



**Consolidated report  
of the Bank Millennium S.A. Capital Group  
for 1<sup>st</sup> half 2020**



## Consolidated Financial Highlights

	Amount '000 PLN		Amount '000 EUR	
	1.01.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.01.2020 - 30.06.2020	1.01.2019 - 30.06.2019
Interest income and other of similar nature	1 737 084	1 487 497	391 121	346 898
Fee and commission income	471 703	422 827	106 208	98 607
Profit (loss) before income tax	185 936	467 190	41 865	108 953
Profit (loss) after taxes	71 724	333 623	16 149	77 804
Total comprehensive income of the period	258 324	319 811	58 164	74 583
Net cash flows from operating activities	3 412 627	(3 067 659)	768 385	(715 406)
Net cash flows from investing activities	(4 476 108)	2 291 404	(1 007 837)	534 376
Net cash flows from financing activities	(377 462)	865 332	(84 989)	201 803
Net cash flows, total	(1 440 943)	89 077	(324 442)	20 774
Earnings (losses) per ordinary share (in PLN/EUR)	0.06	0.28	0.01	0.06
Diluted earnings (losses) per ordinary share	0.06	0.28	0.01	0.06
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Total Assets	102 578 637	97 916 394	22 968 795	22 993 165
Liabilities to banks and other monetary institutions	1 429 762	1 578 848	320 144	370 752
Liabilities to customers	86 254 625	81 454 765	19 313 620	19 127 572
Equity	9 199 843	8 941 519	2 059 974	2 099 687
Share capital	1 213 117	1 213 117	271 634	284 870
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	7.58	7.37	1.70	1.73
Diluted book value per share (in PLN/EUR)	7.58	7.37	1.70	1.73
Total Capital Ratio (TCR)	20.02%	20.09%	20.02%	20.09%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

### Exchange rates accepted to convert selected financial data into EUR

for items as at the balance sheet date	-	-	4.4660	4.2585
for items for the period covered by the report (exchange rate calculated as the average of exchange rates at the end of individual months of the period)	-	-	4.4413	4.2880

**CONSOLIDATED REPORT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR 1<sup>ST</sup> HALF 2020**

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**CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS OF THE BANK MILLENNIUM S.A. CAPITAL  
GROUP FOR THE 6 MONTHS ENDED 30 JUNE 2020**

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# 1. General Information about Issuer

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

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

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

The Bank is a parent company of a Bank Millennium Capital Group (the Group) with over 8,100 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, investment fund management and web portals activity.

## **Supervisory Board and Management Board of Bank Millennium S.A. as at 30 June 2020**

Composition of the Supervisory Board was as follows:

- Bogusław Kott - Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado - Deputy Chairman of the Supervisory Board,
- Dariusz Rosati - Deputy Chairman and Secretary of the Supervisory Board,
- Miguel de Campos Pereira de Bragança - Member of the Supervisory Board,
- Agnieszka Hryniewicz-Bieniek - Member of the Supervisory Board,
- Anna Jakubowski - Member of the Supervisory Board,
- Grzegorz Jędryś - Member of the Supervisory Board,
- Andrzej Koźmiński - Member of the Supervisory Board,
- Alojzy Nowak - Member of the Supervisory Board,
- Jose Miguel Bensliman Schorcht da Silva Pessanha - Member of the Supervisory Board,
- Miguel Maya Dias Pinheiro - Member of the Supervisory Board,
- Lingjiang Xu - Member of the Supervisory Board.

Composition of the Management Board was as follows:

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

## Capital Group of Bank Millennium S.A.

The Group's parent entity is Bank Millennium S.A. while the ultimate parent entity of the Bank Millennium S.A. is the Banco Comercial Portugues - company listed on the stock exchange in Lisbon. The companies that belong to the Capital Group as at 30 June 2020, are presented by the table below:

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

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

## Acquisition of shares and merger with Euro Bank S.A.

### Description of the transaction

On 5 November 2018, Bank Millennium announced and signed the preliminary agreement related to the acquisition of 99.787% shares of Euro Bank S.A. from SG Financial Services Holdings a wholly owned subsidiary of Societe Generale S.A. The transaction specified in the agreement is the direct acquisition of the shares by Bank Millennium.

### The strategic rationale for the transaction

As a result of the transaction related to the acquisition of Euro Bank shares, Bank Millennium strengthened its important position in the Polish banking sector. The transaction increased the number of the Bank's clients by 1.4 million (of which more around 494 thousand fulfil the classification of active client as per Bank's internal definition) and therefore allowed the Bank to become one of the largest Polish bank in terms of the number of retail clients.

The acquisition of Euro Bank allowed the Bank to increase the segment of consumer loans, as well as the importance of this segment for the entire Group.

The acquisition of Euro Bank enabled Millennium Bank to acquire competences in the franchise model and strengthen its presence in smaller cities, where Euro Bank was strongly located, and contributed to increase of the geographical coverage of the Bank's distribution network.



### ***Completion of the acquisition***

On 3 January 2019, the Bank received information on issuing by the President of the Office of Competition and Consumer Protection the decision on the consent for the concentration consisting in the Bank's acquisition of control over Euro Bank S.A. The consent was issued on 28 December 2018.

On 28 May 2019 the Polish Financial Supervision Authority issued the consent specifying that there is no basis for the objection raising, and therefore Bank Millennium together with its parent entity, Banco Comercial Portugues, were allowed to acquire the shares of Euro Bank S.A. in the number resulting in exceeding 50% of the total number of votes on the general meeting of Euro Bank and of the share in the share capital. The number of acquired shares exceeding 50% results also in becoming a parent entity of Euro Bank.

On 31 May 2019, by executing the share purchase agreement between the Bank and SG Financial Services Holdings of 5 November 2018, the Bank has acquired the majority of shares, constituting 99.787% of Euro Bank S.A. share capital.

Additionally, on 31 May 2019, the Bank has repaid the unsubordinated financing granted to Euro Bank by Societe Generale S.A. ("SG") in the amount of ca. PLN 3.800.000.000. It was preceded by Euro Bank's repayment of a part of subordinated debt from SG in the amount of PLN 250.000.000, after obtaining appropriate agreements from the PFSA in this particular area. In October 2019, a final repayment of a subordinated loan of SG taken out by Euro Bank in the amount of PLN 100 million (fully collateralised by a cash deposit since 31 May 2019) took place.

In order to limit the risk associated with the Euro Bank's portfolio of mortgage loans denominated in CHF or denominated in PLN, but indexed to CHF, Euro Bank and SG signed on 31 May 2019 an "CHF Portfolio Indemnity and Guarantee Agreement" as it was planned in the Share Purchase Agreement. Euro Bank, Bank Millennium and SG also concluded an agreement related to the provision of certain limited transitional services by SG for Euro Bank.

### ***Merger***

On 6 June 2019, the Management Board of Bank Millennium and the Management Board of Euro Bank agreed and signed the merger plan of Bank Millennium and Euro Bank (the "Merger"). The merger was performed in accordance with art. 492 § 1 point 1 of the Commercial Companies Code (KSH) by transferring all assets and liabilities of Euro Bank (the acquired bank) to Bank Millennium (the acquiring bank), without increasing the share capital of Bank Millennium.

In accordance with the Merger, existing, dematerialized shares of Bank Millennium ("Merger Shares") were allocated to the minority shareholders of Euro Bank. The shares were purchased on Warsaw Stock Exchange S.A. in the secondary trading, by Millennium Dom Maklerski S.A. [Millennium Brokerage House], by the order of Bank Millennium, pursuant to art. 515 § 2 of the Commercial Companies Code.

The following share exchange parity has been determined in the Merger Plan: in exchange for 1 (one) share of Euro Bank, a minority shareholder of Euro Bank received 4.1 Merger Shares.

As a result of the Legal Merger performed 1<sup>st</sup> October 2019, Bank Millennium assumed all the rights and obligations of Euro Bank, and Euro Bank was dissolved without liquidation proceedings and its entire assets were transferred to Bank Millennium. The merger took place on the day of its entry into the register of entrepreneurs of the National Court Register of Bank Millennium.



The merged Bank operates under the name Bank Millennium S.A. based on the provisions of the Act of 15 September 2000 - Code of Commercial Companies ("KSH").

The merger was performed based on already obtained appropriate consents and permits required by law, i.e.:

- (i) permission of the Polish Financial Supervision Authority ("PFSA") for the Merger, pursuant to art. 124 paragraph 1 of the Act of 29 August 1997 - Banking Law ("Banking Law");
- (ii) permission of the PFSA to amend the Statute of Bank Millennium pursuant to art. 34 paragraph 2 of the Banking Law.

### ***Transaction settlement***

Transaction settlement was performed applying the acquisition method, in accordance with the International Financial Reporting Standard 3 "Business combinations" ("IFRS"), which requires, among others, recognition and measurement of identifiable assets acquired, and liabilities assumed measured at fair value as at the acquisition date, and any non-controlling interest in the acquired entity (if any) and separate recognition and measurement of goodwill or gain on bargain purchase

As part of the transaction, the Group identified non-controlling interests amounting to 0.2% of the total value of Euro Bank shares. Bank Millennium acquired 26,240 shares of the Bank, constituting 0.00216302% of its share capital, which were then offered as merging shares to authorized shareholders of Euro Bank other than the Bank. The average purchase price of one merger share was PLN 5.939842, and the total price, representing the total cost of purchasing the merger shares, was PLN 156.3 thousand.

The Group made a final settlement of the merger and calculation of goodwill in connection with the purchase of Euro Bank S.A. shares within a period of one year from the date of acquiring the control in accordance with the requirements of IFRS 3. During this time, the acquirer may adjust retrospectively the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect any new information obtained in relation to facts and circumstances that existed as at the acquisition date and, if known, would affect the measurement of those assets and liabilities. Such adjustments refer to the recognized goodwill or gain on bargain purchase.

### **Recognition and measurement of identifiable assets acquired liabilities assumed measured in accordance with IFRS**

The following data regarding the fair value measurement of the acquired assets and assumed liabilities were based on the identification from the point of view of Bank Millennium and the adopted assumptions regarding the materiality threshold.

A detailed description of the fair value measurement of individual assets acquired and liabilities assumed was presented in the consolidated annual report of the Millennium Group for 2019.

Identifiable acquired assets and liabilities assumed measured at fair value	
	In PLN million
<b>Assets</b>	
Cash and balances at Central Bank	241.6
Amounts due from banks	85.0
Loans and advances to customers	12 557.7
Financial assets held for trading/FVOCI/FVTPL	1 401.9
Intangible assets	49.8
Fixed assets	113.2
Deferred tax assets	143.5
Other assets	72.2
<b>Total assets</b>	<b>14 664.9</b>
<b>Liabilities and equity</b>	
Amounts due to banks and financial institutions	4 086.5
Amounts due to customers	7 974.9
Debt securities	506.1
Provisions	1.3
Derivatives in hedge accounting	5.7
Other liabilities	375.0
Subordinated loan	100.1
<b>Total liabilities</b>	<b>13 049.6</b>
<b>Net assets</b>	<b>1 615.3</b>
<b>Liabilities and equity</b>	<b>14 664.9</b>

The adjustments to the fair value for temporary differences constituted the basis for the calculation of deferred tax.

### *Calculation of goodwill*

As at the date of the present report, the Group has completed the process of calculating goodwill as at 31 May 2019.

In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expired after 12 months from the date of the acquisition, i.e. on 31 May 2020. The finally determined difference of the fair value of acquired assets and assumed liabilities at the acquisition date over the purchase price is recognized by the Group in accordance with the provisions of IFRS 3.32 as goodwill in intangible assets.

In PLN thousand	Identifiable assets acquired and liabilities assumed measured at fair value
Price transferred in accordance with the Agreement	1 833 000
Preliminary price adjustment	-25 529
Price after adjustment	1 807 471
Fair value of acquired net assets	1 615 346
Goodwill	192 125

As at the balance sheet date, no impairment allowances for goodwill were recognized in intangible assets.

The difference between the book value of the acquired assets and liabilities of Euro Bank S.A. and their fair value measurement will be subject to settlement through the profit or loss account - in the economic life of the individual components of the assets and liabilities acquired.

## 2. Introduction and Accounting Policy

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed consolidated interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2019.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the six months ending June 30, 2020.

Condensed interim consolidated financial statements of the Group prepared for the period from 1 January 2020 to 30 June 2020:

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

The Management Board approved these condensed consolidated interim financial statements on 22<sup>nd</sup> July 2020.

## Change of applied accounting principles introduced in 2020

In the course of 2020, the Group changed the presentation of provisions for legal risk connected with FX mortgage loans (for more information on the creation of these provisions, see **Chapter 9.1 “Lawsuits”**) which in the financial statements for year 2019 were recognized as provisions for pending legal issues. Having in mind that part of these provisions relate to the new estimation of cash flows from the mortgage loan portfolio, the Group allocated these provisions to individual credit exposures and presented in these financial statements as a decrease in the gross value of mortgage loans for which contractual cash flow are expected to reduce. In order to ensure comparability, the Group made appropriate balance sheet data adjustments as at December 31, 2019 as illustrated in the table below.

Balance sheet item	Data as at 31 December 2019 presented in consolidated financial statements for year 2019	Value of adjustment	Data as at 31 December 2019 presented in consolidated financial statements for 1 half 2020
Loans and advances to customers valued at amortised cost	68 256 743	(139 548)	68 117 195
<b>Total assets</b>	<b>98 055 942</b>	<b>(139 548)</b>	<b>97 916 394</b>
Provisions for pending legal issues	251 333	(139 548)	111 785
<b>Total liabilities</b>	<b>89 114 423</b>	<b>(139 548)</b>	<b>88 974 875</b>

### 3. Consolidated Financial Data (Group)

#### CONSOLIDATED INCOME STATEMENT

<i>Amount '000 PLN</i>	<i>Note</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
Net interest income		1 303 224	627 457	1 056 527	572 535
Interest income and other of similar nature	1	1 737 084	809 353	1 487 497	792 938
Income calculated using the effective interest method		1 690 409	795 222	1 426 898	763 108
Interest income from Financial assets at amortised cost		1 494 399	701 332	1 227 785	669 088
Interest income from Financial assets at fair value through other comprehensive income		196 010	93 890	199 113	94 020
Income of similar nature to interest from Financial assets at fair value through profit or loss		46 675	14 131	60 599	29 830
Interest expenses	2	(433 860)	(181 896)	(430 970)	(220 403)
Net fee and commission income		373 528	178 995	338 199	175 025
Fee and commission income	3	471 703	224 034	422 827	221 297
Fee and commission expenses	4	(98 175)	(45 039)	(84 628)	(46 272)
Dividend income		3 268	3 025	2 682	2 484
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5	48 920	35 173	29 304	14 383
Results on financial assets and liabilities held for trading	6	32 139	22 405	31 624	13 549
Result on non-trading financial assets mandatorily at fair value through profit or loss	7	(18 930)	(7 251)	10 532	6 479
Result on hedge accounting		(8 032)	(3 518)	(9 951)	(5 130)
Result on exchange differences		71 633	27 949	78 677	45 774
Other operating income		64 677	52 084	51 665	12 147
Other operating expenses		(115 802)	(90 742)	(30 919)	(14 813)
Administrative expenses	8	(815 812)	(351 246)	(682 988)	(331 932)
Impairment losses on financial assets	9	(323 634)	(202 069)	(217 180)	(154 086)
Provisions for COVID-19		0	60 000	0	0
Impairment losses on non-financial assets		(4 591)	(2 827)	(1 300)	(653)
Provisions for legal risk connected with FX mortgage loans		(168 019)	(112 694)	0	0
Result on modification		(8 232)	(6 283)	(6 635)	(2 969)
Depreciation		(107 213)	(53 873)	(73 039)	(39 627)
Share of the profit of investments in subsidiaries		0	0	0	0
Banking tax		(141 188)	(68 447)	(110 008)	(58 650)
<b>Profit before income taxes</b>		<b>185 936</b>	<b>108 138</b>	<b>467 190</b>	<b>234 516</b>
Corporate income tax	10	(114 212)	(54 543)	(133 567)	(60 859)
<b>Profit after taxes</b>		<b>71 724</b>	<b>53 595</b>	<b>333 623</b>	<b>173 657</b>
Attributable to:					
Owners of the parent		71 724	53 595	333 623	173 657
Non-controlling interests		0	0	0	0
Weighted average number of outstanding ordinary shares (pcs.)		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Profit (loss) per ordinary share (in PLN)		0.06	0.04	0.28	0.14

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
Profit after taxes	71 724	53 595	333 623	173 657
Other comprehensive income items that may be (or were) reclassified to profit or loss	230 352	161 369	(17 096)	16 451
Result on debt securities at fair value through other comprehensive income	238 310	189 516	(55 615)	22 526
Hedge accounting	(7 958)	(28 147)	38 519	(6 075)
Other comprehensive income items that will not be reclassified to profit or loss	18	52	44	28
Actuarial gains (losses)	0	0	0	0
Result on equity instruments at fair value through other comprehensive income	18	52	44	28
<b>Total comprehensive income items before taxes</b>	<b>230 370</b>	<b>161 421</b>	<b>(17 052)</b>	<b>16 479</b>
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	(43 767)	(30 660)	3 248	(3 126)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	(3)	(9)	(8)	(5)
<b>Total comprehensive income items after taxes</b>	<b>186 600</b>	<b>130 752</b>	<b>(13 812)</b>	<b>13 348</b>
<b>Total comprehensive income for the period</b>	<b>258 324</b>	<b>184 347</b>	<b>319 811</b>	<b>187 005</b>
Attributable to:				
Owners of the parent	258 324	184 347	319 811	187 005
Non-controlling interests	0	0	0	0

## CONSOLIDATED BALANCE SHEET

### ASSETS

<i>Amount '000 PLN</i>	<i>Note</i>	<i>30.06.2020</i>	<i>31.03.2020</i>	<i>31.12.2019</i>	<i>30.06.2019</i>
Cash, cash balances at central banks		1 224 788	2 477 540	2 203 444	3 396 000
Financial assets held for trading	11	479 157	795 572	986 728	796 927
Derivatives		141 929	189 809	112 485	98 022
Equity instruments		212	50	210	290
Debt securities		337 016	605 713	874 033	698 615
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers		177 097	169 610	169 610	98 082
Equity instruments		66 609	66 609	66 609	21 609
Debt securities		110 488	103 001	103 001	76 473
Financial assets at fair value through other comprehensive income	12	26 105 506	22 124 985	21 870 164	18 725 967
Equity instruments		29 676	29 631	29 643	29 340
Debt securities		26 075 830	22 095 354	21 840 521	18 696 627
Loans and advances to customers	13	71 507 848	72 045 583	69 615 390	67 855 209
Mandatorily at fair value through profit or loss		1 480 998	1 475 514	1 498 195	1 341 424
Valued at amortised cost		70 026 850	70 570 069	68 117 195	66 513 785
Financial assets at amortised cost other than Loans and advances to customers	14	985 092	2 179 225	1 037 869	842 182
Debt securities		43 879	48 355	48 153	56 881
Deposits, loans and advances to banks and other monetary institutions		875 837	2 018 927	784 277	711 642
Reverse sale and repurchase agreements		65 376	111 943	205 439	73 659
Derivatives - Hedge accounting	15	86 775	22 195	43 159	99 864
Investments in subsidiaries, joint ventures and associates		0	0	0	0
Tangible fixed assets		600 834	637 057	666 330	650 122
Intangible fixed assets		370 393	335 935	342 653	278 106
Income tax assets		540 899	554 727	541 828	542 979
Current income tax assets		3 060	10 801	10 310	30 613
Deferred income tax assets	17	537 839	543 925	531 518	512 366
Other assets		466 874	546 794	399 778	355 868
Non-current assets and disposal groups classified as held for sale		33 374	41 583	39 441	28 999
<b>Total assets</b>		<b>102 578 637</b>	<b>101 930 807</b>	<b>97 916 394</b>	<b>93 670 305</b>



## LIABILITIES AND EQUITY

Amount '000 PLN	Note	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>LIABILITIES</b>					
Financial liabilities held for trading	11	200 229	312 949	353 000	232 231
Derivatives		129 931	247 274	150 735	146 641
Liabilities from short sale of securities		70 298	65 675	202 265	85 590
Financial liabilities measured at amortised cost		89 996 642	88 802 162	85 853 762	81 873 385
Liabilities to banks and other monetary institutions	18	1 429 762	1 516 541	1 578 848	1 908 263
Liabilities to customers	19	86 254 625	83 583 600	81 454 765	76 827 811
Sale and repurchase agreements	20	0	1 056 303	90 712	20 990
Debt securities issued	21	767 017	1 101 040	1 183 232	1 469 990
Subordinated debt	22	1 545 238	1 544 678	1 546 205	1 646 331
Derivatives - Hedge accounting	15	678 043	1 277 724	426 847	339 276
Provisions	23	282 637	272 166	165 178	108 335
Pending legal issues		225 982	156 261	111 785	56 145
Commitments and guarantees given		56 655	55 905	53 393	52 190
Provisions for COVID-19		0	60 000	0	0
Income tax liabilities		15 412	20 095	38 590	17 257
Current income tax liabilities		15 412	20 095	38 590	17 257
Deferred income tax liabilities	17	0	0	0	0
Other liabilities		2 205 831	2 230 216	2 137 498	2 395 624
<b>Total Liabilities</b>		<b>93 378 794</b>	<b>92 915 311</b>	<b>88 974 875</b>	<b>84 966 108</b>
<b>EQUITY</b>					
Share capital		1 213 117	1 213 117	1 213 117	1 213 117
Share premium		1 147 502	1 147 502	1 147 502	1 147 502
Accumulated other comprehensive income		256 693	125 941	70 093	59 880
Retained earnings		6 582 531	6 528 936	6 510 807	6 283 698
<b>Total equity</b>		<b>9 199 843</b>	<b>9 015 496</b>	<b>8 941 519</b>	<b>8 704 197</b>
<b>Total equity and total liabilities</b>		<b>102 578 637</b>	<b>101 930 807</b>	<b>97 916 394</b>	<b>93 670 305</b>
<b>Book value of net assets</b>					
		9 199 843	9 015 496	8 941 519	8 704 197
<b>Number of shares (pcs.)</b>					
		1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
<b>Book value per share (in PLN)</b>					
		7.58	7.43	7.37	7.18

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2020 - 30.06.2020						
Equity at the beginning of the period	8 941 519	1 213 117	1 147 502	70 093	692 065	5 818 742
Total comprehensive income for period (net)	258 324	0	0	186 600	(486 900)	558 624
net profit/ (loss) of the period	71 724	0	0	0	71 724	0
valuation of debt securities at fair value through other comprehensive income	193 031	0	0	193 031	0	0
valuation of shares at fair value through other comprehensive income	15	0	0	15	0	0
hedge accounting	(6 446)	0	0	(6 446)	0	0
Transfer between items of reserves	0	0	0	0	(558 624)	558 624
Equity at the end of the period	9 199 843	1 213 117	1 147 502	256 693	205 165	6 377 366
01.04.2020 - 30.06.2020						
Equity at the beginning of the period	9 015 496	1 213 117	1 147 502	125 941	151 570	6 377 366
Total comprehensive income for period (net)	184 347	0	0	130 752	53 595	0
net profit/ (loss) of the period	53 595	0	0	0	53 595	0
valuation of debt securities at fair value through other comprehensive income	153 508	0	0	153 508	0	0
valuation of shares at fair value through other comprehensive income	43	0	0	43	0	0
hedge accounting	(22 799)	0	0	(22 799)	0	0
Transfer between items of reserves	0	0	0	0	0	0
Equity at the end of the period	9 199 843	1 213 117	1 147 502	256 693	205 165	6 377 366

Amount '000 PLN	Total consolidated equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2019 - 31.12.2019						
Equity at the beginning of the period	8 384 386	1 213 117	1 147 502	73 692	671 323	5 278 752
Total comprehensive income for period (net)	557 133	0	0	(3 599)	20 742	539 990
net profit/ (loss) of the period	560 732	0	0	0	560 732	0
valuation of debt securities at fair value through other comprehensive income	(35 303)	0	0	(35 303)	0	0
valuation of shares at fair value through other comprehensive income	154	0	0	154	0	0
hedge accounting	32 145	0	0	32 145	0	0
actuarial gains (losses)	(595)	0	0	(595)	0	0
Transfer between items of reserves	0	0	0	0	(539 990)	539 990
Equity at the end of the period	8 941 519	1 213 117	1 147 502	70 093	692 065	5 818 742
01.01.2019 - 30.06.2019						
Equity at the beginning of the period	8 384 386	1 213 117	1 147 502	73 692	671 323	5 278 752
Total comprehensive income for the period (net)	319 811	0	0	(13 812)	(206 367)	539 990
net profit/ (loss) of the period	333 623	0	0	0	333 623	0
valuation of debt securities at fair value through other comprehensive income	(45 048)	0	0	(45 048)	0	0
valuation of shares at fair value through other comprehensive income	36	0	0	36	0	0
hedge accounting	31 200	0	0	31 200	0	0
Transfer between items of reserves	0	0	0	0	(539 990)	539 990
Equity at the end of the period	8 704 197	1 213 117	1 147 502	59 880	464 956	5 818 742

## CONSOLIDATED CASH FLOW STATEMENT

### A. CASH FLOWS FROM OPERATING ACTIVITIES

<i>Amount '000 PLN</i>	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Profit (loss) after taxes	71 724	53 595	333 623	173 657
Total adjustments:	3 340 903	2 509 879	(3 401 282)	(2 205 235)
Interest received	1 728 596	834 484	1 375 927	797 532
Interest paid	(411 972)	(183 128)	(383 226)	(196 771)
Depreciation and amortization	107 213	53 873	73 039	39 627
Foreign exchange (gains)/ losses	37 638	(17 353)	4 222	674
Dividends	(3 268)	(3 025)	(2 682)	(2 484)
Changes in provisions	(22 089)	10 471	(4 117)	3 454
Result on sale and liquidation of investing activity assets	(53 982)	(41 337)	(26 369)	(13 915)
Change in financial assets held for trading	312 480	172 192	(112 241)	(96 024)
Change in loans and advances to banks	(243 988)	700 949	(226 121)	(194 547)
Change in loans and advances to customers	(3 148 344)	(122 362)	(16 205 412)	(14 468 086)
Change in receivables from securities bought with sell-back clause (loans and advances)	133 626	46 055	168 878	717 547
Change in financial liabilities valued at fair value through profit and loss (held for trading)	98 425	(712 401)	(36 937)	(10 634)
Change in deposits from banks	(135 525)	(32 388)	173 051	90 298
Change in deposits from customers	5 187 686	2 843 174	10 940 673	10 332 769
Change in liabilities from securities sold with buy-back clause	(83 038)	(1 054 931)	(26 061)	(33 975)
Change in debt securities	(104 946)	(25 173)	676 288	585 993
Change in income tax settlements	104 319	53 760	(30 748)	(75 825)
Income tax paid	(168 727)	(75 285)	(178 735)	(98 622)
Change in other assets and liabilities	(24 307)	46 964	400 498	411 490
Other	31 106	15 339	18 791	6 264
<b>Net cash flows from operating activities</b>	<b>3 412 627</b>	<b>2 563 474</b>	<b>(3 067 659)</b>	<b>(2 031 578)</b>

## B. CASH FLOWS FROM INVESTING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
<b>Inflows:</b>	<b>74 966 393</b>	<b>24 045 262</b>	<b>74 240 501</b>	<b>36 468 242</b>
Proceeds from sale of property, plant and equipment and intangible assets	14 697	13 295	19 624	0
Proceeds from sale of shares in related entities	0	0	0	0
Proceeds from sale of investment financial assets	74 948 428	24 028 942	74 218 195	36 465 758
Other	3 268	3 025	2 682	2 484
<b>Outflows:</b>	<b>(79 442 501)</b>	<b>(27 857 643)</b>	<b>(71 949 097)</b>	<b>(34 025 139)</b>
Acquisition of property, plant and equipment and intangible assets	(26 399)	(21 725)	(320 631)	(311 522)
Acquisition of shares in related entities	0	0	0	0
Acquisition of investment financial assets	(79 416 102)	(27 835 918)	(71 628 466)	(33 713 617)
Other	0	0	0	0
<b>Net cash flows from investing activities</b>	<b>(4 476 108)</b>	<b>(3 812 381)</b>	<b>2 291 404</b>	<b>2 443 103</b>

## C. CASH FLOWS FROM FINANCING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
<b>Inflows from financing activities:</b>	<b>13 000</b>	<b>13 000</b>	<b>930 130</b>	<b>100 130</b>
Long-term bank loans	13 000	13 000	0	0
Issue of debt securities	0	0	0	0
Increase in subordinated debt	0	0	930 130	100 130
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
<b>Outflows from financing activities:</b>	<b>(390 462)</b>	<b>(363 633)</b>	<b>(64 798)</b>	<b>(60 390)</b>
Repayment of long-term bank loans	(51 564)	(46 564)	(44 046)	(44 046)
Redemption of debt securities	(299 440)	(299 440)	(122)	0
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(39 458)	(17 629)	(20 630)	(16 344)
<b>Net cash flows from financing activities</b>	<b>(377 462)</b>	<b>(350 633)</b>	<b>865 332</b>	<b>39 740</b>

<b>D. Net cash flows. Total (A + B + C)</b>	<b>(1 440 943)</b>	<b>(1 599 540)</b>	<b>89 077</b>	<b>451 265</b>
- including change resulting from FX differences	6 390	(3 788)	(1 288)	(2 524)
<b>E. Cash and cash equivalents at the beginning of the reporting period</b>	<b>3 752 789</b>	<b>3 911 387</b>	<b>4 520 688</b>	<b>4 158 500</b>
<b>F. Cash and cash equivalents at the end of the reporting period (D + E)</b>	<b>2 311 846</b>	<b>2 311 846</b>	<b>4 609 765</b>	<b>4 609 765</b>

## 4. Notes to Consolidated Financial Data

### 1) INTEREST INCOME AND OTHER OF SIMILAR NATURE

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Interest income from Financial assets at fair value through other comprehensive income	196 010	93 890	199 113	94 020
Debt securities	196 010	93 890	199 113	94 020
Interest income from Financial assets at amortised cost	1 494 399	701 332	1 227 785	669 088
Balances with the Central Bank	5 069	1 432	5 938	3 078
Loans and advances to customers	1 363 608	645 409	1 079 407	590 783
Debt securities	711	340	689	345
Deposits, loans and advances to banks	572	50	1 933	1 473
Transactions with repurchase agreements	6 439	514	7 747	6 203
Hedging derivatives	118 000	53 587	132 071	67 206
Income of similar nature to interest, including:	46 675	14 131	60 599	29 830
Loans and advances to customers mandatorily at fair value through profit or loss	43 210	13 082	53 284	27 284
Financial assets held for trading - debt securities	3 465	1 049	7 315	2 546
<b>Total</b>	<b>1 737 084</b>	<b>809 353</b>	<b>1 487 497</b>	<b>792 938</b>

In the line „Hedging derivatives” the Group presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Group is presented in note (15).

Interest income for the 1<sup>st</sup> half 2020 contains interest accrued on impaired loans in the amount of PLN 51,246 thous. (for corresponding data in the year 2019 the amount of such interest stood at PLN 31,807 thous.).

### 2) INTEREST EXPENSES AND OTHER OF SIMILAR NATURE

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Financial liabilities measured at amortised cost	(433 836)	(181 878)	(430 889)	(220 362)
Liabilities to banks and other monetary institutions	(12 209)	(5 876)	(14 478)	(7 769)
Liabilities to customers	(369 569)	(153 804)	(370 947)	(188 117)
Transactions with repurchase agreement	(7 674)	(1 372)	(3 273)	(794)
Debt securities issued	(9 679)	(3 634)	(9 840)	(5 715)
Subordinated debt	(30 499)	(14 913)	(28 594)	(15 861)
Liabilities due to leasing agreements	(4 206)	(2 279)	(3 668)	(2 017)
Hedging derivatives	0	0	(89)	(89)
Other	(24)	(18)	(81)	(41)
<b>Total</b>	<b>(433 860)</b>	<b>(181 896)</b>	<b>(430 970)</b>	<b>(220 403)</b>

### 3) FEE AND COMMISSION INCOME

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Resulting from accounts service	39 535	19 808	38 261	19 127
Resulting from money transfers, cash payments and withdrawals and other payment transactions	32 161	15 852	35 933	18 638
Resulting from loans granted	106 096	47 981	91 125	46 671
Resulting from guarantees and sureties granted	6 976	3 203	6 738	3 169
Resulting from payment and credit cards	106 875	51 315	97 185	51 664
Resulting from sale of insurance products	90 499	42 046	62 738	36 039
Resulting from distribution of investment funds units and other savings products	28 987	14 555	30 837	15 943
Resulting from brokerage and custody service	9 462	5 031	6 754	3 178
Resulting from investment funds managed by the Group	32 177	14 612	37 452	19 111
Other	18 935	9 631	15 804	7 756
<b>Total</b>	<b>471 703</b>	<b>224 034</b>	<b>422 827</b>	<b>221 297</b>

### 4) FEE AND COMMISSION EXPENSE

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Resulting from accounts service	(1 686)	(929)	(920)	(502)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(2 086)	(1 202)	(1 758)	(876)
Resulting from loans granted	(26 255)	(12 646)	(18 284)	(10 094)
Resulting from payment and credit cards	(47 420)	(19 819)	(47 991)	(26 505)
Resulting from brokerage and custody service	(1 571)	(777)	(1 176)	(549)
Resulting from investment funds managed by the Group	(5 410)	(2 342)	(4 373)	(2 148)
Other	(13 747)	(7 324)	(10 126)	(5 598)
<b>Total</b>	<b>(98 175)</b>	<b>(45 039)</b>	<b>(84 628)</b>	<b>(46 272)</b>

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

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Operations on debt instruments	49 976	35 826	30 563	15 092
Costs of financial operations	(1 056)	(653)	(1 259)	(709)
<b>Total</b>	<b>48 920</b>	<b>35 173</b>	<b>29 304</b>	<b>14 383</b>



## 6) RESULTS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Result on debt instruments	7 197	10 530	(1 715)	(605)
Result on derivatives	24 952	11 898	33 311	14 246
Result on other financial operations	(10)	(23)	28	(92)
<b>Total</b>	<b>32 139</b>	<b>22 405</b>	<b>31 624</b>	<b>13 549</b>

## 7) RESULTS NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Loans and advances to customers	(26 417)	(14 738)	(5 101)	(172)
Result on equity instruments	0	0	0	0
Result on debt instruments	7 487	7 487	15 633	6 651
<b>Total</b>	<b>(18 930)</b>	<b>(7 251)</b>	<b>10 532</b>	<b>6 479</b>

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

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

Taking into consideration this verdict, the Group created in 2019 a reserve in the amount of PLN 66.4 million (split between Net Interest Income and Other Operating Costs) and PLN 60.5 million in first half 2020 (Other Operating Costs), for potential returns to the clients. The provision is estimated based on the maximum amount of potential returns and the probability of payment being made. The adequateness of such reserve will be checked through time and will depend on the clarification of the implications of the verdict and on the number of agreements and values to be returned.

## 8) ADMINISTRATIVE EXPENSES

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Staff costs:	(451 200)	(207 448)	(372 216)	(199 661)
Salaries	(376 594)	(171 922)	(305 232)	(164 636)
Surcharges on pay	(64 854)	(30 507)	(53 915)	(28 370)
Employee benefits, including:	(9 752)	(5 019)	(13 069)	(6 655)
- provisions for retirement benefits	(2 780)	(1 608)	(2 125)	(1 074)
- provisions for unused employee holiday	(19)	(11)	24	74
- other	(6 953)	(3 400)	(10 968)	(5 655)
Other administrative expenses:	(364 612)	(143 798)	(310 770)	(132 269)
Costs of advertising, promotion and representation	(30 094)	(15 993)	(26 888)	(20 093)
IT and communications costs	(66 040)	(31 186)	(59 875)	(35 617)
Costs of renting	(40 319)	(19 238)	(36 879)	(18 493)
Costs of buildings maintenance, equipment and materials	(28 410)	(14 564)	(18 748)	(10 121)
ATM and cash maintenance costs	(14 473)	(6 932)	(10 304)	(5 347)
Costs of consultancy, audit and legal advisory and translation	(15 123)	(9 540)	(19 762)	(14 043)
Taxes and fees	(17 124)	(8 509)	(13 403)	(7 292)
KIR - clearing charges	(3 882)	(1 912)	(3 225)	(1 848)
PFRON costs	(4 378)	(2 220)	(3 057)	(1 656)
Banking Guarantee Fund costs	(113 066)	(27 991)	(96 050)	(12 028)
Financial Supervision costs	(5 223)	(2 722)	(3 393)	(1 772)
Other	(26 480)	(2 991)	(19 186)	(3 959)
<b>Total</b>	<b>(815 812)</b>	<b>(351 246)</b>	<b>(682 988)</b>	<b>(331 932)</b>

## 9) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Impairment losses on loans and advances to customers	(320 705)	(201 229)	(217 414)	(151 191)
Impairment charges on loans and advances to customers	(906 546)	(407 395)	(546 219)	(311 130)
Reversal of impairment charges on loans and advances to customers	560 729	195 382	315 043	150 857
Amounts recovered from loans written off	25 087	10 783	12 389	7 173
Sale of receivables	(16)	(16)	1 447	1 447
Other directly recognised in profit and loss	41	17	(74)	462
Impairment losses on securities	50	50	(6)	(6)
Impairment charges on securities	0	0	(6)	(6)
Reversal of impairment charges on securities	50	50	0	0
Impairment losses on off-balance sheet liabilities	(2 979)	(890)	240	(2 889)
Impairment charges on off-balance sheet liabilities	(46 881)	(15 040)	(24 296)	(11 074)
Reversal of impairment charges on off-balance sheet liabilities	43 902	14 150	24 536	8 185
<b>Total</b>	<b>(323 634)</b>	<b>(202 069)</b>	<b>(217 180)</b>	<b>(154 086)</b>

## 10) CORPORATE INCOME TAX

### 10A. INCOME TAX REPORTED IN INCOME STATEMENT

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Current tax	(161 618)	(78 601)	(173 792)	(93 726)
Current year	(164 072)	(81 055)	(173 792)	(93 726)
Adjustment to previous years	2 454	2 454	0	0
Deferred tax:	47 406	24 058	40 225	32 867
Recognition and reversal of temporary differences	18 709	(4 720)	40 486	32 542
Recognition / (Utilisation) of tax loss	28 697	28 778	(261)	325
<b>Total income tax reported in income statement</b>	<b>(114 212)</b>	<b>(54 543)</b>	<b>(133 567)</b>	<b>(60 859)</b>

### 10B. EFFECTIVE TAX RATE

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Profit before tax	185 937	108 139	467 190	234 516
Statutory tax rate	19%	19%	19%	19%
Income tax according to obligatory income tax rate of 19%	(35 328)	(20 546)	(88 766)	(44 558)
<b>Impact of permanent differences on tax charges:</b>	<b>(81 338)</b>	<b>(36 451)</b>	<b>(44 801)</b>	<b>(16 301)</b>
- Non-taxable income	6 301	6 227	6 239	648
Dividend income	524	524	396	413
Release of other provisions	1 992	1 952	5 608	0
Other	3 785	3 751	235	235
- Cost which is not a tax cost	(87 639)	(42 678)	(51 040)	(16 949)
Write-down of unrealized deferred tax assets	(171)	(171)	(3 585)	0
Loss on sale of receivables	(8)	(8)	0	0
PFRON fee	(832)	(422)	(581)	(317)
Fees for Banking Guarantee Fund	(21 483)	(5 764)	(18 254)	(2 290)
Banking tax	(26 826)	(13 005)	(20 902)	(11 144)
Income/cost of provisions for factoring and leasing receivables	(335)	867	(5 249)	(1 298)
Receivables written off	(1 005)	(489)	(805)	(653)
Costs of litigations and claims	(35 447)	(23 979)	434	(245)
Depreciation and insurance costs of cars (in excess of PLN 150,000)	(811)	(386)	(1 098)	(570)
Other	(721)	679	(1 000)	(432)
Deduction of the tax paid abroad	0	0	0	0
Adjustment resulted from Article 38a of CIT	2 454	2 454	0	0
<b>Total income tax reported in income statement</b>	<b>(114 212)</b>	<b>(54 543)</b>	<b>(133 567)</b>	<b>(60 859)</b>
Effective tax rate	61.43%	50.44%	28.59%	25.95%

#### 10C. DEFERRED TAX REPORTED IN EQUITY

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Valuation of securities at fair value through other comprehensive income	(67 838)	(31 822)	(22 559)	(20 244)
Valuation of cash flow hedging instruments	6 996	1 652	5 487	5 710
Actuarial gains (losses)	628	628	628	489
Deferred tax reported directly in equity	(60 214)	(29 542)	(16 444)	(14 045)

On December 31, 2019, the Bank Millennium Tax Group (PGK) ended its legal existence. The parties of PGK (Bank Millennium S.A., Millennium Service Sp.z o.o. and Millennium Goodie Sp.z o.o.) did not extend the contract for the following years. This means that for 2020, each company accounts for corporate income tax individually.

#### Withholding tax audit for years 2015-16

On 12 February 2019 the Head of Western Pomeranian Customs & Tax Office (Zachodniopomorski Urząd Celno-Skarbowy w Szczecinie, ZUCS) commenced tax audits regarding the correctness of withholding tax (WHT) settlements for years 2015 and 2016. On 17 December 2019 the Bank received audit results as of 13 December 2019, in which ZUCS questioned WHT-exemption on coupon interest from bonds paid to MB Finance AB with the seat in Sweden constituting a collateral to 10Y subordinated bonds with a par value of EUR 150 mio. issued by this company in December 2007 (fully amortized in December 2017). WHT arrear for these years is ca. PLN 6.7 mio. Bank does not agree with these findings, did not correct its WHT settlements for years 2015-16 and tax audits transformed by the virtue of law into tax proceedings, in which ZUCS will issue its final decision. The Bank received legal expertise of 29 January 2020 from professors from the Department of Public Finance Law of the Faculty of Law and Administration of the Nicolaus Copernicus University in Toruń, in the light of which the position of ZUCS expressed in the audit results was found to be inconsistent with tax law.

## 11) FINANCIAL ASSETS HELD FOR TRADING

### 11A. FINANCIAL ASSETS HELD FOR TRADING

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>Debt securities</b>	<b>337 016</b>	<b>605 713</b>	<b>874 033</b>	<b>698 615</b>
Issued by State Treasury	337 016	605 713	874 033	698 615
a) bills	0	0	0	0
b) bonds	337 016	605 713	874 033	698 615
Other securities	0	0	0	0
a) quoted	0	0	0	0
b) non quoted	0	0	0	0
<b>Equity instruments</b>	<b>212</b>	<b>50</b>	<b>210</b>	<b>290</b>
Quoted on the active market	212	50	210	290
a) financial institutions	44	0	0	59
b) non-financial institutions	168	50	210	231
Adjustment from fair value hedge	0	0	803	2 563
Positive valuation of derivatives	141 929	189 809	111 682	95 459
<b>Total</b>	<b>479 157</b>	<b>795 572</b>	<b>986 728</b>	<b>796 927</b>

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

	Fair Values 30.06.2020			Fair Values 31.03.2020		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Interest rate derivatives	(19 419)	39 576	58 995	(5 893)	38 108	44 001
Forward Rate Agreements (FRA)	0	0	0	0	0	0
Interest rate swaps (IRS)	(19 424)	39 454	58 878	(5 875)	38 033	43 908
Other interest rate contracts: options	5	122	117	(18)	75	93
2. FX derivatives*	28 717	62 143	33 426	(55 507)	95 479	150 986
FX contracts	(1 429)	10 604	12 033	13 454	33 899	20 445
FX swaps	30 105	46 798	16 693	(62 504)	55 765	118 269
Other FX contracts (CIRS)	41	4 741	4 700	(6 457)	5 815	12 272
FX options	0	0	0	0	0	0
3. Embedded instruments	(33 188)	2 910	36 098	(45 120)	4 583	49 703
Options embedded in deposits	(32 577)	0	32 577	(43 724)	0	43 724
Options embedded in securities issued	(611)	2 910	3 521	(1 396)	4 583	5 979
4. Indexes options	35 888	37 300	1 412	49 055	51 639	2 584
<b>Total</b>	<b>11 998</b>	<b>141 929</b>	<b>129 931</b>	<b>(57 465)</b>	<b>189 809</b>	<b>247 274</b>
Valuation of hedged position in fair value hedge accounting	-	0	0	-	0	0
Liabilities from short sale of debt securities	-	-	70 298	-	-	65 675

\*Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

	Fair Values 31.12.2019			Fair Values 31.03.2019		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Interest rate derivatives	9 642	28 109	18 467	4 896	27 393	22 497
Forward Rate Agreements (FRA)	0	0	0	0	0	0
Interest rate swaps (IRS)	9 639	28 028	18 389	4 896	27 393	22 497
Other interest rate contracts: options	3	81	78	0	0	0
2. FX derivatives*	(48 269)	18 036	66 305	(54 305)	12 634	66 939
FX contracts	(15 946)	3 128	19 074	(3 153)	5 565	8 718
FX swaps	(28 682)	14 241	42 923	(47 703)	6 312	54 015
Other FX contracts (CIRS)	(3 641)	667	4 308	(3 449)	757	4 206
FX options	0	0	0	0	0	0
3. Embedded instruments	(60 944)	1 284	62 228	(51 683)	1 218	52 901
Options embedded in deposits	(55 654)	0	55 654	(44 743)	0	44 743
Options embedded in securities issued	(5 290)	1 284	6 574	(6 940)	1 218	8 158
4. Indexes options	61 294	64 253	2 959	52 387	54 214	1 827
<b>Total</b>	<b>(38 277)</b>	<b>111 682</b>	<b>149 959</b>	<b>(48 705)</b>	<b>95 459</b>	<b>144 164</b>
Valuation of hedged position in fair value hedge accounting	-	803	776	-	2 563	2 477
Liabilities from short sale of debt securities	-	-	202 265	-	-	85 590

\*Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

## 12) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>Debt securities</b>	<b>26 075 830</b>	<b>22 095 354</b>	<b>21 840 521</b>	<b>18 696 627</b>
Issued by State Treasury	25 702 392	21 315 376	20 664 511	17 622 810
a) bills	809 614	0	0	0
b) bonds	24 892 778	21 315 376	20 664 511	17 622 810
Issued by Central Bank	0	599 967	999 916	897 883
a) bills	0	599 967	999 916	897 883
b) bonds	0	0	0	0
Other securities	373 438	180 011	176 094	175 934
a) listed	373 438	180 011	176 094	175 934
b) not listed	0	0	0	0
Shares and interests in other entities	29 676	29 631	29 643	29 340
Other financial instruments	0	0	0	0
<b>Total financial assets at fair value through other comprehensive income</b>	<b>26 105 506</b>	<b>22 124 985</b>	<b>21 870 164</b>	<b>18 725 967</b>

## 13) LOANS AND ADVANCES TO CUSTOMERS

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

Balance sheet value:	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Mandatorily at fair value through profit or loss *	1 480 998	1 475 514	1 498 195	1 341 424
Companies	13 163	15 653	18 435	19 130
Individuals	1 467 759	1 459 789	1 479 645	1 322 107
Public sector	76	72	115	187
* The above data includes the fair value adjustment, in the amount of:	(109 935)	(97 070)	(84 519)	(69 637)

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

The Bank writes down the gross carrying amount of a financial asset when there is no reasonable probability that it will be fully (total writes off) or partially (partial writes off) recovered. Following the recorded partial writes off the Bank transferred to off-balance sheet evidence (deducting the carrying value of gross receivables) penalty interest amounting to PLN 543 million as at 30.06.2020.



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

	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Valued at amortised cost, as at 30.06.2020	65 201 990	3 584 639	3 488 430	(346 709)	(194 165)	(1 707 335)	70 026 850
Companies	16 215 232	1 460 172	875 337	(139 886)	(36 170)	(470 537)	17 904 148
Individuals	48 663 041	2 124 197	2 607 277	(205 500)	(157 994)	(1 235 925)	51 795 096
Public sector	323 717	270	5 816	(1 323)	(1)	(873)	327 606
Valued at amortised cost, as at 31.03.2020	66 063 173	3 147 017	3 435 785	(290 518)	(182 564)	(1 602 824)	70 570 069
Companies	17 016 034	1 390 902	884 845	(135 341)	(34 405)	(437 314)	18 684 721
Individuals	48 702 086	1 756 057	2 544 911	(153 980)	(148 159)	(1 165 174)	51 535 741
Public sector	345 053	58	6 029	(1 197)	0	(336)	349 607
Valued at amortised cost, as at 31.12.2019	63 662 781	3 216 123	3 199 909	(273 822)	(187 580)	(1 500 216)	68 117 195
Companies	16 729 589	1 420 459	858 535	(134 939)	(34 301)	(432 961)	18 406 382
Individuals	46 740 709	1 795 651	2 341 374	(138 457)	(153 279)	(1 067 255)	49 518 743
Public sector	192 483	13	0	(426)	0	0	192 070
Valued at amortised cost, as at 30.06.2019	62 294 192	3 078 389	2 938 832	(332 384)	(149 267)	(1 315 977)	66 513 785
Companies	16 198 779	1 703 703	793 265	(161 782)	(51 542)	(406 087)	18 076 336
Individuals	45 863 874	1 374 673	2 145 567	(169 809)	(97 725)	(909 890)	48 206 690
Public sector	231 539	13	0	(793)	0	0	230 759

13C. LOANS AND ADVANCES TO CUSTOMERS

	30.06.2020		31.03.2020	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	64 949 294	676 357	65 181 723	666 703
▪ to companies	11 888 949		12 480 708	
▪ to private individuals	52 922 417	676 357	52 550 494	666 703
▪ to public sector	137 928		150 521	
Receivables on account of payment cards	87 219	804 641	92 038	808 811
▪ due from companies	75	13 239	69	15 725
▪ due from private individuals	87 144	791 402	91 969	793 086
Purchased receivables	175 419		175 287	
▪ from companies	175 419		175 287	
▪ from public sector	0		0	
Guarantees and sureties realised	7 508		2 560	
Debt securities eligible for rediscount at Central Bank	3 247		3 181	
Financial leasing receivables	6 636 169		6 794 394	
Other	3 998		4 039	
Interest	412 205		392 753	
<b>Total:</b>	<b>72 275 059</b>	<b>1 480 998</b>	<b>72 645 975</b>	<b>1 475 514</b>
Impairment allowances	(2 248 209)	-	(2 075 906)	-
<b>Total balance sheet value:</b>	<b>70 026 850</b>	<b>1 480 998</b>	<b>70 570 069</b>	<b>1 475 514</b>
* The above data includes the fair value adjustment in the amount of	-	(109 935)	-	(97 070)

In 2020, the Group changed its accounting policy and allocated a part of provisions created for legal risk connected with FX mortgage loans to the loans portfolio, and an appropriate adjustment of comparable data as at December 31, 2019 presented in these financial statements has been introduced (more information on this topic is presented in **Chapter 2 “Introduction and Accounting Policy”**).

	31.12.2019		30.06.2019	
	Valued at amortised cost	Mandatorily at fair value through profit or loss *	Valued at amortised cost	Mandatorily at fair value through profit or loss *
Loans and advances	62 539 055	640 622	60 922 698	537 979
▪ to companies	11 959 871		11 748 551	
▪ to private individuals	50 432 689	640 622	48 987 316	537 979
▪ to public sector	146 495		186 830	
Receivables on account of payment cards	98 810	857 573	123 392	803 445
▪ due from companies	124	18 550	230	19 317
▪ due from private individuals	98 686	839 023	123 162	784 128
Purchased receivables	229 982		269 726	
▪ from companies	224 809		269 726	
▪ from public sector	5 173		0	
Guarantees and sureties realised	1 368		11 716	
Debt securities eligible for rediscount at Central Bank	3 595		3 255	
Financial leasing receivables	6 826 605		6 669 905	
Other	2 180		4 059	
Interest	377 218		306 662	
<b>Total:</b>	<b>70 078 813</b>	<b>1 498 195</b>	<b>68 311 413</b>	<b>1 341 424</b>
Impairment allowances	(1 961 618)	-	(1 797 628)	-
<b>Total balance sheet value:</b>	<b>68 117 195</b>	<b>1 498 195</b>	<b>66 513 785</b>	<b>1 341 424</b>
* The above data includes the fair value adjustment in the amount of	-	(84 519)	-	(69 637)

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

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Loans and advances to customers (gross)	72 275 059	72 645 975	70 078 813	68 311 413
impaired	3 488 430	3 435 785	3 199 909	2 938 832
not impaired	68 786 629	69 210 190	66 878 904	65 372 581
Impairment write-offs	(2 248 209)	(2 075 906)	(1 961 618)	(1 797 628)
for impaired exposures	(1 707 335)	(1 602 824)	(1 500 216)	(1 315 977)
for not impaired exposures	(540 874)	(473 082)	(461 402)	(481 651)
<b>Loans and advances to customers (net)</b>	<b>70 026 850</b>	<b>70 570 069</b>	<b>68 117 195</b>	<b>66 513 785</b>

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

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Loans and advances to customers (gross)	72 275 059	72 645 975	70 078 813	68 311 413
case by case analysis	859 130	873 253	832 630	753 528
collective analysis	71 415 929	71 772 722	69 246 183	67 557 885
Impairment allowances	(2 248 209)	(2 075 906)	(1 961 618)	(1 797 628)
on the basis of case by case analysis	(368 829)	(352 566)	(348 300)	(360 633)
on the basis of collective analysis	(1 879 380)	(1 723 340)	(1 613 318)	(1 436 995)
<b>Loans and advances to customers (net)</b>	<b>70 026 850</b>	<b>70 570 069</b>	<b>68 117 195</b>	<b>66 513 785</b>

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

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Loans and advances to customers (gross)	72 275 059	72 645 975	70 078 813	68 311 413
corporate customers	18 880 544	19 642 921	19 201 079	18 927 299
individuals	53 394 515	53 003 054	50 877 734	49 384 114
Impairment allowances	(2 248 209)	(2 075 906)	(1 961 618)	(1 797 628)
for receivables from corporate customers	(648 790)	(608 593)	(602 627)	(620 204)
for receivables from private individuals	(1 599 419)	(1 467 313)	(1 358 991)	(1 177 424)
<b>Loans and advances to customers (net)</b>	<b>70 026 850</b>	<b>70 570 069</b>	<b>68 117 195</b>	<b>66 513 785</b>

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

	01.01.2020 - 30.06.2020	01.01.2020 - 31.03.2020	01.01.2019 - 31.12.2019	01.01.2019 - 30.06.2019
Balance at the beginning of the period	1 961 618	1 961 618	1 758 867	1 758 867
Change in value of allowances:	286 591	114 288	202 751	38 761
Impairment allowances created in the period	906 546	499 151	1 194 987	546 219
Amounts written off	(96 140)	(52 968)	(302 480)	(205 513)
Impairment allowances released in the period	(560 729)	(365 347)	(754 495)	(315 043)
Sale of receivables	0	0	0	0
KOIM created in the period*	19 260	9 375	45 900	11 577
Changes resulting from FX rates differences	14 398	21 447	5 179	(7)
Other	3 256	2 630	13 661	1 528
<b>Balance at the end of the period</b>	<b>2 248 209</b>	<b>2 075 906</b>	<b>1 961 618</b>	<b>1 797 628</b>

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

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

The value of POCI assets is as follows:

	Gross balance sheet value	Accumulated impairment	Net balance sheet value
<b>30.06.2020</b>			
- Companies	101	(23)	78
- Individuals	448 650	(47 659)	400 991
- Public sector	0	0	0
<b>31.03.2020</b>			
- Companies	101	(23)	78
- Individuals	501 536	(45 914)	455 622
- Public sector	0	0	0
<b>31.12.2019</b>			
- Companies	101	(23)	78
- Individuals	523 989	(45 236)	478 753
- Public sector	0	0	0
<b>30.06.2019</b>			
- Companies	101	(23)	78
- Individuals	551 185	(1 700)	549 485
- Public sector	0	0	0

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

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
in Polish currency	53 441 206	52 692 601	51 524 094	49 327 730
in foreign currencies (after conversion to PLN)	18 833 853	19 953 374	18 554 719	18 983 683
currency: USD	183 518	240 542	106 179	200 645
currency: EUR	3 657 369	3 971 202	3 816 004	3 739 349
currency: CHF	14 988 047	15 733 235	14 623 768	15 035 211
other currencies	4 919	8 395	8 768	8 478
<b>Total gross</b>	<b>72 275 059</b>	<b>72 645 975</b>	<b>70 078 813</b>	<b>68 311 413</b>

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

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

30.06.2020	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	43 883	0	0	(4)	0	0	43 879
Deposits, loans and advances to banks and other monetary institutions	875 837	0	0	0	0	0	875 837
Repurchase agreements	65 376	0	0	0	0	0	65 376

31.03.2020	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	48 409	0	0	(54)	0	0	48 355
Deposits, loans and advances to banks and other monetary institutions	2 018 927	0	0	0	0	0	2 018 927
Repurchase agreements	111 943	0	0	0	0	0	111 943

31.12.2019	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	48 207	0	0	(54)	0	0	48 153
Deposits, loans and advances to banks and other monetary institutions	784 277	0	0	0	0	0	784 277
Repurchase agreements	205 439	0	0	0	0	0	205 439

30.06.2019	Balance sheet value, gross			Accumulated impairment allowances			Balance sheet value, net
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	56 907	0	0	(26)	0	0	56 881
Deposits, loans and advances to banks and other monetary institutions	711 658	0	0	(16)	0	0	711 642
Repurchase agreements	73 659	0	0	0	0	0	73 659

#### 14B. DEBT SECURITIES

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
credit institutions	0	0	0	0
other companies	0	0	0	0
public sector	43 879	48 355	48 153	56 881
Total	43 879	48 355	48 153	56 881

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

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Current accounts	252 895	289 856	213 459	259 431
Deposits	622 476	1 728 445	570 036	450 911
Interest	466	626	782	1 316
Total (gross) deposits, loans and advances	875 837	2 018 927	784 277	711 658
Impairment allowances	0	0	0	(16)
Total (net) deposits, loans and advances	875 837	2 018 927	784 277	711 642

#### 14D. REPURCHASE AGREEMENTS

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
credit institutions	65 376	88 326	90 707	73 653
other customers	0	23 614	114 718	0
interest	0	3	14	6
Total	65 376	111 943	205 439	73 659

## 15) DERIVATIVES - HEDGE ACCOUNTING

### 15A. HEDGE RELATIONS

Detailed information on cash flow hedge relations applied by the Group, items designated as hedged and hedging and presentation of the result (as at 30.06.2020) is shown in a table below:

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

	Hedge of the volatility of cash flows generated by the portfolio of issued PLN liabilities	Cash flow volatility hedge due to future income and interest costs denominated in foreign currencies
Description of hedge transactions	The Group hedges the risk of fluctuations in cash flows generated by issued PLN liabilities. The volatility of cash flows results from interest rate risk.	The Group hedges the risk of the volatility of cash flows generated by income and interest costs denominated in foreign currencies. The volatility of cash flows results from the currency risk.
Hedged items	Cash flow resulting from the portfolio of issued zloty liabilities.	Cash flows resulting from income and interest costs denominated in foreign currencies.
Hedging instruments	IRS transactions	FX position resulting from recognized future leasing liabilities.
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on both the hedged and the hedging instruments are recognised in net interest income. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.	The effective part of the spot revaluation of hedging instruments is recognized in the revaluation reserve. The ineffective part of the valuation of the hedging item is recognized in the income statement as a result on instruments measured at fair value through profit and loss.



	Hedge of the volatility of cash flows generated by the portfolio of floating-rate foreign currency mortgage loans	Fair value hedge of a fixed interest rate debt instrument
Description of hedge transactions	The Group hedges the currency risk and interest rate risk of cash flows for a portion of the period - over the time horizon of hedging transactions - from floating-rate loans in a foreign currency by converting interest rate flows in foreign currency into zloty flows.	The Group hedges part of the interest rate risk associated with the change in the fair value of a fixed-rate debt instrument recorded in other comprehensive income, resulting from fluctuations in market interest rate.
Hedged items	Cash flow resulting from the portfolio foreign currency mortgage loans	A portfolio of fixed coupon debt securities classified as financial assets measured at fair value through other comprehensive income denominated in PLN.
Hedging instruments	FX Swap transactions	IRS transactions
Presentation of the result on the hedged and hedging transactions	Effective part of the valuation of hedging instruments is recognised in revaluation reserve; interest on hedging instruments (swap points settled) are recognised in the interest margin. Ineffective part of the valuation of hedging instruments is recognized in the income statement as a result on instruments measured at fair value through profit and loss.	The result on the change in the fair value measurement of hedged items in the hedged risk is referred to the result on hedge accounting. The remaining part of the change in fair value measurement is recognized in other comprehensive income. Interest on debt securities is recognized in net interest income. The change in fair value measurement of derivative instruments being a hedge is presented in the result on hedge accounting, and interest on these instruments is recognized in the interest result.

#### 15B. HEDGE ACCOUNTING - BALANCE SHEET VALUATION

	Fair values 30.06.2020			Fair values 31.03.2020		
	Total	Total	Total	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate						
CIRS contracts	(554 601)	86 775	641 376	(1 189 792)	0	1 189 792
IRS contracts	0	0	0	0	0	0
FXS contracts	(18 755)	0	18 755	(46 739)	22 195	68 934
2. Derivatives used as interest rate hedges related to interest rates						
IRS contracts	(17 912)	0	17 912	(18 998)	0	18 998
3. Total hedging derivatives	(591 268)	86 775	678 043	(1 255 529)	22 195	1 277 724

	Fair values 31.12.2019			Fair values 30.06.2019		
	Total	Assets	Liabilities	Total	Assets	Liabilities
1. Derivative instruments constituting cash flow hedges related to interest rate and/or exchange rate						
CIRS contracts	(380 312)	37 641	417 953	(233 513)	95 779	329 291
IRS contracts	4 732	4 732	0	2 185	3 665	1 480
FXS contracts	56	786	730	(3 224)	420	3 644
2. Derivatives used as interest rate hedges related to interest rates						
IRS contracts	(8 164)	0	8 164	(4 861)	0	4 861
3. Total hedging derivatives	(383 688)	43 159	426 847	(239 412)	99 864	339 276

## 16) IMPAIRMENT WRITE-OFFS FOR SELECTED ASSETS

Impairment write-offs:	Investment securities	Property, plant and equipment	Intangibles	Non-current assets held for sale	Other assets
As at 01.01.2020	5 058	8 875	3 988	136	12 812
- Write-offs created	0	0	0	0	22 316
- Write-offs released	(50)	0	0	0	(16 859)
- Utilisation	0	0	0	0	(180)
- Other	0	(123)	0	0	0
As at 30.06.2020	5 008	8 752	3 988	136	18 089
As at 01.01.2020	5 058	8 875	3 988	136	12 812
- Write-offs created	0	0	0	0	10 176
- Write-offs released	0	0	0	0	(8 412)
- Utilisation	0	0	0	0	(59)
- Other	0	0	0	0	0
As at 31.03.2020	5 058	8 875	3 988	136	14 517
As at 01.01.2019	5 024	8 754	3 988	136	8 126
- Write-offs created	34	121	0	0	24 194
- Write-offs released	0	0	0	0	(22 998)
- Utilisation	0	0	0	0	(3 844)
- Other	0	0	0	0	7 334
As at 31.12.2019	5 058	8 875	3 988	136	12 812
As at 01.01.2019	5 024	8 754	3 988	136	8 126
- Write-offs created	6	0	0	0	7 897
- Write-offs released	0	0	0	0	(6 595)
- Utilisation	0	0	0	0	(95)
- Other	0	0	0	0	(1 783)
As at 31.03.2019	5 029	8 754	3 988	136	7 550

## 17) DEFERRED INCOME TAX ASSETS AND LIABILITY

	30.06.2020			31.03.2020		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	49 604	(17 360)	32 244	75 354	(26 371)	48 983
Balance sheet valuation of financial instruments	128 652	(137 134)	(8 482)	261 022	(259 613)	1 409
Unrealised receivables/ liabilities on account of derivatives	13 284	(16 782)	(3 498)	12 927	(16 051)	(3 124)
Interest on deposits and securities to be paid/ received	38 250	(57 052)	(18 802)	33 777	(56 038)	(22 261)
Interest and discount on loans and receivables	0	(80 489)	(80 489)	1	(76 799)	(76 798)
Income and cost settled at effective interest rate	175 697	(4 590)	171 107	171 661	(1 080)	170 581
Impairment of loans presented as temporary differences	417 414	0	417 414	394 401	0	394 401
Employee benefits	22 468	0	22 468	22 987	0	22 987
Rights to use	7 722	0	7 722	7 530	0	7 530
Provisions for future costs	17 949	0	17 949	21 735	0	21 735
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	7 796	(68 010)	(60 214)	2 449	(31 991)	(29 542)
Tax loss deductible in the future	38 040	0	38 040	9 262	0	9 262
Other	3 706	(1 326)	2 380	2 967	(4 205)	(1 238)
Net deferred income tax asset	920 582	(382 743)	537 839	1 016 073	(472 148)	543 925

	31.12.2019			30.06.2019		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	77 167	(3 807)	73 360	95 491	(4 878)	90 613
Balance sheet valuation of financial instruments	83 451	(106 714)	(23 263)	55 869	(78 862)	(22 993)
Unrealised receivables/ liabilities on account of derivatives	13 753	(20 117)	(6 364)	9 468	(18 315)	(8 847)
Interest on deposits and securities to be paid/ received	34 958	(60 770)	(25 812)	26 849	(39 772)	(12 923)
Interest and discount on loans and receivables	2	(74 142)	(74 140)	2 516	(107 910)	(105 394)
Income and cost settled at effective interest rate	180 305	(1 251)	179 054	191 231	(1 239)	189 992
Impairment of loans presented as temporary differences	363 612	0	363 612	347 378	0	347 378
Employee benefits	21 366	0	21 366	16 223	0	16 223
Rights to use	6 347	(33)	6 314	6 468	(2 182)	4 286
Provisions for future costs	22 361	0	22 361	31 479	0	31 479
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	6 121	(22 565)	(16 444)	29 261	(21 390)	7 871
Tax loss deductible in the future	9 343	0	9 343	1 058	0	1 058
Other	3 519	(1 388)	2 131	(21 688)	(4 687)	(26 375)
Net deferred income tax asset	822 305	(290 787)	531 518	791 603	(279 235)	512 366

## 18) LIABILITIES TO BANKS AND OTHER MONETARY INSTITUTIONS

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
In current account	53 609	36 149	91 893	132 727
Term deposits	221 339	262 290	320 346	560 979
Loans and advances received	1 150 893	1 214 447	1 162 366	1 210 079
Interest	3 921	3 655	4 243	4 478
Total	1 429 762	1 516 541	1 578 848	1 908 263

## 19) LIABILITIES TO CUSTOMERS

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Amounts due to private individuals	63 436 308	63 328 296	61 091 901	57 638 442
Balances on current accounts	49 654 092	46 610 922	43 720 046	39 114 584
Term deposits	13 528 393	16 461 371	17 138 725	18 197 296
Other	157 412	147 482	125 991	222 265
Accrued interest	96 411	108 521	107 139	104 297
Amounts due to companies	20 347 830	17 942 285	18 250 129	15 462 379
Balances on current accounts	13 217 391	10 433 235	9 640 221	7 333 724
Term deposits	6 725 350	7 134 142	8 172 004	7 707 405
Other	384 978	349 078	410 116	396 478
Accrued interest	20 111	25 830	27 788	24 772
Amounts due to public sector	2 470 487	2 313 019	2 112 735	3 726 990
Balances on current accounts	2 125 809	1 821 998	1 776 813	1 341 117
Term deposits	337 793	482 573	327 891	2 379 137
Other	6 398	7 477	7 692	4 100
Accrued interest	487	971	339	2 636
<b>Total</b>	<b>86 254 625</b>	<b>83 583 600</b>	<b>81 454 765</b>	<b>76 827 811</b>

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

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
to the Central Bank	0	0	0	0
to banks	0	1 055 588	90 706	20 988
to customers	0	0	0	0
interest	0	715	7	2
<b>Total</b>	<b>0</b>	<b>1 056 303</b>	<b>90 712</b>	<b>20 990</b>

## 21) CHANGE OF DEBT SECURITIES

	01.01.2020 - 30.06.2020	01.01.2020 - 31.03.2020	01.01.2019 - 31.12.2019	01.01.2019 - 30.06.2019
Balance at the beginning of the period	1 183 232	1 183 232	809 679	809 679
Increases, on account of:	10 167	6 807	840 801	805 631
issue of Banking Securities	488	762	233 810	214 985
Purchase of Euro Bank S.A. bonds	0	0	506 056	506 056
issue of bonds by the Bank	0	0	0	0
issue of bonds by the Millennium Leasing	0	0	74 750	74 750
interest accrual	9 679	6 045	26 185	9 840
Reductions, on account of:	(426 382)	(88 999)	(467 248)	(145 320)
repurchase of Banking Securities	(62 443)	(33 910)	(100 594)	(65 578)
repurchase of Euro Bank S.A. bonds	0	0	(250 000)	0
repurchase of bonds by the Bank	(299 440)	0	0	(117)
repurchase of bonds by the Millennium Leasing	(52 670)	(52 670)	(84 770)	(63 770)
interest payment	(11 829)	(2 419)	(31 884)	(15 855)
<b>Balance at the end of the period</b>	<b>767 017</b>	<b>1 101 040</b>	<b>1 183 232</b>	<b>1 469 990</b>

## 22) CHANGE OF SUBORDINATED DEBT

	01.01.2020 - 30.06.2020	01.01.2020 - 31.03.2020	01.01.2019 - 31.12.2019	01.01.2019 - 30.06.2019
Balance at the beginning of the period	1 546 205	1 546 205	701 883	701 883
Increases, on account of:	30 499	15 586	991 066	958 724
issue of subordinated bonds	0	0	830 000	830 000
Merger with Euro Bank S.A.	0	0	100 130	100 130
interest accrual	30 499	15 586	60 936	28 594
Reductions, on account of:	(31 466)	(17 113)	(146 744)	(14 276)
Settlement of subordinated debt of Euro Bank S.A.	0	0	(100 000)	0
interest payment	(31 466)	(17 113)	(46 744)	(14 276)
<b>Balance at the end of the period</b>	<b>1 545 238</b>	<b>1 544 678</b>	<b>1 546 205</b>	<b>1 646 331</b>

During 2019 and 2020 the Group did not have any delays in the payment of principal and interest instalments, nor did it infringe any contractual provisions resulting from its subordinated liabilities.

## 23) PROVISIONS

### 23A. PROVISIONS

	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Provision for commitments and guarantees given	56 655	55 905	53 393	52 190
Provision for pending legal issues	225 982	156 261	111 785	56 145
Provisions for COVID-19*	0	60 000	0	0
<b>Total</b>	<b>282 637</b>	<b>272 166</b>	<b>165 178</b>	<b>108 335</b>

\* Considering the high uncertainty about the impact of COVID-19 on the behavior of loan portfolios of the Group (including the impact of economic slowdown and assistance programs), the Group decided to create in the I quarter of 2020 an additional provision of PLN 60 million to cover the risk arising from the epidemic situation and its impact on the economy. In the 2<sup>nd</sup> Quarter 2020, that provision was allocated to credit exposures through application of a more negative macroeconomic environment in forward looking information that is reflected in impairment parameters.

### 23B. CHANGE OF PROVISION FOR COMMITMENTS AND GUARANTEES GIVEN

	01.01.2020 - 30.06.2020	01.01.2020 - 31.03.2020	01.01.2019 - 31.12.2019	01.01.2019 - 30.06.2019
Balance at the beginning of the period	53 393	53 393	51 742	51 742
Charge of provision	46 881	31 841	71 253	24 296
Release of provision	(43 902)	(29 752)	(70 312)	(24 536)
Merger with Euro Bank S.A.	0	0	745	745
FX rates differences	283	423	(35)	(57)
<b>Balance at the end of the period</b>	<b>56 655</b>	<b>55 905</b>	<b>53 393</b>	<b>52 190</b>

### 23C. CHANGE OF PROVISION FOR PENDING LEGAL ISSUES

	01.01.2020 - 30.06.2020	01.01.2020 - 31.03.2020	01.01.2019 - 31.12.2019	01.01.2019 - 30.06.2019
Balance at the beginning of the period	111 785	111 785	60 710	60 710
Charge of provision	12 561	1 131	7 913	2 344
Release of provision	(10 484)	(210)	(14 332)	(3 819)
Utilisation of provision	(489)	(489)	(27 875)	(4 873)
Creation of provisions for legal risk connected with FX mortgage loans	168 019	55 325	223 134	0
Allocation to the loans portfolio*	(61 906)	(23 475)	(139 548)	0
Reclassification	0	0	1 783	1 783
FX differences	6 496	12 194	0	0
<b>Balance at the end of the period</b>	<b>225 982</b>	<b>156 261</b>	<b>111 785</b>	<b>56 145</b>

\* In 2020, the Group changed its accounting policy and allocated a part of provisions created for legal risk connected with FX mortgage loans to the loans portfolio, and an appropriate adjustment of comparable data as at December 31, 2019 presented in these financial statements has been introduced (more information on this topic is presented in **Chapter 2 "Introduction and Accounting Policy"**).

As at 30.06.2020 the Group created provision of PLN 12.5 million in relation to court cases related to the low down payment insurance.

## 5. Changes in Risk Management process

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

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

### Credit risk

In the second quarter of 2020 the Group, both in the corporate and retail segments, focused on implementation of several initiatives in order to mitigate negative impacts of COVID-19 outbreak. At first stage of the crisis the measures were focused on providing remote work opportunity for all operational teams involved in risk management, preparation of set of deep analyses in order to better understand the characteristics of the crisis and its impact on economy and consequently on quality of portfolio. As a result of analytical works the Group implemented several changes in the Credit Policy which were targeted on assurance of proper quality of portfolio under new more demanding economic environment e.g.:

- implementation of more prudent Credit Policy rules for populations of customers with high sensitivity on negative economic evolutions: higher level of collateralisation, change of balance between automatic / analyst decision
- implementation of customer's supportive measures including credit holidays up to 6 months, in line with the non-legislative moratorium that was developed under the auspices of the Polish Bank Association under arrangements with banks-members of the Polish Bank Association and notified to EBA
- take advantage of usage of governmental supporting programs e.g. new BGK programs: de minimis and liquidity credit guarantees, PFR support funds.

In order to address all the potential negative evolutions which could impact the quality of portfolio the Group extended the scope and increased frequency of portfolio monitoring. Weekly review of all key elements impacting quality of portfolio and set of analyses related to the future evolution of cost of risk allows to better understand the crisis impacts on each of elements determining the quality of portfolio and to quickly react on unfavourable changes.

Implementation of supporting measures especially credit holidays created additional element of uncertainty in the credit risk management. The Group is preparing several activities in the Collection area which will allow for quick and appropriate reaction when the credit holidays period will end.

In the area of credit risk, in the first half of 2020, the Group initially worked on improving of credit risk management tools and processes, while since the appearance of the COVID-19 pandemic, the Group has focused on adapting regulations, credit processes and monitoring to changed conditions, in particular on:

- adjusting the credit policy to the market situation;
- updating the industry risk classification and industry limits.



The outbreak of the COVID-19 pandemic led the Group to take several risk measures. In the corporate segment, credit holidays have been implemented for customers who may have temporary problems. The Group has focused on portfolio and industry analyses to identify major risks, namely focusing on the clients with the highest exposures and on the economic sectors more exposed to impacts of the COVID-19 pandemic. The other area of Bank's interest was analyses of legal regulations, as well as adaptation of internal regulations, credit processes and monitoring to changed conditions, including also the broad range of support measures announced by the local authorities.

In the retail segment, credit holidays have been implemented for customers who may have temporary problems arising from the COVID-19 pandemic. At the same time, changes to the lending policy have been implemented that respond to changing market conditions. In order to limit the potential increase in risk, the Bank introduced the obligation of additional collateral for selected loan transactions (this applies, in particular, to the segment of micro-enterprises); increased requirements for confirming the stability of income sources, and more frequently processed cases in the non-automatic path with the participation of a credit analyst. In addition, changes to the process have been implemented to improve the quality of the retail transaction risk assessment process while maintaining the existing credit policy.

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

Changes in the loan portfolio of the Group after 6 months of 2020 are summarized below:

	30.06.2020		31.12.2019	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	68 441 361	875 837	66 147 204	784 277
Overdue*, but without impairment	1 838 382	0	2 377 686	0
<b>Total without impairment</b>	<b>70 279 743</b>	<b>875 837</b>	<b>68 524 890</b>	<b>784 277</b>
With impairment	3 586 249	0	3 276 185	0
<b>Total</b>	<b>73 865 992</b>	<b>875 837</b>	<b>71 801 075</b>	<b>784 277</b>
Impairment write-offs	(2 248 209)	0	(1 961 617)	0
Fair value adjustment**	(109 935)	0	(84 519)	0
<b>Total, net</b>	<b>71 507 848</b>	<b>875 837</b>	<b>69 754 938</b>	<b>784 277</b>
Loans with impairment / total loans	4.86%	0.00%	4.56%	0.00%

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

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

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

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Number of obligors	TOTAL	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	85 398	8 747 934		
Loans and advances subject to moratorium (granted)	85 334	8 600 294	8 600 294	990 808
of which: Households		6 847 398	6 847 398	420 761
of which: Collateralised by residential immovable property		5 090 234	5 090 234	352 670
of which: Non-financial corporations		1 752 896	1 752 896	570 047
of which: Small and Medium-sized Enterprises		905 005	905 005	281 396
of which: Collateralised by commercial immovable property		114 071	114 071	197

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, Gross carrying amount	Residual maturity of moratoria				
	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances subject to moratorium (granted)	4 151 937	3 457 549	0	0	0
of which: Households	3 391 745	3 034 893	0	0	0
of which: Collateralised by residential immovable property	2 558 759	2 178 804	0	0	0
of which: Non-financial corporations	760 193	422 656	0	0	0
of which: Small and Medium-sized Enterprises	441 677	181 932	0	0	0
of which: Collateralised by commercial immovable property	107 872	6 003	0	0	0

Loans and advances subject to legislative and non-legislative moratoria, Gross carrying amount	TOTAL	Performing		
			Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	8 600 294	8 442 123	6 770 103	487 694
of which: Households	6 847 398	6 710 310	6 710 310	217 854
of which: Collateralised by residential immovable property	5 090 234	4 987 853	4 987 853	176 320
of which: Non-financial corporations	1 752 896	1 731 813	59 792	269 840
of which: Small and Medium-sized Enterprises	905 005	893 912	28 113	127 399
of which: Collateralised by commercial immovable property	114 071	113 925	8 362	0

Loans and advances subject to legislative and non-legislative moratoria,  Gross carrying amount	Non performing			Inflows to non-performing exposures
		Of which: grace period of capital and interest	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
Loans and advances subject to moratorium	158 170	137 535	137 233	10 208
of which: Households	137 088	137 088	136 786	10 058
<i>of which: Collateralised by residential immovable property</i>	102 381	102 381	102 381	6 419
of which: Non-financial corporations	21 083	447	447	151
<i>of which: Small and Medium-sized Enterprises</i>	11 093	0	0	0
<i>of which: Collateralised by commercial immovable property</i>	146	146	146	0

Information on loans and advances subject to legislative and non-legislative moratoria,  Accumulated impairment	TOTAL	Performing Accumulated impairment	Performing	
			Of which: grace period of capital and interest	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	(130 109)	(81 280)	(68 555)	(18 040)
of which: Households	(109 886)	(65 876)	(65 876)	(12 237)
<i>of which: Collateralised by residential immovable property</i>	(57 798)	(23 601)	(23 601)	(8 749)
of which: Non-financial corporations	(20 222)	(15 404)	(2 679)	(5 802)
<i>of which: Small and Medium-sized Enterprises</i>	(11 080)	(8 683)	(1 278)	(3 344)
<i>of which: Collateralised by commercial immovable property</i>	(1 229)	(1 181)	(48)	0

Information on loans and advances subject to legislative and non-legislative moratoria,  Accumulated impairment	Non performing		
	Non performing Accumulated impairment	Of which: grace period of capital and interest	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	(48 828)	(44 301)	(44 157)
of which: Households	(44 010)	(44 010)	(43 867)
<i>of which: Collateralised by residential immovable property</i>	(34 196)	(34 196)	(34 196)
of which: Non-financial corporations	(4 818)	(290)	(290)
<i>of which: Small and Medium-sized Enterprises</i>	(2 398)	0	0
<i>of which: Collateralised by commercial immovable property</i>	(48)	(48)	(48)

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Gross carrying amount		Gross carrying amount
	TOTAL	of which: forborne	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	121 142	0	0
of which: Households	0		0
of which: Collateralised by residential immovable property	0		0
of which: Non-financial corporations	121 142	0	0
of which: Small and Medium-sized Enterprises	19 443		0
of which: Collateralised by commercial immovable property	0		0

## Market risk

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

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

The market risk limits are revised at least once a year and in order to take into account, inter alia, the change of the consolidated Own Funds, current and projected balance sheet structure as well as the market environment. The current limits in place have been valid since 1st January 2020.

Within the current market environment, the Group continued to act very prudently. The strong market volatility in connection with the global COVID-19 pandemic resulted in increase of the Group's market and interest rate risk. In 1H2020, none of the established market risk limits were breached - neither for the total Group nor for the Banking Book and Trading Book separately.

Open positions contain mainly interest rate and FX risk instruments. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows to keep FX open positions only in Trading Book. In the 1H2020, the FX Total open position (Intraday as well as Overnight) remained below 2% of Own Funds and well below the maximum limits in place.

The VaR indicators in the period under consideration for the Group, that is jointly Trading Book and Banking Book, increased due to market volatility caused by the COVID-19 pandemic but still were below maximum limits in place. In 1 H 2020, the VaR remained on average at the level of approx. PLN 63.8 m for the Group (26% of the limit) and at approx. PLN 2.4 m for Trading Book (8 % of the limit). Similarly, as of the end of June 2020 the market risk exposure was approx. PLN 68.5 m for Global Bank (27% of the limit) and approx. PLN 1.5 m for Trading Book (5% of the limit).

The market risk exposure in 1H2020 in terms of value at risk for Trading Book, together with risk type division, is presented in the table below (PLN thousands).

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

	30.06.2020		VaR (1H 2020)			31.12.2019	
	Exposure	Limit usage	Average	Maximum	Minimum	Exposure	Limit usage
<b>Total risk</b>	<b>1 470</b>	<b>5%</b>	<b>2 449</b>	<b>5 428</b>	<b>762</b>	<b>2 455</b>	<b>8%</b>
Generic risk	1 468	5%	2 446	5 426	759	2 452	8%
Interest Rate VaR	1 429	5%	2 433	5 440	758	2 451	8%
FX Risk	164	2%	130	1 524	11	11	0%
Diversification Effect	8.5%					0.4%	
Specific risk	2	0%	2	2	2	2	0%

In addition to above mention market risk limits, the stop loss limits are introduced for the financial markets portfolios. The aim is to limit the maximum losses of the trading activity of the Group. In case of the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

#### Interest rate risk in Banking Book (IRRBB)

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

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

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

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

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

The results of COVID-19 pandemic and its highly negative impact on the economic environment, as well as the reductions of the reference rates by the Monetary Policy Council at its meetings on 17<sup>th</sup> March and 8<sup>th</sup> April 2020 and 28<sup>th</sup> May 2020 will have a negative impact on the activity and financial results of Group. Before above mentioned three interest rate cuts, the NBP Reference rate was set at 1.5%, so that the maximum interest rate for loan portfolio could not exceed 10% annually. On March the maximum interest rate dropped immediately to 9%, in April to 8% and in May to 7.2%.

As already disclosed on the Current Reports published on 14<sup>th</sup> April and 2<sup>nd</sup> June 2020, the above-mentioned decisions of the Monetary Policy Council to reduce interest rates to its historical minimum (decrease reference rate to 0.1% and the Lombard rate to 0,50%) as well as the decision regarding change in the parameters of the obligatory requirement, altogether may have a negative impact on the Group's net interest income between PLN 245 million and PLN 280 million until year-end 2020. The actual impact may vary and will largely depend on achieved business results, changes in the cost of financing and other offsetting measures.

When it comes to impact of interest rate changes to economic value in the long term, the supervisory stress tests results as of 30<sup>th</sup> June 2020 show that even under the most severe outlier test scenario, the decline of EVE for Banking Book is far below supervisory limit of 15% of Tier 1. Similarly, decline of EVE under standard scenario of sudden parallel +/-200 basis points shift of the yield curve also stayed far below supervisory maximum of 20% of Own Funds.

### Liquidity risk

The liquidity risk measurement, monitoring and reporting is carried out daily with the use of both measures defined by the supervisory authorities and internally, for which limits were established. In 1H 2020, the pandemic has an impact on global financial markets resulting in depreciation of Polish Zloty, limited confidence among market participants through decrease in financing possibilities as well as a sharp decline in activity on the treasury securities market. Despite COVID-19's implications observed in the market mentioned above, the Bank did not observe any threat to its liquidity position due to the spread of COVID-19. The Group continued to be characterized by solid liquidity position. All the supervisory and internal liquidity indicators still remained significantly above minimum limits in place. The steps taken as part of standard and binding risk management procedures have proved sufficient for managing liquidity in the current market environment.

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

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

The strong market volatility in connection with the global COVID-19 pandemic resulted in Polish Zloty depreciation. The immediate effect of the appreciation of the Swiss franc for the Bank is to place additional deposits as collateral with its counterparties. The collateral needs were partially covered by the increase of total deposits (both secured and unsecured) and by liquidating part of unencumbered liquidity assets.

In 1H2020, the increase of the deposits from Customers at the faster pace than loans, allowed the Group to maintained Loan-to-Deposit ratio well below 100%. This ratio was equalled 83% at the end of June 2020 (86% at the end of December 2019). The Group continue the policy of investing the liquidity surplus in the portfolio of liquid assets, especially in the debt securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) of which the share in total debt securities amounted to 99% at the end of June 2020. During 1H 2020 this portfolio increased to the level of approx. PLN 26.0 billion at the end of June 2020 (25% of total assets) from PLN 22.7 billion at the end of December 2019 (23% of total assets). The increase was connected mainly with decision of the Monetary Policy Council to decrease the obligatory reserve requirement over deposits from 3.5% to 0.5% that allowed the Group to release approx. PLN 2.5 billion and reinvest it in debt securities. Those assets are Central Bank eligible and are characterized with high liquidity and can be easily used as collateral or sold without material loss on its value. The portfolio, supplemented by the cash and exposures to the National Bank of Poland, is treated as the Group's liquidity reserve, which can overcome crisis situations.

Main liquidity ratios	30.06.2020	31.12.2019
Loans/Deposits ratio (%)	83%	86%
Liquid assets portfolio (PLN million) *	26 207	22 795
Liquidity Coverage requirement, LCR (%)	202%	171%

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

Total Clients' deposits of the Group reached the level of PLN 86.3 billion (PLN 81.5 billion at the end of December 2019). The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits amounted to approx. 73.5% at the end of June 2020 (75.0% at the end of December 2019). 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 medium-term loans, subordinated debt and own bonds issue.

The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 1H2020. However, in case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Group maintains the reserves of liquid assets in the form of securities portfolio as described above.

According to the Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group is daily calculating the liquidity coverage requirement (LCR). The regulatory minimum of 100% for LCR requirement was fulfilled by the Group. The LCR reached the level of 202% at the end of June 2020 (171% at the end of December 2019). The increased of LCR was mainly caused by growth of liquid assets portfolio, as explained above.

In 1 H 2020, the Group also regularly calculated net stable funding requirement (NSFR). In each of the quarter, the NSFR was above planned supervisory minimum of 100% (supervisory minimum will be valid in 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 1H 2020 all the liquidity gaps were maintained at the levels significantly above the minimum limits.



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

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

### **Operational risk**

In the first half of 2020 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with legal provisions in force and the best practice of national and international financial institutions.

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

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

In the first half of 2020 the registered level of operational risk losses was at the acceptable level.

### **Capital management**

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

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

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

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

The Bank and the Group are obliged by law to meet minimum own funds requirements, set in art. 92 of the EU Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending EU Regulation No. 648/2012 (CRR). At the same time, the following levels, recommendations and buffers were included in capital limits/targets setting:

- Pillar II FX mortgage buffer (RRE FX) - KNF recommendation to maintain additional own funds for the coverage of additional capital requirements in order to secure the risk resulting from FX mortgage loans granted to households, in line with art. 138.1.2a of Banking Act. At present, the buffer was set by KNF in recommendations issued in November 2019 in the level of 4.96 p.p. (the Bank) and 4.87 p.p. (the Group) as for Total Capital Ratio (TCR), which corresponds to capital requirements for Tier 1 ratio of 3.72 p.p. (the Bank) and of 3.65 p.p. (the Group), and which corresponds to capital requirements for CET 1 ratio of 2.78 p.p. (the Bank) and 2.72 p.p. (the Group);



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

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

Capital adequacy	30.06.2020	31.03.2020	30.06.2019
Risk-weighted assets	50,007.1	50,675.0	47,048.1
Own Funds requirements, including:	4,000.6	4,054.0	3,763.8
- Credit risk and counterparty credit risk	3,584.5	3,642.0	3,324.5
- Market risk	28.8	24.3	19.9
- Operational risk	382.6	382.5	415.9
- Credit Valuation Adjustment CVA	4.6	5.2	3.6
Own Funds, including:	10,012.8	9,896.8	9,470.5
Common Equity Tier 1 Capital	8,482.8	8,366.8	7,940.5
Tier 2 Capital	1,530.0	1,530.0	1,530.0
<b>Total Capital Ratio (TCR)</b>	<b>20.02%</b>	<b>19.53%</b>	<b>20.13%</b>
Minimum required level	15.37%	15.37%	19.77%
Surplus(+) / Deficit(-) of TCR capital adequacy (p.p.)	4.65pp	4.16pp	0.36pp
<b>Tier 1 Capital ratio (T1)</b>	<b>16.96%</b>	<b>16.51%</b>	<b>16.88%</b>
Minimum required level	12.15%	12.15%	16.20%
Surplus(+) / Deficit(-) of T1 capital adequacy (p.p.)	4.81pp	4.36pp	0.68pp
<b>Common Equity Tier 1 Capital ratio (CET1)</b>	<b>16.96%</b>	<b>16.51%</b>	<b>16.88%</b>
Minimum required level	9.73%	9.73%	13.51%
Surplus(+) / Deficit(-) of CET1 capital adequacy (p.p.)	7.23pp	6.78pp	3.57pp
<b>Liquidity Coverage ratio (LCR)</b>	<b>202%</b>	<b>162%</b>	<b>172%</b>

Rise of capital adequacy ratios in 2Q20 compared to 1Q20 came both from the fall of own funds requirements and from the increase of own funds. Credit risk own funds requirements went down by ca PLN 57m (by 1.6%), what was mainly the result of decrease of exposure to banks, cash loans and to SME corporates. At the same time the rise of own funds by ca PLN 116m (by 1.2%) stemmed from the soar of revaluation reserve amount connected to the valuation of State Treasury debt securities.

The decision of the Banking Guarantee Fund in March 2020 to extend by one year the date of full implementation of MREL requirements as well as no-obligation to reach an interim level in 2020 provides more time to assess the new requirements and flexibility in their achievement. The above-mentioned reduction of the systemic risk buffer also decreases the future level of MREL requirements.

## 6. Operational Segments

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

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

### **Retail Customer Segment**

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

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

### **Corporate Customer Segment**

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

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

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

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

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

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

- Net interest income calculated on the basis of interest on external working assets and liabilities of the segment as well as allocated assets and liabilities generating internal interest income or cost. Internal income and costs are calculated based on market interest rates with internal valuation model applied;
- Net commission income;
- Other income from financial transactions and FX gains, such as: dividend income, result on investment and trading activity, FX gains/losses and result on other financial instruments;
- Other operating income and expenses;
- Costs on account of impairment of financial and non-financial assets;
- Segment share in operating costs, including personnel and administration costs;
- Segment share in depreciation costs;
- Operating profit calculated as a measure of segment profit differs from the IFRS financial result before tax due to: share in net profits of associates, charge of bank tax, cost of provisions for legal risk resulted from FX mortgage loans and provisions for COVID-19. These items and the income tax burden were presented only at the Group level.

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

## Income statement 1.01.2020 - 30.06.2020

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Net interest income	839 571	160 922	302 731	1 303 224
Net fee and commission income, including:	297 660	74 562	1 306	373 528
Fee and commission income	382 367	79 656	9 680	471 703
Fee and commission expenses	(84 707)	(5 094)	(8 374)	(98 175)
Dividends, other income from financial operations and foreign exchange profit	39 899	33 097	74 932	147 928
Result on non-trading financial assets mandatorily at fair value through profit or loss	(26 416)	0	7 486	(18 930)
Other operating income and cost	(5 043)	(4 568)	(41 514)	(51 125)
<b>Operating income</b>	<b>1 145 671</b>	<b>264 013</b>	<b>344 941</b>	<b>1 754 625</b>
Staff costs	(363 973)	(73 225)	(14 000)	(451 198)
Administrative costs	(256 905)	(33 672)	(74 037)	(364 614)
Depreciation and amortization	(97 217)	(8 491)	(1 505)	(107 213)
<b>Operating expenses</b>	<b>(718 095)</b>	<b>(115 388)</b>	<b>(89 542)</b>	<b>(923 025)</b>
Impairment losses on assets	(235 521)	(88 195)	(4 509)	(328 225)
Results on modification	(8 574)	342	0	(8 232)
<b>Operating Profit</b>	<b>183 481</b>	<b>60 772</b>	<b>250 890</b>	<b>495 143</b>
Share in net profit of associated companies				0
Provisions for COVID-19				0
Provisions for legal risk connected with FX mortgage loans				(168 019)
Banking tax				(141 188)
<b>Profit / (loss) before income tax</b>				<b>185 936</b>
Income taxes				(114 212)
<b>Profit / (loss) after taxes</b>				<b>71 724</b>

## Balance sheet items as at 30.06.2020

<i>In '000 PLN</i>	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total
Loans and advances to customers	55 680 600	15 827 247	0	71 507 848
Liabilities to customers	67 036 803	19 075 017	142 804	86 254 625

## Income statement 1.01.2019 - 30.06.2019

<i>In '000 PLN</i>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury, ALM &amp; Other</b>	<b>Total</b>
Net interest income	766 979	155 503	134 045	1 056 527
Net fee and commission income, including:	258 808	78 524	867	338 199
Fee and commission income	333 839	83 261	5 727	422 827
Fee and commission expenses	(75 031)	(4 737)	(4 860)	(84 628)
Dividends, other income from financial operations and foreign exchange profit	49 667	35 018	47 651	132 336
Result on non-trading financial assets mandatorily at fair value through profit or loss	(5 101)	0	15 633	10 532
Other operating income and cost	(7 837)	(6 453)	35 036	20 746
<b>Operating income</b>	<b>1 062 516</b>	<b>262 592</b>	<b>233 232</b>	<b>1 558 340</b>
Staff costs	(282 711)	(70 009)	(19 498)	(372 218)
Administrative costs	(196 824)	(26 854)	(87 092)	(310 770)
Depreciation and amortization	(63 909)	(7 459)	(1 671)	(73 039)
<b>Operating expenses</b>	<b>(543 444)</b>	<b>(104 322)</b>	<b>(108 261)</b>	<b>(756 027)</b>
Impairment losses on assets	(166 065)	(51 109)	(1 306)	(218 480)
Results on modification	(6 617)	(18)	0	(6 635)
<b>Operating Profit</b>	<b>346 390</b>	<b>107 143</b>	<b>123 665</b>	<b>577 198</b>
Share in net profit of associated companies	0	0	0	0
Banking tax				(110 008)
<b>Profit / (loss) before income tax</b>				<b>467 190</b>
Income taxes				(133 567)
<b>Profit / (loss) after taxes</b>				<b>333 623</b>

## Balance sheet items as at 31.12.2019

<i>In '000 PLN</i>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury, ALM &amp; Other</b>	<b>Total</b>
Loans and advances to customers	53 391 200	16 224 190	0	69 615 390
Liabilities to customers	63 811 244	17 506 007	137 514	81 454 765

## 7. Transactions with Related Entities

All and any transactions between entities of the Group in 1<sup>st</sup> half 2020 resulted from the current operations.

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

### 7.1. TRANSACTIONS WITH THE PARENT GROUP

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

	With parent company		With other entities from parent group	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
<b>ASSETS</b>				
Loans and advances to banks - accounts and deposits	37 403	106 971	0	0
Financial assets held for trading	0	0	0	0
Hedging derivatives	0	0	0	0
Other assets	0	0	0	0
<b>LIABILITIES</b>				
Loans and deposits from banks	314	271	125 417	117 588
Debt securities	0	0	0	0
Financial liabilities held for trading	372	361	0	0
Hedging derivatives	0	0	0	0
Other liabilities	0	0	143	215

	With parent company		With other entities from parent group	
	2020	2019	2020	2019
<b>Income from:</b>				
Interest	(107)	(33)	0	0
Commissions	66	109	0	0
Financial assets and liabilities held for trading	0	0	0	0
<b>Expense from:</b>				
Interest	3	0	(159)	(145)
Commissions	0	0	0	0
Financial assets and liabilities held for trading	440	535	0	0
Other net operating	6	6	0	0
Administrative expenses	0	0	237	447

	With parent company		With other entities from parent group	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Conditional commitments	101 111	101 101	0	0
granted	100 345	100 345	0	0
obtained	766	756	0	0
Derivatives (par value)	16 003	15 807	0	0

## 7.2. TRANSACTIONS WITH THE MANAGING AND SUPERVISING PERSONS

Members of the Management Board	30.06.2020	31.12.2019
Total debt limit (in '000 PLN)	211.0	211.0
- including an unutilized limit (in '000 PLN)	163.6	158.4
Mortgage loans and credits	-	-
Active guarantees	-	-
Members of the Supervisory Board	30.06.2020	31.12.2019
Total debt limit (in '000 PLN)	137.0	137.0
- including an unutilized limit (in '000 PLN)	119.7	125.0
Mortgage loans and credits	-	-
Active guarantees	-	-

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

Information on total exposure towards companies and groups personally related:

Client No. 1, as at:	Loans granted	Guarantees provided	Open credit lines	Relationship
30.06.2020	10 704	3 000	141	Personal with a supervising person
31.12.2019	11 431	3 000	147	Personal with a supervising person

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

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

Period	Short term salaries	Benefits	TOTAL
1.01-30.06.2020	9 105	1 196	10 301
1.01-30.06.2019	9 697	1 125	10 822

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

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

Period	Short term salaries and benefits
1.01-30.06.2020	747
1.01-30.06.2019	1 111

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

Name and surname	Position/Function	Number of shares as of delivery date of quarterly report prepared as at 30.06.2020	Number of shares as of delivery date of report prepared as at 31.12.2019
Joao Nuno Lima Bras Jorge	Chairman of the Management Board	151 000	111 000
Fernando Maria Cardoso Rodrigues Bicho	Deputy Chairman of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	7 494
Andrzej Gliński	Member of the Management Board	0	0
Wojciech Rybak	Member of the Management Board	0	0
Antonio Ferreira Pinto Junior	Member of the Management Board	0	0
Jarosław Hermann	Member of the Management Board	0	0
Bogusław Kott	Chairman of the Supervisory Board	1 000	1 000
Nuno Manuel da Silva Amado	Deputy Chairman of the Supervisory Board	0	0
Dariusz Rosati	Deputy Chairman and Secretary of the Supervisory Board	0	0
Miguel de Campos Pereira de Bragança	Member of the Supervisory Board	0	0
Agnieszka Hryniewicz-Bieniek	Member of the Supervisory Board	0	0
Anna Jakubowski	Member of the Supervisory Board	0	0
Grzegorz Jędrus	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Alojzy Nowak	Member of the Supervisory Board	0	0
José Miguel Bensliman Schorcht da Silva Pessanha	Member of the Supervisory Board	0	0
Miguel Maya Dias Pinheiro	Member of the Supervisory Board	0	0
Lingjiang Xu	Member of the Supervisory Board	0	0



## 8. Fair Value

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

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

Level 1 - valuation based on the data fully observable (active market quotations);

Level 2 - valuation models using the information not constituting the data from level 1, but observable, either directly or indirectly;

Level 3 - valuation models using unobservable data (not derived from an active market).

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

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

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

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

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

Receivables and liabilities with respect to banks

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

Loans and advances granted to customers valued at amortised cost

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

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

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

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

#### Liabilities to customers

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

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

#### Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities - bank's securities (BPW) are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond.

The fair value of other liabilities arising from debt securities issued by the Bank (bonds (BKMO)) was estimated based on the expected cash flows using current interest rates taking into account the margin for credit risk. The current level of margins was appointed on the basis of recent transactions of similar credit risk.

#### Subordinated liabilities and medium term loans

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

The table below presents results of the above-described analyses as at 30.06.2020 (data in PLN thousand):

	Note	Balance sheet value	Fair value
<b>ASSETS MEASURED AT AMORTISED COST</b>			
Debt securities	14	43 879	43 791
Deposits, loans and advances to banks and other monetary institutions	14	875 837	875 823
Loans and advances to customers*	13	70 026 850	67 584 697
<b>LIABILITIES MEASURED AT AMORTISED COST</b>			
Liabilities to banks and other monetary institutions	18	1 429 762	1 431 599
Liabilities to customers	19	86 254 625	86 311 941
Debt securities issued	21	767 017	775 369
Subordinated debt	22	1 545 238	1 548 487

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

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

The table below presents data as at 31.12.2019 (data in PLN thousand):

	Note	Balance sheet value	Fair value
<b>ASSETS MEASURED AT AMORTISED COST</b>			
Debt securities	14	48 153	46 875
Deposits, loans and advances to banks and other monetary institutions	14	784 277	784 120
Loans and advances to customers*	13	68 117 195	65 834 231
<b>LIABILITIES MEASURED AT AMORTISED COST</b>			
Liabilities to banks and other monetary institutions	18	1 578 848	1 580 741
Liabilities to customers	19	81 454 765	81 463 818
Debt securities issued	21	1 183 232	1 189 016
Subordinated debt	22	1 546 205	1 548 362

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

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

Data in PLN'000, as at 30.06.2020

	Note	Quoted market prices Level 1	Valuation techniques - observable inputs Level 2	Valuation techniques - significant unobservable inputs Level 3
<b>ASSETS</b>				
Financial assets held for trading	11			
Valuation of derivatives			101 720	40 209
Equity instruments		212		
Debt securities		337 016		
Non-trading financial assets mandatorily at fair value through profit or loss	13			
Equity instruments				66 609
Debt securities				110 488
Loans and advances				1 480 998
Financial assets at fair value through other comprehensive income	12			
Equity instruments		293		29 383
Debt securities		26 075 831		
Derivatives - Hedge accounting	15		86 776	
<b>LIABILITIES</b>				
Financial liabilities held for trading	11			
Valuation of derivatives			92 422	37 510
Short positions		70 298		
Derivatives - Hedge accounting	15		678 043	

Data in PLN'000, as at 31.12.2019

	Note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
		Level 1	Level 2	Level 3
ASSETS				
Financial assets held for trading	11			
Valuation of derivatives			46 143	65 538
Equity instruments		210		
Debt securities		874 033		
Non-trading financial assets mandatorily at fair value through profit or loss	13			
Equity instruments				66 609
Debt securities				103 001
Loans and advances				1 498 195
Financial assets at fair value through other comprehensive income	12			
Equity instruments		276		29 367
Debt securities		20 840 604	999 917	
Derivatives - Hedge accounting	15		43 159	
LIABILITIES				
Financial liabilities held for trading	11			
Valuation of derivatives			84 772	65 186
Short positions		202 265		
Derivatives - Hedge accounting	15		426 847	

Using the criterion of valuation techniques as at 30.06.2020 Group classified into the third category following financial instruments:

- credit exposures with a leverage / multiplier feature inbuilt in the definition of interest rate. To estimate the fair value of loans, due to the lack of availability of the market value, an internal valuation model was used, taking into account the assumption that at the time of granting the loan the fair value is equal to the carrying value. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date. The discounting rate is the sum of: the cost of risk, the cost of financing, the value of the expected return. The fair value of impaired loans is equal to the sum of future expected recoveries discounted using the effective interest rate, recognizing that the average expected recoveries fully take into account the element of credit risk. In case of an increase in the discount rate by 1 p.p. valuation of the portfolio would have been reduced by -0.1% (sensitivity analysis: based on the FV model for the portfolio of credit cards);
- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- VISA Inc. engagement shares (classified as a debt instrument) with shares in possession number of 23,847; the method of fair value calculation of this instrument considers the time value of money, the time line for conversion of preferred stock in common stock of VISA and adjustments resulting from litigations (on-going or potential) against VISA and the Bank.;
- other equity instruments measured at fair value (unquoted on an active market).

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance on 31.12.2019</b>	<b>61 294</b>	<b>(60 944)</b>	<b>95 976</b>	<b>103 001</b>	<b>1 498 195</b>
Settlement/sell/purchase	(18 325)	20 332	0	0	(33 990)
Change of valuation recognized in equity	0	0	0	0	0
Interest income and other of similar nature	0	0	0	0	43 210
Results on financial assets and liabilities held for trading	(7 081)	7 424	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	7 487	(26 417)
Result on exchange differences	0	0	16	0	0
<b>Balance on 30.06.2020</b>	<b>35 888</b>	<b>(33 188)</b>	<b>95 992</b>	<b>110 488</b>	<b>1 480 998</b>

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

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance on 31.12.2018</b>	<b>35 430</b>	<b>(35 584)</b>	<b>50 651</b>	<b>43 187</b>	<b>1 250 525</b>
Settlement/sell/purchase	17 357	(15 736)	147	15 710	156 406
Change of valuation recognized in equity	0	0	172	0	0
Interest income and other of similar nature	0	0	0	0	114 665
Results on financial assets and liabilities held for trading	8 507	(9 624)	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	45 000	44 104	(23 401)
Result on exchange differences	0	0	6	0	0
<b>Balance on 31.12.2019</b>	<b>61 294</b>	<b>(60 944)</b>	<b>95 976</b>	<b>103 001</b>	<b>1 498 195</b>

## 9. Contingent liabilities and assets

### 9.1. LAWSUITS

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

#### **Court cases brought up by the Group**

Value of the court litigations, as at 30.06.2020, in which the companies of the Group were a plaintiff, totalled PLN 363.8 million.

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

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

The Bank lodged an appeal within the statutory time limit.

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

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

The verdict issued on January 7 is not final. The bank appealed to the court of second instance. Case is pending. According to current estimates of the risk of losing the dispute, the Bank has not created a provision.

The Bank (along with other banks) is also a party to the dispute with UOKiK, in which the President of UOKiK recognized the practice of participating banks, including Bank Millennium, in an agreement aimed at jointly setting interchange fee rates charged on transactions made with Visa and Mastercard cards as restrictive of competition, and by decision of 29 December 2009 imposed a fine on the Bank in the amount of PLN 12.2 million. Case is pending, the Bank has created a reserve in the amount equal to the penalty imposed.

### **Court cases against the Group**

As at 30.06.2020, the most important proceedings, in the group of the court cases where the Group's companies were defendant, were following:

- The Bank is a defendant in three court proceedings in which the subject of the dispute is the amount of the interchange fee. In two of the abovementioned cases, the Bank was sued jointly and severally with another bank, and in one with another bank and card organizations. The total value of claims submitted in these cases is PLN 729 580 027. The proceedings with the highest value of the submitted claim are brought by PKN Orlen SA, in which the plaintiff demands payment of PLN 635 681 381. The plaintiff in this proceeding alleges that the banks acted under an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2006-2014. In the other two cases, the charges are similar to those raised in the case brought by PKN Orlen SA, while the period of the alleged agreement is indicated for the years 2008-2014. According to current estimates of the risk of losing a dispute in these matters, the Bank did not create a provision. In addition, we point out that the Bank participates as a side intervener in two other proceedings regarding the interchange fee. Other banks are the defendant. Plaintiffs in these cases also accuse banks of acting as part of an agreement restricting competition on the acquiring services market by jointly setting the level of the national interchange fee in the years 2008-2014.

- A lawsuit brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium S.A., worth of the dispute 521.9 million PLN with statutory interest from 05.04.2016 until the day of payment. The plaintiff filed the suit dated 23.10.2015 to the Regional Court in Warsaw; the suit was served to the Bank on 04.04.2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by the Bank and consisting in the wrong interpretation of the Agreement for working capital loan concluded between the Bank and PCZ S.A., which resulted in placing the loan on demand. In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of 250.0 million PLN. The petition was dismissed on 5.09.2016 with legal validity by the Appellate Court. The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ SA against the Bank. At present, the Court of first instance is conducting evidence proceedings.

- Additionally, on 19 January 2018 the Bank has received the lawsuit petition of First Data Polska SA requesting the payment of 186.8 mln PLN. First Data claims a share in an amount which the Bank has received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its request on an agreement with the Bank on co-operation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. The Bank does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law. In accordance with the judgment of 13/06/2019, the Bank won the case before the Court of first instance. The case is currently pending before the Court of second instance. According to current estimates of the risk of losing the dispute, the Bank has not created a provision.



As at 30.06.2020, the total value of the subjects of the other litigations in which the Group appeared as defendant, stood at PLN 690.7 million (excluding the class actions described below). In this group the most important category are cases related with FX loans mortgage portfolio and cases related to forward transactions (option cases).

### **FX mortgage loans legal risk**

On 3 October 2019, the Court of Justice of the European Union ('the CJEU') issued the judgment in Case C-260/18 in connection with the preliminary questions formulated by the District Court of Warsaw in the case against Raiffeisen Bank International AG. The judgment of the CJEU, in connection with the interpretation of European Union law made therein, is binding on domestic courts. The judgment in question interpreted Article 6 of Directive 93/13 in its answers to the preliminary questions. In the light of the subject matter judgment, Article 6 of Directive 93/13: must be interpreted as meaning that (i) the national court may, on the basis of national law, conclude that a credit agreement cannot continue to exist without unfair terms on the ground that the removal of those unfair terms would alter the nature of the main subject-matter of the contract; (ii) the effects for the consumer's situation resulting from the cancellation of the contract as a whole must be assessed in the light of the circumstances existing or foreseeable at the time when the dispute arose and that the will of the consumer is decisive as to whether he wishes to maintain the contract and avoid those effects; (iii) Article 6 of the Directive precludes the filling in of gaps in the contract caused by the removal of unfair terms from the contract (even if the non-filling of those gaps would result in detrimental for consumer falling of the contract), solely on the basis of national legislation of a general nature which provides that the effects expressed in the content of a legal act are to be supplemented, in particular, by principles arising from equity rules or established customs; (iv) Article 6 of the Directive precludes the maintenance of unfair terms in the contract (even if their removal would result in the contract being annulled to the detriment of the consumer) if the consumer has not consented to the maintenance of such terms.

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

As at the end of I half 2020, the Bank had 3,339 loan agreements and additionally 351 loan agreements from former Euro Bank (3,625 loans agreements before the Court of first instance and 65 loans agreements before the court of second instance) under individual litigations concerning indexation clauses of FX mortgage loans submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 385.9 million and CHF 17.5 million. Until 30.06.2020 only 37 cases were finally resolved. The claims formulated by the Clients in individual proceedings primarily concern the declaration of invalidity of the contract or payment for reimbursement of allegedly undue performance, due to the abusive nature of indexation clauses. The pushy advertising campaign observed in the public domain affects the number of court disputes. In addition, the Bank is a party to the group proceedings (class action) subject matter of which is to determine the Bank's liability towards the group members based on unjust enrichment (undue benefit) ground in connection with the foreign currency mortgage loans concluded. It is not a payment dispute. The



judgment in these proceedings will not grant any amounts to the group members. The number of credit agreements covered by these proceedings is 3,281. The date of the first hearing scheduled for 20.03.2020 was canceled due to the situation related to COVID-19. The next date of the hearing was set for 26.10.2020.

Based on ZBP (the Polish Banking Association) data gathered from all banks having FX mortgage loans, vast majority of disputes were finally resolved in favour of banks until 2019 year. However, after the Court of Justice of the European Union (CJEU) judgment issued on 3 October 2019 (Case C-260/18) the proportion have adversely changed and so there is a risk, that so far mostly positive for banks line of verdict in courts may change.

Taking into consideration the increased legal risk related to FX mortgages, Bank Millennium created in year 2019 PLN 223 million and in I half 2020 PLN 168 million provision for legal risk. The methodology developed by the Bank is based on the following main parameters: (1) the number of current (including class action) and potential future court cases that will appear within a specified (three-year) time horizon, (2) the amount of the Bank's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account), (3) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk as regard FX mortgage loans portfolio. The Bank is open to negotiate case by case favourable conditions for early repayment (partial or total) or conversion of loans to PLN. On the other hand, the Bank will continue to take all possible actions to protect its interests in courts while at the same time being open to find settlement with customers in the court under reasonable conditions.

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

Finally it should be mentioned, that the Bank, as at 30/06/2020, has 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 4.96 p.p. (4.87 p.p. at the Group level), part of which is allocated to operational/legal risk.

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

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

#### **Actual status:**

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

On April 1, 2020, a decision was issued to determine the composition of the group by the Court. This decision was delivered to the Bank's attorney on July 7, 2020. The Bank lodged an appeal provided for by law.

As at 30 June 2020, there were also 551 individual court cases regarding LTV insurance.

## 9.2. OFF - BALANCE ITEMS

<i>Amount '000 PLN</i>	<b>30.06.2020</b>	<b>31.03.2020</b>	<b>31.12.2019</b>	<b>30.06.2019</b>
<b>Off-balance conditional commitments granted and received</b>	<b>14 089 761</b>	<b>12 858 613</b>	<b>12 169 901</b>	<b>11 102 310</b>
Commitments granted:	13 346 042	12 310 327	11 629 618	10 578 312
loan commitments	11 610 230	10 616 011	9 883 053	8 928 616
guarantee	1 735 812	1 694 316	1 746 565	1 649 696
Commitments received:	743 719	548 286	540 284	523 998
financial	26 065	0	0	7 399
guarantee	717 654	548 286	540 284	516 599

## 10. Additional Information

### 10.1. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 30.06.2020 r. (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds OK0722	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	129 649
2.	Treasury bonds OK0722	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	342 000	341 077
3.	Treasury bills TB230920	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	69 900	69 812
4	Treasury bills TB230920	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	51 250	51 185
5.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	11 399	11 399
6.	Cash	receivables	Settlement on transactions concluded	48 916	48 916
7.	Deposits	Deposits in banks	Settlement on transactions concluded	588 234	588 234
8.	Leasing receivables	Loans and advances	Loans granted to Millennium Leasing	549 306	549 306
TOTAL				1 791 006	1 789 578

As at 30.06.2020, the Group did not have any transactions of Treasury securities sale with a buy-back clause.

As at 31.12.2019 r. (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0121	Held to Collect and for Sale	Lombard credit granted to the Bank by the NBP	130 000	131 453
2.	Treasury bonds WZ0121	Held to Collect and for Sale	Securing the Fund for Protection of Funds Guaranteed as part of the Bank Guarantee Fund	358 000	362 002
3.	Central Bank bills NBP_030120	Held to Collect and for Sale	Security of payment obligation to BFG contribution - guarantee fund	51 750	51 746
4	Central Bank bills NBP_030120	Held to Collect and for Sale	Security of payment obligation to BFG contribution - compulsory resolution fund	51 250	51 246
5.	Cash	receivables	Payment to the Security Fund OTC-KDPW_CCP	7 243	7 243
6.	Cash	receivables	Settlement on transactions concluded	1 518	1 518
7.	Deposits	Deposits in banks	Settlement on transactions concluded	345 035	345 035
8.	Leasing receivables	Loans and advances	Loans granted to Millennium Leasing	524 932	524 932
TOTAL				1 469 728	1 475 175

Additionally, as at December 31, 2019, the Group had concluded short-term transactions (usually settled within 7 days) of Treasury securities sale with a buy-back clause, subject of securities worth PLN 90,453 thousand.

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

As at 30.06.2020, the Group did not have any concluded transactions with buy-back clause (SBB).

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

As at 31 December 2019 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions (PLN'000):

Type of security	Par value	Balance sheet value
Treasury bonds	85 221	90 453
<b>TOTAL</b>	<b>85 221</b>	<b>90 453</b>

## 10.3. 2019 DIVIDEND

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

The high capital ratios at the end of 2019 would allow to pay dividend if not additional K1 and K2 criteria for banks with FX mortgage loan portfolio, which KNF maintained when announcing in December 2019 a recommendation on the banks' dividend policy. K1 criterion is based on FX mortgage share in total portfolio and K2 criterion is based on share of 2007-2008 vintages in total FX mortgage portfolio.

Regardless of the above, taking into consideration the acquisition and subsequent merger with Euro Bank S.A. conducted in 2019 (without a share issue), the Bank intended to retain all of its 2019 net profit in own funds in order to strengthen capital ratios. Therefore, the Management Board of the Bank submitted to Annual General Meeting a proposal of full retention of 2019 net profit, and the General Meeting of Shareholders that was held on March 20, 2020 decided to retain the profit for 2019 in the Bank's equity.

## 10.4. EARNINGS PER SHARE

Profit per share calculated for 1 half of 2020 (and diluted profit per share) on the basis of the consolidated data amounts to PLN 0.06.

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

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of June 30, 2020.

Information on shareholders, contained in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Extraordinary General Meeting of the Bank convened for July 03, 2020.

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

Shareholder as at 30.06.2020	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50,10	607 771 505	50,10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	100 000 000	8,24	100 000 000	8,24
Aviva Otwarty Fundusz Emerytalny Aviva Santander	76 760 000	6,33	76 760 000	6,33
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	67 590 000	5,57	67 590 000	5,57

Shareholder as at 31.12.2019	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	607 771 505	50,10	607 771 505	50,10
Nationale-Nederlanden Otwarty Fundusz Emerytalny	100 000 368	8,24	100 000 368	8,24
Aviva Otwarty Fundusz Emerytalny Aviva Santander	76 760 317	6,33	76 760 317	6,33
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	67 593 025	5,57	67 593 025	5,57

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

In the 1 half 2020, the Group did not grant any sureties or guarantees for a loan or bank loan which would cause the Group's exposure on this account as at 30 June 2020 to be significant.

## 10.7. SEASONALITY AND BUSINESS CYCLES

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

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

As at 30 June 2020, the Group has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed consolidated statements, Group did not:

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

### **Mortgage bank**

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

## Events after the date for which financial statements were prepared

On July 7, 2020, a press release was published in which the Polish Financial Ombudsman announced that he had filed a lawsuit against Bank Millennium and Towarzystwo Ubezpieczeń na Życie Europa. The Financial Ombudsman accused these entities of using unfair market practices, which would consist primarily in disinformation of consumers as to the actual nature of the insurance offered when signing a loan agreement. At present, it is not possible to assess the allegations as the suit was not delivered to the Bank.

Date	Name and surname	Position/Function	Signature
22.07.2020	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
22.07.2020	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
22.07.2020	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature

**CONDENSED INTERIM STANDALONE FINANCIAL STATEMENTS  
OF THE BANK MILLENNIUM S.A. FOR THE 6 MONTHS ENDED  
30 JUNE 2020**

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# 1. Introduction and Accounting Policy

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by European Union. The condensed interim financial statement do not include all of the information which is presented in full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2019.

Pursuant to the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) the Bank is required to publish financial data for the six months ending June 30, 2020.

Condensed interim financial statements of the Bank:

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

In addition to financial data these condensed interim financial statements of the Bank also presents information and data that is important for appropriate assessment of the Bank's economic and financial situation and its financial performance, and which was not included in the condensed interim consolidated statements of the Group for the six months period ended 30 June 2020. Other information and explanations presented in the condensed interim consolidated financial statements of the Group for the six months period ended 30 June 2020 contain all important information, which also serves as explanatory data to these standalone statements of the Bank.

The Management Board approved these condensed interim financial statements on 22<sup>nd</sup> July 2020.

### Change of applied accounting principles introduced in 2020

In the course of 2020, the Bank changed the presentation of provisions for legal risk connected with FX mortgage loans (for more information on the creation of these provisions, see **Chapter 9.1 “Lawsuits”** of the Condensed Consolidated Interim Financial Statement) which in the financial statements for year 2019 were recognized as provisions for pending legal issues. Having in mind that part of these provisions relate to the new estimation of cash flows from the mortgage loan portfolio, the Bank allocated these provisions to individual credit exposures and presented in these financial statements as a decrease in the gross value of mortgage loans for which contractual cash flow are expected to reduce. In order to ensure comparability, the Bank made appropriate balance sheet data adjustments as at December 31, 2019 as illustrated in the table below.

Balance sheet item	Data as at 31 December 2019 presented in standalone financial statements for year 2019	Value of adjustment	Data as at 31 December 2019 presented in standalone financial statements for 1 half 2020
Loans and advances to customers valued at amortised cost	67 330 582	(139 548)	67 191 034
<b>Total assets</b>	<b>96 824 788</b>	<b>(139 548)</b>	<b>96 685 240</b>
Provisions for pending legal issues	250 433	(139 548)	110 885
<b>Total liabilities</b>	<b>88 134 701</b>	<b>(139 548)</b>	<b>87 995 153</b>

## 2. Standalone Financial Data (Bank)

### INCOME STATEMENT

<i>Amount '000 PLN</i>	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Net interest income	1 259 691	609 034	946 380	486 826
Interest income and other of similar nature	1 687 361	787 871	1 360 754	694 047
Income calculated using the effective interest method	1 640 686	773 742	1 300 155	664 222
Interest income from Financial assets at amortised cost	1 444 727	679 923	1 103 670	572 767
Interest income from Financial assets at fair value through other comprehensive income	195 959	93 819	196 485	91 455
Income of similar nature to interest from Financial assets at fair value through profit or loss	46 675	14 130	60 599	29 825
Interest expenses	(427 670)	(178 837)	(414 374)	(207 221)
Net fee and commission income	321 717	154 725	288 796	145 261
Fee and commission income	402 241	191 748	354 635	180 361
Fee and commission expenses	(80 524)	(37 023)	(65 839)	(35 100)
Dividend income	38 932	3 024	44 761	2 453
Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	48 708	35 061	29 171	14 250
Results on financial assets and liabilities held for trading	31 446	22 515	31 609	13 605
Result on non-trading financial assets mandatorily at fair value through profit or loss	(18 930)	(7 251)	9 719	5 666
Result on hedge accounting	(8 032)	(3 518)	(9 755)	(4 934)
Result on exchange differences	71 560	27 225	76 470	43 199
Other operating income	52 240	44 842	47 034	7 314
Other operating expenses	(100 448)	(84 345)	(14 651)	(8 244)
Administrative expenses	(791 661)	(339 491)	(623 738)	(286 838)
Impairment losses on financial assets	(278 861)	(174 404)	(108 074)	(54 257)
Provisions for COVID-19	0	60 000	0	0
Impairment losses on non-financial assets	(4 553)	(2 789)	(1 204)	(557)
Provisions for legal risk connected with FX mortgage loans	(168 019)	(112 694)	0	0
Result on modification	(8 231)	(6 282)	(6 635)	(2 969)
Depreciation	(99 678)	(50 025)	(63 570)	(32 707)
Share of the profit of investments in subsidiaries	0	0	0	0
Banking tax	(141 187)	(68 446)	(107 284)	(55 926)
<b>Profit before income taxes</b>	<b>204 694</b>	<b>107 181</b>	<b>539 029</b>	<b>272 142</b>
Corporate income tax	(108 662)	(53 506)	(136 520)	(66 832)
<b>Profit after taxes</b>	<b>96 032</b>	<b>53 675</b>	<b>402 509</b>	<b>205 310</b>

## STATEMENT OF TOTAL COMPREHENSIVE INCOME

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
Profit after taxes	96 032	53 675	402 509	205 310
Other comprehensive income items that may be (or were) reclassified to profit or loss	231 187	161 350	(19 610)	13 874
Result on debt securities at fair value through other comprehensive income	239 145	189 497	(57 986)	20 092
Hedge accounting	(7 958)	(28 147)	38 376	(6 218)
Other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
Actuarial gains (losses)	0	0	0	0
Result on equity instruments at fair value through other comprehensive income	0	0	0	0
<b>Total comprehensive income items before taxes</b>	<b>231 187</b>	<b>161 350</b>	<b>(19 610)</b>	<b>13 874</b>
Corporate income tax on other comprehensive income items that may be (or were) reclassified to profit or loss	(43 926)	(30 657)	3 726	(2 636)
Corporate income tax on other comprehensive income items that will not be reclassified to profit or loss	0	0	0	0
<b>Total comprehensive income items after taxes</b>	<b>187 261</b>	<b>130 694</b>	<b>(15 884)</b>	<b>11 238</b>
<b>Total comprehensive income for the period</b>	<b>283 293</b>	<b>184 369</b>	<b>386 625</b>	<b>216 548</b>

## BALANCE SHEET

### ASSETS

<i>Amount '000 PLN</i>	<b>30.06.2020</b>	<b>31.03.2020</b>	<b>31.12.2019</b>	<b>30.06.2019</b>
Cash, cash balances at central banks	1 224 788	2 477 540	2 203 444	3 277 024
Financial assets held for trading	479 847	796 370	987 465	797 721
Derivatives	142 831	190 657	113 432	99 106
Equity instruments	0	0	0	0
Debt securities	337 016	605 713	874 033	698 615
Non-trading financial assets mandatorily at fair value through profit or loss, other than Loans and advances to customers	177 097	169 610	169 610	79 617
Equity instruments	66 609	66 609	66 609	21 609
Debt securities	110 488	103 001	103 001	58 008
Financial assets at fair value through other comprehensive income	26 082 339	22 101 958	21 856 275	17 280 487
Equity instruments	29 383	29 389	29 367	29 039
Debt securities	26 052 956	22 072 569	21 826 908	17 251 448
Loans and advances to customers	70 746 083	71 254 042	68 689 229	54 316 492
Mandatorily at fair value through profit or loss	1 480 998	1 475 514	1 498 195	1 341 424
Valued at amortised cost	69 265 085	69 778 528	67 191 034	52 975 068
Financial assets at amortised cost other than Loans and advances to customers	984 994	2 179 176	1 037 840	4 379 861
Debt securities	43 879	48 355	48 153	56 880
Deposits, loans and advances to banks and other monetary institutions	875 739	2 018 878	784 248	4 249 322
Reverse sale and repurchase agreements	65 376	111 943	205 439	73 659
Derivatives - Hedge accounting	86 776	22 195	43 159	99 864
Investments in subsidiaries, joint ventures and associates	88 874	88 874	88 874	1 921 874
Tangible fixed assets	564 855	596 455	622 506	527 749
Intangible fixed assets	360 064	325 366	331 978	82 282
Income tax assets	409 880	418 466	405 412	263 466
Current income tax assets	0	0	0	26 933
Deferred income tax assets	409 880	418 466	405 412	236 533
Other assets	308 806	381 543	249 448	144 695
Non-current assets and disposal groups classified as held for sale	0	0	0	0
<b>Total assets</b>	<b>101 514 403</b>	<b>100 811 595</b>	<b>96 685 240</b>	<b>83 171 132</b>

## LIABILITIES AND EQUITY

<i>Amount '000 PLN</i>	<b>30.06.2020</b>	<b>31.03.2020</b>	<b>31.12.2019</b>	<b>30.06.2019</b>
<b>LIABILITIES</b>				
Financial liabilities held for trading	200 229	313 106	353 004	232 433
Derivatives	129 931	247 431	150 739	146 843
Liabilities from short sale of securities	70 298	65 675	202 265	85 590
Financial liabilities measured at amortised cost	89 340 703	88 160 215	85 127 543	72 111 662
Liabilities to banks and other monetary institutions	694 493	759 852	849 452	1 141 231
Liabilities to customers	86 461 156	83 825 155	81 637 517	68 634 346
Sale and repurchase agreements	0	1 056 303	90 712	20 990
Debt securities issued	639 816	974 227	1 003 657	769 154
Subordinated debt	1 545 238	1 544 678	1 546 205	1 545 941
Derivatives - Hedge accounting	678 043	1 277 724	426 847	332 935
Provisions	282 653	272 530	164 741	106 622
Pending legal issues	225 063	155 361	110 885	55 040
Commitments and guarantees given	57 590	57 169	53 856	51 582
Provisions for COVID-19	0	60 000	0	0
Income tax liabilities	14 390	19 683	38 057	16 961
Current income tax liabilities	14 390	19 683	38 057	16 961
Deferred income tax liabilities	0	0	0	0
Other liabilities	2 025 005	1 979 326	1 884 961	1 847 925
<b>Total Liabilities</b>	<b>92 541 023</b>	<b>92 022 584</b>	<b>87 995 153</b>	<b>74 648 538</b>
<b>EQUITY</b>				
Share capital	1 213 117	1 213 117	1 213 117	1 213 117
Share premium	1 147 241	1 147 241	1 147 241	1 147 241
Accumulated other comprehensive income	254 109	123 415	66 848	57 573
Retained earnings	6 358 913	6 305 238	6 262 881	6 104 663
<b>Total equity</b>	<b>8 973 380</b>	<b>8 789 011</b>	<b>8 690 087</b>	<b>8 522 594</b>
<b>Total equity and total liabilities</b>	<b>101 514 403</b>	<b>100 811 595</b>	<b>96 685 240</b>	<b>83 171 132</b>
Book value of net assets	8 973 380	8 789 011	8 690 087	8 522 594
Number of shares (pcs.)	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN)	7.40	7.24	7.16	7.03

## STATEMENT OF CHANGES IN EQUITY

Amount '000 PLN	Total equity	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	
					Unappropriated result	Other reserves
01.01.2020 - 30.06.2020						
Equity at the beginning of the period	8 690 087	1 213 117	1 147 241	66 848	560 727	5 702 154
Total comprehensive income for the period (net)	283 293	0	0	187 261	(464 695)	560 727
net profit/ (loss) of the period	96 032	0	0	0	96 032	0
valuation of debt securities at fair value through other comprehensive income	193 707	0	0	193 707	0	0
hedge accounting	(6 446)	0	0	(6 446)	0	0
Transfer between items of reserves	0	0	0	0	(560 727)	560 727
Equity at the end of the period	8 973 380	1 213 117	1 147 241	254 109	96 032	6 262 881
01.04.2020 - 30.06.2020						
Equity at the beginning of the period	8 789 011	1 213 117	1 147 241	123 415	42 357	6 262 881
Total comprehensive income for the period (net)	184 369	0	0	130 694	53 675	0
net profit/ (loss) of the period	53 675	0	0	0	53 675	0
valuation of debt securities at fair value through other comprehensive income	153 493	0	0	153 493	0	0
hedge accounting	(22 799)	0	0	(22 799)	0	0
Transfer between items of reserves	0	0	0	0	0	0
Equity at the end of the period	8 973 380	1 213 117	1 147 241	254 109	96 032	6 262 881
01.01.2019 - 31.12.2019						
Equity at the beginning of the period	8 135 969	1 213 117	1 147 241	73 457	486 887	5 215 267
Total comprehensive income for the period (net)	554 118	0	0	(6 609)	73 840	486 887
net profit/ (loss) of the period	600 683	0	0	0	600 683	0
Merger with Euro Bank*	(39 956)	0	0	0	(39 956)	0
valuation of debt securities at fair value through other comprehensive income	(38 481)	0	0	(38 481)	0	0
valuation of shares at fair value through other comprehensive income	139	0	0	139	0	0
hedge accounting	32 145	0	0	32 145	0	0
actuarial gains (losses)	(412)	0	0	(412)	0	0
Transfer between items of reserves	0	0	0	0	(486 887)	486 887
Equity at the end of the period	8 690 087	1 213 117	1 147 241	66 848	560 727	5 702 154
01.01.2019 - 30.06.2019						
Equity at the beginning of the period	8 135 969	1 213 117	1 147 241	73 457	486 887	5 215 267
Total comprehensive income for the period (net)	386 625	0	0	(15 884)	(84 378)	486 887
net profit/ (loss) of the period	402 509	0	0	0	402 509	0
valuation of debt securities at fair value through other comprehensive income	(46 969)	0	0	(46 969)	0	0
hedge accounting	31 085	0	0	31 085	0	0
Transfer between items of reserves	0	0	0	0	(486 887)	486 887
Equity at the end of the period	8 522 594	1 213 117	1 147 241	57 573	402 509	5 702 154

## CASH FLOW STATEMENT

### A. CASH FLOWS FROM OPERATING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
Profit (loss) after taxes	96 032	53 675	402 509	205 310
Total adjustments:	3 264 426	2 508 959	(3 427 826)	(2 145 890)
Interest received	1 678 876	813 012	1 245 480	695 088
Interest paid	(410 493)	(185 887)	(371 195)	(188 995)
Depreciation and amortization	99 678	50 025	63 570	32 707
Foreign exchange (gains)/ losses	16 139	(8 356)	9 022	5 601
Dividends	(38 932)	(3 024)	(44 761)	(2 453)
Changes in provisions	(21 636)	10 123	(5 422)	2 150
Result on sale and liquidation of investing activity assets	(54 020)	(40 507)	(29 056)	(14 180)
Change in financial assets held for trading	312 527	172 302	(93 595)	(77 701)
Change in loans and advances to banks	(243 919)	700 998	(3 766 267)	(3 734 691)
Change in loans and advances to customers	(3 269 138)	(138 947)	(3 457 938)	(1 751 078)
Change in receivables from securities bought with sell-back clause (loans and advances)	133 626	46 055	168 878	717 547
Change in financial liabilities valued at fair value through profit and loss (held for trading)	98 421	(712 558)	(43 076)	(16 773)
Change in deposits from banks	(126 587)	(18 615)	129 816	51 140
Change in deposits from customers	5 211 948	2 808 152	2 588 559	1 969 027
Change in liabilities from securities sold with buy-back clause	(83 038)	(1 054 931)	(26 061)	(33 975)
Change in debt securities	(53 984)	(25 802)	155 601	70 186
Change in income tax settlements	93 230	46 618	112 682	68 956
Income tax paid	(165 290)	(73 981)	(154 935)	(82 003)
Change in other assets and liabilities	56 301	109 157	62 328	127 540
Other	30 717	15 125	28 544	16 017
<b>Net cash flows from operating activities</b>	<b>3 360 458</b>	<b>2 562 634</b>	<b>(3 025 317)</b>	<b>(1 940 580)</b>



## B. CASH FLOWS FROM INVESTING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
<b>Inflows:</b>	<b>75 001 127</b>	<b>24 043 336</b>	<b>74 291 634</b>	<b>36 475 484</b>
Proceeds from sale of property, plant and equipment and intangible assets	13 979	11 582	21 465	60
Proceeds from sale of shares in related entities	0	0	1 210	1 210
Proceeds from sale of investment financial assets	74 948 216	24 028 730	74 224 198	36 471 761
Other	38 932	3 024	44 761	2 453
<b>Outflows:</b>	<b>(79 431 203)</b>	<b>(27 856 525)</b>	<b>(72 199 026)</b>	<b>(34 275 425)</b>
Acquisition of property, plant and equipment and intangible assets	(25 244)	(20 844)	(30 673)	(21 849)
Purchase of Euro Bank shares less cash acquired	0	0	(1 833 000)	(1 833 000)
Acquisition of investment financial assets	(79 405 959)	(27 835 681)	(70 335 353)	(32 420 576)
Other	0	0	0	0
<b>Net cash flows from investing activities</b>	<b>(4 430 076)</b>	<b>(3 813 189)</b>	<b>2 092 608</b>	<b>2 200 059</b>

## C. CASH FLOWS FROM FINANCING ACTIVITIES

<i>Amount '000 PLN</i>	<b>1.01.2020 - 30.06.2020</b>	<b>1.04.2020 - 30.06.2020</b>	<b>1.01.2019 - 30.06.2019</b>	<b>1.04.2019 - 30.06.2019</b>
<b>Inflows from financing activities:</b>	<b>0</b>	<b>0</b>	<b>830 000</b>	<b>0</b>
Long-term bank loans	0	0	0	0
Issue of debt securities	0	0	0	0
Increase in subordinated debt	0	0	830 000	0
Net proceeds from issues of shares and additional capital paid-in	0	0	0	0
Other inflows from financing activities	0	0	0	0
<b>Outflows from financing activities:</b>	<b>(371 325)</b>	<b>(348 986)</b>	<b>(60 057)</b>	<b>(60 057)</b>
Repayment of long-term bank loans	(36 716)	(31 716)	(44 046)	(44 046)
Redemption of debt securities	(300 000)	(300 000)	0	0
Decrease in subordinated debt	0	0	0	0
Issue of shares expenses	0	0	0	0
Redemption of shares	0	0	0	0
Dividends paid and other payments to owners	0	0	0	0
Other outflows from financing activities	(34 609)	(17 270)	(16 011)	(16 011)
<b>Net cash flows from financing activities</b>	<b>(371 325)</b>	<b>(348 986)</b>	<b>769 943</b>	<b>(60 057)</b>

<b>D. Net cash flows. Total (A + B + C)</b>	<b>(1 440 943)</b>	<b>(1 599 541)</b>	<b>(162 766)</b>	<b>199 422</b>
including change resulting from FX differences	6 390	(3 788)	(1 288)	(2 524)
<b>E. Cash and cash equivalents at the beginning of the reporting period</b>	<b>3 752 789</b>	<b>3 911 387</b>	<b>4 520 688</b>	<b>4 158 500</b>
<b>F. Cash and cash equivalents at the end of the reporting period (D + E)</b>	<b>2 311 846</b>	<b>2 311 846</b>	<b>4 357 922</b>	<b>4 357 922</b>

### 3. Supplementary information for standalone financial data

As at 30 June 2020, the Bank has no material obligations under the purchase of property, plant and equipment and during the period covered by the condensed statements, Bank did not:

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

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

#### **Mortgage bank**

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

#### **Events after the date for which financial statements were prepared**

On July 7, 2020, a press release was published in which the Polish Financial Ombudsman announced that he had filed a lawsuit against Bank Millennium and Towarzystwo Ubezpieczeń na Życie Europa. The Financial Ombudsman accused these entities of using unfair market practices, which would consist primarily in disinformation of consumers as to the actual nature of the insurance offered when signing a loan agreement. At present, it is not possible to assess the allegations as the suit was not delivered to the Bank.

## Impairment losses on financial assets

	1.01.2020 - 30.06.2020	1.04.2020 - 30.06.2020	1.01.2019 - 30.06.2019	1.04.2019 - 30.06.2019
Impairment losses on loans and advances to customers	(275 460)	(173 893)	(108 677)	(51 731)
Impairment charges on loans and advances to customers	(808 784)	(350 409)	(334 099)	(144 657)
Reversal of impairment charges on loans and advances to customers	509 132	166 243	214 536	86 354
Amounts recovered from loans written off	24 167	10 272	9 512	4 662
Sale of receivables	(16)	(16)	1 447	1 447
Other directly recognised in profit and loss	41	17	(73)	463
Impairment losses on securities	50	50	(6)	(6)
Impairment charges on securities	0	0	(6)	(6)
Reversal of impairment charges on securities	50	50	0	0
Impairment losses on off-balance sheet liabilities	(3 451)	(561)	609	(2 520)
Impairment charges on off-balance sheet liabilities	(47 353)	(14 711)	(23 912)	(10 690)
Reversal of impairment charges on off-balance sheet liabilities	43 902	14 150	24 521	8 170
<b>Total</b>	<b>(278 861)</b>	<b>(174 404)</b>	<b>(108 074)</b>	<b>(54 257)</b>

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

	1.01.2020 - 30.06.2020	1.01.2020 - 31.03.2020	1.01.2019 - 31.12.2019	1.01.2019 - 30.06.2019
Balance at the beginning of the period	1 801 122	1 801 122	1 589 048	1 589 048
Change in value of provisions:	262 622	111 425	212 074	(27 699)
Impairment allowances created in the period	808 784	458 375	825 462	334 099
Amounts written off	(73 591)	(36 927)	(239 319)	(160 664)
Impairment allowances released in the period	(509 132)	(342 889)	(592 613)	(214 536)
Sale of receivables	0	0	0	0
KOIM created in the period(*)	19 260	9 375	25 312	11 577
Merger with Euro Bank S.A.	0	0	176 996	0
Changes resulting from FX rates differences	14 049	20 866	5 291	297
Other	3 252	2 625	10 945	1 528
<b>Balance at the end of the period</b>	<b>2 063 744</b>	<b>1 912 547</b>	<b>1 801 122</b>	<b>1 561 349</b>

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

## Impairment write-offs for selected assets

Impairment write-offs:	Investment securities	Investments in subsidiaries, joint ventures and associates	Property, plant and equipment	Intangibles	Other assets
As at 01.01.2020	5 050	7 600	8 856	0	12 670
- Write-offs created	0	0	0	0	22 278
- Write-offs released	0	0	0	0	(16 859)
- Utilisation	0	(900)	0	0	(180)
- Other	0	0	(123)	0	0
As at 30.06.2020	5 050	6 700	8 733	0	17 909
As at 01.01.2020	5 050	7 600	8 856	0	12 670
- Write-offs created	0	0	0	0	10 176
- Write-offs released	0	0	0	0	(8 412)
- Utilisation	0	(900)	0	0	(59)
- Other	0	0	0	0	0
As at 31.03.2020	5 050	6 700	8 856	0	14 375
As at 01.01.2019	5 016	7 600	8 733	0	8 059
- Write-offs created	34	0	123	0	23 850
- Write-offs released	0	0	0	0	(22 697)
- Utilisation	0	0	0	0	(405)
- Other	0	0	0	0	3 862
As at 31.12.2019	5 050	7 600	8 856	0	12 670
As at 01.01.2019	5 016	7 600	8 733	0	8 059
- Write-offs created	6	0	0	0	7 782
- Write-offs released	0	0	0	0	(6 578)
- Utilisation	0	0	0	0	(95)
- Other	0	0	0	0	(1 783)
As at 30.06.2019	5 021	7 600	8 733	0	7 386

## Change of Provision for commitments and guarantees given

	1.01.2020 - 30.06.2020	1.01.2020 - 31.03.2020	1.01.2019 - 31.12.2019	1.01.2019 - 30.06.2019
Balance at the beginning of the period	53 856	53 856	52 248	52 248
Charge of provision	47 353	32 642	70 581	23 912
Release of provision	(43 902)	(29 752)	(70 220)	(24 521)
Merger with Euro Bank S.A.	0	0	1 281	0
FX rates differences	283	423	(34)	(57)
Balance at the end of the period	57 590	57 169	53 856	51 582

## Change of Provision for pending legal issues

	1.01.2020 - 30.06.2020	1.01.2020 - 31.03.2020	1.01.2019 - 31.12.2019	1.01.2019 - 30.06.2019
Balance at the beginning of the period	110 885	110 885	59 797	59 797
Charge of provision	12 542	1 131	7 311	2 154
Release of provision	(10 484)	(210)	(14 318)	(3 820)
Utilisation of provision	(489)	(490)	(27 876)	(4 874)
Creation of provision for legal risk connected with FX mortgage loans	168 019	55 325	223 134	0
Allocation to the loans portfolio*	(61 906)	(23 475)	(139 548)	0
Reclassification	0	0	1 783	1 783
Merger with Euro Bank S.A.	0	0	602	0
FX differences	6 496	12 195	0	0
Balance at the end of the period	225 063	155 361	110 885	55 040

\* In 2020, the Bank changed its accounting policy and allocated a part of provisions created for legal risk connected with FX mortgage loans to the loans portfolio, and an appropriate adjustment of comparable data as at December 31, 2019 presented in these financial statements has been introduced (more information on this topic is presented in **Chapter 1 "Introduction and Accounting Policy"**).

As at 30.06.2020 the Bank created provisions of PLN 12.5 million dedicated to court cases related to the low down payment insurance.

## Deferred income tax assets and liability

	30.06.2020			31.03.2020		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	1 659	(2 383)	(724)	1 659	(2 346)	(687)
Balance sheet valuation of financial instruments	117 736	(137 132)	(19 396)	238 697	(259 609)	(20 912)
Unrealised receivables/ liabilities on account of derivatives	13 284	(16 782)	(3 498)	12 927	(16 051)	(3 124)
Interest on deposits and securities to be paid/ received	36 737	(57 052)	(20 315)	32 287	(56 038)	(23 751)
Interest and discount on loans and receivables	0	(80 250)	(80 250)	0	(76 538)	(76 538)
Income and cost settled at effective interest rate	175 697	(3 613)	172 084	171 661	0	171 661
Impairment of loans presented as temporary differences	371 708	0	371 708	350 241	0	350 241
Employee benefits	21 481	0	21 481	21 916	0	21 916
Rights to use	7 118	0	7 118	6 911	0	6 911
Provisions for future costs	15 806	0	15 806	19 030	0	19 030
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	7 594	(67 200)	(59 606)	2 246	(31 195)	(28 949)
Other	6 740	(1 268)	5 472	6 755	(4 087)	2 668
<b>Total</b>	<b>775 560</b>	<b>(365 680)</b>	<b>409 880</b>	<b>864 330</b>	<b>(445 864)</b>	<b>418 466</b>

	31.12.2019			30.06.2019		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	1 659	(2 345)	(686)	1 659	(249)	1 410
Balance sheet valuation of financial instruments	84 191	(106 710)	(22 519)	55 663	(78 859)	(23 196)
Unrealised receivables/ liabilities on account of derivatives	13 753	(20 117)	(6 364)	9 468	(16 171)	(6 703)
Interest on deposits and securities to be paid/ received	33 268	(60 770)	(27 502)	25 021	(39 703)	(14 682)
Interest and discount on loans and receivables	0	(73 860)	(73 860)	0	(54 595)	(54 595)
Income and cost settled at effective interest rate	180 305	0	180 305	104 317	0	104 317
Impairment of loans presented as temporary differences	321 341	0	321 341	204 090	0	204 090
Employee benefits	20 140	0	20 140	14 663	0	14 663
Rights to use	5 971	0	5 971	6 040	0	6 040
Provisions for future costs	19 408	0	19 408	16 827	0	16 827
Valuation of investment assets, cash flows hedge and actuarial gains (losses) recognized in other comprehensive income	6 082	(21 762)	(15 680)	6 234	(19 739)	(13 505)
Other	6 123	(1 265)	4 858	4 977	(3 110)	1 867
<b>Total</b>	<b>692 241</b>	<b>(286 829)</b>	<b>405 412</b>	<b>448 959</b>	<b>(212 426)</b>	<b>236 533</b>

## 4. Transactions with Related Entities

All transactions among members of the Group made in 1<sup>st</sup> half 2020 and 2019 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLESKI,
- MILLENNIUM TFI,
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- MILLENNIUM GOODIE,
- PIAST EXPERT.

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

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

Assets and liabilities from transactions with related parties (data in '000 pln) as at 30.06.2020

	With subsidiaries	With parent company	With other entities from parent group
<b>ASSETS</b>			
Loans and advances to banks - accounts and deposits	0	37 403	0
Loans and advances to customers	5 689 452	0	0
Investments in associates	88 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	902	0	0
Hedging derivatives	0	0	0
Other assets	39 385	0	0
<b>LIABILITIES</b>			
Deposits from banks	0	314	125 417
Deposits from customers	349 335	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	0	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	0	372	0
Subordinated debt	0	0	0
Other liabilities, including:	116 111	0	143
financial leasing liabilities	111 513	0	0

Assets and liabilities from transactions with related parties (data in '000 pln) as at 31.12.2019

	With subsidiaries	With parent company	With other entities from parent group
<b>ASSETS</b>			
Loans and advances to banks - accounts and deposits	0	106 971	0
Loans and advances to customers	5 734 190	0	0
Investments in associates	88 874	0	0
Financial assets valued at fair value through profit and loss (held for trading)	948	0	0
Hedging derivatives		0	0
Other assets	43 052	0	0
<b>LIABILITIES</b>			
Deposits from banks	0	271	117 588
Deposits from customers	320 265	0	0
Liabilities from securities sold with buy-back clause	0	0	0
Liabilities arising from debt securities	551	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	4	361	0
Subordinated debt	0	0	0
Other liabilities, including:	136 826	0	215
financial leasing liabilities	131 106	0	0

Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.06.2020

	With subsidiaries	With parent company	With other entities from parent group
<b>Income from:</b>			
Interest	55 793	(107)	0
Commissions	8 921	66	0
Financial instruments valued at fair value through profit and loss	1 166	0	0
Dividends	35 665	0	0
Other net operating	3 443	0	0
<b>Expense from:</b>			
Interest	1 621	3	(159)
Commissions	1	0	0
Financial instruments valued at fair value through profit and loss	0	440	0
Other net operating	0	6	0
General and administrative expenses	12 779	0	237



Profit and loss on transactions with related parties (data in '000 pln) for the period 1.01-30.06.2019

	With subsidiaries	With parent company	With other entities from parent group
Income from:			
Interest	64 939	(33)	0
Commissions	25 319	109	0
Financial instruments valued at fair value through profit and loss	364	0	0
Dividends	42 110	0	0
Other net operating	8 422	0	0
Expense from:			
Interest	2 395	0	(145)
Commissions	2	0	0
Financial instruments valued at fair value through profit and loss	0	535	0
Other net operating	0	6	0
General and administrative expenses	18 917	0	447

Off-balance transactions with related parties (data in '000 pln) as at 30.06.2020

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	830 069	101 111	0
granted	827 213	100 345	0
obtained	2 856	766	0
Derivatives (par value)	100 949	16 003	0

Off-balance transactions with related parties (data in '000 pln) as at na 31.12.2019

	With subsidiaries	With parent company	With other entities from parent group
Conditional commitments	825 371	101 101	0
granted	822 429	100 345	0
obtained	2 942	756	0
Derivatives (par value)	117 695	15 807	0

## 5. Fair Value

The methodology used by the Bank for valuation of assets and liabilities at fair value is described in detail in Chapter 8. Condensed interim consolidated financial statements of Bank Millennium S.A. for the 6 months ended 30 June 2020.

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

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

30.06.2020	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST		
Debt securities	43 879	43 791
Deposits, loans and advances to banks and other monetary institutions	875 739	875 725
Loans and advances to customers (*)	69 265 085	66 824 490
LIABILITIES MEASURED AT AMORTISED COST		
Liabilities to banks and other monetary institutions	694 493	694 645
Liabilities to customers	86 461 156	86 518 472
Debt securities issued	639 816	646 355
Subordinated debt	1 545 238	1 548 487

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

31.12.2019	Balance sheet value	Fair value
ASSETS MEASURED AT AMORTISED COST		
Debt securities	48 153	46 875
Deposits, loans and advances to banks and other monetary institutions	784 248	784 091
Loans and advances to customers (*)	67 191 034	64 913 411
LIABILITIES MEASURED AT AMORTISED COST		
Liabilities to banks and other monetary institutions	849 452	850 852
Liabilities to customers	81 637 517	81 646 570
Debt securities issued	1 003 657	1 008 580
Subordinated debt	1 546 205	1 548 362

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

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

Data in PLN'000, as at na 30.06.2020

	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
	Level 1	Level 2	Level 3
<b>ASSETS</b>			
Financial assets held for trading			
Valuation of derivatives		102 622	40 209
Debt securities	337 016		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments			66 609
Debt securities			110 488
Loans and advances			1 480 998
Financial assets at fair value through other comprehensive income			
Equity instruments			29 383
Debt securities	26 052 956		
Derivatives - Hedge accounting		86 776	
<b>LIABILITIES</b>			
Financial liabilities held for trading			
Valuation of derivatives		92 422	37 510
Short positions	70 298		
Derivatives - Hedge accounting		678 043	

Data in PLN'000, as at 31.12.2019

	Level 1	Level 2	Level 3
<b>ASSETS</b>			
Financial assets held for trading			
Valuation of derivatives		47 091	65 537
Debt securities	874 033		
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments			66 609
Debt securities			103 001
Loans and advances			1 498 195
Financial assets at fair value through other comprehensive income			
Equity instruments			29 367
Debt securities	20 826 992	999 917	
Derivatives - Hedge accounting		43 159	
<b>LIABILITIES</b>			
Financial liabilities held for trading			
Valuation of derivatives		84 776	65 187
Short positions	202 265		
Derivatives - Hedge accounting		426 847	

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

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance as at 01.01.2020</b>	<b>61 294</b>	<b>(60 944)</b>	<b>95 976</b>	<b>103 001</b>	<b>1 498 195</b>
Settlement/sell/purchase	(18 325)	20 332	0	0	(33 990)
Change of valuation recognized in equity	0	0	0	0	0
Interest income and other of similar nature	0	0	0	0	43 210
Results on financial assets and liabilities held for trading	(7 081)	7 424	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	7 487	(26 417)
Result on exchange differences	0	0	16	0	0
<b>Balance as at 30.06.2020</b>	<b>35 888</b>	<b>(33 188)</b>	<b>95 992</b>	<b>110 488</b>	<b>1 480 998</b>

	Indexes options	Options embedded in securities issued and deposits	Shares	Debt securities	Loans and advances
<b>Balance as at 01.01.2019</b>	<b>35 430</b>	<b>(35 584)</b>	<b>50 651</b>	<b>43 187</b>	<b>1 250 525</b>
Settlement/sell/purchase	17 357	(15 736)	147	17 730	156 406
Change of valuation recognized in equity	0	0	172	0	0
Interest income and other of similar nature	0	0	0	0	114 665
Results on financial assets and liabilities held for trading	8 507	(9 624)	0	0	0
Result on non-trading financial assets mandatorily at fair value through profit or loss	0	0	45 000	42 084	(23 401)
Result on exchange differences	0	0	6	0	0
<b>Balance as at 31.12.2019</b>	<b>61 294</b>	<b>(60 944)</b>	<b>95 976</b>	<b>103 001</b>	<b>1 498 195</b>

## 6. Additional Information

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

During the six months ended June 30, 2020, the Bank's total liabilities under the issue of debt securities decreased by PLN 363.8 million. The decrease was mainly due to the redemption (in line with the contractual maturity) of BKMO T-series bonds worth PLN 300 million and Bank Securities (BPW) worth approximately PLN 62.0 million. In addition, during the first half of 2020, interest in the total amount of PLN 8.0 million was accrued whereas the value of interest paid was PLN 9.8 million, respectively.

### 6.2. OFF BALANCE SHEET ITEMS

Structure of off-balance sheet liabilities was as follows:

Amount '000 PLN	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>Off-balance conditional commitments granted and received</b>	<b>14 919 830</b>	<b>13 697 520</b>	<b>12 995 272</b>	<b>11 566 620</b>
Commitments granted:	14 173 255	13 146 288	12 452 047	11 039 692
- financial	11 651 746	10 657 657	9 939 514	8 624 957
- guarantee	2 521 509	2 488 631	2 512 533	2 414 735
Commitments received:	746 575	551 232	543 226	526 928
- financial	26 065	0	0	7 399
- guarantee	720 510	551 232	543 226	519 529

Date	Name and surname	Position/Function	Signature
22.07.2020	Joao Bras Jorge	Chairman of the Management Board	Signed by a qualified electronic signature
22.07.2020	Fernando Bicho	Deputy Chairman of the Management Board	Signed by a qualified electronic signature
22.07.2020	Wojciech Haase	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Andrzej Gliński	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Wojciech Rybak	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Antonio Pinto Junior	Member of the Management Board	Signed by a qualified electronic signature
22.07.2020	Jarosław Hermann	Member of the Management Board	Signed by a qualified electronic signature