

Management Board Report on the activity Capital Group of Bank Millennium in the six months ended on June 30, 2021

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail

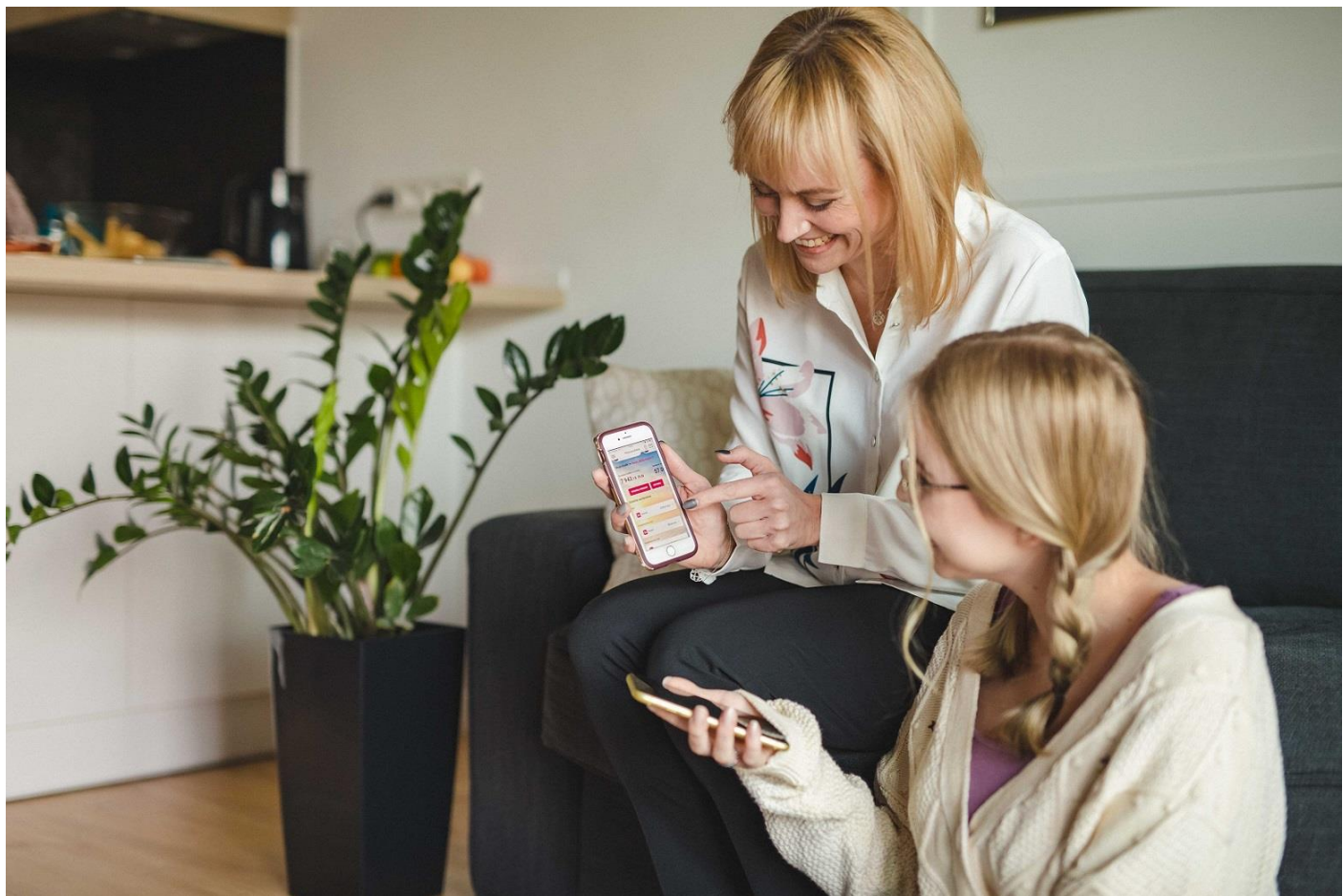


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The following data is presented in the Financial Report of Bank Millennium Capital Group for 1H21:

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

1. BANK MILLENNIUM AND MARKET CONDITIONS

1.1. GENERAL DESCRIPTION OF BANK MILLENNIUM GROUP

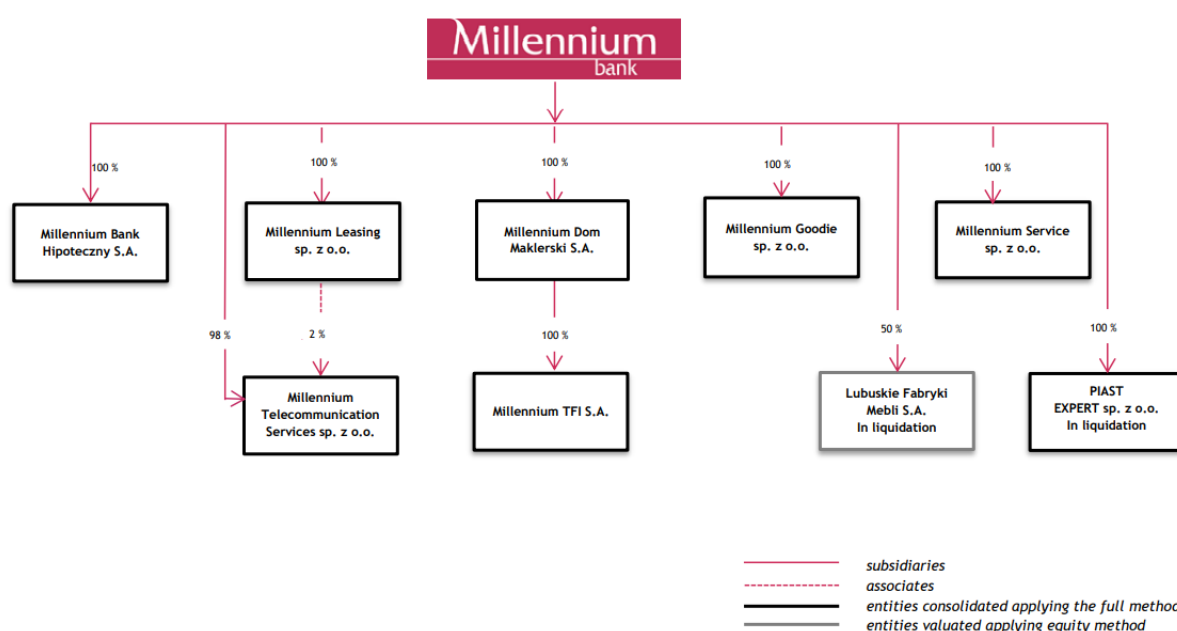
Bank Millennium S.A. ('the Bank') was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of branches, a network of personal advisors as well as electronic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

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

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

Bank Millennium, together with its subsidiaries, forms Bank Millennium Group ('the Group' or 'BM Group') - one of the most innovative and comprehensively developing financial groups in Poland - employing in total 7,148 staff (FTEs).

General organization of the Group as on 30.06.2021



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

On 10th of May 2021, the management boards of MDM and Bank Millennium agreed upon and signed a MDM demerger plan. According to the plan, a dominant part of the property (assets and liabilities) and rights and obligations of MDM, is to be transferred to the Bank. The Bank's share capital will not be increased in connection with the transaction. The MDM demerger plan is available at: https://www.bankmillennium.pl/mdm_demerger_plan.

On 16th of June 2020, the Polish Financial Supervision Authority ('PFSA') issued a permission to set up Millennium Bank Hipoteczny S.A. ('MBH'), a mortgage bank with equity of PLN40 million, which is 100% owned by the Bank. MBH is to take-over PLN mortgages from the balance sheet of the Bank and using these as collateral, issue covered bonds that are to be offered to external investors. In June 2021, following the clearance from the PFSA, MBH commenced its operating activity. The process of pooling of a first batch of loans (c1k of a total value of cPLN200 million) has started and MBH intends to issue its first covered bonds in early 2022.

Business model

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



1. CLIENT-CENTRICITY

We are the most client-centric bank, which keeps developing. We want to be the most personalised bank on a mass scale.

2. DIGITALITY AND NEW TECHNOLOGIES

We are a digital banking leader, offering a combination of broad outreach and high quality of services.

3. ORGANIC GROWTH CAPABILITY

We are growing fastest among banks as regards acquisition of customer with a main relationship.

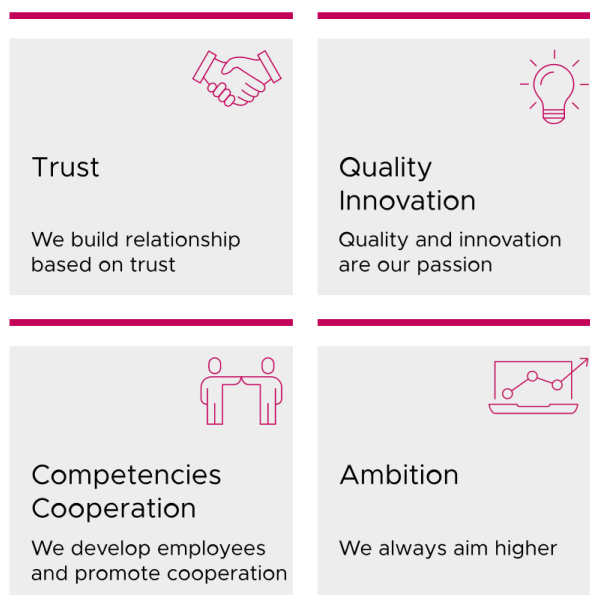
4. COST-EFFECTIVENESS

We have a cutting-edge cost-effective model built on state-of-the-art technology and flexible in changing to follow growth of the Bank's scale.

5. FLEXIBILITY IN RESPONDING TO CHANGES

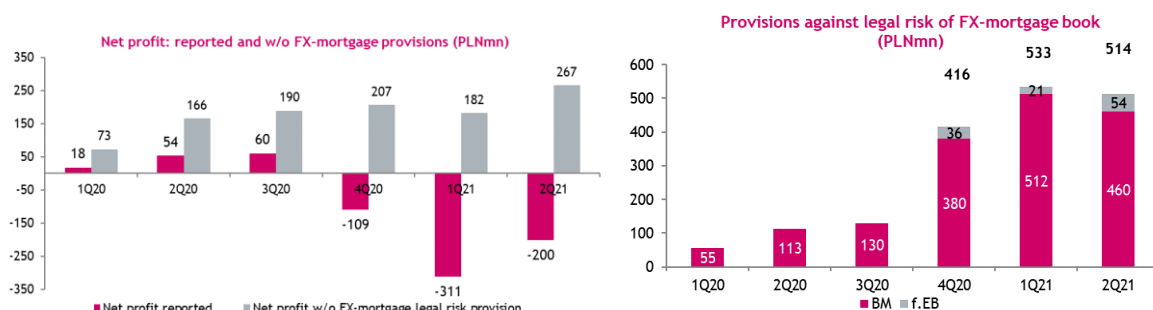
We have a flexible operating model; an organisational culture, which allows short reaction times as well as digital and data analysis skills.

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



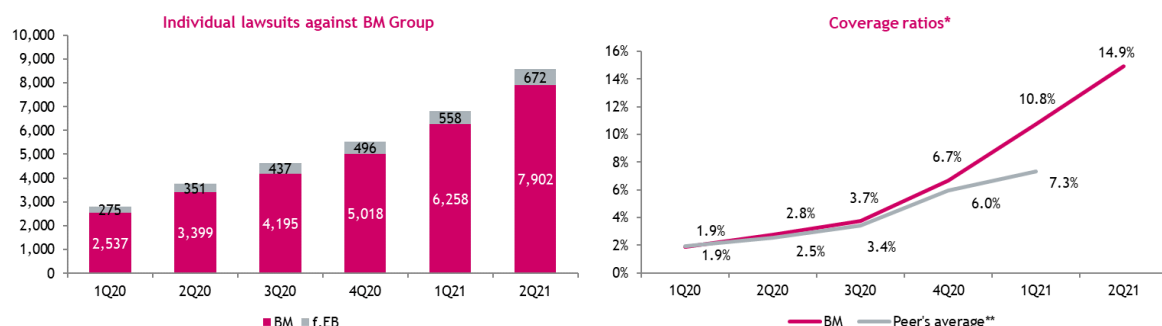
1.2. FINANCIAL RESULTS IN BRIEF

Bank Millennium S.A. Capital Group's (the 'Bank', 'BM Group', 'Group') reported consolidated 1H21 net loss of PLN512 million (2Q21: net loss of PLN200 million) vs. net profit of PLN72 million in 1H20. As in the recent reporting periods, substantial provisions against legal risk related to FX-mortgages ('FX-mortgage provisions') were the main burden (1H21: PLN1,047 million, 2Q21: PLN514 million with PLN972 million and PLN460 million respectively attributable to FX-mortgages originated by the Bank). Excluding the FX-mortgage provisions, the Group would post 1H21 net profit of PLN449 million (2Q21: PLN267 million) vs. adjusted 1H20 net profit of PLN240 million (2Q20: PLN166 million).



Legal risk provision against FX-mortgage loans

The increase in the abovementioned FX-mortgage provisions resulted from more conservative inputs into the Bank's provisioning methodology, reflecting, *inter alia*, a more challenging environment - higher inflow of court claims (individual lawsuits at 8,574 at end of June 2021 vs. 6,816 at the end of March) and lower proportion of cases won by banks (details regarding litigations against the BM Group can be found further in the report). At the end of June 2021, the balance of provisions for the portfolio originated by the Bank stood at PLN1,869 million (end of March 2021: PLN1,432 million), an equivalent of 14.9% of the FX-mortgage gross book (end of March 2021: 10.8%).



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

Presentational changes in P&L and balance sheet

The BM Group has changed its presentation of interest on derivatives not covered by formal hedge accounting ('swap income') and from 2Q21 (and 1H21) it is included 'net interest income' instead of 'results on financial assets and liabilities' where it had previously been presented. As a result former 'pro-forma' and reported results became aligned. Accordingly, 1Q21, 1Q20, 2Q20 results have been restated.

In 1H21, the Group changed the presentation of provisions for individual court cases related to CHF mortgage loans. Commencing from 1Q21, the Group allocates the portfolio provisions for future legal issues and recognises 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'.

More details can be found in following part of the report.

1.3. MAIN FINANCIAL AND BUSINESS ACHIEVEMENTS OF THE GROUP

2Q21 results were a clear proof that the BM Group successfully mitigated most of the direct and indirect impacts of the pandemic. 2Q21 pre-provision profit amounted to record PLN490 million and was 8% above the result in 2Q20 (1H21: PLN909 million, +6% y/y).

BM Group: reported results (PLNm)

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	y/y	q/q	1H21	y/y
NII*	690	640	629	625	622	655	2%	5%	1 277	-4%
Net fees	195	179	180	193	205	209	17%	2%	414	11%
Other income**	37	41	79	56	19	5	-88%	-75%	98	0
Total income**	921	860	887	873	846	869	1%	3%	1 789	0
Opex w/o BFG	-433	-377	-385	-391	-374	-348	-8%	-7%	-723	-11%
BFG	-85	-28	-27	-27	-53	-30	8%	-43%	-83	-26%
Pre-provision profit	403	455	475	455	419	490	8%	17%	909	6%
Risk charge***	-197	-166	-150	-108	-76	-57	-65%	-25%	-134	-63%
FX-mortgage provisions w/o EB	-55	-113	-130	-416	-533	-514	n/a	-4%	-1 047	523%
Net profit reported	18	54	60	-109	-311	-200	n/a	n/a	-512	n/a
Net profit w/o FX mortgage provisions	73	166	190	207	182	267	61%	47%	449	87%

* NII including swap income from derivatives, ** w/o result on FV portfolio and netting-off EB's FX-mortgage provisions, *** incl. result on FV portfolio, impairment losses on non-financial assets, modifications

The improvement was driven by positive operating jaws - revenues grew 1% y/y (y/y dynamic of NII turned positive, y/y fee growth accelerated to 17%) while opex (ex-BFG) was down 7% (1H21: -11%) owing to savings in both staff (2Q21: -1% y/y, 1H21: -9% y/y) and non-staff costs (2Q21: -15%, 1H21: -13%). BFG charges which in 1H21 were 26% lower than in the same period last year provided an additional support.

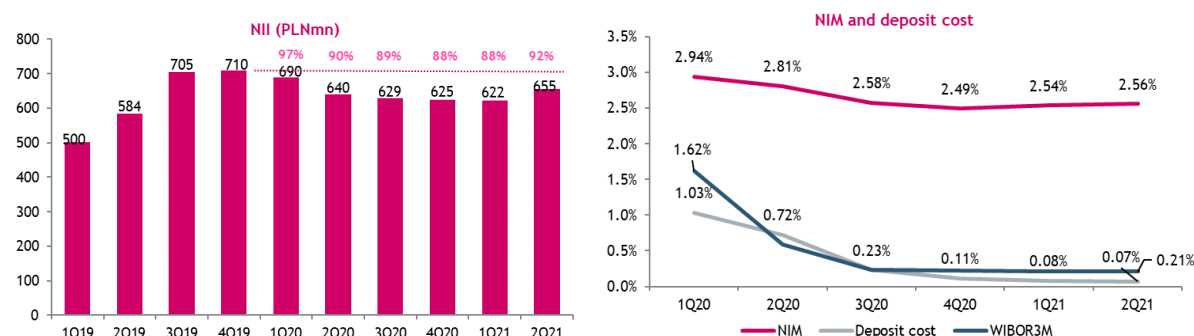


* Adjusted for provisions against credit risk, Covid-19, result on FV portfolio, impairment losses on non-financial assets, modifications and legal risk on FX-mortgages; ** Income adjusted for result on FV portfolio and netting-off of legal risk provisions on FX-mortgages of f.EB

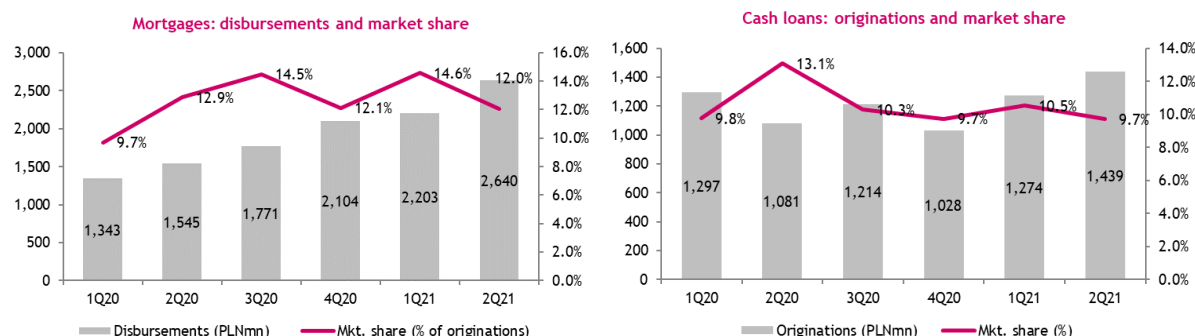
The key developments in the last twelve months that drove the y/y improvement of the results and which, we believe, are particularly worth highlighting are as follows:

M recovery of NII to above 2Q20 level;

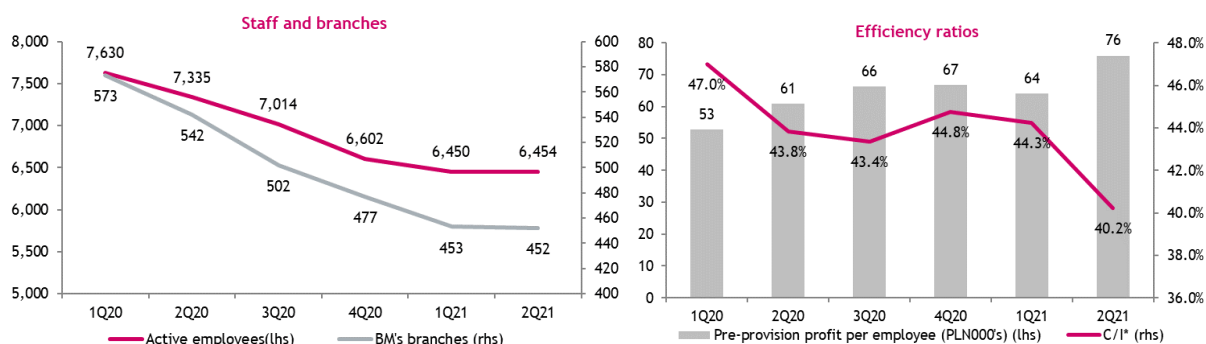
M rebound of quarterly NIM to 260bps in 2Q21, just 39bps below the 2019 peak (299bps in 3Q19) and 11bps up from the low of 249bps in 3Q20; strong reduction of deposit cost (down 100bps since YE19) to 7bps in 2Q21 was among the key drivers;



M above-market loan growth (+6% y/y) despite accelerating reduction of the FX-mortgage portfolio; a steady uptrend in retail loan originations played a key role - disbursements of mortgages in 2Q21 reached a new quarterly record of PLN2.6bn, up 71% y/y (1H21: PLN4.8bn, up 68% y/y) translating into market share of 12% vs. 13% in 2Q20 while 2Q21 origination of cash loans reached a record PLN1.4bn, up 33% y/y (1H21: PLN2.7bn, up 14% y/y); on a separate count our FX-mortgage book contracted 21% y/y due to a combination of repayments, provisioning (most of legal risk provisions are booked against gross value of loans under court proceedings) and conversions to PLN negotiated between the Bank and the borrowers; as a result, the share of FX-mortgages in total gross loans decreased to 15.1% (BM originated only: 13.9%) from 20.3% (18.9%) in the same period last year.



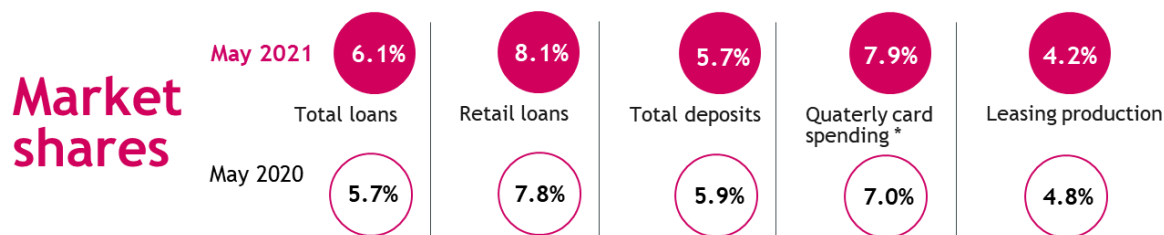
- M improving cost efficiency** owing to a combination of a steady increase in the digitalisation of our business and well as relations with clients with strong cost response to revenue pressures; falling headcount (number of active employees down 881 or 12% since 2Q20), ongoing optimisation of our physical distribution network (own branches down by 90 units or 17% in the last twelve months) complimented the increasing share of digital services (digital customers: 2.14 million, up 9% y/y, number of active mobile customers: 1.8 million, up 15% y/y); cost optimisation initiatives not only resulted nominal reduction of opex but also translated into much improved cost efficiency; reported C/I ratio declined to 41% in 2Q21 from 47% in the same period last year (C/I ratio excluding BFG and netting-off of FX-mortgage provisions on f.EB book fell to 40% from 44%), cost/asset ratio declined to 1.5% from 1.6% while opex per employee fell to PLN54,000 in 1H21 from around 57,000 in 1H20);



* C/I without BFG cost, netting off-FX-mortgage provisions at EB

- M stable loan book quality resulting in a low cost of risk** (28bps in 2Q21 vs. 121bps in 2Q20) with positive underlying trends in quality of both retail and corporate books and continued NPL disposals; NPL ratio declined to 4.7% at the end of June'21 from nearly 4.9% the year before;
- M AuM of Millennium TFI and third party funds combined grew 5% q/q** to over PLN9.4 billion with y/y growth at 32%.

Share in key market segments



* 1Q21/1Q20 data

Strategy implementation

Given the unprecedented scale of change of the business environment caused by the outbreak of COVID-19 pandemic in early 2020 the BM Group decided to extend its 2018-20 strategy by additional year and prepare a new one for the years 2022-2024.

The Bank aims to recover like-for-like operational results affected by the COVID-19 crisis and its direct and indirect consequences within 1.5 to 2 years. This is to be achieved by completion of the current cost streamlining program, introduction of new operational efficiency program as well as an improvement business results through improved pricing and sales increase in core products.

The Group is on well on track to deliver on its 2021 targets:

2021 target	Delivery after 1H21
Share of digital clients >80%	81%
Growth of corporate portfolio >PLN1bn	PLN470mn
Origination in leasing close to 2019 (PLN3.5bn)	PLN1.4bn
Origination of mortgages >PLN7bn	PLN4.8bn
Cost/income ratio of 47%	45%
Cost of risk <=80bps	33bp
NPL ratio <5%	4.6%

1.4. MOST IMPORTANT AWARDS AND OTHER ACHIEVEMENTS IN 1H21



The Best Bank in Poland for 2021

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



Złoty Bankier 2021 - Millennium with the best mortgage

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



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

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



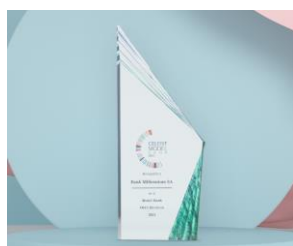
"Best Bank 2021" competition

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



Golden CSR Leaf

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



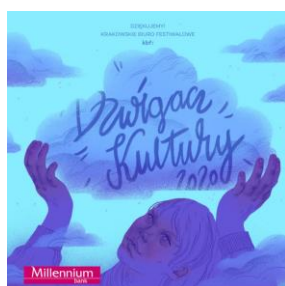
Celent Model Bank in Open Banking

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



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

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



Dźwigacz Kultury (Culture Elevator) for Bank Millennium

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



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

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



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

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



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

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

1.5. INFORMATION ON SHARES AND RATINGS

In 1H21 investor sentiment towards banking stocks improved markedly. Rotation into “value” companies at the start of the year, improving macro forecasts, accelerating pace of vaccinations against the coronavirus as well as higher than expected inflation readouts and ensuing expectations about imminent interest rate hikes were supporting bank share prices throughout Europe.

In the second half of May, just after the Supreme Court postponed the verdict regarding Swiss francs to an indefinite future, listings of Polish banks improved further.

In the second half of June, news of the rapidly spreading new delta variant of the coronavirus as well as lower than expected inflation readout and thus with the related lack of clear-cut signals as to potential increase of interest rates bank share prices in Poland were driven down violently. Nevertheless since the start of the year the WIG-Banki bank index was one of the strongest indices.

During the 12 months ending 30 June 2021, the WIG broad market index grew 33%, the WIG20 index of largest companies grew 26% and WIG Banki grew 58%. At the same time the price of Bank Millennium shares went up 54%.

Meanwhile since the start of the year Bank Millennium shares went up 43%, while the bank index gained 37%.

Bank Millennium: ytd share price performance vs. WIG Banks



In 2Q21 the average daily turnover of Bank Millennium shares was 15% lower than in the same period last year.

