Millennium bank


# Consolidated report of the Bank Millennium S.A. Capital Group for 1st half 2023

*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.*

## Consolidated Financial Highlights

| | Amount '000 PLN | | Amount '000 EUR | |
|---|---|---|---|---|
| | 1.01.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.01.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 |
| Interest income and other of similar nature | 4 158 958 | 2 551 239 | 901 573 | 549 516 |
| Fee and commission income | 524 599 | 528 405 | 113 722 | 113 814 |
| Profit (loss) before income tax | 775 426 | (3 549) | 168 096 | (764) |
| Profit (loss) after taxes | 357 918 | (262 601) | 77 589 | (56 562) |
| Total comprehensive income of the period | 862 797 | (913 886) | 187 036 | (196 844) |
| Net cash flows from operating activities | 5 748 079 | 5 122 270 | 1 246 061 | 1 103 296 |
| Net cash flows from investing activities | (6 904 275) | 1 866 120 | (1 496 700) | 401 947 |
| Net cash flows from financing activities | (133 273) | (99 301) | (28 891) | (21 389) |
| Net cash flows, total | (1 289 469) | 6 889 089 | (279 530) | 1 483 854 |
| Earnings (losses) per ordinary share (in PLN/EUR) | 0.30 | (0.22) | 0.06 | (0.05) |
| Diluted earnings (losses) per ordinary share | 0.30 | (0.22) | 0.06 | (0.05) |
| | 30.06.2023 | 31.12.2022 | 30.06.2023 | 31.12.2022 |
| Total Assets | 114 823 623 | 110 941 969 | 25 801 322 | 23 655 508 |
| Liabilities to banks and other monetary institutions | 522 954 | 727 571 | 117 510 | 155 136 |
| Liabilities to customers | 100 596 983 | 98 038 516 | 22 604 540 | 20 904 180 |
| Equity | 6 357 203 | 5 494 406 | 1 428 489 | 1 171 540 |
| Share capital | 1 213 117 | 1 213 117 | 272 592 | 258 666 |
| Number of shares (pcs.) | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN/EUR) | 5.24 | 4.53 | 1.18 | 0.97 |
| Diluted book value per share (in PLN/EUR) | 5.24 | 4.53 | 1.18 | 0.97 |
| Total Capital Ratio (TCR) | 14.77% | 14.42% | 14.77% | 14.42% |
| Pledged or paid dividend per share (in PLN/EUR) | - | - | - | - |

| Exchange rates accepted to convert selected financial data into EUR | | | | |
|---|---|---|---|---|
| for items as at the balance sheet date | - | - | 4.4503 | 4.6899 |
| for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period) | - | - | 4.6130 | 4.6427 |

# CONSOLIDATED REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR 1ST HALF 2023

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# Condensed interim consolidated financial statements of the Bank Millennium s.a. Capital Group for the 6 months ended 30 June 2023

## Contents

# 1. GENERAL INFORMATION ABOUT ISSUER

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

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

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

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 6,700 employees with core business comprising banking (including mortgage bank), leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

### Supervisory Board and Management Board of Bank Millennium S.A. as at 30 June 2023

Composition of the Supervisory Board as at 30 June 2023 was as follows:

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

Composition of the Management Board as at 30 June 2023 was as follows:

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

## Capital Group of Bank Millennium S.A.

The Group's parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium S.A. is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 30 June 2023, are presented by the table below:

| Company | Activity domain | Head office | % of the Group's capital share | % of the Group's voting share | Recognition in financial statements |
|---|---|---|---|---|---|
| MILLENNIUM BANK HIPOTECZNY S.A. | mortgage bank | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM LEASING Sp. z o.o. | leasing services | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM CONSULTING S.A. | advisory services | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM TFI S.A. | investment funds management | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM SERVICE Sp. z o.o. | rental and management of real estate, insurance and brokers activity | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM GOODIE Sp. z o.o. | web portals activity | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o. | financial operations - equity markets, advisory services | Warsaw | 100 | 100 | full consolidation |
| MILLENNIUM FINANCIAL SERVICES Sp. z o.o.* | activities of insurance agents and brokers | Warsaw | 20 | 20 | equity method valuation |
| Piast Expert Sp. z o.o. in liquidation | marketing services | Tychy | 100 | 100 | full consolidation |
| LUBUSKIE FABRYKI MEBLI S.A. in liquidation** | furniture manufacturer | Świebodzin | 50 (+1 share) | 50 (+1 share) | equity method valuation |

** On March 29, 2023, 80% of shares in Millennium Financial Services sp. z o.o. were transferred from the Bank to Towarzystwo Ubezpieczeń na Życie Europa S.A., which acquired 72% of the Company's shares, and Towarzystwo Ubezpieczeń Europa S.A., which acquired 8% of the Company's shares, respectively, which is described in more details in note 5 "Result on derecognition of financial assets and liabilities not measured at value fair through profit or loss" in Chapter 4 "Notes to Consolidated Financial Data". In addition, the Bank contributed PLN 200,000 to MFS.*

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

# 2. INTRODUCTION AND ACCOUNTING POLICY

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2022.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the six months ending June 30, 2023.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2023 to 30 June 2023:

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

All data for quarterly periods presented in these condensed interim consolidated financial statements of the Group have not been audited or reviewed by a statutory auditor.

In 2023 Bank continues to realize Capital Protection Plan submitted to PFSA 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), PFSA approved this plan on 28th October 2022. The Plan foresees the increase of 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).

Since launching the Plan the Bank/Group managed to significantly improve its capital ratios, bringing them clearly above the new regulatory requirements (without P2G): as of 30th June 2023 Tier 1 ratio stood 146 bps (Bank) and 148 bps (Group) above minimum requirement and Total Capital Ratio stood 207 bps (Bank) and 208 bps (Group) above minimum requirement. In July 2023, these ratios were further strengthened after conclusion of another synthetic securitisation transaction which had an estimated positive impact on Group Tier 1 ratio of ca 47 bps and on Group Total Capital Ratio of ca 62 bps. Assuming no other extraordinary factors, the Bank plans to keep capital ratios above the minimum required levels throughout the year of 2023.

The Bank monitors, on the current basis, the financial situation and, if needed, will undertake actions to launch additional remedial activities. In particular, the Bank is aware of potential risks connected with potential extension of so-called Credit Holidays for 2024. If such risk would materialize, it could imply additional provisions that would decrease the net result of the Bank/Group. Additionally, further negative developments regarding the legal risk of FX mortgage loans could imply the need to increase the level of provisions for such risk apart from the provisions that might result from current trends. In the Bank’s view, these events, if materialized, would adversely affect the results of the Bank/Group in 2023-2024, and would reduce the organic generation of capital that is envisaged, but would not prevent the Bank/Group from continuing to implement its strategy and the generation of results that would mitigate the impact of such events.

The liquidity position of Bank Millennium Group remained very strong in 1H 2023. LCR ratio reached the level of 260% at the of June 2023, well above the supervisory minimum of 100%. Loan-to-deposit ratio remained at secure level of 74% and the share of liquid debt securities (mainly bonds issued by the sovereigns, multilateral development banks and NBP bills) in the Group's total assets remains significant at 25%.

At same time the Bank achieved good operational and business results, while actively managing and mitigating the different risks related to the banking activity. Taking into account the above circumstances and identified uncertainties, in particular, the Bank's capacity to meet capital solvency ratios and MREL requirements in subsequent reporting periods - the Bank's Management Board based on the analysis of all aspects of the Bank's operations and its current and forecast financial position, concluded that the application of the going concern assumption in the preparation of these financial statements is appropriate.

The Management Board approved these condensed consolidated interim financial statements on 25th July 2023.

# 3. CONSOLIDATED FINANCIAL DATA (GROUP)

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

| *Amount '000 PLN* | Note | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|---|
| **Net interest income** | | 2 597 950 | 1 335 826 | 2 139 921 | 1 178 882 |
| Interest income and other of similar nature | 1 | 4 158 958 | 2 087 525 | 2 551 239 | 1 491 924 |
| Income calculated using the effective interest method | | 4 108 816 | 2 061 712 | 2 582 637 | 1 516 982 |
| Interest income from Financial assets at amortised cost | | 3 662 077 | 1 864 984 | 2 384 667 | 1 400 998 |
| Interest income from Financial assets at fair value through other comprehensive income | | 446 739 | 196 728 | 197 970 | 115 984 |
| Result of similar nature to interest from Financial assets at fair value through profit or loss | | 50 142 | 25 813 | (31 398) | (25 058) |
| Interest expenses | 2 | (1 561 008) | (751 699) | (411 318) | (313 042) |
| Net fee and commission income | | 403 952 | 203 020 | 426 938 | 206 122 |
| Fee and commission income | 3 | 524 599 | 263 951 | 528 405 | 260 498 |
| Fee and commission expenses | 4 | (120 647) | (60 931) | (101 467) | (54 376) |
| Dividend income | | 3 127 | 2 922 | 3 060 | 2 761 |
| Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss | 5 | 540 643 | (5 580) | (1 493) | (774) |
| Results on financial assets and liabilities held for trading | 6 | 1 434 | (1 701) | (5 167) | (2 432) |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 7 | 7 266 | 1 365 | 2 341 | (8 485) |
| Result on hedge accounting | | 309 | (13) | (3 347) | (677) |
| Result on exchange differences | | (20 757) | (12 534) | (123 015) | (59 874) |
| Other operating income | | 184 596 | 68 488 | 140 978 | 67 381 |
| Other operating expenses | | (146 906) | (74 719) | (77 907) | (42 579) |
| Administrative expenses | 8 | (864 529) | (395 235) | (1 058 829) | (624 203) |
| Impairment losses on financial assets | 9 | (152 273) | (42 898) | (147 575) | (68 813) |
| Impairment losses on non-financial assets | | 230 | (1 503) | (2 969) | (347) |
| Provisions for legal risk connected with FX mortgage loans | 10 | (1 620 620) | (756 970) | (1 014 630) | (515 450) |
| Result on modification | | (53 550) | (25 718) | (8 804) | (5 027) |
| Depreciation | | (105 446) | (52 925) | (104 227) | (52 625) |
| Share of the profit of investments in subsidiaries | | 0 | 0 | 0 | 0 |
| Banking tax | | 0 | 0 | (168 824) | (86 840) |
| **Profit before income taxes** | | 775 426 | 241 825 | **(3 549)** | **(12 980)** |
| Corporate income tax | 11 | (417 508) | (136 053) | (259 052) | (127 281) |
| **Profit after taxes** | | 357 918 | 105 772 | **(262 601)** | **(140 261)** |
| Attributable to: | | | | | |
| Owners of the parent | | 357 918 | 105 772 | (262 601) | (140 261) |
| Non-controlling interests | | 0 | 0 | 0 | 0 |
| Weighted average number of outstanding ordinary shares (pcs.) | | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 |
| Profit (loss) per ordinary share (in PLN) | | 0,30 | 0,08 | (0.22) | (0.12) |

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Profit after taxes | 357 918 | 105 772 | (262 601) | (140 261) |
| Other comprehensive income items that may be (or were) reclassified to profit or loss | 623 392 | 220 985 | **(804 029)** | **(338 316)** |
| Result on debt securities | 416 488 | 130 549 | (619 013) | (224 626) |
| Hedge accounting | 206 904 | 90 436 | (185 016) | (113 690) |
| Other comprehensive income items that will not be reclassified to profit or loss | (84) | (84) | **(27)** | **(23)** |
| Actuarial gains (losses) | (84) | (84) | 0 | 0 |
| Result on equity instruments | 0 | 0 | (27) | (23) |
| **Total comprehensive income items before taxes** | 623 308 | 220 901 | **(804 056)** | **(338 339)** |
| Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss | (118 444) | (41 987) | 152 766 | 64 281 |
| Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss | 16 | 16 | 5 | 4 |
| **Total comprehensive income items after taxes** | 504 880 | 178 930 | **(651 285)** | **(274 054)** |
| | | | | |
| **Total comprehensive income for the period** | 862 798 | 284 702 | **(913 886)** | **(414 315)** |
| Attributable to: | | | | |
| Owners of the parent | 862 798 | 284 702 | (913 886) | (414 315) |
| Non-controlling interests | 0 | 0 | 0 | 0 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

| Amount '000 PLN | Note | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|---|
| Cash, cash balances at central banks | | 6 768 777 | 5 452 016 | 9 536 090 | 5 810 033 |
| Financial assets held for trading | 12 | 692 718 | 527 958 | 363 519 | 251 444 |
| Derivatives | | 495 406 | 371 422 | 339 196 | 220 865 |
| Equity instruments | | 115 | 123 | 113 | 105 |
| Debt securities | | 197 197 | 156 413 | 24 210 | 30 474 |
| Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers | | 143 815 | 142 879 | 201 036 | 249 085 |
| Equity instruments | | 66 609 | 66 609 | 128 979 | 120 092 |
| Debt securities | | 77 206 | 76 270 | 72 057 | 128 993 |
| Financial assets at fair value through other comprehensive income | 13 | 14 681 777 | 18 192 605 | 16 505 606 | 17 786 074 |
| Equity instruments | | 24 378 | 24 395 | 24 396 | 28 791 |
| Debt securities | | 14 657 399 | 18 168 210 | 16 481 210 | 17 757 283 |
| Loans and advances to customers | 14 | 74 152 070 | 75 380 270 | 76 565 163 | 79 341 857 |
| Mandatorily at fair value through profit or loss | | 54 780 | 75 078 | 97 982 | 189 813 |
| Valued at amortised cost | | 74 097 290 | 75 305 192 | 76 467 181 | 79 152 044 |
| Financial assets at amortised cost other than Loans and advances to customers | 15 | 15 047 887 | 10 907 827 | 4 631 170 | 2 703 565 |
| Debt securities | | 14 467 969 | 10 322 224 | 3 893 212 | 1 615 236 |
| Deposits, loans and advances to banks and other monetary institutions | | 532 220 | 585 603 | 733 095 | 1 080 106 |
| Reverse sale and repurchase agreements | | 47 698 | 0 | 4 863 | 8 223 |
| Derivatives – Hedge accounting | 16 | 121 936 | 60 754 | 135 804 | 0 |
| Investments in subsidiaries, joint ventures and associates | | 43 522 | 43 522 | 0 | 0 |
| Tangible fixed assets | | 552 519 | 566 375 | 572 810 | 539 860 |
| Intangible fixed assets | | 442 931 | 435 896 | 436 622 | 397 897 |
| Income tax assets | | 737 827 | 732 494 | 805 624 | 745 756 |
| Current income tax assets | | 4 956 | 4 642 | 4 232 | 8 715 |
| Deferred income tax assets | 18 | 732 871 | 727 852 | 801 392 | 737 041 |
| Other assets | | 1 425 904 | 1 371 630 | 1 177 134 | 1 023 199 |
| Non-current assets and disposal groups classified as held for sale | | 11 940 | 13 749 | 11 391 | 9 446 |
| **Total assets** | | **114 823 623** | **113 827 975** | **110 941 969** | **108 858 216** |

## LIABILITIES AND EQUITY

| *Amount '000 PLN* | Note | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Financial liabilities held for trading | 12 | 568 182 | 433 296 | 385 062 | 248 957 |
| Derivatives | | 479 672 | 430 216 | 380 278 | 238 749 |
| Liabilities from short sale of securities | | 88 510 | 3 080 | 4 784 | 10 208 |
| Financial liabilities measured at amortised cost | | 103 287 919 | 103 158 389 | 100 577 923 | 98 222 501 |
| Liabilities to banks and other monetary institutions | 19 | 522 954 | 462 387 | 727 571 | 546 837 |
| Liabilities to customers | 20 | 100 596 983 | 100 875 841 | 98 038 516 | 96 122 029 |
| Sale and repurchase agreements | 21 | 350 244 | 0 | 0 | 0 |
| Debt securities issued | 22 | 251 759 | 256 280 | 243 753 | 0 |
| Subordinated debt | 23 | 1 565 979 | 1 563 882 | 1 568 083 | 1 553 635 |
| Derivatives – Hedge accounting | 16 | 329 630 | 394 859 | 554 544 | 832 073 |
| Provisions | 24 | 1 141 582 | 974 133 | 1 016 169 | 759 094 |
| Pending legal issues | | 1 107 056 | 937 002 | 976 552 | 720 755 |
| Commitments and guarantees given | | 34 526 | 37 132 | 39 617 | 38 339 |
| Income tax liabilities | | 386 481 | 252 978 | 32 533 | 25 215 |
| Current income tax liabilities | | 385 613 | 252 706 | 32 533 | 25 215 |
| Deferred income tax liabilities | 18 | 868 | 272 | 0 | 0 |
| Other liabilities | | 2 752 626 | 2 541 818 | 2 881 332 | 2 991 640 |
| **Total Liabilities** | | **108 466 420** | **107 755 473** | **105 447 563** | **103 079 480** |
| EQUITY | | | | | |
| Share capital | | 1 213 117 | 1 213 117 | 1 213 117 | 1 213 117 |
| Own shares | | (21) | (21) | (21) | (21) |
| Share premium | | 1 147 502 | 1 147 502 | 1 147 502 | 1 147 502 |
| Accumulated other comprehensive income | | (537 405) | (716 334) | (1 042 284) | (1 509 919) |
| Retained earnings | | 4 534 010 | 4 428 238 | 4 176 092 | 4 928 057 |
| Total equity | | 6 357 203 | 6 072 502 | 5 494 406 | 5 778 736 |
| **Total equity and total liabilities** | | **114 823 623** | **113 827 975** | **110 941 969** | **108 858 216** |

| | | | | |
|---|---|---|---|---|
| Book value of net assets | 6 357 203 | 6 072 502 | 5 494 406 | 5 778 736 |
| Number of shares (pcs.) | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN) | 5.24 | 5.01 | 4.53 | 4.76 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *Amount '000 PLN* | Total consolidated equity | Share capital | Own shares | Share premium | Accumulated other comprehensive income | Retained earnings: Unappropriated result | Retained earnings: Other reserves |
|---|---|---|---|---|---|---|---|
| **01.01.2023 - 30.06.2023** | | | | | | | |
| Equity at the beginning of the period | 5 494 406 | 1 213 117 | (21) | 1 147 502 | (1 042 284) | (824 873) | 5 000 965 |
| Total comprehensive income for period (net) | 862 797 | 0 | 0 | 0 | 504 879 | 357 918 | 0 |
| net profit/ (loss) of the period | 357 918 | 0 | 0 | 0 | 0 | 357 918 | 0 |
| valuation of debt securities | 337 355 | 0 | 0 | 0 | 337 355 | 0 | 0 |
| valuation of shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| hedge accounting | 167 592 | 0 | 0 | 0 | 167 592 | 0 | 0 |
| actuarial gains/losses | (68) | 0 | 0 | 0 | (68) | 0 | 0 |
| Purchase and transfer of own shares to employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 1 041 432 | (1 041 432) |
| **Equity at the end of the period** | 6 357 203 | 1 213 117 | (21) | 1 147 502 | (537 405) | 574 477 | 3 959 533 |
| **01.04.2023 - 30.06.2023** | | | | | | | |
| Equity at the beginning of the period | 6 072 502 | 1 213 117 | (21) | 1 147 502 | (716 334) | 468 705 | 3 959 533 |
| Total comprehensive income for period (net) | 284 701 | 0 | 0 | 0 | 178 929 | 105 772 | 0 |
| net profit/ (loss) of the period | 105 772 | 0 | 0 | 0 | 0 | 105 772 | 0 |
| valuation of debt securities | 105 744 | 0 | 0 | 0 | 105 744 | 0 | 0 |
| valuation of shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| hedge accounting | 73 253 | 0 | 0 | 0 | 73 253 | 0 | 0 |
| actuarial gains/losses | (68) | 0 | 0 | 0 | (68) | 0 | 0 |
| Purchase and transfer of own shares to employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity at the end of the period** | 6 357 203 | 1 213 117 | (21) | 1 147 502 | (537 405) | 574 477 | 3 959 533 |
| **01.01.2022 - 31.12.2022** | | | | | | | |
| Equity at the beginning of the period | 6 697 246 | 1 213 117 | (21) | 1 147 502 | (858 633) | (1 198 425) | 6 393 706 |
| Total comprehensive income for period (net) | (1 198 217) | 0 | 0 | 0 | (183 651) | (1 014 566) | 0 |
| net profit/ (loss) of the period | (1 014 566) | 0 | 0 | 0 | 0 | (1 014 566) | 0 |
| valuation of debt securities | (165 275) | 0 | 0 | 0 | (165 275) | 0 | 0 |
| valuation of shares | (3 583) | 0 | 0 | 0 | (3 583) | 0 | 0 |
| hedge accounting | (21 991) | 0 | 0 | 0 | (21 991) | 0 | 0 |
| actuarial gains/losses | 7 198 | 0 | 0 | 0 | 7 198 | 0 | 0 |
| Purchase and transfer of own shares to employees | (4 623) | 0 | 0 | 0 | 0 | 0 | (4 623) |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 1 388 118 | (1 388 118) |
| **Equity at the end of the period** | **5 494 406** | **1 213 117** | **(21)** | **1 147 502** | **(1 042 284)** | **(824 873)** | **5 000 965** |
| **01.01.2022 - 30.06.2022** | | | | | | | |
| Equity at the beginning of the period | **6 697 246** | **1 213 117** | **(21)** | **1 147 502** | **(858 633)** | **(1 198 425)** | **6 393 706** |
| Total comprehensive income for period (net) | (913 887) | 0 | 0 | 0 | (651 286) | (262 601) | 0 |
| net profit/ (loss) of the period | (262 601) | 0 | 0 | 0 | 0 | (262 601) | 0 |
| valuation of debt securities | (501 401) | 0 | 0 | 0 | (501 401) | 0 | 0 |
| valuation of shares | (22) | 0 | 0 | 0 | (22) | 0 | 0 |
| hedge accounting | (149 863) | 0 | 0 | 0 | (149 863) | 0 | 0 |
| Purchase and transfer of own shares to employees | (4 623) | 0 | 0 | 0 | 0 | 0 | (4 623) |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 1 388 118 | (1 388 118) |
| **Equity at the end of the period** | **5 778 736** | **1 213 117** | **(21)** | **1 147 502** | **(1 509 919)** | **(72 908)** | **5 000 965** |

## CONSOLIDATED STATEMENT OF CASH FLOW

### A. CASH FLOWS FROM OPERATING ACTIVITIES

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Profit (loss) after taxes | 357 918 | 105 772 | (262 601) | (140 261) |
| Total adjustments: | 5 390 161 | 2 265 909 | 5 384 871 | (1 030 820) |
| Interest received | 3 859 621 | 2 068 048 | 2 354 714 | 1 353 949 |
| Interest paid | (1 414 216) | (686 783) | (317 917) | (238 769) |
| Depreciation and amortization | 105 446 | 52 925 | 104 227 | 52 625 |
| Foreign exchange (gains)/ losses | 0 | 0 | 0 | 0 |
| Dividends | (3 127) | (2 922) | (3 060) | (2 761) |
| Changes in provisions | 125 414 | 167 450 | 163 564 | 38 040 |
| Result on sale and liquidation of investing activity assets | (535 667) | 12 778 | 1 352 | 707 |
| Change in financial assets held for trading | (103 615) | (164 662) | (242 573) | (14 297) |
| Change in loans and advances to banks | 187 857 | 136 230 | (181 729) | (151 222) |
| Change in loans and advances to customers | (867 620) | (432 384) | (2 888 884) | (1 878 392) |
| Change in receivables from securities bought with sell-back clause (loans and advances) | (61 284) | (58 698) | 251 460 | 11 753 |
| Change in financial liabilities valued at fair value through profit and loss (held for trading) | (41 794) | 69 657 | 323 442 | 200 706 |
| Change in deposits from banks | (128 797) | 120 118 | 92 359 | (76 241) |
| Change in deposits from customers | 3 906 042 | 372 384 | 4 955 188 | (968 698) |
| Change in liabilities from securities sold with buy-back clause | 375 148 | 355 212 | 5 593 | 16 407 |
| Change in debt securities | 33 171 | 20 644 | (39 043) | (39 436) |
| Change in income tax settlements | 416 367 | 132 504 | 250 090 | 118 419 |
| Income tax paid | (116 559) | (50 361) | (42 322) | (9 765) |
| Change in other assets and liabilities | (417 918) | 118 045 | 558 435 | 534 033 |
| Other | 71 692 | 35 724 | 39 975 | 22 121 |
| **Net cash flows from operating activities** | **5 748 079** | **2 371 681** | **5 122 270** | **(1 171 081)** |

## B. CASH FLOWS FROM INVESTING ACTIVITIES

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Inflows: | 234 809 340 | 91 010 640 | 87 505 636 | 41 310 593 |
| Proceeds from sale of property, plant and equipment and intangible assets | 9 350 | 1 750 | 6 972 | 1 760 |
| Proceeds from sale of shares in related entities | 499 912 | 0 | 0 | 0 |
| Proceeds from sale of investment financial assets | 234 296 951 | 91 005 968 | 87 495 604 | 41 306 072 |
| Other | 3 127 | 2 922 | 3 060 | 2 761 |
| Outflows: | (241 713 615) | (95 622 921) | (85 639 516) | (39 078 007) |
| Acquisition of property, plant and equipment and intangible assets | (51 912) | (2 579) | (50 292) | (39 277) |
| Acquisition of shares in related entities | 0 | 0 | 0 | 0 |
| Acquisition of investment financial assets | (241 661 703) | (95 620 342) | (85 589 224) | (39 038 730) |
| Other | 0 | 0 | 0 | 0 |
| **Net cash flows from investing activities** | **(6 904 275)** | **(4 612 281)** | **1 866 120** | **2 232 586** |

## C. CASH FLOWS FROM FINANCING ACTIVITIES

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Inflows from financing activities: | 0 | 0 | 0 | 0 |
| Long-term bank loans | 0 | 0 | 0 | 0 |
| Issue of debt securities | 0 | 0 | 0 | 0 |
| Increase in subordinated debt | 0 | 0 | 0 | 0 |
| Net proceeds from issues of shares and additional capital paid-in | 0 | 0 | 0 | 0 |
| Other inflows from financing activities | 0 | 0 | 0 | 0 |
| Outflows from financing activities: | (133 273) | (88 000) | (99 301) | (32 323) |
| Repayment of long-term bank loans | (55 000) | (50 000) | (70 343) | (15 343) |
| Redemption of debt securities | 0 | 0 | 0 | 0 |
| Decrease in subordinated debt | 0 | 0 | 0 | 0 |
| Issue of shares expenses | 0 | 0 | 0 | 0 |
| Redemption of shares | 0 | 0 | 0 | 0 |
| Dividends paid and other payments to owners | 0 | 0 | 0 | 0 |
| Other outflows from financing activities | (78 273) | (38 000) | (28 958) | (16 980) |
| **Net cash flows from financing activities** | (133 273) | (88 000) | **(99 301)** | **(32 323)** |

| | | | | |
|---|---|---|---|---|
| **D. Net cash flows. Total (A + B + C)** | **(1 289 469)** | **(2 328 600)** | **6 889 089** | **1 029 182** |
| - including change resulting from FX differences | (14 970) | (12 306) | 4 821 | 2 446 |
| **E. Cash and cash equivalents at the beginning of the reporting period** | **14 231 089** | **15 270 220** | **3 372 244** | **9 232 151** |
| **F. Cash and cash equivalents at the end of the reporting period (D + E)** | **12 941 620** | **12 941 620** | **10 261 333** | **10 261 333** |

# 4. NOTES TO CONSOLIDATED FINANCIAL DATA

## 1) INTEREST INCOME AND OTHER OF SIMILAR NATURE

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Interest income from Financial assets at fair value through other comprehensive income | 446 739 | 196 728 | 197 970 | 115 984 |
| Debt securities | 446 739 | 196 728 | 197 970 | 115 984 |
| Interest income from Financial assets at amortised cost | 3 662 077 | 1 864 984 | 2 384 667 | 1 400 998 |
| Balances with the Central Bank | 113 974 | 58 401 | 54 148 | 41 311 |
| Loans and advances to customers | 3 304 978 | 1 663 645 | 2 232 784 | 1 294 206 |
| Debt securities | 196 514 | 122 746 | 19 628 | 19 283 |
| Deposits, loans and advances to banks | 15 110 | 4 829 | 6 780 | 4 511 |
| Transactions with repurchase agreements | 18 449 | 11 000 | 9 153 | 5 962 |
| Hedging derivatives | 13 052 | 4 363 | 62 174 | 35 725 |
| Result of similar nature to interest, including: | 50 142 | 25 813 | (31 398) | (25 058) |
| Loans and advances to customers mandatorily at fair value through profit or loss | 6 965 | 3 245 | 16 622 | 8 948 |
| Financial assets held for trading - derivatives | 40 839 | 21 326 | (49 541) | (34 992) |
| Financial assets held for trading - debt securities | 2 338 | 1 242 | 1 521 | 986 |
| **Total** | **4 158 958** | **2 087 525** | **2 551 239** | **1 491 924** |

In the line „Hedging derivatives" the Group presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Group is presented in **note (16)**.

Interest income for the I half 2023 contains interest accrued on impaired loans in the amount of PLN 96,198 thous. (for corresponding data in the year 2022 the amount of such interest stood at PLN 59,090 thous.).

## 2) INTEREST EXPENSES AND OTHER OF SIMILAR NATURE

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Financial liabilities measured at amortised cost | (1 561 008) | (751 699) | (411 318) | (313 042) |
| Liabilities to banks and other monetary institutions | (12 006) | (5 620) | (14 587) | (8 225) |
| Liabilities to customers | (1 422 071) | (689 681) | (328 627) | (264 050) |
| Transactions with repurchase agreement | (24 904) | (4 968) | (23 631) | (16 434) |
| Debt securities issued | (25 165) | (12 638) | (525) | (208) |
| Subordinated debt | (71 921) | (35 954) | (39 949) | (22 130) |
| Liabilities due to leasing agreements | (4 941) | (2 838) | (3 999) | (1 995) |
| Other | 0 | 0 | 0 | 0 |
| **Total** | **(1 561 008)** | **(751 699)** | **(411 318)** | **(313 042)** |

## 3) FEE AND COMMISSION INCOME

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Resulting from accounts service | 59 045 | 29 421 | 73 532 | 33 043 |
| Resulting from money transfers, cash payments and withdrawals and other payment transactions | 46 838 | 24 021 | 44 376 | 23 050 |
| Resulting from loans granted | 102 963 | 49 605 | 116 992 | 57 016 |
| Resulting from guarantees and sureties granted | 7 213 | 3 404 | 7 062 | 3 186 |
| Resulting from payment and credit cards | 142 622 | 73 720 | 128 479 | 67 519 |
| Resulting from sale of insurance products | 97 475 | 48 621 | 83 574 | 42 438 |
| Resulting from distribution of investment funds units and other savings products | 12 851 | 6 544 | 20 758 | 9 407 |
| Resulting from brokerage and custody service | 5 425 | 2 617 | 7 699 | 2 697 |
| Resulting from investment funds managed by the Group | 29 746 | 15 505 | 30 180 | 13 747 |
| Other | 20 421 | 10 493 | 15 753 | 8 395 |
| Total | 524 599 | 263 951 | 528 405 | 260 498 |

## 4) FEE AND COMMISSION EXPENSE

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Resulting from accounts service | (21 387) | (11 066) | (7 957) | (5 198) |
| Resulting from money transfers. cash payments and withdrawals and other payment transactions | (2 485) | (1 348) | (2 547) | (1 318) |
| Resulting from loans granted | (12 000) | (5 539) | (13 169) | (6 561) |
| Resulting from payment and credit cards | (53 088) | (26 791) | (48 832) | (24 861) |
| Resulting from brokerage and custody service | (1 102) | (529) | (1 459) | (596) |
| Resulting from investment funds managed by the Group | (5 358) | (2 776) | (5 834) | (2 841) |
| Resulting from insurance activity | (5 633) | (3 443) | (6 433) | (3 969) |
| Other | (19 594) | (9 439) | (15 236) | (9 032) |
| Total | (120 647) | (60 931) | (101 467) | (54 376) |

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

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

Taking into consideration this verdict, the Group as at 30 June 2023 had a provision **in** the amount of PLN 79.2 million which was estimated based on the maximum amount of potential returns and the probability of payment being made.

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

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Operations on shares | 553 912 | 0 | 0 | 0 |
| Operations on debt instruments | (12 353) | (5 020) | (166) | 0 |
| Costs of financial operations | (916) | (560) | (1 327) | (774) |
| Total | 540 643 | (5 580) | (1 493) | (774) |

On 29 March 2023 took place transfer of 80% of the shares (the “**Shares**”) in Millennium Financial Services sp. z o.o. (the “**Company**”) from the Bank to Towarzystwo Ubezpieczeń na Życie Europa S.A. which acquired 72% of the Company’s shares and Towarzystwo Ubezpieczeń Europa S.A. which acquired 8% of the Company’s shares (collectively the "**Buyers**") as well as payment of the price for the Shares to the Bank, amounting to PLN 500.0 million.

The sale of the Shares by the Bank to the Buyers constituted the finalisation of the Transaction and resulting in recognition of the correspondent positive financial result and triggers the commencement of the Strategic Insurance Cooperation between the Bank and the Buyers, as described in the Current Report No. 7/2023 of 13 February 2023.

Simultaneously, due to selling 80% of Company’s shares and losing control over the Company, the Bank initially measured its remaining non-controlling stake in the Company at fair value, recording PLN 43,3 million (gross).

Additionally, the Bank recognised positive impact amounting to PLN 54.0 million (gross) as valuation of derivative resulting from potential future earnouts payments.

Considering Profit and Loss statement perspective: result realised on the sale (PLN 499.9 million; payment for the price minus book value of sold shares) and valuation of derivative resulting from the potential future earnout payments (PLN 54.0 million) were recorded in caption “Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss” whereas valuation of non-controlling remaining stake was recognised in “Other operating income” (PLN 43.3 million).

## 6) Results on financial assets and liabilities held for trading

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Result on debt instruments | 3 184 | 1 713 | (10 464) | (7 061) |
| Result on derivatives | (1 752) | (3 415) | 5 217 | 4 563 |
| Result on other financial operations | 2 | 1 | 80 | 66 |
| Total | 1 434 | (1 701) | (5 167) | (2 432) |

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

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Loans and advances to customers | (2 242) | 429 | 5 571 | 3 490 |
| Result on equity instruments | 4 360 | 1 | (4 724) | (6 632) |
| Result on debt instruments | 5 148 | 935 | 1 494 | (5 343) |
| Total | 7 266 | 1 365 | 2 341 | (8 485) |

## 8) Administrative expenses

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Staff costs: | (501 838) | (255 792) | (445 427) | (227 493) |
| Salaries | (409 297) | (208 502) | (363 391) | (186 528) |
| Surcharges on pay | (74 588) | (37 656) | (65 009) | (32 687) |
| Employee benefits, including: | (17 953) | (9 634) | (17 027) | (8 278) |
| - provisions for retirement benefits | (2 300) | (1 150) | (3 096) | (1 548) |
| - provisions for unused employee holiday | (11) | (3) | (23) | (6) |
| - other | (15 642) | (8 481) | (13 908) | (6 724) |
| Other administrative expenses: | (362 691) | (139 443) | (613 402) | (396 710) |
| Costs of advertising, promotion and representation | (32 476) | (14 670) | (34 846) | (19 526) |
| IT and communications costs | (73 917) | (37 313) | (64 234) | (33 061) |
| Costs of renting | (38 079) | (19 295) | (24 700) | (12 189) |
| Costs of buildings maintenance, equipment and materials | (24 666) | (12 952) | (20 823) | (10 487) |
| ATM and cash maintenance costs | (17 483) | (8 722) | (15 612) | (8 451) |
| Costs of consultancy, audit and legal advisory and translation | (57 699) | (28 125) | (36 408) | (19 255) |
| Taxes and fees | (23 420) | (11 947) | (18 754) | (10 201) |
| KIR - clearing charges | (6 212) | (3 170) | (5 503) | (2 825) |
| PFRON costs | (4 098) | (2 096) | (2 621) | (1 785) |
| Banking Guarantee Fund costs | (60 039) | 23 395 | (120 677) | (34 830) |
| Financial Supervision costs | (7 748) | (3 163) | (6 252) | (3 143) |
| Costs of protection scheme | 0 | 0 | (251 700) | (251 700) |
| Other | (16 854) | (21 385) | (11 272) | 10 743 |
| **Total** | **(864 529)** | **(395 235)** | **(1 058 829)** | **(624 203)** |

## 9) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Impairment losses on loans and advances to customers | (157 213) | (45 368) | (153 670) | (69 775) |
| Impairment charges on loans and advances to customers | (951 897) | (412 034) | (880 044) | (402 706) |
| Reversal of impairment charges on loans and advances to customers | 738 056 | 320 223 | 668 326 | 282 828 |
| Amounts recovered from loans written off | 20 933 | 10 708 | 22 485 | 11 630 |
| Sale of receivables | 35 659 | 35 659 | 39 668 | 39 668 |
| Other directly recognised in profit and loss | 36 | 76 | (4 105) | (1 195) |
| Impairment losses on securities | 0 | 0 | 0 | 0 |
| Impairment charges on securities | 0 | 0 | 0 | 0 |
| Reversal of impairment charges on securities | 0 | 0 | 0 | 0 |
| Impairment losses on off-balance sheet liabilities | 4 940 | 2 470 | 6 095 | 962 |
| Impairment charges on off-balance sheet liabilities | (24 819) | (7 416) | (27 812) | (10 097) |
| Reversal of impairment charges on off-balance sheet liabilities | 29 759 | 9 886 | 33 907 | 11 059 |
| **Total** | **(152 273)** | **(42 898)** | **(147 575)** | **(68 813)** |

## 10) PROVISIONS FOR LEGAL RISK CONNECTED WITH FX MORTGAGE LOANS

| 01.01.2023 - 30.06.2023 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 5 395 344 | 4 572 901 | 822 443 |
| Amounts written off | (214 297) | (214 297) | 0 |
| Costs of provisions for legal risk connected wlth FX mortgage loans | 1 620 620 | 0 | 1 620 620 |
| Allocation to the loans portfolio | 0 | 1 489 019 | (1 489 019) |
| Change of provisions due to FX rates differences | (239 711) | (239 711) | 0 |
| Balance at the end of the period | 6 561 956 | 5 607 912 | 954 044 |

| 01.04.2023 - 30.06.2023 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 6 075 701 | 5 294 835 | 780 866 |
| Amounts written off | (116 297) | (116 297) | 0 |
| Costs of provisions for legal risk connected wlth FX mortgage loans | 756 970 | 0 | 756 970 |
| Allocation to the loans portfolio | 0 | 583 792 | (583 792) |
| Change of provisions due to FX rates differences | (154 418) | (154 418) | 0 |
| Balance at the end of the period | 6 561 956 | 5 607 912 | 954 044 |

| 01.01.2022 - 30.06.2022 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 3 332 614 | 2 916 779 | 415 835 |
| Amounts written off | (72 020) | 0 | (72 020) |
| Costs of provisions for legal risk connected wIth FX mortgage loans | 1 014 630 | 0 | 1 014 630 |
| Allocation to the loans portfolio | 0 | 996 473 | (996 473) |
| Change of provisions due to FX rates differences | 221 132 | 0 | 221 132 |
| Balance at the end of the period | 4 496 356 | 3 913 252 | 583 104 |

| 01.04.2022 - 30.06.2022 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 3 872 105 | 3 326 906 | 545 199 |
| Amounts written off | (46 860) | 0 | (46 860) |
| Costs of provisions for legal risk connected wIth FX mortgage loans | 515 450 | 0 | 515 450 |
| Allocation to the loans portfolio | 0 | 586 346 | (586 346) |
| Change of provisions due to FX rates differences | 155 661 | 0 | 155 661 |
| Balance at the end of the period | 4 496 356 | 3 913 252 | 583 104 |

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Costs of settlements recognized in the profit and loss account, including: | (150 133) | (77 934) | (233 309) | (109 668) |
| - included in the “Result on exchange differences” | (114 112) | (60 679) | (229 144) | (105 503) |
| - included in the “Result on modification” | (36 021) | (17 255) | (4 164) | (4 164) |
| Costs of settlements charged to previously created provisions | 30 551 | 22 929 | 0 | 0 |

## 11) Corporate income tax

### 11a. Income tax reported in income statement

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Current tax | (466 689) | (182 498) | (65 249) | (44 617) |
| Current year | (468 063) | (182 498) | (65 249) | (44 617) |
| Adjustment to prior years | 1 374 | 0 | 0 | 0 |
| Deferred tax: | 49 181 | 46 445 | (193 803) | (82 665) |
| Recognition and reversal of temporary differences | 53 606 | 53 508 | (195 427) | (87 057) |
| Recognition / (Utilisation) of tax loss | (4 425) | (7 063) | 1 624 | 4 392 |
| **Total income tax reported in income statement** | **(417 508)** | **(136 053)** | **(259 052)** | **(127 282)** |

## 11B. EFFECTIVE TAX RATE

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Profit before tax | 775 426 | 241 825 | (3 549) | (12 980) |
| Statutory tax rate | 19% | 19% | 19% | 19% |
| Income tax according to obligatory income tax rate of 19% | (147 331) | (45 947) | 675 | 2 466 |
| **Impact of permanent differences on tax charges:** | **(276 988)** | **(95 421)** | **(260 183)** | **(130 204)** |
| - Non-taxable income | 14 574 | 7 237 | 19 777 | 10 155 |
| Dividend income | 529 | 529 | 466 | 466 |
| Release of other provisions | 13 933 | 6 607 | 17 911 | 8 444 |
| Other | 112 | 101 | 1 400 | 1 245 |
| - Cost which is not a tax cost | (291 562) | (102 658) | (279 960) | (140 359) |
| PFRON fee | (778) | (397) | (498) | (339) |
| Fees for Banking Guarantee Fund | (11 408) | 4 445 | (22 929) | (6 618) |
| Banking tax | (604) | (604) | (32 077) | (16 500) |
| Receivables written off | (10 745) | (1 507) | (4 055) | (3 360) |
| Costs of litigations and claims | (269 508) | (104 563) | (217 605) | (114 938) |
| Costs related to concluded settlements | 4 227 | 2 809 | (890) | (212) |
| Other | (2 746) | (2 841) | (1 906) | 1 608 |
| Other differences between the gross financial result and taxable income (including R&D relief) | 6 811 | 5 315 | 456 | 456 |
| **Total income tax reported in income statement** | **(417 508)** | **(136 053)** | **(259 052)** | **(127 281)** |
| Effective tax rate | 53,84% | 56,26% | /-/ | /-/ |

## 11C. DEFERRED TAX REPORTED IN EQUITY

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Valuation of investment assets at fair value through other comprehensive income | 90 335 | 115 139 | 169 468 | 247 477 |
| Valuation of cash flow hedging instruments | 37 840 | 55 022 | 77 151 | 107 146 |
| Actuarial gains (losses) | (2 117) | (2 133) | (2 133) | (445) |
| Deferred tax reported directly in equity | 126 058 | 168 028 | 244 486 | 354 178 |

**Withholding tax audit for years 2015-17**

On February 2019 the Head of Western Pomeranian Customs & Tax Office (Zachodniopomorski Urząd Celno-Skarbowy w Szczecinie, ZUCS) commenced tax audits regarding the correctness of withholding tax (WHT) settlements for years 2015 and 2016. On 17 December 2019 the Bank received audit results as of 13 December 2019, in which ZUCS questioned WHT-exemption on coupon interest from bonds paid to MB Finance AB with the seat in Sweden constituting a collateral to 10Y subordinated bonds with a par value of EUR 150 mio. issued by this company in December 2007 (fully amortized in December 2017). On 11 June 2021 Bank received 2nd instance decisions of ZUCS decreasing the amount of WHT arrear from PLN 6.6 to 5.3 mio. This amount with penalty interests were paid by Bank on 18 June 2021. Bank lodged complaints on these decisions to the administrative court in Szczecin (WSA). WSA in its judgements as of 13 and 27 October 2021 wholly overruled both ZUCS's decisions. ZUCS appealed from these judgments to the Supreme Administrative Court (NSA).

On 13 April 2021 Head of ZUCS commenced a WHT audit for year 2017. As expected in the audit result ZUCS challenged WHT-exemption on coupon interests paid by Bank to MBF in this year as well (disputable WHT amount is ca. PLN 2.2 mio.). Bank does not agree with such findings as well and will continue a dispute with ZUCS. On 21 March 2022 Bank received the ZUCS's decision on WHT audit transformation into a tax proceeding. On 30 June 2022 Bank received the ZUCS's decision determining WHT arrear of ca. PLN 2.2 mio. Bank appealed from this decision. On 23 February 2023 WSA suspended the court litigation concerning WHT for 2017 until the final NSA's judgements regarding WHT for years 2015-16.

Bank received an expert opinion as of January 29, 2020 of tax professors from the Public Finances Law Department of the Faculty of Law and Administration at Nicolaus Copernicus University in Torun, according to which ZUCS's statement violates binding tax law provisions.

## 12) Financial assets held for trading

### 12a. Financial assets held for trading

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| **Debt securities** | **197 197** | **156 413** | **24 210** | **30 474** |
| Issued by State Treasury | 197 197 | 156 413 | 24 210 | 30 474 |
| a) bills | 0 | 0 | 0 | 0 |
| b) bonds | 197 197 | 156 413 | 24 210 | 30 474 |
| Other securities | 0 | 0 | 0 | 0 |
| a) quoted | 0 | 0 | 0 | 0 |
| b) non quoted | 0 | 0 | 0 | 0 |
| **Equity instruments** | **115** | **123** | **113** | **105** |
| Quoted on the active market | 115 | 123 | 113 | 105 |
| a) financial institutions | 41 | 42 | 27 | 25 |
| b) non-financial institutions | 74 | 81 | 86 | 79 |
| Adjustment from fair value hedge | 0 | 0 | 0 | 0 |
| Positive valuation of derivatives | 495 406 | 371 422 | 339 196 | 220 865 |
| **Total** | **692 718** | **527 958** | **363 519** | **251 444** |

### 12b. Financial assets and liabilities held for trading - Valuation of derivatives, Adjustment from fair value hedge and Short positions as at:

| | Fair Values 30.06.2023 | | | Fair Values 31.03.2023 | | |
|---|---|---|---|---|---|---|
| | Total | Assets | Liabilities | Total | Assets | Liabilities |
| 1. Interest rate derivatives | (18 383) | 23 708 | 42 091 | (23 271) | 26 356 | 49 627 |
| Forward Rate Agreements (FRA) | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest rate swaps (IRS) | (18 764) | 848 | 19 612 | (23 721) | 948 | 24 669 |
| Other interest rate contracts: options | 381 | 22 860 | 22 479 | 450 | 25 408 | 24 958 |
| 2. FX derivatives | 39 949 | 124 367 | 84 418 | (30 941) | 39 184 | 70 125 |
| FX contracts | (48 203) | 7 621 | 55 824 | (23 142) | 7 712 | 30 854 |
| FX swaps | 88 152 | 116 746 | 28 594 | (7 799) | 31 472 | 39 271 |
| Other FX contracts (CIRS) | 0 | 0 | 0 | 0 | 0 | 0 |
| FX options | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Embedded instruments | (346 115) | 0 | 346 115 | (304 635) | 0 | 304 635 |
| Options embedded in deposits | (346 115) | 0 | 346 115 | (304 635) | 0 | 304 635 |
| Options embedded in securities issued | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Indexes options | 340 283 | 347 331 | 7 048 | 300 053 | 305 882 | 5 829 |
| **Total** | **15 734** | **495 406** | **479 672** | **(58 794)** | **371 422** | **430 216** |
| Valuation of hedged position in fair value hedge accounting | - | 0 | 0 | - | 0 | 0 |
| Liabilities from short sale of debt securities | - | - | 88 510 | - | - | 3 080 |

| | Fair Values 31.12.2022 | | | Fair Values 30.06.2022 | | |
|---|---|---|---|---|---|---|
| | Total | Assets | Liabilities | Total | Assets | Liabilities |
| 1. Interest rate derivatives | (28 842) | 29 235 | 58 077 | (39 161) | 25 453 | 64 614 |
| Forward Rate Agreements (FRA) | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest rate swaps (IRS) | (29 344) | 1 293 | 30 637 | (40 288) | 2 686 | 42 974 |
| Other interest rate contracts: options | 502 | 27 942 | 27 440 | 1 127 | 22 767 | 21 640 |
| 2. FX derivatives | (9 254) | 58 525 | 67 779 | 22 179 | 121 759 | 99 580 |
| FX contracts | (12 289) | 11 840 | 24 129 | 10 827 | 21 646 | 10 820 |
| FX swaps | 1 436 | 44 663 | 43 227 | 12 985 | 100 113 | 87 128 |
| Other FX contracts (CIRS) | 1 599 | 2 022 | 423 | (1 633) | 0 | 1 633 |
| FX options | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Embedded instruments | (250 400) | 0 | 250 400 | (73 422) | 0 | 73 422 |
| Options embedded in deposits | (250 400) | 0 | 250 400 | (73 422) | 0 | 73 422 |
| Options embedded in securities issued | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Indexes options | 247 414 | 251 436 | 4 022 | 72 522 | 73 654 | 1 132 |
| **Total** | **(41 082)** | **339 196** | **380 278** | **(17 883)** | **220 865** | **238 749** |
| Valuation of hedged position in fair value hedge accounting | - | 0 | 0 | - | 0 | 0 |
| Liabilities from short sale of debt securities | - | - | 4 784 | - | - | 10 208 |

## 13) Financial assets at fair value through other comprehensive income

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| **Debt securities** | **14 657 399** | **18 168 210** | **16 481 210** | **17 757 283** |
| Issued by State Treasury | 10 125 318 | 11 701 827 | 13 554 072 | 17 283 807 |
| a) bills | 0 | 0 | 0 | 0 |
| b) bonds | 10 125 318 | 11 701 827 | 13 554 071 | 17 283 807 |
| Issued by Central Bank | 4 104 382 | 6 048 195 | 2 528 310 | 85 000 |
| a) bills | 4 104 382 | 6 048 195 | 2 528 310 | 85 000 |
| b) bonds | 0 | 0 | 0 | 0 |
| Other securities | 427 699 | 418 188 | 398 828 | 388 475 |
| a) listed | 427 699 | 418 188 | 398 828 | 388 475 |
| b) not listed | 0 | 0 | 0 | 0 |
| | | | | |
| Shares and interests in other entities | 24 378 | 24 395 | 24 396 | 28 791 |
| Other financial instruments | 0 | 0 | 0 | 0 |
| | | | | |
| **Total financial assets at fair value through other comprehensive income** | **14 681 777** | **18 192 605** | **16 505 606** | **17 786 074** |

## 14) Loans and advances to customers

### 14a. Loans and advances to customers mandatorily at fair value through profit or loss

| Balance sheet value: | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Mandatorily at fair value through profit or loss | 54 780 | 75 078 | 97 982 | 189 813 |
| Companies | 71 | 32 | 66 | 52 |
| Individuals | 54 709 | 75 046 | 97 916 | 189 762 |
| Public sector | 0 | 0 | 0 | 0 |

At the implementation of IFRS9 Group separated credit exposures which include, in the interest rate definition, leverage/multiplier feature and presents aforementioned exposures in these financial statements as "Non-trading financial assets mandatorily at fair value through profit or loss - Credits and advances". The provisions of IFRS 9 indicate that the multiplier feature modifies money over time and causes the need to apply fair value measurement, however the economic sense of the transaction, i.e. portfolio management not based on fair value and maintaining the portfolio to obtain cash flows from the contract, constitute characteristics of portfolios valued at amortized cost. In 2021, as a result of a change in contractual provisions (eliminating the multiplier feature), some of these exposures began to be re-measured at amortized cost. The change concerned loans where clients fully repaid their commitment, the interest on which was calculated based on the old formula containing a multiplier. Exposures recorded after that time under new contractual conditions (without a multiplier) are measured at amortized cost.

The Bank writes down the gross carrying amount of a financial asset when there is no reasonable probability that it will be fully (total writes off) or partially (partial writes off) recovered. Following the recorded partial writes off the Bank provisioned (deducting the carrying value of gross receivables) penalty interest amounting to PLN 428 million as at 30.06.2023.

### 14b. Loans and advances to customers valued at amortised cost

| | Balance sheet value, gross | | | Accumulated impairment allowances | | | Balance sheet value, net |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Valued at amortised cost, as at 30.06.2023 | 66 731 571 | 6 443 252 | 3 417 580 | (433 480) | (327 603) | (1 734 030) | 74 097 290 |
| Companies | 16 210 998 | 1 476 821 | 723 686 | (111 466) | (75 346) | (283 513) | 17 941 180 |
| Individuals | 50 303 646 | 4 965 748 | 2 693 894 | (320 170) | (252 257) | (1 450 517) | 55 940 344 |
| Public sector | 216 927 | 683 | 0 | (1 844) | 0 | 0 | 215 766 |
| Valued at amortised cost, as at 31.03.2023 | 66 638 998 | 7 491 077 | 3 650 720 | (376 245) | (357 577) | (1 741 781) | 75 305 192 |
| Companies | 16 870 308 | 1 498 975 | 705 385 | (103 327) | (71 896) | (264 760) | 18 634 685 |
| Individuals | 49 569 249 | 5 991 239 | 2 945 335 | (271 127) | (285 681) | (1 477 021) | 56 471 994 |
| Public sector | 199 441 | 863 | 0 | (1 791) | 0 | 0 | 198 513 |

| | Balance sheet value, gross | | | Accumulated impairment allowances | | | Balance sheet value, net |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Valued at amortised cost, as at 31.12.2022 | 68 696 492 | 6 725 350 | 3 466 149 | (372 163) | (364 173) | (1 684 475) | 76 467 182 |
| Companies | 16 775 373 | 1 508 622 | 637 682 | (115 976) | (59 368) | (238 824) | 18 507 510 |
| Individuals | 51 722 402 | 5 215 685 | 2 828 467 | (254 633) | (304 804) | (1 445 651) | 57 761 466 |
| Public sector | 198 718 | 1 043 | 0 | (1 554) | (1) | 0 | 198 206 |
| Valued at amortised cost, as at 30.06.2022 | 73 916 347 | 4 120 640 | 3 447 885 | (328 102) | (239 103) | (1 765 623) | 79 152 044 |
| Companies | 17 989 356 | 1 169 662 | 849 005 | (98 653) | (41 998) | (335 459) | 19 531 913 |
| Individuals | 55 672 603 | 2 950 975 | 2 598 880 | (228 394) | (197 105) | (1 430 164) | 59 366 795 |
| Public sector | 254 388 | 3 | 0 | (1 055) | 0 | 0 | 253 336 |

## 14c. Loans and advances to customers

| | 30.06.2023 | | 31.03.2023 | |
|---|---|---|---|---|
| | Valued at amortised cost | Mandatorily at fair value through profit or loss | Valued at amortised cost | Mandatorily at fair value through profit or loss |
| Loans and advances | 67 805 674 | 16 265 | 68 820 961 | 19 257 |
| ▪ to companies | 11 446 350 | 0 | 11 849 163 | 0 |
| ▪ to private individuals | 56 260 984 | 16 265 | 56 901 554 | 19 257 |
| ▪ to public sector | 98 340 | 0 | 70 244 | 0 |
| Receivables on account of payment cards | 1 124 896 | 38 515 | 1 055 981 | 55 821 |
| ▪ due from companies | 13 868 | 71 | 13 961 | 32 |
| ▪ due from private individuals | 1 111 028 | 38 444 | 1 042 020 | 55 789 |
| Purchased receivables | 84 733 | | 166 605 | |
| ▪ from companies | 84 733 | | 166 605 | |
| ▪ from public sector | 0 | | 0 | |
| Guarantees and sureties realised | 1 579 | | 1 551 | |
| Debt securities eligible for rediscount at Central Bank | 69 | | 0 | |
| Financial leasing receivables | 6 938 227 | | 7 113 019 | |
| Other | 42 963 | | 32 842 | |
| Interest | 594 263 | | 589 836 | |
| **Total:** | **76 592 404** | **54 780** | **77 780 795** | **75 078** |
| Impairment allowances | (2 495 114) | - | (2 475 603) | - |
| **Total balance sheet value:** | **74 097 290** | **54 780** | **75 305 192** | **75 078** |

| | 31.12.2022 | | 30.06.2022 | |
|---|---|---|---|---|
| | Valued at amortised cost | Mandatorily at fair value through profit or loss | Valued at amortised cost | Mandatorily at fair value through profit or loss |
| Loans and advances | 69 897 310 | 23 708 | 72 759 921 | 41 507 |
| ▪ to companies | 11 642 443 | 0 | 12 858 695 | |
| ▪ to private individuals | 58 199 858 | 23 708 | 59 808 271 | 41 507 |
| ▪ to public sector | 55 009 | 0 | 92 954 | |
| Receivables on account of payment cards | 1 034 385 | 74 274 | 944 054 | 148 307 |
| ▪ due from companies | 13 946 | 66 | 15 186 | 52 |
| ▪ due from private individuals | 1 020 439 | 74 208 | 928 868 | 148 255 |
| Purchased receivables | 195 655 | | 162 548 | |
| ▪ from companies | 195 655 | | 162 548 | |
| ▪ from public sector | 0 | | 0 | |
| Guarantees and sureties realised | 7 203 | | 8 273 | |
| Debt securities eligible for rediscount at Central Bank | 76 | | 43 | |
| Financial leasing receivables | 7 160 606 | | 7 078 619 | |
| Other | 30 277 | | 29 667 | |
| Interest | 562 478 | | 501 748 | |
| **Total:** | **78 887 990** | **97 982** | **81 484 872** | **189 813** |
| Impairment allowances | (2 420 809) | - | (2 332 828) | - |
| **Total balance sheet value:** | **76 467 181** | **97 982** | **79 152 044** | **189 813** |

## 14D. QUALITY OF LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Loans and advances to customers (gross) | 76 592 404 | 77 780 795 | 78 887 990 | 81 484 872 |
| impaired | 3 417 580 | 3 650 720 | 3 466 148 | 3 447 885 |
| not impaired | 73 174 824 | 74 130 075 | 75 421 842 | 78 036 987 |
| Impairment write-offs | (2 495 114) | (2 475 603) | (2 420 809) | (2 332 828) |
| for impaired exposures | (1 734 030) | (1 741 781) | (1 684 474) | (1 765 623) |
| for not impaired exposures | (761 084) | (733 822) | (736 335) | (567 205) |
| **Loans and advances to customers (net)** | **74 097 290** | **75 305 192** | **76 467 181** | **79 152 044** |

## 14E. LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST BY METHODOLOGY OF IMPAIRMENT ASSESSMENT

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Loans and advances to customers (gross) | 76 592 404 | 77 780 795 | 78 887 990 | 81 484 872 |
| case by case analysis | 529 400 | 548 139 | 501 115 | 768 339 |
| collective analysis | 76 063 004 | 77 232 656 | 78 386 875 | 80 716 533 |
| Impairment allowances | (2 495 114) | (2 475 603) | (2 420 809) | (2 332 828) |
| on the basis of case by case analysis | (175 904) | (171 817) | (168 105) | (255 761) |
| on the basis of collective analysis | (2 319 210) | (2 303 786) | (2 252 704) | (2 077 068) |
| **Loans and advances to customers (net)** | **74 097 290** | **75 305 192** | **76 467 181** | **79 152 044** |

### 14F. LOANS AND ADVANCES TO CUSTOMERS PORTFOLIO VALUED AT AMORTISED COST BY KIND OF CUSTOMERS

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Loans and advances to customers (gross) | 76 592 404 | 77 780 795 | 78 887 990 | 81 484 872 |
| corporate customers | 18 629 116 | 19 274 972 | 19 121 437 | 20 262 414 |
| individuals | 57 963 288 | 58 505 823 | 59 766 553 | 61 222 458 |
| Impairment allowances | (2 495 114) | (2 475 603) | (2 420 809) | (2 332 828) |
| for receivables from corporate customers | (472 170) | (441 774) | (415 722) | (477 165) |
| for receivables from private individuals | (2 022 944) | (2 033 829) | (2 005 087) | (1 855 663) |
| **Loans and advances to customers (net)** | **74 097 290** | **75 305 192** | **76 467 181** | **79 152 044** |

### 14G. MOVEMENTS IN IMPAIRMENT ALLOWANCES FOR LOANS AND ADVANCES TO CUSTOMERS CARRIED AT AMORTISED COST

| | 01.01.2023 - 30.06.2023 | 01.01.2023 - 31.03.2023 | 01.01.2022 - 31.12.2022 | 01.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 2 420 809 | 2 420 809 | 2 374 246 | 2 374 246 |
| Change in value of allowances: | 74 305 | 54 794 | 46 563 | (41 418) |
| Impairment allowances created in the period | 951 897 | 539 863 | 1 671 698 | 879 684 |
| Amounts written off | (101 358) | (84 457) | (281 934) | (159 880) |
| Impairment allowances released in the period | (737 787) | (417 595) | (1 191 876) | (667 925) |
| Sale of receivables | (63 325) | 0 | (241 148) | (138 831) |
| KOIM created in the period* | 35 554 | 18 314 | 71 224 | 31 209 |
| Changes resulting from FX rates differences | (12 588) | (3 587) | 19 594 | 13 411 |
| Other | 1 912 | 2 256 | (995) | 914 |
| **Balance at the end of the period** | **2 495 114** | **2 475 603** | **2 420 809** | **2 332 828** |

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

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

The value of POCI assets is as follows:

| | Gross balance sheet value | Accumulated impairment | Net balance sheet value |
|---|---|---|---|
| **30.06.2023** | | | |
| - Companies | 25 563 | (517) | 25 046 |
| - Individuals | 112 093 | (20 263) | 91 830 |
| - Public sector | 0 | 0 | 0 |
| **31.03.2023** | | | |
| - Companies | 19 593 | (476) | 19 117 |
| - Individuals | 126 590 | (20 209) | 106 382 |
| - Public sector | 0 | 0 | 0 |
| **31.12.2022** | | | |
| - Companies | 15 216 | (26) | 15 190 |
| - Individuals | 137 235 | (13 150) | 124 085 |
| - Public sector | 0 | 0 | 0 |
| **30.06.2022** | | | |
| - Companies | 58 | 127 | 186 |
| - Individuals | 174 970 | (14 492) | 160 478 |
| - Public sector | 0 | 0 | 0 |

### 14H. Loans and advances to customers portfolio valued at amortised cost by currency

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| in Polish currency | 67 841 416 | 67 643 832 | 67 681 948 | 68 906 281 |
| in foreign currencies (after conversion to PLN) | 8 750 988 | 10 136 963 | 11 206 042 | 12 578 590 |
| currency: USD | 99 575 | 65 576 | 67 654 | 128 665 |
| currency: EUR | 3 994 563 | 4 373 109 | 4 107 584 | 3 950 522 |
| currency: CHF | 4 653 741 | 5 694 339 | 7 027 404 | 8 493 791 |
| other currencies | 3 109 | 3 939 | 3 400 | 5 612 |
| **Total gross** | **76 592 404** | **77 780 795** | **78 887 990** | **81 484 872** |

## 15) Financial assets at amortised cost other than Loans and advances to customers

### 15A. Financial assets at amortised cost other than Loans and advances to customers

| 30.06.2023 | Balance sheet value, gross | | | Accumulated impairment allowances | | | Balance sheet value, net |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | 14 467 973 | 0 | 0 | (4) | 0 | 0 | 14 467 969 |
| Deposits, loans and advances to banks and other monetary institutions | 532 232 | 0 | 0 | (12) | 0 | 0 | 532 220 |
| Repurchase agreements | 47 698 | 0 | 0 | 0 | 0 | 0 | 47 698 |

| 31.03.2023 | Balance sheet value, gross | | | Accumulated impairment allowances | | | Balance sheet value, net |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | 10 322 229 | 0 | 0 | (5) | 0 | 0 | 10 322 224 |
| Deposits, loans and advances to banks and other monetary institutions | 585 646 | 0 | 0 | (43) | 0 | 0 | 585 603 |
| Repurchase agreements | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| 31.12.2022 | Balance sheet value, gross | | | Accumulated impairment allowances | | | Balance sheet value, net |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | 3 893 218 | 0 | 0 | (6) | 0 | 0 | 3 893 212 |
| Deposits, loans and advances to banks and other monetary institutions | 733 376 | 0 | 0 | (281) | 0 | 0 | 733 095 |
| Repurchase agreements | 4 863 | 0 | 0 | 0 | 0 | 0 | 4 863 |

| 30.06.2022 | Balance sheet value, gross | | | Accumulated impairment allowances | | | Balance sheet value, net |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | 1 615 237 | 0 | 0 | (1) | 0 | 0 | 1 615 236 |
| Deposits, loans and advances to banks and other monetary institutions | 1 080 304 | 0 | 0 | (198) | 0 | 0 | 1 080 106 |
| Repurchase agreements | 8 223 | 0 | 0 | 0 | 0 | 0 | 8 223 |

## 15B. DEBT SECURITIES

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| credit institutions | 690 331 | 677 285 | 458 623 | 0 |
| other companies | 0 | 0 | 0 | 0 |
| public sector | 13 777 638 | 9 644 939 | 3 434 589 | 1 615 236 |
| Total | 14 467 969 | 10 322 224 | 3 893 212 | 1 615 236 |

## 15C. DEPOSITS, LOANS AND ADVANCES TO BANKS AND OTHER MONETARY INSTITUTIONS

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Current accounts | 292 785 | 173 205 | 181 896 | 255 357 |
| Deposits | 238 356 | 410 233 | 548 647 | 822 051 |
| Other | 235 | 476 | 0 | 1 560 |
| Interest | 856 | 1 732 | 2 833 | 1 336 |
| Total (gross) deposits, loans and advances | 532 232 | 585 646 | 733 376 | 1 080 304 |
| Impairment allowances | (12) | (43) | (281) | (198) |
| **Total (net) deposits, loans and advances** | **532 220** | **585 603** | **733 095** | **1 080 106** |

## 15D. REPURCHASE AGREEMENTS

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| credit institutions | 9 166 | 0 | 0 | 0 |
| other customers | 38 524 | 0 | 4 854 | 8 220 |
| interest | 8 | 0 | 9 | 3 |
| Total | 47 698 | 0 | 4 863 | 8 223 |

## 16) DERIVATIVES - HEDGE ACCOUNTING

### 16A. HEDGE RELATIONS

Detailed information on cash flow hedge relations applied by the Group, items designated as hedged and hedging and presentation of the result (active as at 30.06.2023) is shown in a table below:

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

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

### 16B. HEDGE ACCOUNTING - BALANCE SHEET VALUATION

| | Fair values 30.06.2023 | | | Fair values 31.03.2023 | | |
|---|---|---|---|---|---|---|
| | Total | Assets | Liabilities | Total | Assets | Liabilities |
| 1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate | | | | | | |
| CIRS contracts | (19 317) | 121 936 | 141 253 | (91 334) | 60 754 | 152 088 |
| IRS contracts | (188 377) | 0 | 188 377 | (242 771) | 0 | 242 771 |
| FXS contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Derivatives used as interest rate hedges related to interest rates | | | | | | |
| IRS contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Total hedging derivatives | (207 694) | 121 936 | 329 630 | (334 105) | 60 754 | 394 859 |

| | Fair values 31.12.2022 | | | Fair values 30.06.2022 | | |
|---|---|---|---|---|---|---|
| | Total | Assets | Liabilities | Total | Assets | Liabilities |
| 1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate | | | | | | |
| CIRS contracts | (60 707) | 135 804 | 196 511 | (326 549) | 0 | 326 549 |
| IRS contracts | (358 033) | 0 | 358 033 | (505 524) | 0 | 505 524 |
| FXS contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Derivatives used as interest rate hedges related to interest rates | | | | | | |
| IRS contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Total hedging derivatives | (418 740) | 135 804 | 554 544 | (832 073) | 0 | 832 073 |

## 17) IMPAIRMENT WRITE-OFFS FOR SELECTED ASSETS

| Impairment write-offs: | Investment securities | Property. plant and equipment | Intangibles | Non-current assets held for sale | Other assets |
|---|---|---|---|---|---|
| As at 01.01.2023 | 5 002 | 816 | 3 988 | 137 | 29 405 |
| - Write-offs created | 0 | 0 | 0 | 0 | 12 554 |
| - Write-offs released | (1) | 0 | 0 | 0 | (12 784) |
| - Utilisation | 0 | 0 | 0 | 0 | (916) |
| - Other | 0 | 0 | 0 | (137) | 137 |
| As at 30.06.2023 | 5 001 | 816 | 3 988 | 0 | 28 396 |
| As at 01.01.2023 | 5 002 | 816 | 3 988 | 137 | 29 405 |
| - Write-offs created | 0 | 0 | 0 | 0 | 7 203 |
| - Write-offs released | (1) | 0 | 0 | 0 | (7 649) |
| - Utilisation | 0 | 0 | 0 | 0 | (327) |
| - Other | 0 | 0 | 0 | (137) | 137 |
| As at 31.03.2023 | 5 001 | 816 | 3 988 | 0 | 28 769 |
| As at 01.01.2022 | 5 005 | 8 875 | 3 988 | 137 | 31 618 |
| - Write-offs created | 5 | 0 | 0 | 0 | 14 493 |
| - Write-offs released | 0 | (8 059) | 0 | 0 | (10 978) |
| - Utilisation | (8) | 0 | 0 | 0 | (5 728) |
| - Other | 0 | 0 | 0 | 0 | 0 |
| As at 31.12.2022 | 5 002 | 816 | 3 988 | 137 | 29 405 |
| As at 01.01.2022 | 5 005 | 8 875 | 3 988 | 137 | 31 618 |
| - Write-offs created | 0 | 0 | 0 | 0 | 8 604 |
| - Write-offs released | 0 | 0 | 0 | 0 | (5 634) |
| - Utilisation | (8) | 0 | 0 | 0 | (3 121) |
| - Other | 0 | 0 | 0 | 0 | 0 |
| As at 30.06.2022 | 4 997 | 8 875 | 3 988 | 137 | 31 467 |

## 18) Deferred income tax assets and liability

| | 30.06.2023 | | | 31.03.2023 | | |
|---|---|---|---|---|---|---|
| | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset |
| Difference between tax and balance sheet depreciation | (7 875) | 2 146 | (5 729) | (4 731) | (19 850) | (24 581) |
| Balance sheet valuation of financial instruments | (32 982) | (3 435) | (36 417) | 13 133 | (30 095) | (16 962) |
| Unrealised receivables/ liabilities on account of derivatives | 58 177 | (49 370) | 8 807 | 55 597 | (46 342) | 9 255 |
| Interest on deposits and securities to be paid/ received | 112 811 | (204 193) | (91 382) | 94 275 | (245 985) | (151 710) |
| Interest and discount on loans and receivables | 0 | (111 270) | (111 270) | 0 | (110 248) | (110 248) |
| Income and cost settled at effective interest rate | 159 400 | 0 | 159 400 | 198 255 | (0) | 198 255 |
| Impairment of loans presented as temporary differences | 520 416 | 0 | 520 416 | 529 933 | 0 | 529 933 |
| Employee benefits | 20 524 | 0 | 20 524 | 19 393 | 0 | 19 393 |
| Rights to use | 4 845 | 0 | 4 845 | 5 054 | 0 | 5 054 |
| Provisions for future costs | 124 919 | 0 | 124 919 | 83 441 | 0 | 83 441 |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income | 174 917 | (48 817) | 126 100 | 212 467 | (44 396) | 168 071 |
| Valuation of shares | 1 273 | (30 831) | (29 558) | 1 273 | (39 762) | (38 489) |
| Valuation of future income from bancassurance cooperation | 0 | (10 260) | (10 260) | 0 | 0 | 0 |
| Tax loss deductible in the future | 53 061 | 0 | 53 061 | 60 124 | 0 | 60 124 |
| Other | (688) | 103 | (585) | (2 613) | (1 071) | (3 683) |
| Net deferred income tax asset | 1 188 798 | (455 927) | **732 871** | 1 265 601 | (537 749) | **727 852** |
| | **Deferred income tax asset** | **Deferred income tax provision** | **Net deferred income tax provision** | **Deferred income tax asset** | **Deferred income tax provision** | **Net deferred income tax provision** |
| Income and cost settled at effective interest rate | 0 | (1 002) | (1 002) | 0 | (947) | (947) |
| Employee benefits | 221 | 0 | 221 | 174 | 0 | 174 |
| Rights to use | 0 | 0 | 0 | (1) | 0 | (1) |
| Provisions for future costs | 788 | 0 | 788 | 551 | 0 | 551 |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income | 0 | (42) | (42) | 0 | (42) | (42) |
| Other | 650 | (1 483) | (833) | 32 | (39) | (8) |
| Net deferred income tax provision | 1 659 | (2 527) | **(868)** | 756 | (1 028) | **(272)** |

| | 31.12.2022 | | | 30.06.2022 | | |
|---|---|---|---|---|---|---|
| | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset |
| Difference between tax and balance sheet depreciation | (202) | (23 027) | (23 229) | 13 052 | (27 678) | (14 626) |
| Balance sheet valuation of financial instruments | 33 393 | (47 466) | (14 073) | 73 895 | (83 803) | (9 908) |
| Unrealised receivables/ liabilities on account of derivatives | 73 405 | (59 804) | 13 601 | 38 094 | (31 503) | 6 591 |
| Interest on deposits and securities to be paid/ received | 79 570 | (290 234) | (210 664) | 28 366 | (287 617) | (259 251) |
| Interest and discount on loans and receivables | 0 | (109 345) | (109 345) | 0 | (94 368) | (94 368) |
| Income and cost settled at effective interest rate | 238 828 | (795) | 238 033 | 136 755 | (279) | 136 476 |
| Impairment of loans presented as temporary differences | 516 489 | 0 | 516 489 | 462 800 | 0 | 462 800 |
| Employee benefits | 20 807 | 0 | 20 807 | 19 973 | 0 | 19 973 |
| Rights to use | 4 756 | 0 | 4 756 | 5 478 | 0 | 5 478 |
| Provisions for future costs | 84 037 | 0 | 84 037 | 109 266 | 0 | 109 266 |
| Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income | 299 930 | (55 444) | 244 486 | 405 487 | (51 309) | 354 178 |
| Valuation of shares | 1 273 | (19 420) | (18 147) | 1 273 | (34 684) | (33 411) |
| Tax loss deductible in the future | 57 486 | 0 | 57 486 | 56 480 | 0 | 56 480 |
| Other | (3 017) | 172 | (2 845) | (2 669) | 32 | (2 637) |
| Net deferred income tax asset | 1 406 755 | (605 363) | 801 392 | 1 348 250 | (611 209) | 737 041 |

## 19) LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| In current account | 30 857 | 36 457 | 25 287 | 39 635 |
| Term deposits | 438 424 | 372 470 | 589 046 | 202 699 |
| Loans and advances received | 50 000 | 50 000 | 105 000 | 300 418 |
| Interest | 3 673 | 3 460 | 8 238 | 4 085 |
| Total | 522 954 | 462 387 | 727 571 | 546 837 |

## 20) LIABILITIES TO CUSTOMERS

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Amounts due to private individuals | 71 714 326 | 70 101 423 | 68 787 007 | 65 165 193 |
| Balances on current accounts | 49 737 494 | 49 519 022 | 49 106 928 | 50 929 496 |
| Term deposits | 21 459 913 | 20 117 851 | 19 247 973 | 13 947 811 |
| Other | 254 721 | 251 176 | 248 573 | 244 964 |
| Accrued interest | 262 198 | 213 374 | 183 533 | 42 922 |
| Amounts due to companies | 23 400 936 | 24 179 736 | 23 616 227 | 24 417 762 |
| Balances on current accounts | 12 695 310 | 12 131 023 | 13 263 263 | 14 575 737 |
| Term deposits | 10 282 538 | 11 601 313 | 9 889 840 | 9 409 873 |
| Other | 358 503 | 377 085 | 402 878 | 400 117 |
| Accrued interest | 64 585 | 70 315 | 60 246 | 32 035 |
| Amounts due to public sector | 5 481 721 | 6 594 682 | 5 635 282 | 6 539 074 |
| Balances on current accounts | 2 954 490 | 3 270 847 | 3 195 080 | 4 901 242 |
| Term deposits | 2 488 332 | 3 308 155 | 2 418 727 | 1 629 446 |
| Other | 29 184 | 4 148 | 8 193 | 2 471 |
| Accrued interest | 9 715 | 11 532 | 13 282 | 5 915 |
| **Total** | **100 596 983** | **100 875 841** | **98 038 516** | **96 122 029** |

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

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| to the Central Bank | 0 | 0 | 0 | 0 |
| to banks | 0 | 0 | 0 | 0 |
| to customers | 349 996 | 0 | 0 | 0 |
| interest | 248 | 0 | 0 | 0 |
| Total | 350 244 | 0 | 0 | 0 |

## 22) CHANGE OF DEBT SECURITIES

| | 01.01.2023 - 30.06.2023 | 01.01.2023 - 31.03.2023 | 01.01.2022 - 31.12.2022 | 01.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 243 753 | 243 753 | 39 568 | 39 568 |
| Increases, on account of: | 25 165 | 12 527 | 244 278 | 525 |
| issue of bonds by the Bank | 0 | 0 | 242 500 | 0 |
| interest accrual | 25 165 | 12 527 | 1 778 | 525 |
| Reductions, on account of: | (17 159) | 0 | (40 093) | (40 093) |
| repurchase of Banking Securities | 0 | 0 | 0 | 0 |
| repurchase of bonds by the Bank | 0 | 0 | 0 | 0 |
| repurchase of bonds by the Millennium Leasing | 0 | 0 | (39 450) | (39 450) |
| interest payment | (17 159) | 0 | (643) | (643) |
| **Balance at the end of the period** | **251 759** | **256 280** | **243 753** | **0** |

## 23) Change of subordinated debt

| | 01.01.2023 - 30.06.2023 | 01.01.2023 - 31.03.2023 | 01.01.2022 - 31.12.2022 | 01.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 1 568 083 | 1 568 083 | 1 541 144 | 1 541 144 |
| Increases, on account of: | 71 921 | 35 967 | 110 182 | 39 949 |
| issue of subordinated bonds | 0 | 0 | 0 | 0 |
| interest accrual | 71 921 | 35 967 | 110 182 | 39 949 |
| Reductions, on account of: | (74 025) | (40 168) | (83 243) | (27 458) |
| interest payment | (74 025) | (40 168) | (83 243) | (27 458) |
| **Balance at the end of the period** | **1 565 979** | **1 563 882** | **1 568 083** | **1 553 635** |

During 2022 and 2023 the Group did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

## 24) Provisions

### 24a. Provisions

| | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Provision for commitments and guarantees given | 34 526 | 37 132 | 39 617 | 38 339 |
| Provision for pending legal issues | 1 107 056 | 937 002 | 976 552 | 720 755 |
| Total | 1 141 582 | 974 133 | 1 016 169 | 759 094 |

### 24b. Change of provision for commitments and guarantees given

| | 01.01.2023 - 30.06.2023 | 01.01.2023 - 31.03.2023 | 01.01.2022 - 31.12.2022 | 01.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 39 617 | 39 617 | 44 354 | 44 354 |
| Charge of provision | 24 819 | 17 403 | 42 174 | 27 812 |
| Release of provision | (29 759) | (19 873) | (46 984) | (33 907) |
| FX rates differences | (151) | (15) | 73 | 80 |
| Balance at the end of the period | 34 526 | 37 132 | 39 617 | 38 339 |

### 24c. Change of provision for pending legal issues

| | 01.01.2023 - 30.06.2023 | 01.01.2023 - 31.03.2023 | 01.01.2022 - 31.12.2022 | 01.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 976 552 | 976 552 | 551 176 | 551 176 |
| Charge of provision | 7 383 | 4 378 | 27 325 | 6 616 |
| Release of provision | (8 480) | (2 351) | (8 382) | (4 131) |
| Utilisation of provision | 0 | 0 | (175) | (175) |
| Creation of provisions for legal risk connected with FX mortgage loans * | 1 620 620 | 863 650 | 2 017 320 | 1 014 630 |
| Allocation to the loans portfolio | (1 489 019) | (905 227) | (1 610 712) | (847 361) |
| Balance at the end of the period | 1 107 056 | 937 002 | 976 552 | 720 755 |

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

# 5. RISK MANAGEMENT

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

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

## 5.1. CREDIT RISK

In the first half of 2023 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.

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 potentially most exposed to negative changes in the economic environment. Additionally, the Group worked on improving credit processes and products.

In the retail segment, the Group focused on adapting its lending policy to the changing macroeconomic environment, in particular, changes were implemented to mitigate the potential increase in risk related to rising credit costs and inflation. In addition, the frequency of monitoring 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 effectiveness of the risk assessment process for retail and mortgage-secured transactions through automation that does not increase risk exposure.

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

Changes in the loan portfolio of the Group after 6 months of 2023 are summarized below:

| | 30.06.2023 | | 31.12.2022 | |
|---|---|---|---|---|
| | Loans and advances to customers | Loans and advances to banks | Loans and advances to customers | Loans and advances to banks |
| Not overdue and without impairment | 71 577 961 | 532 232 | 73 739 281 | 733 376 |
| Overdue*, but without impairment | 1 642 548 | 0 | 1 767 354 | 0 |
| Total without impairment | 73 220 509 | 532 232 | 75 506 635 | 733 376 |
| With impairment | 3 455 692 | 0 | 3 518 335 | 0 |
| **Total** | **76 676 201** | **532 232** | **79 024 971** | **733 376** |
| Impairment write-offs | (2 495 114) | (12) | (2 420 812) | (281) |
| Fair value adjustment** | (29 018) | 0 | (38 997) | 0 |
| **Total, net** | **74 152 069** | **532 220** | **76 565 163** | **733 095** |
| Loans with impairment / total loans | 4.51% | 0.00% | 4.45% | 0.00% |

(*) Loans overdue not more than 4 days are treated as technical and are not shown in this category.
(**) Fair value adjustment is defined as the difference between the nominal value and the fair value of the portfolio measured at fair value through profit or loss. The fair value adjustment is influenced by considering the credit risk of the portfolio.

## 5.2. MARKET RISK

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

The market risk limits are revised at least once a year and to consider, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The market risk limits valid in 1H2023 reflected the assumptions and risk appetite defined under Risk Strategy. The current limits in place have been valid since 1st June 2022. All excesses of market risk limits are always reported, documented, and ratified at the proper competence level. In the 1H2023, no excesses of the market risk limits were recorded.

Within the current market environment, the Group continued to act very prudently. Open positions contain mainly interest rate and FX risk instruments. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows keeping FX open positions only in Trading Book. In the 1H2023, the FX Total open position (Intraday as well as Overnight) remained below internal limits in place and well below 2% of Own Funds.

In 1H2023, the VaR remained on average at the level of approx. PLN314.5m for the total Group, which is jointly Trading Book and Banking Book, (57% of the limit) and at approx. PLN3.7mn for Trading Book (16% of the limit). The exposure to market risk at the end of June 2023 was approx. PLN329.9mn for Global Bank (60% of the limit) and approx. PLN5.1mn for Trading Book (22% of the limit). It should be noted that the value at risk in Banking Book is only complementary risk measurement tool as positions are expected to be held to maturity and are not a subject to marked-to-market normally (see next section - Interest rate risk in Banking Book, IRRBB).

The market risk exposure in 1H2023 in terms of value at risk for Trading Book, together with risk type division, is presented in the table below (PLN thousands).

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

| | 31.12.2022 | | VaR (1H2023) | | | 30.06.2023 | |
|---|---|---|---|---|---|---|---|
| | Exposure | Limit usage | Average | Maximum | Minimum | Exposure | Limit usage |
| **Total risk** | 1 336 | 6% | 3 714 | 7 873 | 743 | 5 051 | 22% |
| Generic risk | 1 334 | n.a | 3 713 | 7 873 | 741 | 5 051 | n.a |
| Interest Rate VaR | 1 310 | 7% | 3 673 | 7 859 | 733 | 5 042 | 27% |
| FX Risk | 240 | 5% | 140 | 4 375 | 21 | 101 | 2% |
| Diversification Effect | 16,2% | | | | | 1,8% | |
| Specific risk | 2 | 0% | 1 | 10 | 0 | 0 | 0% |

In addition to above mention market risk limits, the stop loss limits are introduced for the financial markets' portfolios. The aim is to limit the maximum losses of the trading activity of the Group. In case of the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken. Stop loss limits were not reached in 1H2023.

## 5.3. INTEREST RATE RISK IN BANKING BOOK (IRRBB)

In case of the Banking Book, the main component of the market risk is interest rate risk. The exposure to interest rate risk in the Banking Book is 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.

Regarding the interest rate risk in Banking Book, the following principles are in place:

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

The variations in market interest rates have an influence on the Group's net interest income, both under a short and medium-term perspective, at the same time affecting economic value of equity 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 covers both earnings-based and economic value measures, which are

quarterly:

- the impact on the economic value of equity (EVE) resulting from yield curve movements, including scenarios defined by the supervisor (standard, supervisory test assuming sudden parallel +/-200 basis points shift of the yield curve as well as supervisory outlier test, SOT with set of six interest rate risk stress scenarios).

and monthly:

- the impact on the economic value of equity (EVE) resulting from 100 bps upward/downward yield curve movements,
- the interest rate sensitivity in terms of BPVx100, that is the change of the portfolio's value caused by a parallel shift of the yield curve by 1 basis point multiplied by 100,
- the impact on net interest income over a time horizon of next 12 months resulting from one-off interest rate shock of 100 basis points.

The interest rate risk measurement is carried for all the risk management areas in the Bank, with the particular attention on Banking Book.

The results of the above-mentioned analysis for net interest income (NII), BPVx100 and economic value measures were regularly monitored and reported to the Capital, Assets and Liabilities Committee, to Risk Committee, the Management Board and Supervisory Board. The results of the IRRBB measurement as of the end of June 2023 indicate that in the EVE perspective the Group is the most exposed to the scenario of interest rates increase, while in the earnings perspective – to a decrease. The supervisory outlier test results of June 2023 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is 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.

The results of sensitivity of NII for the next 12 months after 30$^{th}$ June 2023 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 30$^{th}$ June 2023 (for example, the NBP Reference rate was set at 6.75%),
- application of a parallel move of 100bps in the yield curve up and down is an additional shock to all market interest rates levels as of 30$^{th}$ June 2023 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 100 bps, the results are negative and equal to -102 million or -2.0% of the Group's NII reference level. In a scenario of parallel increase of interest rates by 100 bps, the results are positive and equal to 85 million or +1.7% of the Group's NII reference level.

## 5.4. LIQUIDITY RISK

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

The liquidity risk limits are revised at least once a year to consider, inter alia, the change of the size of the consolidated own funds, current and expected balance sheet structure, historical limits' consumption, as well as current market conditions and supervisory requirements. The current limits in place have been valid since 1$^{st}$ of January 2023. Its levels were confirmed by the annual revision conducted and approved by the Risk Committee in December 2022.

In 1H2023, the Group continued to be characterized by solid liquidity position. All the supervisory liquidity indicators remained significantly above minimum limits in place. According to rules in place, all eventual excesses of internal liquidity risk limits are always reported, documented, and ratified at the proper competence level. The steps taken as part of standard and binding risk management procedures have proved sufficient for managing liquidity in the current market environment.

The Group manages FX liquidity using FX-denominated deposits as well as Cross Currency Swap and FX Swap transactions. The importance of swaps has been decreasing because of the reduction of the FX mortgage loan portfolio and the hedge in foreign currency of the provisions for legal risk. The swaps portfolio is diversified in term of counterparties and maturity dates. For most counterparties, the Group has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Group 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 counterparties. 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. It should be noted that the need of currency swaps has been decreasing at a relevant pace due to the reduction in the FX mortgage loan portfolio.

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

In 1H2023, the Group maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 74% at the end of June 2023 (78% at the end of December 2022). The liquid assets portfolio is treated by the Group's as liquidity reserve, which will overcome crisis situations. This portfolio consists of liquid debt securities issued or guaranteed by Polish government, other EU's sovereigns, and multilateral development banks,' supplemented by the cash and exposures to the National Bank of Poland. At the end of June 2023, the share of liquid debt securities (including NBP Bills) in total securities portfolio amounted to 99% and allowed to reach the level of approx. PLN29.2 billion (25% of total assets), whereas at the end of December 2022 was at the level of approx. PLN20.4 billion (18% of total assets).

| Main liquidity ratios | 31.12.2022 | 30.06.2023 |
|---|---|---|
| Loans/Deposits ratio (%) | 78% | 74% |
| Liquid assets portfolio (PLN million)* | 24 349 | 31 118 |
| Liquidity Coverage Requirement, LCR (%) | 223% | 260% |

*(*) Liquid Assets Portfolio: The sum of cash, nostro balance (reduced by the required obligatory reserve), unencumbered liquid securities portfolio, NBP-Bills and short-term, due from banks (up to 1 month).*

Total Clients' deposits of the Group reached the level of PLN100.6 billion (PLN98,0 billion at the end of December 2022). The share of funds from individuals in total Client's deposits equalled to approx. 71.3% at the end of June 2023 (70.2% at the end of December 2022). 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 remained also subordinated debt, medium-term loans, and securitization of loan portfolio.

The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 1H2023. 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.

According to the final provisions of CRD V/CRR II package, the Group is daily calculating the liquidity coverage requirement (LCR) and quarterly net stable funding requirement (NSFR). In 1H2023, the regulatory minimum of 100% for both LCR and NSFR was fulfilled by the Group.

The LCR stayed at safe level of 260% at the end of June 2023 (223% at the end of December 2022). The comfortable liquidity position was kept due to increase of the Clients' deposits that guaranteed safe level of liquid assets portfolio.

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 1H2023 the internally defined limit of 12% total assets was not breached and the liquidity position was confirmed as solid.

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

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

## 5.5. OPERATIONAL RISK

In the first half of 2023 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with legal provisions in force and the best practice of national and international financial institutions.

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

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

In the first half of 2023 the registered level of operational risk losses was at the acceptable level.

## 5.6. CAPITAL MANAGEMENT

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

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

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

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

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

- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. At present, the buffer was set by KNF in recommendations issued in the end of 2022 in the level of 1.95pp (the Bank) and 1.94pp (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 1.47pp (the Bank) and of 1.46pp (the Group), and which corresponds to capital requirements for CET 1 ratio of 1.10pp (the Bank) and 1.09pp (the Group).

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

In December 2022, the Bank received a recommendation to maintain, on an individual and consolidated level, own funds to cover an additional capital charge ("P2G") in order to absorb potential losses resulting from the occurrence of stresses, at the level of 1.72pp and 1.75pp (the Bank and the Group) over the OCR value (Pillar II Guidance or "P2G"). According to the recommendation, the additional capital charge should consist of common equity Tier 1 capital (CET1 capital).

The minimum capital ratios required by the Polish Financial Supervision Authority for the combined buffer requirement (OCR) continued to be fulfilled at the end of 2Q2023. As regards the levels expected by the Polish Financial Supervision Authority, including the additional P2G surcharge, the Group has not yet achieved them for the T1 ratio.

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

| Capital adequacy | 30.06.2023 | 31.03.2023* | 30.06.2022 |
|---|---|---|---|
| Risk-weighted assets | 47 147.9 | 47 954.4 | 49 819.7 |
| Own Funds requirements, including: | 3 771.8 | 3 836.4 | 3 985.6 |
| - Credit risk and counterparty credit risk | 3 301.3 | 3 362.9 | 3 473.1 |
| - Market risk | 18.0 | 20.3 | 28.0 |
| - Operational risk | 446.4 | 446.4 | 474.5 |
| - Credit Valuation Adjustment CVA | 6.1 | 6.8 | 10.0 |
| Own Funds, including: | 6 962.3 | 6 780.7 | 7 570.1 |
| Common Equity Tier 1 Capital | 5 510.9 | 5 294.4 | 6 040.1 |
| Tier 2 Capital | 1 451.4 | 1 486.3 | 1 530.0 |
| **Total Capital Ratio (TCR)** | **14.77%** | **14.14%** | **15.19%** |
| **Tier 1 Capital ratio (T1)** | **11.69%** | **11.04%** | **12.12%** |
| **Common Equity Tier 1 Capital ratio (CET1)** | **11.69%** | **11.04%** | **12.12%** |
| **Leverage ratio** | **4.60%** | **4.47%** | **5.41%** |

* - All data for quarterly periods presented in these condensed interim consolidated financial statements of the Group have not been audited or reviewed by a statutory auditor.

Capital adequacy showed as surpluses/deficits on required or recommended levels is presented in the below table.

| Capital adequacy | 30.06.2023 | 31.03.2023* | 30.06.2022 |
|---|---|---|---|
| **Total Capital Ratio (TCR)** | **14.77%** | **14.14%** | **15.19%** |
| Minimum required level (OCR) | 12.69% | 12.69% | 13.54% |
| Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.) | 2.08 | 1.45 | 1.65 |
| Minimum recommended level TCR (OCR+P2G) | 14.44% | 14.44% | 14.43% |
| Surplus(+) / Deficit(-) on recommended level (p.p.) | 0.33 | -0.30 | 0.76 |
| **Tier 1 Capital ratio (T1)** | **11.69%** | **11.04%** | **12.12%** |
| Minimum required level (OCR) | 10.21% | 10.21% | 10.84% |
| Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.) | 1.48 | 0.83 | 1.28 |
| Minimum recommended level T1 (OCR+P2G) | 11.96% | 11.96% | 11.73% |
| Surplus(+) / Deficit(-) on recommended level (p.p.) | -0.27 | -0.92 | 0.39 |
| **Common Equity Tier 1 Capital ratio (CET1)** | **11.69%** | **11.04%** | **12.12%** |
| Minimum required level (OCR) | 8.34% | 8.34% | 7.56% |
| Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.) | 3.35 | 2.70 | 4.56 |
| Minimum recommended level CET1 (OCR+P2G) | 10.09% | 10.09% | 9.70% |
| Surplus(+) / Deficit(-) on recommended level (p.p.) | 1.60 | 0.95 | 2.42 |
| **Leverage ratio** | **4.60%** | **4.47%** | **5.41%** |
| Minimum required level | 3.00% | 3.00% | 3.00% |
| Surplus(+) / Deficit(-) of Leverage ratio (p.p.) | 1.60 | 1.47 | 2.41 |

* - All data for quarterly periods presented in these condensed interim consolidated financial statements of the Group have not been audited or reviewed by a statutory auditor.

The increase in capital ratios in 2Q2023 compared to 1Q2023 was mainly due to an increase in own funds, with a simultaneous decrease in risk-weighted assets / own funds requirements. Own funds increased by PLN 182 million (2.7%), mainly as a result of a decrease in the negative valuation of treasury securities valued through equity. Own funds requirements decreased by PLN 65 million (1.6%). The leverage ratio increased due to the aforementioned increase in own funds.

During the 1st half 2023, the Bank continued to be focused on further strengthening of its capital ratios. The Bank's priority is now to maintain them permanently and safely above the minimum requirements and to take further necessary steps towards meeting the MREL requirements.

### 5.6.1 Minimum requirements for own funds and liabilities subject to write down or conversion (MREL)

The Bank manages MREL indicators in a manner analogous to capital adequacy management.

The Bank received in June 2023 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 14.42% and MRELtem of 4.46%. The minimum subordination MRELtrea was set at 14.28% and MRELtem 4.44%. At the same time, the above-mentioned decision sets updated minimum requirements that must be met by December 31, 2023, at the level of 18.89% and 5.91% (consolidated MRELtrea and MRELtem).

In addition to these MREL levels, the Bank also needs to meet MREL with Combined Buffer Requirement (currently 2.75%).

| MREL | 30.06.2023 | 31.03.2023* | 30.06.2022 |
|---|---|---|---|
| **MRELtrea ratio** | **14.93%** | **14.26%** | **15.16%** |
| Minimum required level MRELtrea | 14.42% | 15.60% | 15.60% |
| Surplus(+) / Deficit(-) of MRELtrea (p.p.) | 0.51 | -1.34 | -0.44 |
| Minimum required level including Combined Buffer Requirement (CBR) | 17.17% | 18.35% | 18.35% |
| Surplus(+) / Deficit(-) of MRELtrea+CBR (p.p.) | -2.24 | -4.09 | -3.19 |
| **MRELtem ratio** | **5.87%** | **5.76%** | **6.78%** |
| Minimum required level of MRELtem | 4.46% | 4.46% | 3.00% |
| Surplus(+) / Deficit(-) of MRELtem (p.p.) | 1.41 | 1.30 | 3.78 |

* - All data for quarterly periods presented in these condensed interim consolidated financial statements of the Group have not been audited or reviewed by a statutory auditor.

Regarding the MREL requirements both MRELtrea and MRELtem, the Group presents a surplus compared to the level required as at the reporting date, but does not yet meet the MRELtrea requirement, considering the combined buffer requirement.

As informed in the Current Report no. 19/2023, in June 2023 the Bank Guarantee Fund took an administrative decision under the terms of Articles 96a - 96d of the Bank Guarantee Fund Act, prohibiting the Bank from distributing profits in excess of the maximum distributable amount related to the minimum requirement for own funds and eligible liabilities (M-MDA).

After the improvement in the capital ratios above described, the Bank's priority is to take further necessary steps towards meeting the MREL requirements, taking also into consideration the level required after the end of the interim period on 31 December 2023. The Bank plans to cover the shortfall by the end of 2023 through a combination of organic capital generation, optimization of risk weighted assets (including securitisations) and the issue of debt instruments, if required and market conditions allow. 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.

# 6. OPERATIONAL SEGMENTS

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

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

**Retail Customer Segment**

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

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

**Corporate Customer Segment**

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

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

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

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

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

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

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

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

Bank Millennium recent financial performance is significantly influenced by the costs related to managing legacy FX mortgage portfolio of loans. To isolate these costs and other financial results related to this portfolio Bank decided to isolate, commencing from 2021, a new segment from Retail and present it in financial statements as “FX mortgage”. Such change impacts only results presentation and is not triggering any organizational changes in the Bank. New segment includes loans separated based on active FX mortgage contracts for a given period and is applying to portfolios of retail mortgages originated in Bank Millennium and Eurobank in foreign currencies. This portfolio is expected to run-off in line with repayments of FX loans and conversions to PLN loans. Following P&L categories are presented as part of financial performance of new segment:

1. Net Interest Income: Margin on FX loans (interest results less Fund Transfer Pricing).
2. FX results related to portfolio (mainly costs of amicable negotiations).
3. Cost of provisions for FX mortgage portfolio legal risk partially offset by valuation of SG Indemnity in other operating income line regarding ex-EB portfolio.
4. Cost of Credit Risk related to current FX portfolio.
5. Result on modification resulting from settlements with borrowers.
6. Other Costs that are directly related to FX mortgages including, but not limited to:
    i. Legal chancellery costs (administrative costs),
    ii. Court costs related to FX mortgage cases (other operating costs).

Income statement 1.01.2023 – 30.06.2023

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Segments excluding FX mortgage | FX mortgage | TOTAL |
|---|---|---|---|---|---|---|
| Net interest income | 2 343 439 | 391 983 | (152 397) | 2 583 025 | 14 925 | 2 597 950 |
| Net fee and commission income | 304 883 | 91 147 | 1 750 | 397 780 | 6 172 | 403 952 |
| Dividends, other income from financial operations and foreign exchange profit | 66 235 | 41 330 | 531 111 | 638 676 | (113 920) | 524 756 |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | (2 242) | 0 | 9 508 | 7 266 | 0 | 7 266 |
| Other operating income and cost | (12 345) | 214 | 51 349 | 39 218 | (1 528) | 37 690 |
| Operating income | 2 699 970 | 524 674 | 441 321 | 3 665 965 | (94 351) | 3 571 614 |
| Staff costs | (402 354) | (86 605) | (12 878) | (501 837) | 0 | (501 837) |
| Administrative costs, including: | (203 973) | (43 092) | (74 945) | (322 010) | (40 682) | (362 692) |
| - BGF and protection scheme costs | *0* | *0* | *(60 039)* | *(60 039)* | *0* | *(60 039)* |
| Depreciation and amortization | (90 865) | (12 650) | (1 931) | (105 446) | 0 | (105 446) |
| Operating expenses | (697 192) | (142 347) | (89 754) | (929 293) | (40 682) | (969 975) |
| Impairment losses on assets | (169 592) | (8 736) | 231 | (178 097) | 26 054 | (152 043) |
| Results on modification | (16 054) | (1 475) | 0 | (17 529) | (36 021) | (53 550) |
| Provisions for legal risk connected with FX mortgage loans | 0 | 0 | 0 | 0 | (1 620 620) | (1 620 620) |
| **Total operating result** | **1 817 132** | **372 116** | **351 798** | **2 541 046** | **(1 765 620)** | **775 426** |
| Share in net profit of associated companies | | | | | | 0 |
| Banking tax | | | | | | 0 |
| **Profit / (loss) before income tax** | | | | | | **775 426** |
| Income taxes | | | | | | (417 508) |
| **Profit / (loss) after taxes** | | | | | | **357 918** |

Balance sheet items as at 30.06.2023

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Segments excluding FX mortgage | FX mortgage | TOTAL |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 55 066 160 | 14 581 001 | 0 | 69 647 161 | 4 504 909 | **74 152 070** |
| Liabilities to customers | 76 229 483 | 24 367 500 | 0 | 100 596 983 | 0 | **100 596 983** |

Income statement 1.01.2022 - 30.06.2022

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Segments excluding FX mortgage | FX mortgage | TOTAL |
|---|---|---|---|---|---|---|
| Net interest income | 1 978 647 | 378 022 | (264 263) | 2 092 406 | 47 515 | 2 139 921 |
| Net fee and commission income | 333 681 | 103 060 | (17 236) | 419 505 | 7 433 | 426 938 |
| Dividends, other income from financial operations and foreign exchange profit | 72 298 | 44 714 | (18 890) | 98 122 | (228 084) | (129 962) |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 5 571 | 0 | (3 230) | 2 341 | 0 | 2 341 |
| Other operating income and cost | (14 365) | (2 356) | 11 293 | (5 428) | 68 499 | 63 071 |
| Operating income | 2 375 832 | 523 440 | (292 326) | 2 606 946 | (104 637) | 2 502 309 |
| Staff costs | (350 251) | (78 204) | (16 974) | (445 429) | 0 | (445 429) |
| Administrative costs, including: | (451 811) | (39 383) | (96 723) | (587 917) | (25 483) | (613 400) |
| - BGF and protection scheme costs | *(281 368)* | *(7 574)* | *(83 430)* | *(372 372)* | *0* | *(372 372)* |
| Depreciation and amortization | (87 880) | (13 830) | (2 517) | (104 227) | 0 | (104 227) |
| Operating expenses | (889 942) | (131 417) | (116 214) | (1 137 573) | (25 483) | (1 163 056) |
| Impairment losses on assets | (146 303) | 2 900 | (2 969) | (146 372) | (4 172) | (150 544) |
| Results on modification | (9 230) | 426 | 0 | (8 804) | 0 | (8 804) |
| Provisions for legal risk connected with FX mortgage loans | 0 | 0 | 0 | 0 | (1 014 630) | (1 014 630) |
| **Total operating result** | **1 330 357** | **395 349** | **(411 509)** | **1 314 197** | **(1 148 922)** | **165 275** |
| Share in net profit of associated companies | | | | | | 0 |
| Banking tax | | | | | | (168 824) |
| **Profit / (loss) before income tax** | | | | | | **(3 549)** |
| Income taxes | | | | | | (259 052) |
| **Profit / (loss) after taxes** | | | | | | **(262 601)** |

Balance sheet items as at 31.12.2022

| *In '000 PLN* | Retail Banking | Corporate Banking | Treasury. ALM & Other | Segments excluding FX mortgage | FX mortgage | TOTAL |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 54 252 736 | 15 471 937 | 0 | 69 724 673 | 6 840 490 | **76 565 163** |
| Liabilities to customers | 73 068 148 | 24 970 368 | 0 | 98 038 516 | 0 | **98 038 516** |

# 7. TRANSACTIONS WITH RELATED ENTITIES

All and any transactions between entities of the Group in 1st half of 2023 resulted from the current operations.

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

## 7.1. TRANSACTIONS WITH THE PARENT GROUP

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

| | With parent company | | With other entities from parent group | |
|---|---|---|---|---|
| | 30.06.2023 | 31.12.2022 | 30.06.2023 | 31.12.2022 |
| ASSETS | | | | |
| Loans and advances to banks - accounts and deposits | 2 374 | 2 575 | 0 | 0 |
| Financial assets held for trading | 0 | 32 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 |
| LIABILITIES | | | | |
| Loans and deposits from banks | 120 | 434 | 0 | 0 |
| Debt securities | 0 | 0 | 0 | 0 |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other liabilities | 0 | 0 | 9 | 68 |

| | With parent company | | With other entities from parent group | |
|---|---|---|---|---|
| | 1.01.2023-30.06.2023 | 1.01.2022-30.06.2022 | 1.01.2023-30.06.2023 | 1.01.2022-30.06.2022 |
| Income from: | | | | |
| Interest | 1 268 | (138) | 0 | 0 |
| Commissions | 54 | 96 | 0 | 0 |
| Financial assets and liabilities held for trading | 28 | 0 | 0 | 0 |
| Expense from: | | | | |
| Interest | 0 | 76 | 0 | 0 |
| Commissions | 0 | 0 | 0 | 0 |
| Financial assets and liabilities held for trading | 0 | 8 | 0 | 0 |
| Other net operating | 0 | 0 | 0 | 0 |
| Administrative expenses | 0 | 0 | 38 | 124 |

| | With parent company | | With other entities from parent group | |
|---|---|---|---|---|
| | 30.06.2023 | 31.12.2022 | 30.06.2023 | 31.12.2022 |
| Conditional commitments | 10 985 | 141 185 | 0 | 0 |
| granted | 0 | 120 593 | 0 | 0 |
| obtained | 10 985 | 20 593 | 0 | 0 |
| Derivatives (par value) | 0 | 13 705 | 0 | 0 |

## 7.2. TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

| Managing persons | 30.06.2023 | 31.12.2022 |
|---|---|---|
| Total debt limit (in '000 PLN) | 258.0 | 236.0 |
| - including an unutilized limit (in '000 PLN) | 139.3 | 178.5 |
| Mortgage loans and credits | - | - |
| Active guarantees | - | - |
| **Supervising persons** | **30.06.2023** | **31.12.2022** |
| Total debt limit (in '000 PLN) | 108.0 | 111.0 |
| - including an unutilized limit (in '000 PLN) | 90.9 | 106.0 |
| Mortgage loans and credits | - | - |
| Active guarantees | - | - |

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

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

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

| Period | Short term salaries | Benefits | TOTAL |
|---|---|---|---|
| 1.01-30.06.2023 | 7 000 | 1 081 | 8 081 |
| 1.01-30.06.2022 | 4 688 | 1 042 | 5 729 |

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

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

| Period | Short term salaries and benefits |
|---|---|
| 1.01-30.06.2023 | 1 013 |
| 1.01-30.06.2022 | 1 041 |

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

| Name and surname | Position/Function | Number of shares as of delivery date of I half 2023 report | Number of shares as of delivery date of annual report for year 2022 |
|---|---|---|---|
| Joao Nuno Lima Bras Jorge | Chairman of the Management Board, | **380 259** | **380 259** |
| Fernando Maria Cardoso Rodrigues Bicho | Deputy Chairman of the Management Board, | **176 252** | **176 252** |
| Wojciech Haase | Member of the Management Board | **151 107** | **151 107** |
| Andrzej Gliński | Member of the Management Board | **113 613** | **113 613** |
| Wojciech Rybak | Member of the Management Board | **143 613** | **143 613** |
| Antonio Ferreira Pinto Junior | Member of the Management Board | **143 613** | **143 613** |
| Jarosław Hermann | Member of the Management Board | **40 226** | **98 613** |

| Name and surname | Position/Function | Number of shares as of delivery date of I half 2023 report | Number of shares as of delivery date of annual report for year 2022 |
|---|---|---|---|
| Bogusław Kott | Chairman of the Supervisory Board | 1 000 | 1 000 |
| Nuno Manuel da Silva Amado | Deputy Chairman of the Supervisory Board | 0 | 0 |
| Dariusz Rosati | Deputy Chairman and Secretary of the Supervisory Board | 0 | 0 |
| Miguel de Campos Pereira de Bragança | Member of the Supervisory Board | 0 | 0 |
| Olga Grygier-Siddons | Member of the Supervisory Board | 0 | 0 |
| Anna Jakubowski | Member of the Supervisory Board | 0 | 0 |
| Grzegorz Jędrys | Member of the Supervisory Board | 0 | 0 |
| Alojzy Nowak | Member of the Supervisory Board | 0 | 0 |
| José Miguel Bensliman Schorcht da Silva Pessanha | Member of the Supervisory Board | 0 | 0 |
| Miguel Maya Dias Pinheiro | Member of the Supervisory Board | 0 | 0 |
| Beata Stelmach | Member of the Supervisory Board | 0 | 0 |
| Lingjiang Xu | Member of the Supervisory Board | 0 | 0 |

# 8. FAIR VALUE

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

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

Level 1 - valuation based on the data fully observable (active market quotations);
Level 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;
Level 3 - valuation models using unobservable data (not derived from an active market).

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

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

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

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

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

*Receivables and liabilities with respect to banks*

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

*Loans and advances granted to customers valued at amortised cost*

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

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

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

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

*Debt securities valued at amortised cost*

The fair value of debt securities at amortised cost (mainly Treasury bonds in the Held to Collect portfolio) was calculated on market quotations basis.

*Liabilities to customers*

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

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

*Subordinated liabilities, debt securities issued (synthetic securitisation) and medium-term loans*

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

The table below presents results of the above-described analyses as at 30.06.2023 (data in PLN thousand):

| | Note | Balance sheet value | Fair value |
|---|---|---|---|
| ASSETS MEASURED AT AMORTISED COST | | | |
| Debt securities | 15 | 14 467 969 | 14 517 311 |
| Deposits, loans and advances to banks and other monetary institutions | 15 | 532 220 | 532 221 |
| Loans and advances to customers* | 14 | 74 097 290 | 72 382 155 |
| LIABILITIES MEASURED AT AMORTISED COST | | | |
| Liabilities to banks and other monetary institutions | 19 | 522 954 | 522 990 |
| Liabilities to customers | 20 | 100 596 983 | 100 636 552 |
| Debt securities issued | 22 | 251 759 | 256 008 |
| Subordinated debt | 23 | 1 565 979 | 1 565 785 |

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

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

The table below presents data as at 31.12.2022 (data in PLN thousand):

| | Note | Balance sheet value | Fair value |
|---|---|---|---|
| ASSETS MEASURED AT AMORTISED COST | | | |
| Debt securities | 15 | 3 893 212 | 3 811 648 |
| Deposits, loans and advances to banks and other monetary institutions | 15 | 733 095 | 733 016 |
| Loans and advances to customers* | 14 | 76 467 181 | 74 107 571 |
| LIABILITIES MEASURED AT AMORTISED COST | | | |
| Liabilities to banks and other monetary institutions | 19 | 727 571 | 727 598 |
| Liabilities to customers | 20 | 98 038 516 | 98 063 169 |
| Debt securities issued | 22 | 243 753 | 244 519 |
| Subordinated debt | 23 | 1 568 083 | 1 568 949 |

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

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

Data in PLN'000, as at 30.06.2023

| | Note | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| ASSETS | | | | |
| Financial assets held for trading | 12 | | | |
| Valuation of derivatives | | | 148 075 | 347 331 |
| Equity instruments | | 115 | | |
| Debt securities | | 197 197 | | |
| Non-trading financial assets mandatorily at fair value through profit or loss | 14 | | | |
| Equity instruments | | | | 66 609 |
| Debt securities | | | | 77 206 |
| Loans and advances | | | | 54 780 |
| Financial assets at fair value through other comprehensive income | 13 | | | |
| Equity instruments | | 247 | | 24 131 |
| Debt securities | | 10 553 017 | 4 104 382 | |
| Derivatives – Hedge accounting | 16 | | 121 936 | |
| LIABILITIES | | | | |
| Financial liabilities held for trading | 12 | | | |
| Valuation of derivatives | | | 126 508 | 353 164 |
| Short positions | | 88 510 | | |
| Derivatives – Hedge accounting | 16 | | 329 630 | |

Data in PLN'000, as at 31.12.2022

| | Note | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| ASSETS | | | | |
| Financial assets held for trading | 12 | | | |
| Valuation of derivatives | | | 87 760 | 251 436 |
| Equity instruments | | 113 | | |
| Debt securities | | 24 210 | | |
| Non-trading financial assets mandatorily at fair value through profit or loss | 14 | | | |
| Equity instruments | | | 62 370 | 66 609 |
| Debt securities | | | | 72 057 |
| Loans and advances | | | | 97 982 |
| Financial assets at fair value through other comprehensive income | 13 | | | |
| Equity instruments | | 247 | | 24 149 |
| Debt securities | | 13 952 900 | 2 528 310 | |
| Derivatives – Hedge accounting | 16 | | 135 804 | |
| LIABILITIES | | | | |
| Financial liabilities held for trading | 12 | | | |
| Valuation of derivatives | | | 125 856 | 254 422 |
| Short positions | | 4 784 | | |
| Derivatives – Hedge accounting | 16 | | 554 544 | |

Using the criterion of valuation techniques as at 30.06.2023 Group classified into the third category following financial instruments:

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

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

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

| | Indexes options | Options embedded in securities issued and deposits | Shares | Debt securities | Loans and advances |
|---|---|---|---|---|---|
| **Balance on 01.01.2023** | **247 414** | **(250 400)** | **90 758** | **72 057** | **97 982** |
| Settlement/sell/purchase | 68 506 | (71 141) | 0 | 0 | (47 925) |
| Change of valuation recognized in equity | 0 | 0 | 0 | 0 | 0 |
| Interest income and other of similar nature | 0 | 0 | 0 | 0 | 6 965 |
| Results on financial assets and liabilities held for trading | 24 363 | (24 574) | 0 | 0 | 0 |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 0 | 0 | 0 | 5 149 | (2 242) |
| Result on exchange differences | 0 | 0 | (18) | 0 | 0 |
| **Balance on 30.06.2023** | **340 283** | **(346 115)** | **90 740** | **77 206** | **54 780** |

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

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

| | Indexes options | Options embedded in securities issued and deposits | Shares | Debt securities | Loans and advances |
|---|---|---|---|---|---|
| **Balance on 01.01.2022** | **28 397** | **(28 872)** | **95 046** | **127 499** | **362 992** |
| Settlement/sell/purchase | 214 404 | (216 420) | 85 | (60 296) | (306 117) |
| Change of valuation recognized in equity | 0 | 0 | (4 380) | 0 | 0 |
| Interest income and other of similar nature | 0 | 0 | 0 | 0 | 28 604 |
| Results on financial assets and liabilities held for trading | 4 613 | (5 109) | 0 | 0 | 0 |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 0 | 0 | 0 | 4 854 | 12 503 |
| Result on exchange differences | 0 | 0 | 7 | 0 | 0 |
| **Balance on 31.12.2022** | **247 414** | **(250 400)** | **90 758** | **72 057** | **97 982** |

# 9. CONTINGENT LIABILITIES AND ASSETS

## 9.1. LAWSUITS

Below please find the data on the court cases pending, brought up by and against entities of the Group. A separate category are the proceedings related to the activities of the Tax Control Authority described in **Chapter 4. note 11) "Corporate Income Tax"**.

**Court cases brought up by the Group**

Value of the court litigations, as at 30.06.2023, in which entities of the Group were a plaintiff, totalled PLN 2 437.8 million. The increase in the value of claims in cases brought by the Bank compared to previous periods results from the fact that lawsuits were filed against clients from the portfolio of foreign currency mortgage loans.

*Proceedings on infringement of collective consumer interests*

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

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

The Bank lodged an appeal within the statutory time limit.

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

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

The second instance court, in its judgment of February 24, 2022, completely revoked the decision of the OPCC Chairman. On August 31, 2022, the OPCC Chairman lodged a cassation appeal to the Supreme Court. The Bank believes that the prognosis regarding the litigation chances of winning the case before the Supreme Court is positive.

*Proceedings on competition-restricting practice*

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

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

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

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

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

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

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

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

The decision is not final and binding. The Bank appealed against the said decision within statutory term.

On March 31, 2022, the first instance court revoked the entire decision of the Chairman of the OPCC. On May 23, 2022, the Chairman of the OPCC filed an appeal. On October 26, 2022, the Court of Appeal changed the judgment of the court of first instance and shared the position of the Chairman of the OPCC as to the abusiveness of the provisions regarding the determination of exchange rates in the annexes concluded with foreign currency borrowers. On November 21, 2022, the Court of Appeals, at the request of the Bank, suspended the execution of the judgment until the end of the cassation proceedings. On January 30, 2023 the Bank filled a cassation appeal to the Supreme Court.

**Court cases against the Group**

As at 30.06.2023, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were following:

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

Other banks are the defendant. Plaintiffs in these cases also accuse banks of acting as part of an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2008-2014.

- A lawsuit brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment. The plaintiff filed the suit dated 23.10.2015 to the Regional Court in Warsaw; the suit was served to the Bank on 04.04.2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan concluded between the Bank and PCZ S.A., which resulted in placing the loan on demand. In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank. On May 10, 2023, the Court of First Instance announced a judgment dismissing the claim in its entirety. The verdict is not final and the plaintiff's appeal is expected.

As at 30.06.2023, the total value of the subjects of the other litigations in which the Group's companies appeared as defendant, stood at PLN 4,677.9 million (excluding the class actions described below and in the **Chapter 10)**. In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

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

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

Actual status:

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

By the resolution of 1 April 2020 the court established the composition of the group as per request of the plaintiff and decided to take witness evidence in writing and called on the parties to submit questions to the witnesses. The Bank submitted a pleading with questions to witnesses in July 2020. Currently, the court is collecting written testimony from witnesses. The hearing date was set for October 24, 2023.

As at 30 June 2023, there were also 158 individual court cases regarding LTV insurance (cases in which only a claim for the reimbursement of the commission or LTV insurance fee is presented).

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

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

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

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

**Court cases regarding mortgage loans in PLN**

By June 30, 2023, the Bank recorded the receipt of 26 lawsuits by borrowers of mortgage loans in PLN for reimbursement of benefits provided under the loan agreement. The borrowers' allegations focus on the WIBOR ratio as an incomprehensible, unverifiable element affecting the consumer's liability, as well as the issue of insufficient information on the effects of variable interest rates provided to the consumer by the bank before the conclusion of the contract.

Based on publicly available information, it can be assumed that there will be an increase in the number of lawsuits concerning mortgage loans in PLN. This phenomenon affects the entire sector of banking services. It is possible that a "new business model" will be created in the area of law firms, which consists in questioning mortgage contracts containing a variable interest rate clause based on the WIBOR reference index.

The Polish Financial Supervision Authority (KNF) announced that it had assessed the ability of the WIBOR interest rate reference index to measure the market and economic realities. The KNF stated that the WIBOR interest rate reference index is capable of measuring the market and economic realities for which it was established. According to the Commission's assessment, the WIBOR ratio responds appropriately to changes in liquidity conditions, changes in central bank rates and economic realities (https://www.knf.gov.pl/komunikacja/komunikaty?articleId=82924&p_id=18 ).

**FX mortgage loans legal risk**

FX mortgage loans legal risk is described in the **Chapter 10.** “Legal risk related to foreign currency mortgage loans”.

## 9.2. OFF – BALANCE ITEMS

| *Amount ‘000 PLN* | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| **Off-balance conditional commitments granted and received** | **15 166 516** | **14 995 570** | **15 162 308** | **15 723 210** |
| Commitments granted: | 12 543 519 | 12 485 327 | 12 830 458 | 13 372 384 |
| loan commitments | 10 922 091 | 10 603 958 | 10 782 601 | 11 460 363 |
| guarantee | 1 621 428 | 1 881 369 | 2 047 856 | 1 912 021 |
| Commitments received: | 2 622 997 | 2 510 243 | 2 331 850 | 2 350 827 |
| financial | 11 081 | 2 185 | 6 884 | 59 301 |
| guarantee | 2 611 916 | 2 508 058 | 2 324 966 | 2 291 526 |

# 10. LEGAL RISK RELATED TO FOREIGN CURRENCY MORTGAGE LOANS

## 10.1. COURT CLAIMS AND CURRENT PROVISIONS ON LEGAL RISK

On June 30, 2023, the Bank had 18,441 loan agreements and additionally 1,482 loan agreements from former Euro Bank 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 (70% loans agreements before the courts of first instance and 30% loans agreements before the courts of second instance) with the total value of claims filed by the plaintiffs amounting to PLN 3,415.6 million and CHF 237.5 million (Bank Millennium portfolio: PLN 3,138 million and CHF 231.5 million and former Euro Bank portfolio: PLN 277.6 million and CHF 6 million). Out of 18,441 BM loan agreements in ongoing individual cases 163 are also part of class action. From the total number of individual litigations against the Bank approximately 1700 or 9.4% were submitted by borrowers that had already naturally or early fully repaid the loan or were converted to polish zloty at the moment of submission and had not a settlement agreement and another 600 correspond to loans that were fully repaid since then (as court proceedings are lengthy).

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of paid principal and interest instalments as 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 directly grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3 273. Out of 3,273 loan agreements in class action 163 are also part of ongoing individual cases, 579 concluded settlements and 4 received final verdicts (invalidation of loan agreement). On 24 May 2022 the court issued a judgment on the merits, dismissing the claim in full. On 13 December 2022 the claimant filed an appeal against the judgment of 24 May 2022.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,985 individual claims were filed against the Bank (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,006 (265), in 2021 the number increased by 6,156 (423), in 2022 the number increased by 5,750 (407), while in the first half of 2023 the number increased by 3,237 (272).

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved against the banks. As far as the Bank Millennium (incl. former Euro Bank portfolio) is concerned, from 2015 until the end of the first half of 2023, 2,082 cases were finally resolved (2,011 in claims submitted by clients against the Bank and 71 in claims submitted by the Bank against clients i.e. debt collection cases) out of which 573 were settlements, 42 were remissions, 56 rulings were favorable for the Bank and 1,411 were unfavorable including both invalidation of loan agreements as well as conversions into PLN+LIBOR. The Bank files appeals against negative judgements of the courts of 1st instance. Simultaneously the Bank undertakes proper legal actions in order to secure repayment of initially disbursed capital of the loan.

The outstanding gross balance of the loan agreements under individual court cases and class action against the Bank (incl. former Euro Bank portfolio) on 30.06.2023 was PLN 5,730 million (of which the outstanding amount of the loan agreements under the class action proceeding was 826 million PLN).

If all Bank Millennium's originated loan agreements currently under individual and class action court proceedings would be declared invalid without any compensation for the use of capital, the pre-tax cost could reach PLN 5,851 million. Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

In the first half of 2023, the Bank created PLN 1 535,5 million of provisions for Bank Millennium originated portfolio and PLN 85,1 million for former Euro Bank originated portfolio. The balance sheet value of provisions for the Bank Millennium portfolio at the end of June 2023 was at the level of PLN 6,088 million, and PLN 474 million for former Euro Bank originated portfolio.

The methodology developed by the Bank of calculating provisions for legal risk involved with indexed loans is based on the following main parameters:

(1) the number of ongoing cases (including class action agreements) and potential future lawsuits that will arise within the specified (three-year) time horizon. As regards the increase in the number of future court cases, the Bank monitors customer behaviours, follows market trends and expert comments, which resulted in the adjustment of previous assumptions. As a result, in the methodology of calculating provisions for legal risk in the case of active loans (loans with an outstanding balance as at the date of filing the lawsuit), the Bank increased the estimated percentage of customers with active contracts who already filed or will decide to file a lawsuit against the Bank to 70% of active loan agreements (compared to 55% at the end of 2022). As of end of June, the Bank had 35 417 active CHF loan agreements. Another 19,485 agreements have been subject of a settlement agreement with the borrowers and about 45,000 loans have been naturally or early fully repaid or converted to polish zloty and not subject of a settlement agreement. Regarding loans already fully repaid or converted to polish zloty, the Bank attributes a much lower probability of becoming the subject of a court case based on statistical analysis. In particular: a) the Bank assesses the risk connected with the settlements reached with the clients in the past as negligible b) from the group of loans that have been repaid (naturally or early, or converted into polish zloty loan) and were not subject of a settlement agreement, the Bank assumes that about 1,3 thousands will decide to sue the Bank in the future.

(2) the currently estimated amount of the Bank's potential loss in the event of a specific court judgment,

(3) the probability of obtaining a specific court judgment calculated on the basis of statistics of judgments in cases where Bank is a party and legal opinions obtained,

(4) after the decision of the CJEU in case C-520/21, with particular emphasis on the extent to which provisions for legal risk may increase as a result of a negative judgment understood as no remuneration for the Bank for the use of capital, the Bank changed the methodology of calculating provisions and eliminated an element related to remuneration for the Bank for the use of capital,

(5) in accordance with legal opinions, the Bank does not include in the methodology for calculating provisions the element related to the potential claim for remuneration for the client in connection with the repayments made by him,

(6) estimates involved with amicable settlements with clients, concluded in court or out of court

   a. the Bank assumes 15% probability of success of reaching a settlement within negotiations made with clients during court proceedings,

   b. negotiations in court or out of court are conducted on a case-by-case basis and can be stopped at any time by the Bank

   c. due to significant negotiation efforts already made in the past, the probability of success in these negotiations in the future is decreasing, and at the same time most customers have already contacted the Bank regarding the possible conversion of loans into PLN, so at the moment the Bank adopts a conservative approach when taking into account the potential impact of this factor.

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 originated by Bank Millennium decreased by 19,485: 1,362 in 2020; 8,450 in 2021; 7,943 in 2022 and 1,730 in the first half of 2023. As of the end of the first half of 2023, the Bank had 35,417 active FX mortgage loans. Cost incurred in conjunctions with these negotiations totalled PLN 1,104.6 million: PLN 44.4 million in 2020; PLN 364.6 million in 2021; PLN 515.2 million in 2022 and PLN 180.7 million in the first half of 2023 is presented mainly in 'Result on exchange differences' and also in 'Result on modification' in the profit and loss statement (the values of costs charged to particular items of the Income Statement due to settlements are presented in Note 10 in Chapter 4 of the Notes to the Financial Statements).

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

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

| Parameter | Scenario | Impact on the loss |
|---|---|---|
| Change in the number of litigation | In addition, 1,000 new customers file a lawsuit against the Bank | PLN 163 mln |
| Change of estimated losses for each variant of judgment | Change of losses for each judgment variant by 1 p.p | PLN 60 mln |
| Change in probability of success in negotiations with court client | Change of probability by 1 p.p | PLN 25 mln |

On December 8, 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority ('PFSA') proposed a 'sector' solution to address the sector risks related to FX mortgages. The solution would consist in offering banks' clients a voluntary possibility of concluding arrangements based on which a client would settle a CHF Mortgage Loan as if it was a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans. As of the date of this Base Prospectus, the Bank has not taken any decision regarding the implementation of this solution, but cannot exclude implementing it in the future. The decision to generally implement this solution could imply the need of creating upfront provisions for the losses resulting from the conversion of CHF Mortgage Loans. The Bank in practice has been using elements of such solution on many individual negotiations with FX mortgage borrowers, including in the course of court proceedings.

Due to the circumstances stemming from the CJEU verdict in case C-520/21 (below described), the possibility of successful implementation of a general offer of KNF solution is low.

Finally it should also be mentioned, that the Bank, as at 30.06.2023, 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 1.95 p.p. (1.94 p.p. at the Group level), part of which is allocated to operational/legal risk.

**CJEU and Supreme Court rulings relevant to risk assessment**

*Jurisprudence of Court of Justice of the European Union*

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

The CJEU judgment concerns only the situation where the national court has previously found the contract term to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be regarded as abusive in the circumstances of the case.

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

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

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

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

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

On November 18, 2021, the Court of Justice of the European Union (CJEU) issued a judgment in case C-212/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Raiffeisen Bank International AG. The CJEU stated that:

(i) The content of the clause of the loan agreement concluded between the entrepreneur and the consumer fixing the purchase and sale price of the foreign currency to which the loan is indexed should, on the basis of clear and comprehensible criteria, enable the consumer who is reasonably well informed and sufficiently observant and rational to understand how the exchange rate of the foreign currency used to calculate the amount of the loan instalments is determined, so that the consumer is able to determine himself at any time the exchange rate used by the entrepreneur.

(ii) A national court which has found that a term of the agreement concluded between an entrepreneur and a consumer is unfair cannot interpret that term in order to mitigate its unfairness, even if such an interpretation would correspond to the common will of the parties.

On 10 June 2021, the Court of Justice of the European Union (CJEU) issued an order in case C-198/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Santander Bank Polska SA. The CJEU stated that the protection provided for in Council Directive 93/13/EEC is granted to all consumers, not just those who can be considered to be "duly informed and reasonably observant and circumspect average consumer".

On 8 September 2022, the Court of Justice of the European Union (CJEU) issued a judgment in joined cases C-80/21, C-81/21, C-82/21 in connection with questions submitted by the District Court for Warsaw Śródmieście in Warsaw in cases against Deutsche Bank SA and mBank SA. The CJEU stated that:

(i) A national court may find that the parts of a contractual term of the agreement concluded between a consumer and an entrepreneur which render it unfair are unfair, if such a deletion would not amount to a change in the content of that term that affects its substance, which is for the referring court to verify.

(ii) A national court cannot, after annulling an unfair term contained in an agreement concluded between a consumer and an entrepreneur which does not render the agreement invalid in its entirety, replace that term with a supplementary provision of the national law.

(iii) A national court may not, after having declared invalid an unfair term contained in an agreement concluded between a consumer and an entrepreneur which entails the invalidity of that agreement in its entirety, replace the contractual term which has been declared invalid either by interpretation of the parties' declaration of intent in order to avoid the cancellation of that agreement or by a provision of national law of a supplementary nature, even if the consumer has been informed of the effects of the invalidity of that agreement, and accepted them.

(iv) The ten-year limitation period for a consumer's claim seeking reimbursement of sums unduly paid to the entrepreneur in performance of an unfair term of a loan agreement does not start to run on the date of each performance made by the consumer if the consumer was not able on that date to assess on his own the unfairness of the contractual term or if he had not become aware of the unfair nature of that term and without taking into account the circumstances that the agreement provided for a repayment period – in this case thirty years – well in excess of the ten-year statutory limitation period.

On March 16, 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-6/22, following preliminary questions submitted by the District Court for Warsaw-Wola in a case against the former Getin Bank S.A.. In the judgment, the CJEU ruled that:

i) in the event that a contract concluded between a consumer and a seller or supplier is declared invalid because one of its terms is unfair, it is for the Member States, by means of their national law, to make provision for the effects of that invalidation, in compliance with the protection granted to the consumer by that directive, in particular, by ensuring the restoration of the legal and factual situation that he or she would have been in if that unfair term had not existed.

ii) a national court is not allowed, first, to examine of its own motion, without any prerogative conferred on it by national law in that regard, the financial situation of a consumer who has sought the invalidation of the contract between him or her and a seller or supplier on account of the presence of an unfair term without which the contract cannot legally continue to exist, even if that invalidation is liable to expose the consumer to particularly unfavourable consequences and, second, to refuse to declare that invalidation where the consumer has expressly sought it, after being objectively and exhaustively informed of the legal consequences and the particularly unfavourable financial consequences which it may have for him or her.

iii) a national court is not allowed, after it has found that a term in a contract concluded between a seller or supplier and a consumer is unfair, to fill gaps resulting from the removal of the unfair term contained therein by the application of a provision of national law which cannot be characterised as a supplementary provision. However, it is for the national court, taking account of its domestic law as a whole, to take all the measures necessary to protect the consumer from the particularly unfavourable consequences which annulment of the contract might entail for him or her.

On June 8, 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-570/21, following preliminary questions submitted by the District Court in Warsaw in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that:

i) provisions of Council Directive 93/13 must be interpreted as meaning that the concept of 'consumer', within the meaning of that provision, covers a person who has concluded a loan contract intended for a purpose in part within and in part outside his or her trade, business or profession, together with a joint-borrower who did not act within his or her trade, business or profession, where the trade, business or professional purpose is so limited as not to be predominant in the overall context of that contract.

ii) provisions of Directive 93/13 must be interpreted as meaning that in order to determine whether a person falls within the concept of 'consumer', within the meaning of that provision, and, specifically, whether the trade, business or professional purpose of a loan contract concluded by that person is so limited as not to be predominant in the overall context of that contract, the referring court is required to take into consideration all the relevant circumstances surrounding that contract, both quantitative and qualitative, such as, in particular, the distribution of the borrowed capital between, on the one hand, a trade, business or profession and, on the other hand, a non-professional activity and, where there are several borrowers, the fact that only one of them is pursuing a professional purpose or that the lender made the grant of credit intended for consumer purposes conditional on a partial allocation of the amount borrowed to the repayment of debts connected with a trade, business or profession.

On June 15, 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-287/22, following preliminary questions submitted by the District Court in Warsaw in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that provisions of the Directive 93/13 must be interpreted as precluding national case-law according to which a national court may dismiss an application for the grant of interim measures lodged by a consumer seeking the suspension, pending a final decision on the invalidity of the loan agreement concluded by that consumer on the ground that that loan agreement contains unfair terms, of the payment of the monthly instalments due under that loan agreement, where the grant of those interim measures is necessary to ensure the full effectiveness of that decision.

On June 15, 2023, the CJEU issued a judgment in a case registered under case number C-520/21, following preliminary questions submitted by the District Court in Warsaw in a case against Bank Millennium, in which indicated that Directive 93/13 does not expressly regulate the consequences of invalidity of a contract concluded between a credit institution and a consumer after the removal of unfair terms contained therein. The CJEU stated that:

i) the provisions of the Directive do not preclude a judicial interpretation of national law, according to which the consumer has the right to demand compensation from the credit institution beyond the reimbursement of monthly instalments and costs paid for the performance of this contract and the payment of statutory default interest from the date of the request for payment provided that the objectives of Directive 93/13 and the principle of proportionality are respected.

ii) the provisions of Directive 93/13 preclude the judicial interpretation of national law, according to which a credit institution has the right to demand compensation from the consumer that goes beyond the return of the capital paid for the performance of this contract and beyond the payment of statutory default interest from the date of the request for payment.

*Jurisprudence of Polish the Supreme Court*

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

1. An abusive contractual clause (art. 385(1) § 1 of the Civil Code), by force of the law itself, is ineffective to the benefit of the consumer who may consequently give conscious and free consent to this clause and thus restore its effectiveness retroactively.

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

On April 28, 2022 the Supreme Court issued a resolution (III CZP 40/22) in which it indicated that in disputes with consumers, the provision of Article 358(1) of the Civil Code is a special provision to Article 353(1) of the Civil Code, which means that if the prerequisites for the application of both provisions exist, the court should apply the special provision and declare the contractual provision permanently ineffective, rather than invalid. This decision of the Supreme Court should be perceived as significantly limiting the risk of the bank's claims for return of capital being time-barred.

The effect of the Supreme Court's resolution of 7 May 2021 is that the bank is entitled to a refund of the cash benefit provided by the bank in performance of a permanently ineffective contract. Taking into account the uncertainty as to the starting point of the limitation period for the bank's claims, the Bank, in order to protect its interests, files lawsuits for payment against borrowers in a court dispute with the bank. The bank's demand consists of a claim for return of the capital made available to the borrower under the contract. After the CJEU verdict of June 15, 2023, in case C-520/21, it seems that the issue that requires further analysis is whether the return of the originally disbursed capital should be made at nominal value or with the loss of purchasing power of money taken into account. By 30 June 2023 the Bank filed 4.8 thousands lawsuits against the borrowers.

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

## 10.2. EVENTS THAT MAY IMPACT FX MORTGAGE LEGAL RISK AND RELATED PROVISION

It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court have already been filed and may still be filed with potential impact on the outcome of the court cases.

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

On 11 May 2021 the Civil Chamber of the Supreme Court requested opinions on Swiss franc mortgage loans from five institutions including the National Bank of Poland (NBP), the Polish Financial Supervision Authority (UKNF), the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

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

In the next meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known.

On 9 December 2022, in the case brought by the Bank against the borrower for payment – return of the capital made available to the borrower on the basis of an invalid capital contract and the equivalent value of the benefit related to the borrower's use of capital, the court referred a question to the CJEU for a preliminary ruling whether, if it is found that the loan contract concluded by the bank and the consumer is invalid from the beginning due to the conclusion of unfair contractual terms, in addition to the return of money paid in the performance of this contract (loan principal) and statutory late payment interest from the moment of the request for payment, the bank may also demand any other benefits, including receivables, in particular remuneration, compensation, reimbursement of costs or valorisation of the benefit. The case was suspended for the duration of Case C-520/21. As a result of the judgment in Case C-520/21, the case became a pending case, but there are doubts whether it will be continued due to the judgment in said Case C-520/21.

The subject of the CJEU's analysis, as a result of the Warsaw District Court's questions remains the issues related to the limitation period of the Bank's and the customer's restitution claims following the collapse of the loan agreement (Cases: C-28/22 ; C-140/22). Legal interpretations in these cases may be particularly significant for the Bank's claims as to the commencement of the running of the limitation period of its claims, by eliminating or confirming the risk of its claims being deemed time-barred in a given case.

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

The Supreme Court was also presented with the issue of whether the loan agreement is a mutual agreement in the light of the regulations concerning retention right (III CZP 89/22).

Due to the complexity and uncertainty regarding the outcome of court cases, including counter-claims, as well as other negotiation solutions or from potential Supreme Court decisions or European Court of Justice decisions, it is difficult to reliably estimate final impacts from different potential outcomes as at the date of publication of the financial statements.

The issue that remains unresolved in the jurisprudence of common courts and the Supreme Court is also the issue of the admissibility of borrowers' claims in the event of the invalidity of a loan agreement for payment of amounts beyond the reimbursement of monthly installments and costs paid for the execution of that agreement and beyond the payment of statutory default interest from the date of the demand for payment, which, in light of the CJEU's judgment of June 15, 2023 in case C-520/21, remains not excluded. Due to the uncertainty of the direction of case law in this area, as of the date of publication of the report, it is difficult to reliably assess the impact of potential rulings.

# 11. ADDITIONAL INFORMATION

## 11.1. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 30.06.2023 r. (PLN'000):

| No. | Type of assets | Portfolio | Secured liability | Par value of assets | Balance sheet value of assets |
|---|---|---|---|---|---|
| 1. | Treasury Bonds WZ1126 | Held to Collect and for Sale | Lombard credit granted to the Bank by the NBP | 150 000 | 148 289 |
| 2. | Treasury Bonds DS0727 | Held to maturity | Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund | 255 000 | 232 040 |
| 3. | Treasury Bonds DS0726 | Held to maturity | Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund | 52 000 | 48 696 |
| 4. | Treasury Bonds PS0527 | Held to maturity | Security of payment obligation to BFG contribution - guarantee fund | 142 000 | 133 067 |
| 5. | Treasury Bonds DS0726 | Held to maturity | Security of payment obligation to BFG contribution - compulsory resolution fund | 135 000 | 126 422 |
| 6. | Treasury Bonds WZ0124 | Held to Collect and for Sale | pledge on the Bank's account related to a securitization transaction | 220 000 | 227 594 |
| 7. | Treasury Bonds WZ0524 | Held to Collect and for Sale | pledge on the Bank's account related to a securitization transaction | 50 000 | 50 385 |
| 8. | Treasury Bonds PS0527 | Held to maturity | financial pledge on the Bank's account in the brokerage house | 64 850 | 60 770 |
| 9. | Treasury Bonds PS0527 | Held to maturity | financial pledge on the Bank's account in the brokerage house | 583 659 | 546 941 |
| 10. | Cash | receivables | initial settlement deposit in KDPW CCP (MAGB) | 7 000 | 7 000 |
| 11. | Cash | receivables | Settlement on transactions concluded | 2 098 | 2 098 |
| 12. | Cash | receivables | Settlement on transactions concluded | 975 | 975 |
| 13. | Cash | receivables | rozliczenie z tytułu zawartych transakcji | 53 029 | 53 029 |
| 14. | Deposits placed | Deposits in banks | rozliczenie z tytułu zawartych transakcji | 228 356 | 228 588 |
| | | | TOTAL | 1 943 967 | 1 865 894 |

In addition, as at June 30, 2023, the Group had concluded short-term (usually settled within 7 days) transactions of sale of treasury securities with a repurchase agreement, the subject of which were securities worth PLN 349,851 thousand.

As at 31.12.2022 r. (PLN'000):

| No. | Type of assets | Portfolio | Secured liability | Par value of assets | Balance sheet value of assets |
|---|---|---|---|---|---|
| 1. | Treasury bonds OK0423 | Held to Collect and for Sale | Lombard credit granted to the Bank by the NBP | 130 000 | 127 582 |
| 2. | Treasury bonds OK0423 | Held to Collect and for Sale | Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund | 314 000 | 308 160 |
| 3. | Treasury bonds OK0423 | Held to Collect and for Sale | Security of payment obligation to BFG contribution - guarantee fund | 134 100 | 131 606 |
| 4. | Treasury bonds OK0423 | Held to Collect and for Sale | Security of payment obligation to BFG contribution - compulsory resolution fund | 124 000 | 121 694 |
| 5. | Cash | receivables | initial settlement deposit in KDPW CCP (MAGB) | 5 000 | 5 000 |
| 6. | Cash | receivables | ASO guarantee fund (PAGB) | 172 | 172 |
| 7. | Cash | receivables | payment to the OTC Guarantee Fund - KDPW_CCP | 304 | 304 |
| 8. | Cash | receivables | Settlement on transactions concluded | 106 797 | 106 797 |
| 9. | Deposits | Deposits in banks | Settlement on transactions concluded | 403 647 | 403 647 |
| | | | TOTAL | 1 218 020 | 1 204 960 |

As at 31 December 2022, the Group did not have concluded transactions of sale of treasury securities with repurchase agreements.

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

Following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

As at 30.06.2023

| Type of security | Par value | Balance sheet value |
|---|---|---|
| Treasury bonds | 353 151 | 349 851 |
| TOTAL | 353 151 | 349 851 |

As at 31.12.2022

| Type of security | Par value | Balance sheet value |
|---|---|---|
| Treasury bonds | 0 | 0 |
| TOTAL | 0 | 0 |

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

## 11.3. 2022 DIVIDEND

Bank Millennium has a dividend policy of distribution between 35% and 50% of net profit, taking into account supervisory recommendations. The Bank recorded a net loss in 2022, mainly as a result of recognizing the impact of credit holidays and creating provisions for legal risk related to foreign currency mortgage loans, additionally the Bank continues to realize the Capital Protection Plan hence there was no basis for the payment of dividends. The Management Board of the Bank presented a proposal and the Ordinary General Meeting of the Bank, held on March 30, 2023, decided to allocate the amount of PLN 1,029,898,772.97 from the reserve capital to cover the loss incurred in 2022.

## 11.4. EARNINGS PER SHARE

Profit per share calculated for 1st half of 2023 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.30.

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

According to the information available to the Bank, with regard to shareholders holding over 5% of votes at the General Meeting, the Bank's shareholders are the following entities

| Shareholder as at 30.06.2023 | Number of shares | % share in share capital | Number of votes | % share in votes at Shareholders' Meeting |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 607 771 505 | 50.10 | 607 771 505 | 50.10 |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 107 970 039 | 8.90 | 107 970 039 | 8.90 |
| Allianz Polska OFE | 96 792 815 | 7.98 | 96 792 815 | 7.98 |
| Otwarty Fundusz Emerytalny PZU „Złota Jesień” | 67 417 542 | 5.56 | 67 417 542 | 5.56 |

The data contained in the table have been determined according to the rules described below. With regard to Banco Comercial Portugues S.A. these are data collected in connection with the registration of shareholders entitled to participate in the Ordinary General Meeting of Shareholders held on March 30, 2023. However, in the scope of Nationale-Nederlanden Otwarty Fundusz Emerytalny and Otwarty Fundusz Emerytalny PZU "Złota Jesień", the number of shares and their participation in the share capital of the Bank were calculated on the basis of the annual structure of assets of the above mentioned Funds as at 30 December 2022 (announced on the websites respectively: www.nn.pl and www.pzu.pl). In terms of the calculations made on the basis of the annual structures of the above mentioned funds, the volume-weighted average price (VWAP) of the Bank's shares was assumed at PLN 4.6013. Information on Allianz Polska Otwarty Fundusz Emerytalny was provided on the basis of a notification from PTE Allianz Polska S.A. of May 15, 2023 (Bank's current report No. 18/2023).

| Shareholder as at 31.12.2022 | Number of shares | % share in share capital | Number of votes | % share in votes at Shareholders' Meeting |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 607 771 505 | 50.10 | 607 771 505 | 50.10 |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 107 970 039 | 8,90 | 107 970 039 | 8,90 |
| Allianz Polska OFE + Drugi Allianz Polska OFE (*) | 96 792 815(*) | 7,98(*) | 96 792 815(*) | 7,98(*) |
| Otwarty Fundusz Emerytalny PZU „Złota Jesień" | 67 417 542 | 5,56 | 67 417 542 | 5,56 |

(*) Additionally, PTE Allianz Polska S.A. manages the , Allianz Polska Dobrowolny Fundusz Emerytalny. Pursuant to the notification of PTE Allianz Polska S.A., published by the Bank in Current Report No. 3/2023, Allianz Polska Dobrowolny Fundusz Emerytalny, Allianz Polska OFE and Drugi Allianz Polska OFE held jointly 96,810,815 shares in the Bank (7.98% of votes), including Second Allianz Polska OFE 80,760,035 shares of the Bank (6.66% of votes).

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

In the 1st half of 2023, the Group did not grant any sureties or guarantees for a loan or bank loan which would cause the Group's exposure on this account as at 30 June 2023 to be significant.

## 11.7. SEASONALITY AND BUSINESS CYCLES

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

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

As at 30 June 2023, the Group has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed consolidated statements, Group did not:

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

## REFORM OF BENCHMARKS

### 1. WIBOR

In May 2022, the Polish government announced that WIBOR would be replaced by a different (lower) rate from 1 January 2023. In June 2022, a Working Group was established, including commercial banks, GPW Benchmark (Administrator of WIBOR), KNF.

In July 2022, the National Working Group on Reference Rate Reform (NWG) was established in connection with the planned reform of reference rates in Poland. The objective of the NGR's work to introduce a new interest rate benchmark and replace the currently used WIBOR index with it while ensuring the compliance with BMR, including in particular ensuring credibility, transparency and reliability in the development and application of the new benchmark.

The National Working Group involves representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the GPW Benchmark, as well as representatives of credit institutions, i.e. in particular, banks, financial institutions, including investment funds, insurance companies, factoring and leasing companies, entities that are bond issuers, including corporate and municipal bonds, clearing houses.

The work of the National Working Group is coordinated and supervised by a Steering Committee including representatives of key institutions: Financial Supervision Authority, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, as well as the GPW Benchmark - the administrator of the reference rates - and the Polish Bank Association (Polish: Związek Banków Polskich).

The NWG's activities are executed in a project formula, where project streams have been identified and where Bank Millennium representatives are actively contributing to the work.

The National Working Group selected the WIRON index to become the key interest rate benchmark under the BMR and to be used in financial contracts, financial instruments.

In connection with this, Bank Millennium S.A. established, by resolution of the Bank's Management Board of 24 August 2022, an internal project reporting to the Management Board (Deputy Chairman of the Management Board - CFO and Member of the Management Board overseeing the areas of retail and corporate products), in order to duly manage the WIBOR to WIRON transition process and to implement the work in accordance with the roadmap. This work involves representatives from a significant number of the Bank's business units, including, in particular, representatives responsible for product areas and risk management issues, including, in particular, interest rate risk and operational risk. The structure of the project includes the division into streams covering products and processes where the WIBOR benchmark is applied, the management of the project by a dedicated project manager and the periodical reporting of statuses on the individual streams. In the current phase of the project, intensive work is underway at the Bank to adjust the technological infrastructure, as well as including the preparation of internal processes and documentation.

The Bank uses the WIBOR reference rate in the following products (in million PLN):

- mortgage loans: 27 141.85 only mortgage loans based on WIBOR (excluding loans currently with temporary fixed rate);
- loan products, factoring and corporate discounting products: 18 239.20;
- debt instruments (4 716.12);
  - Assets: 2 943.62
  - Liabilities: 1 772.50
- derivative instruments: 20 916.22

The Bank also applies instruments based on WIBOR benchmarks in hedge accounting, details of the hedging relationships used by the Group, the items designated as hedged and hedging and the presentation of the result on these transactions are presented in Note 16 "Derivatives - Hedge accounting" in Chapter 4 "Notes to the Consolidated Financial Statements.

Bank Millennium S.A. is working on the analysis of the risks and monitors them on a regular basis. In addition, due to the lack of formal information regarding the potential regulatory event referred to in Article 23c(1) of the BMR, the lack of a regulation of the Minister of Finance referred to in Article 61c of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system concerning a substitute or at least a draft of such a regulation, the lack of information on the amount of the adjustment spread or the method of calculating this spread as well as the lack of a market for hedging instruments and given the current stage of the work of the National Working Group and the implementation of the Roadmap, it is currently not possible to estimate the financial impact of the WIBOR reform.

In March 2023, the Steering Committee of the National Working Group on Benchmark Reform adopted recommendations on new products, both banking, leasing and factoring, as well as previously published ones on bonds and derivatives.

In July 2023, the NWG SC adopted a Recommendation on applying a fallback rate for WIBOR benchmark in interest rate derivatives. The recommendation presents the method of replacing WIBOR with an Alternative Benchmark in WIBOR-based interest rate derivatives in the event where a Fallback Trigger of a permanent nature occurs.

**2. LIBOR USD**

The Bank applies the USD LIBOR benchmark to the following products (in million PLN):

- Retail banking/mortgage portfolio: 3.30;
- Corporate banking:13.63 (*)

*(*) From 1 July 2023, these products are based on the SOFR O/N rate.*

On 3 April 2023, the Financial Conduct Authority supervising ICE Benchmark Administration Limited announced a decision regarding the future of LIBOR USD 3M and LIBOR USD 6M. FCA indicated that LIBOR USD 3M and LIBOR USD 6M will continue to be calculated and published after 30 June 2023 using the revised „synthetic" methodology, most likely until 30 September 2024. Considering the marginal number of such contracts in the Bank's portfolio, Bank is taking effort to implement individual approach to each of these contracts.

**SECURITIZATION**

On July 12, 2023, Millennium Leasing Sp. z o. o. concluded a Transaction of synthetic securitization of lease receivables with transfer of risk within the meaning of Art. 2 point 10) of Regulation (EU) No. 2402/2017 of the European Parliament and of the Council establishing a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011 /61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012 as amended ("Securitization Regulation").

As part of the Transaction, Millennium Leasing securitized synthetic exposures consisting of receivables arising from lease agreements generated in the ordinary course of business of Millennium Leasing ("Reference Receivables") with a value of PLN 4,028 million, including the purchase of credit risk protection covering losses which, according to with transaction documents will be allocated to the Mezzanine Tranche worth PLN 280 million, in the form of financed credit linked notes (CLN) issued directly by Millennium Leasing sp. z o.o. and acquired by Precise Credit Solutions 11 S.à r.l. based in Luxembourg.

The CLN bonds will be listed on the Vienna Stock Exchange and Millennium Leasing's performance of the obligation to pay interest and redemption of the bonds is secured by debt securities (treasury bonds in the amount of 110% of the issued CLN amount). Pursuant to and subject to the terms of the transaction documents, the principal amount of the CLN bonds will be reduced by the amount of each credit loss allocated to the Mezzanine Tranche following the occurrence of a credit event with respect to the Reference Receivable.

Forementioned transaction will have an estimated positive impact in July on Group Tier 1 ratio of ca 47 bps and on Group Total Capital Ratio of ca 62 bps.

| Date | Name and surname | Position/Function | Signature |
|---|---|---|---|
| 25.07.2023 | Joao Bras Jorge | Chairman of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Fernando Bicho | Deputy Chairman of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Wojciech Haase | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Andrzej Gliński | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Wojciech Rybak | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Antonio Pinto Junior | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Jarosław Hermann | Member of the Management Board | Signed by a qualified electronic signature |

# Condensed Interim Standalone Financial Statements of the Bank Millennium S.A. for the 6 months ended 30 June 2023

## Contents

# 1. INTRODUCTION AND ACCOUNTING POLICY

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2022.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the six months ending June 30, 2023.

Condensed interim financial statements of the Bank:

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

In addition to financial data these condensed interim financial statements of the Bank also presents information and data that is important for appropriate assessment of the Bank's economic and financial situation and its financial performance, and which was not included in the condensed interim consolidated statements of the Group for the six months period ended 30 June 2023. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the six months period ended 30 June 2023 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

All data for quarterly periods presented in these condensed interim financial statements of the Bank have not been audited or reviewed by a statutory auditor.

In 2023 Bank continues to realize Capital Protection Plan submitted to PFSA 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), PFSA approved this plan on 28th October 2022. The Plan foresees the increase of 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).

Since launching the Plan the Bank/Group managed to significantly improve its capital ratios, bringing them clearly above the new regulatory requirements (without P2G): as of 30th June 2023 Tier 1 ratio stood 146 bps (Bank) and 148 bps (Group) above minimum requirement and Total Capital Ratio stood 207 bps (Bank) and 208 bps (Group) above minimum requirement. In July 2023, these ratios were further strengthened after conclusion of another synthetic securitisation transaction which had an estimated positive impact on Group Tier 1 ratio of ca 47 bps and on Group Total Capital Ratio of ca 62 bps. Assuming no other extraordinary factors, the Bank plans to keep capital ratios above the minimum required levels throughout the year of 2023.

The Bank monitors, on the current basis, the financial situation and, if needed, will undertake actions to launch additional remedial activities. In particular, the Bank is aware of potential risks connected with potential extension of so-called Credit Holidays for 2024. If such risk would materialize, it could imply additional provisions that would decrease the net result of the Bank/Group. Additionally, further negative developments regarding the legal risk of FX mortgage loans could imply the need to increase the level of provisions for such risk apart from the provisions that might result from current trends. In the Bank's view, these events, if materialized, would adversely affect the results of the Bank/Group in 2023-2024, and would reduce the organic generation of capital that is envisaged, but would not prevent the Bank/Group from continuing to implement its strategy and the generation of results that would mitigate the impact of such events.

The liquidity position of Bank Millennium Group remained very strong in 1H 2023. LCR ratio reached the level of 260% at the of June 2023, well above the supervisory minimum of 100%. Loan-to-deposit ratio remained at secure level of 74% and the share of liquid debt securities (mainly bonds issued by the sovereigns, multilateral development banks and NBP bills) in the Group's total assets remains significant at 25%.

At same time the Bank achieved good operational and business results, while actively managing and mitigating the different risks related to the banking activity. Taking into account the above circumstances and identified uncertainties, in particular, the Bank's capacity to meet capital solvency ratios and MREL requirements in subsequent reporting periods - the Bank's Management Board based on the analysis of all aspects of the Bank's operations and its current and forecast financial position, concluded that the application of the going concern assumption in the preparation of these financial statements is appropriate.

The Management Board approved these condensed interim financial statements on 25th July 2023.

# 2. STANDALONE FINANCIAL DATA (BANK)

## STATEMENT OF PROFIT AND LOSS

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Net interest income | 2 532 402 | 1 300 328 | 2 072 827 | 1 141 966 |
| Interest income and other of similar nature | 4 097 707 | 2 054 924 | 2 483 728 | 1 455 257 |
| Income calculated using the effective interest method | 4 047 565 | 2 029 111 | 2 515 127 | 1 480 316 |
| Interest income from Financial assets at amortised cost | 3 121 653 | 1 590 843 | 2 031 107 | 1 197 786 |
| Interest income from Financial assets at fair value through other comprehensive income | 925 912 | 438 268 | 484 020 | 282 530 |
| Result of similar nature to interest from Financial assets at fair value through profit or loss | 50 142 | 25 813 | (31 399) | (25 059) |
| Interest expenses | (1 565 305) | (754 596) | (410 901) | (313 291) |
| Net fee and commission income | 354 658 | 177 541 | 376 663 | 182 736 |
| Fee and commission income | 463 085 | 232 311 | 463 131 | 229 823 |
| Fee and commission expenses | (108 427) | (54 770) | (86 468) | (47 087) |
| Dividend income | 31 833 | 2 922 | 44 856 | 2 761 |
| Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss | 540 643 | (5 580) | (1 265) | (397) |
| Results on financial assets and liabilities held for trading | 1 394 | (1 721) | (5 339) | (2 540) |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 7 266 | 1 365 | 2 341 | (8 485) |
| Result on hedge accounting | 309 | (13) | (3 346) | (676) |
| Result on exchange differences | (21 357) | (12 744) | (123 013) | (59 932) |
| Other operating income | 160 983 | 56 719 | 123 548 | 57 842 |
| Other operating expenses | (124 092) | (64 724) | (53 394) | (31 420) |
| Administrative expenses | (832 458) | (378 527) | (1 022 546) | (605 691) |
| Impairment losses on financial assets | (130 738) | (34 349) | (125 163) | (55 106) |
| Impairment losses on non-financial assets | 230 | (1 503) | (2 969) | (347) |
| Provisions for legal risk connected with FX mortgage loans | (1 620 620) | (756 970) | (1 014 630) | (515 450) |
| Result on modification | (53 550) | (25 718) | (8 804) | (5 027) |
| Depreciation | (103 219) | (51 749) | (101 188) | (51 119) |
| Share of the profit of investments in subsidiaries | 0 | 0 | 0 | 0 |
| Banking tax | 0 | 0 | (168 824) | (86 840) |
| **Profit before income taxes** | 743 684 | 205 277 | **(10 246)** | **(37 725)** |
| Corporate income tax | (405 037) | (128 246) | (246 552) | (121 974) |
| **Profit after taxes** | 338 647 | 77 031 | **(256 798)** | **(159 699)** |

## STATEMENT OF TOTAL COMPREHENSIVE INCOME

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Profit after taxes | 338 647 | 77 031 | (256 798) | (159 699) |
| Other comprehensive income items that may be (or were) reclassified to profit or loss | 587 282 | 244 323 | (832 693) | (329 180) |
| Result on debt securities | 415 950 | 130 662 | (618 742) | (224 519) |
| Result on credit portfolio designated for pooling to Mortgage Bank | (35 572) | 23 225 | (28 935) | 9 029 |
| Hedge accounting | 206 904 | 90 436 | (185 016) | (113 690) |
| Other comprehensive income items that will not be reclassified to profit or loss | 0 | 0 | 0 | 0 |
| Actuarial gains (losses) | 0 | 0 | 0 | 0 |
| Result on equity instruments | 0 | 0 | 0 | 0 |
| **Total comprehensive income items before taxes** | 587 282 | 244 323 | **(832 693)** | **(329 180)** |
| Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss | (111 584) | (46 421) | 158 212 | 62 544 |
| Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss | 0 | 0 | 0 | 0 |
| **Total comprehensive income items after taxes** | 475 698 | 197 902 | **(674 481)** | **(266 636)** |
| | | | | |
| **Total comprehensive income for the period** | 814 345 | 274 933 | **(931 279)** | **(426 335)** |

## STATEMENT OF FINANCIAL POSITION

## ASSETS

| *Amount '000 PLN* | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| Cash, cash balances at central banks | 6 768 777 | 5 452 016 | 9 536 090 | 5 810 033 |
| Financial assets held for trading | 692 757 | 527 972 | 363 618 | 251 435 |
| Derivatives | 495 445 | 371 436 | 339 295 | 220 961 |
| Equity instruments | 115 | 123 | 113 | 0 |
| Debt securities | 197 197 | 156 413 | 24 210 | 30 474 |
| Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers | 143 815 | 142 879 | 201 036 | 249 085 |
| Equity instruments | 66 609 | 66 609 | 128 979 | 120 092 |
| Debt securities | 77 206 | 76 270 | 72 057 | 128 993 |
| Financial assets at fair value through other comprehensive income | 14 476 932 | 18 098 078 | 16 438 458 | 17 690 974 |
| Equity instruments | 24 375 | 24 392 | 24 393 | 28 524 |
| Debt securities | 14 452 557 | 18 073 686 | 16 414 065 | 17 662 450 |
| Loans and advances to customers | 73 428 644 | 74 678 369 | 75 855 606 | 78 472 593 |
| Mandatorily at fair value through profit or loss | 54 780 | 75 078 | 97 982 | 189 813 |
| Fair valued through other comprehensive income | 11 262 229 | 10 942 249 | 11 221 252 | 11 343 969 |
| Valued at amortised cost | 62 111 635 | 63 661 042 | 64 536 372 | 66 938 811 |
| Financial assets at amortised cost other than Loans and advances to customers | 15 670 019 | 11 584 972 | 5 308 320 | 3 471 062 |
| Debt securities | 14 467 969 | 10 322 224 | 3 893 212 | 1 615 236 |
| Deposits, loans and advances to banks and other monetary institutions | 1 154 352 | 1 262 748 | 1 410 245 | 1 847 603 |
| Reverse sale and repurchase agreements | 47 698 | 0 | 4 863 | 8 223 |
| Derivatives – Hedge accounting | 121 936 | 60 754 | 135 804 | 0 |
| Investments in subsidiaries, joint ventures and associates | 390 236 | 291 236 | 247 823 | 259 984 |
| Tangible fixed assets | 533 907 | 549 509 | 557 542 | 518 792 |
| Intangible fixed assets | 440 675 | 432 924 | 432 820 | 391 675 |
| Income tax assets | 589 009 | 583 686 | 643 196 | 579 860 |
| Current income tax assets | 0 | 0 | 0 | 0 |
| Deferred income tax assets | 589 009 | 583 686 | 643 196 | 579 860 |
| Other assets | 1 222 239 | 1 119 930 | 923 009 | 752 964 |
| Non-current assets and disposal groups classified as held for sale | 0 | 0 | 0 | 0 |
| **Total assets** | **114 478 946** | **113 522 325** | **110 643 322** | **108 448 457** |

## LIABILITIES AND EQUITY

| *Amount '000 PLN* | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Financial liabilities held for trading | 567 945 | 433 117 | 384 928 | 248 615 |
| Derivatives | 479 435 | 430 037 | 380 144 | 238 407 |
| Liabilities from short sale of securities | 88 510 | 3 080 | 4 784 | 10 208 |
| Financial liabilities measured at amortised cost | 103 409 587 | 103 316 374 | 100 701 796 | 98 149 890 |
| Liabilities to banks and other monetary institutions | 473 493 | 413 483 | 625 144 | 257 811 |
| Liabilities to customers | 100 768 112 | 101 082 729 | 98 264 816 | 96 338 444 |
| Sale and repurchase agreements | 350 244 | 0 | 0 | 0 |
| Debt securities issued | 251 759 | 256 280 | 243 753 | 0 |
| Subordinated debt | 1 565 979 | 1 563 882 | 1 568 083 | 1 553 635 |
| Derivatives – Hedge accounting | 329 630 | 394 859 | 554 544 | 832 073 |
| Provisions | 1 140 364 | 972 917 | 1 015 266 | 757 973 |
| Pending legal issues | 1 105 732 | 935 677 | 975 092 | 719 029 |
| Commitments and guarantees given | 34 632 | 37 240 | 40 174 | 38 944 |
| Income tax liabilities | 385 085 | 252 329 | 31 662 | 24 670 |
| Current income tax liabilities | 385 085 | 252 329 | 31 662 | 24 670 |
| Deferred income tax liabilities | 0 | 0 | 0 | 0 |
| Other liabilities | 2 427 497 | 2 208 823 | 2 550 633 | 2 738 957 |
| **Total Liabilities** | **108 260 108** | **107 578 419** | **105 238 829** | **102 752 178** |
| EQUITY | | | | |
| Share capital | 1 213 117 | 1 213 117 | 1 213 117 | 1 213 117 |
| Own shares | (21) | (21) | (21) | (21) |
| Share premium | 1 147 241 | 1 147 241 | 1 147 241 | 1 147 241 |
| Accumulated other comprehensive income | (363 155) | (561 056) | (838 853) | (1 320 168) |
| Retained earnings | 4 221 656 | 4 144 625 | 3 883 009 | 4 656 110 |
| Total equity | 6 218 838 | 5 943 906 | 5 404 493 | 5 696 279 |
| **Total equity and total liabilities** | **114 478 946** | **113 522 325** | **110 643 322** | **108 448 457** |

| | | | | |
|---|---|---|---|---|
| Book value of net assets | 6 218 838 | 5 943 906 | 5 404 493 | 5 696 279 |
| Number of shares (pcs.) | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 | 1 213 116 777 |
| Book value per share (in PLN) | 5.13 | 4.90 | 4.46 | 4.70 |

## STATEMENT OF CHANGES IN EQUITY

| *Amount '000 PLN* | Total equity | Share capital | Own Shares | Share premium | Accumulated other comprehensive income | Retained earnings | |
|---|---|---|---|---|---|---|---|
| | | | | | | Unappropriated result | Other reserves |
| **01.01.2023 - 30.06.2023** | | | | | | | |
| **Equity at the beginning of the period** | 5 404 493 | 1 213 117 | (21) | 1 147 241 | (838 853) | (1 029 899) | 4 912 908 |
| Total comprehensive income for the period (net) | 814 345 | 0 | 0 | 0 | 475 698 | 338 647 | 0 |
| net profit/ (loss) of the period | 338 647 | 0 | 0 | 0 | 0 | 338 647 | 0 |
| valuation of debt securities | 336 919 | 0 | 0 | 0 | 336 919 | 0 | 0 |
| Valuation of credit portfolio designated for pooling to Mortgage Bank | (28 813) | 0 | 0 | 0 | (28 813) | 0 | 0 |
| hedge accounting | 167 592 | 0 | 0 | 0 | 167 592 | 0 | 0 |
| Purchase and transfer of own shares to employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 1 029 899 | (1 029 899) |
| **Equity at the end of the period** | 6 218 838 | 1 213 117 | (21) | 1 147 241 | (363 155) | 338 647 | 3 883 009 |
| **01.04.2023 - 30.06.2023** | | | | | | | |
| **Equity at the beginning of the period** | 5 943 906 | 1 213 117 | (21) | 1 147 241 | (561 056) | 261 616 | 3 883 009 |
| Total comprehensive income for the period (net) | 274 932 | 0 | 0 | 0 | 197 901 | 77 031 | 0 |
| net profit/ (loss) of the period | 77 031 | 0 | 0 | 0 | 0 | 77 031 | 0 |
| valuation of debt securities | 105 835 | 0 | 0 | 0 | 105 835 | 0 | 0 |
| Valuation of credit portfolio designated for pooling to Mortgage Bank | 18 813 | 0 | 0 | 0 | 18 813 | 0 | 0 |
| hedge accounting | 73 253 | 0 | 0 | 0 | 73 253 | 0 | 0 |
| Purchase and transfer of own shares to employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity at the end of the period** | 6 218 838 | 1 213 117 | (21) | 1 147 241 | (363 155) | 338 647 | 3 883 009 |
| **01.01.2022 - 31.12.2022** | | | | | | | |
| **Equity at the beginning of the period** | **6 632 182** | **1 213 117** | **(21)** | **1 147 241** | **(645 686)** | **(1 357 452)** | **6 274 983** |
| Total comprehensive income for the period (net) | (1 223 066) | 0 | 0 | 0 | (193 167) | (1 029 899) | 0 |
| net profit/ (loss) of the period | (1 029 899) | 0 | 0 | 0 | 0 | (1 029 899) | 0 |
| valuation of debt securities | (165 482) | 0 | 0 | 0 | (165 482) | 0 | 0 |
| valuation of shares | (3 354) | 0 | 0 | 0 | (3 354) | 0 | 0 |
| valuation of loans portfolio dedicated for pooling to Mortgage Bank | (9 117) | 0 | 0 | 0 | (9 117) | 0 | 0 |
| hedge accounting | (21 991) | 0 | 0 | 0 | (21 991) | 0 | 0 |
| actuarial gains (losses) | 6 777 | 0 | 0 | 0 | 6 777 | 0 | 0 |
| Purchase and transfer of own shares to employees | (4 623) | 0 | 0 | 0 | 0 | 0 | (4 623) |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 1 357 452 | (1 357 452) |
| **Equity at the end of the period** | **5 404 493** | **1 213 117** | **(21)** | **1 147 241** | **(838 853)** | **(1 029 899)** | **4 912 908** |
| **01.01.2022 - 30.06.2022** | | | | | | | |
| **Equity at the beginning of the period** | **6 632 182** | **1 213 117** | **(21)** | **1 147 241** | **(645 686)** | **(1 357 452)** | **6 274 983** |
| Total comprehensive income for the period (net) | (931 280) | 0 | 0 | 0 | (674 482) | (256 798) | 0 |
| net profit/ (loss) of the period | (256 798) | 0 | 0 | 0 | 0 | (256 798) | 0 |
| valuation of debt securities | (501 182) | 0 | 0 | 0 | (501 182) | 0 | 0 |
| Valuation of credit portfolio designated for pooling to Mortgage Bank | (23 437) | 0 | 0 | 0 | (23 437) | 0 | 0 |
| hedge accounting | (149 863) | 0 | 0 | 0 | (149 863) | 0 | 0 |
| Purchase and transfer of own shares to employees | (4 623) | 0 | 0 | 0 | 0 | 0 | (4 623) |
| Transfer between items of reserves | 0 | 0 | 0 | 0 | 0 | 1 357 452 | (1 357 452) |
| **Equity at the end of the period** | **5 696 279** | **1 213 117** | **(21)** | **1 147 241** | **(1 320 168)** | **(256 798)** | **4 912 908** |

## CASH FLOW STATEMENT

### A. CASH FLOWS FROM OPERATING ACTIVITIES

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Profit (loss) after taxes | 338 647 | 77 031 | (256 798) | (159 699) |
| Total adjustments: | 5 285 772 | 2 231 084 | 5 260 773 | (1 080 328) |
| Interest received | 3 798 319 | 2 035 908 | 2 289 574 | 1 319 653 |
| Interest paid | (1 416 824) | (690 604) | (317 857) | (238 132) |
| Depreciation and amortization | 103 219 | 51 749 | 101 188 | 51 119 |
| Foreign exchange (gains)/ losses | 0 | 0 | 0 | 0 |
| Dividends | (31 833) | (2 922) | (44 856) | (2 761) |
| Changes in provisions | 125 098 | 167 447 | 163 568 | 36 995 |
| Result on sale and liquidation of investing activity assets | (531 005) | 15 735 | 1 974 | 590 |
| Change in financial assets held for trading | (103 555) | (164 687) | (241 958) | (14 393) |
| Change in loans and advances to banks | 242 857 | 191 229 | (776 305) | (768 365) |
| Change in loans and advances to customers | (831 403) | (359 735) | (2 303 337) | (1 208 461) |
| Change in receivables from securities bought with sell-back clause (loans and advances) | (61 284) | (58 698) | 251 461 | 11 753 |
| Change in financial liabilities valued at fair value through profit and loss (held for trading) | (41 897) | 69 599 | 322 706 | 200 639 |
| Change in deposits from banks | (134 017) | 65 497 | 87 085 | (106 611) |
| Change in deposits from customers | 3 857 522 | 340 367 | 4 950 013 | (969 038) |
| Change in liabilities from securities sold with buy-back clause | 375 148 | 355 212 | 5 593 | 16 408 |
| Change in debt securities | 33 171 | 20 644 | 0 | 0 |
| Change in income tax settlements | 406 411 | 128 245 | 246 551 | 133 959 |
| Income tax paid | (110 384) | (47 233) | (35 134) | (5 350) |
| Change in other assets and liabilities | (465 548) | 77 519 | 520 464 | 439 437 |
| Other | 71 777 | 35 812 | 40 043 | 22 229 |
| **Net cash flows from operating activities** | **5 624 419** | **2 308 115** | **5 003 975** | **(1 240 027)** |

## B. CASH FLOWS FROM INVESTING ACTIVITIES

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Inflows: | 234 807 807 | 90 985 153 | 86 093 897 | 40 322 926 |
| Proceeds from sale of property, plant and equipment and intangible assets | 3 632 | 872 | 5 508 | 1 154 |
| Proceeds from sale of shares in related entities | 500 000 | 0 | 0 | 0 |
| Proceeds from sale of investment financial assets | 234 272 342 | 90 981 359 | 86 043 533 | 40 319 011 |
| Other | 31 833 | 2 922 | 44 856 | 2 761 |
| Outflows: | (241 642 566) | (95 588 012) | (84 176 166) | (38 036 834) |
| Acquisition of property, plant and equipment and intangible assets | (47 601) | (6 153) | (39 858) | (29 317) |
| Purchase of of shares in related entities | (99 200) | (99 000) | (51 095) | 0 |
| Acquisition of investment financial assets | (241 495 765) | (95 482 859) | (84 085 213) | (38 007 517) |
| Other | 0 | 0 | 0 | 0 |
| **Net cash flows from investing activities** | **(6 834 759)** | **(4 602 859)** | **1 917 731** | **2 286 092** |

## C. CASH FLOWS FROM FINANCING ACTIVITIES

| *Amount '000 PLN* | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Inflows from financing activities: | 0 | 0 | 0 | 0 |
| Long-term bank loans | 0 | 0 | 0 | 0 |
| Issue of debt securities | 0 | 0 | 0 | 0 |
| Increase in subordinated debt | 0 | 0 | 0 | 0 |
| Net proceeds from issues of shares and additional capital paid-in | 0 | 0 | 0 | 0 |
| Other inflows from financing activities | 0 | 0 | 0 | 0 |
| Outflows from financing activities: | (79 129) | (33 856) | (32 617) | (16 883) |
| Repayment of long-term bank loans | (5 000) | 0 | (5 000) | 0 |
| Redemption of debt securities | 0 | 0 | 0 | 0 |
| Decrease in subordinated debt | 0 | 0 | 0 | 0 |
| Issue of shares expenses | 0 | 0 | 0 | 0 |
| Redemption of shares | 0 | 0 | 0 | 0 |
| Dividends paid and other payments to owners | 0 | 0 | 0 | 0 |
| Other outflows from financing activities | (74 129) | (33 856) | (27 617) | (16 883) |
| **Net cash flows from financing activities** | **(79 129)** | **(33 856)** | **(32 617)** | **(16 883)** |

| | | | | |
|---|---|---|---|---|
| **D. Net cash flows. Total (A + B + C)** | **(1 289 469)** | **(2 328 600)** | **6 889 089** | **1 029 182** |
| including change resulting from FX differences | (14 970) | (12 306) | 4 821 | 2 446 |
| **E. Cash and cash equivalents at the beginning of the reporting period** | **14 231 089** | **15 270 220** | **3 372 244** | **9 232 151** |
| **F. Cash and cash equivalents at the end of the reporting period (D + E)** | **12 941 620** | **12 941 620** | **10 261 333** | **10 261 333** |

# 3. SUPPLEMENTARY INFORMATION FOR STANDALONE FINANCIAL DATA

As at 30 June 2023, the Bank has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed statements, Bank did not:

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

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

## Impairment losses on financial assets

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Impairment losses on loans and advances to customers | (136 130) | (36 823) | (131 255) | (57 113) |
| Impairment charges on loans and advances to customers | (808 761) | (342 770) | (763 200) | (348 012) |
| Reversal of impairment charges on loans and advances to customers | 616 561 | 259 977 | 573 960 | 240 820 |
| Amounts recovered from loans written off | 20 410 | 10 252 | 22 421 | 11 606 |
| Sale of receivables | 35 659 | 35 659 | 39 668 | 39 668 |
| Other directly recognised in profit and loss | 1 | 59 | (4 104) | (1 195) |
| Impairment losses on securities | 0 | 0 | 0 | 0 |
| Impairment charges on securities | 0 | 0 | 0 | 0 |
| Reversal of impairment charges on securities | 0 | 0 | 0 | 0 |
| Impairment losses on off-balance sheet liabilities | 5 392 | 2 474 | 6 092 | 2 007 |
| Impairment charges on off-balance sheet liabilities | (24 367) | (7 412) | (27 815) | (9 052) |
| Reversal of impairment charges on off-balance sheet liabilities | 29 759 | 9 886 | 33 907 | 11 059 |
| **Total** | **(130 738)** | **(34 349)** | **(125 163)** | **(55 106)** |

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

| | 1.01.2023 - 30.06.2023 | 1.01.2023 - 31.03.2023 | 1.01.2022 - 31.12.2022 | 1.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 2 242 135 | 2 242 135 | 2 210 000 | 2 210 000 |
| Change in value of provisions: | 55 085 | 29 550 | 32 135 | (59 420) |
| Impairment allowances created in the period | 755 934 | 439 968 | 1 343 349 | 733 699 |
| Amounts written off | (98 114) | (83 153) | (226 188) | (151 630) |
| Impairment allowances released in the period | (564 976) | (343 565) | (933 664) | (547 812) |
| Sale of receivables | (63 325) | 0 | (241 148) | (138 831) |
| KOIM created in the period(*) | 35 554 | 18 314 | 71 224 | 31 209 |
| Changes resulting from FX rates differences | (11 139) | (3 507) | 19 286 | 13 032 |
| Other | 1 151 | 1 493 | (724) | 913 |
| **Balance at the end of the period** | **2 297 220** | **2 271 685** | **2 242 135** | **2 150 580** |

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

## Impairment write-offs for selected assets

| Impairment write-offs: | Investment securities | Investments in subsidiaries, joint ventures and associates | Property. plant and equipment | Intangibles | Other assets |
|---|---|---|---|---|---|
| As at 01.01.2023 | 5 002 | 6 700 | 797 | 0 | 25 845 |
| - Write-offs created | 0 | 0 | 0 | 0 | 12 554 |
| - Write-offs released | (1) | 0 | 0 | 0 | (12 784) |
| - Utilisation | 0 | 0 | 0 | 0 | (916) |
| - Other | 0 | 0 | 0 | 0 | 0 |
| As at 30.06.2023 | 5 001 | 6 700 | 797 | 0 | 24 699 |
| As at 01.01.2023 | 5 002 | 6 700 | 797 | 0 | 25 845 |
| - Write-offs created | 0 | 0 | 0 | 0 | 7 203 |
| - Write-offs released | (1) | 0 | 0 | 0 | (7 649) |
| - Utilisation | 0 | 0 | 0 | 0 | (327) |
| - Other | 0 | 0 | 0 | 0 | 0 |
| As at 31.03.2023 | 5 001 | 6 700 | 797 | 0 | 25 072 |
| As at 01.01.2022 | 4 997 | 6 700 | 8 856 | 0 | 27 842 |
| - Write-offs created | 5 | 0 | 0 | 0 | 14 493 |
| - Write-offs released | 0 | 0 | (8 059) | 0 | (10 978) |
| - Utilisation | 0 | 0 | 0 | 0 | (5 512) |
| - Other | 0 | 0 | 0 | 0 | 0 |
| As at 31.12.2022 | 5 002 | 6 700 | 797 | 0 | 25 845 |
| As at 01.01.2022 | 4 997 | 6 700 | 8 856 | 0 | 27 842 |
| - Write-offs created | 0 | 0 | 0 | 0 | 8 604 |
| - Write-offs released | (1) | 0 | 0 | 0 | (5 634) |
| - Utilisation | 0 | 0 | 0 | 0 | (3 029) |
| - Other | 0 | 0 | 0 | 0 | 0 |
| As at 30.06.2022 | 4 996 | 6 700 | 8 856 | 0 | 27 783 |

## Change of Provision for commitments and guarantees given

| | 1.01.2023 - 30.06.2023 | 1.01.2023 - 31.03.2023 | 1.01.2022 - 31.12.2022 | 1.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 40 174 | 40 174 | 44 955 | 44 955 |
| Charge of provision | 24 367 | 16 955 | 42 130 | 27 815 |
| Release of provision | (29 759) | (19 873) | (46 984) | (33 907) |
| FX rates differences | (150) | (16) | 73 | 81 |
| **Balance at the end of the period** | **34 632** | **37 240** | **40 174** | **38 944** |

## Change of Provision for pending legal issues

| | 1.01.2023 - 30.06.2023 | 1.01.2023 - 31.03.2023 | 1.01.2022 - 31.12.2022 | 1.01.2022 - 30.06.2022 |
|---|---|---|---|---|
| Balance at the beginning of the period | 975 092 | 975 092 | 549 450 | 551 176 |
| Charge of provision | 7 383 | 4 377 | 27 325 | 6 616 |
| Release of provision | (8 344) | (2 215) | (8 116) | (4 131) |
| Utilisation of provision | 0 | 0 | (175) | (175) |
| Creation of provision for legal risk connected with FX mortgage loans | 1 620 620 | 863 650 | 2 017 320 | 1 014 630 |
| Allocation to the loans portfolio | (1 489 019) | (905 227) | (1 610 712) | (847 361) |
| Balance at the end of the period | 1 105 732 | 935 677 | 975 092 | 720 755 |

## Provisions for legal risk connected with fx mortgage loans

| 01.01.2023 - 30.06.2023 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 5 395 344 | 4 572 901 | 822 443 |
| Amounts written off | (214 297) | (214 297) | 0 |
| Costs of provisions for legal risk connected wIth FX mortgage loans | 1 620 620 | 0 | 1 620 620 |
| Allocation to the loans portfolio | 0 | 1 489 019 | (1 489 019) |
| Change of provisions due to FX rates differences | (239 711) | (239 711) | 0 |
| Balance at the end of the period | 6 561 955 | 5 607 911 | 954 044 |

| 01.04.2023 - 30.06.2023 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 6 075 701 | 5 294 835 | 780 866 |
| Amounts written off | (116 297) | (116 297) | 0 |
| Costs of provisions for legal risk connected wIth FX mortgage loans | 756 970 | 0 | 756 970 |
| Allocation to the loans portfolio | 0 | 583 792 | (583 792) |
| Change of provisions due to FX rates differences | (154 418) | (154 418) | 0 |
| Balance at the end of the period | 6 561 955 | 5 607 911 | 954 044 |

| 01.01.2022 - 30.06.2022 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 3 332 614 | 2 916 779 | 415 835 |
| Amounts written off | (72 020) | 0 | (72 020) |
| Costs of provisions for legal risk connected wIth FX mortgage loans | 1 014 630 | 0 | 1 014 630 |
| Allocation to the loans portfolio | 0 | 996 473 | (996 473) |
| Change of provisions due to FX rates differences | 221 132 | 0 | 221 132 |
| Balance at the end of the period | 4 496 356 | 3 913 252 | 583 104 |

| 01.04.2022 - 30.06.2022 | TOTAL | Allocated for credit portfolio | Provisions for pending legal issues |
|---|---|---|---|
| Balance at the beginning of the period | 3 872 105 | 3 326 906 | 545 199 |
| Amounts written off | (46 860) | 0 | (46 860) |
| Costs of provisions for legal risk connected wIth FX mortgage loans | 515 450 | 0 | 515 450 |
| Allocation to the loans portfolio | 0 | 586 346 | (586 346) |
| Change of provisions due to FX rates differences | 155 661 | 0 | 155 661 |
| Balance at the end of the period | 4 496 356 | 3 913 252 | 583 104 |

| | 1.01.2023 - 30.06.2023 | 1.04.2023 - 30.06.2023 | 1.01.2022 - 30.06.2022 | 1.04.2022 - 30.06.2022 |
|---|---|---|---|---|
| Costs of settlements recognized in the profit and loss account, including: | (150 133) | (77 934) | (233 309) | (109 668) |
| - included in the “Result on exchange differences” | (114 112) | (60 679) | (229 144) | (105 503) |
| - included in the “Result on modification” | (36 021) | (17 255) | (4 164) | (4 164) |
| Costs of settlements charged to previously created provisions | 30 551 | 22 929 | 0 | 0 |

## Deferred income tax assets and liability

| | 30.06.2023 | | | 31.03.2023 | | |
|---|---|---|---|---|---|---|
| | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset |
| Difference between tax and balance sheet depreciation | 128 | (1 677) | (1 549) | 128 | (2 041) | (1 913) |
| Balance sheet valuation of financial instruments | (22 738) | (3 435) | (26 173) | 2 935 | (30 095) | (27 160) |
| Unrealised receivables/ liabilities on account of derivatives | 58 177 | (49 370) | 8 807 | 55 597 | (46 342) | 9 255 |
| Interest on deposits and securities to be paid/ received | 102 209 | (204 091) | (101 882) | 85 870 | (245 797) | (159 927) |
| Interest and discount on loans and receivables | 0 | (110 719) | (110 719) | 0 | (109 660) | (109 660) |
| Income and cost settled at effective interest rate | 158 127 | 0 | 158 127 | 196 198 | 0 | 196 198 |
| Impairment of loans presented as temporary differences | 469 510 | 0 | 469 510 | 480 137 | 0 | 480 137 |
| Employee benefits | 19 638 | 0 | 19 638 | 18 478 | 0 | 18 478 |
| Rights to use | 4 356 | 0 | 4 356 | 4 450 | 0 | 4 450 |
| Provisions for future costs | 123 103 | 0 | 123 103 | 81 316 | 0 | 81 316 |
| Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in OCI | 133 264 | (48 080) | 85 184 | 175 273 | (43 667) | 131 606 |
| Valuation of shares | 1 273 | (30 831) | (29 558) | 1 273 | (39 762) | (38 489) |
| Valuation of future income from bancassurance cooperation | 0 | (10 260) | (10 260) | 0 | 0 | 0 |
| Other | 425 | 0 | 425 | 636 | (1 241) | (605) |
| Total | 1 047 472 | (458 463) | 589 009 | 1 102 291 | (518 605) | 583 686 |

| | 31.12.2022 | | | 30.06.2022 | | |
|---|---|---|---|---|---|---|
| | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset | Deferred income tax asset | Deferred income tax provision | Net deferred income tax asset |
| Difference between tax and balance sheet depreciation | 128 | (2 208) | (2 080) | 1 659 | (2 704) | (1 045) |
| Balance sheet valuation of financial instruments | 20 322 | (47 466) | (27 144) | 56 769 | (83 800) | (27 031) |
| Unrealised receivables/ liabilities on account of derivatives | 73 405 | (59 804) | 13 601 | 38 094 | (31 503) | 6 591 |
| Interest on deposits and securities to be paid/ received | 72 317 | (290 124) | (217 807) | 24 462 | (287 559) | (263 097) |
| Interest and discount on loans and receivables | 0 | (108 723) | (108 723) | 0 | (93 528) | (93 528) |
| Income and cost settled at effective interest rate | 236 022 | 0 | 236 022 | 137 603 | 0 | 137 603 |
| Impairment of loans presented as temporary differences | 465 901 | 0 | 465 901 | 413 778 | 0 | 413 778 |
| Employee benefits | 19 604 | 0 | 19 604 | 18 543 | 0 | 18 543 |
| Rights to use | 4 719 | 0 | 4 719 | 5 423 | 0 | 5 423 |
| Provisions for future costs | 79 551 | 0 | 79 551 | 105 074 | 0 | 105 074 |
| Valuation of investment assets, loans, cash flows hedge and actuarial gains (losses) recognized in OCI | 251 607 | (54 839) | 196 768 | 360 346 | (50 677) | 309 669 |
| Valuation of shares | 1 273 | (19 420) | (18 147) | 1 273 | (34 684) | (33 411) |
| Other | 931 | 0 | 931 | 1 554 | (263) | 1 291 |
| Total | 1 225 780 | (582 584) | 643 196 | 1 164 578 | (584 718) | 579 860 |

# 4. TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 1st half of 2023 and 2022 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

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

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

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

Assets and liabilities from transactions with related parties (data in '000 pln) as at 30.06.2023

| | With subsidiaries | With parent company | With other entities from parent group |
|---|---|---|---|
| ASSETS | | | |
| Loans and advances to banks - accounts and deposits | 622 132 | 2 374 | 0 |
| Loans and advances to customers | 6 749 677 | 0 | 0 |
| Investments in associates | 346 714 | 0 | 0 |
| Financial assets valued at fair value through profit and loss (held for trading) | 39 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 |
| Other assets | 24 676 | 0 | 0 |
| LIABILITIES | | | |
| Deposits from banks | 986 | 120 | 0 |
| Deposits from customers | 171 129 | 0 | 0 |
| Liabilities from securities sold with buy-back clause | 0 | 0 | 0 |
| Liabilities arising from debt securities | 0 | 0 | 0 |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 717 | 0 | 0 |
| Subordinated debt | 0 | 0 | 0 |
| Other liabilities, including: | 44 670 | 0 | 9 |
| financial leasing liabilities | 36 815 | 0 | 0 |

Assets and liabilities from transactions with related parties (data in '000 pln) as at 31.12.2022

| | With subsidiaries | With parent company | With other entities from parent group |
|---|---|---|---|
| ASSETS | | | |
| Loans and advances to banks – accounts and deposits | 677 151 | 2 575 | 0 |
| Loans and advances to customers | 7 056 501 | 0 | 0 |
| Investments in associates | 247 823 | 0 | 0 |
| Financial assets valued at fair value through profit and loss (held for trading) | 99 | 32 | 0 |
| Hedging derivatives | 0 | 0 | 0 |
| Other assets | 29 259 | 0 | 0 |
| LIABILITIES | | | |
| Deposits from banks | 974 | 434 | 0 |
| Deposits from customers | 226 300 | 0 | 0 |
| Liabilities from securities sold with buy-back clause | 0 | 0 | 0 |
| Liabilities arising from debt securities | 0 | 0 | 0 |
| Financial liabilities valued at fair value through profit and loss (held for trading) | 1 332 | 0 | 0 |
| Subordinated debt | 0 | 0 | 0 |
| Other liabilities, including: | 48 264 | 0 | 68 |
| financial leasing liabilities | 41 467 | 0 | 0 |

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.06.2023

| | With subsidiaries | With parent company | With other entities from parent group |
|---|---|---|---|
| Income from: | | | |
| Interest | 217 982 | 1 268 | 0 |
| Commissions | 11 430 | 54 | 0 |
| Financial instruments valued at fair value through profit and loss | 554 | 28 | 0 |
| Dividends | 28 706 | 0 | 0 |
| Other net operating | 12 584 | 0 | 0 |
| Expense from: | | | |
| Interest | 6 114 | 0 | 0 |
| Commissions | 0 | 0 | 0 |
| Financial instruments valued at fair value through profit and loss | 0 | 0 | 0 |
| Other net operating | 0 | 0 | 0 |
| General and administrative expenses | 5 676 | 0 | 38 |

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.06.2022

| | With subsidiaries | With parent company | With other entities from parent group |
|---|---|---|---|
| Income from: | | | |
| Interest | 119 805 | (138) | 0 |
| Commissions | 12 492 | 96 | 0 |
| Financial instruments valued at fair value through profit and loss | 0 | 0 | 0 |
| Dividends | 41 796 | 0 | 0 |
| Other net operating | 11 716 | 0 | 0 |
| Expense from: | | | |
| Interest | 5 510 | 76 | 0 |
| Commissions | 2 | 0 | 0 |
| Financial instruments valued at fair value through profit and loss | 659 | 8 | 0 |
| Other net operating | 0 | 0 | 0 |
| General and administrative expenses | 5 622 | 0 | 124 |

Off-balance transactions with related parties (data in '000 pln) as at 30.06.2023

| | With subsidiaries | With parent company | With other entities from parent group |
|---|---|---|---|
| Conditional commitments | 1 398 088 | 10 985 | 0 |
| granted | 1 394 916 | 0 | 0 |
| obtained | 3 173 | 10 985 | 0 |
| Derivatives (par value) | 66 121 | 0 | 0 |

Off-balance transactions with related parties (data in '000 pln) as at na 31.12.2022

| | With subsidiaries | With parent company | With other entities from parent group |
|---|---|---|---|
| Conditional commitments | 1 203 256 | 141 185 | 0 |
| granted | 1 199 836 | 120 593 | 0 |
| obtained | 3 420 | 20 593 | 0 |
| Derivatives (par value) | 139 897 | 13 705 | 0 |

# 5. FAIR VALUE

The methodology used by the Bank for valuation of assets and liabilities at fair value is described in detail in Chapter 8. Condensed interim consolidated financial statements of Bank Millennium S.A. for the 6 months ended 30 June 2023.

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

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

| 30.06.2023 | Balance sheet value | Fair value |
|---|---|---|
| ASSETS MEASURED AT AMORTISED COST | | |
| Debt securities | 14 467 969 | 14 517 311 |
| Deposits, loans and advances to banks and other monetary institutions | 1 154 352 | 1 154 354 |
| Loans and advances to customers (*) | 62 111 635 | 60 396 500 |
| LIABILITIES MEASURED AT AMORTISED COST | | |
| Liabilities to banks and other monetary institutions | 473 493 | 473 492 |
| Liabilities to customers | 100 768 112 | 100 807 681 |
| Debt securities issued | 251 759 | 256 008 |
| Subordinated debt | 1 565 979 | 1 565 784 |

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

| 31.12.2022 | Balance sheet value | Fair value |
|---|---|---|
| ASSETS MEASURED AT AMORTISED COST | | |
| Debt securities | 3 893 212 | 3 811 648 |
| Deposits, loans and advances to banks and other monetary institutions | 1 410 245 | 1 410 166 |
| Loans and advances to customers (*) | 64 536 372 | 62 166 022 |
| LIABILITIES MEASURED AT AMORTISED COST | | |
| Liabilities to banks and other monetary institutions | 625 144 | 625 163 |
| Liabilities to customers | 98 264 816 | 98 289 469 |
| Debt securities issued | 243 753 | 244 519 |
| Subordinated debt | 1 568 083 | 1 568 949 |

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

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

Data in PLN‘000, as at 30.06.2023

| | Quoted market prices | Valuation techniques - observable inputs | Valuation techniques - significant unobservable inputs |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| ASSETS | | | |
| Financial assets held for trading | | | |
| Valuation of derivatives | | 148 114 | 347 331 |
| Shares | 115 | | |
| Debt securities | 197 197 | | |
| Non-trading financial assets mandatorily at fair value through profit or loss | | | |
| Equity instruments | | | 66 609 |
| Debt securities | | | 77 206 |
| Loans and advances | | | 54 780 |
| Financial assets at fair value through other comprehensive income | | | |
| Equity instruments | 247 | | 24 128 |
| Debt securities | 10 457 052 | 3 995 505 | |
| Loans and advances | | | 11 262 229 |
| Derivatives – Hedge accounting | | 121 936 | |
| LIABILITIES | | | |
| Financial liabilities held for trading | | | |
| Valuation of derivatives | | 126 271 | 353 164 |
| Short positions | 88 510 | | |
| Derivatives – Hedge accounting | | 329 630 | |

Data in PLN‘000, as at 31.12.2022

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| ASSETS | | | |
| Financial assets held for trading | | | |
| Valuation of derivatives | | 87 859 | 251 436 |
| Shares | 113 | | |
| Debt securities | 24 210 | | |
| Non-trading financial assets mandatorily at fair value through profit or loss | | | |
| Equity instruments | | 62 370 | 66 609 |
| Debt securities | | | 72 057 |
| Loans and advances | | | 97 982 |
| Financial assets at fair value through other comprehensive income | | | |
| Equity instruments | 247 | | 24 146 |
| Debt securities | 13 914 533 | 2 499 532 | |
| Loans and advances | | | 11 221 252 |
| Derivatives – Hedge accounting | | 135 804 | |
| LIABILITIES | | | |
| Financial liabilities held for trading | | | |
| Valuation of derivatives | | 125 722 | 254 422 |
| Short positions | 4 784 | | |
| Derivatives – Hedge accounting | | 554 544 | |

As a result of the creation of a new business model at the Bank's individual level the Bank measures the fair value of mortgage loans classified to the Held to Collect and for Sale model using the discounted cash flow method and as that the valuation is based on input data that is not observable market data, the valuation method is classified under Level 3.

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

| | Indexes options | Options embedded in securities issued and deposits | Shares | Debt securities | Loans and advances at fair value through profit or loss | Loans and advances at fair value through other comprehensive income |
|---|---|---|---|---|---|---|
| **Balance as at 01.01.2023** | **247 414** | **(250 400)** | **90 755** | **72 057** | **97 982** | **11 221 252** |
| Settlement/sell/purchase/transfer to the portfolio | 68 506 | (71 141) | 0 | 0 | (47 925) | (406 570) |
| Change of valuation recognized in equity | 0 | 0 | 0 | 0 | 0 | (35 572) |
| Interest income and other of similar nature | 0 | 0 | 0 | 0 | 6 965 | 483 120 |
| Results on financial assets and liabilities held for trading | 24 363 | (24 574) | 0 | 0 | 0 | 0 |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 0 | 0 | 0 | 5 149 | (2 242) | 0 |
| Result on exchange differences | 0 | 0 | (18) | 0 | 0 | 0 |
| **Balance as at 30.06.2023** | **340 283** | **(346 115)** | **90 737** | **77 206** | **54 780** | **11 262 229** |

| | Indexes options | Options embedded in securities issued and deposits | Shares | Debt securities | Loans and advances at fair value through profit or loss | Loans and advances at fair value through other comprehensive income |
|---|---|---|---|---|---|---|
| **Balance as at 01.01.2022** | **28 397** | **(28 872)** | **95 042** | **127 499** | **362 992** | **11 485 351** |
| Settlement/sell/purchase/transfer to the portfolio | 214 404 | (216 420) | 85 | (60 296) | (306 117) | (1 021 563) |
| Change of valuation recognized in equity | 0 | 0 | (4 380) | 0 | 0 | (11 255) |
| Interest income and other of similar nature | 0 | 0 | 0 | 0 | 28 604 | 768 719 |
| Results on financial assets and liabilities held for trading | 4 613 | (5 109) | 0 | 0 | 0 | 0 |
| Result on non-trading financial assets mandatorily at fair value through profit or loss | 0 | 0 | 0 | 4 854 | 12 503 | 0 |
| Result on exchange differences | 0 | 0 | 8 | 0 | 0 | 0 |
| **Balance as at 31.12.2022** | **247 414** | **(250 400)** | **90 755** | **72 057** | **97 982** | **11 221 252** |

# 6. LEGAL RISK RELATED TO FOREIGN CURRENCY MORTGAGE LOANS

## 6.1. COURT CLAIMS AND CURRENT PROVISIONS ON LEGAL RISK

On June 30, 2023, the Bank had 18,441 loan agreements and additionally 1,482 loan agreements from former Euro Bank 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 (70% loans agreements before the courts of first instance and 30% loans agreements before the courts of second instance) with the total value of claims filed by the plaintiffs amounting to PLN 3,415.6 million and CHF 237.5 million (Bank Millennium portfolio: PLN 3,138 million and CHF 231.5 million and former Euro Bank portfolio: PLN 277.6 million and CHF 6 million). Out of 18,441 BM loan agreements in ongoing individual cases 163 are also part of class action. From the total number of individual litigations against the Bank approximately 1700 or 9.4% were submitted by borrowers that had already naturally or early fully repaid the loan or were converted to polish zloty at the moment of submission and had not a settlement agreement and another 600 correspond to loans that were fully repaid since then (as court proceedings are lengthy).

The claims formulated by the clients in individual proceedings primarily concern the declaration of invalidity of the contract and payment for reimbursement of  paid principal and interest instalments as 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 directly grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3 273. Out of 3,273 loan agreements in class action 163 are also part of ongoing individual cases, 579 concluded settlements and 4 received final verdicts (invalidation of loan agreement). On 24 May 2022 the court issued a judgment on the merits, dismissing the claim in full.  On 13 December 2022 the claimant filed an appeal against the judgment of 24 May 2022.

The pushy advertising campaign observed in the public domain affects the number of court disputes. Until the end of 2019, 1,985 individual claims were filed against the Bank (in addition, 236 against former Euro Bank), in 2020 the number increased by 3,006 (265), in 2021 the number increased by 6,156 (423), in 2022 the number increased by 5,750 (407), while in the first half of 2023 the number increased by 3,237 (272).

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved against the banks. As far as the Bank Millennium (incl. former Euro Bank portfolio) is concerned, from 2015 until the end of the first half of 2023, 2,082 cases were finally resolved (2,011 in claims submitted by clients against the Bank and 71 in claims submitted by the Bank against clients i.e. debt collection cases) out of which 573 were settlements, 42 were remissions, 56 rulings were favorable for the Bank and 1,411 were unfavorable including both invalidation of loan agreements as well as conversions into PLN+LIBOR. The Bank files appeals against negative judgements of the courts of 1st instance. Simultaneously the Bank undertakes proper legal actions in order to secure repayment of initially disbursed capital of the loan.

The outstanding gross balance of the loan agreements under individual court cases and class action against the Bank (incl. former Euro Bank portfolio) on 30.06.2023 was PLN 5,730 million (of which the outstanding amount of the loan agreements under the class action proceeding was 826 million PLN).

If all Bank Millennium's originated loan agreements currently under individual and class action court proceedings would be declared invalid without any compensation for the use of capital, the pre-tax cost could reach PLN 5,851 million. Overall losses would be higher or lower depending on the final court jurisprudence in this regard.

In the first half of 2023, the Bank created PLN 1 535,5 million of provisions for Bank Millennium originated portfolio and PLN 85,1 million for former Euro Bank originated portfolio. The balance sheet value of provisions for the Bank Millennium portfolio at the end of June 2023 was at the level of PLN 6,088 million, and PLN 474 million for former Euro Bank originated portfolio.

The methodology developed by the Bank of calculating provisions for legal risk involved with indexed loans is based on the following main parameters:

(1) the number of ongoing cases (including class action agreements) and potential future lawsuits that will arise within the specified (three-year) time horizon. As regards the increase in the number of future court cases, the Bank monitors customer behaviours, follows market trends and expert comments, which resulted in the adjustment of previous assumptions. As a result, in the methodology of calculating provisions for legal risk in the case of active loans (loans with an outstanding balance as at the date of filing the lawsuit), the Bank increased the estimated percentage of customers with active contracts who already filed or will decide to file a lawsuit against the Bank to 70% of active loan agreements (compared to 55% at the end of 2022). As of end of June, the Bank had 35 417 active CHF loan agreements. Another 19,485 agreements have been subject of a settlement agreement with the borrowers and about 45,000 loans have been naturally or early fully repaid or converted to polish zloty and not subject of a settlement agreement. Regarding loans already fully repaid or converted to polish zloty, the Bank attributes a much lower probability of becoming the subject of a court case based on statistical analysis. In particular: a) the Bank assesses the risk connected with the settlements reached with the clients in the past as negligible b) from the group of loans that have been repaid (naturally or early, or converted into polish zloty loan) and were not subject of a settlement agreement, the Bank assumes that about 1,3 thousands will decide to sue the Bank in the future.

(2) the currently estimated amount of the Bank's potential loss in the event of a specific court judgment,

(3) the probability of obtaining a specific court judgment calculated on the basis of statistics of judgments in cases where Bank is a party and legal opinions obtained,

(4) after the decision of the CJEU in case C-520/21, with particular emphasis on the extent to which provisions for legal risk may increase as a result of a negative judgment understood as no remuneration for the Bank for the use of capital, the Bank changed the methodology of calculating provisions and eliminated an element related to remuneration for the Bank for the use of capital,

(5) in accordance with legal opinions, the Bank does not include in the methodology for calculating provisions the element related to the potential claim for remuneration for the client in connection with the repayments made by him,

(6) estimates involved with amicable settlements with clients, concluded in court or out of court

    d. the Bank assumes 15% probability of success of reaching a settlement within negotiations made with clients during court proceedings,
    e. negotiations in court or out of court are conducted on a case-by-case basis and can be stopped at any time by the Bank
    f. due to significant negotiation efforts already made in the past, the probability of success in these negotiations in the future is decreasing, and at the same time most customers have already contacted the Bank regarding the possible conversion of loans into PLN, so at the moment the Bank adopts a conservative approach when taking into account the potential impact of this factor.

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 originated by Bank Millennium decreased by 19,485: 1,362 in 2020; 8,450 in 2021; 7,943 in 2022 and 1,730 in the first half of 2023. As of the end of the first half of 2023, the Bank had 35,417 active FX mortgage loans. Cost incurred in conjunctions with these negotiations totalled PLN 1,104.6 million: PLN 44.4 million in 2020; PLN 364.6 million in 2021; PLN 515.2 million in 2022 and PLN 180.7 million in the first half of 2023 is presented mainly in 'Result on exchange differences' and also in 'Result on modification' in the profit and loss statement (the values of costs charged to particular items of the Income Statement due to settlements are presented in Note 10 in Chapter 4 of the Notes to the Financial Statements).

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

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

| Parameter | Scenario | Impact on the loss |
|---|---|---|
| Change in the number of litigation | In addition, 1,000 new customers file a lawsuit against the Bank | PLN 163 mln |
| Change of estimated losses for each variant of judgment | Change of losses for each judgment variant by 1 p.p | PLN 60 mln |
| Change in probability of success in negotiations with court client | Change of probability by 1 p.p | PLN 25 mln |

On December 8, 2020, Mr. Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority ('PFSA') proposed a 'sector' solution to address the sector risks related to FX mortgages. The solution would consist in offering banks' clients a voluntary possibility of concluding arrangements based on which a client would settle a CHF Mortgage Loan as if it was a PLN loan bearing interest at an appropriate WIBOR rate increased by the margin historically employed for such loans. As of the date of this Base Prospectus, the Bank has not taken any decision regarding the implementation of this solution, but cannot exclude implementing it in the future. The decision to generally implement this solution could imply the need of creating upfront provisions for the losses resulting from the conversion of CHF Mortgage Loans. The Bank in practice has been using elements of such solution on many individual negotiations with FX mortgage borrowers, including in the course of court proceedings.

Due to the circumstances stemming from the CJEU verdict in case C-520/21 (below described), the possibility of successful implementation of a general offer of KNF solution is low.

Finally it should also be mentioned, that the Bank, as at 30.06.2023, 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 1.95 p.p. (1.94 p.p. at the Group level), part of which is allocated to operational/legal risk.

**CJEU and Supreme Court rulings relevant to risk assessment**

*Jurisprudence of Court of Justice of the European Union*

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

The CJEU judgment concerns only the situation where the national court has previously found the contract term to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be regarded as abusive in the circumstances of the case.

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

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

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

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

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

On November 18, 2021, the Court of Justice of the European Union (CJEU) issued a judgment in case C-212/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Raiffeisen Bank International AG. The CJEU stated that:

(i) The content of the clause of the loan agreement concluded between the entrepreneur and the consumer fixing the purchase and sale price of the foreign currency to which the loan is indexed should, on the basis of clear and comprehensible criteria, enable the consumer who is reasonably well informed and sufficiently observant and rational to understand how the exchange rate of the foreign currency used to calculate the amount of the loan instalments is determined, so that the consumer is able to determine himself at any time the exchange rate used by the entrepreneur.

(ii) A national court which has found that a term of the agreement concluded between an entrepreneur and a consumer is unfair cannot interpret that term in order to mitigate its unfairness, even if such an interpretation would correspond to the common will of the parties.

On 10 June 2021, the Court of Justice of the European Union (CJEU) issued an order in case C-198/20 in connection with questions submitted by the District Court for Warsaw Wola in Warsaw in the case against Santander Bank Polska SA. The CJEU stated that the protection provided for in Council Directive 93/13/EEC is granted to all consumers, not just those who can be considered to be "duly informed and reasonably observant and circumspect average consumer".

On 8 September 2022, the Court of Justice of the European Union (CJEU) issued a judgment in joined cases C-80/21, C-81/21, C-82/21 in connection with questions submitted by the District Court for Warsaw Śródmieście in Warsaw in cases against Deutsche Bank SA and mBank SA. The CJEU stated that:

(i) A national court may find that the parts of a contractual term of the agreement concluded between a consumer and an entrepreneur which render it unfair are unfair, if such a deletion would not amount to a change in the content of that term that affects its substance, which is for the referring court to verify.

(ii) A national court cannot, after annulling an unfair term contained in an agreement concluded between a consumer and an entrepreneur which does not render the agreement invalid in its entirety, replace that term with a supplementary provision of the national law.

(iii) A national court may not, after having declared invalid an unfair term contained in an agreement concluded between a consumer and an entrepreneur which entails the invalidity of that agreement in its entirety, replace the contractual term which has been declared invalid either by interpretation of the parties' declaration of intent in order to avoid the cancellation of that agreement or by a provision of national law of a supplementary nature, even if the consumer has been informed of the effects of the invalidity of that agreement, and accepted them.

(iv) The ten-year limitation period for a consumer's claim seeking reimbursement of sums unduly paid to the entrepreneur in performance of an unfair term of a loan agreement does not start to run on the date of each performance made by the consumer if the consumer was not able on that date to assess on his own the unfairness of the contractual term or if he had not become aware of the unfair nature of that term and without taking into account the circumstances that the agreement provided for a repayment period – in this case thirty years – well in excess of the ten-year statutory limitation period.

On March 16, 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-6/22, following preliminary questions submitted by the District Court for Warsaw-Wola in a case against the former Getin Bank S.A.. In the judgment, the CJEU ruled that:

i) in the event that a contract concluded between a consumer and a seller or supplier is declared invalid because one of its terms is unfair, it is for the Member States, by means of their national law, to make provision for the effects of that invalidation, in compliance with the protection granted to the consumer by that directive, in particular, by ensuring the restoration of the legal and factual situation that he or she would have been in if that unfair term had not existed.

ii) a national court is not allowed, first, to examine of its own motion, without any prerogative conferred on it by national law in that regard, the financial situation of a consumer who has sought the invalidation of the contract between him or her and a seller or supplier on account of the presence of an unfair term without which the contract cannot legally continue to exist, even if that invalidation is liable to expose the consumer to particularly unfavourable consequences and, second, to refuse to declare that invalidation where the consumer has expressly sought it, after being objectively and exhaustively informed of the legal consequences and the particularly unfavourable financial consequences which it may have for him or her.

iii) a national court is not allowed, after it has found that a term in a contract concluded between a seller or supplier and a consumer is unfair, to fill gaps resulting from the removal of the unfair term contained therein by the application of a provision of national law which cannot be characterised as a supplementary provision. However, it is for the national court, taking account of its domestic law as a whole, to take all the measures necessary to protect the consumer from the particularly unfavourable consequences which annulment of the contract might entail for him or her.

On June 8, 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-570/21, following preliminary questions submitted by the District Court in Warsaw in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that:

i) provisions of Council Directive 93/13 must be interpreted as meaning that the concept of 'consumer', within the meaning of that provision, covers a person who has concluded a loan contract intended for a purpose in part within and in part outside his or her trade, business or profession, together with a joint-borrower who did not act within his or her trade, business or profession, where the trade, business or professional purpose is so limited as not to be predominant in the overall context of that contract.

ii) provisions of Directive 93/13 must be interpreted as meaning that in order to determine whether a person falls within the concept of 'consumer', within the meaning of that provision, and, specifically, whether the trade, business or professional purpose of a loan contract concluded by that person is so limited as not to be predominant in the overall context of that contract, the referring court is required to take into consideration all the relevant circumstances surrounding that contract, both quantitative and qualitative, such as, in particular, the distribution of the borrowed capital between, on the one hand, a trade, business or profession and, on the other hand, a non-professional activity and, where there are several borrowers, the fact that only one of them is pursuing a professional purpose or that the lender made the grant of credit intended for consumer purposes conditional on a partial allocation of the amount borrowed to the repayment of debts connected with a trade, business or profession.

On June 15, 2023, the Court of Justice of the European Union issued a judgment in a case registered under case number C-287/22, following preliminary questions submitted by the District Court in Warsaw in a case against the former Getin Bank S.A. In the judgment, the CJEU ruled that provisions of the Directive 93/13 must be interpreted as precluding national case-law according to which a national court may dismiss an application for the grant of interim measures lodged by a consumer seeking the suspension, pending a final decision on the invalidity of the loan agreement concluded by that consumer on the ground that that loan agreement contains unfair terms, of the payment of the monthly instalments due under that loan agreement, where the grant of those interim measures is necessary to ensure the full effectiveness of that decision.

On June 15, 2023, the CJEU issued a judgment in a case registered under case number C-520/21, following preliminary questions submitted by the District Court in Warsaw in a case against Bank Millennium, in which indicated that Directive 93/13 does not expressly regulate the consequences of invalidity of a contract concluded between a credit institution and a consumer after the removal of unfair terms contained therein. The CJEU stated that:

i) the provisions of the Directive do not preclude a judicial interpretation of national law, according to which the consumer has the right to demand compensation from the credit institution beyond the reimbursement of monthly instalments and costs paid for the performance of this contract and the payment of statutory default interest from the date of the request for payment provided that the objectives of Directive 93/13 and the principle of proportionality are respected.

ii) the provisions of Directive 93/13 preclude the judicial interpretation of national law, according to which a credit institution has the right to demand compensation from the consumer that goes beyond the return of the capital paid for the performance of this contract and beyond the payment of statutory default interest from the date of the request for payment.

*Jurisprudence of Polish the Supreme Court*

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

1. An abusive contractual clause (art. 385(1) § 1 of the Civil Code), by force of the law itself, is ineffective to the benefit of the consumer who may consequently give conscious and free consent to this clause and thus restore its effectiveness retroactively.

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

On April 28, 2022 the Supreme Court issued a resolution (III CZP 40/22) in which it indicated that in disputes with consumers, the provision of Article 358(1) of the Civil Code is a special provision to Article 353(1) of the Civil Code, which means that if the prerequisites for the application of both provisions exist, the court should apply the special provision and declare the contractual provision permanently ineffective, rather than invalid. This decision of the Supreme Court should be perceived as significantly limiting the risk of the bank's claims for return of capital being time-barred.

The effect of the Supreme Court's resolution of 7 May 2021 is that the bank is entitled to a refund of the cash benefit provided by the bank in performance of a permanently ineffective contract. Taking into account the uncertainty as to the starting point of the limitation period for the bank's claims, the Bank, in order to protect its interests, files lawsuits for payment against borrowers in a court dispute with the bank. The bank's demand consists of a claim for return of the capital made available to the borrower under the contract. After the CJEU verdict of June 15, 2023, in case C-520/21, it seems that the issue that requires further analysis is whether the return of the originally disbursed capital should be made at nominal value or with the loss of purchasing power of money taken into account. By 30 June 2023 the Bank filed 4.8 thousands lawsuits against the borrowers.

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

## 6.2. EVENTS THAT MAY IMPACT FX MORTGAGE LEGAL RISK AND RELATED PROVISION

It can reasonably be assumed that the legal issues relating to foreign currency mortgage loans will be further examined by the national courts within the framework of disputes considered which would possibly result in the emergence of further interpretations, which are relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further request for clarification and ruling addressed to the European Court of Justice and Polish Supreme Court have already been filed and may still be filed with potential impact on the outcome of the court cases.

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

On 11 May 2021 the Civil Chamber of the Supreme Court requested opinions on Swiss franc mortgage loans from five institutions including the National Bank of Poland (NBP), the Polish Financial Supervision Authority (UKNF), the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

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

In the next meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known.

On 9 December 2022, in the case brought by the Bank against the borrower for payment – return of the capital made available to the borrower on the basis of an invalid capital contract and the equivalent value of the benefit related to the borrower's use of capital, the court referred a question to the CJEU for a preliminary ruling whether, if it is found that the loan contract concluded by the bank and the consumer is invalid from the beginning due to the conclusion of unfair contractual terms, in addition to the return of money paid in the performance of this contract (loan principal) and statutory late payment interest from the moment of the request for payment, the bank may also demand any other benefits, including receivables, in particular remuneration, compensation, reimbursement of costs or valorisation of the benefit. The case was suspended for the duration of Case C-520/21. As a result of the judgment in Case C-520/21, the case became a pending case, but there are doubts whether it will be continued due to the judgment in said Case C-520/21.

The subject of the CJEU's analysis, as a result of the Warsaw District Court's questions remains the issues related to the limitation period of the Bank's and the customer's restitution claims following the collapse of the loan agreement (Cases: C-28/22 ; C-140/22). Legal interpretations in these cases may be particularly significant for the Bank's claims as to the commencement of the running of the limitation period of its claims, by eliminating or confirming the risk of its claims being deemed time-barred in a given case.

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

The Supreme Court was also presented with the issue of whether the loan agreement is a mutual agreement in the light of the regulations concerning retention right (III CZP 89/22).

Due to the complexity and uncertainty regarding the outcome of court cases, including counter-claims, as well as other negotiation solutions or from potential Supreme Court decisions or European Court of Justice decisions, it is difficult to reliably estimate final impacts from different potential outcomes as at the date of publication of the financial statements.

The issue that remains unresolved in the jurisprudence of common courts and the Supreme Court is also the issue of the admissibility of borrowers' claims in the event of the invalidity of a loan agreement for payment of amounts beyond the reimbursement of monthly installments and costs paid for the execution of that agreement and beyond the payment of statutory default interest from the date of the demand for payment, which, in light of the CJEU's judgment of June 15, 2023 in case C-520/21, remains not excluded. Due to the uncertainty of the direction of case law in this area, as of the date of publication of the report, it is difficult to reliably assess the impact of potential rulings.

# 7. ADDITIONAL INFORMATION

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

During the 6 months ended June 30, 2023, the Bank's liabilities due to the issue of debt securities increased by PLN 8.0 million and their balance as at that date amounted to PLN 251.8 million. The change resulted solely from the accrual and payment of interest on the issued bonds for the given period.

## 7.2. CAPITAL MANAGEMENT

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

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

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

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

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

- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. At present, the buffer was set by KNF in recommendations issued in the end of 2022 in the level of 1.95pp (the Bank) and 1.94pp (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 1.47pp (the Bank) and of 1.46pp (the Group), and which corresponds to capital requirements for CET 1 ratio of 1.10pp (the Bank) and 1.09pp (the Group).

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

In December 2022, the Bank received a recommendation to maintain, on an individual and consolidated level, own funds to cover an additional capital charge ("P2G") in order to absorb potential losses resulting from the occurrence of stresses, at the level of 1.72pp and 1.75pp (the Bank and the Group) over the OCR value (Pillar II Guidance or "P2G"). According to the recommendation, the additional capital charge should consist of common equity Tier 1 capital (CET1 capital).

The minimum capital ratios required by the Polish Financial Supervision Authority for the combined buffer requirement (OCR) continued to be fulfilled at the end of 2Q2023. As regards the levels expected by the Polish Financial Supervision Authority, including the additional P2G surcharge, the Bank has not yet achieved them for the T1 ratio.

Capital adequacy of the Bank was as follows (PLNmn, %, pp):

| Capital adequacy | 30.06.2023 | 31.03.2023* | 30.06.2022 |
|---|---|---|---|
| Risk-weighted assets | 46 988.8 | 47 793.0 | 49 487.1 |
| Own Funds requirements, including: | 3 759.1 | 3 823.4 | 3 959.0 |
| - Credit risk and counterparty credit risk | 3 308.0 | 3 369.3 | 3 488.7 |
| - Market risk | 18.0 | 20.3 | 28.0 |
| - Operational risk | 427.0 | 427.0 | 432.3 |
| - Credit Valuation Adjustment CVA | 6.1 | 6.8 | 10.0 |
| Own Funds, including: | 6 939.2 | 6 743.3 | 7 552.3 |
| Common Equity Tier 1 Capital | 5 487.8 | 5 257.0 | 6 022.3 |
| Tier 2 Capital | 1 451.4 | 1 486.3 | 1 530.0 |
| **Total Capital Ratio (TCR)** | **14.77%** | 14.11% | **15.26%** |
| **Tier 1 Capital ratio (T1)** | **11.68%** | 11.00% | **12.17%** |
| **Common Equity Tier 1 Capital ratio (CET1)** | **11.68%** | 11.00% | **12.17%** |
| **Leverage ratio** | **4.61%** | **4.47%** | **5.44%** |

* - All data for quarterly periods presented in these condensed interim financial statements of the Bank have not been audited or reviewed by a statutory auditor.

Capital adequacy showed as surpluses/deficits on required or recommended levels is presented in the below table.

| Capital adequacy | 30.06.2023 | 31.03.2023* | 30.06.2022 |
|---|---|---|---|
| **Total Capital Ratio (TCR)** | **14.77%** | **14.11%** | **15.26%** |
| Minimum required level (OCR) | 12.70% | 12.70% | 13.57% |
| Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.) | 2.07 | 1.41 | 1.69 |
| Minimum recommended level TCR (OCR+P2G) | 14.42% | 14.42% | 14.46% |
| Surplus(+) / Deficit(-) on recommended level (p.p.) | 0.35 | -0.31 | 0.80 |
| **Tier 1 Capital ratio (T1)** | **11.68%** | **11.00%** | **12.17%** |
| Minimum required level (OCR) | 10.22% | 10.22% | 10.87% |
| Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.) | 1.46 | 0.78 | 1.30 |
| Minimum recommended level T1 (OCR+P2G) | 11.94% | 11.94% | 11.76% |
| Surplus(+) / Deficit(-) on recommended level (p.p.) | -0.26 | -0.94 | 0.41 |
| **Common Equity Tier 1 Capital ratio (CET1)** | **11.68%** | **11.00%** | **12.17%** |
| Minimum required level (OCR) | 8.35% | 8.35% | 8.83% |
| Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.) | 3.33 | 2.65 | 3.34 |
| Minimum recommended level CET1 (OCR+P2G) | 10.07% | 10.07% | 9.72% |
| Surplus(+) / Deficit(-) on recommended level (p.p.) | 1.61 | 0.93 | 2.45 |
| **Leverage ratio** | **4.61%** | **4.47%** | **5.44%** |
| Minimum required level | 3.00% | 3.00% | 3.00% |
| Surplus(+) / Deficit(-) of Leverage ratio (p.p.) | 1.61 | 1.47 | 2.44 |

* - All data for quarterly periods presented in these condensed interim financial statements of the Bank have not been audited or reviewed by a statutory auditor.

The increase in capital ratios in 2Q2023 compared to 1Q2023 was mainly due to an increase in own funds, with a simultaneous decrease in risk-weighted assets / own funds requirements. Own funds increased by PLN 196 million (2.9%), mainly because of a decrease in the negative valuation of treasury securities valued through equity. Own funds requirements decreased by PLN 64 million (1.7%). The leverage ratio increased due to the aforementioned increase in own funds.

During the 1st half 2023, the Bank continued to be focused on further strengthening of its capital ratios. The Bank's priority is now to maintain them permanently and safely above the minimum requirements and to take further necessary steps towards meeting the MREL requirements.

### 7.2.1 MINIMUM REQUIREMENTS FOR OWN FUNDS AND LIABILITIES SUBJECT TO WRITE DOWN OR CONVERSION (MREL)

The Bank manages MREL indicators in a manner analogous to capital adequacy management.

The Bank received in June 2023 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 14.42% and MRELtem of 4.46%. The minimum subordination MRELtrea was set at 14.28% and MRELtem 4.44%. At the same time, the above-mentioned decision sets updated minimum requirements that must be met by December 31, 2023, at the level of 18.89% and 5.91% (consolidated MRELtrea and MRELtem).

In addition to these MREL levels, the Bank also needs to meet MREL with Combined Buffer Requirement (currently 2.75%).

| MREL | 30.06.2023 | 31.03.2023* | 30.06.2022 |
|---|---|---|---|
| **MRELtrea ratio** | **14.94%** | **14.20%** | **15.26%** |
| Minimum required level MRELtrea | 14.42% | 15.60% | 15.60% |
| Surplus(+) / Deficit(-) of MRELtrea (p.p.) | 0.52 | -1.40 | -0.34 |
| Minimum required level including Combined Buffer Requirement (CBR) | 17.17% | 18.35% | 18.35% |
| Surplus(+) / Deficit(-) of MRELtrea+CBR (p.p.) | -2.23 | -4.15 | -3.09 |
| **MRELtem ratio** | **5.90%** | **6.06%** | **6.82%** |
| Minimum required level of MRELtem | 4.46% | 3.00% | 3.00% |
| Surplus(+) / Deficit(-) of MRELtem (p.p.) | 1.44 | 3.06 | 3.82 |

* - All data for quarterly periods presented in these condensed interim financial statements of the Bank have not been audited or reviewed by a statutory auditor.

Regarding the MREL requirements both MRELtrea and MRELtem, the Bank presents a surplus compared to the level required as at the reporting date, but does not yet meet the MRELtrea requirement, considering the combined buffer requirement.

As informed in the Current Report no. 19/2023, in June 2023 the Bank Guarantee Fund took an administrative decision under the terms of Articles 96a - 96d of the Bank Guarantee Fund Act, prohibiting the Bank from distributing profits in excess of the maximum distributable amount related to the minimum requirement for own funds and eligible liabilities (M-MDA).

After the improvement in the capital ratios above described, the Bank's priority is to take further necessary steps towards meeting the MREL requirements, taking also into consideration the level required after the end of the interim period on 31 December 2023. The Bank plans to cover the shortfall by the end of 2023 through a combination of organic capital generation, optimization of risk weighted assets (including securitisations) and the issue of debt instruments, if required and the market conditions allow. 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.

## 7.3. OFF BALANCE SHEET ITEMS

Structure of off-balance sheet liabilities was as follows:

| *Amount '000 PLN* | 30.06.2023 | 31.03.2023 | 31.12.2022 | 30.06.2022 |
|---|---|---|---|---|
| **Off-balance conditional commitments granted and received** | **16 564 605** | **16 014 229** | **16 365 564** | **17 296 285** |
| Commitments granted: | 13 938 435 | 13 500 673 | 14 030 294 | 14 942 101 |
| - financial | 12 229 440 | 11 531 642 | 11 610 683 | 12 345 061 |
| - guarantee | 1 708 995 | 1 969 031 | 2 419 611 | 2 597 040 |
| Commitments received: | 2 626 170 | 2 513 556 | 2 335 270 | 2 354 184 |
| - financial | 11 081 | 2 185 | 6 884 | 59 301 |
| - guarantee | 2 615 089 | 2 511 371 | 2 328 386 | 2 294 883 |

## 7.4. REFORM OF BENCHMARKS

**1. WIBOR**

In May 2022, the Polish government announced that WIBOR would be replaced by a different (lower) rate from 1 January 2023. In June 2022, a Working Group was established, including commercial banks, GPW Benchmark (Administrator of WIBOR), KNF.

In July 2022, the National Working Group on Reference Rate Reform (NWG) was established in connection with the planned reform of reference rates in Poland. The objective of the NGR's work to introduce a new interest rate benchmark and replace the currently used WIBOR index with it while ensuring the compliance with BMR, including in particular ensuring credibility, transparency and reliability in the development and application of the new benchmark.

The National Working Group involves representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the GPW Benchmark, as well as representatives of credit institutions, i.e. in particular, banks, financial institutions, including investment funds, insurance companies, factoring and leasing companies, entities that are bond issuers, including corporate and municipal bonds, clearing houses.

The work of the National Working Group is coordinated and supervised by a Steering Committee including representatives of key institutions: Financial Supervision Authority, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, as well as the GPW Benchmark - the administrator of the reference rates - and the Polish Bank Association (Polish: Związek Banków Polskich).

The NWG's activities are executed in a project formula, where project streams have been identified and where Bank Millennium representatives are actively contributing to the work.

The National Working Group selected the WIRON index to become the key interest rate benchmark under the BMR and to be used in financial contracts, financial instruments.

In connection with this, Bank Millennium S.A. established, by resolution of the Bank's Management Board of 24 August 2022, an internal project reporting to the Management Board (Deputy Chairman of the Management Board - CFO and Member of the Management Board overseeing the areas of retail and corporate products), in order to duly manage the WIBOR to WIRON transition process and to implement the work in accordance with the roadmap. This work involves representatives from a significant number of the Bank's business units, including, in particular, representatives responsible for product areas and risk management issues, including, in particular, interest rate risk and operational risk. The structure of the project includes the division into streams covering products and processes where the WIBOR benchmark is applied, the management of the project by a dedicated project manager and the periodical reporting of statuses on the individual streams. In the current phase of the project, intensive work is underway at the Bank to adjust the technological infrastructure, as well as including the preparation of internal processes and documentation.

The Bank uses the WIBOR reference rate in the following products (in million PLN):

- mortgage loans: 27 141.85 only mortgage loans based on WIBOR (excluding loans currently with temporary fixed rate);
- loan products, factoring and corporate discounting products: 18 239.20;
- debt instruments (4 716.12);
  - Assets: 2 943.62
  - Liabilities: 1 772.50
- derivative instruments: 20 916.22

The Bank also applies instruments based on WIBOR benchmarks in hedge accounting, details of the hedging relationships used by the Group, the items designated as hedged and hedging and the presentation of the result on these transactions are presented in Note 16 "Derivatives - Hedge accounting" in Chapter 4 "Notes to the Consolidated Financial Statements.

Bank Millennium S.A. is working on the analysis of the risks and monitors them on a regular basis. In addition, due to the lack of formal information regarding the potential regulatory event referred to in Article 23c(1) of the BMR, the lack of a regulation of the Minister of Finance referred to in Article 61c of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system concerning a substitute or at least a draft of such a regulation, the lack of information on the amount of the adjustment spread or the method of calculating this spread as well as the lack of a market for hedging instruments and given the current stage of the work of the National Working Group and the implementation of the Roadmap, it is currently not possible to estimate the financial impact of the WIBOR reform.

In March 2023, the Steering Committee of the National Working Group on Benchmark Reform adopted recommendations on new products, both banking, leasing and factoring, as well as previously published ones on bonds and derivatives.

In July 2023, the NWG SC adopted a Recommendation on applying a fallback rate for WIBOR benchmark in interest rate derivatives. The recommendation presents the method of replacing WIBOR with an Alternative Benchmark in WIBOR-based interest rate derivatives in the event where a Fallback Trigger of a permanent nature occurs.

**2. LIBOR USD**

The Bank applies the USD LIBOR benchmark to the following products (in million PLN):

- Retail banking/mortgage portfolio: 3.30;
- Corporate banking:13.63 (*)

*(*) From 1 July 2023, these products are based on the SOFR O/N rate.*

On 3 April 2023, the Financial Conduct Authority supervising ICE Benchmark Administration Limited announced a decision regarding the future of LIBOR USD 3M and LIBOR USD 6M. FCA indicated that LIBOR USD 3M and LIBOR USD 6M will continue to be calculated and published after 30 June 2023 using the revised „synthetic" methodology, most likely until 30 September 2024. Considering the marginal number of such contracts in the Bank's portfolio, Bank is taking effort to implement individual approach to each of these contracts.

## 7.5. SECURITIZATION

On July 12, 2023, Millennium Leasing Sp. z o. o. concluded a Transaction of synthetic securitization of lease receivables with transfer of risk within the meaning of Art. 2 point 10) of Regulation (EU) No. 2402/2017 of the European Parliament and of the Council establishing a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011 /61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012 as amended ("Securitization Regulation").

As part of the Transaction, Millennium Leasing securitized synthetic exposures consisting of receivables arising from lease agreements generated in the ordinary course of business of Millennium Leasing ("Reference Receivables") with a value of PLN 4,028 million, including the purchase of credit risk protection covering losses which, according to with transaction documents will be allocated to the Mezzanine Tranche worth PLN 280 million, in the form of financed credit linked notes (CLN) issued directly by Millennium Leasing sp. z o.o. and acquired by Precise Credit Solutions 11 S.à r.l. based in Luxembourg.

The CLN bonds will be listed on the Vienna Stock Exchange and Millennium Leasing's performance of the obligation to pay interest and redemption of the bonds is secured by debt securities (treasury bonds in the amount of 110% of the issued CLN amount). Pursuant to and subject to the terms of the transaction documents, the principal amount of the CLN bonds will be reduced by the amount of each credit loss allocated to the Mezzanine Tranche following the occurrence of a credit event with respect to the Reference Receivable.

Forementioned transaction will have an estimated positive impact in July on Group Tier 1 ratio of ca 47 bps and on Group Total Capital Ratio of ca 62 bps.

| Date | Name and surname | Position/Function | Signature |
|---|---|---|---|
| 25.07.2023 | Joao Bras Jorge | Chairman of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Fernando Bicho | Deputy Chairman of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Wojciech Haase | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Andrzej Gliński | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Wojciech Rybak | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Antonio Pinto Junior | Member of the Management Board | Signed by a qualified electronic signature |
| 25.07.2023 | Jarosław Hermann | Member of the Management Board | Signed by a qualified electronic signature |