

**Consolidated report  
of the Bank Millennium S.A. Capital Group  
for 1<sup>st</sup> half 2021**



## Consolidated Financial Highlights

	Amount '000 PLN		Amount '000 EUR	
	1.01.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.01.2021 - 30.06.2021	1.01.2020 - 30.06.2020
Interest income and other of similar nature	1 339 896	1 763 714	294 664	397 117
Fee and commission income	499 849	471 703	109 925	106 208
Profit (loss) before income tax	(348 941)	185 936	(76 738)	41 865
Profit (loss) after taxes	(511 648)	71 724	(112 519)	16 149
Total comprehensive income of the period	(711 301)	258 324	(156 426)	58 164
Net cash flows from operating activities	5 196 216	3 412 627	1 142 729	768 385
Net cash flows from investing activities	(1 213 782)	(4 476 108)	(266 930)	(1 007 837)
Net cash flows from financing activities	(91 646)	(377 462)	(20 154)	(84 989)
Net cash flows, total	3 890 788	(1 440 943)	855 645	(324 442)
Earnings (losses) per ordinary share (in PLN/EUR)	(0.42)	0.06	(0.09)	0.01
Diluted earnings (losses) per ordinary share	(0.42)	0.06	(0.09)	0.01
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Total Assets	104 107 030	97 322 785	23 028 453	21 089 275
Liabilities to banks and other monetary institutions	742 313	1 057 652	164 199	229 187
Liabilities to customers	89 998 487	81 510 540	19 907 646	17 662 854
Equity	8 376 310	9 090 976	1 852 838	1 969 961
Share capital	1 213 117	1 213 117	268 341	262 875
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	6.90	7.49	1.53	1.62
Diluted book value per share (in PLN/EUR)	6.90	7.49	1.53	1.62
Total Capital Ratio (TCR)	18.65%	19.49%	18.65%	19.49%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

### Exchange rates accepted to convert selected financial data into EUR

for items as at the balance sheet date	-	-	4.5208	4.6148
for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period)	-	-	4.5472	4.4413

**CONSOLIDATED REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR 1<sup>ST</sup> HALF 2021**

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**CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL  
GROUP FOR THE 6 MONTHS ENDED 30 JUNE 2021**

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# 1. General Information about Issuer

Bank Millennium S.A. (the Bank) is a nationwide universal bank, offering its services to all market segments via a network of branches, corporate centres, individual advisors and mobile and electronic banking.

The Bank, entered under the number KRS 0000010186 in the National Court Register kept by the Local Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, is seated in Warsaw, Stanisława Żaryna 2A.

The Bank is listed on the Warsaw Stock Exchange since 1992, first Bank ever to float its shares on the WSE.

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 7,100 employees with core business comprising banking (including mortgage bank), leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

## **Supervisory Board and Management Board of Bank Millennium S.A. as at 30 June 2021**

Composition of the Supervisory Board as at 30 June 2021 was as follows:

- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board,
- Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board,
- Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
- Olga Grygier-Siddons - Member of the Supervisory Board,
- Anna Jakubowski - Member of the Supervisory Board,
- Grzegorz Jędryś - Member of the Supervisory Board,
- Alojzy Nowak - Member of the Supervisory Board,
- Jose Miguel Bensliman Schorcht da Silva Pessanha - Member of the Supervisory Board
- Miguel Maya Dias Pinheiro - Member of the Supervisory Board,
- Beata Stelmach - Member of the Supervisory Board,
- Lingjiang Xu - Member of the Supervisory Board.

Composition of the Management Board as at 30 June 2021 was as follows:

- Joao Nuno Lima Bras Jorge - Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho - Deputy Chairman of the Management Board,
- Wojciech Haase - Member of the Management Board,
- Andrzej Gliński - Member of the Management Board,
- Wojciech Rybak - Member of the Management Board,
- Antonio Ferreira Pinto Junior - Member of the Management Board,
- Jarosław Hermann - Member of the Management Board.

## Capital Group of Bank Millennium S.A.

The Group's parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium S.A. is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 30 June 2021, are presented by the table below:

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
MILLENNIUM BANK HIPOTECZNY S.A.	mortgage bank	Warsaw	100	100	full consolidation
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	full consolidation
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	full consolidation
MILLENNIUM TFI S.A.	investment funds management	Warsaw	100	100	full consolidation
MILLENNIUM SERVICE Sp. z o.o.	rental and management of real estate, insurance and brokers activity	Warsaw	100	100	full consolidation
MILLENNIUM GOODIE Sp. z o.o.	web portals activity	Warsaw	100	100	full consolidation
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	full consolidation
Piast Expert Sp. z o.o. in liquidation	marketing services	Tychy	100	100	full consolidation
LUBUSKIE FABRYKI MEBLI S.A. in liquidation	furniture manufacturer	Świebodzin	50 (+1 share)	50 (+1 share)	equity method valuation *

\* Despite having a control over the Lubuskie Fabryki Mebli S.A., due to insignificant nature of this company from the realization of the primary goal of the consolidated financial statements point of view, which is the correct presentation of Group's financial situation, the Group does not consolidate capital involvement in aforementioned enterprise.

## 2. Introduction and Accounting Policy

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2020.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the six months ending June 30, 2021.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2021 to 30 June 2021:

- include financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method;
- are prepared on the basis of the assumption of business continuity by the Group, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;
- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

The Management Board approved these condensed consolidated interim financial statements on 23<sup>rd</sup> July 2021.

### Changes of applied accounting principles introduced in 2021

Commencing from these financial statements, the Group changed the presentation of interest on derivatives not covered by formal hedge accounting. Bearing in mind that these instruments, although they are included in the trading book, are mainly concluded in order to establish economic hedging against the risk of other financial assets or liabilities, the Group, from the first half of 2021, presents the interest in the Income statement as part of the "Net interest income", while previously this interest was included in the item "Results on financial assets and liabilities held for trading". In order to ensure comparability, the Group has made appropriate adjustments to the comparable data in the Income statement as presented below:

Income statement line	Data for the first half of 2020 presented in the consolidated financial statements for the first half of 2020	Value of adjustment	Data for the first half of 2020 presented in these consolidated financial statements for the first half of 2021
Interest income and other of similar nature	1 737 084	26 630	1 763 714
Results on financial assets and liabilities held for trading	32 139	(26 630)	5 509



In the first half of 2021, the Group changed the presentation of provisions for individual court cases related to CHF mortgage loans. Commencing from the first quarter of 2021, the Group allocates the portfolio provisions for future legal issues and recognizes it as a reduction of the gross carrying amount of loans for which a decrease in future cash flows is expected in accordance with IFRS 9 "Financial Instruments". Considering that, as in the case of the portfolio provisions, a decrease in cash flows is also expected in the case of exposures subject to individual litigations, the Group, starting from June 30, 2021, increased the scope of the allocated provisions by provisions for individual litigations (previously provisions for individual litigations used to be recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as provisions for pending legal issues). As a result of the above change, the solution in line with IAS 37 will be continued only with regard to disputes relating to already repaid receivables not included in the Group's balance sheet.

The amount of the allocation of provisions for individual cases made at the end of June 2021 (transferred from the balance sheet item "provisions for pending legal issues" to the item "loans and advances to customers measured at amortized cost" as a reduction of gross value) amounted to PLN 988.6 million.

In order to ensure comparability, the Group has made appropriate adjustments to comparable data in the balance sheet as presented below:

Balance sheet item	Data presented previously in consolidated financial statements	Value of adjustment	Data presented in consolidated financial statements for I half 2021
<b>31.03.2021</b>			
Loans and advances to customers valued at amortised cost	73 678 342	(675 075)	73 003 267
Provisions for pending legal issues	1 094 653	(675 075)	419 578
<b>31.12.2020</b>			
Loans and advances to customers valued at amortised cost	72 472 589	(449 000)	72 023 589
Provisions for pending legal issues	555 922	(449 000)	106 922
<b>30.06.2020</b>			
Loans and advances to customers valued at amortised cost	70 026 850	(168 239)	69 858 611
Provisions for pending legal issues	225 982	(168 239)	57 743
<b>01.01.2020</b>			
Loans and advances to customers valued at amortised cost	68 117 195	(73 723)	68 043 472
Provisions for pending legal issues	111 785	(73 723)	38 062

### 3. Consolidated Financial Data (Group)

#### CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Net interest income		1 277 166	654 872	1 329 854	640 218
Interest income and other of similar nature	1	1 339 896	684 964	1 763 714	822 114
Income calculated using the effective interest method		1 298 840	663 537	1 690 409	795 222
Interest income from Financial assets at amortised cost		1 225 365	627 071	1 494 399	701 332
Interest income from Financial assets at fair value through other comprehensive income		73 475	36 466	196 010	93 890
Income of similar nature to interest from Financial assets at fair value through profit or loss		41 056	21 427	73 305	26 892
Interest expenses	2	(62 730)	(30 092)	(433 860)	(181 896)
Net fee and commission income		414 087	209 310	373 528	178 995
Fee and commission income	3	499 849	253 855	471 703	224 034
Fee and commission expenses	4	(85 762)	(44 545)	(98 175)	(45 039)
Dividend income		2 703	2 567	3 268	3 025
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	9 265	8 402	48 920	35 173
Results on financial assets and liabilities held for trading	6	(6 033)	(2 225)	5 509	9 644
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	10 460	2 344	(18 930)	(7 251)
Result on hedge accounting		(274)	(1 164)	(8 032)	(3 518)
Result on exchange differences		12 312	(10 843)	71 633	27 949
Other operating income		116 440	72 804	64 677	52 084
Other operating expenses		(52 672)	(23 652)	(115 802)	(90 742)
Administrative expenses	8	(705 189)	(329 304)	(815 812)	(351 246)
Impairment losses on financial assets	9	(115 849)	(41 479)	(323 634)	(202 069)
Provisions for COVID-19		0	0	0	60 000
Impairment losses on non-financial assets		(4 939)	(2 562)	(4 591)	(2 827)
Provisions for legal risk connected with FX mortgage loans		(1 047 044)	(513 641)	(168 019)	(112 694)
Result on modification		(6 731)	(3 186)	(8 232)	(6 283)
Depreciation		(100 675)	(49 227)	(107 213)	(53 873)
Share of the profit of investments in subsidiaries		0	0	0	0
Banking tax		(151 968)	(76 927)	(141 188)	(68 447)
<b>Profit before income taxes</b>		<b>(348 941)</b>	<b>(103 911)</b>	<b>185 936</b>	<b>108 138</b>
Corporate income tax	10	(162 707)	(96 399)	(114 212)	(54 543)
<b>Profit after taxes</b>		<b>(511 648)</b>	<b>(200 310)</b>	<b>71 724</b>	<b>53 595</b>
Attributable to:					
Owners of the parent		(511 648)	(200 310)	71 724	53 595
Non-controlling interests		0	0	0	0
Weighted average number of outstanding ordinary shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)		(0.42)	(0.17)	0.06	0.04

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
Profit after taxes	(511 648)	(200 310)	71 724	53 595
Other comprehensive income items that may be (or were) reclassified to profit or loss	(246 500)	(132 545)	230 352	161 369
Result on debt securities	(207 659)	(121 558)	238 310	189 516
Hedge accounting	(38 841)	(10 987)	(7 958)	(28 147)
Other comprehensive income items that will not be reclassified to profit or loss	14	13	18	52
Actuarial gains (losses)	0	0	0	0
Result on equity instruments	14	13	18	52
<b>Total comprehensive income items before taxes</b>	<b>(246 486)</b>	<b>(132 532)</b>	<b>230 370</b>	<b>161 421</b>
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	46 836	25 184	(43 767)	(30 660)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(3)	(3)	(3)	(9)
<b>Total comprehensive income items after taxes</b>	<b>(199 653)</b>	<b>(107 351)</b>	<b>186 600</b>	<b>130 752</b>
<b>Total comprehensive income for the period</b>	<b>(711 301)</b>	<b>(307 661)</b>	<b>258 324</b>	<b>184 347</b>
Attributable to:				
Owners of the parent	(711 301)	(307 661)	258 324	184 347
Non-controlling interests	0	0	0	0

## CONSOLIDATED BALANCE SHEET

### ASSETS

<i>Amount '000 PLN</i>	<i>Note</i>	<b>30.06.2021</b>	<b>31.03.2021</b>	<b>31.12.2020</b>	<b>30.06.2020</b>
Cash, cash balances at central banks		2 676 407	2 360 647	1 460 289	1 224 788
Financial assets held for trading	11	226 620	389 800	423 846	479 157
Derivatives		125 023	225 639	154 188	141 929
Equity instruments		285	280	245	212
Debt securities		101 312	163 881	269 413	337 016
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers		158 516	255 143	251 107	177 097
Equity instruments		103 072	203 707	200 772	66 609
Debt securities		55 444	51 436	50 335	110 488
Financial assets at fair value through other comprehensive income	12	22 010 922	22 755 127	18 642 615	26 105 506
Equity instruments		29 549	29 547	29 538	29 676
Debt securities		21 981 373	22 725 580	18 613 077	26 075 830
Loans and advances to customers	13	75 794 251	74 635 652	73 639 342	71 339 609
Mandatorily at fair value through profit or loss		1 671 619	1 632 385	1 615 753	1 480 998
Valued at amortised cost		74 122 632	73 003 267	72 023 589	69 858 611
Financial assets at amortised cost other than Loans and advances to customers	14	660 924	668 273	730 598	985 092
Debt securities		37 057	38 902	38 818	43 879
Deposits, loans and advances to banks and other monetary institutions		605 506	605 247	625 430	875 837
Reverse sale and repurchase agreements		18 361	24 124	66 350	65 376
Derivatives - Hedge accounting	15	38 102	33 301	21 795	86 775
Investments in subsidiaries, joint ventures and associates		0	0	0	0
Tangible fixed assets		543 763	555 651	571 813	600 834
Intangible fixed assets		367 933	373 624	384 781	370 393
Income tax assets		686 385	682 678	665 940	540 899
Current income tax assets		8 595	2 690	3 883	3 060
Deferred income tax assets	17	677 790	679 988	661 291	537 839
Other assets		925 434	632 833	509 035	466 874
Non-current assets and disposal groups classified as held for sale		17 772	23 452	22 390	33 374
<b>Total assets</b>		<b>104 107 030</b>	<b>103 366 182</b>	<b>97 322 785</b>	<b>102 410 398</b>

## LIABILITIES AND EQUITY

Amount '000 PLN	Note	30.06.2021	31.03.2021	31.12.2020	30.06.2020
<b>LIABILITIES</b>					
Financial liabilities held for trading	11	77 594	83 964	168 553	200 229
Derivatives		66 499	74 513	103 775	129 931
Liabilities from short sale of securities		11 095	9 451	64 778	70 298
Financial liabilities measured at amortised cost		92 591 374	91 052 766	84 915 527	89 996 642
Liabilities to banks and other monetary institutions	18	742 313	825 526	1 057 652	1 429 762
Liabilities to customers	19	89 998 487	88 254 606	81 510 540	86 254 625
Sale and repurchase agreements	20	0	9 980	248 566	0
Debt securities issued	21	310 694	423 600	558 560	767 017
Subordinated debt	22	1 539 881	1 539 054	1 540 209	1 545 238
Derivatives - Hedge accounting	15	251 303	485 502	738 850	678 043
Provisions	23	408 301	473 184	158 650	114 398
Pending legal issues		362 095	419 578	106 922	57 743
Commitments and guarantees given		46 206	53 606	51 728	56 655
Provisions for COVID-19		0	0	0	0
Income tax liabilities		14 183	35 012	30 843	15 412
Current income tax liabilities		14 183	35 012	30 843	15 412
Deferred income tax liabilities	17	0	0	0	0
Other liabilities		2 387 965	2 548 419	2 219 386	2 205 831
<b>Total Liabilities</b>		<b>95 730 720</b>	<b>94 678 847</b>	<b>88 231 809</b>	<b>93 210 555</b>
<b>EQUITY</b>					
Share capital		1 213 117	1 213 117	1 213 117	1 213 117
Own shares		(3 386)	(21)	(21)	0
Share premium		1 147 502	1 147 502	1 147 502	1 147 502
Accumulated other comprehensive income		204	107 554	199 857	256 693
Retained earnings		6 018 873	6 219 183	6 530 521	6 582 531
<b>Total equity</b>		<b>8 376 310</b>	<b>8 687 335</b>	<b>9 090 976</b>	<b>9 199 843</b>
<b>Total equity and total liabilities</b>		<b>104 107 030</b>	<b>103 366 182</b>	<b>97 322 785</b>	<b>102 410 398</b>
<b>Book value of net assets</b>					
Book value of net assets		8 376 310	8 687 335	9 090 976	9 199 843
Number of shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)		6.90	7.16	7.49	7.58

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total consolidated equity	Share capital	Own shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Unappropriated result
<b>01.01.2021 - 30.06.2021</b>							
Equity at the beginning of the period	9 090 976	1 213 117	(21)	1 147 502	199 857	156 258	6 374 263
Total comprehensive income for period (net)	(711 301)	0	0	0	(199 653)	(511 648)	0
net profit/ (loss) of the period	(511 648)	0	0	0	0	(511 648)	0
valuation of debt securities	(168 203)	0	0	0	(168 203)	0	0
valuation of shares	11	0	0	0	11	0	0
hedge accounting	(31 461)	0	0	0	(31 461)	0	0
Purchase and transfer of own shares to employees	(3 365)	0	(3 365)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	(15 636)	15 636
Equity at the end of the period	8 376 310	1 213 117	(3 386)	1 147 502	204	(371 026)	6 389 899
<b>01.04.2021 - 30.06.2021</b>							
Equity at the beginning of the period	8 687 335	1 213 117	(21)	1 147 502	107 554	(170 716)	6 389 899
Total comprehensive income for period (net)	(307 660)	0	0	0	(107 350)	(200 310)	0
net profit/ (loss) of the period	(200 310)	0	0	0	0	(200 310)	0
valuation of debt securities	(98 461)	0	0	0	(98 461)	0	0
valuation of shares	10	0	0	0	10	0	0
hedge accounting	(8 899)	0	0	0	(8 899)	0	0
Purchase and transfer of own shares to employees	(3 365)	0	(3 365)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	0	0
Equity at the end of the period	8 376 310	1 213 117	(3 386)	1 147 502	204	(371 026)	6 389 899
<b>01.01.2020 - 31.12.2020</b>							
Equity at the beginning of the period	8 941 519	1 213 117	0	1 147 502	70 093	692 065	5 818 742
Total comprehensive income for period (net)	152 581	0	0	0	129 764	22 817	0
net profit/ (loss) of the period	22 817	0	0	0	0	22 817	0
valuation of debt securities	142 788	0	0	0	142 788	0	0
valuation of shares	(105)	0	0	0	(105)	0	0
hedge accounting	(12 582)	0	0	0	(12 582)	0	0
Purchase and transfer of own shares to employees	(337)	0	0	0	(337)	0	0
Transfer between items of reserves	(3 124)	0	(21)	0	0	0	(3 103)
Equity at the end of the period	0	0	0	0	0	(558 624)	558 624
Equity at the beginning of the period	9 090 976	1 213 117	(21)	1 147 502	199 857	156 258	6 374 263
<b>01.01.2020 - 30.06.2020</b>							
Equity at the beginning of the period	8 941 519	1 213 117	0	1 147 502	70 093	692 065	5 818 742
Total comprehensive income for period (net)	258 324	0	0	0	186 600	71 724	0
net profit/ (loss) of the period	71 724	0	0	0	0	71 724	0
valuation of debt securities	193 031	0	0	0	193 031	0	0
valuation of shares	15	0	0	0	15	0	0
hedge accounting	(6 446)	0	0	0	(6 446)	0	0
Transfer between items of reserves	0	0	0	0	0	(558 624)	558 624
Equity at the end of the period	9 199 843	1 213 117	0	1 147 502	256 693	205 165	6 377 366

## CONSOLIDATED CASH FLOW STATEMENT

### A. CASH FLOWS FROM OPERATING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
Profit (loss) after taxes	(511 648)	(200 310)	71 724	53 595
Total adjustments:	5 707 864	40 031	3 340 903	2 509 879
Interest received	1 330 000	690 953	1 728 596	834 484
Interest paid	(60 543)	(23 047)	(411 972)	(183 128)
Depreciation and amortization	100 675	49 227	107 213	53 873
Foreign exchange (gains)/ losses	0	0	37 638	(17 353)
Dividends	(2 703)	(2 567)	(3 268)	(3 025)
Changes in provisions	249 651	(64 883)	(116 605)	10 471
Result on sale and liquidation of investing activity assets	(9 638)	(7 953)	(53 982)	(41 337)
Change in financial assets held for trading	175 206	215 296	312 480	172 192
Change in loans and advances to banks	284 930	53 266	(243 988)	700 949
Change in loans and advances to customers	(3 346 434)	(1 738 753)	(3 053 828)	(122 362)
Change in receivables from securities bought with sell-back clause (loans and advances)	47 989	5 762	133 626	46 055
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(578 506)	(240 569)	98 425	(712 401)
Change in deposits from banks	(240 975)	(66 188)	(135 525)	(32 388)
Change in deposits from customers	8 543 703	1 763 360	5 187 686	2 843 174
Change in liabilities from securities sold with buy-back clause	(248 557)	(9 976)	(83 038)	(1 054 931)
Change in debt securities	(245 503)	(111 274)	(104 946)	(25 173)
Change in income tax settlements	162 773	96 219	104 319	53 760
Income tax paid	(153 045)	(96 304)	(168 727)	(75 285)
Change in other assets and liabilities	(288 978)	(469 850)	(24 307)	46 964
Other	(12 181)	(2 688)	31 106	15 339
<b>Net cash flows from operating activities</b>	<b>5 196 216</b>	<b>(160 279)</b>	<b>3 412 627</b>	<b>2 563 474</b>

## B. CASH FLOWS FROM INVESTING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
<b>Inflows:</b>	<b>89 974 106</b>	<b>45 709 657</b>	<b>74 966 393</b>	<b>24 045 262</b>
Proceeds from sale of property, plant and equipment and intangible assets	42 222	12 710	14 697	13 295
Proceeds from sale of shares in related entities	0	0	0	0
Proceeds from sale of investment financial assets	89 929 181	45 694 380	74 948 428	24 028 942
Other	2 703	2 567	3 268	3 025
<b>Outflows:</b>	<b>(91 187 888)</b>	<b>(45 124 641)</b>	<b>(79 442 501)</b>	<b>(27 857 643)</b>
Acquisition of property, plant and equipment and intangible assets	(25 686)	(14 864)	(26 399)	(21 725)
Acquisition of shares in related entities	0	0	0	0
Acquisition of investment financial assets	(91 162 202)	(45 109 777)	(79 416 102)	(27 835 918)
Other	0	0	0	0
<b>Net cash flows from investing activities</b>	<b>(1 213 782)</b>	<b>585 016</b>	<b>(4 476 108)</b>	<b>(3 812 381)</b>

## C. CASH FLOWS FROM FINANCING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
<b>Inflows from financing activities:</b>	<b>0</b>	<b>0</b>	<b>13 000</b>	<b>13 000</b>
Long-term bank loans	0	0	13 000	13 000
Issue of debt securities	0	0	0	0
Increase in subordinated debt	0	0	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
<b>Outflows from financing activities:</b>	<b>(91 646)</b>	<b>(23 995)</b>	<b>(390 462)</b>	<b>(363 633)</b>
Repayment of long-term bank loans	(69 847)	(14 847)	(51 564)	(46 564)
Redemption of debt securities	0	0	(299 440)	(299 440)
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(21 799)	(9 148)	(39 458)	(17 629)
<b>Net cash flows from financing activities</b>	<b>(91 646)</b>	<b>(23 995)</b>	<b>(377 462)</b>	<b>(350 633)</b>

<b>D. Net cash flows. Total (A + B + C)</b>	<b>3 890 788</b>	<b>400 742</b>	<b>(1 440 943)</b>	<b>(1 599 540)</b>
- including change resulting from FX differences	(1 926)	(5 912)	6 390	(3 788)
<b>E. Cash and cash equivalents at the beginning of the reporting period</b>	<b>1 586 434</b>	<b>5 076 480</b>	<b>3 752 789</b>	<b>3 911 387</b>
<b>F. Cash and cash equivalents at the end of the reporting period (D + E)</b>	<b>5 477 222</b>	<b>5 477 222</b>	<b>2 311 846</b>	<b>2 311 846</b>



## 4. Notes to Consolidated Financial Data

### 1) INTEREST INCOME AND OTHER OF SIMILAR NATURE

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Interest income from Financial assets at fair value through other comprehensive income	73 475	36 466	196 010	93 890
Debt securities	73 475	36 466	196 010	93 890
Interest income from Financial assets at amortised cost	1 225 364	627 070	1 494 399	701 332
Balances with the Central Bank	206	106	5 069	1 432
Loans and advances to customers	1 171 869	601 896	1 363 608	645 409
Debt securities	301	150	711	340
Deposits, loans and advances to banks	(56)	(71)	572	50
Transactions with repurchase agreements	0	0	6 439	514
Hedging derivatives	53 045	24 990	118 000	53 587
Income of similar nature to interest, including:	41 056	21 427	73 305	26 892
Loans and advances to customers mandatorily at fair value through profit or loss	35 218	18 548	43 210	13 082
Financial assets held for trading - derivatives	5 552	2 758	26 630	12 761
Financial assets held for trading - debt securities	286	121	3 465	1 049
<b>Total</b>	<b>1 339 896</b>	<b>684 964</b>	<b>1 763 714</b>	<b>822 114</b>

In the line „Hedging derivatives” the Group presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Group is presented in note (23).

Interest income for the I half 2021 contains interest accrued on impaired loans in the amount of PLN 52,770 thous. (for corresponding data in the year 2020 the amount of such interest stood at PLN 51,246 thous.).

### 2) INTEREST EXPENSES AND OTHER OF SIMILAR NATURE

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Financial liabilities measured at amortised cost	(62 728)	(30 091)	(433 836)	(181 878)
Liabilities to banks and other monetary institutions	(3 517)	(1 601)	(12 209)	(5 876)
Liabilities to customers	(33 288)	(15 588)	(369 569)	(153 804)
Transactions with repurchase agreement	(9)	(4)	(7 674)	(1 372)
Debt securities issued	(2 364)	(1 032)	(9 679)	(3 634)
Subordinated debt	(19 368)	(9 727)	(30 499)	(14 913)
Liabilities due to leasing agreements	(4 182)	(2 139)	(4 206)	(2 279)
Other	(2)	(1)	(24)	(18)
<b>Total</b>	<b>(62 730)</b>	<b>(30 092)</b>	<b>(433 860)</b>	<b>(181 896)</b>

### 3) FEE AND COMMISSION INCOME

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Resulting from accounts service	68 579	29426	39 535	19 808
Resulting from money transfers, cash payments and withdrawals and other payment transactions	37 724	19244	32 161	15 852
Resulting from loans granted	104 627	53751	106 096	47 981
Resulting from guarantees and sureties granted	6 659	3429	6 976	3 203
Resulting from payment and credit cards	108 826	57091	106 875	51 315
Resulting from sale of insurance products	82 888	44178	90 499	42 046
Resulting from distribution of investment funds units and other savings products	34 817	17665	28 987	14 555
Resulting from brokerage and custody service	9 257	4187	9 462	5 031
Resulting from investment funds managed by the Group	32 608	17419	32 177	14 612
Other	13 864	7465	18 935	9 631
<b>Total</b>	<b>499 849</b>	<b>253 855</b>	<b>471 703</b>	<b>224 034</b>

In 2020, as a result of updating the source data, which made it possible to determine the turnover in the accounts, a new methodology for presenting data in the field of income and commission expense notes was implemented. The current grouping of values to individual items is carried out at the transaction level, taking into account the division into revenues and costs. Relevant adjustments were made to the comparative data, but the net values of individual items of the commission result were not significantly adjusted.

### 4) FEE AND COMMISSION EXPENSE

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Resulting from accounts service	(970)	(2 598)	(10 075)	(4 711)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(2 266)	(1 118)	(2 234)	(1 189)
Resulting from loans granted	(13 959)	(6 649)	(17 612)	(8 499)
Resulting from payment and credit cards	(40 122)	(18 664)	(44 804)	(18 784)
Resulting from brokerage and custody service	(1 682)	(807)	(1 571)	(777)
Resulting from investment funds managed by the Group	(5 372)	(2 687)	(5 410)	(2 342)
Resulting from insurance activity	(9 642)	(4 706)	(7 574)	(3 787)
Other	(11 749)	(7 316)	(8 895)	(4 949)
<b>Total</b>	<b>(85 762)</b>	<b>(44 545)</b>	<b>(98 175)</b>	<b>(45 040)</b>

## Verdict of Court of Justice of the European Union regarding return of commission in case of early repaid loans

On 11 September 2019 The Court of Justice of the European Union ruled in the case of Lexitor against SKOK Stefczyka, Santander Consumer Bank and mBank (case C 383/18) in which it stated that consumer has rights to demand the reduction of the total loan cost corresponding to interest and costs for the remaining term of the agreement in case of early repayment of loan.

Taking into consideration this verdict, the Group as at 30 June 2021 had a provision in the amount of PLN 99.3 million which was estimated based on the maximum amount of potential returns and the probability of payment being made.

### 5) RESULT ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Operations on debt instruments	10 715	9 189	49 976	35 826
Costs of financial operations	(1 450)	(787)	(1 056)	(653)
Total	9 265	8 402	48 920	35 173

### 6) RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Result on debt instruments	(3 483)	(1 774)	7 197	10 530
Result on derivatives	(2 531)	(453)	(1 678)	(863)
Result on other financial operations	(19)	2	(10)	(23)
Total	(6 033)	(2 225)	5 509	9 644

### 7) RESULTS NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Loans and advances to customers	(5 991)	(10 070)	(26 417)	(14 738)
Result on equity instruments	11 342	8 407	0	0
Result on debt instruments	5 109	4 007	7 487	7 487
Total	10 460	2 344	(18 930)	(7 251)

## 8) ADMINISTRATIVE EXPENSES

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Staff costs:	(411 015)	(205 416)	(451 200)	(207 448)
Salaries	(336 273)	(167 863)	(376 594)	(171 922)
Surcharges on pay	(59 241)	(29 234)	(64 854)	(30 507)
Employee benefits, including:	(15 501)	(8 319)	(9 752)	(5 019)
- provisions for retirement benefits	(3 468)	(1 956)	(2 780)	(1 608)
- provisions for unused employee holiday	(20)	(15)	(19)	(11)
- other	(12 013)	(6 348)	(6 953)	(3 400)
Other administrative expenses:	(294 174)	(123 888)	(364 612)	(143 798)
Costs of advertising, promotion and representation	(27 338)	(14 571)	(30 094)	(15 993)
IT and communications costs	(59 537)	(29 879)	(66 040)	(31 186)
Costs of renting	(28 090)	(12 183)	(40 319)	(19 238)
Costs of buildings maintenance, equipment and materials	(20 271)	(10 023)	(28 410)	(14 564)
ATM and cash maintenance costs	(13 092)	(6 770)	(14 473)	(6 932)
Costs of consultancy, audit and legal advisory and translation	(25 720)	(14 490)	(15 123)	(9 540)
Taxes and fees	(17 778)	(9 310)	(17 124)	(8 509)
KIR - clearing charges	(4 439)	(2 292)	(3 882)	(1 912)
PFRON costs	(3 568)	(1 736)	(4 378)	(2 220)
Banking Guarantee Fund costs	(83 319)	(30 183)	(113 066)	(27 991)
Financial Supervision costs	(6 346)	(3 180)	(5 223)	(2 722)
Other	(4 676)	10 729	(26 480)	(2 991)
<b>Total</b>	<b>(705 189)</b>	<b>(329 304)</b>	<b>(815 812)</b>	<b>(351 246)</b>

## 9) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Impairment losses on loans and advances to customers	(121 292)	(48 624)	(320 705)	(201 229)
Impairment charges on loans and advances to customers	(826 439)	(355 046)	(906 546)	(407 395)
Reversal of impairment charges on loans and advances to customers	645 772	273 514	560 729	195 382
Amounts recovered from loans written off	26 941	13 899	25 087	10 783
Sale of receivables	32 650	19 197	(16)	(16)
Other directly recognised in profit and loss	(216)	(188)	41	17
Impairment losses on securities	(4)	2	50	50
Impairment charges on securities	(6)	0	0	0
Reversal of impairment charges on securities	2	2	50	50
Impairment losses on off-balance sheet liabilities	5 447	7 143	(2 979)	(890)
Impairment charges on off-balance sheet liabilities	(38 544)	(7 793)	(46 881)	(15 040)
Reversal of impairment charges on off-balance sheet liabilities	43 991	14 936	43 902	14 150
<b>Total</b>	<b>(115 849)</b>	<b>(41 479)</b>	<b>(323 634)</b>	<b>(202 069)</b>

## 10) CORPORATE INCOME TAX

### 10A. INCOME TAX REPORTED IN INCOME STATEMENT

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Current tax	(132 954)	(70 336)	(161 618)	(78 601)
Current year	(132 954)	(70 336)	(161 618)	(78 601)
Deferred tax:	(29 753)	(26 063)	47 406	24 058
Recognition and reversal of temporary differences	(22 482)	(22 968)	18 709	(4 720)
Recognition / (Utilisation) of tax loss	(7 271)	(3 095)	28 697	28 778
<b>Total income tax reported in income statement</b>	<b>(162 707)</b>	<b>(96 399)</b>	<b>(114 212)</b>	<b>(54 543)</b>

### 10B. EFFECTIVE TAX RATE

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Profit before tax	(348 941)	(103 911)	185 937	108 139
Statutory tax rate	19%	19%	19%	19%
Income tax according to obligatory income tax rate of 19%	66 299	19 743	(35 328)	(20 546)
<b>Impact of permanent differences on tax charges:</b>	<b>(231 230)</b>	<b>(118 366)</b>	<b>(81 338)</b>	<b>(36 451)</b>
- Non-taxable income	15 382	11 017	6 301	6 227
Dividend income	456	456	524	524
Release of other provisions	14 921	10 559	1 992	1 952
Settlement with SG due to adjustment of Euro Bank S.A. purchase price	0	0	0	0
Other	5	2	3 785	3 751
<b>- Cost which is not a tax cost</b>	<b>(246 612)</b>	<b>(129 383)</b>	<b>(87 639)</b>	<b>(42 678)</b>
Write-down of unrealized deferred tax assets	0	0	(171)	(171)
Loss on sale of receivables	(11)	(11)	(8)	(8)
PFRON fee	(672)	(324)	(832)	(422)
Fees for Banking Guarantee Fund	(15 830)	(5 734)	(21 483)	(5 764)
Banking tax	(28 874)	(14 616)	(26 826)	(13 005)
Income/cost of provisions for factoring and leasing receivables	337	1 691	(335)	867
Receivables written off	(11 299)	(4 044)	(1 005)	(489)
Costs of litigations and claims	(189 000)	(105 827)	(35 447)	(23 979)
Depreciation and insurance costs of cars (in excess of PLN 150,000)	(443)	(200)	(811)	(386)
Other	(820)	(318)	(721)	679
Deduction of the tax paid abroad	0	0	0	0
Other differences between the gross financial result and taxable income (including R&D relief)	2 224	2 224	2 454	2 454
<b>Total income tax reported in income statement</b>	<b>(162 707)</b>	<b>(96 399)</b>	<b>(114 212)</b>	<b>(54 543)</b>
Effective tax rate	/-/*	/-/*	61.43%	50.44%

\* In the first half of 2021, the Group recorded a negative gross financial result and at the same time a tax burden of a cost nature, therefore the Group did not calculate the effective tax rate.

#### 10C. DEFERRED TAX REPORTED IN EQUITY

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Valuation of securities at fair value through other comprehensive income	(16 577)	(39 671)	(56 027)	(67 838)
Valuation of cash flow hedging instruments	15 819	13 732	8 439	6 996
Actuarial gains (losses)	708	708	708	628
Deferred tax reported directly in equity	(50)	(25 231)	(46 880)	(60 214)

#### Withholding tax audit for years 2015-16

On February 2019 the Head of Western Pomeranian Customs & Tax Office (Zachodniopomorski Urząd Celno-Skarbowy w Szczecinie, ZUCS) commenced tax audits regarding the correctness of withholding tax (WHT) settlements for years 2015 and 2016. On 17 December 2019 the Bank received audit results as of 13 December 2019, in which ZUCS questioned WHT-exemption on coupon interest from bonds paid to MB Finance AB with the seat in Sweden constituting a collateral to 10Y subordinated bonds with a par value of EUR 150 million issued by this company in December 2007 (fully amortized in December 2017).

On 11 June 2021 Bank received 2nd instance decisions of ZUCS decreasing the amount of WHT arrear from PLN 6.6 to 5.3 million. This amount with penalty interests were paid by Bank on 18 June 2021. Bank file a complaint on these decisions to the administrative court in Szczecin (WSA).

On 13 April 2021 Head of ZUCS commenced a WHT audit for year 2017, during which WHT-exemption on coupon interests paid by Bank to MBF in this year will be likely challenged as well (disputable WHT amount is ca. PLN 2.3 million).

Bank received an expert opinion as of January 29, 2020 of tax professors from the Public Finances Law Department of the Faculty of Law and Administration at Nicolaus Copernicus University in Torun, according to which ZUCS's statement violates binding tax law provisions. Additionally, on 19 May 2021 WSA in Szczecin passed the judgement (no. I SA/Sz 820/20) overruling ZUCS's decision in a similar case what substantiate the positive outcome for the Bank.

## 11) FINANCIAL ASSETS HELD FOR TRADING

### 11A. FINANCIAL ASSETS HELD FOR TRADING

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
<b>Debt securities</b>	<b>101 312</b>	<b>163 881</b>	<b>269 413</b>	<b>337 016</b>
Issued by State Treasury	101 312	163 881	269 413	337 016
a) bills	0	0	0	0
b) bonds	101 312	163 881	269 413	337 016
Other securities	0	0	0	0
a) quoted	0	0	0	0
b) non quoted	0	0	0	0
<b>Equity instruments</b>	<b>285</b>	<b>280</b>	<b>245</b>	<b>212</b>
Quoted on the active market	285	280	245	212
a) financial institutions	147	136	97	44
b) non-financial institutions	138	144	148	168
Adjustment from fair value hedge	0	0	0	0
Positive valuation of derivatives	125 023	225 639	154 188	141 929
<b>Total</b>	<b>226 620</b>	<b>389 800</b>	<b>423 846</b>	<b>479 157</b>

### 11B. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING - VALUATION OF DERIVATIVES, ADJUSTMENT FROM FAIR VALUE HEDGE AND SHORT POSITIONS AS AT:

	Fair Values 30.06.2021			Fair Values 31.03.2021		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Interest rate derivatives	9 547	18 881	9 335	14 880	24 737	9 857
Forward Rate Agreements (FRA)	363	363	0	136	136	0
Interest rate swaps (IRS)	9 258	17 512	8 254	14 954	23 537	8 583
Other interest rate contracts: options	(74)	1 006	1 080	(210)	1 064	1 274
2. FX derivatives	49 290	89 071	39 781	135 945	184 193	48 248
FX contracts	(11 088)	5 471	16 559	22 203	36 495	14 292
FX swaps	60 378	83 600	23 222	113 742	147 698	33 956
Other FX contracts (CIRS)	0	0	0	0	0	0
FX options	0	0	0	0	0	0
3. Embedded instruments	(17 060)	3	17 063	(16 081)	0	16 081
Options embedded in deposits	(16 970)	0	16 970	(15 030)	0	15 030
Options embedded in securities issued	(90)	3	93	(1 051)	0	1 051
4. Indexes options	16 748	17 068	320	16 382	16 709	327
<b>Total</b>	<b>58 525</b>	<b>125 023</b>	<b>66 499</b>	<b>151 126</b>	<b>225 639</b>	<b>74 513</b>
Valuation of hedged position in fair value hedge accounting	-	0	0	-	0	0
Liabilities from short sale of debt securities	-	-	11 095	-	-	9 451

	Fair Values 31.12.2020			Fair Values 30.06.2020		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Interest rate derivatives	21 976	35 184	13 208	(19 419)	39 576	58 995
Forward Rate Agreements (FRA)	133	133	0	0	0	0
Interest rate swaps (IRS)	21 839	34 966	13 127	(19 424)	39 454	58 878
Other interest rate contracts: options	4	85	81	5	122	117
2. FX derivatives	28 085	98 631	70 547	28 717	62 143	33 426
FX contracts	19 095	34 360	15 265	(1 429)	10 604	12 033
FX swaps	8 990	64 271	55 282	30 105	46 798	16 693
Other FX contracts (CIRS)	0	0	0	41	4 741	4 700
FX options	0	0	0	0	0	0
3. Embedded instruments	(19 559)	0	19 559	(33 188)	2 910	36 098
Options embedded in deposits	(17 815)	0	17 815	(32 577)	0	32 577
Options embedded in securities issued	(1 744)	0	1 744	(611)	2 910	3 521
4. Indexes options	19 911	20 373	462	35 888	37 300	1 412
<b>Total</b>	<b>50 413</b>	<b>154 188</b>	<b>103 775</b>	<b>11 998</b>	<b>141 929</b>	<b>129 931</b>
Valuation of hedged position in fair value hedge accounting	-	0	0	-	0	0
Liabilities from short sale of debt securities	-	-	64 778	-	-	70 298

## 12) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
<b>Debt securities</b>	<b>21 981 373</b>	<b>22 725 580</b>	<b>18 613 077</b>	<b>26 075 830</b>
Issued by State Treasury	18 986 349	19 759 103	18 235 189	25 702 392
a) bills	0	0	0	809 614
b) bonds	18 986 349	19 759 103	18 235 189	24 892 778
Issued by Central Bank	2 499 993	2 299 994	0	0
a) bills	2 499 993	2 299 994	0	0
b) bonds	0	0	0	0
Other securities	495 031	666 483	377 888	373 438
a) listed	495 031	666 483	377 888	373 438
b) not listed	0	0	0	0
Shares and interests in other entities	29 549	29 547	29 538	29 676
Other financial instruments	0	0	0	0
<b>Total financial assets at fair value through other comprehensive income</b>	<b>22 010 922</b>	<b>22 755 127</b>	<b>18 642 615</b>	<b>26 105 506</b>



### 13) LOANS AND ADVANCES TO CUSTOMERS

#### 13A. LOANS AND ADVANCES TO CUSTOMERS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

Balance sheet value:	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Mandatorily at fair value through profit or loss *	1 671 619	1 632 385	1 615 753	1 480 998
Companies	11 042	12 609	12 889	13 163
Individuals	1 660 470	1 619 705	1 602 752	1 467 759
Public sector	107	71	112	76
* The above data includes the fair value adjustment, in the amount of:	(119 715)	(111 262)	(116 761)	(109 935)

The Group has separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presented aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost.

The Bank writes down the gross carrying amount of a financial asset when there is no reasonable probability that it will be fully (total writes off) or partially (partial writes off) recovered. Following the recorded partial writes off the Bank transferred to off-balance sheet evidence (deducting the carrying value of gross receivables) penalty interest amounting to PLN 435 million as at 30.06.2021.

#### 13B. LOANS AND ADVANCES TO CUSTOMERS VALUED AT AMORTISED COST

	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost, as at 30.06.2021	69 341 395	3 535 778	3 574 582	(367 663)	(185 846)	(1 775 614)	74 122 632
Companies	16 778 147	1 359 617	845 573	(120 775)	(50 950)	(359 903)	18 451 709
Individuals	52 315 116	2 176 037	2 723 811	(245 482)	(134 896)	(1 415 711)	55 418 875
Public sector	248 132	124	5 198	(1 406)	0	0	252 048
Valued at amortised cost, as at 31.03.2021	67 655 093	4 017 725	3 643 698	(381 953)	(170 400)	(1 760 896)	73 003 267
Companies	15 590 752	2 230 751	927 923	(124 670)	(52 302)	(376 671)	18 195 783
Individuals	51 802 785	1 786 490	2 710 714	(256 036)	(118 084)	(1 383 685)	54 542 184
Public sector	261 556	484	5 061	(1 247)	(14)	(540)	265 300
Valued at amortised cost, as at 31.12.2020	66 725 878	3 986 549	3 683 797	(365 159)	(230 339)	(1 777 137)	72 023 589
Companies	16 146 941	1 561 156	1 026 032	(118 205)	(41 408)	(468 866)	18 105 650
Individuals	50 309 937	2 425 215	2 652 450	(245 411)	(188 930)	(1 307 577)	53 645 684
Public sector	269 000	178	5 315	(1 543)	(1)	(694)	272 255
Valued at amortised cost, as at 30.06.2020	65 046 249	3 578 902	3 481 669	(346 709)	(194 165)	(1 707 335)	69 858 611
Companies	16 215 232	1 460 172	875 337	(139 886)	(36 170)	(470 537)	17 904 148
Individuals	48 507 300	2 118 460	2 600 516	(205 500)	(157 994)	(1 235 925)	51 626 857
Public sector	323 717	270	5 816	(1 323)	(1)	(873)	327 606

13C. LOANS AND ADVANCES TO CUSTOMERS

	30.06.2021		31.03.2021	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	69 245 656	804 527	68 214 216	793 734
▪ to companies	12 400 986		12 252 649	
▪ to private individuals	56 752 145	804 527	55 863 416	793 734
▪ to public sector	92 525		98 151	
Receivables on account of payment cards	107 533	867 092	79 223	838 651
▪ due from companies	1 814	11 149	154	12 680
▪ due from private individuals	105 719	855 943	79 069	825 971
Purchased receivables	168 909		207 505	
▪ from companies	168 909		207 505	
▪ from public sector	0		0	
Guarantees and sureties realised	7 086		7 303	
Debt securities eligible for rediscount at Central Bank	104		121	
Financial leasing receivables	6 540 758		6 423 965	
Other	1 982		3 865	
Interest	379 727		380 318	
<b>Total:</b>	<b>76 451 755</b>	<b>1 671 619</b>	<b>75 316 516</b>	<b>1 632 385</b>
Impairment allowances	(2 329 123)	-	(2 313 249)	-
<b>Total balance sheet value:</b>	<b>74 122 632</b>	<b>1 671 619</b>	<b>73 003 267</b>	<b>1 632 385</b>
* The above data includes the fair value adjustment in the amount of	-	(119 715)	-	(111 262)

	31.12.2020		30.06.2020	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	67 218 285	771 780	64 781 055	676 357
▪ to companies	12 188 367		11 888 949	
▪ to private individuals	54 932 397	771 780	52 754 178	676 357
▪ to public sector	97 521		137 928	
Receivables on account of payment cards	83 121	843 973	87 219	804 641
▪ due from companies	187	13 002	75	13 239
▪ due from private individuals	82 934	830 971	87 144	791 402
Purchased receivables	214 385		175 419	
▪ from companies	214 385		175 419	
▪ from public sector	0		0	
Guarantees and sureties realised	7 419		7 508	
Debt securities eligible for rediscount at Central Bank	2 748		3 247	
Financial leasing receivables	6 471 831		6 636 169	
Other	3 618		3 998	
Interest	394 817		412 205	
<b>Total:</b>	<b>74 396 224</b>	<b>1 615 753</b>	<b>72 106 820</b>	<b>1 480 998</b>
Impairment allowances	(2 372 635)	-	(2 248 209)	-
<b>Total balance sheet value:</b>	<b>72 023 589</b>	<b>1 615 753</b>	<b>69 858 611</b>	<b>1 480 998</b>
* The above data includes the fair value adjustment in the amount of	-	(116 761)	-	(109 935)

#### 13D. QUALITY OF LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Loans and advances to customers (gross)	76 451 755	75 316 516	74 396 224	72 106 820
impaired	3 574 582	3 643 698	3 683 798	3 481 669
not impaired	72 877 173	71 672 818	70 712 426	68 625 151
Impairment write-offs	(2 329 123)	(2 313 249)	(2 372 635)	(2 248 209)
for impaired exposures	(1 775 614)	(1 760 896)	(1 777 137)	(1 707 335)
for not impaired exposures	(553 509)	(552 353)	(595 498)	(540 874)
<b>Loans and advances to customers (net)</b>	<b>74 122 632</b>	<b>73 003 267</b>	<b>72 023 589</b>	<b>69 858 611</b>

**13E. LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST BY METHODOLOGY OF IMPAIRMENT ASSESSMENT**

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Loans and advances to customers (gross)	76 451 755	75 316 516	74 396 224	72 106 820
case by case analysis	823 253	935 477	1 015 366	859 130
collective analysis	75 628 502	74 381 039	73 380 858	71 247 690
Impairment allowances	(2 329 123)	(2 313 249)	(2 372 635)	(2 248 209)
on the basis of case by case analysis	(266 868)	(288 902)	(362 318)	(368 829)
on the basis of collective analysis	(2 062 255)	(2 024 347)	(2 010 317)	(1 879 380)
<b>Loans and advances to customers (net)</b>	<b>74 122 632</b>	<b>73 003 267</b>	<b>72 023 589</b>	<b>69 858 611</b>

**13F. LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST BY KIND OF CUSTOMERS**

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Loans and advances to customers (gross)	76 451 755	75 316 516	74 396 224	72 106 820
corporate customers	19 236 791	19 016 527	19 008 622	18 880 544
individuals	57 214 964	56 299 989	55 387 602	53 226 276
Impairment allowances	(2 329 123)	(2 313 249)	(2 372 635)	(2 248 209)
for receivables from corporate customers	(533 034)	(555 444)	(630 717)	(648 790)
for receivables from private individuals	(1 796 089)	(1 757 805)	(1 741 918)	(1 599 419)
<b>Loans and advances to customers (net)</b>	<b>74 122 632</b>	<b>73 003 267</b>	<b>72 023 589</b>	<b>69 858 611</b>

**13G. MOVEMENTS IN IMPAIRMENT ALLOWANCES FOR LOANS AND ADVANCES TO CUSTOMERS CARRIED AT AMORTISED COST**

	01.01.2021 - 30.06.2021	01.01.2021 - 31.03.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.06.2020
Balance at the beginning of the period	2 372 635	2 372 635	1 961 618	1 961 618
Change in value of allowances:	(43 512)	(59 386)	411 017	286 591
Impairment allowances created in the period	826 439	471 393	1 667 413	906 546
Amounts written off	(148 214)	(129 326)	(220 681)	(96 140)
Impairment allowances released in the period	(645 772)	(372 258)	(1 038 000)	(560 729)
Sale of receivables	(81 973)	(34 691)	(59 662)	0
KOIM created in the period*	14 590	7 131	37 798	19 260
Changes resulting from FX rates differences	(9 342)	(2 276)	20 250	14 398
Other	760	641	3 899	3 256
<b>Balance at the end of the period</b>	<b>2 329 123</b>	<b>2 313 249</b>	<b>2 372 635</b>	<b>2 248 209</b>

\* In accordance with IFRS 9, the Group calculates interest on the loan portfolio with a recognized impairment based on the net exposure value. For this purpose, the so-called impaired interest adjustment ("KOIM") is calculated and recorded as a reduction of interest income. Aforementioned KOIM adjustment in the balance sheet is presented as an impairment allowances, and as a consequence the reconciliation of the change in impairment allowances requires consideration of the KOIM recognized in the interest income.

The Group records POCI assets in the balance sheet as a result of recognition of impaired loans after the merger with Euro Bank and takeover of SKOK Piast. At the time of the merger, the aforementioned assets included in the Bank's books at fair value.

The value of POCI assets is as follows:

	Gross balance sheet value	Accumulated impairment	Net balance sheet value
<b>30.06.2021</b>			
- Companies	59	241	300
- Individuals	314 121	(23 144)	290 977
- Public sector	0	0	0
<b>31.03.2021</b>			
- Companies	59	245	303
- Individuals	350 408	(30 563)	319 845
- Public sector	0	0	0
<b>31.12.2020</b>			
- Companies	59	255	313
- Individuals	399 392	(26 607)	372 784
- Public sector	0	0	0
<b>30.06.2020</b>			
- Companies	101	(23)	78
- Individuals	448 650	(47 659)	400 991
- Public sector	0	0	0

#### 13H. LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST BY CURRENCY

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
in Polish currency	60 882 857	58 222 786	56 794 474	53 441 206
in foreign currencies (after conversion to PLN)	15 568 898	17 093 730	17 601 750	18 665 614
currency: USD	101 697	128 444	115 866	183 518
currency: EUR	3 668 780	3 815 221	3 586 164	3 657 369
currency: CHF	11 790 995	13 142 834	13 895 610	14 819 808
other currencies	7 426	7 231	4 110	4 919
<b>Total gross</b>	<b>76 451 755</b>	<b>75 316 516</b>	<b>74 396 224</b>	<b>72 106 820</b>

#### 14) FINANCIAL ASSETS AT AMORTISED COST OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

##### 14A. FINANCIAL ASSETS AT AMORTISED COST OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

30.06.2021	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	37 064	0	0	(7)	0	0	37 057
Deposits, loans and advances to banks and other monetary institutions	605 507	0	0	0	0	0	605 507
Repurchase agreements	18 361	0	0	0	0	0	18 361

31.03.2021	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	38 910	0	0	(8)	0	0	38 902
Deposits, loans and advances to banks and other monetary institutions	605 247	0	0	0	0	0	605 247
Repurchase agreements	24 124	0	0	0	0	0	24 124

31.12.2020	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	38 821	0	0	(3)	0	0	38 818
Deposits, loans and advances to banks and other monetary institutions	625 430	0	0	0	0	0	625 430
Repurchase agreements	66 350	0	0	0	0	0	66 350

30.06.2020	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	43 883	0	0	(4)	0	0	43 879
Deposits, loans and advances to banks and other monetary institutions	875 837	0	0	0	0	0	875 837
Repurchase agreements	65 376	0	0	0	0	0	65 376

#### 14B. DEBT SECURITIES

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
credit institutions	37 057	0	0	0
other companies	0	0	0	0
public sector	0	38 902	38 818	43 879
Total	37 057	38 902	38 818	43 879

#### 14C. DEPOSITS, LOANS AND ADVANCES TO BANKS AND OTHER MONETARY INSTITUTIONS

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Current accounts	167 400	143 327	102 748	252 895
Deposits	438 030	461 780	522 532	622 476
Interest	77	140	150	466
Total (gross) deposits, loans and advances	605 507	605 247	625 430	875 837
Impairment allowances	0	0	0	0
Total (net) deposits, loans and advances	605 507	605 247	625 430	875 837

#### 14D. REPURCHASE AGREEMENTS

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
credit institutions	0	24 124	66 351	65 376
other customers	18 361	0	0	0
interest	0	0	(1)	0
Total	18 361	24 124	66 350	65 376

## 15) DERIVATIVES - HEDGE ACCOUNTING

### 15A. HEDGE RELATIONS

In the first half of the year, the Group discontinued the use of two hedging relationships:

- hedging of volatility of cash flows generated by the portfolio of issued PLN liabilities,
- hedging of the volatility of cash flows generated by the portfolio of floating interest rate foreign currency mortgage loans.

Detailed information on cash flow hedge relations applied by the Group, items designated as hedged and hedging and presentation of the result (as at 30.06.2021) is shown in a table below:

	Hedge of volatility of the cash flows generated by PLN denominated financial assets	Cash flow volatility hedge for the flows generated by FX mortgage portfolio and its underlying PLN liabilities
Description of hedge transactions	The Group hedges the risk of the volatility of cash flows generated by PLN denominated financial assets. The volatility of cash flows results from interest rate risk.	The Group hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN liabilities financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk.
Hedged items	Cash flows resulting from PLN denominated financial assets.	Cash flows resulting from the FX mortgage loan portfolio and PLN deposits together with issued debt PLN securities funding them.
Hedging instruments	IRS transactions	CIRS transactions
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in Result on exchange differences. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.

	Fair value hedge of a fixed interest rate debt instrument	Cash flow volatility hedge due to future income and interest costs denominated in foreign currencies
Description of hedge transactions	The Group hedges part of the interest rate risk associated with the change in the fair value of a fixed-rate debt instrument recorded in other comprehensive income, resulting from fluctuations in market interest rate.	The Group hedges the risk of the volatility of cash flows generated by income and interest costs denominated in foreign currencies. The volatility of cash flows results from the currency risk.
Hedged items	A portfolio of fixed coupon debt securities classified as financial assets measured at fair value through other comprehensive income denominated in PLN.	Cash flows resulting from income and interest costs denominated in foreign currencies.
Hedging instruments	IRS transactions	FX position resulting from recognized future leasing liabilities.
Presentation of the result on the hedged and hedging transactions	The result on the change in the fair value measurement of hedged items in the hedged risk is referred to the result on hedge accounting. The remaining part of the change in fair value measurement is recognized in other comprehensive income. Interest on debt securities is recognized in net interest income. The change in fair value measurement of derivative instruments being a hedge is presented in the result on hedge accounting, and interest on these instruments is recognized in the interest result.	The effective part of the spot revaluation of hedging instruments is recognized in the revaluation reserve. The ineffective part of the valuation of the hedging item is recognized in the income statement as a result on instruments measured at fair value through profit and loss.

#### 15B. HEDGE ACCOUNTING - BALANCE SHEET VALUATION

	Fair values 30.06.2021			Fair values 31.03.2021		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate						
CIRS contracts	(119 451)	38 102	157 553	(372 233)	33 301	405 534
IRS contracts	(88 025)	0	88 025	(74 008)	0	74 008
FXS contracts	0	0	0	0	0	0
2. Derivatives used as interest rate hedges related to interest rates						
IRS contracts	(5 725)	0	5 725	(5 960)	0	5 960
3. Total hedging derivatives	(213 201)	38 102	251 303	(452 201)	33 301	485 502

	Fair values 31.12.2020			Fair values 30.06.2020		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate						
CIRS contracts	(632 447)	21 795	654 242	(554 601)	86 775	641 376
IRS contracts	(45 903)	0	45 903	0	0	0
FXS contracts	(29 116)	0	29 116	(18 755)	0	18 755
2. Derivatives used as interest rate hedges related to interest rates						
IRS contracts	(9 588)	0	9 588	(17 912)	0	17 912
3. Total hedging derivatives	(717 055)	21 795	738 850	(591 268)	86 775	678 043



## 16) IMPAIRMENT WRITE-OFFS FOR SELECTED ASSETS

Impairment write-offs:	Investment securities	Property, plant and equipment	Intangibles	Non-current assets held for sale	Other assets
As at 01.01.2021	5 007	8 875	3 988	3 697	22 700
- Write-offs created	4	0	0	0	13 425
- Write-offs released	0	0	0	0	(6 622)
- Utilisation	0	0	0	0	(1 259)
- Other	0	0	0	(3 560)	3 560
As at 30.06.2021	5 011	8 875	3 988	137	31 804
As at 01.01.2021	5 007	8 875	3 988	3 697	22 700
- Write-offs created	5	0	0	0	6 210
- Write-offs released	0	0	0	0	(3 388)
- Utilisation	0	0	0	0	(958)
- Other	0	0	0	(3 560)	3 560
As at 31.03.2021	5 012	8 875	3 988	137	28 124
As at 01.01.2020	5 058	8 875	3 988	136	12 812
- Write-offs created	(51)	0	0	0	32 927
- Write-offs released	0	0	0	0	(23 024)
- Utilisation	0	0	0	0	(14)
- Other	0	0	0	3 561	0
As at 31.12.2020	5 007	8 875	3 988	3 697	22 700
As at 01.01.2020	5 058	8 875	3 988	136	12 812
- Write-offs created	0	0	0	0	22 316
- Write-offs released	(50)	0	0	0	(16 859)
- Utilisation	0	0	0	0	(180)
- Other	0	(123)	0	0	0
As at 30.06.2020	5 008	8 752	3 988	136	18 089

## 17) DEFERRED INCOME TAX ASSETS AND LIABILITY

	30.06.2021			31.03.2021		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	26 930	(20 038)	6 892	26 991	(31 022)	(4 031)
Balance sheet valuation of financial instruments	50 236	(62 240)	(12 004)	106 742	(107 394)	(652)
Unrealised receivables/ liabilities on account of derivatives	10 034	(8 321)	1 713	8 937	(7 676)	1 261
Interest on deposits and securities to be paid/ received	14 945	(33 038)	(18 093)	23 933	(33 022)	(9 089)
Interest and discount on loans and receivables	0	(73 931)	(73 931)	0	(74 144)	(74 144)
Income and cost settled at effective interest rate	159 295	(1 165)	158 130	179 385	(1 089)	178 296
Impairment of loans presented as temporary differences	461 167	0	461 167	451 537	0	451 537
Employee benefits	19 215	0	19 215	19 278	0	19 278
Rights to use	7 364	0	7 364	8 116	0	8 116
Provisions for future costs	96 022	0	96 022	104 140	0	104 140
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	41 185	(41 235)	(50)	14 607	(39 838)	(25 231)
Valuation of shares	1 273	(20 160)	(18 887)	1 273	(24 477)	(23 204)
Tax loss deductible in the future	49 834	0	49 834	52 929	0	52 929
Other	2 802	(2 384)	418	2 591	(1 809)	782
Net deferred income tax asset	940 303	(262 512)	677 790	1 000 459	(320 471)	679 988

	31.12.2020			30.06.2020		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	27 195	(19 806)	7 389	49 604	(17 360)	32 244
Balance sheet valuation of financial instruments	138 727	(150 000)	(11 273)	128 652	(137 134)	(8 482)
Unrealised receivables/ liabilities on account of derivatives	12 285	(14 486)	(2 201)	13 284	(16 782)	(3 498)
Interest on deposits and securities to be paid/ received	31 410	(33 021)	(1 611)	38 250	(57 052)	(18 802)
Interest and discount on loans and receivables	0	(77 272)	(77 272)	0	(80 489)	(80 489)
Income and cost settled at effective interest rate	188 794	(1 221)	187 573	175 697	(4 590)	171 107
Impairment of loans presented as temporary differences	454 771	0	454 771	417 414	0	417 414
Employee benefits	20 398	0	20 398	22 468	0	22 468
Rights to use	8 501	0	8 501	7 722	0	7 722
Provisions for future costs	87 013	0	87 013	17 949	0	17 949
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	9 315	(56 197)	(46 882)	7 796	(68 010)	(60 214)
Valuation of shares	1 273	(23 710)	(22 437)	0	0	0
Tax loss deductible in the future	57 105	0	57 105	38 040	0	38 040
Other	1 078	(861)	217	3 706	(1 326)	2 380
Net deferred income tax asset	1 037 865	(376 574)	661 291	920 582	(382 743)	537 839

## 18) LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
In current account	107 328	155 596	57 220	53 609
Term deposits	190 411	205 152	481 490	221 339
Loans and advances received	443 298	464 179	517 283	1 150 893
Interest	1 276	599	1 659	3 921
Total	742 313	825 526	1 057 652	1 429 762

## 19) LIABILITIES TO CUSTOMERS

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Amounts due to private individuals	64 966 051	64 263 556	61 874 920	63 436 308
Balances on current accounts	54 591 857	53 768 804	50 825 949	49 654 092
Term deposits	10 116 008	10 247 989	10 807 126	13 528 393
Other	222 763	207 323	188 369	157 412
Accrued interest	35 423	39 440	53 476	96 411
Amounts due to companies	21 822 399	21 050 259	16 802 448	20 347 830
Balances on current accounts	15 994 147	15 318 477	12 883 222	13 217 391
Term deposits	5 493 880	5 401 100	3 579 089	6 725 350
Other	326 238	320 629	327 586	384 978
Accrued interest	8 134	10 053	12 551	20 111
Amounts due to public sector	3 210 037	2 940 791	2 833 172	2 470 487
Balances on current accounts	2 757 658	2 504 337	2 707 625	2 125 809
Term deposits	442 973	430 416	105 079	337 793
Other	9 397	6 029	20 461	6 398
Accrued interest	9	9	7	487
<b>Total</b>	<b>89 998 487</b>	<b>88 254 606</b>	<b>81 510 540</b>	<b>86 254 625</b>

## 20) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
to the Central Bank	0	0	0	0
to banks	0	9 980	248 566	0
to customers	0	0	0	0
interest	0	0	0	0
<b>Total</b>	<b>0</b>	<b>9 980</b>	<b>248 566</b>	<b>0</b>

## 21) CHANGE OF DEBT SECURITIES

	01.01.2021 - 30.06.2021	01.01.2021 - 31.03.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.06.2020
Balance at the beginning of the period	558 560	558 560	1 183 232	1 183 232
Increases, on account of:	2 364	1 491	43 339	10 167
issue of Banking Securities	0	159	29 549	488
interest accrual	2 364	1 332	13 790	9 679
Reductions, on account of:	(250 230)	(136 451)	(668 011)	(426 382)
repurchase of Banking Securities	(213 653)	(101 570)	(246 582)	(62 443)
repurchase of bonds by the Bank	0	0	(299 440)	(299 440)
repurchase of bonds by the Millennium Leasing	(34 150)	(34 150)	(105 650)	(52 670)
interest payment	(2 427)	(731)	(16 339)	(11 829)
<b>Balance at the end of the period</b>	<b>310 694</b>	<b>423 600</b>	<b>558 560</b>	<b>767 017</b>

## 22) CHANGE OF SUBORDINATED DEBT

	01.01.2021 - 30.06.2021	01.01.2021 - 31.03.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.06.2020
Balance at the beginning of the period	1 540 209	1 540 209	1 546 205	1 546 205
Increases, on account of:	19 368	9 641	51 441	30 499
issue of subordinated bonds	0	0	0	0
interest accrual	19 368	9 641	51 441	30 499
Reductions, on account of:	(19 696)	(10 796)	(57 437)	(31 466)
interest payment	(19 696)	(10 796)	(57 437)	(31 466)
Balance at the end of the period	1 539 881	1 539 054	1 540 209	1 545 238

During 2020 and 2021 the Group did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

## 23) PROVISIONS

### 23A. PROVISIONS

	30.06.2021	31.03.2021	31.12.2020	30.06.2020
Provision for commitments and guarantees given	46 206	53 606	51 728	56 655
Provision for pending legal issues	362 095	419 578	106 922	57 743
Total	408 301	473 184	158 650	114 398

### 23B. CHANGE OF PROVISION FOR COMMITMENTS AND GUARANTEES GIVEN

	01.01.2021 - 30.06.2021	01.01.2021 - 31.03.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.06.2020
Balance at the beginning of the period	51 728	51 728	53 393	53 393
Charge of provision	38 544	30 750	73 356	46 881
Release of provision	(43 991)	(29 055)	(75 357)	(43 902)
FX rates differences	(75)	183	336	283
Balance at the end of the period	46 206	53 606	51 728	56 655

23C. CHANGE OF PROVISION FOR PENDING LEGAL ISSUES

	01.01.2021 - 30.06.2021	01.01.2021 - 31.03.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.06.2020
Balance at the beginning of the period	106 922	106 922	38 062	38 062
Charge of provision	4 493	2 873	17 223	12 561
Release of provision	(4 095)	(1 876)	(13 440)	(10 484)
Utilisation of provision	0	0	(489)	(489)
Creation of provisions for legal risk connected with FX mortgage loans *	1 047 044	533 403	713 617	168 019
Allocation to the loans portfolio	(765 061)	(218 252)	(671 484)	(156 422)
Reclassification	0	0	138	0
FX differences	(27 208)	(3 492)	23 295	6 496
Balance at the end of the period	362 095	419 578	106 922	57 743

\* Creation of provisions for legal risk related to foreign currency mortgage loans is described in more detail in **Chapter 10 Costs of provisions for legal risk related to foreign currency mortgage loans.**

## 5. Changes in Risk Management process

Risk management performs a key role in the strategy of balanced and sustainable development of the Group, supporting optimization of relationships between risk and returns within various business lines and maintenance of adequate risk profile relative to capital and liquidity.

In order to ensure effective risk management and coherent policy the Group has implemented risk management model under which credit, market, liquidity and operational risks are managed in an integrated manner.

### Credit risk

In the second quarter of 2021 the Bank Millennium Group, both in the corporate and retail segments, continued to implement initiatives aimed at mitigating the negative effects of COVID-19 outbreak. As a result of analytical works the Group implemented several changes in the Credit Policy which were targeted on assurance of proper quality of portfolio under new more demanding economic environment e.g.:

- Modification of Credit Policy rules for populations of customers with high sensitivity on negative economic evolutions: changes to the required levels of collateralization, change of balance between automatic / analyst decision;
- take advantage of usage of governmental supporting programs e.g. new BGK programs: de minimis and liquidity credit guarantees, PFR support funds.

Implementation of supporting measures especially credit holidays created additional element of uncertainty in the credit risk management. The Group activities in the Collection area allowed for quick and appropriate reaction when the credit holidays period ends.

In the area of credit risk, in the second quarter of 2021, the Group has focused on adapting regulations, credit processes and monitoring to changed conditions.

In the corporate segment, the Group focused on analysing the loan portfolio and industries of borrowers in order to monitor the risk, in particular on the clients with the highest exposures and sectors of the economy more exposed to the effects of the COVID-19 pandemic. Previous measures to expand and increase the monitoring frequency of the portfolio continued. The group implemented the extension of the aid programs operating in connection with the COVID-19 epidemic into internal regulations. Additionally, the Group worked on improving credit processes and products, in particular with regard to investment credit.

In the retail segment, the Bank focused on adjusting changes in its credit policy to the current market conditions related to the COVID-19 pandemic. In addition, changes were implemented to improve the efficiency of the risk assessment process for retail and mortgage-secured transactions through automation that did not increase risk exposure.

The Group assesses credit risk regardless of the method of classifying the portfolio of receivables from customers in the financial statements as a portfolio measured at amortized cost or a portfolio measured at fair value through profit or loss. The table below contains data on the entire portfolio of receivables from customers broken down into regular and past due exposures.

Changes in the loan portfolio of the Group after 6 months of 2021 are summarized below:

	30.06.2021		31.12.2020	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	72 620 629	605 506	70 664 514	625 430
Overdue*, but without impairment	1 939 163	0	1 687 228	0
Total without impairment	74 559 792	605 506	72 351 742	625 430
With impairment	3 683 297	0	3 776 996	0
<b>Total</b>	<b>78 243 089</b>	<b>605 506</b>	<b>76 128 738</b>	<b>625 430</b>
Impairment write-offs	(2 329 123)	0	(2 372 635)	0
Fair value adjustment**	(119 715)	0	(116 761)	0
<b>Total, net</b>	<b>75 794 251</b>	<b>605 506</b>	<b>73 639 342</b>	<b>625 430</b>
Loans with impairment / total loans	4.71%	0.00%	4.96%	0.00%

(\*) Loans overdue not more than 4 days are treated as technical and are not shown in this category.

(\*\*) Fair value adjustment is defined as the difference between the nominal value and the fair value of the portfolio measured at fair value through profit or loss. The fair value adjustment is influenced, in particular, by taking into account the credit risk of the portfolio.

Exposures subject to measures applied in response to the COVID-19 crisis:

Loans and advances subject to legislative and non-legislative moratoria	TOTAL	Performing		
		Performing Gross carrying amount	Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
<b>Gross carrying amount</b>				
Loans and advances subject to moratorium	1 159	1 003	268	74
of which: Households	0	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0
of which: Non-financial corporations	1 159	1 003	268	74
of which: Small and Medium-sized Enterprises	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0



Loans and advances subject to legislative and non-legislative moratoria	Non-performing		Inflows to non-performing exposures
	Non-performing Gross carrying amount	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
<b>Gross carrying amount</b>			
Loans and advances subject to moratorium	156	156	0
of which: Households	0	0	0
of which: Collateralised by residential immovable property	0	0	0
of which: Non-financial corporations	156	156	0
of which: Small and Medium-sized Enterprises	0	0	0
of which: Collateralised by commercial immovable property	0	0	0

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	TOTAL	Performing		
		Performing Accumulated impairment	Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	(93)	(25)	(21)	(9)
of which: Households	0	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0
of which: Non-financial corporations	(93)	(25)	(21)	(9)
of which: Small and Medium-sized Enterprises	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	Non-performing Accumulated impairment	Non-performing	
		Of which: grace period of capital and interest	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	(68)	0	(68)
of which: Households	0	0	0
of which: Collateralised by residential immovable property	0	0	0
of which: Non-financial corporations	(68)	0	(68)
of which: Small and Medium-sized Enterprises	0	0	0
of which: Collateralised by commercial immovable property	0	0	0

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Number of obligors	TOTAL	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	63 070	8 003 652		
Loans and advances subject to moratorium (granted)	62 836	7 668 693	12 085	7 667 534
of which: Households		6 452 545	12 085	6 452 545
of which: Collateralised by residential immovable property		4 705 160	10 291	4 705 160
of which: Non-financial corporations		1 216 148	0	1 214 989
of which: Small and Medium-sized Enterprises		649 509	0	649 509
of which: Collateralised by commercial immovable property		82 749	0	82 749

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Residual maturity of moratoria				
	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances subject to moratorium (granted)	193	965	0	0	0
of which: Households	0	0	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0	0
of which: Non-financial corporations	193	965	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0	0

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Gross carrying amount		Gross carrying amount
	TOTAL	of which: forborne	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	852 724	887	665
of which: Households	0		0
of which: Collateralised by residential immovable property	0		0
of which: Non-financial corporations	852 724	887	665
of which: Small and Medium-sized Enterprises	389 044		665
of which: Collateralised by commercial immovable property	0		0

## Market risk

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 (10-days holding period) and with specified probability (99% confidence level) from an adverse market movement. The market risk measurement, monitoring and reporting is carried out daily.

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

The market risk limits are revised at least once a year and in order to take into account, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 1<sup>st</sup> January 2020 and the nominal levels were confirmed to be valid also in 2021 by the annual revision carried out and approved by the Risk Committee in December 2020.

Within the current market environment, the Group continued to act very prudently. In 1H2021, none of the established market risk limits were breached - neither for the total Group nor for the Banking Book and Trading Book separately.

Open positions contain mainly interest rate and FX risk instruments. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows keeping FX open positions only in Trading Book. In the 1H2021, the FX Total open position (Intraday as well as Overnight) remained below 2% of Own Funds. In 1H2021, the end-of-day limit for Effective FX Open Position was temporarily breached on one day - 16th April 2021 (121% limit utilization). The position was closed on the next working day. The excess was immediately approved and ratified.

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 1H2021, the VaR remained on average at the level of approx. PLN 86.5 m for the Group (35% of the limit) and at approx. PLN 1.9 m for Trading Book (6% of the limit). Similarly, as of the end June 2021 the market risk exposure was approx. PLN 141.2 m for Global Bank (57% of the limit) and approx. PLN 1.9 m for Trading Book (6% of the limit).

The market risk exposure in 1H2021 in terms of value at risk for Trading Book, together with risk type division, is presented in the table below (PLN thousands).

### VaR measures for market risk in Trading Book ('000 PLN)

	30.06.2021		VaR (1H 2021)			31.12.2020	
	Exposure	Limit usage	Average	Maximum	Minimum	Exposure	Limit usage
<b>Total risk</b>	<b>1 882</b>	<b>6%</b>	<b>1 930</b>	<b>5 860</b>	<b>424</b>	<b>1 239</b>	<b>4%</b>
Generic risk	1 880	6%	1 927	5 858	422	1 237	4%
Interest Rate VaR	1 879	6%	1 904	5 850	420	1 190	4%
FX Risk	21	0%	122	2 709	11	183	2%
Diversification Effect	1.1%					11.0%	
Specific risk	2	0%	2	5	2	2	0%

In addition to above mention market risk limits, the stop loss limits are introduced for the financial markets portfolios. The aim is to limit the maximum losses of the trading activity of the Group. In case of the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken. In 1H2021 none of the stop loss limits were reached.

### **Interest rate risk in Banking Book (IRRBB)**

In case of the Banking Book, the main component of the market risk is interest rate risk. In order to manage this risk, the following principles are in place:

- The market risk that results from the commercial banking activity is hedged or transferred on the monthly basis to areas that actively manage market risk and that are measured in terms of risk and profit and loss,
- The Bank uses natural hedging between loans and deposits as well as fixed rate bonds and derivatives to manage interest rate risk with the main purpose of protecting the Net Interest Income.

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 net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of upward/downward shift by 100 basis points,
- the economic value of equity that measures the theoretical change in the net present value of all Group's positions resulting from different upward/downward parallel basis points shocks applied to market interest rates curves. Therefore, the results show the impact on the Group's economic value resulting from the interest rate change.

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 highly negative impact on the economic environment, as well as the reductions of the reference rates by the Monetary Policy Council in 2020 to its historical minimum (decrease reference rate to 0.1% and the Lombard rate to 0.50%) have a negative impact on the activity and financial results of Group.

In such a low interest rate environment in Poland, the results of sensitivity of NII for the next 12 months after 30<sup>th</sup> June 2021 and for position in Polish Zloty in Banking Book in a scenario of further decrease of interest rates by 100 bps, is negative and equal to -16.4% of the last quarter net interest income annualized (+10.5% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the Polish legal system mentioned above with simultaneous limitation on further decrease on deposits side (minimum interest rate is set at 0%). The NBP Reference rate is currently set at 0.10%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 5.2% annually in comparison to currently valid 7.2%. In 1H2021, in order to limit negative impact on NII sensitivity in case of further interest rate decrease, the Bank continued to hedge the risk by the interest rate swaps.

Sensitivity of NII for PLN to changes of interest rates	30.06.2021	31.12.2020
Parallel yield curve increase by 100 b.p.	+10.5%	+9.9%
Parallel yield curve decrease by 100 b.p.	-16.4%	-16.7%

When it comes to impact of interest rate changes to economic value at equity (EVE) in the long term, the supervisory stress tests results as of 30<sup>th</sup> June 2021 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% 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

The liquidity risk measurement, monitoring and reporting is carried out daily with the use of both measures defined by the supervisory authorities and internally, for which limits were established.

The liquidity risk limits are revised at least once a year in order to take into account, inter alia, the change of the size of the consolidated own funds, current and expected balance sheet structure, historical limits' consumption, as well as current market conditions and supervisory requirements. The current limits in place have been valid since 1<sup>st</sup> January 2021.

In 1H2021, despite COVID-19's implications observed in the market, 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.

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.

In 1H2021, the Group maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 84% at the end of June 2021 (91% at the end of December 2020). 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 2021. During 1H 2021 this portfolio increased to the level of approx. PLN 21.6 billion at the end of June 2021 (21% of total assets) from PLN 18.4 billion at the end of December 2020 (19% of total assets). 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 liquid assets portfolio and is treated as the Group's liquidity reserve, which can overcome crisis situations.

Main liquidity ratios	30.06.2021	31.12.2020
Loans/Deposits ratio (%)	84%	91%
Liquid assets portfolio (PLN million) *	23 553	18 250
Liquidity Coverage Requirement, LCR (%)	174%	161%

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

Total Clients' deposits of the Group reached the level of PLN 90.0 billion (PLN 81.5 billion at the end of December 2020). The share of funds from individuals in total Client's deposits equalled to approx. 72.2% at the end of June 2021 (75.9% at the end of December 2020). The maintenance of high share of funds from individuals had a positive impact on the Group's liquidity 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 subordinated debt, medium-term loans 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 1H2021. 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 174% at the end of June 2021 (161% at the end of December 2020). The increased of LCR was mainly caused by growth of stable funding from retail and corporate customers with simultaneous increase of the position in Polish government bonds and NBP bills.

In 1H2021, the Group also regularly calculated net stable funding requirement (NSFR). In 1H2021, the NSFR was above planned supervisory minimum of 100% (supervisory minimum is valid from 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 1H2021 the internally defined limit of 12% total assets was not breached and the liquidity position was confirmed as solid.

Stress tests as regards structural liquidity are carried out at least quarterly to understand the Group's liquidity risk profile, to make sure that the Group is able to meet its commitments in the event of a liquidity crisis and to contribute to preparing a contingency plan regarding liquidity and management decisions.

The Group has also contingency procedures for an increased liquidity risk situation - the Liquidity Contingency Plan, which is revised and tested at least once a year in order to ensure that it is operationally robust.

## Operational risk

In the first half of 2021 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with legal provisions in force and the best practice of national and international financial institutions.

The operational risk management model, implemented by the Group is reviewed and accepted on a regular basis by the Management Board.

In keeping with the adopted solution, risk management is a process of continuous improvement as regards identification, assessment, monitoring, control/mitigating and reporting by complementary activities, which effectively translates into a real reduction in the level of operational risk in the business tasks.

In the first half of 2021 the registered level of operational risk losses was at the acceptable level.

## Capital management

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

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

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

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.

The Bank and the Group are obliged by law to meet minimum own funds and leverage ratio requirements, set in art. 92 of the Regulation (EU) 2019/876 of the European Parliament and of the Council as of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertaking, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012. (CRR II). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Pillar II FX mortgage buffer (RRE FX) - 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. At present, the buffer was set by KNF in recommendations issued in November and December 2020 in the level of 3.41 p.p. (the Bank) and 3.35 p.p. (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 2.56 p.p. (the Bank) and of 2.52 p.p. (the Group), and which corresponds to capital requirements for CET 1 ratio of 1.91 p.p. (the Bank) and 1.88 p.p. (the 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 0.25% and the value is set by KNF every year;
  - Systemic risk buffer at the level of 0%, reduced from 3% in March 2020;
  - Countercyclical buffer at the 0% level.

Capital adequacy of the Group was as follows (PLN m, %, pp):

Capital adequacy	30.06.2021	31.03.2021	30.06.2020
Risk-weighted assets	50 677.5	50 078.1	50 007.1
Own Funds requirements, including:	4 054.2	4 006.2	4 000.6
- Credit risk and counterparty credit risk	3 584.5	3 539.1	3 584.5
- Market risk	24.6	29.7	28.8
- Operational risk	433.0	433.0	382.6
- Credit Valuation Adjustment CVA	12.0	4.5	4.6
Own Funds, including:	9 451.1	9 701.0	10 012.8
Common Equity Tier 1 Capital	7 921.1	8 171.0	8 482.8
Tier 2 Capital	1 530.0	1 530.0	1 530.0
<b>Total Capital Ratio (TCR)</b>	<b>18.65%</b>	<b>19.37%</b>	<b>20.02%</b>
Minimum required level	14.10%	14.10%	15.37%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	4.55 p.p.	5.27 p.p.	4.65 p.p.
<b>Tier 1 Capital ratio (T1)</b>	<b>15.63%</b>	<b>16.32%</b>	<b>16.96%</b>
Minimum required level	11.27%	11.27%	12.15%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	4.36 p.p.	5.05 p.p.	4.81 p.p.
<b>Common Equity Tier 1 Capital ratio (CET1)</b>	<b>15.63%</b>	<b>16.32%</b>	<b>16.96%</b>
Minimum required level	9.13%	9.13%	9.73%
Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.)	6.50 p.p.	7.19 p.p.	7.23 p.p.
<b>Liquidity Coverage ratio (LCR)</b>	<b>174%</b>	<b>178%</b>	<b>202%</b>

Drop of capital adequacy ratios in 2Q21 compared to 1Q21 came mostly from the fall of own funds and from the increase of own funds requirements. Own funds decreased by ca. PLN 250m (by 2.6%), being before all a result of net financial loss. Own funds requirements rose by ca. PLN 48m (by 1.2%), what was mainly an effect of implementation of changed regulations (Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019).

According to the announcement of the Bank Guarantee Funds, the mid-term MREL targets set for the end of 2020 are not considered obligatory by the Fund, and in the next planning cycle the Fund will apply both the extended target date, i.e. January 1, 2024, as well as indicate the date of meeting the first binding mid-term target - January 1, 2022. The Bank expects to receive updated MREL requirements in the third quarter of 2021.

In order to fulfil and maintain required MREL limits, the Group may issue MREL eligible instruments and/or enter into transactions that decrease risk weighted assets that could cause increase of financing costs for the Group.



## 6. Operational Segments

Information about operating segments has been prepared based on the reporting structure which is used by the Management Board of the Bank for evaluating the results and managing resources of operating segments. Group does not apply additional breakdown of activity by geographical areas because of the insignificant scale of operations performed outside the Poland, in result such complementary division is not presented.

The Group's activity is pursued on the basis of diverse business lines, which offer specific products and services targeted at the market segments listed below:

### **Retail Customer Segment**

The Retail Customers Segment covers activity targeted at mass-market Customers, affluent Customers, small companies and individual entrepreneurs.

The activity of the above business lines is developed with use of the full offer of banking products and services as well as sales of specialised products offered by subsidiaries in the group. In the credit products area the key products are mortgage loans, retail credit products, credit card revolving credit as well as leasing products for small companies. Meanwhile key Customers funds include: current and saving accounts, term deposits, mutual funds and structured products. Additionally the offer comprises insurance products, mainly linked with loans and credit cards, as well as specialised savings products. The product offer for affluent customers was enriched to include selected mutual funds of other financial intermediaries, foreign funds and structured bonds issued by the Bank.

### **Corporate Customer Segment**

The Corporate Customers Segment is based on activity targeted at Small and Medium sized Companies as well as Large Corporations. The offer is also addressed to Customers from the Public Sector.

Business in the Corporate Customers segment is pursued with use of a high quality offer of typical banking products (loans for day-to-day activity, investment loans, current accounts, term deposits) supplemented by a range of cash management products as well as treasury products (including derivatives) and leasing and factoring services.

### **Treasury, ALM (assets and liabilities management) and Other**

This segment covers the Group's activity as regards investments by the Treasury Department, brokerage, inter-bank market transactions and taking positions in debt securities, which are not assigned to other segments.

This segment includes other assets and other liabilities, assets and liabilities connected with hedging derivatives, liabilities connected with external funding of the Group and deferred income tax assets not assigned to any of the segments.

For each segment the pre-tax profit is determined, comprising:

- Net interest income calculated on the basis of interest on external working assets and liabilities of the segment as well as allocated assets and liabilities generating internal interest income or cost. Internal income and costs are calculated based on market interest rates with internal valuation model applied;
- Net commission income;
- Other income from financial transactions and FX gains, such as: dividend income, result on investment and trading activity, FX gains/losses and result on other financial instruments;
- Other operating income and expenses;
- Costs on account of impairment of financial and non-financial assets;
- Segment share in operating costs, including personnel and administration costs;
- Segment share in depreciation costs;
- Operating profit calculated as a measure of segment profit differs from the IFRS financial result before tax due to: share in net profits of associates, charge of bank tax and cost of provisions for legal risk resulted from FX mortgage loans. These items and the income tax burden were presented only at the Group level.

The assets and liabilities of commercial segments are the operating assets and liabilities used by the segment in its operations, allocated on business grounds. The difference between operating assets and liabilities is covered by money market assets/liabilities and debt securities. The assets and liabilities of the Treasury, ALM & Other segment are money market assets/liabilities and debt securities not allocated to commercial segments.

## Income statement 1.01.2021 - 30.06.2021

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Net interest income	843 706	144 943	288 517	1 277 166
Net fee and commission income, including:	315 420	96 240	2 427	414 087
Fee and commission income	391 193	99 667	8 989	499 849
Fee and commission expenses	(75 773)	(3 427)	(6 562)	(85 762)
Dividends, other income from financial operations and foreign exchange profit	47 681	35 015	(64 723)	17 973
Result on non-trading financial assets mandatorily at fair value through profit or loss	(5 991)	0	16 451	10 460
Other operating income and cost	(10 620)	(3 905)	78 293	63 768
<b>Operating income</b>	<b>1 190 196</b>	<b>272 293</b>	<b>320 965</b>	<b>1 783 454</b>
Staff costs	(324 061)	(71 452)	(15 501)	(411 014)
Administrative costs	(200 868)	(31 756)	(61 551)	(294 175)
Depreciation and amortization	(85 797)	(12 558)	(2 320)	(100 675)
<b>Operating expenses</b>	<b>(610 726)</b>	<b>(115 766)</b>	<b>(79 372)</b>	<b>(805 864)</b>
Impairment losses on assets	(102 560)	(13 321)	(4 907)	(120 788)
Results on modification	(6 711)	(20)	0	(6 731)
<b>Operating Profit</b>	<b>470 199</b>	<b>143 186</b>	<b>236 686</b>	<b>850 071</b>
Share in net profit of associated companies				0
Provisions for COVID-19				0
Provisions for legal risk connected with FX mortgage loans				(1 047 044)
Banking tax				(151 968)
<b>Profit / (loss) before income tax</b>				<b>(348 941)</b>
Income taxes				(162 707)
<b>Profit / (loss) after taxes</b>				<b>(511 648)</b>

## Balance sheet items as at 30.06.2021

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	59 379 207	16 415 044	0	75 794 251
Liabilities to customers	68 662 786	21 129 632	206 068	89 998 487

## Income statement 1.01.2020 - 30.06.2020

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Net interest income	839 571	160 922	302 731	1 303 224
Net fee and commission income, including:	297 660	74 562	1 306	373 528
Fee and commission income	382 367	79 656	9 680	471 703
Fee and commission expenses	(84 707)	(5 094)	(8 374)	(98 175)
Dividends, other income from financial operations and foreign exchange profit	39 899	33 097	74 932	147 928
Result on non-trading financial assets mandatorily at fair value through profit or loss	(26 416)	0	7 486	(18 930)
Other operating income and cost	(5 043)	(4 568)	(41 514)	(51 125)
<b>Operating income</b>	<b>1 145 671</b>	<b>264 013</b>	<b>344 941</b>	<b>1 754 625</b>
Staff costs	(363 973)	(73 225)	(14 000)	(451 198)
Administrative costs	(256 905)	(33 672)	(74 037)	(364 614)
Depreciation and amortization	(97 217)	(8 491)	(1 505)	(107 213)
<b>Operating expenses</b>	<b>(718 095)</b>	<b>(115 388)</b>	<b>(89 542)</b>	<b>(923 025)</b>
Impairment losses on assets	(235 521)	(88 195)	(4 509)	(328 225)
Results on modification	(8 574)	342	0	(8 232)
<b>Operating Profit</b>	<b>183 481</b>	<b>60 772</b>	<b>250 890</b>	<b>495 143</b>
Share in net profit of associated companies				0
Provisions for COVID-19				0
Provisions for legal risk connected with FX mortgage loans				(168 019)
Banking tax				(141 188)
<b>Profit / (loss) before income tax</b>				<b>185 936</b>
Income taxes				(114 212)
<b>Profit / (loss) after taxes</b>				<b>71 724</b>

## Balance sheet items as at 31.12.2020

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	57 370 969	16 268 373	0	73 639 342
Liabilities to customers	65 413 189	15 919 233	178 118	81 510 540

## 7. Transactions with Related Entities

All and any transactions between entities of the Group in 1 half of 2021 resulted from the current operations.

Apart from transactions described herein, in the indicated period neither Bank Millennium S.A., nor subsidiaries of Bank Millennium S.A. made any other transactions with related entities, which individually or jointly may have been significant and concluded under terms and conditions other than market-based.

### 7.1. TRANSACTIONS WITH THE PARENT GROUP

The following are the amounts of transactions with the Capital Group of Bank's parent company - Banco Comercial Portugues (ultimate parent company), these transactions are mainly of banking nature (in '000 PLN):

	With parent company		With other entities from parent group	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
<b>ASSETS</b>				
Loans and advances to banks - accounts and deposits	220 544	1 237	0	0
Financial assets held for trading	0	0	0	0
Hedging derivatives	0	0	0	0
Other assets	0	0	0	0
<b>LIABILITIES</b>				
Loans and deposits from banks	55 088	23 601	103 012	127 903
Debt securities	0	0	0	0
Financial liabilities held for trading	236	333	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	65	122

	With parent company		With other entities from parent group	
	2021	2020	2021	2020
<b>Income from:</b>				
Interest	(133)	(107)	0	0
Commissions	40	66	0	0
Financial assets and liabilities held for trading	0	0	0	0
<b>Expense from:</b>				
Interest	0	3	(155)	(159)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	315	440	0	0
Other net operating	5	6	0	0
Administrative expenses	0	0	7	237

	With parent company		With other entities from parent group	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Conditional commitments	101 043	100 774	0	0
granted	100 250	100 000	0	0
obtained	793	774	0	0
Derivatives (par value)	15 022	15 938	0	0

## 7.2. TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

	30.06.2021	31.12.2020
Total debt limit (in '000 PLN)	211.5	211.5
- including an unutilized limit (in '000 PLN)	179.8	179.7
Mortgage loans and credits	-	-
Active guarantees	-	-
<b>Members of the Supervisory Board</b>	<b>30.06.2021</b>	<b>31.12.2020</b>
Total debt limit (in '000 PLN)	112.0	137.0
- including an unutilized limit (in '000 PLN)	109.0	111.3
Mortgage loans and credits	-	-
Active guarantees	-	-

The Group provides standard banking services to Members of the Management Board, Members of the Supervisory Board, persons related to Members of the Management Board and Members of the Supervisory Board, which services comprise i.a.: keeping bank accounts, accepting deposits or sale of financial instruments. Accordingly to the Bank these transactions are concluded on market terms and conditions. In accordance with the credit lending policy adopted in the Bank, term credits described in this section have appropriate collateral to mitigate its credit risk exposure.

Information on total exposure towards companies and groups personally related:

Client No. 1, as at:	Loans granted	Guarantees provided	Open credit lines	Relationship
30.06.2021	9 244	4 000	158	Personal with a supervising person
31.12.2020	9 976	3 000	161	Personal with a supervising person

## 7.3. INFORMATION ON COMPENSATIONS AND BENEFITS OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS

Remuneration costs (including provisions charged) and benefits incurred by the Bank in favour of the Members of the Management Board (data in thousand PLN):

Period	Short term salaries	Benefits	TOTAL
1.01-30.06.2021	5 250	1 084	6 334
1.01-30.06.2020	9 105	1 196	10 301

The benefits are mainly the costs of accommodation of the foreign Members of the Management Board.

Remuneration costs of the Members of the Supervisory Board of the Bank (data in thousand PLN):

Period	Short term salaries and benefits
1.01-30.06.2021	1 167
1.01-30.06.2020	747

## 7.4. BALANCE OF THE BANK'S SHARES HELD BY THE BANK'S SUPERVISORY AND MANAGEMENT BOARD MEMBERS

Name and surname	Position/Function	Number of shares as of delivery date of semiannual report for I half 2021	including received under the incentive program	
			blocked on investment accounts until 03.07.21	blocked on investment accounts until 14.06.22
Joao Nuno Lima Bras Jorge	Chairman of the Management Board,	278 900	96 021	31 879
Fernando Maria Cardoso Rodrigues Bicho	Deputy Chairman of the Management Board,	101 568	76 252	25 316
Wojciech Haase	Member of the Management Board	90 253	62 131	20 628
Andrzej Gliński	Member of the Management Board	82 759	62 131	20 628
Wojciech Rybak	Member of the Management Board	82 759	62 131	20 628
Antonio Ferreira Pinto Junior	Member of the Management Board	82 759	62 131	20 628
Jarosław Hermann	Member of the Management Board	82 759	62 131	20 628

Name and surname	Position/Function	Number of shares as of delivery date of annual report for year 2020	including received under the incentive program	
			blocked on investment accounts until 03.07.21	
Joao Nuno Lima Bras Jorge	Chairman of the Management Board,	247 021	96 021	
Fernando Maria Cardoso Rodrigues Bicho	Deputy Chairman of the Management Board,	76 252	76 252	
Wojciech Haase	Member of the Management Board	69 625	62 131	
Andrzej Gliński	Member of the Management Board	62 131	62 131	
Wojciech Rybak	Member of the Management Board	62 131	62 131	
Antonio Ferreira Pinto Junior	Member of the Management Board	62 131	62 131	
Jarosław Hermann	Member of the Management Board	62 131	62 131	

Name and surname	Position/Function	Number of shares as of delivery date of semiannual report for I half 2021	Number of shares as of delivery date of annual report for yearf 2020
Bogusław Kott	Chairman of the Supervisory Board	1 000	1 000
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Dariusz Rosati	Deputy Chairman and Secretary of the Supervisory Board	0	0
Miguel de Campos Pereira de Bragança	Member of the Supervisory Board	0	0
Olga Grygier-Siddons	Member of the Supervisory Board	0	/ - /
Anna Jakubowski	Member of the Supervisory Board	0	0
Grzegorz Jędryś	Member of the Supervisory Board	0	0
Alojzy Nowak	Member of the Supervisory Board	0	0
José Miguel Bensliman Schorcht da Silva Pessanha	Member of the Supervisory Board	0	0
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	0
Beata Stelmach	Member of the Supervisory Board	0	/ - /
Lingjiang Xu	Member of the Supervisory Board	0	0



## 8. Fair Value

The best reflection of fair value of financial instruments is the price which can be obtained for the sale of assets or paid for the transfer of liability in case of market transactions (an exit price). For many products and transactions for which market value to be taken directly from the quotations in an active market (marking-to-market) is not available, the fair value must be estimated using internal models based on discounted cash flows (marking-to-model). Financial cash flows for the various instruments are determined according to their individual characteristics, and discounting factors include changes in time both in market interest rates and margins.

According to IFRS 13 “Fair value measurement” in order to determinate fair value the Group applies models that are appropriate under existing circumstances and for which sufficient input data is available, based to the maximum extent on observable input whereas minimizing use of unobservable input, namely:

Level 1 - valuation based on the data fully observable (active market quotations);

Level 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;

Level 3 - valuation models using unobservable data (not derived from an active market).

Valuation techniques used to determine fair value are applied consistently. Change in valuation techniques resulting in a transfer between these methods occurs when:

- transfer from Level 1 to 2 takes place when for the financial instruments measured according to Level 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from Level 2 to 3 takes place when for the financial instruments measured according to the Level 2 value of parameters not derived from the market has become significant at the balance sheet day (and previously used to be irrelevant).

### 8.1. FINANCIAL INSTRUMENTS NOT RECOGNIZED AT FAIR VALUE IN THE BALANCE SHEET

All estimation models are arbitrary to some extent and this is why they reflect only the value of those instruments for which they were built. In these circumstances the presented differences between fair values and balance-sheet values cannot be understood to mean adjustments of the economic value of the Group. Fair value of these instruments is determined solely in order to meet the disclosure requirements of IFRS 13 and IFRS 7.

The main assumptions and methods applied in estimating fair value of assets and liabilities of the Group are as follows:

Receivables and liabilities with respect to banks

The fair value of these instruments was determined by discounting the future principal and interest flows with current rates, assuming that the flows arise on contractual dates.

Loans and advances granted to customers valued at amortised cost

The fair value of such instruments without specified repayment schedule, given their short-term nature and the time-stable policy of the Group with respect to this portfolio, is close to balance-sheet value.

With respect to floating rate leasing products fair value was assessed by adjusting balance-sheet value with discounted cash flows resulting from difference of spreads.

The fair value of instruments with defined maturity is estimated by discounting related cash flows on contractual dates and under contractual conditions with the use of current zero-coupon rates and credit risk margins.

In case of mortgage loans due to their long-term nature estimation of the future cash flows also includes: the effect of early repayment and liquidity risk in foreign currencies.

#### Liabilities to customers

The fair value of such instruments without maturity or with maturity under 30 days is considered by the Group to be close to balance-sheet value.

Fair value of instruments due and payable in 30 days or more is determined by discounting future cash flows from principal and interest (including the current average margins by major currencies and time periods) using current interest (including the original average margins by major currencies and time periods) in contractual terms.

#### Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities - bank's securities (BPW) are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond.

The fair value of other liabilities arising from debt securities issued by the Bank (bonds (BKMO)) was estimated based on the expected cash flows using current interest rates taking into account the margin for credit risk. The current level of margins was appointed on the basis of recent transactions of similar credit risk.

#### Subordinated liabilities and medium term loans

The fair value of these financial instruments is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and historical margin for credit risk. Similar as in loan portfolio the Bank includes the level of the original margin as a part of mid-term cost of financing obtained in the past in relation to the current margin level for the comparable instruments, as long as reliable assessment is possible. Due to lack of the mid-term loans liquid market as a reference to estimate current level of margins, the Bank used the original margin.

The table below presents results of the above-described analyses as at 30.06.2021 (data in PLN thousand):

	Note	Balance sheet value	Fair value
<b>ASSETS MEASURED AT AMORTISED COST</b>			
Debt securities	14	37 057	38 115
Deposits, loans and advances to banks and other monetary institutions	14	605 506	605 511
Loans and advances to customers*	13	74 122 632	72 177 582
<b>LIABILITIES MEASURED AT AMORTISED COST</b>			
Liabilities to banks and other monetary institutions	18	742 313	742 625
Liabilities to customers	19	89 998 487	90 042 665
Debt securities issued	21	310 694	311 255
Subordinated debt	22	1 539 881	1 539 770

\* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads. The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is widely applied for valuation of debt securities, which are not quoted on active markets. In result, paradoxically whenever the spreads of new loans increase, fair value of the "old" loans portfolio falls.

Models used for determination of the fair value of financial instruments presented in the above table and not recognized at fair value in Group's balance sheet, use techniques based on parameters not derived from the market. Therefore, they are considered as the third level of valuation.

The table below presents data as at 31.12.2020 (data in PLN thousand):

	Note	Balance sheet value	Fair value
<b>ASSETS MEASURED AT AMORTISED COST</b>			
Debt securities	14	38 818	39 559
Deposits, loans and advances to banks and other monetary institutions	14	625 430	625 430
Loans and advances to customers*	13	72 023 589	70 543 415
<b>LIABILITIES MEASURED AT AMORTISED COST</b>			
Liabilities to banks and other monetary institutions	18	1 057 652	1 057 991
Liabilities to customers	19	81 510 540	81 545 397
Debt securities issued	21	558 560	560 714
Subordinated debt	22	1 540 209	1 540 491

## 8.2. FINANCIAL INSTRUMENTS RECOGNIZED AT FAIR VALUE IN THE BALANCE SHEET

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in PLN'000, as at 30.06.2021

	Note	Quoted market prices Level 1	Valuation techniques - observable inputs Level 2	Valuation techniques - significant unobservable inputs Level 3
<b>ASSETS</b>				
Financial assets held for trading	11			
Valuation of derivatives			107 953	17 071
Equity instruments		285		
Debt securities		101 311		
Non-trading financial assets mandatorily at fair value through profit or loss	13			
Equity instruments			36 463	66 609
Debt securities				55 444
Loans and advances				1 671 619
Financial assets at fair value through other comprehensive income	12			
Equity instruments		334		29 215
Debt securities		19 481 379	2 499 993	
Derivatives - Hedge accounting	15		38 102	
<b>LIABILITIES</b>				
Financial liabilities held for trading	11			
Valuation of derivatives			49 116	17 383
Short positions		11 095		
Derivatives - Hedge accounting	15		251 303	

Data in PLN'000, as at 31.12.2020

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	11			
Valuation of derivatives			133 815	20 373
Equity instruments		245		
Debt securities		269 413		
Non-trading financial assets mandatorily at fair value through profit or loss	13			
Equity instruments			134 163	66 609
Debt securities				50 335
Loans and advances				1 615 753
Financial assets at fair value through other comprehensive income	12			
Equity instruments		320		29 218
Debt securities		18 613 077		
Derivatives - Hedge accounting	15		21 795	
LIABILITIES				
Financial liabilities held for trading	11			
Valuation of derivatives			83 754	20 021
Short positions		64 778		
Derivatives - Hedge accounting	15		738 850	

Using the criterion of valuation techniques as at 30.06.2021 Group classified into the third category following financial instruments:

- credit exposures with a leverage / multiplier feature inbuilt in the definition of interest rate (these are credit card exposures and overdraft limits for which the interest rate is based on a multiplier: 4 times the lombard rate). To estimate the fair value of loans, due to the lack of availability of the market value, an internal valuation model was used, taking into account the assumption that at the time of granting the loan the fair value is equal to the carrying value. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date. The discounting rate is the sum of: the cost of risk, the cost of financing, the value of the expected return. The fair value of impaired loans is equal to the sum of future expected recoveries discounted using the effective interest rate, recognizing that the average expected recoveries fully take into account the element of credit risk. In case of an increase in the discount rate by 1 p.p. valuation of the portfolio would have been reduced by -0.1% (sensitivity analysis: based on the FV model for the portfolio of credit cards);
- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- VISA Inc. engagement shares; the method of fair value calculation of this instrument considers the time value of money, the time line for conversion of preferred stock in common stock of VISA and adjustments resulting from litigations (on-going or potential) against VISA and the Bank.;
- other equity instruments measured at fair value (unquoted on an active market).

In the reporting period, the Group did not make transfers of financial instruments between the techniques of fair value measurement.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market are presented in the table below (in '000 PLN):

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance on 31.12.2020</b>	<b>19 911</b>	<b>(19 559)</b>	<b>95 827</b>	<b>50 335</b>	<b>1 615 753</b>
Settlement/sell/purchase	(1 704)	908	3	0	26 639
Change of valuation recognized in equity	0	0	0	0	0
Interest income and other of similar nature	0	0	0	0	35 218
Results on financial assets and liabilities held for trading	(1 459)	1 591	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	5 109	(5 991)
Result on exchange differences	0	0	(6)	0	0
<b>Balance on 30.06.2021</b>	<b>16 748</b>	<b>(17 060)</b>	<b>95 824</b>	<b>55 444</b>	<b>1 671 619</b>

For options on indexes concluded on an inactive market, and FX options the Group concludes back-to-back transactions on the interbank market, in result estimated credit risk component has no impact on the financial result.

Accordingly Group's estimation impact of adjustments for counterparty credit risk was not significant from the point of view of individual derivative transactions concluded by the Bank. Consequently, the Bank does not consider the impact of unobservable inputs used in the valuation of derivative transactions for significant and in accordance with the provisions of IFRS 13.73 does not classify such transactions for level 3 fair value measurements.

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance on 31.12.2019</b>	<b>61 294</b>	<b>(60 944)</b>	<b>95 976</b>	<b>103 001</b>	<b>1 498 195</b>
Settlement/sell/purchase	(34 996)	34 697	0	0	90 544
Change of valuation recognized in equity	0	0	(175)	0	0
Interest income and other of similar nature	0	0	0	0	69 934
Results on financial assets and liabilities held for trading	(6 387)	6 688	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	(52 666)	(42 920)
Result on exchange differences	0	0	26	0	0
<b>Balance on 31.12.2020</b>	<b>19 911</b>	<b>(19 559)</b>	<b>95 827</b>	<b>50 335</b>	<b>1 615 753</b>

## 9. Contingent liabilities and assets

### 9.1. LAWSUITS

Below please find the data on the court cases pending, brought up by and against entities of the Group. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 4. note 10) "Corporate Income Tax"**.

#### **Court cases brought up by the Group**

Value of the court litigations, as at 30.06.2021, in which the companies of the Group were a plaintiff, totalled PLN 371.2 million.

#### *Proceedings on infringement of collective consumer interests*

On January 3 2018, the Bank received decision of the President of the Office of Competition and Consumer Protection (UOKiK), in which the President of UOKiK found infringement by the Bank of the rights of consumers. In the opinion of the President of UOKiK the essence of the violation is that the Bank informed consumers (it regards 78 agreements) in responses to their complaints, that the court verdict stating the abusiveness of the provisions of the loan agreement regarding exchange rates does not apply to them. According to the position of the President of UOKiK the abusiveness of contract's clauses determined by the court in the course of abstract control is constitutive and effective for every contract from the beginning. As a result of the decision, the Bank was obliged to:

- 1) send information on the UOKiK's decision to the said 78 clients,
- 2) place the information on decision and the decision itself on the website and on Twitter,
- 3) to pay a fine amounting to PLN 20.7 mln.

The Bank lodged an appeal within the statutory time limit.

On January 7, 2020, the first instance court dismissed the Bank's appeal in its entirety. The bank appealed against the judgment within the statutory deadline. The court presented the view that the judgment issued in the course of the control of a contractual template (in the course of an abstract control), recognizing the provisions of the template as abusive, determines the abusiveness of similar provisions in previously concluded contracts. Therefore, the information provided to consumers was incorrect and misleading. As regards the penalty imposed by UOKiK, the court pointed out that the policy of imposing penalties by the Office had changed in the direction of tightening penalties and that the court agrees with this direction.

In the Bank's assessment, the Court should not assess the Bank's behaviour in 2015 from the perspective of today's case-law views on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the President of UOKiK was published), the more penalties for these behaviours should not be imposed using current policy. The above constitutes a significant argument against the validity of the judgment and supports the appeal which the Bank submitted to the Court of second instance.

According to current estimates of the risk of losing the dispute, the Bank has not created a provision.

*Proceedings on competition-restricting practice*

The Bank (along with other banks) is also a party to the dispute with UOKiK, in which the President of UOKiK recognized the practice of participating banks, including Bank Millennium, in an agreement aimed at jointly setting interchange fee rates charged on transactions made with Visa and Mastercard cards as restrictive of competition, and by decision of 29 December 2006 imposed a fine on the Bank in the amount of PLN 12.2 million. The Bank, along with other banks, appealed the decision.

In connection with the judgment of the Supreme Court and the judgment of the Court of Appeal in Warsaw of November 23, 2020, the case is currently pending before the court of first instance - the Court of Competition and Consumer Protection. The Bank has created a provision in the amount equal to the imposed penalty.

*Proceedings in the matter of recognition of provisions of the agreement format as abusive*

On 22 September 2020 The Bank received decision of the Chairman of the Office for Protection of Competition and Consumers (OPCC Chairman) recognising clauses stipulating principles of currency exchange applied in the so-called anti-spread annex as abusive and prohibited the use thereof.

Penalty was imposed upon the Bank in the amount of 10.5 million PLN. Penalty amount takes account of two mitigating circumstances: cooperation with the Office for Protection of Competition and Consumers and discontinuation of the use of provisions in question.

The Bank was also requested, after the decision becomes final and binding, to inform consumers, by registered mail, to the effect that the said clauses were deemed to be abusive and therefore not binding upon them (without need to obtain court's decision confirming this circumstance) and publish the decision in the case on the Bank's web site.

In the decision justification delivered in writing the OPCC Chairman stated that FX rates determined by the Bank were determined at Bank's discretion (on the basis of a concept, not specified in any regulations, of average inter-bank market rate). Moreover, client had no precise knowledge on where to look for said rates since provision referred to Reuters, without precisely defining the relevant site.

Provisions relating to FX rates in Bank's tables were challenged since the Bank failed to define when and how many times a day these tables were prepared and published.

In justification of the decision, the OPCC Chairman also indicated that in the course of the proceeding, Bank Millennium presented various proposed solutions, which the OPCC Chairman deemed to be insufficient.

The decision is not final and binding. The Bank appealed against the said decision within statutory term. The Bank believes that chances for it to win the case are positive.

## Court cases against the Group

As at 30.06.2021, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were following:

- The Bank is a defendant in three court proceedings in which the subject of the dispute is the amount of the interchange fee. In two of the abovementioned cases, the Bank was sued jointly and severally with another bank, and in one with another bank and card organizations. The total value of claims submitted in these cases is PLN 729.6 million. The proceedings with the highest value of the submitted claim are brought by PKN Orlen SA, in which the plaintiff demands payment of PLN 635.7 million. The plaintiff in this proceeding alleges that the banks acted under an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2006-2014. In the other two cases, the charges are similar to those raised in the case brought by PKN Orlen SA, while the period of the alleged agreement is indicated for the years 2008-2014. According to current estimates of the risk of losing a dispute in these matters, the Bank did not create a provision. In addition, we point out that the Bank participates as a side intervener in four other proceedings regarding the interchange fee. Other banks are the defendant. Plaintiffs in these cases also accuse banks of acting as part of an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2008-2014.

- A lawsuit brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment. The plaintiff filed the suit dated 23.10.2015 to the Regional Court in Warsaw; the suit was served to the Bank on 04.04.2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan concluded between the Bank and PCZ S.A., which resulted in placing the loan on demand. In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank. At present, the Court of first instance is conducting evidence proceedings.

As at 30.06.2021, the total value of the subjects of the other litigations in which the Group appeared as defendant, stood at PLN 1,319.7 million (excluding the class actions described below and in the **Chapter 10**). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).



### **The class action related to the LTV insurance:**

On the 3rd of December 2015 a class action was served on the Bank. A group of the Bank's debtors (454 borrowers party to 275 loan agreements) is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million, claiming that the clauses of the agreements, pertaining to the low down payment insurance, are unfair and thus not binding. Plaintiff extended the group in the court letter filed on the 4th of April 2018, therefore the claims increased from PLN 3.5 million to over PLN 5 million.

Actual status:

On the 1st of October 2018, the group's representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering the total of 697 borrowers - 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7,371,107.94.

By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff and decided to take witness evidence in writing and called on the parties to submit questions to the witnesses.

As at 30 June 2021, there were also 383 individual court cases regarding LTV insurance (cases in which only a claim for the reimbursement of the commission or LTV insurance fee is presented).

### **Lawsuits filed by Financial Ombudsman for discontinuation of unfair market practices**

On 13 August 2020 the Bank received lawsuit from the Financial Ombudsman. The Financial Ombudsman, in the lawsuit, demands that the Bank and the Insurer (TU Europa) be ordered to discontinue performing unfair market practices involving, as follows:

- presenting the offered loan repayment insurance as protecting interests of the insured in case when insurance structure indicates that it protects the Bank's interests;
- use of clauses linking the value of insurance benefit with the amount of borrower's debt;
- use of clauses determining the amount of insurance premium without prior risk assessment (underwriting);
- use of clauses excluding insurer's liability for insurance accidents resulting from earlier causes.

Furthermore, the Ombudsman requires the Bank to be ordered to publish, on its web site, information on use of unfair market practices.

The lawsuit does not include any demand for payment, by the Bank, of any specified amounts. Nonetheless, if the practice is deemed to be abusive it may constitute grounds for future claims to be filed by individual clients.

The case is being examined by the court of first instance.

### **FX mortgage loans legal risk**

FX mortgage loans legal risk is described in the **Chapter 10**. "Costs of provisions for legal risk related to foreign currency mortgage loans".

## 9.2. OFF - BALANCE ITEMS

<i>Amount '000 PLN</i>	30.06.2021	31.03.2021	31.12.2020	30.06.2020
<b>Off-balance conditional commitments granted and received</b>	<b>15 634 722</b>	<b>16 214 002</b>	<b>15 722 748</b>	<b>14 089 761</b>
Commitments granted:	13 886 478	14 386 839	14 177 193	13 346 042
loan commitments	12 155 238	12 659 877	12 420 910	11 610 230
guarantee	1 731 240	1 726 961	1 756 283	1 735 812
Commitments received:	1 748 244	1 827 163	1 545 555	743 719
financial	452	16 520	0	26 065
guarantee	1 747 792	1 810 643	1 545 555	717 654

## 10. Costs of provisions for legal risk related to foreign currency mortgage loans

### 10.1. CURRENT PROVISIONS ON LEGAL RISK

As of 30 June 2021, the Bank had 7 902 loan agreements and additionally 672 loan agreements from former Euro Bank under individual ongoing litigations (97% loans agreements before the Court of first instance and 3% loans agreements before the court of second instance; excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 920.1 million and CHF 69.8 million (Bank Millennium portfolio: PLN 839.8 million and CHF 68.3 million and former Euro Bank portfolio: PLN 80.3 million and CHF 1.4 million). The outstanding amount of the loan agreements under individual court cases as of 30.06.2021 was PLN 2,463 million.

Until 30.06.2021 only 91 cases were finally resolved (66 in claims submitted by clients against the Bank and 25 in claims submitted by the Bank against clients i.e. debt collection cases).

The claims formulated by the Clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domain affects the number of court disputes.

In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3 281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. On 11 August 2020, the claimant requested granting interim measures to secure the claims against the Bank. In a decision of 18 August 2020, the request for granting interim measures was dismissed. On 26 October 2020, the claimant filed another application for granting interim measures to secure claims against the Bank concerning two group members. By decision of 6 November 2020, the application was rejected. During the session on 26 of October 2020 the Court conducted a hearing of parties' position. The next hearing is scheduled for October 21, 2021. The outstanding amount of the loan agreements under the class action proceeding was 935 million PLN as of 30.06.2021.

The Bank continues to be open to its customers in order to reach amicable solutions on negotiated terms. 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. The Bank has already reached agreement and settlement with 140 borrowers that participated in the class action.

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

Taking into consideration the increased legal risk related to FX mortgages, in I half 2021 Bank Millennium created PLN 972.4 million provisions and PLN 74.6 million for ex-Euro Bank originated portfolio (respectively in year 2020: PLN 677 million and PLN 36.4 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.

As of 30 June 2021, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 1,868.9 million, and PLN 111 million for the portfolio originated by ex-Euro Bank. Legal risk from ex-Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

The Bank analyzed the sensitivity of the methodology for calculating provisions, for which a change in the parameters would affect the value of the estimated loss to the legal risk of litigation:

Parameter	Scenario	Impact on loss due to legal risk related to the portfolio of mortgage loans in convertible currencies
Change in the number of lawsuits	Additionally, 1 p.p. of active clients file a lawsuit against the Bank	PLN 47 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 31 million

On 3 October 2019, the Court of Justice of the European Union ('the CJEU') issued the judgment in Case C-260/18 in connection with the preliminary questions formulated by the District Court of Warsaw in the case against Raiffeisen Bank International AG. The judgment of the CJEU, as regards the interpretation of European Union law made therein, is binding on domestic courts. The judgment in question interpreted Article 6 of Directive 93/13. In the light of the subject matter judgment the said provision must be interpreted in such a way that (i) the national court may invalidate a credit agreement if the removal of unfair terms detected in this agreement would alter the nature of the main subject-matter of the contract; (ii) the effects for the consumer's situation resulting from the cancellation of the contract must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and the will of the consumer is decisive as to whether he wishes to maintain the contract; (iii) Article 6 of the Directive precludes the filling-in of gaps in the contract caused by the removal of unfair terms from the contract solely on the basis of national legislation of a general nature or established customs; (iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract if the consumer has not consented to the maintenance of such terms. It can be noticed the CJEU found doubtful the possibility of a credit agreement being performed further in PLN while keeping interest calculated according to LIBOR.

The CJEU judgment concerns only the situation where the national court has previously found the contract term to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be regarded as abusive in the circumstances of the case. It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court have already been filed and may still be filed with potential impact on the outcome of the court cases.

On 29th April 2021, the CJEU issued the judgement in the case C-19/20 in connection with the preliminary questions formulated by the District Court in Gdańsk in the case against of ex-BPH S.A., CJEU said that:

(i) it is for the national court to find that a term in a contract is unfair, even if it has been contractually amended by those parties. Such a finding leads to the restoration of the situation that the consumer would have been in in the absence of the term found to be unfair, except where the consumer, by means of amendment of the unfair term, has waived such restoration by free and informed consent. However, it does not follow from Council Directive 93/13 that a finding that the original term is unfair would, in principle, lead to annulment of the contract, since the amendment of that term made it possible to restore the balance between the obligations and rights of those parties arising under the contract and to remove the defect which vitiated it.

(ii) the national court may remove only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where the deterrent objective pursued by Council Directive 93/13 is ensured by national legislative provisions governing the use of that term, provided that that element consists of a separate contractual obligation, capable of being subject to an individual examination of its unfair nature. At the same time, provisions of the Directive preclude the referring court from removing only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where such removal would amount to revising the content of that term by altering its substance.

(iii) the consequences of a judicial finding that a term in a contract concluded between a seller or supplier and a consumer is unfair are covered by national law and the question of continuity of the contract should be assessed by the national court of its own motion in accordance with an objective approach on the basis of those provisions.

(iv) the national court, finding that a term in a contract concluded between a seller or supplier and a consumer is unfair, shall inform the consumer, in the context of the national procedural rules after both parties have been heard, of the legal consequences entailed by annulment of the contract, irrespective of whether the consumer is represented by a professional representative.

On 7th May 2021, the Supreme Court composed of 7 judges of the Supreme Court, issued a resolution for which the meaning of legal principle has been granted, stating that:

1. An abusive contractual clause (art. 3851 § 1 of the Civil Code), by force of the law itself, is ineffective to the benefit of the consumer who may consequently give conscious and free consent to this clause and thus restore its effectiveness retroactively.

2. If without the ineffective clause the loan agreement cannot bind, the consumer and the lender shall be eligible for separate claims for return of monetary performances made in exercising this agreement (art. 410 § 1 in relation to art. 405 of the Civil Code). The lender may demand return of the performance from the moment the loan agreement becomes permanently ineffective.

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.

If all Bank Millennium loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for capital, the pre-tax cost could reach PLN 3,003 million.

## **10.2. EVENTS THAT MAY IMPACT PROVISION FOR LEGAL RISK**

On 29 January 2021 it was published a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Supreme Court which may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court has been requested for answering the questions concerning key matters related to FX mortgage agreements: (i) is it permissible to replace - with the law provisions or with a custom - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/denominated credit agreement - is it permissible to keep the agreement still valid in its remaining scope; as well as (iii) if in case of invalidity of the CHF credit there would be applicable the theory of balance (i.e. does arise a single claim which is equal to the difference between value of claims of bank and the customer) or the theory of two conditions (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court has also been requested for answering the question on (iv) from which point in time there shall be starting the limitation period in case of bank's claim for repayment of amounts paid as a loan and (v) whether banks and consumers may receive remuneration for using their pecuniary means by another party.

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

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

The date of the next meeting of the Supreme Court is now scheduled for 2 September 2021. The Bank will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

On December 8, 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority ('PFSA') proposed a 'sector' solution to address the sector risks related to FX mortgages. The solution would consist in offering by banks to their clients a voluntary possibility of concluding arrangements based on which a client would conclude with the bank a settlement as if his/her loan from the very beginning had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loan.

Following that public announcement, the idea has been subject of consultations between banks under the auspices of the PFSA and Polish Banking Association. Banks in general have been assessing the conditions under which such solution could be implemented and consequent impacts.

In the view of the Management Board of the Bank, important aspects to take into consideration when deciding on potential implementation of such program are : a) favourable opinion or at least non-objection from important public institutions; b) support from National Bank of Poland to the implementation; c) level of legal certainty of the settlement agreements to be signed with the borrowers; d) level of the financial impact on a pre- and after tax basis; e) capital consequences including regulatory adjustments in the level of capital requirements associated with FX mortgage loans.

At the time of publishing this report, neither the Management Board nor any other corporate body of the Bank took any decision regarding implementation of such program. If / when a recommendation regarding the program would be ready, the Management Board would submit it to the Supervisory Board and General Shareholders meeting taking into consideration the relevance of such decision and its implications.

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

According to preliminary calculations, implementation of a solution whereby loans would be voluntarily converted to Polish zloty as if from the very beginning they had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the current portfolio would be converted) with a pre-tax impact between PLN 4 100 million to PLN 5 100 million (not audited data). The impacts can significantly change in case of variation of the exchange rate and several assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk weighted assets and the decrease or elimination of Pillar 2 buffer. The above mentioned impact would be substantially higher than the estimated impact of PLN 500 million to PLN 600 million (not audited data) in the scenario of replacing the exchange rate applied in the contracts by the average NBP exchange rate.

Finally it should be mentioned, that the Bank, as at 30.06.2021, had to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 3.41 p.p. (3.36 p.p. at the Group level), part of which is allocated to operational/legal risk.

Due to the complexity and uncertainty regarding the outcome of court cases, as well as from potential implementation of KNF Chairman solution or from potential Supreme Court decisions, it is difficult to reliably estimate potential impacts of such different outcomes and their interaction as at the date of publication of the financial statements.



## 11. Additional Information

### 11.1. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 30.06.2021 r. (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds OK0722	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	129 922
2.	Treasury bonds OK0722	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	318 000	317 809
3.	Treasury bonds PS0123	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	99 300	103 843
4.	Treasury bonds PS0123	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	86 500	90 457
5.	Cash	receivables	initial settlement deposit in KDPW CCP (MAGB)	5 000	5 000
6.	Cash	receivables	ASO guarantee fund (PAGB)	1 195	1 195
7.	Cash	receivables	right settlement deposit in KDPW CCP (MATS)	2 217	2 217
8.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	7 376	7 376
9.	Cash	receivables	Settlement on transactions concluded	69 052	69 052
10.	Deposits	Deposits in banks	Settlement on transactions concluded	218 729	218 729
11.	Leasing receivables	Loans and advances	Loans granted to Millennium Leasing	218 672	218 672
TOTAL				1 156 041	1 164 272

As at June 30, 2021, the Group had not concluded short-term transactions of Treasury securities sale with a repurchase agreement.



As at 31.12.2020 r. (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds OK0722	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	129 922
2.	Treasury bonds OK0722	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	355 000	354 787
3.	Treasury bonds PS0123	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	88 000	94 473
4.	Treasury bonds PS0123	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	71 000	76 223
5.	Treasury bonds PS0422	Held to Collect and for Sale	initial settlement deposit in KDPW CCP (MARI)	300 000	313 311
6.	Cash	receivables	initial settlement deposit in KDPW CCP (MARI)	100	100
7.	Cash	receivables	ASO guarantee fund (PAGB)	2 415	2 415
8.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	5 617	5 617
9.	Cash	receivables	Settlement on transactions concluded	45 153	45 153
10.	Deposits	Deposits in banks	Settlement on transactions concluded	503 532	503 532
11.	Leasing receivables	Loans and advances	Loans granted to Millennium Leasing	274 731	274 731
TOTAL				1 775 548	1 800 264

Additionally, as at December 31, 2020, the Group had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a repurchase agreement, subject of securities worth PLN 248,429 thousand.

## 11.2. SECURITIES COVERED BY TRANSACTIONS WITH A BUY-BACK CLAUSE

As at June 30, 2021, the Group had not concluded short-term transactions of Treasury securities sale with a repurchase agreement.

As at 31 December 2020 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

Type of security	Par value	Balance sheet value
Treasury bonds	233 004	248 429
TOTAL	233 004	248 429

In result of conclusion of Sell-Buy-Back transactions with the underlying securities presented in the table above, the Group is exposed to risks, which are the same as in case of holding securities with the same characteristics in its treasury portfolio.

### 11.3. 2020 DIVIDEND

Bank Millennium has a dividend policy of distributing between 35% to 50% of the Bank's net profit, assuming that the recommendations of the Polish Financial Supervision Authority (PFSA) regarding the payment of dividends will be implemented.

On December 16, 2020, the PFSA published its position on the dividend policy of commercial banks in 2021. Given the significant uncertainty about the further developments related to the COVID19 pandemic, the temporary nature of solutions used by banks to improve the capital situation during the pandemic, persistently cautious supervisory positions in the EU with regard to dividend restrictions and other forms of lowering capital resources and changing the EBA guidelines extending moratoria, the PFSA deemed it necessary for commercial banks to suspend dividends. On January 13, the Bank received a similar individual recommendation of the PFSA regarding the suspension of payments by the Bank in the first half of 2021.

Based on the above recommendations, uncertainty as to the operating conditions caused by the COVID-19 pandemic, the existing legal / operational risk, as well as taking into account the need to provide appropriate capital support to increase the scale of business operations, the Bank's Management Board presented a proposal and the Ordinary General Meeting of the Bank held on March 24, 2021 decided to retain the entire net profit generated during the year 2020 in the Bank's equity.

### 11.4. EARNINGS PER SHARE

Loss per share calculated for 1 half of 2021 (and diluted loss per share) on the basis of the consolidated data amounts to -PLN 0.42.

### 11.5. SHAREHOLDERS HOLDING NO LESS THAN 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS MEETING OF THE GROUP'S PARENT COMPANY - BANK MILLENNIUM S.A.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of June 30, 2021. Information on shareholders, contained in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Ordinary General Meeting of the Bank convened for March 24, 2021.

The largest shareholders of the Group's parent entity - the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholder as at 30.06.2021	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	100 000 000	8.24	100 000 000	8.24
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	80 000 000	6.59	80 000 000	6.59
Aviva Otwarty Fundusz Emerytalny Aviva Santander	72 760 000	6.00	72 760 000	6.00

Shareholder as at 31.12.2020	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	109 924 704	9.06	109 924 704	9.06
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	85 697 263	7.06	85 697 263	7.06
Aviva Otwarty Fundusz Emerytalny Aviva Santander	76 760 035	6.33	76 760 035	6.33

## 11.6. INFORMATION ABOUT LOAN SURETIES OR GUARANTEES EXTENDED BY THE GROUP

In the 1 half, the Group did not grant any sureties or guarantees for a loan or bank loan which would cause the Group's exposure on this account as at 30 June 2021 to be significant.

## 11.7. SEASONALITY AND BUSINESS CYCLES

In the Group's activity, there are no significant phenomena, which are cyclical or subject to seasonal variations.

## 11.8. OTHER ADDITIONAL INFORMATION AND EVENTS AFTER THE BALANCE SHEET DATE

As at 30 June 2021, the Group has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed consolidated statements, Group did not:

- create substantial write-offs for inventories,
- conclude significant acquisitions and sales of property, plant and equipment,
- make correction of prior period errors,
- introduce significant changes in determining the fair value for financial instruments valued at fair value,
- make any reclassification of financial assets as a result of changes in purpose or use,
- change the method of determining the estimated values, which would exert a significant influence on the current interim period.

### Mortgage Bank

Mortgage loans are an important element of the Bank's retail business. Therefore, in June 2018, the Bank submitted a request to the Polish Financial Supervision Authority ("PFSA") for permission to establish a mortgage bank. On June 16, 2020, PFSA 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 has been 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 have been taken-up by the Bank with the issue price of PLN 3 per share. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

### Group layoffs (as part of the restructuring process after the merger with Euro Bank)

In the period between February 1 and March 31, 2020, approximately 211 employees were made redundant. The costs of severance pay and damages in this respect did not exceed PLN 13 million. The layoffs resulted from mergers of organizational structures, namely: liquidation of duplicate organizational units, standardization and optimization of processes. The Bank's branches were also reviewed - based on the conducted economic and market analyzes, decisions were made to close some of them. The rules for carrying out these layoffs, the criteria and the amount of severance pay have been developed and agreed with the trade unions operating at the Bank.

### Demerger of Millennium Dom Maklerski S.A.

The Group is conducting demerger of Millennium Dom Maklerski S.A. ("MDM") through a transfer to the Bank of a part of the property of the Demerged Company.

The MDM Demerger will be effected in accordance with the procedure specified in Article 529 § 1.4 of the CCC, i.e. through:

- a) a transfer to the Bank of a part of the property (assets and liabilities) and the rights and obligations of the Demerged Company in the form of an organised part of the enterprise of MDM connected with the provision of brokerage services (the "Brokerage Business"); and
- b) the retaining by MDM of a part of the property (assets and liabilities) and the rights and obligations of the Demerged Company in the form of an organised part of the enterprise of MDM connected with the remaining business activity (the "Non-Regulated Business").

The Bank and MDM are in the process of obtaining appropriate consents in order to carry out this transaction.

Between the date of the report and the date of its publication, there were no significant events that could have a significant impact on the financial statements and future results of the Group.

Date	Name and surname	Position/Function	Signature
23.07.2021	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
23.07.2021	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
23.07.2021	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Jarostaw Hermann	Member of the Management Board	Signed by a qualified electronic signature

**CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS  
OF THE BANK MILLENNIUM S.A. FOR THE 6 MONTHS ENDED  
30 JUNE 2021**

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# 1. Introduction and Accounting Policy

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2020.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the six months ending June 30, 2021.

Condensed interim financial statements of the Bank:

- are prepared on the basis of the assumption of business continuity by the Bank, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;
- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

In addition to financial data these condensed interim financial statements of the Bank also presents information and data that is important for appropriate assessment of the Bank's economic and financial situation and its financial performance, and which was not included in the condensed interim consolidated statements of the Group for the six months period ended 30 June 2021. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the six months period ended 30 June 2021 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

The Management Board approved these condensed interim financial statements on 23<sup>rd</sup> July 2021.

## A new business model at the Bank

As a result of the commencement of operations by Millennium Bank Hipoteczny, in Bank Millennium, in accordance with the requirements of IFRS9, a new business model was created for mortgage loans that can be sold (under the so-called pooling) to Millennium Bank Hipoteczny. The portfolio of these loans has been classified under the "Held to Collect and for Sale" model and is measured at fair value with the measurement effect recognized in other comprehensive income and it was created as a result of reclassification of selected mortgage loans initially included in the "Held to Collect" model (measured at amortized cost). As at June 30, 2021, the fair value of this loan portfolio was PLN 9,126,239 thousand (and the gross carrying amounted to PLN 9,010,419 thousand). Since pooling transactions will take place within the Millennium Group (and as such will be eliminated in the consolidation process), from the point of view of the consolidated financial statements, loans dedicated for sale to the Mortgage Bank will still be recognized as part of the "Held to Collect" model and measured at amortized cost (i.e. the presentation of this loan portfolio at the Group level will remain unchanged).

## Changes of applied accounting principles introduced in 2021

Commencing from these financial statements, the Bank changed the presentation of interest on derivatives not covered by formal hedge accounting. Bearing in mind that these instruments, although they are included in the trading book, are mainly concluded in order to establish economic hedging against the risk of other financial assets or liabilities, the Bank, from the first half of 2021, presents the interest in the Income statement as part of the "Net interest income", while previously this interest was included in the item "Results on financial assets and liabilities held for trading". In order to ensure comparability, the Bank has made appropriate adjustments to the comparable data in the Income statement as presented below:

Income statement line	Data for the first half of 2020 presented in the solo financial statements for the first half of 2020	Value of adjustment	Data for the first half of 2020 presented in these solo financial statements for the first half of 2021
Interest income and other of similar nature	1 687 361	26 630	1 713 991
Results on financial assets and liabilities held for trading	31 446	(26 630)	4 816

In the first half of 2021, the Bank changed the presentation of provisions for individual court cases related to CHF mortgage loans. Commencing from the first quarter of 2021, the Bank allocates the portfolio provisions for future legal issues and recognizes it as a reduction of the gross carrying amount of loans for which a decrease in future cash flows is expected in accordance with IFRS 9 "Financial Instruments". Considering that, as in the case of the portfolio provisions, a decrease in cash flows is also expected in the case of exposures subject to individual litigations, the Bank, starting from June 30, 2021, increased the scope of the allocated provisions by provisions for individual litigations (previously provisions for individual litigations used to be recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as provisions for pending legal issues). As a result of the above change, the solution in line with IAS 37 will be continued only with regard to disputes relating to already repaid receivables not included in the Bank's balance sheet.

The amount of the allocation of provisions for individual cases made at the end of June 2021 (transferred from the balance sheet item "provisions for pending legal issues" to the item "loans and advances to customers measured at amortized cost" as a reduction of gross value) amounted to PLN 988.6 million.

In order to ensure comparability, the Bank has made appropriate adjustments to comparable data in the balance sheet as presented below:

Balance sheet item	Data presented previously in solo financial statements	Value of adjustment	Data presented in solo financial statements for I half 2021
31.03.2021			
Loans and advances to customers valued at amortised cost	73 200 788	(675 075)	72 525 713
Provisions for pending legal issues	1 093 262	(675 075)	418 187
31.12.2020			
Loans and advances to customers valued at amortised cost	71 885 679	(449 000)	71 436 679
Provisions for pending legal issues	554 643	(449 000)	105 643
30.06.2020			
Loans and advances to customers valued at amortised cost	69 265 085	(168 239)	69 096 846
Provisions for pending legal issues	225 063	(168 239)	56 824
01.01.2020			
Loans and advances to customers valued at amortised cost	67 191 034	(73 723)	67 117 311
Provisions for pending legal issues	110 885	(73 723)	37 162



## 2. Standalone Financial Data (Bank)

### INCOME STATEMENT

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
Net interest income	1 232 136	632 643	1 286 321	621 795
Interest income and other of similar nature	1 292 691	661 810	1 713 991	800 632
Income calculated using the effective interest method	1 251 635	640 383	1 640 686	773 742
Interest income from Financial assets at amortised cost	1 178 160	603 919	1 444 727	679 923
Interest income from Financial assets at fair value through other comprehensive income	73 475	36 464	195 959	93 819
Income of similar nature to interest from Financial assets at fair value through profit or loss	41 056	21 427	73 305	26 891
Interest expenses	(60 555)	(29 167)	(427 670)	(178 837)
Net fee and commission income	360 354	180 991	321 717	154 725
Fee and commission income	431 509	218 445	402 241	191 748
Fee and commission expenses	(71 155)	(37 454)	(80 524)	(37 023)
Dividend income	51 364	2 565	38 932	3 024
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9 029	8 279	48 708	35 061
Results on financial assets and liabilities held for trading	(5 815)	(2 130)	4 816	9 754
Result on non-trading financial assets mandatorily at fair value through profit or loss	10 460	2 344	(18 930)	(7 251)
Result on hedge accounting	(274)	(1 164)	(8 032)	(3 518)
Result on exchange differences	11 678	(11 272)	71 560	27 225
Other operating income	101 575	67 466	52 240	44 842
Other operating expenses	(31 748)	(14 588)	(100 448)	(84 345)
Administrative expenses	(678 386)	(315 185)	(791 661)	(339 491)
Impairment losses on financial assets	(88 492)	(30 067)	(278 861)	(174 404)
Provisions for COVID-19	0	0	0	60 000
Impairment losses on non-financial assets	(4 921)	(2 544)	(4 553)	(2 789)
Provisions for legal risk connected with FX mortgage loans	(1 047 044)	(513 641)	(168 019)	(112 694)
Result on modification	(6 731)	(3 186)	(8 231)	(6 282)
Depreciation	(96 053)	(47 260)	(99 678)	(50 025)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(151 968)	(76 927)	(141 187)	(68 446)
<b>Profit before income taxes</b>	<b>(334 836)</b>	<b>(123 676)</b>	<b>204 694</b>	<b>107 181</b>
Corporate income tax	(155 354)	(92 274)	(108 662)	(53 506)
<b>Profit after taxes</b>	<b>(490 190)</b>	<b>(215 950)</b>	<b>96 032</b>	<b>53 675</b>

## STATEMENT OF TOTAL COMPREHENSIVE INCOME

<i>Amount '000 PLN</i>	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Profit after taxes	(490 190)	(215 950)	96 032	53 675
Other comprehensive income items that may be (or were) reclassified to profit or loss	(117 601)	(3 652)	231 187	161 350
Result on debt securities	(207 621)	(121 526)	239 145	189 497
Result on credit portfolio designated for pooling to Mortgage Bank	128 861	128 861	0	0
Hedge accounting	(38 841)	(10 987)	(7 958)	(28 147)
Other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
Actuarial gains (losses)	0	0	0	0
Result on equity instruments	0	0	0	0
<b>Total comprehensive income items before taxes</b>	<b>(117 601)</b>	<b>(3 652)</b>	<b>231 187</b>	<b>161 350</b>
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	22 344	694	(43 926)	(30 657)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
<b>Total comprehensive income items after taxes</b>	<b>(95 257)</b>	<b>(2 958)</b>	<b>187 261</b>	<b>130 694</b>
<b>Total comprehensive income for the period</b>	<b>(585 447)</b>	<b>(218 908)</b>	<b>283 293</b>	<b>184 369</b>

## BALANCE SHEET

### ASSETS

<i>Amount '000 PLN</i>	<b>30.06.2021</b>	<b>31.03.2021</b>	<b>31.12.2020</b>	<b>30.06.2020</b>
Cash, cash balances at central banks	2 676 407	2 360 647	1 460 289	1 224 788
Financial assets held for trading	226 938	390 358	424 777	479 847
Derivatives	125 627	226 477	155 365	142 831
Equity instruments	0	0	0	0
Debt securities	101 311	163 881	269 412	337 016
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	158 516	255 143	251 107	177 097
Equity instruments	103 072	203 707	200 772	66 609
Debt securities	55 444	51 436	50 335	110 488
Financial assets at fair value through other comprehensive income	21 910 575	22 754 802	18 626 366	26 082 339
Equity instruments	29 212	29 222	29 219	29 383
Debt securities	21 881 363	22 725 580	18 597 147	26 052 956
Loans and advances to customers	75 518 014	74 158 098	73 052 432	70 577 844
Mandatorily at fair value through profit or loss	1 671 619	1 632 385	1 615 753	1 480 998
Fair valued through other comprehensive income	9 126 239	0	0	0
Valued at amortised cost	64 720 156	72 525 713	71 436 679	69 096 846
Financial assets at amortised cost other than Loans and advances to customers	660 924	668 259	730 534	984 994
Debt securities	37 057	38 902	38 818	43 879
Deposits, loans and advances to banks and other monetary institutions	605 506	605 233	625 366	875 739
Reverse sale and repurchase agreements	18 361	24 124	66 350	65 376
Derivatives - Hedge accounting	38 102	33 301	21 795	86 776
Investments in subsidiaries, joint ventures and associates	208 874	208 874	208 874	88 874
Tangible fixed assets	519 983	531 759	541 326	564 855
Intangible fixed assets	360 745	366 436	373 720	360 064
Income tax assets	527 078	552 222	534 781	409 880
Current income tax assets	0	0	0	0
Deferred income tax assets	527 078	552 222	534 013	409 880
Other assets	670 042	392 060	341 393	308 806
Non-current assets and disposal groups classified as held for sale	0	0	0	0
<b>Total assets</b>	<b>103 476 198</b>	<b>102 671 959</b>	<b>96 566 626</b>	<b>101 346 164</b>

## LIABILITIES AND EQUITY

Amount '000 PLN	30.06.2021	31.03.2021	31.12.2020	30.06.2020
<b>LIABILITIES</b>				
Financial liabilities held for trading	77 599	83 964	168 559	200 229
Derivatives	66 504	74 513	103 781	129 931
Liabilities from short sale of securities	11 095	9 451	64 778	70 298
Financial liabilities measured at amortised cost	92 344 609	90 866 719	84 669 783	89 340 703
Liabilities to banks and other monetary institutions	334 784	380 799	563 882	694 493
Liabilities to customers	90 198 950	88 552 983	81 832 471	86 461 156
Sale and repurchase agreements	0	9 980	248 566	0
Debt securities issued	270 994	383 903	484 655	639 816
Subordinated debt	1 539 881	1 539 054	1 540 209	1 545 238
Derivatives - Hedge accounting	251 303	485 502	738 850	678 043
Provisions	407 363	472 179	158 371	114 414
Pending legal issues	360 592	418 187	105 643	56 824
Commitments and guarantees given	46 771	53 992	52 728	57 590
Provisions for COVID-19	0	0	0	0
Income tax liabilities	13 580	32 849	28 704	14 390
Current income tax liabilities	13 580	32 849	28 704	14 390
Deferred income tax liabilities	0	0	0	0
Other liabilities	2 134 853	2 261 582	1 966 656	2 025 005
<b>Total Liabilities</b>	<b>95 229 307</b>	<b>94 202 795</b>	<b>87 730 923</b>	<b>92 372 784</b>
<b>EQUITY</b>				
Share capital	1 213 117	1 213 117	1 213 117	1 213 117
Own shares	(3 386)	(21)	(21)	0
Share premium	1 147 241	1 147 241	1 147 241	1 147 241
Accumulated other comprehensive income	101 752	104 710	197 009	254 109
Retained earnings	5 788 167	6 004 117	6 278 357	6 358 913
<b>Total equity</b>	<b>8 246 891</b>	<b>8 469 164</b>	<b>8 835 703</b>	<b>8 973 380</b>
<b>Total equity and total liabilities</b>	<b>103 476 198</b>	<b>102 671 959</b>	<b>96 566 626</b>	<b>101 346 164</b>
Book value of net assets	8 246 891	8 469 164	8 835 703	8 973 380
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)	6.80	6.98	7.28	7.40

## STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total equity	Share capital	Own Shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Other reserves
01.01.2021 - 30.06.2021							
Equity at the beginning of the period	8 835 703	1 213 117	(21)	1 147 241	197 009	18 579	6 259 778
Total comprehensive income for the period (net)	(585 447)	0	0	0	(95 257)	(490 190)	0
net profit/ (loss) of the period	(490 190)	0	0	0	0	(490 190)	0
valuation of debt securities	(168 173)	0	0	0	(168 173)	0	0
Valuation of credit portfolio designated for pooling to Mortgage Bank	104 377	0	0	0	104 377	0	0
hedge accounting	(31 461)	0	0	0	(31 461)	0	0
Purchase and transfer of own shares to employees	(3 365)	0	(3 365)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	(18 579)	18 579
Equity at the end of the period	8 246 891	1 213 117	(3 386)	1 147 241	101 752	(490 190)	6 278 357
01.04.2021 - 30.06.2021							
Equity at the beginning of the period	8 469 164	1 213 117	(21)	1 147 241	104 710	(274 240)	6 278 357
Total comprehensive income for the period (net)	(218 908)	0	0	0	(2 958)	(215 950)	0
net profit/ (loss) of the period	(215 950)	0	0	0	0	(215 950)	0
valuation of debt securities	(98 436)	0	0	0	(98 436)	0	0
Valuation of credit portfolio designated for pooling to Mortgage Bank	104 377	0	0	0	104 377	0	0
hedge accounting	(8 899)	0	0	0	(8 899)	0	0
Purchase and transfer of own shares to employees	(3 365)	0	(3 365)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	0	0
Equity at the end of the period	8 246 891	1 213 117	(3 386)	1 147 241	101 752	(490 190)	6 278 357
01.01.2020 - 31.12.2020							
Equity at the beginning of the period	8 690 087	1 213 117	0	1 147 241	66 848	560 727	5 702 154
Total comprehensive income for the period (net)	148 740	0	0	0	130 161	18 579	0
net profit/ (loss) of the period	18 579	0	0	0	0	18 579	0
valuation of debt securities	143 476	0	0	0	143 476	0	0
valuation of shares	(142)	0	0	0	(142)	0	0
hedge accounting	(12 582)	0	0	0	(12 582)	0	0
actuarial gains (losses)	(591)	0	0	0	(591)	0	0
Purchase and transfer of own shares to employees	(3 124)	0	(21)	0	0	0	(3 103)
Transfer between items of reserves	0	0	0	0	0	(560 727)	560 727
Equity at the end of the period	8 835 703	1 213 117	(21)	1 147 241	197 009	18 579	6 259 778
01.01.2020 - 30.06.2020							
Equity at the beginning of the period	8 690 087	1 213 117	0	1 147 241	66 848	560 727	5 702 154
Total comprehensive income for the period (net)	283 293	0	0	0	187 261	96 032	0
net profit/ (loss) of the period	96 032	0	0	0	0	96 032	0
valuation of debt securities	193 707	0	0	0	193 707	0	0
hedge accounting	(6 446)	0	0	0	(6 446)	0	0
Transfer between items of reserves	0	0	0	0	0	(560 727)	560 727
Equity at the end of the period	8 973 380	1 213 117	0	1 147 241	254 109	96 032	6 262 881

## CASH FLOW STATEMENT

### A. CASH FLOWS FROM OPERATING ACTIVITIES

<i>Amount '000 PLN</i>	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Profit (loss) after taxes	(490 190)	(215 950)	96 032	53 675
Total adjustments:	5 522 617	(47 615)	3 264 426	2 508 959
Interest received	1 294 525	679 528	1 678 876	813 012
Interest paid	(59 813)	(23 890)	(410 493)	(185 887)
Depreciation and amortization	96 053	47 260	99 678	50 025
Foreign exchange (gains)/ losses	0	0	16 139	(8 356)
Dividends	(51 364)	(2 565)	(38 932)	(3 024)
Changes in provisions	248 992	(64 816)	(116 148)	10 127
Result on sale and liquidation of investing activity assets	(7 818)	(7 712)	(54 020)	(40 507)
Change in financial assets held for trading	175 819	215 536	312 527	172 302
Change in loans and advances to banks	284 875	53 260	(243 919)	700 998
Change in loans and advances to customers	(3 497 398)	(1 805 476)	(3 174 626)	(138 951)
Change in receivables from securities bought with sell-back clause (loans and advances)	47 989	5 762	133 626	46 055
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(578 507)	(240 564)	98 421	(712 558)
Change in deposits from banks	(222 061)	(45 004)	(126 587)	(18 615)
Change in deposits from customers	8 422 232	1 667 492	5 211 948	2 808 152
Change in liabilities from securities sold with buy-back clause	(248 557)	(9 976)	(83 038)	(1 054 931)
Change in debt securities	(211 529)	(111 508)	(53 984)	(25 802)
Change in income tax settlements	155 354	92 274	93 230	46 618
Income tax paid	(140 431)	(85 705)	(165 290)	(73 981)
Change in other assets and liabilities	(205 187)	(421 313)	56 301	109 157
Other	19 443	9 802	30 717	15 125
<b>Net cash flows from operating activities</b>	<b>5 032 427</b>	<b>(263 565)</b>	<b>3 360 458</b>	<b>2 562 634</b>

## B. CASH FLOWS FROM INVESTING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
<b>Inflows:</b>	<b>89 985 577</b>	<b>45 696 994</b>	<b>75 001 127</b>	<b>24 043 336</b>
Proceeds from sale of property, plant and equipment and intangible assets	5 032	49	13 979	11 582
Proceeds from sale of shares in related entities	0	0	0	0
Proceeds from sale of investment financial assets	89 929 181	45 694 380	74 948 216	24 028 730
Other	51 364	2 565	38 932	3 024
<b>Outflows:</b>	<b>(91 102 401)</b>	<b>(45 023 735)</b>	<b>(79 431 203)</b>	<b>(27 856 525)</b>
Acquisition of property, plant and equipment and intangible assets	(24 084)	(13 879)	(25 244)	(20 844)
Purchase of shares in related entities	0	0	0	0
Acquisition of investment financial assets	(91 078 317)	(45 009 856)	(79 405 959)	(27 835 681)
Other	0	0	0	0
<b>Net cash flows from investing activities</b>	<b>(1 116 824)</b>	<b>673 259</b>	<b>(4 430 076)</b>	<b>(3 813 189)</b>

## C. CASH FLOWS FROM FINANCING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2021 - 30.06.2021</b>	<b>1.04.2021 - 30.06.2021</b>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>
<b>Inflows from financing activities:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term bank loans	0	0	0	0
Issue of debt securities	0	0	0	0
Increase in subordinated debt	0	0	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
<b>Outflows from financing activities:</b>	<b>(24 815)</b>	<b>(8 953)</b>	<b>(371 325)</b>	<b>(348 986)</b>
Repayment of long-term bank loans	(5 000)	0	(36 716)	(31 716)
Redemption of debt securities	0	0	(300 000)	(300 000)
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(19 815)	(8 953)	(34 609)	(17 270)
<b>Net cash flows from financing activities</b>	<b>(24 815)</b>	<b>(8 953)</b>	<b>(371 325)</b>	<b>(348 986)</b>

<b>D. Net cash flows. Total (A + B + C)</b>	<b>3 890 788</b>	<b>400 741</b>	<b>(1 440 943)</b>	<b>(1 599 541)</b>
including change resulting from FX differences	(1 926)	(5 912)	6 390	(3 788)
<b>E. Cash and cash equivalents at the beginning of the reporting period</b>	<b>1 586 434</b>	<b>5 076 480</b>	<b>3 752 789</b>	<b>3 911 387</b>
<b>F. Cash and cash equivalents at the end of the reporting period (D + E)</b>	<b>5 477 222</b>	<b>5 477 222</b>	<b>2 311 846</b>	<b>2 311 846</b>

### 3. Supplementary information for standalone financial data

As at 30 June 2021, the Bank has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed statements, Bank did not:

- create substantial write-offs for inventories,
- conclude significant acquisitions and sales of property, plant and equipment,
- make correction of prior period errors,
- introduce significant changes in determining the fair value for financial instruments valued at fair value,
- make any reclassification of financial assets as a result of changes in purpose or use, except the the creation of a new business model for mortgage loans to be pooled to Bank Hipoteczny as described in Chapter 1 "Introduction and Accounting Policy",
- change the method of determining the estimated values, which would exert a significant influence on the current interim period.

There are no significant phenomena, in Bank's activity which are cyclical or subject to seasonal variations.

#### **Mortgage Bank**

Mortgage loans are an important element of the Bank's retail business. Therefore, in June 2018, the Bank submitted a request to the Polish Financial Supervision Authority ("PFSA") for permission to establish a mortgage bank. On June 16, 2020, PFSA 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 has been 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 have been taken-up by the Bank with the issue price of PLN 3 per share. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

#### **Group layoffs (as part of the restructuring process after the merger with Euro Bank)**

In the period between February 1 and March 31, 2020, approximately 211 employees were made redundant. The costs of severance pay and damages in this respect did not exceed PLN 13 million. The layoffs resulted from mergers of organizational structures, namely: liquidation of duplicate organizational units, standardization and optimization of processes. The Bank's branches were also reviewed - based on the conducted economic and market analyzes, decisions were made to close some of them. The rules for carrying out these layoffs, the criteria and the amount of severance pay have been developed and agreed with the trade unions operating at the Bank.

Between the date of the report and the date of its publication, there were no significant events that could have a significant impact on the financial statements and future results of the Bank.



## Impairment losses on financial assets

	1.01.2021 - 30.06.2021	1.04.2021 - 30.06.2021	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020
Impairment losses on loans and advances to customers	(94 371)	(37 033)	(275 460)	(173 893)
Impairment charges on loans and advances to customers	(728 778)	(302 593)	(808 784)	(350 409)
Reversal of impairment charges on loans and advances to customers	575 330	232 747	509 132	166 243
Amounts recovered from loans written off	26 427	13 589	24 167	10 272
Sale of receivables	32 866	19 413	(16)	(16)
Other directly recognised in profit and loss	(216)	(189)	41	17
Impairment losses on securities	(4)	1	50	50
Impairment charges on securities	(6)	(1)	0	0
Reversal of impairment charges on securities	2	2	50	50
Impairment losses on off-balance sheet liabilities	5 883	6 965	(3 451)	(561)
Impairment charges on off-balance sheet liabilities	(38 108)	(7 971)	(47 353)	(14 711)
Reversal of impairment charges on off-balance sheet liabilities	43 991	14 936	43 902	14 150
<b>Total</b>	<b>(88 492)</b>	<b>(30 067)</b>	<b>(278 861)</b>	<b>(174 404)</b>

## Movements in impairment allowances for loans and advances to customers carried at amortised cost

	1.01.2021 - 30.06.2021	1.01.2021 - 31.03.2021	1.01.2020 - 31.12.2020	1.01.2020 - 30.06.2020
Balance at the beginning of the period	2 204 743	2 204 743	1 801 122	1 801 122
Change in value of provisions:	(37 960)	(36 471)	403 621	262 622
Impairment allowances created in the period	724 271	426 185	1 466 595	808 784
Amounts written off	(102 797)	(90 733)	(145 652)	(73 591)
Impairment allowances released in the period	(570 980)	(342 583)	(919 006)	(509 132)
Sale of receivables	(81 973)	(34 691)	(59 662)	0
Exclusion of FVOCI portfolio	(12 884)	0	0	0
KOIM created in the period(*)	14 590	7 131	37 798	19 260
Changes resulting from FX rates differences	(8 947)	(2 422)	19 510	14 049
Other	760	642	4 038	3 252
<b>Balance at the end of the period</b>	<b>2 166 783</b>	<b>2 168 272</b>	<b>2 204 743</b>	<b>2 063 744</b>

\* In accordance with IFRS 9, the Bank calculates interest on the loan portfolio with a recognized impairment based on the net exposure value. For this purpose, the so-called impaired interest adjustment ("KOIM") is calculated and recorded as a reduction of interest income. Aforementioned KOIM adjustment in the balance sheet is presented as an impairment allowances, and as a consequence the reconciliation of the change in impairment allowances requires consideration of the KOIM recognized in the interest income.

## Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Investments in subsidiaries, joint ventures and associates	Property, plant and equipment	Intangibles	Other assets
As at 01.01.2021	4 999	6 700	8 856	0	22 514
- Write-offs created	4	0	0	0	13 407
- Write-offs released	0	0	0	0	(6 622)
- Utilisation	0	0	0	0	(1 259)
- Other	0	0	0	0	0
As at 30.06.2021	5 003	6 700	8 856	0	28 040
As at 01.01.2021	4 999	6 700	8 856	0	22 514
- Write-offs created	5	0	0	0	6 210
- Write-offs released	0	0	0	0	(3 388)
- Utilisation	0	0	0	0	(958)
- Other	0	0	0	0	0
As at 31.03.2021	5 004	6 700	8 856	0	24 378
As at 01.01.2020	5 050	7 600	8 856	0	12 670
- Write-offs created	0	0	0	0	32 883
- Write-offs released	(51)	0	0	0	(23 024)
- Utilisation	0	(900)	0	0	(14)
- Other	0	0	0	0	0
As at 31.12.2020	4 999	6 700	8 856	0	22 514
As at 01.01.2020	5 050	7 600	8 856	0	12 670
- Write-offs created	0	0	0	0	22 278
- Write-offs released	0	0	0	0	(16 859)
- Utilisation	0	(900)	0	0	(180)
- Other	0	0	(123)	0	0
As at 30.06.2020	5 050	6 700	8 733	0	17 909

## Change of Provision for commitments and guarantees given

	1.01.2021 - 30.06.2021	1.01.2021 - 31.03.2021	1.01.2020 - 31.12.2020	1.01.2020 - 30.06.2020
Balance at the beginning of the period	52 728	52 728	53 856	53 856
Charge of provision	38 108	30 137	73 893	47 353
Release of provision	(43 991)	(29 055)	(75 357)	(43 902)
FX rates differences	(74)	182	336	283
Balance at the end of the period	46 771	53 992	52 728	57 590

## Change of Provision for pending legal issues

	1.01.2021 - 30.06.2021	1.01.2021 - 31.03.2021	1.01.2020 - 31.12.2020	1.01.2020 - 30.06.2020
Balance at the beginning of the period	105 643	105 643	37 162	37 162
Charge of provision	4 270	2 761	16 874	12 542
Release of provision	(4 095)	(1 876)	(13 331)	(10 484)
Utilisation of provision	0	0	(489)	(489)
Creation of provision for legal risk connected with FX mortgage loans	1 047 044	533 403	713 617	168 019
Allocation to the loans portfolio	(765 062)	(218 253)	(671 484)	(156 422)
FX differences	(27 208)	(3 491)	23 294	6 496
Reclassification	0	0	0	0
Balance at the end of the period	360 592	418 187	105 643	56 824

## Deferred income tax assets and liability

	30.06.2021			31.03.2021		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	1 659	(3 967)	(2 308)	1 659	(4 168)	(2 509)
Balance sheet valuation of financial instruments	39 751	(62 238)	(22 487)	85 037	(107 390)	(22 353)
Unrealised receivables/ liabilities on account of derivatives	10 035	(8 321)	1 715	8 937	(7 676)	1 261
Interest on deposits and securities to be paid/ received	13 511	(33 038)	(19 527)	22 758	(33 022)	(10 264)
Interest and discount on loans and receivables	0	(73 801)	(73 801)	0	(73 991)	(73 991)
Income and cost settled at effective interest rate	159 295	0	159 295	179 385	0	179 385
Impairment of loans presented as temporary differences	408 029	0	408 029	399 267	0	399 267
Employee benefits	18 194	0	18 194	18 359	0	18 359
Rights to use	7 297	0	7 297	8 045	0	8 045
Provisions for future costs	92 957	0	92 957	101 475	0	101 475
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	16 552	(40 420)	(23 868)	14 464	(39 026)	(24 562)
Valuation of shares	1 273	(20 160)	(18 887)	1 273	(24 477)	(23 204)
Other	2 874	(2 404)	470	3 084	(1 771)	1 313
Total	771 427	(244 349)	527 078	843 743	(291 521)	552 222

	31.12.2020			30.06.2020		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	1 659	(3 507)	(1 848)	1 659	(2 383)	(724)
Balance sheet valuation of financial instruments	128 219	(149 996)	(21 777)	117 736	(137 132)	(19 396)
Unrealised receivables/ liabilities on account of derivatives	12 285	(14 486)	(2 201)	13 284	(16 782)	(3 498)
Interest on deposits and securities to be paid/ received	30 241	(56 731)	(26 490)	36 737	(33 022)	3 715
Interest and discount on loans and receivables	0	(77 075)	(77 075)	0	(80 250)	(80 250)
Income and cost settled at effective interest rate	188 794	0	188 794	175 697	(3 613)	172 084
Impairment of loans presented as temporary differences	405 834	0	405 834	371 708	0	371 708
Employee benefits	19 420	0	19 420	21 481	0	21 481
Rights to use	8 432	0	8 432	7 118	0	7 118
Provisions for future costs	83 764	0	83 764	15 806	0	15 806
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	9 172	(55 384)	(46 212)	7 594	(67 200)	(59 606)
Valuation of shares				1 273	(24 030)	(22 757)
Other	4 327	(955)	3 372	5 467	(1 268)	5 472
<b>Total</b>	<b>892 147</b>	<b>(358 134)</b>	<b>534 013</b>	<b>775 560</b>	<b>(365 680)</b>	<b>409 880</b>

## 4. Transactions with Related Entities

All transactions among members of the Group made in 1<sup>st</sup> half of 2021 and 2020 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM BANK HIPOTECZNY,
- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLESKI,
- MILLENNIUM TFI
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- MILLENNIUM GOODIE,
- PIAST EXPERT.

and with the Capital Group of Bank parent company - Banco Comercial Portugues (ultimate parent company), these transactions are mainly of banking nature.

Apart from transactions described herein, in the indicated period neither Bank Millennium S.A., nor subsidiaries of Bank Millennium S.A. made any other transactions with related entities, which individually or jointly may have been significant and concluded under terms and conditions other than market-based.

Assets and liabilities from transactions with related parties (data in '000 pln) as at 30.06.2021

	With subsidiaries	With parent company	With other entities from parent group
<b>ASSETS</b>			
Loans and advances to banks - accounts and deposits	0	220 544	0
Loans and advances to customers	5 985 979	0	0
Investments in associates	208 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	603	0	0
Hedging derivatives	0	0	0
Other assets	29 679	0	0
<b>LIABILITIES</b>			
Deposits from banks	16 971	55 088	103 012
Deposits from customers	406 512	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	6	236	0
Subordinated debt	0	0	0
Other liabilities, including:	80 133	0	65
financial leasing liabilities	72 846	0	0

Assets and liabilities from transactions with related parties (data in '000 pln) as at 31.12.2020

	With subsidiaries	With parent company	With other entities from parent group
<b>ASSETS</b>			
Loans and advances to banks - accounts and deposits	0	1 237	0
Loans and advances to customers	5 716 908	0	0
Investments in associates	208 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	1 177	0	0
Hedging derivatives	0	0	0
Other assets	34 168	0	0
<b>LIABILITIES</b>			
Deposits from banks	0	23 601	127 903
Deposits from customers	500 049	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	5	333	0
Subordinated debt	0	0	0
Other liabilities, including:	96 801	0	122
financial leasing liabilities	88 675	0	0

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.06.2021

	With subsidiaries	With parent company	With other entities from parent group
<b>Income from:</b>			
Interest	33 196	(133)	0
Commissions	12 612	40	0
Financial instruments valued at fair value through profit and loss	0	0	0
Dividends	48 663	0	0
Other net operating	6 684	0	0
<b>Expense from:</b>			
Interest	901	0	(155)
Commissions	30	0	0
Financial instruments valued at fair value through profit and loss	889	315	0
Other net operating	0	5	0
General and administrative expenses	8 235	0	7

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.06.2020

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	55 793	(107)	0
Commissions	8 921	66	0
Financial instruments valued at fair value through profit and loss	1 166	0	0
Dividends	35 665	0	0
Other net operating	3 443	0	0
Expense from:			
Interest	1 621	3	(159)
Commissions	1	0	0
Financial instruments valued at fair value through profit and loss	0	440	0
Other net operating	0	6	0
General and administrative expenses	12 779	0	237

Off-balance transactions with related parties (data in '000 pln) as at 30.06.2021

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	836 530	101 043	0
granted	833 519	100 250	0
obtained	3 011	793	0
Derivatives (par value)	83 504	15 022	0

Off-balance transactions with related parties (data in '000 pln) as at na 31.12.2020

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	866 424	100 774	0
granted	863 550	100 000	0
obtained	2 874	774	0
Derivatives (par value)	100 662	15 938	0

## 5. Fair Value

The methodology used by the Bank for valuation of assets and liabilities at fair value is described in detail in Chapter 8. Condensed interim consolidated financial statements of Bank Millennium S.A. for the 6 months ended 30 June 2021.

The following tables show the figures for Bank Millennium S.A.

### 5.1. FINANCIAL INSTRUMENTS NOT RECOGNIZED AT FAIR VALUE IN THE BALANCE SHEET

30.06.2021	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST		
Debt securities	37 057	38 115
Deposits, loans and advances to banks and other monetary institutions	605 506	605 511
Loans and advances to customers (*)	64 720 156	62 777 313
LIABILITIES MEASURED AT AMORTISED COST		
Liabilities to banks and other monetary institutions	334 784	334 746
Liabilities to customers	90 198 950	90 243 128
Debt securities issued	270 994	271 033
Subordinated debt	1 539 881	1 539 770

\* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads. The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is widely applied for valuation of debt securities, which are not quoted on active markets. In result, paradoxically whenever the spreads of new loans increase, fair value of the "old" loans portfolio falls.

31.12.2020	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST		
Debt securities	38 818	39 559
Deposits, loans and advances to banks and other monetary institutions	625 366	625 366
Loans and advances to customers (*)	71 436 679	69 958 960
LIABILITIES MEASURED AT AMORTISED COST		
Liabilities to banks and other monetary institutions	563 882	563 835
Liabilities to customers	81 832 471	81 867 328
Debt securities issued	484 655	485 527
Subordinated debt	1 540 209	1 540 491



## 5.2. FINANCIAL INSTRUMENTS RECOGNIZED AT FAIR VALUE IN THE BALANCE SHEET

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in PLN'000, as at na 30.06.2021

	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
	Level 1	Level 2	Level 3
<b>ASSETS</b>			
Financial assets held for trading			
Valuation of derivatives		108 555	17 071
Debt securities	101 311		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments		36 463	66 609
Debt securities			55 444
Loans and advances			1 671 619
Financial assets at fair value through other comprehensive income			
Equity instruments			29 212
Debt securities	19 471 369	2 409 993	
Loans and advances			9 126 239
Derivatives - Hedge accounting		38 102	
<b>LIABILITIES</b>			
Financial liabilities held for trading			
Valuation of derivatives		49 121	17 383
Short positions	11 095		
Derivatives - Hedge accounting		251 303	

Data in PLN'000, as at 31.12.2020

	Level 1	Level 2	Level 3
<b>ASSETS</b>			
Financial assets held for trading			
Valuation of derivatives		134 992	20 373
Debt securities	269 412		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments		134 163	66 609
Debt securities			50 335
Loans and advances			1 615 753
Financial assets at fair value through other comprehensive income			
Equity instruments			29 219
Debt securities	18 597 147		
Derivatives - Hedge accounting		21 795	
<b>LIABILITIES</b>			
Financial liabilities held for trading			
Valuation of derivatives		83 760	20 021
Short positions	64 778		
Derivatives - Hedge accounting		738 850	

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market are presented in the table below (in '000 PLN):

As a result of the creation of a new business model at the Bank's individual level (more information on this subject is presented in Chapter 1 "Introduction and Accounting Policy"), the Bank measures the fair value of mortgage loans classified to the Held to Collect and for Sale model using the discounted cash flow method and as that the valuation is based on input data that is not observable market data, the valuation method is classified under Level 3.

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances at fair value through profit or loss	Loans and advances at fair value through other comprehensive income
<b>Balance as at 01.01.2021</b>	<b>19 911</b>	<b>(19 559)</b>	<b>95 827</b>	<b>50 335</b>	<b>1 615 753</b>	<b>0</b>
Settlement/sell/purchase	(1 704)	908	0	0	26 639	0
Creation of a new business model	0	0	0	0	0	8 997 534
Change of valuation recognized in equity	0	0	0	0	0	128 861
Interest income and other of similar nature	0	0	0	0	35 218	0
Results on financial assets and liabilities held for trading	(1 459)	1 591	0	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	5 109	(5 991)	0
Impairment of financial assets	0	0	0	0	0	(156)
Result on exchange differences	0	0	(6)	0	0	0
<b>Balance as at 30.06.2021</b>	<b>16 748</b>	<b>(17 060)</b>	<b>95 821</b>	<b>55 444</b>	<b>1 671 619</b>	<b>9 126 239</b>

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance as at 01.01.2020</b>	<b>61 294</b>	<b>(60 944)</b>	<b>95 976</b>	<b>103 001</b>	<b>1 498 195</b>
Settlement/sell/purchase	(34 996)	34 697	0	0	90 544
Change of valuation recognized in equity	0	0	(175)	0	0
Interest income and other of similar nature	0	0	0	0	69 934
Results on financial assets and liabilities held for trading	(6 387)	6 688	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	(52 666)	(42 920)
Result on exchange differences	0	0	26	0	0
<b>Balance as at 31.12.2020</b>	<b>19 911</b>	<b>(19 559)</b>	<b>95 827</b>	<b>50 335</b>	<b>1 615 753</b>

## 6. Costs of provisions for legal risk related to foreign currency mortgage loans

### 6.1. CURRENT PROVISIONS ON LEGAL RISK

As of 30 June 2021, the Bank had 7 902 loan agreements and additionally 672 loan agreements from former Euro Bank under individual ongoing litigations (97% loans agreements before the Court of first instance and 3% loans agreements before the court of second instance; excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 920.1 million and CHF 69.8 million (Bank Millennium portfolio: PLN 839.8 million and CHF 68.3 million and former Euro Bank portfolio: PLN 80.3 million and CHF 1.4 million). The outstanding amount of the loan agreements under individual court cases as of 30.06.2021 was PLN 2,463 million.

Until 30.06.2021 only 91 cases were finally resolved (66 in claims submitted by clients against the Bank and 25 in claims submitted by the Bank against clients i.e. debt collection cases).

The claims formulated by the Clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domain affects the number of court disputes.

In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3 281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. On 11 August 2020, the claimant requested granting interim measures to secure the claims against the Bank. In a decision of 18 August 2020, the request for granting interim measures was dismissed. On 26 October 2020, the claimant filed another application for granting interim measures to secure claims against the Bank concerning two group members. By decision of 6 November 2020, the application was rejected. During the session on 26 of October 2020 the Court conducted a hearing of parties' position. The next hearing is scheduled for October 21, 2021. The outstanding amount of the loan agreements under the class action proceeding was 935 million PLN as of 30.06.2021.

The Bank continues to be open to its customers in order to reach amicable solutions on negotiated terms. 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. The Bank has already reached agreement and settlement with 140 borrowers that participated in the class action.

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

Taking into consideration the increased legal risk related to FX mortgages, in I half 2021 Bank Millennium created PLN 972.4 million provisions and PLN 74.6 million for ex-Euro Bank originated portfolio (respectively in year 2020: PLN 677 million and PLN 36.4 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.

As of 30 June 2021, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 1,868.9 million, and PLN 111 million for the portfolio originated by ex-Euro Bank. Legal risk from ex-Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

The Bank analyzed the sensitivity of the methodology for calculating provisions, for which a change in the parameters would affect the value of the estimated loss to the legal risk of litigation:

Parameter	Scenario	Impact on loss due to legal risk related to the portfolio of mortgage loans in convertible currencies
Change in the number of lawsuits	Additionally, 1 p.p. of active clients file a lawsuit against the Bank	PLN 47 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 31 million

On 3 October 2019, the Court of Justice of the European Union ('the CJEU') issued the judgment in Case C-260/18 in connection with the preliminary questions formulated by the District Court of Warsaw in the case against Raiffeisen Bank International AG. The judgment of the CJEU, as regards the interpretation of European Union law made therein, is binding on domestic courts. The judgment in question interpreted Article 6 of Directive 93/13. In the light of the subject matter judgment the said provision must be interpreted in such a way that (i) the national court may invalidate a credit agreement if the removal of unfair terms detected in this agreement would alter the nature of the main subject-matter of the contract; (ii) the effects for the consumer's situation resulting from the cancellation of the contract must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and the will of the consumer is decisive as to whether he wishes to maintain the contract; (iii) Article 6 of the Directive precludes the filling-in of gaps in the contract caused by the removal of unfair terms from the contract solely on the basis of national legislation of a general nature or established customs; (iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract if the consumer has not consented to the maintenance of such terms. It can be noticed the CJEU found doubtful the possibility of a credit agreement being performed further in PLN while keeping interest calculated according to LIBOR.

The CJEU judgment concerns only the situation where the national court has previously found the contract term to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be regarded as abusive in the circumstances of the case. It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court have already been filed and may still be filed with potential impact on the outcome of the court cases.

On 29th April 2021, the CJEU issued the judgement in the case C-19/20 in connection with the preliminary questions formulated by the District Court in Gdańsk in the case against of ex-BPH S.A., CJEU said that:

(i) it is for the national court to find that a term in a contract is unfair, even if it has been contractually amended by those parties. Such a finding leads to the restoration of the situation that the consumer would have been in in the absence of the term found to be unfair, except where the consumer, by means of amendment of the unfair term, has waived such restoration by free and informed consent. However, it does not follow from Council Directive 93/13 that a finding that the original term is unfair would, in principle, lead to annulment of the contract, since the amendment of that term made it possible to restore the balance between the obligations and rights of those parties arising under the contract and to remove the defect which vitiated it.

(ii) the national court may remove only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where the deterrent objective pursued by Council Directive 93/13 is ensured by national legislative provisions governing the use of that term, provided that that element consists of a separate contractual obligation, capable of being subject to an individual examination of its unfair nature. At the same time, provisions of the Directive preclude the referring court from removing only the unfair element of a term in a contract concluded between a seller or supplier and a consumer where such removal would amount to revising the content of that term by altering its substance.

(iii) the consequences of a judicial finding that a term in a contract concluded between a seller or supplier and a consumer is unfair are covered by national law and the question of continuity of the contract should be assessed by the national court of its own motion in accordance with an objective approach on the basis of those provisions.

(iv) the national court, finding that a term in a contract concluded between a seller or supplier and a consumer is unfair, shall inform the consumer, in the context of the national procedural rules after both parties have been heard, of the legal consequences entailed by annulment of the contract, irrespective of whether the consumer is represented by a professional representative.

On 7th May 2021, the Supreme Court composed of 7 judges of the Supreme Court, issued a resolution for which the meaning of legal principle has been granted, stating that:

1. An abusive contractual clause (art. 3851 § 1 of the Civil Code), by force of the law itself, is ineffective to the benefit of the consumer who may consequently give conscious and free consent to this clause and thus restore its effectiveness retroactively.

2. If without the ineffective clause the loan agreement cannot bind, the consumer and the lender shall be eligible for separate claims for return of monetary performances made in exercising this agreement (art. 410 § 1 in relation to art. 405 of the Civil Code). The lender may demand return of the performance from the moment the loan agreement becomes permanently ineffective.

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.

If all Bank Millennium loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for capital, the pre-tax cost could reach PLN 3,003 million.

## 6.2. EVENTS THAT MAY IMPACT PROVISION FOR LEGAL RISK

On 29 January 2021 it was published a set of questions addressed by the First President of the Supreme Court to the full Civil Chamber of the Supreme Court which may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court has been requested for answering the questions concerning key matters related to FX mortgage agreements: (i) is it permissible to replace - with the law provisions or with a custom - the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of impossibility of determining the exchange rate of a foreign currency in the indexed/denominated credit agreement - is it permissible to keep the agreement still valid in its remaining scope; as well as (iii) if in case of invalidity of the CHF credit there would be applicable the theory of balance (i.e. does arise a single claim which is equal to the difference between value of claims of bank and the customer) or the theory of two conditions (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court has also been requested for answering the question on (iv) from which point in time there shall be starting the limitation period in case of bank's claim for repayment of amounts paid as a loan and (v) whether banks and consumers may receive remuneration for using their pecuniary means by another party.

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

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

The date of the next meeting of the Supreme Court is now scheduled for 2 September 2021. The Bank will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

On December 8, 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority ('PFSA') proposed a 'sector' solution to address the sector risks related to FX mortgages. The solution would consist in offering by banks to their clients a voluntary possibility of concluding arrangements based on which a client would conclude with the bank a settlement as if his/her loan from the very beginning had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loan.

Following that public announcement, the idea has been subject of consultations between banks under the auspices of the PFSA and Polish Banking Association. Banks in general have been assessing the conditions under which such solution could be implemented and consequent impacts.

In the view of the Management Board of the Bank, important aspects to take into consideration when deciding on potential implementation of such program are : a) favourable opinion or at least non-objection from important public institutions; b) support from National Bank of Poland to the implementation; c) level of legal certainty of the settlement agreements to be signed with the borrowers; d) level of the financial impact on a pre- and after tax basis; e) capital consequences including regulatory adjustments in the level of capital requirements associated with FX mortgage loans.

At the time of publishing this report, neither the Management Board nor any other corporate body of the Bank took any decision regarding implementation of such program. If / when a recommendation regarding the program would be ready, the Management Board would submit it to the Supervisory Board and General Shareholders meeting taking into consideration the relevance of such decision and its implications.

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

According to preliminary calculations, implementation of a solution whereby loans would be voluntarily converted to Polish zloty as if from the very beginning they had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the current portfolio would be converted) with a pre-tax impact between PLN 4 100 million to PLN 5 100 million (not audited data). The impacts can significantly change in case of variation of the exchange rate and several assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk weighted assets and the decrease or elimination of Pillar 2 buffer. The above mentioned impact would be substantially higher than the estimated impact of PLN 500 million to PLN 600 million (not audited data) in the scenario of replacing the exchange rate applied in the contracts by the average NBP exchange rate.

Finally it should be mentioned, that the Bank, as at 30.06.2021, had to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 3.41 p.p. (3.36 p.p. at the Group level), part of which is allocated to operational/legal risk.

Due to the complexity and uncertainty regarding the outcome of court cases, as well as from potential implementation of KNF Chairman solution or from potential Supreme Court decisions, it is difficult to reliably estimate potential impacts of such different outcomes and their interaction as at the date of publication of the financial statements.



## 7. Additional Information

### 7.1. ISSUE, REDEMPTION OR REPAYMENT OF DEBT OR EQUITY INSTRUMENTS

During the six months ended June 30, 2021, the Bank's total liabilities under the issue of debt securities decreased by PLN 213.7 million. Almost total decrease was caused by the redemption of Bank Securities (BPW).

### 7.2. OFF BALANCE SHEET ITEMS

Structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	30.06.2021	31.03.2021	31.12.2020	30.06.2020
<b>Off-balance conditional commitments granted and received</b>	<b>16 471 252</b>	<b>17 058 200</b>	<b>16 589 172</b>	<b>14 919 830</b>
Commitments granted:	14 719 998	15 228 121	15 040 743	14 173 255
- financial	12 211 864	12 717 115	12 478 702	11 651 746
- guarantee	2 508 133	2 511 006	2 562 041	2 521 509
Commitments received:	1 751 255	1 830 079	1 548 429	746 575
- financial	452	16 520	0	26 065
- guarantee	1 750 803	1 813 559	1 548 429	720 510

Date	Name and surname	Position/Function	Signature
23.07.2021	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
23.07.2021	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
23.07.2021	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
23.07.2021	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature