

## **Report on activity of the Supervisory Board of Bank Millennium S.A. in 2021**

Supervisory Board of Bank Millennium S.A. (hereinafter referred to also as: “the Bank”), acting on the grounds of the Code of Commercial Companies, provisions of “Best practice of companies listed on GPW 2021” (hereinafter referred to also as: “Best practice”) adopted by the Warsaw Stock Exchange and issued by the Polish Financial Supervision Authority (hereinafter referred to also as: “KNF”): “Principles of the Corporate Governance for Supervised Institutions” (hereinafter referred to also as: “Principles”), presents to this General Assembly of the Bank *Report on activity of the Supervisory Board of Bank Millennium S.A. in 2021* (“Report”).

### This Report comprises:

1. Summary of the 2021 activity of the Board and its committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for Risk Matters, in accordance with principle 2.11.2 of “Best Practice of Companies Listed on the WSE 2021” (“Best practice”) adopted on 29 March 2021 by the Board of the Stock Exchange in Warsaw (“WSE”), as well as the Board’s motion for the General Meeting to discharge the Members of the Bank’s bodies from the performance of their duties in fiscal year 2021.
2. Information on the composition of the Board and its committees, indicating who of the members of the Board meet the independence criteria defined in the Act of 11.05.2017 on statutory auditors, audit firms and public supervision, as well as who of them do not have real and material links with a shareholder holding at least 5% of the total number of votes in the Bank, as well as information on the composition of the Board in the context of its diversity.
3. Report on the assessment of the functioning of the remuneration policy in Bank Millennium S.A., in accordance with §28 item 3 of the Principles,
4. Assessment of the application of (i) the Principles (pursuant to § 27 of the Principles) and (ii) corporate governance principles and the manner of fulfilling the disclosure requirements relating to their application specified in the WSE Bylaws and provisions relating to current and periodical information transferred by issuers of securities along with information on the steps taken by the Board for their assessment.
5. Assessment of the reasonability of expenses incurred by the Bank and the Bank Group to support culture, sports, charitable institutions, the media, social organisations, trade unions and similar objectives.
6. Information about the extent of diversity policy implementation with respect to the Management Board and the Supervisory Board, including attainment of diversity goals in such areas as gender, education, specialised knowledge, age as well as professional experience.
7. Report on the assessment of the combined Management Board report on the activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group, combined ESG report of Bank Millennium S.A. and Bank Millennium S.A. Capital Group and financial reports of Bank Millennium S.A and Bank Millennium S.A. Capital Group for fiscal year 2021,

8. Report on the assessment of the Management Board motion on the coverage of loss for fiscal year 2021, in accordance with art. 382 § 3 of the Code of Commercial Companies,

9. The assessment of the Bank's situation on a consolidated basis taking into account assessment of the internal control systems, risk management, compliance and internal audit function (including the annual effectiveness assessment of the functioning of such systems and internal audit function), along with information about the steps taken by the Board in order to perform this assessment (the assessment covers all the material control mechanisms, especially those related to reporting and operational activity).

**1. Summary of actions of the Supervisory Board and its committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for Risk Matters, along with the self-assessment of the Board's performance as well as the Board's motion for the General Meeting to discharge the Members of the Bank's bodies from the performance of their duties in fiscal year 2021.**

The year 2021 was another period of activity of the Supervisory Board in the COVID-19 pandemic environment . This was a year of reconstruction of economies after the pandemic shock of 2020 and their continuous adaptation to the epidemic situation supported by implementation of the vaccination programme against SARS-CoV-2. The Poland's GDP already in mid-2021 made up for COVID-19 pandemic related losses and in 2nd half of the year dynamic economic recovery continued. Household consumption was the main factor responsible for GDP growth; consumption increased by 6,2% after drop by 3,0% in 2020. Its recovery was supported by expansive fiscal and monetary policy, low unemployment rate, fast wage increase and savings accumulated in the period of severe restrictions. Reconstruction of inventory by enterprises had a strong impact upon the GDP growth, specifically in 2H of the year, in response to problems with supply of materials and indirect production goods under conditions of a strong, synchronised demand growth worldwide. Despite the said difficulties, in 2021, the industrial sector supported by export, strongly contributed to the recovery of the domestic economy. Furthermore, investments in fixed assets increased although had not reached the level of 2019 i.e. 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 inventory, the foreign trade balance generated a strong negative impact upon the growth of GDP. Finally, in 2021 GDP calculated in fixed 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.

In 2021, some factors of macroeconomic uncertainty for the economy and the Bank Millennium Group appeared which were analysed and discussed on an on-going basis by the Supervisory Board, in particular,

- higher than expected price dynamics, which could result from inflation-wages spiral drive-up,
- worsening of relation between labour costs and work productivity, increase of food and energy prices
- continuing, longer than expected, supply difficulties in industry
- rapid expansion of COVID-19 pandemic (e.g. mutations of SARS-CoV-2) and new anti-epidemic restrictions hampering demand growth in the economy, influencing companies' financial performance and influencing credit risk exposure of the Group.
- delay of implementation 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 dynamics of investments in the industry being lower than in the baseline scenario.

- military tension between Russia and Ukraine significantly increasing the level of uncertainty on financial markets, which could result in parts of portfolio capitals flowing out of Poland and worsening of outlook for companies having exposure in Eastern European markets.

In the opinion of the Supervisory Board, the effects of the pandemic were still visible and felt in all areas of banking activity especially due to very low interest rate environment. However, the Bank adapted its operations very effectively to the dynamically changing environment, both in terms of internal reorganisation as well as in terms of its core banking business. In this exceptional situation the Supervisory Board was supporting decisions of the Bank Management Board directed at making appropriate changes and maintaining the pace of development, at the same time putting strong emphasis on control, especially as regards optimising costs and capital and the lending business.

In its activities the Supervisory Board was guided by concern for proper and safe operation of the Bank, carrying out work with observance of highest care, objective assessment and judgement. The Board's decisions were taken first of all during meetings. In 2021, there were eight meetings of the Supervisory Board held. Each time, the turnout was above the quorum necessary to pass resolutions. The meetings were held in the Bank's offices, whereas due to the COVID-19 pandemic and the lockdown periodically announced, more than half of the Board's Members took the opportunity to participate in meetings with use of distance communication - according to the By-laws of the Supervisory Board of Bank Millennium S.A. Moreover the Supervisory Board passed two resolutions without holding a meeting - under the procedure defined in § 12 and § 13 of the By-laws of the Supervisory Board of Bank Millennium S.A. All Members of the Bank's Management Board were regular participants of Supervisory Board meetings. Other persons, including the Head of the Legal Department, Internal Audit Department and Compliance Department, were also invited to attend the meetings.

A subject of numerous analyses of the Supervisory Board in its reporting period were matters related to the COVID-19 pandemic both in the context of care for the Bank's employees as well as risk management and business development in the new difficult social and economic situation. The Supervisory Board would analyse in detail the reports submitted by the Bank's Management Board, requesting additional clarification as well as giving opinions and recommendations.

Another very important focus of particular the Supervisory Board remained interested in matters related to FX mortgage loans, in particular in the context of risks involved with judgements of the Court of Justice of the European Union and courts in Poland. As in previous years, the Supervisory Board was analysing in-depth the information submitted by the Bank's Management Board, regarding i.a. the Bank's actions aimed at limiting the number of potential litigations, including proposed solutions for borrowers and legal strategy. Bearing in mind the complicated nature of matters regarding FX mortgage loans, as well as their impact on the Bank's development plans as well as significant values of provisions established in subsequent quarters of 2021 for legal risk of mortgage loan portfolios in Swiss franc currency, and the expected consequential loss in the Bank's financial result for 2021, as well as attainment of budgetary targets in the upcoming years, the Supervisory Board was emphasising the need to closely monitor all matters related to this subject. At each meeting of the Supervisory Board in 2021 (except for one), Members of the Supervisory Board analysed the information provided by the Management Board regarding foreign currency mortgage loans.

The Supervisory Board appreciated the presented analysis of trends of social behaviours observed on the market as well as reactions to them on part of financial institutions, also in the context of the rapidly changing social and economic environment caused by the coronavirus pandemic.

During its individual meetings, the Supervisory Board reviewed, subjected to analysis, held discussions and took relevant decisions in particular in the matters concerning the following issues:

**1) finance and business, including:**

- approval of the strategy for the years 2022-2024
- approval of the Budget of the Bank Capital Group for the years 2022-2024,
- analysis of the current results of the Bank Capital Group and business lines,
- changes in the Fourth Bank Millennium S.A. Bonds Issue Programme connected with changes of law (MREL)
- Bank's Euro Note Issue Programme
- Adoption of the document "Bank Millennium S.A. Tax Policy" and presentation of the information on implementation of the 2020 tax strategy.
- analysis of evolution of the share price of Bank Millennium S.A.,

**2) internal audit and compliance, including:**

- analysis of the information concerning the internal control in Bank Millennium S.A. in 2021, including the Report of Internal Audit Department from Activity in 2021 and Compliance Report for the year 2021,
- approval of the Audit Plan for 2021,
- approval of the Action Plan of the Compliance Department for 2021,
- assessment of application of „Corporate Governance Principles for the Supervised institutions” in the Bank,
- approval of the document: “Compliance Policy of Bank Millennium S.A.”,
- approval of changes in the document: “Management System at Bank Millennium S.A.”
- approval of the updated document “By-laws of Compliance Department functioning in Bank Millennium S.A.”,

**3) risk management in the Bank, including:**

- current analysis of risk management,
- analysis of the information on FX mortgage loans,
- approval of the Bank Risk Strategy for 2022 - 2024,
- approval of the Capital Plan and Contingency Capital Plan of the Bank Capital Group for 2022 - 2024,
- approval of the Liquidity Plan of the Bank Capital Group and analysis of the Bank long-term liquidity for 2022 - 2024,
- update of the Bank Contingency Liquidity Plan,
- update of the „Capital Management and Planning Principles”,
- analysis of the information about the review of the „Principles for Internal Capital Calculation”,
- adaptation of ratios of the Risk Appetite Statement matrix,

**4) personnel issues and remuneration policy, including:**

- approval of changes in the document: “Employee Remuneration Policy in Bank Millennium Group”,
- review of the remuneration policy in Bank Millennium,
- approval of remuneration, including bonuses, of the head of the internal audit, head of risk unit and head of compliance unit,
- approval of changes in the document: “Remuneration Policy for Risk Takers in the Bank Millennium S.A. Group”,
- analysis of the documentation related to repeated assessment of suitability of members of governing bodies of Bank Millennium S.A. – 2021 annual verification, performed in cooperation with advisory company,
- adoption of resolution in the matter of assessment of suitability of the Members of the Management Board of Bank Millennium S.A.,

**5) situation related to COVID-19, including:**

- analysis of the information on actions taken by the Bank regarding COVID-19 pandemic,
- analysis of the implementation of the vaccination campaign #SZCZEPIMYSIĘ
- analysis of the information developed by the Coordination Team for COVID-19 Pandemic,

**6) miscellaneous, including:**

- analysis of the regular IT reporting, including IT security (according to the requirements of KNF Recommendation D),
- approval of changes in the document: “Policy of Bank Millennium S.A. on disclosure of information on Risk, Own Funds, Capital Requirements, Remuneration Policy and other information”,
- adoption of the uniform text of the Articles of Association of Bank Millennium S.A.,
- motion in the matter of approval of the updated “Recovery Plan for Bank Millennium S.A. Capital Group ( keeping with the requirements of the Banking Law),
- review of the information on organisational structure of Bank Millennium S.A.,
- approval of change of the internal allocation of competencies of the Members of the Management Board of Bank Millennium S.A.,
- approval of the documents submitted to the General Meeting and Extraordinary General Meeting,
- issuance of the legally required statements for the purposes of annual reports.

Moreover, the Supervisory Board was also regularly furnished with the following information regarding:

- relations with supervisory authorities, including the Polish Financial Supervision Authority and Office of Competition and Consumer Protection. The Supervisory Board discussed current events as well as decisions and recommendations of supervisory authorities i.a. in the context of the need to potentially adjust the Bank’s development strategy as well as taking current actions adequate to the changing regulatory situation, or as regards the

recommendations of the Polish Financial Supervision Authority on dividend policy, i.e. suspension of dividend distribution;

- important decisions of the Management Board, most important events and changes in the legal and regulatory as well as macroeconomic environment, main initiatives regarding employees, improvements and actions targeted at the Bank's customers, new functionalities in electronic banking, mobile app and branches, corporate social responsibility (CSR), sponsoring and activity of Bank Millennium Foundation, ratings, awards and recognitions for the Bank, management and staff;
- activity of competitive banks on the Polish financial market - i.a. thanks to which the Supervisory Board Members had adequate knowledge of both the market environment as well as the Bank's position in relation to other financial institutions.

Apart from engagement in the work of the Supervisory Board, most Board Members comprising standing Committees of the Supervisory Board, were also taking an active part in the work of relevant Committees.

### **ACTIVITIES OF THE BOARD COMMITTEES**

In performance of its tasks the Bank's Supervisory Board benefits from the support of standing Committees. Within the Supervisory Board of the Bank there are four standing Committees: Audit Committee, Personnel Committee, Strategic Committee and Committee for Risk Matters. The compositions of the individual Committees have not been changed since the elections carried out by the Supervisory Board, i.e. since 24 March 2021.

#### **A. Activities of the Audit Committee during the reporting period**

In 2021, six meetings of the Audit Committee of the Supervisory Board were held on the following dates: 28.01.2021, 18.02.2021, 07.05.2021, 22.07.2021, 21.10.2021, 13.12.2021 and one additional meeting by circulation on 11.02.2021.

#### **The following issues were subject to regular analyses at the meetings of the Audit Committee of the Supervisory Board in 2021:**

1. The activities of the Internal Audit Department along with the identified material findings, the recommendations issued and the effectiveness of monitoring the process of their implementation.
2. Review of efficiency, adequacy and effectiveness of the Internal Control System in the Bank.
3. Monitoring the activities of the Bank's External Auditor, including the Auditor's independence and key findings in relation to the financial reporting process.
4. Issues in the areas of risk, finance, compliance and customer complaints based on the information presented by the Bank's units and the External Auditor.
5. Supporting the activities to increase the effectiveness and improve the quality of the implementation of the internal audit function.

6. Relations with supervisory authorities, including information on material interactions, the course, results of inspections and actions taken by the Bank to implement post-inspection recommendations.

The agenda of the Audit Committee included issues specified in the standing agenda of the Committee meetings approved by the Supervisory Board at its meeting on 31 January 2013.

Since 2016, information on customer complaints (after Q1 and Q3 of the year) was included in the standing points of the agenda.

Since 2020, in accordance with the guidelines of the Bank's Supervisory Board, the agenda of meetings of the Audit Committee was extended by "*Information on material interactions with supervisory authorities*" – a periodic report prepared by the Internal Audit Department for the purposes of reporting to the Audit Committee of the Supervisory Board and the Supervisory Board, comprising synthetic information on the most important interactions and correspondence with supervisory authorities, in particular KNF, JST (Joint Supervision Team), tax authorities, as well as other supervisory authorities.

**The following issues were discussed at the meetings of the Audit Committee of the Supervisory Board in 2021:**

1. **Activity Reports of the Internal Audit Department (DAW):** containing a risk assessment of the audited processes and the degree of implementation of the tasks enumerated in the 2021 Audit Plan approved by the Supervisory Board.

The Internal Audit activity at the Bank was subject to systematic supervision and evaluation by the Audit Committee. The Audit Committee gave a positive assessment and recommended for approval to the Supervisory Board, the annual Audit Plan for 2021 prepared on the basis of the analysis of risk areas, and accepted the information on the implementation of the 2020 Plan. During the individual meetings of the Committee, the material findings identified by the audit, along with the agreed remedies, were discussed. A detailed analysis was carried out for the process of monitoring the implementation of post-audit and supervisory recommendations, including H recommendations with high implementation priority and recommendations with prolonged implementation deadlines. Key Risk Indicators are used to assess the effectiveness of monitoring the implementation of the recommendations.

2. **The Audit Committee supported activities aimed at systematic improvement of the quality and standards of the internal audit work at the Bank.** At its meeting held in July 2021, the Committee reviewed the proposed amendments to the internal DAW regulations, which resulted from the implementation of the recommendations issued after the 2020 KNF Inspection and the implementation of improvements proposed as part of the QAIP2020 quality improvement program. Taking into account the proposed modifications, the Audit Committee approved the changes to the "Internal Audit Manual" and recommended to the Supervisory Board approval the update of the "Audit Charter - principles of internal audit activity in Bank Millennium S.A."

The Head of the Internal Audit is provided with constant and direct contact with the Members of the Committee, and at one meeting during the year (after Q3), during the closed part of the meeting, the staffing situation of the Internal Audit Department and the

remuneration policy for auditors are discussed with him. The Committee was concerned to learn about DAW's staffing difficulties and expressed its appreciation for the efforts to rebuild and stabilise the personnel status. Regardless of the current personnel difficulties, the competences of the auditors were assessed very positively, including the ongoing process of their systematic development.

The Committee gives a positive evaluation of the internal audit activity at the Bank, which is carried out assuring independence, in accordance with the planned scope, effectively identifying weaknesses of the control mechanisms, and at the same time, as part of its advisory activities, is a substantive support for other units of the Bank. The Committee underlines the importance of supporting the independence and competence of the third-line-of-defence unit for the secure and stable functioning of the Bank, in particular in view of the challenges that accompany the entire sector.

3. **Monitoring the activities of the Bank's Statutory Auditor:** Starting from Q1 2019, the function of the Bank's statutory auditor has been performed by Deloitte, selected in tender procedure conducted by the Bank in 2018, performing statutory audit tasks (within the meaning of Article 2 point 1 of the Act on Statutory Auditors, Audit Firms and Public Supervision), in auditing the annual solo report of the Bank and consolidated report of the Bank Group, as well as auditing other financial statements of the Bank and the Bank's Group for periods within the year.

After reviewing the motion of the Bank's Management Board, at the meeting of the Committee held on 28.01.2021, the Audit Committee decided to recommend to the Supervisory Board to extend cooperation with Deloitte as the statutory auditor of the Bank and the Bank's Group for a further period covering the reporting years 2021-2023.

Deloitte's information on material financial reporting arrangements at the Bank, as a result of quarterly reviews conducted by the External Auditor, was discussed during four (quarterly) meetings of the Committee in 2021.

At the meeting of 18.02.2021, the Statutory Auditor presented the "Final Report for the Audit Committee on the audit for 2020" prepared on the basis of the results of the audit of the financial report of Bank Millennium S.A. and the audit of the consolidated financial report of the Bank Millennium S.A. Capital Group for 2020, and then at the meeting on 22.07.2021, the Auditor supplemented the scope of the final reporting with a final "*Letter to the Management Board of Bank Millennium S.A.*"

The principal topic of the Audit Committee's discussion with the Statutory Auditor during the individual meetings held in 2021 were issues related to the creation of provisions for court cases related to CHF mortgage loans.

Ongoing and systematic communication of the Statutory Auditor with the Audit Committee serves to ensure proper independence and required standards, as well as proper quality of the financial review services.

Taking into account the requirements of reporting to the Audit Committee, at the meeting on 21.10.2021, the Statutory Auditor presented the planned scope and dates of the audit of the annual financial reports of the Bank and the Bank Group. After review of the presented material, the Audit Committee did not make any comments and accepted the proposed dates and scope of the audit.

4. **Cooperation with audit companies:** In connection with the amendment to the Act of 11 May 2017 on statutory auditors, audit firms and public supervision and changes in the BCP Group Code GR0022 relating to cooperation with audit firms, changes were made to *the*



*Policy of selection and cooperation with audit firms*, which was approved in its updated version by the Audit Committee at its meeting on 28.01.2021. In accordance with the requirements of the Bank's *Policy of selection and cooperation with audit firms*, the Audit Committee analysed the submitted applications and approved outsourcing from the audit firm the provision of specific services other than statutory audit.

5. **Monitoring financial reporting:** At its first meeting in 2021, the Department of Finance and Reporting submitted to the Audit Committee the information on monitoring of the financial reporting process, which covered the following aspects:
- The International Financial Reporting Standards (IFRS) in force, applied for preparation of the financial reports, both of the Bank and the Group,
  - Performing in 1H2020 the final settlement of the merger and the calculation of goodwill in connection with the acquisition of shares of Euro Bank S.A.,
  - Implementation, starting from March 2020, of the ITS reporting packages (also FINREP and COREP), in accordance with XBRL taxonomy, prepared by the European Banking Authority,
  - Changes in the presentation of the provisions against legal risk connected with FX mortgage loans,
  - Starting in Q4 2020, a full consolidation of the balances of the Mortgage Bank by the Group and preparations for sale of the mortgage loan packages to the Mortgage Bank,
  - Implementation of the additional reporting requirements introduced by ESMA in 2020 in connection with COVID-19 pandemic,
  - Confirmation of the timeliness of submitting in 2020 all the financial reports to the parent entity and Banking Supervision, as well as timeliness of publications on the WSE,
  - Preparations for publication of 2020 annual financial statements planned for 22.02.2021.

The Audit Committee meeting held in February 2021 was mostly dedicated to the analysis of the Management Board information on the 2020 Bank and Group's Annual Statement and audit conclusions of the Auditor, Deloitte. On the basis of the audit, Deloitte issued an unqualified opinion on the consolidated financial statement of the Bank Millennium Capital Group and an unqualified opinion on the separate financial statement of Bank Millennium for the period ended on 31 December 2020. Taking into account the positive Opinion of the Statutory Auditor, the Audit Committee adopted a Resolution on recommending to the Supervisory Board a positive assessment of the Annual Reports for 2020.

6. **Results of the annual Review of the Internal Control System:** Following the amendments of the Bank of Portugal in the requirements for conducting reviews of the internal control system (SKW) and issuance of a new resolution, Notice 3/2020 BdP, the organization of the internal control system review process was significantly changed. New formulas and reporting obligations were introduced, the scope of participation in the review of control function units (Risk, Compliance, Audit) was expanded, the scope of reporting on the recommendation implementation process was unified and expanded in the BCP Group. The Participation of the Statutory Auditor in the process of testing the adequacy and effectiveness of the control environment ceased to be obligatory, but the BCP Group decided to continue the Auditor's support in certification of the internal control system environment.

The year 2021 was a transitional year in the implementation of the new rules, hence in accordance with the requirements of Notice 3/2020, the BCP Group together with its subsidiaries was obliged to carry out two separate reviews, the first for the period July 2020-

January 2021 and the second covering the period February 2021-November 2021. Both reviews required in 2021 were to be reported to the Bank of Portugal according to the new rules, to the full extent.

Following the arrangements within the BCP Group, the Bank outsourced the implementation of attestation services of the control environment in both reviews in 2021, from Deloitte, whereas the approval of these services as non-audit services was subject to acceptance by the Audit Committee.

With a view to an appropriate implementation of supervisory requirements, a relevant team closely cooperating with BCP was set up at Bank Millennium, to properly prepare the reporting process according to uniform rules in force in the BCP Group. On the Bank's side, the activities were coordinated by the Internal Audit Department.

On the basis of the results of the work carried out by DAW, DZZ and DMR control function units and the results of the attestation review reported by Deloitte, the Audit Committee in the form of resolutions accepted at the meetings on 18.02.2021 and 13.12.2021, the adoption of *the Self-Assessment Reports of the Audit Committee of the Supervisory Board on the adequacy and effectiveness of the Bank's organizational culture, its management and internal control systems, on an individual basis, taking into account the situation as at 31.01.2021 and as at 30.11.2021, in accordance with the art. 55 letter (a) of Notice no. 3/2020 of Banco de Portugal.*

7. **Supervision authorities:** The Audit Committee devoted a lot of attention to the Bank's relations with supervisory authorities, in particular KNF. At each Audit Committee meeting, the Internal Audit Department presented and discussed the status of implementation of KNF recommendations issued as part of post-inspection activities. All recommendations issued by KNF were implemented in accordance with the schedules adopted by the Bank.

In addition, a permanent component of the meetings of the Audit Committee was the analysis of correspondence addressed to the Bank on key issues by KNF and other supervisory authorities. In 2020, the scope of information about material interactions with supervisory authorities was structured in the form of a periodic report prepared and submitted by the Internal Audit Department to both the Audit Committee and the Supervisory Board. The material issues analysed concerned primarily: the SREP results, KNF Problem Inspections carried out at the Bank in 2020 and 2021, reporting the status of implementation of post-inspection recommendations, the European Central Bank (ECB) Inspection carried out at BCP and Bank Millennium, and recommendations addressed to Bank Millennium, the KNF's position on the dividend policy of commercial banks in 2021, updating the Recovery Plan and resignation from its launch, additional capital requirements for the portfolio of CHF mortgage loans, correspondence with the BGF on MREL requirements and consultations with the BGF on the issue of MREL bonds, information on changes in benchmarks for interest rates, as well as correspondence with tax authorities and the Personal Data Protection Office (UODO).

8. **Reporting of the Compliance Department (DZZ) on compliance risk:** As part of the regular DZZ reporting, the subject of analysis at the meetings of the Committee in 2021 were the main aspects of functioning of the compliance process, including: key initiatives and projects executed with the participation of DZZ, monitoring changes in legal regulations and market standards, monitoring relations with regulators, monitoring the functioning of banking products, analysis of the Bank's exposure to the risk of non-compliance along with the assessment of this risk and its profile, supervision over the

compliance management process in the subsidiaries of the BM Group, the functioning of internal control in the Bank with the results of monitoring this process, and the implementation of the 2021 Action Plan. DZZ Action plan for a given year is subject to the opinion of the Audit Committee and approval by the Supervisory Board. Starting from Q2 2020, the DZZ reporting on the implementation of the AML Program was transferred to the scope of activity of the Risk Committee of the Supervisory Board.

At the meetings held on 07.05.2021 and 22.07.2021, the Audit Committee reviewed the proposed amendments to the “By-laws of Compliance Department functioning in Bank Millennium S.A.” and recommended to the Supervisory Board approval of the updated regulation. The implemented changes were related to the implementation of the KNF's post-inspection recommendations. The Committee reviewed very carefully and then approved at its meeting on 13.12.2021, *the Program of systematic improvement of qualifications, gaining experience and skills by Employees of the Compliance Department – 2022-2023 cycle.*

In order to provide the Head of the Compliance Department with appropriate attributes of independence, similar to those assigned to the audit function, in 2021, as part of the report after Q3, the practice of direct meetings with the Head of the DZZ during the closed part of the Meeting of the Committee was introduced, during which the staffing situation of the Department and the remuneration policy for its employees are discussed with him.

The Audit Committee welcomes the significant changes in the operation of the Compliance Department, which contribute to the systematic strengthening of the competences and role of this unit, which is a key component of the stable and effective functioning of the second line of defence.

9. The Audit Committee carefully reviewed the information on the correctness of **the Bank's relations with clients, especially in the context of the complaints received.** At two meetings in 2021, detailed Information on the complaints filed by the Bank's Clients, prepared by the Quality Department, was presented. The Audit Committee was informed about the decisions on customer complaints addressed as c/c to the Supervisory Board, as well as about the results of the investigation activities carried out by DAW in this respect.

**In view of all the activities carried out by the Audit Committee in 2021, including materials submitted by the Internal Audit Department, the Compliance Department, the Statutory Auditor, the results of the 2021 Internal Control System Review carried out in the BCP Group and the supervisory and inspection activities of KNF, we state that the components of the internal control system (control function, Compliance Department and Internal Audit) show proper capacity to identify potential irregularities and weaknesses in the banking processes, and ensure adequate effectiveness of management of the identified problems in terms of continuous and systematic improvement of the functioning control mechanisms. Based on reasonable grounds, including the improvement measures under way, in the opinion of the Audit Committee, the internal control system as a whole, as well as its individual components, effectively and appropriately meet the regulatory requirements and by being effectively managed are adequate for the Bank's size and exposure to the risks connected with the activity conducted by the Bank and the Bank Millennium SA Capital Group. Taking into account the criteria adopted for evaluation of**

**the Internal Control System, the Audit Committee confirms the assessment of the adequacy and effectiveness of the functioning of this process at a satisfactory level.**

Bearing in mind the disclosure responsibilities of the Supervisory Board defined in the **“Regulation of the Minister of Finance of 29 March 2018 on current and periodical information disclosed by issuers of securities and conditions to be met when recognising as equivalent the information disclosed under laws of a state which is not a member state”**, the Audit Committee declares as follows:

- I. In relation to selection of<sup>1</sup> the audit firm carrying out the audit of the annual financial statement of Bank Millennium and the Bank Group:
  - a) the audit firm and the members of the audit team fulfilled the conditions for drawing up an impartial and independent audit report on the annual financial statements in accordance with applicable laws, professional standards and rules of professional ethics,
  - b) the applicable regulations related to the rotation of the audit firm and the key statutory auditor and the mandatory grace periods are observed,
  - c) The Bank has a policy for selection of an audit firm and a policy for provision of additional non-audit services to the Bank by an audit firm, an entity linked to an audit firm, or a member of its network, including services conditionally exempt from the prohibition on provision by an audit firm.
  
- II. With regard to the appointment, composition and functioning of the Audit Committee<sup>2</sup>:
  - a) The provisions concerning the appointment, composition and functioning of the Audit Committee of the Supervisory Board of Bank Millennium S.A. are observed, including those concerning the fulfilment by its members of the independence criteria and requirements regarding knowledge and skills in the field of financial industry and in the field of accounting or auditing financial statements.
  - b) The Audit Committee of the Supervisory Board of Bank Millennium S.A. performed the tasks of the audit committee provided for in the applicable regulations.

## **B. Activities of the Personnel Committee in the reporting period**

Four meetings of the Committee were held during the period under review. During the meetings, the members of the Committee analysed the documents and information provided, as well as made appropriate decisions in the form of resolutions.

The main topics of the Committee's work were the remuneration policy, identification and assessment of risk takers, as well as the assessment of the work of the Management Board and the reassessment of the adequacy of the management bodies, both the Management Board and the Supervisory Board.

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<sup>1</sup> § 70.1. 7) a) c) of the Regulation of the Minister of Finance of 29 March 2018 on current information ...

<sup>2</sup> § 70.1. 8) a) c) Regulation of the Minister of Finance of 29 March 2018 on current information ...

## **24 January 2021**

- Review and positive assessment of the remuneration policy in 2020.
- Proposed changes to the Remuneration Policy for Risk Takers.
- Assessment of suitability and a positive recommendation to the Supervisory Board for a candidate for the Head of the Compliance Department.

## **19 February 2021**

- Adoption of the Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of Bank Millennium SA.
- Analysis and adoption of the report on the remuneration of Members of the Management Board and Supervisory Board of Bank Millennium SA for the years 2019 and 2020.
- Issuing an opinion on the draft resolution of the General Meeting of Shareholders on the level of remuneration of Members of the Supervisory Board.
- Acceptance of remuneration for Heads of the Risk, Audit and Compliance Department.
- Acceptance of changes to the selection Policy and assessment of suitability of Members of the Management Board and Supervisory Board of Bank Millennium and persons performing the most important functions in the Bank Millennium S.A. Group.
- Assessment of the suitability of the Management Board of Bank Millennium SA and positive recommendation of candidates for the Bank Management Board.
- Assessment of suitability of the Supervisory Board of Bank Millennium SA.

## **14 June 2021**

- Information on persons having a significant impact on the risk profile of the Bank Millennium Group.
  - changes due to rotation and appointments
  - EBA Guidelines as on 2021/the Banking Law Act/New regulation for 2013/36/EU
  - BCP Group Code 042 –referring to identification of Risk Takers
- Information on policy of selection and suitability assessment of governing bodies and its implementation
- Decision to base the deferred part of the bonus for recent years (2017, 2018 and 2019) on a 3-year assessment perspective.
- Evaluation and decision on variable remuneration for Management Board Members for the year 2020
- Buy-back of own shares in 2021 within the Incentive Programme for Risk Takers
- Project involving preparation of the new criteria of evaluation and awarding of variable remuneration to Bank Millennium SA Management Board Members

## **2 December 2021**

- Results of the annual review of the list of persons having significant impact on the risk profile (Risk Takers)

- Review of the Remuneration Policy of employees having significant impact on the risk profile in the Bank Millennium S.A. Group Proposal to change the threshold from 80,000 PLN to 50,000 EUR following the amendment of the Banking Law.
- Review of the Employee Remuneration Policy in the Bank Millennium Group. Taking into account changes in the law related to equal pay, climate and risk factors)
- Approval of the Policy of selection and evaluation of Members of the Management Board of Bank Millennium and persons performing key functions in the Bank Millennium SA Group.

During the meetings all members of the Committee were present.

For the purpose of proper performance of tasks, in 2021 Committee members worked not only during but also outside of them the meetings - in mutual consultations as well as meetings and discussions with other persons, also with members of the Bank Management Board, in particular with a view to comprehensive assessment of the Bank Management Board as a whole and of particular members and also supporting the Bank's bodies in formulation and implementation of remuneration policy effective in the Bank. Attention was drawn to the need for good cooperation between the Management Board and the Supervisory Board in view of dynamically changing regulatory environment.

In 2021, the Committee made an individual and collective assessment of the Bank's bodies in connection with the change of the term of office.

The Committee analysed individual profiles and the profile of collective competences of the Members of the Supervisory Board and concluded that the members of the Supervisory Board – both individually and as a whole – met the expected competence requirements. In particular, the diverse composition of the Supervisory Board in the context of age, gender, professional experience, knowledge and skills, as well as the fact that it includes both a representative of science and business, reflects diligence in the widest possible diversity of views on the work of the Management Board. The Committee also analysed the competence model of the Bank Management Board in the field of management, risk management, knowledge of business lines and soft skills. The Committee compared individual profiles and the collective competence profile of the Management Board and came to the conclusion that the Management Board met the expected competence requirements.

The Committee monitored the Management Board's decisions regarding remuneration policy activities on an ongoing basis (in particular the value of bonus budgets and changes in the fixed remuneration of persons designated as risk takers) and considered them to be consistent with the long-term objectives of the remuneration policy adopted by the Group.

The Committee also analysed the remuneration policy and employee turnover in the context of changes in the labor market: in particular inflation, accelerated digitization and the so-called employee market, drawing attention to the need to conduct an active and employee retention-oriented remuneration policy.

The Committee did not grant bonuses to the Management Board Members for 2020 in connection with the then applicable rules, that made the bonus pool for the Management Board conditional upon the Bank's net profit, at the same time granted rights to deferred parts of the variable remuneration for previous years.

However, the Committee appreciated the Management Board's actions in terms of the Bank's operational efficiency, sales results and quality of management, as well as in the scope of active efforts related to solving the problem of the CHF loan portfolio, which results from past decisions and generates negative burden upon financial results.

### **C. Activities of the Strategic Committee during the reporting period**

The competences of the Committee, defined in the Articles of Association of Bank Millennium S.A. (§ 18, item 7) and in the Bylaws of the Supervisory Board of Bank Millennium S.A. (§ 6, item 8<sup>1</sup>), include in particular:

- study of macroeconomic trends,
- research of the new trends, events and new solutions in the banking sector,
- analysis of the Bank's competitive position and benchmarks,
- analysis and recommendation of the Bank's long-term strategy, goals and tasks.

In 2021, 4 formal meetings of the Strategic Committee were held. All meetings were conducted remotely using teleconferencing devices (teams).

Three meetings held in February 2021 were devoted to the discussion on the situation of the banking sector in Poland after the crisis and directions of Bank Millennium further development. The meetings were supported by external reputed consulting companies which separately presented their outlook for banking in Poland and globally, trends in global financial services, challenges and potential priorities and development options for Bank Millennium.

The meeting held on 26 November 2021 was dedicated to the draft Bank Millennium Strategy for the years 2022 – 2024 – *Millennium 2024 Inspired by people*. The strategy was presented by Joao Bras Jorge. During the presentation, the macroeconomic situation and the banking sector were discussed. The strategy paper included chapters: starting point and aspirations of Bank Millennium; where are we heading to – in terms of business lines, service models, capabilities, ESG Strategy; portfolio of foreign currency mortgage loans; general aspirations / goals.

The Strategic Committee agreed to recommend the Strategic Plan for approval by the Supervisory Board.

### **D. Activities of the Committee for Risk Matters during the reporting period**

In 2021 there were six meetings of the Committee for the Risk Matters, respectively on: 28.01.2021; 07.05.2021; 26.05.2021; 22.07.2021; 21.10.2021; 10.11.2021 and 02.12.2021.

The information on risk management was subject to regular analysis during the meetings of the Committee. These included:

- general information on credit risk, reviewing the risk appetite statement, the main drivers of credit growth, the evolution of the credit risk parameters, evolution of the credit portfolio quality with special focus on credit holidays and the profitability of the main segments of activity, market and interest rates, with detailed analysis of the limits set by the Bank and also analysing the interest rate sensitivity;
- liquidity management, analysing the liquidity position of the Bank, the fulfilment of the set limits and monitoring of the evolution of the major liquidity ratios;
- operational risk, presenting the major operational risk events and impacts on functioning the Bank;
- information on capital management, namely on the evolution of the capital ratios and internal capital;

- information on FX mortgage loans, in view of the risk increase assessment and the risk appetite framework, FX mortgage issues and in particular the Committee on regular basis analysed the legal risk issue together with detailed analysis of the court litigation involving the Bank;
- Compliance Department Report on counteracting money laundering with analysis of trends, monitoring system and quarterly activity in the AML area;
- information on bancassurance activity of Bank Millennium S.A., analysing the Bank's offer and the business evolution in terms of volumes and profitability. The operational, compliance and legal risks of this activity were also presented;
- analysis of quarterly reports regarding implementation of the Bank's investment policy and consistence of actions undertaken with respect to the Bank's capital investments.

During the meetings of the Committee other issues were also discussed:

- analysis of change between Risk Appetite Statement zones with approval of breach reports. The breaches mainly concerned the Financial Sensitivity measure and related to the CHF mortgage portfolio. All violations were reported with full explanation and were fully approved by the Committee;
- BMR reference rates reform with analysis of impact and work completed by the Bank to be compliant ;
- FX mortgage litigation issues related to Supreme Court potential judgments with the presence of an external legal expert to analyse the potential impact of the Supreme Court judgment upon the Bank litigation processes;
- IT risk report with detailed information on: external IT risk, internal risk self-assessment results, security incidents statistics, applications availability KPIs, disaster Recovery Plan tests execution, IT related audit points and human resources;
- report on Model Risk Management in Bank Millennium Group with approved proposal of average model risk tolerance level;
- Information on important court disputes under lawsuits filed by Clients against Bank Millennium SA regarding portfolio managed by the Corporate Recovery Department namely regarding FX options disputes;
- Personal Data Protection Reports highlighting the general data protection trends and current activity in this area, summarizing the GDPR implementation in the Bank and presenting the new DPO Office;
- Recommendation R results of gap analysis, with review of BM compliance, and NPE backstop measures, with a full analysis of EUNB and EBC requirements, information on NPE shortfall and action plan to minimize it;
- Results of the supervisory stress tests performed upon KNF request.

Furthermore, the Committee analysed and gave positive opinion to the Supervisory Board on the following items:

- Revision of the Financial Sensitivity measure limits to adapt to the current situation of the Polish market;
- Update "Recovery Plan for Bank Millennium S.A. Capital Group" with the following changes;
- Revision of the "Liquidity Recovery Plan in Bank Millennium S.A.";



## *Translation from Polish language*

- Revision of the document: „Policy of Bank Millennium S.A. relating to disclosure of information on risk, own funds, capital requirements, remuneration policy and other information”.
- Revision of the document: “Capital management and planning principles”;

Specifically on the 02.12.2021 meeting, the Committee analysed and gave positive opinion to the Supervisory Board on the following documents related to strategy:

- Risk Strategy of the Bank Millennium S.A. Capital Group.
- Liquidity Plan of the Bank Millennium S.A. Capital Group and long term liquidity review, according to Polish Financial Supervision Authority regulations.
- Capital Plan and Contingency Capital Plan of the Bank Millennium S.A. Capital Group.
- Approval of changes to “Capital Management and planning principles” and information about the review of the “Rules on Internal Capital Calculation”.

The Committee followed thoroughly the risk management of the Bank. All questions raised were answered and all information requests were provided.

Committee considers that:

1. The Bank uses methods to identify and measure or assess risk, risk control and monitoring and reporting of risks associated with its operations, adapted to the size and risk profile of the Bank.
2. The frequency of risk measurement or estimation is adjusted to the size, profile and types of risk in the Bank's operations.
3. The risk measure and estimation methods used by the Bank take into account the currently conducted and planned Bank's activity and lending criteria in accordance with the banking regulations.
4. The Bank took the adequate measures to ensure a reliable risk measurement or estimation.
5. The Bank applies limits adapted to the size and risk profile occurring in the Bank.
6. As part of risk control, the Bank determines the procedure to be followed if the limits are exceeded, defines measures to eliminate any excess and corrective measures to prevent against such situations in the future.
7. Risk monitoring is performed with frequency enabling the Committee for Risk Matters of the Supervisory Board to be adequately informed about any changes in the risk profile of the Bank.

The Committee expresses a positive opinion on the Bank risk management.

### **Evaluation of the Activities of the Supervisory Board in 2021**

The Supervisory Board, when appraising its activities in 2021, followed guidelines provided in Best Practices as well as Principles. The year 2021 was a consecutive year in which the Supervisory Board conducted its activities in a different environment than in previous years, due to the situation caused by the COVID-19 pandemic, which was associated with many restrictions, including, *inter alia*, freedom of movement, social distancing and border closures. However the above did not adversely affect the Board's work; if personal contacts were impossible, including coming to Supervisory Board meetings in the Bank's offices, Board members used means of remote communication provided by the Bank. Irrespective of the

regular meetings, Supervisory Board members carried out their activities also by means of direct contacts with the Bank Management Board.

In accordance with its competences as provided for in the Bank's internal regulations and in accordance with the general legal requirements relating to listed companies and banks in particular, the Board exercised constant and ongoing supervision over the entire activity of the Company. In the Board's opinion the number of its members is adequate given the nature and scale of activity conducted by the Bank.

In the Board's opinion during the reporting period the activities of its members within the Supervisory Board or in Supervisory Board Committees, were highly effective, transparent and compliant with best market standards. Ensuring effectiveness of supervisory activities performed, Board members were carrying out their duties with reliability and integrity, with due care and strong commitment, as proven i.a. by high level of attendance during meetings – despite the situation caused by the coronavirus pandemic - as well as active participation in discussions, as confirmed by records in the minutes.

The composition of the Board as a whole guaranteed an appropriate level of performance of collective supervision over all areas of the Bank's activity. Particular members of the Board demonstrated a high level of qualifications, specialist knowledge and competences resulting i.a. from education and professional experience, including knowledge of the financial market, management, modern technologies, thus assuring proper performance of tasks assigned to them.

The above self-assessment is confirmed by adequacy assessment of the Supervisory Board Members, made by the Personnel Committee of the Supervisory Board in cooperation with an independent external adviser - according to the "Policy of selection and assessment of suitability of the Members of the Management Board and the Supervisory Board of Bank Millennium S.A. and Key Function Holders at Bank Millennium S.A. Group", as effective in the Bank, as well as the methodology prepared by KNF. The scope of suitability assessment comprised: (i) warranty as regards reputation, financial situation, clean criminal record, independence of judgement, conflict of interests; (ii) competences understood to mean knowledge, skills and experience in such areas as: a) Bank management (including knowledge of the financial market, legal requirements and regulatory framework, strategic planning, knowledge of the management system – including risk management, accounting and financial audit, supervision and internal audit, interpretation of financial information), b) risk management (including business model risk, credit risk, market risk, organisation risk, liquidity and financing risk, capital risk, management risk, systemic risk), c) managing the Bank's business lines; (iii) personal competences; (iv) knowledge of the Polish language; (v) combining functions and devoting sufficient amount of time. The Personnel Committee of the Supervisory Board concluded positive individual assessment of Members of the Supervisory Board as well as a positive collective assessment of adequacy of the Supervisory Board.

Moreover, the Supervisory Board, based on recommendation of the Personnel Committee of the Supervisory Board and having reviewed detailed results of assessment of adequacy of members of the Bank's Management Board conducted in cooperation with an independent external adviser, ascertained that each of the members of the Management Board individually meets criteria of suitability for performance of the function assigned to him and also that the Management Board as a whole meets these criteria.

Bearing the above in mind and also positively evaluating the Bank's overall activity, including its performance, the Supervisory Board moves for discharging all members of the Bank's bodies from performance of their activities in 2021.

**2. Information on the composition of the Board and its committees, indicating who of the members of the Board meet the independence criteria defined in the Act of 11.05.2017 on statutory auditors, audit firms and public supervision, as well as who among them does not have real and material links with a shareholder holding at least 5% of the total number of votes in the Bank, as well as information on the composition of the Board in the context of its diversity.**

The Bank's Supervisory Board operates on the basis of the Commercial Companies Code, the Banking Law, the Bank's Articles of Association and the Bylaws of the Supervisory Board. The term of office of the Supervisory Board, in accordance with § 13 section 1 of the Bank's Articles of Association, lasts 3 years.

**Composition of the Supervisory Board**

In the period from 1 January 2021 to 24 March 2021, the composition of the Bank's Supervisory Board 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 Jędrys - 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 Bank's General Meeting elected 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. In connection with the above, 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 Jędrys - 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.

At the time of candidacy for office in the Board, all the above-mentioned persons submitted statements regarding their compliance with criteria referred to in the applicable law, including in particular: in the Banking Law, Principles and Good Practices.

The independence criteria are fulfilled by five Members of the Supervisory Board: Ms. Olga Grygier-Siddons, Ms. Anna Jakubowski, Ms. Beata Stelmach, Mr. Grzegorz Jędryś and Mr. Alojzy Nowak.

Members: Mr. Bogusław Kott, Mr. Dariusz Rosati, Mr. Olga Grygier-Siddons, Ms. Anna Jakubowski, Mr. Grzegorz Jędryś, Ms. Beata Stelmach and Mr. Alojzy Nowak have no real and significant ties with a shareholder holding at least 5% of the total number of votes in the Bank.

Polish nationality is held by seven Members of the Supervisory Board, including its Chairman. The Supervisory Board in 2021, to the best of its knowledge, did not find existence of any relationships or circumstances that could affect the fulfilment of the independence criteria by the above-mentioned members of the Supervisory Board. The Composition of the of the Supervisory Board was diversified in terms of gender, age, education and professional experience. The CVs of the Supervisory Board members are published on the Bank's website.

### **COMPOSITION OF THE AUDIT COMMITTEE**

In the period from 01.01.2021 to 24.03.2021, the Audit Committee of the Supervisory Board of Bank Millennium S.A. functioned in the following composition:

|                            |                                      |                    |
|----------------------------|--------------------------------------|--------------------|
| Chairman of the Committee: | Grzegorz Jędryś                      | independent member |
| Committee Member:          | Bogusław Kott                        |                    |
| Committee Member:          | Miguel de Campos Pereira de Bragança |                    |
| Committee Member:          | Anna Jakubowski                      | independent member |
| Committee Member:          | Alojzy Nowak                         | independent member |

On 24.03.2021 the newly appointed Supervisory Board elected Members of the Audit Committee (Resolution No. 25/2021 of the Supervisory Board) for a new term of office, in the following composition:

|                            |  |                    |
|----------------------------|--|--------------------|
| Chairman of the Committee: | Grzegorz Jędryś                                  | independent member |
| Committee Member:          | Miguel de Campos Pereira de Bragança             |                    |
| Committee Member:          | Olga Grygier-Siddons (from 01.07.2022)           | independent member |
| Committee Member:          | Anna Jakubowski                                  | independent member |
| Committee Member:          | Alojzy Nowak                                     | independent member |
| Committee Member:          | José Miguel Bensliman Schorcht da Silva Pessanha |                    |

## *Translation from Polish language*

In this make-up the Audit Committee of the Supervisory Board of Bank Millennium S.A. operated until the end of 2021.

Thus, the Bank fulfilled the provisions of Article 129. Item 3 of *the Act on Statutory Auditors* [...] ensuring that the majority of the members of the Audit Committee, including its Chairman, meet the independence criteria.

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

**The composition of the Personnel Committee** was determined at the meeting of the Supervisory Board on 26 March 2018. The composition of the Committee until 24 March 2021 did not change and was as follows:

- Andrzej Koźmiński – Chairman
- Nuno Manuel da Silva Amado
- Miguel de Campos Pereira de Bragança
- Bogusław Kott

On 24 March 2021 the General Meeting of Shareholders elected a new Supervisory Board of Bank Millennium SA. At its meeting on the same day, the Supervisory Board established the following Personnel Committee:

- Alojzy Nowak - Chairman
- Olga Grygier-Siddons
- Anna Jakubowski
- Miguel de Campos Pereira de Bragança
- Bogusław Kott

The composition of the Committee ensured an appropriate level of supervision over the entrusted areas of the Bank's activity, and individual members guaranteed the proper performance of duties resulting from education and professional experience.

The independent members of the Committee are: Ms Olga Grygier-Siddons, Ms Anna Jakubowski and Mr Alojzy Nowak.

## **Composition of the Strategic Committee**

In 2021 the new composition of the Strategic Committee of the Supervisory Board was adopted by the Supervisory Board on 24 March 2021. The Supervisory Board decided to appoint the following members of the Strategic Committee of Bank Millennium:

- Bogusław Kott – Chairman
- Nuno Manuel da Silva Amado
- Miguel de Campos Pereira de Bragança
- Anna Jakubowski
- Miguel Maya Dias Pinheiro,
- Dariusz Rosati
- Lingjiang Xu

The new Member of the Committee was Mr. Miguel Maya Dias Pinheiro. Ms. Agnieszka Hryniewicz-Bieniek and Mr. Andrzej Koźmiński are no longer Members of the Strategic Committee.

The composition of the Committee assured an appropriate level of supervision over the entrusted areas of the Bank's activity and the particular members guaranteed proper performance of duties resulting from their education and professional experience.

### **Composition of the Committee for Risk Matters**

In the period from 01.01.2021 to 24.03.2021, the Committee for Risk Matters was composed of the following:

- Dariusz Rosati – Chairman,
- Bogusław Kott,
- Miguel de Campos Pereira de Bragança,
- Grzegorz Jędrys,
- José Miguel Bensliman Schorcht da Silva Pessanha.

On 24 March 2021, the newly appointed Supervisory Board appointed Members of the Committee for Risk Matters (Resolution n° 25/2021 of the Supervisory Board), for a new term of office in the following composition:

- Dariusz Rosati – Chairman,
- Beata Stelmach,
- Miguel de Campos Pereira de Bragança,
- Grzegorz Jędrys,
- José Miguel Bensliman Schorcht da Silva Pessanha.

The Committee composition secures appropriate level of supervision of the entrusted areas of Bank operations and individual members give guarantee of due and diligent performance of their duties ensured by their education level attained, knowledge and professional experience.

### **3. Report on the assessment of the functioning of the remuneration policy at Bank Millennium S.A.**

In 2021, the remuneration policy was implemented under conditions of increasing pressure on wages and employee growing staff turnover, with the need to maintain costs at a stable level.

The COVID-19 pandemic has caused accelerated digitalisation of many areas of the economy, for example, the recruitment market has significantly increased demand for employing specialists with skills in the broad IT area. There were more than twice as many such job offers in 2021 as the year before. Due to the fundamental importance of digitalisation in Bank Millennium's strategy for 2022-2024, increased competition for specialists in this area seriously affected the activities in the field of remuneration policy.

The unemployment rate registered in December 2021 amounted to 5,4% of the working population, fell to pre-pandemic levels and is extremely low even compared to other EU countries. Throughout 2021, a significant increase in the level of average wages in the enterprise

sector was observed – on average about 9% year on year. The minimum wage in force in Poland was raised by 7,5% in 2022, from 2 800 PLN to 3010 PLN. In the previous year, salary increase was 7,7%. Unfortunately, an important factor influencing conditions for remuneration policy implementation was the inflation growing in 2021, which in December 2021 reached the level of 8,6% (average annual estimates are about 5%). The bank reacted to the above factors throughout 2021.

In particular, attention should be paid to the growing expectations of key employee groups regarding the competitiveness of wages, maintaining their value against inflation and tax changes from 2022 (Polish Ład). In connection with provisions for legal risk of the CHF loan portfolio burdening the Bank's results, the Bank acted in the field of remuneration under conditions of limited possibilities to increase personnel costs. The remuneration policy required a balanced and optimal decision-making process with regard to allocation of funds for changes in fixed salaries and variable remuneration pools for individual employee groups under conditions of limited resources.

In the circumstances, balanced activities were required; on the one hand it was prudent cost management, but in the first place a search for tools to sustain motivation and commitment of employees in a very demanding business environment.

In the reporting period, the Bank Management Board presented to the Personnel Committee of the Supervisory Board and to the Supervisory Board information on implementation of material elements of the remuneration policy in the Bank Millennium Group.

In the opinion of the Supervisory Board, in the course of implementation of remuneration policy adequate actions were undertaken in reaction to the challenges discussed above. In particular:

**I. Decisions regarding variable remuneration towards Members of the Management Board and persons influencing the level of risk of the Bank – the so-called Risk Takers:**

1. **Risk Takers I (Members of the Management Board):** The Personnel Committee of the Supervisory Board, did not grant variable remuneration for the results of 2020, at the same time granting rights to deferred tranches of variable remuneration for previous years (2017,2018,2019).
2. **Risk Takers II (other persons influencing the level of risk):** The Personnel Committee of the Management Board reviewed the basic remuneration, as a result of which 18% of Risk Takers II received increases in fixed remuneration. Bonuses for 2020 were granted as part of a reduced bonus pool compared to previous years.

**II. Implementation of the remuneration policy in 2021 for other groups of employees**

**Fixed remuneration:**

The Bank conducted a limited review of remuneration of a retention nature in the 2H of 2021 – after a break in 2020 resulting from the optimisation of the Bank's operating costs after the merger with Eurobank.

The review covered, in particular, sales network units, call center, debt collection, credit decision making, ICT units (Information & Communication Technology: IT, Application Development, Security, Electronic Banking). The review covered almost 60% of the bank's staff. .

The increase processes were coordinated by the Members supervising the relevant units and took place as needed to meet the current situation in the units.

**Variable remuneration management:**

- 1) In 2021 budgets for bonuses and awards increased by approx. 2pp. vs. 2020, but after their reduction in 2020 by approx. 40% vs. previous years,
- 2) Bonus regulations in all units of the Bank for the years 2022 – 2023 have been agreed with the trade unions, which gives a stable basis for rewarding employees for the next 2 years.

**Assessment of the remuneration policy implementation:**

The Bank partially responded to the wage pressures created by the market within the existing cost opportunities, but these measures did not completely prevent the increase in staff turnover. A more active remuneration policy oriented at retention of key staff is recommended, so as to ensure the conditions for the Bank to perform its ambitious strategic activities for the years 2022-2024.

The Supervisory Board declares that activities undertaken within the remuneration policy followed in Bank Millennium Group did reflect the requirement of safe management of remuneration components. As part of the implementation of the remuneration policy, adequate actions were undertaken.

The Supervisory Board hereby expresses a positive opinion about implementation, in 2021, of the remuneration policy in the Bank Millennium Group.

**4. Assessment of application of the "Corporate Governance Principles for Supervised Institutions" adopted by the PFSA and assessment of the manner of compliance with disclosure obligations regarding the application of the "Best Practices of WSE Listed Companies 2021"**

The Supervisory Board, after reading relevant reports, declares that in 2021 the Bank properly implemented the "Principles of Corporate Governance for Supervised Institutions", adopted by the PFSA, to the extent determined by resolutions of the Bank's bodies (Resolution No. 24 of the General Meeting of 21 May 2015, Resolution No. 12/2014 of the Supervisory Board of 12 December 2014 and Resolution No. 95/2014 of the Bank Management Board of 10 December 2014). The solutions and mechanisms applied in the Bank and aimed at implementation and execution of the Principles duly take into account the objectives stated therein in combination with the needs for optimum organisation of the Bank's activity.



Likewise, with respect to Best Practice, the Supervisory Board is of the opinion that the Bank properly met disclosure requirements as regards compliance with the “comply or explain” principle as well as regarding current and periodic information. The Supervisory Board got acquainted with the content of reports and information provided by the Bank as the issuer of securities.

At this point the Supervisory Board emphasises that on 1 July 2021 Best Practice of Companies Listed on GPW 2021 came into force, in the period from entry of the Best Practice 2021 the Bank was observing all principles contained in the Best Practice.

The previously binding Best Practice of Companies Listed on GPW i.e. The Best Practice 2016 was implemented by the Bank in compliance with all principles contained in the Best Practice 2016 with the exception of one, about which the Bank informed in the form of a report via the GPW Electronic Information Base. The information was also published on the Bank’s website.

## **5. Assessment of expenses incurred by the Bank and the Bank Group to support culture, sports, charitable institutions, the media, social organisations, trade unions and similar objectives**

Bank Millennium SA, in cooperation with non-governmental and community organizations runs financial education programmes, initiatives promoting culture, supporting development of local communities and care for the natural environment as well as climate protection.

The Bank’s compliance with the principles of sustainable development has been confirmed in third-party assessments. Since 2010 the Bank is listed in the Warsaw Stock Exchange index, which comprises companies meeting highest standards of corporate social responsibility. In 2010-2019 the Bank was included in Respect Index, while since 2019 it is part of the WIG-ESG index, which is created by giving companies an additional weight, which is the ESG (Environmental, Social and Governance) rating provided by the global Sustainalytics company, as well as assessment of corporate governance conducted by GPW.

Bank Millennium is also a signatory of two international initiatives. The first one is the business and government administration partnership for attaining UN SDG - Sustainable Development Goals, where the Bank made a commitment to undertake activities especially in support of the financial education of children and the youth. The other one is the Diversity Charter - a commitment signed by organisations, which strive to eliminate discrimination in the workplace and act towards creating and promoting diversity. In matters of ecology and climate protection the Bank follows an environmental policy, which defines its own environmentally oriented activities, an approach to project financing as well environmental education. ESG aspects are an integral part of the strategy adopted by the Bank for 2022-2024.

Sponsorship, charity and similar initiatives along with information on the funds allocated are presented in the company's annual ESG Report. Below we present a description of the most important initiatives carried out by the Bank.

### **1. Community programmes**

#### **Financial education of children of preschool age**

The Bank Millennium Foundation continued the „**Financial ABCs**” project started in 2016. It is a proprietary preschoolers education programme prepared by Bank Millennium employees in cooperation with a non-governmental organisation. Its goal is to explain through fun and play the basic notions from the world of finance to the youngest. Research commissioned by the Bank Millennium Foundation indicates that parents support the start of education at preschool age, 65% of parents believe that the early start of financial education makes us cope better in crisis situations in adulthood.

After a break caused by the pandemic, the Foundation returned to organising workshops in kindergartens at the end of 2021 and organised 200 workshops in 54 kindergartens for about 5,000 children. There have so far been seven editions of the programme. In total more than 2400 workshops were held, nearly 58000 children in kindergartens all over Poland were trained. Special education materials were prepared for needs of the programme. In addition, throughout the year, the Foundation presented rich educational materials online, titled “Financial ABCs” addressed to children, as well as special guide articles for parents along with a series of video interviews with a pedagogue, an expert in children's education methods. Due to new educational needs, the fourth part of children's books on new technologies and safe behaviour on the Internet has been published.

### **Employee volunteering #słuchaMYwspieraMY**

In the fourth quarter of the year, the Foundation also returned to the organization of an employee volunteering program under the name of "**#słuchaMYwspieraMY**". This year, the aim was to provide special support to individuals and organisations that have suffered, among others, as a result of the pandemic. In the grant competition, employees of the Bank Millennium Group and Partner Branches presented their social actions. The best initiatives received funds from the Foundation for the implementation of the initiative by employees. 139 volunteers organised 21 initiatives and helped 2,638 beneficiaries. Volunteers helped i.a. the “Daj herbatę” Foundation, which supports people in homelessness crisis, children from the family children’s home in Kiedosy, Miłowice, “Pomocy Szansa” Association, which takes care of persons with disabilities, the educational facility of the Polish Association of Intellectually Disabled Persons in Gdańsk, the Day Care Centre for Senior Citizens in Skierniewice, as well as persons who found themselves in a difficult situation.

The program is particularly valuable in the bank's opinion, because it shows the great commitment of employees and their care for local communities as well as readiness to help.

## **2. Banking without barriers**

The Bank's goal as a socially responsible company is to eliminate barriers to access to financial and non-financial services for the elderly and people with disabilities, who constitute a significant and growing part of the Polish society. That is why Bank Millennium introduces many facilities, offers not only easier access to branches, ATMs, telephone service, service method, but also digital channels, which nowadays are becoming more and more important in financial management and organising everyday matters.

Bank Millennium’s website, the Millenet online banking system as well as Bank Millennium’s mobile app continue to be adjusted to the needs of blind and visually impaired persons. The services are written in simple and understandable language and can be read by text-to-speech

readers. Users with sight dysfunction can use the website just with a keyboard (a mouse is not necessary to navigate the portal). The website also features text enlargement functionality and is prepared for reading in high-contrast mode. Users of phones with fingerprint sensors can log-on to the mobile app with a fingerprint. The same way may be used for approving online card payments with 3D-Secure security protocol. Additionally owners of some smartphone models can log-on with use of the FaceID face recognition functionality. The mobile app is adapted to the needs of blind and visually impaired persons thanks to compatibility with access improvement services, which enable presenting information with use of speech.

Bank Millennium was one of the first companies to start adapting its website to the needs of persons with disabilities. In past years in recognition of its focus on accessibility of its website for persons with disabilities Bank Millennium was honoured with the “Website Without Barriers” award from the „Widzialni” Foundation.

An important objective of the Bank is to counteract digital exclusion also in the sphere of non-financial services. In improving access to mobile solutions, i.a. e-government, buying transport tickets, paying parking charges or motorway toll, the Bank provides access to banking and non-banking services anywhere and anytime.

All own cash machines and more than 70% branches of Bank Millennium are adapted to the needs of persons with disabilities. When remodelling and upgrading its branches, the Bank also makes sure that architectural barriers are eliminated. Seated customer service desks with access for wheelchairs are available in close to 300 branches (more than 60%). Customers calling the Bank’s call centre, instead of using the numerical keypad of the handset, can use voice commands.

Bank Millennium is expanding the community without barriers concept also in the non-banking sphere. In 2021, for the third consecutive year already, during the 18th edition of the Millennium Docs Against Gravity documentary film festival, with Bank Millennium as the main sponsor, selected films were available with audio description and voice-over, making it easier for persons with sight impairments to access the world of culture.

### **3. Cultural sponsorship**

Activity in the field of culture has been an important part of the social activities pursued by Bank Millennium for over 30 years now. Bank Millennium supports national as well as local cultural projects. It is a 360° sponsor of culture, because it promotes art in almost all its forms, including: music, painting, sculpture, film, theatre, photography, literature and performance. Bank Millennium reaches for niche and popular culture. It is by design a long-term partner. For 17 years it funded the “Golden Sceptre” award for eminent artists; for 11 years was the sponsor of “Pearls of Millennium” - a joint project of the Bank and TVP, which aimed to produce, promote and present artistic events in the high art realm on Polish TV. For 17 years it was a sponsor of the International Festival of Traditional Jazz Old Jazz Meeting “Złota Tarka”. The Bank was also a sponsor of the “Sacrum Profanum” contemporary music festival, Bella Skyway Festival – a multimedia show prepared by an international group of artists, the “Dwa Teatry” Festival, Mozart Festival in the Warsaw Chamber Opera as well as many others.

#### **Millennium Docs Against Gravity**

The biggest cultural project sponsored by the Bank in 2021 was the Millennium Docs Against Gravity Film Festival. This is Poland's film festival and an important documentary film festival worldwide. Bank Millennium has been a partner of the festival for 16 years now and signed an agreement on extending the cooperation for 2022-2024.

In September 2021 the 18th edition of the Millennium Docs Against Gravity festival was held, for the second time in a hybrid formula. Bank Millennium together with the festival organiser faced-up to the needs and expectations of the entire culture audience, offering them access to 150 documentary films from the entire world in cinemas in seven cities and on the festival platform. Additionally as part of the Weekend with the Millennium Docs Against Gravity Festival event selected films were shown in 27 cities in Poland. The festival is not only film screenings but also debates and actions dealing with important social issues, such as ecology or diversity. The hybrid edition of the Festival attracted an audience of altogether 134000 people.

#### **4. Supporting university education**

In 2021, the Bank continued its cooperation with renowned universities, including the Warsaw School of Economics SGH and the University of Warsaw, supporting universities in improving the quality of infrastructure and changing the model of functioning during the pandemic, as well as students and graduates in the development of competences.

An example of the cooperation is the coworking centre created by Bank Millennium and SGH. It is a venue for real or virtual meetings, networking, consultations with business theoreticians and practitioners from the university and the bank. The coworking centre is of service to students and graduates, who established or are planning to establish a start-up and want to clash their ideas with the business reality. In 2021 due to the pandemic most of the activities were carried out online. As part of cooperation with SGH in 2021, Bank Millennium took part in a conference devoted to Big Data organised by the Student Scientific Club of Statistics. The conference was organized in an on-line formula, which made it possible to increase its reach and get to students and graduates of all universities in Poland. Representatives of Bank Millennium led one of the presentations. The Bank also took part in the Business Sails competition, dedicated to intelligent organisations. The competition jury, with a representative of of Bank Millennium as one of its members, presented the winners at a meeting of the SGH Business Club.

#### **5. Supporting diversity**

The Bank is a signatory to the Diversity Charter and undertakes activities supporting diversity broadly understood in the banking environment and outside the organisation. It is worth emphasising the fact that Bank Millennium, as one of few Polish companies, was classified in the ranking of "European Diversity Leaders 2022" by the Financial Times magazine. The Bank was among 850 employers who stand-out in terms of supporting and promoting diversity in their organisations. The ranking was based on a survey of 100000 employees of European companies.

In 2021, it undertook a number of activities described above for people with disabilities. Bank Millennium also promoted diversity issues in its activities addressed to the public opinion. I.a. it was one of the sponsors of the "Believe in yourself" scientific and educational project, to study the areas of self esteem, influence of appearance on self-assessment and self-assuredness. Another initiative was to fund a scholarship for one of the Polish Paralympic athletes in

cooperation with the Unaweza Foundation and the #CorinneRunsForGood campaign. Bank Millennium also drew attention to the topic of neurodiversity, by means of a debate accompanying the “I am Greta film, emphasising the value of unconventional minds”.

## **6. Environmental activity**

Actions for the environment are an integral part of the Corporate Social Responsibility strategy of Bank Millennium, which undertakes many initiatives to limit or eliminate negative influence on the natural environment. The Bank has defined its approach to these matters in the “Environmental Policy of Bank Millennium Group”. The Document defines three key areas of environmentally-minded activity: own environmental activities aimed at reducing consumption of materials, electricity, water and fuel as well as environmental education of clients, counterparties and employees, and also an approach to project financing. Since 2011 the Group has been reporting on its environmental impact, including disclosure of data regarding greenhouse gas emissions. For subsequent years the Bank has defined targets of reduction of own emissions of greenhouse gases as well as reaching climate neutrality.

## **7. Reporting ESG activity**

Information concerning implementation by the Bank of principles of corporate social and environmental responsibility is available in the ESG Report, which is an integral part of Bank Millennium’s 2021 Report. The ESG Report is prepared in keeping with the guidelines of the amended Accounting Act, the international Global Reporting Initiative Sustainability Guidelines, European Union recommendations for reporting climate-related information and has been verified by Deloitte. The report presents key aspects of the Bank’s impact on sustainable economic, social and environmental development with regard to the key Stakeholder groups: Customers, Employees, Shareholders, Business Partners, Society and the Natural Environment.

The Supervisory Board assesses the social, sponsorship and educational activities of the Bank as reasonable and socially useful, providing not only direct financial support for executed projects, but also making a positive contribution to the development of culture, education, the economy and environmental protection. In the opinion of the Supervisory Board, such an attitude builds a positive perception and trust in the Bank as a financial institution, which applies the rules of corporate social responsibility.

## **6. Information about the extent of diversity policy implementation with respect to the Management Board and the Supervisory Board, including attainment of diversity goals in such areas as gender, education, specialised knowledge, age as well as professional experience**

The Composition of the Management Board was diversified in terms of age, education and professional experience. The CVs of the Supervisory Board members are published on the Bank’s website. The Management Board composition is not diversified in terms of gender, however selection of the Management Board members was guided first of all by the high competencies of Management Board Member candidates, their extensive knowledge and experience in banking.

In terms of diversity, the Bank will strive to ensure greater participation of women in the structure of the governing bodies, both the Supervisory Board and the Management Board, aiming to achieve a minimum of 30% of the level of the under-represented gender.

The Bank introduces the principle that for each vacancy in the Management Board and Supervisory Board that appears, it will provide at least 30% of women among the candidates on the final list of candidates. In the absence of an internal candidate for the Management Board, the Bank will be looking for an external candidate.

The Composition of the of the Supervisory Board was diversified in terms of age, education and professional experience. The CVs of the Supervisory Board members are published on the Bank's website.

Members of the Supervisory Board, both women and men, receive the same monthly amount for their work in the Board regardless of the number of meetings. The position of Chairman is remunerated higher than that of members. In addition, participation in the committees of the Supervisory Board is remunerated per meeting.

**7. Report on the assessment of the combined Management Board report on the activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group, combined ESG report of Bank Millennium S.A. and Bank Millennium S.A. Capital Group as well as financial reports of Bank Millennium S.A. and Bank Millennium S.A. Capital Group for fiscal year 2021**

Pursuant to art. 382 § 3 of the Commercial Companies Code, § 17 section 3 of the Bank's Articles of Association and in connection with § 70 section 1 point 14) and § 71 sect. 1 point 12) of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information disclosed by issuers of securities and conditions to be met when recognising as equivalent the information disclosed under laws of a state which is not a member state, the Supervisory Board, at its meeting on 21 February 2021, conducted an assessment of the Management Board's submissions: (I) 2021 financial report of the Bank, (II) 2021 financial report of the Bank Capital Group, (III) 2021 combined Management Board Report on activity of the Bank and Bank Capital Group and (IV) combined ESG Report of Bank Millennium S.A. and Bank Millennium S.A. Capital Group. The Supervisory Board also familiarised itself with: the auditor's opinion with respect to documents identified as (I), (II) and (III) as well as the certifying letter issued by Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k., with respect to the document identified as (IV). On these grounds the Supervisory Board concludes that both the 2021 Bank's financial report as well as the 2021 financial report of the Bank's Capital Group, and also the combined 2021 Management Board Report on activity of the Bank and Bank Capital Group and the combined ESG Report of Bank Millennium S.A. and Bank Millennium S.A. Capital Group, were prepared correctly in terms of the content and form, comply with the books and documents, as well as with the actual status, and provide an accurate reflection of the status of the financial results and activity of the Bank and Bank Capital Group in the financial year 2021.

The Supervisory Board recommends to the General Assembly of the Bank to adopt the above documents in the version submitted by the Management Board with the auditor's opinion and certifying letter.

## **8. Report on the assessment of the Management Board motion on 2021 loss coverage.**

Acting under art. 382 § 3 of the Commercial Companies Code as well as § 17 sect. 3 of the Bank's Articles of Association, the Supervisory Board deems reasonable the Management Board position on distribution of the Bank's 2021 loss in the amount of 1 357 451 533,94 PLN so that it will be covered from the reserve capital.

In justification of the above position the Management Board of the Bank pointed out that the loss for financial year 2021 results from creating provisions for legal risk connected with FX mortgage loans, and the Bank has full capacity to generate significant operating profits now and in the future, the Management Board considers it reasonable and desirable to apply to the Bank's Ordinary General Meeting to pass a resolution to cover the loss for financial year 2021 by capital from the reserve capital.

The Management Board will present to the General Meeting a proposal on coverage of loss for 2021 financial year by capital from the reserve capital.

## **9. Assessment of the situation of Bank Millennium S.A. in 2021 including the assessment of the internal control system, risk management system, compliance and internal audit function**

This part of the Report constitutes an assessment of the Bank's situation expressed by the Supervisory Board, in relation to the requirements of Rule 3.1. of Best Practice.

With a view to making a reliable assessment of the Bank's situation in the reporting period comprising 2021, the Supervisory Board reviewed and analysed in depth i.a. the parameters and factors listed below, regarding fundamental areas of activity of the Bank and the Bank's Capital Group, at the same time bearing in mind the specific features of 2021 resulting from actions caused by the COVID-19 pandemic as well as other extraordinary events.

The main financial and business parameters relating to 2021 results of the Bank's Capital Group, are as follows:

Consolidated net loss of BM Group for the period of 12 months ending on 31 December 2021 was 1 332 mln PLN (Bank solo 1 357 mln PLN). As in 2020, the costs related to the portfolio of foreign currency mortgage loans granted by Bank Millennium S.A. (i.a. provisions for legal risk, costs of conversion into mortgage loans in PLN or prepayments or earlier full repayments agreed on negotiated terms with borrowers with foreign currency mortgage loans, i.e. "voluntary conversions" and legal costs) were the main burden on the results and the main cause of the net loss incurred during the period. Were it not for the above encumbrances, in 2021 the Group would have recorded 2021 net profit in the amount of 1,098 mln PLN vs. adjusted net profit for 2020 in the amount of 695 mln PLN. The net result of 2021 adjusted for one-off events (the above-mentioned costs related to the portfolio of mortgage loans in foreign currencies, positive revaluation of Visa shares and provision for a court case concerning exposures from the corporate sector) amounted to PLN 1,123 million, +46% y/y. Adjusted Return on Equity was 13,8% vs. 8,4% in 2020.

The main financial ratios/operating results in 2021 were as follows:

- annual adjusted cost/income ratio at the level of 42,2%, (raported: 46,2%),

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- operating revenues remained practically unchanged (-0,5% y/y),
- core income grew by 6,4% y/y,
- net interest income grew by 5,0% y/y,
- net commission income grew by 11,3% y/y,
- non-performing loans ratio at the level of 4,40%,
- total cost of risk fell by 52% y/y,
- loans/deposits ratio at the level of 86,0%,
- capital ratios remained high (consolidated TCR/T1 at 17,1%/14,0% respectively vs. regulatory requirements of 13,5%/10.8% respectively),
- growth of number of active retail clients by 87 thous.,
- growth of retail customer funds by 6,2% y/y (deposits by 6,7%) ,
- growth of consumer loans by 4,0%,
- growth of cash loan sales by 21% y/y,
- growth of PLN mortgage loan sales by 46% y/y,
- growth of the number of debit cards issued by 95 thous. (for the first time the number of debit cards issued exceeded 3,1 million),
- growth of the number of digital customers to 2,26 million i.e. by 10% y/y,
- growth of the number of active mobile customers to 1,9 million i.e. growth by 16% y/y,
- high growth of corporate current deposits by 29% y/y,
- decline of corporate loans portfolio (net of leasing and factoring) by 3,0% y/y,
- growth of value of leasing portfolio by 7% y/y, growth of sales by 57% y/y,
- growth of value of factoring receivables portfolio by 10% y/y, growth of turnover by 17% y/y,
- Bank Millennium was hailed the best Bank in Poland Bank Millennium was hailed Best Bank in Poland in the annual Best Bank Awards 2021 competition organised by the renowned Global Finance Magazine. The selection was made by the editors of Global Finance Magazine after extensive consultations with with financial directors of enterprises, bankers and banking consultants as well as analysts from all over the world.
- Winning the Golden Banker 2021 - Millennium with best mortgage loan:
  - 1st place in the Mortgage Loan category
  - 2nd place in the Socially Sensitive Bank category for [project support within the framework of corporate social responsibility
  - 3rd place in the Best multichannel service quality category
- 2nd place on the ranking list of best employers in banking and financial services in the ranking by Forbes and Statista Poland's Best Employers 2021
- second in the "Best Bank 2021" competition organised by "Gazeta Bankowa" weekly within the group of small and medium size commercial banks.
- won the CSR Golden Leaf from Polityka weekly
- winning an award in Celent Model Bank in Open Banking for its open banking services, winning the title Innovator 2021 according to Global Finance magazine
- 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 after the Golden Banker, for supporting cultural events.
- Institution of the Year 2021 - Millennium is the best bank in mortgage service and winner in most other categories
- contact Center teams winning Złota Słuchawka and Telemarketer Roku competitions
- 3rd place in the category "Customer Relationship Star",



- Bank Millennium is the best digital bank in Poland according to Global Finance Magazine
- third place in the TOP 200 Best Polish Brands ranking
- 1st in the “Bank for Kowalski” category in “Newsweek’s Friendly Bank” ranking
- 2nd place in the “Remote Banking” category
- Bank Millennium among diversity leaders 2022 according to the Financial Times
- Mój Biznes account is the number one for microbusinesses in the Bankier ranking
- Bank Millennium among top three in developers ranking
- 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 organisers also appreciated our activities to shape a socially responsible brand.

2021 was a very difficult year, full of surprising unprecedented events, which the Bank had never faced in its history so far. It was a challenge in many respects, first of all caused by the legal issues related to FX mortgage loans, the COVID-19 pandemic, the adverse impact of which on social and economic life not only in Poland, but also in macroeconomic terms, will probably be felt for years to come. The need to adapt to dynamically changing conditions, decrease of business activity in very many areas, forced the need to introduce rapid changes of the way the Bank was operating in employee terms and also in terms of contacts with customers i.a. by means of adapting the product offering to the new complex situation as well as offering new channels for communication and product distribution. Such an attitude not only enabled strengthening of customer relations, which led to cross-selling growth, but also acquiring new customers. Unquestionably helpful in these actions was the high level of digitalisation, reached thanks to implementation of strategic assumptions in previous years. This goal of the Bank’s development was always appreciated by the Supervisory Board and in its opinion should be continued in subsequent years.

Apart from the aforementioned crisis situation caused by the pandemic, factors, which undoubtedly has negative impact on the Bank’s operation, also include several interest rate cuts as well as the need to create high provisions related to legal aspects of FX mortgages.

Despite the above negative conditions, in the discussed settlement period, covering the year 2021, in the Supervisory’s Board opinion Bank met the challenges, recording very good operating results, including significant growth in terms of achieving an increase in the number of active retail banking customers, especially in digital channels and mobile banking, very high sales of PLN mortgage loans and in the area of corporate banking - an increase in corporate loans and an increase in the area of Leasing and Factoring.

In the opinion of the Supervisory Board, the perception of the Bank by the market is very good, due to the high quality of services provided, qualified personnel and a high degree of digitization. Despite in terms of negative factors such as low unemployment, inflation, employee turnover, etc. Bank's situation is stable and the above-mentioned the indicated positive factors provide the basis for positive forecasts regarding the Bank's situation in 2022.

With the above in mind, the Supervisory Board states that in 2021 the Bank was carrying out activities aimed at sustaining the Bank’s permanent development i.a. by undertaking a number

of initiatives directed at minimising the influence of adverse factors, which dominated business life, also by means of further digitalisation, optimisation and modernisation of processes, improving efficiency, monitoring costs, maintaining high customer service standards. The Bank won many prestigious awards and was a leader of ranking lists, which reflected the opinions of customers as well as experts. The Bank's continued commitment to cultural, educational and social projects also deserves recognition.

After careful consideration of the 2021 financial report and results of Bank Millennium S.A. and Bank Millennium S.A. Capital Group, generated in complicated social and economic conditions, the Supervisory Board has positively assessed the Bank's and the Group's financial situation, which offers good prospects for further activity, maintaining high cost awareness.

The Supervisory Board, also by means of the Board's Committees: Audit and for Risk Matters, keeps monitoring the quality of risk management, compliance, internal control system and the proper performance of its functions by the Internal Audit Department and also the Bank's information policy, i.a. by approving the relevant internal regulations, plans and strategies, a thorough analysis of the reports and information submitted and performing suitable reports and audits.

Taking into account the supervisory activities carried out, including based on the opinion of the Audit Committee and Committee for Risk Matters, as stated among others in the activity reports of the Committees, the Supervisory Board finds that:

- the components of the internal control system (control function, Compliance Department and Internal Audit) show proper capacity to identify potential irregularities and weaknesses in the banking processes, and ensure adequate effectiveness of management of the identified problems in terms of continuous and systematic improvement of the functioning controls. At the same time, the adopted criteria for the evaluation of the Internal Control System confirm the assessment of the adequacy and effectiveness of this process at a satisfactory level;
- a system for managing all types of risks, both financial as well as non-financial, covers such elements as risk identification, measurement, control, as well as monitoring and reporting of risk. The methods and frequency of tasks under the above components of the risk management process are adjusted to the Bank's size and profile and provide the Supervisory Board with adequate information on changes in the risk size and profile. The risk measurement and estimation methods employed by the Bank cover both the current and planned activity of the Bank. In the risk estimation process the Bank employs i.a. stress tests, while risk control is based on a system of limits adjusted to the Bank's risk size and profile. As part of risk control the Bank lays down procedures to be followed if limits are exceeded, and also stipulates measures to eliminate cases of their exceeding, and defines corrective measures;
- the Bank has a transparent information policy towards all the shareholders, investors, media, clients and other stakeholders; the scope of information disclosed by the Bank complies with the requirements of the Banking Law, the Commercial Companies Code, the Act on Public Offering and Trading in Financial Instruments, the Regulation of the European Parliament and the Council on market abuse (MAR), as well as other detailed provisions on financial institutions and public companies listed on the WSE. In implementing its information policy the Bank as a public company and supervised institution, also observes legal provisions on

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confidentiality and protection of information, the Bank's information policy is also in line with corporate governance principles, including ensuring that all shareholders and investors have appropriate access to information.

On the basis of reasonable grounds, including the improvement measures being implemented, in the opinion of the Supervisory Board, the internal control system as a whole, including its individual components, also the risk management system and information and communication system, effectively and appropriately meet the regulatory requirements and in being effectively managed are adequate for the Bank's size and exposure to the risks connected with the activity conducted by the Bank and the Bank Millennium S.A. Capital Group.

Looking forward to further favorable development of the Bank, the Supervisory Board praises the proactive approach, preparedness of the Bank for new challenges, demonstrated i.a. in fast response to the changing social and economic environment, seeking new opportunities for interacting with customers, new areas of interest for financial products as well as new products answering market expectations, which is proof i.a. of an innovative and creative approach to possible growth paths, while properly managing the risks. The responsible approach and commitment of the whole team of employees as well as very good cooperation with the Management Board need to be underscored, based upon effective and transparent flow of information. Thus, the Supervisory Board would like to voice its appreciation for both the Members of the Bank Management Board, as well as for staff of Bank Millennium S.A. Capital Group, for excellent work and fast adaptation to the extremely demanding economic reality.

*[Signatures of members of the Bank's Supervisory Board]*