Consolidated report of the Bank Millennium S.A. Capital Group for 3rd quarter of 2021

Consolidated Financial Highlights

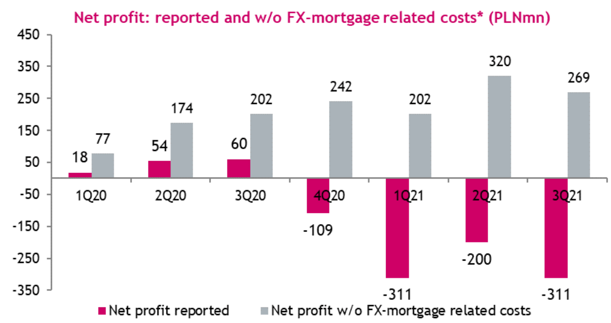
	Amount '000 PLN		Amount '000 EUR	
	1.01.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.01.2021 - 30.09.2021	1.01.2020 - 30.09.2020
Interest income and other of similar nature	2 036 306	2 461 336	446 705	554 105
Fee and commission income	751 746	706 868	164 911	159 133
Profit (loss) before income tax	(593 882)	313 296	(130 280)	70 530
Profit (loss) after taxes	(822 956)	131 870	(180 532)	29 687
Total comprehensive income of the period	(1 108 838)	283 683	(243 246)	63 864
Net cash flows from operating activities	3 611 556	2 481 872	792 269	558 728
Net cash flows from investing activities	(821 685)	(4 042 554)	(180 253)	(910 075)
Net cash flows from financing activities	(127 043)	(779 958)	(27 869)	(175 587)
Net cash flows, total	2 662 828	(2 340 640)	584 146	(526 934)
Earnings (losses) per ordinary share (in PLN/EUR)	(0.68)	0.11	(0.15)	0.02
Diluted earnings (losses) per ordinary share	(0.68)	0.11	(0.15)	0.02
	30.09.2021	31.12.2020	30.09.2021	31.12.2020
Total Assets	103 791 480	97 322 785	22 403 134	21 089 275
Liabilities to banks and other monetary institutions	529 445	1 057 652	114 279	229 187
Liabilities to customers	90 250 053	81 510 540	19 480 251	17 662 854
Equity	7 978 764	9 090 976	1 722 196	1 969 961
Share capital	1 213 117	1 213 117	261 848	262 875
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	6.58	7.49	1.42	1.62
Diluted book value per share (in PLN/EUR)	6.58	7.49	1.42	1.62
Total Capital Ratio (TCR)	18.17%	19.49%	18.17%	19.49%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

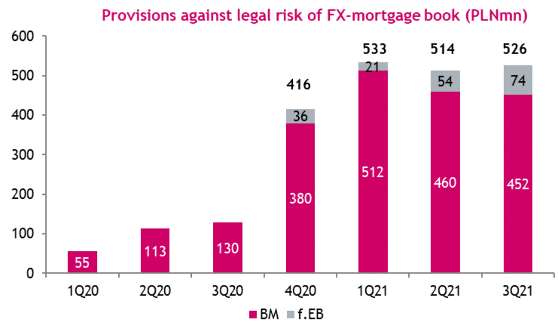
Exchange rates accepted to convert selected financial data into EUR				
for items as at the balance sheet date	-	-	4.6329	4.6148
for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period)	-	-	4.5585	4.4420

INFORMATION ABOUT THE ACTIVITY OF BANK MILLENNIUM AND CAPITAL GROUP OF BANK MILLENNIUM S.A. DURING 3Q21/9M21

FINANCIAL RESULTS IN BRIEF

Bank Millennium S.A. Capital Group's (the 'Bank', 'BM Group', 'Group') reported consolidated 9M21 net loss of PLN823 million (3Q21: net loss of PLN311 million) vs. net profit of PLN132 million in 9M20. As in the recent reporting periods, substantial provisions against legal risk related to FX-mortgages ('FX-mortgage provisions') were the main burden with 9M21 charge of PLN1,573 million and 3Q21 charge of PLN526 million (PLN1,424 million and PLN452 million respectively attributable to FX-mortgages originated by the Bank). Additionally, the Bank incurred costs related to amicable solutions (i.a. conversions to PLN mortgages, pre-payments, early repayments) agreed on negotiated terms with its FX-mortgage borrowers ('amicable conversions'). In 9M21 these costs totalled PLN218 million (pre-tax), while in 3Q21 alone PLN146 million. Excluding these (and legal costs related to FX-mortgages – 'legal costs'), the Group would post 9M21 net profit of PLN791 million (3Q21: PLN269 million) vs. adjusted 9M20 net profit of PLN453 million (3Q20: PLN202 million), indicating that the Group has successfully weathered the direct and indirect impacts of the pandemic.

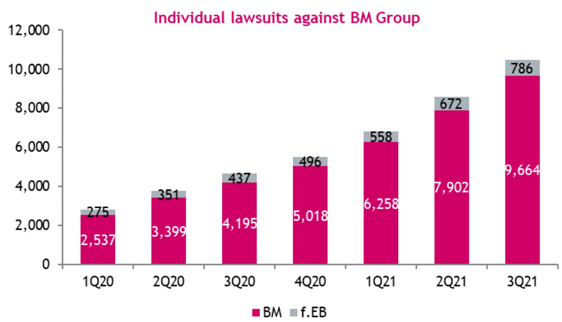


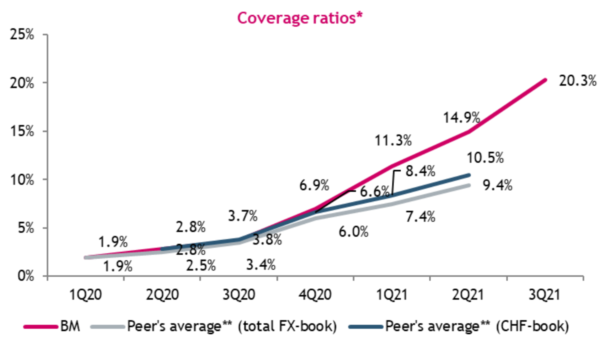


* adjusted for provisions against legal risk, legal costs related to FX-mortgages and costs of amicable conversions

Legal risk provision against FX-mortgage loans

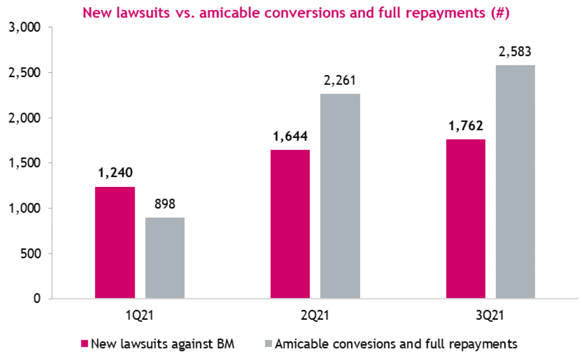
The increase in the abovementioned FX-mortgage provisions resulted from more conservative inputs into the Bank's provisioning methodology, reflecting, inter alia, a more challenging environment - higher inflow of court claims (individual lawsuits related to loan agreements originated by the Bank at 9,664 at end of September 2021 vs. 7,902 at the end of June 2021) 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 September 2021, the balance of provisions for the portfolio originated by the Bank stood at PLN2,375 million (end of June 2021: PLN1,869 million), an equivalent of 20.3% of the FX-mortgage grossed-up book (end of June 2021: 14.9%).

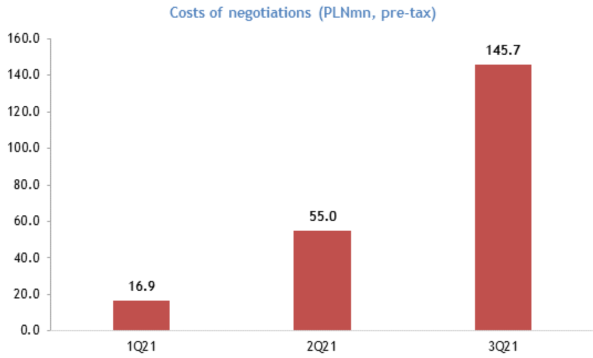




* Legal risk provisions/gross FX mortgage book (ex-EB portfolio in case of BM), ** average of nine largest banks listed at WSE w/o PKO's 4Q20 provisions for 'KNF conversions'

At the same time, the Bank continues to be open to its customers in order to reach amicable solutions regarding FX-mortgages on negotiated terms. As a result of these negotiations and other natural drivers, the number of active FX-mortgage loans decreased by almost 6,600 year to end of September 2021, compared to over 57,800 active loans agreements at the end of 2020. In the recent months, the monthly (and quarterly) reduction of the number of active FX-mortgage loans has been higher than the inflow of new individual court cases against the Bank.





Presentational changes in P&L and balance sheet

In 2021, as a result of a change in contractual provisions (eliminating the multiplier feature), some of credit exposures formerly classified 'Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances' began to be re-measured at amortized cost. In effect, during the 3Q21, following movements in financial statements were recorded: in P&L approximately PLN51 million of income is registered in caption 'Result on Fair Valued credit portfolio" and almost the same amount is recorded in impairment provision line (as cost), whereas in balance sheet approx. PLN1,100 million of portfolio is transferred from Fair value to Accounting cost valuation category. More details can be found in following part of the report.

Main financial and business achievements of the Group

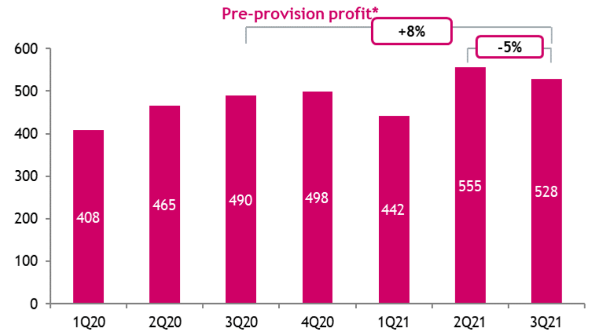
3Q21 results were another proof that the BM Group successfully mitigated most of the direct and indirect impacts of the pandemic. 3Q21 adjusted pre-provision profit (ex-costs of amicable conversions, legal costs, result on FV portfolio and netting-off EB's FX-mortgage provisions) amounted to PLN528 million and was 8% above the result in 3Q20 (9M21: PLN1,525 million, +12% y/y).

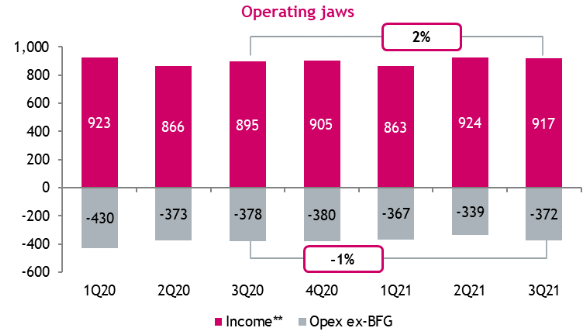
BM Group: adjusted results (PLNmn)

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	y/y	q/q	9M21	y/y
NII*	690	640	629	625	622	655	669	6%	2%	1,946	-1%
Net fees	195	179	180	193	205	209	202	12%	-4%	616	11%
Other income**	39	47	87	87	36	60	47	-46%	-22%	142	-17%
Total income**	**923**	**866**	**895**	**905**	**863**	**924**	**917**	**2%**	**-1%**	**2,704**	**1%**
Opex w/o BFG and FX-mortgage legal costs	-430	-373	-378	-380	-367	-339	-372	-1%	10%	-1,078	-9%
BFG	-85	-28	-27	-27	-53	-30	-17	-36%	-42%	-101	-28%
Pre-provision profit	**408**	**465**	**490**	**498**	**442**	**555**	**528**	**8%**	**-5%**	**1,525**	**12%**
Risk charge***	-197	-166	-150	-108	-76	-57	-83	-44%	46%	-217	-58%
FX-mortgage provisions w/o EB	-55	-113	-130	-380	-512	-460	-452	n/a	n/a	-1,424	378%
Net profit reported	**18**	**54**	**60**	**-109**	**-311**	**-200**	**-311**	n/a	n/a	**-823**	**n/a**
Net profit w/o FX mortgage related costs	**77**	**174**	**202**	**242**	**202**	**320**	**269**	**33%**	**-16%**	**791**	**74%**

(*) NII including swap income from derivatives, (**) w/o result on FV portfolio, cost of amicable solutions for FX-mortgage borrowers 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. 9M21 revenues were up 1% y/y (1H21: 0% y/y) with y/y dynamic of NII nearing 0% (1H21:-4% y/y) and y/y fee growth remaining strong at 11% y/y while opex (ex-BFG and legal costs) was down 9% y/y (1H21: -12% y/y). The accelerating growth in core income (3Q21: +8% y/y vs. 5% in 2Q21 and -6% in 1Q21) was the main element stabilising revenues, while non-core income dropped in 9M21 (and in 3Q21) due to lower profits on bonds and revaluations among others. Opex reduction stemmed from savings in staff costs (9M21: -7% y/y, 1H21: -9% y/y) but most of all non-staff costs ex-D&A(9M21:-14% y/y, 1H21: -19%). BFG charges which in 9M21 were 28% lower than in the same period last year provided an additional support.

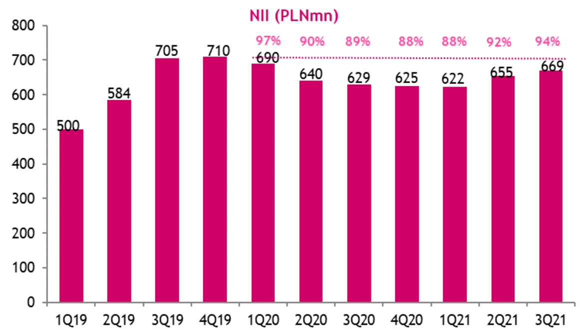


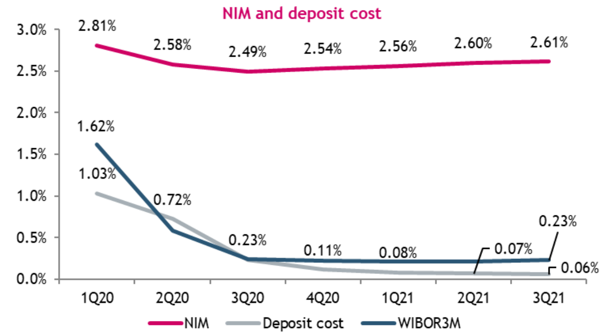


* Adjusted for provisions against credit risk, Covid-19, result on FV portfolio, impairment losses on non-financial assets, modifications, and FX-mortgage portfolio related costs; ** Income adjusted for result on FV portfolio, costs of amicable solutions for FX-mortgage borrowers, netting-off of legal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

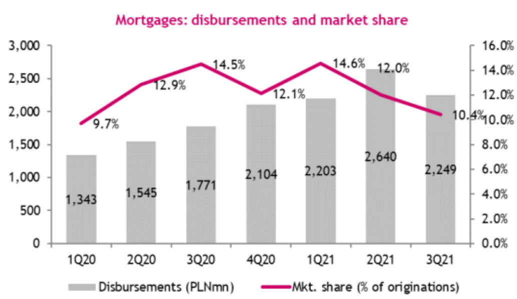
The key developments in the last twelve months that drove the y/y improvement of the results and which, we believe, are particularly worth highlighting are as follows:

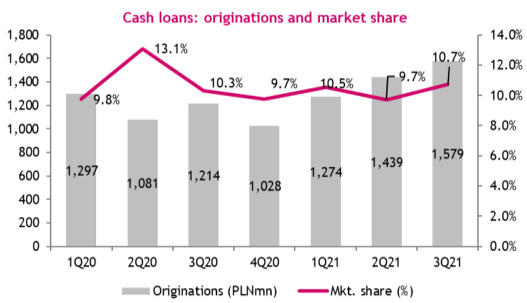
- **continued recovery of NII** with 3Q21 up 6% y/y to 94% of the record high NII of 4Q19;
- **continued (albeit decelerating) improvement of quarterly NIM** (261bps in 3Q21, just 38bps below the 3Q19 peak of 299bps and 12bps up from the low of 249bps in 3Q20);



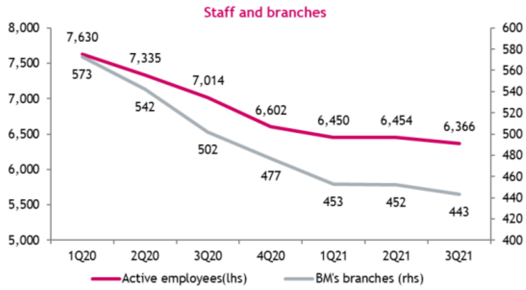


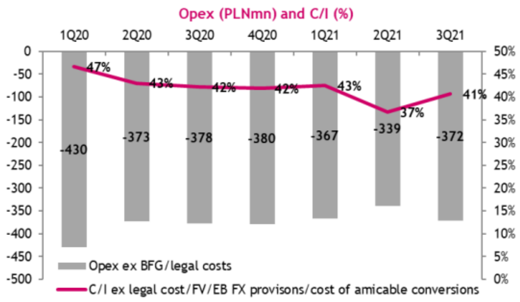
- **above-market loan growth (+6% y/y) despite accelerating reduction of the FX-mortgage portfolio;** solid retail loan originations played a key role - disbursements of mortgages in 3Q21 reached PLN2.2bn, up 29% y/y (9M21: PLN6.9bn, up 50% y/y) translating into market share of 10.4% vs. 14.5% in 3Q20 while 3Q21 origination of cash loans reached a new record of nearly PLN1.6bn, up 30% y/y (9M21: PLN4.2bn, up 20% y/y); on a separate count our gross FX-mortgage book contracted 26% y/y due to a combination of repayments, provisioning (in line with IFRS9 most of legal risk provisions are booked against gross value of loans under court proceedings) and amicable conversions; as a result, the share of FX-mortgages in total gross loans decreased to 13.6% (BM originated only: 12.6%) from 19.6% (18.3%) in the same period last year;





- **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 648 or 9% since 3Q20), ongoing optimisation of our physical distribution network (own branches down by 59 units or 12% in the last twelve months) complimented the increasing share of digital services (digital customers: 2.2 million, up 9% y/y, number of active mobile customers: 1.9 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 ticked down to 45.9% in 3Q21 from 46.4% in the same period last year but C/I ratio excluding BFG, FV portfolio, costs of amicable conversions offered to FX-mortgage borrowers and netting-off of FX-mortgage provisions on f.EB book eased y/y to 41%;





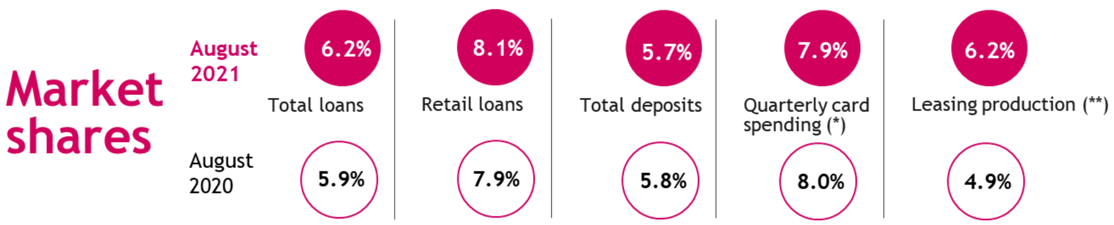
- **stable loan book quality** resulting in a low cost of risk (42bps in 3Q21 vs. 80bps in 3Q20, 9M21: 36bps vs. 9M20: 92bp) with positive underlying trends in quality of both retail and corporate books and continued NPL disposals (in 3Q21 spefically no such transaction took place though); NPL ratio ticked down to below 4.7% at the end of September 2021 from over 4.7% the year before;

- **customer deposits were stable in the quarter** (and up 5% y/y) with corporate ones up 1% q/q and retail ones flat; the liquidity of the Bank remained very comfortable with L/D ratio at 85.6%;

- **capital ratios fell somewhat in the quarter** (Group TCR: 18.2%/T1: 15.1% vs. 18.7%/15.6% respectively at the end June'21) as the drop of equity outweighted the drop of RWAs;

- **AuM of Millennium TFI and third party funds combined grew 1% q/q** to over PLN9.5 billion with y/y growth at 21%.

Share in key market segments



(*) 1Q21/1Q20 data
(**) 2Q21/2Q20 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 with publication date planned for late 4Q21.

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 improvement will be further supported by the recent increase in interest rates.

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

2021 target	Delivery after 9M21
Share of digital clients >80%	79%
Growth of corporate portfolio >PLN1bn	PLN430mn
Origination in leasing close to 2019 (PLN3.5bn)	PLN2.8bn
Origination of mortgages >PLN7bn	PLN7.0bn
Cost/income ratio of 47%	<46%
Cost of risk <=80bps	36bp
NPL ratio <5%	4.7%

BUSINESS TRENDS AND HIGHLIGHTS

RETAIL BANKING

In 9M21 the Bank has increased its active client base by over 57 thousand. As on September 30 2021 the Bank provided services to more than 2.66 million active retail clients. Altogether 2.2 million clients were using electronic banking actively while the mobile app was in use by 1.9 million, which means an annual increase by 15%.

Sale of current accounts in 9M21 exceeded the level of 271 thousand, i.e. a slight decrease relative to the similar period of the previous year. The key product supporting acquisition of new clients was the Konto 360° account. At the end of September 2021, the number of Konto 360° accounts in the Bank portfolio exceeded 1.8 million. Acquisition of Konto 360° accounts in 2021 was supported by a number of promotion and advertising activities.

The 9M21 was a time of stabilisation of our deposit offer. Limited consumer expenditures in 1Q21, caused by pandemic limitations, favoured 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 decelerated the growth of the deposit market (+PLN0.8bn q/q). The trend continued in 3Q21 so as a result and the q/q growth decelerated to a mere PLN0.2bnq/q, translating into retail deposits of PLN69.1bn at the end of September 2021, i.e. PLN4.1bn more than at the end of 2020 (+6.0%) with Bank's market share increasing to approx. 6.9% from 6.7% at YE20. During 9M21, 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.

In 9M21, Bank Millennium achieved high level of sales of mortgage loans. During these nine months, the Bank concluded over 25 thousand new contracts with a total value of over PLN7.5 billion (increase y/y by over 43%). The result placed the Bank on the 4th position on the market with a market share of nearly 12.2%. Disbursements totalled nearly PLN7bn in the period, an increase of 50% y/y. In 9M21, 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. Various activities allowed the Bank to take the leading position in many comparisons and rankings of mortgage credits.

The first nine months of 2021 were characterised by good sales results achieved by the Bank in the segment of cash loans. Compared to 9M20, sales increased by 20%, which resulted in the sale of cash loans of PLN4.3 billion year to the end of September 2021. The bank continued to support sales in digital, in particular in mobile banking, thanks to which 72% of 3Q21 sales (number of agreements) was made in electronic channels (a nearly twofold y/y increase). This increase was achieved mainly in the mobile channel in which sales increased by 122% 3Q21 vs. 3Q20.

Intensive marketing efforts supported continuous increase of the payment card portfolio in 9M21. 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 9M21 with the result at 3.5 million cards (+1.8% vs. YE20). 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 +1.7% in credit cards.

The 9M21 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 9M21 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 (‘PIM’) and opted for regular purchases of fund units. Upon the promotion, clients will get additional rewards.

CORPORATE BANKING

Key developments and achievements in the corporate banking in 9M21 were as follows:

- In internet banking platform ‘Millenet for Companies’ we have provided a tool, which is unique on the market, to support system users - chat with specialised advisers with co-browsing functionality.
- ‘Millenet for Companies’ is an integrated platform and convenient solution both for clients of Bank Millennium and Millennium Leasing where users can fully manage lease contracts concluded with Millennium Leasing. Already nearly 70% of leasing clients have been using electronic invoices through this service.
- Besides instruments available in credit products we implemented new guarantee in leasing. Under the portfolio agreement signed with BGK Millennium Leasing manages guarantee line in the amount of PLN 200 mln. The instrument, prepared in collaboration with the European Investment Fund from the Pan-European Guarantee Fund, is designed to provide support and protection of Entrepreneurs against impacts of the Covid pandemic.
- We have expanded availability of the lease offering by means of the network of the Bank’s franchise branches as well as remote channels.

DIGITAL BANKING

We completed the 3Q21 with over 2.2 million active digital channel users, including nearly 1.9 million mobile banking users, which means an increase of 9% y/y and 15% y/y respectively.

The share of online channels in sales is growing. 71% of cash loans sold in 3Q21 were drawn online, even if the application process had started in another channel. We recorded an increase of as much as 96% in loans sold in digital channels compared to the same period of 2020. For few months now, we have been changing credit online processes, in 3Q21 specifically, we introduced:

- easier cash loan early repayment,
- more convenient consolidation of loans in other banks,
- short satisfaction survey directly after exiting the cash loan application process.

In 3Q21 clients opened in digital channels:

- 92% of term deposits, 1% up compared to 2Q21;
- 26% of new current accounts, down 4% q/q but up +16% y/y;
- 53% of new junior accounts.

Online transactions and BLIK

For several months, we have been seeing the growing popularity of online transactions and e-commerce payments. In 3Q21, customers made almost 22 million BLIK transactions, which means an increase of 82% y/y and over 4 million P2P transfers, 127% more than in the whole 2020. In 3Q21 BLIK was used by over a million customers, which represents 33% growth compared to 3Q21. We also noted over 13 million of BLIK e-commerce payments and over 14 million online card payments (+ 28% y/y).

Digitalisation

As part of the digitalisation project, we are promoting online banking solutions, with particular emphasis on the mobile application. An important element of these activities is to encourage customers to authorize transactions using Mobile Authorization. This method is already used by 1.8 million customers. Thanks to the fact that customers also confirm orders at the branches in this way, we save about 110,000 sheets of paper every month.

Cyber-security

In 3Q21 alone we proceeded several campaigns educating clients on secure online banking:

- ad hoc campaigns about new fraud scenarios (each reaches about 2 million clients);
- profiled campaigns with hints and security rules.

E-administration

In 3Q21, a new edition of public programme – ‘Dobry Start 300+” - has started. Since the beginning of July, nearly 223,000 applications for school kit refund have been issued via Millenet. It translates into a 10,11% market share and #4 position among Polish banks.

Entrepreneurs

Since the beginning of the year, we have been introducing more solutions for business to ultimately build a comprehensive online offer for this segment of customers. In 3Q21 we introduced:

- new online process of opening foreign currency account,
- easier own transfers,
- lead credit processes (cash loan, leasing),
- innovative Smart Terminal Plus package for clients with retail business,
- PFR Financial Shield subsidy settlements in the bank’s system.

25% of loans for micro firms, disbursed in 3Q21, clients started online.

Investment products

For several months we have been consistently introducing investment products to our online offer. We have noted a growing share of digital channels in the sales of these products - currently at 50%. In 3Q21, the percentage of MiFID questionnaires completed online was over 50% (55% in August and September).

In 3Q21 we launched investment funds purchase in the mobile app. The average first deposit for investment funds in Millenet is PLN 68,000, while in the app it averages PLN 15,000. In addition, clients ordering transactions on the funds in branches can authorize them in the mobile app.

When buying PIM (Millennium Investment Programme), clients invest (first buy) about PLN 6,900 in Millenet and PLN 5,600 in the mobile app. In PIM, special offer we have noted a high share of digital channels in sales, especially when it comes to percentage of investments with standing orders. 73% of plans with standing order were purchased online.

Other achievements

- We were the first bank to introduce to clients BLIK contactless payments(July'21).
- We have got a title of The Best Consumer Digital Bank in Poland for 2021 in Global Finance ranking.
- Two our project have been nominated to the Banking Tech Awards by Informa (Mobile Authorization in branches and Mortgage loan application status tracking).
- We have introduced a re-designed dashboard in the mobile app as well as in Millenet, and shortcuts to the most popular features.

QUALITY AND INNOVATIONS

- Millennium is among banks recognised in the "Stars of Banking" ranking held by "Dziennik Gazeta Prawna" and PwC as technical partner. In the "Customer Relationship Star" category, where assessment is made by customers of banks (12,000 people replied to a set of questions on how they see their relationship with the bank and how they are treated by their institution of first choice), Bank Millennium came third.

- The Bank was hailed The Best Consumer Digital Bank in Poland for 2021 in the World's Best Digital Banks competition organised by Global Finance Magazine. This is yet another international award for Millennium's achievements. Winners were selected from among applications evaluated by a world class Infosys jury panel. The final selection of winners was made by editors of Global Finance, who looked i.a. at effectiveness of the strategy of digital customer service, growth of the number of customers using digital services, scope of the product offering and benefits from digital initiatives.

- In the ranking of the TOP 200 Best Polish Brands of the Forbes magazine, Bank Millennium was ranked high, third (the highest positioned bank in the ranking). The TOP 200 Best Polish Brands ranking shows the position and value of brands from the perspective of their strength in the minds of customers and their role in generating revenues. It is a financial valuation of Polish brands. Forbes classified as Polish those brands that were created with the Polish market in mind. Their owners may be domestic or foreign entities. In this sense, Bank Millennium is also a Polish brand.

ACTIVITIES IN THE ESG AREA

ESG (Environmental, Social, Governance) issues are part of Bank Millennium Group's current business strategy and will also be embedded in the new strategy for 2022-2024.

Environment

- Bank Millennium Group continues its involvement in the financing of energy-efficient investment projects. We act in accordance with the environmental policy. We do not finance new coal mines and coal-fired power generation projects, except for new projects related to reduction of pollution. A few years ago, the Bank decided to significantly reduce its exposures to the coal industry. As a result, today the portfolio of exposures to coal mining and industries directly associated with mining is insignificant. Last year, the Bank Millennium Group's exposure was 2.2% of the corporate portfolio and 0.6% of the Group's entire portfolio.
- The reduction of CO_2 emissions is an important element of Bank Millennium's ESG activities. 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.

- We are investing in environmentally-friendly solutions in the Bank's headquarters: in 2022 all the energy purchased by the Bank will be renewable. We have opened a model environmentally-friendly branch of the Bank in Gdańsk. The conscious choice of environmentally-friendly solutions, combined with reduced energy and other media consumption, and purchase of green energy have allowed us to reduce the carbon footprint of the Bank's outletbranch, in comparison with the previous branch, by more than 70%. We are also investing in environmentally-friendly solutions in the Bank's head offices. Soon, employees of the Wrocław head office will move to new headquarters, which will be located in a building with a LEED GOLD environmental certificate.
- Environmental activities cover the entire product portfolio in the Bank Millennium Group. We take active measures to reduce the use of paper in correspondence with clients. Clients may confirm **some of the transactions ordered in Branches using Mobile Authorization, which has significantly reduced the quantity of paper used for document print-outs.**
- WWF Millennium Mastercard credit card (APR 9.64%) is offered as part of the Bank's long-term cooperation with the WWF Poland Foundation. The card is made of recycled plastic.
- We support the propagation of knowledge about the world and the environment: we have been a sponsor patron of the Millennium Docs Against Gravity festival for 16 years now. Part of this year's festival was the #pięćkrokówgrety (#gretasfivesteps) climate awareness campaign and the main film of the festival was 'I am Greta' about Greta Thunberg, the climate activist.

Society

- Banking without barriers is our priority. We have introduced numerous facilities for our clients with impaired vision, hearing and movement. We are digitalizing an increasing number of services and we provide assistance in making the first step online.
- We run the 'Financial ABC' education program for preschoolers, because we believe that good financial habits should be formed during childhood. This is confirmed by the results of the survey commissioned by the Foundation, in which 65% of the preschoolers' parents believe that early financial education helps us cope with crisis situations in adult life.
- We build an attractive working environment. We have been named Poland's Best Employer 2021 in the ranking prepared by the Forbes magazine and Statista research firm on the basis of surveys carried out among more than 10 thousand employees.
- As early as 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.
- We operate an employee volunteerism program, because we know that it is our employees who know the needs of local communities best.

Corporate governance

Bank Millennium is a signatory of the Partnership between business and government administration entities for achieving UN's Sustainable Development Goals (SDGs) and the Diversity Charter. The direction and measures of ESG activities are regularly reviewed, measured and reported in annual non-financial reports of the Bank Millennium Group. Bank Millennium is getting ready 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. Currently we are also working on updating the matrix of importance of different sustainability aspects as perceived by the stakeholders of the Bank Millennium Group

MACROECONOMIC SITUATION

During most of 3Q21 prevailed a stable COVID-19 situation with low numbers of new infections. September and particularly October brought a significant increase of confirmed cases of infection, which was expected though. The scale of the epidemic did not cause a serious risk of overloading the health service allowing maintenance in 3Q21 and early 4Q21 of much lower pandemic restrictions than in early 2021. This supported continuation of economic recovery in Poland in 3Q21.

According to the Bank's estimates, gross domestic product increased in 3Q21 this year by ca. 2.0% q/q (after seasonal adjustment) after an increase by 2.1% q/q in 2Q21. In that period slower expansion of industry was conducive to lower GDP growth rate. In the Bank's opinion, the sector was hampered by a supply of raw materials and semi-products, which was insufficient vs. reported demand. The mismatch between supply and demand contributed to an increase in inflation, which, together with limited access to some goods, translated into slower growth in retail sales. However, the impact of these factors was compensated, as assumed by the Bank, by the rebound of the service sector, which was also supported by the stable situation on the labour market. Due to fading away effect of the extremely low reference base, the annual GDP growth decreased in 3Q21. to approx. 5.0% y/y from 11.1% y/y in 2Q21.

In 3Q21 CPI inflation increased on average to 5.5% y/y from 4.5% y/y the quarter before, and in September alone it reached the level of 5.9% y/y, the highest in more than 20 years. It is under strong influence of inflation in prices of energy, including fuels, which grew to 13.9% y/y from 12.7% y/y the quarter before as a consequence of the evolution of prices of energy resources on international markets. In 3Q21 also the inflation of food prices increased. Net of these categories, i.e. core inflation remained high and in September this year stood at 4.2% y/y. In the Bank's opinion this confirms not only the supply nature of the inflation but also strong demand pressure.

The rising consumption inflation increasingly exceeding the upper limit (3.5% y/y) of acceptable deviations from the inflation target as well as fear of growing wage pressure and "unanchoring" inflationary expectations induced members of the Monetary Policy Council to increase the main interest rate of National Bank of Poland in October to 0.50% from 0.10%.

In 3Q21 the value of deposits in the banking sector increased by PLN6bn, ie slightly stronger than in the previous quarter, which is largely consistent with the good and stable situation on the labor market. A much stronger increase was recorded in the case of deposits from non-financial companies, which increased by over PLN26 bn in the period July-September. In the Bank's opinion, this is supported by high corporate financial results. Households' demand for loans recovered in 3Q21. In particular, record strong increases were noted in case of housing loans, although the value of consumer loans also grew. Additionally, there was an increase of loans to non-financial enterprises, although it concerned mostly overdrafts. The value of investment loans continues to decline. The Bank believes that due to the good income situation of households and companies the value of deposits in the sector will be further increasing. At the same time, the expected still strongly negative interest rates should support the demand for loans also in the coming months.

Information, which arrived in 3Q21 and in October indicates that prospects for the world economy remain optimistic, although supply limitations in the global industry increased strongly. Additionally, the increase of prices of energy resources accelerated. These factors have caused a downward revision of expected economic growth in 2021 for some developed economies. In Poland's case the GDP forecast formulated by the Bank a quarter ago, pointing at 5.3% y/y in 2021 and 2022 did not change significantly, because the slowdown of industry expansion was assumed in the baseline macroeconomic scenario. Nevertheless, inflation higher than anticipated which slows down growth in disposable income of households as well as the extending horizon of supply "bottlenecks" in industry sector are causing the balance of factors of uncertainty for these GDP forecasts to slide downwards. In the coming quarters spending of households should remain in support of the economic recovery, bolstered by consumption-oriented changes postulated in the "Polish Deal" reform programme and the expected decrease of unemployment. GDP growth should also be propelled by investments. Net exports, despite the projected substantial growth of exports, will most probably contribute negatively to GDP growth in 2021-2022, due to imports growing stronger. It must be noted that in the baseline macroeconomic scenario of Bank Millennium it has been assumed, that the number of COVID-19 infections will increase, however due to implementation of the vaccination programme and naturally growing immunity, potential restrictions will not be as stringent as in the spring of 2021.

The evolution of prices of energy resources as well as cost pressure cause CPI forecasts to be revised upwards. In the Bank's opinion it will be in Poland on average at 4.7% y/y in 2021 and 5,0% y/y in 2022. In the Bank's opinion the October hike of interest rates is the start of tightening monetary conditions in Poland, and the current level of interest rates remains inadequate given the expected inflation and GDP path, especially in the context of the still expansive fiscal policy in 2021-2022. Under such conditions the reference rate in the Bank's opinion will return by end of 2022 to the level from before the crisis outbreak i.e. 1,50%.

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

The inflow of macroeconomic data indicate that economies have considerably adapted to pandemic conditions. Along with implementation of the vaccination programme in developed countries, the risks of strongly adverse economic effects of potentially worse epidemic situation in autumn and winter is reduced, in the Bank's opinion. Nevertheless the COVID-19 pandemic remains the most significant negative factor of uncertainty for the Polish economy and its environment. Other factors of uncertainty associated with the macroeconomic situation, which might affect the BM Group, have been presented below.

- The "unanchoring" of inflationary expectations driving the inflation-wages spiral, which would result in higher than expected growth in prices limiting disposable income of households (increasing credit risk) and lower demand for banking products.
- Strong and fast tightening of monetary conditions resulting in decrease of demand for credit, deterioration of quality of the loans portfolio of BM Group as well as deterioration in valuation of the Treasury bond' portfolio.
- Delay in implementation of the National Recovery Plan as a result of increasing legal dispute between the Polish government and the European Union, which could lead to investments in the economy being lower than in the baseline scenario.
- Longer and stronger problems in industry supply chains, which may affect the financial standing of companies and could also hinder demand for capital goods as a result of their shortages.

The last months caused the balance of risk factors for GDP growth in Poland in coming quarters to be tilted downwards. Nevertheless there is still possibility of better than assumed economic performance in Poland, which could result i.a. from faster implementation of the National Recovery Plan, stronger impact of tax changes announced in the "Polish Deal", or faster alleviating of gridlocks in supply chains.

LEGAL RISK RELATED TO FX-MORTGAGES

On September 30, 2021, the Bank had 9,664 loan agreements and additionally 786 loan agreements from former Euro Bank (96% loans agreements before the Court of first instance and 4% loans agreements before the court of second instance) under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 1,206.8 million and CHF 95.8 million (Bank Millennium portfolio: PLN 1,110.1 million and CHF 93.9 million and former Euro Bank portfolio: PLN 96.7 million and CHF 1.9 million).

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, particularly in first instance proceedings. As far as the Bank itself is concerned, until 30 of September 2021 only 123 cases were finally resolved (96 in claims submitted by clients against the Bank and 27 in claims submitted by the Bank against clients i.e. debt collection cases). 73% of finalised individual lawsuits against the Bank were favourable for the Bank including remissions and settlements with plaintiffs. Unfavourable rulings (27%) included both invalidation of loan agreements as well as conversions into PLN+LIBOR/WIBOR. The Bank submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts.

The outstanding amount of the loan agreements under individual court cases and class action on 30.09.2021 was PLN 3,923 million. If all Bank Millennium's loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for the use of capital, the pre-tax cost could reach PLN 3,539 million. Under less adverse scenarios, the potential losses would range between PLN 637 million (invalidity +

compensation of the Bank for the use of capital at statutory interest) PLN 1,399 million (if so-called KNF proposal solution would apply) to PLN 2,192 million (invalidity + compensation of the Bank for the use of capital at WIBOR plus spread). Under scenarios with abovementioned loans remaining valid, an 'average NBP' scenario would be least costly for the Bank, translating, on our estimates, into pre-tax cost of PLN 150 million.

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses, or maintenance of the agreement in PLN with interest rate indexed to CHF Libor. The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,980 individual claims were filed against the Bank (in addition, 235 against former Euro Bank), in 2020 the number increased by 3,007 (267) while year to date (end of September 2021) the number increased by 4,636 (287), with 3Q21 alone bringing 1,771 new cases against the Bank (105) (similar to the 2Q21 figure).

In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3,281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. A decision on the admission of evidence will be taken by the court at a closed session. The next hearing will be scheduled ex officio. The outstanding amount of the loan agreements under the class action proceeding was 951 million PLN on 30.09.2021.

Taking into consideration the increased legal risk related to FX mortgages, in the first nine months of 2021 the Bank created PLN 1,424.2 million provisions and PLN 148.9 million for former Euro Bank originated portfolio (respectively in the year 2020: PLN 677 million and PLN 36.4 million). The methodology developed by the Bank is based on the following main parameters: (1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

On September 30, 2021, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 2,375.3 million, and PLN 185.3 million for the portfolio originated by former Euro Bank, with PLN 2,113.4 million and PLN 147.1 million decreasing the gross value of loans in respective portfolios, in line with the IFRS9 approach, while the remaining parts were booked in 'Provisions for pending legal issues'.

Legal risk from former Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

Notwithstanding the Bank's determination to continue taking all possible actions to protect its interests in courts, 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. As a result of these negotiations, the number of active FX mortgage loans decreased by almost 6,600 year to date (end of September 2021) compared to over 57,800 active loans agreements at the end of 2020. Cost incurred in conjunctions with these negotiations totalled PLN 218 million year to date and are presented in 'Result on exchange differences' in the profit and loss statement.

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

GROUP PROFIT AND LOSS ACCOUNT

Group's operating income *(PLN million)*	1-3Q 2021	1-3Q 2020	Change y/y	3Q21	2Q21	Change q/q
Net interest income	1 946.0	1 958.4	-0.6%	668.9	654.9	2.1%
Net commission income	615.7	553.3	11.3%	201.6	209.3	-3.7%
Core income	2 561.7	2 511.8	2.0%	870.4	864.2	0.7%
Other net non-interest income*	73.3	156.5	-53.1%	-24.9	58.3	-142.6%
Total operating income *	2 635.0	2 668.3	-1.2%	845.6	922.5	-8.3%

(*) Without fair value adjustment of credit portfolio (PLN39.2mn in 1-3Q21 and PLN-32.2mn in 1-3Q20), which is included in the cost of risk line

Net interest income in 1-3Q21 reached PLN1,946mn and decreased by a mere 1% compared to the level recorded in the corresponding period of the previous year. Growing quarterly momentum (+2% q/q in 3Q21) translated into stronger dynamics of year-to-date figures, largely offset the negative impact of interest rates cuts in 2020 (down 140 basis points in March through May 2020) and leveraged impact of the maximum interest rate (down 280 basis points to 7.2%).

Net interest margin (over average interest earning assets) (NIM) in 1-3Q21 reached 2.60% and was 3 basis poits lower compared to 1-3Q20. Similarly to net interest income, the quarterly improvement of NIM can be observed year to date. 3Q21 NIM reached 2.61%, i.e. was higher by 7 basis points compared to 4Q20 (2.54%) and 12bps above the lowest level (3Q20) after rates cuts by the MPC.

Net commission income in 1-3Q21 amounted to PLN616mn, growing 11% vs. 1-3Q20. The main source of the improvement were growing commissions from banking transactions (accounts, loans and cards) supported by fees on deposits. Fees on mutual funds and transactional fees also increased year-on-year. Net commission income in 3Q21 decreased 4% q/q, mostly due to some seasonal increase in commissions from insurance in the previous quarter.

Core income, defined as a combination of net interest and net commission income, reached PLN2,562mn in 1-3Q21 showing 2% growth compared to the corresponding period of the last year (+1% q/q).

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 PLN73mn in 1-3Q21 and decreased strongly by 53% y/y. This was largely due costs related to amicable settlements negotiated with FX mortgage borrowers (PLN-218mn). On the other hand in 1-3Q21 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.

Total operating income of the Group reached PLN2,635mn in 1-3Q21 and was slightly lower (-1%) than in 1-3Q20 due to lower ‘other non-interest income’result.

Total costs amounted to PLN1,208mn in 1-3Q21 translating into 10% 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 showed a y/y decrease of 3%.

Operating costs *(PLNmn)*	**1-3Q 2021**	**1-3Q 2020**	**Change y/y**	**3Q21**	**2Q21**	**Change q/q**
Personnel costs	(613.3)	(662.8)	-7.5%	(202.3)	(205.4)	-1.5%
Other administrative costs *	(594.9)	(672.4)	-11.5%	(200.0)	(173.1)	15.6%
– *of which Banking Guarantee Fund (BFG) fees*	*(100.7)*	*(140.4)*	*-28.3%*	*(17.4)*	*(30.2)*	*-42.3%*
Total operating costs	(1 208.2)	(1 335.1)	-9.5%	(402.3)	(378.5)	6.3%
*of which Euro Bank integration costs ***	*0.0*	*(52.4)*	*-*	*0.0*	*0.0*	*-*
Total costs without BFG	*(1 107.5)*	*(1 194.7)*	*-7.3%*	*(384.9)*	*(348.3)*	*10.5%*
*Total costs without integration costs ***	*(1 208.2)*	*(1 282.7)*	*-5.8%*	*(402.3)*	*(378.5)*	*6.3%*
*Total costs without integrat. costs and BFG ***	*(1 107.5)*	*(1 142.3)*	*-3.1%*	*(384.9)*	*(348.3)*	*10.5%*
Cost/income ytd - reported	45.9%	50.0%	-4.2 pp	47.6%	41.0%	-6.5 pp
*Cost/income ytd - adjusted ****	*43.1%*	*46.2%*	-3.1 pp	*43.8%*	*39.9%*	-3.9 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 PLN613mn and decreased by 7% y/y (-2% q/q). After incorporating employees coming from Euro Bank (2.4 thousand FTEs in May 2019) the Group gradually reduced its personnel to 7,035 FTEs at the end of September 2021 which translates into an annual reduction of 811 FTEs (-10% y/y). Without employees absent due to long leaves ('active FTEs'), the headcount was much lower, i.e. at 6,366 staff. Without allocated costs resulting from integration and restructuring in 1-3Q20, the personnel costs decreased by 3% y/y.

Employment *(FTEs)*	**30.09.2021**	**30.09.2020**	**Change y/y**	**30.06.2021**	**Change q/q**
Bank Millennium S.A.	6 696	7 514	-10.9%	6 802	-1.6%
Subsidiaries	339	332	2.0%	346	-2.0%
Total Bank Millennium Group	7 035	7 846	-10.3%	7 148	-1.6%
Total BM Group (active* FTEs)	6 366	7 014	-9.2%	6 454	-1.4%

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

Other administrative costs (including depreciation) reached PLN595mn in 1-3Q21 and decreased by 12% y/y. The costs without BFG and integration costs decreased by 3% 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 665 outlets at the end of September 2021 (annual reduction of 61 outlets).

Cost-to-income ratio without extraordinary items mentioned above and with equal distribution of BFG costs throughout the year, reached 43.1% in 1-3Q21 and was 3.1 percentage points lower compared to the 1-3Q20 level.

Net profit (PLNmn)	1-3Q 2021	1-3Q 2020	Change y/y	3Q21	2Q21	Change q/q
Operating income	2 635.0	2 668.3	-1.2%	845.6	922.5	-8.3%
Operating costs *	(1 208.2)	(1 335.1)	-9.5%	(402.3)	(378.5)	6.3%
Impairment provisions and other cost of risk **	(217.0)	(513.2)	-57.7%	(83.5)	(57.3)	45.7%
- of which Covid-19 risk related provision	0.0	(75.9)	-	0.0	0.0	-
FX legal risk related provision	(1 573.2)	(297.7)	428.5%	(526.1)	(513.6)	2.4%
Banking tax	(230.6)	(209.0)	10.3%	(78.6)	(76.9)	2.2%
Pre-income tax profit	(593.9)	313.3	-	(244.9)	-103.9	-
Income tax	(229.1)	(181.4)	26.3%	(66.4)	(96.4)	-31.2%
Net profit - reported	(823.0)	131.9	-	(311.3)	-200.3	-
Net profit - adjusted*	802.7	529.7	51.5%	257.3	320.0	-19.6%

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

(**) including fair value adjustment on loans (PLN 39.2mn in 1-3Q21 and PLN-32.2 mn in 1-3Q20) and loans modification effect (PLN-9.4mn in 1-3Q21 and PLN-10.1mn in 1-3Q20)

(***) without extraordinary items, i.e. provisions for FX mortgage legal risk, costs of amicable settlements with FX-mortgage borrowers, legal costs related to FX-mortgages 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 PLN217mn in 1-3Q21 and was 58% lower than in 1-3Q20. The higher level of provisions one year ago resulted from additional provisions for risk related to COVID-19 impact in 1-3Q20 (amounting to PLN76mn) as well as changes in the risk model in the retail segment with introduction of more conservative default definition. Total provisions for 3Q21 amounted to PLN84mn.

Risk charges for retail segment in 1-3Q21 stood at PLN196mn, while for the corporate segment and other they amounted to PLN21mn. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 1-3Q21 reached 36 basis points compared to 92 basis points in 1-3Q20.

In 1-3Q21, the Bank sold portfolios of consumer NPLs (no such transaction in 3Q21). The transactions generated PLN32.7mn positive pre-tax result.

Additionally, in 1-3Q21 the Bank continued to create provisions for legal risk related to FX-mortgage portfolio. These were high, reaching PLN1,573mn (PLN1,424mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees). The balance of provisions increased to PLN2,561mn or PLN2,375mn excluding loans originated by Euro Bank, the former being an equivalent of 20.3% of the FX-mortgage portfolio originated by Bank Millennium.

Pre-income tax result in 1-3Q21 was negative and amounted to PLN594mn (PLN245mn loss in 3Q21). This was mostly the result of the above mentioned high FX-mortgage provisions as the pre-provision profit amounted to PLN1,427mn and was up 7% y/y. In addition to provisions, banking tax had significant impact on the value of losses decreasing the operating result by PLN231mn.

In 1-3Q21 the Group reported net loss of PLN823mn (PLN311mn loss in 3Q21). The net loss was substantially higher that the pre-tax loss due to negative impact of corporate income tax in the amount of PLN 229mn. Adjusted for the abovementioned extraordinary items (i.a. FX-mortgage related costs and linear spread of BFG resolution fund fee) the Group would achieve the net profit of PLN803mn in 1-3Q21, which is 52% higher compared to adjusted 1-3Q20 net profit of PLN530mn.

Loans and advances to clients

Total **net loans** of Bank Millennium Group reached PLN77,280mn as at the end of September 2021 and grew 7% y/y (+2% q/q). The growth of loans without foreign currency mortgage portfolio was visibly higher, at 15% y/y. FX mortgage loans decreased visibly during the last twelve months (down 26%) 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 12.6% on 30 September 2021 from 18.1% a year ago.

The net value of loans to households amounted to PLN58,329mn as at the end of September 2021, showing a growth of 7% y/y (+2% q/q). Within this line PLN mortgages grew strongly by 28% y/y while growth rate of consumer loans slowed down to 4% y/y.

In 3Q21 disbursements of mortgage loans reached PLN2.25bn and PLN6.95bn in 1-3Q21, translating into an exceptionally high annual growth of 50%.

The net value of consumer loans reached PLN15,923mn growing by 4% y/y (+2% q/q). Origination of cash loans rebounded in 1-3Q21 reaching the value of PLN4.3bn. The y/y the growth was as high as 20% y/y fuelled by growing quarterly disbursement much above pre-covid levels (record sale in 3Q21 of almost PLN1.6bn of cash loans).

Net value of loans to companies amounted to PLN18,951mn as at the end of September 2021 and increased by 5% y/y supported by rebound in leasing business, after a period of deceleration due to adverse effect of the COVID-19 pandemic on new lending to companies.

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

Loans and advances to clients *(PLN million)*	30.09.2021	30.09.2020	Change y/y	30.06.2021	Change q/q
Loans to households	58 328.7	54 300.3	*7.4%*	57 079.3	*2.2%*
- *PLN mortgage loans*	*31 752.0*	*24 720.3*	*28.4%*	*29 898.1*	*6.2%*
- *FX mortgage loans*	*10 653.8*	*14 337.5*	*-25.7%*	*11 591.1*	*-8.1%*
- *of which Bank Millennium loans*	*9 856.7*	*13 347.2*	*-26.2%*	*10 665.4*	*-7.6%*
- *of which ex-Euro Bank loans*	*797.1*	*990.3*	*-19.5%*	*925.7*	*-13.9%*
- *consumer loans*	*15 922.9*	*15 242.4*	*4.5%*	*15 590.1*	*2.1%*
Loans to companies and public sector	18 950.9	18 121.1	*4.6%*	18 714.9	*1.3%*
- *leasing*	*6 657.1*	*6 311.2*	*5.5%*	*6 390.8*	*4.2%*
- *other loans to companies and factoring*	*12 293.8*	*11 810.0*	*4.1%*	*12 324.2*	*-0.2%*
Net loans & advances to clients	**77 279.7**	**72 421.4**	*6.7%*	**75 794.3**	*2.0%*
Net loans and advances to clients excluding FX mortgage loans	*66 625.9*	*58 083.9*	*14.7%*	*64 203.2*	*3.8%*
Impairment write-offs	2 509.0	2 418.4	*3.7%*	2 448.8	*2.5%*
Gross* loans and advances to clients	**79 788.7**	**74 839.8**	*6.6%*	**78 243.1**	*2.0%*

(*) 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.

Customers' deposits

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

Customer deposits *(PLN million)*	30.09.2021	30.09.2020	Change y/y	30.06.2021	Change q/q
Deposits of individuals	64 965.0	61 933.2	4.9%	64 966.1	0.0%
Deposits of companies and public sector	25 285.1	23 919.3	5.7%	25 032.4	1.0%
Total deposits	90 250.1	85 852.5	5.1%	89 998.5	0.3%

Total deposits amounted to PLN90,250mn as at 30 September 2021 and increased by 5% y/y (stable quarterly). The main driver of this growth were deposits on current and saving accounts which increased by PLN6.8bn vs. 30 September 2020 (or by 10%), whereas term deposits dropped by PLN2.4bn or 13% y/y at the same time.

Deposits of individuals reached PLN64,965mn as at 30 September 2021, growing 5% y/y. Current and saving accounts of individuals continued to grow at a considerable pace (up 9% y/y) and term deposits dropped 14% 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 September 2021.

Total deposits of companies and public sector reached PLN25,285mn as at the end of September 2021 and grew by 6% y/y.

LIQUIDITY, ASSET QUALITY AND SOLVENCY

The liquidity position of Bank Millennium Group remained very strong during 3Q21. LCR ratio at 184% as at the end of September 2021 was materially above the 100% minimum. Loan-to-deposit ratio remained at low level of 86% and the share of liquid securities (mainly treasury bonds and NBP bills) in Group's total assets remained considerable at 20%.

Group loans quality and liquidity indicators *(PLNmn)*	30.09.2021	31.12.2020	30.09.2020
Total impaired loans	3 712	3 792	3 554
Impairment provisions	2 437	2 373	2 310
FV correction	72	117	108
Total impairment provisions and FV correction	**2 509**	**2 489**	**2 418**
Impaired over total loans ratio (%)	**4.65%**	**4.95%**	**4.74%**
Loans past-due over 90 days /total loans (%)	2.53%	2.74%	2.82%
Coverage ratio (Total provisions + FV correction/impaired loans) (%)	**67.6%**	**65.7%**	**68.1%**
Total provisions and FV correction/loans past-due (>90d) (%)	124.3%	118.8%	114.5%
Liquidity Coverage Ratio (LCR) for Group	**184%**	**161%**	**177%**

The Group continued to exhibit one of the best asset quality among Polish banks: the share of impaired loans in total loan portfolio remained at the low level of 4.65%. The share of loans past-due more than 90 days in total portfolio decreased from 2.82% in September 2020 to 2.53% at the end of September 2021.

Coverage ratio of impaired loans decreased slightly during the year from 68.1% at the end of September 2020 to 67.6% at the end of September 2021. On the other hand, coverage of loans past-due by more than 90 days increased during the year from 114.5% up to 124.3%, because of increase of provisions due to high dynamics of total portfolio development.

The dynamics of the impaired loan ratio shows a differentiation of trends between product segments. In the retail portfolio, there was an improvement y/y for mortgage loans - a decrease from 2.46% in September 2020 and 2.48% at the end of 2020 to 2.24%, while other retail products showed an increase from 10.75% to 11.21% at the end of September 2021. An improvement was observed in the leasing portfolio (from 4.15% to 3.18%) due to, among other things, a large write-off of receivables against provisions. In the corporate portfolio, the ratio deteriorated from 4.07% to 4.27%.

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

In 3Q21 compared to the previous quarter, Group TCR decreased (by 48bp), and regarding T1 and CET1 the change was similar (decrease by 51bp).

Main capital adequacy ratios:

Main capital indicators* *(PLNmn)*	**30.09.2021**	**30.06.2021**	**30.09.2020**
Risk-weighted assets (RWA) for Group	50,220.2	50,677.5	50,305.4
Risk-weighted assets (RWA) for Bank	49,721.7	50,173.4	49,790.8
Own funds requirements for Group	4,017.2	4,054.2	4,024.4
Own funds requirements for Bank	3,977.7	4,013.9	3,983.3
Own funds for Group	9,123.8	9,451.1	9,843.5
Own funds for Bank	8,957.8	9,317.3	9,602.6
Total Capital Ratio (TCR) for Group	**18.17%**	**18.65%**	**19.57%**
Minimum required level TCR	14.10%	14.10%	15.37%
Total Capital Ratio (TCR) for Bank	18.02%	18.57%	19.29%
Tier 1 ratio for Group	**15.12%**	**15.63%**	**16.53%**
Minimum required level T1	11.27%	11.27%	12.15%
Tier 1 ratio for Bank	14.94%	15.25%	16.21%
Common Equity Tier 1 (=T1) ratio for Group	**15.12%**	**15.63%**	**16.53%**
Minimum required level CET1	9.13%	9.13%	9.73%
Common Equity Tier 1 (=T1) ratio for Bank	14.94%	15.25%	16.21%
Leverage Ratio (LR) for Group	**7.09%**	**7.60%**	**8.06%**

(*) Capital ratios are calculated according to transitional arrangements mitigating the impact of IFRS9 implementation on CET 1 capital.

The drop of capital ratios was driven mainly by the fall of own funds by PLN327m (by 3.5%), being first chiefly a result of 3Q21 net loss. From the other hand, a reduction of risk-weighted assets by PLN457m (by 0.9%) eased a negative effect of capital base decrease.

Minimum required level of capital includes:

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements 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 banks by KNF every year because 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 the Bank and of 2.52pp in the Group, and which corresponds to capital requirements over CET 1 ratio of 1.91pp in the Bank and 1.88pp in the Group;
- Combined buffer – defined in Act on macro prudential supervision over the financial system and crisis management – that consists of:
  - Capital conservation buffer at the level of 2.5%,
  - Other systemically important institution buffer (OSII) – at the level of 0.25%, and the value is set by KNF every year,
  - Systemic risk buffer at the level of 0%, reduced from 3% in March 2020,
  - Countercyclical buffer at the 0% level.

Bank Millennium S.A. considers an issue of bonds which would be qualified as eligible liabilites of the Bank and as a result it will conduct an analysis of demand for such debt instruments. A decision on a potential bond issuance will be made upon analysis of the demand for bonds and analysis of expectations on their parameters from potential bond buyers.

INFORMATION ON SHARES AND RATINGS

In 3Q21 higher than expected inflation readouts and ensuing expectations about imminent interest rate hikes were supporting bank share prices. During 12 months ending 30 September 2021 WIG Banks index grew 107%, WIG, the broad market index, grew 42% whole WIG20, the index of largest companies, grew 35%. At the same time, the price of Bank Millennium shares increased 144%.

Meanwhile since the start of the year the share price of Bank Millennium shares increased 106%, while the bank index gained 61%.

Bank Millennium: ytd share price performance vs. WIG Banks

In 3Q21 the average daily turnover of Bank Millennium shares was practically unchanged compared to the same period last year

Market ratios	30.09.2021	30.12.2020*	Change ytd (%)	30.09.2020	Change y/y (%)
Number of the Bank's shares (th)	1 213 117	1 213 117	0,00%	1 213 117	0.00%
Average daily turnover in annual terms (th)	7 639			7 665	-0.3%
Bank share price (PLN)	6,74	3.27	106.1%	2,76	143.8%
Market capitalization of the Bank (PLNmn)	8 176	3 967	106.1%	3 353	143.8%
WIG Banks	7 658	4 765	60.7%	3 699	107.0%
WIG20	2 310	1 984	16.4%	1 713	34.9%
WIG30	2 801	2 313	21.1%	1 959	42.9%
WIG - main index	70 341	57 026	23.3%	49 412	42.4%

(*) last trading day in December 2020.

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.

Ratings of Bank Millennium

On 10 September 2021, rating agency Fitch Ratings removed rating of Bank Millennium from Negative Rating Watch list with negative outlook and affirmed Long-term Issuer Default Rating at 'BBB-' with a negative outlook (details in CR 29/2021, Current reports - Investor relations - Bank Millennium).

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

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

CONSOLIDATED REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR 3RD QUARTER OF 2021

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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2021

CONTENTS

1. General Information about Issuer

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

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

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

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 7,000 employees with core business comprising banking (including mortgage bank), leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

Supervisory Board and Management Board of Bank Millennium S.A. as at 30 September 2021

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

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

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

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

Capital Group of Bank Millennium S.A.

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

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

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

2. Introduction and Accounting Policy

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

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

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

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

The Management Board approved these condensed consolidated interim financial statements on 25th October 2021.

Changes of applied accounting principles introduced in 2021

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

Income statement line	Data for the III quarters of 2020 presented in the consolidated financial statements for the III quarter of 2020	Valu of adjustment	Data for the III quarters 2020 presented in these consolidated financial statements for III quarter of 2021
Interest income and other of similar nature	2 430 080	31 256	2 461 336
Results on financial assets and liabilities held for trading	40 055	(31 256)	8 799

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

Balance sheet item	Data presented previously in consolidated financial statements	Value of adjustment	Data presented in consolidated financial statements for III quarter of 2021
31.12.2020			
Loans and advances to customers valued at amortised cost	72 472 589	(449 000)	72 023 589
Provisions for pending legal issues	555 922	(449 000)	106 922
30.09.2020			
Loans and advances to customers valued at amortised cost	72 589 651	(168 239)	72 421 412
Provisions for pending legal issues	324 316	(168 239)	156 077
01.01.2020			
Loans and advances to customers valued at amortised cost	68 117 195	(73 723)	68 043 472
Provisions for pending legal issues	111 785	(73 723)	38 062

3. Consolidated Financial Data (Group)

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Net interest income		**1 946 044**	**668 878**	**1 958 425**	**628 571**
Interest income and other of similar nature	1	2 036 306	696 410	2 461 336	697 622
Income calculated using the effective interest method		1 977 739	678 899	2 371 138	680 729
Interest income from Financial assets at amortised cost		1 870 914	645 549	2 106 937	612 538
Interest income from Financial assets at fair value through other comprehensive income		106 825	33 350	264 201	68 191
Income of similar nature to interest from Financial assets at fair value through profit or loss		58 567	17 511	90 198	16 893
Interest expenses	2	(90 262)	(27 532)	(502 911)	(69 051)
Net fee and commission income		615 652	201 565	553 326	179 798
Fee and commission income	3	751 746	251 897	706 868	235 165
Fee and commission expenses	4	(136 094)	(50 332)	(153 542)	(55 367)
Dividend income		3 438	735	3 542	274
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	10 238	973	78 023	29 103
Results on financial assets and liabilities held for trading	6	(7 145)	(1 112)	8 799	3 290
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	53 808	43 348	(13 153)	5 777
Result on hedge accounting		(1 754)	(1 480)	(10 740)	(2 708)
Result on exchange differences		(76 861)	(89 173)	106 236	34 603
Other operating income		210 689	94 249	88 575	23 898
Other operating expenses		(79 869)	(27 197)	(136 914)	(21 112)
Administrative expenses	8	(1 057 305)	(352 116)	(1 176 160)	(360 348)
Impairment losses on financial assets	9	(241 368)	(125 519)	(465 739)	(142 105)
Impairment losses on non-financial assets		(5 387)	(448)	(5 178)	(587)
Provisions for legal risk connected with FX mortgage loans		(1 573 157)	(526 113)	(297 673)	(129 654)
Result on modification		(9 436)	(2 705)	(10 090)	(1 858)
Depreciation		(150 870)	(50 195)	(158 956)	(51 743)
Share of the profit of investments in subsidiaries		0	0	0	0
Banking tax		(230 599)	(78 631)	(209 027)	(67 839)
Profit before income taxes		**(593 882)**	**(244 941)**	**313 296**	**127 360**
Corporate income tax	10	(229 074)	(66 367)	(181 426)	(67 214)
Profit after taxes		**(822 956)**	**(311 308)**	**131 870**	**60 146**
Attributable to:					
Owners of the parent		(822 956)	(311 308)	131 870	60 146
Non-controlling interests		0	0	0	0
Weighted average number of outstanding ordinary shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)		(0,68)	(0,26)	0,11	0,05

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Profit after taxes	(822 956)	(311 308)	131 870	60 146
Other comprehensive income items that may be (or were) reclassified to profit or loss	(352 912)	(106 412)	187 382	(42 970)
Result on debt securities	(278 691)	(71 032)	204 355	(33 955)
Hedge accounting	(74 221)	(35 380)	(16 973)	(9 015)
Other comprehensive income items that will not be reclassified to profit or loss	(29)	(43)	42	24
Actuarial gains (losses)	0	0	0	0
Result on equity instruments	(29)	(43)	42	24
Total comprehensive income items before taxes	**(352 941)**	**(106 455)**	**187 424**	**(42 946)**
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	67 053	20 217	(35 603)	8 164
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	6	9	(8)	(5)
Total comprehensive income items after taxes	**(285 882)**	**(86 229)**	**151 813**	**(34 787)**
Total comprehensive income for the period	**(1 108 838)**	**(397 537)**	**283 683**	**25 359**
Attributable to:				
Owners of the parent	(1 108 838)	(397 537)	283 683	25 359
Non-controlling interests	0	0	0	0

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Cash, cash balances at central banks		1 977 706	2 676 407	1 460 289	1 181 740
Financial assets held for trading	11	283 545	226 620	423 846	480 355
Derivatives		133 313	125 023	154 188	155 792
Equity instruments		140	285	245	258
Debt securities		150 092	101 312	269 413	324 305
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers		194 622	158 516	251 107	188 628
Equity instruments		139 178	103 072	200 772	142 305
Debt securities		55 444	55 444	50 335	46 323
Financial assets at fair value through other comprehensive income	12	21 015 843	22 010 922	18 642 615	24 795 607
Equity instruments		29 514	29 549	29 538	29 705
Debt securities		20 986 329	21 981 373	18 613 077	24 765 902
Loans and advances to customers	13	77 279 678	75 794 251	73 639 342	72 421 412
Mandatorily at fair value through profit or loss		497 780	1 671 619	1 615 753	1 586 693
Valued at amortised cost		76 781 898	74 122 632	72 023 589	70 834 719
Financial assets at amortised cost other than Loans and advances to customers	14	624 781	660 924	730 598	946 625
Debt securities		37 156	37 057	38 818	42 946
Deposits, loans and advances to banks and other monetary institutions		578 225	605 506	625 430	862 165
Reverse sale and repurchase agreements		9 400	18 361	66 350	41 514
Derivatives – Hedge accounting	15	4 953	38 102	21 795	29 350
Investments in subsidiaries, joint ventures and associates		0	0	0	0
Tangible fixed assets		533 736	543 763	571 813	571 831
Intangible fixed assets		377 321	367 933	384 781	368 800
Income tax assets		687 593	686 385	665 174	584 995
Current income tax assets		8 891	8 595	3 883	3 472
Deferred income tax assets	17	678 702	677 790	661 291	581 523
Other assets		793 293	925 434	509 035	478 022
Non-current assets and disposal groups classified as held for sale		18 409	17 772	22 390	30 796
Total assets		**103 791 480**	**104 107 030**	**97 322 785**	**102 078 161**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	30.09.2021	30.06.2021	31.12.2020	30.09.2020
LIABILITIES					
Financial liabilities held for trading	11	109 499	77 594	168 553	156 426
Derivatives		88 151	66 499	103 775	119 371
Liabilities from short sale of securities		21 348	11 095	64 778	37 055
Financial liabilities measured at amortised cost		92 609 308	92 591 374	84 915 527	89 604 569
Liabilities to banks and other monetary institutions	18	529 445	742 313	1 057 652	1 105 330
Liabilities to customers	19	90 250 053	89 998 487	81 510 540	85 852 463
Sale and repurchase agreements	20	0	0	248 566	448 535
Debt securities issued	21	290 594	310 694	558 560	658 917
Subordinated debt	22	1 539 216	1 539 881	1 540 209	1 539 324
Derivatives - Hedge accounting	15	334 770	251 303	738 850	653 259
Provisions	23	378 644	408 301	158 650	218 225
Pending legal issues		331 512	362 095	106 922	156 077
Commitments and guarantees given		47 132	46 206	51 728	62 148
Income tax liabilities		22 688	14 183	30 843	46 331
Current income tax liabilities		22 688	14 183	30 843	46 331
Deferred income tax liabilities	17	0	0	0	0
Other liabilities		2 357 807	2 387 965	2 219 386	2 177 269
Total Liabilities		**95 812 716**	**95 730 720**	**88 231 809**	**92 856 079**
EQUITY					
Share capital		1 213 117	1 213 117	1 213 117	1 213 117
Own shares		(3 395)	(3 386)	(21)	(3 120)
Share premium		1 147 502	1 147 502	1 147 502	1 147 502
Accumulated other comprehensive income		(86 025)	204	199 857	221 906
Retained earnings		5 707 565	6 018 873	6 530 521	6 642 677
Total equity		7 978 764	8 376 310	9 090 976	9 222 082
Total equity and total liabilities		**103 791 480**	**104 107 030**	**97 322 785**	**102 078 161**

