

Information on the tax strategy adopted by Bank Millennium S.A. in 2021

Warsaw, 13 July 2022

This information has been prepared based on § 16 sec. 5 of the Bank Millennium S.A.'s Tax Policy approved by resolution of the Bank's Management Board No. 129/2021 of 18 August 2021 to comply with the requirements under Article 27c of the Corporate Income Tax Act of 15 February 1992 and the international tax transparency standard GRI 207: Tax 2019 issued by the *Global Sustainability Standards Board* (<https://www.globalreporting.org/>).

1. Introductory remarks / GRI 207: Disclosure 207-4

Bank Millennium S.A. (hereinafter: Bank) is a domestic bank within the meaning of the Polish Banking Law Act with its registered office in Warsaw, ul. Stanisława Żaryna 2A, 02-593 Warszawa, entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000010186 maintained by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, with the tax ID (NIP) number 526-021-29-31 and the share capital fully paid up of 1.213.116.777,00 PLN, The Bank is a public company listed on the Warsaw Stock Exchange (PLBIG0000016) since 1992.

Bank Millennium S.A. is a nationwide universal bank, performing banking activities under Art. 5-6 of the Banking Law Act (involved mainly in keeping bank accounts, issuing payment cards, granting loans and advances, intermediation in the sale of investment products and insurance policies) for individual clients (consumers) and entrepreneurs through its branch network (655 branch offices at the end of 2021) and electronic banking. The Bank's capital group employs ca. 7100 employees and is the 7th largest commercial bank in Poland in terms of assets - more about the Bank: <https://www.bankmillennium.pl/o-banku/kim-jestesmy>.

Current business strategy *Millennium 2024 Inspired by People* is available at the Bank's website: About the Bank/Investor Relations/Presentations and webcasts

The Bank is the parent company of the Bank Millennium Capital Group, which is also composed of: Millennium Leasing sp. z o.o. (leasing activities), Millennium Dom Maklerski SA. (brokerage activities), Millennium Towarzystwo Funduszy Inwestycyjnych S.A.. (investment fund management), Fundacja Bank Millennium (non-profit activity), Millennium Goodie Sp. z o.o. (management of the smart shopping platform and mobile application goodie.pl), Millennium Service Sp. z o.o. (real estate management, insurance mediation) Millennium Telecommunication Services Sp. z o.o. (telecommunications services), Millennium Bank Hipoteczny S.A. (raising long-term financing through the issue of mortgage bonds), Piast Expert Sp. z o.o. in liquidation (company acquired as a result of the acquisition of SKOK Piast in 2018 during the liquidation process) and Millennium Financial Services Sp. z o.o. (insurance agents and brokers activity). The Bank holds directly or indirectly 100% of the shares in these companies. All of the above companies are based in Poland (also for tax purposes).

The Bank has no branches or subsidiaries outside the Republic of Poland. The Bank's majority shareholder is Banco Comercial Portugues S.A. (50,1%) - the largest commercial bank in Portugal.

At the end of 2020, the balance sheet total of the Bank's assets was 103.4 bn PLN, of which tangible fixed assets amounted to 0,53 bn PLN. The balance sheet from section 3 of the Bank's stand-alone financial statements for 2021 is presented below.

3. Balance Sheet

ASSETS

<i>Amount '000 PLN</i>	<i>Nota</i>	<i>31.12.2021</i>	<i>31.12.2020*</i>	<i>31.12.2019*</i>
Cash, cash balances at central banks	18	3 179 736	1 460 289	2 203 444
Financial assets held for trading	19	173 089	424 777	987 465
Derivatives		86 651	155 365	113 432
Equity instruments		0	0	0
Debt securities		86 438	269 412	874 033
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	20	265 903	251 107	169 610
Equity instruments		138 404	200 772	66 609
Debt securities		127 499	50 335	103 001
Financial assets at fair value through other comprehensive income	21	17 952 492	18 626 366	21 856 275
Equity instruments		28 433	29 219	29 367
Debt securities		17 924 059	18 597 147	21 826 908
Loans and advances to customers	22	78 237 587	73 052 432	68 615 506
Mandatorily at fair value through profit or loss		362 992	1 615 753	1 498 195
Fair valued through other comprehensive income		11 485 351	0	0
Valued at amortised cost		66 389 244	71 436 679	67 117 311
Financial assets at amortised cost other than Loans and advances to customers	23	1 249 240	730 534	1 037 840
Debt securities		37 088	38 818	48 153
Deposits, loans and advances to banks and other monetary institutions		943 315	625 366	784 248
Reverse sale and repurchase agreements		268 837	66 350	205 439
Derivatives - Hedge accounting	24	14 385	21 795	43 159
Investments in subsidiaries, joint ventures and associates	25	208 889	208 874	88 874
Tangible fixed assets	26	528 565	541 326	622 506
Intangible fixed assets	27	385 199	373 720	331 978
Income tax assets		608 395	534 013	405 412
Current income tax assets		377	0	0
Deferred income tax assets	28	608 018	534 013	405 412
Other assets	29	584 589	341 393	249 448
Non-current assets and disposal groups classified as held for sale	30	0	0	0
Total assets		103 388 069	96 566 626	96 611 517

The Bank's pre-tax loss for 2021 was ca. 1bn PLN. The profit and loss account from section 1 of the Bank's stand-alone financial statements for 2021 is presented below.

1. Income Statement

<i>Amount '000 PLN</i>	<i>Nota</i>	<i>1.01.2021 - 31.12.2021</i>	<i>1.01.2020 - 31.12.2020*</i>
Net interest income		2 614 214	2 490 329
Interest income and other of similar nature	1	2 739 464	3 024 189
Income calculated using the effective interest method		2 675 575	2 915 734
Interest income from Financial assets at amortised cost		2 381 845	2 602 344
Interest income from Financial assets at fair value through other comprehensive income		293 730	313 390
Income of similar nature to interest from Financial assets at fair value through profit or loss		63 889	108 455
Interest expenses	2	(125 250)	(533 860)
Net fee and commission income		716 125	639 738
Fee and commission income	3	867 384	809 267
Fee and commission expenses	3	(151 259)	(169 529)
Dividend income	4	52 397	39 326
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	10 542	127 638
Results on financial assets and liabilities held for trading	6	(8 972)	12 919
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	124 538	38 576
Result on hedge accounting	8	(3 185)	(10 259)
Result on exchange differences		(149 855)	119 268
Other operating income	9	283 481	140 865
Other operating expenses	10	(198 660)	(219 836)
Administrative expenses	11	(1 380 202)	(1 497 120)
Impairment losses on financial assets	12	(276 613)	(477 193)
Impairment losses on non-financial assets	13	(7 642)	(7 846)
Provisions for legal risk connected with FX mortgage loans	14	(2 305 157)	(713 617)
Result on modification		(12 839)	(13 565)
Depreciation	15	(193 501)	(196 359)
Share of the profit of investments in subsidiaries		0	0
Banking tax		(312 611)	(279 148)
Profit before income taxes		(1 047 940)	193 716
Corporate income tax	16	(309 512)	(175 137)
Profit after taxes		(1 357 452)	18 579

Revenues, as well as expenses from transactions with related parties of the BCP Group based abroad for 2021, were immaterial (less than 500 thous. PLN). The list in note 9 to the Bank's stand-alone financial statements is presented below:

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2021

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	74 804	(325)	0
Commissions	25 400	101	0
Financial instruments valued at fair value through other comprehensive income	1 398	0	0
Dividends	48 663	0	0
Other net operating	13 722	0	0
Expense from:			
Interest	1 887	161	(190)
Commissions	37	0	0
Financial instruments valued at fair value through profit and loss	2 202	160	0
Other net operating	0	5	0
General and administrative expenses	14 719	0	36

The financial and non-financial statements (ESG Report), as well as the current and periodic reports of the Bank, forwarded to the Stock Exchange in 2021, are published on the website <https://www.bankmillennium.pl/o-banku/relacje-inwestorskie>, as well as on the website of the Stock Exchange and in the eKRS system of the Ministry of Justice.

1.1. Bank as a taxpayer

The Bank is a taxpayer of the following types of taxes:

- corporate income tax (CIT);
- value-added tax (VAT);
- tax on certain financial institutions (PNIF);
- property tax (PoN).

In occasional cases, the Bank is also a taxpayer of other types of taxes, e.g. taxes on civil law transactions. The Bank is one of the largest CIT and PNIF taxpayers in Poland.

The amounts paid for 2021 of the above taxes are as follows:

Type of tax	(mln PLN)
CIT	188,9
PNIF	311,0
VAT	36,2*
PoN	0,6
TOTAL:	536,7

* - the amount represents the payment of the VAT liability to the tax office; as regards the actual VAT charge, it should be taken into account that the Bank provides financial services which are generally exempt from VAT, and therefore does not deduct all of the input VAT on purchases of goods and services (the amount of non-deducted VAT in 2021 was approximately 108 mln PLN).

The income tax burden (current and deferred) in the profit & loss account for 2021 amounted to 309,5 mln PLN. Note 16a to the Bank's stand-alone financial statements for 2021 is presented below (figures in thous. PLN):

16a. Income tax reported in income statement

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Current tax	(187 163)	(318 752)
Current year	(187 163)	(318 752)
Adjustment to prior periods	0	0
Deferred tax:	(122 349)	143 615
Recognition and reversal of temporary differences	(122 349)	143 615
Total income tax reported in income statement	(309 512)	(175 137)

Regardless of the pre-tax loss of 1 bn PLN, the income tax burden amounted to 309,5 mln PLN. The high effective tax rate results from permanent differences related to non-tax deductible charges for the Bank Guarantee Fund, PNIF (the so-called banking tax) and costs/provisions for litigation. Reconciliation of effective tax is provided in the notes to the Bank's stand-alone financial statements - note 16b below:

16b. Effective tax rate

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
Profit before tax / (loss)	-1 047 940	193 716
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	199 108	(36 806)
Impact of permanent differences on tax charges:	(510 845)	(141 031)
Non-taxable income	53 056	26 817
Dividend income	9 702	7 300
Release of other provisions	43 057	9 432
Settlement with SG due to adjustment of Euro Bank S.A. purchase price	0	10 039
Other	297	46
Cost which is not a tax cost	(563 900)	(167 848)
Write-down of unrealized deferred tax assets	0	(171)
Loss on sale of receivables	(17)	(8)
PFRON fee	(1 274)	(1 464)
Fees for Banking Guarantee Fund	(22 460)	(31 765)
Settlement of BFG SKOK PIAST	(397)	(1 824)
Banking tax	(59 396)	(53 038)
Income/cost of provisions for factoring and leasing receivables	1 073	492
Receivables written off	(19 667)	(2 324)
Costs of litigations and claims	(458 454)	(76 070)
Costs related to concluded agreements	(1 068)	
Other	(2 240)	(1 676)
Deduction of the tax paid abroad	0	246
Other differences between gross financial result and taxable income with income tax (including R&D relief)	2 224	2 454
Total income tax reported in income statement	(309 512)	(175 137)
Effective tax rate	-/-*	90.41%

* For the year 2021, the Bank recorded a negative gross financial result and at the same time a tax burden of a cost nature, therefore the Group did not calculate the effective tax rate.

1.2. Bank as a tax remitter

At the same time, the Bank acts as a tax remitter of the personal and corporate income tax. In 2021, the Bank withheld the following amounts of taxes as a remitter:

Name of the tax return / main taxes covered	(mln PLN)
CIT-10Z return (tax on interest, intangible services and royalties paid to foreign legal persons)	0,5
CIT-6R return (tax on dividends of domestic legal persons)	1,2
PIT-4R return (PIT advance payments on employees salaries, foreign pensions transfers)	66,9
PIT-8AR return (tax on interest paid to individuals)	17,0

1.3. The Bank's reporting obligations

The Bank also performs a number of reporting obligations stipulated by tax law, in addition to filing tax returns related to the aforesaid taxes (CIT, PIT, VAT, PNIF) as a taxpayer and remitter:

- IFT-1/1R and IFT-2/2R information,
- IKE-1 information;
- CRS-1 information on reported accounts,
- FAT-1 information on reported accounts,
- information on accounts of qualified entities and transactions therein to be reported to the STIR system,
- TPR-C information,
- declarations on the fees and contributions to be paid by the Bank.

2. Information on the processes and procedures in place to manage and ensure the proper performance of tax law obligations / GRI 207: Disclosures 207- 2, -3, -4

The Bank applies a tax strategy ("Bank Millennium S.A.'s Tax Policy") approved by a resolution of the Bank's Management Board No. 129/2021 dated 18 August 2021 and published on the Bank's website: <https://www.bankmillennium.pl/o-banku/wladze-banku-i-lad-korporacyjny>. This document takes precedent in the tax area and sets out the principles of tax compliance risk management and tax governance, including the Bank's tax vision and objectives. "Bank Millennium S.A.'s Tax Policy" also sets out the principles for the preparation of this information on the implemented tax strategy.

Particular tax processes as well as the roles and responsibilities of the units are governed by dedicated internal laws (instructions, process charters and internal notices). Each tax process is formally governed to define the actors involved therein, the circulation of data, and the time limits for carrying out particular duties. The staff who perform reporting duties in the tax area carry out their tasks taking into account the 4 eyes principle and undergo training courses to improve their knowledge and competence. The correctness of the implementation of processes is subject to internal controls.

The Tax Department (DPD) operating within the structure of the Bank's Head Office performs most of the duties in the tax area and supervises the Bank's tax compliance risk under the Organisational By-Laws. All significant tax and risk issues are addressed by the Head of Tax to the relevant member of the Bank's Management Board overseeing the financial area and to the Processes and Operational Risk Committee. Head of Tax reports include a description of the issues/risks raised along with a recommendation on risk mitigants or solutions to be implemented. Head of Tax arranges cyclical meetings with the participation of DPD employees on Tax Advisory Positions, the coordinator of legal and tax services for Millennium Leasing Sp. z o.o., as well as persons involved in the performance of tax obligations of subsidiaries to discuss the most important tax issues for the Bank Millennium Capital Group, in particular, the status of implementation of amendments to tax regulations relevant to the Bank and/or its subsidiaries, identified tax risks, the correctness of the processes carried out with regard to the performance of tax obligations, tax inspections and disputes.

The Bank is also supported by external tax advisors in cases requiring an additional legal and tax opinion, a review of a particular process (the review is usually concluded by a report or memorandum with the advisor's assessment together with the identification of irregularities or identified significant risks).

On its website (section: About the Bank/Who we are/Tax FAQ) the Bank also published an Q&A regarding taxation rules of basic banking products, as well as related tax reporting obligations, including FATCA and CRS.

3. Information on voluntary forms of cooperation with the National Revenue Administration authorities (hereinafter: KAS) / GRI 207: Disclosure 207-3

The Bank is currently not a party to an agreement with the Head of KAS on cooperation referred to in Article 20s § 1 of the Act of 29 August 1997 - Tax Ordinance (hereinafter: Tax Ordinance). Nevertheless, the Bank is monitoring the development of the Co-operation Programme on the Polish market and is also working to fully comply with *the Guidance on the Internal Tax Surveillance Framework* published in June 2020 to join this programme. To illustrate, as part of the work on the implementation of IT requirements (point 8 of the Guidelines), the Bank, in cooperation with KPMG, implemented a new IT system for calculating and reporting corporate income tax.

In its relations with the Tax Authorities, the Bank maintains standards of utmost diligence proved by timely and comprehensive replies to summonses and other letters addressed to the Bank by the Tax Authorities, including under tax, customs and treasury inspections and tax proceedings. The rules of correspondence with Tax Authorities and handling of inspections/proceedings in tax matters are governed by internal procedures applied by the Bank.

The Bank also seeks to proactively present and discuss various tax issues with the account manager and the management of the tax office competent for the Bank's matters. Representatives of the Bank's Tax Department also actively participate in the work of tax experts at the Polish Bank Association (ZBP) and the Lewiatan Confederation, including providing opinions on draft amendments to tax legislation and meetings with representatives of the Ministry of Finance.

The Bank provides details on material disputes with the Tax Authorities in its periodic financial reports available to the public.

4. Information on the performance of tax obligations by the taxpayer on the territory of the Republic of Poland, together with the information on the number of reports on tax schemes referred to in Article 86a § 1(10) of the Tax Ordinance provided to the Head of KAS, with a breakdown into taxes to which they relate.

In 2021, the Bank did not submit reports on tax schemes due to suspension of this duty ruled by Article 31y of the Act of 2 March 2020 on the COVID-19 crisis counteracting (Journal of Laws of 2021 item 2095).

5. Information on transactions with related parties within the meaning of Article 11a(1)(4) the value of which exceeds 5% of the balance sheet total of assets within the meaning of accounting regulations, determined based on the last approved financial statements of the company, including entities not being tax residents of the Republic of Poland

The Bank's largest transaction by value is the financing of Millennium Leasing Sp. z o.o. (ML) through the acquisition of leasing-related receivables, loans and bonds issue. The sale of leasing-related receivables to the Bank is the main source of the financing of ML's operations

(the current total financing limit is 6,85 bn PLN). Debt financing is a basic and natural way for leasing companies to finance themselves, both on the Polish market and worldwide.

At the end of 2021, the value of receivables sold to the Bank amounted to 6,3 bn PLN, and loans granted and bonds subscribed by the Bank amounted to 126,4 mln PLN. The carrying amount of the Bank's assets as at 31.12.2020 was 103,4 bn PLN.

6. Information on restructuring activities planned or undertaken by the taxpayer, which may affect the tax liability of the taxpayer or its related entities within the meaning of Article 11a(1)(4)

By current reports No. 16/2021 of 10.05.2021 and No. 26/2021 of 10.08.2021. ([Current reports - Investor relations - Bank Millennium](#)), the Bank announced the planned spin-off (demerger) of its subsidiary Millennium Dom Maklerski S.A. (MDM) by transferring part of the assets of this company to the Bank. The MDM spin-off is not intended to achieve any tax benefits for the parties (MDM's tax losses from previous tax years will not be transferred to the Bank and MDM's income upon the spin-off will not allow to utilize all carried-forward tax losses). The planned restructuring of MDM should lead to an improvement in the profitability of brokerage activities inside the Bank and thus to an increase in budget revenues from the taxes paid. The economic justification for the restructuring of MDM is made public in point 13 of the Spin-Off Plan of Millennium Dom Maklerski S.A. (link: https://www.bankmillennium.pl/plan_podzialu_MDM).

7. Information on requests for tax interpretations submitted by the taxpayer

In 2021, the Bank received 10 individual tax rulings within the meaning of Article 14b of the Tax Ordinance:

Date of ruling, reference no.	The subject of the ruling
13.01.2021, 0113-KDWPT.4011.249.2020.3.MH	PIT exemption on widow's pension
15.01.2021, 0114-KDIP4-3.4012.364.2020.1.KM	Input VAT deduction on the acquisition of cash processing services
18.06.2021, 0112-KDIL2-1.4011.372.2021.1.KF	Obligation of issuing PIT-11 tax form in the case of commissions' refunds paid to clients
22.07.2021, 0112-KDWL.4011.89.2021.2.DK	Obligation of issuing PIT-11 tax form in the case of compensations paid to clients
27.07.2021, 0111-KDIB2-1.4010.243.2020.1.MK	Obligation of issuing PIT-8C tax form in the case of foreign currency denominated securities buybacks
06.08.2021, 0111-KDIB1-1.4010.211.2021.2.SG	CIT neutrality of MDM's spin-off
03.09.2021, 0114-KDIP2 2.4010.190.2021.1.RK	Defining controlled transactions value in TPR-C reports with regard to banking accounts
27.10.2021, IPPP1/443-603/13-4/MPE	Decision overruling previous interpretation concerning VAT exemption of depositary services
19.11.2021, 0111-KDIB1-1.4010.385.2021.2.EJ	Right to apply IP Box tax relief
16.12.2021, 0114-KDIP3-1.4011.932.2021.1.MK1	Obligation of issuing PIT-11 tax form in the case of conversions of FCY mortgage loans onto PLN

The text of these individual interpretations is publicly available at <https://eureka.mf.gov.pl> (Customs&Fiscal Information System EUREKA).

In 2021, the Bank did not request:

- a) a general tax interpretation referred to in Article 14a§1 of the Tax Ordinance,
- b) binding information on the rate referred to in Article 42a of the Value Added Tax Act,
- c) binding excise tax information referred to in Article 7d(1) of the Corporate Income Tax 1 Act of 6 December 2008

8. Information concerning tax settlements of the taxpayer in territories or countries applying harmful tax competition referred to in executive acts issued under Article 11j (2) and Article 23v (2) of the Personal Income Tax Act of 26 July 1991 and in the announcement of the minister competent for public finance issued under Article 86a § 10 of the Tax Ordinance

The Bank has not made tax settlements in territories or countries applying harmful tax competition ("tax havens"). The Bank has no subsidiaries in such locations, either.

In case of any queries please contact us by e-mail: podatki@bankmillennium.pl