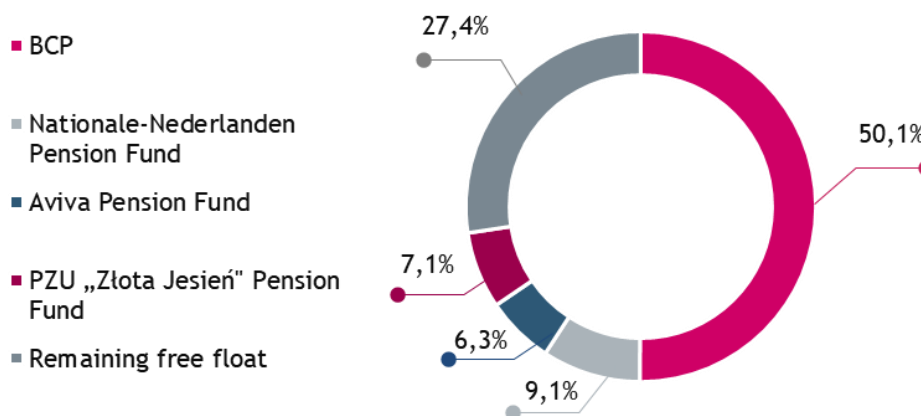
Market ratios	30.06.2021	31.12.2020	Change ytd	30.06.2020	Change y/y
Number of the Bank's shares (th)	1 213 117	1 213 117	0.0%	1 213 117	0.0%
Average daily turnover in annual terms (th)	7 979			9 420	-15.3%
Bank share price (PLN)	4.66	3.27	42.5%	3.02	54.2%
Market capitalization of the Bank (PLNmn)	5 653	3 967	42.5%	3 666	54.2%
WIG Banks	6 548	4 765	37.4%	4 157	57.5%
WIG20	2 218	1 984	11.8%	1 759	26.1%
WIG30	2 656	2 313	14.8%	2 024	31.2%
WIG - main index	66 067	57 026	15.9%	49 569	33.3%

Bank Millennium shares are constituents of the following WSE indices: WIG, WIG Banks, WIG 30, mWIG 40, WIG Poland and WIG-ESG.

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

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

Shareholders structure as at 31 December 2020



Bank Millennium's ratings

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

The Bank's ratings, as at 30 June 2021, please find in the table below.

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

1.6. MACROECONOMIC BACKGROUND

2Q21 brought improvement of the epidemic situation worldwide and also in Poland, which was supported by significant acceleration of vaccination against Covid-19 in developed countries. In Poland till mid-July half of the adult population received a full vaccine dose. In 2Q21 counter-epidemic restrictions were being gradually lifted, which was conducive to dynamic rebound of economic activity worldwide, especially in the services sector. Moreover expansion of industry continued in this period. Business sentiment surveys indicate that global demand for goods and services still runs strong, however it cannot now be fully met due to bottlenecks in supply chains for production materials and components.

In coming quarters business activity worldwide should improve further exceeding expectations voiced a few months ago. The currently visible mismatch between demand and supply as well as high degree of output capacity usage will - in the opinion of Bank Millennium - continue to restrict the industry expansion rate and will be conducive to elevated inflation rates worldwide. Global economic recovery in the coming years should moreover be supported by accommodative monetary policy and, in some developed countries, also fiscal policy. However due to increasing inflationary pressure some central banks already launched a cycle of normalising monetary policy or are flagging an earlier than communicated a few months ago start of tightening monetary conditions. The optimistic scenario for the world economy nevertheless still bears the burden of high uncertainty involved with the Covid-19 epidemic.

In recent months outlook for the Polish economy also improved significantly. Its results turned out to have been better than expected despite the very difficult epidemic situation. GDP growth rate in 1Q21 increased to -0.9% y/y from -2.7% y/y in 4Q20. The picture of the economy was even more positive as shown by seasonally adjusted data, according to which the economy grew between January and March by 1.1% q/q. The biggest surprise however was the rapid rebound of investments, which in 1Q21 alone increased by 18.2% q/q (seasonally adjusted data), returning unexpectedly to the level from before the pandemic. Despite a lockdown of some service sectors and temporary restrictions for operation of shopping centres, private consumption increased by 1.0% q/q. This confirms - apart from the stable situation on the domestic labour market - strong and growing resilience of the economy to subsequent waves of the epidemic as well as administrative restrictions.

As the Covid-19 infection rate falls and business activity unfreezes, and also given the effect of low reference base from last year, in the opinion of Bank Millennium, GDP in 2Q21 grew approx. 11.0% y/y. This means that by Jun'21 the economy has probably fully made-up for the pandemic losses. High growth rates of industrial output and retail sales in the April-May period, which stood on average respectively at 37.0% y/y and 17.5% y/y support that scenario.

The effect of low statistical base also propelled significant acceleration of consumer inflation. CPI index grew in 2Q21 to 4.5% y/y from 2.7% y/y a quarter earlier. In particular the inflation is raised by growing fuel prices related to prices of crude oil on international markets. Nevertheless the core inflation, i.e. CPI net of food and energy prices, standing in 2Q21 at 3.8% y/y confirms increased inflationary pressure. This results from growing costs of operating businesses, which can be transferred to consumers in environment of strong demand. Some of the factors increasing inflation should subside in a matter of a few quarters. However as economic recovery progresses, price pressure resulting from demand should pick up.

Despite deteriorating inflationary prospects, in 2Q21 the Monetary Policy Council did not modify its policy parameters. National Bank of Poland's main interest rate remains at the historically low level of 0.10%, while the bonds repurchase programme continues. However the rhetoric of some MPC members has become less dovish. Factors behind stabilisation of interest rates include the risk of further waves of the pandemic as well as the desire of the central bank to limit costs of Treasury debt service. In our opinion these factors of uncertainty will be gradually losing their weight, providing space towards the end of 2021 for raising interest rates in Poland. These expectations remain highly uncertain however.

In 2Q21 growth of deposits in the banking sector somewhat weakened. The absence of strong growths in coming months will most probably continue, as the economy unfreezes and propensity to consume picks up. Moreover returning part of support within Financial Shield to Polish Development Fund may potentially lead to reduction of corporate deposits. In an environment of negative real interest rates the demand for housing loans was growing strongly, which was also supported by relaxing the terms of their granting by the banking sector. In 2Q21 this year demand for consumer as well as corporate loans recovered. The improvement in this respect should also be continued in the coming months.

In the opinion of Bank Millennium the economy will grow 5.3% this year and at similar pace also in 2022, which means an upward revision from the Bank's expectations formulated three months ago. Coming quarters should bring a further rebound in economic activity in sectors, which were under severe restrictions. Importantly the recovery will be increasingly broader. Private consumption should be a pillar of growth, supported by a good situation on the labour market as well as accumulated households' savings. Moreover the good results of construction output in April and May suggest continuation of an investment rebound in the economy. This creates an opportunity for sustained economic growth at a solid level in the longer term. Economic activity will also be bolstered by implementation of the National Recovery Programme as well as - albeit in a somewhat longer perspective - by projects co-financed under the new European's Union budget.

1.7. FACTORS OF MACROECONOMIC UNCERTAINTY FOR THE ECONOMY AND THE BANK MILLENNIUM GROUP

The inflow of data indicating that economies have considerably adapted to pandemic conditions, as well as significant acceleration of vaccinations in developed countries, in the Bank's opinion reduce the risk of strongly adverse economic effects of potential increase in number of new infections during autumn and winter. Nevertheless the Covid-19 pandemic still remains the most significant negative factor of uncertainty for the Polish economy and its environment. In a broader context a worse than expected development of the macroeconomic situation could impact the Bank Millennium Group through:

- increase of unemployment and slower growth households' income, which would weaken demand for banking products;
- significant increase of uncertainty, curbing corporate demand for investment loans;
- deterioration of the income situation of households and businesses, which could translate into a decrease of quality of BM Group's loans portfolio and the need to create greater provisions;
- stronger growth of inflation of consumer and producer prices deteriorating the income situation of households and inhibiting business investment decisions;
- slower than assumed growth of interest rates or their potential reductions in Poland, although the probability of further rate cuts remains low in the Bank's opinion.

Upward revision of economic growth forecasts reflects impact of positive data and information from last months. Nevertheless positive risk factors for better than expected economic performance in Poland remain, which could result i.a. from absence of restrictions for business, faster than assumed implementation of the National Recovery Plan, stronger impact of tax changes announced in "Polish Order" reform programme, or faster elimination of gridlocks in industries' supply chains. In the bank's opinion the overall balance of risk factors for the macroeconomic situation in Poland is neutral.

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

1.8. FX-MORTGAGE LEGAL RISK

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 PLN972.4 million provisions and PLN74.6 million for ex-Euro Bank originated portfolio (respectively in year 2020: PLN677 million and PLN36.4 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 PLN1,868.9 million, and PLN111 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 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.

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 PLN3,003 million.

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

2. FINANCIAL SITUATION OF BM GROUP

2.1. GROUP PROFIT AND LOSS ACCOUNT

(PLN million)	1H21	1H20	Change y/y
Interest income	1 339.9	1 763.7	-24.0%
Interest expense	-62.7	-433.9	-85.5%
Net interest income	1 277.2	1 329.9	-4.0%
Net fee and commission income	414.1	373.5	10.9%
Core income	1 691.3	1 703.4	-0.7%
Dividend income	2.7	3.3	-17.3%
Net trading income	31.7	125.5	-74.7%
Other operating income	116.4	64.7	80.0%
Other operating expenses	-52.7	-115.8	-54.5%
Total income	1 789.4	1 781.0	0.5%
Net impairment losses and fair value change on loans and advances	-133.5	-362.9	-63.2%
Result on provisions for legal risk related to foreign currency loans	-1 047.0	-168.0	523.2%
Overhead costs and depreciation	-805.9	-923.0	-12.7%
Banking tax	-152.0	-141.2	7.6%
Profit before income tax	-348.9	185.9	-
Income tax expense	-162.7	-114.2	42.5%
Net profit	-511.6	71.7	-

Group's operating income (PLN million)	1H21	1H20	Change y/y
Net interest income	1 277.2	1 329.9	-4.0%
Net commission income	414.1	373.5	10.9%
Core income	1 691.3	1 703.4	-0.7%
Other non-interest income *	98.2	77.7	26.4%
Total operating income *	1 789.4	1 781.0	0.5%

(*) Without fair value adjustment of credit portfolio (PLN6.0mn in 1H21 and PLN26.4mn in 1H20), which is included in the cost of risk line

Net interest income in 1H21 reached PLN1,277mn and decreased by 4% compared to the level recorded in the corresponding period of the previous year, which was strongly impacted by unprecedented interest rates cuts by the MPC (down 140 basis points in March through May 2020) and leveraged impact of the maximum interest rate (cut by 280 basis points from 10% to 7.2%). However, 2Q21 brought a visible rebound with quarterly growth of net interest income by 5% after some stabilisation recorded in 1Q21.

Net interest margin (over average interest earning assets) (NIM) in 1H21 reached 2.58% and was lower by 11 basis points compared to 1H20. Similarly to net interest income, the quarterly improvement of NIM has started in 1Q21. 2Q21 NIM reached 2.60%, i.e. was higher by 6 basis points compared to 4Q20 (2.54%) and 11bps above the lowest level (3Q20) after rates cuts by the MPC.

Net commission income in 1H21 amounted to PLN414mn, growing 11% vs. 1st half of the previous year. Starting from 2H20 the positive quarterly trend of net commission income can be observed (+2% q/q in 2Q21). The main source of the improvement were growing commissions from banking transactions (accounts, loans and cards) supported by fees on deposits. Management fees on mutual funds and transactional fees presented slight increase year-on-year.

Core income, defined as a combination of net interest and net commission income, reached PLN1,691mn in 1H21 being slightly lower (-1%) compared to 1H20.

Other non-interest income, which comprises FX result, results on financial assets and liabilities (without interest margin on derivatives and fair value adjustment on credit portfolio) and net other operating income and costs, amounted to PLN98mn in 1H21 and increased by 26% y/y. In 2Q21 this item included capital gains related to VISA shares which partially compensated for negative FX result derived from settlements with FX mortgage borrowers. In 1H21 other operating income was also supported by some compensation of provisions for FX mortgage book, resulting from indemnity and guarantees clauses referring to the portfolio of former Euro Bank. On the other hand other operating costs in 1H20 were higher by PLN40.6mn of provisions created for return of commissions to consumer loans borrowers.

Total operating income of the Group reached PLN1,789mn in 1H21 and were on similar level than in 1H20.

Total costs amounted to PLN806mn in 1H21 translating into 13% decrease vs. the corresponding period of 2020, mainly due to administrative costs directly related to Euro Bank acquisition, merger and integration process incurred in 2020 (PLN66mn in 2020, of which PLN41.4mn for staff restructuring) and lower contribution to Banking Guarantee Fund (BFG) funds. Total costs excluding BFG fees and integration costs also showed a material 7% y/y decrease.

Operating costs (PLNmn)	1H21	1H20	Change y/y
Personnel costs	(411.0)	(451.2)	-8.9%
Other administrative costs *	(394.8)	(471.8)	-16.3%
- of which Banking Guarantee Fund (BFG) fees	(83.3)	(113.1)	-26.3%
Total operating costs	(805.9)	(923.0)	-12.7%
- of which Euro Bank integration costs **	0.0	(35.1)	-
Total costs without BFG	(722.5)	(810.0)	-10.8%
Total costs without integration costs **	(805.9)	(888.0)	-9.2%
Total costs without integrat. costs and BFG **	(722.5)	(774.9)	-6.8%
Cost/income ytd - reported	45.0%	51.8%	-6.8 pp
Cost/income ytd - adjusted ***	43.7%	47.1%	-3.5 pp

(*) including depreciation

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

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

Personnel costs amounted to PLN411mn and decreased by 9% y/y. After incorporating employees coming from Euro Bank (2.4 thousand FTEs in May 2020) the Group gradually reduced its personnel to 7,148 FTEs at the end of June 2021 which translates into an annual reduction of 993 FTEs (-12% y/y). Without employees absent due to long leaves, the number of so called active FTEs was much lower, i.e. at 6,454. Without allocated costs resulting from integration and restructuring in 1H20, the personnel costs decreased by 4% y/y.

Employment (FTEs)	30.06.2021	30.06.2020	Change y/y	31.03.2021	Change q/q
Bank Millennium S.A.	6 802	7 803	-12.8%	6 914	-1.6%
Subsidiaries	346	337	2.7%	325	6.5%
Total Bank Millennium Group	7 148	8 141	-12.2%	7 238	-1.2%
Total BM Group (active* FTEs)	6 454	7 335	-12.0%	6 450	0.1%

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

Other administrative costs (including depreciation) reached PLN395mn in 1H21 and decreased by 16% y/y. The costs without BFG and integration costs decreased by 10% y/y.

Euro Bank acquisition resulted in an initial very strong increase in the number of outlets which subsequently saw a reduction in line with the Bank's branch network optimization policy. At the end of December 2019 the total number of branches (including Euro Bank) was 830 and has since been reduced (mostly Bank's own branches) to 676 outlets at the end of June 2021 (annual reduction of 90 outlets).

Cost-to-income ratio without extraordinary items mentioned above and with equal distribution of BFG costs throughout the year, reached 43.7% in 1H21 and was 3.5 percentage points lower compared to 1H20 level.

Net profit (PLNmn)	1H21	1H20	Change y/y
Operating income	1 789.4	1 781.0	0.5%
Operating costs *	(805.9)	(923.0)	-12.7%
Impairment provisions and other cost of risk **	(133.5)	(362.9)	-63.2%
- of which Covid-19 risk related provision	0.0	(69.9)	-
FX legal risk related provision	(1 047.0)	(168.0)	523.2%
Banking tax	(152.0)	(141.2)	7.6%
Pre-income tax profit	(348.9)	185.9	-
Income tax	(162.7)	(114.2)	42.5%
Net profit - reported	(511.6)	71.7	-
Net profit - adjusted***	473.7	326.6	45.0%

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

(**) including fair value adjustment on loans (PLN -6mn in 1H21 and PLN-26.4 mn in 1H20) and loans modification effect (PLN-4.9mn in 1H21 and PLN-4.6mn in 1H20)

(***) without extraordinary items, i.e. provisions for FX mortgage legal risk and with linear distribution of BFG resolution fund fee; in 2020 additionally without Euro Bank integration costs and provisions for the return of commissions from loans repaid earlier

Total cost of risk, which comprised net impairment provisions, fair value adjustment (of a part of credit portfolio) and result on modifications, bore by the Group amounted to PLN134mn in 1H21 and was 63% lower than in 1H20. The higher level of provisions one year ago resulted from additional provisions for risk related to COVID-19 impact amounting to PLN70mn in 1H20 as well as changes in the risk model in the retail segment with introduction of more conservative default definition.

Risk charges for retail segment in 1H21 stood at PLN115mn, while for the corporate segment and other they amounted to PLN18mn. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 1H21 reached 33 basis points compared to 98 basis points in 1H20.

In 1H21, the Bank sold portfolios of consumer NPLs. The transaction generated PLN32.7mn positive pre-tax result.

Additionally, in 1H21 the Bank continued to create provisions for legal risk related to FX-mortgage portfolio which were high in the reported period and reached PLN1,047mn (PLN972mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees). The balance of provisions increased to PLN1,980mn or PLN1,869mn excluding loans originated by Euro Bank, the former being an equivalent of 14.9% of the FX-mortgage portfolio originated by Bank Millennium.

Pre-income tax result in 1H21 was negative and amounted to PLN349mn. This was mostly the result of the above mentioned high FX-mortgage provisions as the pre-provision profit amounted to PLN984mn and was up 15% y/y.

In 1H21 the Group reported net loss of PLN512mn. Adjusted for the abovementioned extraordinary items (first of all, extra provisions for FX mortgage legal risk) the Group would achieve the net profit of PLN474mn in 1H21, which is 45% higher compared to adjusted 1H20 net profit of PLN327mn.

2.2. BALANCE SHEET

Assets

The Group's assets as at 30 June 2021, amounted to PLN104,107mn, recording 2% growth vs. the end of June 2020. The structure of the Group's assets as well as changes of their particular components have been presented in the table below:

Group's assets (PLN million)	30.06.2021		30.06.2020		Change y/y
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	2 676.4	2.6%	1 224.8	1.2%	118.5%
Loans and advances to banks	605.5	0.6%	875.8	0.9%	-30.9%
Loans and advances to clients	75 794.3	72.8%	71 339.6	69.7%	6.2%
Receivables from securities bought with sell-back clause	18.4	0.0%	65.4	0.1%	-71.9%
Debt securities	22 175.2	21.3%	26 567.2	25.9%	-16.5%
Derivatives (for hedging and trading)	163.1	0.2%	228.7	0.2%	-28.7%
Shares and other financial instruments*	132.9	0.1%	96.5	0.1%	37.7%
Tangible and intangible fixed assets**	911.7	0.9%	971.2	0.9%	-6.1%
Other assets	1 629.6	1.6%	1 041.1	1.0%	56.5%
Total assets	104 107.0	100.0%	102 410.4	100.0%	1.7%

(*) including investments in associates

(**) excluding fixed assets for sale

The main changes within assets came from growing loans to clients (up PLN4.5bn or 6% y/y) offsetting the similar scale of decrease of debt securities (down PLN4.4bn or 17% y/y).

Loans and advances to clients

Total **net loans** of Bank Millennium Group reached PLN75,794mn as at the end of June 2021 and grew 6% y/y. The growth of loans without foreign currency mortgage portfolio was visibly higher, at 13% y/y. FX mortgage loans decreased visibly during one year time by 23% and the share of FX mortgage loans (excluding these taken over with Euro Bank) in total gross loans has dropped substantially during the year to 13.9% on 30 June 2021 from 18.8% a year ago.

The net value of loans to households amounted to PLN57,079mn as at the end of June 2021, showing a growth of 8% y/y (+2% q/q). Within this line PLN mortgages grew strongly by 27% y/y while growth rate of consumer loans slowed down to 4% y/y.

In 2Q21 disbursements of mortgage loans achieved a new record of PLN2.64bn, while in 1H21 PLN4.8bn, translating into an exceptionally high annual growth of 68%.

The net value of consumer loans reached PLN15,590mn growing +4% y/y. Origination of cash loans rebounded in 1H21 reaching the value of PLN2.7bn, i.e. 14% compared to 1H20.

Net value of loans to companies amounted to PLN18,715mn as at the end of June 2021 and increased by 3% y/y with visible adverse effect of the COVID-19 pandemic on new lending to companies and a lag in leasing business.

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

Loans and advances to clients <i>(PLN million)</i>	30.06.2021	30.06.2020	Change y/y
Loans to households	57 079.3	53 094.4	7.5%
- <i>PLN mortgage loans</i>	29 898.1	23 451.6	27.5%
- <i>FX mortgage loans</i>	11 591.1	14 624.7	-20.7%
- <i>of which Bank Millennium loans</i>	10 665.4	13 621.9	-21.7%
- <i>of which ex-Euro Bank loans</i>	925.7	1 002.8	-7.7%
- <i>consumer loans</i>	15 590.1	15 018.1	3.8%
Loans to companies and public sector	18 714.9	18 245.3	2.6%
- <i>leasing</i>	6 390.8	6 451.0	-0.9%
- <i>other loans to companies and factoring</i>	12 324.2	11 794.3	4.5%
Net loans & advances to clients	75 794.3	71 339.6	6.2%
<i>Net loans and advances to clients excluding FX mortgage loans</i>	64 203.2	56 714.9	13.2%
Impairment write-offs	2 448.8	2 358.1	3.8%
Gross* loans and advances to clients	78 243.1	73 697.8	6.2%

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

Debt securities

Value of debt securities reached PLN 22,175mn at the end of June 2021, which means a strong decrease of 17% y/y. An overwhelming part of the debt securities portfolio (99.6%) were bonds and bills issued by the Polish State Treasury and National Bank of Poland (Central Bank). The strong decrease of debt securities portfolio was a consequence of assets/liabilities and interest margin management policy and was correlated with the changes of loans and deposits. The share of this group of debt securities in the Group's total assets was at 21.2% at end of June 2021 reflecting a good liquidity position of the Group.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN 606mn at the end of June 2021, which means a decrease by 31% y/y.

Liabilities

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

Group's liabilities and equity (PLN million)	30.06.2021		30.06.2020		Change y/y
	Value	Structure	Value	Structure	(%)
Deposits from banks	742.3	0.8%	1 429.8	1.5%	-48.1%
Deposits from customers	89 998.5	94.0%	86 254.6	92.5%	4.3%
Liabilities from securities sold with buy-back clause	0.0	0.0%	0.0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	328.9	0.3%	878.3	0.9%	-62.6%
Liabilities from issue of debt securities	310.7	0.3%	767.0	0.8%	-59.5%
Provisions	408.3	0.4%	114.4	0.1%	256.9%
Subordinated debt	1 539.9	1.6%	1 545.2	1.7%	-0.3%
Other liabilities*	2 402.1	2.5%	2 221.2	2.4%	8.1%
Total liabilities	95 730.7	100.0%	93 210.6	100.0%	2.7%
Total equity	8 376.3		9 199.8		-9.0%
Total liabilities and equity	104 107.0		102 410.4		1.7%

* including tax liabilities

At the end of June 2021 liabilities accounted for 92%, while equity of the Group - for 8% of total liabilities and equity.

As on 30 June 2021 Group's total liabilities amounted to PLN 95,731mn and showed an increase by 3% y/y. The increase was primarily an effect of the increase of customer deposits (by PLN3.7bn).

Customers' deposits

Customer deposits constituted the main item of the Group's liabilities accounting for, as on 30 June 2021, 94% of total liabilities. Customer deposits constitute the main source of financing of Group's activities and incorporate, primarily, customer funds on current and saving accounts as well as on term deposit accounts.

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

Customer deposits <i>(PLN million)</i>	30.06.2021	30.06.2020	Change y/y
Deposits of individuals	64 966.1	63 436.3	2.4%
Deposits of companies and public sector	25 032.4	22 818.3	9.7%
Total deposits	89 998.5	86 254.6	4.3%

Total deposits amounted to PLN89,998mn as at 30 June 2021 and increased by 4% y/y. The main driver of this growth were deposits on companies' current accounts which increased by PLN3.4bn vs. 30 June 2020 (or by 22%), whereas term deposits dropped by 16% y/y at the same time. Total deposits of companies reached PLN25,032mn as at the end of June 2021 and grew by 10% y/y.

Deposits of individuals reached PLN64,966mn as at 30 June 2021, growing 2% y/y. Similarly to deposits of companies, current accounts of individuals continued to grow at a high pace (up 45% y/y) and term deposits dropped 25% y/y. The Bank did not compete actively for retail term deposits and had to make significant cuts in the deposit interest rates after strong Monetary Policy Council interest rates cut. The share of current accounts and saving accounts in total deposits of individuals increased to 84% as at the end of June 2021.

Deposits from banks

Deposits of banks, including credits received, as on 30 June 2020, amounted to PLN742mn. Value of this item declined by PLN687mn (or by 48%) relative to the balance as on 30 June 2020, mainly in effect of lower, by PLN708mn, balance of loans received from financial institutions. The said loans include funds received from the European Investment Bank and the European Bank for Reconstruction and Development (in EUR, CHF and PLN) with original maturities of up to 7 years, constituting an important line item within long-term and medium-term wholesale financing obtained by the Group.

Debt securities issued

Securities issued by the Group amounted to PLN311mn as on 30 June 2021 recording significant decrease by PLN456mn (or 59%) relative to the balance as on 30 June 2020. The decrease resulted from the lower balances of debt securities issued by the Bank by PLN369mn and the repurchase of securities issued by its subsidiary Millennium Leasing of PLN87mn.

Subordinated debt

The value of subordinated debt amounted to PLN 1,540mn as on 30 June 2021 and stayed on similar level vs. the end of June 2020 (a very minor difference resulting from interest accrued). The subordinated debt line includes ten-year subordinated bonds in PLN at the total nominal value of PLN830mn maturing in January 2029 and ten-year bonds in PLN at the total nominal value of PLN700mn maturing in December 2027.

Equity capital

As on 30 June 2021, equity capitals of the Group amounted to PLN 8,376mn and recorded a decrease by PLN824mn or 9% y/y. Apart from the net loss generated in 1H21 and 2H20, the decrease of equity resulted from negative valuation of securities of PLN 218mn million since 30 June 2020.

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

3. PRESENTATION OF BUSINESS ACTIVITY

3.1. INNOVATION AND HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE

The specificity of 2020 caused by the Covid-19 pandemic strongly directed the activities of Bank Millennium in the area of customer service as well as activities regarding the scope and quality of products and services.

The starting point for the bank was a thorough analysis of market trends as well as new customer expectations and approach to banking. Thanks to the constant monitoring of customer needs, Bank Millennium effectively adjusts solutions to the dynamically changing market.

The first half of 2021 was the time for Bank Millennium to further increase the availability of services in remote channels - both in terms of communication and the possibility of making transactions. The bank focused on enhancing customer self-service while providing employee support at the same time. The activities were conducted across product areas - from credit services to savings.

Apart from focusing on extensive digitalisation, it was extremely important to maintain a balance between remote services and the availability of traditional banking. The bank efficiently and in accordance with the clients' needs combines modern methods of banking via a mobile application or transaction system with constant access to highly qualified staff of branch and contact center advisors - in all business lines.

The bank has implemented a new model of opening an account and initiating a relationship with a customer in a branch. The solution is an example of a balance between the clients' needs and adapting solutions to their expectations, with the adopted business assumptions and focus on digitization. The service model was designed on the basis of research and tests with clients using design thinking, creative techniques and behavioural economics.

The dynamic development of customer service in remote channels exposed another challenge for the bank - the integration of contact channels and an even greater flow of information about customer needs. The solutions developed between branch service and remote service allow customers to smoothly switch between service channels and enables them to execute transactions - including those initiated in a different contact channel - in a way convenient for the customer. Increasing flexibility and a convenient transition between contact channels provides customers with a sense of consistent service, and thus comfortable banking.

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

The activities in the area of quality carried out in the first half of 2021 were appreciated by both clients and experts, as evidenced by the high positions in the Institution of the Year and the Gold Bank rankings.

Among retail clients, the satisfaction and level of recommendations remained at a very high level, reaching in the first half of 2021 **95% of satisfied customers** and the **Net Promoter Score (NPS) amounting to 55**. High ratings of satisfaction and willingness to recommend the Bank are particularly pleasing considering the difficult pandemic situation, restrictions related with it and the need to dynamically adjust services to customer expectations.

3.2. CONSTANT GROWTH OF DIGITALISATION OF OUR SERVICES

We completed 1H21 with over **2.14 million active digital channel users**, including over **1.8 million mobile banking users**, which means a y/y increase of 9% and 15% y/y respectively. Customers logged into Millenet over 72 million times, and to the mobile app over 274 million times. In April, there were record-breaking 50 million logins to the app per month.

The share of online channels in sales is growing. As many as 63% of loans were disbursed online, even if applying process started in a different channel. The growth of 16% y/y is related to the renewed omni-channel applying process.

91% of term deposits and 29% of new current accounts were opened online, which compares with 90% and 26% respectively in 1H20.

For several months, we have been seeing the growing popularity of online transactions and payments e-commerce. In 1H21, customers made almost 37 million BLIK transactions, which means an increase of 87% y/y and almost 6 million P2P transfers - as much as 137% more than a year earlier. At the same time, BLIK is already used by over a million customers (+35% y/y). We also noted over 34 million online payments (+49% y/y) and almost 25 million online card payments (+27% y/y).

A very high increase can be seen in the use of the mobile app options. Customers willingly use solutions that are not only convenient, but also safe during the pandemic. In payments for parking, this is an increase by as much as 133% y/y. Contactless payments by phone were made almost 19 million times, which means an increase by 76%.

In 1H21, an important project of a launch of a new application for 'Rodzina 500+' benefit. So far, in 2021, customers have submitted over 300 thousand new applications.

From the beginning of the year, we have been working intensively on solutions for younger clients and their parents. After making the easier path for opening Konto 360° Junior account in 1Q21, in May we launched a mobile app dedicated to the age group 7-12. Since the beginning of the year, more bank accounts for children have been opened online, and since the launch of the junior application, there has been a significant increase in the number of accounts opened both online and traditionally. In total, in 1H21, 69% more accounts for children were established than in the same period last year.

3.3. RETAIL BANKING

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

In 1H21 the Bank has increased its active client base by 30 thousand. As on 30 June 2021 the Bank provided services to more than 2.63 million active retail clients. Altogether 2.14 million clients were using electronic banking actively while the mobile app was in use by 1.78 million, which means an annual increase by 15%.

Personal account

Sale of current accounts in the 1H21 exceeded the level of 172 thousand, i.e. a slight decrease relative to similar period of the previous year. The key product supporting acquisition of new clients

was the Konto 360° account. At the end of 1H21, the number of Konto 360° accounts in the Bank portfolio exceeded 1.76 million.

Acquisition of Konto 360° accounts in 2021 was supported by promotion and advertising activities including, *inter alia*, as follows:

- consecutive round of advertising campaigns in TV stations and internet,
- intensive promotional activities involving the use of goodie shopping app and in cooperation with external internet portals - more than 31% personal accounts were acquired online,
- new rounds of referral programme „Like it! Share it”, under which recommending Konto 360° or Konto 360° Student to others may be rewarded with attractive prize. During 1H21 in following edition more than 130 thousand clients registered in the programme,
- extension of an offer for the youngest, which is in line with the bank's long-standing financial education efforts.

Savings products

The 1H21 was a time of stabilisation of deposit offer. Limited consumer expenditures in 1Q21, caused by pandemic limitations, favored the accumulation of deposits especially on current accounts.

Due to this, the Bank expanded retail clients deposits in 1Q21 by PLN2.4bn. Partial loosening of pandemic lockdowns in 2Q21 slowed down the growth of deposit market, nonetheless the growth of retail deposits in the Bank amounted to almost PLN840mn. At the end of 1H21 retail deposits amounted to PLN68.9bn i.e. PLN3.3bn more than at the end of 2020 (+5.0%).

During 1H21, the Bank continued acquisition of new volumes mainly on the basis of Saving Account Profit (KO Profit) account with attractive interest rate accruing on new funds, however much higher volume growth was recorded on current accounts.

Investment products

The 1H21 was also time of stabilisation and growth on global capital markets.

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

In order to make its offer more attractive, the Bank launched regular promotional campaigns of mutual funds focusing on handling fee for purchase of funds especially in remote channels, which steadily gain importance. Throughout the whole 1H21 we offered reduced handling fees on Millennium TFI funds. Moreover, fees for orders filled through Millenet were eliminated to 0%. Additionally, in order to promote regular investments, in April 2021 the Bank launched trail promotion for clients who invested in Millennium Investment Programme and opted for regular purchases of fund units. Upon the promotion, clients will get an additional reward.

Prestige and Private Banking segments - offer for affluent clients

Prestige is an offer designed for affluent persons having assets from PLN100 thousand to PLN1 million or making monthly payments to the account in the minimum amount of PLN10,000. Private Banking addresses the needs of the most affluent individual customers having assets at above PLN1 million, expecting high quality service and offers of financial products prepared to meet their individual needs. The Bank offers to these customers a broad range of investment and insurance products - domestic and foreign investment funds, investment programmes and structured products. Private Banking customers can use credit cards Millennium MasterCard® World Signia/Elite™ with Priority Pass card and rich insurance packages, Assistance and Concierge.

At the end of 2020, Bank Millennium launched a new remote service channel for Affluent Customers. Customers with the support of a dedicated expert receive comprehensive service comparable to a visit to branch.

Cash loans

The first half of 2021 was characterised by good sales results achieved by the Bank. Compared to the first half of 2020, sales increased by 14%, which resulted in the sale of cash loans of PLN2.7 billion by the end of June 2021.

At the beginning of the second quarter, an increased demand for cash loans was observed, which allowed for an increase in sales in the second quarter of 2021 by 13% compared to the first quarter. The bank continued to support sales in digital, in particular in mobile banking, thanks to which 64% of sales (number of agreements) was made in electronic channels (an increase from 48% in 2020). This increase was achieved mainly in the mobile channel in which sales increased by 117% year-on-year

In the first half of 2021, the acquisition of a cash loan was supported, among others, by:

- 'PLN100 installment for every PLN5,000 loan' offer for loans in the amount of PLN 5,000, PLN10,000 or PLN15,000 granted for a period of 60 months with an installment known in advance of PLN100, PLN200 or PLN300, respectively,
- continuation of the offer for employees of the financial sector.

Customers interested in a favorable transfer of their liabilities repaid in other banks to Bank Millennium could take advantage of the consolidation loan in special offers with repayment insurance and 0% commission on the amount of consolidated funds.

As at June 30, 2021, the value of the cash loan portfolio was PLN13.4 billion.

Overdrafts

The first half of 2021 was a period of stable sales activities. During this period, the Bank noticed a gradual increase in the interest of customers in the overdraft products, thanks to which sales were higher by 7% compared to the previous year.

The Bank's offer was supported by promotions:

- "Limit in the account without granting commission" - an offer addressed to new customers of the Bank, enabling the use of the product in the first year without additional costs - the commission for activating the limit is PLN 0. These conditions are among the most attractive on the market.
- 7-day interest-free period, which allows you to use the limit without incurring interest costs in each settlement month.

Payment cards

Intensive marketing efforts supported continuous increase of the payment card portfolio in 1H21. Despite restrictions connected with the COVID-19 pandemic impact upon debit card sales (with personal accounts) and credit cards, the Bank maintained the increasing trend of the payment card portfolio ending 1H21 with the result at 3.6 million cards (+1.2% relative to end of 2020).

Flagship products included, continuously, debit card issued to Konto 360° account and credit card Impresja, providing their holders with 5% cash back for payments made at card Partners as well as regular promotional offers. Increases y/y were, consecutively: +3.3% in the area of debit cards and +2.9% in credit cards.

Mortgage banking

In the first half of 2021, Bank Millennium achieved high level of sales of mortgage credits. During these six months, the Bank concluded over 17 thousand new contracts with a total value of almost PLN5.2 billion (increase y/y by almost 58%). The result placed the Bank on the 3rd position on the market with a market share of nearly 14%.

In the first half of 2021, the Bank implemented a number of new elements in the credit granting process, the most important of which were: the customer's ability to approve the application for information about the credit via SMS, introduction of a mortgage loan with a periodically fixed interest rate, as well as numerous improvements in after-sales service for borrowers.

The Bank also implemented necessary changes to comply with Recommendation S, which entered into force on July 1, 2021.

In addition to the above-mentioned changes in the offer, the bank's lending operation, similarly to the previous years, was based on the unconditional 0% commission for granting the credit and 0% commission for early repayment. Such a structure of the offer was still very popular, in particular among those customers who have a limited own contribution and who want to reduce the upfront loan costs to a minimum.

The activities of the Bank allowed the Bank to take the leading position in many comparisons and rankings of mortgage credits, including:

- the recognition of 'Złoty Bankier 2021' in the ranking organized by Bankier.pl and "Puls Biznesu", in which the Bank took 1st place in the "mortgage loan" category,
- prestigious distinction for the 'Best Mortgage Service' in this year's Institution of the Year ranking, organized by Moje Bankowanie.

The Bank continued its proactive efforts to offer special credit conditions to customers who have loans in CHF, which actions relate to currency conversion, partial and full loan repayment based on an individually negotiated rate with the customer.

Insurance products (*bancassurance*)

In the first half of 2021, Bank continued to offer life and property insurance to its clients. Offer was available to the customers both in bank branches and in remote channels.

Particularly important meaning had distribution of insurances related to credit products, such as cash loan repayment insurance and life and property insurance offer dedicated to the Bank's mortgage loan borrowers. Assistance insurance dedicated to Konto 360 holders complemented the comprehensive offer.

In the first half of 2021, the Bank's customers also had the opportunity to take advantage of special offers within insurance, including the "When you insure more, you gain twice" promotion addressed to persons concluding a motor vehicle liability insurance contract.

Business client segment - offer business clients

Business is an offer addressed to sole traders and civil law and commercial law companies generating annual revenues at up to PLN5 million.

In 1H21 the Bank recorded increasing share of online channel in acquisition of new business client accounts (10 percentage points boost in comparison to similar period of the previous year). Growth in the total number of clients was achieved in effect of:

- using of an opportunity of opening business accounts in the internet banking system Milenet made available to current retail clients of the Bank,
- taking advantage of remote business accounts opening for new clients with possibility to confirm identity by logging into account at another bank due to service of access to information about account (AIS),

- introduction of promotional product offers for companies,
- increasing the level of cross-sell by business accounts in the Bank branches, concentrating on acquiring newly registered companies.

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

3.4. GOODIE SMART-SHOPPING APP

The first 6 months of 2021, was another half- year that brought historical interests of the cashback functionality in the goodie application.

The number of transactions, their values and the amount of the cashback have reached the highest values. Within six months, goodie users made over 2.1 million (+ 122% y/y) transactions for over PLN268 million (+ 170% y/y). At the same time, nearly PLN6 million (+ 95% y/y) returned to the buyers accounts as a cashback from goodie.

In June 2021, the goodie application was integrated with Huawei Mobile Services. It means that the application is available in the AppGallery for the newest Huawei HMS based smartphones as well as an older GMS models.

www.goodie.pl website has been significantly improved around the cashback area. This improvement made the interface more friendly and more transparent for goodie website cashback users.

In the first half of 2021, the incomes from the advertising sales increased. This further growth was caused by the significant changes in this area, especially at expanding the portfolio of advertising placements.

Also, in the first half of 2021, goodie recorded a significant e-gift card sell increase (+ 159% y/y) and constant application downloads increase. Up to now, the application has been downloaded by nearly 2.5 million people.

3.5. CORPORATE BANKING

Corporate Banking is a business line by which the Bank offers professional and comprehensive services to companies generating annual sales revenues above PLN5mn, as well as public sector institutions and agencies.

The value proposition is modified on an on-going basis and adjusted to the requirements of clients, market environment and changes in the law. The Bank's objective is to provide easy, convenient, and secure access and use of services. The Bank has been focussing on providing comprehensive solutions based on advanced technologies and digitisation of business processes. We have been developing digital channels and electronic workflow paths. In order to support the financial situation of entrepreneurs following COVID-19, the Bank has been broadly involved in providing assistance mechanisms offered both in cooperation with BGK and PFR Financial Shield as an instrument of the Anti-Crisis Shield for companies.

Access to financing with BGK guarantee support

The facilities offered to companies in the wake of COVID-19 have been extended until the end of 2021. Bank Millennium together with Bank Gospodarstwa Krajowego implements 4 guarantee programmes:

- de minimis guarantees programme dedicated to entrepreneurs from the SME segment,

- Fundusz Gwarancji Płynnościowych guarantee fund addressed to micro, small, medium-sized companies,
- Biznesmax guarantee programme available to micro, small and medium-sized companies under two types of state assistance: regional or de minimis assistance,
- Program Gwarancji Płynnościowych for reverse factoring.

In the case of the de minimis guarantee programme, the absence of a commission for the first year of use of the guarantee and the 80% protection level were maintained, as well as the extended guarantee period of up to 75 months for a working capital loan and up to 120 months for an investment loan, and the increased amount of the de minimis guarantee from PLN3.5mn to the equivalent of EUR1.5mn was maintained.

As an element of the governmental anti-crisis shield, Fundusz Gwarancji Płynnościowych guarantee programme has been implemented in order to improve financial liquidity of Polish companies. As part of the liquidity guarantees for loans, the guarantees may secure up to 80% of principal. Maximum amount of the loan covered by the guarantee is PLN250mn while the maximum amount of guarantee is PLN200mn. Liquidity guarantee may cover loans granted in PLN or foreign currency allocated to current financing of business activity or financing capital expenditure - thus contributing to improvement in financial liquidity. In case of reverse factoring, guarantees are available for medium-sized and big companies, and micro and small companies, provided they are corporate clients. The guarantees secure payment of client liabilities under reverse factoring agreement up to 80% of the amount of the granted factoring limit. Maximum period of utilisation and repayment of the limit is 24 months and maximum guarantee maturity is 27 months. Guarantee amount cannot exceed PLN200mn.

Biznesmax guarantees are free of charge and support liquidity and investment needs of companies, and also allow to obtain loan interest subsidies. The guarantee may cover revolving loans (including overdrafts) and non-revolving, non-investment loans granted until 31 December 2021 to ensure financial liquidity. In addition to innovators, the COVID-19 pandemic liquidity credit guarantee can also be used by eco-efficient companies that have implemented green solutions at home.

Factoring

Since 2Q21, the Bank has enabled companies that have trade receivables insurance contracts governed by German law to sign factoring agreements with client's policy. Until now, the insurance policy had to be governed by Polish law. This solution is primarily dedicated to entrepreneurs who operate within groups with German companies. Before signing factoring transaction with such a policy, it is required to obtain an opinion of a law firm specialised in German law.

Transactional and electronic banking

In 1Q21, a new type of company account (current account) was implemented - the so-called FNDR account. From 1 January 2021 CIT taxpayers (joints stock companies, limited liability companies, limited joint-stock partnerships, limited partnerships) may benefit from a tax preference consisting among others in write-offs to a "fund established for investment purposes". Thanks to the FNDR account, clients can benefit from tax relief and claim "upfront" write-offs as tax deductible expenses.

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

Using the synergy with Millennium Goodie Sp. z o.o., in Q2 the payment card offer was extended by state-of-the-art and innovative solutions - goodie eKarty podarunkowe gift cards. eKarta podarunkowa is a kind of financial bonus in the form of a secure virtual payment card available in the goodie app that may be used for payments in traditional and online stores. When activating the eCard, the recipient will see an animation on their mobile with dedicated greetings, logo or other message and graphical components matching the occasion.

In 1Q21, Bank Millennium made the application available as part of the Financial Shield 2.0, both in Millenet for Companies and in internet banking for individuals, the latter platform also used by sole traders. Applications will be filed and the PFR decision on granting support will be communicated on the Bank's internet platform.

In 2Q21, the Bank implemented in e-banking a process that enables entrepreneurs to settle the subventions received under PFR Shield 1.0. Clients who used the subsidy have been provided in e-banking with preliminary PFR's calculations of the amount that is forgiven and the amount required to be repaid. Also, by e-banking, clients were able to confirm the settlement calculated by the PFR or request a different amount. Final PFR decisions are presented in e-banking together with repayment schedule. The Bank implemented for its clients a convenient process of automatic repayment according to the schedule. Millenet e-banking system enables also earlier repayment of subventions, in full or in the part which has not been forgiven.

Since May 2021, clients may also use a new functionality designed for exchange of agreements signed electronically. The document exchange module in Millenet for companies enables two-way sending of documents by the bank as well as by the customer, with the possibility for each party to add their comments. The customer as well as the bank may endorse or reject the documents sent, until both parties have negotiated wording to the satisfaction of each of them. The module enables attaching documents containing a qualified signature and each document version sent to the customer bears the bank's electronic seal. After the bank has sent the documents, the customer gets a text with information on the documents provided. They have been divided in the new document exchange module into three categories - documents, which must be signed by both parties (agreements); documents, which must be signed by the customer only (declarations, approvals) and documents, which do not require a signature (regulations). Depending on the type of document in circulation, the module adjusts to it the required and possible actions to be made, both on part of the bank and the customer, by virtue of which the solution is friendly and intuitive for its users. The documents also remain always in the same place on the website, thus they are available to everyone in the company who is authorised to operate the documents exchange module. It also gives an insight into the entire history of correspondence and files sent. Utilisation of e-banking significantly improves comfort and security of exchange of information with the bank. Documents sent in this form do not require additional encryption to maintain the confidentiality of the information, and they also allow effective management of access to documents by individual persons within the company.

E-banking system has also been adapted to meet the specific requirements of transfer orders to Canada and the United Arab Emirates.

The functionality of the MillenetLink service, which is a channel for direct data exchange between customers' ERP systems and electronic banking, was also expanded. Apart from the most frequently used SEPA transfers in EUR, the service now supports other types of foreign transfers available at the Bank.

Treasury Products

The Bank enabled clients to conclude FX transactions in e-banking (in desktop version and mobile app) 24 hours a day 5 days a week. Services are available from Monday 0:00 a.m. till Friday 11:00 p.m. on Millennium Forex Trader, e-platform for FX trading, embedded in the Millenet for Companies online system.

The application enables monitoring current levels of FX rates, simultaneously, for 16 currency pairs and supports conclusion of FX transactions on all the currency pairs available in the Bank Millennium FX rates table, including the Chinese yuan. It provides easy and quick access to transaction history with functionality of data export to spreadsheet.

The Platform has now an even more transparent and intuitive interface. Its new interface was based on HTML5 technology, which supports all platform functions directly via the web browser, without the need to install third-party software.

Millennium Leasing

In 1H21, Millennium Leasing business activities focused on activation of current clients and acquisition of new clients. The objective of the campaigns was to increase the efficiency of the sales actions oriented on current clients and to provide service of highest quality.

Processing of lease payment reduction requests

In 1Q21, the Company focussed on maintaining continuity of client service as well as on processing requests for deferral of the principal part of lease payments. In the face of development of COVID-19 pandemic (in particular the effects of its second wave), the Polish Bank Association - on the grounds of the guidelines of the European Banking Supervision Authority, worked out new criteria for use of assistance instruments concerning both credit and lease products. According to these criteria, from 18 January to 31 March 2021, the non-statutory moratorium was renewed.

Millennium Leasing executed cyclical promotional campaigns related to selected products of the Company:

- 'Program Stałych Klientów' ('Regular Client Programme') - launched at the end of December 2016, executed and continued in Q1 2021. The Programme is addressed to regular Millennium Leasing customers with expiring leasing contracts - clients are granted lease limit and optional preferential acceptance conditions for new lease transactions.
- 'Korzystaj Bezpiecznie' ('Use safely') - insurance sales action, targeting customers with active leasing contracts approaching policy expiry. The campaign included the additional sale of motor insurance and GAP.
- 'Korzystaj dalej' ('Go on using') - action to renew leasing contracts with upcoming expiry dates. The programme was designed first of all to protect Millennium Leasing portfolio by offering customers the financing extension option.

Promotion of remote conclusion option for leasing contracts with use of qualified electronic signature

In 1H2021, the Company continued the promotion of the programme of remote conclusion of leasing contracts with the use of a qualified e-signature. The restrictions in place have increased customer interest in using e-signature as a means of executing transactions due to the security and convenience of its use. In response to the growing needs of lessees, activities were carried out to raise awareness among current and potential customers of the possibility of signing contracts with a qualified signature (primarily competitions for customers and leasing advisors as well as informational campaigns). Out of 528 clients to whom the Company made such an option available in the first half of 2021, 201 of them (i.e. 38%) used this form of concluding a contract, which is almost 10 percent of all contracts signed in the first half of the year.

Leasing of photovoltaic installations

In 1H21, the company was particularly active in developing MilleSun - programme dedicated to financing investments in photovoltaics. Leasing of solar panels is a solution intended for entrepreneurs oriented to changing the social awareness of environmental protection and keen on building their ecological image. In the area of leasing photovoltaic panels Millennium Leasing cooperated with the market's reliable providers of such installations by safely offering financing on preferential terms, i.a. with the Columbus Group. As part of the cooperation with this supplier, Millennium Leasing launched a promotional action to finance PV installations - 6 RAT PO 0.4% (6 payments 0.4% each).

Leasing Bezpieczna Spłata (Secure Repayment)

In 1Q21, Millennium Leasing started promotion of Leasing Bezpieczna Spłata (Secure Repayment) programme. It is a solution whereby client may get fixed interest rate funding. The programme guarantees fixed leasing payments throughout the entire duration of the contract, which allows to forecast future expenditure and better plan investments. Under the programme, the lessee can conclude a contract with an upfront fee as low as 0% on any asset, including machinery and equipment, means of transport, cars and commercial vehicles, real estate and photovoltaic installations

Support from Millennium Leasing for SMEs thanks to BGK guarantees

On 24 May 2021, Millennium Leasing (as the second leasing company in Poland) signed an agreement with Bank Gospodarstwa Krajowego (BGK) on offering the option to have BGK guarantees cover leasing contracts signed with SMEs. Thanks to the signed agreement, part of the entrepreneurs will be able to benefit from financing under more favourable terms i.a. as regards margin, amount of financing, duration of the contract or required collaterals. BGK guarantee may cover up to 80 per cent of the financed principal of lease transaction, with maximum financing tenor of 10 years. Granting lease financing will mean using the support of a guarantee instrument - Pan-European Guarantee Fund implemented by the European Guarantee Fund with financial support from Member States, which are contributing to the Pan-European Guarantee Fund. The fund aims to protect the EU economy from effects of the SARS-CoV-2 pandemic. The guarantee may constitute security of lease transactions granted by those lessors, which are provided with a guarantee limit under the agreement signed with BGK. The Company is planning to provide customers with the opportunity to conclude leasing contracts using the guarantees at the end of July 2021.

Mille Flota Programme - maintenance services for vehicles up to 3.5 tonnes

In 2Q21, a new programme - MilleFlota (Millefleet) was introduced into the offer. It is a solution where Millennium Leasing customers receive access to purchases of parts and maintenance services at attractive - consistent throughout Poland - prices with fleet discount, also in authorised service stations. In the programme, the clients can use car service provided on a cashless basis by MOTO Flota all over Poland. Additionally, users get access to the convenient MOTO Flota Manager system. It allows a car's service history to be viewed online and permits ordering services and reporting

service costs. A unique part of the programme is the call centre providing advisory services for management of even a small fleet of vehicles and technical advisory allowing verification of the scope of services and delivery times offered by experienced consultants.

The Company focussed also on continuing its digitisation process related to jump increase in the client interest in electronic settlement services. In this connection, Millennium Leasing promoted among its customers the e-customer service office (eBOK) Millennium Leasing service in Millenet, thus offering its clients remote access to settlements, i.a. e-invoice, repayment tables and schedules.

Webinar educational activities

Webinars addressed to companies

In the first half of the year, the Bank continued its informational and educational activities in the form of webinars.

In a joint effort with its partners, the Bank allowed its clients participation in a number of free-of-charge webinars. The webinars were focussed on the financial assistance programmes for Polish companies that had to limit or suspend its activity following the epidemic situation in the wake of second wave of COVID-19 - Financial Shield PFR 2.0.

In the long-term partnership with CFO ICAN Institute Club, webinars were offered with invited experts and professionals from the leading companies representing various sectors of economy. Topics covered during the online meetings included the most current challenges facing CFOs and those responsible for finance in the company: remote financial and team management, effective communication in a distributed team, hybrid working standards and principles, remote working tools and data management.

Webinars enjoyed major interest among the Bank's clients.

Webinars targeting Bank employees providing customer service for Corporate Banking

Over the period January - June 2021, employees in the corporate banking area participated in numerous training courses to improve their customer support skills. The two most important development projects were training in the field of investment project financing and 'Storytelling 2.0' supporting the competencies in communication and client relationship building. Thanks to the trainings presenting the assumptions and process of applying for support under Shield 2.0 and trainings in filing for forgiving subventions under Shield 1.0, the Advisors were prepared to broadly and actively support the companies applying for assistance programmes. Important trainings were also those dedicated to technical, financial and legal aspects of RES, or renewable energy sources, financing, presenting the National Reconstruction Plan and EU Funds for 2021-2027, or discussing the guarantee programmes executed in cooperation with BGK. The offer of development initiatives was supplemented with trainings dedicated to product solutions such as Millennium TFI funds, PayTel terminals, goodie gift cards or to new functionalities of Millenet for Companies transaction system - such as e-document exchange module or leasing e-customer service office (eBOK). Moreover, the cyclical meetings on the current macroeconomic and market situation with the Chief Economist of the Bank were continued.

4. RISK MANAGEMENT

4.1. RISK MANAGEMENT OVERVIEW

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

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

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

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

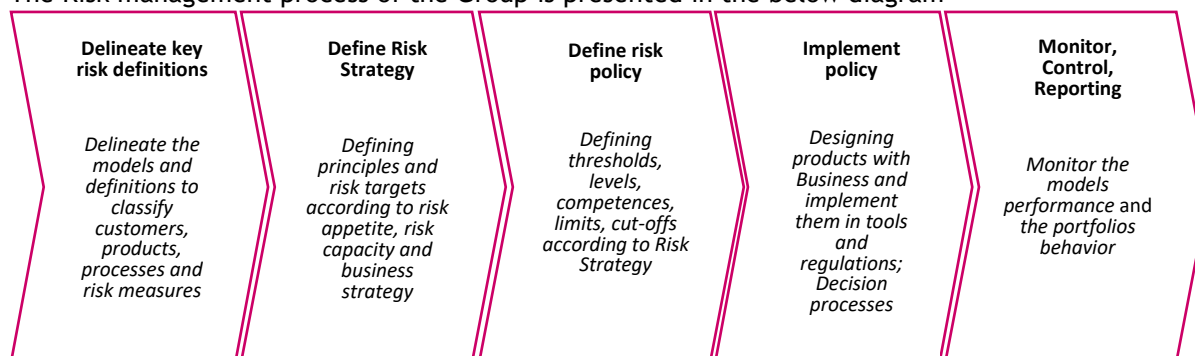
When defining the business and profitability targets, the Group takes into account the specified risk framework (risk appetite) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

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

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

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

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



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

- The Supervisory Board is responsible for overseeing the compliance of the Group's risk-taking policy with the Group's strategy and its financial plan. Within the Supervisory Board acts the Committee for Risk Matters, which supports it in realization of those tasks, among others, issuing opinion on the Group's Risk Strategy, including the Group's Risk Appetite;
- The Management Board is responsible for the effectiveness of the risk management system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board;
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;
- The Risk Department is responsible for risk management, including identifying, measuring, analysing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Capital, Assets and Liabilities Committee, Risk Committee and the Management Board to make decisions with respect to risk management;
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department, Mortgage Credit Underwriting Department and Consumer Finance Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analysing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Monitoring and Collection Department and Retail Liabilities Restructuring and Recovery Department have responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models analysis and validation, independent from the function of models development;

development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs;

- Fraud Risk Management Sub-unit in the Security Department has responsibility for implementation and monitoring the Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence centre for anti-fraud process;
- The Compliance Department has the responsibility to ensure compliance with legal regulations, related regulatory standards, market principles and standards as well as internal organization regulations and codes of conduct.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2021-2023". The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

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

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

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

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

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

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

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

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

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

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

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

4.2. CAPITAL MANAGEMENT

Capital management and planning

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

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

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

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

Regulatory capital adequacy

The Group is obliged by law to meet minimum own funds requirements and leverage ratio, 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. At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for particular banks by KNF every year as a result of Supervisory review and Evaluation process (SREP) and relates to risk that is in KNF's opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in November and December 2020 in the level of 3.41pp (Bank) and 3.35pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.56pp in Bank and of 2.52pp in

Group, and which corresponds to capital requirements over CET 1 ratio of 1.91pp in Bank and 1.88pp in Group*;

- Combined buffer - defined in Act on macro prudential supervision over the financial system and crisis management - that consists of:
 - Capital conservation buffer at the level of 2.5%;
 - Other systemically important institution buffer (OSII) - at the level of 0.25%, and the value is set by KNF every year**;
 - Systemic risk buffer at the level of 0% in force from March 2020;
 - Countercyclical buffer at the 0% level.

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

() That recommendation replaces the previous one from 2019, to maintain own funds for the coverage of additional capital requirements at the level of 4.96pp (Bank) and 4.81pp (Group) as for TCR, which should have consisted of at least 3.72pp (Bank) and 3.65pp (Group) as for Tier 1 capital and which should have consisted of at least 2.78pp (Bank) and 2.73pp (Group) as for CET1 capital*

*(**) In November 2020 KNF decided that the Bank was identified as other systemically important institution and it imposed OSII buffer*

The table below presents these levels as at the 30 June 2021. The Bank will inform on each change of required capital levels in accordance with regulations.

Minimum levels of capital ratios		30.06.2021	
CET1 ratio		Bank	Group
Minimum		4.50%	4.50%
Pillar II RRE FX		1.91%	1.88%
TSCR CET1 (Total SREP Capital Requirements)		6.41%	6.38%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.25%	0.25%
Systemic risk buffer		0.00%	0.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		2.75%	2.75%
OCR CET1 (Overall Capital Requirements CET1)		9.16%	9.13%
T1 ratio		Bank	Group
Minimum		6.00%	6.00%
Pillar II RRE FX		2.56%	2.52%
TSCR T1 (Total SREP Capital Requirements)		8.56%	8.52%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.25%	0.25%
Systemic risk buffer		0.00%	0.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		2.75%	2.75%
OCR T1 (Overall Capital Requirements T1)		11.31%	11.27%
TCR ratio		Bank	Group
Minimum		8.00%	8.00%
Pillar II RRE FX		3.41%	3.35%
TSCR TCR (Total SREP Capital Requirements)		11.41%	11.35%
Capital Conservation Buffer		2.50%	2.50%
OSII Buffer		0.25%	0.25%
Systemic risk buffer		0.00%	0.00%
Countercyclical capital buffer		0.00%	0.00%
Combined buffer		2.75%	2.75%
OCR TCR (Overall Capital Requirements TCR)		14.16%	14.10%

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

Own funds capital requirements

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

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

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

Internal capital

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

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

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

At the end of June 2021 both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

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

Capital adequacy evaluation

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

Capital adequacy measures (PLN million)	30.06.2021 Group	31.12.2020 Group	30.06.2021 Bank	31.12.2020 Bank
Risk-weighted assets	50 677.5	51 138.0	50 174.4	50 757.4
Own Funds requirements, including:	4 054.1	4 091.0	4 013.9	4 060.6
▪ Credit risk and counterparty credit risk	3 584.5	3 677.0	3 585.7	3 688.3
▪ Market risk	24.6	26.7	24.6	26.6
▪ Operational risk	433.0	382.6	391.4	340.7
▪ Credit Valuation Adjustment CVA	12.0	4.8	12.2	4.9
Own Funds, including:	9 451.1	9 969.0	9 317.3	9 726.6
▪ Common Equity Tier 1 Capital	7 921.1	8 439.0	7 787.3	8 196.6
▪ Tier 2 Capital	1 530.0	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	18.65%	19.49%	18.57%	19.16%
Minimum required level	14.10%	14.10%	14.16%	14.16%
Surplus(+) / Deficit(-) of TCR ratio (pp)	+4.55	+5.39	+4.41	+5.00
Tier 1 Capital ratio (T1)	15.63%	16.50%	15.52%	16.15%
Minimum required level	11.27%	11.27%	11.31%	11.31%
Surplus(+) / Deficit(-) of T1 ratio (pp)	+4.36	+5.23	+4.21	+4.84
Common Equity Tier 1 Capital ratio (CET1)	15.63%	16.50%	15.52%	16.15%
Minimum required level	9.13%	9.13%	9.16%	9.16%
Surplus(+) / Deficit(-) of CET1 ratio (pp)	+6.50	+7.37	+6.36	+6.99
Leverage ratio	7.37%	8.30%	7.26%	8.06%

As at June 2021 end, capital adequacy in Bank Millennium Group remained on very high and safe level. Total Capital Ratio amounted to 18.65% level for the Group (18.57% for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 15.63% for the Group (15.52% for the Bank). Therefore, minimum capital levels required by KNF for Bank and Group were achieved with a solid surplus.

TCR of the Group decreased during first half of 2021 by 84bp (by 59bp for the Bank). This was due to a visible drop of own funds, mitigated slightly by a reduction of risk-weighted assets. In first 6 months of 2021, own funds fell by 5.2% (by ca PLN518mn), mainly in effect of negative net earnings for the first half of 2021. Risk-weighted assets have been decreasing a little bit, it is by 0.9% (by ca PLN460mn).

Bank Millennium has a dividend policy of distributing from 35% to 50% of net profit, subject to regulatory recommendations. In June 2021 KNF sent the dividend policy recommendation for commercial banks in the second half of 2021. The stress tests add-on was measured as the Bank's sensitivity to an adverse macroeconomic scenario and was set at 0.08% on the top of TCR, including regulatory adjustments. KNF kept also additional criteria for banks with FX mortgage portfolio (K1 based on FX mortgage share in total portfolio and K2 based on share of 2007-2008 vintages in total FX mortgage portfolio). At the Bank's AGM on March 24, 2021, shareholders approved a motion to retain 100% of the 2020 net profit.

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

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

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 third quarter of 2021.

In order to fulfil and maintain required MREL limits, the Group may issue MREL eligible instruments that could cause increase of financing costs for the Group.

4.3. CREDIT RISK

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

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

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

In the 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.

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.

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.

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

Loan portfolio quality

Share of impaired loans, including stage 3 portfolio and POCI Assets (Purchased or Originated Credit Impaired) in default, in total loan portfolio was at the end of June 2021 on the level of 4.71%. This means decrease from level 4.95% at the end of 2020. Partly this decrease is due to the sale in 1H2021 ab. PLN110mn of the defaulted loan portfolio and write-offs in this period ab. PLN149mn, which resulted in a decrease of this indicator by as much as 0.31pp. Group still enjoys one of the best asset quality among Polish banks. Share of loans past-due more than 90 days in total portfolio has decreased during last half year from 2.74% in December 2020 to 2.52% in June 2021.

Coverage ratio of impaired loans, now defined as relation of all risk provisions for stage 3 loans and POCI in default, had increased during the half year from 65.7% in December 2020 to 66.5% now, despite the aforementioned sales (highly covered by provisions) and written-off (100% covered) in this period. This change means a partial approximation of the level of this indicator to the value before the purchase of the Euro Bank portfolio, when the indicator significantly decreased. Pursuant to the provisions of the IFRS 3 standard, at the time of acquisition, the Euro Bank portfolio was valued and disclosed in the books of Bank Millennium at fair value. In the case of an impaired portfolio, which at the time of the acquisition was shown in the books of Bank Millennium as POCI, the fair value was close to the net value of this portfolio in the books of Euro Bank, and the value of balance sheet provisions for this portfolio at the time of acquisition was 0 (zero), which had a direct negative impact on provision coverage ratio. Coverage by total provisions of loans past-due more than 90 days also increased from 119% half year ago to 124% now.

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

Group loans quality indicators	30.06.2021	31.12.2020
Total impaired loans (PLN million)	3,683	3,792
Total provisions (PLN million)	2,449	2,489
Impaired over total loans ratio (%)	4.71%	4.95%
Loans past-due over 90 days /total loans (%)	2.52%	2.74%
Total provisions/impaired loans (%)	66.5%	65.7%
Total provisions/loans past-due (>90d) (%)	124.3%	118.8%

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

Impaired loan ratios by segment show a stable level in the retail portfolio, i.e. decrease by only 1bp from 4.90% to 4.89% (including for mortgage loans from 2.48% to 2.34%), while this ratio for the corporate portfolio decreased during the half year from 5.11% to 4.10%. The decline occurred in all product groups (in the leasing portfolio, in factoring and in other enterprises portfolio). Last half year, the value of foreign currency mortgage loans decreased by ab. PLN2,550mn to value PLN11,809mn (in PLN terms), i.e. by 17.8% as a result of amortization of this portfolio and decrease in the exchange rate CHF/PLN. In this portfolio ab. PLN0.93bn of FX mortgage loans are connected with acquisition of Euro Bank. However, it should be noted that ex-Euro Bank mortgage portfolio enjoys a guarantee and indemnity from Société Générale. Excluding this Euro Bank portfolio, the share of FX mortgage in the total loan portfolio decreased in this period from 17.5% to 13.9%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN and also the acquired PLN portfolio of Euro Bank.

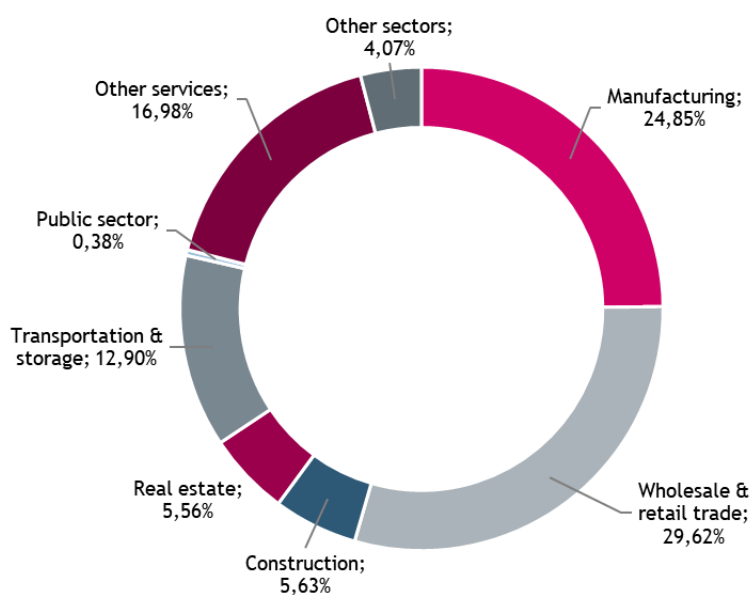
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
<i>Mortgage</i>	0.95%	1.00%	2.34%	2.48%
<i>Other retail*</i>	7.21%	7.30%	11.01%	10.70%
Total retail* clients	2.79%	2.86%	4.89%	4.90%
<i>Leasing</i>	1.56%	2.16%	3.68%	4.47%
<i>Other loans to companies</i>	1.68%	2.44%	4.34%	5.46%
Total companies	1.64%	2.34%	4.10%	5.11%
Total loan portfolio	2.52%	2.74%	4,71%	4,95%

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

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in sectors of the economy. Participation the 10 largest exposures remain at a safe, low level of 4.7% (drop in 1H2021 from 5.0%).

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



4.4. OTHER RISKS

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

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

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

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

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

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

The VaR indicators in the period under consideration for the Group, that is jointly Trading Book and Banking Book, increased due to market volatility caused by the COVID-19 pandemic but still were below maximum limits in place. In 1H2021, the VaR remained on average at the level of approx. PLN86.5mn for the Group (35% of the limit) and at approx. PLN1.9mn for Trading Book (6% of the limit). Similarly, as of the end of June 2021 the market risk exposure was approx. PLN141.2mn for Global Bank (57% of the limit) and approx. PLN1.9mn for Trading Book (6% of the limit).

FX 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.

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

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

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

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

The results of COVID-19 pandemic and its 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 30th June 2021 and for position in Polish Zloty in Banking Book in a scenario of further decrease of interest rates by 100bp, is negative and equal to -16.4% of the last quarter net interest income annualized (+10.5% for a 100bp 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 100bp 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 has continued to hedge the risk by the interest rate swaps.

When it comes to impact of interest rate changes to economic value in the long term, the supervisory stress tests results as of 30th June 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

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

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

In 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.

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 continues 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 1H2021 this portfolio increased to the level of approx. PLN21.6bn at the end of June 2021 (21% of total assets) from PLN18.4bn 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 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 PLN90.0bn (PLN81.5bn at the end of December 2020). The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits amounted 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, prevents of any liquidity problems under COVID-19 crisis implications, and supported the safe compliance of the supervisory measures.

The main source of financing remains deposits base, the large, diversified and stable funding from retail, corporate and public sectors. The deposit base is supplemented by the deposits from financial institutions and other money market operations. The source of medium-term funding remains also 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 each of the quarter, 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 all the liquidity gaps were maintained at the levels significantly above the minimum limits.

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

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

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

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

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

Operational risk

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

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

Non-Compliance risk

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

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

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

- 1) ensuring functioning of the monitoring compliance with external regulations,
- 2) analysing new products and services,
- 3) measuring compliance risk in processes operating at the Bank,
- 4) issuing opinions,
- 5) participating in key implementation projects, and
- 6) staff training.

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

The Bank Millennium Group undertakes also appropriate actions to ensure conduct concerning personal transactions, which is compliant with standards and laws. These actions and measures are

meant to, according to the circumstances, to restrict or prevent performance of personal transactions by Relevant Persons in situations, which may cause a conflict of interest or be involved with access to confidential information or to data about Customers' transactions.

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

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

Actions launched under this programme include in particular:

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

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

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

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

5. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

5.1. ANNUAL GENERAL MEETING DECISIONS

On 24 March, 2021 the Ordinary General Shareholders' Meeting ('GM') of Bank Millennium took place. 109 shareholders took part in the meeting, representing 77.12% the Bank's shareholders equity, including BCP (50.10%), NN OFE (8.24%), PZU „Złota Jesień” OFE (6.59 %) and Aviva OFE (6.00%).

Among others (full details: <https://www.bankmillennium.pl/en/about-the-bank/investor-relations/current-reports/-/r/29643731>), the GM approved 2020 financial statements and non-financial report, report on activity of the Supervisory Board, performance of assessment of remuneration policy in BM, Supervisory Board's report on remuneration of the members of the Management and Supervisory Boards. The Resolutions in the matter of approving the policy of selection and assessment of the suitability of BM Supervisory Board members, the remuneration policy for members of the Management Board and the Supervisory Board of the Bank, changes to By-laws of the General Meeting of Shareholders as well as changes to the Bank's Articles of Association were also adopted. Moreover the GM approved a 100% retention of 2020 net profit, discharged members of the Management and Supervisory Boards from performance of their duties in 2020.

GM appointed the members of Supervisory Board for a new three-year term of office. Apart from the majority of members of the Supervisory Board of the previous term of office, two new independent members were elected: Mrs. Olga Grygier-Siddons and Mrs. Beata Stelmach.

On the same day, the Supervisory Board appointed Messrs. Bogusław Kott as its Chairman, Nuno Manuel da Silva Amado as its Deputy Chairman and Dariusz Rosati as its Deputy Chairman and a Secretary. The Supervisory Board also reappointed the Management Board of the Bank for the new three-year term of office.

5.2. ACTIVITIES IN THE ESG AREA: ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

For Bank Millennium, running a responsible business means surveying stakeholders' needs and taking them into account in the planning and implementation of the company's strategy. Corporate social responsibility topics are an integral part of our approach to running the banking business. ESG (Environmental, Social and Governance) issues were part of the Bank Millennium Group's strategy for 2018-2020 and will be included in the new strategy for 2022-2024. In connection with the pandemic, we consider 2021 as a transition year before the new strategy comes into effect, however the topics of sustainable development and corporate social responsibility continue to be part of the Group's business strategy. Activities in the ESG area executed and planned for 2021 are described in the presentation available at:

https://www.bankmillennium.pl/documents/10184/84831/Bank_Millennium_Group_ESG_2021.pdf

The direction and measures of ESG activities are regularly reviewed, measured and reported in annual non-financial reports of the Bank Millennium Group. The Bank Millennium Group's ESG report containing a description of the initiatives pursued in 2020 was published on 22 February 2021 as the 15th annual non-financial report issued by the Group: <https://raportroczny.bankmillennium.pl/2020/en/?mv=1>. Bank Millennium is preparing to comply with new reporting requirements resulting from the dynamic development of regulations associated with the drive to achieve the climate objectives established in the Paris Agreement. In 2021, we will also update our materiality matrix.

Bank Millennium is a signatory of two important international initiatives:

- Partnership between business and government administration for achieving UN's Sustainable Development Goals (SDGs). The Bank takes cues from all 17 goals, but gives the highest priority to: Good Health and Well-Being; Quality Education; Gender Equality; Decent Work and Economic Growth; Industry, Innovation and Infrastructure; Climate Action; Partnership for the Goals.
- Diversity Charter - a commitment signed by organizations, which take action to create and promote diversity.

Bank Millennium's ESG activities are highly valued by the market:

- Since 2010, Bank Millennium has been included in the Warsaw Stock Exchange's index composed of companies fulfilling the highest standards of corporate social responsibility. In 2010-2019, the Bank was included in the Respect Index, and since 2019 it has been incorporated in the WIG-ESG index, which is created by attaching additional weights to companies in the form of an ESG rating issued by the global ratings firm Sustainalytics and by conducting a corporate governance assessment by the Warsaw Stock Exchange.
- In 2021, for the sixth consecutive year, Bank Millennium received the A rating in the MSCI ESG rating system; the rating measures resilience of companies to long-term risks in respect to: protection of the natural environment, corporate social responsibility and corporate governance.
- In this year's edition of the Institution of the Year ranking by Moje Bankowanie, the activities of the Bank Millennium Foundation were recognized in the Corporate Social Responsibility category.
- The Millennium Docs Against Gravity documentary film festival, supported for 15 years by Bank Millennium, along with last year's Docs Against Isolation event were awarded by Internet users in this year's edition of the Golden Banker competition, having been ranked second in the "Socially Sensitive Bank" category.
- As many as 27 activities completed by Bank Millennium for the benefit of society and the natural environment have been recognized in the "Responsible Business in Poland" reports published by the Responsible Business Forum. Among the activities completed in 2020, the following ones were distinguished: transfer of funds for the first Polish COVID-19 test, creation of a support fund for employees suffering from COVID-19, #zostanwdomu (#stayathome) and online financial education for pre-schoolers and their parents.
- In May 2021, Bank Millennium was awarded with the Culture Atlas title for the 6th time by the Kraków Festival Office for its patronage over the Sacrum Profanum festival.
- In June 2021, like in 2020, Bank Millennium was awarded the Golden CSR Leaf by the Polityka weekly journal.

Key ESG activities pursued in and planned for 2021

Natural environment:

For many years, the Bank Millennium Group has supported financing of environmentally-friendly and energy-efficient projects. We introduce our own environmental measures, offer environmentally-friendly products and responsible financing, and develop environmental education programs. Pursuant to the industry policies in place and provisions of the "Environmental Policy of the Bank Millennium Group", the Bank Millennium Group does not finance new:

- coal mines,
- coal-fired power generation projects, except for new projects related to reduction of pollution. Financing in the energy sector is only possible if:
 - it supports exposure to non-carbon energy sources,
 - it contributes to energy transition to non-carbon energy sources.

Environmental activities cover the entire product portfolio in the Bank Millennium Group. We conduct intensive activities aimed at reducing the consumption of paper for communication with

clients. We digitize successive services and processes related to customer service of individual and corporate clients.

Taking action aimed at reducing CO₂ emissions is a key component of Bank Millennium's endeavours in the ESG area. Since 2011, the Bank has been monitoring and publishing data on its carbon dioxide emissions. Year after year, the volume of such emissions keeps decreasing. In 2021, we are focusing on selecting a 100% green energy supplier for 2022 (one that will be able to provide us with a guarantee of origin certifying that 100% of the electricity to be purchased by the Bank has been generated from renewable energy sources). In 2020 and 2021, some of the energy purchased by the Bank has been obtained from low-emission sources, which has been confirmed by the seller, also with a guarantee of the purchase of energy from low-emission sources and the achievement of a reduction in CO₂ emissions by 11,279 tons in 2020. In 2021, the Bank sold, on the Commodity Exchange, white certificates confirming energy savings of 31 toe. 2021 is the first full year during which we will consume the full savings generated by the modernization of LED lighting in the Bank's head office, thereby reducing our carbon footprint by 500 tons annually.

In 2021, we are continuing our environmental campaigns targeted at Bank Millennium Group employees: we are promoting a healthy lifestyle and encouraging our staff to commute to work by bicycle; we are organizing e-waste collections and campaigns aimed at effective sorting of waste. We are reducing the volume of plastic materials that we order. We are monitoring and optimizing our water consumption. Approx. 70% of our car fleet consists of hybrid vehicles, all new/replaced cars are hybrid vehicles. We are launching charging stations for electric cars at the Bank's Head Office in Warsaw. At the Bank's Head Office in Warsaw, a charging point for electric scooters and electric bicycles has been operating since May. Bank Millennium has joined the environmental campaign #ZielonyRekord aimed at breaking the Polish Green Record. In five of our buildings, we have planted new greenery and trees, and placed new office plants in our upgraded office spaces.

The Bank's climate protection efforts have been recognised publicly. In December 2020, Bank Millennium was ranked second among Polish companies in the Poland's Climate Champions 2021 ranking of the Forbes magazine prepared in cooperation with Statista. It was the best bank in the ranking. The ranking was created by calculating the Compound Annual Reduction Rate (CARR) adjusted for revenues. In June 2021, Millennium bcp, which is Bank Millennium's main shareholder, was named the Europe's Climate Leader 2021 in the new Financial Times ranking prepared in cooperation with Statista. The Financial Times ranking considered the data for the entire Millennium bcp Group. This means that Bank Millennium's performance in reducing greenhouse gas emissions contributed to winning this prestigious distinction.

Society:

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

In the first half of 2021, we continued our endeavours aimed at protecting the health of our employees and clients and providing them with support during the ongoing COVID-19 pandemic. The Bank ensures a safe work environment for its employees. During the height of the pandemic, most employees were able to work remotely. The Bank has applied a strict sanitary regime. In the Bank's branches, protection measures were used in the form of shields and personal protection equipment. During the entire period of the pandemic, an appointed Committee monitors on an ongoing basis the situation in the Bank, the number of illnesses and makes decisions on safety measures and work organization. In April 2020, the Bank established a fund in the amount of one million zloty to finance the treatment and rehabilitation of its employees in connection with COVID-19; the funds are provided on an ongoing basis, upon requests from employees. The Bank has also organized COVID-19 vaccinations for its own employees and employees of the cooperating partnership companies.

The Bank Millennium Foundation and Bank Millennium joined the fight against the coronavirus already in April 2020, by donating PLN 500,000 to the Institute of Bioorganic Chemistry of the Polish Academy of Sciences, which developed the first Polish tests for SARS-CoV-2. The tests have entered mass production and the Institute is conducting further research and development of next-generation tests. In 2020, Bank Millennium was one of the first banks in Poland to communicate to its retail and corporate borrowers that they are eligible for a loan moratorium period. Since the very beginning of the pandemic, the Bank took part in the distribution of public aid programs. We handled corporate and individual clients with the same care and attention, because we are a universal bank.

In 2020 and 2021, we offered a number of new electronic banking solutions supporting the idea of safe banking from home. In response to the increased need to use online services in connection with the pandemic, the Eduportal education portal was created on the Bank's website (available at www.bankmillennium.pl/pierwszykrokonline and directly from the main page in the Support tab) and the "First Step Online" campaign encouraging the use of digital channels and explaining how to begin using Millenet and the mobile application.

Bank Millennium's priority is banking without barriers. Our website, the Millenet internet banking system and the Bank Millennium mobile app are continuously adapted to meet the needs of blind and visually impaired individuals. The websites are written in simple and easily understandable language for the user and may be read by automated text readers. A visually impaired user may use the website using a keyboard only (the mouse is not necessary for website navigation). Moreover, the site has a text magnification feature and is designed for high-contrast reading. Users of smartphones with fingerprint readers may log in to our mobile app with a fingerprint. In the same manner, they may also validate online card transactions using 3D-Secure. Also, owners of iPhone X or newer models may log in using the Face ID facial recognition feature.

Our mobile app is adapted to the needs of the blind and visually impaired persons owing to its compatibility with access-enhancing services such as Google TalkBack (Android) and VoiceOver (iOS) that enable the presentation of information using speech.

All own ATMs and approx. 70% of branches in Bank Millennium's own network are adapted to the needs of people with disabilities. While rebuilding or upgrading its branches, the Bank makes efforts to eliminate architectural barriers. Seated customer service stands (relationship management service) with wheelchair access are available in all branches of the Bank (50% of seated teller desks). Clients using the Bank's hotline may use the voice command function instead of pressing the number keys.

Bank Millennium extends the concept of a barrier-free community also to its other initiatives. In 2021, for the third consecutive year, during the Millennium Docs Against Gravity documentary festival, of which Bank Millennium is the main sponsor, selected films will be available with audio description and voice-over, making it easier for people with visual impairments to access the world of culture.

The "Financial ABCs" proprietary financial education program for preschool children launched by the Bank Millennium Foundation in 2016 has been crafted and is delivered by Bank employees in collaboration with a non-governmental organization. Various resources for children and their parents are available online as a special educational aid during the pandemic. For the fourth quarter of this year, we are planning the resumption of workshops in preschools. Also this year, we intend to resume the employee grant program under which members of our staff organize events in their local communities.

Corporate governance:

In order to optimally integrate climate risks into the risk management strategy, Bank Millennium is revising its approach to strategy development. The Bank will implement changes enabling an effective management of risks related to climate issues, including the identification, monitoring, quantification and limitation of risks.

In accordance with the SFDR (EU Sustainable Finance Disclosure Regulation) Millennium TFI and Millennium Dom Maklerski have posted disclosures on their strategies adopted in the investment decision-making process and the consequences of investment decisions on sustainability factors:

- [Information from Millennium TFI](#)
- [Information from Millennium Dom Maklerski](#)

Moreover, in 2021:

- We intend to intensify employee training in the broadly construed area of compliance of the Bank's operations with the applicable laws, internal regulations and market standards.
- We have unified the rules for counteracting corruption in a separate internal regulation.
- Work is underway to implement Recommendation Z issued by the Polish Financial Supervision Authority regarding the principles of internal governance in banks.
- The Bank is in the process of reviewing and implementing the recommendations laid down in the updated set of corporate governance rules entitled 'Best Practices for WSE Listed Companies 2021'.

6. REPRESENTATIONS OF THE MANAGEMENT BOARD

6.1. PRESENTATION OF ASSET AND FINANCIAL POSITION OF THE CAPITAL GROUP OF BANK MILLENNIUM IN THE FINANCIAL REPORT

According to the best knowledge, the Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A., in 6-month period ending 30th June 2021 and the comparable data as well and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the period of 6 months ending 30th June 2021 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This semi-annual Management Board Report on the activity of Bank Millennium and the Group contains a true picture of development, achievements and condition of Bank Millennium and the Capital Group of Bank Millennium.

6.2. SELECTION OF AN ENTITY AUTHORIZED TO FINANCIAL REPORTS AUDITING

The entity authorized to audit financial reports, reviewing this Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A. for the 6-month period ending 30th June 2021 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6-month period ending 30th June 2021 - was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

SIGNATURES:			
Date	Name and surname	Position/Function	Signature
23.07.2021	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
23.07.2021	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
23.07.2021	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
23.07.2021	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
23.07.2021	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
23.07.2021	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
23.07.2021	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature