Management Board Report on the activity Capital Group of Bank Millennium in the six months ended on June 30, 2020

SPIS TREŚCI

The following data is presented in the Financial Report of Bank Millennium Capital Group for 1st half 2020:

1. Balance of the Bank’s shares held by the Bank’s Supervisory and Management Board Members (chapter 7.2)
2. Description of important proceedings pending before a court of law, an authority with competence for arbitration procedure or a public administration body, regarding the Bank’s liabilities and receivables (chapter 9)
3. Description of related parties transactions (chapter 7.1-2)

1.BANK MILLENNIUM AND MARKET CONDITIONS

1.1. GENERAL DESCRIPTION OF BANK MILLENNIUM GROUP

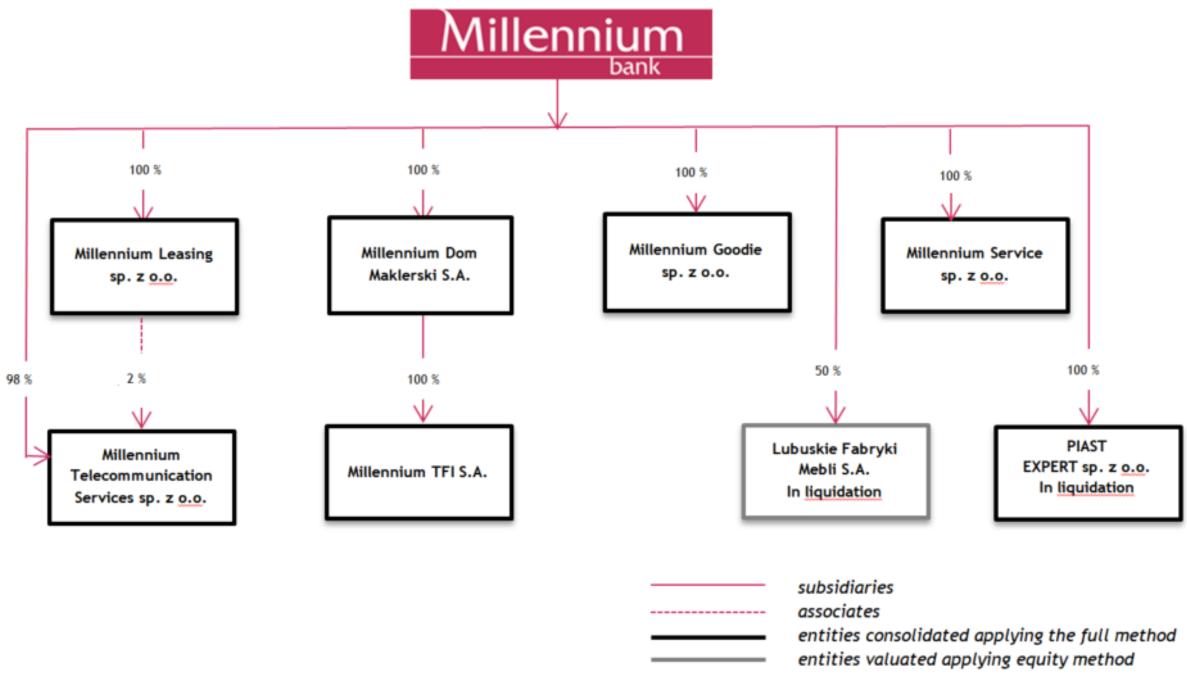
Bank Millennium was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of branches, a network of personal advisors as well as electronic and mobile banking.

Ever since the start of its activity it has been a trendsetter in Polish banking. For example it was the first Bank to be listed on the Warsaw Stock Exchange and issued the first payment card on the Polish market. The bank satisfies most stringent standards of corporate governance; it implements social programmes to support culture development well as education of the youth.

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

Bank Millennium, together with its subsidiaries, forms Bank Millennium Group – one of the most innovative and comprehensively developing financial groups in Poland – employing in total 8,141 staff (FTEs).

General organization of the Group as on 30.06.2020:



Most important companies for Group's business are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage business) and Millennium TFI (mutual funds). Since 2016 Millennium Goodie Spółka z o.o. together with the Bank has been operating a smartshopping platform based on advanced technology. The offering of the above-mentioned companies complements the services and products offered by the Bank Millennium.

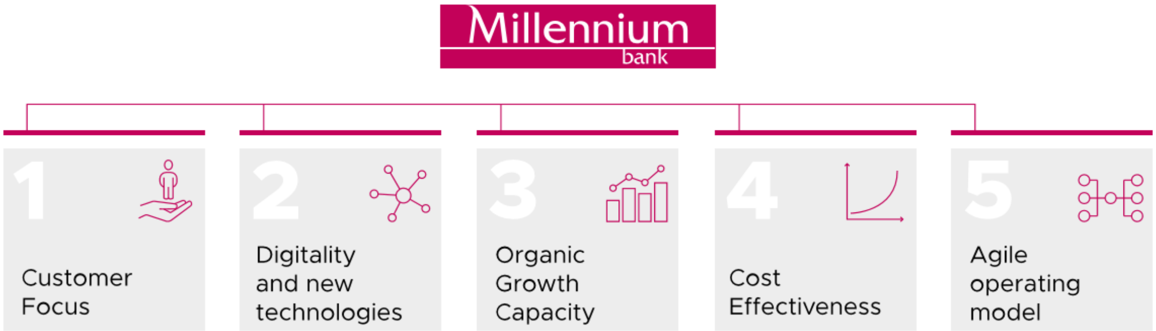
The ultimate parent entity of Bank Millennium S.A. is Banco Comercial Portugues - a leading Portugues bank listed on the stock exchange in Lisbon.

On 16th of June 2020 the Polish Financial Supervision Authority issued a permission to establish a mortgage bank under the name of "Millennium Bank Hipoteczny Spółka Akcyjna" with its head office in Warsaw.

Shareholders' equity of Millennium Bank Hipoteczny Spółka Akcyjna shall be PLN 40,000,000 and will be wholly covered by Bank Millennium S.A. with a cash contribution of PLN 120,000,000. Registered ordinary shares in the number of 40,000,000 with nominal value of PLN 1 per share shall be taken-up by the Bank at the issue price of PLN 3 per share.

Business model

Bank Millennium operates on the basis of a business model, which rests on five pillars:



1. **CLIENT-CENTRICITY**
   We are the most client-centric bank, which keeps developing. We want to be the most personalised bank on a mass scale.
2. **DIGITALITY AND NEW TECHNOLOGIES**
   We are a digital banking leader, offering a combination of broad outreach and high quality of services.
3. **ORGANIC GROWTH CAPABILITY**
   We are growing fastest among banks as regards acquisition of customer with a main relationship.
4. **COST-EFFECTIVENESS**
   We have a cutting-edge cost-effective model built on state-of-the-art technology and flexible in changing to follow growth of the Bank's scale.
5. **FLEXIBILITY IN RESPONDING TO CHANGES**
   We have a flexible operating model; an organisational culture, which allows short reaction times as well as digital and data analysis skills.

The business model is founded on key values: building relationships based on trust, a passion for quality and innovation, people development and promoting cooperation as well as the ambition to always aim higher.

Trust

We build relationship based on trust

Quality Innovation

Quality and innovation are our passion

Competencies Cooperation

We develop employees and promote cooperation

Ambition

We always aim higher

1.2. MAIN FINANCIAL AND BUSINESS ACHIEVEMENTS OF THE GROUP

Bank Millennium S.A. Capital Group's (the "BM Group") consolidated reported 1H20 net profit amounted to PLN72 million (2Q20: PLN54 million) and was below this in the corresponding period last year. Direct and indirect impact of Covid-19 pandemic (lower economic activity in most of 2Q20, a result Covid-19 pandemic and the resultant lockdown, early impact of the unprecedented 140bp base interest rate cut) and substantial extraordinary negative P&L items were the main burdens on 1H20 and 2Q20 results. Adjusted for these, 1H20 net profit stood at PLN394 million, down 8% y/y while this of 2Q20 amounted to PLN204 million, down 14% y/y. Adjusted ROE of 8.7% (2Q20: 9.0%) compared against 10% in 1H19 (2Q19: 11%).

Substantial extraordinary P&L items

Negative extraordinary items outweighed the positive ones in both 1H20 and 2Q20. The former included additional provisions against FX-mortgage legal risk (1H20: PLN168 million pre-tax/net, 2Q20: PLN 113 million), pre-emptive provision against expected Covid-19 pandemic impact (1H20: PLN69 million pre-tax/PLN49 million net, 2Q20: PLN9 million pre-tax/PLN8 million net and allocation of such respective business segments), additional provisions against refund of fees on earlier repaid consumer loans (1H20 and 2Q20: PLN61 million pre-tax/PLN49 million net) or costs of integration of Euro Bank (1H20: PLN 35 million pre-tax/PLN29 million net, 2Q20: 5 million/4 million). Positive non-recurrent items were scarce and small (e.g. Visa revaluation of PLN7 million pre-tax/PLN6 million net in 2Q20 and some other operating income from different sources).

Full results comparability still distorted

P&L y/y comparability remained distorted due to Euro Bank merger (acquired on the 31st of May, 2019) while the q/q comparison was blurred by seasonality of Banking Guarantee Fund (BFG) fees. While 1Q20 saw the combined BFG charge (resolution and deposit guarantee) at PLN85 million (up 1% y/y), in 2Q20 only the deposit fee was booked. At PLN28 million, it was significantly below the BFG cost in 1Q20 but nonetheless was 132% higher than in the corresponding period last year (i.a. Euro Bank impact).

Banking amid Covid-19 pandemic

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

As for the banking business per se, 2Q20 was a mirror image of the 1Q20 in terms of customer/employee trends and business dynamics. While March (and consequently 1Q20 overall) results were marred by the outbreak of Covid-19 pandemic and the resultant shift of the Bank's and customers' priorities, the latter part of 2Q20 saw a gradual pick-up of traffic at banking branches, increasing proportion of employees returning to work at the Bank's headquarters but most of all a significant recovery of business volumes, particularly in the retail segment.

At the end of June, traffic at both own Bank's branches and franchise outlets reached c70% of the pre-Covid level vs. 40% at its low in early April. Given the increasing popularity of remote access channels and greatly facilitated online access to the banking services that the outbreak of the pandemic accelerated, it is currently unclear however, if business at branches will return to previous levels. Finally, a mere 1% of outlets were closed at the end of 2Q20 due to the pandemic.

Approximately 50% of HQ staff returned to work in the office as a part of the three-stage safe 'return to office' plan introduced in mid-May. Safety rules remain tight at both branches and the Bank's premises with additional space disinfection, perspex panels separating employees from customers, limited number of customers allowed at a branch at the same time, safety distance and additional safety measures (gloves, masks or visors) at branches and obligation to wear masks, disinfect hands, keep a distance of at least 1.5m in the Bank's office spaces.

Covid-19 pandemic not only brought about various risks to banks' business but also significantly accelerated the ongoing reshaping of the banking business. A project nicknamed 'Millennium through Covid-19' was launched with an aim to mitigate business stress in the short-term in the first place but, more importantly, to identify opportunities stemming from the Covid-19 induced crisis and to prepare the Bank for further successful growth and development in a post-Covid 'new normal'. The project was divided into several streams ranging from the one addressing short-term P&L challenges and opportunities through credit risk/collections to business revamp and future company culture and work organisation.

The more imminent tangible financial goals set include a 10% cost reduction (ex-integration and BFG costs) and 17% capex reduction on top of synergies targeted in 2020 from the integration of Euro Bank as well as revenue initiatives. The former will require an acceleration of branch restructuring with new 2020 branch closure target set at 110+ outlets vs. 60+ previously. Needless to say, that an accelerated digitalisation will be required at both front- and back-end business. Among others, the Bank aims to significantly increase the share of digital sales, i. a. to reach 50% share of digital channels in cash loan sales by YE20.

Business trends

As for the business trends, April saw low customer activity on the asset side in both retail and corporate segments except continuation of solid disbursements of mortgages loans. However late May and most of all June, brought a significant pick-up of business, particularly in retail. Cash loan sales in some weeks of June reached levels close to pre-Covid but due to the slow start 2Q20 overall brought new sales totalling PLN1.1 billion (down 17% q/q) while in 1H20 originations totalled PLN2.4 billion (down 4% y/y). In mortgage business, there was practically no dent, so that 2Q20 brought new all-time originations (PLN1.5 billion, up 15% q/q and up 18% y/y) with market share increasing to nearly 16% in June from c7% in June the year before.

Corporate business was initially focused on customer support (facilitation of banking services) and protection (credit holidays, intermediation of support credit facilities from BGK/PFR among others). Later in the period, demand for borrowing remained moderate both at BM group and in the market overall with originations remaining below pre-Covid levels but in some lines of business such as factoring a pick-up was more apparent.

All in all, total loan book grew 3% q/q and 5% y/y (partially influenced by weaker PLN in y/y terms), with retail loans up 1% q/q (up 8% y/y) and corporate ones, including leasing and factoring financing, down 4% (0%).

Quality of the new production was strong in both key retail products with originations of cash loans to highest ranked customers growing y/y by high double digits in percentage terms while these to the lower ranked baskets were down by double digits. Quality of the overall loan book remained stable with NPL ratio inching up to 4.9% from 4.8% at the end of March'20 (June'19: 4.3%). In the corporate segment the respective ratios stood at 4.3%/4.2% and 3.9%, while in the retail one at 10.6%/9.9%/9.8% (consumer loans) and 0.3%/0.3%/0.3% (mortgage loans) respectively. Denominator effect (low loan growth combined with maturation of the portfolio played the key role as migrations to stage 3 were small totalling PLN53 million in the quarter or less than 2% q/q). Total cost of risk in 2Q20 fell to 89 basis points from 108 basis points in 1Q20 (1H20 average: 98 basis points) as only a small (PLN9mn) additional Covid-19 provision was created. The PLN60mn charge from 1Q20 was allocated in 2Q20 to business segments (overall Covid-19 provision split: retail PLN61 million, corporate PLN8 million).

Applications for credit holidays slowed substantially after the peak in late March/early April and in June as a part of retail customers used the possibility to apply for extension into a 6-month offer. As the end of June, loans with active and approved credit holidays accounted for c10% of total loan book, slightly below 12% of the retail portfolio, c3% of corporate book and c12% of the leasing portfolio. Free-of charge credit holidays introduced in late June by the so called 'Anti-crisis shield 4.0' so far have enjoyed little take up with merely a dozen of applications filed by early July.

In contrast to the lacklustre growth of loans, inflow of deposits was very strong, particularly in the corporate segment, with q/q growth of total deposits at 3% (corpo: 13%, retail: 0%). As a result the loan-to-deposit ratio decreased to 83% from 86% as the end of March and 85% at YE19.

Customer acquisition though slower due to the lockdown continued at a healthy pace. All key metrics - number of active retail customers (new all-time high of 2,624 thousand, up 34% y/y), PLN retail current accounts (3,208 thousand, up 38%), active micro-business clients (100 thousand, up 29%) as well as cards (debit cards: 2,921 thousand up 25%, credit cards: 497 thousand, up 23%).

Mutual funds managed by Millennium TFI as well as the third-party ones saw Inflows returning in May and June after significant redemptions in March and smaller ones in April. The return of positive flows coupled with the strong rally in equities' and bond prices resulted in a 9% q/q growth in AuM in both categories of the funds. At PLN5.3 billion at the end of June, total AuM remained below the YE19 level however (PLN5.9 billion) following the severe contraction in 1Q20.

Euro Bank integration

The integration of Euro Bank continued in line with the plan. 2Q20 was the first quarter when quarterly synergies (PLN37 million) exceeded integration costs (PLN5 million). As the synergies are expected to grow over time (PLN156 million targeted in 2020 overall), while integration costs should remain broadly similar (actual integration opex in 1H20 at c42% of the revised 2020 integration opex target), net synergies should have an increasingly positive contribution to the results. At the end of June, Bank Millennium operated 766 outlets (542 branches, 224 franchise branches) versus 830 at YE19 (602/228 respectively), while FTEs of 8,141 compared against 8,464 respectively.

Solid operational profitability in 1H20 affected by integration costs and legal risk provisions

- Reported 1H20 net profit at PLN72mn (2Q20: PLN54mn) or PLN394mn (2Q20: PLN204mn) once adjusted for extraordinary items* translating into a y/y contraction of 79% (2Q20: -69% y/y) or 8% (2Q20: -14%)
- PLN35mn (PLN28mn after tax) of Euro Bank related integration costs and provisions
- Merger synergies of PLN62mn (PLN50mn after tax) well exceeding integration costs
- Extraordinary provisions: PLN168mn for FX mortgage legal risk (pre-tax/net), PLN69mn for Covid-19 risk (PLN56mn after tax) and PLN60mn (pre-tax) provision for fee refunds on early repaid consumer loans

- Reported ROE at 2.2% but adjusted at 8.7%
- Reported cost/income at 51.8%, adjusted at 47.1%

Higher income and costs after the with Euro Bank

- Operating income grew 14% y/y
- Net interest income grew 23% y/y
- Net commission income grew 10% y/y
- Operating costs up 21% y/y without integration costs (reported up 22% y/y) and in 2Q20 down 8% q/q without integration and BFG costs

High asset quality and liquidity kept

- Impaired loans ratio at 4.9%
- Cost of risk** at 98bp (79bp ex-Covid-19 provision)
- Loans to deposits ratio at record low level of 83%

Solid capital position and lower regulatory buffers

- Group's Total Capital Ratio (TCR) at 20.0% and CET1 ratio at 17.0% and well above levels required by the regulator (15.4% and 12.2% respectively).
- Systemic risk buffer cut to 0% from 3% in Mar'20

Retail business

- 2.62mn active clients (34% y/y); 45,600 new clients year to date with #2 score in new acquisitions in 1Q20 (PRnews)
- 10% yearly growth of deposits
- 8% yearly growth of loans (also up 12% y/y without FX mortgages)
- New record high PLN1.5bn origination of mortgages in 2Q20 (1H20: PLN2.9bn, up 50% y/y) translating into 10% y/y growth of mortgage loan book (17% without FX mortgages) and solid origination of cash loan (1H20: PLN2.4bn, up 4% y/y, 2Q20: PLN1.1bn, down 17% y/y and down 17% q/q) translating into 2% y/y growth of non-mortgage retail loan book
- Market share newly originated mortgages at 11.1% in 1H20 with market share in June at 15.8% (#2)
- Accelerating pace of growth in microbusiness accounts, almost 23,000 y/y net growth of active accounts
- Number of active microbusiness clients exceeded the **100,000** mark (up 29% y/y)

Companies business

- **13% q/q** growth of companies deposits (**up 19% y/y)** with current account deposits up 25% q/q and up 77% y/y
- Loans to companies: -4% q/q, stable y/y
- Stable level of factoring turnover vs. 1H19 with #6 ranking (PZF)

Quality and Innovations

- DGP/PWC's 'Stars of Banking in 2020': 1st in the "Growth Star" category, 2nd in the "Customer Relationship" category, 3rd for overall achievement in the competition's main category and also in the "Star of Innovation" category

- Golden Banker 2020: main award in the category “Fin-Tech Innovation” for implementing the Autopay service (in cooperation with Blue Media), 2nd place in the “Mortgage Loan” category (an all-rounder performing well in diverse conditions)
- KPMG’s Customer Experience survey: the best in Customer Experience among banks
- The highest NPS ratio*** (52) among banks in Poland
- The Best Web Site Design in Central and Eastern Europe according to the Global Finance magazine
- 1.8 million apps downloads by goodie – Bank’s smartshopping platform

(*) without extraordinary items (pre-tax): 1. integration costs (PLN 35.3mn), 2. PLN168mn provisions for FX mortgage legal risk, 3. PLN69.3mn for Covid-19 risk, 4. PLN60.5mn provisions for the return of commissions from loans repaid earlier by clients, 5. linear distribution of BFG resolution fund fee of PLN58.2mn; in 1H19: 1. integration costs (PLN19.8mn), 2. PLN26.9mn release of tax asset provision, 3. acquisition related extra provisions for Euro Bank of PLN 80.6mn, 4. linear distribution of BFG resolution fund fee of PLN73.3mn

(**) total net provisions (including FV adjustment and modification effect) to average gross loans, without extra IFRS9 provisions on Euro Bank acquired portfolio and without provisions on FX mortgage legal risk

(***) based on ARC Opinia i Rynek survey

1.3. MOST IMPORTANT AWARDS AND OTHER ACHIEVEMENTS IN THE 1ST HALF OF 2020

Bank Millennium is among the “Most Credible in the Polish Economy”

The award is given by ISBnews information agency. Bank Millennium was given an award in the “Most Credible Financial Institution” category for the effectively conducted merger with Euro Bank. The award was accepted on the bank’s behalf by the Chairman of the Management Board.

Golden Banker Ranking

- **Main award in the category** “Fin-Tech Innovation” for implementing the Autopay service (in cooperation with Blue Media) in the mobile app. Autopay allows driving on a motorway without having to stop at toll gates.
- **2nd place** - Second place in the “Mortgage Loan” category (Bank Millennium is an outstanding all-rounder, performing well in diverse conditions).

Bank Millennium is best in trade finance according to Global Finance Magazine

Bank Millennium was recognised as the best provider of solutions in trade finance in Poland and awarded the “The Best Trade Finance Provider in Poland” title. The selection criteria comprised: volume and size of transactions, scope of global reach, customer service, competitive pricing and innovation of technologies used.

Growth Star and other awards

The Bank was among the top three as many as four times in the Stars of Banking 2020 competition organised by Dziennik Gazeta Prawna and PwC: The Bank was

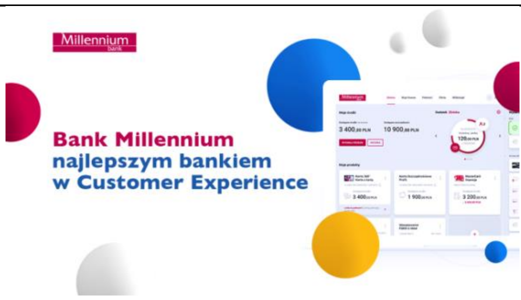
- **1st** in the "Growth Star" category for growth rate of assets, revenues, net profit as well as customer acquisition in 2019
- **2nd** in the "Customer Relationship" category
- **3rd** for overall achievement in the competition's main category and also in the "Star of Innovation" category

Honourable mentions in the two biggest competitions of the Contact Centre sector

- Emilia Bartkowska became **Telemarketer of the Year 2020** in the Service Chat category.
- **An honourable mention in the Golden Handset competition** in categories: internal perfection of the organisation and Perfect communication with customers went to the #Breakfast of Champions and Crisis Team projects.

Beata Krupińska CMO of the Year

Beata Krupińska, Director of the Marketing Communication Department of Bank Millennium and Member of the Management Board of Millennium Goodie, became the CMO of the Year according to the Media Marketing Polska magazine in their annually published "Brand/Marketer of the Year" report. This is a prestigious and well-deserved title for someone who for years has been successfully managing marketing communication of Bank Millennium and other companies in the group.



Bank Millennium is best bank in Poland in terms of building positive customer experience

In the latest edition of a survey on Customer Experience, carried out for KPMG in Poland, for another consecutive year Bank Millennium was seen by consumers to be the leader in Customer Experience among banks. Millennium was also again in the first ten among the top one hundred best brands on the Polish market, moving up two places to No. 7.

Halina Karpińska - Personality of the Year

In this year's Institution of the Year ranking the titles of Personality of the Year were awarded for the first time. The awards went to persons who stand out with their contribution to development of improvements and innovations related to customer service. They included

Halina Karpińska, Director of the Electronic Banking Department in Bank Millennium

CSR Silver Leaf

Bank Millennium was awarded the CSR Golden Leaf, thus joining the narrow group of institutions with top scores as regards CSR. In earlier years the Bank was awarded the Silver Leaf no less than five times. These exceptional awards go to companies, which implement highest corporate social responsibility standards in their daily activity

Bank Millennium wins multiple Institution of the Year 2020 title

In this year's Institution of the Year ranking, organised by mojebankowanie.pl, where financial institutions are recognised for an exceptional and comprehensive approach to quality of customer service, Bank Millennium was awarded in no less than five categories:

- Best service in remote channels
- Best account opening remote process
- Best Internet banking
- Best mobile application
- Corporate social identity for the Financial ABCs project

The title of the Best Banking Branch in Poland was given to 210 branches in Poland, 19 of which belong to Bank Millennium.

Bank Millennium is a technologically responsible company

Bank Millennium scored first and second in this year's TOP CDR Technologically Responsible Company competition. Honourable mentions were awarded for the "Banking without barriers" project in following categories: Digitalisation and Public Choice Award.

1.4. Information on shares and ratings

In 1H20 the Bank's share price remained under the impact of short-term newsflow and investors' concerns over legal risk related to FX mortgages. Additionally, the economic outlook significantly deteriorated at the end of March due to the Covid-19 pandemic outbreak. This manifested itself in a strong sell-off on the Warsaw Stock Exchange. What is more, the Bank's share price along with these of the peers reacted negatively after reductions of interest rates by the Monetary Policy Council.

During the 12 months ending in June 2020, the broad-based WIG index fell 17%, WIG20 (index of the largest companies) was down 24% while WIG Banki, the banking index, decreased 47%. In the same time Bank Millennium share price dropped 68%.

Since the beginning of the year the price of Bank Millennium shares decreased 48% while the banking index fell 39%.

In May 2020 Bank Millennium shares were under additional pressure ahead of supply from ETFs following the rebalancing of the MSCI indices.

In 1H20, the average daily turnover of Bank Millennium's shares was 70% higher than in the same period last year.

Market ratios	30.06.2020	30.12.2019*	Change (%) ytd	28.06.2019 *	Change (%) y/y
Number of the Bank's shares (th)	1 213 117	1 213 117	0.0%	1 213 117	0.0%
Average daily turnover in annual terms (th)	9 420			5 542	70.0%
Bank share price (PLN)	3,02	5,85	-48.3%	9,36	-67.7%
Market capitalization of the Bank (PLNmn)	3 666	7 097	-48.3%	11 355	-67.7%
WIG Banks	4 157	6 768	-38.6%	7 908	-47.4%
WIG20	1 759	2 150	-18.2%	2 328	-24.4%
WIG30	2 024	2 472	-18.1%	2 676	-24.4%
WIG - main index	49 569	57 833	-14.3%	60 187	-17.6%

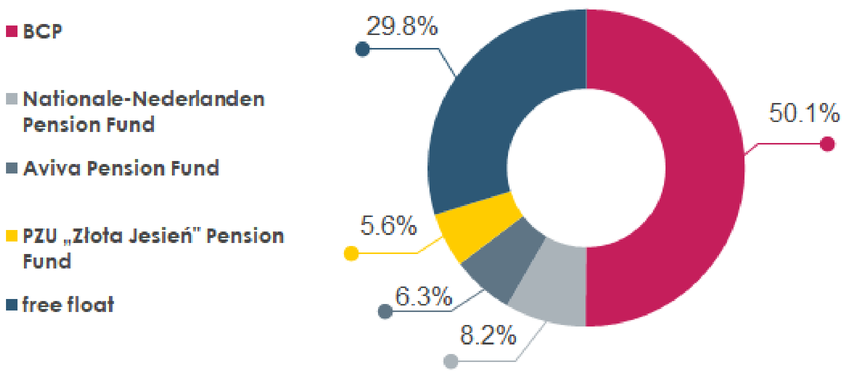
(*) the last day of quotations in June and as at the end of 2019

Bank Millennium was the first Polish bank listed on the Warsaw Stock Exchange. Currently, it is a member of the WIG Index, WIG Banks, WIG 30, mWIG 40, WIG Poland and WIG-ESG.

Bank Millennium tickers: ISIN PLBIG0000016, Bloomberg MIL PW, Reuters MILP.WA.

The Bank's strategic shareholder is Banco Comercial Portugues - the largest private bank in Portugal, which holds a 50.1% stake in Bank Millennium. The other shareholders which hold more than 5% of the share capital are Poland's largest open pension funds (OFE): Nationale-Nederlanden OFE, Aviva OFE and OFE PZU „Złota Jesień".

Shareholders structure as 31.12.2019



Bank Millennium's ratings

On the 14th of April 2020 Fitch affirmed Bank Millennium's long-term rating at BBB- and Viability Rating (VR) at bbb-. The rating outlook remained stable.

Ratings of the Bank as at 30 June 2020 are presented in the table below:

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

1.5. MACROECONOMIC SITUATION

At the beginning of 2Q20 this year, when the restrictions implemented as early as in March to counteract the spreading of the COVID-19 pandemic were fully in force, a large part of the world economy experienced a sharp economic downturn. In April, Eurozone retail sales and industrial production declined the strongest since records began; similarly in the USA. Economic activity in services collapsed even stronger. Similar was the deterioration of the business situation in Poland, where in April the government-implemented restrictions were fully in place. This factor, in addition to consumer self-isolation, resulted in April in the strongest ever drops in retail sales by 22.9% y/y and industrial production by 24.6% y/y.

Along with the gradual lifting of restrictions business activity quickly started to recover. May saw improvement in retail sales, industrial production and in services both in the Eurozone and the United States. Leading business cycle indicators point to the continuation of these trends also in June. After the restrictions began to be lifted, on 20 April, economic activity was coming to life also in Poland, although it still remains at low levels. In May, industrial production growth increased to -17.0% y/y, and in June to +0.5% y/y. Retail sales also improved significantly in May and June. Its growth rate in these months amounted to -7.7% y/y and to -1.3% y/y, respectively. Despite this improvement, according to the Bank's estimates, GDP in 2Q20 fell by about 9.0% y/y, the strongest in the history of data on national accounts. This means that the Polish economy in 1H2020 was in recession, for the first time in at least 25 years. Lower economic activity than a year ago contributes to a growth of unemployment. The seasonally-adjusted unemployment rate went up at the end of 2Q20 to 6.3% from 5.2% at the end of 1Q20. However, the deterioration of the situation in the labour market turned out smaller than expected in the middle of March when the state of epidemic emergency was introduced.

A factor mitigating the drop in demand for labour was the effective implementation in 2Q20 of programmes for support of businesses and workers as part of the anti-crisis shields. Those measures cover loans at preferential interest rate for microbusinesses and co-financing part of the business and salaries costs in micro, small and medium-sized enterprises. Moreover, financial support for companies has been provided by the financial shield of the Polish Development Fund (PFR), through which micro, small and medium-sized enterprises have received subsidies totalling almost PLN60bn. Program's construction encourages to retain employment. PFR support for large companies is based on capital mechanisms and its implementation so far has not been advanced.

In conditions of an unprecedented drop in business activity on 28 May the Monetary Policy Council decided to further loosen its policy. The reference rate was reduced to 0.10% from 0.50%, i.e. to the lowest level in history. This means that due to the Covid-19 pandemic and its economic consequences the main interest rate was reduced since March by 140 basis points. The main rationale behind the May reduction of the cost of money was long-term prospects of consumer inflation's sliding below the inflation target. In the short-term horizon CPI inflation also went down - at the end of 2Q20 it was 3.3% y/y compared to 4.6% y/y at the end of 1Q20, although this resulted from a strong drop in fuel prices in connection with plummeting oil prices on world markets. However, core inflation calculated as the CPI net of food and energy prices climbed in June, according to the Bank's estimates, to 4.1% y/y, the highest value since 2001, from 3.6% y/y in March. The higher inflationary pressure is caused by the prices of services, with a contribution from growing costs of maintaining sanitary standards. Additionally, in 2Q20 the central bank considerably intensified the implementation of the programme (announced in March) of repurchasing on the secondary market Treasury bonds, bonds of the Polish Development Fund and of Bank Gospodarstwa Krajowego, which are guaranteed by the State Treasury. At the beginning of 3Q20 the total value of acquired Treasury securities was PLN101.3bn, of which PLN51.6bn were Treasury securities and PLN49.8bn - PFR and BGK bonds. By means of this instrument the central bank is trying to ensure a sufficient amount of funds for which commercial banks can buy on the primary market Treasury bonds and bonds issued by PFR and BGK. In future the NBP will continue the implementation of this programme, although due to a relatively high percentage of its implementation future purchases will be smaller.

Despite the lower interest rates household demand for credit declined in 2Q20. This follows from increasing the savings rate and deleveraging in the face of rising unemployment and concerns about the future financial situation. What went also down was the growth rate of PLN investment loans, which is not surprising in conditions of uncertainty and decline in capacity utilisation. However, the same factors contribute to a growth of deposits in the banking sector. Those trends will most likely continue in the near future until the situation in the labour market stabilises. The growth of corporate deposits is also driven by the support of the financial shield.

In the next quarters economic growth should strongly accelerate, although it will remain below the 1Q20 level due to weaker macroeconomic fundamentals - growing unemployment and lower wage growth rate, which will weaken the propensity to consume. In conditions of uncertainty and decline in capacity utilisation enterprises will in turn cut on investment activities. Moreover, a strong export support is not a factor one can rely on, because the consequences of the pandemic for the Poland's most important partners are more acute than for Poland. This is reflected by the EU Commission forecasts published in July, according to which Poland's GDP will fall in 2020 by 4.6%, the least in all of the European Union, while in the Eurozone by 8.7%. The Bank's forecast of Poland's GDP points to decline by 4.2%, which is close to the expectations of the European

Commission. In such conditions inflation should be going down, but the last months have shown that despite the recession it is falling slowly, because the higher costs of providing services and simultaneously higher demand after unlocking the economy allowed to pass on the higher costs to the consumer (barber shop, medical, but also domestic tourist services). The Bank does not assume that after the considerable monetary easing the Monetary Policy Council will modify the parameters of the cost of money in Poland.

It must be emphasised that under a pandemic the forecasting of the macroeconomic situation involves great uncertainty as regards i.a. the labour market situation, change of consumption patterns (especially in relation to services), the financial and liquidity situation of businesses, effectiveness of economic policy and above all the further evolution of the pandemic, including potential next Covid-19 waves. This risk factor has already been materialising the strongest in the United States.

1.6. Factors of macroeconomic uncertainty for the economy and the Bank Millennium Group

The baseline macroeconomic scenario for Poland shows a pessimistic picture of economic activity in Poland in 2020, although it has not significantly changed since the previous report. This is because some negative and some positive factors have materialised. There continue to persist significant risk factors whose materialisation could influence the macroeconomic situation of Poland, including the Bank Millennium Group.

What remains the most important risk factor is the possibility of a deeper recession than in the baseline scenario. This could result from a potential second wave of Covid-19 cases and reintroduction of part of the restrictions (in the Bank's assessment the implementation of such scale of restrictions as in March does not seem realistic). This is true both of Poland and its most important trade partners. A deeper than expected recession might impact the BM Group through:

- stronger growth of unemployment and drop of income, which would weaken demand for banking products from households. Moreover, a deterioration of economic prospects would contribute to a lowered corporate demand for investment loans,
- a stronger than expected deterioration of the income situation of households and enterprises could translate into a growth of credit risk – deterioration of the timely settlement of liabilities to the BM Group,
- a slower pickup of economic activity worldwide or return of the pandemic would increase uncertainty on financial markets resulting among others in a depreciation of the zloty. This would push up costs of financing in foreign currencies as well as the value of required collateral and would increase the PLN value of FX debt thus having, potentially, an impact upon the repayment of liabilities due to the Group by households and enterprises,
- a slower rebuilding of the economy and potentially next Covid-19 waves could motivate the Monetary Policy Council to reduce, once again, the main NBP interest rate, which could additionally reduce the Group's revenues.

There is also a chance that in 2020 the economic situation will be less pessimistic than in the baseline scenario. This would involve a higher than expected effectiveness of efforts both in financial and fiscal policy in Poland and abroad, whose purpose is to mitigate the economic consequences of the pandemic. The effective implementation of the programmes (the BM Group is taking part in some of them) would help prevent the occurrence of the main negative factors of uncertainty or mitigate their impact on the BM Group results.

1.7. THE IMPACT OF COVID-19 CORONAVIRUS PANDEMIC ON THE ACTIVITIES OF THE BANK MILLENNIUM CAPITAL GROUP

The Bank anticipates a lower-than-previously assumed demand for financial products and services. In addition, the financial situation of some of the Group's clients may deteriorate despite the Group's initiatives (as part of the overall Polish banking sector support actions) aimed at partial mitigation of the effects of the pandemic (i.a. the offer of temporary suspension of repayments of the loan capital and interest instalments for retail customers) and the Bank's active participation in the activities of the banking sector aimed at reducing the effects of the pandemic on the clients and Polish economy. Additionally, on case-by-case basis, the Bank and its leasing subsidiary started to offer their corporate customers support solutions including deferral of instalments and lending with the use of new guarantee schemes offered by Bank Gospodarstwa Krajowego (BGK) and Polski Fundusz Rozwoju (PFR).

Weakening of the Polish zloty may affect the cost of legal risk of FX mortgage loans. At present it is difficult to credibly estimate the scale of this impact. In 1H20 the Bank decided to create additional PLN168 million provision for this risk (1Q20: PLN55 million, 2Q20: PLN113 million).

The above-mentioned decisions of the Monetary Policy Council to reduce interest rates as well as the change in the parameters of the mandatory deposits reserves requirements from April 30 on, altogether have an initially estimated cumulative negative impact on the Group's net interest income of around PLN240 million to PLN285 million until year-end 2020. The actual impact may vary and will largely depend on achieved business results, changes in the cost of financing and other offsetting measures.

Despite this negative backdrop, the liquidity and capital position of the Group remain very strong. The decision of the Ministry of Finance on 18 March 2020 to reduce from 3% to 0% the systemic risk buffer results in the equivalent reduction of the capital ratio requirements at the solo and consolidated level. Consequently, the minimum regulatory capital requirements for the Bank and for the Group are now 15.5% and 15.4% respectively, while the required Tier 1 ratio is now 12.2% and 12.2% respectively. The capital ratios as at the end of June 2020 were significantly above these new levels. As on June 30, 2020 total capital ratio (TCR) was 19.9% and 20.0% at solo and consolidated level respectively, while Tier 1 ratio was 16.8% and 17.0% respectively.

The decision of the Banking Guarantee Fund on March 26, 2020 to extend by one year the date of full implementation of MREL requirements as well as no-obligation to reach an interim level in 2020 provides more time to assess the new requirements (which are expected to be updated in 2021) and flexibility in their achievement. The above-mentioned reduction of the systemic risk buffer also decreases the future level of MREL requirements.

As a consequence of the Covid-19 pandemics and its direct and indirect effects, it is natural to assume that the net result of the BM Group in 2020 will be lower than in 2019.

1.8. SUPPORT FOR CLIENTS DURING COVID-19 PANDEMIC

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

Key solutions implemented in connections with the COVID-19 epidemic included:

Retail clients:

- Credit holidays – temporary deferral of principal and interest instalments (‘credit holidays’) up to six months, in line with the non-legislative moratorium that was developed under the auspices of the Polish Bank Association under arrangements with banks-members of the association and notified to EBA

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

Micro-companies and corporate customers:

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

On June 30, there were 63,721 applications approved for 'Covid-19 credit holidays' relating to outstanding cash loans, 16,671 applications for 'Covid-19 credit holidays' on mortgages loans with respective loan volumes of PLN1,842 million and PLN4,584 million. After the initial spike in late March/early April, the number of applications for credit holidays in the retail segment declined significantly. Free-of charge credit holidays introduced in June by the so called 'Anti-crisis shield 4.0' so far have enjoyed little take up with merely a dozen of applications filed by early July. The number of credit holidays for corporate customers stood at 4,942 (incl. leasing: 4,104) as the end of June with value of loans with deferred exposures totalling PLN1,183 million.

In April and May, Bank Millennium conducted a survey (Computer Assisted Telephone Interview) among its retail clients. The results of the survey shown that 94% of surveyed clients were satisfied with the Bank's activities. Clients were satisfied with the Bank's functioning in the current situation. Most of them have not experienced any problems, they also appreciated the possibility of online banking. What is very important is that clients still perceive the Bank as stable and trustworthy.

1.9. FX-MORTGAGE LEGAL RISK

Based on ZBP's (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved in favour of banks until 2019 year. However, after the Court of Justice of the European Union (CJEU) judgment issued on 3 October 2019 (Case C-260/18) the proportion have adversely changed and so there is a risk that previously mostly positive for banks line of verdict in courts may change.

Taking into consideration the increased legal risk related to FX mortgages, Bank Millennium created in year 2019 PLN223 million and in 1H20 PLN168 million provision for legal risk (1Q:20: PLN55 million, 2Q20: PLN113 million). The methodology developed by the Bank is based on the following main parameters: (1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk as regard FX mortgage loans portfolio. The Bank is open to negotiate case by case favourable conditions for early repayment (partial or total) or conversion of loans to PLN. On the other hand, the Bank will continue to take all possible actions to protect its interests in courts while at the same time being open to find settlement with customers in the court under reasonable conditions.

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

Finally it should be mentioned, that the Bank has to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 4.96 p.p. (4.87 p.p. at the Group level), part of which is allocated to operational/legal risk.

Detailed data on the number and value of FX mortgage cases is provided further in the report.

1.10. OTHER RISK FACTORS

Following the September 2019 ruling of the Court of Justice of the European Union on consumers' right to demand the reduction of the total loan cost corresponding to interest and costs for the remaining term of the agreement in case of early repayment of loan, in 4Q19 the Bank made PLN66.4 million provision for potential fee returns to clients. The provision was estimated based on the maximum amount of potential returns and the probability of payment being made. In 1Q20, the Bank adopted a linear method for calculating/returns of the fees and in 2Q20 increased the earlier created provision by PLN60 million.

More details on potential risks can be found further in the report.

2. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

2.1. GROUP PROFIT AND LOSS ACCOUNT

Group's operating income *(PLN million)*	1H20	1H19	Change y/y
Net interest income *	1 329.9	1 084.7	22.6%
Net commission income	373.5	338.2	10.4%
Core income	1 703.4	1 422.9	19.7%
Other non-interest income */**	77.7	140.6	-44.8%
Total operating income **	1 781.0	1 563.4	13.9%

(*) Pro-forma data: Net interest income includes margin from all derivatives. From 1st of January 2006 the Bank started to apply hedge accounting principles. Starting from that date, the margin from these operations is reflected in Net Interest Income. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 26.6 million in 1H 2020 and PLN 28.1 million in 1H 2019) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

(**) Without fair value adjustment of credit portfolio (PLN 26.4 million in 1H20 and PLN 5.1 million in 1H19), which is included in the pro-forma cost of risk

Net interest income (pro-forma) in 1H20 reached PLN1,329.9mn (PLN640.2mn in 2Q20) and increased 22.6% compared to the level in the corresponding period of the previous year (a decrease by 7.2% q/q). The growth was supported by the income from transactions with clients of acquired Euro Bank. Net interest margin (over average interest earning assets) (NIM) in 1H20 reached 2.69% and was at similar level as this in 1H19. 2Q20 NIM decreased 23 basis points q/q to the level of 2.58%. The contraction of NIM stemmed from unprecedented interest rates cuts by the MPC (base rate down 140 basis points in the course of two months) which took place in March, April and May and leveraged impact on the maximum interest rate (cut by 280 bps from 10% to 7.2%). The high concentration of the cuts and their immediate impact on remuneration of interest earning assets (especially consumer loans) amplified the impact in the short term due to the time needed for the Bank to adjust its funding (deposit) cost accordingly. Moreover, when compared with previous year, interest margin was undermined by the return of fees on early repayments of consumer loans.

Net commission income in 1H20 amounted to PLN373.5mn (PLN179.0mn in 2Q20), growing 10.4% y/y (a decrease by 8% q/q). Insurance, loans and cards related fees grew most during the year, with the former benefitting from higher fees from Euro Bank loan portfolio, while the latter from higher number of cards issued and higher transactionality. In contrast, capital market related and transactional fees decreased.

Core income, defined as a combination of net interest and commission income, reached PLN 1,703.4mn in 1H20 (PLN819.2mn in 2Q20), translating into a y/y increase of 19.7% (down 7.3% q/q), partially owing to the merger with Euro Bank.

Other non-interest income, which comprises FX result, results on financial assets and liabilities (without interest margin on derivatives and fair value adjustment on credit portfolio) and net other operating income and costs, amounted to PLN77.7mn and decreased 44.8% y/y due to extraordinary items in other (net) operating income and cost line: provisions for the return of commissions from loans repaid earlier by clients with the gross negative impact of PLN60.5mn in 2Q20 and PLN26.9mn one-off tax asset recovery in 1Q19.

Total operating income (pro-forma) of the Group reached PLN1,781mn (PLN860.3mn in 2Q20), up 13.9% y/y (a decrease by 6.6% q/q).

Operating costs (PLNmn)	1H20	1H19	Change y/y
Personnel costs	(451.2)	(372.2)	21.2%
Other administrative costs *	(471.8)	(383.8)	22.9%
– *of which Banking Guarantee Fund (BFG) fees*	*(113.1)*	*(96.0)*	*17.7%*
Total operating costs	(923.0)	(756.0)	22.1%
– *of which Euro Bank integration costs ** *	*(35.3)*	*(19.8)*	*78.3%*
*Total costs without integration costs ** *	*(887.7)*	*(736.2)*	*20.6%*
*Total costs without integrat. costs and BFG ** *	*(774.7)*	*(640.2)*	*21.0%*
Cost/income ytd - reported	51.83%	48.4%	3.5pp
*Cost/income ytd - adjusted **** *	*47.1%*	*45.5%*	*1.6pp*

(*) including depreciation

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

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

Total costs amounted to PLN923mn in 1H20 (PLN405.1mn in 2Q20) translating into a 22.1% increase compared to the 1H19 level. Apart from higher FTEs and other administrative costs resulting from incorporation of staff and sales infrastructure of former Euro Bank, the Bank created a provision for staff restructuring in the amount of PLN23.8mn in 1Q20 (including provisions for group redundancies and retention bonus). The total value of integration costs in the reporting period was PLN35.3mn. The annual increase of opex without integration costs would be 20.6%. Total costs ex-BFG and integration in 1H20 amounted to PLN774.7mn and PLN371.9mn in 2Q20 showing a quarterly decrease of 7.7%.

Personnel costs amounted to PLN451.2mn (PLN207.4mn in 2Q20) and grew 21.2% compared to the corresponding period of the previous year but recorded a substantial quarterly decrease by 14.9%. After incorporating employees coming from Euro Bank (2.4 thousand FTEs) the Bank reduced its personnel to 8,141 FTEs (the Group) at the end of June which translates into an annual reduction of 409 FTE (-4.8% y/y).

Employment structure (FTEs)	30.06.2020	30.06.2019	Change y/y
Bank Millennium S.A. (with Euro Bank)	7 803	8 201	-4.9%
Subsidiaries	337	349	-3.4%
Total Bank Millennium Group	8 141	8 550	-4.8%

Other administrative costs (including depreciation) reached PLN471.8mn (PLN197.7mn in 2Q20) and grew 22.9% y/y. Costs connected directly with the integration of Euro Bank were not high in the 1H20 and amounted to PLN11.2mn. In quarterly terms, other administrative costs fell strongly by 27.9% due to booking of the whole annual contribution for BFG resolution fund (PLN58.2mn) in 1Q20. Adjusted for BFG contribution admin costs were down 10.3% q/q.

Euro Bank acquisition resulted in a very strong increase in the number of outlets. At the end of June 2019 the total number of branches (including Euro Bank) was 839 and has since been reduced by 73 units to 766 branches at the end of June 2020.

As for the ongoing network optimisation, the current plan assumes network downsizing by over 110 outlets in 2020. Following PLN35.3mn integration expenses (P&L) in 1H20, a similar amount is to be expensed in the remainder of the year upon the revised estimates. The Bank currently estimates total cumulative integration expenses (P&L and capex) connected with Euro Bank acquisition will be below the original plan and will stay substantially below PLN300mn.

Effective accomplishment of restructuring process should allow to capture synergies in the amount of PLN156mn in 2020 overall (revised upwards from the original budget). First tangible synergies were achieved already in 4Q19 (PLN23.4mn), while in 1H20 these amounted to PLN62.1mn. PLN219mn of synergies (upped estimate) are targeted in 2022.

Cost-to-income ratio without extraordinary items (mainly integration costs and the above mentioned provision in other operating income and cost) and adjusted by equal distribution of BFG resolution fee throughout the year reached 47.1% in 1H20 and was 1.6 percentage points higher compared to the last year level.

Net profit *(PLNmn)*	**1H20**	**1H19**	**Change y/y**
Operating income	1 781.0	1 563.4	13.9%
Operating costs *	(923.0)	(756.0)	22.1%
Impairment provisions and other cost of risk **	(362.9)	(230.2)	57.6%
- of which Covid-19 risk related provision	(69.3)	-	-
FX legal risk related provision	(168.0)	-	-
Banking tax	(141.2)	(110.0)	28.3%
Pre-income tax profit	185.9	467.2	-60.2%
Income tax	(114.2)	(133.6)	-14.5%
Net profit - reported	71.7	333.6	-78.5%
Net profit - adjusted***	394.2	427.3	-7.7%

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

(**) including fair value adjustment on loans (PLN 26.4 million in 1H 2020 and PLN 5.1 million in 1H 2019)and loans modification effect (PLN 8.2mn in 1H20 and PLN6.6mn in 1H19)

(***)without extraordinary items: in 1H20: 1. integration costs (PLN 35.3mn), 2. PLN168mn provisions for FX mortgage legal risk, 3. PLN69.3mn provision for Covid-19 related risk, 4. PLN60.5mn provisions for the return of commissions from loans repaid earlier by clients 5. linear distribution of BFG resolution fund fee of PLN58.2mn; in 1Q19: 1. integration costs (PLN 19.8mn), 2. PLN26.9mn release of tax asset provision, 3. acquisition related extra provisions for Euro Bank of PLN 80.6, 4. linear distribution of BFG resolution fund fee of PLN73.3mn

Total cost of risk, which comprised net impairment provisions, fair value adjustment (of a part of credit portfolio) and result on modifications, bore by the Group amounted to PLN362.9mn in 1H20 and was 57.6% higher than in 1H19. The higher level of provisions resulted from the incorporation of the loan book of Euro Bank, changes in the risk model in the retail segment, but also from additional provisions for risk related to potential Covid-19 impact. In 1Q20 the Group pre-emptively created PLN60mn such provisions which during 2Q20 were allocated to particular credit exposures. Additional Covid-19 provision of PLN9.3mn was also created in 2Q20.

Risk charges for retail segment in 1H20 stood at PLN209.6mn (without extra Covid-19 provisions), while for the corporate segment and other they amounted to PLN84mn. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 1H20 reached 98 basis points compared to 78 basis points in 1H19. Without the extraordinary provision for Covid-19 in 1H20 and EuroBank loans in 1H19, the cost of risk was 79 basis points in 1H20 and 51 basis points in 1H19.

Additionally, in 1H20 the provision for legal risk related to FX-mortgage portfolio was increased by an additional PLN168mn to reflect more negative outcome from recent court rulings in the sector and the recent depreciation of the Polish zloty.

Pre-income tax profit in 1H20 amounted to PLN185.9mn (PLN108.1mn in 2Q20) and decreased 60.2% vs. 1H19 (up 39% q/q). This was mostly the result of the above mentioned high overall provisions as the pre-provision profit amounted to PLN858mn and was up 6.3% y/y.

Net profit reported in 1H20 amounted to PLN71.7mn (PLN53.6mn in 2Q20) and was 78.5% lower vs the corresponding period of the previous year. Net profit of 1H20 adjusted for the abovementioned extraordinary items (mainly integration costs and extra provisions) would reach PLN394.2mn compared to PLN427.3mn adjusted net profit for 1H19 which translate into a decrease by 7.7% y/y.

Reported 1H20 return on equity (ROE) with resolution BFG charge evenly spread across the year stood at 2.2% but when adjusted for extraordinary items it reached 8.7% compared to 10.0% in 1H19.

2.2. Balance Sheet

Assets

The Group's assets as at 30 June 2020, amounted to PLN102,579mn, recording 9.5% growth vs. the end of June 2019. The structure of the Group's assets as well as changes of their particular components have been presented in the table below:

Group's assets *(PLN million)*	30.06.2020		30.06.2019		Change y/y
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	1 224.8	1.2%	3 396.0	3.6%	-63.9%
Loans and advances to banks	875.8	0.9%	711.6	0.8%	23.1%
Loans and advances to clients	71 507.8	69.7%	67 855.2	72.4%	5.4%
Receivables from securities bought with sell-back clause	65.4	0.1%	73.7	0.1%	-11.2%
Debt securities	26 567.2	25.9%	19 528.6	20.8%	36.0%
Derivatives (for hedging and trading)	228.7	0.2%	197.9	0.2%	15.6%
Shares and other financial instruments*	96.5	0.1%	51.2	0.1%	88.3%
Tangible and intangible fixed assets**	971.2	0.9%	928.2	1.0%	4.6%
Other assets	1 041.1	1.0%	927.8	1.0%	12.2%
Total assets	**102 578.6**	**100.0%**	**93 670.3**	**100.0%**	**9.5%**

(*) including investments in associates
(**) excluding fixed assets for sale

Higher assets level resulted primarily from the growth of debt securities (up PLN7.04bn y/y or 36%) and loans to clients (up PLN3.65bn or 5.4%).

Loans and advances to clients

Total **net loans** of Bank Millennium Group reached PLN71,508mn as at the end of June 2020 and grew 5.4% y/y. The growth of loans without foreign currency mortgage portfolio presented higher growth rate of 7% y/y. FX mortgage loans decreased only slightly by 0.3% y/y due to the strong depreciation of PLN vs. Swiss Franc. The share of FX mortgage loans (excluding these taken from Euro Bank) in total gross loans has dropped during the year to 18.9% on 30 June 2020 from 20.1% a year ago.

The net value of loans to households amounted to PLN53,263mn at the end of June 2020, up 7.5% y/y. Within this line PLN mortgages grew strongly by 17.2% y/y and consumer loans grew by 2.2%

y/y and the growth of both items have truly organic nature as the basis for comparison is the loan portfolio after acquisition of Euro Bank, included in consolidated accounts since 1 June 2020.

In 1H20, origination of cash loans and mortgage loans was higher than in 1H19. In 1H20 the Bank sold to its clients PLN2.9bn worth mortgage loans (+50% y/y) and PLN2.4bn cash loans (+3% y/y). The latter category was mostly affected by the Covid-19 pandemic which resulted in lower demand for the product and consequently pushed the annual growth rate below the higher levels recorded in previous periods.

Net value of loans to companies amounted to PLN 18,245mn as at the end of June 2020 and decreased slightly by 0.4% yearly. This loan portfolio decreased by 4.2% quarterly as the Covid-19 pandemic had the considerable adverse effect on new lending to companies.

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

Loans and advances to clients *(PLN million)*	30.06.2020	30.06.2019	**Change y/y**
Loans to households	53 262.6	49 528.8	*7.5%*
- *PLN mortgage loans*	*23 451.6*	*20 001.9*	*17.2%*
- *FX mortgage loans*	*14 792.9*	*14 836.1*	*-0.3%*
- *of which Bank Millennium loans*	*13 790.1*	*13 818.4*	*-0.2%*
- *of which ex-Euro Bank loans*	*1 002.8*	*1 017.7*	*-1.5%*
- *consumer loans*	*15 018.1*	*14 690.8*	*2.2%*
Loans to companies and public sector	18 245.3	18 326.4	*-0.4%*
- *leasing*	*6 451.0*	*6 525.6*	*-1.1%*
- *other loans to companies and factoring*	*11 794.3*	*11 800.8*	*-0.1%*
Net loans & advances to clients	**71 507.8**	**67 855.2**	*5.4%*
Net loans and advances to clients excluding FX mortgage loans	*56 714.9*	*53 019.1*	*7.0%*
Impairment write-offs	2 358.1	1 867.3	*26.3%*
Gross* loans and advances to clients	**73 866.0**	**69 722.5**	*5.9%*

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

Debt securities

Value of debt securities reached PLN 22,866 million at the end of June 2020, which means a strong increase of 36% y/y. An important part of the debt securities portfolio (99.4%) were bonds and bills issued by the Polish State Treasury and National Bank of Poland (Central Bank). The strong growth of debt securities portfolio was correlated with fast rate of growth of deposits and release of large part of obligatory reserve in NBP. The share of this group of debt securities in the Group's total assets increased to 25.7% at end of June 2020 (from 20.7% in June 2019), pointing to a strong liquidity position of the Group.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN 784 million at the end of June 2020, which means a 7.3% increase in annual terms

Liabilities

The structure of Group's liabilities and equity and the changes of their particular components are presented in the table below:

Group's liabilities and equity *(PLN million)*	30.06.2020		30.06.2019		Change y/y
	Value	Structure	Value	Structure	(%)
Deposits from banks	1 429.8	1.5%	1 908.3	2.2%	-25.1%
Deposits from customers	86 254.6	92.4%	76 827.8	90.4%	12.3%
Liabilities from securities sold with buy-back clause	0.0	0.0%	21.0	0.0%	-100.0%
Financial liabilities valued at fair value through P&L and hedging derivatives	878.3	0.9%	571.5	0.7%	53.7%
Liabilities from issue of debt securities	767.0	0.8%	1 470.0	1.7%	-47.8%
Provisions	282.6	0.3%	108.3	0.1%	160.9%
Subordinated debt	1 545.2	1.7%	1 646.3	1.9%	-6.1%
Other liabilities*	2 221.2	2.4%	2 412.9	2.8%	-7.9%
Total liabilities	**93 378.8**	**100.0%**	84 966.1	**100.0%**	**9.9%**
Total equity	**9 199.8**		**8 704.2**		**5.7%**
Total liabilities and equity	**102 578.6**		**93 670.3**		**9.5%**

** including tax liabilities*

At the end of June 2020 liabilities accounted for 91%, while equity of the Group - for 9% of total liabilities and equity.

As on 30 June 2020 Group's total liabilities amounted to PLN 93,379mn, i.e. recorded considerable increase by PLN8.4bn (or 9.9%) relative to their value as on 30 June 2019. The increase was primarily an effect of significant increase of customer deposits (by PLN9.4bn).

Customers' deposits

Customer deposits constituted the main line item under the Group's accounting for, as on 30 June 2020, 92.4% of total liabilities. Customer deposits constitute the main source of financing of Group's activities and incorporate, primarily, customer funds on current and saving accounts as well as on term deposit accounts.

The evolution of clients deposits is presented in the table below:

Customer deposits *(PLN million)*	30.06.2020	30.06.2019	Change y/y
Deposits of individuals	63 436.3	57 638.4	10.1%
Deposits of companies and public sector	22 818.3	19 189.4	18.9%
Total deposits	86 254.6	76 827.8	12.3%

Total deposits increased by 12.3% y/y to the level of PLN86,255mn as at 30 June 2020, which was fuelled by considerable growth of both companies and households deposits.

Deposits of households reached PLN 63,436mn as at 30 June 2020 growing by 10.1% y/y. Within deposits, current and saving accounts continued to grow at a high pace (up 27% y/y), so their share in total deposits of individuals increased to 78%. It was supported by high dynamics of current accounts and debit cards.

Deposits from companies and public sector presented a strong increase by 18.9% y/y to PLN22,818mn as at the end of June 2020. The growth was mostly driven by strong dynamics of current accounts: +77% y/y whereas term deposits fell visibly by 25,1% y/y. This was mainly the effect of strong reduction of central bank interest rates as well as higher liquidity of companies postponing expenditures and using financial support from the government aid programs extended due to the Covid-19 pandemic.

Deposits from banks

Deposits of banks, including credits received, as on 30 June 2020, amounted to PLN1,430mn, accounting for 1.5% of the Group's liabilities. Value of this item declined by 11.7% relative to the balance as on 30 June 2019, mainly in effect of lower(PLN340mn) value of term deposits opened by banks.

Debt securities issued

Securities issued by the Group amounted to PLN767mn as on 30 June 2020 recording significant decrease by PLN703mn (or 47.8%) relative to the balance as on 30 June 2019. The decrease resulted from repurchase of securities issued by the Bank and its subsidiary Millennium Leasing. The biggest repurchases included PLN300mn Banks' bonds series for institutional investors (in 1H20) and PLN250mn bonds issued by Euro Bank (repurchased in 2H19)

Subordinated debt

The value of subordinated debt amounted to PLN 1,545mn as on 30 June 2020, showing a decrease by 6.1% y/y. The decrease resulted mostly from the settlement of subordinated debt of Euro Bank in the amount of PLN100mn. The subordinated debt line includes ten-year subordinated bonds in PLN at the total nominal value of PLN830mn maturing in January 2029 and ten-year bonds in PLN at the total nominal value of PLN700mn maturing in December 2027.

Equity capital

As on 30 June 2020, equity capitals of the Group amounted to PLN 9,200mn and recorded increase by PLN496mn or 5.7% y/y. Apart from the net profit generated in 1H20 and 2H19 the growth of equity resulted from positive valuation of securities of PLN 203mn million since 30 June 2019.

Information on capital adequacy was presented in Chapter 4.2. of this document.

3. PRESENTATION OF BUSINESS ACTIVITY

3.1. INNOVATION AND HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE

Bank Millennium has for years been the unquestioned quality leader of the Polish banking sector thanks to a regular analysis of client expectations and adjusting its products and services to evolving market requirements. The effectively implemented merger with Eurobank - awarded among others by the ISBnews information agency in the "Most Credible Financial Institution" category - additionally strengthened Bank Millennium's market position. The dynamics of recent months triggered by the Covid-19 pandemic set additional challenges for the Bank as well the need to develop new solutions providing clients with the highest standard of service.

In the first HY 2020 Bank Millennium's activity focused on three areas:

- ensuring the safety of employees and clients who use services at our branches,
- digitalisation of processes and services,
- monitoring client expectations and needs.

Security

In taking care of the safety of its employees and clients Bank Millennium has implemented work procedures and standards compliant with the requirements of the sanitary regime. Service models at bank branches in all business areas have been adjusted to the new situation - providing clients with convenient service with a simultaneous emphasis on providing them with self-service in transactional devices or remote channels and employee support in this regard.

Digitalisation

Bank Millennium is continuing its existing strategy in the area of electronic banking. At the time of the pandemic it has particularly intensified its efforts to digitalise the Bank's existing clients, providing them with convenient banking through the mobile app and Millenet transactional system without leaving home. A number of solutions have been introduced facilitating access to remote channels and possibility of implementing instructions in the telephone channel. The solutions proposed not only enable clients to complete basic banking transactions on their own; they also provide them with Bank employee support through electronic channels (chat, e-mail) or by telephone.

Monitoring client expectations and needs.

Bank Millennium is the best-rated bank in Poland in terms of building positive customer experience, which has been confirmed by a Customer Experience study carried out for KMPG in Poland.

By constantly monitoring client feedback and market trends in all business lines, particularly at the spike of the pandemic, the Bank has been implementing a number of solutions compliant with current client needs. These solutions related both to access to transactions in particular contact channels, product offer and improved provision of already existing products.

The steps implemented by Bank Millennium have been appreciated both by clients and experts, as evidenced by awards in the Banking Star 2020 or Institution of the Year competitions.

3.2. RETAIL BANKING

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

In 1H20, the objective set for client acquisition was achieved in line with strategic assumptions, albeit its evolution, specifically in physical channels, was under impact of epidemic prevailing both at home and worldwide. Since the beginning of the year the Bank has increased its active client base by 45.6 thousand. At the end of 1Q20, in terms of increase of the number of new active clients, the Bank was ranked the second on the market with share at 18% (according to PRnews report). As on 30 June 2020 the Bank provided services to more than 2.62 million active retail clients. Altogether 1.97 million clients (+30% y/y) were using electronic banking actively while the mobile app was in use by 1.54 million, which means an annual increase by 37%.

Personal account

Sale of savings and settlement accounts (ROR) in the 1H20 exceeded the level of 207 thousand, i.e. a slight decrease relative to similar period of the previous year. The key product supporting acquisition of new clients was the Konto 360˚ account, for several years one of the most preferred personal account in Poland. In 1Q20, in terms of increase of the number of new accounts for individual clients, the Bank was ranked the fifth on the market with share of 10% (according to PRnews report). At the end of 1H20, the number of Konto 360º accounts in the Bank portfolio exceeded 1.64 million.

Acquisition of Konto 360º accounts in 2020 was supported by promotion and advertising activities including, *inter alia,* as follows:

- consecutive round of advertising campaigns in TV stations and internet;
- intensive promotional activities involving the use of goodie shopping app and in cooperation with external internet portals - more than 25% personal accounts were acquired online;
- new rounds of referral programme „Like it! Share it", under which recommending Konto 360˚ or Konto 360˚ Student to others may be rewarded with attractive prize. Until 30 June 2020 more than 798 thousand clients registered in the programme.

Savings products

The 1H20 was a time of high volatility in the area of deposit offer. In March - May 2020 the Monetary Policy Council cut interest rates 3 times changing the reference rate from 1.50% to the level of 0.10%. In effect, the Bank reduced interest rates for the entire offer of saving accounts and time deposits. The scale of interest rate change (140 basis points) could not have been fully reflected by appropriate reduction of interest rates borne by deposits. This applied, specifically, to no interest bearing ROR accounts but also, although to lesser extent, time deposits and saving accounts.

In effect of combination of unfavourable market environment of declining interest rates, competition from treasury bonds against banking offer as well as factors supporting deposit products such as withdrawal of part of funds from capital markets in result of decreasing prices, the Bank increased its volume of deposits of retail clients. At the end of 1H20, the volume amounted to PLN 66.8 billion i.e. PLN 3.1 billion more than at the end of 2019 (+4.9%). Growth of client deposits helped the Bank keep its market share at a stable level of 7.21% (May 2020).

During 1H20, the Bank continued acquisition of new volumes mainly on the basis of Konto Oszczędnościowe Profit (KO Profit) account with attractive interest rate accruing on new funds. The account enjoyed major interest among clients and funds accumulated on KO Profit accounts increased by more than PLN 1.9 billion (+14.7% relative to the 2019 year-end).

Investment products

The 1H20 was also dynamic on global capital markets. Market collapse in 1Q20 in effect of the COVID'19 pandemic generated mass redemptions of participating units in investment funds and increasing risk aversion amongst the clients. However, already at the end of March markets set again on increasing trends continuing and uninterrupted until the end of 1H20. Despite this rebound, financial markets continue to be very volatile and this constitutes an additional element of risk for the clients.

At times of dynamic market changes, the Bank continued its strategy involving offering of diversified portfolio of investment products including both own solutions and products offered by external partners. Depending upon client segment the offer included structured products, mutual funds, insurance products of investment nature, and bonds.

In order to make its offer more attractive, the Bank launched regular promotional campaigns of mutual funds focusing on handling fee for purchase of funds. The Bank also continued its strategy of promoting use of remote channels. In response to financial market situation caused by COVID-19, on 1 March 2020 a promotional campaign was launched involving reduction of handling fees relative to Millennium TFI funds. Moreover, fees for orders filed through Millenet were eliminated and now they amount to 0%.

Furthermore, terms and conditions of the Millennium Investment Programme were made more attractive - the value of minimum payment for the product was reduced to PLN 200.

Prestige and Private Banking segments - offer for affluent clients

Prestige is an offer designed for affluent persons having assets from PLN 100 thousand to PLN 1 million or making monthly payments to the account in the minimum amount of PLN 10,000. Private Banking addresses the needs of the most affluent individual customers having assets at above PLN 1 million, expecting high quality service and offers of financial products prepared to meet their individual needs. The Bank offers to these customers a broad range of investment products and investment and insurance products - domestic and foreign investment funds, investment programmes and structured products. Private Banking customers can use credit cards Millennium MasterCard® World Signia/Elite™ with Priority Pass card and rich insurance packages, Assistance and Concierge.

As on 30 June 2020, Bank Millennium had 35 thousand active Prestige customers and more than 4 thousand active Private banking customers.

Cash loans

The first two months of 2020 were marked with good sales results generated by the Bank. In March, due to a series of restrictions imposed in connection with the COVID-19 pandemic having impact, *inter alia*, upon the number of clients visiting branches and limiting client openness to credit product offers, the sales results declined. In the last two months of the first half of the year, sales started to rebound reaching the level similar that of the beginning of the year.

At the end of 1H20 the sales value reached the level of PLN 2.8 billion (-12% y/y). The Bank recorded high rate of growth of sales in electronic channels including, in particular, in mobile banking where the growth year-on-year was at 27%. Sales by phone also remained at stable level with increasing trend (+3% y/y).

In 1H20 cash loan acquisition was supported by:

- offer „PLN 100 instalment for every PLN 5,000 of loan" applicable to loans in the amount of PLN 5,000, PLN 10,000 or PLN 15,000 granted for 60 months with instalment, known in advance, in the amount respectively of PLN 100, PLN 200 or PLN 300.
- continuation of offer for financial sector employees

Clients interested in beneficial transfer of their liabilities repaid in other banks to Bank Millennium could take advantage of a consolidation loan under special offers with repayment insurance.

The total value of cash loans portfolio, as on 30 June 2020 reached PLN 13.4 billion, up 8% y/y.

Current account overdrafts

The beginning of 2020 was a period of stable sales activities. In March, due to restrictions connected with the COVID-19 pandemic interest on the part of clients in obtaining new limits declined. In the last months of the IH of the year the level of sales was partially rebuilt. The Bank's offer was supported by the following promotional campaigns:

- 'Overdraft for PLN 0' designed to be offered to new Bank customers facilitating the use of the product, in the first year, with no additional costs – overdraft disbursement fee was PLN 0. These conditions are among the most attractive on the market.
- 7-day interest free period facilitating the use of the limit without interest costs in each accounting month.

Payment cards

Intensive marketing efforts supported continuous increase of the payment card portfolio in 1H20. Despite market situation impact upon debit card sales (with personal accounts) and credit cards, the Bank maintained the increasing trend of the payment card portfolio ending 1H20 with the result at 3.4 million cards (+2,0% relative to end of 2019). Flagship products included, continuously, debit card issued to Konto 360˚ account and credit cards Impresja and Alfa, providing their holders with 5% cash back for payments made at card Partners as well as regular promotional offers. Increases y/y were, consecutively: +25% in the area of debit cards and +23% in credit cards, in effect, *inter alia,* acquisition of Euro Bank S.A.

Mortgage Banking

In 1H20 Bank Millennium continued to keep a high position on the mortgage sales market. During the first half of the year the Bank concluded 11.2 thousand new agreements to the total value of almost PLN 3.3 billion (increase y/y by more than 45%). Month after month, the Bank's position improved and in June the Bank was ranked second on the market with share of 15.8% in sales.

In 1H20 the Bank modified its mortgage loan offer i.e. changed the cross-selling rules relative to the loan, increased credit margin within the LTV range above 80% and implemented a series of improvements in the process helping to maintain good processing times relative to loan applications.

Lending by the Bank, as was the case in the previous year, was based on the offering of unconditional 0% fee for loan approval and 0% fee for early loan repayment. This structure of the bank's offering continues to be highly popular in particular among clients, who have limited own participation and who are particularly keen to reduce the upfront costs of the credit to a bare minimum.

In 1H20 the Bank carried out Bank Millennium brand ambassador action amongst all brokers rewarding the best experts in cooperation with the Bank for 2019. Furthermore, the Bank also carried out, on a large scale, a process of regular training and webinars in product structure, lending process using this opportunity to remind how to provide detailed information on offer available to clients in clear, reliable and transparent manner.

In 2020 the Bank continued activities in the area of offering special loan servicing conditions to CHF loan borrowers i.e. conditions relative to currency conversion, repayment of loan in part and in full.

Insurance products (*bancassurance*)

In 2020 the Bank continued offering life insurance and property insurance both in branches and through remote channels. Distribution of insurance connected with credit products was important in particular in cash loan insurance. Clients in 2Q20 could take advantage of a special offer – Cashback Promotion addressed to persons concluding Vehicle Owner's TPL insurance agreement.

Business client segment – offer business clients

Business is an offer addressed to sole traders and civil law and commercial law companies generating annual revenues at up to PLN 5 million.

In 1H20 the Bank achieved one of the highest levels in acquisition of new Business client accounts recording an increase by 86% in number of business accounts relative to the level recorded in the similar period of the previous year. Growth in the number of Clients was achieved in effect of:

- taking advantage of an opportunity of opening business accounts in the internet banking system Millenet made available to current retail Clients of the Bank who are managing their business operations
- introduction of promotional offering of Mój Biznes account
- increasing the level of cross-sell by business accounts in the Bank branches.

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

3.3. GOODIE SMART-SHOPPING APP

The months of the pandemic have confirmed a record-breaking interest of app users in online shopping and goodie cashback programme. In 2Q20 alone almost 620 thousand transactions were carried out at goodie, while the total cashback granted to the users approximated PLN2.2 million. In total, in 2Q20 over PLN 71 million was achieved in cashback turnover, which represents over 500 percentage points growth y/y. Moreover, goodie has acquired over 17 thousand new cashback users over the last three months.

The goodie app, downloaded already 1.8 million times since its launching, has intensified its cooperation with Bank Millennium, by offering gift e-Cards or increased cashback as an additional benefit when setting up the following accounts: Konto 360°, Konto 360° Student and Konto 360° Junior. As a result of a promotion the application has gained new users. The total number of issued gift eCards went up in 2Q20 from 1 thousand to almost 9 thousand (B2B sale). Moreover, each month the users opened fliers in the app and on goodie.pl over 1 million times.

June saw the completion of work on a new version of goodie in which both the app and the www site acquired a new look, while goodie changed into an even more convenient companion to your shopping. In the new goodie it is much easier to check the balance of your own cashback account, browse fliers and offers for users of 59 different loyalty programmes. During the pandemic goodie has been supporting its business partners - shopping malls - by offering free marketing tools and assistance in reaching a selected group of recipients. It has also been initiating sales-boosting campaigns with prizes for shopping, including contactless gift eCards.

3.4. CORPORATE BANKING

Corporate Banking is a business line which provides professional and comprehensive services to companies generating annual sales revenues above PLN5 million as well as institutions and public sector units.

The Bank creates comprehensive financial solutions tailor-made to meet the unique needs of a specific client business supported by modern digital solutions to cut down on the time of customer involvement in operational activities connected with the Bank relationship. The Bank's objective is to assure the highest quality of service and the shortest reaction time on the side of the Bank. Therefore, internal client service processes have been consistently automated.

In 2Q20, due to the pandemic, the Bank focused on the one hand on maintaining the continuity of client service and on the other on reacting to its Clients' new needs connected with the changed situation relating to their business. Bank Millennium not only supports companies in maintaining their liquidity, but is also involved in the digitalisation of processes which have an impact on functioning in conditions altered by the Covid-19 situation, among others it is involved in work on spreading the use of the electronic qualified signature, less use of the paper-based versions of documents, higher utilisation of remote channels of the Bank's communication with clients - Millenet internet banking system.

Maintaining corporate banking service continuity during the pandemic.

In that period relationship managers and corporate service consultants have intensified contacts with clients through electronic and telephone channels. Due to concerns for the safety of employees and clients direct contacts in the form of meetings have been reduced in favour of remote contacts, nevertheless the banking service was conducted to the full extent in all locations. All the time Corporate Banking relationship managers and consultants have been in active contact with clients transferring information about the continuity of banking service and about available assistance programmes for enterprises.

In the first half of 2020 Bank Millennium launched for its corporate banking segment clients the possibility to sign agreements fully remotely.

Already in early April there was introduced the possibility of using a qualified electronic signature with a time stamp for agreements, applications, certificates dedicated to corporate banking products. The process of document circulation has been made available in the internet banking system. The digital circulation of documents is based on a qualified signature and applies to loan agreements and their security instruments, transactional banking, factoring, trade finance and treasury products. This is another stage in digitalising corporate banking customer service processes. A remote and safe circulation of bank documents has been provided thanks to it, allowing both parties to avoid any problems with transferring paper-based documents. Documents signed with an electronic qualified signature are equivalent to written form, while the qualified time stamp is a service of dating documents and electronic signatures which has the legal effects of a certified date within the meaning of the Civil Code.

At the same time we are witnessing a rising use of remote channels in the full scope of their functionality, e.g. the number of new accounts opened by the clients on their own in the internet application has gone up to 87%. In the time of the pandemic there has also been growing client interest in using electronic orders to issue a guarantee and open an L/C with the use of the online trade finance platform.

With respect to leasing in connection with the requirement of concluding an agreement in writing upon the pain of invalidity (art. 709(2) of the Civil Code), the key challenge in this regard was to ensure the continuity of business processes (concluding new agreements and mass annexation of the agreements already existing in the portfolio) in conditions of remote work necessitated by the pandemic. At the same time Millennium Leasing popularises among its clients the possibility of signing agreements with a qualified signature, so far employed only in selected corporate projects.

To help entrepreneurs the Bank has been extensively involved in the making available of mechanisms in support of their financial situation.

Repayment holidays

In the first quarter, companies which had a good financial standing, but experienced temporary problems caused by the pandemic, have been provided by the Bank with the possibility of applying for 3 months' suspension of credit and leasing instalments, credit card repayments and factoring settlements. June saw the implementation in this regard of the principles developed by the Polish Bank Association on the basis of the EBA (European Banking Supervision) guidelines. Under a common approach of the Polish Banking sector such companies which have been affected by temporary difficulties have the possibility of:

1) Small and medium-sized enterprises in the case of a decision to suspend the repayment of instalment credit products have two options to select from:

a) suspension of principal and interest instalments for a period of up to 3 months,

b) suspension of only principal instalments for a period up to 6 months.

2) Large enterprises using instalment credit products have the possibility of suspending only principal instalments for a period of up to 6 months.

3) In the case of factoring products - irrespective of the size of the enterprise - an extension is possible up to 180 days of the:

a) period of tolerated delay (recourse factoring or Mille-Link factoring),

b) time limit of debt repayment under a receivable financed as part of a reverse factoring.

Companies which earlier used the suspension of repayments in credit or factoring products on earlier principles have been given by the Bank the possibility of adjusting the conditions of repayment suspension to the above-described principles.

Clients who use leasing and satisfy analogous criteria as for banking products (good financial situation before the pandemic, temporary nature of problems) have been provided by Millennium Leasing with the possibility of benefitting from the reduction of leasing instalments by the amount corresponding to their principal part for a period of up to 6 months, in total.

Access to financing with BGK guarantee support

Bank Millennium together with Bank Gospodarstwa Krajowego (BGK) implements 3 guarantee programmes: De minimis guarantee programme, programme of guarantees from the Liquidity Guarantee Fund and Biznesmax guarantee programme.

De minimis guarantees are dedicated to entrepreneurs from the SME segment. In connection with Covid-19 the programme was changed in March so as to enable to companies, to a possibly broad extent, access to credit and facilitate repayment. The changes related to the extension of the period of guarantee up to 39 months, increasing the protection to 80% and waiving the BGK commission.

The second programme of the so-called liquidity guarantees was introduced as an element of the government's anti-crisis shield for medium-sized and large business entities. The basic objective of implementing the programme is to salvage the liquidity of Polish companies. The guarantees secure - just like *de minimis* guarantees - up to 80% of the principal, but the amount is higher - it can reach even PLN200 million. These guarantees are not free of charge, but the Client pays just once, in advance, for the whole guarantee period (max 27 months).

These are two key projects for the Bank relating to financing the company's current activity (currently BGK envisages the implementation of the programmes in the changed form until 31 December 2020). A continuation or amendment of the terms depends on the development of the economic situation in Poland/worldwide.

The third programme – Biznesmax guarantees in the formula binding at the Bank pertain first of all to investments of companies and the programme covers a narrow group of Clients.

The Bank, as a member of the PZF Polish Factors Association, is currently actively involved in talks conducted with BGK relating to the granting by BGK (as part of the guarantee portfolio line) a guarantee of repayment of factoring limits granted by Factors associated in PZF.

The Bank is working on making available yet another instrument addressed to entrepreneurs during the on-going pandemic. This is a loan with interest subsidies to banking loans. Entrepreneurs will receive a benefit in the form of interest subsidies of up to 2 percentage points or 1 percentage point depending on the size of the business. The subsidies will be paid out from the Interest Subsidies Fund managed by BGK. The Bank is planning that the first loans under this programme will be available at the end of July.

PFR subsidy service

A major challenge implemented in an extremely short time was the mass service process of subsidies paid out under the assistance to entrepreneurs by the Polish Development Fund (the so-called PFR Financial Shield). In two weeks there was built an electronic system for accepting applications for a subsidy from the Financial Shield for Clients, channel of the automatic transfer of data between the Bank and PFR, process of subsidy payouts and consideration of complaints. We have actively supported our Clients in the application process by sharing knowledge through dedicated www pages, webinars and telephone contact by Relationship Managers. The convenience of the solutions made available in electronic channels has been very highly assessed by the clients. At the end of June the amount of PLN1.5 billion was disbursed to 1.6 thousand corporate client accounts.

ARP shield for leasing

On 23 June 2020 Millennium Leasing became the first leasing company in Poland to sign an agreement with ARP Leasing governing the process and documentation necessary for the Group's clients to use the solution offered as part of the anti-crisis shield. Thanks to this clients from the transport sector using leasing in the group can refinance their debt and benefit from a 12 month period of grace in the repayment of instalments offered by ARP Leasing.

Moreover, the Bank took a number of steps whose purpose is to support entrepreneurs in the automation of the processes of settlements and transactions for the time of the pandemic and after it ends.

Due to Covid-19 related events in many areas the time has now arrived for developing digital solutions. The Bank, concerned about the safety and comfort of its Clients, ensures to its corporate banking customers the possibility of comprehensively conducting all banking operations in the Millenet for Corporates system supplemented by the mobile app functionality. Irrespective of their place of work our Clients have the possibility of using all service channels and possibility of cooperation with respect to all products and services.

The Bank is continuing the development of the offer of electronic banking channels resulting both from the implemented business strategy and changes in binding legislation. A key assumption is the parallel development of electronic channels in the areas of direct interaction with the user (internet and mobile banking) and host-to-host integration allowing to automate information interchange. Starting from the first symptoms pointing to the possibility of limiting human contact due to the coronavirus pandemic the remote contact with the bank's Clients has become particularly important not only as a facilitation, but as a necessity to continue business processes.

For Clients using factoring services and expecting the automation of data interchange processes the Bank has introduced and further develops the functionality which enables direct communication between the financial accounting system of the client and the factoring system by means of web services. Thanks to this Clients may report receivables for financing directly from the level of their financial and accounting system and receive feedback information about the current settlements with counterparties in their system. On the side of the client this means a limitation of cost and time intensity of the operating service, as well as eliminates errors and mistakes in the process of data interchange with the retention of a high security level.

Early this year the Bank expanded in the internet banking system the functionality of account information verification on the white list in the process of submitting a transfer enabling automatic verification; also in the case of orders submitted in the so-called parcels the system additionally proposes the downloading of a notification to the tax office containing information about the transfer which the Client must provide to the Tax Office.

In supporting the social distancing recommendations already from 20 March the non-PIN contactless payment limit for corporate cards was raised to PLN 00.

Support of communication with clients and educational activities with the use of webinars

In 1H20 the Bank continued to actively support its Clients through educational initiatives. In the time of the pandemic this was possible with the use of webinars which the Bank set up on its own and in cooperation with its partners (CFO Club, BGK, PFR). In total, almost 1,500 participants took part in them. The subjects raised during the meetings related to the areas: crisis management from the point of view of the CFO, digitalisation and automation in the areas of finance, working capital management during the crisis, guarantee programmes for entrepreneurs, scope of support and manner of applying for PFR subsidies.

Business results

Loans

The market for corporate loans in 1H20 increased 1% y/y, while in 1Q20 it increased 4% to fall in 2Q20 (until May) by 3%. A similar behaviour was displayed by volumes of credit products at Bank Millennium.

At the end of 1H20 the volume of all Corporate Banking credit products – loans to finance current needs, investment loans, leasing, trade finance products and products involving EU funds – stood at PLN16.9 billion.

Leasing

The leasing portfolio fell 0.3% y/y to PLN6.5 billion. The value of assets under lease in 1H20 stood at PLN1.18 billion, which means a drop by 32.8% y/y. A drop in the value of newly concluded agreements was caused by freezing or delay in investment plans of many clients of the Group.

Factoring

The factoring turnover generated by the Bank in 1H20 stood at PLN10.3 billion. The Bank was 6th in the ranking of factoring institutions associated in the Polish Factors Association.

Factoring assets as of end of June 2020 were PLN2.5 billion.

The situation connected with Covid-19 had a major impact on the achieved results. At the end of 1Q20 the Bank compared to the corresponding period of the previous year recorded a growth in realised turnover, as well as at the level factoring assets (5.7% and 6.4% y/y respectively). The results of 2Q20 are a clear drop of turnover on the whole factoring market as a result of the limitation of sales by the clients, cancellation of part of insurance limits, delays in repayments from counterparties. It should be noted that the results of June 2020, when a gradual unfreezing of the economy was taking place, are much better than during the spike of the pandemic (April-May). The factoring turnover realised in June 2020 was PLN250 million higher than in May and over 5% higher than the turnover realised in June 2019.

Trade finance

The amount of the limits for guarantees and letters of credit granted by Bank Millennium at the end of June 2020 stood at almost PLN 2 billion, which constitutes 3% growth y/y. The value of the portfolio of active guarantees at the end of June 2020 is at a level similar to a year ago, i.e. PLN814 million (growth by 1% y/y).

The results achieved for 1H 20 stem from pandemic-related restrictions on the trade and services market in Poland and in foreign trade. The Bank has recorded lower client activity in terms of concluding new contracts, current activity, as well as imports and exports.

Transactional and electronic banking for companies

Corporate banking clients have access to a comprehensive offer of transactional banking products for companies, supported by an efficient and ergonomic internet banking system, mobile app and solutions based upon web service technology and SWIFT. With respect to transactional products and services the Bank offers solutions supporting the management of receivables collection, payment settlements, liquidity management.

The high quality of offered services (including remote ones) has led to a consistent growth of the transactional activity of our clients.

In March 2020 the growth rate in the number of settlement transactions slowed down, despite which the number of domestic transfers in 1Q20 was higher than a year earlier by 3.4%, and foreign ones by 23.6%. But in 2Q20 we noted a drop of domestic transfers by 4.2% and material limitation of growth of foreign transfers to 6% due to the record-low transactional activity of clients in April and May. At the same time the volume of processed cash significantly fell in 1Q20 by 5.5% and in 2Q20 by as much as 28% as a result of a drop of retail sales and numerous inducements to not pay in cash. The limitation of cash spending in favour of payment cards seems a durable trend, although in June we have been witnessing a growth of processed volumes compared to April and May. Suspending by entrepreneurs their business travel and business travel expenses in the period of the pandemic has significantly pushed down the number of payment card transactions, in 1Q20 this was –3.2% and in 2Q20 this reached the level of -61.9%.

Despite the government's freezing of the economy in the second quarter the volume of funds on current accounts of corporates supported by assistance programmes has significantly gone up and achieved in June a record-breaking level of the average balance of PLN1,063 billion (+64.2% y/y). The total value of funds deposited by corporate banking clients was PLN18.4 billion (+ 12.2% y/y), while money on current accounts in the deposit portfolio at end of June reached a record-breaking share of 57.7%.

4. RISK MANAGEMENT

4.1. Risk Management Overview

The mission of risk management in the Bank Millennium Group is to ensure that all types of risks, financial and non-financial, are managed, monitored and controlled as required for the risk profile (risk appetite), nature and scale of the Group's operations. Important principle of risk management is the optimization of the risk and profitability trade-off – the Group pays special attention to ensure that its business decisions balance risk and profit adequately.

The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, credit policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of employees as regards their responsibility for proper risk management at every level of the Group's organizational structure.

Risk management is centralized for the Group and takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk. Within risk management system, a broad range of methods is used, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

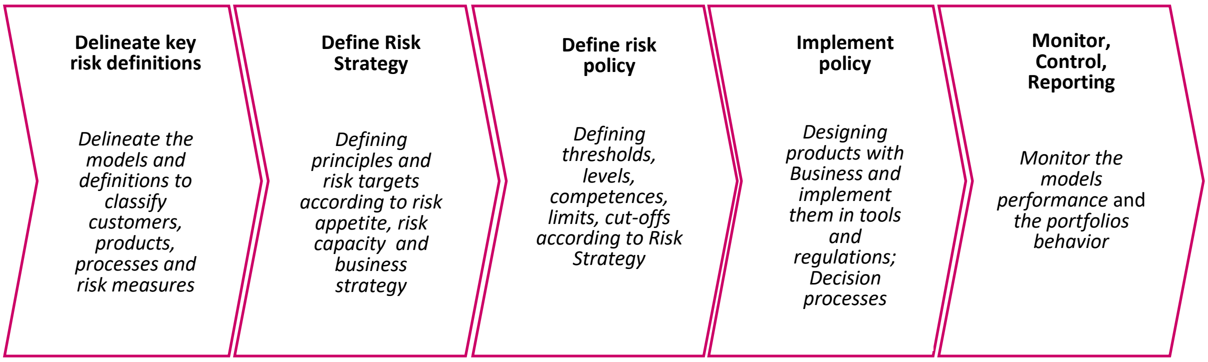
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk appetite) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed.

The risk management and control model at the Group's level is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the segregation of duties between risk origination, risk management and risk control.

The Risk management process of the Group is presented in the below diagram



The split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Group's risk-taking policy with the Group's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Group's Risk Strategy, including the Group's Risk Appetite;

- The Management Board is responsible for the effectiveness of the risk management system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board;
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;
- The Risk Department is responsible for risk management, including identifying, measuring, analysing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee and the Management Board to make decisions with respect to risk management;
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department, Mortgage Credit Underwriting Department and Consumer Finance Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analysing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Monitoring and Collection Department and Retail Liabilities Restructuring and Recovery Department have responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models analysis and validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs;
- Fraud Risk Management Team in the Security Department has responsibility for implementation and monitoring the Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence centre for anti-fraud process;
- The Compliance Department has the responsibility to ensure compliance with legal regulations, related regulatory standards, market principles and standards as well as internal organization regulations and codes of conduct.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: “Risk Strategy for 2020-2022”. The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

The Risk Strategy bases on the two concepts defined by the Group:

1. Risk profile – current risk level expressed in amount or type of risk the Group is currently exposed. The Group also has a forward looking view how their risk profile may change under both expected and stress economic scenarios in accordance with risk appetite,
2. Risk appetite – the maximum amount or type of risk the Group is prepared to accept and tolerate to achieve its financial and strategic objective. Three zones are defined in accordance with warning / action required level.

Risk strategy is one of the crucial features that determine the risk profile of the Bank/Group.

Risk appetite has to ensure that business structure and growth will respect the forward risk profile. Risk appetite was reflected through defined indicators in several key areas, such as:

- Solvency
- Liquidity and funding
- Earnings volatility and Business mix
- Franchise and reputation.

The Bank and The Group has a clear risk strategy, covering retail credit, corporate credit, markets activity and liquidity, operational and capital management. For each risk type and overall the Group clearly defines the risk appetite.

The Risk Management is mainly defined through the principles and targets defined in Risk Strategy and complemented in more detail by the principles and qualitative guidelines defined in the following documents:

a. Capital Management and Planning Framework
b. Credit Principles and Guidelines
c. Rules on Concentration Risk Management
d. Principles and Rules of Liquidity Risk Management
e. Principles and Guidelines on Market Risk Management on Financial Markets
f. Principles and Guidelines for Market Risk Management in Banking Book
g. Investment Policy
h. Principles and Guidelines for Management of Operational Risk
i. Policy, Rules and Principles of the Model Risk Management
j. Stress tests policy.

Within risk appetite, the Group has defined tolerance zones for its measures (build up based on the “traffic lights” principle). As for all tolerance zones for risk appetite, it has been set:

- Risk appetite status – green zone means a measure within risk appetite, yellow zone means an increased risk of risk appetite breach, red zone means risk appetite breach
- Escalation process of actions/decisions taken - bodies/organizational entities responsible for decisions and actions in a particular zones
- Risk appetite monitoring process.

The Group pays particular attention to continuous improvement of the risk management process. One measurable effect of this is a success of the received authorization to the further use of the IRB approach in the process of calculating capital requirements.

4.2. CAPITAL MANAGEMENT

Capital management and planning

Capital management relates to two areas: capital adequacy management and capital allocation. For both areas, management goals were set.

The goals of capital adequacy management are: (a) meeting the requirements specified in external regulations (regulatory capital adequacy) and (b) ensuring the solvency in normal and stressed conditions (economic capital adequacy/internal capital). Completing those goals, Group strives to achieve internal long-term capital limits (targets), defined in Risk Strategy.

Capital allocation purpose is to create value for shareholders by maximizing the return on risk in business activity, taking into account established risk appetite.

In a scope of capital management process, there is also a capital planning process. The goal of capital planning is to designate the own funds (capital base that is risk-taking capacity) and capital usage (regulatory capital requirements and economic capital) in a way to ensure that capital targets/limits shall be met, given forecasted business strategy and risk profile – in normal and stressed macroeconomic conditions.

Regulatory capital adequacy

The Group is obliged by law to meet minimum own funds requirements, set in art. 92 of the EU Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending EU Regulation No. 648/2012 (CRR). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for particular banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in November 2019 in the level of 4.96pp (Bank) and 4.87pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 3.72pp in Bank and of 3.65pp in Group, and which corresponds to capital requirements over CET 1 ratio of 2.78pp in Bank and 2.73pp in Group*;
- Combined buffer – defined in Act on macro prudential supervision over the financial system and crisis management – that consists of:
    - Capital conservation buffer at the level of 2.5%;
    - Other systemically important institution buffer (OSII) – at the level of 0%, and the value is set by KNF every year**;
    - Systemic risk buffer at the level of 0% in force from March 2020;
    - Countercyclical buffer at the 0% level.

In accordance to binding legal requirements and recommendations of Polish Financial Supervisory Authority (KNF), the Group defined minimum levels of capital ratios, being at the same time capital targets/limits. These are OCR (overall capital requirements) as for particular capital ratios.

(*) That recommendation replaces the previous one from 2018, to maintain own funds for the coverage of additional capital requirements at the level of 6.41pp (Bank) and 6.27pp (Group) as for TCR, which should have consisted of at least 4.81pp (Bank) and 4.70pp (Group) as for Tier 1 capital and which should have consisted of at least 3.57pp (Bank) and 3.51pp (Group) as for CET1 capital
(**) In August 2019 KNF informed that the Bank was not identified as other systemically important institution in 2019

The below table presents these levels as at the 30 June 2020. The Bank will inform on each change of required capital levels in accordance with regulations.

Minimum levels of capital ratios	30.06.2020	
CET1 ratio	Bank	Group
Minimum	4.50%	4.50%
Pillar II RRE FX	2.78%	2.73%
TSCR CET1 (Total SREP Capital Requirements)	7.28%	7.23%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.00%	0.00%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.50%	2.50%
OCR CET1 (Overall Capital Requirements CET1)	9.78%	9.73%
T1 ratio	Bank	Group
Minimum	6.00%	6.00%
Pillar II RRE FX	3.72%	3.65%
TSCR T1 (Total SREP Capital Requirements)	9.72%	9.65%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.00%	0.00%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.50%	2.50%
OCR T1 (Overall Capital Requirements T1)	12.22%	12.15%
TCR ratio	Bank	Group
Minimum	8.00%	8.00%
Pillar II RRE FX	4.96%	4.87%
TSCR TCR (Total SREP Capital Requirements)	12.96%	12.87%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.00%	0.00%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.50%	2.50%
OCR TCR (Overall Capital Requirements TCR)	15.46%	15.37%

Capital risk, expressed in the above capital targets/limits, is measured and monitored in a regular manner. As for all capital targets, there are determined some minimum ranges for those values. Capital ratios in a given range cause a need to take an appropriate management decision or action. Regular monitoring of capital risk relies on classification of capital ratios to the right ranges and then performing the evaluation of trends and drivers influencing capital adequacy.

Own funds capital requirements

The Group is during a project of an implementation of internal ratings based method (IRB) for calculation of own funds requirements for credit risk and calculates its own funds minimum requirements using the IRB and standardize method for credit risk and standardize methods for other risk types.

In the end of 2012, Banco de Portugal (consolidating Regulator) with cooperation of Polish Financial Supervision Authority (PFSA) granted an approval to the use of IRB approach as to following loan portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE). According to the mentioned approval, minimum own funds requirements calculated using the IRB approach should be temporarily maintained at no less than 80% (Regulatory floor) of the respective capital requirements calculated using the Standardized approach.

In the end of 2014, the Bank received another decision by Regulatory Authorities regarding the IRB process. According to its content, for the RRE and QRRE loan portfolios, the minimum own funds requirements calculated using the IRB approach had to be temporarily maintained at no less than 70% (Regulatory floor) of the respective capital requirements calculated using the Standardized approach until the Bank fulfils further defined conditions. In July 2017 the Bank received the decision of Competent Authorities (ECB cooperating with KNF) on approval the material changes to IRB LGD models and revoking the Regulatory floor.

Internal capital

The Group defines internal capital according to Polish Banking Act, as the estimated amount needed to cover all identified, material risks found in the Bank's activity and changes in economic environment, taking into account the anticipated level of risk in the future.

Internal capital is used in capital management in following processes: economic capital adequacy management and capital allocation. The Group defined an internal (economic) capital estimation process. To this end, as for measureable risk types, mathematic and statistic models and methods are used.

Maintaining economic capital adequacy means a coverage (provision) of internal capital (that is an aggregated risk measure) by available financial resources (own funds). An obligation to banks to have in place that sort of risk coverage stems from Banking Act. It was mirrored in the Group's capital targets/limits: economic capital buffer and economic capital buffer in stressed conditions.

At the end of June 2020 both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

At the same time internal capital is utilized in capital allocation process, to assign an internal capital to products/business lines, calculating risk-adjusted performance measures, setting risk limits and internal capital reallocation.

Capital adequacy evaluation

Capital adequacy evolution of the Group and the Bank was as follows:

Capital adequacy measures (PLN million)	30.06.2020 Group	31.12.2019 Group	30.06.2020 Bank	31.12.2019 Bank
Risk-weighted assets	**50 007.1**	**48 124.6**	**49 129.0**	**47 267.6**
Own Funds requirements, including:	**4 006.6**	**3 840.0**	**3 930.3**	**3 781.4**
▪ Credit risk and counterparty credit risk	3 584.5	3 495.2	3 556.1	3 455.8
▪ Market risk	28.8	24.2	28.7	24.2
▪ Operational risk	382.6	326.9	340.7	297.7
▪ Credit Valuation Adjustment CVA	4.6	3.6	4.8	3.7
Own Funds, including:	10 012.8	9 668.5	9 772.0	9 454.5
▪ Common Equity Tier 1 Capital	8 482.8	8 138.5	8 242.0	7 924.5
▪ Tier 2 Capital	1 530.0	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	**20.02%**	**20.09%**	**19.89%**	**20.00%**
Minimum required level	15.37%	18.37%	15.46%	18.46%
Surplus(+) / Deficit(-) of TCR ratio (pp)	+4.65	+1.72	+4.43	+1.54
Tier 1 Capital ratio (T1)	**17.13%**	**16.91%**	**16.95%**	**16.77%**
Minimum required level	12.15%	15.15%	12.22%	15.22%
Surplus(+) / Deficit(-) of T1 ratio (pp)	+4.81	+1.76	+4.56	+1.55
Common Equity Tier 1 Capital ratio (CET1)	**17.13%**	**16.91%**	**16.95%**	**16.77%**
Minimum required level	9.73%	12.73%	9.78%	12.78%
Surplus(+) / Deficit(-) of CET1 ratio (pp)	+7.23	+4.18	+7.00	+3.99
Leverage ratio	**8.03%**	**8.11%**	**7.83%**	**7.94%**

As at June 2020 end, capital adequacy in Bank Millennium Group remained on very high and safe level. Total Capital Ratio stayed at 20.02% level for the Group (19.89% for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 16.96% for the Group (16.78% for the Bank). Therefore, minimum capital levels required by KNF for Bank and Group were achieved with a solid surplus.

TCR of the Group decreased slightly during first half of 2020 by 7bp (by 11bp for the Bank). This was due to a slightly faster increase in risk-weighted assets than in own funds. In first 6 months of 2020, own funds rose by 3.6% (by ca PLN340m), mainly in effect of retention of net earnings for the second half of 2019. Risk-weighted assets have been increasing little bit faster, it is by 3.9% (by ca PLN1.9b).

Bank Millennium has a dividend policy of distributing from 35% to 50% of net profit, subject to regulatory recommendations, In December 2019 KNF sent the individual dividend policy recommendation, in which it set the following additional buffers for dividend distribution (above the minimum required as at 2019 end for TCR): + 1.5% to pay 75%; + additional Stress test add-on to pay 100%, That add-on was measured as the Bank's sensitivity to an adverse macroeconomic scenario and was set at 3.01% on the top of TCR, including regulatory adjustments, KNF kept also additional criteria for banks with FX mortgage portfolio (K1 based on FX mortgage share in total portfolio and K2 based on share of 2007-2008 vintages in total FX mortgage portfolio),

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

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

The Bank received a letter from "BFG regarding the minimum level of own funds and liabilities subject to write down or conversion (MREL), In accordance with the regulation, the MREL requirement should be achieved by January 1, 2023 and maintained at all times from that date, BFG has determined a linear path to reach the required target. The MREL limit for the Bank was set on the basis of data as at December 31, 2018 and the value of required buffers valid as at January 1, 2019. As at June 30, 2020 the Bank fulfils the MREL limits set up by BFG. In order to fulfil and maintain required MREL limits, the Group may issue MREL eligible instruments that could cause increase of financing costs for the Group.

4.3. CREDIT RISK

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

The credit policy pursued in the Group is based on a set of principles such as:

- centralization of the credit decision process;
- using specific scoring/rating models for each Client segment/type of products;
- using IT tools (workflow) in order to support the credit process at all stages;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit sub-portfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sub-limits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;
- separate unit responsible for granting rating to corporate Client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

In the area of credit risk, in the first half of 2020, the Group initially worked on improving of credit risk management tools and processes, while since the appearance of the COVID-19 pandemic, the Group has focused on adapting regulations, credit processes and monitoring to changed conditions, in particular on:

- adjusting the credit policy to the market situation;
- updating the industry risk classification and industry limits.

In the retail segment particular attention was focused on:

- enabling customers to benefit from a prolongation of instalments in connection with the occurrence of a COVID-19 pandemic (so-called credit holidays) and monitoring the situation of customers who have used this option;
- strengthening mechanisms for verification of the stability of income sources of customers applying for a new credit product;
- ensuring higher coverage of credit exposure with collateral in the processes of granting and renewing financing (in particular, it applies to mortgage-secured loans and credit products granted to micro-enterprises).

In the corporate segment, the Group initially dealt with activities aimed at improving and accelerating credit processes, including decision-making processes. As in previous periods, work continued on improving IT tools supporting the credit process. Since the appearance of the COVID-19 pandemic, the Group has focused on portfolio and industry analyses to identify risks, analyses of legal regulations and supporting tools introduced, as well as worked on adapting regulations, credit processes and monitoring to changed conditions.

All of the above changes in both the retail and corporate segment enabled the Group to maintain the risk at an acceptable level defined in the Risk Strategy.

Loan portfolio quality

Share of impaired loans, including stage 3 portfolio and POCI Assets (Purchased or Originated Credit Impaired) in default, in total loan portfolio was at the end of June 2020 on the level of 4.86%. This means increase from level 4.56% at the end of 2019. Partly this increase result from the new, more stringent, default definition for the retail portfolio introduced in January 2020, which resulted in an increase of this indicator by as much as 0.14pp. Group still enjoys one of the best asset quality among Polish banks. Share of loans past-due more than 90 days in total portfolio has increased during last half year from 2.69% in December 2019 to 2.98% in June 2020.

Coverage ratio of impaired loans, now defined as relation of all risk provisions for stage 3 loans and POCI in default, had increased during the half year from 62.4% in December 2019 to 65.8% now. This change means a partial approximation of the level of this indicator to the value before the purchase of the Euro Bank portfolio, when the indicator significantly decreased. Pursuant to the provisions of the IFRS 3 standard, at the time of acquisition, the Euro Bank portfolio was valued and disclosed in the books of Bank Millennium at fair value. In the case of an impaired portfolio, which at the time of the acquisition was shown in the books of Bank Millennium as POCI, the fair value was close to the net value of this portfolio in the books of Euro Bank, and the value of balance sheet provisions for this portfolio at the time of acquisition was 0 (zero), which had a direct negative impact on provision coverage ratio. Without this effect, the loan coverage ratio would be 73.3%. Coverage by total provisions of loans past-due more than 90 days also increased from 106% half year ago to 107% now.

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

Group loans quality indicators	30.06.2020	31.12.2019
Total impaired loans (PLN million)	3 586	3 276
Total provisions (PLN million)	2 358	2 046
Impaired over total loans ratio (%)	**4.86%**	**4.56%**
Loans past-due over 90 days /total loans (%)	2.98%	2.69%
Total provisions/impaired loans (%)	**65.8%**	**62.4%**
Pro-forma coverage ratio (no PPA effect)*	*72.9%*	*72.5%*
Total provisions/loans past-due (>90d) (%)	107.0%	105.8%

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

Impaired loan ratios by segment show a rising trend in the retail portfolio from 4.7% to 5.0% (including mortgage loans from 2.53% to 2.55%), while this ratio for the corporate portfolio increased during the half year from 4.1% to 4.3% (mainly in the leasing portfolio, but for other enterprises slightly decreased). Last half year, the value of foreign currency mortgage loans increased by ab. PLN225mn to value PLN15,004mn (in PLN terms), i.e. by 1.5% as a result of increase in the exchange rate CHF/PLN. In this portfolio ab. PLN 1 billion of FX mortgage loans is connected with acquisition of Euro Bank. However, it should be noted that ex-Euro Bank mortgage portfolio enjoys a guarantee and indemnity from Société Generalé. Excluding this Euro Bank portfolio, the share of FX mortgage in the total loan portfolio decreased in this period from 19.49% to 19.21%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN and also the acquired PLN portfolio of Euro Bank.

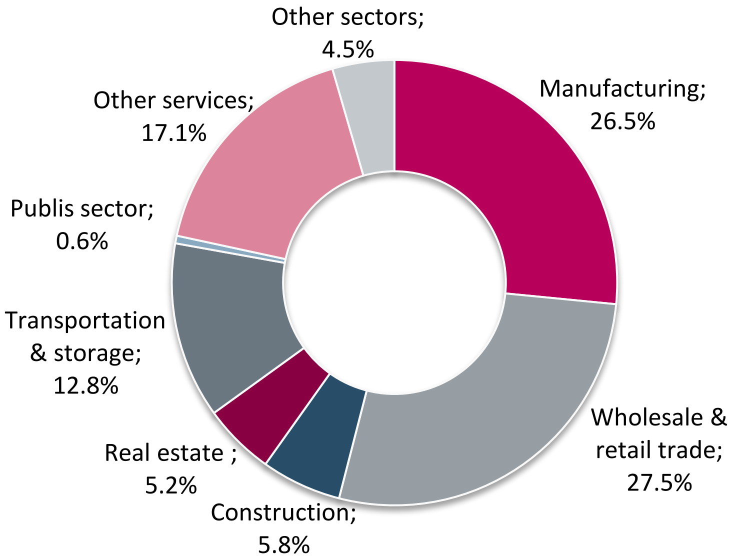
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Mortgage	1.12%	1.19%	2.55%	2.53%
*Other retail**	7.87%	6.31%	10.80%	9.51%
Total retail* clients	3.16%	2.79%	5.05%	4.71%
Leasing	2.75%	2.28%	4.51%	4.12%
Other loans to companies	2.28%	2.51%	4.14%	4.15%
Total companies	2.45%	2.42%	4.28%	4.14%
Total loan portfolio	**2.98%**	**2.69%**	**4,86%**	**4,56%**

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

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in sectors of the economy. Participation the 10 largest exposures remain at a safe, low level of 4.3% (growth in 1st half 2020 from 4.1%).

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



4.4. Other risks

Market risk and interest rate risk in Banking Book (IRRBB)

The market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse market movement (prices).

The interest rate risk arising from Banking Book activities (IRRBB) encompasses current or prospective impact to both the earnings and the economic value of the Group's portfolio arising from adverse movements in interest rates that affect interest rate sensitive instruments. The risk includes gap risk, basis risk and option risk.

The framework of market risk and interest rate risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the BCP Group.

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms for Global Bank, Banking Book and Trading Book considering the effect of the diversification that exists between the particular portfolios.

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

The VaR indicators in the period under consideration for the Group, that is jointly Trading Book and Banking Book, increased due to market volatility caused by the COVID-19 pandemic but still were below maximum limits in place. In 1 H 2020, the VaR remained on average at the level of approx. PLN 63.8 m for the Group (26% of the limit) and at approx. PLN2.4mn for Trading Book (8 % of the limit). Similarly, as of the end of June 2020 the market risk exposure was approx. PLN68.5mn for Global Bank (27% of the limit) and approx. PLN1.5mn for Trading Book (5% of the limit).

FX open position (Intraday as well as Overnight) remained below 2% of Own Funds and well below the maximum limits in place (no excesses were detected).

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

The variations in market interest rates have an influence on the Group's net interest income, both under a short and medium-term perspective, affecting its economic value in the long term. The measurement of both is complementary in understanding the complete scope of interest rate risk in Banking Book. For this reason, apart from daily market risk measurement in terms of value at risk, the scope of the additional measurement of interest rate risk on monthly basis covers both earnings-based and on quarterly basis economic value measures, in particular:

- the impact on the net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of upward/downward yield curve shift by 100 basis points,
- the impact on the economic value of equity (EVE) resulting from different upward/downward basis points shocks, including scenarios defined by the supervisor (standard, supervisory test assuming sudden parallel +/-200 basis points shift of the yield curve as well supervisory outlier test, SOT with set of six interest rate risk stress scenarios).

Due to specificity of the Polish legal system, the interest rate of consumer credits is limited (it cannot exceed two times Reference Rate of the National Bank of Poland increased by 7 percentage points). In situations of decreasing interest rates, the impact on Net Interest Income is negative and depends on the share of the loan portfolio that is affected by the new maximum rate.

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

As already disclosed on the Current Reports published on 14th April and 2nd June 2020, the above-mentioned decisions of the Monetary Policy Council to reduce interest rates to its historical minimum (decrease reference rate to 0.1% and the Lombard rate to 0.50%) as well as the decision regarding change in the parameters of the obligatory requirement, will altogether may have a negative impact on the Group's net interest income between PLN245mn and PLN280mn until year-end 2020. The actual impact may vary and will largely depend on achieved business results, changes in the cost of financing and other offsetting measures.

When it comes to impact of interest rate changes to economic value in the long term, the supervisory stress tests results as of 30th June 2020 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

Liquidity risk

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Group's obligations.

The process of the Group's planning and budgeting covers the preparation of a Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In 1H2020, the COVID-19 pandemic has an impact on global financial markets resulting in depreciation of Polish Zloty, limited confidence among market participants through decrease in financing possibilities as well as a sharp decline in activity on the treasury securities market. Despite COVID-19's implications observed in the market mentioned above, the Bank did not observe any threat to its liquidity position due to the spread of COVID-19. The Group was characterized still by solid liquidity position. All the supervisory and internal liquidity indicators still remained significantly above minimum limits in place. The steps taken as part of standard and binding risk management procedures have proved sufficient for managing liquidity in the current market environment.

In 1H2020, the increase of the deposits from Customers at the faster pace than loans, allowed the Group to maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 83% at the end of June 2020 (86% at the end of December 2019). The Group continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of June 2020. During 1H2020 this portfolio increased to the level of approx. PLN26.0 billion at the end of June 2020 (25% of total assets) from PLN22.7 billion at the end of December 2019 (23% of total assets). The increase was connected mainly with decision of the Monetary Policy Council to decrease the obligatory reserve requirement over deposits from 3.5% to 0.5% that allowed the Group to release approx. PLN2.5 billion and reinvest it in debt securities. Those assets are Central Bank eligible and are characterized with high liquidity and can be easily used as collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which can overcome crisis situations.

Main liquidity ratios	30.06.2020	31.12.2019
Loans/Deposits ratio (%)	83%	86%
Liquid assets portfolio (PLN million)*	26 207	22 795
Liquidity Coverage requirement, LCR (%)	202%	171%

(*) Liquid Assets Portfolio: The sum of cash, exposure to Central Bank (the surplus above the required obligatory reserve), Polish Government debt securities, NBP-Bills and due from banks with maturity up to 1 month. The debt securities portfolio is reduced by NBP haircut for repo transactions and securities encumbered for non-liquidity purposes.

Total Clients' deposits of the Group reached the level of PLN86.3 billion (PLN81.5 billion at the end of December 2019). The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits amounted to approx. 73.5% at the end of June 2020 (75.0% at the end of December 2019). The maintenance of high share of funds from individuals had a positive impact on the Group's liquidity, prevents of any liquidity problems under COVID-19 crisis implications, and supported the safe compliance of the supervisory measures.

The main source of financing remains deposits base, the large, diversified and stable funding from retail, corporate and public sectors. The deposit base is supplemented by the deposits from financial institutions and other money market operations. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 1H2020. However, in case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Group maintains the reserves of liquid assets in the form of securities portfolio as described above.

According to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is daily calculating the liquidity coverage requirement (LCR). The regulatory minimum of 100% for LCR requirement was fulfilled by the Group. The LCR reached the level of 202% at the end of June 2020 (171% at the end of December 2019). The increased of LCR was mainly caused by growth of liquid assets portfolio, as explained above.

In 1H2020, the Group also regularly calculated net stable funding requirement (NSFR). In each of the quarter, the NSFR was above planned supervisory minimum of 100% (supervisory minimum will be valid in June 2021).

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 1H 2020 all the liquidity gaps were maintained at the levels significantly above the minimum limits.

Liquidity stress tests are performed at least quarterly, in order to understand the Group's liquidity-risk profile and to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the Liquidity Contingency Plan and management decisions.

The liquidity risk management process is regulated in the internal policy that is a subject of the Bank's Management Board approval.

The Group manages FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as collateral from the counterparty. There is no relationship between level of the Bank's ratings and parameters of collateral in any of the signed ISDA Schedules and Credit Support Annexes (both international and domestic). A potential downgrade in any rating will not have an impact on the method of calculation or collateral exchange.

The Group assesses the possibility of unfavourable changes of FX rates (especially CHF and EUR, which causes increase of liquidity needs), analyses the impact on liquidity risk and reflects this risk in the liquidity plans.

The strong market volatility in connection with the global COVID-19 pandemic resulted in Polish Zloty depreciation. The immediate effect of the appreciation of the Swiss franc for the Bank is to place additional deposits as collateral with its counterparties. The collateral needs were partially covered by the increase of total deposits and by liquidating part of unencumbered liquidity assets.

The Group has also emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is tested and revised at least once a year.

Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organizational structure. Current management of the specific processes, including the management of the profile of process operational risk, is entrusted to Process Owners, who report to all other units participating in the risk management process and are supported by these units.

In order to manage the fraud risk, the Group has in its structure a special organizational unit to develop, implement and monitor the Group's policy for management of this risk in cooperation with other organizational units of the Group and in accordance with its internal regulations. Fraud Risk Management Team in the Security Department is a centre of competence for the fraud prevention process.

Non-Compliance risk

Lack of legal compliance of internal regulations and the ensuing risk of legal or regulatory sanctions, material losses or reputation risk, is one of the areas threatening the banking activity. By monitoring compliance with both internal and external regulations, Bank Millennium considers it to be particularly important:

- Preventing money laundering and financing of terrorism;
- Ensuring consistency of Bank Millennium's internal normative acts with generally binding laws as well as recommendations issued by supervisory authorities,
- Counteracting and managing conflicts of interest,
- Observance of ethical principles,
- Monitoring personal transactions and protecting confidential information related to Bank Millennium, financial instruments issued by the Bank as well as information connected with purchase/sale of such instruments.
- Monitoring and ensuring compliance of the investment products covered by MiFID II.

Bank Millennium undertakes appropriate actions for the purpose of ongoing and continuous tracking of changes occurring in generally binding legal regulations as well as recommendations and guidance given by supervisory authorities, both national as well as of the European Union. In order to ensure compliance of the Bank's operation with the generally applicable laws, the Compliance Department undertakes a number of activities such as:

1) informing about changes in law,
2) periodically reviewing all internal normative acts binding at the Bank in terms of compliance with applicable laws and standards,
3) analysing new products and services,
4) measuring compliance risk in processes operating at the Bank,
5) issuing opinions,
6) participating in key implementation projects, and
7) staff training.

The Bank's operations may generate a conflict of interest between Bank's interests and the interests of Customers. The Bank's main principle is to take all reasonable steps to identify a conflict of interest between the Bank and its Customers, as well as between individual Customers, and also to establish rules ensuring that such conflicts have no adverse impact on Customers' interests.

The Bank Millennium Group undertakes also appropriate actions to ensure conduct concerning personal transactions, which is compliant with standards and laws. These actions and measures are meant to, according to the circumstances, to restrict or prevent performance of personal transactions by Relevant Persons in situations, which may cause a conflict of interest or be involved with access to confidential information or to data about Customers' transactions.

Shares of Bank Millennium are admitted to public trading on the Warsaw Stock Exchange. Such status requires special attention and observance of the obligation to maintain highest standards for transparency of financial markets. The policy of Bank Millennium is to maintain strict control as regards protection of the flow of confidential information (including in accordance with the requirements of Regulation No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on abuses on the market abuse, MAR). The Bank prohibits the use and disclosure of confidential information in any form. Purchasing and selling the Bank's shares, derivative rights concerning the Bank's shares or any other financial instruments thereto related is forbidden during closed periods.

The Anti-Money Laundering and Counter Terrorism Financing programme (AML/CTF), applied by Bank Millennium, is a comprehensive system of identification of threats related to money laundering crimes.

Actions launched under this programme include in particular:

- application of financial security measures to Customers, depending on the degree of risk and based on „*Know your Client*" or (KYC) principle – the key concept of the program,
- transaction registration and reporting,
- identification of suspicious transactions,
- cooperation with the General Inspector of Financial Information.

Bank Millennium adjusts its reports to the analysis of suspected transactions on the on-going basis, taking into account up-to-date patterns (sectors, cash-flow routes, Customer behaviour) for effective identification and reporting of transactions suspected of money laundering. Implemented internal procedures, organizational solutions and employee training programmes ensure efficient operation of the programme.

Bank Millennium, with view to protecting Customers who invest their funds in investment products with varied degree of risk, strictly monitors compliance of these products, their offering and handling process with relevant internal regulations, laws and external guidelines – on the domestic and European Union level. A specific compliance monitoring programme also covers consumer loans and insurance products (including insurance – investment products) addressed to consumers.

The Bank has mechanisms and internal regulations allowing for anonymous reporting of violations of law and internal regulations and ethical standards (the so-called whistleblowing) to the Chairman of the Management Board, and in the case of notification concerning a Member of the Management Board - to the Supervisory Board. The Bank will verify each application, ensuring that the reporting person will be protected by acts of repressive, discriminatory and unfair nature.

5. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

5.1. ANNUAL GENERAL MEETING DECISIONS

On 20 March 2020 the Ordinary General Shareholders' Meeting of Bank Millennium took place. 203 shareholders took part in the meeting, representing 69.09% shares in the Bank's shareholders equity, including BCP (50.10% of share capital, Aviva OFE (6.33% of share capital) and PZU „Złota Jesień" OFE (5.57% of share capital). The General Meeting passed resolutions in the matter of approval for 2019 financial year of: Financial report of Bank Millennium S.A., combined Management Board Report on activity of Bank Millennium S.A. and Bank Millennium S.A. Capital Group as well as combined report concerning non-financial information of Bank Millennium S.A. and Bank Millennium S.A. The General Meeting also approved the Financial report of Bank Millennium S.A. Capital Group in 2019 financial year as well as Report on activity of the Supervisory Board in 2019 as well as performance of assessment of remuneration policy in Bank Millennium S.A. The General Meeting resolved to allocate profit generated in 2019 to covering the effect of merger with Euro Bank S.A. and to reserve capital of the Bank. The General Meeting discharged members of the Management Board of Bank Millennium S.A. and Supervisory Board of Bank Millennium S.A. from performance of their duties in 2019 financial year and also accepted changes in the Bank's Articles of Association.

Then on 3 July 2020 an Extraordinary General Shareholders' Meeting of Bank Millennium took place. 106 Shareholders took part in the meeting, representing 75.13% shares in the Bank's shareholders equity, including BCP (50.10% of share capital, Nationale-Nederlanden OFE (8.24% of share capital), Aviva OFE (6.33% of share capital) and PZU „Złota Jesień" OFE (5.57% of share capital). The General Meeting passed resolutions in the matter of changes in the incentive programme for Risk Takers as well as changes in the Bank's Articles of Association as regards the conducted activity.

5.2. RESPONSIBLE BUSINESS AND ACTIVITIES FOR THE SOCIETY

CSR activities have for years been part and parcel of Bank Millennium's business strategy and apply to three main groups: clients, employees and community. With respect to its clients the Bank's priority is to alleviate physical and digital barriers in access to banking and non-banking services (e.g. e-government). Customer centricity and proper care for the highest quality customer experience are the key to this type of activities - this involves carefully listening to customers, observing their preferences and testing services together with them in the Bank's User-Experience Lab.

Bank Millennium is constantly improving access to mobile solutions opening up access to banking and non-banking services anywhere and anytime, (i.a. e-government, buying municipal transport tickets, paying parking charges or motorway tolls). The Bank also adapts its services to the needs of persons with visual, hearing or mobility impairments. With these Clients in mind the Bank regularly increases the availability of branches, ATMs, voice response system and runs a website without barriers. Currently 100% of our cash machines and more than 70% of the Bank's branches are adapted to the requirements of persons with disabilities.

CSR programmes carried out for employees involve first of all supporting diversity in the workplace (Bank Millennium is a signatory of the Diversity Charter), assuring stable and attractive employment terms and conditions as well as offering opportunities to engage in social activities. Due to the unexpected epidemiological situation the social programmes implemented through the Bank Millennium Foundation in the first half-year of 2020 focused on activities increasing employee security in the context of COVID-19 incidence risk, financial support for the research and implementation of the first Polish coronavirus tests and remote financial education.

For 14 years now all CSR actions have been recapitulated every year in Bank Millennium's Corporate Social Responsibility Report: https://raportroczny.bankmillennium.pl/2019/pl/

Customers
- Banking for all - no physical, infrastructure and digital barriers
- Digital functionalities beyond banking e.g. e-administration
- Ethical sales

Employees
- Employees' satisfaction
- Education and development
- Respect of diversity

Citizenship
- Employee's volunteering
- Society financial education
- Promotion of culture

The most important CSR activities implemented in the 1st half of 2020:

1. From mid-March the unprecedented crisis caused by the COVID-19 pandemic has seriously disrupted the economy and social life. The Bank immediately launched support measures addressed to its employees, clients and community. Security has become the priority for all the members of those groups.

The Bank Millennium Foundation and Bank Millennium donated 500 000 PLN to the Bioorganic Chemistry Institute of the Polish Academy of Sciences from Poznan for the support of implementing the first Polish coronavirus tests. The tests are entering mass production and the Institute's scientists are continuing their research and development work on new-generation tests. Helping to upscale and accelerate the process of testing the Polish people is a prerequisite for a true back to normal in social and economic life.

- In April it was decided to create a Special Support Fund for Employees in case of coronavirus infection. With a 1 000 000 PLN endowment out of the Bank's money the Fund is one way to express the Management Board's solidarity and concern for those members of the bank's community who fall ill and end up in difficult life circumstances. The programme covers all employees and their immediate families.
- The Bank has been actively promoting and informing its clients about ways to bank safely without leaving home. The Bank's Chairman in his special letters personally encouraged the Clients to take care of their health and use Millennium services from home. Also Radek Kotarski in a commercial broadcast during the pandemic (self-recorded at his place) promoted safe banking from home. Indeed, the Bank has implemented a number of solutions making it easy to bank online, among others the possibility to open a personal account remotely by confirming identity with a personal ID photo and a selfie.
- As part of the #zostanwdomu (stayathome) campaign the Bank shared online and free of charge documentaries from the Millennium Docs Against Gravity Festival, as well as online versions of TV theatre performances which years ago were broadcast by TVP in the Pearls of Millennium cycle.

- A number of steps have also been taken to support the safety of employees. The functioning of the bank has been organised so as to be able to offer uninterrupted banking services while taking care of safety and health of employees as well as clients. Almost all employees who could work outside the office and wanted to work at home were working remotely. Approximately 600 persons, largely upon their own request, were working in offices in Warsaw, Wroclaw and Gdansk.

In all branches the Bank was and still is applying additional safety rules (additional surface disinfection, plexiglass panels separating employees from customers, limits on the number of customers who can stay inside a branch at the same time and minimum distance between persons present in a branch, providing employees with gloves, face coverings or visors)

- As part of activities in support of employee welfare a “Take care of yourself in May” prevention campaign was organised. A part of this particular programme the “Millennium World” house magazine, MilleForum as well as Contact Centre News published advice, articles and exercises prepared by specialists and employees alike, which helped keep a proper balance and health during the pandemic and home office. A chat with a psychologist also took place.
- 18 May saw the start of a three-step plan of safely returning to the head office 3600 employees working from home. The plan includes i.a.: the concept of organising work for persons who belong to the group of increased health risk, persons earlier recognised as key workers for maintaining the bank’s business continuity as well as rules of mandatory presence, safety, organisation of meetings, moving around common spaces in buildings, etc.
- To help people return to their offices, special work safety and organisation rules have been introduced. The recommendations cover i.a. the obligation to wear face coverings (face masks), disinfect hands, maintain a distance of at least 1,5m in office spaces. They also cover moving around buildings. Special visual communication has also been implemented as well as communication on Intranet channels, which remind of following the rules and recommendations.

2. The Financial ABC is an original kindergarten kids financial education programme of the Bank Millennium Foundation under the honorary sponsorship of the Minister of Education and the Children’s Rights Ombudsman. Its goal is to explain through fun and play the basic notions from the world of finance to the youngest.

- As it was not possible to implement the programme in the form of kindergarten workshops, the project was transferred to the Internet and found its audience on YouTube as a miniseries of three animated movies. Where money comes from and why you cannot have all the toys in the world - this is what children can learn from animations prepared especially for them about the adventures of Sebastian, the main character in the “Financial ABC”. This a real support for parents in their home education of preschoolers during the pandemic. The next film is being prepared.
- Advanced work is under way on the Guide for Parents “How to teach your kids about finance”. The guide will contain 11 texts which can come in handy when educating entrepreneurial kids. E-articles contain interesting games and activities which involve both kids and adults. They are distinguished by their light-weight style, accessible language and practicality. The guide aims to teach good habits related to savings, respect for work and for money. The guide will be launched in July.
- The need for this type of Guide is confirmed by a study conducted in May by GfK for the Foundation. Those polled - parents of preschoolers - declared that they felt the need of educating children in the field of finance. Three quarters of the surveyed preschooler parents are of the opinion that 3-7 years of age is the best time to embark upon the financial education of your kids.

3. “Banking without barriers” is one of the main community-oriented programmes run by Bank Millennium, the aim of which is to eliminate digital and physical barriers in access to financial and non-financial services. CSR actions carried out by Bank Millennium and the Bank’s Foundation are highly appreciated by the market.

- In April the Bank scored first and second in the TOP CDR Technologically Responsible Company competition. Honourable mentions were awarded for the “Banking without barriers” project in following categories: Digitalisation and Public Choice Award.
- Bank Millennium was also awarded the CSR Golden Leaf of Polityka weekly, thus joining the exclusive club of institutions with the highest scores as regards CSR. In earlier years the Bank was awarded a Silver Leaf as many as five times. These coveted awards go to companies which implement the most stringent standards of corporate social responsibility in their day-to-day activity – they have ethics management systems, are involved in the voluntary sector, implement initiatives in response to the needs of their clients and staff and minimize their environmental footprint.
- The Bank’s initiatives addressed to clients, employees, local communities and the environment were described in “Responsible Business in Poland 2019” released by the Responsible Business Forum last April. The awarded activities implemented by the Bank include among others “The Financial ABC”, financial education programme for preschoolers, “Millantrop”, employee volunteering programme, increasing the accessibility of banking services for disabled persons, introducing amenities for working parents as part of the “Parents - Yes” programme and activities for the environment.

4. In the first half-year the Bank and Bank Millennium Foundation also supported women’s promotion programmes

- Bank Millennium together with BCP took part in the Bloomberg Gender Equality Index ranking, in which companies from 42 countries all over the world took part, representing over 50 different sectors. The Bank has thus joined 325 companies which stand out in implementing practices and policies of gender equality, diversity and integration. Clear and transparent reporting is essential in this regard. The results of the 2020 edition were published in January this year.
- In the first half of 2020 the Bank continued the 3xM(ille) programme, among others on 20 February it organised a meeting summarising the previous editions of the project. The “Diversity” event included female speakers from previous editions as well as over 60 female employees of the Bank.
- on 1 June the Bank became a sponsoring partner of the „I’m a Leader” competition organised by Vital Voices Poland, an NGO operating for over 30 years, for women aged 16-19. The purpose of this programme is to support the development of leadership talent, refute stereotypes and promote a female leadership style. The award is the participation of the finalists in a development and mentoring programme. In supporting the project Millennium uses its main strengths: strong position in the market, experience in the development of best leaders and promotion of diversity-based cooperation. This is an opportunity to present to a broader audience the effective cooperation, experience and female leadership implemented at Bank Millennium.
- On the occasion of the International Women’s Day the Bank Millennium Foundation funded two grants in support of women’s activities in the field of culture. The purpose of the #BankowośćJestKobietą (Banking is a Woman) competition organised by a group of banks was to select the most interesting projects/initiatives for women proposed and implemented by women. The Facebook-based competition conducted in March and April was addressed to non-governmental organisations and associations working for making women more active in local communities.

6. REPRESENTATIONS OF THE MANAGEMENT BOARD

6.1. Presentation of asset and financial position of the Capital Group of Bank Millennium in the financial report

According to the best knowledge, the Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A., in 6 month period ending 30th June 2020 and the comparable data as well and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the period of 6 month ending 30th June 2020 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This Semi-annual Management Board Report on the activity of Bank Millennium and the Group contains a true picture of development, achievements and condition of Bank Millennium and the Capital Group of Bank Millennium.

6.2. Selection of an entity authorized to financial reports auditing

The entity authorized to audit financial reports, reviewing this Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A. for the 6 month period ending 30th June 2020 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6 month period ending 30th June 2020 - was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
22.07.2020	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
22.07.2020	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
22.07.2020	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
22.07.2020	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
22.07.2020	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
22.07.2020	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
22.07.2020	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature