the household segment (loans at 8.2% vs. 8.0% at YE20, deposits at 6.8% and 6.7% respectively, in particular in mortgage loans segment (8.7% vs. 8.6%), non-mortgage loans (8.6%+ vs. 8.6%) or transactions made with cards (8.0% vs. 7.8% at YE20). In the companies' segment, where the Group has a lower share than in the retail segment (3.7% in deposits and 4.2% in loans), the Group maintains a traditionally above-average position in factoring products (c.7.3% at YE21). Also in 2021, the Group's subsidiary significantly increased its market share in origination of leasing with its market in December at 5.4% compared to 4.5% in the respective period of the previous year. The Group continues to distribute its products and services via a network of 655 branches (own and franchise ones), as well as through electronic channels, including cash machines, the Internet, phone and mobile apps.

BM's market share in key segments/products



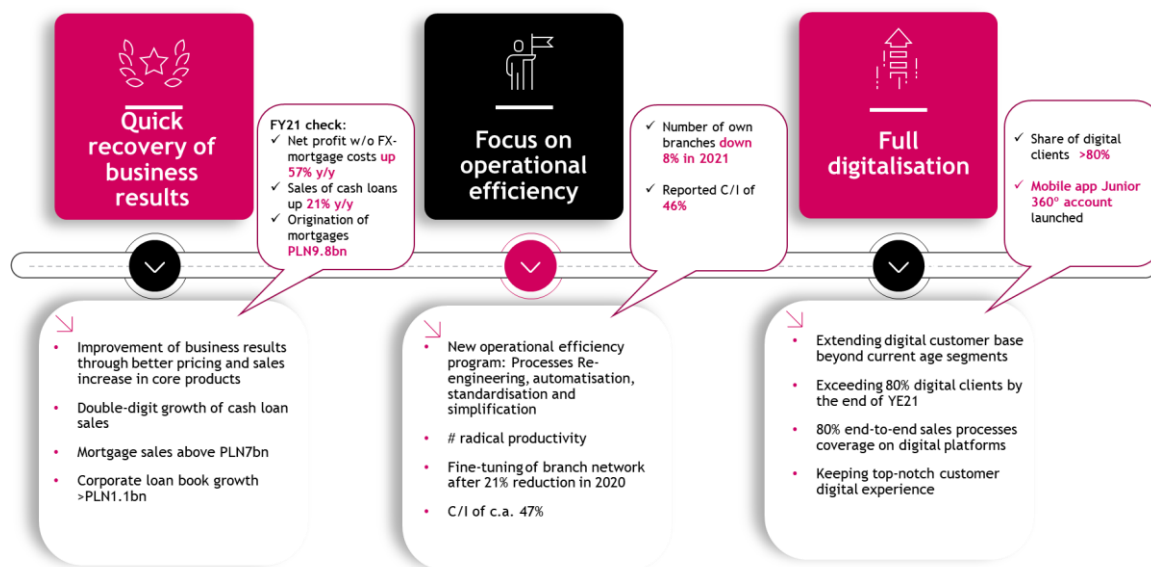
5. STRATEGY AND BUSINESS DEVELOPMENT PROSPECTS

5.1. 2021 STRATEGY AND ITS DELIVERY

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.

The vast majority of the targets set for 2021 was achieved, many actually overachieved as the graphics below shows.

2021 - A TRANSITION YEAR BEFORE NEW STRATEGY ROLL-OUT



Additionally, Millennium Bank Hipoteczny, a mortgage bank, commenced its operating activity in 2021 as planned, allowing a start of preparations to transfer mortgage loans.

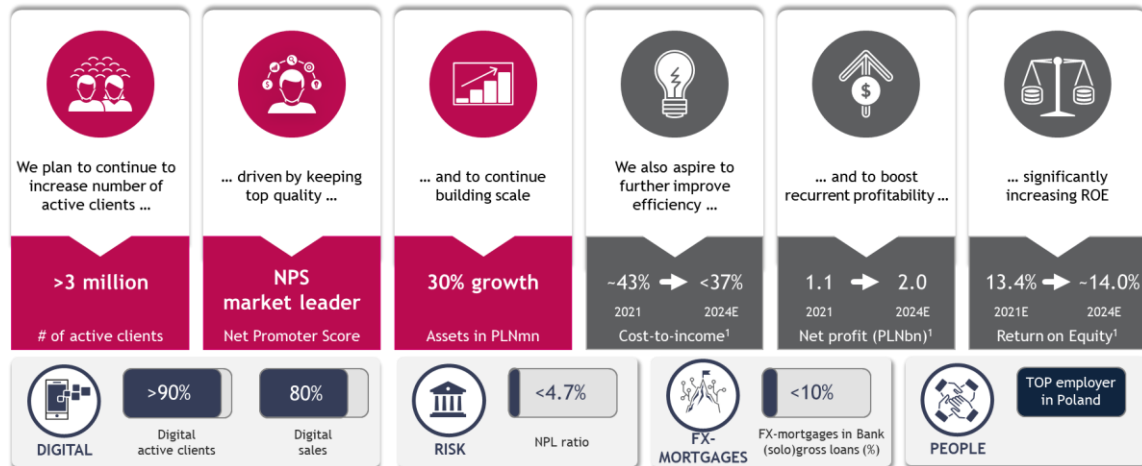
5.2. 2022 - 2024 STRATEGY

In the 2022 - 2024 strategy ('Strategy') announced by the BM Group on December 6, 2021 (details here: [2022-24 Strategy outline](#) and [2022-2014 Strategy presentation](#)), the BM Group concentrates on its response to growing post-pandemic expectations of customers and shareholders. By 2024, we aspire to reach PLN2 billion net profit (excluding costs related to FX mortgage loans portfolio) and ROE before such costs of around 14%. The improvement of efficiency ratios and business growth are to be driven by a continued increase of the number of active customers (to more than 3 million in 2024) as well as enhancements to cost-effective and scalable operational platform (cost-to-income ratio below 37% in 2024).

STRATEGY 2024 AMBITIONS IN BRIEF

Profitable growth, doubling Bank Millennium's recurrent profit while driving scale, strong customer recognition

Ambitions by 2024:



1. C/I, net profit and ROE excluding FX-mortgage book related costs

The strategy assumes a solid business growth, leading to growing profitability, incorporating customers' preferences changed or intensified by Covid-19. The new mid-term strategic goals are grouped in three development pillars:

1. Strong growth of the number of active customers

The Bank plans further significant increase of the number of active customers to the level of over 3 million in 2024. This means approximately 100,000 net growth per year and an expected market share in new personal accounts at ca. 9%. Due to the growing customer base and digital focus Bank aims at:

- 90% of active customers will be using digital channels (83% in late 2021) - 500,000 growth from 2.2 million in 2021 to 2.7 million in 2024;
- 99% of all transactions continued to be digital/remote;
- 80% of several main product sales to be fully or partly digital/self-service;
- maintain the leading position in NPS, offering to customers the service level they expect - convenience of transactions and simple sales; the latter constitute the majority of daily interactions with the bank as well as high quality of services supported with advice during onboarding of customers and with complex transactions (e.g. selling mortgage loans).

2. Strong, selective growth of the entire business, supported by innovative solutions, aiming to match the Bank's customers' needs.

The Bank plans to further digitalise sales and service model tapping on Covid-induced shift of customer preference. This is to be achieved by development of digital capabilities across the Bank to exceed clients' expectations (in daily banking, consumer finance, mortgage, family banking, bancassurance, investments). Mobile will be primary channel for sales of 'easy' products and customer service. At branches, the Bank will focus on customers acquisition, more sophisticated products, education of customers & onboarding them to digital. The Bank intends to stronger personalise its products and services. In retail banking, the Bank plans to significantly improve customers' experience: in mortgage, with new end-to-end digital/hybrid process that is to ensure robust, but also faster verifications and decision; in cash loans, leveraging PSD2 new capabilities; and savings investment, offering new compelling self-service digital tools and remote services. In micro business, the Bank plans to develop a new self-service lending solution for customers, as well as new services related to companies' registration and daily banking. In corporate banking, the Bank highlights the objective of

active support of customers in their investment programs, namely within their green transformations supported by public programs.

3. Increase of profitability and efficiency

The Bank aims to significantly increase its recurrent profitability and efficiency. Taking advantage of the expected market growth (all business segments are expected to grow by more than 10% annually) and higher interest rate environment, the Bank aims at 2024 total revenues (the sum of revenues from main business segments before consolidation adjustments) ca. 50% higher than in 2021 with retail business to be the main driver.

Within the Strategy horizon, the Bank will continue to address the FX-mortgage related challenges. The Bank aims to cut its exposure to the FX mortgages to ca. 7% of total loan book from 14.6% at YE21. The Bank intends to solve this challenge jointly with clients. This is well illustrated by the amicable settlements which, in 2021, have outnumbered new lawsuits. In the next 12 months, the Bank is aspiring to keep the pace of successful negotiations with its clients.

For years the Bank has been actively involved in support of environment, including financing of energy saving projects. The Bank Millennium Group does not grant financing to new coal mines and capital projects in coal source based power sector, excluding new projects connected with pollution reduction. Several years ago the Bank decided to significantly reduce exposures in financing of coal sector. In effect, exposures in mining of coal and hydrocarbons in the portfolio are close to zero while industries directly connected with mining are, today, marginal (at the end of 3Q21 the Bank Millennium Group's exposure accounted for 0.96% of the corporate portfolio and 0.27% of the entire portfolio of the Group). The Bank plans to reduce in 2022 own CO₂e emissions by 50% compared to the 2020 level; to achieve climate neutrality in the area of own emissions (at the level 1 and 2) by 2027, and full neutrality (range 3) by 2050. The Bank will actively support corporate clients in undertaking decarbonisation actions mainly in developing their investment plans connected with European funds' package, specifically green finance.

5.3. 2022 OUTLOOK

While the 2021 results were in some metrics below our aspirations, we are convinced that the initiatives started and positive trends already observed in the year, will positively contribute to operating results going forward. In particular, subsequent quarters are likely to bring a continuation of the positive trends in NII/NIM as the full impact of higher interest rates will start to feed through. This is likely to substantially outweigh the less positive dynamics expected in opex where inflationary pressures on costs and as, media report, likely substantial increase of BFG charges in 2022, are likely to add some burden. Having said that, we believe, that while at this juncture it is difficult to precisely predict the level of FX-mortgage related costs going forward, the core business results (for data related to new segment reporting please refer to further parts of this report and Annual Financial Consolidated Report of the BM Group for 2021) should improve considerably, increasing our capacity to absorb the FX-mortgage portfolio related costs.

6. FINANCIAL SITUATION

6.1. PROFIT AND LOSS ACCOUNT

Group's operating income (PLNmn)	2021	2020	Change y/y
Net interest income *	2 713.1	2 583.1	5.0%
Net commission income	830.6	746.1	11.3%
Core income	3 543.8	3 329.1	6.4%
Other non-interest income *	14.4	248.7	-94.2%
Total operating income *	3 558.1	3 577.8	-0.5%

(*) Without fair value adjustment of credit portfolio (PLN39.9mn in 2021 and PLN-42.9mn in 2020), which is included in the cost of risk line

Net interest income in 2021 reached PLN2,713mn and increased by 5% y/y supported by accelerated quarterly growth (PLN767mn in 4Q21, +15% q/q) and strengthening the already positive quarterly trend in 2021.

The three interest rate hikes by Monetary Policy Council in October, November and December 2021 (base rate increased from 0.1% to 1.75%, i.e. by 165 bps) was an additional help for the Group to partly offset the negative impact of interest rates cuts in 2020 (down 140 basis points in March through May 2020) after the Group managed to minimise this impact during the first three quarters of the reported year.

Net interest margin (over average interest earning assets) (NIM) in 2021 reached 2.70% and was 9 basis points higher compared to 2020. Similarly to net interest income, the quarterly improvement of NIM can be observed year to date. 4Q21 NIM jumped to 2.98%, i.e. was higher by 37 basis points compared to 3Q21 (2.61%) and 49bps above the lowest level (3Q20) after rates cuts by the MPC.

Net commission income in 2021 amounted to PLN831mn, growing 11% vs. 2020 financial year. The main source of the improvement was growing commissions from banking transactions (accounts, loans and cards) supported by change in fee levels and fee mix. Fees on mutual funds also increased year-on-year.

Core income, defined as a combination of net interest and net commission income, reached PLN3,544mn in 2021 showing 6% growth compared to the previous year.

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 PLN14mn in 2021 and decreased strongly vs. the previous year. The negative items were first of all the costs related to amicable settlements negotiated with FX mortgage borrowers (PLN-356mn), but also the cost resulting from a negative for the Bank court decision regarding a corporate client claim in the material amount of PLN103mn reported in 4Q21. On the other hand, in 2021 other operating income was supported by some compensation of provisions for FX mortgage book, resulting from indemnity and guarantees clauses referring to the portfolio of former Euro Bank and positive valuation of shares in VISA.

Total operating income of the Group reached PLN3,558mn in 2021 and was slightly lower (-1%) than in 2020 due to lower 'other non-interest income' result.

Operating costs (PLNmn)	2021	2020	Change y/y
Personnel costs	(815.3)	(856.3)	-4.8%
Other administrative costs *	(827.0)	(896.5)	-7.8%
<i>of which Banking Guarantee Fund (BFG) fees</i>	(118.2)	(167.2)	-29.3%
Total operating costs	(1 642.3)	(1 752.8)	-6.3%
<i>of which Euro Bank integration costs **</i>	0.0	(66.1)	-
Total costs without BFG	(1 524.1)	(1 585.6)	-3.9%
Total costs without integration costs **	(1 642.3)	(1 685.0)	-2.5%
Total costs without integrat. costs and BFG **	(1 524.1)	(1 517.8)	0.4%
Cost/income - reported	46.2%	49.0%	-2.8 pp
Cost/income - adjusted ***	42.2%	45.8%	-3.6 pp

(*) including depreciation

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

(***) with equal distribution of BFG resolution fee through the year, without, one-off income and without integration costs

Total costs amounted to PLN1,642mn in 2021 translating into 6% decrease vs. 2020 financial year, mainly due to administrative costs directly related to Euro Bank acquisition, merger and integration process incurred in 2020 (PLN66mn in 2020, of which PLN41.4mn for staff restructuring) and lower contribution to Banking Guarantee Fund (BFG) funds. Total costs excluding BFG fees and integration stayed flat vs. the previous year.

Personnel costs amounted to PLN815mn and decreased by 5% y/y. After incorporating employees coming from Euro Bank (2.4 thousand FTEs in May 2019) and growing the total number of FTEs above 8.5 thousand the Group gradually reduced its personnel to 6,942 FTEs at the end of December 2021 and in annual terms it reduced 550 FTEs (-7% y/y). Without employees absent due to long leaves ('active FTEs'), the headcount was much lower, i.e. at 6,245 staff. Without allocated costs resulting from integration and restructuring in 2020, the personnel costs stayed at similar level as in 2020.

Employment (FTEs)	31.12.2021	31.12.2020	Change y/y
Bank Millennium (with Euro Bank)	6 598	7 164	-7.9%
Subsidiaries	345	329	4.8%
Total BM Group	6 942	7 493	-7.3%
Total BM Group (active* FTEs)	6 245	6 602	-5.4%

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

Other administrative costs (including depreciation) reached PLN827mn in 2021 and decreased by 8% y/y with some higher level in 4Q21 due to visibly higher costs of marketing and promotion as well as legal and advisory services. The costs without BFG and integration costs increased by 1% y/y. 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 optimization policy accelerated by the changes resulting from the pandemic. At the end of December 2019, the total number of branches (including Euro Bank) was 830 and has since been reduced (mostly Bank's own branches) to 655 outlets at the end of December 2021 (annual reduction of 47 outlets).

Cost-to-income ratio for 2021 amounted to 46.2% and was lower by 2.8 percentage points vs. the level for 2020 (49%). Cost-to-income ratio without extraordinary items mentioned above, reached 42.2% in 2021 and was 3.6 percentage points lower compared to the 2020 level.

Net profit (PLNmn)	2021	2020	Change y/y
Operating income	3 558.1	3 577.8	-0.5%
Operating costs *	(1 642.3)	(1 752.8)	-6.3%
Impairment provisions and other cost of risk **	(299.0)	(621.3)	-51.9%
- of which COVID-19 risk related provision	0.0	(133.3)	-
FX legal risk related provision	(2 305.2)	(713.6)	223.0%
Banking tax	(312.6)	(279.1)	12.0%
Pre-tax profit	(1 000.9)	210.9	-
Income tax	(330.9)	(188.1)	75.9%
Net profit - reported	(1 331.9)	22.8	-
Net profit - adjusted***	1 123.0	768.1	46.2%

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

(**) including fair value adjustment on loans (PLN39.9mn in 2021 and PLN-42.9mn in 2020) and loans modification effect (PLN-12.8mn in 2021 and PLN-13.6mn in 2020)

(***) without extraordinary items, i.e. provisions for FX mortgage legal risk, costs of amicable settlements with FX-mortgage borrowers, legal costs related to FX-mortgages; in 2020 additionally without Euro Bank integration costs and provisions for the return of commissions from loans repaid earlier

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 PLN299mn in 2021 and was 52% lower than in 2020. The higher base level of provisions from 2020 had resulted from additional provisions for risk related to COVID-19 impact in 2020 (amounting to PLN133mn) as well as changes in the risk model in the retail segment with introduction of more conservative default definition.

Risk charges for retail segment in 2021 stood at PLN290mn, while for the corporate segment and other they amounted to PLN9mn. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 2021 reached 37 basis points compared to 83 basis points in 2020.

In 2021, the Bank sold portfolios of consumer NPLs. The transactions generated PLN57mn positive pre-tax result.

Additionally, in 2021 the Bank continued to create provisions for legal risk related to FX-mortgage portfolio. These were a significant item in P&L statement, reaching PLN2,305mn (PLN2,086mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees from Societe Generale). The balance of provisions increased to PLN3,333mn or PLN3,079mn excluding loans originated by Euro Bank, the latter being an equivalent of 25.7% of the FX-mortgage outstanding portfolio originated by Bank Millennium.

Pre-income tax result in 2021 was negative and amounted to PLN1,001mn (PLN407mn loss in 4Q21). This was mostly the result of the above-mentioned high FX-mortgage provisions as the pre-provision profit amounted to PLN1,916mn and was up 5% y/y. In addition to provisions, banking tax had significant impact on the value of losses decreasing the operating result by PLN313mn.

In 2021 the Group reported net loss of PLN1,332mn (PLN509mn loss in 4Q21). The net loss was substantially higher than the pre-tax loss due to negative impact of corporate income tax in the amount of PLN 331mn. Adjusted for the abovementioned extraordinary items (i.a. FX-mortgage related costs) the Group would achieve the net profit of PLN1,123mn in 2021, which is 46% higher compared to adjusted 2020 net profit of PLN768mn.

Reported 2021 return on equity (ROE) stood at -16.3% but when adjusted for extraordinary items it reached 13.8% compared to 8.4% in 2020. Reported Return on Assets (ROA) was -1.3%

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

Group's profit structure <i>(PLN million)</i>	2021
Bank Millennium	(1 357.5)
Millennium Bank Hipoteczny (mortgage bank)	(5.2)
Millennium Leasing	26.1
Millennium Dom Maklerski (brokerage house)	13.7
Millennium TFI (mutual fund)	24.8
Other consolidated companies	31.3
Summarised profits	(1 266.8)
Consolidation adjustments	(65.1)
Consolidated Net Profit of the Group	(1331.9)

Bank's Profit and Loss Account

Changes of particular key items of the Bank's Profit and Loss Account in 2021 are shown in the table below.

Bank's Operating Income <i>(PLN million)</i>	2021	2020	Change y/y
Net interest income	2 614.2	2 490.3	5.0%
Net commission income	716.1	639.7	11.9%
Core Income	3 330.3	3 130.1	6.4%
Other non-interest income *	70.4	291.4	-75.8%
<i>of which dividends</i>	52.4	39.3	33.2%
Total operating income *	3 400.7	3 421.5	-0.6%

(*) Without fair value adjustment of credit portfolio (PLN39.9mn in 2021 and PLN-42.9mn in 2020), which is included in the cost of risk line

The Bank's 2021 net interest income amounted to PLN2,614mn and increased by 5% y/y, similar scale as in the Group's case. Net commission income grew 12% y/y, slightly more than for the Group. In view of the above, core income grew 6% year-on-year to reach PLN3,330mn in 2021.

Other non-interest income of the Bank in 2020 stood at PLN70.4mn and decreased strongly by 76% y/y, first of all due to the impact of similar extraordinary items as it was described above for the Group (mostly costs and FX losses related to FX mortgage loans and settlements with the borrowers). This item includes dividends, largely from the Capital Group's subsidiaries (eliminated in reports on the Group level). Dividend income in 2021 reached PLN52mn, which means a significant increase by 33% y/y.

As a result of the evolution of the abovementioned items the Bank's total **operating income** in 2021 amounted to PLN 3,400mn and fell slightly by 1% y/y.

Bank's net profit (PLN million)	2021	2020	Change y/y
Operating income	3 400.7	3 421.5	-0.6%
Operating costs *	(1 573.7)	(1 693.5)	-7.1%
Impairment provisions and other cost of risk **	(257.2)	(541.5)	-52.5%
Provision for legal risk related to FX mortgage loans	(2 305.2)	(713.6)	-
Banking tax	(312.6)	(279.1)	12.0%
Pre-income tax profit	(1 047.9)	193.7	-
Income tax	(309.5)	(175.1)	76.7%
Net profit	(1 357.5)	18.6	-

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

(**) including fair value adjustment on loans (PLN39.9mn in 2021 and PLN-42.9mn in 2020) and loans modification effect (PLN-12.8mn in 2021 and PLN-13.6mn in 2020)

The Bank's **operating costs** reached the total amount of PLN1,574mn in 2021 and was 7% lower compared to 2020. The reasons for the annual decrease of costs are the same as in case of the consolidated data for the whole Capital Group. Cost/income ratio for the Bank in 2021 was 46.3%, so it dropped visibly (by 3.2 p.p.) vs. 2020.

Impairment write-offs and other costs of risk of the Bank were PLN257mn in 2021, which means -52% decrease y/y - the same scale as in the 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 PLN2,305mn, which was explained above in the part referring to the whole Group.

The Bank reported pre-tax loss for 2021 of PLN 1,048mn and net loss of PLN1,357mn.

Return on the Bank's assets (ROA) reached -1.4%.

6.2. RESULTS OF BUSINESS SEGMENTS

Bank Millennium recent financial performance is significantly influenced by the costs related to managing legacy FX mortgage portfolio of loans. To isolate these costs and other financial results related to this portfolio Bank decided to isolate a new segment from Retail and present it in financial statements as "FX mortgage". Such change impacts only results presentation and is not triggering any organizational changes in the Bank. New segment includes loans separated based on active FX mortgage contracts for a given period and is applying to portfolios of retail mortgages originated in Bank Millennium and Eurobank in foreign currencies. This portfolio is expected to run-off in line with repayments of FX loans and conversions to PLN loans.

Presented below are data regarding the Profit and Loss Account for the Group's four business segments: retail segment, corporate segment, FX mortgage loans 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 three segments.

Retail segment (PLN million)	2021	2020	Change y/y
Net interest income *	1 847.1	1 534.9	20.3%
Net commission income	640.0	588.7	8.7%
Other income**	91.7	30.2	203.2%
Total operating income	2 578.7	2 153.8	19.7%
Total operating costs	(1 246.4)	(1 385.2)	-10.0%
Pre-provision income	1 332.4	768.6	73.4%
Impairment provisions and other cost of risk**	(298.0)	(449.4)	-33.7%
Operating profit	1 034.4	319.2	224.1%

(*) 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 39.9mn in 2021 and PLN-42.9mn in 2020) has been moved to pro-forma cost of risk. Cost of risk includes also result from modification.

Total operating income of the retail segment in 2021 was PLN2,579mn million, which represents a strong increase of 20% y/y. Net interest income of the retail segment grew materially by 20% y/y as a result of higher business volumes and improvement in spreads, partly supported by interest rate hikes in 4Q21 mentioned earlier in the text. Net commission income presented considerable growth of 9% y/y. Operating costs of the retail segment fell by 10% y/y pointing to improving efficiency of the segment.

As a result of the abovementioned evolution of operation income and costs, total retail segment pre-provision income increased very strongly by 73% vs. the level of 2020. The cost of risk of the segment presented a material decrease by 34%.

Operating profit of the retail segment for 2021 - after consideration of the provisions - amounted to PLN1,034mn and showed a high growth of 224% y/y.

Corporate segment (PLN million)	2021	2020	Change y/y
Net interest income *	335.3	305.7	9.7%
Net commission income	186.4	154.2	20.8%
Other income	70.0	60.1	16.5%
Total operating income	591.8	520.0	13.8%
Total operating costs	(235.4)	(223.9)	5.1%
Pre-provision income	356.4	296.1	20.3%
Impairment provisions and other cost of risk**	(1.2)	(123.0)	-99.0%
Operating profit	355.1	173.1	105.1%

(*) Part of the interest income generated by this segment (so called liquidity premium) has been recognized in the segment of "Treasury, ALM and other" in accordance to Recommendation P of the Polish regulator (KNF)

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

Total operating income for the corporate segment in 2021 stood at PLN 592 million, i.e. 14% higher compared to the level of 2020. This was the result of much higher all the income items presented above, of which net interest income: +10% y/y and net commission income: + 21% y/y. Operating costs of the corporate segment saw a 5% increase y/y.

As a result of the above pre-provision income grew strongly by 20% y/y. Value of net impairment write-offs regarding loans to companies presented a material decrease as additional provisions for COVID-19 impact in 2020 could be partly released after the situation of many corporate clients

improved. Taking all above factors together, the operating profit of the corporate segment saw a very strong increase of +105% y/y to the level of PLN355mn in 2021.

Treasury, ALM and other segment <i>(PLN million)</i>	2021	2020	Change y/y
Net interest income*	431.0	642.0	-32.9%
Net commission income	4.2	3.9	7.7%
Other income	(1.1)	164.6	-100.7%
Total operating income	434.1	810.5	-46.4%
Total operating costs	(110.9)	(118.4)	-6.4%
Pre-provision income	323.3	692.1	-53.3%
Impairment provisions and other cost of risk	(7.7)	(7.8)	-2.2%
Operating profit	315.6	684.3	-53.9%

(*) Part of the interest income generated by other segments (so called liquidity premium) has been recognized in the segment of "Treasury, ALM and other" in accordance to Recommendation P of the Polish regulator (KNF)

Total operating income of the Treasury, ALM and other segments in 2021 was PLN434mn, which represents a drop by 46% y/y growth. The main reason for the drop was the decrease of net interest income by 33% as a result of lower income from ALM operations including from the bond portfolio. Operating costs decreased -6% y/y. Operating profit of the entire segment fell by 54% y/y and reached PLN316mn for 2021.

FX Mortgage <i>(PLN million)</i>	2021	2020	Change y/y
Net interest income*	99.7	100.5	-0.8%
Net commission income	0.0	(0.8)	-
Other income	(146.2)	(6.3)	2236.1%
Total operating income	(46.5)	93.5	-149.7%
Total operating costs	(49.7)	(25.3)	96.4%
Pre-provision income	(96.1)	68.2	-
Impairment provisions and other cost of risk	(2 297.3)	(754.7)	204.4%
Operating profit	(2 393.5)	(686.5)	-

(*) 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)

Total operating loss of the newly separated FX Mortgage segment in 2021 was PLN2,393mn, which is significantly higher compared to the previous year due to high provisions for legal risk related to the loan book of PLN2,305mn.

6.3. BALANCE SHEET AND OFF - BALANCE SHEET ITEMS

Assets

The Group's assets as at 31 December 2021, amounted to PLN, and were higher by 7% vs. the end of 2020. 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)	31.12.2021		31.12.2020		Change y/y
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	3 179.7	3.1%	1 460.3	1.5%	117.7%
Loans and advances to banks	770.5	0.7%	625.4	0.6%	23.2%
Loans and advances to clients	78 603.3	75.6%	73 639.3	75.7%	6.7%
Receivables from securities bought with sell-back clause	268.8	0.3%	66.4	0.1%	305.2%
Debt securities	18 220.0	17.5%	18 971.6	19.5%	-4.0%
Derivatives (for hedging and trading)	100.3	0.1%	176.0	0.2%	-43.0%
Shares and other financial instruments*	167.3	0.2%	230.6	0.2%	-27.4%
Tangible and intangible fixed assets**	942.2	0.9%	956.6	1.0%	-1.5%
Other assets	1 661.7	1.6%	1 196.6	1.2%	38.9%
Total assets	103 913.9	100.0%	97 322.8	100.0%	6.8%

(*) including investments in associates

(**) excluding fixed assets for sale

The most visible moves within assets in 2021 were growth of loans by almost PLN5bn.

Loans and advances to Clients

Total **net loans** of Bank Millennium Group reached PLN78,603mn as at the end of December 2021 and grew 7% y/y. The growth of loans without foreign currency mortgage portfolio was visibly higher, at 15% y/y. FX mortgage loans net of provisions decreased visibly during the last twelve months (down 28%) and the share of FX mortgage loans (excluding these taken over with Euro Bank) in total gross loans has dropped substantially during the year to 11.4% on 31 December 2021 from 17% a year ago.

The net value of loans to households amounted to PLN59,546mn as at the end of December 2021, showing a growth of 8% y/y. Within this line PLN mortgages grew strongly by 29% y/y while growth rate of consumer loans slowed down to 4% y/y.

In 4Q21 disbursements of mortgage loans reached PLN2.8bn (the record quarterly value) and PLN9.75bn in the whole 2021, translating into an exceptionally high annual growth of 46%.

The net value of consumer loans reached PLN15,833mn growing by 4% y/y. Origination of cash loans rebounded in 2021 reaching the value of PLN5.6bn. The annual growth was high and reached +21% y/y.

Net value of loans to companies amounted to PLN19,058mn as at the end of December 2021 and increased by 4% y/y supported by rebound in leasing business (+8% y/y), after a period of deceleration due to adverse effect of the COVID-19 pandemic on new lending to companies.

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

Loans and advances to clients (PLN million)	31.12.2021	31.12.2020	Change y/y
Loans to households	59 545.8	55 248.4	7.8%
- <i>PLN mortgage loans</i>	33 915.8	26 273.9	29.1%
- <i>FX mortgage loans</i>	9 797.1	13 678.9	-28.4%
- <i>of which Bank Millennium loans</i>	9 046.6	12 690.8	-28.7%
- <i>of which ex-Euro Bank loans</i>	750.6	988.1	-24.0%
- <i>consumer loans</i>	15 832.8	15 295.6	3.5%
Loans to companies and public sector	19 057.5	18 390.9	3.6%
- <i>leasing</i>	6 805.5	6 303.5	8.0%
- <i>other loans to companies and factoring</i>	12 252.0	12 087.4	1.4%
Net loans & advances to clients	78 603.3	73 639.3	6.7%
<i>Net loans and advances to clients excluding FX mortgage loans</i>	<i>68 806.2</i>	<i>59 960.4</i>	<i>14.8%</i>
Impairment write-offs	2 440.6	2 489.4	-2.0%
Gross* loans and advances to clients	81 043.9	76 128.7	6.5%

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

Average interest rate on the Bank's portfolio in 2021 was 3.4%. 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 PLN18,220mn at the end of December 2021, which means a decrease of 4% y/y. An overwhelming part of the debt securities portfolio (99.6%) were bonds and bills issued by the Polish State Treasury and National Bank of Poland (Central Bank). The decrease of debt securities portfolio was a consequence of assets/liabilities and interest margin management policy and was correlated with the changes of loans and deposits. The share of this group of debt securities in the Group's total assets was at 17.5% at end of December 2021 reflecting a satisfactory liquidity position of the Group.

Derivative instruments

The value of derivatives (for trading and hedging) totalled PLN100mn at end of December 2021, which constitutes an decrease of 43% vs 31 December 2020, due to higher CHF/PLN rate.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN771mn at the end of December 2021, which means an increase by 23% y/y as a result of higher of balances on current accounts and higher balances of term deposits.

Shares/equities and other financial instruments

Value of equities/shares and other financial instruments amounted to PLN167mn at the end of December 2021 and decreased by 27% y/y chiefly due to partial sale of Visa shares.

Tangible fixed assets and intangibles and goodwill (investment outlays)

Tangible fixed assets and intangibles and goodwill of the Group amounted to PLN942mn at the end of December 2021 and declined slightly by 2% y/y, mainly as a result of lower value of tangible fixed assets.

Total investment of the Group in 2021 amounted to PLN114.0mn. Outlays for the Bank's physical infrastructure (branches, ATMs, security etc.) amounted to PLN18.7mn and PLN94.2mn for software and IT infrastructure. Value of other outlays i.e. PLN1.1mn, relates to Bank's subsidiaries.

The Bank Millennium Group plans investment capital expenditures in 2022 in the amount of PLN187.9mn, out of which ca. 63% 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 2021 reached the value of PLN103,388mn and were 7% higher compared to the level as at the end of 2020. Structure of the Bank's assets and changes of individual components are presented in table below:

Bank's Assets (PLN million)	31.12.2021		31.12.2020		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	3 179.7	3.1%	1 460.3	1.5%	117.7%
Loans and advances to banks	943.3	0.9%	625.4	0.6%	50.8%
Loans and advances to clients	78 237.6	75.7%	73 052.4	75.6%	7.1%
Receivables from securities bought with sell-back clause	268.8	0.3%	66.4	0.1%	305.2%
Debt securities	18 175.1	17.6%	18 955.7	19.6%	-4.1%
Derivatives (for hedging and trading)	101.0	0.1%	177.2	0.2%	-43.0%
Shares and other financial instruments	375.7	0.4%	438.9	0.5%	-14.4%
Tangible and intangible fixed assets*	913.8	0.9%	915.0	0.9%	-0.1%
Other assets	1 193.0	1.2%	875.4	0.9%	36.3%
Total assets	103 388.1	100.0%	96 566.6	100.0%	7.1%

* 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 in the amount of PLN6,805mn (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 PLN78,238mn at the end of December 2021, representing the growth of 7% y/y (similar growth as for the Group). 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 PLN18,175mn at the end of December 2021. 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. The value of this item, as on 31 December 2021, amounted to PLN376mn, recording a decrease by 14% y/y.

The Bank's fixed assets and intangibles amounted to PLN914mn at the end of December 2021 and stayed on similar level as in the previous year.

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)	31.12.2021		31.12.2020		Change y/y
	Value	Structure	Value	Structure	(%)
Deposits from banks	539.4	0.6%	1 057.7	1.2%	-49.0%
Deposits from customers	91 447.5	94.1%	81 510.5	92.4%	12.2%
Liabilities from securities sold with buy-back clause	18.0	0.0%	248.6	0.3%	-92.7%
Financial liabilities valued at fair value through P&L and hedging derivatives	757.6	0.8%	907.4	1.0%	-16.5%
Liabilities from issue of debt securities	39.6	0.0%	558.6	0.6%	-92.9%
Provisions	595.5	0.6%	158.7	0.2%	275.4%
Subordinated debt	1 541.1	1.6%	1 540.2	1.7%	0.1%
Other liabilities*	2 277.9	2.3%	2 250.2	2.6%	1.2%
Total liabilities	97 216.7	100.0%	88 231.8	100.0%	10.2%
Total equity	6 697.2		9 091.0		-26.3%
Total liabilities and equity	103 913.9		97 322.8		6.8%

* including tax liabilities

At the end of December 2021 liabilities accounted for 93.6%, while equity of the Group - for 6.4% of total liabilities and equity capitals.

As on 31 December 2021 Group's total liabilities amounted to PLN97,217mn and were higher by 10% relative to their value as on 31 December 2020. The main change to liabilities resulted from material increase of deposits by PLN9,937mn during the reported year.

Customers' deposits

Customer deposits constituted the main line item under the Group's accounting for, as on 31 December 2020, 94.1% 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)	31.12.2021	31.12.2020	Change y/y
Deposits of individuals	66 022.1	61 874.9	6.7%
Deposits of companies and public sector	25 425.4	19 635.6	29.5%
Total deposits	91 447.5	81 510.5	12.2%

Total deposits amounted to PLN91,448mn as at 31 December 2021 and presented a robust increase by 12% y/y (+1% q/q). Deposits on current and saving accounts increased by PLN8.2bn vs. 31 December 2020 (or by 12%).

Deposits of individuals reached PLN66,022mn as on 31 December 2021, growing 7% y/y and 2% q/q. Current and saving accounts of individuals continued to grow at a considerable pace (up 11% y/y) whereas term deposits dropped 11% y/y. The share of current accounts and saving accounts in total deposits of individuals increased to 85% as at the end of December 2021 from 81% as at the end of 2020.

Total deposits of companies and public sector reached PLN25,425mn as at the end of December 2021 and grew strongly by 29% y/y. This considerable growth was partly due to a low base effect as term

Average interest rate on all deposits in the Bank in 2021 amounted to 0.08%

Deposits from banks

Deposits of banks, including credits received, as on 31 December 2021, amounted to PLN539mn. Value of this item declined by PLN518mn (or by 49%) relative to the balance as on 31 December 2020, mainly in effect of lower, by PLN375mn, term deposits and lower balance of credits received from financial institutions by PLN149mn. 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 2021, amounted to PLN758mn, recording a decrease by 17% relative to the balance as on 31 December 2020, mainly due to decreasing negative valuation of hedging derivatives by PLN 124mn y/y. The above was caused by maturing CIRS instruments replaced by FX swaps, but also by changing FX rates and interest rates on the Polish market.

Provisions

The value of provisions as on 31 December 2021 was PLN596mn which signifies strong growth by PLN437mn or 275% 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 PLN40mn as on 31 December 2021 recording significant decrease by PLN519mn (or 93%) relative to the balance as on 31 December 2020. The decrease resulted from the lower balances of bonds and other debt securities issued by the Bank by PLN234mn, repurchase of bonds issued by Euro Bank taken over by the Bank (PLN250mn) and the repurchase of securities issued by its subsidiary Millennium Leasing of PLN34mn.

Subordinated debt

The value of subordinated debt amounted to PLN1,541mn as on 31 December 2021, and stayed on similar level vs. the end of 2020 (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 2021, equity capital of the Group amounted to PLN6,697mn and recorded a material decrease by PLN2,394mn or 26% y/y. Apart from the net loss incurred in 2021 the main factor of the decline of equity was a negative valuation of debt securities of PLN792mn and hedging derivative instruments of PLN271mn since 31 December 2020.

Information on capital adequacy was presented in Chapter 8 of this document and will also be available in a separate report titled 'Report on capital adequacy, risk and remuneration policy in the Bank Millennium Capital Group for 2021' to be published at a later stage.

The non-consolidated Bank's liabilities as at 31 December 2021 reached the value of PLN96,756mn million and were 10% higher compared to the end of 2020. 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)	31.12.2021		31.12.2020		Change y/y
	Value	Structure	Value	Structure	(%)
Deposits from banks	186.2	0.2%	563.9	0.6%	-67.0%
Deposits from customers	91 672.3	94.7%	81 832.5	93.3%	12.0%
Liabilities from securities sold with buy-back clause	18.0	0.0%	248.6	0.3%	-92.7%
Financial liabilities at fair value through P&L and hedging derivat.	758.0	0.8%	907.4	1.0%	-16.5%
Liabilities from issue of debt securities	0.0	0.0%	484.7	0.6%	-100.0%
Provisions	594.4	0.6%	158.4	0.2%	275.3%
Subordinated debt	1 541.1	1.6%	1 540.2	1.8%	0.1%
Other liabilities*	1 985.8	2.1%	1 995.4	2.3%	-0.5%
Total liabilities	96 755.9	100.0%	87 730.9	100.0%	10.3%
Total equity	6 632.2		8 835.7		-24.9%
Total liabilities and equity	103 388.1		96 566.6		7.1%

(*) including tax liabilities

The key difference between non-consolidated Bank's and Group's liabilities is the value of liabilities from issued securities of the leasing company (PLN40mn presented in the Group's statements) whereas for the unconsolidated Bank there were no such liabilities as at the end of December 2021.

The value of customer deposits of the Bank reached PLN91,672mn as on 31 December 2021 and was higher by PLN225mn than the balance for the Group (mainly effect of intra-group elimination). Deposits, similar to the Group's case, grew by 12% 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 equity, as on 31 December 2021, amounted to PLN6,632mn and recorded a decrease by 25% y/y (similar level of decline 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)	31.12.2021	31.12.2020	Change y/y (%)
Total contingent liabilities	16 007.9	15 722.7	1.8%
1. Liabilities granted:	13 882.1	14 177.2	-2.1%
a) financial	12 034.7	12 420.9	-3.1%
b) guarantees	1 847.4	1 756.3	5.2%
2. Liabilities received:	2 125.8	1 545.6	37.5%
a) financial	40.0	0.0	-
b) guarantees	2 085.8	1 545.6	35.0%

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 2021, the total value of conditional liabilities of the Group amounted to PLN16,008mn, including liabilities granted by the Group at the level of PLN13,882mn. In 2021, the value of conditional financial liabilities granted by the Group decreased by 2%, mainly financial liabilities, which fell by 3% due to lower value of commitments related to lending activity, whereas guarantees grew by 5%.

More information on the issue of conditional liabilities can be found in Chapter 12 of the Financial Statements of Bank Millennium S.A. Capital Group for the period of 12 months ending on 31 December 2021.

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

Bank's Contingent Liabilities <i>(PLN million)</i>	31.12.2021	31.12.2020	Change y/y (%)
Total contingent liabilities	17 365.8	16 589.2	4.7%
1. Liabilities granted:	15 236.7	15 040.7	1.3%
a) financial	12 658.4	12 478.7	1.4%
b) guarantees	2 578.3	2 562.0	0.6%
2. Liabilities received:	2 129.1	1 548.4	37.5%
a) financial	40.0	0.0	-
b) guarantees	2 089.1	1 548.4	34.9%

The total value of conditional liabilities granted and received by the Bank amounted to PLN17,366, recording increase by 5% 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 and a guarantee line granted to Millennium Leasing to the total amount of PLN714mn. In addition, the Bank provided guarantees and sureties to external entities on behalf of other Group companies (PLN18mn). 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

The quality of customer service is one of the fundamental values for Bank Millennium. The market specificity caused by the COVID-19 pandemic had a large impact on the Bank's activities in the area of customer service and the scope and quality of products and services. The starting point was a thorough analysis of market trends as well as new customer expectations and attitudes towards banking. Thanks to the constant monitoring of customer needs, Bank Millennium effectively adjusts solutions to the dynamically changing market.

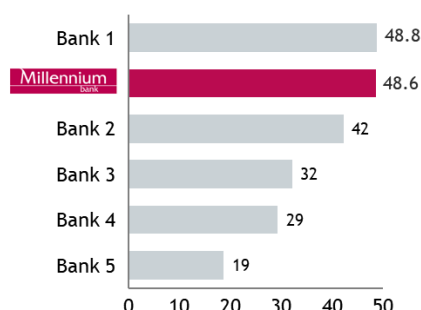
The year 2021 for Bank Millennium was a time of further increasing the availability of services in remote channels, in terms of communication and the possibility of making transactions. Bank Millennium focused on enhancing customer self-service capabilities while providing support to employees at the same time. Effectively and in line with customer needs, the Bank combines modern methods of banking via a mobile application or transaction system with constant access to highly qualified branch staff and telephone advisors in all business lines. The dynamic development of remote advisor services, also in the area of affluent clients, increased the convenience of access to the Bank's services and products.

The dynamic development of customer service in remote channels posed another challenge for the Bank - the integration of contact channels and an even greater flow of information about customer needs. The solutions developed on the branch - remote service line allow customers to smoothly switch between service channels and gives possibility of executing transactions, including those initiated in a different contact channel, in a manner convenient for the customer. Increasing flexibility and a convenient transition between contact channels provides customers with a sense of consistent service, and thus comfortable banking.

Bank Millennium has taken dynamic steps to increase customer satisfaction - not only in terms of direct service, but also in terms of transparency of communication and language simplification. The signing by the Bank of the "Declaration on the plain language standard" gave the institution another impulse to continue work on improving quality by simplifying communication - both external and internal.

Building processes and solutions based on the customer's perspective translates into their loyalty and satisfaction as well as positive banking experience. According to the results of the Survey of Bank Customers in Poland, carried out by Kantar Polska, the level of recommendations of retail clients remained stable - the NPS index in 2021 amounted to 49, which places Bank Millennium in second place in terms of the most recommended banks in Poland.

NPS of Polish banks (2021)



The quality activities carried out by the Bank have been appreciated in one of the most prestigious rankings of service quality - "Newsweek's Friendly Bank". Bank Millennium took first place in the "Bank for Kowalski" category and second place in the "Remote Banking" category. In turn, in the "Złoty Bankier" poll in 2021, Bank Millennium was on the podium in the main category "Golden Bank - the best multi-channel service quality".

7.2. RETAIL BANKING

The sale of current accounts in 2021 was almost 365 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 2021, the number of Konto 360° accounts in the Bank portfolio exceeded 1.84 million, with a definite majority opened by clients who had not yet used personal accounts in Bank Millennium. The Bank achieved market share in development of accounts above 9% in 3Q21 (according to PRnews report).

The 360° Account promotion in 2021 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 28% personal accounts were acquired online
- new rounds of the „Like it! Share it” referral program, under which you may receive attractive prizes for recommending Konto 360° or Konto 360° Student to others. In 2021 almost 276 thousand clients registered in consecutive rounds of the program.

Saving and Investment Products

The Bank concentrated on deposit offer simplification and maintaining desired level of customer funds. In total, the retail deposit portfolio increased by PLN4.9 billion in 2021, including ca. PLN4.15 billion for individual customers, while the market in this segment grew by PLN57 billion, which allowed the Bank to increase its market share to 6.77% and ca. 7.3% of the market growth.

The increase in market interest rates in 3Q21 and 4Q21 allowed a gradual recovery in the profitability of savings products and the ability to offer customers more attractive offers aimed at attracting funds to the Bank. The interest margin for the full year 2021 was approximately 0.4% with an increase to 1.14% in 4Q and approximately 1.8% in December 2021.

With regard to investment products, the Bank continued its strategy to offer a diversified portfolio that includes both its own solutions and products of external partners. Depending on the customer segment, the offering consisted of structured products, mutual funds, investment insurance products and bonds.

Due to pressure on yields of debt investment funds resulting from growing market interest rates, the Bank in cooperation with Millennium TFI changed the basic product offer and in October 2021 proposed new, more flexible and universal version of the Investment Program (Millennium TFI Investment Plans) available both in the Bank's outlets as well as through electronic channels. New Investment Plans were also used in the new investment advisory service, which in the form of pilot was launched in mid-December for individual customers in electronic channels.

In order to make the offer more attractive, during the year the Bank launched cyclical promotions of funds with regard to the fee for their purchase. A special strategy was also introduced to reward use of remote channels by reducing to 0% the handling fee rates for purchase of selected TFI funds through Millenet and Mobile Application.

Rising interest rates also allowed the Bank to make its Structured Deposits offering more attractive and to reduce the minimum product term from 3 to 2 years, which contributed to a significant increase in customer interest in these products in 4Q21.

The Bank continued the process of digitizing its investment product offering and optimizing sales processes using modern tools. All newly implemented investment products were made available immediately in electronic channels and for processes carried out in outlets it was enabled to conclude transactions using the customer's phone and Mobile Application i.e. in fully paperless process.

Cash Loan

Cash loan sales in 2021 was higher than in previous year and reached the level of PLN5.6bn (+21% y/y) what helped to reach the sales market share equal 10.23%. Cash loan portfolio reached PLN13.6bn.

The Bank implemented additional system solutions allowing further digitalisation of credit process - functionalities with use of PSD2 enabled verification, new process for cash loan x-sell for POS loan customers, development of omnichannel loan consolidation process. As a result of implementation of these enhancements the share of loans sold through digital channels in 4Q reached 61%.

The omnichannel approach of closing the sales of cash loan in digital channels was especially successful for mobile application which was responsible for 80% of sales in digital in 4Q.

In 2021 cash loan sales was mainly supported by offer „PLN120 instalment for each PLN5 000 of loan” for loans in following amounts: PLN5 000, PLN10 000 , PLN15 000 or PLN20 000 granted for 58 months.

Overdraft

2021 can be described as a year of stable portfolio growth and maintaining an attractive offer. The Bank maintained its strategy of developing a competitive offer and sales process. The sale was supported by the following actions:

- the "Limit in the account for PLN 0 - 3rd edition" 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 PLN 0. 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.

At the same time, the market share calculated by portfolio was equal 13% at the end of December.

Insurance products (bancassurance)

In 2021, the Bank continued to offer life and non-life insurance in branches and digital channels. The Bank's customers were able to use a wide range of insurance products offered by Bank Millennium in cooperation with many Insurers. The distribution of insurance related to cash loans and mortgage products had a significant share in the revenues from bancassurance. The Bank's customers were able also to take advantage of special offers, including promotions for motor insurance "Ubezpieczając więcej, zyskujesz podwójnie".

Payment cards

Acquisition results and spending on cards in 2021 showed a large rebound after the period related to COVID-19 restrictions. Thanks to many supporting actions, the acquisition of credit cards increased and was higher than the market dynamics. This made it possible to achieve an increase in the market share of credit cards sales to the average level of 10.1%. The flag product remains Impresja card, which offers its holders a 5% money back from transactions in partners of the program.

The credit card portfolio at the end of 2021 amounted to 486 thousand cards and increased by over 9 thousand cards (+ 2.0%) in 2021. With decreasing number of cards on the market, this allowed for increase of Bank Millennium's share to 7.9% in volume of the credit card portfolio.

The number of debit cards increased along with the increase in the number of current accounts, where the main sales product was a debit card issued to Konto 360. The Bank's debit card portfolio at the end of 2021 amounted to 3.1 million cards and increase YoY by 95 thousand (+ 3.2%). In 2021, Bank Millennium expanded its offer and introduced debit card for children over 7 years of age.

Thanks to intensive card's activation actions in portfolio and improvement of the overall market situation, 20% increase of transactions amount on debit and credit cards was achieved. Bank Millennium's market share in terms of card spending increased to 9.8% for credit cards and 7.9% for debit cards.

At the same time, the Bank focused our activities on promoting paid services among cardholders.

Mortgage

2021 was a record year for Bank Millennium, both in terms of the volume of newly concluded mortgage credit agreements and disbursed credits. The Bank's market share for the year was 12.47% (data according to SARFIN ZBP). The Bank concluded 34.4 thousand new contracts with a total value of PLN10.5 billion (increase over 45% y/y). The value of the disbursed credits is PLN9.75 billion.

Throughout the year, the Bank actively worked on increasing the attractiveness of its mortgage loan offer and increasing the efficiency of the credit granting process. Bank Millennium was awarded the Golden Banker for the best product on the market. The changes were aimed at shortening the processing time of the credit application through numerous automations and digitization of the process of accepting and analysing credit applications. The bank also improved the after-sale service of credits. It was made possible for our clients to remotely deliver insurance policies for the credit via electronic banking and a mobile application. The main change to the product was the introduction of a credit with a periodically fixed interest rate. Alternatively, the client can choose an offer that is most suitable for him - with a periodically fixed or variable interest rate. The bank also conducted a large-scale training process in the field of changes in the process and product, reminding them how to communicate the details of the offer to the client in a clear, reliable and transparent way.

Similarly to the previous year, the Bank's lending campaign was based on an unconditional 0% commission for granting the loan and a 0% commission for early credit repayment. The price offer was kept stable in the main LTV ranges, even in the difficult pandemic period.

In 2020, the Bank continued its activities to offer special conditions for customers who have credits in CHF, which relate to currency conversion, partial and full repayment of the credit. The Bank continued to proactively negotiate the exchange rate and credit parameters after currency conversion or partial credit repayment. At the same time, it took into account an individual approach to the client's situation and his expectations.

Prestige and Private Banking segment - offer for an affluent clients.

Prestige is an offer addressed to customers with min. PLN200 thousands assets or PLN10 thousands monthly inflow. For these customers, Bank enhanced the existing service model by proposing fully remote relationship development. Both traditional and remote service models offer access to an individual expert, supporting clients in daily banking and important financial decisions with parallel digitalization process. The offer includes advanced investment products, provided by Polish and foreign investment funds, as well as structured products with a guarantee of capital protection. Wealthy clients also have wide access to convenient forms of financing their needs.

The condition for entering the Private segment is PLN1 million assets. Private Banking customers can use Millennium MasterCard® World / Elite™ credit cards with access to the World / Elite Privileges Program, insurance package as well as Assistance and Concierge packages.

At the end of 2021, the Bank was covering 57 thousands clients under the affluent service model.

In the Private segment, the number of clients at the end of December 2021 was stable at the level of 4 thousands.

Biznes Client segment

Business offer is addressed to individuals running sole proprietorship businesses, partnerships and commercial law companies with annual revenues up to PLN5 million.

In 2021, 26 thousands business current accounts were opened as result of:

- utilisation of the capacity to open business current accounts in the Millenet internet banking system for the Bank's current and new retail clients. In 2021 36% of business current accounts were opened online by using possibility to open accounts remotely via open banking,
- special offers for clients opening business current accounts online,
- increase in the level of cross-selling of business accounts in the Bank's branches.

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

The value of credits granted in 2021 for Biznes segment customers was more than 2.5-fold increase in comparison of 2020. Usage of de minimis guarantee from Bank Gospodarstwa Krajowego increased significantly with over 80% participation in value of loans granted by Bank Millennium in 2021.

As of 31 December 2021, Bank Millennium had above 115 thousand active Biznes segment customers, posting a 11% y/y increase.

Mobile and Internet banking for individual customers

Bank Millennium is one of the leaders in innovation and digital banking, as confirmed by numerous national and international awards, including the title of The Best Digital Bank in Poland in the Global Finance magazine ranking. Electronic channels provide easy access to banking and additional services (VAS). Services in the mobile application and the internet banking system are constantly developed to provide customers with full support and a comprehensive offer available online. The bank cooperates with partners from public agendas, fin-tech and other industries and implements innovations, including those related to the use of artificial intelligence or biometrics. Additionally, the opinions of users of digital channels are monitored and they are included in the process of creating new services thanks to UX-Lab tests, which are a permanent element of the work on each new solution.

In 2021, the number of active users of digital channels steadily increased, as well as the disproportion between customers already using the bank's services exclusively on mobile devices and those logging in on a computer. Today's users appreciate full service available on the go and in one place, and Bank Millennium e-banking services give them a single platform on which they can easily manage their finances and daily affairs. Especially young people, accustomed to services available in the virtual world, now treat mobile solutions as a standard. The share of digital channels in the sale of individual products is also growing year by year.

	2021	2020	change
Active digital users	2 263 233	2 052 806	10%
Active mobile banking users	1 920 883	1 658 554	16%
BLIK users	1 326 946	1 007 745	32%

Digitalisation and omni-channel processes

Bank Millennium develops services using an omni-channel approach and focus on mobile solutions in the processes. In 2021 the Bank developed existing processes, but new solutions were also implemented to support customers in daily financial management on mobile device or computer. The Bank also continued the educational activities undertaken with the beginning of the pandemic, aimed at supporting customers in the use of online services. The digitalization project primarily included people who previously preferred to be served at branches. The second important group included in these activities were those who used electronic channels to a limited extent. Customers were targeted by campaigns promoting convenient online solutions also outside banking, e.g. Trusted Profile.

Opening a current account online. Today, new customers can use three online paths to open a personal account in Bank Millennium. The account can be opened fully remotely on a mobile device with "selfie" or by logging into another bank to confirm identity. In these processes, the account is active in about 15 minutes since sending the application. In the third possible path - the customer fills out an online application on the Bank's website and signs documents delivered by courier. Almost a third of new customers open a current account without visiting a branch, of which almost half confirm identity by logging into another bank.

Credit processes. In 2021, the Bank further improved the credit processes available in online channels and in the hybrid sales model - started in a branch or during a phone call with a consultant and ended with signing an agreement in Millenet or in a mobile app. Apart from the improvements visible to customers, the Bank introduced changes, which facilitate hybrid sales for branch employees and call centre consultants. The share of digital channels in cash loan sales in 2021 was as high as 69% (in 2020 it was 49%). The bank has also introduced a satisfaction survey in the cash loan process. In the survey, customers can express their expectations and review the process. Customers with access to e-banking but without a current account gained the ability to open an account directly on the loan process. 2021 also brought changes to the external debt consolidation process. The bank expanded the process online and in hybrid sales.

Digital mortgage. In 2021 Bank Millennium continued the project of digitalization of mortgage loans. Solutions in this area have been introduced for several years, and the work on digitalization of the application process is currently the most intensive. The Bank designed and implemented a number of facilities that significantly optimized mortgage loan processing and positively impacted the customer experience. Customers applying for a loan can approve the loan application with an SMS code and track the status of the application in the mobile application and in the Millenet web service - each time they receive information when the application status changes. Customers can also use e-operat, which is a convenient, electronic process of property valuation. In November 2021, the Bank made available the ability to remotely attach external insurance policies in e-banking for customers with a mortgage loan.

Investment products. Bank Millennium customers can invest their savings from their computer, tablet or phone. In 2021 the Bank has extended its offer of investment products available online, mainly in the mobile application. Currently in the Bank's offer are available: individual investment funds of Millennium TFI (for customers from Prestige and Private segments also funds of external companies); ready-made investment plans with different risk levels, and structured deposits. Also MiFID questionnaire can be completed and updated online. Some fund instructions ordered in the branch may be conveniently confirmed by customers via mobile application without the need to sign paper documents.

Mobile Authorisation in branches. In 2021, Bank Millennium expanded the array of instructions that customers can confirm at branches on their phone using Mobile Authorisation, without signing paper printouts.

Open banking

Bank Millennium used the potential of PSD2 to support innovation and is a market leader in this area. The popularity of services based on open banking is constantly growing. Tens of thousands of our customers have already benefited from them. In 2021, the existing services of account aggregation, payment initiation and confirmation of income and identity were expanded - the availability of other banks in these services was extended. Further solutions were also implemented: a new path for opening an account online and an instalment loan application at partners' online stores. Additionally, the bank started to use open banking to give customers tailored offers. Based on the history from another bank, we can calculate loan proposals and suggest savings and investment products.

FINANCE 360°, ACCOUNT AGGREGATION SERVICE, WHICH ENABLES YOU TO VIEW THE BALANCE AND HISTORY OF AN ACCOUNT IN ANOTHER BANK INITIATING PAYMENTS FROM ACCOUNTS IN OTHER BANKS	9 banks in the service: Alior Bank, BNP Paribas, Bank Pekao, Citi bank, ING Bank Śląski, Inteligo, mBank, PKO BP and Santander Bank. Soon 2 more banks will be added. 6 banks in the service: Alior Bank, Bank Pekao, ING Bank Śląski, mBank, PKO BP oraz Santander Bank.
CONFIRMING INCOME ON A CASH LOAN APPLICATION	8 banks in the service: Alior Bank, Bank Pekao, BNP Paribas, ING Bank Śląski, Inteligo, mBank, Santander Bank and PKO BP.
OPENING A PERSONAL ACCOUNT WITH IDENTITY CONFIRMATION BY LOGGING INTO AN ACCOUNT AT ANOTHER BANK	7 banks in the service: Alior Bank, Bank Pekao, BNP Paribas, ING Bank Śląski, mBank, Santander Bank and PKO BP.
OPENING A COMPANY ACCOUNT FOR SOLE PROPRIETORSHIPS, WITH IDENTITY CONFIRMATION THROUGH LOGGING INTO AN ACCOUNT IN ANOTHER BANK	7 banks in the service: Alior Bank, Bank Pekao, BNP Paribas, ING Bank Śląski, mBank, Santander Bank and PKO BP.
ONLINE INSTALMENT LOAN APPLICATION (AT PARTNER STORES)	8 banks in the service: Bank Millennium, Alior Bank, Bank Pekao, BNP Paribas, ING Bank Śląski, mBank, Santander Bank oraz PKO BP.

Cooperation with public administration offices

For several years now Bank Millennium has been cooperating with government agencies and playing its part in building digital society and popularizing e-government solutions. Individual customers of the Bank can use the Trusted Profile, log in to PUE ZUS using credential to Millenet, apply for 500+ and 300+ benefits via online banking (from 2022 it will be possible also in a mobile application).

E-commerce and online payments

For several months now the interest in online shopping and transactions has been growing steadily, therefore Bank Millennium is developing solutions related to e-commerce and facilitating access to such services for customers. In 2021 the integration of banking channels with the goodie shopping platform continued. Customers can easily access goodie from Millenet and the mobile app, link their payment card to their goodie account and enjoy special discounts, promotions and cashback offers.

In 2021, transaction volume using BLIK was record-breaking. Throughout 2021, more than 1.3 million of our customers (+32% y/y) used BLIK mobile payments at least once. Customers performed 79% more BLIK transactions than in 2020. Bank Millennium actively participates in the development of new BLIK services under the Polish Payments Standard (Polski Standard Płatności).

In May 2021, the Bank, in cooperation with e-commerce partners, made available online instalment loan. The process is based on open banking solutions and can be used by customers of popular stores with household appliances and audio/video devices, who have an account in one of the 8 banks available in the service. The loan process is unique, the bank supports the customer in filling in the application form, and the verification processes take place in real time and in the background, thanks to which the customer can receive the final credit decision right after filling in the application form.

Mobile banking and VAS innovations

The Bank Millennium mobile application is a modern and convenient platform for managing everyday life. Customers can e.g. pay for parking, motorway or public transport tickets, buy a cinema tickets or insure their vehicle. The app allows for purchase of travel insurance with an innovative travel assistance service. It also allows to update the identity document data and conveniently use credit products or invest savings. It provides access to quick assistance, e.g. via live chat, or self-locking a lost card. In 2021 a contextual live-chat was made available, on a cash loan application among others.

Huawei Mobile Services. In 1Q 2021, the app was integrated with HMS and is now available on AppGallery. It can be used by customers with the latest Huawei mobile devices.

BLIK contactless. In July 2021 Bank Millennium was the first in Poland to provide customers with BLIK contactless payments. Within six months from the implementation of the service customers performed in this way over one million transactions.

App for Apple Watch. The bank has released an innovative app that can be paired with Apple smartwatches. The application works on the watch independently from the phone and allows to pay with BLIK, confirm transactions ordered online and some instructions ordered at the branch.

Milla Chatbot. The mobile application uses solutions based on AI. Customers can benefit from the support of an automatic assistant 24/7. In 2021, new speech recognition and intention understanding modules were uploaded, which allow Milla to better recognize the words pronounced by users and even more accurately match prompts.

Mobile app for children. In the first half of 2021, the bank released a version of the app for children aged 7-12 with a unique "Ask for pocket money" feature. Upon activation, the app recognizes the user and adapts the version to their age. The app for kids is not only a helpful gadget, but also a tool to introduce children to the world of finance and safe use of technology. Customers have also gained the ability to open an account for a child through electronic channels.

New design and UX. The appearance of the mobile application main screen before and after logging in has been refreshed. Shortcuts to the most popular services available immediately after logging in are a new solution. The mobile application activation process has been simplified. The ability to manage card limits has also been added to the application and management of other daily limits has been made easier.

Cyber-secure

With the start of the pandemic, the number of scams using electronic channels increased markedly. Since then, the Bank has significantly strengthened its security solutions and cybersecurity education campaigns. Security issues are addressed in a variety of contexts, including when establishing a relationship with a new customer.

Customer education campaigns are conducted using available channels:

- banners on the portal, in the mobile application and Milenet,
- PUSH messages in the mobile application,
- Messages in the contact box accessible from both Milenet and the application,
- SMS messages to customers less active in electronic channels.

The campaigns are refreshed regularly, and additionally the communication is strengthened each time new methods of fraudsters' activity or intensified attacks on customers are observed. Communication plans and content are the result of collaboration between several departments. Campaigns are targeted both to customers with access to an online account (about 2 million) and to selected groups based on prepared risk profiles.

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 29 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 clients is augmented by experts in funding mergers and acquisitions and also with support of a post regarding EU funds.

Very high customer satisfaction with the quality of service is confirmed by the results of annual internal corporate banking customer satisfaction surveys. In accordance with a study conducted in July 2021 the bank's NPS ratio was 49 points, NPS for the Relationship Manager 76 points, while 88% of clients were very satisfied with the operational service provided by the consultants.

Support of companies during the pandemic

Due to the sustained pandemic situation, in 2021 the Bank continued to focus on reacting to new needs of businesses, connected with the changed situation relating to their operation.

BGK guarantee programmes

In 2021 Bank Millennium together with Bank Gospodarstwa Krajowego was implementing 3 guarantee programmes to secure loans to businesses: De minimis guarantee programme, programme of guarantees from the Liquidity Guarantee Fund and Biznesmax guarantee programme. SMEs and larger companies could get them under special terms and the application process uses digital channels and qualified signature.

Loans with de minimis guarantee are dedicated to entrepreneurs from the SME segment. Throughout 2021, the programme operated on changed rules facilitating companies' access to the loan and its repayment - the guarantee period was extended, the amount limit was increased, the commission to BGK for granting the guarantee for first valid year was abandoned. Moreover, it became possible to secure with a de minimis guarantee also the repayment of a foreign currency loan, which had been unavailable before. This condition will apply until the end of the BGK program.

We are also continuing the implementation of the **guarantee programme** introduced in 2020 from the **Liquidity Guarantee Fund, the so-called liquidity guarantees**. It is part of the government's anti-crisis shield and its aim is to support financial liquidity for medium and large business entities. Liquidity guarantees for loans sustained high coverage of up to 80%, a higher amount of the loan covered by the guarantee - up to 200 million PLN as well as increased total amount of the guarantee - up to PLN250 million. Moreover, a guarantee may also be used for foreign currency loans.

Businesses could also use reverse factoring secured with a guarantee of repayment of the granted limit within the liquidity guarantees programme of Bank Gospodarstwa Krajowego - up to PLN250 million, with maturity up to 24 months as well as guarantees up to 27 months, covering up to 80% of the limit amount.

Biznesmax guarantees in the formula valid at the Bank pertain first of all to financing companies focused on environmentally friendly projects. The programme was changed at the beginning of 2021

to better meet the new needs of companies. In addition to the available investment loans in PLN, it also became possible to finance the company's current operations, also as part of an overdraft facility granted for a period of 36 months. The most important element of the program is, apart from the lack of commission for BGK during the entire duration of the guarantee - regardless of the period of validity of the guarantee - also the possibility of applying for a partial refund of interest paid on the loan granted.

Processing application under the Financial Shield

From January Bank Millennium enabled submitting applications for support as part of Financial Shield 2.0 through its internet banking service. Application submission was simple and intuitive. In order for every eligible entrepreneur to be able to conveniently apply for subsidy, the Bank made the application available both in Millenet for Companies as well as in internet banking for individuals, the latter being used also by sole traders. The entire process was fully online. Checking the application status and confirmation of granting or refusing a subsidy, prepared on the basis of a decision received by the Bank from the Polish Development Fund, are also enabled online.

In the second quarter of 2021, the bank introduced a process in electronic banking enabling entrepreneurs to settle subsidies received under the PFR 1.0 Shield. Customers who benefited from the subsidy received in electronic banking preliminary calculations prepared by PFR of the amount that is subject to redemption and the amount required for repayment. Also using electronic banking, customers had the opportunity to confirm the settlement calculated by PFR or apply for a different amount. The final decisions of PFR are presented in electronic banking along with the repayment schedule. The bank has implemented a process, convenient for customers, of automatic repayment according to the schedule. The Millenet electronic banking system also allows early repayment of all or part of the subsidy that has not been written off.

Because it was necessary for entrepreneurs to submit an application for remission as part of Shield 2.0, we enabled in Millenet a functionality for Businesses to submit a statement on the settlement of a subvention.

Educational initiatives for corporate banking clients

Bank Millennium support clients through educational initiatives and distributing information about important changes affecting the conduct of business activity. We publish a monthly newsletter presenting macroeconomic information, discussing tax changes and describing new product and system solutions. We also organize educational webinars, an example of which can be a training webinar carried out in December, dedicated to employees of financial departments of local government units. It was devoted to good practices improving the security of digital processes as well as methods of counteracting fraud attempts. The Bank's experts in the field of transactional banking and fraud risk, based on examples of methods used by criminals, showed how to identify fraud attempts to avoid financial losses.

Other educational activities focused on two communities supported by the Bank - financial directors and family businesses. As part of the CFO Club, the bank's experts appeared at face-to-face and online meetings, sharing knowledge in the field of tax changes, legal regulations in the field of sustainable development, the impact of macroeconomic changes on business development, as well as soft skills necessary in the position of financial director. On the other hand, the meetings as part of the Family Business Forum were an opportunity for the Bank's experts to present our experience in the field of customer analytics and building customer experience in digital channels.

Educational initiatives for corporate banking sales staff

Bank Millennium provides trainings for employees of the corporate banking sales network presenting the possibilities of obtaining financing for enterprises from public programmes, including the National Recovery Plan, and the Multiannual Financial Framework or the so-called EU funds. The training concerned both the general program assumptions, the latest financial perspective for 2021-2027, as well as specific competitions announced in 2021, enabling obtaining subsidies for investments planned among the Bank's Clients. The training discussed the issues of innovation, financing the implementation of new products and services, support for conducting research and development works in enterprises. These trainings are both information for relationship managers about the programmes, along with the criteria and parameters for financing new investments, as well as support

for them in interviews with clients about investments, in particular in the field of financing innovations, green investments, digitalisation.

Corporate banking employees also took part in the "Financing of investment projects" training series, improving their competences in the analysis of their clients' investment projects.

We also regularly provide sales employees with knowledge about the current macroeconomic situation and its impact on the markets and activities of companies. We do this in the form of monthly webinars conducted by experts from the Bank's Macroeconomic Analysis Office. This information is supplemented by industry analyses made available on the intranet.

Employees also take part in trainings on new solutions for corporate banking clients, as exemplified by webinars devoted to the Financial Shield 2.0 on applying for and redeeming subsidies in Millenet for Companies, a webinar on the document exchange module in Millenet, solutions in the field of payment terminals or a series of trainings devoted to solutions that customers can use as part of Millennium Leasing customer e-service.

Relationship Managers and credit analysts in the area of corporate banking took part in a webinar conducted by a law firm specialising in the renewable energy sector. The meeting was devoted to discussing the specifics of financing transactions in the PV sector, taking into account the legal and regulatory environment of the industry.

Financing

Despite 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 participation of EU funding increased in 2021 by 3% vs. the previous year to reach the level of PLN19.5bn net.

Factoring

After a record year in 2020, also in 2021 the Bank posted record-high growth rates in the factoring area. Realised factoring turnover stood in that period at PLN27.2bn, i.e. +17.1%. In terms of realised turnover value, the Bank was ranked 6th among the factoring institutions associated in the Polish Factors Association, with a 7.5% market share. Factoring assets as of the end of 2021 reached the highest level in history and were PLN3.14bn.

For another year businesses could also enjoy reverse factoring secured with a guarantee of repayment of the granted limit within the programme of liquidity guarantees from Bank Gospodarstwa Krajowego. The great interest in the programme among Bank Millennium's clients is confirmed by the very high, 16% share of the Bank in factoring financing offered to businesses under this programme in Poland.

Trade finance

In trade finance 6.3% growth was posted in commission income on guarantees and LCs, with a stable value of the portfolio of active guarantees and letters of credit, which reached the level of PLN937 million at the end of the year. There was an 83% increase in the value of new/increased limits and new one-off guarantees and letters of credit granted outside the limits.

In the 4th quarter of 2021, systems for handling guarantees and letters of credit were adapted to the new SWIFT standards in terms of changes in messages regarding guarantees and stand-by letters of credit, which increases the automation of the processes of handling these products.

On our trade finance platform, customers' interest in electronic orders to provide guarantees and open a letters of credit is growing. At the end of the year, 91% of orders to grant a bank guarantee and open a documentary letter of credit within the line were submitted by customers electronically. Almost every third guarantee had the form of an e-guarantee, i.e. electronic form of guarantee with the guarantor's qualified electronic signature.

Transactional 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.

2021 was characterized by a further solid increase of 18% in the balance of funds accumulated on current accounts; at the same time, the balance of deposits increased by 38%, which in total gave an increase of 24%. Transaction activity in the field of domestic transfers was higher by 6%, and in the field of FX transfers it remained at a similar level as in 2020. We observed a recovery in the volumes of closed cash deposits in 4Q, they were 14% higher than in the same period of the previous year. At the same time, interest in payment cards increased significantly - the number of cards in 2021 increased by 27%.

The high balance on current accounts and the threefold increase, by a total of 1.65%, of the NBP's key interest rates significantly improved the interest result by 46% (including deposits by 42%), at the same time net commission income significantly improved by 32%.

In early 2021 a new type of business account (settlement account) - the so-called FNDR account, was introduced. From 1 January 2021 CIT taxpayers (joints stock companies, limited liability companies, limited joint-stock partnerships, limited partnerships) may benefit from a tax preference consisting among others in write-offs to a "fund established for investment purposes". Thanks to the FNDR account clients had the opportunity to benefit from tax relief and claim the amount of write-offs up front as tax deductible expenses.

Bank Millennium's POS payment terminal offer was also made available on special price terms in cooperation with PayTel.

In the second quarter, using the synergy with Millennium Goodie Sp. z o.o., the payment cards offer was expanded with a modern and innovative solution - goodie gift eCards. A gift eCard is a type of financial bonus in the form of a secure virtual payment card available in the goodie application, which can be used for paying in traditional and online stores. The recipient during the activation of the eCard on his phone will see an animation with dedicated wishes, logo or other message and graphics tailored to the occasion.

For all payment cards issued to corporate banking customers, we have launched the possibility of adding them to the following external wallets: Google Pay, Apple Pay, Garmin Pay, Fitbit Pay. Adding a card to your favourite wallet ensures that payments are made without having to remember about the card in plastic form.

Electronic Banking

In line with the trend of increasing the use of electronic banking channels, another year was recorded in which the use of electronic banking channels increased.

In 2021, the functions of electronic banking enabling the secure exchange of electronic documents were significantly expanded, which further increased the Bank's ability to support businesses in a remote way.

Customers can use a dedicated module designed to exchange contracts concluded in electronic form. It enables two-way sending of documents by the bank as well as by the customer, with the possibility for each party to add their comments. The customer as well as the bank may endorse or reject the documents sent, until both parties have negotiated wording to the satisfaction of each of them. The module enables attaching documents containing a qualified signature and each document version sent to the customer bears the bank's electronic seal.

At the end of the year, the function was enriched with a qualified validation and maintenance service of electronic signatures carried out in cooperation with Asseco Data Systems. The qualified maintenance service provides in the long term the legal and technical protection of the evidential value of a qualified e-signature or seal linked to a specific electronic document. The integration of services with the circulation of documents in electronic banking significantly increases the comfort of concluding contracts in an electronic version, because it eliminates the need to use additional software to verify signatures.

In Q4 2021 57% of agreements were signed with the use of an electronic signature.

The Bank was also working on the development of support tools for electronic banking users. Corporate banking customers have been given the opportunity to contact technical and substantive support consultants for electronic banking via chat. Businesses can get online support this way when using the system and navigating it, selecting the best solution and service. During the chat the customers can additionally activate the service of co-browsing with the consultant, which improves customer support greatly.

The functionality of the MillenetLink service has also been expanded, which is a channel for direct data exchange between customers' ERP systems and electronic banking. In addition to the most commonly used SEPA transfers in EUR, the service now supports other types of cross-border transfers available at the Bank. New services have also been added to enable customers to manage prepaid cards in an automated manner (e.g. card funding, balance verification).

Together with Millennium Leasing, the function of electronic service of leasing products was also developed; it is already used by almost 90% of joint customers (Bank and Millennium Leasing). The module of electronic leasing service, which contains a wide range of functions, has been additionally enriched with a set of reports containing complete data on leasing contracts, instalments, invoices and insurance of the customer's products concluded with Millennium Leasing.

Treasury Business

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.

The bank enabled customers to conclude currency exchange transactions in electronic banking (in the desktop version and in the mobile application) 24 hours a day, 5 days a week. The services are available from Monday 0:00 till Friday 23:00 hrs in the electronic millennium Forex Trader FX platform, which is embedded in the Millenet for Companies online system.

The app allows monitoring current levels of FX rates for 16 currency pairs simultaneously and enables concluding FX transactions on all currency pairs available in Bank Millennium's FX rates table, including the Chinese yuan. It provides easy and quick access to history of transactions with the possibility of exporting data to a spreadsheet. The platform has a clear and intuitive interface based on HTML5 technology. In December 2021, we expanded the functionality of the Millennium Forex Trader FX platform with conditional orders, which were made available to clients at the beginning of January 2022.

In 2021, a significant increase of 26% in the foreign exchange turnover of corporate banking clients was also recorded on the FX platform.

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 Depository of Securities (kdpw_stream), NBP Register of Securities (RPW), Euroclear Bank SA/NV (Brussels) and Clearstream Banking Luxembourg.

Custody Department customers include domestic and foreign financial institutions (global custodial banks, banks - depositories of global depository receipts, investment banks, asset management institutions, insurance companies, collective investment institutions, investment funds) and other legal persons actively participating in capital and money market transactions, requiring comprehensive and 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 of 31

December 2021 reached PLN32.7bn. As of the end of 2021 the Bank maintained 13148 securities accounts and deposit accounts and performed depositary function for 22 Investment Funds.

International operations and external financing

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 of 31 December 2021, covered as follows:

- agreement concluded with the EBRD in August 2018 on a medium term loan in the amount of PLN300 million, 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, while its active balance at end of 2021 was PLN200 million.
- agreement concluded with the EBRD in November 2017 (by the former Euro Bank) on a medium term loan in the amount of PLN40 million (with the option of expansion to 100 million PLN), 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 last loan instalment will be paid in November 2022.
- loan agreement concluded in December 2016 with EIB, in 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 2021 was EUR33.3 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 continuation of work involved with the planned issue of debt instruments 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 PLN500 million, in 2015 PLN300 million and in 2017 PLN300 million), and subordinated debt (PLN700 million in December 2017 and 830 million in January 2019).

7.4. SUBSIDIARIES' ACTIVITY

Millennium Goodie

In 2021, the goodie app, downloaded already by more than 2.7 million people, saw further records in users' interest in online shopping and goodie cashback programme. During the past 12 months, more than 4.4 million online transactions were made in goodie with cashback (+66% y/y) amounting to over PLN 593m (+90% y/y). More than PLN12m was accrued to the goodie cashback user accounts (+42% y/y).

4Q 2021 was an exceptional period for goodie cashback. The cashback service recorded huge increases in the value of transactions and reached almost PLN208 million (+70% y/y). The number of transactions made was also growing steadily, reaching nearly 1.3 million in this period. This resulted in accrual of more than PLN3.8 million cashback on Users' accounts.

It should be noted that the above results were achieved despite the entry into force as of 1 July 2021 of the new rules for VAT taxation of e-commerce as regards import of the so-called small consignments from outside Europe. This change had a significant impact on the transaction rate on the e-commerce platforms offering sale of goods from China and available in goodie cashback.

The popularity of the goodie cashback service was also growing among Bank Millennium's customers - initially available only in the Bank Millennium mobile application, in 4Q 2021 it was also launched in Millenet internet system. The goodie cashback service was featured several times in the Bank Millennium TV commercials.

Significant results in 2021 were also driven by the sale of gift e-Cards, the number of which increased 90% y/y.

In June 2021, the goodie application was integrated with Huawei Mobile Services. This means that the app is now available at AppGallery, both for the latest Huawei smartphones with HMS and older GMS models.

A part of www.goodie.pl website was significantly changed with regard to cashback - thus, goodie cashback online users enjoy a more friendly and clearer interface.

Millennium Leasing

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

The value of leasing agreements launched by the company in 2021 totalled PLN3.88 billion, i.e. 56.6% more than in 2020. As at 31 December 2021, the value of capital involved in active leasing agreements amounted to PLN6.74 billion, i.e. 6.4% above the level at the end of 2020.

In 2021, the company achieved a significant increase in leasing market share, reaching 5.1% share compared to 4.1% in 2020.

Millennium Leasing experienced the largest increase in sales in 2021 in the group of means of transport, and so – heavy transport increased by 84% and light transport – by 63.2%.

As a socially responsible organisation, Millennium Leasing promotes activities to help run an energy-efficient business. Therefore, the company encouraged customers to use ecological solutions within the MilleSun photovoltaic equipment financing programme. The product is implemented under a simplified procedure, and an additional facilitation in obtaining financing is the possibility for the customers to choose an authorised Millennium Leasing supplier.

In 2021, the company began offering customers the possibility of concluding a leasing agreement with a BGK guarantee, thanks to which entrepreneurs from the SME sector may use financing on more

attractive terms, including: with regard to margins, financing amount, agreement term and required collateral. BGK guarantee may cover up to 80% of the financing of the leasing transaction, with the maximum agreement period of 10 years. Funds covered by the guarantee constitute state aid from the Pan-European Guarantee Fund – an instrument implemented by the European Investment Fund to protect the European Union economy from the effects of the COVID-19 pandemic.

In 2021, Millennium Leasing continued the possibility of signing documents with electronic signatures, which was introduced in 2020. In addition, the company actively promoted the electronic agreement service (eBOK) among its customers. At the end of 2021, as many as 75% of customers were already using electronic invoicing.

The company actively promoted the MilleFlota service among its customers, which allows for convenient, fast and cost-effective servicing of vehicles up to 3.5 t. Under the programme, customers can purchase parts and services at attractive (and fixed throughout Poland) prices, also at Authorised Service Stations, and furthermore receive a special fleet discount.

Millennium Leasing services are sold by leasing advisors in 78 branches throughout Poland. Moreover, the company actively cooperates with banking advisors in retail branches and in the corporate banking service network of Bank Millennium. This allows the company to offer entrepreneurs a full range of financial services, including both leasing and banking products.

Millennium TFI investment funds

Millennium TFI S.A is a licensed financial institution operating since 2001 as an entity creating and managing investment funds. At the end of the year 2021, the company managed customer assets worth PLN5.2 billion and Millennium TFI funds had around 150 thousand participants.

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

During the year 2021, Millennium TFI has achieved significant growth of assets under management of 14.7%, much stronger than the market average (+7.5%).

Simultaneously Millennium TFI has managed to face up the threats related to COVID-19 pandemic. Millennium funds carried out all transactions of the participants without any problems, while maintaining the full liquidity of portfolios 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 operational processes.

In the first half of 2021, Millennium funds recorded significant increase in assets of a total value of PLN664 million, as a consequence of a conducive macro-economic environment and high risk appetite. In the second half of the year, the value of AUM increased till September and since then has systematically decreased due to capital market turbulences. At the end of the year, the assets under management reached the level of PLN5.2 billion - representing the growth of PLN671 million.

In 2021 most of Millennium investment sub-funds with equity component (equity and balanced sub-funds) has brought participants positive and competitive rates of return, even above +20% for selected equity strategies. On the other hand, the bond sub-funds have realized negative or close to zero rates of return, which were significantly impacted by rising interest rates and elevated inflation.

Millennium TFI S.A. currently manages three umbrella 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) and Millennium PPK Specialist Investment Fund with 8 target date sub-funds. In 2021 Millennium TFI offered participation units in 20 investment sub-funds with different investment strategies and different risk levels.

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 and Individual Retirement Accounts (IKE). Millennium TFI currently manages IKE programs for 34 thousand customers, with the total asset value of PLN400 million. At the end of 2021, 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 2021, Millennium DM's turnover on the equity market was PLN3.5 billion, giving the company 0.6% market share according to the Warsaw Stock Exchange's data. As at 31 December 2021 Millennium DM had provided services to 24.7 thousand investment accounts and acted as a market maker and as an issuer's market maker for 8 companies listed on the Warsaw Stock Exchange.

In 2021, Millennium DM also acted as an intermediary, carried out a buyback of public company and new issue of shares for a company listed on the Warsaw Stock Exchange. Moreover, as a member of a distribution consortium, Millennium DM also participated in several new issues of shares.

In 2021, 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.

The Management Boards of Bank Millennium and Millennium DM decided to integrate the brokerage business and transfer it to the Bank. Therefore, on May 10, 2021, the Division Plan of Millennium Dom Maklerski was published. The division plan was examined by an expert appointed by the court, who issued an unqualified opinion on August 9, 2021. In connection with the decision to integrate brokerage services, Bank Millennium S.A. submitted an application to the Polish Financial Supervision Authority for an extension of the license to conduct brokerage activities. The end of the procedure is expected in 2022.

Millennium Bank Hipoteczny

Millennium Bank Hipoteczny Spółka Akcyjna ("MBH") was established through an act of incorporation by Bank Millennium S.A. on 9 July 2020, after the decision of the Polish Financial Supervision Authority of 16 June 2020 allowing to set up the Bank. The purpose of establishing the Bank and its mission is to ensure to the Group a stable and long-term financing of mortgage loans in the form of covered bonds secured by mortgage receivables (business reserved in Poland exclusively for mortgage banks).

On 20 May 2021 the Polish Financial Supervision Authority licensed MBH to start its activities, which in fact took place on 14 June 2021. Since the beginning of its operations MBH has focused on conducting the first and more transfers of mortgage loans granted by Bank Millennium, which will become the basis for the issuance of covered bonds secured on such loans. The first transfer of mortgage loans from Bank Millennium was conducted on 15 October 2021. The transfer of the first pool of mortgage loans to MBH's balance sheet means the start of obtaining interest revenues from the clients. Preparations also started for the second transfer planned to be finalised in the 2nd quarter 2022. At the same time MBH started work on the preparation of the first covered bond issue. As part of this process the first prospectus is being prepared, as is the rating of the first issue. After the

prospectus has been approved by the PFSA and the rating has been assigned, MBH will implement the first covered bond issue.

These activities will be conducted by MBH on a cyclical basis. The next pools of mortgage loans originated by Bank Millennium under the rules for mortgage banks will be covered by the process of determining the mortgage lending value (MLV) of the properties and then will be transferred to MBH and (after performing a change in the mortgages) the amount of receivables will be increased in the collateral register for covered bonds thus enabling subsequent issues of covered bonds. Only mortgage loans to individuals for housing purposes will be transferred to MBH. MBH will not originate mortgage loans on its own.

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 considers 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.

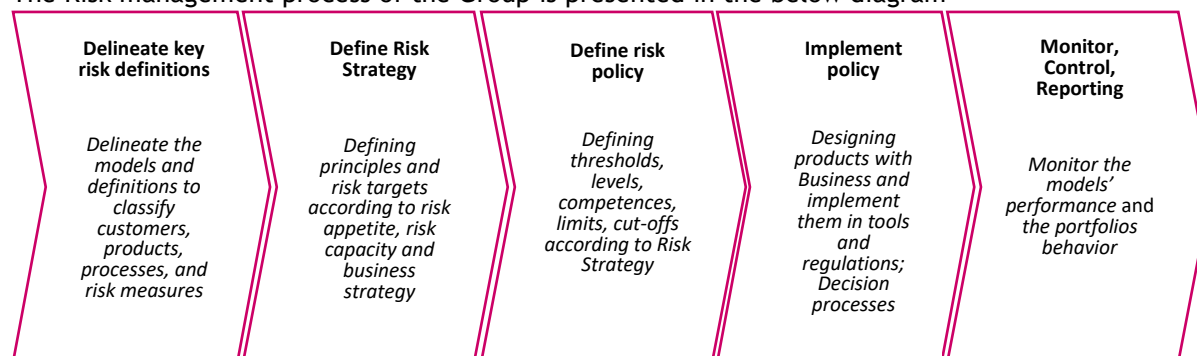
When defining the business and profitability targets, the Group considers the specified risk framework (risk appetite) to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- 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 PLN1mn or as result of multiple cases with the same nature, excluding most of the 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 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 2022-2024". 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 must 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 Bank and 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 zone
- 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, considering 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 Bank is obliged by law to meet minimum own funds requirements, set in art. 92 of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms 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 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 banks by KNF every year because 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 the end of 2021 in the level of 2.82pp (Bank) and 2.79pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.11pp in Bank and of 2.09pp in Group,

and which corresponds to capital requirements over CET 1 ratio of 1.58pp in Bank and 1.56pp in Group¹;

- 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 per cent;
 - Other systemically important institution buffer (OSII) - at the level of 0.25 per cent, and the value is set by KNF every year²;
 - Systemic risk buffer at the level of 0 per cent in force from March 2020, in line with Regulation of Ministry of Development and Finance;
 - Countercyclical buffer at the 0 per cent level.

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

On February 11, 2022, the Bank received a recommendation from the PFSA to limit the risk occurring in the Bank's operations by maintaining both at the standalone and at consolidated basis own funds to cover the additional capital add-on in order to absorb potential losses resulting from the occurrence of stress conditions under Pillar II (P2G). The required level of total capital ratio is described in the article 92 item 1 letter c of the regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending regulation (EU) No 648/2012 and equals to 0.89 p.p. on the top of total capital ratio, increased by the additional own funds requirement referred to in Article 138(2)(2) of the Banking Act and by the combined buffer requirement referred to in Article 55(4) of the Act on macro prudential supervision. The additional capital requirement should be made up of Common Equity Tier 1 capital only. More details are available here: [P2G buffer](#)

¹ That recommendation replaces the previous one from 2020, to maintain own funds for the coverage of additional capital requirements at the level of 3.41pp (Bank) and 3.35pp (Group) as for TCR, which should have consisted of at least 2.56pp (Bank) and 2.52pp (Group) as for Tier 1 capital and which should have consisted of at least 1.91pp (Bank) and 1.88pp (Group) as for CET1 capital

² 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 of 31 December 2021. The Bank will inform on each change of required capital levels in accordance with regulations.

Capital ratio	31.12.2021	
CET1 ratio	Bank	Group
Minimum	4.50%	4.50%
Pillar II RRE FX	1.58%	1.56%
TSCR CET1 (Total SREP Capital Requirements)	6.08%	6.06%
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)	8.83%	8.81%
T1 ratio	Bank	Group
Minimum	6.00%	6.00%
Pillar II RRE FX	2.11%	2.09%
TSCR T1 (Total SREP Capital Requirements)	8.11%	8.09%
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)	10.86%	10.84%
TCR ratio	Bank	Group
Minimum	8.00%	8.00%
Pillar II RRE FX	2.82%	2.79%
TSCR TCR (Total SREP Capital Requirements)	10.82%	10.79%
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)	13.57%	13.54%

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 each 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 per cent ('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 per cent ('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'.

Since 2018, the Bank has been successively implementing a multi-stage process of implementing changes to the IRB method, related to the requirements regarding the new definition of default. In the first phase, in line with the "two-step approach" approved by Competent Authorities, the Bank in 2020 successfully implemented solutions for the new definition of default in the production environment. The Bank is obliged to include an additional conservative charge on the estimates of the RWA value for exposures classified under the IRB approach. The level of this add-on, calculated based on the supervisory algorithm, was set at 5 per cent above the value resulting from the IRB method.

In 2021, all credit risk models included in the rating system subject to the current regulatory approval were recalibrated and rebuilt. In 2021 the Bank also obtained a decision from Competent Authorities to approve significant changes to the IRB models used (LGD, LGD in-default and ELBE) for rating systems subject to the IRB approval.

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, considering 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 2021, 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 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 2021 was as follows:

Capital adequacy measures (PLN million)	31.12.2021 Group	31.12.2020 Group	31.12.2021 Bank	31.12.2020 Bank
Risk-weighted assets	49 442.8	51 138.0	48 895.7	50 757.4
Own Funds requirements, including:	3 955.4	4 091.0	3 911.7	4 060.6
- Credit risk and counterparty credit risk	3 479.8	3 677.0	3 477.7	3 688.3
- Market risk	32.3	26.7	32.3	26.6
- Operational risk	433.0	382.6	391.4	340.7
- Credit Valuation Adjustment CVA	10.3	4.8	10.3	4.9
Own Funds, including:	8 436.3	9 969.0	8 397.1	9 726.6
- Common Equity Tier 1 Capital	6 906.3	8 439.0	6 867.1	8 196.6
- Tier 2 Capital	1 530.0	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	17.06%	19.49%	17.17%	19.16%
Minimum required level	13.54%	14.10%	13.57%	14.16%
Surplus (+) / Deficit (-) of TCR ratio (pp)	+3.52	+5.39	+3.60	+5.00
Tier 1 Capital ratio (T1)	13.97%	16.50%	14.04%	16.15%
Minimum required level	10.84%	11.27%	11.31%	11.31%
Surplus (+) / Deficit (-) of T1 ratio (pp)	+3.13	+5.23	2.73	+4.84
Common Equity Tier 1 Capital ratio (CET1)	13.97%	16.50%	14.04%	16.15%
Minimum required level	8.81%	9.13%	8.83%	9.16%
Surplus (+) / Deficit (-) of CET1 ratio (pp)	+5.16	+7.37	5.21	+6.99
Leverage ratio	6.46%	8.30%	6.45%	8.06%

As at 2021 end, capital adequacy in Bank Millennium Group stood on the safe level. Total Capital Ratio stayed at year end at 17.06 per cent level for the Group (17.17 per cent for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 13.97 per cent for the Group (14.04 per cent 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 2.4pp (by 2.0pp for the Bank). The reason for this was a significant decrease in Own funds, mainly due to the created provisions for the legal risk of FX housing loans. Own funds decreased in 2021 by approx. PLN1.5bn for the Group and by ca PLN1.3bn for the Bank (by 15.4 per cent and 13.7 per cent, respectively). At the same time, there was a decline in risk-weighted assets, which to some extent neutralized the decline in the capital base. The Group's risk-weighted assets decreased in 2021 by approximately PLN1.7bn (by 3.3 per cent), with a decrease for the Bank by PLN1.9bn (by 3.7 per cent).

Leverage ratio stood at the safe level of 6.46 per cent for the Group (6.45 per cent for the Bank), and considerably exceeds a regulatory minimum 3 per cent.

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

In November 2021, the Group received a joint decision of the Single Resolution Board (SRB) and the Bank Guarantee Fund, obliging the Bank to meet the minimum requirements for own funds and eligible liabilities (MREL). Pursuant to this decision, the Group is required to meet the minimum MREL_{treas}³

³ Calculated as a percentage of the total risk exposure amount

requirement of 21.41 per cent and the MREL_{tem}⁴ requirement of 5.91 per cent by December 31, 2023. The decision also sets out a gradual path towards reaching the minimum requirements. Their level will be updated annually.

In connection with the above decision, in January 2022, the Supervisory Board of the Bank approved the Eurobond Issue Program with a total nominal value of no more than EUR3bn.

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) 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 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, in 2021, the Group focused on adjusting the principles of its credit policy to changing economic conditions and on improving the tools and processes of credit risk management, in particular

- updated the Risk Strategy for the years 2022-2024;
- optimised the methodology, tools, and processes of credit risk management for retail and corporate clients;
- updating the industry risk classification and industry limits.

In the retail segment, special attention was paid to adapting and optimizing the lending policy to the market situation resulting from the changing conditions of the COVID-19 coronavirus pandemic. Several development activities in the area of mortgage loans were undertaken to optimize, automate and digitize the process. Similar activities were also undertaken in the area of business clients as part of granting products for financing activities, at the same time emphasizing increasing the level of portfolio security with guarantees provided by BGK. Further efforts were also made in terms of overall digitization and automation of credit processes.

In the corporate segment, the Group focused on the optimal use of capital while maintaining the current profitability and maintaining a good risk profile. The Group also carried out activities aimed at improving and accelerating credit processes, including decision-making processes. The Bank focused especially on investment loans, including those with public support - the Bank verified and improved processes in this area as a whole, preparing for the planned increase in the portfolio of these loans. As in previous periods, work continued improving IT tools supporting the credit process. The Group also continued the close monitoring of the loan portfolio as well as the individual monitoring of the largest exposures.

⁴ Calculated as a percentage of the total exposure measure

All 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 2021 on the level of 4.39 per cent. This means a decrease from 4.95 per cent a year ago. It should also be noted that the evolution of this indicator throughout the year showed a stable and even decline (March'21 - 4.85 per cent, June'21 - 4.71 per cent and September'21 - 4.65 per cent). This is largely due to the Group's sales and write-offs policy of impaired portfolio. 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 also decreased during last year from 2.74 per cent in 2020 to 2.27 per cent in December 2021.

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 66 per cent in December 2020 to 69 per cent. Coverage by total provisions of loans past-due more than 90 days also increased from 119 per cent one year ago to 133 per cent now. Both these ratios improved despite the elimination from the Group's loans portfolio in 2021 of appr. PLN345mn of receivables covered of provisions with 100 per cent (write-off).

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

Group loans quality indicators	31.12.2021	31.12.2020
Total impaired loans (PLN million)	3 557	3 792
Total provisions (PLN million)	2 441	2 489
Impaired over total loans ratio (%)	4.39%	4.95%
Loans past-due over 90 days / total loans (%)	2.27%	2.74%
Total provisions/impaired loans (%)	68.6%	65.7%
Total provisions/loans past-due (>90d) (%)	132.6%	118.8%

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

Impaired loan ratios by segment show a downtrend both in the retail portfolio from 4.9 per cent to 4.55 per cent (including mortgage portfolio had a decreasing characteristic from 2.48 per cent to 2.17 per cent), as well as in the corporate portfolio, in which the ratio decrease during the year from 5.11 per cent to 3.86 per cent (in leasing portfolio reported decrease equalled to 1.31pp while for portfolio of other corporate loans it was 1.19pp). Last year, the value of foreign currency mortgage loans decreased as much by app. 30 per cent year-on-year (in PLN terms). Additionally, it should be noted that ex-Euro Bank mortgage portfolio, in amount app PLN 0.8 billion, enjoys a guarantee and indemnity from Société Générale. Excluding this portfolio, the share of FX mortgage loans (net) in the total loan portfolio fell from 17.4 per cent to 11.4 per cent. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN.

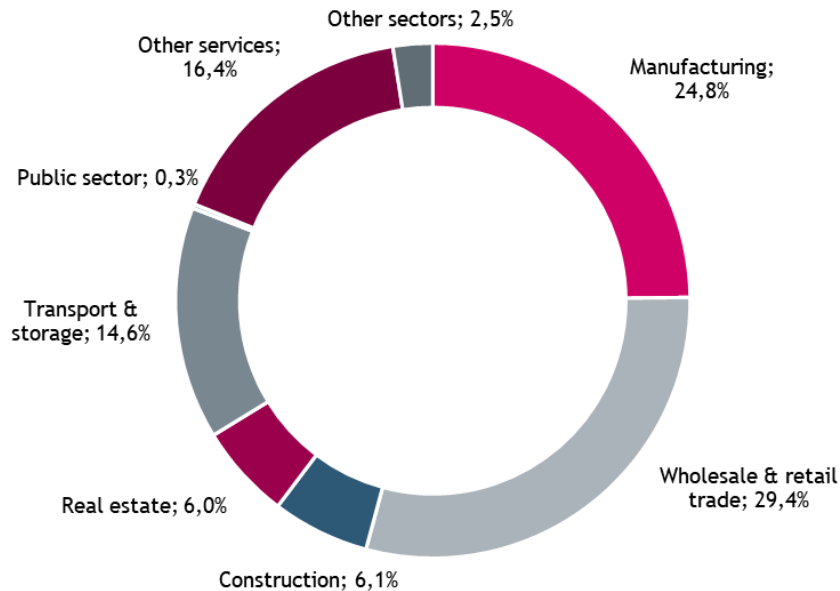
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Mortgage	0.90%	1.00%	2.17%	2.48%
Other retail*	6.57%	7.30%	10.37%	10.70%
Total retail clients*	2.54%	2.86%	4.55%	4.90%
Leasing	1.29%	2.16%	3.16%	4.47%
Other loans to companies	1.42%	2.44%	4.27%	5.46%
Total companies	1.38%	2.34%	3.86%	5.11%
Total loan portfolio	2.27%	2.74%	4.39%	4.95%

(*) incl. Microbusiness, annual turnover below PLN 5 million

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in sectors of the economy. Participation of The 10 largest exposures remain at a safe, low level of 4.5 per cent (decrease in 2021 from 5.0 per cent).

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 the 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 (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 in consolidated terms for Global Bank, Banking Book and Trading Book considering the effect of the diversification that exists between the 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 and Monetary Policy Council's (MPC's) series of decisions to increase interest rates in Poland resulted in increase of the Group's market and interest rate risk.

In 2021, the VaR for the Group that is jointly Trading Book and Banking Book, increased due to market volatility and in 4Q2021 breached the limits in place. The VaR limits were not breached in Trading

Book. All excesses of market risk limits are always reported, documented, and ratified at the proper competence level.

In 2021, open positions included just interest-rate instruments and FX risk instruments. The VaR indicators for the Group remained on average at the level of PLN161.7mn (63 per cent of the limit) and PLN391.3mn (150 per cent of the limit) as of the end of December 2021. However, in 2021, the VaR limits were very conservative - set for Global Bank at no more than 2.6 per cent and for Trading Book at 0.31 per cent of Own Funds). FX open position (Intraday as well as Overnight) remained below 2 per cent of The Own Funds and well below the maximum limits in place.

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, 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).

Exposure to interest rate risk in the Banking Book are primarily generated by the differences in repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. It is specifically affected by the unbalance between assets and liabilities that have fixed rate, especially by the liabilities which cannot have interest rate lower than 0. Consequently, the level of sensitivity to interest rate changes is influenced by the level of interest rates taken as a reference. Additionally, due to specificity of the polish legal system, the interest rate of credits is limited (it cannot exceed two times Reference Rate of the National Bank of Poland increased by 7 percentage points). In situations of decreasing interest rates, the impact on Net Interest Income is negative and depends on the share of the loan portfolio that is affected by the new maximum rate. On the other hand, assumptions regarding the timing and size of deposits repricing are also very important when assessing the interest rate sensitivity and risk.

Considering the increase of interest rates that occurred in the 4th quarter 2021, the results of the IRRBB measurement as of the end of December 2021 indicate that the Group is now in a more balanced situation regarding the scenario of a decline or increase in interest rates. The supervisory outlier stress tests result as of December 2021 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15 per cent 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 per cent of Own Funds.

The results of sensitivity of NII for the next 12 months after 31st December 2021 and for position in Polish Zloty in Banking Book are carried out under the following assumptions:

- static balance sheet structure as of that reference date (no change during the following 12 months),
- reference level of net interest income assuming that all assets and liabilities with variable interest rate already reflect market interest rates levels as of 31st December 2021 (for example, the NBP Reference rate at the end of 2021 was set at 1.75 per cent),
- application of a parallel move of 100 bps in the yield curve up and down is an additional shock to all market interest rates levels as of 31st December 2021 and is set at the repricing date of the assets and liabilities that happens during the 12 following months.

In a scenario of parallel decrease of interest rates by 100bp, the results are negative and equal to PLN-162mn or -6.0 per cent of the Group's NII reference level; In a scenario of parallel increase of interest rates by 100bp, the results are positive and equal to PLN160mn or +5.9 per cent of the Group's NII reference level. The level of asymmetry that existed in past reporting dates is now lower as

interest rates were meaningfully above 0 per cent on 31st December 2021 and the leverage impact of the maximum interest rate is now less strong than in previous years due to changes in the structure of portfolio and pricing of loans.

More information on market risk and interest rate risk management can be found in chapter 8.4 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2021.

Liquidity risk

Liquidity risk reflects the possibility of incurring significant losses because 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 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 2021, the COVID-19 pandemic still had an impact on global financial markets, however 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.

In 2021, the Group's Loan-to-Deposit ratio decreased and was equalled to 86 per cent at the end of December 2021 (comparing to level of 91 per cent as of end of December 2020).

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 2021, the share of Polish government securities (including NBP Bills) in total securities portfolio amounted to 98 per cent and allowed to reach the level of approx. PLN17.6bn (17 per cent of total assets), whereas at the end of December 2020 was at the level of approx. PLN18.4bn (19 per cent of total assets) (see table below).

Main liquidity ratios	31.12.2021	31.12.2020
Loans/Deposits ratio (%)	86%	91%
Liquid assets portfolio (PLN million)*	18 793	18 250
Liquidity Coverage requirement, LCR (%)	150%	161%

(*) *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 using FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The importance of swaps has been decreasing because of the reduction of the FX mortgage loan portfolio and the hedge in foreign currency of the provisions for legal risk. The swaps portfolio is diversified in term of counterparties and maturity dates. For most 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 per cent for LCR valid in 2021 was met by the Group (as of the end of December 2021 the LCR reached the level of 150 per cent). 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 2021, the Group complied also with supervisory measures imposed by KNF Resolution 386/2008 as well as regularly calculated net stable funding requirement (NSFR). Since 28th June 2021 the NSFR as obligatory supervisory long term liquidity measure replaced M3 and M4 supervisory measures defined by the KNF. In each of the quarter, the NSFR was above the supervisory minimum of 100 per cent (supervisory minimum valid since 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 per cent 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, to understand the Group's liquidity-risk profile and to ensure that the Group can 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 December 2021.

More information on liquidity risk management can be found in chapter 8.5 of the Annual Consolidated Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2021.

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.

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 Sub-unit in the Security Department is a centre of competence for the fraud prevention process.

Non-compliance risk

Lack of compliance of the Bank's operations with binding laws, internal regulations, and market standards, which is linked with the risk of material or reputation losses or., It's 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,

- Counteracting corruption,
- 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. To ensure compliance of the Bank's operation with the generally applicable laws, the Compliance Department undertakes several 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 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 by persons discharging managerial responsibilities, of the Bank's shares, debt instruments of the Bank or derivatives or other financial instruments linked to them 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, considering 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.

8.5. LEGAL RISK RELATED TO FX-MORTGAGE LOAN BOOK

Court claims and current provisions on legal risk

On December 31, 2021, the Bank had 11,070 loan agreements and additionally 913 loan agreements from former Euro Bank (94% loans agreements before the Court of first instance and 6% 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 PLN1,512.4 million and CHF121.3 million (Bank Millennium portfolio: PLN1,391.9 million and CHF119.0 million and former Euro Bank portfolio: PLN120.4 million and CHF2.3 million).

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses, or maintenance of the agreement in PLN with interest rate indexed to CHF Libor.

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. A decision on the admission of evidence will be taken by the court at a closed session. The next hearing will be scheduled ex officio.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,981 individual claims were filed against the Bank (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,007 (267) while in 2021 the number increased by 6,149 (417).

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved in favour of banks until 2019 year. However, after the Court of Justice of the European Union (CJEU) judgment issued on 3 October 2019 (Case C-260/18) the proportion have adversely changed and vast majority of court cases have been lost by banks,

particularly in first instance proceedings. As far as the Bank itself is concerned, until 31 of December 2021 only 245 cases were finally resolved (210 in claims submitted by clients against the Bank and 35 in claims submitted by the Bank against clients i.e. debt collection cases). 60% of finalised individual lawsuits against the Bank were favourable for the Bank including remissions and settlements with plaintiffs. Unfavourable rulings (40%) included both invalidation of loan agreements as well as conversions into PLN+LIBOR. The Bank submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts. On the other hand, the statistics of first instance court decisions have been much more unfavourable in recent periods and its number has also increased. In general, the Bank submits appeals against 1st instance negative court rulings.

The outstanding gross balance of the loan agreements under individual court cases and class action against the Bank on 31.12.2021 was PLN4,382 million (of which the outstanding amount of the loan agreements under the class action proceeding was PLN962 million PLN).

If all Bank Millennium's loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for the use of capital, the pre-tax cost could reach PLN4,020 million. Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

In 2021, the Bank created PLN2,086.0 million provisions and PLN219.2 million for former Euro Bank originated portfolio. The final level of provisions for the Bank Millennium portfolio at the end of December 2021 was at the level of PLN3,078.9 million, and PLN253.7 million for former 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:

- invalidity of the agreement
- average NBP
- PLN + LIBOR

(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.

(4) in the case of a loan agreement invalidity scenario, a new component recognized in the methodology, taking legal assessments into consideration, is the calculation of the Bank's loss taking into account the assignment of a minimum probability of receiving the settlement of a remuneration for the cost of use of capital.

(5) new component recognized in the methodology is the amicable settlement with clients in or out of court. Notwithstanding the Bank's determination to continue taking all possible actions to protect its interests in courts, the Bank has been open to its customers in order to reach amicable solutions on negotiated terms, case by case, providing favourable conditions for conversion of loans to PLN and / or early repayment (partial or total). As a result of these negotiations the number of active FX mortgage loans was materially reduced in 2021. As the Bank is still conducting efforts to further signing of agreements which involved some costs, a scenario of further materialization of negotiations was added. However, it should be noted that:

- a. negotiations are conducted on a case-by-case basis and can be stopped at any time by the Bank,

- b. as the effort was material in 2021, the probability of success is going down and at the same time, gradually most of the client base has had contact with the Bank regarding potential negotiation of the conversion of the loans to PLN, so the Bank is taking a conservative approach when calculating the potential future impact for the time being.

Legal risk from former Euro Bank portfolio is fully covered by Indemnity Agreement with Société Générale S.A.

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	PLN56 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN40 million
Change in estimated losses for each variant of the judgment	Increase in losses for each variant of the judgment by 1 p.p	PLN32.5 million

The Bank is open to negotiate case by case favourable conditions for early repayment or conversion of loans to PLN. As a result of these negotiations the number of active FX mortgage loans decreased by 8,449 (including 69 confirmed in court) in 2021 compared to over 57,800 active loans agreements at the end of 2020. Cost incurred in conjunctions with these negotiations totalled PLN 364.3 million year to date and is presented mainly in 'Result on exchange differences' in the profit and loss statement.

Finally it should also be mentioned, that the Bank, as at 31.12.2021, 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 2.82 p.p. (2.79 p.p. at the Group level), part of which is allocated to operational/legal risk.

Events that may impact FX-mortgage legal risk and related provisions

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 requests 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.

On 29 January 2021, a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Supreme Court was published. This 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 conditions (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.

On 11 May, the Civil Chamber of the Supreme Court requested opinions on Swiss franc mortgage loans from five institutions including the National Bank of Poland (NBP), the Polish Financial Supervision Authority (UKNF), the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

The positions of: the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman are in general favourable to consumers, while the National Bank of Poland and the Polish Financial Supervision Authority present a more balanced position, including fair principles of treatment of FX mortgage borrowers vis-à-vis PLN mortgage borrowers, as well as balanced economic aspects regarding solutions for the problem that could be considered by the Supreme Court.

In the next meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known. The Bank will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

With the scope of settlements between the Bank and borrower following the fall of the loan agreement is also connected the legal issue directed to the seven-person composition of the Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

The Supreme Court was also presented with the issue of whether the loan agreement is a mutual agreement in the light of the regulations concerning retention right.

In August 2021, the Court of Justice of the European Union ("CJEU") was asked for a preliminary ruling (C-520/21) whether, in the event that a loan agreement concluded by a bank and a consumer is deemed invalid from the beginning due to unfair contract terms, the parties, in addition to the reimbursement of the money paid in contracts (bank - loan capital, consumer - instalments, fees, commissions and insurance premiums) and statutory interest for delay from the moment of calling for payment, may also claim any other benefits, including receivables in particular, remuneration, compensation, reimbursement of costs or valorisation of the performance.

Notwithstanding the above, there are a number of further questions addressed by Polish courts to the European Court of Justice which may be relevant for the outcome of the court disputes in Poland.

The subject matter questions relate, in particular, to:

- the possibility of replacing of an abusive contractual clause with a dispositive law provision;
- the limitation period of a consumer claims concerning reimbursement of benefits made as performance of an agreement which has been declared to be invalid
- the possibility of declaration by the Court of abusiveness of only part of a contractual provision.

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.

As expressed in our previous financial reports, 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.

Based on current information some of the above mentioned aspects are not likely to be fully clarified and / or achieved.

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.

Bank Millennium conducted a survey among its customers in cooperation with an external reputed company regarding the willingness to accept settlement in the terms of the sector solution put forward by the Chairman of KNF. 49% of clients enquired were preliminarily interested in benefitting from the proposal, while 25% were not able to clearly express their opinion and 26% would not take such offer.

According to the current 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 then existing portfolio would be converted) with a pre-tax impact between PLN 4 390 million to PLN 4 848 million (not audited data). 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.

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 or European Court of Justice 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.

More information on legal risk related to FX-mortgage loan book can be found in chapter 13 of the Annual Consolidated Financial Report of the Bank Millennium S.A. Capital Group for the 12-month period ending 31st December 2021.

8.6. FURTHER RISK FACTORS

Further risk factors:

- 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. No increase of provision took place in 2021. 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. On November 18, 2021, the Bank received a letter from the Banking Guarantee Fund on MREL (minimum requirement for own funds and eligible liabilities) requirements set for December 31, 2023 as well as interim target levels. The Bank is still to meet its YE21 target MREL level due to the net loss booked in 2021 (higher-than-initially planned provisions against legal risk related to FX-mortgage portfolio) and the fact that an issue of senior non-preferred bonds on the Polish market initially planned for 4Q21 was not possible to execute due to a gap in the Polish bond law. Due to this fact, the Bank decided to alternatively prepare and launch a new EMTN programme that will allow the international issue of senior non-preferred bonds, to be executed in the first half of 2022. On January 28, 2022, the Bank's Supervisory Board approved the Eurobond Issue Programme of the total nominal value not higher than EUR 3 billion.
- In 2020, the systemic risk buffer was lowered to 0% from 3% which contributed to a decrease in the level of MREL requirements. If the level of systemic risk buffer was to would increase in the future, it would influence the level of MREL requirements and the issuance volume needs.
- 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.
- Cyber-risk is among the highest ranked risks that banks are facing globally and the Polish banking market is no exception. The rapid development of new technologies, digitalisation of the economy and increasingly sophisticated cyber-attacks make cyber-risk a likely constant risk factor that banks going forward will need to put increasing resources to mitigate.
- Regulatory environment remains a big challenge for the banking sector and further tightening of rules and introduction of new ones by either European or local regulators cannot be ruled out. Competition is becoming increasingly intense in the financial services sector. While historically banks had to mostly combat threats from their peers, the relaxation of access to customer data that results from the recent introduction of PDS2 directive accelerates the potential entry of bigtechs and fintechs onto the market. Furthermore, the ongoing consolidation of the domestic banking market is likely to further increase competitive pressures further out. As a result larger players are likely to benefit from the economies of scale to the detriment of smaller banks. The increasing share of State owned/controlled banks in the sector is another risk factor worth highlighting.

Risk factors presented above do not constitute a complete list of potential risks that the Bank and the BM Group are, or may be, exposed to.

9. HUMAN RESOURCES MANAGEMENT

9.1. PERSONNEL POLICY

The Bank Millennium Group implements a Human Resources Policy, which sets out the general principles related to employee recruitment, evaluation, development and retention. Based on this policy and business assumptions, the Bank has developed a Human Resources strategy. The strategy regulates all areas of human resources management, including employment and remuneration.

The Human Resources Policy and the HR Management Strategy based on it support the business needs of the Bank Millennium Group and create a friendly, supportive and safe workplace.

Friendly workplace

Bank Millennium creates a good working environment for employees regardless of gender, age, race, religion, nationality, ethnic origin, disability, political beliefs, union membership and sexual orientation, who find here conditions for professional development in an atmosphere of cooperation and mutual respect.

Bank Millennium was ranked second in the Poland's Best Employers 2021 ranking by Forbes magazine and Statista in the Banks and Financial Services category. Among the criteria taken into account were: development and prospects, employee relations and management and sustainable development.

For the eighth time in a row, the Bank passed the certification process and retained the title of Solid Employer 2022. The distinction of the emblem attests to the clarity and reliability of the company and its compliance with the highest standards in the area of Human Resources.

Bank Millennium has been ranked among the "European Diversity Leaders 2022". In the list published by the Financial Times, 850 employers who support and promote diversity in their organisations were selected from among 15,000 companies. The ranking is based on the opinions of 100,000 employees and human resources and recruitment experts. The research company Statista is a content partner of the project.

Safe working environment

In 2021, the Bank had a special committee, already established at the start of the pandemic, to monitor staff safety from an epidemiological point of view, to monitor the pandemic situation in the country and the regulations of the competent authorities, to decide on procedures to ensure epidemiological safety in the Bank and to assess the impact of the pandemic on the operation of business areas.

There was a systematic communication campaign to prevent infections, informing on how to deal with infections. Employees were regularly provided with information on safety procedures in place, available protection measures and how to deal with infections. The obligation to keep a distance and use masks was maintained and business trips were limited to what was necessary. Work organisation was also changed. The bank allowed employees to work remotely.

In 2021, the COVID-19 medical cost support fund for employees and their next of kin, established in April 2020 by a decision of the Bank's Board of Directors, was also operational. The amount of this fund is PLN 1 million.

Competence development

Despite the pandemic constraints, the Bank provided a very large range of training courses for employees, a large part of which took place remotely in 2021, and the Bank further developed its already very extensive e-learning training portfolio.

The Bank continued to provide extensive training programmes for business lines, in particular retail banking, which enable both on-boarding of new employees and ensure their development while working in the organisation. Specialised training for technology areas was also offered.

Managers training was also an important element. In 2021, particular emphasis was placed on training managers in the retail banking area.

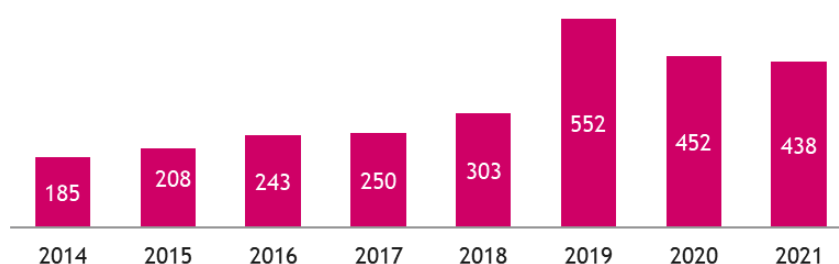
The Bank ran a lecture programme as part of the Millennium Campus, which was highly appreciated by employees. Lecturers in this programme were recognised experts from the world of science and business. The programme covered topics related to the development of new technologies, artificial intelligence as well as psychology and business.

The Bank Millennium Group recognises and rewards employee attitudes leading to an increase in the quality of work, as well as optimisation of processes, efficiency and taking up professional challenges. In 2021 the "Impakt" employee awards programme was continued, under which Group employees themselves nominate candidates for distinction.

Supporting digital technology development

Bank Millennium is one of the most modern bank on the market and for years has based its development on information technology. They are the basis for the progressive digitalisation of customers through the development of remote customer service systems - electronic and mobile banking. The Bank maintains and develops large teams of IT specialists in various fields.

Staff development of IT area* during recent years (number of employees)



(*) Incl. IT Security, Information Technology, and Communication and Application Development; 2019 increase is caused by the merger of teams with Euro Bank SA.

Diversity policy

In accordance with the Diversity Policy, introduced in the Bank Millennium Group in 2017 and amended in 2021, the Group acts with respect for human dignity and observes the right to equal treatment irrespective of age, gender, ethnic and national origin, religion, creed, family status, sexual orientation, state of health, beliefs, union membership and other grounds exposing to discriminatory behaviour.

The Bank Millennium Group incorporates the principle of respect for diversity in the Work Regulations, Code of Ethics and other important regulations in the area of human resources management and implements it in the following areas: recruitment and employment, access to salaries and positions, support for parent employees, equal access to benefits, support for people in difficult life situations, value-based leadership development as well as freedom of expression and open communication.

In the Bank Millennium Group, knowledge and awareness of employees are developed in relation to ethics and respect for diversity issues. All employees undergo mandatory training on ethical issues. In addition, all managerial staff mandatorily undergoes training on counteracting mobbing and discrimination in employment. The Bank Millennium Group has implemented an anti-mobbing and

anti-discrimination procedure. There is a system of reporting abuse, which is independent of the hierarchy of service.

In Bank Millennium women constitute the majority of employees - about 67%. Their share in the Bank's broadly understood management staff (starting from the position of branch manager) was about 55%. Although in recent years the share of women among management staff has been increasing, they are still under-represented and account for only 29% of this group.

The Bank's strategy, including, for example, building service units for foreigners working in Poland, also serves to increase the diversity of employees in terms of nationality: 41 foreigners were employed in 2021.

The age structure of employees is relatively balanced, hiring people both entering the labour market and those at the end of their careers. The largest group of employees is between 30 and 50 years old - almost 67%. Young people under 30 years old - 22%.

In connection with its long-term development strategy, the Bank will strive in its human resources management policy to further take into account diversity in terms of the competencies and professional experience of its employees. An increase in the number of employees in the areas of new technologies, communications and new marketing strategies with diverse professional experience is expected.

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>	31.12.2021	31.12.2020	Change (y/y)
Number of Bank's employees	6 598	7 164	-566
- including key positions	156	159	-3
Subsidiaries	345	329	16
BM Group total	6 942	7 493	-550

Employment in Bank Millennium Group at end of 2021 reached 6,942 FTEs, which means decrease vs end of 2020 by 550 FTEs (i.e. 7.3%). The biggest employer in the Group is Bank Millennium, with a headcount at end of 2021 of 6,598 FTEs. Bank Millennium Group subsidiaries at the end of the year were employing in total 345 FTEs, with the following three companies having highest significance: Millennium Leasing, Millennium Dom Maklerski, Millennium TFI and, the new one, Millennium Bank Hipoteczny.

Employment in the Bank <i>(in FTEs)</i>	31.12.2021	31.12.2020	Change (y/y)
Branches and direct sales	4 213	4 572	-359
Head Office	2 385	2 592	-207
Total Bank Millennium	6 598	7 164	-566

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 continuing employment optimization after the merger with Euro Bank.

Employment in the Bank (in FTEs)	31.12.2021	31.12.2020	Change (y/y)
Direct Banking	704	738	-34
Digital	645	652	-7
Retail and corporate banking	3 509	3 834	-325
Support units	1 740	1 940	-199
Total Bank Millennium	6 598	7 164	-566

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 organization'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 2021 and in the previous year was as follows:

Staff costs (in PLN million)	2021	2020	Change (y/y)
Bank Millennium	768.8	813.8	-5.5%
Subsidiaries	47.4	42.5	11.4%
Total Bank Millennium Group	816.2	856.3	-4.7%

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 and shall not exceed 100% of base salary. The employee's base 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 remuneration reports with regards to 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 targets. 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 is determined after analysis of capital and liquidity ratios and depending on realisation of Bank Millennium operational results. In case of business lines staff, the budgets are also linked to realization of targets of particular lines. It is assumed that individual bonuses may not exceed 100% of the total annual base salary. Individual bonuses are awarded within the variable remuneration 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 that are classified as 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 2021 for 2020:

Risk Takers - Members of the Management Board of Bank Millennium (Risk Takers I)

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 5 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 portion of the bonus paid in own shares is subject to retention for 12 months.

The Risk Takers other than Members of the Management Board (Risk Takers II)

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 own shares. The portion of the bonus paid in own shares is subject to retention for 12 months.

The Personnel Committee of the Bank's Management Board may decide not to defer variable compensation below a certain value. When the amount of bonus determined for Risk Taker II for a given calendar year does not exceed the equivalent of EUR50 thousand and 1/3 of the total annual remuneration, the bonus may be paid in full in cash, in a non deferred form, pursuant to a decision made by the Bank's Management Board Personnel Committee.

Information on own shares acquired in 2021

Justification for the acquisition of own shares

In financial year 2021, Bank Millennium SA, under implementation of the incentive programme the rules of which are provided for in the Resolution no. 4 of the Extraordinary General Meeting of Shareholders of 27 August 2019 in the matter of establishment of incentive programme and determination of principles governing management thereof, authorisation of the Company Management Board to purchase own shares for purpose of implementation of the incentive programme and establishment of reserve capital for purchase of such shares (as amended by Resolution of the Extraordinary General Meeting of Shareholders no. 2/2020 of 3 July 2020; ('GM Resolution'), as well as in Remuneration Policy with respect to Risk Takers in Bank Millennium S.A. Group and the Incentive Programme Regulations, acquired the Bank's own shares exclusively for the purpose of implementing an incentive programme for employees whose professional activities have a significant impact on the risk profile.

Aggregate data on share purchases in 2021

Period	Total number of acquired shares	Nominal value of shares in PLN	Share in share capital	Share of votes under shares in the total number of votes	Total value of transactions in PLN	Average weighted price in PLN
13-14.05.2021	565 446	565 446	0.05%	0.05%	2 539 305.16	4.491
21-22.06.2021	160 335	160 335	0.01%	0.01%	793 878.11	4.951
2021	725 781	725 781	0.06%	0.06%	3 333 183.27	4.593

All shares thus acquired, were transferred to employees free of charge during 2021.

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 remuneration framework for Management and Supervisory Board Members is defined in the "Remuneration policy with regard to members of the Management Board and Supervisory Board of Bank Millennium SA " adopted by the Shareholders' General Meeting.

The Policy is one of instruments facilitating implementation of business strategy, long term interests and stability of the Bank and supports proper and effective management of risk and mitigation of conflicts of interests in particular through:

- development of adequate level of remuneration components, in relation to the function performed and the scale of the Bank's operations, including the principle of transparency of their creation,
- rendering parts of remuneration due to management Board Members conditional upon the financial and business performance of the Bank,
- adoption of the structure of variable and fixed components of remuneration of Management Board Members ensuring that motivation aimed towards receiving variable components of remuneration does not create the incentive to undertake excessive risks,
- ensuring only a fixed component of remuneration for Members of the Supervisory Board, and its independence from the financial and business results of the Bank
- supporting responsible management attitudes relative to long term business objectives of the Bank by way, inter alia, of transparent assessment of performance by the Management Board Members.

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 2021 was PLN 10 500 thousand. Additionally, Members of the Board were paid part of an annual bonus for 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 2021 (in PLN thousand):

Name	Period	Fixed remuneration (PLN'000)
Joao Bras Jorge	01.01.2021 - 31.12.2021	2 280.00
Fernando Bicho	01.01.2021 - 31.12.2021	1 620.00
Wojciech Haase	01.01.2021 - 31.12.2021	1 320.00
Andrzej Gliński	01.01.2021 - 31.12.2021	1 300.00
Wojciech Rybak	01.01.2021 - 31.12.2021	1 320.00
Antonio Pinto Junior	01.01.2021 - 31.12.2021	1 320.00
Jarosław Hermann	01.01.2021 - 31.12.2021	1 320.00

Additional benefits of Management Board Members in 2021 (in PLN thousand)

Name	Period	Benefits (PLN'000)
Joao Bras Jorge	01.01.2021 - 31.12.2021	1 165.64
Fernando Bicho	01.01.2021 - 31.12.2021	48.00
Wojciech Haase	01.01.2021 - 31.12.2021	13.31
Andrzej Gliński	01.01.2021 - 31.12.2021	25.07
Wojciech Rybak	01.01.2021 - 31.12.2021	3.83
Antonio Pinto Junior	01.01.2021 - 31.12.2021	571.39
Jarosław Hermann	01.01.2021 - 31.12.2021	3.83

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 2017, 2018 i 2019 (PLN'000)		
	cash	in shares of Bank Millennium *	cash
Joao Bras Jorge	425.34	101.59	259.00
Fernando Bicho	337.77	80.68	205.67
Wojciech Haase	275.22	65.74	167.58
Andrzej Gliński	275.22	65.74	167.58
Wojciech Rybak	275.22	65.74	167.58
Antonio Pinto Junior	131.47	65.74	52.59
Jarostaw Hermann	106.82	65.74	32.87
			0
Maria Campos	143.75	-	115.00

**Part of the deferred bonus in Bank Millennium shares is subject to Retention for a Period of 12 months counted from the date of acquisition of rights, i.e. from 14.06.2021. The amounts are given according to the value granted.*

In 2021, no variable remuneration was awarded to the members of the Management Board with respect to 2020.

The decision to award variable remuneration to Management Board Members for 2021 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 2021

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.

On 29 March 2021 the Supervisory Board of the Warsaw Stock Exchange adopted resolution no. 13/1834/2021, by a virtue of which it adopted “*Best Practice for GPW Listed Companies 2021*” (hereinafter referred to also as ‘**Best Practice 2021**’), that entered into force on 1 July 2021. On that date they replaced the current version of the Best Practice. However, in 2021 the Bank was obliged to follow both Best Practice (from 1 January to 30) and Best Practice 2021 (from 1 July to 31 December).

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” and of the document “Best Practice for GPW Listed Companies 2021” is published on the GPW website: https://www.gpw.pl/pub/GPW/o-nas/DPSN2016_EN.pdf and https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/en/DPSN2021_EN.pdf, and on 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, Best Practice 2021 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 and Best Practice 2021) or by means of a website (in the case of the Principles).

Like in previous years, in 2021 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, within implementing Best Practice 2021, provided shareholders with a technical possibility of real-time, two-way communication during the proceedings of General Meeting. Hence the aforementioned recommendation, previously not met by the Bank, since 1 July 2021 will be feasible to implement and exercise.

As regards Best Practice 2021, the Bank was required to notify WSE of its compliance status no later than 31 July 2021. The Bank made the notification earlier, i.e. on 28 July, indicating full compliance of the Bank's conduct with all the rules contained therein. The application of the recommendations included in the Best Practice 2021 is confirmed by the document published on the Bank's website entitled *"A statement on the company's compliance with the corporate governance principles contained in Best Practice for GPW Listed Companies 2021"*.

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 § 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.

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.

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 2021 the General Meeting by its Resolution of 24 March 2021 accepted the Report on the Activity of the Bank Millennium S.A. Supervisory Board in 2020 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 6/2021 of 29 January 2021 found that the Bank in 2020 correctly implemented the Principles to the extent established by resolutions of the Bank's governing bodies. The respective General Meeting's resolution on the application of Best Practice 2021 will be adopted at the first planned shareholders' meeting in 2022.

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 2021, 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 2021, 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, which as at 31 December 2021 held 8.18% of the Bank's shares, AVIVA Otwarty Fundusz Emerytalny AVIVA Santander, which as at 31 December 2021 held 6.00% of the Bank's shares and Otwarty Fundusz Emerytalny PZU "Złota Jesień", which as at 31 December 2021 held 5.73% of the Bank's shares.

The remaining shares, i.e. 29.99% of the share capital, are dispersed among Polish and foreign shareholders, both institutional and private.

Shareholders of the Bank as at 31 December 2021

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	99 291 825	8.18	99 291 825	8.18
AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	72 760 035	6.00	72 760 035	6.00
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	69 451 428	5.73	69 451 428	5.73

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 Otarty Fundusz Emerytalny AVIVA Santander	76 760 035	6.33	76 760 035	6.33

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 Ordinary General Meeting convened for 24 March 2021, and in the Bank's Extraordinary General Meetings convened for 3 July 2020.

However, as regards Nationale-Nederlanden Otarty Fundusz Emerytalny, Aviva Otarty Fundusz Emerytalny Aviva Santander and Otarty 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 2021 and as at 31 December 2020 (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 2021: PLN 8.1658 and for 2020: PLN 3.3088.

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 2021.

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 between 1 January 2021 and 24 March 2024 was as follows:

- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board,
- Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board,
- Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
- Agnieszka Hryniewicz-Bieniek - Member of the Supervisory Board,
- Anna Jakubowski - Member of the Supervisory Board,
- Grzegorz Jędryś - Member of the Supervisory Board,
- Andrzej Koźmiński - Member of the Supervisory Board,
- Alojzy Nowak - Member of the Supervisory Board,
- José Miguel Bensliman Schorcht da Silva Pessanha - Member of the Supervisory Board,
- Miguel Maya Dias Pinheiro - Member of the Supervisory Board,
- Lingjiang Xu - Member of the Supervisory Board.

On 24 March 2021, the General Meeting of the Bank appointed the Bank's Supervisory Board for a new term of office ending on the date of the General Meeting approving the Bank's financial statements for the financial year 2023. Accordingly, the composition of the Supervisory Board is as follows:

- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board,
- Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board,
- Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
- Olga Grygier-Siddons - Member of the Supervisory Board,
- Anna Jakubowski - Member of the Supervisory Board,
- Grzegorz Jędryś - Member of the Supervisory Board,
- Alojzy Nowak - Member of the Supervisory Board,
- José Miguel Bensliman Schorcht da Silva Pessanha - Member of the Supervisory Board,

- Miguel Maya Dias Pinheiro - Member of the Supervisory Board,
- Beata Stelmach - Member of the Supervisory Board,
- Lingjiang Xu - Member of the Supervisory Board.

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 Ciencias do Trabalho e da Empresa) and attended the Advanced Management Programme at INSEAD (France).

From 1980 he worked in auditing (KPMG) and in international banks (Citibank, Deutsche Bank and Banco Santander) in Portugal. Between 2006 - 2012 he was Vice-Chairman of the Board of Directors and CEO of Banco Santander Totta (Portugal). From 2012 to 2018 he was Vice-Chairman of the Board of Directors and CEO of Banco Comercial Portugues (BCP), Portugal. Since July 2018 he has been Chairman of the Board of Directors of BCP.

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

3. Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board

Mr Dariusz Rosati graduated in International Trade from the Main School of Planning and Statistics - SGPiS (now the SGH Warsaw School of Economics) in Warsaw. Professor Emeritus of Economic Sciences, Institute of International Economic Policy at SGH.

In 1978 - 1979 he was a consultant at Citibank in New York. In 1985 - 1986 and 1987 - 1988 - founder and Director of the World Economy Research Institute at SGH. In 1986 - 1987 he was a Fulbright scholar at the University of Princeton (USA). In 1988 - 1991 he was the director of the Foreign Trade Research Institute. Since 1990 Professor of Economic Sciences at SGH. In 1991 - 1995 he worked in the UN Economic Commission for Europe in Geneva (Switzerland) as Head of the Central and Eastern European Section. In 1995 - 1997 he was Minister of Foreign Affairs of the Republic of Poland. In 1998 - 2004 Member of the Monetary Policy Council of the National Bank of Poland.

In 1978 - 1991, UNIDO consultant and member of numerous missions to developing countries. In 1988 - 1991 many times worked as an expert of the World Bank, the United Nations University World Institute for Development Economics Research (WIDER), International Labour Organisation and European Commission. Member of the Economic Reform Commission (1987 - 1989), team of the economic advisors to the Prime Minister (1988 - 1989), the Socio-Economic Strategy Council at the Council of Ministers (1994 - 1998). Since 1997 Member of the Committee of Economics at the Polish Academy of Sciences. In 2001 - 2004 he was a member of the Group of Economic Policy Advisors to the President of the EU Commission. From 2003 to 2005 Rector of Lazarski University in Warsaw.

In years 2004 - 2009 and 2014 - 2019 Member of the European Parliament. Member of Parliament of the Republic of Poland of 7th term in 2011 - 2014 - he was the Chairman of the Public Finance Committee - and of 9th term, elected in 2019. Author of more than 200 scientific papers and publications, including six books on economic policy.

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

4. Miguel de Campos Pereira de Bragança - Member of the Supervisory Board

Mr Miguel de Campos Pereira de Bragança has a Licentiate Degree in Management and Administration from the Catholic University of Portugal and an MBA from INSEAD (France).

Since 1989 he has worked at banks in Portugal, Brazil and Great Britain. Between 2008-2012 he was Director, responsible for the Financial, Accounting and Management Control, Marketing and Products Areas, at Banco Santander Totta and Banco Santander de Negocios (Portugal). Since 2012 Member of the Board of Directors and Vice-Chairman of the Executive Committee of Banco Comercial Portugues (BCP), Portugal.

Since 20 April 2012 he has been a Member of the Supervisory Board of Bank

Millennium S.A. and since 2019 Vice-Chairman of the Board of Directors of Aktivobank.

Since 2018 Non-executive Director of SIBS, SGPS, SA and of SIBS Forward Payment Solutions, SA and Non-executive Director of the BofD of UNICRE- Instituição Financeira de Crédito, SA, as representative of Banco Comercial Português, SA.

5. Olga Grygier-Siddons - Member of the Supervisory Board (independent member)

Ms Olga Grygier-Siddons graduated from the University of Manchester, Computer Science and Accounting. She is also Fellow Chartered Accountant, Institute of Chartered Accountants of England and Wales.

After having graduated in Great Britain, she pursued her professional career in the advisory sector. In 1991, she joined PwC in the Corporate Finance area. In 1998, she was promoted to the position of Partner and was responsible for the delivery of diverse projects for the public and private sectors around the world. In 2004, she decided to relocate to Poland and in 2014, she assumed the position of Managing Partner for Central and Eastern Europe at PwC. For 15 years she was responsible for business development and overseeing projects in 29 countries, in a company with 12,000 employees. She became the first female member of the PwC Strategy Council which comprises 20 top leaders of the PwC Network.

She retired from PwC in 2019 and currently serves as a strategic advisor and Mentor.

Moreover, until today she performs among other the following functions: Member of the Council of the Silesian University, Member of the Belvedere Forum Steering Committee; Member of the Emerging Europe Steering Committee; founder and CEO of the Experiential Learning Hub - Villa Poranek.

Since 24 March 2021 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, Ontario. 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 is an independent Supervisory Board member of Artic Paper S.A.

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 Jędryś - Member of the Supervisory Board (independent member)

Mr Grzegorz Jędryś 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. Jędryś 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 July 9, 2020, acting as a Member of the Supervisory Board of Millennium Bank Hipoteczny S.A.

8. 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 the University of Warsaw, 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 Foundation Council of the National Bank of Poland, chairman of the Council of the Scientific 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., Cyfrowy Polsat S.A., ZE PAK 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.

9. 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 Research (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. , Vice-Chairman of the Board of Directors and Chairman of the Audit Board of Millennium bcp Ageas Grupo Segurador, SGPS, S.A., Vice-Chairman of the Board of Directors and Chairman of the Audit Board of Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Vice-Chairman of the Board of Directors and Chairman of the Audit Committee of Ageas - Sociedade Gestora de Fundos de Pensões, S.A. (formerly Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.).

He is also Member of the Board of Directors and Chairman of the Audit Committee of BIM - Banco Internacional de Moçambique, 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.

10. 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 bachelor's degree in Business Organization and Management, having also completed a Senior Management Programme (PADE) at AESE, an Advanced Management Programme at INSEAD and a Corporate Governance Programme - at AESE.

From 1987 to 1990 he held commercial and financial functions in a manufacturing SME company. 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 positions within BCP Group both in Portugal and Spain, namely head of the Corporate Banking Marketing Division 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 Chief of Staff for 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.

Between 2012 and 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 positions in BCP's Group governing bodies: Chief Executive Officer (CEO) and Vice-Chairman of the Board of Directors of BCP, Chairman of the Board of Directors of ActivoBank, S.A., Manager of BCP Africa, SGPS, Lda. and Member of the Board of Directors of Banco Internacional de Moçambique, S.A.

Since 21 May 2015 he has been a Member of the Supervisory Board of Bank Millennium S.A.

11. Beata Stelmach - Member of the Supervisory Board (independent member)

Ms Beata Stelmach is a graduate of the Finance and Statistics Faculty at the Warsaw School of Economics, she also holds an MBA from Calgary University and at INSEAD.

For many years she was involved with the capital and financial market - from the start of economic transformation she worked in the Securities and Exchange Commission, then she held management functions in capital market entities, including MCI Capital TFI SA, Intrum Justitia TFI SA, she stood at the head of the Polish Association of Listed Companies. Ms B. Stelmach also has management experience in other industries: during 2001 - 2005 she sat on the governing bodies of Prokom Software SA; in 2013 she became the CEO and Director General of General Electric (Poland and Baltics). During 2018 - 2020 she was the President of PZL Świdnik SA.

Moreover, she held advisory functions in the World Bank and also sat on the Supervisory Boards i.a. of Bank BPH SA and HSBC BANK POLSKA SA.

During 2011 - 2013 she was Undersecretary of State in the Ministry of Foreign Affairs, responsible for global economic policy as well as public and cultural diplomacy.

Ms B. Stelmach was decorated with the Knight's Cross of Polonia Restituta Order for outstanding contribution in the Foreign Service and work achievements undertaken for the benefit of the country and diplomatic activity.

Since 24 March 2021 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.

Detailed information regarding the composition of the committees and the issues raised during the meetings of the Committees in 2021 is to be found in the „*Report on activities of the Supervisory Board of Bank Millennium S.A. in 2021*”, 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. 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 2021 took place six meetings of the Audit Committee of the Supervisory Board at the following dates: 28 January 2021, 18 February 2021, 7 May 2021, 22 July 2021, 21 October 2021, 13 December 2021 and one additional meeting by circulation on 11 February 2021.

Detailed information regarding the issues raised during the meetings of the Committee in 2021 is to be found in the „*Report on activities of the Supervisory Board of Bank Millennium S.A. in 2021*” in the chapter „*Activities of the Audit Committee in the reporting period*”.

From 1 January 2020 to 24 March 2020 the Audit Committee of the Supervisory Board of Bank Millennium SA was composed of the following members:

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

On 24 March 2021, the newly appointed Supervisory Board elected the Members of the Audit Committed (Supervisory Board Resolution No. 25/2021) for the new terms of office, with the following composition:

1. Grzegorz Jędryś - Chairman (independent)
2. Miguel de Campos Pereira de Bragança
3. Olga Grygier-Siddons (from 1 July 2021) (independent)
4. Anna Jakubowski (independent)
5. Alojzy Nowak (independent)
6. José Miguel Bensliman Schorcht da Silva Pessanha

In this, unchanged composition the Audit Committee of the Bank Millennium S.A. Supervisory Board functioned until the end of 2021.

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 2021 to 31 December 2021 the composition of the Committee was as follows:

1. Alojzy Nowak - Chairman
2. Miguel de Campos Pereira de Bragança
3. Bogusław Kott
4. Olga Grygier-Siddons
5. Anna Jakubowski

The composition of the Committee until 24 March 2021:

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 2021 to 24 March 2021 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

In the time between 24 March 2021 and 31 December 2021 the Committee worked in the following composition:

1. Bogusław Kott - Chairman
2. Nuno Manuel da Silva Amado
3. Miguel de Campos Pereira de Bragança
4. Anna Jakubowski
5. Miguel Maya Dias Pinheiro
6. Dariusz Rosati
7. 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) provision of opinions on the assessment Risk Management Function and Validation Function as well as on exceptional transactions that may impact the Bank risk profile;
- (V) provision of opinion on whether incentives provided by the remuneration policies and practices take into consideration the institution's risk, capital and liquidity and the likelihood and timing of earnings.
- (VI) 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 2021 to 24 March 2021, the composition of the Committee was as follows:

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

On 24 March 2021, the newly appointed Supervisory Board appointed Members of the Committee for Risk Matters, for a new term of office in the following composition:

1. Mr. Dariusz Rosati - Chairman,
2. Mrs. Beata Stelmach,
3. Mr. Miguel de Campos Pereira de Bragança,
4. Mr. Grzegorz Jędrys,
5. Mr. 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 2021 (in PLN thousand):

Name and surname	Remuneration for 2021	Remuneration for participation in Committees	Other benefits	Total
Bogusław Kott	240.00	75.00	21.58	336.58
Nuno Manuel Da Silva Amado	120.00	30.00	0.00	150.00
Dariusz Rosati	120.00	45.00	0.00	165.00
Miguel Bragança	120.00	90.00	0.00	210.00
Anna Jakubowski	120.00	60.00	0.00	180.00
Grzegorz Jędryś	120.00	80.00	0.00	200.00
Alojzy Nowak	120.00	45.00	0.00	165.00
José Miguel Pessanha	120.00	40.00	0.00	160.00
Miguel Maya Dias Pinheiro	120.00	5.00	0.00	125.00
Lingjiang Xu	120.00	20.00	0.00	140.00
Olga Grygier-Siddons*	100.00	20.00	0.00	120.00
Beata Stelmach*	100.00	15.00	0.00	115.00
Andrzej Koźmiński**	30.00	30.00	0.00	60.00
Agnieszka Hryniewicz-Bieniek**	30.00	10.00	0.75	40.75
RAZEM:	1 580.00	565.00	22.33	2 167.33

* Member of the Supervisory Board from 24 March 2021

** Member of the Supervisory Board until 24 March 2021

In 2021, Members of the Supervisory Board received additional remuneration from the Bank's subsidiary companies (in PLN thousand):

Name and surname	Remuneration for 2021	Other benefits	Total (PLN'000)
Grzegorz Jędryś	105.59		105.59

The Bank's shares held by Supervisory Board Members (performing their functions on 31 December 2021):

Name and surname	Function	Number of shares 31.12.2021	Number of shares 31.12.2020
Bogusław Kott	Chairman of the Supervisory Board	1 000	1 000
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Dariusz Rosati	Deputy Chairman and Secretary of the Supervisory Board	0	0
Miguel de Campos Pereira de Bragança	Member of the Supervisory Board	0	0
Olga Grygier-Siddons	Member of the Supervisory Board	0	0
Anna Jakubowski	Member of the Supervisory Board	0	0
Grzegorz Jędryś	Member of the Supervisory Board	0	0
Alojzy Nowak	Member of the Supervisory Board	0	0
Member of the Supervisory Board José Miguel Bensliman Schorcht da Silva Pessanha	Member of the Supervisory Board	0	0
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	0
Beata Stelmach	Member of the Supervisory Board	0	0
Lingjiang Xu	Chairman 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 an absolute 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 2021 to 31 December 2021 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 Department 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, as well as coordination of Group entities (other than leasing, brokerage, investment funds and startups).

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 - Portassist Programme of the University of Antwerp (1992).

Since the beginning of his professional career, he has been associated with banking. From September 1992 until August 1994 he worked in Bank Morski S.A. as a Credit Inspector and, subsequently, Manager of the Business Credit Team. From September until November 1994 - Head of Credit Sub-unit in Bank Przemysłowo-Handlowy S.A., from December 1994 until September 1995 - specialist in the Capital Investment Department of Pomorski Bank Kredytowy S.A., and subsequently until April 1996 - Branch Director at PBB „Invest-Bank” S.A. in Szczecin.

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

From August 2003 he was 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.

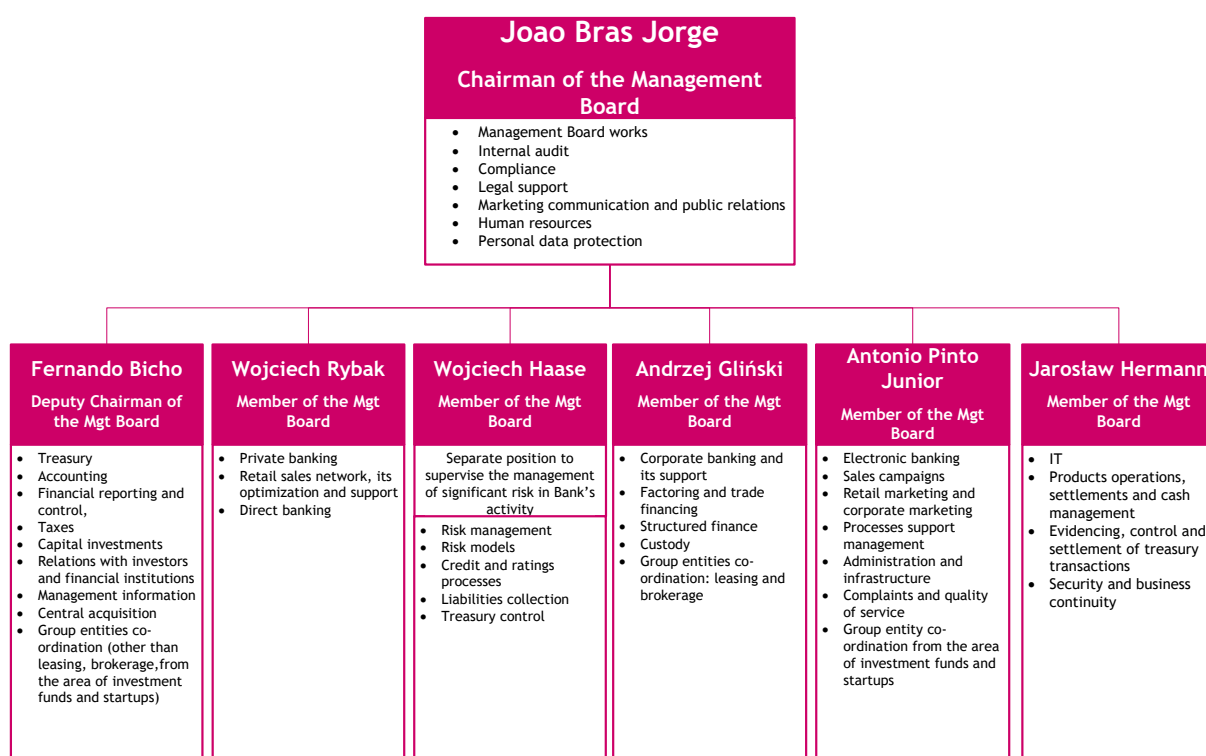
Between 2005-2010 he was Board Member of First Data Poland responsible for providing IT and operational services for card acquiring and financial solutions business lines.

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 9 of this report, part 9.3 entitled "*Remuneration policy*".

In accordance with the above-mentioned principles of remuneration, in 2021 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 2021 was as follows:

Name and surname	Function	Number of shares 31.12.2021	Including received under the incentive program (*)	Number of shares 31.12.2020
Joao Bras Jorge	Chairman of the Management Board	278 900	31 879	247 021
Fernando Bicho	Deputy Chairman of the Management Board	101 568	25 316	76 252
Wojciech Haase	Member of the Management Board	90 253	20 628	69 625
Andrzej Gliński	Member of the Management Board	52 759	20 628	62 131
António Pinto Júnior	Member of the Management Board	82 759	20 628	62 131
Wojciech Rybak	Member of the Management Board	82 759	20 628	62 131
Jarosław Hermann	Member of the Management Board	37 759	20 628	62 131

(*) shares blocked on investment accounts until 14 June 2022.

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 2021 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 it was last updated on 28 February 2021. The policy specifies:

- 1) The principles of selecting the audit firm to conduct statutory audit and voluntary audit,
- 2) Principles of providing permitted services not being a statutory or voluntary audit by Audit Firm, entities connected with Audit Firm or member of an Audit Firm network,
- 3) Procedure of accepting performance by Other Audit Firms of services other than the statutory audit and the voluntary audit,
- 4) Principles of the Bank's cooperation with audit firms, entities connected with an audit firm or members of the 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 2021 in two reviews of the 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 22 February 2021 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 2021, 2022 and 2023. The audit agreement was concluded on 6 May 2021.

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>	2021		2020	
	Bank	Subsidiaries	Bank	Subsidiaries
Statutory audit within the meaning of art. 2 point 1 of the Act on Statutory Auditors	1 142	517	928	464
Other assurance services	1 170	268	850	208
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, 2021,
- review of the interim condensed financial reports of Millennium TFI SA investment funds prepared as at June 30, 2021,
- 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 2021, and for the period of 12 months, ended on 31 December 2021, 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 2021, 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 2021, prepared in accordance with group principles,
- assurance service concerning requirements for safekeeping of customers' assets for 2021 for Bank Millennium S.A. and Millennium Dom Maklerski S.A.,
- assurance service concerning evaluation of adequacy of the risk management system in 2021 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 2020 to 31 January 2021 and for the period from 1 February 2021 to 30 November 2021,
- assurance service in accordance with MSUA 3000, concerning verification of the remuneration report for 2021 in Bank Millennium S.A.,
- 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 was presented in the financial statements for the 12-month period ended 31 December 2021, as the period to which the service relates ended on 31 January 2021.

11. ACTIVITIES IN THE ESG AREA: ENVIRONMENT, SOCIETY AND GOVERNANCE

ESG (Environmental, Social, Governance) issues have for years been part of the Bank Millennium Group's business strategy. The ESG area is also included in the new strategy for 2022-2024, which was announced in December 2021. Of crucial significance for Bank Millennium is not only to attain the goals set in the strategy, but also to take the proper path towards them, based on our commitment to society and the natural environment, in line with stringent standards of quality and ethics in the areas of sales and services. The new strategy entitled "Bank Millennium. Inspired by people" highlights the importance attached to the inspirations provided by employees, clients and the community in which the Bank functions.

In management processes the Bank incessantly cares about observing high ethical standards as well as safety and transparency of relations with its clients. The Bank constantly develops its risk management processes while giving consideration to the rapidly evolving challenges regarding climate risks.

ESG issues are discussed in detail in the ESG Report of Bank Millennium and the Bank Millennium Group for 2021, published on 21 February 2022. The ESG Report constitutes the report on non-financial information referred to in Article 49b of the Accounting Act.

ENVIRONMENT

Environmental policy

The Bank Millennium Group continues its involvement in the financing of energy-efficient investment projects. In compliance with the adopted [environmental policy](#), the Group does not finance new coal mines or coal-fired power generation projects, except for new projects aimed at reducing the levels of pollution. Exposures to coal mining projects or industries directly related to mining are negligible today.

Environmentally friendly products

Environmental activities cover the entire product portfolio in the Bank Millennium Group. We take active measures to reduce the use of paper in communication with our clients. The reduction of paper consumption is also supported by the development of Mobile Authorization. An example of a product supporting environmental goals is the [WWF Millennium Mastercard](#) credit card (APR 14.77%) offered as part of the Bank's long-term cooperation with the WWF Poland Foundation. The card is made with recycled plastic. Millennium Leasing, in turn, already since 2019 is particularly active in developing the **MilleSun** program dedicated to financing PV investments. These and other pro-environmental measures are described in the ESG Report.

In line with its strategy for 2022-24, the Bank Millennium Group will actively support clients in their decarbonisation efforts and will provide PLN 2 billion in financing over the next three years to the Bank's and the Bank Group's clients for sustainable and transformational projects.

Reduction of own greenhouse gas emissions

In the new strategy, the Bank has for the first time defined its goals pertaining to climate protection. The Bank is well positioned and plans to reduce its own greenhouse gas emissions by 50% in 2022 compared to 2020. The achievement of climate neutrality in terms of the Bank's own emissions is planned by 2027 and the achievement of full climate neutrality is planned - by 2050.

In 2021, the Bank took numerous measures to reduce consumption of energy, water, and other materials, and introduced more environmentally friendly solutions in its premises. The Bank attaches great importance to reviewing and reducing the level of emissions from the properties that we occupy for the conduct of our business. In 2022, all electricity purchased by the Bank will be covered by certificates of origin from renewable energy sources. The Bank is introducing environmentally friendly solutions in its head offices. In Q4 2021, employees of the Bank's head office in Wrocław moved to a

new location built in accordance with stringent environmental standards. In 2021, an exemplary, environmentally friendly branch of Bank Millennium was opened in Gdańsk.

SOCIETY

Barrier-free banking

Bank Millennium's goal is to offer banking without barriers. The Bank's purpose is to dismantle digital and physical obstacles to financial and non-financial services. Bank Millennium is not only a financial services centre for clients. It is also the first access channel for other services, e.g. in the mobile application clients can buy tickets for urban transport, pay for parking or buy car insurance simply by scanning the code in their registration document. Remote contact with Polish government offices is also possible through internet banking. The Bank has introduced numerous [amenities](#) to assist people with impaired vision, hearing and movement. An increasing number of services are being digitized, and the Bank helps its clients learn about online banking solutions and start using this form of banking. Bank Millennium extends the barrier-free community concept also in the non-banking sphere. In 2021, for the third consecutive year, during the 18th edition of the Millennium Docs Against Gravity festival, selected films were available with audio description and voice-over, making it easier for people with visual impairments to access the world of culture.

Since 2016, the Bank Millennium Foundation has been running its own financial education program for kindergarten children, called the ["Financial ABCs."](#) In 2020 and 2021, despite the pandemic, the Foundation continued to execute the project remotely by creating a series of modern online educational materials for children and their parents. In November and December 2021, as part of the seventh edition of the program, the Foundation conducted 200 workshops in 54 kindergartens. Over 5,000 pre-schoolers aged 3 to 6 participated in these workshops. Classes were in compliance with the safety rules required during the pandemic.

Responsible employer

Bank Millennium creates a friendly work environment for all staff regardless of their gender, age, race, religion, nationality, ethnic origin, disability, political beliefs, trade union membership or sexual orientation, so that everyone may thrive in conditions conducive to professional development in an atmosphere of cooperation and mutual respect. It offers programs for working parents, opportunities to take part in charitable activities, employee volunteerism.

As early as in April 2020, the Bank established a fund in the amount of one million zloty to finance the treatment and rehabilitation of its employees in connection with COVID-19; the funds are provided on an ongoing basis, upon requests from employees.

The Bank attaches great significance to the involvement of its staff in social campaigns. In 2021, the Bank refreshed the formula of this type of activity. The employee volunteerism program [#słuchaMYwspieraMY](#) ([#WeAreListeningWeAreSupporting](#)) is a competition for grants provided to volunteerism projects to be carried out by the Bank's employees for the benefit of specific individuals, organizations and local communities in need of such support. In 2021, grants were awarded to 21 project leaders. 139 volunteers along with their family members and friends took part in these activities. Support was granted to 2,638 beneficiaries - children taken care of by social welfare institutions, people with disabilities, pre-schoolers, junior and high school students, including those attending integration and special classes, and senior citizens.

Patronage of culture

For more than 30 years, cultural involvement has been an important part of Bank Millennium's social activities. The Bank supports cultural undertakings with a national and local range alike.

Bank Millennium has been a long-term sponsor of the Millennium Docs Against Gravity Film Festival, which informs viewers of many phenomena transpiring in the contemporary world and educates them through the films shown and the events accompanying the Festival. In 2021 the festival was highly focused on the theme of climate change.

In 2021, Bank Millennium was awarded for its involvement in the promotion of culture - with the **Culture Atlas** title for the 6th time by the Kraków Festival Office for its sponsorship of the Sacrum Profanum festival.

GOVERNANCE

The basis for defining the approach to managing sustainable development is an agenda formulated by the United Nations that includes 17 goals, 169 targets, and 304 indicators. Bank Millennium signed a declaration in support of the 2017 Sustainable Development Goals. The Bank takes cues from all 17 goals, but gives the highest priority to: Good Health and Well-Being; Quality Education; Gender Equality; Decent Work and Economic Growth; Industry, Innovation and Infrastructure; Climate Action and Partnership for the Goals.

As of 2018, the Bank is a signatory to the Diversity Charter. The Charter is a pledge signed by organizations that choose to prohibit discrimination in the workplace and work to create and promote diversity. The adoption of our stringent standards has been confirmed by the Bank's inclusion in the European Diversity Leaders 2022 ranking published by the Financial Times in November 2021, based on opinions provided by 100,000 employees of various companies.

Bearing in mind the growing significance of sustainable development for the Bank Millennium Group's business, in December 2021 the Bank established within its structures the Sustainable Development Committee and the Sustainable Development Department. Bank Millennium is actively getting ready to comply with new reporting requirements resulting from the dynamic development of regulations associated with the drive to achieve the climate objectives established in the Paris Agreement.

We invite you to read the content of the ESG Report of Bank Millennium and the Bank Millennium Group for 2021.

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 2021.

As above mentioned, the Bank prepares the separate report comprising non-financial information, which will be published on the Bank's web site on February 21, 2022.

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 2021 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 2021, 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
21.02.2022	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
21.02.2022	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
21.02.2022	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
21.02.2022	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
21.02.2022	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
21.02.2022	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
21.02.2022	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature