Management Board Report on the activity of Bank Millennium and Capital Group of Bank Millennium in the six months ended on June 30, 2022

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

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1. BANK MILLENNIUM AND MARKET CONDITIONS

1.1. GENERAL DESCRIPTION OF BANK MILLENNIUM GROUP

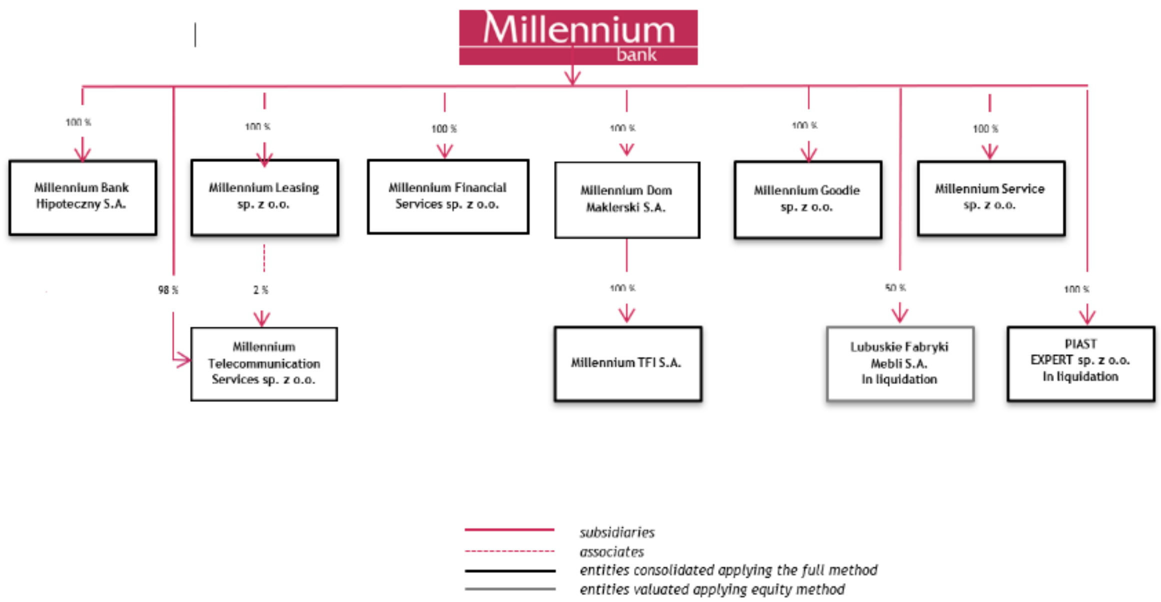
Bank Millennium S.A. (‘Bank Millennium’, ‘Bank’) was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of branches, a network of personal advisors as well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

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

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

Bank Millennium, together with its subsidiaries, forms Bank Millennium Group (‘BM Group’, ‘Group’) - one of the most innovative and comprehensively developing financial groups in Poland – employing in total 6,735 persons (FTE).

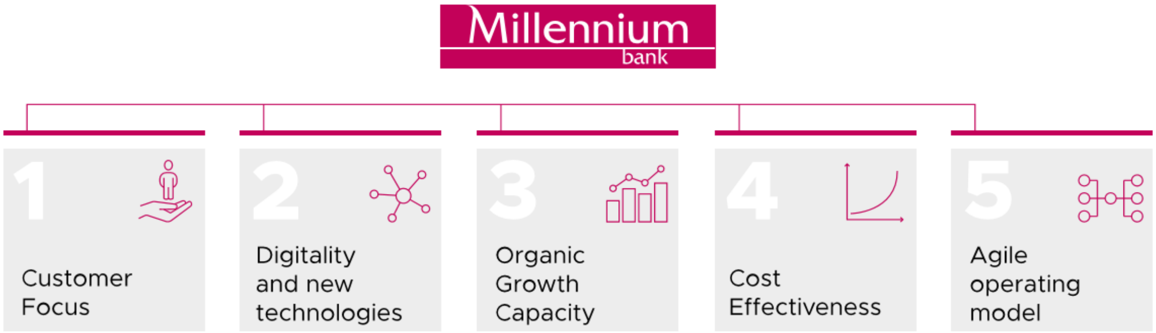
General organization of the Group as on 30.06.2022



Its most important companies are: Millennium Leasing (leasing business), Millennium Dom Maklerski (brokerage business), Millennium TFI (mutual funds) and Millennium Bank Hipoteczny (obtaining long-term financing through the issue of covered bonds). Since 2016, Millennium Goodie Sp. z o.o. together with the Bank has been operating a smartshopping platform based on advanced technology. The offering of the above-mentioned companies complements the services and products offered by the Bank.

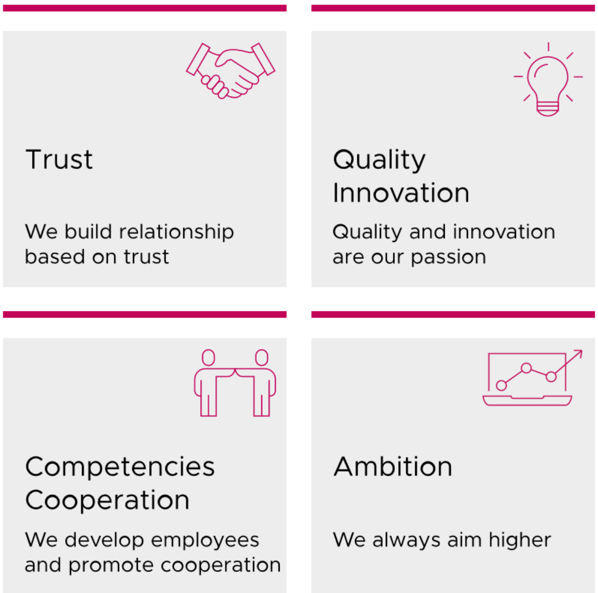
Business model

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



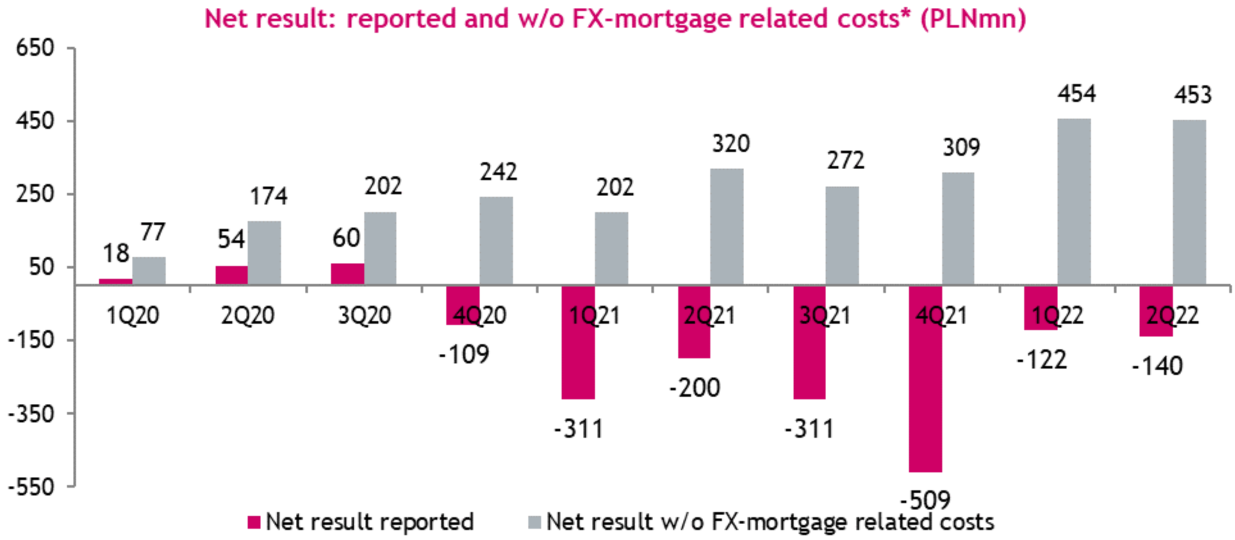
1. **CLIENT-CENTRICITY**
   We are the most client-centric bank, which keeps developing. We want to be the most personalised bank on a mass scale.
2. **DIGITALITY AND NEW TECHNOLOGIES**
   We are a digital banking leader, offering a combination of broad outreach and high quality of services.
3. **ORGANIC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

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



1.2. FINANCIAL RESULTS IN BRIEF

2Q22 brought further improvement of operating results of Bank Millennium S.A. Capital Group (the 'Bank', 'BM Group', 'Group') and as a result an important milestone – positive net result after all costs related to FX-mortgage portfolio - was reached. Strong growth in core revenues (2Q22: up 60% y/y, 1H22: up 52% y/y) more than offset the 12% y/y growth of opex (excl. cost of joining the Institutional Protection Scheme or 'IPS'; 1H22: +13% y/y) and the continuing elevated costs related to FX-mortgage portfolio (PLN593 million post-tax, 1H22: PLN1,170 million). If not significant one-off costs related to IPS (PLN252 million pre-tax, PLN204 million net), the Group would post a positive net result in 2Q22. Reported net result remained negative however and amounted to PLN140 million (1H22: -PLN263 million).

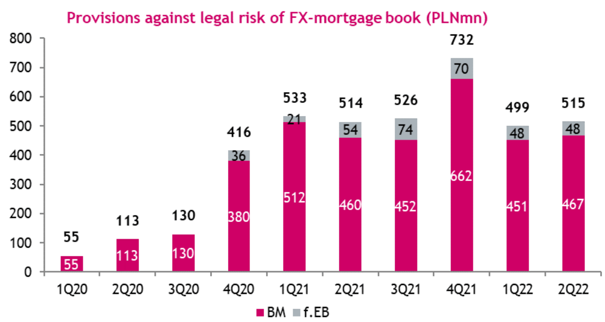


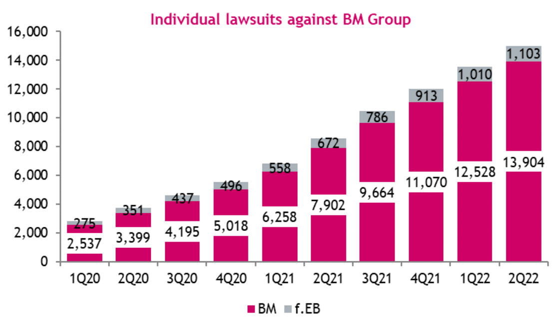
(*) adjusted for provisions against legal risk, legal costs related to FX-mortgages and costs of amicable conversions

FX-mortgage portfolio and related costs

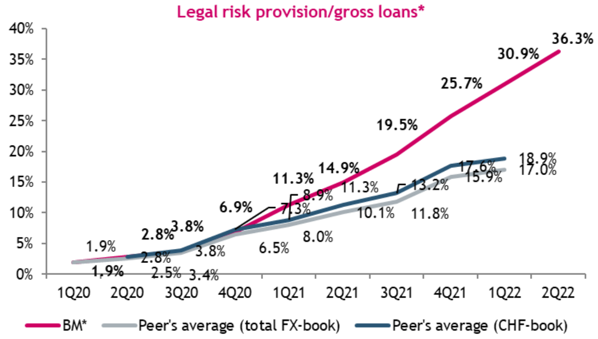
Similarly to recent reporting periods, costs related to FX-mortgage portfolio (legal risk provisions, costs of amicable settlements and legal costs) remained elevated and continued to be the main drag on the increasingly profitable core business of the Group.

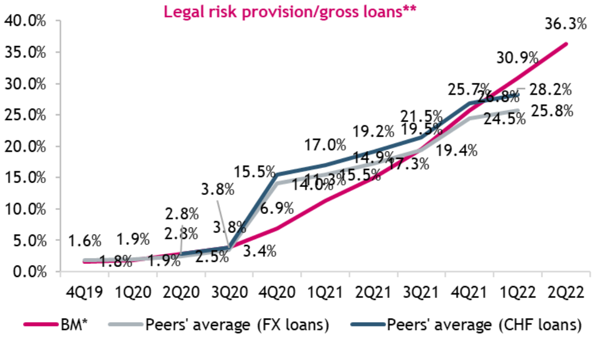
Total provisions against legal risk related to FX-mortgage portfolio ('FX-mortgage provisions') amounted to PLN515 million (pre-tax) in 2Q22 (1H22: PLN1,015 million) with PLN467 million (1H22:919 million) attributable to FX-mortgages originated by the Bank. Excluding FX-mortgage related costs, the Group would post 2Q22 net profit of PLN453 million (1H22: PLN907 million) vs. adjusted 2Q21 net profit of PLN320 million (1H21: PLN521 million).





The further increase of FX-mortgage provisions resulted from more conservative inputs into the Bank's provisioning methodology, reflecting, inter alia, higher inflow of court claims (individual lawsuits related to loan agreements originated by the Bank stood at 13,904 at end of June 2022 vs. 11,070 at the end of December 2021) and higher proportion of cases lost by banks (details regarding litigations against the BM Group can be found further in the report and in Consolidated Report of the Bank Millennium S.A. Capital Group for 1st half 2022). At the end of June 2022, the balance of provisions for the portfolio originated by the Bank stood at PLN4,155 million (end of December 2021: PLN3,079 million), an equivalent of 36.3% of the FX-mortgage grossed-up book (end of December 2021: 25.7%).

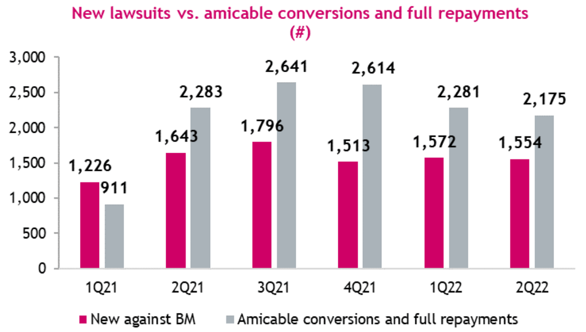


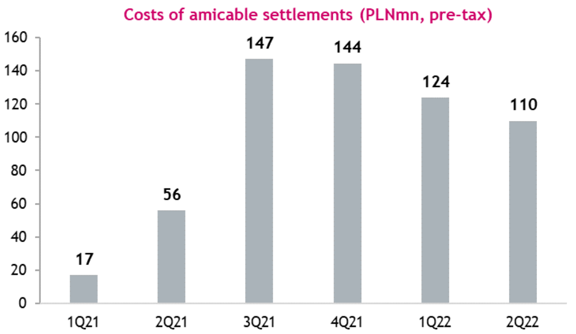


(*) w/o provisions for settlements, (**) including provisions for settlements
Note: legal risk provisions/gross FX mortgage book (post IFRS9 adjustments where necessary); ex-EB portfolio in case of BM

At the same time, the Bank continues to be open to its customers in order to reach amicable solutions (i.a. conversions to PLN mortgages, pre-payments, early repayments or collectively 'amicable settlements') 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 nearly 5,300 year to end of June 2022 (2021 overall: nearly 10,300 agreements, 2020: nearly 3,600 agreements), compared to nearly 47,600 active loans agreements at the end of 2021. The number of amicable settlements reached 2,175 in 2Q22 (1H22: 4,456) despite unfavourable FX trends and higher PLN interest rates. As a result, it was the fifth consecutive quarter during which the reduction of the number of active FX-mortgage loans was higher than the inflow of new individual court cases against the Bank.

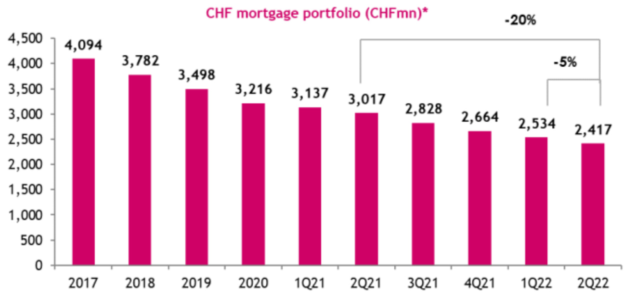
Costs related to amicable settlements totalled PLN110 million (pre-tax, booked largely in FX-result line) in 2Q22 (1H22: PLN 233 million), while legal costs (largely booked in admin costs) PLN26 million (1H22: PLN44 million).

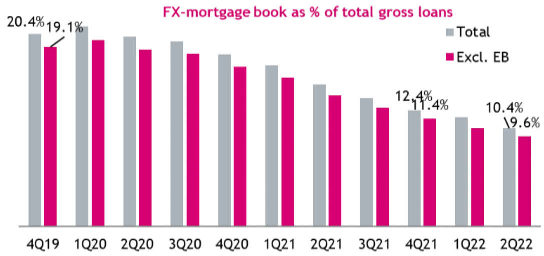




(*) net growth of number of agreements sued in court

As a result of these trends, the BM's FX-mortgage portfolio contracted 5% in 2Q22 (in CHF terms, gross, w/o impact of allocated legal risk provisions) while the y/y contraction rate accelerated to 20% from 17% at YE21. The share of total FX-mortgage book (gross loans less allocated legal risk provisions) in total Group's gross loans dropped to 10.4% at the end of 2Q22, while the share of FX-mortgage loans originated by BM dropped to 9.6%.





*BM originated

1.3. MAIN FINANCIAL AND BUSINESS ACHIEVEMENTS OF THE GROUP

2Q22 brought a continuation of growth in core revenues with NII, the main driver, up by significant 23% q/q and 80% y/y (1H22: up 68% y/y). This P&L line continued to benefit from recent increases of NBP's base rate (2Q22: up 250bp, 1Q22: up 175bp, 4Q21: up 165bp) and higher levels of market interest rates (average 3M WIBOR in 2Q22 increased by 277bps, following 196bps q/q increase in 1Q22 and 131bps q increase in 4Q21). Fees contracted by 7% q/q (-2% y/y), chiefly due to a drop in deposit and asset management fees, while card and transaction fees increased in both q/q and y/y terms.

2Q22 pre-provision profit adjusted for costs related to FX-mortgage portfolio (costs of amicable conversions, legal costs and netting-off EB's FX-mortgage provisions) amounted to PLN747million, down 3% q/q (IPS costs the main reason for the drop) and up 35% y/y (1H22: up 52% y/y).

BM Group: adjusted results (PLNmn)

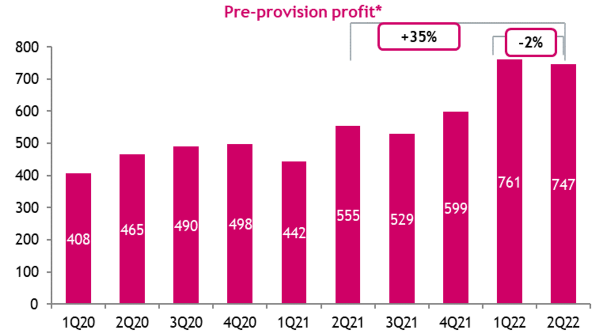
	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	y/y	q/q	1H22	y/y
NII*	622	655	669	767	961	1,179	80%	23%	2,140	68%
Net fees	205	209	202	215	221	206	-2%	-7%	427	3%
Other income**	36	60	48	15	54	26	-57%	-52%	79	-17%
Total income**	**863**	**924**	**918**	**997**	**1,236**	**1,411**	**53%**	**14%**	**2,646**	**48%**
Opex w/o BFG, IPS and FX-mortgage legal costs	-367	-339	-372	-381	-382	-377	11%	-1%	-759	8%
BFG & IPS	-53	-30	-17	-17	-86	-287	849%	234%	-372	347%
Pre-provision profit ex-FX-mortgage costs	**442**	**555**	**529**	**599**	**768**	**747**	**35%**	**-3%**	**1,515**	**52%**
FX-mortgage related costs (legal and conversions)	-24	-66	-162	-185	-142	-135	106%	-5%	-277	209%
Risk charge***	-76	-57	-83	-82	-83	-71	23%	-15%	-154	15%
FX-mortgage provisions w/o EB	-512	-460	-452	-662	-451	-467	2%	4%	-919	-6%
Net result reported	**-311**	**-200**	**-311**	**-509**	**-122**	**-140**	-30%	15%	**-263**	**-49%**
Net result w/o FX-mortgage related costs	**202**	**320**	**272**	**309**	**454**	**453**	**42%**	**0%**	**907**	**74%**

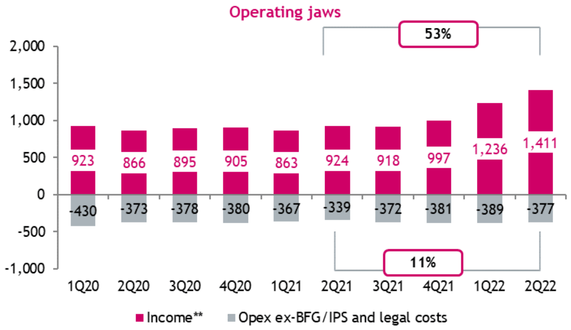
(*) NII including swap income from derivatives, (**) w/o result on FV portfolio, cost of amicable solutions for FX-mortgage borrowers, part of legal costs and netting-off EB's FX-mortgage provisions, (***) incl. result on FV portfolio, impairment losses on non-financial assets, modifications.

Note: FX-mortgage cost adjusted results differ from segment results presented in Consolidated Report of the Bank Millennium S.A. Capital Group for 1st half 2022.

Similarly to previous quarters, the y/y the improvement was driven by positive operating jaws. 2Q22 adjusted operating income was up 53% y/y (reported: up 47% y/y) while adjusted opex up 11% y/y (reported up 79% y/y).

The accelerating growth in core income (2Q22: +60% y/y vs.+43% in 1Q22) was the main reason behind the growth in revenues, while non-core income remained relatively insignificant and volatile. The good performance of opex was, in turn, equally an outcome moderate growth in staff and non-staff costs incl. D&A (up 11% y/y each). BFG charges increased 11% y/y but dropped 59% q/q as a result suspension of payment of deposit guarantee fee (as a result of setting up IPS).



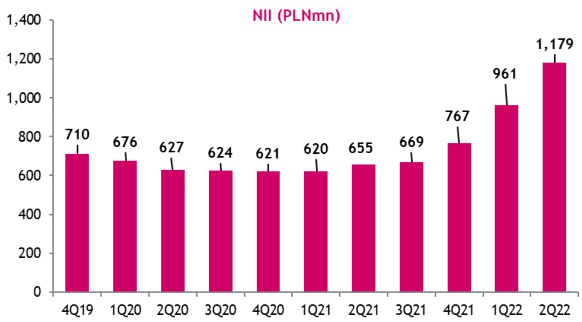


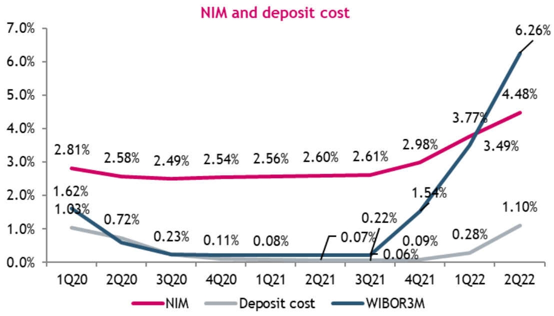
* Adjusted for provisions against credit risk, Covid-19, result on FV portfolio, impairment losses on non-financial assets, modifications and legal risk on FX-mortgages; ** Income adjusted for result on FV portfolio and netting-off of legal risk provisions on FX-mortgages of f.EB

The key developments in 2Q22 that drove the y/y improvement of the results and which, we believe, are particularly worth highlighting are as follows:

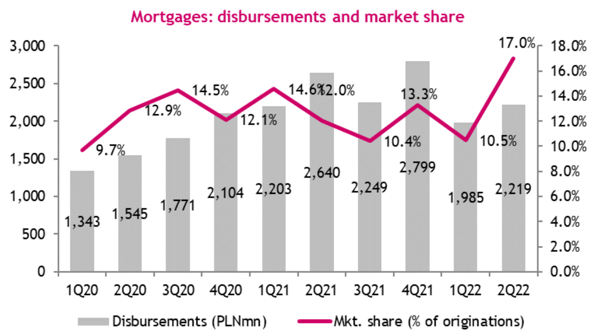
- **much accelerated recovery of NII** with 2Q22 bringing y/y growth of 80%;

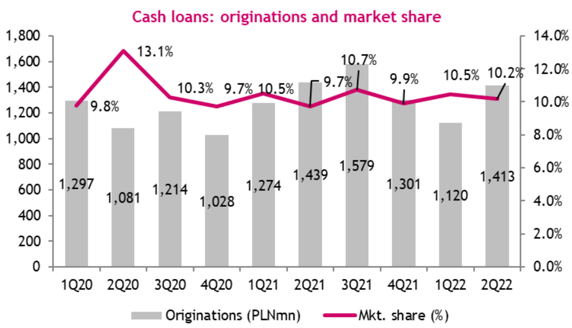
- **continuing strong improvement of quarterly NIM** (448bps in 2Q22 vs. 377bps in 1Q22 and 298bp in 4Q21);



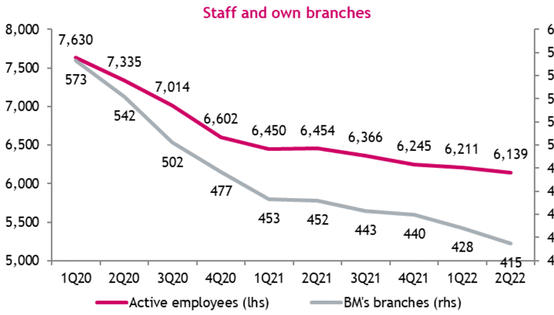


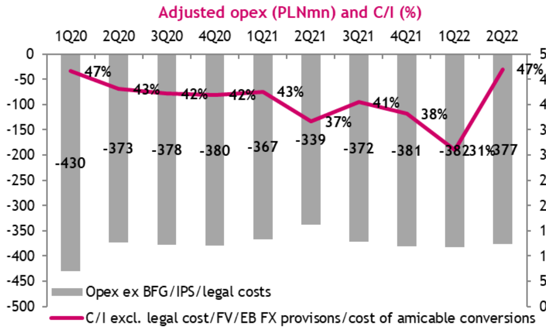
- **solid loan growth (net/gross loans: +4%/5% y/y) with accelerating reduction of the FX-mortgage portfolio, lower appetitive for risk and RWA focus taking an increasing toll on q/q growth;** retail loan originations improved compared to 1Q22; disbursements of mortgages in 2Q22 returned to above the PLN2.0bn mark, but nonetheless were 16% lower than in the same period last year, while 2Q22 origination of cash loans exceeded PLN1.4bn and was only 2% lower than in 2Q21; on a separate count our gross FX-mortgage book in PLN terms contracted 28% y/y on 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 settlements; as a result, the share of all FX-mortgages in total gross loans decreased to 10.4% (BM originated only: 9.6%) from 15.1% (13.9%) 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 315 or 5% since 2Q21), ongoing optimisation of our physical distribution network (own branches down by 37 units or 8% in the last twelve months) complimented the increasing share of digital services (digital customers: 2.42 million, up 13% y/y, number of active mobile customers: 2.1 million, up 18% y/y); cost optimisation initiatives helped to control inflation driven growth in opex but also translated into much improved cost efficiency; reported C/I ratio increased to 50.6% in 2Q22 from 41.9% in the same period last year (chiefly a result of one-off IPS cost) but C/I ratio excluding BFG/IPS, FV portfolio, costs of amicable settlements offered to FX-mortgage borrower, legal FX-mortgage related costs and netting-off of FX-mortgage provisions on f.EB book eased further to well below 30% mark from 37% in the same period last year;





- **stable loan book quality** resulting in a low cost of risk (35bps in 2Q22 vs. 40bps in 1Q22) with stable underlying trends in quality of both retail and corporate books, additionally supported by an NPL sale (PLN40 million gross result); NPL ratio (4.3%) eased compared to end of December 2021 (4.4%) and was well below the 4.7% the year before; NPL coverage remained practically intact (68% vs. 69%) despite the sale of a relatively large NPL portfolio (gross value>PLN200 million);

- **customer deposits marginally contracted in the quarter** (down 1%) with retail deposits up 1% q/q and corporate ones down 3% after the 30% q/q growth in 1Q22; retail deposit mix continued to gradually change with term deposits accounting for 22% at the end of June vs. 15% at YE21; the liquidity of the Bank remained very comfortable with L/D ratio increasing somewhat to 83%;

- **capital ratios decreased in the quarter** (Group TCR: 15.2%/T1: 12.1% vs. 17.1%/14.0% respectively at the end December 2021) as a result of drop of equity (net loss in the period, negative valuation of bonds) while RWAs ticked up marginally q/q;

- **AuM of Millennium TFI and third party funds combined dropped 14% q/q** to below PLN6.8 billion with y/y contraction rate at 28%.

1.4. STRATEGY IMPLEMENTATION

The Bank's new strategy for years 2022-2024 was announced in 4Q21. The strategy clearly defines key business areas that will contribute to the execution of the assumed targets. Following to the adopted strategy, in 1Q22 the Bank prepared and accepted strategy operationalisation approach, which consists of 16 strategic initiatives/business areas. Strategic portfolio will be the subject of the internal review process (on quarterly basis), both on the operational and executive levels.

The Bank monitors the execution of accepted strategic targets. However, turbulent and fast changing external circumstances are observed, what could affect abovementioned targets, that are assigned to the current 3-year strategic perspective.

In 2Q22 the Group was on track to deliver on most of its 2024 targets.

1.5. MOST IMPORTANT AWARDS AND OTHER ACHIEVEMENTS IN 1H22

CSR Golden Leaf

The Bank's activities for sustainable development and making them an integral part of the business strategy have once again been appreciated with the CSR Golden Leaf from Polityka weekly. This award is given to companies, which implement the most stringent standards of corporate social responsibility – they have ethics management systems, are good corporate citizens, introduce actions in response to the needs of clients and staff and minimise their impact on the natural environment.

Bank Millennium is the best bank in Poland according to Global Finance Magazine

Bank Millennium was hailed Best Bank in Poland in the Best Bank Awards competition organised by Global Finance Magazine. The winning banks were selected by the editors of Global Finance after consultations with with financial directors of enterprises, bankers, consultants and analysts from all over the world. When choosing the best banks, Global Finance took into quantitative objective factors as well as subjective factors based on information.

2nd place in the ranking of the Best Employers Poland 2022 in the category "Banks and financial services"

Bank Millennium again came second on the ranking list of best employers in banking and financial services and 44th among all companies on the Best Employers Poland 2022 ranking list. The ranking of 300 companies operating in Poland, achieving success in HR, was prepared by Forbes Polska magazine and Statista.

2nd place of the Impresja Credit Card in the Golden Banker plebiscite

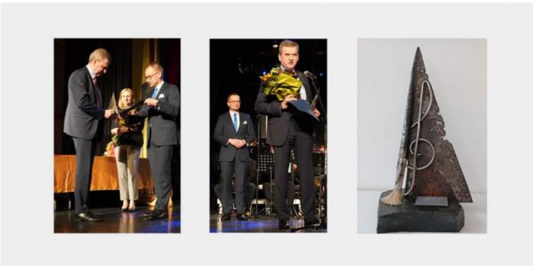
Impresja credit card took 2nd place in the competition for the best designed payment card in the Golden Banker Ranking, organised by the "Puls Biznesu" daily and the bankier.pl portal. 11 banks submitted their cards to the competition, and 7,000 Internet users took part in the voting. In the same competition, the bank's Contact Center was recognised as the best in Poland in its sector. (telephone service won the first place, and via chat and e-mail - the third place).

Service Quality Star

The Bank was again awarded the title of Service Quality Star. The Service Quality Star is an award granted by consumers who, via a multi-platform consisting of the jakoscobslugi.pl portal and the SecretClient® website, all year round share their opinions and the organisers keep updating service quality indicators for more than 40.000 companies representing close to 200 sectors.

Bank Millennium is Star of Banking

Bank Millennium was third in the category of #Customer relations of the Stars of Banking competition, organised for the eighth time by Dziennik Gazeta Prawna in cooperation with PwC. The position of banks was determined by the results of an opinion survey conducted among 12,000 customers. The survey concerned issues related to the bank's activity, customer attitudes and customer assessment.



The title of Patron of Culture for supporting local culture

By decision of the Mayor of Iława, Bank Millennium received the title of Patron of Culture for supporting local culture, in particular the International Old Jazz Meeting "Złota Tarka", one of the most important events on the jazz map of Poland. The award and the congratulatory letter were presented on 30 May.

The Bank Millennium application was considered the most friendly in the subjective opinion of customer

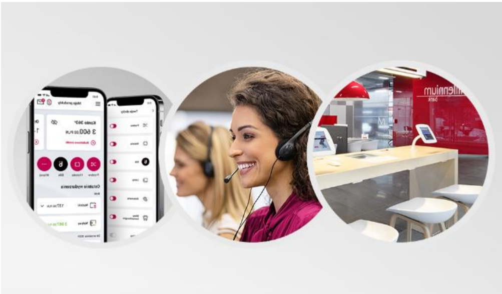
The MojeBankowanie.pl portal has announced the results of the 7th edition of the Institution of the Year ranking. Customers indicated the Bank Millennium application as the most user-friendly. In the overall assessment, the Bank itself was in a high third place. In total, awards were won in as many as 6 categories. "Institution of the Year" is the largest ranking of the quality of service for individual customers and entrepreneurs on the market, and most comprehensive in terms of multi-product and multi-channel.

Kantar Polska Award for the most effective brand communication 2021

Kantar Polska research agency awarded banks that in 2021 implemented the most effective marketing communication. Bank Millennium was 3rd. Effectiveness was measured as recognition in relation to expenditure on communication. Awards based on the Awareness Index calculated for each bank and insurance company, defined as the increase in ad awareness per 100 GRPs spent.

1st place of the team of economists in the Refinitiv ranking

In the Refinitiv (previously Reuters) ranking the team of economists consisting of Grzegorz Maliszewski, Andrzej Kamiński and Mateusz Sutowicz came first in the summary of macroeconomic forecasts for 2021. Over the last five years the Bank's economists on no less than four occasions have been among the top three forecasters in the Refinitiv ranking, taking first place in 2019 and 2021.



Bank Millennium among top three in retail customers' ranking

Millennium was once again on the podium in the ranking of satisfaction of individual customers, according to the report "Banks' retail customer satisfaction monitor" by ARC Rynek i Opinia research institute. Millennium became leader in the Contact Points category (hotline, branch visit, electronic banking and mobile application, website), while in the customers' referral as well as satisfaction and loyalty ranking it came second.

Economists of the Bank among the best forecasters of the "Parkiet" daily

The Bank's team of economists also got to the top of the ranking of best forecasters of the „Parkiet" daily. G. Maliszewski, M. Sutowicz and A. Kamiński have for years correctly analysed what is happening in the economy. The ranking awarded them among others for the highest versatility of the team and most stable forecasted form (over the last 5 years they were only twice outside the podium).

Bank Millennium among top three in Gazeta Bankowa competition

Millennium took 3rd place in the competition for the "Best Bank of 2022" organised by "Gazeta Bankowa". In the Large Commercial Bank category, we were overtaken by the two largest Polish banks controlled by the State Treasury. In the 30th edition of the competition, not only financial results were evaluated, but also Customer Experience broadly understood as well as matters of corporate social responsibility.

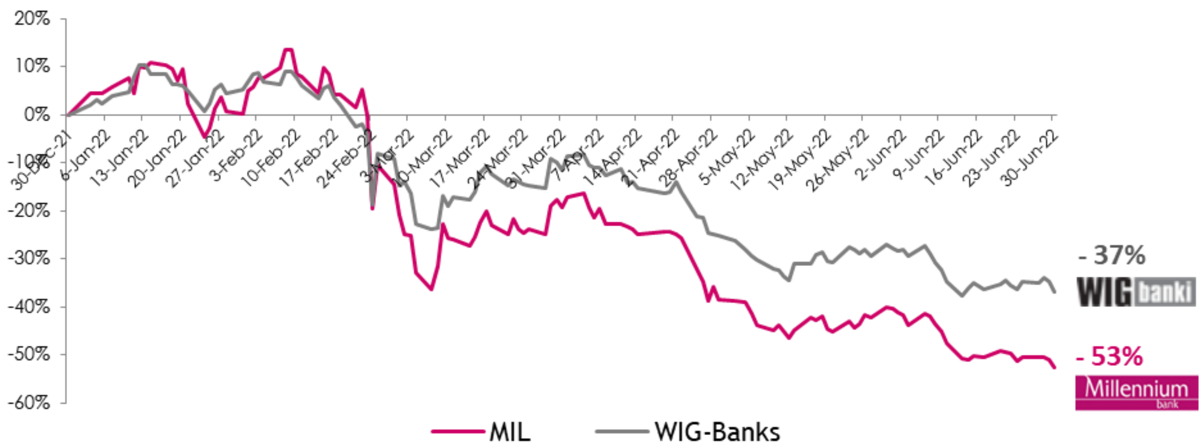
1.6. INFORMATION ON SHARES AND RATINGS

Following strong equity returns in 2021, 1H22 brought an abrupt end with an outbreak of war in Ukraine on February 24 sending prices of equities, bonds, FX and many other asset classes spiralling down. On the day of the Russian attack on Ukraine, WIG index lost 11% and the WIG-Banks index lost 15%. Equity markets started to recover in early March with recovering CEE currencies and somewhat lessened risk aversion towards the whole CEE region. The uptrend lasted until the end of March, when heightened stagflation (or GDP growth slowdown risk at the very least) risks started to outweigh seemingly attractive valuations and Polish equities returned to their downward trend.

All in all, 1H22 brought 23% drop of WIG index, 37% drop of WIG Bank and 53% of Bank Millennium’s share price.

During the 12 months ending 30 June 2022, WIG broad market index grew 19%, WIG20 index of largest companies decreased by 24%, while WIG Banks index fell by 17%. At the same time Bank Millennium shares lost 17% as well.

Bank Millennium: ytd share price performance vs. WIG Banks



In 1H22 the average daily turnover of Bank Millennium shares was 13% higher than in the same period last year.

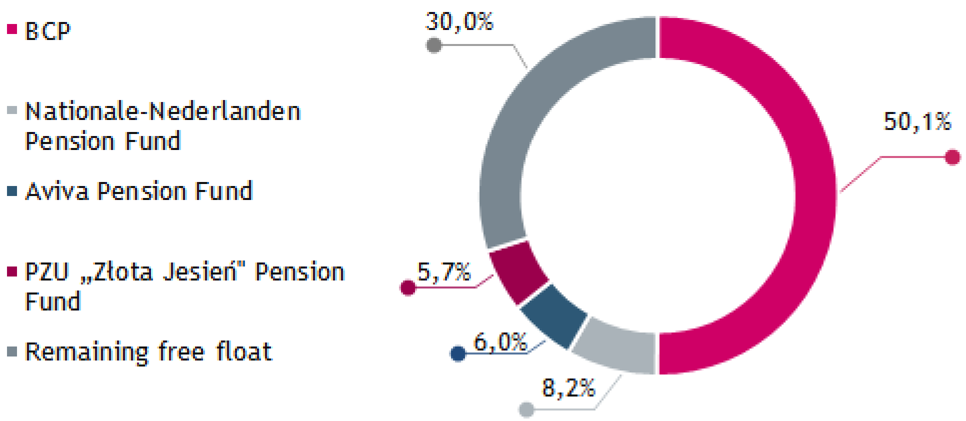
Market ratios	30.06.2022	31.12.2021	Change (%) ytd	30.06.2021	Change (%) y/y
Number of the Bank's shares (th)	1 213 117	1 213 117	0.0%	1 213 117	0.0%
Average daily turnover in annual terms (th)	9 808			7 979	22.9%
Bank share price (PLN)	3.89	8.20	-52.5%	4.66	-16.6%
Market capitalization of the Bank (PLNmn)	4 717	9 941	-52.5%	5 653	-16.6%
WIG Banks	5 456	8 640	-36.9%	6 548	-16.7%
WIG20	1 696	2 267	-25.2%	2 218	-23.6%
WIG30	2 083	2 765	-24.7%	2 656	-21.6%
WIG - main index	53 573	69 296	-22.7%	66 067	-18.9%

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

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

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

Shareholders' structure as at 31 December 2021



Ratings of Bank Millennium

On 27 January 2022, rating agency Moody's affirmed Bank Millennium S.A.'s (BM) long and short-term bank deposit ratings at Baa1/Prime-2, both the Baseline Credit Assessment (BCA) and Adjusted BCA at baa3, the Counterparty Risk Assessment (CRA) at A3(cr)/Prime-2(cr) and the Counterparty Risk Ratings (CRR) at A3/Prime-2. Concurrently, Moody's maintains a stable outlook on BM's long-term deposit ratings. The rating affirmation reflects Moody's expectation that the bank will be able to absorb adverse impacts from its legacy Swiss franc mortgages exposure over the next 12 to 18 months, based on the bank's strong financial flexibility, a result of above-peer efficiency and revenue generation (details in CR 3/2022, Current reports - Investor relations - Bank Millennium).

On April 7, 2022, rating agency Moody's Investors Service (Moody's Deutschland GmbH) has assigned (P)Baa3 junior senior unsecured EMTN program ratings to the Bank. All other ratings and assessments remained unaffected by this rating action (Rating of EUR3bn EMTN programme by Moody's).

On July 20, 2022 Moody's rating agency downgraded Bank's long-term and short-term ratings to following levels:

Long-term Bank Deposits Rating: Baa3 (previously Baa1),

Baseline Credit Assessment (BCA) and adjusted BCA: ba2 (previously baa3),

Long-term Counterparty Risk Assessment: (CRA): Baa2(cr) (previously A3(cr)),

Long-term Counterparty Risk Ratings (CRR): Baa2 (previously A3),

Short-term Bank Deposit Rating: P-3 (previously P-2),

Junior senior unsecured MTN program rating: (P)Ba2 (previously (P)Baa3).

As a part of rating action, Moody's also placed all long-term and short-term ratings and assessments of the Bank on review for further downgrade (details in CR 22/2022, Current reports - Investor relations - Bank Millennium). In their report Moody's stated, among others, that 'The rating action follows BM's (Bank's) announcement that it expects its capital ratios to drop below regulatory minimum capital requirements as a result of the implementation of new borrower-friendly legislation in Poland, the key component of which is a loan moratorium scheme for Polish Zloty (PLN) mortgage borrowers'.

The Bank's corporate ratings, as at 25 July 2022, are presented in the table below.

Rating	MOODY'S	FITCH
Long-term deposit rating/IDR	Baa3 (under review for downgrade)	BBB- (negative outlook)
National long-term IDR	-	A(pol) (negative outlook)
Short-term deposit rating	Prime-3	F-3
Viability / standalone BCA rating	ba2	bbb-
Counterparty Risk Rating (CRR)	Baa2/Prime-3	-
Support Rating		4

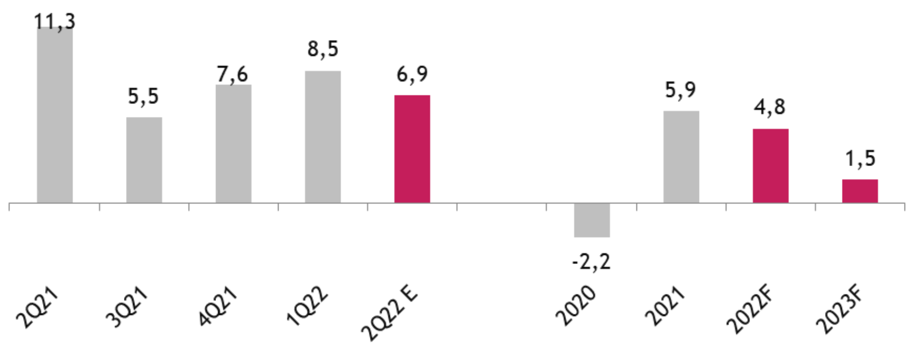
1.7. MACROECONOMIC BACKGROUND

In 2Q22, in the conditions of military operations in Ukraine, global inflation significantly accelerated and in many economies turned out to be the highest in decades. It was caused by further increases in the prices of energy and agricultural commodities (effect of war), as well as the still good economic situation after the period of anti-COVID-19 restrictions. Higher-than-expected inflation and monetary policy tightening, along with radical anti-epidemic measures in China, have worsened the global economic outlook, exacerbating recession fears in some economies. This is especially true of Europe, because in that region the risk of shortages of energy resources due to limited supplies from Russia has increased significantly.

The outbreak of war in Ukraine had a limited impact on activity in the Polish economy in 1Q22, when gross domestic product increased by 8.5% y/y. In Apr'22 and May'22, the results of industrial production, construction output and retail sales were clearly better than in the same period last year, but mainly due to favourable base and calendar effects. According to the Bank's estimates, gross domestic product increased in 2Q22 by 6.9% y/y, although in q/q terms it was stagnant. The slowdown in economic growth was due to, among others, high inflation and accompanying interest rate hikes, the expiration of savings accumulated during periods of severe restrictions, a deterioration in business and consumer sentiment, as well as persistent disruptions in industrial supply chains, weakening demand from abroad and uncertainty hampering investments.

The outbreak of war in Ukraine significantly affected inflationary processes worldwide, including Poland. Strong increases in energy commodity prices and weakening of the exchange rate were one of the main reasons for the rise in the CPI from 8.5% y/y in Feb'22 to 15.5% y/y in Jun'22, i.e. to the highest value in 25 years. The rapid rise in prices in Poland is associated not only with the energy crisis, but also with very low unemployment. The registered unemployment rate fell to 4.9% in Jun'22, which is the lowest level in recent decades. This was conducive to the intensification of pressure on wage growth, which, according to the Bank's estimates, accelerated in 2Q22 to 10.9% y/y from 9.7% y/y in 1Q22. The high inflation in Poland is also due to the solid domestic demand (supported additionally by the consumption of refugees from Ukraine) which enabled companies to protect markups and pass rising costs onto consumers. One factor perpetuating high inflation in 2Q22 was also a weak zloty, whose potential to strengthen is limited by a significant deepening of the external imbalance of the economy. According to the Bank's calculations, the current account balance fell to -3.9 % of GDP in May'22, so it was the lowest in 10 years. In the conditions of intensifying inflationary pressure and the weak zloty, the Monetary Policy Council continued the cycle of interest rate increases. At the beginning of 3Q22, the NBP reference rate was at 6.50% against 3.50% at the end of 1Q22.

GDP growth rate and its forecasts for Poland (%)

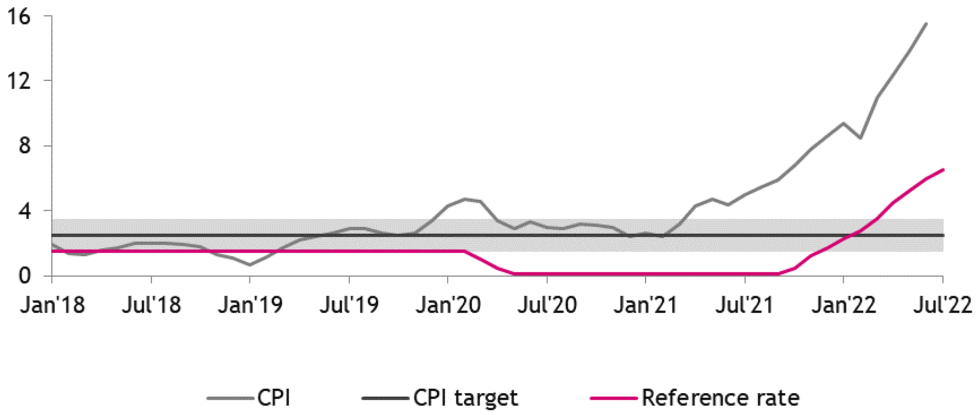


Source: Bank Millennium, Macrobond

Higher interest rates translated in Apr'22 and May'22 into a lower than in 1Q22 value of newly granted loans to non-financial corporations. However, the value of new loans to households did not change significantly compared to 1Q22, as on the one hand lending for residential real estate purposes deteriorated significantly, and on the other hand, the value of new consumer loans increased. In May'22, the total value of deposits in the banking system was higher than at the end of 1Q22, mainly due to the increase in corporate deposits, which in the Bank's opinion is related to their good financial results and reduced investment demand.

Data and information released in recent months are indicative of more pessimistic expectations regarding the Polish economy, but also its environment. They concern, among others, a higher-than-expected increase in inflation. In the Bank's opinion, the average annual CPI for Poland will increase from 5.9% y/y in 2021 to 13.4% y/y in 2022 and to 9.6% y/y in 2023, invariably most strongly driven by inflation in fuel, energy and food prices. However, the Bank also expects core inflation to exceed in the coming years the upper limit of admissible deviations from the inflation target. According to the Bank's forecasts, economic growth will slow down from 5.9% in 2021 to 4.8 per cent in 2022, while after a very good first half of 2022, the Jul'22-Dec'22 period may end in a technical recession, i.e. two consecutive quarters of GDP decline in quarter-on-quarter terms. The Bank also expects slow economic growth in 2023, for which forecast is only at 1.5%. Economic activity in the coming quarters will be constrained by low wage growth in real terms, high interest rates hampering consumption and investment, persistent shortages of some intermediate goods in industry, as well as by the assumed weak investment demand despite the European Union's acceptance of the National Recovery Plan. In the Bank's opinion, significant support for economic growth in Poland should not be expected from the most important trading partners of Poland, who are increasingly likely to face in coming quarters an economic recession.

CPI inflation, inflation target (% y/y) and NBP reference rate (%)



Source: Macrobond, NBP

The deteriorating economic outlook prompted the Monetary Policy Council in Jul'22 to raise interest rates on a smaller scale than in the previous months. In the Bank's opinion, the cycle of monetary policy tightening in Poland is coming to an end, although it has not ended, as the growing imbalances in current account and in public finances require higher interest rates to stabilize the zloty exchange rate and limit inflation. It should be emphasized that the presented expectations are fraught with great uncertainty. In the Bank's opinion, the balance of risk factors for inflation forecasts is tilted to the upside, and for economic growth forecasts to the downside.

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

The following list presents the most important according to Bank Millennium negative risk factors for the economy and the Bank Millennium Group:

- The intensification of military operations in Ukraine and the deterioration of the geopolitical situation, which could result in extension of restrictions on energy supplies from Russia. In the Bank's opinion, the subsequent effect would be a recession in some European economies (likely also in Poland) and turbulences in economic activity.
- A stronger than expected economic slowdown in Poland and abroad as a result of higher than forecasted inflation, a stronger deterioration in business and household sentiment and greater delays in supplies. This would entail a greater than expected decline in demand for labour and an increase in unemployment.

- Higher-than-expected inflation, which would further increase the inflation expectations of households and enterprises, deteriorate the purchasing power of households, while faster weakening demand would put pressure on margins and financial performance of companies, making it difficult to settle liabilities and develop investments.
- Suboptimal economic policy in Poland, which would perpetuate inflationary pressure and foster the growth of imbalances in the economy. This would result in a weak exchange rate, higher inflation and a deterioration in bond valuations, and a stronger than expected tightening of monetary policy. In addition, there is a risk of lack of funds, or significant delays in the inflow of funds from the European Union to Poland, which would be a source of financing for the National Recovery Plan, thus reducing investment activity and supporting the weak zloty exchange rate.
- Legal uncertainty and unpredictability translating into legal acts such as borrowers support with huge costs for banks, hampering their profitability and capital base.
- Rapid development of the COVID-19 pandemic, e.g. vaccine-resistant mutations of the SARS-CoV-2 virus.

As a result of the materialisation of these negative risk factors, the financial conditions of the BM Group's clients would deteriorate, reducing the demand for its offer and increasing credit risk. At the same time, disturbances on the financial markets could result in a deterioration in the valuation of assets in the Group's portfolio.

However, there is also a possibility of better economic results in Poland than in the Bank's baseline scenario, which could result, among others, from a faster than expected abatement of military operations in Ukraine, bringing lower pressure on the prices of commodities, increasing their supply and alleviating tensions in supply chains in industry. The stabilisation of the economy would also be facilitated by a greater than expected integration of Ukrainians in the labour market and the quicker influx of funds from the European Union under National Recovery Plan and the new budgetary perspective.

In light of new macroeconomic reality, in particular quicker and faster than originally assumed growth of interest rates in Poland and globally, higher devaluation of PLN and last but not least higher inflation prospects, the Bank and the Group have reviewed their near-term assumptions. As a result, lower origination of mortgage loans and cash loans, lower fees (chiefly in asset management and bancassurance lines) and higher cost of credit risk (c60bp) were factored in. At the same time, the much higher than expected interest rate trajectory should be a significant offsetting factor, so that as a result the expected financial situation of the Bank and the Group did not deteriorate or in fact improved somewhat. On the other hand, negative indirect implications of high interest rates such as, windfall tax(es) and other burdens levied on the banking sector, cannot be excluded. The recent enforcement of credit holidays by the government and lawmakers of Poland and as a result significant resultant cost for the banking sector is the most acute and recent example of materialisaton of such risk (for details pls refer to separate section for details).

1.9. MREL REQUIREMENTS

On April 1, 2022 the Bank received a letter from the Banking Guarantee Fund (‘BFG’) regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board and BFG obliging the Bank to meet the communicated MREL (minimum requirement for own funds and eligible liabilities) requirements (details here: Current report on updated MREL requirements).

Pursuant to the above decision, at the consolidated level the Bank is obliged to meet by December 31, 2023, the minimum MRELtrea requirement of 20.42% and MRELtem of 5.91%. At the individual level, the Bank is obliged the requirements of 20.32% and 5.91% respectively. These targets represent a decrease compared to most targets set in November 2021 (the minimum consolidated MRELtrea requirement of 21.41% and MRELtem of 5.91%; Bank only requirements of 21.13% and 5.88% respectively) reflecting chiefly a drop in the P2R (Current report on initial MREL requirements).

Additionally, the above-mentioned decision sets the path to achieve the target MREL level. As a part of mid-term objectives, at the moment of communication of the decision the Bank was obliged to meet the minimum consolidated MRELtrea requirement of 15.60% and MRELtem of 3.00%. At the individual level, the Bank was obliged to meet the minimum MRELtrea requirement of 15.55% and MRELtem of 3.00%.

The Bank is still to meet these due to the net loss booked in 2021 (higher-than-initially planned provisions against legal risk related to FX-mortgage portfolio) and the fact that an issue of senior non-preferred bonds on the Polish market initially planned for 4Q21 and was not possible to execute due to a gap in the Polish bond law. As a result, the Bank decided to alternatively prepare and launch a new Euro Medium Term Note Programme ('EMTN Programme') programme (details here: Current report on EMTN programme) that is expected to allow the international issue of senior non-preferred bonds ('SNP bonds'). On April 6, 2022, the Luxembourg Commission de Surveillance du Secteur Financier, the authority supervising the capital markets in Luxembourg approved the Bank's base prospectus for the EMTN Programme established by the Bank, which was published on the website of the Luxembourg Stock Exchange. Due to the combination of unfavourable market conditions (markets were effectively shut for issuers of SNP bonds from the CEE region) and looming risk of Poland's government enforcement of costly extraordinary measures on the banking sector (credit holidays and replacement of Wibor, among others) the offer of SNPs bonds could not be started in 2Q22.

Following the changes in the Polish bond law in May, the Bank started preparations for a domestic issue, but due to the above mentioned external factors, the decision to officially start the domestic offering was also put on hold.

1.10. IMPACT OF WAR IN UKRAINE

On February 24, 2022, Russia invaded Ukraine, starting a new stage in history of Europe and the world. Leaving aside the unprecedented human, humanitarian, and political aspects, in this section the present Bank's understanding of the actual and foreseeable direct and indirect impacts of the crisis on its business activities, exposures to the affected markets, financial situation and economic performance is outlined.

Predictability remains low but macro outlook has definitely changed

Financial markets immediately reacted to the unexpected outbreak of the war, with prices of most assets classes, bar some commodities, tumbling. International community reacted instantly by introducing first sanctions, which were tightened significantly in subsequent days and weeks. Early days of March saw higher cash withdrawals at branches and from ATMs. The situation has since stabilised and returned to normal levels. However, in 1Q22 overall, retail deposits contracted by 3%. At the same time, the Bank enjoyed a very strong inflow of corporate deposits (up 30% q/q). In 2Q22 this change of structure was reversed. Bank noted 1.4% of increase of retail deposits and 6.3% of decrease of corporate deposits so as a result total deposits decreased slightly (1.2%) in q/q term. The LCR ratio improved by 7 p.p. to the highly satisfactory level of 158%.

As highlighted in the macroeconomic section above, the prospects of the Polish and global economy are deteriorating, the situation is extremely uncertain and currently it very difficult to precisely determine the economic consequences of military actions and sanctions imposed on Russia and Belarus by Western countries, as well as possible disruptions in supply of gas to Europe on the Bank's business and near- and mid-term prospects.

Direct corporate exposures

BM Group does not operate directly in Ukraine, Russia or Belarus and does not directly finance residents from these three countries. Following the review of corporate exposures (15% materiality/exposure factor applied), the Bank concluded that the exposure to Polish enterprises which may potentially suffer from a direct negative impact on their business from the conflict in Ukraine amounts to approximately PLN370mn (end of June 2022 data), equivalent of 1,4% of the BM Group's enterprises portfolio and approximately 0,4% of the BM Group's total loan portfolio and off-balance sheet exposures. Thus far, the situation of these companies remained stable and did not require moving them to the stage 3 (additional details available in 'Liquidity, asset quality and solvency' section).

Exposure to Ukrainian citizens

Loans to Ukrainian citizens residing in Poland totalled slightly over PLN1bn or 1.6% of the Bank's retail and 1.2% of the Group's total portfolio at the end of June 2022 with nearly even split between cash loans and mortgages. Quality of these exposures has been stable over the last quarter and no signs of deterioration has been observed recently. The portfolio is subject to frequent monitoring (additional details available in 'Liquidity, asset quality and solvency' section).

Exposures sensitive to macro risks

As the companies have faced (and will likely continue to face) indirect widespread consequences of the conflict (i.e. limited supply and rising prices of some raw materials on global market, disrupted supply chains and high prices of various means of energy), some companies from many sectors, especially those with already low profitability, may as a result experience more or less temporary financial problems and operational challenges. The Bank reviewed its corporate portfolio in order to identify its potentially challenged customers. The monitoring is conducted on a regular basis with special focus on companies with already relatively low margins before the outbreak of the war. The BM Group decided to temporary avoid increasing financing to such corporates.

Retail borrowers are particularly exposed to heightened inflation and high (and likely higher) PLN interest rates which, among others, may increase monthly instalments and prices of goods and services, putting pressure on households' disposable income. For a part of the Bank's customers disposable income may potentially become lower than the social minimum. At the end of June 2022 data, the „at risk" portfolio represented over 6% of the cash loan portfolio (high inflation is the key risk factor) and over 7% of the mortgage portfolio (elevated interest rates are the key risk factor). Currently both sub-portfolios show first signs of deterioration and increase of default rates, however the amount of defaults is still not material – below PLN40mn in 2Q22. Additionally, mortgage borrowers for whom, on Bank's estimates, monthly instalments will shortly double compared to 3Q21 but their disposable income will remain above social minimum, were identified. In 2Q22 the main reason of defaults for mortgage loans portfolio was rescheduling with the use of Borrowers Support Fund. Amount of portfolio with newly granted support of this fund increased from PLN8mn in 1Q22 to PLN87mn in 2Q22. The Bank monitors all these portfolios carefully and proactively adopted a number of precautionary measures offering, among others, conversion to fixed rate mortgages or renegotiations of some terms of the credit agreements. Should be also noted that governmental measures i.e., credit holidays should very significantly reduce future cost of risk for PLN mortgage loans in year 2022.

1.11. CREDIT HOLIDAYS FOR PLN MORTGAGE BORROWERS

On July 7, 2022 the Parliament approved and on July 14, the President of the Republic of Poland signed a bill on crowdfunding for business ventures and assistance to borrowers ('the Act'). The Act, among others, introduces credit holidays for PLN mortgage borrowers. Eligible borrowers, i.e. those who took a loan for own housing purposes before July 1, 2022, will be able to apply for a suspension of eight instalments (capital + interest) in 2022 and 2023 (two instalments in 3Q22 and 4Q22 each and one instalment in each quarter of 2023). Borrowers can apply for credit holidays with regards to one loan only. Instalments are to be suspended not annulled, thereby credit repayment period is to be extended respectively.

As per the current report dated July 15, 2022 (Information on expected negative impact of credit holidays on 3rd quarter 2022 results of Bank Millennium S.A. Capital Group and on launching of the Recovery Plan) the Bank estimated the maximum impact of the implementation of this Act for Bank Millennium S.A. Capital Group ('the Group') level at PLN1,779 million (of which PLN1,731 million at solo level and PLN48 million at Millennium Bank Hipoteczny S.A. level) if all eligible Group's borrowers were to use such an opportunity. The Group / Bank expects to recognise an upfront cost in 3rd quarter 2022 results in the range between 75-90% of the above amounts. The impact of each 10% of eligible borrowers fully using the credit holidays is estimated at PLN178 million at the Group level.

1.12. LAUNCHING OF RECOVERY PLAN

In the same current report of July 15, 2022, the Bank informed that due to costs generated as a result of the above mentioned Act, it could be reasonably assumed that the Bank will post a negative net result for the 3rd quarter of 2022 and as a result its capital ratios may fall below the current minimum requirements set by Polish Financial Supervision Authority ('PFSA'). As the emergence of risk of a breach of respective capital ratios represents a prerequisite stipulated in the art. 142 sec. 1 and 2 of the Banking Act of 29 August 1997 (Journal of Laws 2021, item 2439, i.e. 28 December 2021, as amended), on July 15, 2022 the Management Board of the Bank took a decision to launch the Recovery Plan, notifying of the fact both PFSA and Bank Guarantee Fund.

The Management Board of the Bank intends to increase capital ratios comfortably above the minimum required levels through a combination of further improvement of operational profitability and capital optimisation initiatives such as management of risk weighted assets (including securitisations).

Additionally, the Bank initiated preliminary actions preceding the development of the Capital Protection Plan which, pursuant to the Article 60 sec. 1 of the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial system (Journal of Laws of 2022, item 963, i.e. of 6 May 2022, as amended), will have to be submitted to PFSA when the breach of combined buffer requirements will actually occur.

1.13. FX-MORTGAGE LEGAL RISK

On June 30, 2022, the Bank had 13,904 loan agreements and additionally 1,103 loan agreements from former Euro Bank (87% loans agreements before the Court of first instance and 13% 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 2,146.9 million and CHF 164.4 million (Bank Millennium portfolio: PLN 1,980.6 million and CHF 161.3 million and former Euro Bank portfolio: PLN 166.3 million and CHF 3.0 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.

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 iswas originally 3,281. At the current stage, the composition of the group has been established and confirmed by the court. On 2 February 2022 the court dismissed the Bank's evidentiary motions regarding witnesses, court-appointed experts, private expert reports, as well as part of the documents submitted by the Bank, and ordered the parties to submit in writing their final positions in the case prior to issuing the judgment in a closed hearing. The judgment has not been issued yet. On 24 May 2022 the court issued a decision changing the composition of the group, thus limiting the number credit agreements involved to 3 272, as well as a judgment on the merits, dismissing the claim in full. Both parties requested a written justification of the judgment. Upon receiving the written justification, the claimant will be able to appeal the judgment. The judgment is not yet final.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,981 individual claims were filed against the Bank (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,005 (265), in 2021 the number increased by 6,151 (421), while in the 1st half of 2022 the number increased by 3,126 (211).

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 June 2022 only 593 cases were finally resolved (540 in claims submitted by clients against the Bank and 53 in claims submitted by the Bank against clients i.e. debt collection cases). 46% of finalised individual lawsuits against the Bank were favourable for the Bank including remissions and settlements with plaintiffs. Unfavourable rulings (54%) included both invalidation of loan agreements as well as conversions into PLN+LIBOR. The Bank submits cassation appeals to the Supreme Court against unfavourable for the Bank legally binding verdicts. On the other hand, the statistics of first instance court decisions have been much more unfavourable in recent periods and its number has also increased. In general, the Bank submits appeals against 1st instance negative court rulings.

The outstanding gross balance of the loan agreements under individual court cases and class action against the Bank on 30.06.2022 was PLN 5,180 million (of which the outstanding amount of the loan agreements under the class action proceeding was 959 million PLN).

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 4,925 million. Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

In 2Q22 quarter 2022 the Bank created PLN 467.4 million provisions and PLN 48.0 million for former Euro Bank originated portfolio. The balance sheet value of provisions for the Bank Millennium portfolio at the end of June 2022 was at the level of PLN 4,154.5 million, and PLN 341.8 million for former Euro Bank originated portfolio.

The Bank is open to negotiate case by case favourable conditions for early repayment or conversion of loans to PLN. As a result of these negotiations the number of active FX mortgage loans decreased by 8,449 in 2021 and 4,456 in the 1st half of 2022 compared to over 47,500 active loans at the end of 2021. Cost incurred in conjunctions with these negotiations totalled PLN 364.3 million in 2021 and PLN 233.3 million in the 1st half of 2022 is presented mainly in 'Result on exchange differences' in the profit and loss statement.

Finally it should also be mentioned, that the Bank, as at 30.06.2022, 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 2.82 p.p. (2.79 p.p. at the Group level), part of which is allocated to operational/legal risk.

Detailed data on the number and value of FX mortgage cases and other aspects related to this risk are presented in the Consolidated report of the Bank Millennium S.A. Capital Group for 1st half 2022.

Other risk factors are presented in the Consolidated report of the Bank Millennium S.A. Capital Group for 1st half 2022.

2. FINANCIAL SITUATION OF BM GROUP

2.1. GROUP PROFIT AND LOSS ACCOUNT

Group's operating income *(PLNmn)*	1H22	1H21	Change y/y	2Q22	1Q22	Change q/q
Net interest income	2 139.9	1 277.2	67.6%	1 178.9	961.0	22.7%
Net commission income	426.9	414.1	3.1%	206.1	220.8	-6.7%
Core income	2 566.9	1 691.3	51.8%	1 385.0	1 181.9	17.2%
Other non-interest income	-70.1	98.2	-	-48.2	-22.0	-
Total operating income	2 496.7	1 789.4	39.5%	1 336.8	1 159.9	15.3%

Net interest income in 1H22 reached PLN2 140mn, which signifies very high annual growth of 68%. 2Q22 was another quarter of strong increase of NII (23% q/q) with the new record value of PLN1 179mn, supported by higher market interest rates reflected in the improved Bank's interest margin.

The series of interest rate hikes (10) by Monetary Policy Council starting from October 2021 materially improved conditions for banking revenue (base rate increased from 0.1% to 6.50% in the beginning of July, i.e. by 640 bps) from very low levels in the first three quarters of 2021, resulting from previously ultra-loose monetary policy.

Net interest margin (over average interest earning assets) (NIM) jumped again in 2Q22 to 4.48% and was 150 basis points higher compared to 4Q21 or 188 basis points higher than in 2Q21 (2.60%), which considerably supported the Group's profitability. The NIM for 1H22 reached 4.14%.

Net commission income in 1H22 amounted to PLN427mn, growing 3% y/y The main source of the improvement was growing commissions from banking transactions (accounts, loans and cards) supported by fees from bancassurance activity, whereas fees on management and distribution of mutual funds and other investment products contracted strongly as a result of unfavourable conditions on the capital market. In 2Q22 net commission income reached PLN427mn and decreased 7% q/q.

Core income, defined as a combination of net interest and net commission income, reached PLN2 567mn in 1H22 showing strong growth by 52% y/y and by 17% q/q driving up the Group's recurrent profitability.

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 turned negative in 1H22 and amounted to PLN -70mn. The negative value reflects first of all the costs related to amicable settlements negotiated with FX mortgage borrowers (PLN251mn ytd) and such costs became more visible burden since 4Q20.

Total operating income of the Group reached PLN2 497mn in 1H22 and showed significant increase by 40% y/y, mainly thanks to strong dynamics of net interest income, becoming the key factor of the Group's efficiency improvement. The income for 2Q22 amounted to PLN1 337mn and increased by 15% q/q.

Total costs amounted to PLN1 163mn in 1H22, translating into high 44% increase y/y, mainly due to much higher contribution to Banking Guarantee Fund (BFG) funds and contribution to the institutional protection scheme ('IPS') established by 8 Polish banks (single cost for the Bank of PLN251.7mn, pre-tax, in 2Q22) which grew altogether by 347% compared to the corresponding period of the previous year. Total costs excluding BFG fees grew 9% y/y, but decreased in quarterly terms by 3%.

Operating costs (PLNmn)	1H22	1H21	Change y/y	2Q22	1Q22	Change q/q
Personnel costs	(445.4)	(411.0)	8.4%	(227.5)	(217.9)	4.4%
Other administrative costs	(717.6)	(394.8)	81.7%	(449.3)	(268.3)	67.5%
of which Banking Guarantee Fund (BFG) fees and IPS contribution	*(372.4)*	*(83.3)*	*346.9%*	*(286.5)*	*(85.8)*	*233.8%*
Total operating costs	(1 163.1)	(805.9)	44.3%	(676.8)	(486.2)	39.2%
Total costs without BFG/IPS	*(790.7)*	*(722.5)*	*9.4%*	*(390.3)*	*(400.4)*	*-2.5%*
Cost/income - reported	46.6%	45.0%	1.6 pp	50.6%	41.9%	8.7 pp
*Cost/income - adjusted **	*32.8%*	*42.8%*	-10.0 pp	*30.6%*	*35.3%*	-4.7 pp

(*) with equal distribution of BFG resolution fee through the year and without one-off income or cost

Personnel costs amounted to PLN445mn in 1H22 and increased by 8% y/y (and by 4% q/q), mainly as a result of higher bonuses and base salaries compared to the corresponding period of the previous year. The Group adjusts the number of its branches and personnel according to its current needs reflecting the growing importance of online channels. At the end of June 2022, the total number of outlets was 635 and their number was reduced by 41 outlets vs. the end of June 2021 and by 9 compared to the level at the end of December 2021. The number of Group's employees decreased to 6 735 FTEs at the end of June 2022 and in annual terms it was reduced by 413 FTEs (-6% y/y). Without employees absent due to long leaves ('active FTEs'), the headcount was much lower, i.e. at 6 139 staff.

Employment (FTEs)	30.06.2022	30.06.2021	Change y/y	31.03.2022	Change q/q
Bank Millennium S.A.	6 407	6 802	-5.8%	6 509	-1.6%
Subsidiaries	328	346	-5.2%	334	-1.7%
Total Bank Millennium Group	6 735	7 148	-5.8%	6 842	-1.6%
Total BM Group (active* FTEs)	6 139	6 454	-4.9%	6 211	-1.2%

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

Other administrative costs (including depreciation) reached PLN718mn in 1H22 and increased by 82% y/y due to higher contribution to BFG and the Protection Scheme mentioned above. Other administrative costs without contributions to BFG or the costs of IPS increased by 11% y/y due to higher marketing, legal and advisory costs compared to the corresponding period of the previous year. Legal costs resulting from negotiations and litigations with FX mortgage borrowers are additional burden to this cost group (PLN25.5mn in the reporting period, not including PLN18.5mn booked additionally in other operating costs).

Cost-to-income ratio for 1H22 amounted to 46.6% and was higher by 1.6 percentage points vs. the level for 1H21 (45.0%). Cost-to-income ratio without extraordinary items mentioned above (mainly legal costs and FX losses related to litigations/settlements with FX mortgage borrowers), reached record low level of 32.8% in 1H22 and was 10 percentage points lower compared to 1H21 level.

Net profit (PLNmn)	1H22	1H21	Change y/y	2Q22	1Q22	Change q/q
Operating income	2 496.7	1 789.4	39.5%	1 336.8	1 159.9	15.3%
Operating costs *	(1 163.1)	(805.9)	44.3%	(676.8)	(486.2)	39.2%
Impairment provisions and other cost of risk **	(153.8)	(133.5)	15.2%	(70.7)	(83.1)	-14.9%
FX legal risk related provision	(1 014.6)	(1 047.0)	-3.1%	(515.5)	(499.2)	3.3%
Banking tax	(168.8)	(152.0)	11.1%	(86.8)	(82.0)	5.9%
Pre-tax profit	(3.6)	(348.9)	-	(13.0)	9.4	-
Income tax	(259.1)	(162.7)	59.2%	(127.3)	(131.8)	-3.4%
Net profit - reported	(262.6)	(511.6)	-	(140.3)	(122.3)	-
Net profit - adjusted*	1 127.8	546.9	106.2%	637.3	490.5	29.9%

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

(**) including fair value adjustment on loans (PLN 5.6mn in 1H22 and PLN-6mn in 1H21) and loans modification effect (PLN-8.8mn in 1H22 and PLN-6.7mn in 1H21)

(***) without extraordinary items, i.e. provisions for FX mortgage legal risk, costs related to amicable settlements with borrowers of those loans, impact of payment to the Protection Scheme (IPS) and with linear distribution of BFG resolution fund fee

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 PLN154mn in 1H22 and was 15% higher than in 1H21 (15% decrease q/q).

Risk charges for retail segment in 1H22 were practically entire part of created provisions in the reporting period (PLN154mn) and were supported by sale of NPL's. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 1H22 reached 37 basis points, so they were at a little higher level vs. 1H21 (33 basis points).

In 2Q22, the Bank continued to create provisions for legal risk related to FX-mortgage portfolio, which were a significant item in P&L statement In 2Q22 they were at similar level as in the previous quarter, reaching PLN515mn (PLN467mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees from Societe Generale). The balance of provisions increased to PLN4 496mn or PLN4 155mn excluding loans originated by Euro Bank, the latter being an equivalent of 36.3% of the FX-mortgage portfolio originated by Bank Millennium.

Pre-income tax result in 1H22 was negative but not high and amounted to PLN4mn (PLN349mn loss in 1H21). This loss was mostly the result of the above-mentioned high FX-mortgage provisions and one-off contribution to the IPS mentioned above. The pre-provision profit amounted to PLN1334mn and was up 36% y/y. In addition to provisions, banking tax had significant impact on the value of losses decreasing the operating result by PLN169mn.

In 2Q22, the Group reported net loss of PLN140mn (PLN263mn loss for 1H22). The net loss was reported despite positive operating result in 1H22 due to negative impact of banking tax and corporate income tax (in the amount of PLN 259mn, as most of FX-mortgage legal risk provisions, BFG costs and other items are not tax deductible). Adjusted for the abovementioned extraordinary items (i.a. FX-mortgage related costs) the Group would achieve the net profit of PLN1 129mn in 1H22, which is 106% higher compared to adjusted 1H21 net profit of PLN547mn. Adjusted net profit for 2Q22 would amount to PLN637mn (30% higher vs. 1Q22 adjusted profit of PLN491mn).

2.2. BALANCE SHEET

Assets

The Group's assets as at 30 June 2022, amounted to PLN108 858mn, recording 5% growth vs. the end of June 2021. The structure of the Group's assets as well as changes of their particular components are presented in the table below:

Group's Assets *(PLN million)*	30.06.2022		30.06.2021		Change y/y
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	5 810.0	5.3%	2 676.4	2.6%	117.1%
Loans and advances to banks	1 080.1	1.0%	605.5	0.6%	78.4%
Loans and advances to clients	79 341.9	72.9%	75 794.3	72.8%	4.7%
Receivables from securities bought with sell-back clause	8.2	0.0%	18.4	0.0%	-55.2%
Debt securities	19 532.0	17.9%	22 175.2	21.3%	-11.9%
Derivatives (for hedging and trading)	220.9	0.2%	163.1	0.2%	35.4%
Shares and other financial instruments*	149.0	0.1%	132.9	0.1%	12.1%
Tangible and intangible fixed assets**	937.8	0.9%	911.7	0.9%	2.9%
Other assets	1 778.4	1.6%	1 629.6	1.6%	9.1%
Total assets	**108 858.2**	**100.0%**	**104 107.0**	**100.0%**	**4.6%**

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

The main changes within assets came from growing loans to clients (up PLN3.5bn or 5% y/y) offsetting the PLN2.6bn decrease of debt securities.

Loans and advances to clients

Total **net loans** of Bank Millennium Group reached PLN79 342mn as at the end of June 2022 and grew 5% y/y (1% increase vs. the end of previous quarter). The growth of loans without foreign currency mortgage portfolio was visibly higher, at 11% y/y. FX mortgage loans net of provisions decreased visibly during the last twelve months (down 29%) 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 9.6% from 13.9% a year ago.

The net value of loans to households amounted to PLN59 557mn as at the end of June 2022, showing a growth of 4% y/y (stable quarterly). Within this line, PLN mortgages grew strongly by 19% y/y. In 2Q22 disbursements of mortgage loans reached PLN2.2bn growing by 12% vs. 1Q22.

The net value of consumer loans reached PLN15 653mn presenting stable level compared to the balances 1 year ago and a quarter ago. Origination of cash loans in 2Q22 reached the value of PLN1.4bn i.e. 26% more than the level of relatively weaker 1Q22.

Net value of loans to companies amounted to PLN19 785mn as at the end of June 2022 and increased by 6% y/y (+1% q/q) supported by rebound in leasing business (+8% y/y).

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

Loans and advances to clients *(PLNmn)*	30.06.2022	30.06.2021	Change y/y	31.03.2022	Change q/q
Loans to households	59 556.6	57 079.3	*4.3%*	59 483.0	*0.1%*
- *PLN mortgage loans*	*35 624.4*	*29 898.1*	*19.2%*	*34 844.3*	*2.2%*
- *FX mortgage loans*	*8 279.1*	*11 591.1*	*-28.6%*	*8 989.3*	*-7.9%*
- *of which Bank Millennium loans*	*7 601.9*	*10 665.4*	*-28.7%*	*8 284.6*	*-8.2%*
- *of which ex-Euro Bank loans*	*677.2*	*925.7*	*-26.9%*	*704.7*	*-3.9%*
- *consumer loans*	*15 653.0*	*15 590.1*	*0.4%*	*15 649.4*	*0.0%*
Loans to companies and public sector	19 785.3	18 714.9	*5.7%*	19 219.6	*2.9%*
- *leasing*	*6 919.1*	*6 390.8*	*8.3%*	*6 812.7*	*1.6%*
- *other loans to companies and factoring*	*12 866.2*	*12 324.2*	*4.4%*	*12 406.9*	*3.7%*
Net loans & advances to clients	**79 341.9**	**75 794.3**	***4.7%***	**78 702.6**	***0.8%***
Net loans and advances to clients excluding FX mortgage loans	*71 062.8*	*64 203.2*	*10.7%*	*69 713.3*	*1.9%*
Impairment write-offs	2 384.7	2 448.8	*-2.6%*	2 480.0	*-3.8%*
Gross* loans and advances to clients	**81 726.6**	**78 243.1**	***4.5%***	**81 182.6**	***0.7%***

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

Debt securities

Value of debt securities reached PLN 19 532mn at the end of June 2022, which means a decrease of 12% y/y. An overwhelming part of the debt securities portfolio (91%) were bonds and bills issued by the Polish State Treasury and National Bank of Poland (Central Bank). The decrease of debt securities portfolio was a consequence of assets/liabilities and interest margin management policy and was correlated with the changes of loans and deposits. The share of this group of debt securities in the Group's total assets was at 17.9% at end of June 2022 reflecting a satisfactory liquidity position of the Group.

Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN1 080mn at the end of June 2022, which means an increase by 78% y/y, mainly due to higher deposits placed at other banks.

Liabilities

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

Group's Liabilities and Equity *(PLN million)*	30.06.2022		30.06.2021		Change y/y
	Value	Structure	Value	Structure	(%)
Deposits from banks	546.8	0.5%	742.3	0.8%	-26.3%
Deposits from customers	96 122.0	93.3%	89 998.5	94.0%	6.8%
Liabilities from securities sold with buy-back clause	0.0	0.0%	0.0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	1 081.0	1.0%	328.9	0.3%	228.7%
Liabilities from issue of debt securities	0.0	0.0%	310.7	0.3%	-100.0%
Provisions	759.1	0.7%	408.3	0.4%	85.9%
Subordinated debt	1 553.6	1.5%	1 539.9	1.6%	0.9%
Other liabilities*	3 016.9	2.9%	2 402.1	2.5%	25.6%
Total liabilities	**103 079.5**	**100.0%**	**95 730.7**	**100.0%**	**7.7%**
Total equity	**5 778.7**		**8 376.3**		**-31.0%**
Total liabilities and equity	**108 858.2**		**104 107.0**		**4.6%**

** including tax liabilities*

At the end of June 2022 liabilities accounted for 94.7%, while equity of the Group - for 5.3% of total liabilities and equity.

As on 30 June 2022 Group's total liabilities amounted to PLN 103 079mn and were higher by 8% relative to their value as on 30 June 2021. The main change to liabilities resulted from material increase of deposits by PLN6.1bn during one year period.

Customers' deposits

Customer deposits constituted the main item of the Group's liabilities accounting for, as on 30 June 2022, 93% of total liabilities. Customer deposits constitute the main source of financing of Group's activities and incorporate, primarily, customer funds on current and saving accounts as well as on term deposit accounts.

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

Customer deposits *(PLN million)*	30.06.2022	30.06.2021	Change y/y	31.03.2022	Change q/q
Deposits of individuals	65 165.2	64 966.1	0.3%	64 271.5	1.4%
Deposits of companies and public sector	30 956.8	25 032.4	23.7%	33 033.3	-6.3%
Total deposits	**96 122.0**	**89 998.5**	**6.8%**	**97 304.8**	**-1.2%**

Total deposits amounted to PLN96 122mn as at 30 June 2022 and presented an increase by 7% y/y (slight decrease by 1% q/q).

The main driver of this growth were deposits of companies and public sector, which reached PLN30 957mn as at the end of June 2022 translating into a strong growth of 24% y/y (a decrease by 6% q/q).

Deposits of individuals reached PLN65 165mn as on 30 June 2022, keeping the similar level as 12 months ago and increasing by 1% q/q. Out of this item, term deposits grew strongly by 37% y/y whereas current and saving accounts of individuals fell by 7% y/y.

Deposits from banks

Deposits of banks, including credits received, as on 30 June 2022, amounted to PLN547mn. Value of this item declined by PLN195mn (or by 26%) relative to the balance as on 30 June 2021, mainly in effect of lower balance of credits received from financial institutions by PLN143mn. The said credits include funds received from the European Investment Bank and the European Bank for Reconstruction and Development (in EUR, CHF and PLN) with original maturities of up to 7 years, constituting an important line item within long-term and medium-term wholesale financing obtained by the Group.

Debt securities issued

As on 30 June 2022 there were no securities issued by the Group as the whole liabilities were repurchased during the 12 month period from the initial balance of PLN311mn as on 30 June 2021. It was mainly repurchase of bonds issued by Euro Bank taken over by the Bank (PLN250mn) and the repurchase of securities issued by its subsidiary Millennium Leasing of PLN39mn.

Subordinated debt

The value of subordinated debt amounted to PLN1,554mn as on 30 June 2022, and stayed on similar level vs. the end of June 2021 (a very minor difference results from interest accrued). The subordinated debt line includes ten-year subordinated bonds in PLN at the total nominal value of PLN830mn maturing in January 2029 and ten-year bonds in PLN at the total nominal value of PLN700mn maturing in December 2027.

Provisions

The value of provisions as on 30 June 2022 was PLN759mn which signifies strong growth by PLN351mn or 86% y/y. The reason for the increase was creating new provisions for legal issues, especially claims related to FX mortgage loans agreements (the part of provisions not directly allocated to adjust the value of loans).

Equity capital

As on 30 June 2022, equity capital of the Group amounted to PLN5 779mn and recorded a material decrease by PLN2 598mn or 31% y/y. Apart from the accumulated net loss incurred during the 12 month period (PLN1 091mn) another key factor of the decline was a negative valuation of debt securities of PLN1 125mn and hedging derivative instruments of PLN389mn since 30 June 2021.

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

3. PRESENTATION OF BUSINESS ACTIVITY

3.1. HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE

The first half of year 2022 at Bank Millennium was a time of flexible adaptation to the current situation. The pandemic continued to have a huge impact on the service. However the outbreak of war in Ukraine was extremely challenging for the Bank, especially for branch staff and remote contact channels.

Bank Millennium has taken steps to make it easier for Ukrainian citizens to open a relation with the Bank fast. We simplified account opening procedures and prepared materials and communication in Ukrainian. This enables convenient and fast use of banking products.

We have also made it easier to carry out basic banking transactions. We have decided to exempt customers of Ukrainian nationality from account service fees, payment card fees and fees for all ATM withdrawals. The bank does not charge commissions on foreign transfers made by individual customers to Ukraine.

In addition to support in branches, customers can also count on the assistance of Infoline consultants speaking Ukrainian.

Bank Millennium continues its activities in the area of digitalization and encourages customers to self-service - it is important to educate them thoughtfully and in a balanced way. Consultants in the bank's branches support customers in the transition from cash to cashless service. Employees help customers learn about banking in digital channels. This requires long-term and iterative action. In this topic, the Bank pays attention to the individual situation of the customer. We realize that the digitalization process has many stages, is not a one-off activity and requires a lot of employee involvement. It is important that the customer is ready to enter the mobile world and is prepared to use electronic tools. The success of this process is largely determined by empathy and understanding of the concerns of customers from different groups. This is particularly important when working with the elderly and those accustomed to service in a branch.

The bank has strengthened the standard of the branch host. It is important for the proper organization of the customer's visit to the branch - time and comfort of service, but also in the digitalization and self-service process. The task of the Host is to redirect the customer appropriately - to a specific employee or digital channel - and to educate properly.

Bank Millennium has launched a new offer of the Millennium 360 account, which meets the current needs and expectations of our customers. The model for opening a relationship with the Bank - On Point - has changed accordingly in standard outlets and Millennium Mini.

Bank Millennium continues to work on implementing the principles of plain language in internal and external communication. We are simplifying the texts communicated to customers at different stages of cooperation - from account opening to information on the service of the products held by the customer. In the new document templates, we are working on sentence phrasing, information structure and graphic elements. We are committed to clarity and consistency of messages communicated through various service channels.

The quality activities implemented by the Bank have been recognized in important rankings:

- in the Banking Star competition, Bank Millennium won third place in the prestigious Customer Relations category,
- The Bank was again awarded the Quality Star,
- in the Golden Banker ranking, TeleMillennium telephone service won first place, and chat and e-mail service - third place.

3.2. CONSTANT GROWTH OF DIGITALISATION OF OUR SERVICES POSITIVE CUSTOMER EXPERIENCE

We ended 1H22 with over 2.4 million active users of digital channels (+13 per cent y/y). More than 2.1 million users logged to bank using mobile devices. This gives a growth of 18 per cent y/y. In this period customers logged in to Millenet almost 76.3 million times and as many as 351 million times to the mobile app.

Digital share in sales and acquisition

The share of digital channels in sales of cash loans amounted to 78 per cent in 1H22. The share of digital channels in the opening of current accounts amounted to 32 per cent in 1H 2022, and the number of accounts opened online was 51 per cent higher than in the same period of 2021. The share of digital channels in opening term deposits remained stable, in 1H22 it equalled 91%. In this six-month period, we also noted high growth in sales of liability/AC and travel insurance via electronic channels (+38 per cent compared to 1H21).

BLIK mobile payments

We have observed the ever growing popularity of online transactions and e-commerce payments with BLIK. 1.4 million users chose this method in our mobile app in 1H22 (+ 31 per cent y/y). They made 102 per cent more P2P transfers and performed 72 per cent more transactions in 1H22 vs. 1H021.

Innovations for retail clients

- In January, for the first time, we made available in the mobile app the MilleAdministration tab (previously available only in Millenet), where customers can submit applications for family benefits. Currently, customers will find there applications for: Family 500+, Family Care Capital (RKO), for nursery subsidies and for Good Start 300+ school kit benefit.
- April saw the launch of the new Millennium 360° offer, which includes a new account, card and additional options available in digital channels – cashback programme and multicurrency services. Along with the new offer, we refreshed the account online application in the PSD2 path and made available a brand new process using "selfie".
- In May, we released a new VAS - codes for games, streaming services and multimedia. Customers can benefit from the offerings of various companies and securely purchase codes in the app, store them in one place and use or share them at any time. In the first month since the launch of the service, more than 1,000 people bought at least one code in the app.

Digital assistance for Ukrainian citizens

- After the outbreak of war in Ukraine, we also involved our electronic channels in helping the refugees:
- Communication in Ukrainian - a few days after the outbreak of war, a website in Ukrainian was launched on the bank's portal, where we gathered the most important information for refugees arriving in Poland. We launched additional campaigns in the bank's digital channels in Ukrainian - we communicate key organizational and security-related messages in this language.
- Charity transfer - in March, we provided customers with a unique defined transfer. The customer only enters the amount, and the account number of the selected charity is substituted by the system.
- Trusted Profile - in April, Ukrainian citizens gained the ability to set up a Trusted Profile via Millenet.
- Family 500+ application in Ukrainian - in May we made available in the mobile application and online banking applications for the Family 500+ benefit for children who came to Poland in connection with armed actions in Ukraine. The application can be filled out in Polish or Ukrainian. From July 1, Ukrainian citizens can also apply for Good Start 300+ in Ukrainian in Millenet.

Innovations for entrepreneurs

MillenetLink - we are expanding the solution that enables direct data exchange between electronic banking and customers' financial and accounting systems.

Payment cards service - comprehensive online service of payment cards also for customers managing several tens of thousands of cards.

Leasing service - in cooperation with Millennium Leasing S.A., we have introduced new functions related to the service of leasing products, and since the end of June, Millennium Leasing customers can also use a module that facilitates the exchange of electronic documents - already available to the bank's customers.

Inspirations Zone - thematic articles in Millenet for Companies

We also continue to develop processes for microentrepreneurs and have seen growing interest in online channels among this group. In 1H22, customers opened 60 per cent more business accounts through online channels than in 2H21. Also, sales of a cash loan for microentrepreneurs in online channels increased by almost 40 percent compared to 2H21 (by value).

3.3. RETAIL BANKING

Retail banking constitutes an important area in Bank Millennium activities. The April implementation of the new offer of Millennium 360° was important for acquiring new customers. The Bank has a broad catalogue of universal banking products and services designed for individual clients, affluent individuals (Prestige), Private Banking and business clients. Clients have access to products and services through the branch network, internet banking, mobile and telephone banking and the network of ATMs, thereby having an opportunity to manage their finances in a convenient and safe way.

In 1H22 the Bank has increased its active client base by 111 thousand. As on 30 June 2022 the Bank provided services to more than 2.81 million active retail clients. Altogether 2.42 million clients were using electronic banking actively while the mobile app was in use by 2.10 million, which means an annual increase by 18%.

Personal account

Sale of current accounts in the 1H22 exceeded the level of 234 thousand, i.e. a 36% increase relative to similar period of the previous year. The key product supporting acquisition of new clients was the 360° account in the 1Q22 and the Millennium 360° account in the 2Q22. At the end of 1H22, the number of Konto 360º and new Millennium 360° accounts in the Bank portfolio exceeded 1.97 million (10% increase y/y).

Acquisition of the 360º account and Millennium 360° account in 2022 was supported by promotion and advertising activities including, inter alia, as follows:

- new advertising campaigns in TV stations and internet,
- intensive promotional activities involving the use of goodie shopping app and in cooperation with external internet portals - more than 32% personal accounts were acquired online,
- new rounds of referral programme „Like it! Share it", under which recommending Millennium 360°, Konto 360° or Konto 360° Student to others may be rewarded with attractive prize,
- development of x-sell on current accounts on POS Customers,
- promotion of an offer for the youngest, which is in line with the bank's long-standing financial education efforts.

Savings products

The 1H22 was a time of rapidly growing market interest rates and dynamic changes of retail deposits. Additionally the broke of Ukraine war increased uncertainty and provoke some clients to withdraw money outside banking sector in Feb-Mar'22 while waiving of pandemic limitations increased clients spendings. These factors resulted in drop of retail clients deposits in the whole banking sector in first 5 months of 2022 by PLN13.6bn. Growing interest rates caused gradual improvement of time deposits offers and volumes shift from Current and Saving Accounts towards time deposits. Current and Saving accounts volumes in banking sector declined during Jan-May'22 by PLN44bn while time deposits increased by PLN31bn.

Due to these circumstances, the Bank concentrated efforts on gradual improvement of deposit offer on both saving accounts and time deposits and prepared numerous marketing campaigns.

During 1H22, the Bank continued acquisition of new volumes as previously on Saving Account Profit (KO Profit) but also including New Money Time Deposits with attractive interest rate accruing on new funds.

Nonetheless total retail deposits in 1H22 declined by PLN1.1bn, with PLN2bn drop in 1Q (mainly due to impact of Ukraine crisis) with 0.9bn growth in 2Q. At the end of 1H22 retail deposits amounted to PLN69.4bn and Bank's market share in first 5 months of 2022 increased by 6 bps. to 6.84%.

Investment products

The 1H22 was also time of deterioration on global capital markets both on equity and debt assets, caused by Ukraine war and increase of interest rates. All asset classes, apart from some commodity funds, recorded very severe value depreciation and provoked clients to increased redemptions.

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

Bank continued regular promotional campaigns of mutual funds focusing on handling fee for purchase of funds especially in remote channels, which steadily gain importance. In Feb'22 Bank introduced new investment advisory service based on selected and adjusted Millennium TFI funds which in easy and convenient way enables customers entrance to investment products especially through regular investments even of small amounts. Due to difficult situation on capital markets and seek for stability by clients, bank strengthened offer of structured deposits and introduced products with full capital protection and guaranteed minimal profit irrespectively of market situation. This resulted in over 1 bln structured deposit portfolio growth in 1H22 with record sales in 2Q reaching PLN1bn.

Prestige and Private Banking segments - offer for affluent clients

In January 2022, responsibilities related to providing the highest service quality for affluent clients were placed in the Affluent Client Department. At Bank Millennium, we try to understand customer needs and anticipate possible scenarios for the development of modern banking. The offer for affluent clients should satisfy their comprehensive needs and allow them to contact the Bank in the form they prefer.

In the first half of 2022, we increased the portfolio of Affluent Clients by 20% compared to the end of 2021. The largest increase in clients was recorded in remote service model. The increase compared to the end of 2021 was as much as 50% which was partially related to the change of service model.

Cash loans

Sales in the first half of 2022 amounted to PLN2.5 billion and in February and March was negatively impacted by external market conditions. Although in second quarter of 2022 sales rebounded and rose by 26% comparing to first quarter of 2022. The increase was produced thanks to the results of various business initiatives and was additionally supported by attractive spring promotion offer. It resulted in gains of market share in cash loans sales from 8.89% in March to 10.06% in May.

The bank continued to support omnichannel approach and sales in digital, in particular in mobile banking, thanks to which 65% of sales (by value) was finalized in electronic channels. This steady increase was achieved mainly in the mobile channel in which sales increased by 44% year-on-year.

In the first half of 2022, the acquisition of a cash loan was supported, among others, by introducing new, more attractive for customers offers:

- 'Spring promotion – 0% commission for loan' offer for loans in the amount of PLN5,000, PLN10,000, PLN15,000 and newly introduced PLN20,000, PLN30,000 or PLN40,000 granted for a period of 60 months,
- New consolidation offer with 0% commission for external consolidation and additional cash,

As at June 30, 2022, the value of the cash loan portfolio was PLN13.3 billion.

Overdrafts

The first half of 2022 was a period of stable portfolio size. Portfolio volume end-of-period in first half of the year increased by 9% to PLN1.253 billion comparing to first half of 2021. Market share of portfolio by limit used remained at nearly 13%

Payment cards

Intensive marketing efforts and new products implementations supported further increase of the payment card portfolio in 1H22. Bank increased the payment card portfolio in 1H22 to 3.85 million cards (+3.5% vs. 4Q21). At the same time activity of cards portfolio grew substantially with spend of 35.2 bn PLN (+22% vs.1H21).

In 2Q22 two new debit cards were introduced (VISA Millennium 360, Mastercard Millennium 360) together with new Millennium 360° personal account. The cards offer attractive multicurrency package for FX transactions and innovative card design supporting customers with visual impairments. Credit cards offer was also improved by introduction of multicurrency package, which will be available since July 2022.

Mortgage banking

In the first half of 2022, Bank Millennium achieved a high level of mortgage loan sales. During these six months, the Bank concluded a total of 13,000 new agreements with a total value of almost PLN4.1 billion. The total result for the first half of the year placed the Bank at 4 market position with a market share of almost 13,5%.

In the first half of 2022 the Bank implemented further improvements in the lending process, among others by introducing a mortgage with a periodically fixed interest rate for loans in tranches. As a result, the Bank's offer became more attractive for both new and existing contracts. This allowed to significantly increase the share of loans with periodically fixed interest rates in new sales and the entire portfolio.

Thanks to the implementation of improvements in the process of issuing credit decisions, the Bank maintained an excellent time to a positive credit decision, which is currently an average of 3 business days.

In addition to the above-mentioned changes in the offer, the bank's lending activity, as in previous years, was based on an unconditional commission of 0% for granting a loan and a 0% commission for early repayment. This construction of the offer is still very popular, especially among clients who have a limited down payment and want to minimise their borrowing costs in advance.

In addition, the Bank continued its activities aimed at offering special credit conditions to customers with loans in CHF, conducive to currency conversion, partial and full repayment of the loan based on an individually negotiated rate with the client.

Thanks to these activities, the Bank came top in many comparisons and rankings of mortgage loans, i. a. Bank Millennium in the 1st Division of the "My Banking" Competition – Best Mortgage Service.

Insurance products (bancassurance)

In the first half of 2022, Bank continued supporting clients in securing their financial goals within ecosystem of products and services with insurance products playing an important role with this respect. The Bank continued offering to customers insurance protection products related to cash loan via all distribution channels, with increasing importance of omnichannel processes. Credit Cards owners and Personal accounts owners could benefit from attractive assistance packages allowing customers to receive help in everyday life accidents. For mortgage loan borrowers Bank ensured attractive offer of credit protection and property insurance.

Motor and travel insurance offered by the Bank in digital channels completed the palette of life and general insurance solutions.Attractive scope of cover within insurance products offered by the Bank has been maintained, despite negative demographical changes resulting from COVID 19. Additionally, in 1H2022 Bank organised special offers for customers deciding for assistance to account or insured cash loans.

Business client segment – offer business clients

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

In 1H22 the Bank recorded 34% growth in the number of new opened PLN Business current accounts in comparison to similar period of the previous year. Digital channel in the new clients acquisition raised rapidly with 73% growth. Share of online channel in acquisition of new business client accounts in 1H22 stood at 50%. Growth in the total number of clients was achieved in effect of:

- using of an opportunity of opening business accounts in the internet banking system Millenet made available to current retail clients of the Bank,
- taking advantage of remote business accounts opening for new clients with possibility to confirm identity remotely,
- introduction of promotional product offers for companies,
- increasing the level of cross-sell by business accounts in the Bank branches,
- concentrating on acquiring newly registered companies,
- enhancement of marketing activities targeted to enterprenuers in online, radio and also for the first time advertising spot on TV.

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

3.4. GOODIE SMART-SHOPPING APP

The first 6 months of 2022 for goodie was another half-year, in which there was a huge interest in cashback functionality. Both the number of transactions, their value and level of cashback accrued reached the highest values so far. During 6 months goodie users executed more than 2.4 million (+13% y/y) transactions at the value amounting to over PLN346mn (+37% y/y). At the same time, almost PLN6.7mn (+20% y/y) was returned to goodie cashback buyer accounts. In total, since 2018, almost 10.2 million transactions have been made through goodie cashback, with a total value of PLN1.3bn and users have been accrued cashback in the amount of almost PLN30mn.

In April 2022 the cashback service was implemented by Bank Millennium as a so-called "white label" under the name "Returns for purchases" and replaced the current method of integration with the Bank implemented in November 2020. The service is being promoted as part of the new Millennium 360 account and is becoming increasingly popular with users. In May 2022, the SUPER OFFER functionality was implemented as part of the service, thanks to which customers can get higher cashback than in the standard offer in a specific period on selected brands. In June, a promotion for Bank Millennium customers was launched as well, thanks to which after making their first transaction through "Refunds for purchases" the customer will receive a PLN20 welcome bonus.

In the 1st half of 2022 goodie also recorded growth of sales of gift eCards at 30% y/y as well as continues growths in terms of app downloads - in total, nearly 2.9 million persons have downloaded it already.

3.5. CORPORATE BANKING

As part of the Corporate Banking business line, the Bank provides comprehensive services to companies with annual sales revenues exceeding PLN5mn, as well as public sector institutions and units.

The offer is constantly modified and adapted to client requirements, market environment and changes in legal regulations. The Bank's goal is to make access to services and their use convenient and secure. The Bank focuses on providing comprehensive solutions based on modern technologies and on the digitisation of business processes. We develop digital channels and paths of electronic document circulation. In order to support the financial situation of entrepreneurs who have suffered the effects of the Covid-19 pandemic, the Bank provides assistance mechanisms and their service offered in cooperation with BGK and under the PFR Financial Shield as an instrument of the Anti-Crisis Shield for companies.

Access to financing with BGK guarantee support.

BGK guarantee programmes

Bank Millennium's offer still included financing in the form of: loans, lines for guarantees and letters of credit and reverse factoring, secured by guarantees from Bank Gospodarstwa Krajowego (BGK). Clients could take advantage of guarantees granted under guarantee schemes:

- Biznesmax available to micro, small and medium-sized enterprises under two types of state assistance: regional assistance or de minimis assistance,
- de minimis programme dedicated to entrepreneurs from the SME segment,
- Liquidity Guarantee Fund addressed to micro, small, medium-sized and large business entities,
- Liquidity Guarantee Program for reverse factoring.

The application process uses digital channels and qualified signature.

Companies could take advantage of Liquidity Guarantees until 30 June 2022. The liquidity guarantee programme was replaced by a new "crisis guarantees" programme prepared by BGK, as part of the support for the economy in connection with the war in Ukraine.

Other guarantee programs implemented in cooperation with BGK will continue on the so-called "covid terms" until December 31, 2022:

- Biznesmax guarantees are free guarantees supporting the investment and liquidity needs of companies and allow to obtain a co-payment to credit interest. The guarantee may cover revolving loans (also in the current account) and non-revolving loans not related to the investment granted to ensure financial liquidity. In addition to innovative entities, the guarantee can also be used by ecologically efficient companies that have been implementing ecological solutions.
- In the case of the de minimis guarantee scheme, the lack of commission for the first year of using the guarantee and the 80 per cent level of protection and the extended guarantee period to 75 months for the working capital loan and to 120 months for the investment loan

and the increased guarantee amount from PLN3.5mn to the equivalent of EUR1.5mn were maintained.

Loans

The credit offer for companies has been extended by a new product intended for financing investment projects with support from public funds. The product enables flexible and comprehensive financing of an investment project. One of the benefits is the separation of part of the financing repaid with a grant, with no down payment required.

We have also introduced changes in the process of granting investment loans, shortening the waiting time for a credit decision and limiting the number of required documents.

Factoring

After the completion of the pilot program, we included the Debt Financing service in the Bank's standard offer. Debt financing is offered to clients who have signed commercial agreements with their counterparties containing a contractual prohibition of assignment.

Transactional and electronic banking

The Bank provides clients with advanced payment solutions and consistently implements the strategy of digitisation of processes directly supporting our clients. In the first half of the year, we carried out further implementations in Millenet for Corporates online banking.

In cooperation with Asseco Data Systems, we have made available in the processes of remote service of enterprises the possibility of automated qualified validation and maintenance of signatures and electronic seals submitted by the client, the bank and a third party. Thanks to these services, it is now possible to verify and confirm the validity of the electronic signature and electronic seal on an ongoing basis. They also enable their long-term durability.

This ensures that they have not been changed after signing and that a valid qualified certificate was used at the time of signing, which ensures legal and technical protection of the evidential value of the qualified e-signature or seal associated with a specific electronic document. Qualified validation and maintenance services complement the entire life cycle of an electronic document, from the moment of submitting an e-signature or e-seal to archiving in the long term with full security. Bank Millennium uses trust services in accordance with the eIDAS Regulation in its processes. The new services are fully integrated with the document flow in the Millenet for Corporates electronic banking system.

Millenet for Corporates has also improved the efficiency of functions related to the handling of payment cards. At the moment, the bank serves clients who have up to tens of thousands of cards. Millenet currently provides a wide range of functions that allow you to handle payment cards, e.g. searching for individual cards, generating reports, changing limits and settings. In addition, each type of card offered to corporate clients can be ordered using a fully online and automated process.

In February, we introduced the possibility of ordering prepaid cards in foreign currencies: GBP, USD, EUR. Thus, clients can apply for all cards available in the offer – debit, charge, prepaid – through the Millenet system in an easy, convenient and environmentally friendly way. We introduced the possibility to manage daily limits for cards in the currency of the account associated with a card without having to convert to PLN.

We provided the service of debit card account statements in MT940 format. Statements in the new format were launched for all active cards and made available for download by Millenet. For each newly issued card, the MT940 statement is defined automatically. The statement in MT940 format, by processing in the client's financial and accounting system, allows for the automatic settlement of expenses made by card.

Through electronic banking, clients from the SME and micro-enterprise segments had the opportunity to submit an application for writing off a subsidy received under Shield 2.0. This process ended on 15

January 2022 in the case of Small and Medium-sized Enterprises and on 28 February in the case of Micro-Enterprises. According to the PFR plan, clients who have received subsidies will be provided with decisions regarding their settlement in July. You will be able to learn them in Millenet.

The Bank regularly introduces improvements for clients using MillenetLink - a solution that enables direct data exchange between electronic banking and clients' financial and accounting systems. In the first half of 2022, the service was enriched with the ability to download data on prepaid cards, and the system of notifications about the approaching expiration date of communication certificates that authenticate the client during transmission was also automated.

In cooperation with Millennium Leasing S.A., new functions related to client service using leasing products were also introduced. We provided our clients with online applications that will allow them to report in a standardized way matters related to the handling of concluded contracts. The requests will make it easier for clients to report matters related to the handling of contracts, as they contain all the fields necessary to consider the case, as well as client-friendly explanations. Clients will also have the possibility to view the status in which the application is sent. From the end of June, Millennium Leasing clients can also use the module previously made available to the Bank's clients, which facilitates the exchange of electronic documents.

Treasury products

The Millennium Forex Trader electronic online currency exchange platform provides companies with the ability to place conditional orders for currency exchange transactions. The new functionality is another improvement of the website. So far, conditional orders have been available to corporate banking clients in telephone mode.

The platform operates 24 hours a day, 5 days a week and allows you to place conditional orders for FX Spot transactions such as Take Profit, Stop Loss and Call for the value dates Today (today), Tomorrow (tomorrow) or SPOT (in two business days). The minimum order amount is EUR1,000 or the equivalent in another currency. Companies may place and cancel orders on business days from 8:30 a.m. till 5:00 p.m. for all currency pairs available in the system - the condition is to have a settlement account in the currency. Conditional orders can be placed with an indefinite maturity or maturity specified by the user.

The possibility to conclude transactions in the digital channel has enjoyed a constantly growing interest of clients. Comparing the data for the first half of 2022 with the first half of 2021, we recorded a 63 per cent increase in turnover through electronic channels.

Millennium Leasing

In the first half of 2022, Millennium Leasing's business activities were focused on activating existing clients (the number of these clients amounted to 1509) and on acquiring new ones (the number of these clients amounted to 3290) through sales campaigns and product development.

The objective of the sales campaigns was to increase their effectiveness and provide the highest quality of service for existing clients. Production from sales campaigns for the first half of 2022 amounted to 190.38 million.

Millennium Leasing carried out promotional campaigns concerning selected products of the Company:

- **"Regular Clients Program"** – launched at the end of December 2016, implemented and continued in 2022. The programme is addressed to regular Millennium Leasing Clients, ending leasing agreements, under which clients are granted a leasing limit and the opportunity to take advantage of preferential acceptance conditions for new leasing transactions. The value of production realised under the Programme in the first half of 2022 amounted to PLN86.1mn, while in 2021 in total – PLN237.7mn, including the first half of 2021 – PLN136.9mn and the second half of 2021 – PLN100.8mn. The company developed other sales campaigns, focused on the sale of products such as Leasing with BGK guarantee.

- **My Business Account Promotion** - lasting from September 2021 and continued in 2022, is addressed to clients running a sole proprietorship who do not have a company account at Bank Millennium. The promotion consists in setting up a My Business Account and meeting certain conditions of the promotion. The client can gain a benefit in the total amount from PLN1500 to 1800 depending on the conditions of the campaign at a particular time. The most recent, third edition of the campaign, brought 92 leads transferred to the Bank, based on which 37 company accounts were opened.
- **Leaseback with BGK guarantee** - addressed to micro, small and medium-sized enterprises (SMEs) that employ fewer than 250 employees, with the proviso that a business conducted in accordance with PKD is not excluded from the possibility of using the BGK guarantee. The campaign covers Clients ending contracts for semi-trailers or trailers from March to June 2022. The size of the database is 81 clients, and the campaign resulted in 4.8 million concluded contracts.
- **TOP HT** - campaign lasting from January 2021 and continued in 2022, addressed to companies in the transport industry that may be interested in financing heavy transport. So far, 9 different editions of this campaign have already taken place.

Promotion of remote conclusion of leasing agreements using a qualified electronic signature. In response to the growing needs of lessees, activities were carried out to disseminate the knowledge of current and potential clients about the possibility of signing contracts with a qualified signature. The result is a gradual increase in contracts signed electronically by corporate clients from 22 per cent in January to 35 per cent in May.