Book value of net assets		7 978 764	8 376 310	9 090 976	9 222 082
Number of shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)		6,58	6,90	7,49	7,60

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total consolidated equity	Share capital	Own shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Unappropriated result
01.01.2021 - 30.09.2021							
Equity at the beginning of the period	9 090 976	1 213 117	(21)	1 147 502	199 857	156 258	6 374 263
Total comprehensive income for period (net)	(1 108 838)	0	0	0	(285 882)	(822 956)	0
net profit/ (loss) of the period	(822 956)	0	0	0	0	(822 956)	0
valuation of debt securities	(225 740)	0	0	0	(225 740)	0	0
valuation of shares	(23)	0	0	0	(23)	0	0
hedge accounting	(60 119)	0	0	0	(60 119)	0	0
Purchase and transfer of own shares to employees	(3 374)	0	(3 374)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	(15 636)	15 636
Equity at the end of the period	**7 978 764**	**1 213 117**	**(3 395)**	**1 147 502**	**(86 025)**	**(682 334)**	**6 389 899**
01.07.2021 - 30.09.2021							
Equity at the beginning of the period	8 376 310	1 213 117	(3 386)	1 147 502	204	(371 026)	6 389 899
Total comprehensive income for period (net)	(397 537)	0	0	0	(86 229)	(311 308)	0
net profit/ (loss) of the period	(311 308)	0	0	0	0	(311 308)	0
valuation of debt securities	(57 537)	0	0	0	(57 537)	0	0
valuation of shares	(34)	0	0	0	(34)	0	0
hedge accounting	(28 658)	0	0	0	(28 658)	0	0
Purchase and transfer of own shares to employees	(9)	0	(9)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	0	0
Equity at the end of the period	**7 978 764**	**1 213 117**	**(3 395)**	**1 147 502**	**(86 025)**	**(682 334)**	**6 389 899**
01.01.2020 - 31.12.2020							
Equity at the beginning of the period	**8 941 519**	**1 213 117**	**0**	**1 147 502**	**70 093**	**692 065**	**5 818 742**
Total comprehensive income for period (net)	152 581	0	0	0	129 764	22 817	0
net profit/ (loss) of the period	22 817	0	0	0	0	22 817	0
valuation of debt securities	142 788	0	0	0	142 788	0	0
valuation of shares	(105)	0	0	0	(105)	0	0
hedge accounting	(12 582)	0	0	0	(12 582)	0	0
actuarial gains/losses	(337)	0	0	0	(337)	0	0
Purchase and transfer of own shares to employees	(3 124)	0	(21)	0	0	0	(3 103)
Transfer between items of reserves	0	0	0	0	0	(558 624)	558 624
Equity at the beginning of the period	**9 090 976**	**1 213 117**	**(21)**	**1 147 502**	**199 857**	**156 258**	**6 374 263**
01.01.2020 - 30.09.2020							
Equity at the beginning of the period	8 941 519	1 213 117	0	1 147 502	70 093	692 065	5 818 742
Total comprehensive income for period (net)	283 683	0	0	0	151 813	131 870	0
net profit/ (loss) of the period	131 870	0	0	0	0	131 870	0
valuation of debt securities	165 527	0	0	0	165 527	0	0
valuation of shares	34	0	0	0	34	0	0
hedge accounting	(13 748)	0	0	0	(13 748)	0	0
Purchase and transfer of own shares to employees	(3 120)		(3 120)				
Transfer between items of reserves	0	0	0	0	0	(558 624)	558 624
Equity at the end of the period	**9 222 082**	**1 213 117**	**(3 120)**	**1 147 502**	**221 906**	**265 311**	**6 377 366**

CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Profit (loss) after taxes	(822 956)	(311 308)	131 870	60 146
Total adjustments:	4 434 512	(1 308 625)	2 350 002	(990 901)
Interest received	2 064 209	734 209	2 417 577	688 981
Interest paid	(90 542)	(29 999)	(501 948)	(89 976)
Depreciation and amortization	150 870	50 195	158 956	51 743
Foreign exchange (gains)/ losses	0	0	12 408	(25 230)
Dividends	(3 438)	(735)	(3 542)	(274)
Changes in provisions	219 994	(29 657)	53 047	169 652
Result on sale and liquidation of investing activity assets	(10 129)	(491)	(84 954)	(30 972)
Change in financial assets held for trading	51 722	(123 484)	301 784	(10 696)
Change in loans and advances to banks	193 947	(90 983)	(288 334)	(44 346)
Change in loans and advances to customers	(5 484 951)	(2 138 517)	(4 777 190)	(1 723 362)
Change in receivables from securities bought with sell-back clause (loans and advances)	56 950	8 961	157 488	23 862
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(463 134)	115 372	29 838	(68 587)
Change in deposits from banks	(426 866)	(185 891)	(165 068)	(29 543)
Change in deposits from customers	8 822 977	279 274	4 989 762	(197 924)
Change in liabilities from securities sold with buy-back clause	(248 518)	39	365 607	448 645
Change in debt securities	(265 425)	(19 922)	(211 463)	(106 517)
Change in income tax settlements	232 938	70 165	170 557	66 238
Income tax paid	(195 687)	(42 642)	(239 982)	(71 255)
Change in other assets and liabilities	(203 377)	85 601	(76 771)	(52 464)
Other	32 972	9 880	42 231	11 125
Net cash flows from operating activities	3 611 556	(1 619 933)	2 481 872	(930 755)

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Inflows:	10 710	461 397	26 189	448 184
Proceeds from sale of property, plant and equipment and intangible assets	7 272	322	22 647	7 950
Proceeds from sale of shares in related entities	0	0	0	0
Proceeds from sale of investment financial assets	0	460 340	0	439 960
Other	3 438	735	3 542	274
Outflows:	(832 395)	(34 028)	(4 068 743)	(14 630)
Acquisition of property, plant and equipment and intangible assets	(59 714)	(34 028)	(41 029)	(14 630)
Acquisition of shares in related entities	0	0	0	0
Acquisition of investment financial assets	(772 681)	0	(4 027 714)	0
Other	0	0	0	0
Net cash flows from investing activities	(821 685)	427 369	(4 042 554)	433 554

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Inflows from financing activities:	0	0	13 000	0
Long-term bank loans	0	0	13 000	0
Issue of debt securities	0	0	0	0
Increase in subordinated debt	0	0	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
Outflows from financing activities:	(127 043)	(35 397)	(792 958)	(402 496)
Repayment of long-term bank loans	(89 147)	(19 300)	(432 048)	(380 484)
Redemption of debt securities	0	0	(299 440)	0
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(37 896)	(16 097)	(61 470)	(22 012)
Net cash flows from financing activities	(127 043)	(35 397)	(779 958)	(402 496)

D. Net cash flows. Total (A + B + C)	2 662 828	(1 227 961)	(2 340 640)	(899 697)
- including change resulting from FX differences	3 357	5 283	7 517	1 127
E. Cash and cash equivalents at the beginning of the reporting period	1 586 434	5 477 223	3 752 789	2 311 846
F. Cash and cash equivalents at the end of the reporting period (D + E)	4 249 262	4 249 262	1 412 149	1 412 149

4. Notes to Consolidated Financial Data

1) Interest income and other of similar nature

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Interest income from Financial assets at fair value through other comprehensive income	106 825	33 350	264 201	68 191
Debt securities	106 825	33 350	264 201	68 191
Interest income from Financial assets at amortised cost	1 870 914	645 549	2 106 937	612 538
Balances with the Central Bank	315	109	5 148	79
Loans and advances to customers	1 793 850	621 981	1 942 389	578 781
Debt securities	449	148	898	187
Deposits, loans and advances to banks	(109)	(53)	782	210
Transactions with repurchase agreements	0	0	6 437	(2)
Hedging derivatives	76 409	23 364	151 283	33 283
Income of similar nature to interest, including:	58 567	17 511	90 198	16 893
Loans and advances to customers mandatorily at fair value through profit or loss	48 969	13 751	55 073	11 863
Financial assets held for trading - derivatives	9 164	3 612	31 256	4 626
Financial assets held for trading - debt securities	434	148	3 869	404
Total	**2 036 306**	**696 410**	**2 461 336**	**697 622**

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

Interest income for the III quarters 2021 contains interest accrued on impaired loans in the amount of PLN 79,682 thous. (for corresponding data in the year 2020 the amount of such interest stood at PLN 81,222 thous.).

2) Interest expenses and other of similar nature

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Financial liabilities measured at amortised cost	(90 260)	(27 532)	(502 876)	(69 040)
Liabilities to banks and other monetary institutions	(4 790)	(1 273)	(15 865)	(3 656)
Liabilities to customers	(47 005)	(13 717)	(419 570)	(50 001)
Transactions with repurchase agreement	(48)	(39)	(7 784)	(110)
Debt securities issued	(3 152)	(788)	(11 970)	(2 291)
Subordinated debt	(29 202)	(9 834)	(41 467)	(10 968)
Liabilities due to leasing agreements	(6 063)	(1 881)	(6 220)	(2 014)
Other	(2)	0	(35)	(11)
Total	**(90 262)**	**(27 532)**	**(502 911)**	**(69 051)**

3) FEE AND COMMISSION INCOME

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Resulting from accounts service	99 919	31 340	75 424	27 501
Resulting from money transfers, cash payments and withdrawals and other payment transactions	57 835	20 111	49 958	17 648
Resulting from loans granted	156 408	51 781	140 897	46 222
Resulting from guarantees and sureties granted	9 928	3 269	10 333	3 383
Resulting from payment and credit cards	172 712	63 886	161 292	57 034
Resulting from sale of insurance products	118 555	35 667	136 418	35 566
Resulting from distribution of investment funds units and other savings products	49 879	15 062	47 602	18 616
Resulting from brokerage and custody service	12 939	3 682	14 220	4 757
Resulting from investment funds managed by the Group	52 134	19 526	48 876	16 698
Other	21 437	7 573	21 848	7 740
Total	751 746	251 897	706 868	235 165

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

4) FEE AND COMMISSION EXPENSE

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Resulting from accounts service	(2 686)	(1 716)	(15 385)	(5 310)
Resulting from money transfers. cash payments and withdrawals and other payment transactions	(3 435)	(1 169)	(3 402)	(1 168)
Resulting from loans granted	(21 873)	(7 914)	(25 397)	(7 785)
Resulting from payment and credit cards	(65 976)	(25 854)	(71 954)	(27 150)
Resulting from brokerage and custody service	(2 356)	(674)	(2 455)	(884)
Resulting from investment funds managed by the Group	(8 518)	(3 146)	(7 949)	(2 539)
Resulting from insurance activity	(12 521)	(2 879)	(12 867)	(5 293)
Other	(18 729)	(6 980)	(14 133)	(5 238)
Total	(136 094)	(50 332)	(153 542)	(55 367)

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

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

Taking into consideration this verdict, the Group as at 30 September 2021 had a provision **in** the amount of PLN 95,2 million which was estimated based on the maximum amount of potential returns and the probability of payment being made.

5) Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Operations on debt instruments	12 534	1 819	79 694	29 718
Costs of financial operations	(2 296)	(846)	(1 671)	(615)
Total	10 238	973	78 023	29 103

6) Results on financial assets and liabilities held for trading

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Result on debt instruments	(4 504)	(1 021)	10 379	3 182
Result on derivatives	(2 620)	(89)	(1 586)	92
Result on other financial operations	(21)	(2)	6	16
Total	(7 145)	(1 112)	8 799	3 290

7) Results non-trading financial assets mandatorily at fair value through profit or loss

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Loans and advances to customers	39 205	45 196	(32 171)	(5 754)
Result on equity instruments	9 494	(1 848)	75 696	75 696
Result on debt instruments	5 109	0	(56 678)	(64 165)
Total	53 808	43 348	(13 153)	5 777

8) ADMINISTRATIVE EXPENSES

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Staff costs:	(613 290)	(202 275)	(662 752)	(211 552)
Salaries	(503 539)	(167 266)	(547 328)	(170 734)
Surcharges on pay	(87 233)	(27 992)	(91 860)	(27 006)
Employee benefits, including:	(22 518)	(7 017)	(23 564)	(13 812)
- provisions for retirement benefits	(4 536)	(1 068)	(4 319)	(1 539)
- provisions for unused employee holiday	(42)	(22)	(24)	(5)
- other	(17 940)	(5 927)	(19 221)	(12 268)
Other administrative expenses:	(444 015)	(149 841)	(513 408)	(148 796)
Costs of advertising, promotion and representation	(40 189)	(12 851)	(40 836)	(10 742)
IT and communications costs	(93 566)	(34 029)	(97 290)	(31 250)
Costs of renting	(40 951)	(12 861)	(60 862)	(20 543)
Costs of buildings maintenance, equipment and materials	(30 028)	(9 757)	(39 093)	(10 683)
ATM and cash maintenance costs	(20 497)	(7 405)	(20 724)	(6 251)
Costs of consultancy, audit and legal advisory and translation	(43 232)	(17 512)	(21 363)	(6 240)
Taxes and fees	(25 924)	(8 146)	(24 477)	(7 353)
KIR - clearing charges	(6 826)	(2 387)	(5 790)	(1 908)
PFRON costs	(5 370)	(1 802)	(6 487)	(2 109)
Banking Guarantee Fund costs	(100 725)	(17 406)	(140 389)	(27 323)
Financial Supervision costs	(9 696)	(3 350)	(7 704)	(2 481)
Other	(27 011)	(22 335)	(48 393)	(21 913)
Total	**(1 057 305)**	**(352 116)**	**(1 176 160)**	**(360 348)**

9) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Impairment losses on loans and advances to customers	(246 048)	(124 756)	(457 281)	(136 576)
Impairment charges on loans and advances to customers	(1 189 950)	(363 511)	(1 334 494)	(427 948)
Reversal of impairment charges on loans and advances to customers	872 550	226 778	829 547	268 818
Amounts recovered from loans written off	40 603	13 662	36 221	11 134
Sale of receivables	32 623	(27)	11 404	11 420
Other directly recognised in profit and loss	(1 874)	(1 658)	41	0
Impairment losses on securities	0	4	50	0
Impairment charges on securities	(6)	0	0	0
Reversal of impairment charges on securities	6	4	50	0
Impairment losses on off-balance sheet liabilities	4 680	(767)	(8 508)	(5 529)
Impairment charges on off-balance sheet liabilities	(48 723)	(10 179)	(66 146)	(19 265)
Reversal of impairment charges on off-balance sheet liabilities	53 403	9 412	57 638	13 736
Total	**(241 368)**	**(125 519)**	**(465 739)**	**(142 105)**

10) Corporate income tax

10a. Income tax reported in income statement

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Current tax	(180 006)	(47 052)	(249 858)	(88 240)
Current year	(180 006)	(47 052)	(249 858)	(88 240)
Deferred tax:	(49 068)	(19 315)	68 432	21 026
Recognition and reversal of temporary differences	(61 773)	(39 291)	23 366	4 657
Recognition / (Utilisation) of tax loss	12 705	19 976	45 066	16 369
Total income tax reported in income statement	**(229 074)**	**(66 367)**	**(181 426)**	**(67 214)**

10b. Effective tax rate

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Profit before tax	(593 882)	(244 941)	313 296	127 360
Statutory tax rate	19%	19%	19%	19%
Income tax according to obligatory income tax rate of 19%	112 838	46 539	(59 526)	(24 198)
Impact of permanent differences on tax charges:	**(344 136)**	**(116 669)**	**(124 354)**	**(43 016)**
- Non-taxable income	30 162	11 017	8 761	2 460
Dividend income	460	4	527	3
Release of other provisions	29 696	14 775	2 151	159
Other	6	1	6 083	2 298
- Cost which is not a tax cost	(374 298)	(127 686)	(133 115)	(45 476)
Write-down of unrealized deferred tax assets	0	0	(171)	0
Loss on sale of receivables	(11)	0	(8)	0
PFRON fee	(1 019)	(347)	(1 218)	(386)
Fees for Banking Guarantee Fund	(19 137)	(3 307)	(26 673)	(5 190)
Banking tax	(43 814)	(14 940)	(39 715)	(12 889)
Income/cost of provisions for factoring and leasing receivables	679	342	644	979
Receivables written off	(17 915)	(6 616)	(1 270)	(265)
Costs of litigations and claims	(289 806)	(100 806)	(61 730)	(26 283)
Depreciation and insurance costs of cars (in excess of PLN 150,000)	(623)	(180)	(1 159)	(348)
costs related to concluded settlements	(302)	(302)	0	0
BFG SKOK Piast settements	(397)	(397)	0	0
Other	(1 953)	(1 133)	(1 815)	(1 094)
Deduction of the tax paid abroad	0	0	0	0
Other differences between the gross financial result and taxable income (including R&D relief)	2 224	0	2 454	0
Total income tax reported in income statement	**(229 074)**	**(70 130)**	**(181 426)**	**(67 214)**
Effective tax rate	/-/*	/-/*	57.91%	52.78%

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

10C. DEFERRED TAX REPORTED IN EQUITY

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Valuation of securities at fair value through other comprehensive income	(3 073)	(16 577)	(56 027)	(61 395)
Valuation of cash flow hedging instruments	22 542	15 819	8 439	8 713
Actuarial gains (losses)	708	708	708	628
Deferred tax reported directly in equity	20 177	(50)	(46 880)	(52 054)

Withholding tax audit for years 2015-17

On February 2019 the Head of Western Pomeranian Customs & Tax Office (Zachodniopomorski Urząd Celno-Skarbowy w Szczecinie, ZUCS) commenced tax audits regarding the correctness of withholding tax (WHT) settlements for years 2015 and 2016. On 17 December 2019 the Bank received audit results as of 13 December 2019, in which ZUCS questioned WHT-exemption on coupon interest from bonds paid to MB Finance AB with the seat in Sweden constituting a collateral to 10Y subordinated bonds with a par value of EUR 150 mio. issued by this company in December 2007 (fully amortized in December 2017). On 11 June 2021 Bank received 2nd instance decisions of ZUCS decreasing the amount of WHT arrear from PLN 6.6 to 5.3 mio. This amount with penalty interests were paid by Bank on 18 June 2021. Bank file a complaint on these decisions to the administrative court in Szczecin (WSA).

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

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

11) FINANCIAL ASSETS HELD FOR TRADING

11A. FINANCIAL ASSETS HELD FOR TRADING

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Debt securities	**150 092**	**101 312**	**269 413**	**324 305**
Issued by State Treasury	150 092	101 312	269 413	324 305
a) bills	0	0	0	0
b) bonds	150 092	101 312	269 413	324 305
Other securities	0	0	0	0
a) quoted	0	0	0	0
b) non quoted	0	0	0	0
Equity instruments	**140**	**285**	**245**	**258**
Quoted on the active market	140	285	245	258
a) financial institutions	44	147	97	99
b) non-financial institutions	96	138	148	159
Adjustment from fair value hedge	0	0	0	0
Positive valuation of derivatives	133 313	125 023	154 188	155 792
Total	**283 545**	**226 620**	**423 846**	**480 355**

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

	Fair Values 30.09.2021			Fair Values 30.06.2021		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Interest rate derivatives	4 366	15 320	10 954	9 547	18 881	9 335
Forward Rate Agreements (FRA)	0	0	0	363	363	0
Interest rate swaps (IRS)	4 362	13 836	9 474	9 258	17 512	8 254
Other interest rate contracts: options	4	1 484	1 480	(74)	1 006	1 080
2. FX derivatives	41 180	99 317	58 137	49 290	89 071	39 781
FX contracts	7 589	21 482	13 893	(11 088)	5 471	16 559
FX swaps	33 591	77 835	44 244	60 378	83 600	23 222
Other FX contracts (CIRS)	0	0	0	0	0	0
FX options	0	0	0	0	0	0
3. Embedded instruments	(18 688)	7	18 695	(17 060)	3	17 063
Options embedded in deposits	(18 695)	0	18 695	(16 970)	0	16 970
Options embedded in securities issued	7	7	0	(90)	3	93
4. Indexes options	18 304	18 669	365	16 748	17 068	320
Total	**45 162**	**133 313**	**88 151**	**58 525**	**125 023**	**66 499**
Valuation of hedged position in fair value hedge accounting	-	0	0	-	0	0
Liabilities from short sale of debt securities	-	-	21 348	-	-	11 095

	Fair Values 31.12.2020			Fair Values 30.09.2020		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Interest rate derivatives	21 976	35 184	13 208	(23 160)	37 539	60 699
Forward Rate Agreements (FRA)	133	133	0	0	0	0
Interest rate swaps (IRS)	21 839	34 966	13 127	(23 166)	37 390	60 556
Other interest rate contracts: options	4	85	81	6	149	143
2. FX derivatives	28 085	98 631	70 547	56 219	88 316	32 097
FX contracts	19 095	34 360	15 265	4 725	14 445	9 720
FX swaps	8 990	64 271	55 282	51 482	69 210	17 728
Other FX contracts (CIRS)	0	0	0	12	4 661	4 649
FX options	0	0	0	0	0	0
3. Embedded instruments	(19 559)	0	19 559	(22 419)	3 430	25 849
Options embedded in deposits	(17 815)	0	17 815	(23 644)	0	23 644
Options embedded in securities issued	(1 744)	0	1 744	1 225	3 430	2 205
4. Indexes options	19 911	20 373	462	25 781	26 507	726
Total	**50 413**	**154 188**	**103 775**	**36 421**	**155 792**	**119 371**
Valuation of hedged position in fair value hedge accounting	-	0	0	-	0	0
Liabilities from short sale of debt securities	-	-	64 778	-	-	37 055

12) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Debt securities	**20 986 329**	**21 981 373**	**18 613 077**	**24 765 902**
Issued by State Treasury	18 408 471	18 986 349	18 235 189	24 584 502
a) bills	0	0	0	54 999
b) bonds	18 408 471	18 986 349	18 235 189	24 529 503
Issued by Central Bank	2 100 000	2 499 993	0	0
a) bills	2 100 000	2 499 993	0	0
b) bonds	0	0	0	0
Other securities	477 858	495 031	377 888	181 400
a) listed	477 858	495 031	377 888	181 400
b) not listed	0	0	0	0
Shares and interests in other entities	29 514	29 549	29 538	29 705
Other financial instruments	0	0	0	0
Total financial assets at fair value through other comprehensive income	**21 015 843**	**22 010 922**	**18 642 615**	**24 795 607**

13) LOANS AND ADVANCES TO CUSTOMERS

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

Balance sheet value:	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Mandatorily at fair value through profit or loss *	497 781	1 671 619	1 615 753	1 586 693
Companies	25	11 042	12 889	13 547
Individuals	497 756	1 660 470	1 602 752	1 573 046
Public sector	0	107	112	100
* The above data includes the fair value adjustment, in the amount of:	(71 948)	(119 715)	(116 761)	(108 297)

At the implementation of IFRS9 Group separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presents aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost.

In 2021, as a result of a change in contractual provisions (eliminating the multiplier feature), some of these exposures began to be re-measured at amortized cost. In effect, during third quarter 2021, following movements in financial statements were recorded: in P&L approximately PLN 51 million of income is registered in caption ‘Result on Fair Valued credit portfolio” and almost the same amount is recorded in impairment provision line (as cost), whereas in balance sheet approx. PLN 1.100 million of portfolio is transferred from Fair value to Accounting cost valuation category.

The Bank writes down the gross carrying amount of a financial asset when there is no reasonable probability that it will be fully (total writes off) or partially (partial writes off) recovered. Following the recorded partial writes off the Bank transferred to off-balance sheet evidence (deducting the carrying value of gross receivables) penalty interest amounting to PLN 435 million as at 30.09.2021.

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

	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost, as at 30.09.2021	71 694 709	3 889 083	3 635 181	(369 571)	(236 058)	(1 831 446)	76 781 898
Companies	17 140 296	1 247 541	818 245	(126 740)	(48 549)	(325 956)	18 704 837
Individuals	54 306 958	2 641 454	2 816 936	(241 365)	(187 509)	(1 505 490)	57 830 984
Public sector	247 455	88	0	(1 466)	0	0	246 077
Valued at amortised cost, as at 30.06.2021	69 341 395	3 535 778	3 574 582	(367 663)	(185 846)	(1 775 614)	74 122 632
Companies	16 778 147	1 359 617	845 573	(120 775)	(50 950)	(359 903)	18 451 709
Individuals	52 315 116	2 176 037	2 723 811	(245 482)	(134 896)	(1 415 711)	55 418 875
Public sector	248 132	124	5 198	(1 406)	0	0	252 048

	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost, as at 31.12.2020	66 725 878	3 986 549	3 683 797	(365 159)	(230 339)	(1 777 137)	72 023 589
Companies	16 146 941	1 561 156	1 026 032	(118 205)	(41 408)	(468 866)	18 105 650
Individuals	50 309 937	2 425 215	2 652 450	(245 411)	(188 930)	(1 307 577)	53 645 684
Public sector	269 000	178	5 315	(1 543)	(1)	(694)	272 255
Valued at amortised cost, as at 30.09.2020	65 769 303	3 918 817	3 456 672	(381 301)	(207 925)	(1 720 847)	70 834 719
Companies	16 071 245	1 522 817	829 445	(125 275)	(43 474)	(449 015)	17 805 743
Individuals	49 399 466	2 395 773	2 621 663	(254 229)	(164 450)	(1 270 986)	52 727 237
Public sector	298 592	227	5 564	(1 797)	(1)	(846)	301 739

13C. LOANS AND ADVANCES TO CUSTOMERS

	30.09.2021		30.06.2021	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	71 150 012	203 268	69 245 656	804 527
▪ to companies	12 406 681		12 400 986	
▪ to private individuals	58 655 474	203 268	56 752 145	804 527
▪ to public sector	87 857		92 525	
Receivables on account of payment cards	739 351	294 513	107 533	867 092
▪ due from companies	14 905	25	1 814	11 149
▪ due from private individuals	724 446	294 488	105 719	855 943
Purchased receivables	114 199		168 909	
▪ from companies	114 199		168 909	
▪ from public sector	0		0	
Guarantees and sureties realised	7 020		7 086	
Debt securities eligible for rediscount at Central Bank	224		104	
Financial leasing receivables	6 794 291		6 540 758	
Other	15 772		1 982	
Interest	398 104		379 727	
Total:	**79 218 973**	**497 781**	**76 451 755**	**1 671 619**
Impairment allowances	(2 437 075)	-	(2 329 123)	-
Total balance sheet value:	**76 781 898**	**497 781**	**74 122 632**	**1 671 619**
* The above data includes the fair value adjustment in the amount of	-	(71 948)	-	(119 715)

	31.12.2020		30.09.2020	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	67 218 285	771 780	65 935 887	749 073
▪ to companies	12 188 367		11 886 095	
▪ to private individuals	54 932 397	771 780	53 930 985	749 073
▪ to public sector	97 521		118 807	
Receivables on account of payment cards	83 121	843 973	86 301	837 620
▪ due from companies	187	13 002	182	13 647
▪ due from private individuals	82 934	830 971	86 119	823 973
Purchased receivables	214 385		215 704	
▪ from companies	214 385		215 704	
▪ from public sector	0		0	
Guarantees and sureties realised	7 419		4 617	
Debt securities eligible for rediscount at Central Bank	2 748		2 810	
Financial leasing receivables	6 471 831		6 470 373	
Other	3 618		4 217	
Interest	394 817		424 883	
Total:	**74 396 224**	**1 615 753**	**73 144 792**	**1 586 693**
Impairment allowances	(2 372 635)	-	(2 310 073)	-
Total balance sheet value:	**72 023 589**	**1 615 753**	**70 834 719**	**1 586 693**
* The above data includes the fair value adjustment in the amount of	-	(116 761)	-	(108 297)

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

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Loans and advances to customers (gross)	79 218 973	76 451 755	74 396 224	73 144 792
impaired	3 635 181	3 574 582	3 683 798	3 456 672
not impaired	75 583 792	72 877 173	70 712 426	69 688 120
Impairment write-offs	(2 437 075)	(2 329 123)	(2 372 635)	(2 310 073)
for impaired exposures	(1 831 446)	(1 775 614)	(1 777 137)	(1 720 847)
for not impaired exposures	(605 628)	(553 509)	(595 498)	(589 226)
Loans and advances to customers (net)	**76 781 898**	**74 122 632**	**72 023 589**	**70 834 719**

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

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Loans and advances to customers (gross)	79 218 973	76 451 755	74 396 224	73 144 792
case by case analysis	811 129	823 253	1 015 366	817 933
collective analysis	78 407 844	75 628 502	73 380 858	72 326 859
Impairment allowances	(2 437 075)	(2 329 123)	(2 372 635)	(2 310 073)
on the basis of case by case analysis	(249 539)	(266 868)	(362 318)	(337 065)
on the basis of collective analysis	(2 187 536)	(2 062 255)	(2 010 317)	(1 973 008)
Loans and advances to customers (net)	**76 781 898**	**74 122 632**	**72 023 589**	**70 834 719**

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

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Loans and advances to customers (gross)	79 218 973	76 451 755	74 396 224	73 144 792
corporate customers	19 453 626	19 236 791	19 008 622	18 727 890
individuals	59 765 347	57 214 964	55 387 602	54 416 902
Impairment allowances	(2 437 075)	(2 329 123)	(2 372 635)	(2 310 073)
for receivables from corporate customers	(502 711)	(533 034)	(630 717)	(620 408)
for receivables from private individuals	(1 934 364)	(1 796 089)	(1 741 918)	(1 689 665)
Loans and advances to customers (net)	**76 781 898**	**74 122 632**	**72 023 589**	**70 834 719**

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

	01.01.2021 - 30.09.2021	01.01.2021 - 30.06.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.09.2020
Balance at the beginning of the period	2 372 635	2 372 635	1 961 618	1 961 618
Change in value of allowances:	64 440	(43 512)	411 017	348 455
Impairment allowances created in the period	1 189 950	826 439	1 667 413	1 334 494
Amounts written off	(197 013)	(148 214)	(220 681)	(177 752)
Impairment allowances released in the period	(872 550)	(645 772)	(1 038 000)	(829 547)
Sale of receivables	(83 368)	(81 973)	(59 662)	(26 712)
KOIM created in the period*	23 438	14 590	37 798	29 050
Changes resulting from FX rates differences	559	(9 342)	20 250	15 212
Other	3 424	760	3 899	3 710
Balance at the end of the period	**2 437 075**	**2 329 123**	**2 372 635**	**2 310 073**

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

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

The value of POCI assets is as follows:

	Gross balance sheet value	Accumulated impairment	Net balance sheet value
30.09.2021			
- Companies	59	231	290
- Individuals	295 104	(30 309)	264 795
- Public sector	0	0	0
30.06.2021			
- Companies	59	241	300
- Individuals	314 121	(23 144)	290 977
- Public sector	0	0	0
31.12.2020			
- Companies	59	255	313
- Individuals	399 392	(26 607)	372 784
- Public sector	0	0	0
30.09.2020			
- Companies	101	(23)	78
- Individuals	427 386	(39 474)	387 912
- Public sector	0	0	0

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

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
in Polish currency	64 242 280	60 882 857	56 794 474	54 905 259
in foreign currencies (after conversion to PLN)	14 976 693	15 568 898	17 601 750	18 239 533
currency: USD	121 054	101 697	115 866	156 685
currency: EUR	3 990 205	3 668 780	3 586 164	3 538 718
currency: CHF	10 857 493	11 790 995	13 895 610	14 541 300
other currencies	7 941	7 426	4 110	2 830
Total gross	**79 218 973**	**76 451 755**	**74 396 224**	**73 144 792**

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

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

30.09.2021	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	37 159	0	0	(3)	0	0	37 156
Deposits, loans and advances to banks and other monetary institutions	578 225	0	0	0	0	0	578 225
Repurchase agreements	9 400	0	0	0	0	0	9 400

30.06.2021	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	37 064	0	0	(7)	0	0	37 057
Deposits, loans and advances to banks and other monetary institutions	605 506	0	0	0	0	0	605 506
Repurchase agreements	18 361	0	0	0	0	0	18 361

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

30.09.2020	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	42 950	0	0	(4)	0	0	42 946
Deposits, loans and advances to banks and other monetary institutions	862 165	0	0	0	0	0	862 165
Repurchase agreements	41 514	0	0	0	0	0	41 514

14B. DEBT SECURITIES

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
credit institutions	0	0	0	0
other companies	0	0	0	0
public sector	37 156	37 057	38 818	42 946
Total	37 156	37 057	38 818	42 946

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

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Current accounts	185 076	167 400	102 748	129 491
Deposits	393 103	438 029	522 532	732 450
Interest	46	77	150	224
Total (gross) deposits, loans and advances	578 225	605 506	625 430	862 165
Impairment allowances	0	0	0	0
Total (net) deposits, loans and advances	**578 225**	**605 506**	**625 430**	**862 165**

14D. REPURCHASE AGREEMENTS

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
credit institutions	0	0	66 351	14 506
other customers	9 400	18 361	0	27 008
interest	0	0	(1)	0
Total	9 400	18 361	66 350	41 514

15) DERIVATIVES – HEDGE ACCOUNTING

15A. HEDGE RELATIONS

During III quarters of 2021, the Group discontinued the use of two hedging relationships:
- hedging of volatility of cash flows generated by the portfolio of issued PLN liabilities,
- hedging of the volatility of cash flows generated by the portfolio of floating interest rate foreign currency mortgage loans.

Detailed information on cash flow hedge relations applied by the Group, items designated as hedged and hedging and presentation of the result (as at 30.09.2021) is shown in a table below:

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

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

15B. HEDGE ACCOUNTING - BALANCE SHEET VALUATION

	Fair values 30.09.2021			Fair values 30.06.2021		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate						
CIRS contracts	(227 520)	4 953	232 473	(119 451)	38 102	157 553
IRS contracts	(100 433)	0	100 433	(88 025)	0	88 025
FXS contracts	0	0	0	0	0	0
2. Derivatives used as interest rate hedges related to interest rates						
IRS contracts	(1 864)	0	1 864	(5 725)	0	5 725
3. Total hedging derivatives	(329 817)	4 953	334 770	(213 201)	38 102	251 303

	Fair values 31.12.2020			Fair values 30.09.2020		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate						
CIRS contracts	(632 447)	21 795	654 242	(592 486)	29 350	621 836
IRS contracts	(45 903)	0	45 903	0	0	0
FXS contracts	(29 116)	0	29 116	(15 211)	0	15 211
2. Derivatives used as interest rate hedges related to interest rates						
IRS contracts	(9 588)	0	9 588	(16 212)	0	16 212
3. Total hedging derivatives	(717 055)	21 795	738 850	(623 909)	29 350	653 259

16) IMPAIRMENT WRITE-OFFS FOR SELECTED ASSETS

Impairment write-offs:	Investment securities	Property. plant and equipment	Intangibles	Non-current assets held for sale	Other assets
As at 01.01.2021	5 007	8 875	3 988	3 697	22 700
- Write-offs created	6	0	0	0	18 443
- Write-offs released	(6)	0	0	0	(10 282)
- Utilisation	0	0	0	0	(1 623)
- Other	0	0	0	(3 560)	3 560
As at 30.09.2021	5 007	8 875	3 988	137	32 797
As at 01.01.2021	5 007	8 875	3 988	3 697	22 700
- Write-offs created	4	0	0	0	13 425
- Write-offs released	0	0	0	0	(6 622)
- Utilisation	0	0	0	0	(1 259)
- Other	0	0	0	(3 560)	3 560
As at 30.06.2021	5 011	8 875	3 988	137	31 804
As at 01.01.2020	5 058	8 875	3 988	136	12 812
- Write-offs created	(51)	0	0	0	32 927
- Write-offs released	0	0	0	0	(23 024)
- Utilisation	0	0	0	0	(14)
- Other	0	0	0	3 561	0
As at 31.12.2020	5 007	8 875	3 988	3 697	22 700
As at 01.01.2020	5 058	8 875	3 988	136	12 812
- Write-offs created	0	0	0	0	27 646
- Write-offs released	(50)	0	0	0	(19 598)
- Utilisation	0	0	0	0	(124)
- Other	0	(123)	0	0	0
As at 30.09.2020	5 008	8 752	3 988	136	20 736

17) DEFERRED INCOME TAX ASSETS AND LIABILITY

	30.09.2021			30.06.2021		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	10 848	(28 229)	(17 381)	26 930	(20 038)	6 892
Balance sheet valuation of financial instruments	83 759	(88 810)	(5 051)	50 236	(62 240)	(12 004)
Unrealised receivables/ liabilities on account of derivatives	8 994	(11 443)	(2 449)	10 034	(8 321)	1 713
Interest on deposits and securities to be paid/ received	12 211	(39 547)	(27 336)	14 945	(33 038)	(18 093)
Interest and discount on loans and receivables	0	(76 165)	(76 165)	0	(73 931)	(73 931)
Income and cost settled at effective interest rate	158 437	(1 329)	157 108	159 295	(1 165)	158 130
Impairment of loans presented as temporary differences	456 623	0	456 623	461 167	0	461 167
Employee benefits	19 045	0	19 045	19 215	0	19 215
Rights to use	7 000	0	7 000	7 364	0	7 364
Provisions for future costs	97 247	0	97 247	96 022	0	96 022
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	48 502	(28 325)	20 177	41 185	(41 235)	(50)
Valuation of shares	1 273	(23 129)	(21 856)	1 273	(20 160)	(18 887)
Tax loss deductible in the future	69 810	0	69 810	49 834	0	49 834
Other	3 234	(1 304)	1 930	2 802	(2 384)	418
Net deferred income tax asset	976 983	(298 281)	678 702	940 303	(262 512)	677 790

	31.12.2020			30.09.2020		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	27 195	(19 806)	7 389	31 600	(23 572)	8 028
Balance sheet valuation of financial instruments	138 727	(150 000)	(11 273)	139 076	(143 647)	(4 571)
Unrealised receivables/ liabilities on account of derivatives	12 285	(14 486)	(2 201)	11 012	(13 286)	(2 274)
Interest on deposits and securities to be paid/ received	31 410	(33 021)	(1 611)	39 219	(33 021)	6 198
Interest and discount on loans and receivables	0	(77 272)	(77 272)	0	(82 876)	(82 876)
Income and cost settled at effective interest rate	188 794	(1 221)	187 573	180 572	(1 106)	179 466
Impairment of loans presented as temporary differences	454 771	0	454 771	435 473	0	435 473
Employee benefits	20 398	0	20 398	21 136	0	21 136
Rights to use	8 501	0	8 501	8 870	0	8 870
Provisions for future costs	87 013	0	87 013	22 008	0	22 008
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	9 315	(56 197)	(46 882)	9 510	(61 564)	(52 054)
Valuation of shares	1 273	(23 710)	(22 437)	1 273	(12 919)	(11 646)
Tax loss deductible in the future	57 105	0	57 105	54 408	0	54 408
Other	1 078	(861)	217	181	(824)	(643)
Net deferred income tax asset	1 037 865	(376 574)	661 291	954 338	(372 815)	581 523

18) LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
In current account	124 174	107 328	57 220	58 924
Term deposits	12 203	190 411	481 490	272 936
Loans and advances received	392 595	443 298	517 283	772 291
Interest	473	1 276	1 659	1 179
Total	529 445	742 313	1 057 652	1 105 330

19) Liabilities to customers

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Amounts due to private individuals	64 965 000	64 966 051	61 874 920	61 933 166
Balances on current accounts	54 831 093	54 591 857	50 825 949	50 105 344
Term deposits	9 876 924	10 116 008	10 807 126	11 577 731
Other	225 313	222 763	188 369	175 749
Accrued interest	31 670	35 423	53 476	74 342
Amounts due to companies	22 185 381	21 822 399	16 802 448	21 321 101
Balances on current accounts	15 978 472	15 994 147	12 883 222	14 325 475
Term deposits	5 855 321	5 493 880	3 579 089	6 630 201
Other	347 630	326 238	327 586	351 042
Accrued interest	3 958	8 134	12 551	14 383
Amounts due to public sector	3 099 672	3 210 037	2 833 172	2 598 196
Balances on current accounts	2 645 568	2 757 658	2 707 625	2 182 148
Term deposits	441 652	442 973	105 079	410 856
Other	12 441	9 397	20 461	4 925
Accrued interest	11	9	7	267
Total	**90 250 053**	**89 998 487**	**81 510 540**	**85 852 463**

20) Liabilities from securities sold with buy-back clause

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
to the Central Bank	0	0	0	0
to banks	0	0	248 566	123 584
to customers	0	0	0	324 950
interest	0	0	0	1
Total	0	0	248 566	448 535

21) Change of debt securities

	01.01.2021 - 30.09.2021	01.01.2021 - 30.06.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.09.2020
Balance at the beginning of the period	558 560	558 560	1 183 232	1 183 232
Increases, on account of:	3 152	2 364	43 339	41 576
issue of Banking Securities	0	0	29 549	29 606
interest accrual	3 152	2 364	13 790	11 970
Reductions, on account of:	(271 119)	(250 230)	(668 011)	(565 891)
repurchase of Banking Securities	(234 427)	(213 653)	(246 582)	(164 539)
repurchase of bonds by the Bank	0	0	(299 440)	(299 440)
repurchase of bonds by the Millennium Leasing	(34 150)	(34 150)	(105 650)	(88 500)
interest payment	(2 541)	(2 427)	(16 339)	(13 412)
Balance at the end of the period	**290 594**	**310 694**	**558 560**	**658 917**

22) Change of subordinated debt

	01.01.2021 - 30.09.2021	01.01.2021 - 30.06.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.09.2020
Balance at the beginning of the period	1 540 209	1 540 209	1 546 205	1 546 205
Increases, on account of:	29 202	19 368	51 441	41 467
issue of subordinated bonds	0	0	0	0
interest accrual	29 202	19 368	51 441	41 467
Reductions, on account of:	(30 195)	(19 696)	(57 437)	(48 348)
interest payment	(30 195)	(19 696)	(57 437)	(48 348)
Balance at the end of the period	**1 539 216**	**1 539 881**	**1 540 209**	**1 539 324**

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

23) Provisions

23a. Provisions

	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Provision for commitments and guarantees given	47 132	46 206	51 728	62 148
Provision for pending legal issues	331 512	362 095	106 922	156 077
Total	378 644	408 301	158 650	218 225

23b. Change of provision for commitments and guarantees given

	01.01.2021 - 30.09.2021	01.01.2021 - 30.06.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.09.2020
Balance at the beginning of the period	51 728	51 728	53 393	53 393
Charge of provision	48 723	38 544	73 356	66 146
Release of provision	(53 403)	(43 991)	(75 357)	(57 638)
FX rates differences	84	(75)	336	247
Balance at the end of the period	47 132	46 206	51 728	62 148

23C. CHANGE OF PROVISION FOR PENDING LEGAL ISSUES

	01.01.2021 - 30.09.2021	01.01.2021 - 30.06.2021	01.01.2020 - 31.12.2020	01.01.2020 - 30.09.2020
Balance at the beginning of the period	106 922	106 922	38 062	38 062
Charge of provision	6 513	4 493	17 223	18 057
Release of provision	(6 701)	(4 095)	(13 440)	(11 630)
Utilisation of provision	0	0	(489)	(489)
Creation of provisions for legal risk connected with FX mortgage loans *	1 573 157	1 047 044	713 617	297 673
Allocation to the loans portfolio	(1 375 774)	(765 061)	(671 484)	(168 389)
Reclassification	0	0	138	(26 862)
FX differences	27 395	(27 208)	23 295	9 655
Balance at the end of the period	331 512	362 095	106 922	156 077

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

5. Changes in Risk Management process

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

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

Credit risk

In the third 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.

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

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

In the corporate segment, the Group focused on analysing the loan portfolio and industries of borrowers to monitor the risk, 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. Additionally, the Group worked on improving credit processes and products, regarding investment credit.

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

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

Changes in the loan portfolio of the Group after 9 months of 2021 are summarized below:

	30.09.2021		31.12.2020	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	74 321 544	578 225	71 098 923	625 430
Overdue*, but without impairment	1 754 727	0	1 687 228	0
Total without impairment	76 076 271	578 225	72 786 151	625 430
With impairment	3 712 430	0	3 791 587	0
Total	**79 788 701**	**578 225**	**76 577 738**	**625 430**
Impairment write-offs	(2 437 075)	0	(2 372 635)	0
Fair value adjustment**	(71 948)	0	(116 761)	0
Total, net	**77 279 678**	**578 225**	**74 088 342**	**625 430**
Loans with impairment / total loans	4,65%	0,00%	4.95%	0.00%

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

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

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

Loans and advances subject to legislative and non-legislative moratoria Gross carrying amount	TOTAL	Performing		
		Performing Gross carrying amount	Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	**76**	**76**	**76**	**76**
of which: Households	**0**	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0
of which: Non-financial corporations	76	76	76	76
of which: Small and Medium-sized Enterprises	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0

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

Information on loans and advances subject to legislative and non-legislative moratoria, Accumulated impairment	TOTAL	Performing Performing Accumulated impairment	Performing Of which: grace period of capital and interest	Performing Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	**(5)**	**(5)**	**(5)**	**(5)**
of which: Households	0	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0
of which: Non-financial corporations	(5)	(5)	(5)	(5)
of which: Small and Medium-sized Enterprises	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0

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

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Number of obligors	TOTAL	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	**60 409**	**7 573 441**		
Loans and advances subject to moratorium (granted)	**60 175**	**7 175 262**	**11 465**	**7 175 186**
of which: Households		6 093 941	11 465	6 093 941
of which: Collateralised by residential immovable property		4 489 956	9 746	4 489 956
of which: Non-financial corporations		1 081 321	0	1 081 245
of which: Small and Medium-sized Enterprises		567 021	0	567 021
of which: Collateralised by commercial immovable property		81 094	0	81 094

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Residual maturity of moratoria				
	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances subject to moratorium (granted)	**76**	**0**	**0**	**0**	**0**
of which: Households	0	0	0	0	0
of which: Collateralised by residential immovable property	0	0	0	0	0
of which: Non-financial corporations	76	0	0	0	0
of which: Small and Medium-sized Enterprises	0	0	0	0	0
of which: Collateralised by commercial immovable property	0	0	0	0	0

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Gross carrying amount		Gross carrying amount
	TOTAL	of which: forborne	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	**958 984**	**2 826**	**3 852**
of which: Households	0		0
of which: Collateralised by residential immovable property	0		0
of which: Non-financial corporations	958 984	2 826	3 852
of which: Small and Medium-sized Enterprises	460 783		3 425
of which: Collateralised by commercial immovable property	0		0

Market risk

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period (10-days holding period) and with specified probability (99% confidence level) from an adverse market movement. The market risk measurement, monitoring and reporting is carried out daily.

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

The market risk limits are revised at least once a year and to consider, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 31st July 2021. In 3Q 2021, its levels were approved by the annual revision carried out and approved by the Risk Committee in July 2021.

Within the current market environment, the Group continued to act very prudently. In 3Q 2021, none of the established market risk limits were breached - neither for the total Group nor for the Banking Book and Trading Book separately.

Open positions contain mainly interest rate and FX risk instruments. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows keeping FX open positions only in Trading Book. In the 3Q 2021, the FX Total open position (Intraday as well as Overnight) remained below 2% of Own Funds.

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 3Q 2021, the VaR remained on average at the level of approx. PLN 135 m for the Group (53% of the limit) and at approx. PLN 1.5 m for Trading Book (5% of the limit). Similarly, exposure to market risk at end of September 2021 the was approx. PLN 146.8 m for Global Bank (56% of the limit) and approx. PLN 0.9 m for Trading Book (3% of the limit).

The market risk exposure in 3Q 2021 in terms of value at risk for Trading Book, together with risk type division, is presented in the table below (PLN thousands).

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

	30.09.2021		VaR (3Q 2021)			30.06.2021	
	Exposure	Limit usage	Average	Maximum	Minimum	Exposure	Limit usage
Total risk	888	3%	1 509	3 623	657	1 882	6%
Generic risk	886	3%	1 507	3 621	655	1 880	6%
Interest Rate VaR	895	4%	1 472	2 348	656	1 879	6%
FX Risk	99	2%	97	2 940	10	21	0%
Diversification Effect	12.2%					1.1%	
Specific risk	2	0%	2	4	2	2	0%

In addition to above mention market risk limits, the stop loss limits are introduced for the financial markets' portfolios. The aim is to limit the maximum losses of the trading activity of the Group. In case of the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken. In 3Q 2021 none of the stop loss limits were reached.

Interest rate risk in Banking Book (IRRBB)

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

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

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

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

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

In 3Q 2021, the interest rates in Poland stayed at its historical minimum (after three rate cuts in 2020 - reference rate decreased to 0.10%, deposit rate to 0.0% and the Lombard rate to 0,50%). The interest rate cuts have had a negative impact on the activity and financial results of Group in 2020 and in 2021.

In such a low interest rate environment in Poland, the results of sensitivity of NII for the next 12 months after 30th September 2021 and for position in Polish Zloty in Banking Book in a scenario of further decrease of interest rates by 100 bps, is negative and equal to -17.5% of the last 12 months net interest income (+11.0% for a 100 bps increase). The asymmetrical impact is connected mainly with the specificity of the polish legal system mentioned above with simultaneous limitation on further decrease on deposits side (minimum interest rate is set at 0%). As of 30th September 2021, the NBP Reference rate was set at 0.10%, so that in case of decrease by 100 bps the maximum interest rate for loan portfolio could not exceed 5.2% annually in comparison to currently valid 7.2%. After decision of the Monetary Policy Council to increase reference rate in October to 0.50%, the maximum interest rate for loan portfolio can not exceed 8% (6% in a scenario of 100 bps interest rates decrease) .

The quarterly increase of negative impact in scenario of parallel yield curve decrease by 100 b.p. is mainly connected with changes applied in measure's calculation (change from -16.4% in June 2021 to -17.5% in September 2021). Since July 2021, the sensitivity of NII has been measure in relation to NII from last 12 months instead of NII from 3 months annualized. It immediately decrease the denominator and finally the ratio.

In 3Q 2021 the Bank reduce the activity of hedging the risk by the interest rate swaps, following rising probability of interest rate hikes in Poland.

Sensitivity of NII for PLN to changes of interest rates	30.09.2021	30.06.2021
Parallel yield curve increase by 100bp	+11.0%	+10.5%
Parallel yield curve decrease by 100bp	-17.5%	-16.4%

When it comes to impact of interest rate changes to economic value at equity (EVE) in the long term, the supervisory stress tests result as of 30th of September 2021 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

Liquidity risk

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

The liquidity risk limits are revised at least once a year to consider, inter alia, the change of the size of the consolidated own funds, current and expected balance sheet structure, historical limits' consumption, as well as current market conditions and supervisory requirements. The current limits in place have been valid since 1st of January 2021. In 3Q 2021, its levels were confirmed by the annual revision carried out and approved by the Risk Committee in July 2021.

In 3Q 2021, the Group was characterized still by solid liquidity position. All the supervisory and internal liquidity indicators remained significantly above minimum limits in place. The steps taken as part of standard and binding risk management procedures have proved sufficient for managing liquidity in the current market environment.

The Group manages FX liquidity using 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 most 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 to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as collateral from the counterparty. There is no relationship between level of the Bank's ratings and parameters of collateral in any of the signed ISDA Schedules and Credit Support Annexes (both international and domestic). A potential downgrade in any rating will not have an impact on the method of calculation or collateral exchange.

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

In 3Q 2021, the Group maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 86% at the end of September 2021 (84% at the end of June 2021). The Group continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of September 2021. During 3Q 2021 this portfolio decreased to the level of approx. PLN 20.5 billion at the end of September 2021 (20% of total assets) from PLN 21.6 billion at the end of June 2021 (21% of total assets). Those assets are Central Bank eligible and are characterized with high liquidity and can be easily used as collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is liquid assets portfolio and is treated as the Group's liquidity reserve, which can overcome crisis situations.

Main liquidity ratios	30.09.2021	30.06.2021
Loans/Deposits ratio (%)	86%	84%
Liquid assets portfolio (PLN million) *	21 755	23 553
Liquidity Coverage Requirement, LCR (%)	184%	174%

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

Total Clients' deposits of the Group reached the level of PLN 90.3 billion (PLN 90.0 billion at the end of June 2021). The share of funds from individuals in total Client's deposits equalled to approx. 72.0% at the end of September 2021 (72.2% at the end of June 2021). The maintenance of high share of funds from individuals had a positive impact on the Group's liquidity and supported the safe compliance of the supervisory measures.

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

The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 3Q 2021. 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, 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) and quarterly net stable funding requirement (NSFR). In 3Q 2021, the regulatory minimum of 100% for both LCR and NSFR was fulfilled by the Group.

The LCR reached the level of 184% at the end of September 2021 (174% at the end of June 2021). The increase of LCR was mainly connected with introduction of adjustments on the treatment of some deposits according to the guidelines provided by EBA which translated in an increase of the ratio.

In 3Q 2021, the NSFR was above planned supervisory minimum of 100% (supervisory minimum is valid from June 2021). The NSFR reached the level of 147% at the end of 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 3Q 2021 the internally defined limit of 12% total assets was not breached and the liquidity position was confirmed as solid.

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

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

Operational risk

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

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

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

In the third quarter of 2021 the registered level of operational risk losses was at the acceptable level.

Capital management

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

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

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

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

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

- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. At present, the buffer was set by KNF in recommendations issued in November and December 2020 in the level of 3.41 p.p. (the Bank) and 3.35 p.p. (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 2.56 p.p. (the Bank) and of 2.52 p.p. (the Group), and which corresponds to capital requirements for CET 1 ratio of 1.91 p.p. (the Bank) and 1.88 p.p. (the Group).

- Combined buffer – defined in Act on macro prudential supervision over the financial system and crisis management – that consists of:
  - Capital conservation buffer at the level of 2.5%,
  - Other systemically important institution buffer (OSII) – at the level of 0.25% and the value is set by KNF every year,
  - Systemic risk buffer at the level of 0%, reduced from 3% in March 2020,
  - Countercyclical buffer at the 0% level.

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

Capital adequacy	30.09.2021	30.06.2021	30.09.2020
Risk-weighted assets	50,220.2	50,677.5	50,305.4
Own Funds requirements, including:	4,017.6	4,054.2	4,024.4
- Credit risk and counterparty credit risk	3,537.0	3,584.5	3,608.4
- Market risk	33.4	24.6	28.4
- Operational risk	433.0	433.0	382.6
- Credit Valuation Adjustment CVA	14.2	12.0	5.0
Own Funds, including:	9,123.8	9,451.1	10,070.7
Common Equity Tier 1 Capital	7,593.8	7,921.1	8,540.7
Tier 2 Capital	1,530.0	1,530.0	1,530.0
Total Capital Ratio (TCR)	**18.17%**	**18.65%**	**20.02%**
Minimum required level	14.10%	14.10%	15.37%
Surplus (+) / Deficit (-) of TCR capital adequacy (p.p.)	4.07 pp	4.55 pp	4.65 pp
Tier 1 Capital ratio (T1)	**15.12%**	**15.63%**	**16.98%**
Minimum required level	11.27%	11.27%	12.15%
Surplus (+) / Deficit (-) of T1 capital adequacy (p.p.)	3.85 pp	4.36 pp	4.83 pp
Common Equity Tier 1 Capital ratio (CET1)	**15.12%**	**15.63%**	**16.98%**
Minimum required level	9.13%	9.13%	9.73%
Surplus (+) / Deficit (-) of CET1 capital adequacy (p.p.)	5.99 pp	6.50 pp	7.25 pp
Leverage ratio (LR)	**7.09%**	**7.60%**	**8.08%**

Drop of capital adequacy ratios in 3Q21 compared to 2Q21 came from the fall of own funds, whereas own funds requirements have been decreasing. Own funds went down by ca. PLN 327m (by 3.5%), being before all a result of net financial loss. Own funds requirements shrank by ca. PLN 37m (by 0.9%), what came mainly from the more effective use of collaterals. The leverage ratio is decreasing because of the said above reduction of own funds.

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.

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

6. Operational Segments

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

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

Retail Customer Segment

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

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

Corporate Customer Segment

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

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

Treasury, ALM (assets and liabilities management) and Other

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

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

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

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

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

Income statement 1.01.2021 – 30.09.2021

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Net interest income	1 298 464	219 610	427 970	1 946 044
Net fee and commission income, including:	473 390	139 082	3 180	615 652
Fee and commission income	594 560	144 170	13 016	751 746
Fee and commission expenses	(121 170)	(5 088)	(9 836)	(136 094)
Dividends, other income from financial operations and foreign exchange profit	81 045	54 444	(207 573)	(72 084)
Result on non-trading financial assets mandatorily at fair value through profit or loss	39 205	0	14 603	53 808
Other operating income and cost	(13 115)	(4 479)	148 414	130 820
Operating income	1 878 989	408 657	386 594	2 674 240
Staff costs	(485 238)	(105 370)	(22 682)	(613 290)
Administrative costs	(327 932)	(48 067)	(68 016)	(444 015)
Depreciation and amortization	(128 401)	(18 961)	(3 508)	(150 870)
Operating expenses	(941 571)	(172 398)	(94 206)	(1 208 175)
Impairment losses on assets	(225 487)	(15 877)	(5 391)	(246 755)
Results on modification	(9 418)	(18)	0	(9 436)
Operating Profit	**702 513**	**220 364**	**286 997**	**1 209 874**
Share in net profit of associated companies				0
Provisions for COVID-19				0
Provisions for legal risk connected with FX mortgage loans				(1 573 157)
Banking tax				(230 599)
Profit / (loss) before income tax				**(593 882)**
Income taxes				(229 074)
Profit / (loss) after taxes				**(822 956)**

Balance sheet items as at 30.09.2021

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	60 758 782	16 520 896	0	77 279 678
Liabilities to customers	68 858 418	21 166 032	225 603	90 250 053

Income statement 1.01.2020 – 30.09.2020

In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Net interest income	1 229 067	230 419	467 683	1 927 169
Net fee and commission income, including:	438 219	112 495	2 612	553 326
Fee and commission income	571 780	119 523	15 565	706 868
Fee and commission expenses	(133 561)	(7 028)	(12 953)	(153 542)
Dividends, other income from financial operations and foreign exchange profit	57 220	48 483	111 413	217 116
Result on non-trading financial assets mandatorily at fair value through profit or loss	(32 172)	0	19 019	(13 153)
Other operating income and cost	(9 022)	(4 128)	(35 189)	(48 339)
Operating income	1 683 312	387 269	565 538	2 636 119
Staff costs	(531 759)	(109 381)	(21 613)	(662 753)
Administrative costs	(386 395)	(47 222)	(79 790)	(513 407)
Depreciation and amortization	(143 830)	(12 840)	(2 286)	(158 956)
Operating expenses	(1 061 984)	(169 443)	(103 689)	(1 335 116)
Impairment losses on assets	(354 469)	(111 354)	(5 094)	(470 917)
Results on modification	(12 011)	1 921	0	(10 090)
Operating Profit	**254 848**	**108 393**	**456 755**	**819 996**
Share in net profit of associated companies				0
Provisions for legal risk connected with FX mortgage loans				(297 673)
Banking tax				(209 027)
Profit / (loss) before income tax				**313 296**
Income taxes				(181 426)
Profit / (loss) after taxes				**131 870**

Balance sheet items as at 31.12.2020

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

7. Transactions with Related Entities

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

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

7.1. Transactions with the Parent Group

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

	With parent company		With other entities from parent group	
	30.09.2021	31.12.2020	30.09.2021	31.12.2020
ASSETS				
Loans and advances to banks - accounts and deposits	86 034	1 237	0	0
Financial assets held for trading	0	0	0	0
Hedging derivatives	0	0	0	0
Other assets	0	0	0	0
LIABILITIES				
Loans and deposits from banks	43 792	23 601	0	127 903
Debt securities	0	0	0	0
Financial liabilities held for trading	201	333	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	64	122

	With parent company		With other entities from parent group	
	2021	2020	2021	2020
Income from:				
Interest	(231)	(151)	0	0
Commissions	67	84	0	0
Financial assets and liabilities held for trading	0	0	0	0
Expense from:				
Interest	123	3	(182)	(239)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	200	468	0	0
Other net operating	5	9	0	0
Administrative expenses	0	0	15	259

	With parent company		With other entities from parent group	
	30.09.2021	31.12.2020	30.09.2021	31.12.2020
Conditional commitments	103 198	100 774	0	0
granted	101 500	100 000	0	0
obtained	1 698	774	0	0
Derivatives (par value)	15 089	15 938	0	0

7.2. Balance of the Bank's shares held by the Bank's supervisory and management board members

Name and surname	Position/Function	Number of shares as of delivery date of III quarter report 2021	including received under the incentive program blocked on investment accounts until 14.06.22
Joao Nuno Lima Bras Jorge	Chairman of the Management Board,	**278 900**	31 879
Fernando Maria Cardoso Rodrigues Bicho	Deputy Chairman of the Management Board,	**101 568**	25 316
Wojciech Haase	Member of the Management Board	**90 253**	20 628
Andrzej Gliński	Member of the Management Board	**52 759**	20 628
Wojciech Rybak	Member of the Management Board	**82 759**	20 628
Antonio Ferreira Pinto Junior	Member of the Management Board	**82 759**	20 628
Jarosław Hermann	Member of the Management Board	**37 759**	20 628

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

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

8. Fair Value

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

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

Level 1 - valuation based on the data fully observable (active market quotations);
Level 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;
Level 3 - valuation models using unobservable data (not derived from an active market).
Valuation techniques used to determine fair value are applied consistently. Change in valuation techniques resulting in a transfer between these methods occurs when:

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

8.1. Financial instruments not recognized at fair value in the balance sheet

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

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

Receivables and liabilities with respect to banks

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

Loans and advances granted to customers valued at amortised cost

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

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

The fair value of instruments with defined maturity is estimated by discounting related cash flows on contractual dates and under contractual conditions with the use of current zero-coupon rates and credit risk margins.
In case of mortgage loans due to their long-term nature estimation of the future cash flows also includes: the effect of early repayment and liquidity risk in foreign currencies.

Liabilities to customers

The fair value of such instruments without maturity or with maturity under 30 days is considered by the Group to be close to balance-sheet value.
Fair value of instruments due and payable in 30 days or more is determined by discounting future cash flows from principal and interest (including the current average margins by major currencies and time periods) using current interest (including the original average margins by major currencies and time periods) in contractual terms.

Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities - bank's securities (BPW) are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond.
The fair value of other liabilities arising from debt securities issued by the Bank (bonds (BKMO)) was estimated based on the expected cash flows using current interest rates taking into account the margin for credit risk. The current level of margins was appointed on the basis of recent transactions of similar credit risk.

Subordinated liabilities and medium term loans

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

The table below presents results of the above-described analyses as at 30.09.2021 (data in PLN thousand):

	Note	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST			
Debt securities	14	37 156	38 406
Deposits, loans and advances to banks and other monetary institutions	14	578 225	578 228
Loans and advances to customers*	13	76 781 898	74 821 039
LIABILITIES MEASURED AT AMORTISED COST			
Liabilities to banks and other monetary institutions	18	529 445	529 796
Liabilities to customers	19	90 250 053	90 238 177
Debt securities issued	21	290 594	291 449
Subordinated debt	22	1 539 216	1 538 698

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

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

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

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

8.2. Financial instruments recognized at fair value in the balance sheet

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

Data in PLN'000, as at 30.09.2021

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	11			
Valuation of derivatives			114 638	18 675
Equity instruments		140		
Debt securities		150 092		
Non-trading financial assets mandatorily at fair value through profit or loss	13			
Equity instruments			72 569	66 609
Debt securities				55 444
Loans and advances				497 780
Financial assets at fair value through other comprehensive income	12			
Equity instruments		291		29 223
Debt securities		18 886 329	2 100 000	
Derivatives – Hedge accounting	15		4 953	
LIABILITIES				
Financial liabilities held for trading	11			
Valuation of derivatives			69 092	19 059
Short positions		21 348		
Derivatives – Hedge accounting	15		334 770	

Data in PLN'000, as at 31.12.2020

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

Using the criterion of valuation techniques as at 30.09.2021 Group classified into the third category following financial instruments:

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

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
Balance on 31.12.2020	**19 911**	**(19 559)**	**95 827**	**50 335**	**1 615 753**
Settlement/sell/purchase	293	(1 099)	3	0	(1 206 148)
Change of valuation recognized in equity	0	0	0	0	0
Interest income and other of similar nature	0	0	0	0	48 970
Results on financial assets and liabilities held for trading	(1 900)	1 970	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	5 109	39 205
Result on exchange differences	0	0	2	0	0
Balance on 30.09.2021	**18 304**	**(18 688)**	**95 832**	**55 444**	**497 780**

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

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

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

9. Contingent liabilities and assets

9.1. Lawsuits

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

Court cases brought up by the Group

Value of the court litigations, as at 30.09.2021, in which the companies of the Group were a plaintiff, totalled PLN 377.5 million.

Proceedings on infringement of collective consumer interests

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

1) send information on the UOKiK's decision to the said 78 clients,

2) place the information on decision and the decision itself on the website and on Twitter,

3) to pay a fine amounting to PLN 20.7 mln.

The Bank lodged an appeal within the statutory time limit.

On January 7, 2020, the first instance court dismissed the Bank's appeal in its entirety. The bank appealed against the judgment within the statutory deadline. The court presented the view that the judgment issued in the course of the control of a contractual template (in the course of an abstract control), recognizing the provisions of the template as abusive, determines the abusiveness of similar provisions in previously concluded contracts. Therefore, the information provided to consumers was incorrect and misleading. As regards the penalty imposed by UOKiK, the court pointed out that the policy of imposing penalties by the Office had changed in the direction of tightening penalties and that the court agrees with this direction.
In the Bank's assessment, the Court should not assess the Bank's behaviour in 2015 from the perspective of today's case-law views on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the President of UOKiK was published), the more penalties for these behaviours should not be imposed using current policy. The above constitutes a significant argument against the validity of the judgment and supports the appeal which the Bank submitted to the Court of second instance.
According to current estimates of the risk of losing the dispute, the Bank has not created a provision.

Proceedings on competition-restricting practice

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

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

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

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

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

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

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

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

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

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

Court cases against the Group

As at 30.09.2021, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were following:

- The Bank is a defendant in three court proceedings in which the subject of the dispute is the amount of the interchange fee. In two of the abovementioned cases, the Bank was sued jointly and severally with another bank, and in one with another bank and card organizations. The total value of claims submitted in these cases is PLN 729.6 million. The proceedings with the highest value of the submitted claim are brought by PKN Orlen SA, in which the plaintiff demands payment of PLN 635.7 million. The plaintiff in this proceeding alleges that the banks acted under an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2006-2014. In the other two cases, the charges are similar to those raised in the case brought by PKN Orlen SA, while the period of the alleged agreement is indicated for the years 2008-2014. According to current estimates of the risk of losing a dispute in these matters, the Bank did not create a provision. In addition, we point out that the Bank participates as a side intervener in four other proceedings regarding the interchange fee. Other banks are the defendant. Plaintiffs in these cases also accuse banks of acting as part of an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2008-2014.
- A lawsuit brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment. The plaintiff filed the suit dated 23.10.2015 to the Regional Court in Warsaw; the suit was served to the Bank on 04.04.2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan concluded between the Bank and PCZ S.A., which resulted in placing the loan on demand. In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank. At present, the Court of first instance is conducting evidence proceedings.

As at 30.09.2021, the total value of the subjects of the other litigations in which the Group appeared as defendant, stood at PLN 1,730.8 million (excluding the class actions described below and in the **Chapter 10)**. In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

The class action related to the LTV insurance:

On the 3rd of December 2015 a class action was served on the Bank. A group of the Bank's debtors (454 borrowers party to 275 loan agreements) is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million, claiming that the clauses of the agreements, pertaining to the low down payment insurance, are unfair and thus not binding. Plaintiff extended the group in the court letter filed on the 4th of April 2018, therefore the claims increased from PLN 3.5 million to over PLN 5 million.
Actual status:
On the 1st of October 2018, the group's representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering the total of 697 borrowers – 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7,371,107.94.
By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff and decided to take witness evidence in writing and called on the parties to submit questions to the witnesses.

As at 30 September 2021, there were also 357 individual court cases regarding LTV insurance (cases in which only a claim for the reimbursement of the commission or LTV insurance fee is presented).

Lawsuits filed by Financial Ombudsman for discontinuation of unfair market practices

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

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

Furthermore, the Ombudsman requires the Bank to be ordered to publish, on its web site, information on use of unfair market practices.
The lawsuit does not include any demand for payment, by the Bank, of any specified amounts. Nonetheless, if the practice is deemed to be abusive it may constitute grounds for future claims to be filed by individual clients.
The case is being examined by the court of first instance.

FX mortgage loans legal risk

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

9.2. OFF - BALANCE ITEMS

Amount '000 PLN	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Off-balance conditional commitments granted and received	**15 944 479**	**15 634 722**	**15 722 748**	**15 651 999**
Commitments granted:	13 685 606	13 886 478	14 177 193	14 344 293
loan commitments	11 939 056	12 155 238	12 420 910	12 611 879
guarantee	1 746 550	1 731 240	1 756 283	1 732 414
Commitments received:	2 258 873	1 748 244	1 545 555	1 307 706
financial	326 024	452	0	149 822
guarantee	1 932 849	1 747 792	1 545 555	1 157 884

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

10.1. CURRENT PROVISIONS ON LEGAL RISK

On September 30, 2021, the Bank had 9,664 loan agreements and additionally 786 loan agreements from former Euro Bank (96% loans agreements before the Court of first instance and 4% loans agreements before the court of second instance) under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 1,206.8 million and CHF 95.8 million (Bank Millennium portfolio: PLN 1,110.1 million and CHF 93.9 million and former Euro Bank portfolio: PLN 96.7 million and CHF 1.9 million).

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, particularly in first instance proceedings. As far as the Bank itself is concerned, until 30 of September 2021 only 123 cases were finally resolved (96 in claims submitted by clients against the Bank and 27 in claims submitted by the Bank against clients i.e. debt collection cases). 73% of finalised individual lawsuits against the Bank were favourable for the Bank including remissions and settlements with plaintiffs. Unfavourable rulings (27%) included both invalidation of loan agreements as well as conversions into PLN+LIBOR/WIBOR. The Bank submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts.

The outstanding amount of the loan agreements under individual court cases and class action on 30.09.2021 was PLN 3,923 million. If all Bank Millennium’s loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for the use of capital, the pre-tax cost could reach PLN 3,539 million. Under less adverse scenarios, the potential losses would range between PLN 637 million (invalidity + compensation of the Bank for the use of capital at statutory interest) PLN 1,399 million (if so-called KNF proposal solution would apply) to PLN 2,192 million (invalidity + compensation of the Bank for the use of capital at WIBOR plus spread). Under scenarios with abovementioned loans remaining valid, an ‘average NBP’ scenario would be least costly for the Bank, translating, on our estimates, into pre-tax cost of PLN 150 million.

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses, or maintenance of the agreement in PLN with interest rate indexed to CHF Libor. The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,980 individual claims were filed against the Bank (in addition, 235 against former Euro Bank), in 2020 the number increased by 3,007 (267) while year to date (end of September 2021) the number increased by 4,636 (287), with 3Q21 alone bringing 1,771 new cases against the Bank (105) (similar to the 2Q21 figure).

In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3,281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. A decision on the admission of evidence will be taken by the court at a closed session. The next hearing will be scheduled ex officio. The outstanding amount of the loan agreements under the class action proceeding was 951 million PLN on 30.09.2021.

Taking into consideration the increased legal risk related to FX mortgages, in the first nine months of 2021 the Bank created PLN 1,424.2 million provisions and PLN 148.9 million for former Euro Bank originated portfolio (respectively in the year 2020: PLN 677 million and PLN 36.4 million). The methodology developed by the Bank is based on the following main parameters: (1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

On September 30, 2021, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 2,375.3 million, and PLN 185.3 million for the portfolio originated by former Euro Bank, with PLN 2,113.4 million and PLN 147.1 million decreasing the gross value of loans in respective portfolios, in line with the IFRS9 approach, while the remaining parts were booked in 'Provisions for pending legal issues'.

Legal risk from former Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

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

Parameter	Scenario	Impact on loss due to legal risk related to the portfolio of mortgage loans in convertible currencies
Change in the number of lawsuits	Additionally, 1 p.p. of active clients file a lawsuit against the Bank	PLN 53 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 36 million

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding the Bank's determination to continue taking all possible actions to protect its interests in courts, 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. As a result of these negotiations the number of active FX mortgage loans decreased by almost 6,600 year to date (end of September 2021) compared to over 57,800 active loans agreements at the end of 2020. Cost incurred in conjunctions with these negotiations totalled PLN 218 million year to date and are presented in 'Result on exchange differences' in the profit and loss statement.

10.2. EVENTS THAT MAY IMPACT PROVISION FOR LEGAL RISK

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

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

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

The date of the next meeting of the Supreme Court that was scheduled for 2 September 2021, the meeting did not address the answers to the submitted questions and no new meeting date is known. The Bank will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

There are a number of questions addressed by polish courts to the European Court of Justice which may be relevant for the outcome of the court disputes in Poland.

The subject matter questions relate, in particular, to:

- the possibility of applying in the agreement of a market rate of buying and selling of the foreign exchange the loan is indexed to, without making the indication of a method of computation;
- the possibility of replacing of an abusive contractual clause with a dispositive law provision;
- the limitation period of a consumer claims concerning reimbursement of benefits made as performance of an agreement which has been declared to be invalid
- the possibility of declaration by the Court of abusiveness of only part of a contractual provision

Moreover, the subject of questions directed to TSUE constitute also matters connected with consequences of invalidation of the contract, i.e. a possibility of requesting by parties to the agreement being declared invalid, of benefits exceeding the return of money paid in performance of the agreement (the bank - loan capital; the consumer - installments, fees, commissions and insurance premiums).

With the scope of settlements between the Bank and borrower following the fall of the loan agreement is also connected the legal issue directed to the seven-person composition of the Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

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

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

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

Based on current information some of the above mentioned aspects are not likely to be fully clarified and / or achieved.

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

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

According to the current calculations, implementation of a solution whereby loans would be voluntarily converted to Polish zloty as if from the very beginning they had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the then existing portfolio would be converted) with a pre-tax impact between PLN 4 141 million to PLN 4 562 million (not audited data). The impacts can significantly change in case of variation of the exchange rate and several assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk weighted assets and the decrease or elimination of Pillar 2 buffer.

Finally it should be mentioned, that the Bank, as at 30.09.2021, had to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 3.41 p.p. (3.36 p.p. at the Group level), part of which is allocated to operational/legal risk.

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

11. Additional Information

11.1. Data about assets, which secure liabilities

As at 30.09.2021 r. (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds OK0423	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	128 518
2.	Treasury bonds OK0423	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	321 000	317 341
3.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	105 100	103 902
4.	Treasury bonds OK0423	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	86 500	85 514
5.	Cash	receivables	initial settlement deposit in KDPW CCP (MAGB)	5 000	5 000
6.	Cash	receivables	ASO guarantee fund (PAGB)	871	871
7.	Cash	receivables	right settlement deposit in KDPW CCP (MATS)	446	446
8.	Cash	receivables	payment to the OTC Guarantee Fund - KDPW_CCP	9 397	9 397
9.	Cash	receivables	Settlement on transactions concluded	52 031	52 031
10.	Deposits	Deposits in banks	Settlement on transactions concluded	309 293	309 293
11.	Leasing receivables	Loans and advances	Loans granted to Millennnium Leasing	224 057	224 057
		TOTAL		1 243 695	1 236 370

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

As at 31.12.2020 r. (PLN'000):

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

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

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

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

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

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

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

11.3. 2020 DIVIDEND

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

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

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

11.4. EARNINGS PER SHARE

Loss per share calculated for III quarters of 2021 (and diluted loss per share) on the basis of the consolidated data amounts to -PLN 0.68.

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

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

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

Shareholder as at 30.09.2021	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50.10	607 771 505	50.10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	100 000 000	8.24	100 000 000	8.24
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	80 000 000	6.59	80 000 000	6.59
Aviva Otwarty Fundusz Emerytalny Aviva Santander	72 760 000	6.00	72 760 000	6.00

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

11.6. Information about loan sureties or guarantees extended by the Group

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

11.7. Seasonality and business cycles

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

11.8. Other additional information and events after the balance sheet date

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

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

Mortgage Bank

Mortgage loans are an important element of the Bank's retail business. Therefore, in June 2018, the Bank submitted a request to the Polish Financial Supervision Authority ("PFSA") for permission to establish a mortgage bank. On June 16, 2020, PFSA issued a permission to establish a mortgage bank under the name of "Millennium Bank Hipoteczny Spółka Akcyjna" with its head office in Warsaw. Shareholders' equity of Millennium Bank Hipoteczny Spółka Akcyjna shall be PLN 40,000,000 and has been wholly covered by Bank Millennium S.A. with a cash contribution of PLN 120,000,000. Registered ordinary shares in the number of 40,000,000 with nominal value of PLN 1 per share have been taken-up by the Bank with the issue price of PLN 3 per share. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

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

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

Demerger of Millennium Dom Maklerski S.A.

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

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

a) a transfer to the Bank of a part of the property (assets and liabilities) and the rights and obligations of the Demerged Company in the form of an organised part of the enterprise of MDM connected with the provision of brokerage services (the “Brokerage Business”); and

b) the retaining by MDM of a part of the property (assets and liabilities) and the rights and obligations of the Demerged Company in the form of an organised part of the enterprise of MDM connected with the remaining business activity (the “Non-Regulated Business”).

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

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

Date	Name and surname	Position/Function	Signature
25.10.2021	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
25.10.2021	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
25.10.2021	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature

Condensed Interim Standalone Financial Statements of the Bank Millennium S.A. for the 9 months ended 30 September 2021

Contents

1. Introduction and Accounting Policy

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

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

Condensed interim financial statements of the Bank:

- are prepared on the basis of the assumption of business continuity by the Bank, namely scale of business is not to be reduced substantially in a period of not less than one year from the balance sheet date;

- have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

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

The Management Board approved these condensed interim financial statements on 25th October 2021.

A new business model at the Bank

As a result of the commencement of operations by Millennium Bank Hipoteczny, in Bank Millennium, in accordance with the requirements of IFRS9, a new business model was created for mortgage loans that can be sold (under the so-called pooling) to Millennium Bank Hipoteczny. The portfolio of these loans has been classified under the "Held to Collect and for Sale" model and is measured at fair value with the measurement effect recognized in other comprehensive income and it was created as a result of reclassification of selected mortgage loans initially included in the "Held to Collect" model (measured at amortized cost). As at September 30, 2021, the fair value of this loan portfolio was PLN 10,146,044 thousand (and the gross carrying amounted to PLN 10,050,379 thousand). Since pooling transactions will take place within the Millennium Group (and as such will be eliminated in the consolidation process), from the point of view of the consolidated financial statements, loans dedicated for sale to the Mortgage Bank will still be recognized as part of the "Held to Collect" model and measured at amortized cost (i.e. the presentation of this loan portfolio at the Group level will remain unchanged).

Changes of applied accounting principles introduced in 2021

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

Income statement line	Data for the III quarters of 2020 presented in the solo financial statements for the III quarter of 2020	Valu of adjustment	Data for the III quarters of 2020 presented in these solo financial statements for the III quarter of 2021
Interest income and other of similar nature	2 353 001	31 256	2 384 257
Results on financial assets and liabilities held for trading	58 942	(31 256)	8 209

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

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

Balance sheet item	Data presented previously in solo financial statements	Value of adjustment	Data presented in solo financial statements for III quarter 2021
31.12.2020			
Loans and advances to customers valued at amortised cost	71 885 679	(449 000)	71 436 679
Provisions for pending legal issues	554 643	(449 000)	105 643
30.09.2020			
Loans and advances to customers valued at amortised cost	71 846 615	(168 239)	71 678 376
Provisions for pending legal issues	323 412	(168 239)	155 173
01.01.2020			
Loans and advances to customers valued at amortised cost	67 191 034	(73 723)	67 117 311
Provisions for pending legal issues	110 885	(73 723)	37 162

2. Standalone Financial Data (Bank)

INCOME STATEMENT

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Net interest income	1 877 488	645 352	1 889 711	603 390
Interest income and other of similar nature	1 964 708	672 017	2 384 257	670 266
Income calculated using the effective interest method	1 906 141	654 506	2 294 059	653 373
Interest income from Financial assets at amortised cost	1 724 180	546 020	2 029 929	585 202
Interest income from Financial assets at fair value through other comprehensive income	181 961	108 486	264 130	68 171
Income of similar nature to interest from Financial assets at fair value through profit or loss	58 567	17 511	90 198	16 893
Interest expenses	(87 220)	(26 665)	(494 546)	(66 876)
Net fee and commission income	532 118	171 764	476 118	154 401
Fee and commission income	645 929	214 420	604 640	202 399
Fee and commission expenses	(113 811)	(42 656)	(128 522)	(47 998)
Dividend income	52 081	717	39 190	258
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9 859	830	77 700	28 992
Results on financial assets and liabilities held for trading	(6 749)	(934)	8 209	3 393
Result on non-trading financial assets mandatorily at fair value through profit or loss	53 809	43 349	(13 153)	5 777
Result on hedge accounting	(1 754)	(1 480)	(10 740)	(2 708)
Result on exchange differences	(77 627)	(89 305)	106 175	34 615
Other operating income	187 216	85 641	71 191	18 951
Other operating expenses	(51 138)	(19 390)	(115 249)	(14 801)
Administrative expenses	(1 015 571)	(337 185)	(1 143 541)	(351 880)
Impairment losses on financial assets	(205 608)	(117 116)	(406 403)	(127 542)
Impairment losses on non-financial assets	(5 357)	(436)	(5 134)	(581)
Provisions for legal risk connected with FX mortgage loans	(1 573 157)	(526 113)	(297 673)	(129 654)
Result on modification	(9 436)	(2 705)	(10 090)	(1 859)
Depreciation	(144 468)	(48 415)	(147 970)	(48 292)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(230 599)	(78 631)	(209 027)	(67 840)
Profit before income taxes	**(608 893)**	**(274 057)**	**309 314**	**104 620**
Corporate income tax	(214 022)	(58 668)	(171 449)	(62 787)
Profit after taxes	**(822 915)**	**(332 725)**	**137 865**	**41 833**

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Profit after taxes	(822 915)	(332 725)	137 865	41 833
Other comprehensive income items that may be (or were) reclassified to profit or loss	(236 058)	(118 457)	188 241	(42 946)
Result on debt securities	(278 677)	(71 056)	205 214	(33 931)
Result on credit portfolio designated for pooling to Mortgage Bank	116 840	(12 021)	0	0
Hedge accounting	(74 221)	(35 380)	(16 973)	(9 015)
Other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
Actuarial gains (losses)	0	0	0	0
Result on equity instruments	0	0	0	0
Total comprehensive income items before taxes	**(236 058)**	**(118 457)**	**188 241**	**(42 946)**
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	44 851	22 507	(35 766)	8 160
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
Total comprehensive income items after taxes	**(191 207)**	**(95 950)**	**152 475**	**(34 786)**
Total comprehensive income for the period	**(1 014 122)**	**(428 675)**	**290 340**	**7 047**

BALANCE SHEET

ASSETS

Amount '000 PLN	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Cash, cash balances at central banks	1 977 706	2 676 407	1 460 289	1 181 740
Financial assets held for trading	284 247	226 938	424 777	481 052
Derivatives	134 155	125 627	155 365	156 747
Equity instruments	0	0	0	0
Debt securities	150 092	101 311	269 412	324 305
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	194 622	158 516	251 107	188 628
Equity instruments	139 178	103 072	200 772	142 305
Debt securities	55 444	55 444	50 335	46 323
Financial assets at fair value through other comprehensive income	20 905 524	21 910 575	18 626 366	24 779 358
Equity instruments	29 220	29 212	29 219	29 387
Debt securities	20 876 304	21 881 363	18 597 147	24 749 971
Loans and advances to customers	76 990 966	75 518 014	73 052 432	71 678 376
Mandatorily at fair value through profit or loss	497 780	1 671 619	1 615 753	1 586 693
Fair valued through other comprehensive income	10 146 044	9 126 239	0	0
Valued at amortised cost	66 347 142	64 720 156	71 436 679	70 091 683
Financial assets at amortised cost other than Loans and advances to customers	625 044	660 924	730 534	946 484
Debt securities	37 156	37 057	38 818	42 946
Deposits, loans and advances to banks and other monetary institutions	578 488	605 506	625 366	862 024
Reverse sale and repurchase agreements	9 400	18 361	66 350	41 514
Derivatives – Hedge accounting	4 953	38 102	21 795	29 350
Investments in subsidiaries, joint ventures and associates	208 874	208 874	208 874	208 874
Tangible fixed assets	511 343	519 983	541 326	538 766
Intangible fixed assets	370 466	360 745	373 720	358 710
Income tax assets	533 968	527 078	534 013	454 584
Current income tax assets	0	0	0	0
Deferred income tax assets	533 968	527 078	534 013	454 584
Other assets	549 634	670 042	341 393	306 003
Non-current assets and disposal groups classified as held for sale	0	0	0	0
Total assets	**103 157 347**	**103 476 198**	**96 566 626**	**101 151 925**

LIABILITIES AND EQUITY

Amount '000 PLN	30.09.2021	30.06.2021	31.12.2020	30.09.2020
LIABILITIES				
Financial liabilities held for trading	109 499	77 599	168 559	156 427
Derivatives	88 151	66 504	103 781	119 372
Liabilities from short sale of securities	21 348	11 095	64 778	37 055
Financial liabilities measured at amortised cost	92 396 183	92 344 609	84 669 783	89 151 191
Liabilities to banks and other monetary institutions	155 896	334 784	563 882	389 654
Liabilities to customers	90 450 174	90 198 950	81 832 471	86 205 891
Sale and repurchase agreements	0	0	248 566	448 535
Debt securities issued	250 894	270 994	484 655	567 787
Subordinated debt	1 539 219	1 539 881	1 540 209	1 539 324
Derivatives – Hedge accounting	334 770	251 303	738 850	653 259
Provisions	377 608	407 363	158 371	219 009
Pending legal issues	329 897	360 592	105 643	155 173
Commitments and guarantees given	47 711	46 771	52 728	63 836
Income tax liabilities	21 605	13 580	28 704	44 652
Current income tax liabilities	21 605	13 580	28 704	44 652
Deferred income tax liabilities	0	0	0	0
Other liabilities	2 099 475	2 134 853	1 966 656	1 950 080
Total Liabilities	**95 339 140**	**95 229 307**	**87 730 923**	**92 174 618**
EQUITY				
Share capital	1 213 117	1 213 117	1 213 117	1 213 117
Own shares	(3 395)	(3 386)	(21)	(3 120)
Share premium	1 147 241	1 147 241	1 147 241	1 147 241
Accumulated other comprehensive income	5 802	101 752	197 009	219 323
Retained earnings	5 455 442	5 788 167	6 278 357	6 400 746
Total equity	7 818 207	8 246 891	8 835 703	8 977 307
Total equity and total liabilities	**103 157 347**	**103 476 198**	**96 566 626**	**101 151 925**

Book value of net assets	7 818 207	8 246 891	8 835 703	8 977 307
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)	6,44	6,80	7,28	7,40

STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total equity	Share capital	Own Shares	Share premium	Accumulated other comprehensive income	Retained earnings	
						Unappropriated result	Other reserves
01.01.2021 - 30.09.2021							
Equity at the beginning of the period	**8 835 703**	**1 213 117**	**(21)**	**1 147 241**	**197 009**	**18 579**	**6 259 778**
Total comprehensive income for the period (net)	(1 014 122)	0	0	0	(191 207)	(822 915)	0
net profit/ (loss) of the period	(822 915)	0	0	0	0	(822 915)	0
valuation of debt securities	(225 728)	0	0	0	(225 728)	0	0
Valuation of credit portfolio designated for pooling to Mortgage Bank	94 640	0	0	0	94 640	0	0
hedge accounting	(60 119)	0	0	0	(60 119)	0	0
Purchase and transfer of own shares to employees	(3 374)	0	(3 374)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	(18 579)	18 579
Equity at the end of the period	**7 818 207**	**1 213 117**	**(3 395)**	**1 147 241**	**5 802**	**(822 915)**	**6 278 357**
01.07.2021 - 30.09.2021							
Equity at the beginning of the period	**8 246 891**	**1 213 117**	**(3 386)**	**1 147 241**	**101 752**	**(490 190)**	**6 278 357**
Total comprehensive income for the period (net)	(428 675)	0	0	0	(95 950)	(332 725)	0
net profit/ (loss) of the period	(332 725)	0	0	0	0	(332 725)	0
valuation of debt securities	(57 555)	0	0	0	(57 555)	0	0
Valuation of credit portfolio designated for pooling to Mortgage Bank	(9 737)	0	0	0	(9 737)	0	0
hedge accounting	(28 658)	0	0	0	(28 658)	0	0
Purchase and transfer of own shares to employees	(9)	0	(9)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	0	0
Equity at the end of the period	**7 818 207**	**1 213 117**	**(3 395)**	**1 147 241**	**5 802**	**(822 915)**	**6 278 357**
01.01.2020 - 31.12.2020							
Equity at the beginning of the period	**8 690 087**	**1 213 117**	**0**	**1 147 241**	**66 848**	**560 727**	**5 702 154**
Total comprehensive income for the period (net)	148 740	0	0	0	130 161	18 579	0
net profit/ (loss) of the period	18 579	0	0	0	0	18 579	0
valuation of debt securities	143 476	0	0	0	143 476	0	0
valuation of shares	(142)	0	0	0	(142)	0	0
hedge accounting	(12 582)	0	0	0	(12 582)	0	0
actuarial gains (losses)	(591)	0	0	0	(591)	0	0
Purchase and transfer of own shares to employees	(3 124)	0	(21)	0	0	0	(3 103)
Transfer between items of reserves	0	0	0	0	0	(560 727)	560 727
Equity at the end of the period	**8 835 703**	**1 213 117**	**(21)**	**1 147 241**	**197 009**	**18 579**	**6 259 778**
01.01.2020 - 30.09.2020							
Equity at the beginning of the period	**8 690 087**	**1 213 117**	**0**	**1 147 241**	**66 848**	**560 727**	**5 702 154**
Total comprehensive income for the period (net)	290 340	0	0	0	152 475	137 865	0
net profit/ (loss) of the period	137 865	0	0	0	0	137 865	0
valuation of debt securities	166 223	0	0	0	166 223	0	0
hedge accounting	(13 748)	0	0	0	(13 748)	0	0
Purchase and transfer of own shares to employees	(3 120)	0	(3 120)	0	0	0	0
Transfer between items of reserves	0	0	0	0	0	(560 727)	560 727
Equity at the end of the period	**8 977 307**	**1 213 117**	**(3 120)**	**1 147 241**	**219 323**	**137 865**	**6 262 881**

CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Profit (loss) after taxes	(822 915)	(332 725)	137 865	41 833
Total adjustments:	4 205 413	(1 317 204)	2 394 367	(870 059)
Interest received	2 005 548	711 023	2 340 490	661 614
Interest paid	(87 840)	(28 027)	(496 782)	(86 289)
Depreciation and amortization	144 468	48 415	147 970	48 292
Foreign exchange (gains)/ losses	0	0	12 408	(3 731)
Dividends	(52 081)	(717)	(39 190)	(258)
Changes in provisions	219 237	(29 755)	54 268	170 416
Result on sale and liquidation of investing activity assets	(8 374)	(556)	(82 842)	(28 822)
Change in financial assets held for trading	51 951	(123 868)	301 824	(10 703)
Change in loans and advances to banks	193 629	(91 246)	(288 222)	(44 303)
Change in loans and advances to customers	(5 611 660)	(2 114 262)	(4 891 946)	(1 717 320)
Change in receivables from securities bought with sell-back clause (loans and advances)	56 950	8 961	157 488	23 862
Change in financial liabilities valued at fair value through profit and loss (held for trading)	(463 140)	115 367	29 835	(68 586)
Change in deposits from banks	(395 361)	(173 300)	(67 775)	58 812
Change in deposits from customers	8 700 891	278 659	5 040 620	(171 328)
Change in liabilities from securities sold with buy-back clause	(248 518)	39	365 607	448 645
Change in debt securities	(231 608)	(20 079)	(124 978)	(70 994)
Change in income tax settlements	218 329	62 975	156 923	63 693
Income tax paid	(179 764)	(39 333)	(235 266)	(69 976)
Change in other assets and liabilities	(136 541)	68 646	(27 887)	(84 188)
Other	29 297	9 854	41 822	11 105
Net cash flows from operating activities	3 382 498	(1 649 929)	2 532 232	(828 226)

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Inflows:	58 162	471 977	59 081	439 125
Proceeds from sale of property, plant and equipment and intangible assets	6 081	1 049	19 891	5 912
Proceeds from sale of shares in related entities	0	0	0	0
Proceeds from sale of investment financial assets	0	470 211	0	432 955
Other	52 081	717	39 190	258
Outflows:	(737 468)	(34 459)	(4 185 035)	(135 003)
Acquisition of property, plant and equipment and intangible assets	(58 543)	(34 459)	(40 247)	(15 003)
Purchase of of shares in related entities	0	0	(120 000)	(120 000)
Acquisition of investment financial assets	(678 925)	0	(4 024 788)	0
Other	0	0	0	0
Net cash flows from investing activities	(679 306)	437 518	(4 125 954)	304 122

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Inflows from financing activities:	0	0	0	0
Long-term bank loans	0	0	0	0
Issue of debt securities	0	0	0	0
Increase in subordinated debt	0	0	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
Outflows from financing activities:	(40 364)	(15 549)	(746 918)	(375 593)
Repayment of long-term bank loans	(10 000)	(5 000)	(394 828)	(358 112)
Redemption of debt securities	0	0	(300 000)	0
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(30 364)	(10 549)	(52 090)	(17 481)
Net cash flows from financing activities	(40 364)	(15 549)	(746 918)	(375 593)

D. Net cash flows. Total (A + B + C)	2 662 828	(1 227 960)	(2 340 640)	(899 697)
including change resulting from FX differences	3 357	5 283	7 517	1 127
E. Cash and cash equivalents at the beginning of the reporting period	1 586 434	5 477 222	3 752 789	2 311 846
F. Cash and cash equivalents at the end of the reporting period (D + E)	4 249 262	4 249 262	1 412 149	1 412 149

3. Supplementary information for standalone financial data

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

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

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

Mortgage Bank

Mortgage loans are an important element of the Bank’s retail business. Therefore, in June 2018, the Bank submitted a request to the Polish Financial Supervision Authority (“PFSA”) for permission to establish a mortgage bank. On June 16, 2020, PFSA issued a permission to establish a mortgage bank under the name of “Millennium Bank Hipoteczny Spółka Akcyjna” with its head office in Warsaw. Shareholders’ equity of Millennium Bank Hipoteczny Spółka Akcyjna shall be PLN 40,000,000 and has been wholly covered by Bank Millennium S.A. with a cash contribution of PLN 120,000,000. Registered ordinary shares in the number of 40,000,000 with nominal value of PLN 1 per share have been taken-up by the Bank with the issue price of PLN 3 per share. The new Bank is to provide medium and long-term financing through the issuance of covered bonds to support residential mortgage lending business.

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

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

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

Impairment losses on financial assets

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Impairment losses on loans and advances to customers	(210 710)	(116 339)	(396 720)	(121 260)
Impairment charges on loans and advances to customers	(1 049 805)	(321 027)	(1 183 989)	(375 205)
Reversal of impairment charges on loans and advances to customers	768 784	193 454	740 667	231 535
Amounts recovered from loans written off	39 562	13 135	35 159	10 992
Sale of receivables	32 623	(243)	11 404	11 420
Other directly recognised in profit and loss	(1 874)	(1 658)	39	(2)
Impairment losses on securities	0	4	50	0
Impairment charges on securities	(6)	0	0	0
Reversal of impairment charges on securities	6	4	50	0
Impairment losses on off-balance sheet liabilities	5 102	(781)	(9 733)	(6 282)
Impairment charges on off-balance sheet liabilities	(48 301)	(10 193)	(67 371)	(20 018)
Reversal of impairment charges on off-balance sheet liabilities	53 403	9 412	57 638	13 736
Total	**(205 608)**	**(117 116)**	**(406 403)**	**(127 542)**

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

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Balance at the beginning of the period	2 204 743	2 204 743	1 801 122	1 801 122
Change in value of provisions:	74 370	(37 960)	403 621	350 650
Impairment allowances created in the period	1 031 991	724 271	1 466 595	1 183 989
Amounts written off	(129 400)	(102 797)	(145 652)	(113 448)
Impairment allowances released in the period	(759 261)	(570 980)	(919 006)	(740 667)
Sale of receivables	(83 368)	(81 973)	(59 662)	(26 712)
Exclusion of FVOCI portfolio	(12 884)	(12 884)	0	0
KOIM created in the period(*)	23 438	14 590	37 798	29 050
Changes resulting from FX rates differences	430	(8 947)	19 510	14 732
Other	3 424	760	4 038	3 706
Balance at the end of the period	**2 279 113**	**2 166 783**	**2 204 743**	**2 151 772**

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

Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Investments in subsidiaries, joint ventures and associates	Property. plant and equipment	Intangibles	Other assets
As at 01.01.2021	4 999	6 700	8 856	0	22 514
- Write-offs created	6	0	0	0	18 413
- Write-offs released	(6)	0	0	0	(10 282)
- Utilisation	0	0	0	0	(1 623)
- Other	0	0	0	0	0
As at 30.09.2021	4 999	6 700	8 856	0	29 021
As at 01.01.2021	4 999	6 700	8 856	0	22 514
- Write-offs created	4	0	0	0	13 407
- Write-offs released	0	0	0	0	(6 622)
- Utilisation	0	0	0	0	(1 259)
- Other	0	0	0	0	0
As at 31.06.2021	5 003	6 700	8 856	0	28 040
As at 01.01.2020	5 050	7 600	8 856	0	12 670
- Write-offs created	0	0	0	0	32 883
- Write-offs released	(51)	0	0	0	(23 024)
- Utilisation	0	(900)	0	0	(14)
- Other	0	0	0	0	0
As at 31.12.2020	4 999	6 700	8 856	0	22 514
As at 01.01.2020	5 050	7 600	8 856	0	12 670
- Write-offs created	0	0	0	0	27 602
- Write-offs released	(50)	0	0	0	(19 598)
- Utilisation	0	(900)	0	0	(124)
- Other	0	0	(123)	0	0
As at 30.09.2020	4 999	6 700	8 856	0	22 514

Change of Provision for commitments and guarantees given

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Balance at the beginning of the period	52 728	52 728	53 856	53 856
Charge of provision	48 301	38 108	73 893	67 371
Release of provision	(53 403)	(43 991)	(75 357)	(57 638)
FX rates differences	85	(74)	336	247
Balance at the end of the period	**47 711**	**46 771**	**52 728**	**63 836**

Change of Provision for pending legal issues

	1.01.2021 - 30.09.2021	1.07.2021 - 30.09.2021	1.01.2020 - 30.09.2020	1.07.2020 - 30.09.2020
Balance at the beginning of the period	105 643	105 643	37 162	37 162
Charge of provision	6 178	4 270	16 874	17 979
Release of provision	(6 701)	(4 095)	(13 331)	(11 555)
Utilisation of provision	0	0	(489)	(489)
Creation of provision for legal risk connected with FX mortgage loans	1 573 157	1 047 044	713 617	297 673
Allocation to the loans portfolio	(1 375 774)	(765 062)	(671 484)	(168 389)
FX differencies	27 394	(27 208)	23 294	9 654
Reclassification	0	0	0	(26 862)
Balance at the end of the period	329 897	360 592	105 643	155 173

Deferred income tax assets and liability

	30.09.2021			30.06.2021		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	1 659	(3 787)	(2 128)	1 659	(3 967)	(2 308)
Balance sheet valuation of financial instruments	65 954	(88 807)	(22 853)	39 751	(62 238)	(22 487)
Unrealised receivables/ liabilities on account of derivatives	8 994	(11 443)	(2 449)	10 035	(8 321)	1 715
Interest on deposits and securities to be paid/ received	11 547	(39 547)	(28 000)	13 511	(33 038)	(19 527)
Interest and discount on loans and receivables	0	(76 056)	(76 056)	0	(73 801)	(73 801)
Income and cost settled at effective interest rate	158 437	0	158 437	159 295	0	159 295
Impairment of loans presented as temporary differences	410 347	0	410 347	408 029	0	408 029
Employee benefits	18 043	0	18 043	18 194	0	18 194
Rights to use	6 925	0	6 925	7 297	0	7 297
Provisions for future costs	93 541	0	93 541	92 957	0	92 957
Valuation of financial assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	26 158	(27 519)	(1 361)	16 552	(40 420)	(23 868)
Valuation of shares	1 273	(23 129)	(21 856)	1 273	(20 160)	(18 887)
Other	2 618	(1 240)	1 378	2 874	(2 404)	470
Total	805 496	(271 528)	533 968	771 427	(244 349)	527 078

	31.12.2020			30.09.2020		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	1 659	(3 507)	(1 848)	1 659	(3 502)	(1 843)
Balance sheet valuation of financial instruments	128 219	(149 996)	(21 777)	124 200	(143 645)	(19 445)
Unrealised receivables/ liabilities on account of derivatives	12 285	(14 486)	(2 201)	11 012	(13 286)	(2 274)
Interest on deposits and securities to be paid/ received	30 241	(33 021)	(2 780)	38 201	(33 021)	5 180
Interest and discount on loans and receivables	0	(77 075)	(77 075)	0	(82 659)	(82 659)
Income and cost settled at effective interest rate	188 794	0	188 794	180 572	0	180 572
Impairment of loans presented as temporary differences	405 834	0	405 834	387 903	0	387 903
Employee benefits	19 420	0	19 420	20 181	0	20 181
Rights to use	8 432	0	8 432	8 829	0	8 829
Provisions for future costs	83 764	0	83 764	19 173	0	19 173
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	9 172	(55 384)	(46 212)	9 307	(60 753)	(51 446)
Valuation of shares	1 273	(23 710)	(22 437)	1 273	(12 919)	(11 646)
Other	3 054	(955)	2 099	2 927	(868)	2 059
Total	892 147	(358 134)	534 013	805 237	(350 653)	454 584

4. Transactions with Related Entities

All transactions among members of the Group made in III quarter of 2021 and 2020 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

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

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

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

Assets and liabilities from transactions with related parties (data in ‘000 pln) as at 30.09.2021

	With subsidiaries	With parent company	With other entities from parent group
ASSETS			
Loans and advances to banks - accounts and deposits	308	86 034	0
Loans and advances to customers	6 252 066	0	0
Investments in associates	208 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	842	0	0
Hedging derivatives	0	0	0
Other assets	32 642	0	0
LIABILITIES			
Deposits from banks	4 440	43 792	0
Deposits from customers	425 724	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	0	201	0
Subordinated debt	0	0	0
Other liabilities, including:	73 607	0	64
financial leasing liabilities	65 246	0	0

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

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

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.09.2021

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	50 792	(231)	0
Commissions	19 083	67	0
Financial instruments valued at fair value through profit and loss	0	0	0
Dividends	48 663	0	0
Other net operating	10 140	0	0
Expense from:			
Interest	1 254	123	(182)
Commissions	37	0	0
Financial instruments valued at fair value through profit and loss	879	200	0
Other net operating	0	5	0
General and administrative expenses	11 801	0	15

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.09.2020

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	72 749	(151)	0
Commissions	14 844	84	0
Financial instruments valued at fair value through profit and loss	1 317	0	0
Dividends	35 665	0	0
Other net operating	5 510	0	0
Expense from:			
Interest	2 032	3	(239)
Commissions	72	0	0
Financial instruments valued at fair value through profit and loss	0	468	0
Other net operating	0	9	0
General and administrative expenses	18 884	0	259

Off-balance transactions with related parties (data in '000 pln) as at 30.09.2021

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	1 510 050	103 198	0
granted	1 506 920	101 500	0
obtained	3 130	1 698	0
Derivatives (par value)	60 765	15 089	0

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

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

5. Fair Value

The methodology used by the Bank for valuation of assets and liabilities at fair value is described in detail in Chapter 8. Condensed interim consolidated financial statements of Bank Millennium S.A. for the 9 months ended 30 September 2021.

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

5.1. Financial instruments not recognized at fair value in the balance sheet

30.09.2021	Balance sheet value	Fair value
Assets measured at Amortised Cost		
Debt securities	37 156	38 406
Deposits, loans and advances to banks and other monetary institutions	578 488	578 491
Loans and advances to customers (*)	66 347 142	64 388 010
Liabilities measured at Amortised Cost		
Liabilities to banks and other monetary institutions	155 896	155 815
Liabilities to customers	90 450 174	90 438 298
Debt securities issued	250 894	251 198
Subordinated debt	1 539 219	1 538 701

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

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

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

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

Data in PLN'000, as at na 30.09.2021

	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
	Level 1	Level 2	Level 3
ASSETS			
Financial assets held for trading			
Valuation of derivatives		115 480	18 675
Debt securities	150 092		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments		72 569	66 609
Debt securities			55 444
Loans and advances			497 780
Financial assets at fair value through other comprehensive income			
Equity instruments			29 220
Debt securities	18 876 304	2 000 000	
Loans and advances			10 146 044
Derivatives – Hedge accounting		4 953	
LIABILITIES			
Financial liabilities held for trading			
Valuation of derivatives	0	69 092	19 059
Short positions	21 348	0	0
Derivatives – Hedge accounting	0	334 770	0

Data in PLN'000, as at 31.12.2020

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

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances at fair value through profit or loss	Loans and advances at fair value through other comprehensive income
Balance as at 01.01.2021	**19 911**	**(19 559)**	**95 827**	**50 335**	**1 615 753**	**0**
Settlement/sell/purchase	293	(1 099)	0	0	(1 206 148)	0
Creation of a new business model	0	0	0	0	0	9 962 338
Change of valuation recognized in equity	0	0	0	0	0	116 840
Interest income and other of similar nature	0	0	0	0	48 970	75 157
Results on financial assets and liabilities held for trading	(1 900)	1 970	0	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	5 109	39 205	0
Impairment of financial assets	0	0	0	0	0	(8 291)
Result on exchange differences	0	0	2	0	0	0
Balance as at 30.09.2021	**18 304**	**(18 688)**	**95 829**	**55 444**	**497 780**	**10 146 044**

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

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

6.1. CURRENT PROVISIONS ON LEGAL RISK

On September 30, 2021, the Bank had 9,664 loan agreements and additionally 786 loan agreements from former Euro Bank (96% loans agreements before the Court of first instance and 4% loans agreements before the court of second instance) under individual ongoing litigations (excluding claims submitted by the bank against clients i.e. debt collection cases) concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 1,206.8 million and CHF 95.8 million (Bank Millennium portfolio: PLN 1,110.1 million and CHF 93.9 million and former Euro Bank portfolio: PLN 96.7 million and CHF 1.9 million).

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, particularly in first instance proceedings. As far as the Bank itself is concerned, until 30 of September 2021 only 123 cases were finally resolved (96 in claims submitted by clients against the Bank and 27 in claims submitted by the Bank against clients i.e. debt collection cases). 73% of finalised individual lawsuits against the Bank were favourable for the Bank including remissions and settlements with plaintiffs. Unfavourable rulings (27%) included both invalidation of loan agreements as well as conversions into PLN+LIBOR/WIBOR. The Bank submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts.

The outstanding amount of the loan agreements under individual court cases and class action on 30.09.2021 was PLN 3,923 million. If all Bank Millennium's loan agreements currently under individual and class action court proceedings would be declared invalid without proper compensation for the use of capital, the pre-tax cost could reach PLN 3,539 million. Under less adverse scenarios, the potential losses would range between PLN 637 million (invalidity + compensation of the Bank for the use of capital at statutory interest) PLN 1,399 million (if so-called KNF proposal solution would apply) to PLN 2,192 million (invalidity + compensation of the Bank for the use of capital at WIBOR plus spread). Under scenarios with abovementioned loans remaining valid, an 'average NBP' scenario would be least costly for the Bank, translating, on our estimates, into pre-tax cost of PLN 150 million.

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses, or maintenance of the agreement in PLN with interest rate indexed to CHF Libor. The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,980 individual claims were filed against the Bank (in addition, 235 against former Euro Bank), in 2020 the number increased by 3,007 (267) while year to date (end of September 2021) the number increased by 4,636 (287), with 3Q21 alone bringing 1,771 new cases against the Bank (105) (similar to the 2Q21 figure).

In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3,281. At the current stage, the composition of the group has been established and confirmed by the court. The proceedings entered the phase of reviewing the case on the merits. A decision on the admission of evidence will be taken by the court at a closed session. The next hearing will be scheduled ex officio. The outstanding amount of the loan agreements under the class action proceeding was 951 million PLN on 30.09.2021.

Taking into consideration the increased legal risk related to FX mortgages, in the first nine months of 2021 the Bank created PLN 1,424.2 million provisions and PLN 148.9 million for former Euro Bank originated portfolio (respectively in the year 2020: PLN 677 million and PLN 36.4 million). The methodology developed by the Bank is based on the following main parameters: (1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

On September 30, 2021, the balance sheet value of provisions set aside for FX mortgage legal risk for the portfolio originated by Bank Millennium reached PLN 2,375.3 million, and PLN 185.3 million for the portfolio originated by former Euro Bank, with PLN 2,113.4 million and PLN 147.1 million decreasing the gross value of loans in respective portfolios, in line with the IFRS9 approach, while the remaining parts were booked in 'Provisions for pending legal issues'.

Legal risk from former Euro Bank portfolio is fully covered by Indemnity Agreement with Societe Generale.

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

Parameter	Scenario	Impact on loss due to legal risk related to the portfolio of mortgage loans in convertible currencies
Change in the number of lawsuits	Additionally, 1 p.p. of active clients file a lawsuit against the Bank	PLN 53 million
Change in the probability of winning a case	The probability of the Bank winning a case is lower by 1 p.p	PLN 36 million

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding the Bank's determination to continue taking all possible actions to protect its interests in courts, 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. As a result of these negotiations the number of active FX mortgage loans decreased by almost 6,600 year to date (end of September 2021) compared to over 57,800 active loans agreements at the end of 2020. Cost incurred in conjunctions with these negotiations totalled PLN 218 million year to date and are presented in 'Result on exchange differences' in the profit and loss statement.

6.2. EVENTS THAT MAY IMPACT PROVISION FOR LEGAL RISK

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

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

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

The date of the next meeting of the Supreme Court that was scheduled for 2 September 2021 was cancelled and until now there is no new announced date. The Bank will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

There are a number of questions addressed by polish courts to the European Court of Justice which may be relevant for the outcome of the court disputes in Poland.

The subject matter questions relate, in particular, to:
- the possibility of applying in the agreement of a market rate of buying and selling of the foreign exchange the loan is indexed to, without making the indication of a method of computation;
- the possibility of replacing of an abusive contractual clause with a dispositive law provision;
- the limitation period of a consumer claims concerning reimbursement of benefits made as performance of an agreement which has been declared to be invalid
- the possibility of declaration by the Court of abusiveness of only part of a contractual provision

Moreover, the subject of questions directed to TSUE constitute also matters connected with consequences of invalidation of the contract, i.e. a possibility of requesting by parties to the agreement being declared invalid, of benefits exceeding the return of money paid in performance of the agreement (the bank - loan capital; the consumer - installments, fees, commissions and insurance premiums).

With the scope of settlements between the Bank and borrower following the fall of the loan agreement is also connected the legal issue directed to the seven-person composition of the Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

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

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

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

Based on current information some of the above mentioned aspects are not likely to be fully clarified and / or achieved.

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

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

According to the current calculations, implementation of a solution whereby loans would be voluntarily converted to Polish zloty as if from the very beginning they had been a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the then existing portfolio would be converted) with a pre-tax impact between PLN 4 141 million to PLN 4 562 million (not audited data). The impacts can significantly change in case of variation of the exchange rate and several assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk weighted assets and the decrease or elimination of Pillar 2 buffer.

Finally it should be mentioned, that the Bank, as at 30.09.2021, had to maintain additional own funds for the coverage of additional capital requirements related to FX mortgage portfolio risks (Pillar II FX buffer) in the amount of 3.41 p.p. (3.36 p.p. at the Group level), part of which is allocated to operational/legal risk.

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

7. Additional Information

7.1. Issue, redemption or repayment of debt or equity instruments

During the nine months ended September 30, 2021, the Bank's total liabilities under the issue of debt securities decreased by PLN 233.8 million. Almost total decrease was caused by the redemption of Bank Securities (BPW).

7.2. Off balance sheet items

Structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	30.09.2021	30.06.2021	31.12.2020	30.09.2020
Off-balance conditional commitments granted and received	**17 454 529**	**16 471 252**	**16 589 172**	**16 486 417**
Commitments granted:	15 192 526	14 719 998	15 040 743	15 175 920
- financial	12 713 396	12 211 864	12 478 702	12 652 405
- guarantee	2 479 130	2 508 133	2 562 041	2 523 515
Commitments received:	2 262 003	1 751 255	1 548 429	1 310 497
- financial	326 024	452	0	149 822
- guarantee	1 935 979	1 750 803	1 548 429	1 160 675

Date	Name and surname	Position/Function	Signature
25.10.2021	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
25.10.2021	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
25.10.2021	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
25.10.2021	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature