



**Management Board Report  
on the activity of Bank  
Millennium and Capital  
Group of Bank Millennium  
in the six months ended on  
June 30, 2023**

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The following data is presented in the Consolidated Report of the Bank Millennium S.A. Capital Group for 1<sup>st</sup> half of 2023:

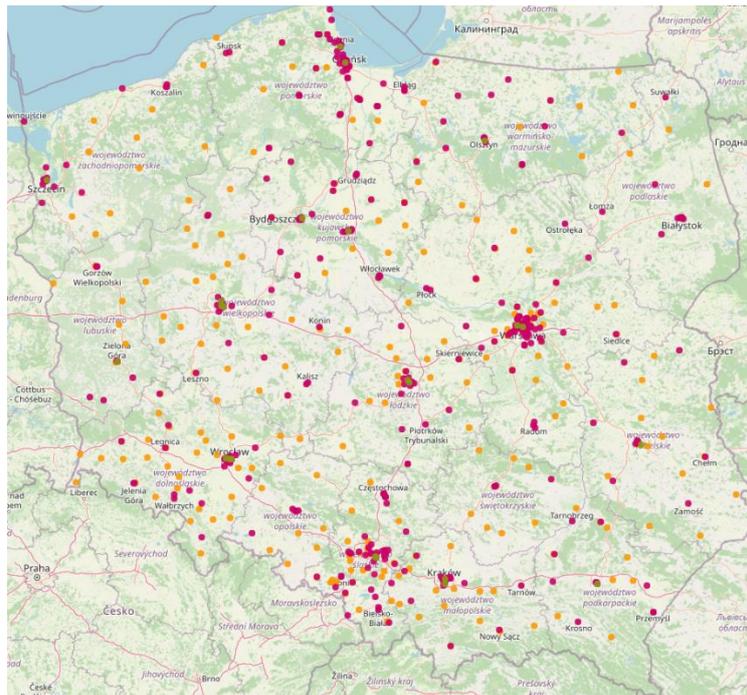
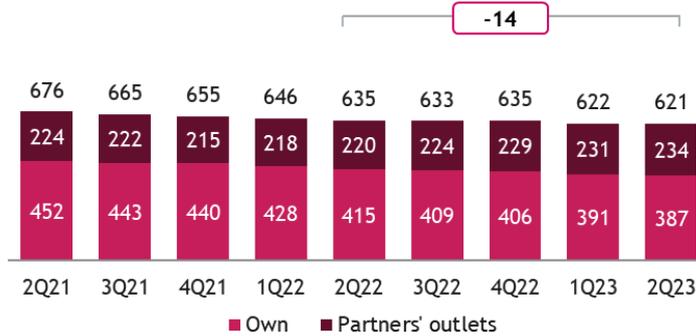
1. Balance of the Bank's shares held by the Bank's Supervisory and Management Board Members (chapter 7.4)
2. Description of important proceedings pending before a court of law, an authority with competence for arbitration procedure or a public administration body, regarding the Bank's liabilities and receivables (chapter 9)
3. Description of related parties transactions (chapter 7.1-7.2)

# 1. BANK MILLENNIUM AND MARKET CONDITIONS

## 1.1. GENERAL DESCRIPTION OF BANK MILLENNIUM GROUP

Bank Millennium S.A. ('Bank Millennium', 'Bank') was established in 1989 as one of the first Polish commercial banks. It is now one of the top 7 commercial banks in Poland in terms of assets and offers its services to all market segments via a network of 621 branches (including 387 own branches and 234 franchise branches), a network of personal advisors as well as electronic and mobile banking.

### Bank Millennium branches



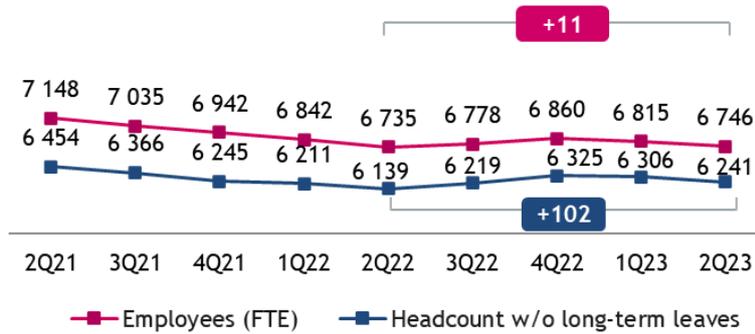
■ Own branches    ● Franchise branches    ● Mini branches

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

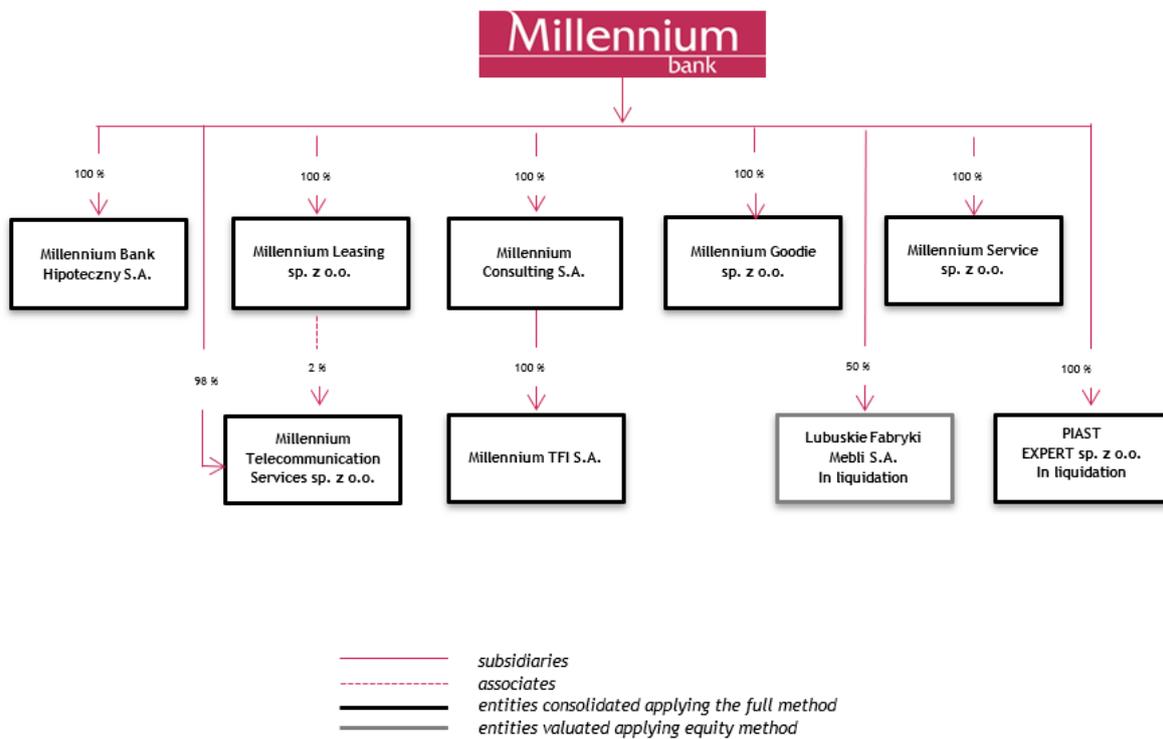
Bank Millennium is a market leader in the area of innovations understood to mean state-of-the-art technology and process improvements. Innovation in Bank Millennium is part of its business strategy.

Bank Millennium, together with its subsidiaries, forms Bank Millennium Group ('BM Group', 'Group') - one of the most innovative and comprehensively developing financial groups in Poland - employing in total 6,746 persons (FTE).

**Employees in Bank Millennium Group (FTE)**



**Bank Millennium Group's structure (30.06.2023)**



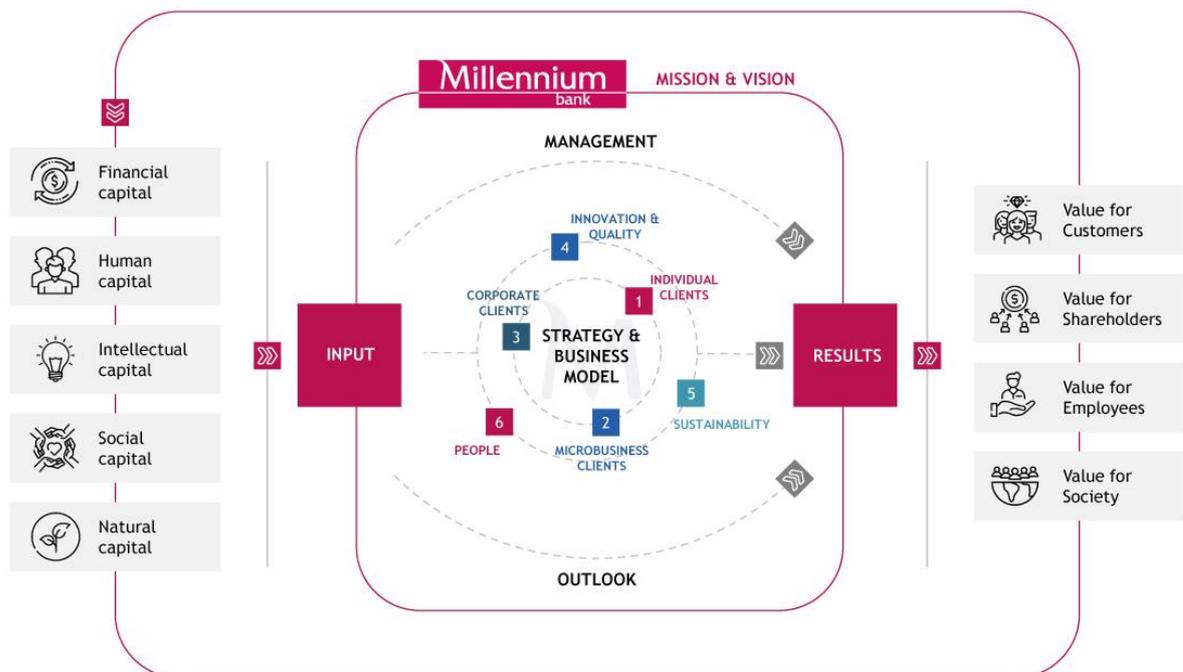
Its most important companies are: Millennium Leasing (leasing business), Millennium TFI (mutual funds) and Millennium Bank Hipoteczny (obtaining long-term financing through the issue of covered bonds). Since 2016, Millennium Goodie Sp. z o.o. together with the Bank has been operating a smartshopping platform based on advanced technology. The offering of the above-mentioned companies complements the services and products offered by the Bank. In February 2023, the Bank sold 80% of shares in Millennium Financial Services sp. z o.o. to Towarzystwo Ubezpieczeń na Życie Europa S.A. and Towarzystwo Ubezpieczeń Europa S.A. and became a 20% shareholder in the company. In connection with this sale, the Bank entered into several agreements with the buyers concerning insurance distribution model and long-term cooperation in the bancassurance area.

**Business model**

Bank Millennium operates according to a business model centered on six pillars:

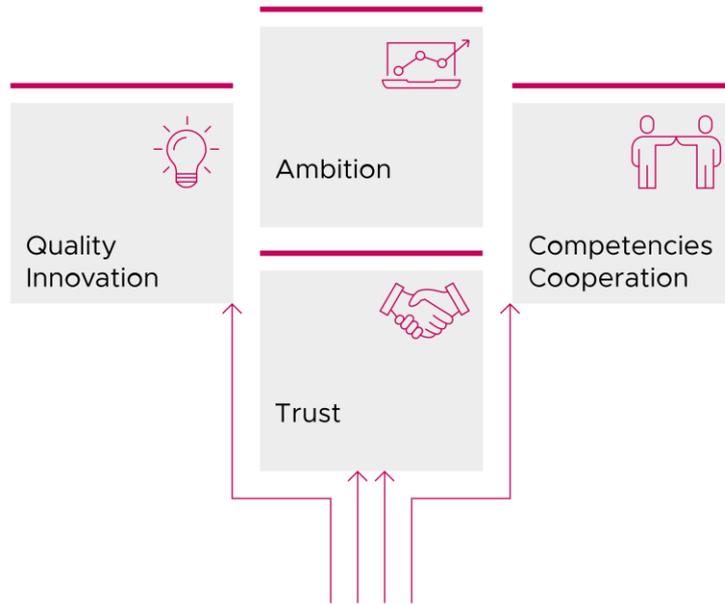
- Top quality and **extended offer for individual clients** - we are continuously strengthening the range of financial services offered to Customers, aiming also to constantly offer a best-in-class Customer Experience in all the channels, what makes us one of the fastest growing banks in loyal individual customers;
- Bank of the **1st choice for new micro-business clients** - taking advantage of the well-established retail sales and service model, we are building high innovative and efficient model for micro businesses;
- Strategic **partner supporting corporate clients development** - we are developing corporate banking segment leveraging on long-term partnerships providing to our clients personalized and digitalized services, as well as professional expertise to address challenges of the future, i.e. green transformation;
- Services supported by **innovative solutions with top tech User Experience** in digital channels (mobile-first approach) - we are among digital banking leaders, with one of the highest levels of mobile banking application penetration, setting trends in innovative financial and non-financial (Value Added Services) solutions and taking care on the best possible User Experience, hyper-personalisation and cybersecurity;
- **Sustainable organization** on the climate neutrality path -we keep our engagement for environment and society, now even scaled by dedicated strategy with defined ESG goals
- **Great place to work** for employees and for top talents - cornerstone of the business model and competitive advantage are our people and organizational culture, what is the reason behind continues effort to make us top employer, not only in the banking sector.

**Bank Millennium’s business model**



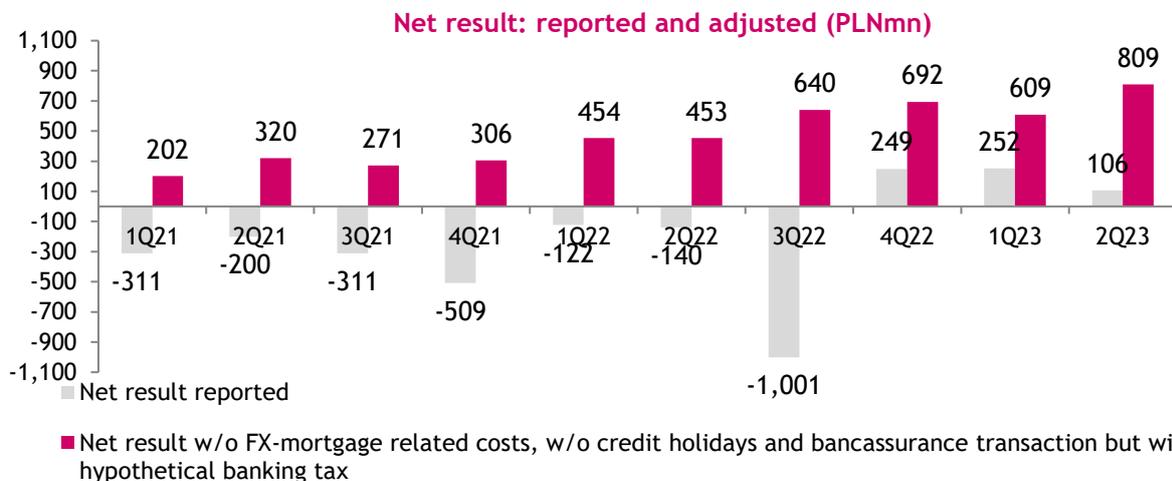
The business model is founded on **key values**: building relationships based on trust, a passion for quality and innovation, people development and promoting cooperation as well as the ambition to always aim higher.

**The Bank Millennium Group's Values**



**1.2. FINANCIAL RESULTS IN BRIEF**

2Q23 was the third consecutive quarter of a material positive net result reported by Bank Millennium S.A. Capital Group's ('BM Group', 'Group') after a period of negative results. Reported net profit amounted to PLN106 million despite elevated costs related to FX-mortgage portfolio ('FX-mortgage costs') and compared to PLN140 million net loss reported in 2Q22. 1H23 reported net profit totalled PLN358 million compared to 1H22 reported net loss of PLN263 million. 2Q23/1H23 net profit adjusted for FX-mortgage costs (2Q23: PLN809 million after tax, 1H23: PLN1,747 million) and for bancassurance transaction in 1Q23 but with a hypothetical bank tax (2Q23: PLN105 million, 1H23: PLN203 million) would be a record PLN809 million/PLN1,418 million respectively. These represent significant improvements compared to PLN453 million net profit without FX-mortgage costs in 2Q22 and PLN907 million in 1H22.



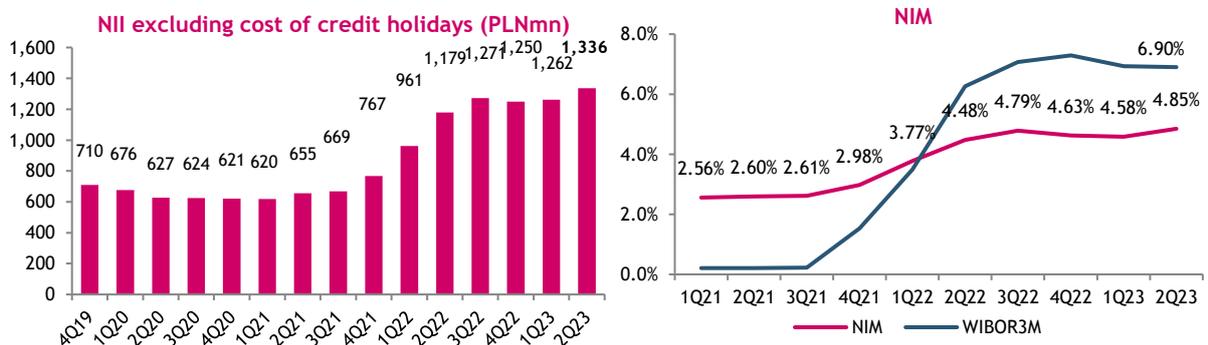
As reported earlier, in 1Q23 the Group recognised significant extraordinary profit of PLN483 million after tax resulting from the commencement of a strategic co-operation in the field of bancassurance

with TU Europa Group and the resulting sale of 80% stake in Millennium Financial Services sp. z o.o. subsidiary ('MFS').

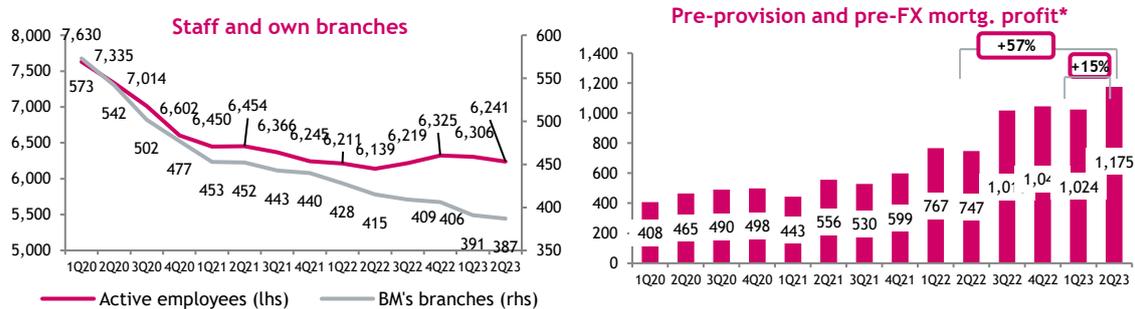
**Key developments in the period**

The key financial and business developments in 2Q23/1H23 were as follows:

- **NII increased 6% q/q (1H23: up 21% y/y)** despite gradually declining market interest rates; this was chiefly due to lower deposit cost although the combination of increasing size and profitability of the securities portfolio with changing loan mix also had a positive impact; y/y growth of quarterly NII remained solid at 13% but continued to decelerate fast due to the high base effect;
- **quarterly NIM improved to an all-time high of 485 bp from 458bps in 1Q23** due to the abovementioned lower cost of deposits (2.75% in 2Q23 vs. 2.91% in 1Q23) and changes on the asset side of the balance sheet;



- **cost efficiency remained high** owing to a combination of a steady increase in the digitalisation of our business and relations with clients with stronger growth of revenues vs. costs, the latter benefitting from lower regulatory charges; headcount remained broadly stable (number of active employees up 102 or 2% since end of June'22), optimisation of the physical distribution network continued (own branches down by 28 units or 7% in the last twelve months) complemented the increasing share of digital services (digital customers: 2.62 million, up 8% y/y, number of active mobile customers: 2.37 million, up 13% y/y); total reported income grew 13% y/y in 1H23, while reported opex fell 34% y/y, benefitting from lower regulatory costs (BFG/IPS charges totalled PLN372mn in 1H22 vs. BFG cost of PLN60mn in 1H23); opex adjusted for regulatory costs was up 15% y/y in 1H23;

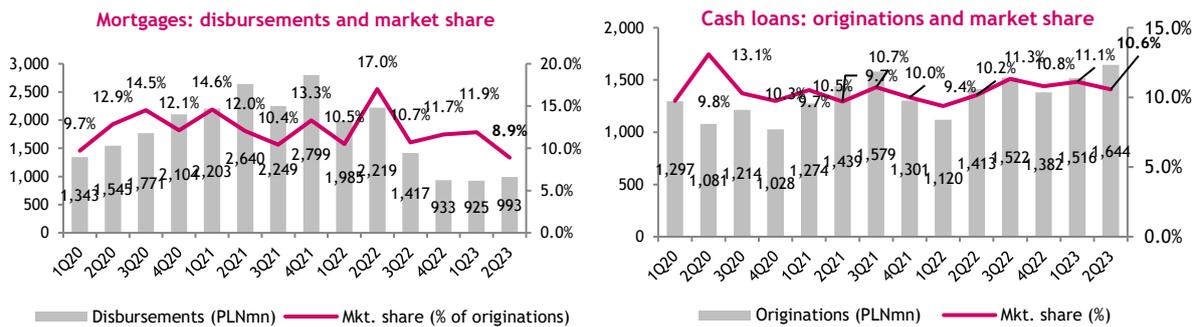


(\* Reported adjusted for cost of credit holidays, provisions against credit risk, Covid-19, result on FV portfolio, impairment losses on non-financial assets, modifications, legal risk on FX-mortgages and results on bancassurance transaction in 1Q23.

- **loan portfolio decreased in 2Q23** (net/gross loans: -7%/-6% y/y respectively and -2% q/q each) with contracting FX-mortgage portfolio and to a lesser extent selective corporate lending being the main reasons for the drop; loan book w/o FX-mortgages was down 2% y/y and flat q/q; FX-mortgages continued to shrink fast (-46% y/y, -19% q/q on reported basis) on a combination of FX movements (PLN gained 3% vs. CHF in the last twelve months), repayments, provisioning (in line

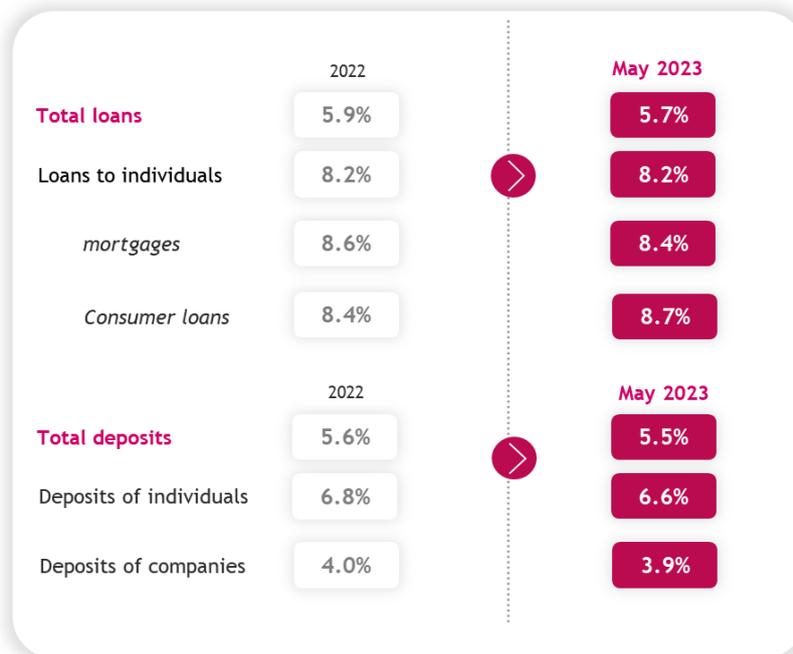
with IFRS9 most of legal risk provisions are booked against gross value of loans under court proceedings), write-offs and amicable settlements; as a result, the share of all FX-mortgages in total gross loans decreased to 6.1% (BM originated only: 5.5%) from 10.4% (9.6) in the same period last year;

- **non-mortgage retail portfolio was up 2% q/q and up 4% y/y owing chiefly to improved origination of cash loans;** in 2Q23 origination of cash loan reached a record PLN1.6bn, up 16% y/y, with 1H23 origination at PLN3.2bn, up 25% y/y; BM's market share in origination in 1H23 stood at 10.8%, above 9.8% in 1H22; 2Q23 origination (disbursements) of PLN mortgages improved 7% q/q, but remained well below this in same period last year (1H23: PLN1.9bn, down 55% y/y); BM's market share in originations stood at 8.9% in 2Q23 and 10.1% in 1H23 vs. 10.5% and 13.4% in 2Q22 and 1H22 respectively;



- **loan book quality improved with NPL ratio easing to 4.5% from 4.7% at the end of March'23** following methodological changes in PLN mortgage portfolio; supported by consumer NPL sale, these more than offset the adverse impact of the relatively low loan origination and contracting loan book; retail segment where NPL ratio dropped to 4.8% from 5.1% was the source of the improvement, while corporate segment saw NPL ratio ticking up to 3.7% from 3.4% (chiefly an outcome of decreasing denominator, i.e. loan portfolio); NPL coverage improved to 73% from 68% at the end of March'23 and 70% at YE22); cost of risk dropped to a mere 27bps in 2Q23 (1H23: 45bps vs. 1H22: 37bps) owing partly to PLN36mln pre-tax profit on NPL sale;
- **customer deposits were flat in the quarter** but were up 5% y/y with retail deposits up 2% q/q and corporate ones down 6%; trends in deposit mix change halted with share of term deposits easing to 35% from 36% at the end of March'23 (33% at YE22 and 18% at YE21); the liquidity of the Bank remained very comfortable with L/D ratio easing further to 74%;
- **AuM of Millennium TFI and third party funds combined continued to increase q/q** (up 8% in 2Q23); at over PLN6bn they were also up in y/y terms (+13%) for the first time in many quarters;
- **capital ratios improved visibly** (Group TCR: 14.8%/T1:11.7% vs. 14.1%/11.0% respectively at the end of March'23) and therefore a surplus over the required minimum levels (12.7%/10.2% respectively) widened further; the improvement was achieved organically through optimisation of both risk-weighted assets and regulatory capital (lower negative contribution from revaluation reserve among others);
- MREL requirements were lowered by BFG in June 2023 as expected, following the reduction of Pillar 2 buffer by KNF in December 2022; **together with the Bank's improved capital position these contributed to the fulfilment of interim MREL (excluding CBR) as of June 30, 2023 and to a reduction of the gap towards interim MREL + CBR.**

### Bank Millennium's market share in main products



Source: National Bank of Poland, Bank Millennium

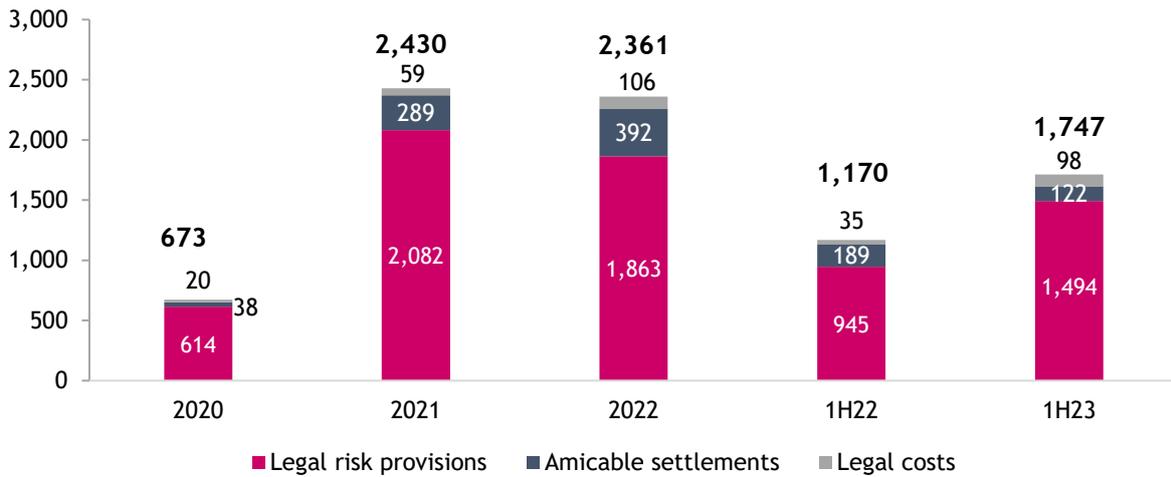
### Substantial extraordinary P&L items

In 1Q23, the BM Group entered into a strategic co-operation agreement with TU Europa Group. This included a sale of 80% of shares in MFS, which resulted in a pre-tax profit of PLN500 million. Additionally, PLN97 million pre-tax profit was recognised in the period in connection with the transaction and the bancassurance agreement. Furthermore, 1Q23 opex included estimated annual BFG fee (resolution fund) of PLN83 million, which was partly reversed in 2Q23 (PLN23 million).

### FX-mortgage portfolio and related costs

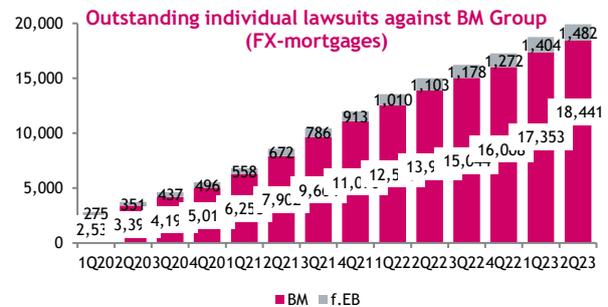
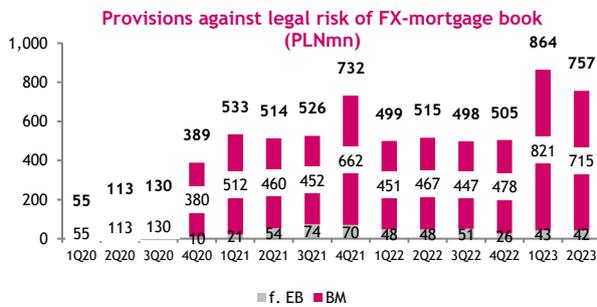
Costs related to FX-mortgage portfolio (legal risk provisions, costs of amicable settlements and legal costs) remained elevated and continued to be a material drag on the increasingly profitable core business of the Group. Owing to further adjustments to legal risk provisioning methodology, these costs totalled PLN880million pre-tax (PLN808 million after tax) in the period. In 1H23, these totalled PLN1,848 million pre-tax (PLN1,747 million after tax) compared to PLN1,195 million/PLN1,170 million respectively in 1H22.

**FX-mortgage related costs (PLNmnn after tax)\***

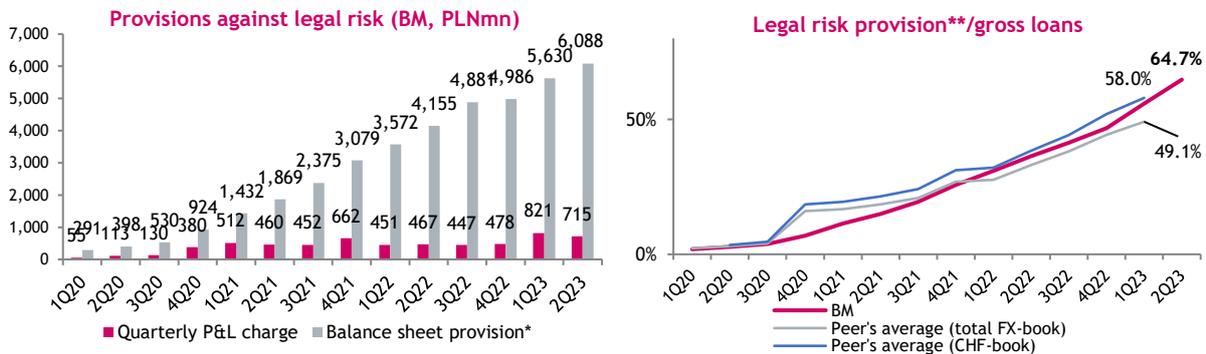


(\* ) without legal risk costs related to FX-mortgages originated by former EB.

Total provisions against legal risk related to FX-mortgage portfolio ('FX-mortgage provisions') amounted to PLN757 million (pre-tax) in 2Q23 with PLN715 million attributable to FX-mortgages originated by Bank Millennium, PLN 35 million above the early estimate provided in the current report of June 16, 2023. In 1H23, the respective values were PLN1,621 million and PLN1,536 million (1H22: PLN1,015 million and PLN919 million respectively). Post-tax FX-mortgage related provisions attributable to portfolio originated by Bank Millennium totalled PLN 1,494 million in 1H23 vs. PLN 945 million in 1H22. The further increase of mortgage provisions resulted from negative developments in the legal environment, namely the judgment of the European Court of Justice of June 15, 2023, with consequent methodological changes (e.g. elimination of a scenario of remuneration for capital provided by the Bank) and updated inputs into the Bank's provisioning methodology, reflecting, inter alia, the actual and expected inflow of court claims and higher proportion of cases lost by the Bank.



At the end of June'23, provisions for the portfolio originated by Bank Millennium were at the level of PLN6,088 million (an equivalent of 64.7% of the grossed-up FX-mortgage book) and at PLN474 million for the portfolio originated by former Euro Bank.

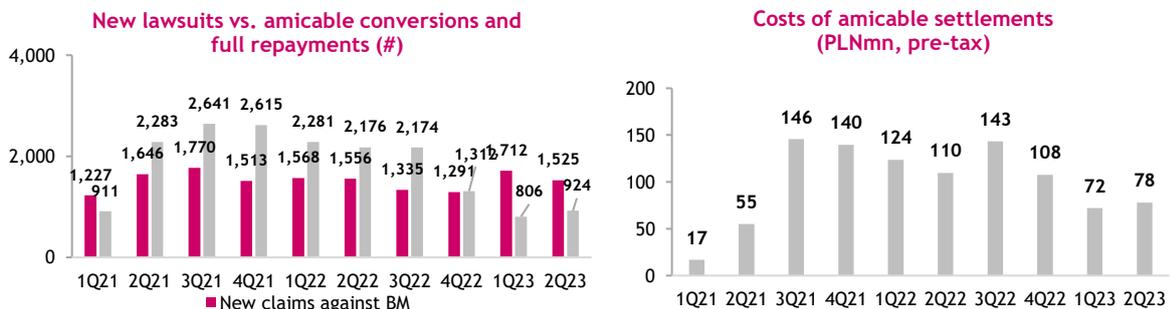


(\*) actual outstanding B/S provisions not equal to the sum of P&L charges. \*\* including provisions for settlements  
 Note: legal risk provisions/gross FX mortgage book (post IFRS9 adjustments where necessary); excl. f.EB portfolio in case of BM; peer group composition has been changed hence there may be differences in comparison to previously presented data.

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 court. A relatively small proportion of these (9.4%) was filed by borrowers who had repaid their FX-mortgages entirely or converted them into PLN mortgages at the date of submitting the court case.

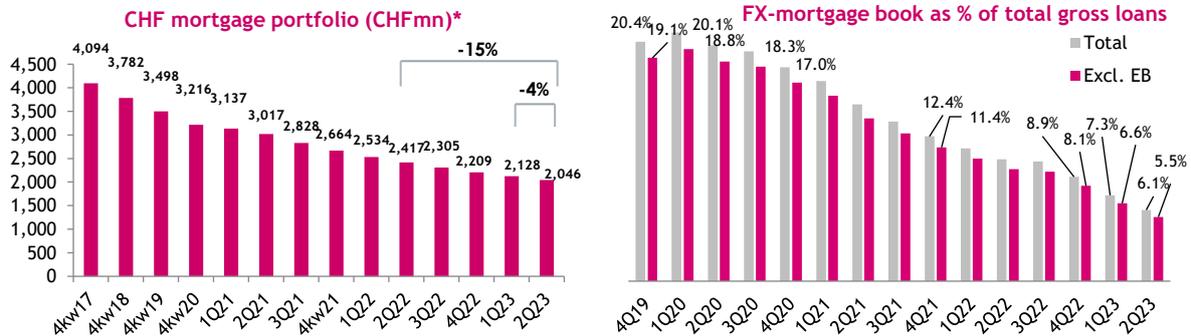
The Bank is highly focused on reduction of its FX-mortgage portfolio and the related risk and therefore continues to actively offer its customers amicable solutions (i.a. conversions to Polish zloty, pre-payments, early repayments or collectively ‘amicable settlements’) regarding FX-mortgages on negotiated terms. The number of amicable settlements reached 924 in 2Q23, more than in the preceding quarter and 1,730 in 1H23 overall (1H22: 4,457). Since early 2020 when more intensive effort was launched, nearly 19,500 amicable settlements took place, which represents nearly 32% of the number of active FX-mortgage agreements at the start of the effort. As a result of these negotiations, final court verdicts and other natural drivers, in 2Q23 the number of active FX-mortgage loans decreased by nearly 1,400 to 35,417, following the nearly 1,200 drop in 1Q23 and 9,600 drop in 2Q22 overall.

In 2Q23, costs related to amicable settlements totalled PLN78 million (pre-tax, booked in FX-result and in result on modifications), while in 1H23 they totalled PLN150 million (1H22: PLN233 million). Legal costs, booked in admin costs and other operating cost, totalled PLN60 million in 2Q23 and PLN121 million in 1H23.



Note: some items were adjusted from the previously reported values

As a result of these trends, the BM's FX-mortgage portfolio contracted 4% in 2Q23 (in CHF terms, gross, w/o impact of allocated legal risk provisions) while the y/y contraction rate stood at 15%. The share of total FX-mortgage book (gross loans less allocated legal risk provisions) in total Group's gross loans dropped to 6.1% at the end of June'23, while the share of FX-mortgage loans originated by BM dropped to 5.5%.



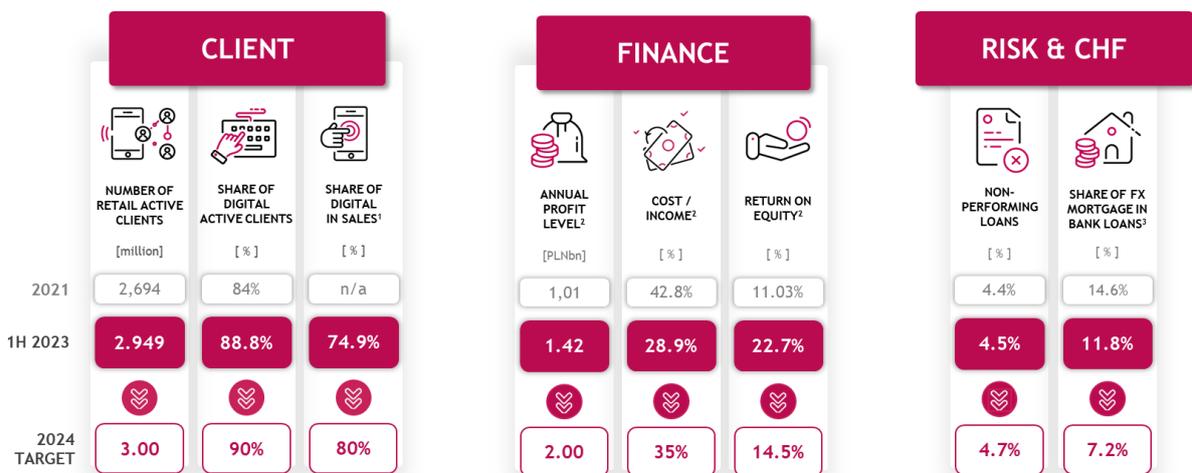
(\*) Originated by Bank Millennium  
Note: the share of gross FX-mortgages not deducting allocated legal risk provisions was 12.5% at the end of June'23.

Excluding all FX-mortgage related costs (2Q23: PLN880 million pre-tax/PLN808 million after tax, 1H23: PLN1,848 million/PLN1,747 million respectively), adjusting for 1Q23 gains on the bancassurance agreement (PLN597 million pre-tax, PLN484 million after tax) and adding hypothetical bank tax (2Q23: PLN105 million, 1H23: PLN203 million), the BM Group would post 2Q23 net profit of PLN809 million (1H23: PLN1,418 million) vs. adjusted 2Q22 net profit of PLN453 million (1H22: PLN907 million).

### 1.3. STRATEGY IMPLEMENTATION

The Bank's new strategy for years 2022-2024 was announced in 4Q21. The strategy clearly defines key business areas that will contribute to the execution of the assumed targets. Following to the adopted strategy, in 1Q22 the Bank prepared and accepted strategy operationalisation approach, which consists of 17 strategic initiatives/business areas. Strategic portfolio is the subject of the internal review process (on quarterly basis), both on the operational and executive levels.

The Bank monitors the execution of accepted strategic targets as well as turbulent and fast changing external circumstances, that could affect execution of abovementioned targets.



(1) calculated as an average of digital sales shares in key products volumes; (2) Excluding FX-mortgage book related costs (for 2022 excluding also 'mortgage holidays' effect and incorporating hypothetical banking tax effect in 2H22 while in 2023 excluding financial impact of bancassurance transaction) (3) W/o deduction of allocated legal risk provisions

After 2Q23 the Bank notes that most results are on track to be delivered at levels targeted in 2024 as well as broad range of business achievements, that was announced in the strategy, incl.:

- ca. 20k cumulative settlements with clients regarding FX mortgages,
- ca. 400k newly opened CA from the flagship Millennium 360 offer with access to broad range of value-added services and integration goodie into bank application,
- reduction of own greenhouse gas emissions by nearly 60% at the end of 2022 compared to 2020
- 10-year strategic partnership with TU Europa insurance company,
- E2E digital process of cash loan sales for NTB using open banking mechanism,
- implementation of voice-bot technology in Contact Centre for selected processes covering ca. 15% of incoming traffic
- transformation of the sales and service model for affluent and microbusiness clients combining digital channels with remote advisors' expertise,
- transformation of branch network and operating model supported by expansion of Automatic Cash Service format,
- new mobile application for corporate clients based on modern mobile technologies,
- support for corporate clients in green transformation backed by dedicated experts' team and extended financing products offer i.e., technological or ecological loan.

## 1.4. INFORMATION ON SHARES AND RATINGS

Early in 2023, the main risk factors that affected banks' quotations were the opinion of CJEU spokesman on FX loans and unexpected information about problems of banks in the United States and the collapse of Credit Suisse - one of the largest banks in Europe. These caused banking shares listed on the WSE to tumble after gains at the start of the year. Concerns about the stability of the financial sector caused a panic, albeit short-lived, sell-off in the shares of most banking companies. At the end of March 2023, the quotations of companies from the banking sector recouped some of the losses. At the beginning of April 2023 shares of Polish banks rebounded on a combination of easing concerns over the shape of the European banking sector, strong results of Polish banks and resulting undemanding valuations. All in all, 1H23 brought 17% increase of WIG index, 27% increase of WIG Banks and 26% increase of Bank Millennium's share price.

During the 12 months ending 30 June 2023, WIG broad market index grew 26%, WIG20 index of largest companies 22%, while WIG Banks outperformed the market gaining 46%. In the same period, share price of Bank Millennium grew 48%.

### Bank Millennium: ytd share price performance vs. WIG Banks



In 1H23 the average daily turnover of Bank Millennium shares was 25% lower than in the same period last year.

Market ratios	30.06.2023	30.12.2022*	Change (%) ytd	30.06.2022	Change (%) y/y
Number of the Bank's shares (th)		1 213 117	0.00%		0.00%
Average daily turnover in annual terms (th)	7 334			9 808	-25.2%
Bank share price (PLN)	5.76	4.58	25,8%	3.89	48.1%
Market capitalization of the Bank (PLNmn)	6 988	5 556	25.8%	4 717	48.1%
WIG Banks	7 962	6 252	27.3%	5 456	45.9%
WIG20	2 060	1 792	15.0%	1 696	21.5%
WIG30	2 534	2 188	15.9%	2 083	21.7%
WIG - main index	67 283	57 463	17.1%	53 573	25.6%

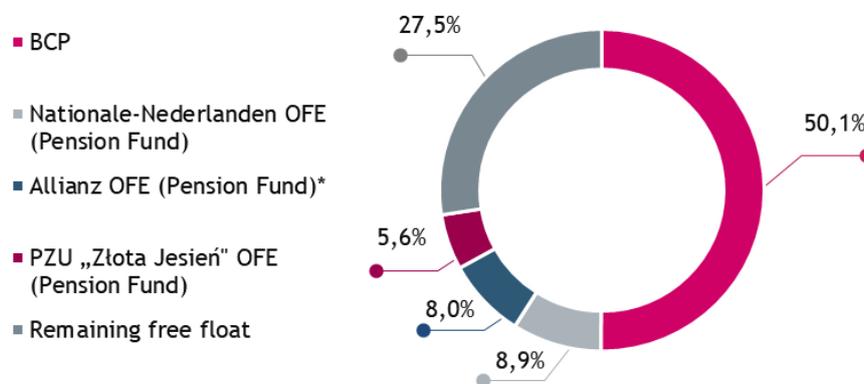
(\* the last day of quotation in 2022.

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

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

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

#### Shareholders' structure as at 31 December 2022



(\* According to the information in [current report no 18/2023](#))

#### Ratings of Bank Millennium

On March 24, 2023 Moody's rating agency ('Moody's') confirmed Bank's long- and short-term deposit ratings at Baa3/P-3 and its (P)Ba2 junior senior unsecured MTN program ratings and changed the outlook on the long-term deposit ratings from ratings under review for downgrade to negative. The Bank's BCA was downgraded to ba3 from ba2 and Adjusted BCA was confirmed at ba2.

This rating actions concluded the review opened on 20 July 2022 and extended on 20 December 2022 (details in CR 9/2023 [Current reports - Investor relations - Bank Millennium](#)).

On July 13, 2023 Fitch rating agency affirmed the Bank's Long-Term Issuer Default Rating (IDR) and Local Currency Long-Term IDR (LC LT IDR) at 'BB' and additionally revised to 'Positive' from 'Stable'

outlooks for these ratings. Additionally, Fitch affirmed at ‘bb’ the Viability Rating (VR) for the Bank and upgraded the Bank’s Shareholder Support Rating (SSR) to ‘b+’ from ‘b’. According to Fitch, the revision of outlooks reflected medium-term improvement of the Bank’s risk profile through further gradual reduction of the risks related to its foreign-currency mortgage loan portfolio. It also considers expectations that improved Bank’s core profitability will allow to absorb on-going legal costs and potential government intervention leading to further recovery of the Bank’s capitalisation (details in CR 22/2023 [Current reports - Investor relations - Bank Millennium](#)).

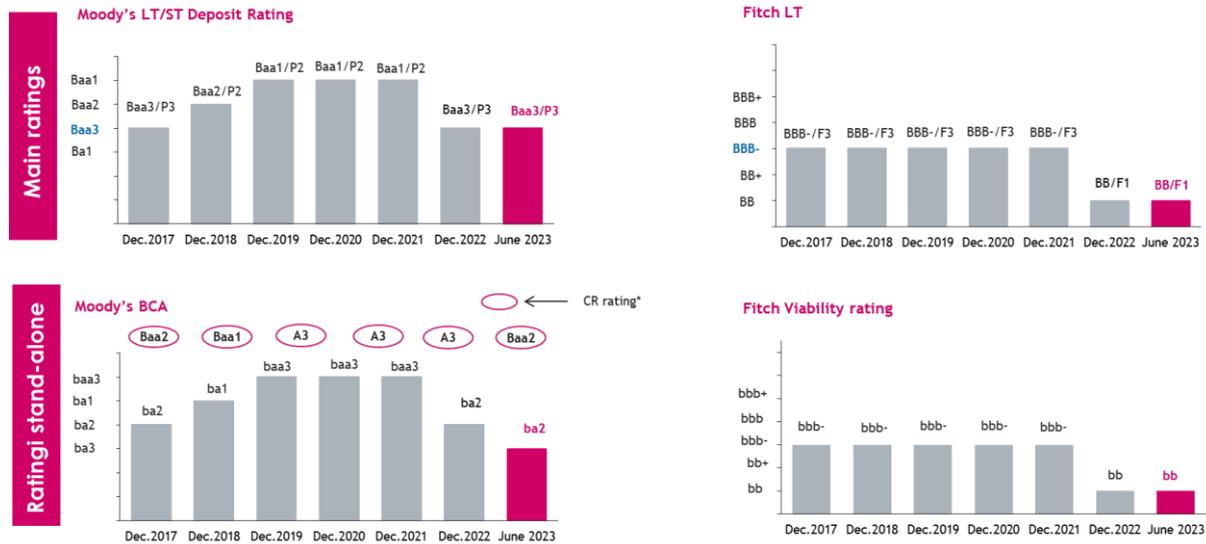
At the date of publishing this Report, the Bank’s corporate ratings, were as follows:

Rating	MOODY’S
Long-term deposit	Baa3
Short-term deposit	Prime-3
Baseline Credit Assessment (BCA)/Adj. BCA	ba3/ba2
LT Counterparty Risk Assessment (CRA)/ST CRA	Baa2(cr)/Prime-2(cr)
Rating outlook	negative

Rating	FITCH
Long-term deposit Issuer Default (IDR)	BB
National Long-term	BBB+ (pol)
Short-term Issuer Default Rating (IDR)	B
Viability (VR)	bb
Shareholder Support Rating (SSR)	b
Rating Outlook	Positive*

(\*) Fitch revised the outlook from Stable to Positive on July 13, 2023.

### History of Bank Millennium's ratings



(\*) (CR) LT Counterparty Risk Assessment - new rating introduced in May 2015, in line with Moody's revised bank rating methodology.

Source: Moody's and Fitch

## 1.5. MACROECONOMIC BACKGROUND

In 2Q23 the recovery in the services sector continued in many economies, which was supported by low unemployment and fast wage growth. However, lower global demand for goods, resulting from the reduction of household spending and further tightening of monetary conditions, weakened the situation in global trade and industry. In this environment, commodity prices declined further, contributing to lower inflation in prices of goods. Nevertheless, inflation of services prices still remained high and in 2Q23 the most important central banks continued to tighten monetary policy, which will probably be prolonged in 3Q23. Many economies were on a growth path in 2Q23 and GDP forecasts did not undergo significant revisions, however the prospects for industry and international trade deteriorated.

Polish industry in 2Q23 felt the above-mentioned negative impact of lower foreign demand. Also, in the conditions of high inflation, domestic demand turned out to be weak. Consequently, the industry limited economic activity during this period, as did the trade sector. According to the forecast of Bank Millennium, GDP decreased by 0.1% y/y between Apr'23 and Jun'23, after a decrease by 0.3% y/y in 1Q23.

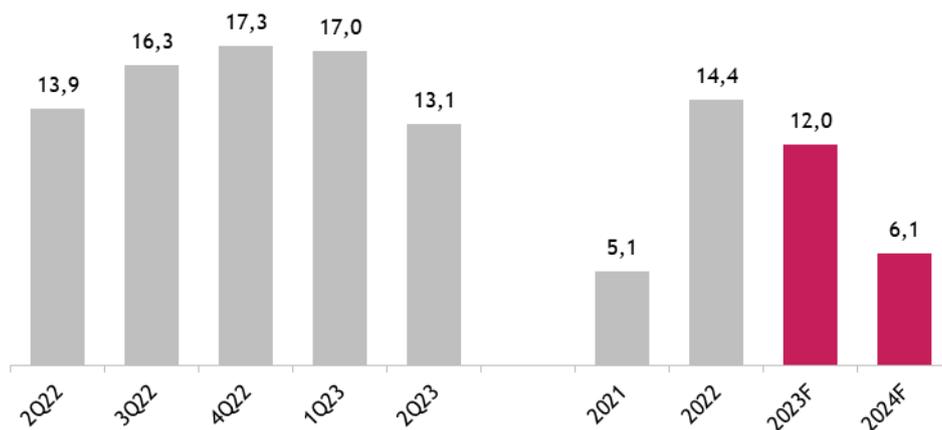
**Industrial production and retail sales (% y/y)**



Source: Macrobond

High inflation in 2Q23 contributed to low activity in the Polish economy. The CPI amounted to on average to 13.1% y/y in the Apr'23-Jun'23 period against 17.0% y/y in 1Q23. The decrease was mainly the effect of fading supply shocks on international commodity markets. Core inflation, calculated as the CPI excluding food and energy prices, also decreased, albeit in a smaller scale. It amounted in 2Q23 to 11.6% y/y vs 12.0% y/y a quarter earlier. The situation on the labour market was a contributing factor to still high inflation - unemployment was close to a record low and quick increase in labour costs continued. In such conditions, in 2Q23, the Monetary Policy Council maintained a “wait-and-see” stance and the NBP reference rate remained at 6.75%. It was also kept unchanged in Jul'23, although the NBP Governor, Mr.Glapiński, announced the end of this monetary policy tightening cycle and informed that the next step is to be interest rate cuts.

**CPI and its forecasts (% y/y)**



Source: Macrobond, Bank Millennium, F - forecast

In May'23, the value of deposits in the economy was higher than at the end of 1Q23 by PLN13.9bn. Growth was recorded in both sectors: households and non-financial corporations. In May'23, lending activity recovered. Newly granted consumer loans amounted to PLN7.6bn, which is the highest value in the data. Housing loans also rebounded. The value of newly granted loans for this purpose in May'23

totalled PLN3.9bn and was the highest in 12 months. In May'23, the value of new loans to non-financial enterprises amounted to almost PLN20bn, which is the highest value in the available data.

In 2Q23, the outlook for economic growth in Poland did not change significantly. However, its expected breakdown looks slightly different. On the one hand, inflation is declining and will fall slightly faster than anticipated, while on the other hand, expectations for global industry and international trade have deteriorated. According to Bank Millennium's forecasts, in 2H23, the annual GDP growth rate will return to positive territory, mainly due to the assumed rebound in household consumption, supported by rising again incomes in real terms and better consumer sentiment. Moreover, the Bank expects stabilization of the labour market in the coming quarters. Furthermore, in 2H23, GDP growth should be also supported by investments, both private and public. According to Bank Millennium's forecasts, economic growth will accelerate from 0.7% in 2023 to 2.6% in 2024, along with the easing of economic policy, which includes the likely increase of the "500 plus" social benefit to 800 PLN, a strong raise in the minimum wage and lowering of interest rates.

In the Bank's opinion, inflation in 2H23 and in 2024 will decrease. However, the pace of decline will be limited still quickly growing labour costs, including a strong increase in the minimum wage from 2024. At the same time, in the Bank's opinion, since 2H23, demand in the economy will rebound. Thus, according to the Bank, achieving the inflation target at the current level of interest rates is a distant prospect. Nevertheless, declining inflation and its near return to single-digit values may be an impulse to ease monetary policy already in 2023, which will be continued in 2024. The economic situation in Poland in 2023 and 2024 is subject to significant uncertainty. Internal risk factors relate in particular to economic policy (fiscal and monetary), in connection with the upcoming elections.

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

The summary list below presents the most important negative risk factors, in the Bank's opinion, for the Bank Millennium Group, related to the macroeconomic situation in 2023 and 2024. Their assessment did not change significantly in 2Q23.

- The geopolitical situation in the world, including, i.a., the possibility of a significant intensification of war hostilities between Russia and Ukraine. This would result in a renewed increase in uncertainty and risk aversion, and would affect commodity prices on international markets, asset valuation and a weaken zloty. This would increase inflation in Poland and abroad, which would translate into a downturn and a stronger than expected increase in unemployment.
- Suboptimal economic policy during the elections period, which could result in perpetuating inflationary pressures and foster imbalances in the economy, including external and fiscal ones. This would translate into higher debt servicing costs, a weaker exchange rate, higher inflation and further tightening of monetary policy.
- Higher and more persistent inflation abroad resulting in an economic slowdown and further significant tightening of monetary policy by the largest central banks. This could result in the possibility of escalation of tensions in the global financial system and, consequently, in an increase in risk aversion, tightening of credit standards and potential increases in fiscal costs.
- Insufficient supply of natural gas in Europe in the future heating period, which in a negative scenario would mean rationing of supplies and most likely stopping or reducing the activity of companies.
- Institutional instability in the period following the upcoming elections in Poland.
- Rapid expansion of a pandemic, e.g. due to vaccine-resistant mutations of viruses.

As a result of materialisation of these negative risk factors, the financial standing of the BM Group's clients would weaken, reducing the demand for its offer and increasing credit risk. At the same time,

disturbances on financial markets could result in a deterioration in the valuation of assets in the Group's portfolio.

There is also a possibility of better economic results in Poland than in the Bank's baseline scenario, which could result, i.a., from a faster than expected abatement of military operations in Ukraine. The stabilisation of the economy would also be facilitated by an increase of the number of employees from abroad and faster than assumed inflow of funds from the European Union to the benefit of the National Recovery Plan.

## 1.7. RECOVERY PLAN AND CAPITAL PROTECTION PLAN

In the current report of July 15, 2022 ([Information on expected negative impact of credit holidays on 3rd quarter 2022 results of Bank Millennium S.A. Capital Group and on launching of the Recovery Plan](#)), the Bank informed that due to costs generated as a result of the above mentioned Act, it could be reasonably assumed that the Bank will post a negative net result for the 3rd quarter of 2022 and as a result its capital ratios may fall below the current minimum requirements set by Polish Financial Supervision Authority ('PFSA'). As the emergence of risk of a breach of respective capital ratios represents a prerequisite stipulated in the art. 142 sec. 1 and 2 of the Banking Act of 29 August 1997 (Journal of Laws 2021, item 2439, i.e. 28 December 2021, as amended), on July 15, 2022 the Management Board of the Bank took a decision to launch the Recovery Plan, notifying of the fact both PFSA and Bank Guarantee Fund. Additionally, the Bank has elaborated and submitted to PFSA the Capital Protection Plan, 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 28<sup>th</sup> October 2022.

Both the Recovery Plan and Capital Protection Plan, foresee 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). Launching of both plans, triggered various actions aimed at the increase of capital ratios and operational profitability.

As presented in the 2022 Annual report, in 4Q22 the Bank/BM Group improved capital ratios, bringing them clearly above the updated regulatory requirements. Capital ratios improved further in 1H23 as a result of capital and RWA optimisation initiatives and lower unrealised losses on securities held in HTC&FS portfolio. Assuming no other extraordinary factors, the Bank plans to keep capital ratios above the minimum required levels throughout the rest of the year 2023. The Bank monitors, on the current basis, the financial situation and, if needed, will undertake actions to launch additional remedial activities.

As soon as all Recovery Plan leading indicators will become green ('business as usual' zone), the Bank will complete the key milestones of the Recovery Plan. The Bank anticipates that this may occur around the end 2023 or in the first half of 2024 at the latest, assuming no significant negative extraordinary events.

More details are available in the risk section of this report.

## 1.8. FX-MORTGAGE 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 1<sup>st</sup> 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 analysed 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.

More details on the above risk and other risk factors are presented in Consolidated report of the Bank Millennium S.A. Capital Group for 1<sup>st</sup> half 2023.

## 2. FINANCIAL SITUATION OF BM GROUP

### 2.1. GROUP PROFIT AND LOSS ACCOUNT

Group's operating income (PLNmn)	1H23	1H22	Change y/y	2Q23	1Q23	Change q/q
Net interest income	2 598	2 140	21%	1 336	1 262	6%
Net commission income	404	427	-5%	203	201	1%
<b>Core income</b>	<b>3 002</b>	<b>2 567</b>	<b>17%</b>	<b>1 539</b>	<b>1 463</b>	<b>5%</b>
Other non-interest income	572	-70	-	-22	594	-
<b>Total operating income*</b>	<b>3 574</b>	<b>2 497</b>	<b>43%</b>	<b>1 517</b>	<b>2 057</b>	<b>-26%</b>
<b>Total operating income without extraordinary items**</b>	<b>3 128</b>	<b>2 652</b>	<b>18%</b>	<b>1 603</b>	<b>1 524</b>	<b>5%</b>

(\*) Without fair value adjustment of credit portfolio (PLN-2.2mn in 1H23 and PLN5.6mn in 1H22), which is included in the cost of risk line

(\*\*) Without financial impact of insurance transaction (PLN597mn in 1Q23), and FX mortgage loan related costs/incomes (in FX position and other operating income/cost including indemnity from Societe Generale)

**Net interest income** (NII) in 1H23 reached PLN2,598mn and was materially up (21% y/y). The quarterly growth of NII was considerable at +6% q/q. Significant y/y improvement of NII was mostly driven by higher market interest rates and the resultant higher Bank's interest margin.

**Net interest margin** (over average interest earning assets) (NIM) has shown a strong upward trend after the shift in monetary policy in 4Q21 with the record level of 4.85% in 2Q23, i.e. 27 bps higher vs 4.58% in 1Q23. NIM in 1H23 was 4.71%, i.e. 57 bps higher vs. 4.14% in 1H22.

**Net commission income** in 1H23 amounted to PLN404mn and decreased -5% y/y (2Q23 saw 1% q/q growth), mainly due to contraction of commissions related to accounts service and lending activity (a decrease by PLN41mn). Fees on management and distribution of mutual funds and other investment products also contracted y/y, due to unfavourable conditions on capital markets in 2022. In contrast, commissions from cards and bancassurance activity grew strongly and were the main source of the improvement in the income line.

**Core income**, defined as a combination of net interest and net commission income, reached PLN3,002mn in 1H23 and grew 17% y/y (2Q23:+5% q/q), reflecting strong Group's recurrent income dynamics.

**Other non-interest income**, which comprises FX result, results on financial assets and liabilities (without fair value adjustment on credit portfolio) and net other operating income and costs showed considerably positive value of PLN572mn in 1H23, mostly driven by the insurance transaction (sale of shares in Millennium Financial Services to external insurance partner in March'23 and related impacts, with pre-tax impact of PLN597mn). Costs of amicable settlements negotiated with FX mortgage borrowers and legal costs related to FX mortgage loans (PLN194mn in 1H23 presented in FX result and other operating costs) continued to negatively impact this line.

**Total operating income** of the Group reached PLN3,574mn in 1H23 and showed a very strong increase of 43% y/y. Without the extraordinary income and costs mentioned above, it reached PLN3,128mn, up 18% y/y (2Q23: +5% q/q), leading to a meaningful Group's efficiency improvement.

**Total costs** amounted to PLN970mn in 1H23, translating into 17% decrease y/y, mainly due to high contribution to Banking Guarantee Fund (BFG) funds and to the institutional protection scheme ('IPS') in 1H22. IPS cost for the Bank amounted to PLN276mn (pre-tax) in 2022, most of which was booked in 2Q22. Total costs excluding BFG/IPS fees grew 15% y/y.

Operating costs (PLNmn)	1H23	1H22	Change y/y	2Q23	1Q23	Change q/q
Personnel costs	(502)	(445)	13%	(256)	(246)	4%
Other administrative costs	(468)	(718)	-35%	(192)	(276)	-30%
<i>of which Banking Guarantee Fund (BFG) fees and IPS contribution</i>	(60)	(372)	-84%	23	(83)	-
<b>Total operating costs</b>	<b>(970)</b>	<b>(1 163)</b>	<b>-17%</b>	<b>(448)</b>	<b>(522)</b>	<b>-14%</b>
<i>Total costs without BFG/IPS</i>	<i>(910)</i>	<i>(791)</i>	<i>15%</i>	<i>(472)</i>	<i>(438)</i>	<i>8%</i>
Cost/income - reported	27.1%	46.6%	-19.5 p.p.	29.5%	25.4%	4.1 p.p.
<i>Cost/income - adjusted *</i>	<i>28.8%</i>	<i>41.3%</i>	<i>-12.5 p.p.</i>	<i>28.8%</i>	<i>28.7%</i>	<i>0.1 p.p.</i>

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

**Personnel costs** amounted to PLN502mn in 1H23 and increased by 13% y/y, mainly as a result of wage inflation feeding through higher base salaries. The Group continued to adjust the number of its branches and personnel to its needs, reflecting the growing importance of online channels while simultaneously keeping strong geographical presence in traditional outlets. At the end of June 2023, the total number of outlets was 621 and their number was reduced by 14 units vs. the end of June 2022. The number of Group's employees amounted to 6,746 FTEs at the end of June 2023 and it was similar as the level of one year ago. Without employees absent due to long leaves ('active FTEs'), the headcount was much lower i.e. at 6,241 staff.

Employment (FTEs)	30.06.2023	30.06.2022	Change y/y	31.03.2023	Change q/q
Bank Millennium S.A.	6 461	6 407	1%	6 539	-1%
Subsidiaries	285	328	-13%	276	3%
<b>Total Bank Millennium Group</b>	<b>6 746</b>	<b>6 735</b>	<b>0%</b>	<b>6 815</b>	<b>-1%</b>
<b>Total BM Group (active* FTEs)</b>	<b>6 241</b>	<b>6 139</b>	<b>2%</b>	<b>6 306</b>	<b>-1%</b>

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

**Other administrative costs** (including depreciation) reached PLN468mn in 1H23 and decreased by 35% y/y due to lower contribution to BFG/IPS mentioned above whereas the costs without BFG/IPS increased by 18% y/y (2Q23: up 8% q/q) due to increase of such items as legal and advisory costs, energy and IT and telecommunication costs. Legal costs resulting from negotiations and litigations with FX mortgage borrowers were additional burden to this cost group (PLN41mn in the reporting period).

**Cost-to-income ratio** for 1H23 amounted to 27.1% and was lower by 19.5 percentage points vs. the level for 1H22 (46.6%). Cost-to-income ratio without extraordinary items mentioned above (mainly the bancassurance transaction and legal costs and FX losses related to litigations/settlements with FX mortgage borrowers), reached record low level of 28.8% in 1H23 and was 12.5 percentage points lower than in 1H22.

Net profit (PLNmn)	1H23	1H22	Change y/y	2Q23	1Q23	Change q/q
Operating income	3 574	2 497	43%	1 517	2 057	-26%
Operating costs	(970)	(1 163)	-17%	(448)	(522)	-14%
Impairment provisions and other cost of risk*	(172)	(154)	12%	(52)	(119)	-56%
Other modifications**	(36)	0	-	(17)	(19)	-8%
FX legal risk related provision	(1 621)	(1 015)	60%	(757)	(864)	-12%
Banking tax	0	(169)	-100%	0	0	-
Pre-tax profit	775	(4)	-	242	534	-55%
Income tax	(418)	(259)	61%	(136)	(281)	-52%
<b>Net profit - reported</b>	<b>358</b>	<b>(263)</b>	<b>-</b>	<b>106</b>	<b>252</b>	<b>-58%</b>
<b>Net profit - adjusted***</b>	<b>1 448</b>	<b>949</b>	<b>53%</b>	<b>776</b>	<b>672</b>	<b>16%</b>

(\*) Impairment provisions for financial and non-financial assets including also fair value adjustment on loans (PLN-2.2mn in 1H23 and PLN5.6mn in 1H22) and loans modification effect (PLN-17.5mn in 1H23 and PLN-8.8mn in 1H22)

(\*\*) The value of modification booked in 1H23 resulting from amicable settlements with FX mortgage borrowers and referring to a specific group of such agreements.

(\*\*\*) Without extraordinary items, i.e. financial impact of bancassurance transaction (PLN597mn in 1Q23), FX-mortgage related costs, linear distribution of BFG resolution fund fee and hypothetical banking tax in 1H23

**Total cost of risk**, which comprised net impairment provisions, fair value adjustment of a part of credit portfolio and a part of result on modifications (excluding the part related to settlements with FX mortgage borrowers), bore by the Group amounted to PLN172mn in 1H23 and was 12% higher than in 1H22 (2Q23: down 56% q/q).

**Risk charges** for retail segment were the main driver of cost of y/y risk increase and amounted to PLN161mn in 1H23. Risk charge for corporate and other segments was moderate and amounted to PLN11mn. In relative terms, the cost of risk (i.e. net charges to average gross loans) for 1H23 reached 45 basis points (annualised) and was 8 basis points higher than in 1H22 (37 basis points).

In 1H23, the Group booked in modifications line a part of costs related to settlements with FX mortgage borrowers in the amount of PLN36mn.

In 1H23, the Bank continued to create **provisions for legal risk related to FX-mortgage portfolio**, which were a significant item in P&L statement and reached PLN1,621mn (PLN1,536mn excluding loans generated by former Euro Bank as they are subject to indemnity clauses and guarantees from Societe Generale). The provisions were significantly higher (i.e. by 60%) than these in 1H22. The Bank's estimates of provisions for 1H23 take into consideration the judgement of the European Court of Justice of June 15, 2023 on case C-520/21, with resultant elimination from the Bank's legal risk provisioning methodology of the probability of receiving remuneration for the use of capital it had provided. Additionally, the Bank also updated other parameters in its methodology. At the end of June'23, provisions for the portfolio originated by Bank Millennium were at the level of PLN6,088mn (an equivalent of 64.7% of the grossed-up FX-mortgage book) and at PLN474mn for the portfolio originated by former Euro Bank.

**Pre-income tax result** in 1H23 was positive and amounted to PLN775mn compared to the pre-tax loss of PLN4mn in 1H22. The Bank has not been due to pay banking tax since July 15, 2022, the date of the Bank's decision to launch the Recovery Plan and notification of the fact to both PFSA and Bank Guarantee Fund.

In 1H23 the Group reported **net profit** of PLN358mn. In 2Q23 the Group reported net profit of PLN106mn and it was the third consecutive quarter of net profit generation after preceding eight consecutive quarters of net losses. Adjusted for the abovementioned extraordinary items (i.a. the

transaction of sale of shares in bancassurance business, FX-mortgage related costs and with proportional adjustment of BFG charge) the Group would achieve the net profit of PLN1,448mn in 1H23, 53% above the adjusted 1H22 net profit of PLN949mn.

## 2.2. BALANCE SHEET

### Assets

The Group's assets as at 30 June 2023, amounted to PLN114,824mn, recording 5% growth vs. the end of June 2022. The structure of the Group's assets as well as changes of their particular components are presented in the table below:

Group's Assets (PLN million)	30.06.2023		30.06.2022		Change y/y (%)
	Value	Structure	Value	Structure	
Cash and operations with the Central Bank	6 769	5.9%	5 810	5.3%	17%
Loans and advances to banks	532	0.5%	1 080	1.0%	-51%
<b>Loans and advances to clients</b>	<b>74 152</b>	<b>64.6%</b>	<b>79 342</b>	<b>72.9%</b>	<b>-7%</b>
Receivables from securities bought with sell-back clause	48	0.0%	8	0.0%	480%
Debt securities	29 400	25.6%	19 532	17.9%	51%
Derivatives (for hedging and trading)	617	0.5%	221	0.2%	180%
Shares and other financial instruments*	135	0.1%	149	0.1%	-10%
Tangible and intangible fixed assets**	995	0.9%	938	0.9%	6%
Other assets	2 176	1.9%	1 778	1.6%	22%
<b>Total assets</b>	<b>114 824</b>	<b>100.0%</b>	<b>108 858</b>	<b>100.0%</b>	<b>5%</b>

(\*) including investments in associates

(\*\*) excluding fixed assets for sale

The most visible moves within assets during the period of the last twelve months were growth of debt securities (by PLN9.9bn) and a decrease of loans to customers (by PLN5.2bn).

### *Loans and advances to clients*

Total net loans of the BM Group reached PLN74,152mn at the end of June'23 and were down 7% y/y (-2% q/q). Loans without FX-mortgage portfolio decreased slightly by 2% y/y and were flat q/q. FX mortgage loans net of provisions decreased materially during the last twelve months (down 46%) and the share of FX mortgage loans (excluding these taken over with Euro Bank) in total gross loans has dropped visibly during the year to 5.5% from 9.6% a year ago (partly due to the fact that most of legal risk provisions lower the gross value of the loans apart from regular amortisation and earlier repayments).

The net value of loans to households amounted to PLN55,995mn as at the end of June 2023, showing a decline of 6% y/y (-1% q/q). Within this line, PLN mortgages declined slightly by 1% y/y, as quarterly disbursements contracted visibly in high interest rates environment. In 1H23 disbursements of PLN mortgage loans reached PLN1,917mn and fell by 55% vs.1H22.

The net value of consumer loans reached PLN16,270mn and increased by 4% y/y. The trend in cash loans origination was very positive - new loans disbursed in 1H23 reached PLN3.2bn, up 25% compared to 1H22.

Net value of loans to companies amounted to PLN18,157mn at the end of June'23 and decreased by 8% y/y (-4% q/q). The contraction of the loan portfolio was largely caused by the Group's focus on risk weighted assets (RWA) optimisation following capital constraints.

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

<b>Loans and advances to clients (PLNmn)</b>	<b>30.06.2023</b>	<b>30.06.2022</b>	<b>Change y/y</b>	<b>31.03.2023</b>	<b>Change q/q</b>
Loans to households	55 995	59 557	-6%	56 547	-1%
- <i>PLN mortgage loans</i>	35 220	35 624	-1%	35 004	1%
- <i>FX mortgage loans</i>	4 505	8 279	-46%	5 531	-19%
- <i>of which Bank Millennium loans</i>	4 055	7 602	-47%	5 012	-19%
- <i>of which ex-Euro Bank loans</i>	449	677	-34%	519	-13%
- <i>consumer loans</i>	16 270	15 653	4%	16 012	2%
Loans to companies and public sector	18 157	19 785	-8%	18 833	-4%
- <i>leasing</i>	6 790	6 919	-2%	6 971	-3%
- <i>other loans to companies and factoring</i>	11 367	12 866	-12%	11 862	-4%
<b>Net loans &amp; advances to clients</b>	<b>74 152</b>	<b>79 342</b>	<b>-7%</b>	<b>75 380</b>	<b>-2%</b>
<i>Net loans and advances to clients excluding FX mortgage loans</i>	<i>69 647</i>	<i>71 063</i>	<i>-2%</i>	<i>69 849</i>	<i>0%</i>
Impairment write-offs	2 524	2 385	6%	2 508	1%
<b>Gross* loans and advances to clients</b>	<b>76 676</b>	<b>81 727</b>	<b>-6%</b>	<b>77 888</b>	<b>-2%</b>

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

### Debt securities

Value of debt securities reached PLN 29,400mn at the end of June 2023, which means a meaningful increase by 51% y/y. A dominant part of the debt securities portfolio (96%) were bonds and bills issued by the Polish State Treasury, other EU governments and National Bank of Poland (Central Bank). The increase of debt securities portfolio was a consequence of assets/liabilities and interest margin management policy and was correlated with the changes of loans and deposits. The share of this group of debt securities in the Group's total assets was at 24.5% at end of June 2023 reflecting a good liquidity position of the Group.

More information on debt securities and liquidity management of the Bank can be found in in Chapter 5.4. of this document and in Chapter 5 "Changes in risk management process" of the Consolidated report of the Bank Millennium S.A. Capital Group for 1st half 2023.

### Loans and advances to banks

Loans and advances to banks (including interbank deposits) stood at PLN532mn at the end of June 2023, which means a decrease by 51% y/y .

## Liabilities

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

Group's Liabilities and Equity (PLN million)	30.06.2023		30.06.2022		Change y/y (%)
	Value	Structure	Value	Structure	
Deposits from banks	523	0.5%	547	0.5%	-4%
<b>Deposits from customers</b>	<b>100 597</b>	<b>92.7%</b>	<b>96 122</b>	<b>93.3%</b>	<b>5%</b>
Liabilities from securities sold with buy-back clause	350	0.3%	0	0.0%	-
Financial liabilities valued at fair value through P&L and hedging derivatives	898	0.8%	1 081	1.0%	-17%
Liabilities from issue of debt securities	252	0.2%	0	0.0%	-
Provisions	1 142	1.1%	759	0.7%	50%
Subordinated debt	1 566	1.4%	1 554	1.5%	1%
Other liabilities*	3 139	2.9%	3 017	2.9%	4%
<b>Total liabilities</b>	<b>108 466</b>	<b>100.0%</b>	<b>103 079</b>	<b>100.0%</b>	<b>5%</b>
<b>Total equity</b>	<b>6 357</b>		<b>5 779</b>		<b>10%</b>
<b>Total liabilities and equity</b>	<b>114 824</b>		<b>108 858</b>		<b>5%</b>

\* including tax liabilities

At the end of June 2023 liabilities accounted for 94.5%, while equity of the Group - for 5.5% of total liabilities and equity.

As on 30 June 2023 Group's total liabilities amounted to PLN 108,466mn and were higher by 5% relative to their value as on 30 June 2022. The main change to liabilities resulted from material increase of deposits by PLN4.5bn during one year period.

### *Customers' deposits*

Customer deposits constituted the main item of the Group's liabilities accounting for, as on 30 June 2023, 93% of total liabilities. Customer deposits constitute the main source of financing of Group's activities and incorporate, primarily, customer funds on current and saving accounts as well as on term deposit accounts.

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

Customer deposits (PLN million)	30.06.2023	30.06.2022	Change y/y	31.03.2023	Change q/q
Deposits of individuals	71 714	65 165	10%	70 101	2%
Deposits of companies and public sector	28 883	30 957	-7%	30 774	-6%
<b>Total deposits</b>	<b>100 597</b>	<b>96 122</b>	<b>5%</b>	<b>100 876</b>	<b>0%</b>

**Total deposits** amounted to PLN100,597mn as at 30 June 2023 and were up 5% y/y (flat quarterly).

The main driver of this growth were deposits of individuals, which reached PLN71,714mn on 30 June 2023 and increased 10% y/y. Term deposits from retail clients grew strongly by 54% y/y from a low base, whereas current and saving accounts of individuals fell by 2% y/y.

Deposits of companies and public sector, which reached PLN28,883mn on 30 June 2023, fell 7% y/y from the high level in 30 June 2022.

#### *Deposits from banks*

Deposits of banks, including credits received, as on 30 June 2023, amounted to PLN523mn. Value of this item decreased by 4% relative to the balance as on 30 June 2022, mainly in effect of lower balance of credits received from financial institutions by PLN250mn. During the 12 month period the Group repaid outstanding loans (in the amount of EUR30mn and PLN50mn) granted by EIB and EBRD to the Bank's subsidiary Millennium Leasing. On the other hand term deposits from financial institutions grew by PLN236mn.

#### *Provisions*

The value of provisions as on 30 June 2023 was PLN1,142mn which signifies strong growth by PLN382mn or 50% y/y. The reason for the increase was mostly creating new provisions for legal issues, especially claims related to FX mortgage loan agreements (increase of the balance sheet value by PLN386mn not including the value of provisions directly allocated to the loan portfolio).

#### *Debt securities issued*

Securities issued by the Group amounted to PLN252mn as on 30 June 2023 relative to zero balance as on 30 June 2022. The increase resulted from the issue of bonds by the Bank. In 2H 2022 the Bank issued Credit Link Notes in the amount of PLN242.5mn within a synthetic securitisation transaction related to corporate loans.

#### *Subordinated debt*

The value of subordinated debt amounted to PLN1,566mn as on 30 June 2023, and increased by 1% vs. 30 June 2022 (a slight difference results from interest accrued and paid). The subordinated debt line includes ten-year subordinated bonds in PLN at the total nominal value of PLN830mn maturing in January 2029 and ten-year bonds in PLN at the total nominal value of PLN700mn maturing in December 2027.

#### *Equity*

As on 30 June 2023, equity of the Group amounted to PLN6,357mn and recorded an increase by PLN578mn or 10% y/y. Apart from net profit generated in 1H 2023 the increase of equity was supported by positive impact of valuation of bonds and hedge instruments (PLN969mn).

Information on capital adequacy was presented in Chapter 5.2 of this document and in Chapter 5 "Changes in risk management process" of the Consolidated report of the Bank Millennium S.A. Capital Group for 1st half 2023.

### 3. PRESENTATION OF BUSINESS ACTIVITY

#### 3.1. HIGHEST QUALITY OF POSITIVE CUSTOMER EXPERIENCE

The strategy pursued by Bank Millennium aims to adapt the format and services offered in branches as well as remotely to the customer needs.

We are working dynamically on integrating contact channels and on even better flow of information and customer knowledge. Comfortable transition between contact channels, provides customers with comfortable banking and a sense of consistent service. The designed solutions are in line with business assumptions and the implemented digitalisation strategy. The Bank is improving solutions on the branch service - remote service line. In many processes, Bank Millennium makes it possible to change the service channel also during the execution of a specific order or request. At the same time, we are adapting our offer, service and communication to all customers. We are systematically increasing our accessibility through the latest technologies and appropriate setting in traditional banking outlets.

**At the same time, an important element of Bank Millennium's activities is to take care of the needs of our various customer segments, in a broader context than the choice of contact channel.**

We work to make sure that none of our customer segments feel excluded - by age, financial knowledge or experience of using the latest technology. We work to maintain the synergy between the digital communication and the traditional form of customer contact with the bank. The Bank introduces facilitations for persons with disabilities in access to services.

**An integral part of the development of service processes is the preparation of employees and the continuous development of their competences.**

In addition to providing traditional service to customers, advisors at banking outlets focus on changing customers' habits and shifting from cash to non-cash service. The support of a branch employee is an important step in familiarising the customer with digital tools that enable customers to use the bank's offer themselves in the future. The pillar of such an action is financial education - on the proposed products and services as well as technological education - on modern tools facilitating banking and the security of their use.

**Bank Millennium is continuing its efforts in the area of increasing customer satisfaction also in terms of clarity of communication and simplification of language.**

We are simplifying the texts communicated to customers from account opening to information on the handling of the products they own.

We are continuing training and introducing the principles of simple language in further types of texts. We are successively transferring the experience from the retail customer area to other business lines.

We are focusing on consistent communication and expression tone in our texts - we care not only about precision and clarity of information, but also about empathy and relationship with the recipient. We are simplifying internal communication as well.

**Bank Millennium places great emphasis on obtaining information from employees on their level of job satisfaction and their opinions on the organisational culture.**

The results of the employee satisfaction survey are working material for teams across the organisation. The bank's employee meetings with members of the management team are a source of inspiration for further improvement of internal processes and ideas that can increase customer satisfaction with the offer and service.

In the first half of 2023, Bank Millennium conducted and analysed quantitative and qualitative research in the area of market trends and specific product and service assumptions. Information was also provided by projects using the service design methodology, in which a full understanding of customer needs is key. These projects aim to improve the quality of service and to develop of product offer

The research was carried out on samples of retail, micro-business (Small Business) and affluent customers:

- 30 researches conducted (including information monitoring),
- 5 researches - 1 354 Mystery Shopping visits.

**Bank Millennium's activities were recognised in prestigious rankings that focus on the quality of customer service.**

In the ranking of the Golden Banker (Złoty Bankier), Bank Millennium took first place in the main category - Best Multichannel Service Quality. The award received is particularly significant because it refers to the evaluation of the quality of service in various channels of contact, but above all it combines the perspective of new customers - those opening a relationship with the bank, as well as current customers, already banking with the bank.

The bank has been awarded the title of Service Quality Star (Gwiazda Jakości Obsługi) for another consecutive year. The title is awarded by the Polish Service Quality Standard (Polski Standard Jakości Obsługi) to the most friendly companies in Poland based on consumer opinions and the results of surveys conducted.

The bank was recognised in the Institution of the Year (Instytucja Roku) ranking in the category:

- best mobile application,
- best internet banking,
- best remote account opening process, and
- best account opening process in a branch.

In the ranking of the My Banking (Moje Bankowanie) portal, 21 of the bank's branches took home the titles as Best Banking Outlets in Poland.

## 3.2. RETAIL BANKING

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

In 1H23 the Bank has increased its active client base by 61.5 thousand. As on 30 June 2023 the Bank provided services to more than 2.95 million active retail clients. Altogether 2.6 million clients were using electronic banking actively while the mobile app was in use by 2.4 million, which means an annual increase by 14%.

### Personal account

Sale of current accounts in the 1H23 exceeded the level of 221 thousand. The key product supporting acquisition of new clients was Millennium 360° - new account introduced to the offer in April 2022.

The Millennium 360° account responds to customers' digital and technology needs. It offers a wide range of opportunities for people who value high quality service and the ability to use one of the best and fastest growing mobile applications on the market.

Millennium 360° account is unconditionally free in terms of maintenance. In addition, after fulfilling a simple condition, debit card service, BLIK contactless payments and withdrawals from all ATMs in Poland and abroad are also for 0 PLN. An important element of the account is currency services - Currency Limit, under which the customer can pay in any currency without the bank's margin for currency conversion up to PLN 1k, at an attractive rate of the payment organization, and Currency Package, which the customer can turn on conveniently in the mobile app. Another important factor

the "Shopping Refunds" service to the account helps customers save during ecommerce purchases. Through the bank's mobile app or Millenet, customers have access to approx.. 800 online stores where they can receive up to 25% of the purchase value refunds.

At the end of 1H23, the number of personal accounts in the Bank portfolio amounted to 3.48 million (more than 5% increase y/y).

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

- new advertising campaigns in TV stations and internet,
- promotional activities involving the use of goodie shopping app and in cooperation with external internet portals - more than 40% personal accounts were acquired online,
- new edition of referral programme „Like it. Share it”, under which recommending Millennium 360° account to others may be rewarded with attractive prize,
- development of x-sell on current accounts on POS Customers,
- promotion of an offer for the youngest, which is in line with the bank's long-standing financial education efforts.

### **Savings products**

The 1H22 was a time of stabilization of market interest rates and dynamic changes of retail deposits.. In January-May 2023, the volume of retail deposits on the market increased by a record PLN 56.3 billion, due in part to very large income tax refunds for last year. Sustained high interest rates caused further volumes shift from Current and Saving Accounts towards time deposits. Current and Saving accounts volumes in banking sector grew during Jan-May'23 by PLN11bn while time deposits increased by PLN45bn.

The Bank concentrated efforts on optimisation of deposit offer on both saving accounts and time deposits and prepared numerous marketing campaigns, taking care of portfolio profitability.

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

Total retail deposits in 1H23 grew by PLN2.8bn, with PLN1.1bn increase in 1Q and 1.7bn growth in 2Q. At the end of 1H23 retail deposits amounted to PLN76.1 bn and Bank's market share in May'23 reached 6.63%.

### **Investment products**

The 1H22 was time of improving situation on global capital markets. Clients were gradually increasing investments in mutual funds.

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

Bank continued regular promotional campaigns of mutual funds focusing on handling fee for purchase of funds especially in remote channels, which steadily gain importance. In first half of 2023 Bank was consequently developing investment advisory service based on selected and adjusted Millennium TFI funds which in easy and convenient way enables customers entrance to investment products especially through regular investments even of small amounts.

The Bank continued offering of structured deposits with full capital protection and guaranteed minimal profit irrespectively of market situation.

### **Prestige and Private Banking segments - offer for affluent clients**

Goal of the affluent banking model was to provide comprehensive service through multiple channels according to clients' preferences.

In the first half of 2023, the portfolio of affluent customers increased by 14% compared to the end of 2022. Customer growth in 1H2023 in remote service channels was 7%. Strategy of promoting remote service model for affluent clients is continued.

### Cash loans

In the first half of 2023, the bank achieved a record sale of cash loans in the amount of PLN3.2bn, which was an increase of nearly 25% compared to the same period of 2022. The high level of sales was achieved thanks to the increase in sales in all distribution channels, effective reach with the offer to customers who have installment loans in the Bank, as well as a flexible product offer and attractive marketing communication of the promotional offer, the so-called "Promocja na start".

The bank continues to intensively develop convenient and cost-effective digital sales channels. Almost 75% of loan agreements have been finalized in electronic channels. This represents an increase of 6 percentage points. compared to the end of the first half of last year.

The loan portfolio increased from PLN13.6bn at the end of 2022 to PLN14.0bn at the end of 2Q 2023

### Overdrafts

The bank maintained a stable market share of the overdraft portfolio at 13.3% with a balance of PLN1.2bn.

### Payment cards

In the first half of 2023, the bank's payment card portfolio continued to grow, supported by new product solutions and intensive marketing activities. The bank increased its payment card portfolio in 1H 2023 to 4.05 million cards (+2.3% vs. 4Q22). At the same time, the activity of the card portfolio increased significantly, with the volume of transactions at the level of PLN38.7bn (+10% compared to 1H 2022).

In the first quarter of 2023, new multicurrency solutions were introduced for users of all debit cards, enabling the conversion of currency transactions made with these cards at favorable exchange rates of VISA and Mastercard payment organizations. In June 2023, the Google Pay service was made available to users of all types of the Bank's payment cards, enabling them to make payments using a phone or smartwatch.

### Mortgage banking

In the first half of 2023, Bank Millennium recorded an increase in mortgage sales by nearly 30% compared to 2H2022. During these six months, the Bank concluded a total of nearly 6,000 new agreements with a total value of over PLN1.8bn. The total result for January-May placed the Bank in 5th position in the market with a market share of almost 10.3%.

The Bank has suspended offering mortgages with variable interest rates throughout the term of the loan from 1 March 2023. Mortgage loans with periodically fixed interest rates for the first 5 years remain on offer. At the same time, in 1H 2023 the Bank has implemented further improvements to the loan origination and servicing process among other a convenient remote tranche disbursement process for a dedicated group of mortgages, whereby customers can order the disbursement of the next tranche of the loan in the Millenet service and in the mobile app.

The Bank's lending action was based, as in the previous year, on the offer of an unconditional 0% loan origination fee and 0% commission for early and full repayment of the loan.

The Bank continued its efforts to further reduce the portfolio of CHF loans by offering individual conditions to customers, favoring currency conversions and partial and full repayment of these loans.

Millennium Bank Hipoteczny ('MBH'), which has been operating within the Group since June 2021, is to ensure stable and long-term funding of mortgage loans in the form of covered bonds. Covered bonds will be secured on mortgage receivables transferred to MBH bank, for which the so-called

mortgage lending value of real estate is to be set. As at June 30, 2023, MBH's balance sheet included PLN865mn worth of mortgage receivables.

### 3.3. DIGITAL CHANNELS

We ended 1H23 with 2.62 million (+8 percent y/y) active digital channel users. Of these, over 2.37 million users log in on mobile devices. This gives an 13 percent year-on-year increase in mobile users. In 1H, customers logged into the app more than 421.5 million times and to Millenet 57.5 million. In the first half of the year, as many as 1.7 million customers used BLIK at least once. These values are growing quarter by quarter, thanks to our systematic approach to digitalisation. We do not focus on single logins, but study customer activity in various aspects and their attachment to the mobile app. Based on this data, we can personalise the approach for each customer.

#### Digital share in sales and acquisition

The share of digital channels in the sale of a cash loan in 1H23 by number was 81 percent and in the sales of term deposits 96 percent, which means that the majority of customers choose remote processes to use these products. In terms of current account acquisition, the share of electronic channels was 41 percent, with an increase of up to 21 percent in the number of accounts opened online. Customers are most likely to choose the selfie process, available on the mobile app.

#### New projects in 1H23 in digital channels

**GOOGLE PAY.** From June, the bank's customers can add their cards to Google's wallet. This is another option for convenient payments at Bank Millennium, in addition to the already available BLIK contactless payments, Apple Pay, Garmin Pay, Fitbit Pay and card tokenisation directly in the app using HCE technology.

**CREDIT CARD APPLICATION PROCESS.** We have provided customers with a new omni-channel process, which we have built similarly to the cash loan process that has been appreciated by customers. The application for a credit card can be started by the customer in a traditional channel, such as via a call centre, and completed in the app or online banking.

**ACCESS TO EURONET AND PLANET CASH NETWORK MACHINES.** Our customers gained the possibility to deposit cash in Euronet and Planet Cash machines, a total of more than 5,000 cash deposit machines.

**BLIK TRANSFER REQUEST (P2PR).** A new BLIK service that allows customer to send friends a BLIK transfer request and easily split a receipt.

**BLIK PAY LATER.** We have started the next phase of the project so that the solution can become generally available on the Polish market.

**AUTHORISATION OF TRANSACTIONS WITH BIOMETRICS.** Our customers are keen to use biometrics, which provides a high level of security. More than one million customers log in to the application in this way. Now customers can also confirm transactions with a fingerprint or facial scan.

**NEW SEARCH ENGINE.** The new search engine allows customer to specify precise search criteria and search filters. Finding a transaction is easier, even if the customer does not remember which card or account they ordered the payment from. The search engine also analyses transactions on accounts at other banks aggregated under open banking. Customers can already use this option in Millenet, and we are now testing the new solution in the mobile app.

**ONLINE MORTGAGE LOAN DISBURSEMENT.** Some customers can already order the disbursement of a mortgage loan in Millenet and the mobile app. Until now, customers could only order such an instruction at our own branch.

**NEW MOBILE APP FOR CORPORATE CUSTOMERS.** The new Bank Millennium For Firms mobile app was launched in May. It was designed from scratch for owners of both small businesses and large corporations with complex financial departments. Each user can personalise the app according to their needs. The majority of customers (57%) use the new corporate app on iOS devices. In the App Store, it received a rating of 4.6. Owners of Android devices rated the solutions even better. In Google Play, the app scores 4.9 points out of a possible 5.

### 3.4. GOODIE SMART-SHOPPING APP

1H23 was a continuation of record results with goodie cashback. The number of new cashback users acquired during this time increased by 113% y/y. The turnover of PLN2bn in the goodie cashback service was exceeded, and since the beginning of the cashback service, over PLN40mn of cashback was paid.

As part of cashback, a novelty was introduced in the form of "Polecaj i zarabiaj" programme, thanks to which users can earn money on recommending goodie. Currently, the programme is available on the website and is very attractive primarily for regular goodie users, allowing them to become goodie cashback ambassadors.

Cooperation with Bank Millennium in the area of cashback goodie (Zwroty za zakupy) service also achieves very good results - both the number of users and their daily activity has been growing.

The service still maintains the PLN20 promotion for a new user of cashback goodie and Super offers with attractive cashback rates.

Sales of eCards achieved results in line with expectations and seasonality of the product. In 1H23, the goodie eCard was used as a lottery prize for the first time.

### 3.5. CORPORATE BANKING

As part of Corporate Banking, we professionally and comprehensively provide services to companies with annual sales revenues exceeding 5 mln PLN as well as public sector institutions and entities.

Our objective is to assure the highest quality of service and the shortest time for our reaction. We consistently introduce changes to the product and service offer and improve processes. We modify and adapt our offer on an ongoing basis to client requirements, market environment and changes in legal regulations. We focus on delivery of comprehensive solutions based on modern technologies and on digitisation and digitalisation of business processes. We develop digital channels and paths of electronic flow of documents. We deliver flexible financial solutions and we support automation and optimisation of the work of financial departments, including minimising operational activities related to cooperation with the bank. We support entrepreneurs in accessing financing. By participating in the programs of Bank Gospodarstwa Krajowego, we facilitate access to financing for entrepreneurs.

At the same time, in response to environmental challenges, we support our clients in the green transformation. We are financing projects connected with renewable energy, innovations reducing the demand for energy and natural resources and aiming at more effective waste management. Entrepreneurs can take advantage of credit products and leasing of green assets.

#### Access to financing with BGK guarantee support

Together with Bank Gospodarstwa Krajowego we are implementing 4 guarantee programmes:

- 1) The Biznesmax guarantee program designed for micro, small and medium-size enterprises enables innovative business entities to secure loans free of charge to finance current operations and company development. The free-of-charge guarantee may cover revolving loans (also overdrafts)

and non-revolving loans granted to ensure financial liquidity. In addition to innovative entities, the guarantee can also be used by ecologically efficient companies that have implemented ecological solutions. The program allows the company to reduce financing costs in real terms (receiving a partial or even full refund of the interest paid).

- 2) De minimis guarantee programme dedicated to entrepreneurs from the SME segment. In case of this programme until the end of 2023 fee is not collected, the period of a guarantee is up to 75 months for working capital loans and up to 120 months for investment loans. The amount of a de minimis guarantees is maximum the equivalent of EUR1.5mn.
- 3) Liquidity guarantee programme and investments from the Liquidity Guarantee Fund addressed to micro, small, medium size and large business entities. The guarantee can cover loans for medium and large enterprises. Maximum amount of guarantee is PLN200mn. The maximum guarantee term is 39 months for loans to finance current operations, 72 months for investment loans. The guarantee can be used for financing in PLN and foreign currency.
- 4) Guarantee program for repayment of factoring limits from the Crisis Guarantee Fund for the purpose of ensuring financial liquidity. The guarantee can be used to secure reverse factoring for SMEs and large enterprises. Maximum amount of guarantee is PLN200mn. Maximum guarantee maturity is 27 months. The guarantee can be used for financing in PLN and foreign currency.

BGK guarantees can secure financing in the form of loans, guarantee and L/C lines and reverse factoring. The programs or their preferential terms are valid until the end of 2023.

#### Lending activity

Since January, we have made available a loan for the construction of a photovoltaic installation or power plant. With our product, we support environmentally friendly solutions, energy transformation and at the same time respond to rising electricity prices. The loan is available in two variants:

- **Loan for photovoltaics - self-consumption**, with which we can finance 100% of the net construction costs of micro and small photovoltaic installations up to 1 MWp, intended for the production of renewable energy entirely for a company's own needs. The maximum loan amount is 2 mln PLN.
- **Loan for photovoltaics - a mix** with which we can finance 80% of the total net construction costs of a photovoltaic installation with production of renewable energy for sale and to meet own needs, with a minimum level of 50% self-consumption. The investment may also include the purchase and installation of an energy storage facility up to and including 10 MW. The maximum loan amount in this variant is 20 mln PLN.

Since the end of March, companies have been able to apply to the bank for **A Technological Loan**, which allows them to obtain additional funding in the form of a non-returnable technological bonus from Bank Gospodarstwa Krajowego. The Technological Loan is a continuation of the competition known in the past as Loan for technological innovations. It helps obtaining co-financing of up to 70% of eligible costs of a project consisting in the implementation of a new technology, understood as any significant and beneficial change in the process that was not previously used in the enterprise and which, at the same time, generates impact upon improvement of the features of the manufactured product or service provided. The application submission deadline fell on 31 May 2023.

For clients looking for financing for green projects, we have provided **An Ecological Loan**. It can finance energy efficiency, energy saving projects including thermal modernisation of buildings, change of energy sources used to more ecological ones and replacement of equipment, installations or technological lines with more energy-efficient ones.

The Ecological Loan is a competition financed under the Operational Programme European Funds for the Modern Economy (FENG). Entrepreneurs from the micro, small and medium-size enterprise sector (employing up to 250 employees) and entrepreneurs from the category of small mid-cap companies

(employing up to 499 employees) and mid-caps (employing up to 3000 employees) can apply for support under the competition.

The Ecological Loan is a new form of green project financing, with support for companies in the form of a non-returnable ecological premium, covering up to 80% of eligible project costs. Applications for support are accepted by Bank Gospodarstwa Krajowego (BGK) Applications may be submitted to BGK under condition of obtaining decision in principle. Bank Millennium is one of the lending banks issuing a decision in principle required to obtain co-financing. Applications can be submitted by 17 August of the current year.

### **Factoring and trade finance**

In the area of factoring, we have implemented solutions to streamline and accelerate processes related to reverse factoring transactions and we have introduced changes improving the attractiveness of reverse factoring.

We have implemented new functionalities in the transaction system to speed up the process of preparing the guarantee wording and to digitize the transaction documentation.

### **Treasury products**

The option to conclude transactions in the electronic online currency exchange platform Millennium Forex Trader has been enjoying greater and greater interest among clients. Comparing the data for the first half of 2023 with the first half of 2022, we recorded an increase in turnover through electronic channels by 13%. Currently, nearly 72% of transactions are carried out through the digital channel.

### **Transactional and electronic banking**

The Bank has been regularly introducing solutions and improvements so that clients can manage their company's finances even more efficiently and conveniently. In the first half of the year, we carried out further implementations in electronic banking and expanded the availability of payment services.

#### ***Launch of the new mobile app***

We have launched a completely **new mobile app** for our clients to use in Android and iOS systems. We designed it completely from scratch following the best practices. Its development was preceded by research and tests with users, which allowed us to understand the needs and difference in using app by large and smaller companies and their managements. We have created a friendly app, unique in terms of quality, with a new design focused on user convenience, with great personalisation capacity.

You can log in to the new business app biometrically. It is ready to handle large amounts of data and is aimed at both small business owners and large corporations with extensive financial departments. In the application, you can manage multiple accounts at the same time, in one panel, and assign user rights flexibly, according to the needs of a given position.

The application informs the user about many events on the account *inter alia* on inflows to the account, blockages, payments awaiting authorisation. A simple interface reduces the time needed to complete operation. Counterparties can be immediately checked against the the white list of VAT taxpayers. In addition, you can easily generate confirmations and statements in the application, which can be sent by e-mail, Whatsapp, Messenger, Viber or other communicator. Payment management is simple, users can authorise payments quickly and securely. On the main screen there are two tiles - authorisation and rejected transfers, which allow you to handle these operations immediately. User can select payments awaiting authorisation and confirm with one click. One click is also enough to accept the whole package of orders.

The application shows the full history of orders, who entered, modified and authorised them before a given user, a function of importance for large enterprises, if they operate multi-level transaction acceptance structures.

User can personalise screen as needed and decide how the page looks after starting the app, has the ability to move and hide elements, add quick shortcuts such as domestic transfer, foreign transfer, VAT, history, can also set-up the dark mode. The application offers context-sensitive help - the

system suggests possible usage scenarios e.g. in terms of parameterisation of the home screen view or ways of selecting payments for authorisation.

#### ***New functionality in the Document Module in Millenet for Enterprises***

On 3 June, we released another functionality in the process of digital handling of document exchange between the client and the bank. In Millenet for Enterprises online banking, we have added the SEND tab in the **Documents Module**. The new functionality will allow clients to initiate the transfer of documents in pdf format to the bank. Documents will be subject to automatic verification of qualified signatures, if any. After receiving the documents, the bank employee will be able to approve them and forward them for implementation or reverse the process to the client with a request for supplementation. Documents are processed fully electronically without the need for printouts, which significantly reduces service time and carbon footprint.

#### ***Development of the eBOK website to support leasing***

Functionalities of the **eBOK service**, used to handle leasing agreements by clients, have been extended *inter alia* by: application for early termination of the contract, authorisation to travel outside the EU, sub-lending of the item, notification of a change of legal form, restructuring of the contract, confirmation of the statutory balance. This means that clients can submit any matter regarding their leasing agreement online on the eBOK website. The share of clients using eBOK at the end of the first half of 2023 was 87% (an increase by 2 p.p. vs. December 2022). Electronic applications for handling contracts and leased items at the end of June accounted for over 40% of all applications submitted by clients.

#### ***Expansion of the network of CDMs with Euronet and Planet Cash machines.***

We have expanded the map of available **CDMs** for corporate clients. Since the beginning of April, clients have been able to deposit cash additionally in 3 thous. Euronet CDMs, and since April 17 this year they have also gained access to 2 thous. CDMs of the Planet Cash network in Poland.

The service is available for all bank clients having debit payment or charge card. Euronet and Planet Cash devices are available in the most convenient locations, such as petrol stations, popular chains and shopping malls, branches of selected banks as well as other locations such as airports, railway and metro stations.

#### **Millennium Leasing**

In the first half of 2023, Millennium Leasing business activities were focused on several areas: increase in profitability, securing the portfolio through the use of BGK guarantees and the EIB portfolio guarantee program, increase in the dynamics of sales of motor insurance and GAP, acquisition of clients from the SME segment, promotion of financing of electric vehicles among clients using the leasing of photovoltaic installations.

The total production of the company in the first half of 2023 was 6972 contracts with a total net value of PLN1.581mn.

The most important initiatives implemented by the company:

### ***Implementation of new products***

The Company launched leasing with a **BGK de minimis guarantee** in January 2023 as the first company on the market. The de minimis guarantee replaces the existing leasing product with a BGK guarantee, the sale of which ended in December 2022. To streamline the process of handling the new product, new paths have been created in the MilleAutoMat system. In the first half of 2023, 787 contracts were signed for a total net value of PLN185mn.

The company launched **leasing of pro-ecological items** in April 2023. This is another step in supporting companies in green change. This offer provides entrepreneurs with opportunity to finance green assets comprehensively and on preferential terms. The offer covers a wide selection of assets from as many as 53 groups, among which the most important are machines and equipment. Moreover, the offer combines the opportunity to take advantage of various programs and promotions: lowering leasing instalments, a promotion that allows you to reduce the first 3 lease instalments, the MilleSun program to finance items obtaining energy from renewable sources and the My Electrician program, which allows you to receive subsidies for the purchase of zero-emission vehicles. In the first half of 2023, lease agreements for pro-ecological items to the total net value of PLN85mn were activated.

### ***Development of sales channels***

As a part of the **Cooperation with vendors** - suppliers of leased items, in the first half of 2023 transactions were carried out with 1000 clients to the total net value of PLN300mn. At the end of 30 June 2023, the company cooperated with 800 suppliers of items.

Under the **Cooperation with financial brokers**, production to the net value of 35 mln PLN was generated, which represents a 236% increase in sales year on year. At present, we cooperate with 9 brokerage companies.

### ***Offer development and promotion***

From the beginning of 2023, the company actively promoted the **motor insurance and GAP** offer. At the end of the first half of 2023, production in the area of motor insurance and GAP amounted to PLN535mn net. This is an increase of 25% compared to the first half of last year.

In September 2022, Millennium Leasing joined the government program **My Electrician** implemented by the National Fund for Environmental Protection and Water Management (NFOŚiGW) and Bank Ochrony Środowiska. This programme provides clients with opportunity to obtain a subsidy for leasing zero-emission vehicles. In 2023, the company has been continuing to participate in the programme.

In the first half of 2023, the company continued to actively develop **MilleSun** - a program for financing items that generate energy from renewable sources. In the period under discussion, in cooperation with vendors only, the company granted leasing for the purchase of photovoltaic installations to the total net value of PLN33mn.

In the first half of 2023, refreshed Benefit Packages in the **MilleFlota** programme were promoted. This offer provides clients, *inter alia*, with option to use fleet management services/tools and gain attractive discounts on the purchase of parts and maintenance services for used vehicles (up to 3,5 t). By 30 June 2023, 635 Benefit Packs were sold.

### ***Digitalisation of processes and client services***

The company continued to promote **e-Signature** - remote conclusion of leasing agreements using a qualified electronic signature. At the end of June 2023, as many as 51% of contracts in this group of clients were signed electronically.

## Education activities in the form of webinars

### *Webinars addressed to companies*

We support our clients through educational activities which have an impact on performance of business activity and work methods employed, in particular by webinars carried out on our own or together with external partners. In the first quarter of 2023, we held a webinar with the bank's chief economist, Grzegorz Maliszewski, devoted to **the prospects** for the economy in 2023 and two webinars on grant competitions in which we are a partner bank - technological credit and ecological loan. Each event was attended by over 100 people, i.e. about 70% of all registered persons. The high substantive value for our clients can be evidenced by the Q&A sessions protracted due to the number of questions, which we always approach with great care.

We cooperate with the CFO Club of ICAN Institute in the long term. CFO Club is a development and networking initiative bringing together financial directors (CFOs) of companies operating in Poland. The CFO Club provides access to current knowledge, it is also a platform for exchanging experiences and networking. The topics discussed during meetings with entrepreneurs in the first half of the year were related to the most current challenges faced by financial directors and persons responsible for finances in a company: modern methods of financial management, artificial intelligence, ESG strategy, effective communication. Webinars and meetings were very popular among the bank's clients.

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

In the 1st half of 2023, employees of the corporate banking area participated in a number of training sessions improving their qualifications and supplementing their knowledge in the field of changing products and procedures, including: related to the implemented credit products, a new mobile application, new online banking solutions or legal changes in the establishment and managing family foundations.

Advisors and Corporate Banking specialists have the opportunity to participate in a cyclical macroeconomic alert conducted by the bank's chief economist and Puls Pomocy Publicznej (Pulse of Public Aid). As part of the latter initiative, meetings of the bank's experts and external partners with sales network advisors are organized every two weeks, providing knowledge of the available investment financing support options and current possibilities of receiving public aid.

## 4. KEY AWARDS AND ACHIEVEMENTS IN 1H23



### CSR Golden Leaf

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



### We have won the Golden Banker! Bank Millennium awarded the Golden Bank 2023 title for the best multi-channel service quality 2023

The Bank was on the podium in all categories that make up the main award, and in two it was the best. The hotline turned out to be unbeatable, the best for the third year in a row, scoring over 90% of points this and last year, which according to the organisers, is a difficult record to beat. Correspondence via e-mail/chat was rated just as highly. The victory was also determined by the very high position of the service in the bank's own branches. "Golden Banker" is the largest survey of the banking sector in Poland, organised by Bankier.pl and "Puls Biznesu".



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

The Bank again came second on the ranking list of best employers in banking and financial services and 32nd among all companies in the 4th edition of the Best Employers Poland 2023 ranking. The ranking of 300 companies operating in Poland, achieving success in HR, was prepared by Forbes Polska magazine and Statista.



### 2nd and 3rd place in the ranking of black credit cards by Forbes Magazine

This year, Millennium Mastercard World Elite VIP and Millennium Mastercard Word Elite took 2nd and 3rd place in the Forbes Magazine ranking. In the jury's opinion, additional services, insurance, assistance, loyalty discount programs and the method of settling foreign transactions played an important role.



**Millennium is the leader in the ranking of the Best Accounts supporting business according to Bankier.pl**

According to the ranking of Bankier.pl website for April 2023, the Konto Mój Biznes account supporting small businesses is the cheapest on the market. On the podium were the best banks that are open to change and listen to the voice of entrepreneurs. The ranking analysed the monthly fee for a business account in PLN; the monthly fee for the FX account in euro; the amount of the cash bonus for activity; monthly debit card fee and annual/monthly credit card fee.



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

Again, we were awarded by the prestigious Global Finance magazine and won the title of The Best Bank in Poland for 2023. The Global Finance Awards were announced for the thirtieth time. - *We strive to meet the ever-growing and changing needs of our customers* - commented Joao Bras Jorge, Chairman of the Management Board of the Bank.



**Millennium is the winner of the Institution of the Year ranking**

We won awards in as many as 4 categories: Best Mobile App, Best Online Banking, Best Remote Account Opening Process, and Best Branch Account Opening Process. In the Moje Bankowanie portal ranking, 21 of the Bank's branches were also named Best Bank Branch in Poland. The Institution of the Year is a comprehensive ranking organised by Moje Bankowanie. The plebiscite focuses on the quality of customer service in the banking sector.



Halina Karpińska

**Halina Karpińska, Director of the Electronic Banking Department for the 4th time as one of the most influential women in the Polish payment industry in**

As in previous years, the goal of organisers of the Cashless.pl ranking, was to join the efforts for professional equal gender rights and to promote women in important positions in institutions operating in the payments sector, which is widely perceived to be more masculine.



### 2nd place for the Investor Relations team in the "Parkiet" survey

The Investor Relations Department, made up of **Dariusz Górski**, **Katarzyna Stawinoga**, and **Marek Miśków**, came in second in Poland's largest survey of market communication by listed companies. This year, representatives of financial institutions assessing communication with the market awarded companies an average of 4.1 points on a scale from 1 to 6. On the podium were LPP (5.82 points), Bank Millennium (5.38 points) and Asseco Poland (4.92 points) with minimal differences between the scores.

1 miejsce zespołu ekonomistów Banku Millennium w rankingu REFINITIV

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV The gold standard in forecasting.



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

The Bank Millennium team of economists, led by **Grzegorz Maliszewski** and also including **Andrzej Kamiński** and **Mateusz Sutowicz**, was once again ranked first in the summary of macroeconomic forecasts for 2022 (Economics Award) by Refinitiv (formerly Reuters). Additionally, the team came 5th, ahead of companies like Citibank, Goldman Sachs, and Bank of America in the ranking of exchange rate forecasts in the markets of Central and Eastern Europe.



### Service Quality Star again for Bank Millennium

For another year in a row, the Bank was among the companies honoured with the title of Service Quality Star, awarded to the most friendly companies in Poland on the basis of a consumer satisfaction survey. The award given by the Polish Service Quality Standard means that the Bank represents the highest standards of service, stands out from the competition, and the Millennium brand has gained consumer recommendations.



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

The Bank's team of economists again was among the leaders of the ranking of best forecasters of the „Parkiet” daily. **Grzegorz Maliszewski**, **Mateusz Sutowicz** and **Andrzej Kamiński** have for years been correctly analysing what is happening in the economy, even in such turbulent and anomalous times. In the January ranking of Parkiet, they were awarded i.a. for an exceptionally stable prognostic form.



**1st place in the category of Best Distributor of Structured Products in Poland and in Eastern Europe**

In this year's edition of the SRP European Awards 2023 - the most prestigious international competition for the structured products industry - we took 1st place in the Best Distributor in Poland category, which takes into account the realised sales volume and the final return on investment for the client, and 1st place in the Best Distributor Eastern Europe 2022 category.



**The 14th edition of the Polish National Sales Awards (PNSA) appreciated Millennium employees**

In the Polish National Sales Awards (PNSA) competition, the best specialists in the sales and customer service industry in Poland were awarded. Among the winners were **Magdalena Popławska**, Head of the Electronic Correspondence Service Team at DBB (Customer Service Manager category) and **Radosław Juszyński**, Head of branch 499 in Łódź (Sales Team Manager category). **Piotr Mianowski** (Affluent Client Department), **Michał Brenner** (Direct Banking Department), **Bartosz Michalczyk** (Gdynia Branch), **Justyna Kopińska** (Świdnica Branch) and **Jakub Zalewski** (Chojnice Branch).

## 5. RISK MANAGEMENT

### 5.1. RISK MANAGEMENT OVERVIEW

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

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

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

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

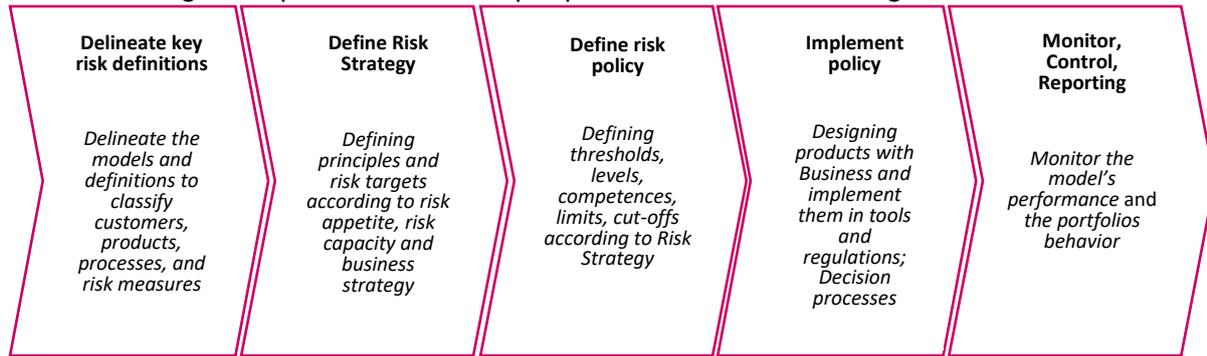
When defining the business and profitability targets, the Group considers the specified risk framework (risk appetite) to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

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

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

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

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



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

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

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

The Group has prepared a comprehensive guideline document for the risk management policy/strategy: "Risk Strategy for 2023-2025". The document takes a 3-year perspective and is reviewed and updated annually. It is approved by the Bank's Management Board and Supervisory Board. The risk strategy is inextricably linked to other strategic documents, such as: Budget, Liquidity Plan, and Capital Plan.

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

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

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

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

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

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

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

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

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

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

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

## 5.2. CAPITAL MANAGEMENT

### Capital management and planning

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

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

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

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

### Regulatory capital adequacy

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

- Pillar II RRE FX buffer - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. A value of that buffer is defined for particular banks by KNF every year because of Supervisory review and Evaluation process (SREP) and relates to risk that is in KNF’s opinion - inadequately covered by minimum own funds requirements, set in CRR art. 92. At present, the buffer was set by KNF in recommendations issued in the end of 2021 in the level of 1.95pp (Bank) and 1.94pp (Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements over Tier 1 ratio of 1.47pp in Bank and of 1.46pp in Group, and which corresponds to capital requirements over CET 1 ratio of 1.10pp in Bank and 1.09pp in Group;

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

In December 2022, the Bank received a recommendation to maintain own funds to cover the additional capital charge ("P2G") to absorb potential losses resulting from the occurrence of stress conditions, at the level of 1.72pp and 1.75pp (at the standalone and consolidated level) above the OCR value. According to the recommendation, the additional add-on should consist entirely of Common Equity Tier 1 capital.

The minimum capital ratios required by the Polish Financial Supervision Authority for the combined buffer requirement (OCR) were reached at the end of 4Q22 and continued to be reached throughout 1H23. 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.

It should be noted that the above levels of the Group's capital ratios as at the end of June 2023 do not include the net profit for the period. Had the net result been included in own funds, the Group's capital ratios would have been higher by 0.7 - 0.8pp.

The leverage ratio is at a safe level of 4.6%, significantly exceeding the regulatory minimum of 3%.

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

The table below presents these levels as at the 30 June 2023. The Bank will inform on each change of required capital levels in accordance with regulations.

<b>Minimal level of Capital ratios</b>	<b>30.06.2023</b>	
	<b>Bank</b>	<b>Group</b>
<b>CET1 ratio</b>		
Minimum	4.50%	4.50%
Pillar II RRE FX	1.10%	1.09%
TSCR CET1 (Total SREP Capital Requirements)	5.60%	5.59%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR CET1 (Overall Capital Requirements CET1)	8.35%	8.34%
<b>T1 ratio</b>		
Minimum	6.00%	6.00%
Pillar II RRE FX	1.47%	1.46%
TSCR T1 (Total SREP Capital Requirements)	7.47%	7.46%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR T1 (Overall Capital Requirements T1)	10.22%	10.21%

TCR ratio	Bank	Group
Minimum	8.00%	8.00%
Pillar II RRE FX	1.95%	1.94%
TSCR TCR (Total SREP Capital Requirements)	9.95%	9.94%
Capital Conservation Buffer	2.50%	2.50%
OSII Buffer	0.25%	0.25%
Systemic risk buffer	0.00%	0.00%
Countercyclical capital buffer	0.00%	0.00%
Combined buffer	2.75%	2.75%
OCR TCR (Overall Capital Requirements TCR)	12.70%	12.69%

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

#### Own funds capital requirements

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

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

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

#### Internal capital

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

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

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

At the end of June 2023 both above capital targets were met.

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

### Capital adequacy evaluation

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

<b>Capital adequacy measures</b> <i>(PLN million)</i>	<b>30.06.2023</b> <b>Group</b>	<b>31.12.2022</b> <b>Group</b>	<b>30.06.2023</b> <b>Bank</b>	<b>31.12.2022</b> <b>Bank</b>
Risk-weighted assets	47 147.9	48 497.3	46 988.8	48 046.0
<b>Own Funds requirements, including:</b>	<b>3 771.8</b>	<b>3 879.8</b>	<b>3 759.1</b>	<b>3 843.7</b>
- Credit risk and counterparty credit risk	3 301.3	3 380.6	3 308.0	3 386.7
- Market risk	18.0	18.0	18.0	18.0
- Operational risk	446.4	474.5	427.0	432.3
- Credit Valuation Adjustment CVA	6.1	6.7	6.1	6.7
<b>Own Funds, including:</b>	<b>6 962.3</b>	<b>6 991.1</b>	<b>6 939.2</b>	<b>6 980.1</b>
- Common Equity Tier 1 Capital	5 510.9	5 469.9	5 487.8	5 458.9
- Tier 2 Capital	1 451.4	1 521.2	1 451.4	1 521.2
<b>Total Capital Ratio (TCR)</b>	<b>14.77%</b>	<b>14.42%</b>	<b>14.77%</b>	<b>14.53%</b>
Minimum required level	12.69%	12.9%	12.70%	12.70%
Surplus (+) / Deficit (-) of TCR ratio (pp)	2.08	1.73	2.07	1.83
<b>Tier 1 Capital ratio (T1)</b>	<b>11.69%</b>	<b>11.28%</b>	<b>11.68%</b>	<b>11.36%</b>
Minimum required level	10.21%	10.21%	10.22%	10.22%
Surplus (+) / Deficit (-) of T1 ratio (pp)	1.48	1.07	1.46	1.14
<b>Common Equity Tier 1 Capital ratio (CET1)</b>	<b>11.69%</b>	<b>11.28%</b>	<b>11.68%</b>	<b>11.36%</b>
Minimum required level	8.34%	8.34%	8.35%	8.35%
Surplus (+) / Deficit (-) of CET1 ratio (pp)	3.35	2.94	3.33	3.01
<b>Financial leverage ratio</b>	<b>4.60%</b>	<b>4.72%</b>	<b>4.61%</b>	<b>4.74%</b>
Minimum required level	3.00%	3.00%	3.00%	3.00%
Surplus (+) / Deficit (-) of financial leverage ratio (pp)	1.60	1.72	1.61	1.74

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 because 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.

Bank Millennium has a dividend policy of distributing from 35% to 50% of net profit, subject to regulatory recommendations. In recent years, the Bank has not distributed dividends.

During the 1<sup>st</sup> 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.

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).

## 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 measures	30.06.2023	31.03.2023	30.06.2022
<b>MRELTrea ratio</b>	<b>14.93%</b>	<b>14.26%</b>	<b>15.16%</b>
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
<b>MRELtem ratio</b>	<b>5.87%</b>	<b>5.76%</b>	<b>6.78%</b>
Minimum required level of MRELtem	4.46%	4.46%	3.00%
Surplus(+) / Deficit(-) of MRELtem (p.p.)	1.41	1.30	3.78

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.

## 5.3. CREDIT RISK

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

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

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

In the first half of 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.

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

### **Loan portfolio quality**

Share of impaired loans, including stage 3 portfolio and POCI Assets (Purchased or Originated Credit Impaired) in default, in total loan portfolio was at the end of June 2023 at the level of 4.51%. This means a small growth of 6bp from the level of 4.45% at the end of 2022, which was achieved largely due to the Group's sales and write-offs policy. Share of loans past-due more than 90 days in total portfolio increased during this year from 2.03% in December 2022 to 2.10% in June 2023.

Coverage ratio of impaired loans, now defined as relation of all risk provisions for stage 3 loans and POCI in default, has increased during this year from 69.91% in December 2022 to 73.04%. Coverage by total provisions of loans past-due more than 90 days also increased from 154% half year ago to 157% at the end of June 2023. In the first half of 2023 both these ratios improved despite the elimination from the Group's loans portfolio of approx. PLN112mn of receivables fully covered by provisions (write-offs) and approx. PLN85mn of highly covered receivables (sales).

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

<b>Group loans quality indicators</b>	<b>30.06.2023</b>	<b>31.12.2022</b>
Total impaired loans (PLN million)	3 456	3 518
Total provisions (PLN million)	2 524	2 460
<b>Impaired over total loans ratio (%)</b>	<b>4.51%</b>	<b>4.45%</b>
Loans past-due over 90 days / total loans (%)	2.10%	2.03%
<b>Total provisions/impaired loans (%)</b>	<b>73.04%</b>	<b>69.91%</b>
<b>Total provisions/loans past-due (&gt;90d) (%)</b>	<b>156.74%</b>	<b>153.58%</b>

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

Impaired loan ratio for retail clients decreased from 4.86% to 4.77% (including drop in other retail of 0.04pp and drop in mortgage portfolio of 0.31pp) and at the same time increased in the corporate portfolio from 3.07% to 3.58% (growth in leasing portfolio of 0.24pp and growth in other corporate portfolio of 0.68pp). During this year, the value of foreign currency mortgage loans (deducted by allocated provisions) decreased as much by approx. 33.8% year-to-date (in PLN terms) as a result of amortization of this portfolio as well because of increasing provisions created for legal risk. Additionally, it should be noted that ex-Euro Bank mortgage portfolio, in amount of approx. PLN461mn, enjoys a guarantee and indemnity from Société Générale. Excluding this portfolio, the share of FX mortgage loans in the total loan portfolio decreases from 8.1% to 5.5%. The improvement in the currency structure of the mortgage loan portfolio was driven by the increase PLN loan portfolio and significant reduction of FX mortgage loans portfolio.

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

<b>Portfolio quality by products:</b>	<b>Loans past-due &gt; 90 days ratio</b>		<b>Impaired loans Ratio</b>	
	<b>30.06.2023</b>	<b>31.12.2022</b>	<b>30.06.2023</b>	<b>31.12.2022</b>
<i>Mortgage</i>	1.03%	0.98%	2.34%	2.65%
<i>Other retail*</i>	5.53%	5.73%	9.89%	9.93%
Total retail clients*	2.48%	2.42%	4.77%	4.86%
<i>Leasing</i>	0.93%	0.74%	4.18%	3.94%
<i>Other loans to companies</i>	0.65%	0.65%	3.17%	2.49%
Total companies	0.77%	0.69%	3.58%	3.07%
<b>Total loan portfolio</b>	<b>2.10%</b>	<b>2.03%</b>	<b>4.51%</b>	<b>4.45%</b>

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

The Group's portfolio is characterized by appropriate diversification, both due to the concentration of the largest exposures and due to the concentration in sectors of the economy. Share of the 10 largest exposures remain at a safe, low level of 4.6% (decrease in 2023 from 4.7%).

## 5.4. OTHER RISKS

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

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

The interest rate risk arising from Banking Book activities (IRRBB) encompasses current or prospective impact to both the earnings and the economic value of the Group's portfolio arising from adverse

movements in interest rates that affect interest rate sensitive instruments. The risk includes gap risk, basis risk and option risk.

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

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model - an expected loss that may arise on the portfolio over a specified period (10-days holding period) with a required probability (99% confidence level) due to an adverse market movement. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and in consolidated terms for Global Bank, Banking Book and Trading Book considering the effect of the diversification that exists between the portfolios.

In 1H2023, the VaR remained on average at the level of approx. PLN314.5mn for the total Group, which is jointly Trading Book and Banking Book, (57% of the limit) and at approx. PLN 3.7mn 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). All excesses of market risk limits are always reported, documented, and ratified at the proper competence level. In the 1H 2023, 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.

The exposure to interest rate risk in the Banking Book are primarily generated by the differences in repricing dates of assets and liabilities as well as its reference indexes, if contractually existing. It is specifically affected by the unbalance between assets and liabilities that have fixed rate, especially by the liabilities which cannot have interest rate lower than zero. Consequently, the level of sensitivity to interest rate changes is influenced by the level of interest rates taken as a reference. Additionally, due to specificity of the polish legal system, the interest rate of credits is limited (it cannot exceed two times Reference Rate of the National Bank of Poland increased by 7 percentage points). In situations of decreasing interest rates, the impact on Net Interest Income is negative and depends on the share of the fixed rate loan portfolio that is affected by the new maximum rate. On the other hand, assumptions regarding the timing and size of deposits repricing are also especially important when assessing the interest rate sensitivity and risk.

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 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<sup>th</sup> 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<sup>th</sup> 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<sup>th</sup> 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.

### Liquidity risk

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

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

In 1H2023, the Group was characterized still by solid liquidity position. All the supervisory and internal liquidity indicators remained significantly above minimum limits in place. The steps taken as part of

standard and binding risk management procedures have proved sufficient for managing liquidity in the current market environment.

In 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. PLN 29.2 billion (25% of total assets), whereas at the end of December 2022 was at the level of approx. PLN 20.4 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 PLN 100.6 billion (PLN 98.0 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 remains also subordinated debt and medium-term loans.

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

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.

In 1H2023, the Group also regularly calculated net stable funding requirement (NSFR). In each of the quarter, the NSFR was above supervisory minimum of 100% (supervisory minimum is valid from June 2021).

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e., assuming a certain probability of cash flow occurrence). In 1H2023 the internally defined limit of 12% total assets was not breached and the liquidity position was confirmed as solid.

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

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

The Group manages FX liquidity using FX-denominated deposits as well as Cross Currency Swap and FX Swap transactions. The importance of swaps has been decreasing as a consequence 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.

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

### **Operational risk**

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

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

### **Non-Compliance risk**

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

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

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

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

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

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

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

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

Actions launched under this programme include in particular:

- application of due diligence measures to Customers, depending on the degree of risk and based on „Know your Client” (KYC) principle - the key concept of the program,
- transactions registration and reporting,
- identification of suspicious transactions,
- cooperation with the General Inspector of Financial Information,
- verification of customers and transactions in terms of sanctions.

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

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

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

## 6. IMPORTANT CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY EVENTS

### 6.1. ANNUAL GENERAL MEETING DECISIONS

On 30 March, 2023 the Ordinary General Shareholders' Meeting ('GM') of Bank Millennium took place. 132 shareholders took part in the meeting, representing 77.58% the Bank's shareholders equity, including BCP (50.10%), NN OFE (8.90%), Aviva OFE (6.66%) and PZU „Złota Jesień” OFE (5.55%).

Among others (full details: [Attachment no 1 to the report no 13\\_2023.pdf \(bankmillennium.pl\)](#)), the GM approved 2022 financial statements and non-financial report, report on activity of the Supervisory Board for the financial year 2022 and performing the assessment of the remuneration policy, covering the loss in 2022 from reserve capital, Supervisory Board and Management Board, the Policy for Selection and Assessment of Suitability of the Supervisory Board Members and amendments to the Bank's Articles of Association.

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

ESG (Environmental, Social, Governance) issues have been an integral part of the Bank Millennium Group's business strategy for years. Activities in this area are carried out on the basis of the ESG Strategy of the Bank Millennium Group for 2022-2024. The Strategy constitutes an expansion and specification of environmental, social and corporate governance objectives presented in the Strategy for 2022 - 2024 "Millennium 2024: Inspired by People". In addition, the Bank supports the implementation of the UN Sustainable Development Goals (SDG) and is a signatory of the Diversity Charter.

#### The most important ESG activities carried out in the 1 half of 2023

##### **Accession to the United Nations Global Compact**

Bank Millennium acceded to the United Nations Global Compact as direct participant. UNGC is the world's largest UN initiative for sustainable business. Accession to the UNGC means a commitment to comply with and implement 10 Principles of the United Nations Global Compact, covering four key areas in the field of: human rights, work standards, environmental protection, counteracting corruption. The Bank's accession to the UNGC is another very important step towards enabling the Bank to fully implement the UN Sustainable Development Goals.

##### **Publication of the ESG Report of Bank Millennium and Bank Millennium Group for 2022**

The ESG Report for 2022, for the seventeenth time in a row, presents the significant commitment of the Bank and the Group to the implementation of important tasks embodying the idea of sustainable development. In 2022, a key measurable success in reducing resource consumption was a reduction by more than 50% of own greenhouse gas emissions compared to 2020. This was possible in effect of more efficient resource management and the purchase of 100% of electrical energy generated from renewable sources. The ESG Report also summarises other activities undertaken in the Bank Millennium Group in the environmental, social and corporate governance areas.

The ESG Report was verified as part of independent attestation services by Deloitte Audyt Sp. z o.o. sp.k in terms of selected GRI indicators issued by the Global Reporting Initiative (GRI).

As in previous years, the Bank has also made available an online version of the ESG Report, enabling readers to effectively familiarise themselves with its content. The Report is available here: <https://raportroczny.bankmillennium.pl/2022/pl/?mv=1c>

##### **Education**

The first half of 2023 is a very intense time in the field of ESG activities related to education, addressed to various stakeholder groups. Below is a description of the key educational activities carried out by the Bank.

- In April, the Bank disclosed the full version of the report "Millennium Eco-Index - eco-innovation potential of regions" describing development of eco-innovation in Poland at the voivodship level. In addition to the results of the ranking, which were published in October last year, the extended version of the report included an analysis of the strengths and weaknesses of individual voivodships, as well as comments from representatives of business, NGOs and local governments, as well as scientists. After the publication of the results of the Millennium Eco-index 2022, Bank Millennium moved the debate on eco-innovativeness in Poland to the regional level, presenting its idea and results at numerous scientific conferences. The extended report is the last element of work on the first edition of the Eco-index. The Millennium Eco-Index is an original project of Bank Millennium, and its originator and author is Grzegorz Maliszewski, chief economist at Bank Millennium. It was prepared in cooperation with substantive partners: the Patent Office of the Republic of Poland, the AGH University of Science and Technology and the Warsaw School of Economics.
- In the report "Green Finance in Poland 2023" prepared by the UN Global Compact Network Poland and the Institute for Responsible Finance in cooperation with the Ministry of Funds and Regional Policy and the Ministry of Finance, an article entitled "Green Banking" by Joao Bras Jorge, the Bank Millennium CEO was published. The publication discusses the commitment of Bank Millennium to sustainable development. The Report "Green Finance in Poland 2023" was presented during this year's European Financial Congress in Sopot.
- Webinar of the CFO Club entitled: "CFO's participation in the implementation of the ESG strategy", during which Ms. Magdalena Trzynadlowska, Director of the Sustainable Development Office, and Mr. Łukasz Kolano from KPMG presented the duties imposed, as from 1 January 2024, by EU CSRD Directive on financial directors and financial and accounting departments of some companies and discussed the role of CFO in this process and in implementation of ESG strategies, decarbonisation strategies and green investments
- Jarek Hermann, Member of the Bank Millennium Management Board took part in the CFO Club Webinar entitled: "Data analytics, artificial intelligence, GPT chat". During the meeting, the participants discussed what artificial intelligence is, what its application in business and role in building a competitive advantage can be, and what key challenges and risks are associated with it. Ethical issues regarding the use of GPT chat were also raised.
- In response to the demand of our stakeholders, we launched the EU funds competence centre at Bank Millennium, which was assigned the role of customer support in identifying public funds to finance green transformation. Webinars addressed to customers were also held, facilitating their use of pro-ecological products: a webinar on technological credit (113 participants) and ecological credit (126 participants), carried out together with external partners, with the participation of bank's EU female experts.
- Another edition of the "Financial ABCs" programme was launched in Q1 2023. It is a proprietary pre-schoolers' education programme started by Bank Millennium Foundation in 2016, carried out by Bank Millennium employees in cooperation with a non-governmental organisation. The program consists of workshops conducted in kindergartens, the availability of educational materials on the Internet, as well as online training material for parents who want to play an important role in the financial education of their children. The essence of the program is to explain to the youngest, through fun, workshops, games and various educational formulas, the basic concepts in the field of finance.

### Product offer

Bank Millennium is consistently expanding its offer of products aimed at supporting sustainable development. Key actions undertaken in the 1 half of 2023 are described below.

In January 2023 the Bank provided businesses with green loans for financing photovoltaic projects while in March the Bank made available the Technological Loan, which helps obtaining subsidy for capital projects involving implementation of new technologies under capital projects meeting the principles of sustainable development in line with FENG Technological Loan regulations. Bank Millennium is one of the lending banks issuing a decision in principle required to obtain co-financing under an ecological loan. Currently, applications are being submitted by Bank Gospodarstwa Krajowego (BGK) for financing green projects under this new formula i.e. the ecological loan. The

program provides support for companies in the form of a non-returnable environmental bonus, covering up to 80% of eligible capital expenditures.

In order to provide clients with financing for green projects, we also cooperate with external partners - we continue cooperation with Bank Gospodarstwa Krajowego in the field of programmes for companies from the SME sector, inter alia in the area of Biznesmax guarantees. Biznesmax is a free guarantee programme for SMEs. A client following the "Eco track" of the Biznesmax Guarantee Programme can carry out a CAPEX project with at least one environmental category, e.g.: electromobility, renewable energy.

Consistently, activities related to the financing of energy-efficient projects are also carried out by Millennium Leasing, which is actively developing the MilleSun programme dedicated to financing photovoltaic projects. In 2022 the offer was expanded by adding a new product - heat pumps. In addition, in 2022, Millennium Leasing joined the My Electric programme implemented by Bank Ochrony Środowiska, guaranteeing NFOŚiGW subsidies for leasing electric cars. From April 2023, the company expanded its offer with leasing of pro-ecological items, enabling comprehensive financing of as many as 53 groups of green assets, including a wide selection of machinery and equipment.

### **Our People'23: Save the Planet!**

In April 2023 Bank Millennium and the Bank Millennium Foundation launched a new internal initiative to encourage physical activity and to draw attention to the protection of the natural environment, which is crucial for human well-being. 1500 employees during 2 months of sports challenge for the planet won a quarter of a million zlotys for eco-volunteering, through which the Bank Millennium Foundation implements environmental project. It will be implemented as part of own initiatives by employees - volunteers. The joint action aims to promote social values such as solidarity, care for the environment and a healthy lifestyle.

### **Millennium Docs Against Gravity**

The jubilee 20th edition of MDAG took place on 12-21 May 2023 in cinemas in eight Polish cities - Warsaw, Wrocław, Gdynia, Poznań, Katowice, Łódź, Bydgoszcz and Lublin and online - from 23 May to 4 June on the mdag.pl platform. Bank Millennium has been sponsoring the Millennium Docs Against Gravity festival and funding the Grand Prix during the festival since 2006. This year's edition of MDAG attracted more than six thousand more people to studio and online cinemas than in 2022. Festival is becoming more and more popular and in total 144 483 people took part in both parts of the festival. Altogether 190 of the best documentaries from around the world, both short and full-length, were presented. The festival was accompanied by dozens of additional events - both in cinemas and online. Workshops, discussions and psychological duty hours as part of the Safe Space, workshops on inclusive language, VR section and exhibitions of posters and drawings in festival cinema spaces are just some of the novelties presented during the 20th edition of the festival. Every year, an important part of the Millennium Docs Against Gravity program are films devoted to ecology in the "Climate for Change" section and films devoted to queer and LGBTQ+ topics. This year, MDAG opened Pride Month, with a debate around the section WE'RE HERE, WE'RE QUEER, in which the lives of LGBTQ+ people in different parts of the world are looked at through documentaries.

### **IMPAKT - here the best are appreciated!**

The IMPAKT award has been granted to employees of Bank Millennium Group since 2015. Impakt is a special programme in which employees recognise and reward their colleagues from just any team for their daily work, professionalism, responsibility and effort in offering effective and innovative solutions. Votes for candidates are cast in following categories: ethics and responsibility; quality; effectiveness and results; development and innovations. After consultations at the managerial level, 50 winners from 30 organizational units were selected from among as many as 381 candidates submitted for the award.

### The most important awards for ESG activities

ESG actions carried out by Bank Millennium are highly appreciated by the market by various awards and presence in lists such as:

- **Bank Millennium awarded the title of Europe's Climate Leader 2023**  
 Bank Millennium is the only company from Poland to be distinguished in the Europe's Climate Leaders 2023 from amongst 500 companies from 33 European countries, which in 2016 - 2021 achieved *inter alia* the largest reductions of greenhouse gas emissions relative to revenue and undertake activities in transparency of reporting actions related to emission reductions. Bank Millennium's activities for sustainable development and environmental protection have been appreciated by the Financial Times and Statista. The full listing of Europe's Climate Leaders 2023 is available on the website of Financial Times: [www.ft.com/climate-leaders-europe-2023](http://www.ft.com/climate-leaders-europe-2023).
- **CSR Golden Leaf of Polityka weekly**  
 Bank Millennium's consistent activities for sustainable development and measurable successes in limiting the consumption of resources have once again been appreciated with the CSR Golden Leaf from Polityka weekly. CSR Leaves, the annual list of most socially engaged companies, has been prepared for 12 years already by the Polityka weekly in cooperation with Deloitte consulting company and the Responsible Business Forum.
- **Bank Millennium among Top 10 in the Ranking of Responsible Companies**  
 Bank Millennium comes once again to the forefront of the Ranking of Responsible Companies - a prestigious list of companies in Poland assessed in terms of the quality of corporate social responsibility management in accordance with ESG guidelines. Bank Millennium ranked sixth in the general classification, where it moved up two positions compared to last year. In the banking, financial and insurance categories, the Bank took fifth place, as in the previous year. The Responsible Companies Ranking is an annual initiative of the Responsible Business Forum and Dziennik Gazeta Prawna, and the substantive partner is Deloitte. It is based on the results in the area of sustainable development presented by companies. General strategic information covering selected activities in the environmental protection and social areas, as well as in the field of corporate governance is evaluated.
- **Bank Millennium good practices in the report "Responsible Business in Poland 2022. Good Practices".**  
 "Digital support of Bank Millennium for those in need", "Building awareness in the area of eco-innovation of Polish regions through Eco-index Millennium", "Two new Head Offices of Bank Millennium in Gdańsk in the spirit of sustainable development", "#słuchaMYwspieraMY and a special edition of #słuchaMYwspieraMY for Ukrainian citizens", "Support for Paralympic Women" are five submitted initiatives of Bank Millennium, which were included in the annual report prepared by the Responsible Business Forum. It is the largest review of CSR and sustainable development initiatives in Poland.
- **Bank Millennium second in the Best Employers Poland 2023 ranking in the category "Banks and financial services"**  
 Bank Millennium again came second on the ranking list of best employers in banking and financial services and 32nd among all companies in the 3rd edition of the Best Employers Poland 2023 ranking prepared by Forbes Poland and Statista. Poland's Best Employers 2023 is a list of 300 companies operating in Poland, whose outstanding achievements in the field of HR have been honoured with the title of the best employer.

## 7. REPRESENTATIONS OF THE MANAGEMENT BOARD

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

According to the best knowledge, the Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A., in 6-month period ending 30th June 2023 and the comparable data as well and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the period of 6 months ending 30th June 2023 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This semi-annual Management Board Report on the activity of Bank Millennium and the Group contains a true picture of development, achievements and condition of Bank Millennium and the Capital Group of Bank Millennium.

### 7.2. SELECTION OF AN ENTITY AUTHORIZED TO FINANCIAL REPORTS AUDITING

The entity authorized to audit financial reports, reviewing this Condensed Interim Consolidated Financial Statement of the Capital Group of Bank Millennium S.A. for the 6-month period ending 30th June 2023 and the Condensed Interim Unconsolidated Financial Statement of Bank Millennium S.A. for the 6-month period ending 30th June 2023 - was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

#### SIGNATURES:

Date	Name and surname	Position/Function	Signature
25.07.2023	Joao Bras Jorge	Chairman of the Management Board	signed with a qualified electronic signature
25.07.2023	Fernando Bicho	Deputy Chairman of the Management Board	signed with a qualified electronic signature
25.07.2023	Wojciech Haase	Member of the Management Board	signed with a qualified electronic signature
25.07.2023	Andrzej Gliński	Member of the Management Board	signed with a qualified electronic signature
25.07.2023	Wojciech Rybak	Member of the Management Board	signed with a qualified electronic signature
25.07.2023	António Pinto Júnior	Member of the Management Board	signed with a qualified electronic signature
25.07.2023	Jarostaw Hermann	Member of the Management Board	signed with a qualified electronic signature