Millennium Leasing actively developed products:

Leasing of photovoltaic installations

In the first half of 2022 the company continued to actively develop MilleSun - a programme dedicated to financing investments in photovoltaics. Leasing of solar panels is a solution addressed to entrepreneurs focused on changing public awareness in the field of environmental protection, who care about building an ecological image. The programme has been extended to include the financing of heat pumps. In the first half of the year, only in cooperation with Vendors, the company granted a lease for the purchase of photovoltaic installations worth PLN50mn for 500 new clients.

Support from Millennium Leasing for companies from the SME sector thanks to BGK guarantees

In 2022, the company continued to actively offer clients leasing agreements secured by a guarantee of Bank Gospodarstwa Krajowego. The offer is addressed to clients from the SME sector leasing vehicles with low CO2 emissions, machines, especially with a lower degree of marketability. In the first half of the year, the company concluded agreements secured by BGK's guarantee in the amount of PLN127.43mn

Millennium Leasing under the portfolio agreement with BGK has a guarantee line in the amount of PLN200mn. The instrument prepared in cooperation with the European Investment Fund from the Pan-European Guarantee Fund aims to support and protect entrepreneurs against the effects caused by the COVID-19 pandemic.

MilleFlota programme - maintenance services for vehicles up to 3.5 t

In the first quarter of 2022 we continued to run the MilleFlota program. It is a solution thanks to which Millennium Leasing clients can buy spare parts and maintenance services at attractive (the same throughout Poland) prices with a fleet discount, also at Authorised Vehicle Service Stations. In addition, users gain access to the convenient MOTO Flota Manager system. It allows you to view the service history of the vehicle, as well as arrange services and report service costs. A unique part of the programme is a call centre, providing consulting services in the field of managing even a small fleet of vehicles, technical consulting, enabling the verification of the scope of services and the time of their implementation by experienced consultants. In the second half of the year it is planned to implement further improvements in the program.

Digital leasing

The company also focused on continuing the digitisation process, actively promoting electronic handling of settlements with clients via eBOK. More than 82 per cent of Clients have already activated access to the service. In the first half of 2022, the service was extended with the possibility of submitting eforms, thanks to which the Customer can order most of the matters related to leasing contracts via eBOK. By the end of 2022, Millennium Leasing plans to implement further functionalities and improvements, creating making eBOK a convenient platform for comprehensive operational cooperation with Clients.

Education activities in the form of webinars

Webinars addressed to companies

We support our clients also through educational activities which have an impact on conducing a business activity and work methods employed, in particular by webinars implemented on our own or together with partners. In the 1st quarter of 2022, we conducted webinars devoted to the prospects of the Polish economy in 2022 and in the field of cybersecurity dedicated to the financial departments of companies. In the 2nd quarter, together with external partners, we conducted webinars devoted to the financing of investment projects with the participation of state assistance instruments and changes in MRP resulting from the new developer act.

Over 70 per cent of registered participants then take part in events dedicated to our corporate clients. During the meetings, the number of participants remains close to the maximum values throughout the webinar duration, and the participants themselves are very active during the Q&A sessions. These observations testify to the high interest and highly specialist level of the meetings that we offer to clients and potential clients of the bank.

We have a long-term cooperation with the CFO Club of the ICAN Institute. The CFO Club is a development and networking initiative bringing together financial directors (CFOs) of companies operating in Poland. The CFO Club provides access to current knowledge, it is also a platform for exchanging experiences and networking. In the first half of the year, in addition to webinars with the participation of experts and practitioners of leading companies representing various sectors of the economy, offline meetings were also restored. The topics raised during the meetings concerned the most current challenges faced by financial directors and people responsible for finance in a company: modern methods of financial and team management, data management and changes in the legal environment affecting the operation of people responsible for finance in companies. Webinars and meetings were very popular among the Bank's clients.

Webinars addressed to the Bank's employees serving Corporate Banking clients

In the first half of 2022, employees of the corporate banking area participated in a number of trainings improving their qualifications and supplementing their knowledge in the field of changing products and procedures.

The most important trainings related to the upcoming changes concerned the process for the investment loan, a new module in the system for servicing the credit process and changes in the conditions for opening and maintaining accounts. Recent changes have also brought training in the KYC process.

The key and (most importantly) cyclical event are the meetings inaugurated in June as part of the Pulse of Public Assistance initiative. The bi-annual meetings of state assistance experts with sales network relationship managers focus on a comprehensive discussion of the current possibilities of receiving state assistance. The topics discussed support relationship managers in preparing clients for future recruitment and discussing available investment financing options. Thanks to this initiative, relationship managers can count on the most up-to-date information, which can be discussed on an ongoing basis in a technical forum, also based on examples from their daily work.

4. RISK MANAGEMENT

4.1. RISK MANAGEMENT OVERVIEW

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

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

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

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

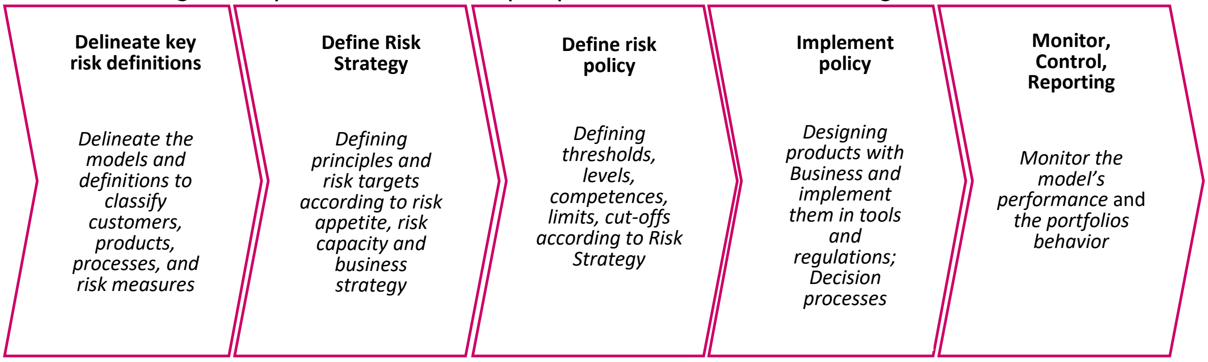
When defining the business and profitability targets, the Group considers the specified risk framework (risk appetite) to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

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

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

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

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



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

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

- The Models Validation Office has responsibility for qualitative and quantitative models' analysis and validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs;
- Fraud Risk Management Sub-unit in the Security Department has responsibility for implementation and monitoring the Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Team constitutes a competence centre for anti-fraud process;
- The Compliance Department has the responsibility to ensure compliance with legal regulations, related regulatory standards, market principles and standards as well as internal organization regulations and codes of conduct.

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2022-2024". The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

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

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

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

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

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

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

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

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

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

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

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

4.2. CAPITAL MANAGEMENT

Capital management and planning

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

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

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

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

Regulatory capital adequacy

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

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for particular banks by KNF every year 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 the end of 2021 in the level of 2.82pp (Bank) and 2.79pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 2.11pp in Bank and of 2.09pp in Group, and which corresponds to capital requirements over CET 1 ratio of 1.58pp in Bank and 1.56pp in Group;

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

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

The table below presents these levels as at the 30 June 2022. The Bank will inform on each change of required capital levels in accordance with regulations.

Minimal level of Capital ratios	30.06.2022	
CET1 ratio	Bank	Group
Minimum	4.50%	4.50%
Pillar II RRE FX	1.58%	1.56%
TSCR CET1 (Total SREP Capital Requirements)	6.08%	6.06%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR CET1 (Overall Capital Requirements CET1)	8.83%	8.81%
T1 ratio	Bank	Group
Minimum	6.00%	6.00%
Pillar II RRE FX	2.11%	2.09%
TSCR T1 (Total SREP Capital Requirements)	8.11%	8.09%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR T1 (Overall Capital Requirements T1)	10.86%	10.84%
TCR ratio	Bank	Group
Minimum	8.00%	8.00%
Pillar II RRE FX	2.82%	2.79%
TSCR TCR (Total SREP Capital Requirements)	10.82%	10.79%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR TCR (Overall Capital Requirements TCR)	13.57%	13.54%

Capital risk, expressed in the above capital targets/limits, is measured, and monitored in a regular manner. As for all capital targets, there are determined some minimum ranges for those values.

Capital ratios in each range cause a need to take an appropriate management decision or action. Regular monitoring of capital risk relies on classification of capital ratios to the right ranges and then performing the evaluation of trends and drivers influencing capital adequacy.

Own funds capital requirements

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

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

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

Internal capital

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

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

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

At the end of June 2022 both above capital targets were met with a surplus. A surplus of own funds over internal capital supports a further increase of banking activity, in particular in areas with a higher risk-adjusted return.

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

Capital adequacy evaluation

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

Capital adequacy measures *(PLN million)*	**30.06.2022 Group**	**31.12.2021 Group**	**30.06.2022 Bank**	**31.12.2021 Bank**
Risk-weighted assets	49 819.7	49 442.8	49 487.1	48 895.7
Own Funds requirements, including:	**3 985.6**	**3 955.4**	**3 959.0**	**3 911.7**
- Credit risk and counterparty credit risk	3 473.1	3 479.8	3 488.7	3 477.7
- Market risk	28.0	32.3	28.0	32.3
- Operational risk	474.5	433.0	432.3	391.4
- Credit Valuation Adjustment CVA	10.0	10.3	10.0	10.3
Own Funds, including:	**7 570.1**	**8 436.3**	**7 552.3**	**8 397.1**
- Common Equity Tier 1 Capital	6 040.1	6 906.3	6 022.3	6 867.1
- Tier 2 Capital	1 530.0	1 530.0	1 530.0	1 530.0
Total Capital Ratio (TCR)	**15.19%**	**17.06%**	**15.26%**	**17.17%**
Minimum required level	13.54%	13.54%	13.57%	13.57%
Surplus (+) / Deficit (-) of TCR ratio (pp)	+1.65	+3.52	+1.60	+3.60
Tier 1 Capital ratio (T1)	**12.12%**	**13.97%**	**12.17%**	**14.04%**
Minimum required level	10.84%	10.84%	10.86%	10.86%
Surplus (+) / Deficit (-) of T1 ratio (pp)	+1.28	+3.13	+1.31	+3.18
Common Equity Tier 1 Capital ratio (CET1)	**12.12%**	**13.97%**	**12.17%**	**14.04%**
Minimum required level	8.81%	8.81%	8.83%	8.83%
Surplus (+) / Deficit (-) of CET1 ratio (pp) (*)	+1.28	+3.13	+1.31	+3.18
Leverage ratio	**5.41%**	**8.30%**	**5.44%**	**8.06%**

(*) This item is intended to show how much Common Equity Tier 1 capital is available for the combined buffer requirement and subsequent requirements in the hierarchy of capital requirements. In the case of banks subject to Pillar 2 buffers and correspondingly higher requirements relating to the Tier 1 capital ratio and the Total Capital Ratio (expressed in total risk exposure), they must use part of their surplus of Common Equity Tier 1 capital after meeting the Common Equity Tier 1 ratio (4.5% + Pillar II buffer) to meet the Tier 1 capital or total capital ratio requirements. In practical terms, this means that the surplus / deficit of CET1 capital adequacy decreases, and it becomes the surplus / deficit of T1 capital adequacy.

As at June 2022 end, capital adequacy in Bank Millennium Group remained on a safe level. Total Capital Ratio amounted to 15.19% level for the Group (15.26% for the Bank) and Common Equity Tier 1 Capital ratio (equals T1 ratio) was at 12.12% for the Group (12.17% for the Bank). Therefore, minimum capital levels required by KNF for Bank and Group were achieved with a surplus.

TCR of the Group decreased during first half of 2022 by 187bp (by 191bp for the Bank). This was due to a visible drop of own funds. Own funds fell by 10.3% (by ca PLN866mn), mainly in effect of negative net earnings for the first half of 2022 and an increase of a negative valuation of State Treasury debt securities. Risk-weighted assets have been increasing slightly, it is by 0.8% (by ca PLN377mn).

Bank Millennium has a dividend policy of distributing from 35% to 50% of net profit, subject to regulatory recommendations.

Leverage ratio, like capital ratios, is going down due to the said above reduction of own funds, however it exceeds the required value of 3%.

The Bank received the joint decision of the resolution authorities obliging to meet MREL requirements. At the moment of communication of the decision, the Bank at the consolidated level is obliged to meet the minimum MRELtrea requirements of 15.60% and MRELtem of 3.00%. At the individual level, the minimum MRELtrea was set at 15.55% and MRELtem 3.00%. Additionally, the above-mentioned decision sets updated minimum requirements that must be met by December 31, 2023, along with mid-term objectives. Having reference to that, the Bank prepared a Eurobond Issue Programme of the total nominal value not higher than EUR 3 billion, what was communicated in a current report in January 2022.

Due to expected costs generated because of the Act on crowdfunding for business ventures and assistance to borrowers, the Group assumes that for the 3rd quarter of 2022 capital ratios may fall below the minimum requirements set by KNF, on what the Group informed in the current report No. 21/2022 dated 15th July 2022.

4.3. CREDIT RISK

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

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

In the first half of 2022 the Bank Millennium Group, both in the corporate and retail segments, focused on introducing changes to the lending policy aimed at ensuring the appropriate quality of the portfolio in the new, more demanding economic environment. The direct and indirect effects of the armed conflict in Ukraine have created an additional element of uncertainty in credit risk management.

In the area of credit risk, 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 risk, with particular emphasis on customers directly affected by the negative effects of the conflict in Ukraine, as well as customers with low profitability, potentially most exposed to negative changes in the macroeconomic environment. Additionally, the Group worked on improving credit processes and products.

In the retail segment, the Bank focused on adjusting the lending policy to the changing macroeconomic environment changes were implemented to mitigate the potential increase in risk related to growing credit costs and inflation. Additionally, the monitoring frequency of the loan portfolio granted to Polish residents with Ukrainian citizenship was increased.

At the same time, the Bank continued to implement changes aimed at improving the efficiency of the risk assessment process for retail and mortgage-secured transactions through automation while maintaining an unchanged level of risk.

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

Loan portfolio quality

Share of impaired loans, including stage 3 portfolio and POCI Assets (Purchased or Originated Credit Impaired) in default, in total loan portfolio was at the end of June 2022 on the level of 4.29%. This means decrease from level 4.39% at the end of 2021. This decrease was mainly driven by the sale in 1H2022 of PLN175mn of the defaulted loan portfolio and write-offs in this period of PLN160mn, which resulted in a decrease of this indicator by 0.40pp. Group still enjoys one of the best asset quality among Polish banks. Share of loans past-due more than 90 days in total portfolio has decreased during last half year from 2.27% in December 2021 to 2.07% in June 2022.

Coverage ratio of impaired loans, now defined as relation of all risk provisions to stage 3 loans and POCI in default portfolios, had slightly decreased during the half year from 68.62% in December 2021 to 68.01% now, mainly due to the aforementioned sales (highly covered by provisions) and written-off (100% covered) in this period. Despite this change it was maintained a partial approximation of the level of this indicator to the value before the purchase of the Euro Bank portfolio, when the indicator significantly decreased. Pursuant to the provisions of the IFRS 3 standard, at the time of acquisition, the Euro Bank portfolio was valued and disclosed in the books of Bank Millennium at fair value. In the case of an impaired portfolio, which at the time of the acquisition was shown in the books of Bank Millennium as POCI, the fair value was close to the net value of this portfolio in the books of Euro Bank, and the value of balance sheet provisions for this portfolio at the time of acquisition was 0 (zero), which had a direct negative impact on provision coverage ratio. Coverage by total provisions of loans past-due more than 90 days increased from 133% half year ago to 141% now.

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

Group loans quality indicators	30.06.2022	31.12.2021
Total impaired loans (PLN million)	3 507	3 557
Total provisions (PLN million)	2 385	2 441
Impaired over total loans ratio (%)	**4.29%**	**4.39%**
Loans past-due over 90 days /total loans (%)	2.07%	2.27%
Total provisions/impaired loans (%)	**68.01%**	**68.62%**
Total provisions/loans past-due (>90d) (%)	140.82%	132.56%

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

Impaired loan ratios by segment were improved in the retail portfolio, i.e., decreased by 22bp from 4.55% to 4.37% (excluding mortgage loans portfolio where this ratio increased from 2.17% to 2.28%), while this ratio for the corporate portfolio increased during the half year from 3.86% to 4.02%. This deterioration occurred in fact only in the leasing portfolio, while for factoring and in other enterprises portfolio this ratio was significantly improved. Last half year, the value of foreign currency mortgage loans decreased by about PLN1,506mn to value PLN8,510mn, i.e., by 17.7% (in PLN terms) because of amortization of this portfolio and due to creation provision on legal risk of CHF Mortgage Loans (these provisions reduced gross portfolio) In this portfolio about PLN686mn of FX mortgage loans relate to acquisition of Euro Bank. However, it should be noted that ex-Euro Bank mortgage portfolio enjoys a guarantee and indemnity from Société Genéralé. Excluding this Euro Bank portfolio, the share of FX mortgage in the total loan portfolio decreased in this period from 11.4% to 9.6%. The improvement in the currency structure of the mortgage loan portfolio was supported by a significant increase in sales of loans in PLN and the acquired PLN portfolio of Euro Bank.

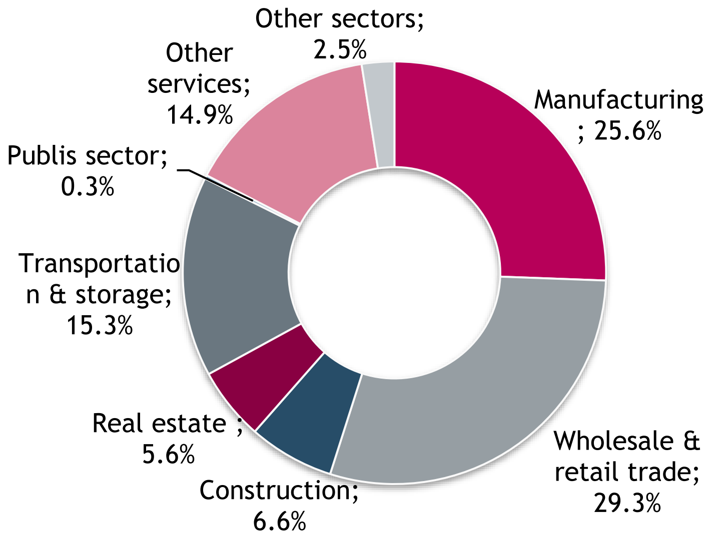
The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans Ratio	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021
Mortgage	*0.91%*	*0.90%*	*2.28%*	*2.17%*
*Other retail**	*5.63%*	*6.57%*	*9.57%*	*10.37%*
Total retail clients*	2.27%	2.54%	4.37%	4.55%
Leasing	*1.09%*	*1.29%*	*4.37%*	*3.16%*
Other loans to companies	*1.64%*	*1.42%*	*3.82%*	*4.27%*
Total companies	1.44%	1.38%	4.02%	3.86%
Total loan portfolio	**2.07%**	**2.27%**	**4.29%**	**4.39%**

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

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in sectors of the economy. Share of the 10 largest exposures remain at a safe, low level of 4.5% (without changes in 1H2022).

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



4.4. OTHER RISKS

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

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

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

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

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

Within the current market environment, the Group continued to act very prudently. The strong market volatility in connection with the war in Ukraine as well as with Monetary Policy Council's (MPC's) series.

In 1H2022, the VaR remained on average at the level of approx. PLN499.8mn for the total Group, which is jointly Trading Book and Banking Book, (173% of the limit) and at approx. PLN4.1mn for Trading Book (14% of the limit). The exposure to market risk at the end of June 2022 was approx. PLN621.9mn for Global Bank (112% of the limit) and approx. PLN2.0mn for Trading Book (8% of the limit). In 1H2022, the market volatility was still very high. All excesses of market risk limits are always reported, documented, and ratified at the proper competence level.

FX open position (Intraday as well as Overnight) remained below 2% of Own Funds. In In the 1H2022, the FX Total open position (Intraday as well as Overnight) remained below internal limits in place and well below 2% of Own Funds. –All eventual excesses of internal market risk limits are reported, documented, and ratified at the proper competence level.

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

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

The exposure to interest rate risk in the Banking Book are primarily generated by the differences in repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. It is specifically affected by the unbalance between assets and liabilities that have fixed rate, especially by the liabilities which cannot have interest rate lower than zero. Consequently, the level of sensitivity to interest rate changes is influenced by the level of interest rates taken as a reference. Additionally, due to specificity of the Polish legal system, the interest rate of 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 fixed rate loan portfolio that is affected by the new maximum rate. On the other hand, assumptions regarding the timing and size of deposits repricing are also especially important when assessing the interest rate sensitivity and risk.

Considering the increase of interest rates that occurred in Poland in the last months, the results of the IRRBB measurement as of the end of June 2022 indicate that the Group is now in a more balanced situation regarding the scenario of a decline or increase in interest rates.

The results of sensitivity of NII for the next 12 months after 30th June 2022 and for position in Polish Zloty in Banking Book are conducted under the following assumptions:

- static balance sheet structure as of that reference date (no change during the following 12 months),
- reference level of net interest income if all assets and liabilities with variable interest rate already reflect market interest rates levels as of 30th June 2022 (for example, the NBP Reference rate was set at 6.0%),
- application of a parallel move of 100bp in the yield curve up and down is an additional shock to all market interest rates levels as of 30th June 2022 and is set at the repricing date of the assets and liabilities that happens during the 12 following months.

In a scenario of parallel decrease of interest rates by 100bp, the results are negative and equal to -PLN178mn or -5.0% of the Group's NII reference level. In a scenario of parallel increase of interest rates by 100bp, the results are positive and equal to PLN178mn or +5.0% of the Group's NII reference level. The level of asymmetry that existed in past reporting dates is now eliminated as interest rates were meaningfully above 0% on 30th June 2022 and there is no leverage impact of the maximum interest rate in opposite to previous years due to changes in the structure of portfolio and pricing of loans.

When it comes to impact of interest rate changes to economic value in the long term, the supervisory stress tests result as of 30thJune 2022 showed that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

Liquidity risk

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

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

In 1H2022, 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.

In 1H2022, the Group maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 83% at the end of June 2022 (86% at the end of December 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 98% at the end of June 2022. During 1H 2022 this portfolio increased to the level of approx. PLN18.8bn at the end of June 2022 (17% of total assets) from PLN17.6bn at the end of December 2021 (17% of total assets). Those assets are Central Bank eligible and are characterized with high liquidity and can be easily used as collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is liquid assets portfolio and is treated as the Group's liquidity reserve, which can overcome crisis situations.

Main liquidity ratios	30.06.2022	31.12.2021
Loans/Deposits ratio (%)	83%	86%
Liquid assets portfolio (PLN million)*	21 005	18 793
Liquidity Coverage requirement, LCR (%)	158%	150%

(*) 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 96.1 billion (PLN 91.4 billion at the end of December 2021). The share of funds from individuals in total Client's deposits equalled to approx. 67.8% at the end of June 2022 (72.2% at the end of December 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 and medium-term loans.

The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 1H2022. 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 1H2022, the regulatory minimum of 100% for both LCR and NSFR was fulfilled by the Group.

The LCR stayed at safe level of 158% at the end of June 2022 (150% at the end of December 2021). The comfortable liquidity position was kept due to increase of the Clients' deposits that guaranteed safe level of liquid assets portfolio.

In 1H2022, the Group also regularly calculated net stable funding requirement (NSFR). In each of the quarter, the NSFR was above planned supervisory minimum of 100% (supervisory minimum is valid from June 2021).

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e., assuming a certain probability of cash flow occurrence). In 1H2022 all the liquidity gaps were maintained at the levels significantly above the minimum limits.

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

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

The Group manages FX liquidity 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.

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

Operational risk

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

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

Non-Compliance risk

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

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

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

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

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

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

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

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

Actions launched under this programme include in particular:

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

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

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

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

5. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

5.1. ANNUAL GENERAL MEETING DECISIONS

On 30 March, 2022 the Ordinary General Shareholders' Meeting ('GM') of Bank Millennium took place. 132 shareholders took part in the meeting, representing 75.31% the Bank's shareholders equity, including BCP (50.10%), NN OFE (8.18%), Aviva OFE (6.00%) and PZU „Złota Jesień" OFE (5.73%).

Among others (full details: https://www.bankmillennium.pl/en/about-the-bank/investor-relations/current-reports/-/r/30313969), the GM approved 2021 financial statements and non-financial report, report on activity of the Supervisory Board, covering the loss in 2021 from reserve capital, Supervisory Board and Management Board remuneration report, the Policy for Selection and Assessment of Suitability of the Supervisory Board Members, division of Millennium Dom Maklerski S.A., adoption of the document diversity policy regarding the Management Board and the GM adopted of Best Practices for Companies Listed on the WSE 2021.

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

ESG (Environmental, Social, Governance) issues have been an integral part of the Bank Millennium Group's business strategy for years. As a responsible and friendly bank, we want to have a positive impact on our social and economic surroundings and the natural environment, ensure full availability of our services, and through many innovative solutions, make everyday life easier for clients and actively support development of companies. The ESG area was also included in the Strategy of the Bank Millennium Group for 2022-2024, announced in December 2021.

The Bank is also a signatory of two important international initiatives.

- Business and government administration partnerships for the implementation of the UN Sustainable Development Goals (SDGs). The Bank is guided by all 17 objectives, but attaches the utmost importance to the following goals: Good health and quality of life; High quality education; Gender equality; Economic growth and decent work; Innovation, industry, infrastructure; Activity in the area of climate; Partnership for goals.
- Diversity Charter - a commitment signed by organisations, which act towards creating and promoting diversity.

ESG actions carried out by Bank Millennium are highly appreciated by the market.

- Since 2010 the Bank is listed in the Warsaw Stock Exchange index, which comprises companies meeting the highest standards of corporate social responsibility. In 2010-2019 the Bank was included in Respect Index, while since 2019 it is part of the WIG-ESG index.
- In June 2022, Bank Millennium was awarded the CSR Silver Leaf of the "Polityka" weekly again. This award is given to companies, which implement the highest social responsibility standards – they have in place ethics management systems, engage socially, introduce actions in response to the needs of clients and staff and minimise their impact upon the natural environment.
- By decision of the Mayor of Iława, Bank Millennium received the title of Patron of Culture for supporting local culture, in particular the International Old Jazz Meeting "Złota Tarka", one of the most important events on the jazz map of Poland. The award and the congratulatory letter were presented on 30 May.
- A model ecological branch of the bank, climate education as part of Millennium Docs Against Gravity, supporting gender equality and people with disabilities and the involvement of employees - volunteers in helping local communities - these are the special activities submitted by Bank Millennium to the Report "Responsible Business in Poland.". Good

Practices". The publication prepared annually by the Responsible Business Forum is the largest review of CSR and sustainable development initiatives in Poland.

The most important ESG activities conducted and planned in 2022

Natural environment:

The Bank Millennium Group has for many years been supporting financing of environmentally-friendly and energy saving projects. We conduct our own pro-environmental activities, as well as offer pro-ecological products and responsible financing. Based on the provisions of the "Environmental Policy of the Bank Millennium Group", the Bank Millennium Group does not grant financing for new:

- coal mines,
- projects in coal-based power generation, except new projects involved with reduction of pollution. Financing in the energy sector can be made available only when:
  - it supports exposures in non-carbon energy sources,
  - it supports energy transformation towards non-carbon energy sources.

Actions for CO_2 reduction constitute a major priority for Bank Millennium in the ESG area Since 2011, the Bank has been monitoring and publishing data on own carbon dioxide emission levels. The level of this emission declines every year. In its strategy for 2022-24, the Bank set its climate protection targets. The Bank is well prepared to reduce its own greenhouse gas emissions by 50% in 2022 compared to 2020. Achieving climate neutrality in relation to the Bank's own emissions is planned by 2027, full climate neutrality by 2050. The Bank has been actively involved for years in support of environment, including financing of energy saving projects. The Bank Millennium Group will also actively support clients in their transformation and decarbonisation efforts and will provide 2 billion PLN in financing to the Bank's and the Bank Capital Group's clients for sustainable and transformational projects over the next 3 years. Several years ago, the Bank decided to significantly reduce exposures in financing of coal sector. As a result, the portfolio's exposures related to coal and hydrocarbon mining are close to zero.

Pro-environmental activities cover the entire portfolio of Bank Millennium Group's products. Intensive activities are conducted to reduce the use of paper in correspondence with clients. Consecutive services and processes in the field of servicing individual clients and enterprises are digitised.

In June 2022, Millennium bcp, the main shareholder of Bank Millennium, was once again recognized as the "European Climate Leader" in the Financial Times' "Europe's Climate Leaders 2022" ranking, prepared in cooperation with Statista. The ranking took into account data for the entire Millennium bcp Group. This means that the results achieved by Bank Millennium contributed to winning this prestigious award.

Joining the Green Finance Group of the UN Global Compact Network Poland

United Nations Global Compact is an initiative bringing together companies working for sustainable development around the world. Bank Millennium has decided to join the Climate Positive Programme, run by the Polish branch of UNGC.

The UN Global Compact Network Poland and the Institute of Responsible Finance in cooperation with the Ministry of Funds and Regional Policy and the Ministry of Finance published the report "Green Finance in Poland 2022" in June this year. It had its premiere during the European Financial Congress in Sopot. The publication contains a commentary by Joao Bras Jorge, Chairman of the Bank Millennium Management Board, on selected aspects of the Group's environmental policy.

The Bank was one of the signatories of the "Business Open Letter for Climate Education", which is the result of the work of the Round Table for Climate Education operating under UNGC initiative. It is an undertaking aimed at expressing the position of the private sector in support of climate education in Poland.

Society:

Friendly workplace

Bank Millennium creates a good working environment for employees regardless of gender, age, race, religion, nationality, ethnic origin, disability, political beliefs, trade union membership and sexual orientation, so that everyone can find conditions for professional development in an atmosphere of cooperation and mutual respect.

Bank Millennium again came second on the ranking list of best employers in banking and financial services and 44th among all companies on the Best Employers Poland 2022 ranking list. The ranking of 300 companies operating in Poland, achieving success in HR, was prepared by Forbes Polska magazine and Statista.

Bank without barriers

Bank Millennium's priority is barrier-free banking. The Bank's website now features EDUPORTAL (a service available at www.bankmillennium.pl/pierwszykrokonline and directly from the home page under the "Support" bookmark) encouraging people to use digital channels, explaining how to start using Millenet and the mobile application.

Bank Millennium's website, the Millenet online banking system as well as Bank Millennium's mobile app continue to be adjusted to the needs of blind and visually impaired persons. The services are written in simple and understandable language and can be read by text-to-speech readers. Users with sight impairment can operate the website using the keyboard - a mouse is not necessary to navigate the portal. The website also features text enlargement functionality and is prepared for reading in high-contrast mode.

Users of phones with fingerprint sensors can log-on to the mobile app with a fingerprint. The same way may be used for approving online card payments with 3D-Secure security protocol. Additionally owners of iPhone X and newer units can log-on with use of the FaceID face recognition functionality. The mobile app is adapted to the needs of blind and visually impaired persons thanks to compatibility with access improvement services, such as Google TalkBack (Android), VoiceOver (iOS), which enable presenting information with the use of speech. In the Bank's app, clients can also take advantage of a chatbot assistance. The automatic assistant, available 24/7, can be a valuable guide in everyday banking. In the Bank Millennium mobile app, clients can use the help of Milla, who can not only say hello and answer various questions, but also execute orders, such as a transfer order. Artificial intelligence based solutions of this type significantly improve inclusivity of the Bank's services.

Clients calling the Bank's call centre, instead of using the numerical keypad of the handset, can use voice commands during telephone service. All own cash machines and more than 70% branches of Bank Millennium own network are adapted to the needs of persons with disabilities. When remodelling and upgrading its branches, the Bank also makes sure that architectural barriers are eliminated.

Bank Millennium is expanding the community without barriers concept also to initiatives, in which it takes part. In 2022, for the second consecutive year, during Millennium Docs Against Gravity - documentary film festival, with Bank Millennium as the main sponsor, selected films were available with audio description and voice over, assisting persons with sight impairments in accessing the world of culture.

Financial education

Launched by the Bank Millennium Foundation in 2016, the proprietary "Financial ABCs" education programme for pre-schoolers, has been prepared and is implemented by employees in cooperation with a non-governmental organisation. Many materials for children and parents are available online. More information about the programme: https://www.bankmillennium.pl/o-banku/fundacja/wydarzenia/finansowy-elementarz

Comprehensive assistance to Ukraine

The entire community of the Group and the Bank Millennium Foundation joined the aid activities for refugees coming from Ukraine. Bank Millennium has allocated PLN 1 million to non-governmental organizations providing long-term help to refugees from Ukraine in Poland and to a special edition of the Bank Millennium Foundation's #sluchaMYwsuppaniaMY program and 33 employee-volunteer initiatives addressed to refugees from Ukraine.

We have introduced many facilities for clients. From 27 February we exempted clients of Ukrainian nationality from fees for account service, for a payment card and for all withdrawals from ATMs. In addition, since that day we do not charge the commission on all cross-border transfers sent by individual clients to Ukraine, regardless of the nationality of the sender.

Since 5 March, citizens of Ukraine who come to Poland in connection with the ongoing war, only need a passport to open an account in Bank Millennium. In mid-April, the Bank extended the account opening opportunity for refugees from Ukraine who do not have a foreign passport. The account provides an opportunity of daily banking cost-free. The Bank does not charge fees for account maintenance, for card to the account and withdrawals from all ATMs. Bank Millennium's clients can also count on the support of consultants who speak Ukrainian. There are sections in Ukrainian on the Bank's website, including those containing educational content and facilitating the use of electronic banking.

In March, we also made available to clients, in mobile app, a special transfer "I help", by which clients can easily transfer money to support refugees from Ukraine.

During the 19th edition of the Millennium Docs Against Gravity documentary film festival, films by Ukrainian artists and productions about Ukraine were featured. Besides the main prize of the festival, the Bank decided to fund two special awards for Ukrainian artists – for the director of the best Ukrainian film and the best project of a new film.

The Bank has a Committee for the Crisis in Ukraine, which includes representatives of key areas of the organisation. We are and will remain in close contact with our employees of Ukrainian citizenship and provide them with support wherever possible.

Fostering Culture

One of the most important cultural projects supported by the Bank for 17 years is Millennium Docs Against Gravity Festival. This is Poland's biggest film festival and an important documentary film festival worldwide. In May 2022, the 19th edition of the festival was held, for the second time in history in a hybrid formula. After the cinema part, which took place on May 13-22 in eight Polish cities (Warsaw, Wrocław, Gdynia, Poznań, Katowice, Lublin, Bydgoszcz and, for the first time, Łódź), the online part took place (from May 24 to June 5) . In total, over 138 thousand people participated in both parts of the festival, 60,000 people attended the accompanying events, and 5,000 publications about the event appeared in the media. One of the main festival topics, also promoted by Bank Millennium, was the protection of the planet and climate protection.

Corporate governance:

Bank Millennium Group is currently working on sustainable development initiatives presented in the business strategy for 2022-24, involving, *inter alia,* financing of sustainable projects and reduction of greenhouse gas emissions. The work is coordinated by the Sustainable Development Office, supervised directly by the Chairman of the Bank Management Board. The Bank also has a Sustainable Development Committee, which includes all Members of the Bank Management Board and representatives of units performing tasks related to sustainable development in the Bank and the Group.

The direction and indicators regarding ESG (environmental, social and corporate governance) activities are regularly verified, measured and reported in annual reports providing non-financial information of the Bank Millennium Group. Bank Millennium Group's ESG Report presenting initiatives implemented in 2021 can be found here: https://raportroczny.bankmillennium.pl/2021/en/.

6. REPRESENTATIONS OF THE MANAGEMENT BOARD

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

According to the best knowledge, the Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A., in 6-month period ending 30th June 2022 and the comparable data as well and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the period of 6 months ending 30th June 2022 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This semi-annual Management Board Report on the activity of Bank Millennium and the Group contains a true picture of development, achievements and condition of Bank Millennium and the Capital Group of Bank Millennium.

6.2. SELECTION OF AN ENTITY AUTHORIZED TO FINANCIAL REPORTS AUDITING

The entity authorized to audit financial reports, reviewing this Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A. for the 6-month period ending 30th June 2022 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6-month period ending 30th June 2022 - was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
25.07.2022	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
25.07.2022	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
25.07.2022	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
25.07.2022	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
25.07.2022	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
25.07.2022	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
25.07.2022	Jarosław Hermann	Member of the Management Board	signed with a qualified electronic signature