



**Management Board Report on the Performance of mBank S.A. Group
in H1 2019**

Table of contents

1. About mBank Group	3
1.1. Executive summary	3
1.2. mBank’s Authorities	4
1.3. Composition of mBank Group and key areas of activity	5
1.4. Subsidiaries of mBank Group	6
1.5. Rating of mBank and mBank Hipoteczny	7
1.6. mBank shareholders and performance of mBank shares on the WSE	9
2. Business activity and key achievements	10
2.1. Key projects of mBank Group in H1 2019	10
2.2. Awards and distinctions	15
2.3. Retail Banking	17
2.4. Corporates and Financial Markets	25
2.5. Subsidiaries of mBank Group	33
3. Financial results and macroeconomic environment	36
3.1. Economy and banking sector in H1 2019	36
3.2. Financial results of mBank Group in H1 2019	43
4. Risk management	55
4.1. Risk management foundations and key changes in H1 2019	55
4.2. Main risks of mBank Group’s business	56
4.3. Capital adequacy	66
5. Statements of the Management Board	69

1. About mBank Group

1.1. Executive summary

mBank Group is the fourth-largest financial institution in Poland in terms of assets, offering retail, corporate and investment banking as well as other financial services such as leasing, factoring, insurance, financing of commercial real property, brokerage operations, wealth management, corporate finance and capital markets advisory. mBank is the only Polish bank which successfully extended its domestic business model on foreign markets by launching retail operations in the Czech Republic and Slovakia in 2007.

The Polish economy remained highly resilient to external factors in H1 2019. Poland's GDP increased by 4.6-4.7% year on year, which represents only a modest slow-down compared to late 2018 (4.9% year on year in Q4 2018). Private consumption remained the key driver of growth in H1 2019, rising 4% year on year. Inflation rose sharply in H1 2019 as well: the year on year consumer price index grew from 0.7% year on year in January to 2.6% year on year in June. According to recent statements of the NBP Governor, interest rates will remain unchanged till the end of term of the Monetary Policy Council (end of 2021).

H1 2019 in the banking sector was marked by continued decrease of the loan to deposit ratio: despite an acceleration of lending, the growth rate of deposits exceeded that of loans.

mBank Group reported growth in all business segments in H1 2019. Income was record-high, supported by stable growth in volumes, an improving structure of assets, and a growing customer base and transactionality. The net profit decreased year on year due to gains on the sale of an organised part of the enterprise of mFinanse booked in 2018 and a higher contribution to the Banking Guarantee Fund in 2019.

Key highlights of H1 2019:

- **Increase in core income** by 8.9% year on year driven by dynamic increase of net interest income;
- **Increase in operating expenses (including depreciation)** by 12.9% year on year driven mainly by a higher contribution to the Bank Guarantee Fund combined with maintained efficiency measured by the cost to income ratio (normalised cost to income ratio at 45.0% in H1 2019 compared to 44.8% in H1 2018);
- **Increase in net impairment losses and fair value change on loans and advances** by 9.1%, driven by higher provisions in the retail banking segment;
- Increase in volumes:
 - **Increase in net loans and advances** by 6.0% year to date, driven by intensive sales initiatives in Retail Banking and in Corporate & Investment Banking;
 - **Increase of amounts due to customers** by 8.2% year to date, mainly driven by inflow of funds to retail current accounts;
- The expansion in retail loans was reflected by **record-high sales of non-mortgage loans**, which stood at PLN 5,195.8 million (in Poland, the Czech Republic and Slovakia), representing an increase in sales by 19.9% year on year. The **sales of mortgage loans increased** sharply to PLN 3,710.7 million in H1 2019, up by 72.8% year on year;
- As a result of the increase in loans and deposits, **the loan to deposit ratio reached 91.0%** compared to 90.7% as of December 31, 2018;
- **High quality of the capital base**: the capital ratios were in excess of the regulatory requirements with CET 1 ratio at 16.7% and the total capital ratio at 19.7%.

1.2. mBank's Authorities

In H1 2019 there were no changes in the composition of the Management Board and the Supervisory Board of mBank and as of June 30, 2019, they were composed as follows:

Supervisory Board of mBank

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Tomasz Bieske – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski – Member of the Supervisory Board
8. Jörg Hessenmüller – Member of the Supervisory Board
9. Thorsten Kanzler – Member of the Supervisory Board
10. Michael Mandel – Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

There newly appointed Supervisory Board has 4 independent members: Tomasz Bieske, Janusz Fiszer, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska.

Management Board of mBank

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Frank Bock – Vice-president of the Management Board, Head of Financial Markets
3. Andreas Böger – Vice-president of the Management Board, Chief Financial Officer
4. Krzysztof Dąbrowski – Vice-president of the Management Board, Head of Operations and Information Technology
5. Lidia Jabłonowska-Luba – Vice-president of the Management Board, Chief Risk Officer
6. Cezary Kocik – Vice-president of the Management Board, Head of Retail Banking
7. Adam Pers – Vice-president of the Management Board, Head of Corporate and Investment Banking.

Further information on competences of particular members of the Management Board can be found at: <https://www.mbank.pl/en/about-us/bank-authorities/>.

1.3. Composition of mBank Group and key areas of activity

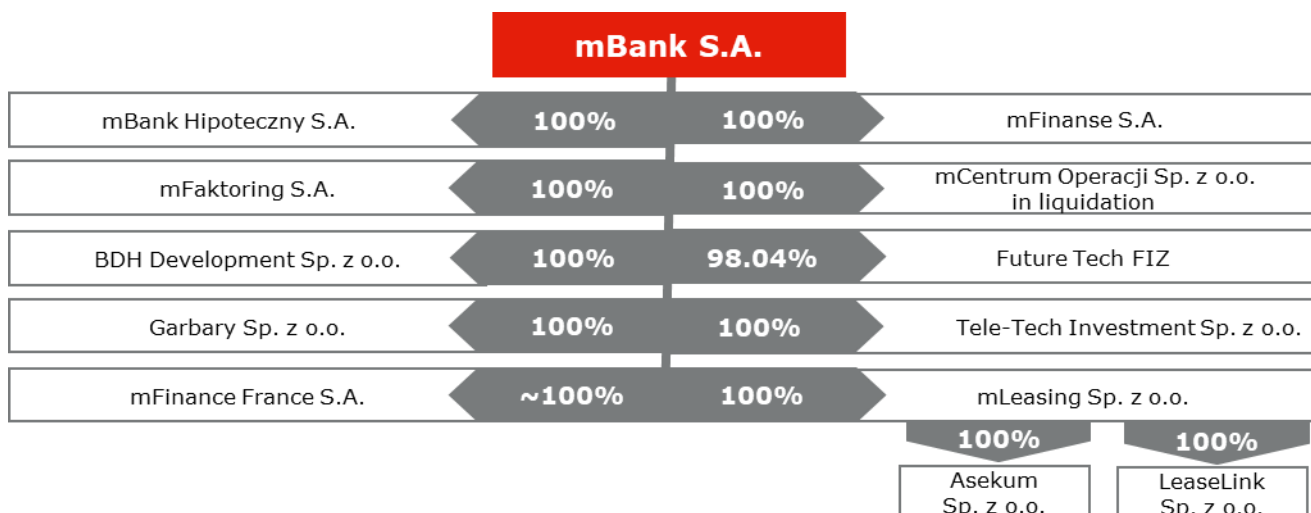
The subsidiaries of mBank Group offer a complex service for the customers and allow for processes optimisation and achieving various business targets. The structure of mBank Group from the perspective of segments and business areas is presented below:

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	Financial markets
Bank	<ul style="list-style-type: none"> ■ Retail customers, Private Banking clients and microenterprises ■ Affluent retail customers (Private Banking and Wealth Management) 	<ul style="list-style-type: none"> ■ Corporations and non-banking financial institutions (K1) ■ Large Companies (K2) ■ Small and Medium Enterprises (K3) 	<ul style="list-style-type: none"> ■ Banks ■ Corporate clients in scope of trading and sales ■ Market and Liquidity Risk Management
Consolidated subsidiaries	<ul style="list-style-type: none"> ■ mLeasing Sp. z o.o. – Retail ■ Asekum Sp. z o.o.¹ - Retail ■ mBank Hipoteczny S.A. - Retail ■ mFinanse S.A. 	<ul style="list-style-type: none"> ■ mLeasing Sp. z o.o. – Corporate ■ Asekum Sp. z o.o.¹ - Corporate ■ mBank Hipoteczny S.A. - Corporate ■ mFactoring S.A. ■ LeaseLink Sp. z o.o.¹ ■ Garbary Sp. z o.o. ■ Tele-Tech Investment Sp. z o.o. 	<ul style="list-style-type: none"> ■ mFinanse France S.A. ■ mLeasing Sp. z o.o. – within the scope related to fund raising ■ mBank Hipoteczny S.A. – within the scope related to fund raising
	<p>Other subsidiaries</p> <ul style="list-style-type: none"> ■ mCentrum Operacji Sp. z o.o. in liquidation ■ BDH Development Sp. z o.o. (real estate management) ■ Future Tech FIZ 		

¹mBank owns 100% shares in Asekum Sp. z o.o. and in LeaseLink Sp. z o.o. indirectly, through mLeasing Sp. z o.o.

Key changes in the organisational structure of mBank Group S.A. in first half of 2019 comprise purchase of 100% shares in LeaseLink by mLeasing. Transaction, which was concluded on March 8, 2019, complements Group’s competences in Fintech sector. LeaseLink specialises in leasing payment services, enabling online assets purchase through a digital process in e-commerce and regular shops. Its activity strengthens mLeasing’s position in funding of small and medium enterprises.

mBank Group (including consolidated subsidiaries) as at the end of June 2019 was composed as presented on the diagram below.



1.4. Subsidiaries of mBank Group

Key Subsidiaries of mBank Group from the perspective of client offer

	<ul style="list-style-type: none"> ■ the longest track record of issuing covered bonds on the Polish capital market ■ providing stable, long-term and secure funding of mBank Group with use of pooling model in cooperation with mBank ■ diversification of funding sources by means of covered bonds in PLN and foreign currencies (currently EUR) ■ analysis and advisory services addressed to investors and entities active on the commercial real property market ■ rating of Moody's Investor Services of Aa3 for covered bonds – the highest possible rating of financial instruments issued from Poland; the rating is higher than Poland's rating by 2 notches and 5 notches above the issuer long-term rating of Baa2
	<ul style="list-style-type: none"> ■ third position on the real-estate leasing market and fourth place on leasing market in 2018 (last available data) ■ offer including leasing, loans, car fleet rental and management for both corporate clients and individuals ■ various leasing products in corporate segment, including lease of private and commercial cars, heavy transport vehicles, car fleet management, lease of machines and equipment, real property lease ■ in the retail segment the subsidiary operates the "Leasing in Retail" programme addressed to micro-enterprises and SMEs, which can sign lease contracts using dedicated lease processes
	<ul style="list-style-type: none"> ■ fifth position on the Polish factoring market among the members of the Polish Factors Association – rise by 1 position compared to 2018 ■ financing of ongoing business operations, receivables management, credit protection, maintenance of debtors' settlement accounts and enforcement of receivables; the offer includes also domestic and export factoring with recourse and credit protection, as well as import guarantees ■ factoring for self-employed individuals available in 5 minutes online ■ mFaktoring's offer available in all mBank branches providing services to SMEs and corporations in Poland ■ leader of IT solutions among factoring companies; client service via Client Manager – Internet Service for Factoring Agreement Management ■ Member of Factors Chain International
	<ul style="list-style-type: none"> ■ intermediary operations as an open platform for selling financial products of various institutions, including mBank ■ the offer includes loans and advances, accounts, insurances as well as leasing for both individuals and companies ■ offer of 13 financial entities in more than 198 outlets across Poland

1.5. Rating of mBank and mBank Hipoteczny

mBank has ratings from Fitch Ratings (Fitch) and S&P Global Ratings (S&P), assigned at mBank's request. The ratings are based on information provided to the agencies in accordance with their requirements and on conversations between analysts and mBank's representatives. Moreover, Moody's Investors Service (Moody's) and Capital Intelligence Ratings (CI) assign ratings to mBank on the basis of publicly available information (rating not ordered by the bank).

Furthermore, mBank Hipoteczny and its mortgage covered bonds have been rated. The ratings were ordered by mBank Hipoteczny. The details are presented below.

Ratings of mBank and mBank Hipoteczny assigned by Fitch Ratings

In H1 2019, Fitch Ratings did not change the ratings for mBank and mBank Hipoteczny. On November 30, 2018, Fitch affirmed all ratings and the outlook on the long-term rating for mBank and mBank Hipoteczny.

On May 28, 2019, mBank Hipoteczny terminated its agreement on covered bond rating concluded with Fitch. On July 16, 2019, Fitch Ratings announced that rating of covered bonds ("A") will be withdrawn within 30 days from the date of the announcement.

Fitch Ratings	Ratings of mBank	Ratings of mBank Hipoteczny
Long-term IDR (for foreign currencies)	BBB (stable outlook)	BBB (stable outlook)
Short-term IDR (for foreign currencies)	F2	F2
Viability rating	bbb-	
Support rating	2	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB	-
Ratings of mortgage covered bonds issued by mBank Hipoteczny	-	A (stable outlook)

mBank's rating assigned by S&P Global Ratings

In H1 2019, S&P's ratings did not change. On June 17, 2019, S&P affirmed Long-term Issuer Credit Rating for mBank at "BBB+" and short-term Issuer Credit Rating at "A-2". The outlook on mBank's long-term Issuer Credit Rating remains negative, just like the outlook for its parent entity – Commerzbank AG.

S&P Global Ratings	Ratings of mBank
Long-term Issuer Credit Rating (for foreign currencies)	BBB+ (negative outlook)
Short-term Issuer Credit Rating (for foreign currencies)	A-2
Stand-alone Credit Profile (SACP)	bbb
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB+
Long-term Resolution Counterparty Rating (long-term RCR)	A-
Short-term Resolution Counterparty Rating (short-term RCR)	A-2

Ratings of mBank and mBank Hipoteczny assigned by Moody's Investors Service

On May 24, 2019, Moody's upgraded mBank's long-term deposit rating of mBank from "Baa1" to "A3" and changed the rating outlook from positive to stable. The long-term deposit rating upgrade was due to the upgrade of the bank's baseline credit assessment (BCA) from "ba1" to "baa3". According to the agency,

the BCA upgrade was driven by the bank's strong performance and improving credit profile. As a consequence, mBank's Adjusted BCA was upgraded from "baa3" to "baa2".

Additionally, Moody's upgraded mBank's long-term Counterparty Risk Rating from "A3" to "A2" and short-term Counterparty Risk Rating from "Prime-2" to "Prime-1".

On May 27, 2019, Moody's assigned the "Aa3" rating to cover bonds issued by mBank Hipoteczny. This is the highest possible rating that can be assigned to financial instruments issued in Poland (local and foreign currency bond ceilings for Poland). The "Aa3" rating (which is equivalent to "AA-" on Fitch's and S&P's scale) is by 2 notches higher than Poland's sovereign rating assigned by Moody's.

The long-term and short-term issuer ratings assigned to mBank Hipoteczny were "Baa2" and "Prime-2", respectively. The outlook on the long-term rating is stable.

At the same time, the agency assigned mBank Hipoteczny a long-term Counterparty Risk Rating (CRR) at "A3" and a short-term CRR at "Prime-2".

Moody's Investors Service	Ratings of mBank *	Ratings of mBank Hipoteczny
Long-term deposit rating (for foreign currencies)	A3 (stable outlook)	-
Short-term deposit rating (for foreign currencies)	Prime-2	-
Long-term Issuer Rating	-	Baa2
Short-term Issuer Rating	-	Prime-2
Long-term Counterparty Risk Rating (CRR)	A2	A3
Short-term counterparty risk rating (short-term CRR)	Prime-1	Prime-2
Baseline credit assessment (BCA)	ba1	-
Adjusted BCA	baa3	-
Ratings of mortgage covered bonds issued by mBank Hipoteczny	-	Aa3

* rating based solely on publicly available information.

Rating of mBank assigned by Capital Intelligence Ratings

mBank's rating assigned by CI Ratings is based on publicly available information. On June 28, 2019, CI Ratings upgraded its long-term rating of mBank from "BBB+" to "A-" and affirmed the short-term rating at "A2". The outlook on the long-term rating is stable. Moreover, CI Ratings assigned mBank a Bank Standalone Rating (BSR) at "bbb+" and CFS (core financial strength) at the same level.

In the agency's opinion, the long-term rating upgrade reflects mBank's strong capital base (its capital ratios are among the sector's best) and high loss-absorbing capacity, as well as its relatively low non-performing loans ratio (NPL) compared with the peer group.

Capital Intelligence Ratings	Ratings of mBank*
Long-Term Rating (for foreign currencies)	A- (stable outlook)
Short-Term Rating (for foreign currencies)	A2
Bank Standalone Rating (BSR)	bbb+
Core Financial Strength (CFS)	bbb+

* rating based solely on publicly available information.

The table below compares long-term ratings (for foreign currency) for mBank, Commerzbank and Poland as at June 30, 2019.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB (stab.)	BBB+ (stab.)
S&P Global Ratings	A- (stab.)	BBB+ (neg.)	A- (neg.)
Moody's Investors Service	A2 (stab.)	A3 ¹ (stab.)	A1 (stab.)

¹ Long-term deposit rating.

Rating outlook in brackets: stab. – stable, neg. – negative.

1.6. mBank shareholders and performance of mBank shares on the WSE

Information on mBank shares and shareholders

mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992.

As at June 30, 2019, mBank's registered share capital amounted to PLN 169,347,928 and was divided into 42,336,982 shares, including 42,324,982 ordinary bearer shares and 12,000 ordinary registered shares with a nominal value of PLN 4 each. Each share gives the right to one vote at the General Meeting. In H1 2019, the number of mBank's shares remained unchanged.

mBank shares belong to WSE indices: WIG, WIG-Poland, WIG20, WIG30, WIG 20TR, WIG 30TR, WIG-banking and Respect Index.

Commerzbank AG is the majority shareholder of mBank, holding 69.33% of the share capital and votes at the General Meeting. 30.67% of mBank shares are in free float. These shares are held mainly by financial investors, in particular Polish pension funds and Polish and foreign investment funds. Nationale-Nederlanden Otworthy Fundusz Emerytalny holds the largest stake. At the 32nd Annual General Meeting of mBank S.A. held on March 28, 2019, Nationale-Nederlanden Otworthy Fundusz Emerytalny registered shares making up 4.72% of the share capital.

Performance of mBank shares on the WSE

The situation on the WSE is largely affected by the situation on foreign stock markets and foreign investors' sentiment towards the emerging markets basket.

The major world indices (such as S&P 500, Nasdaq-100, Dow Jones Industrial, Nikkei 225, Dax, FTSE 100, CAC 40) indicate that H1 2019 was a good period for stock market investors, whereas developed markets performed better than developing markets.

However, share prices grew mostly in Q1 2019, while Q2 2019 brought higher volatility and consolidation. Nervousness and higher volatility of share prices observed on the American market in Q2 2019 resulted from fears of a bear market after a long growth period and escalation of tension between the US and China, as well as from further tariffs being imposed on Chinese goods by the US administration. In Western Europe, sentiment on stock markets was driven, among others, by the unresolved Brexit issue, an economic slowdown, the clash over budget between Italy and the EU, and the results of the European Parliament election in the context of increased popularity of far-right and populist parties.

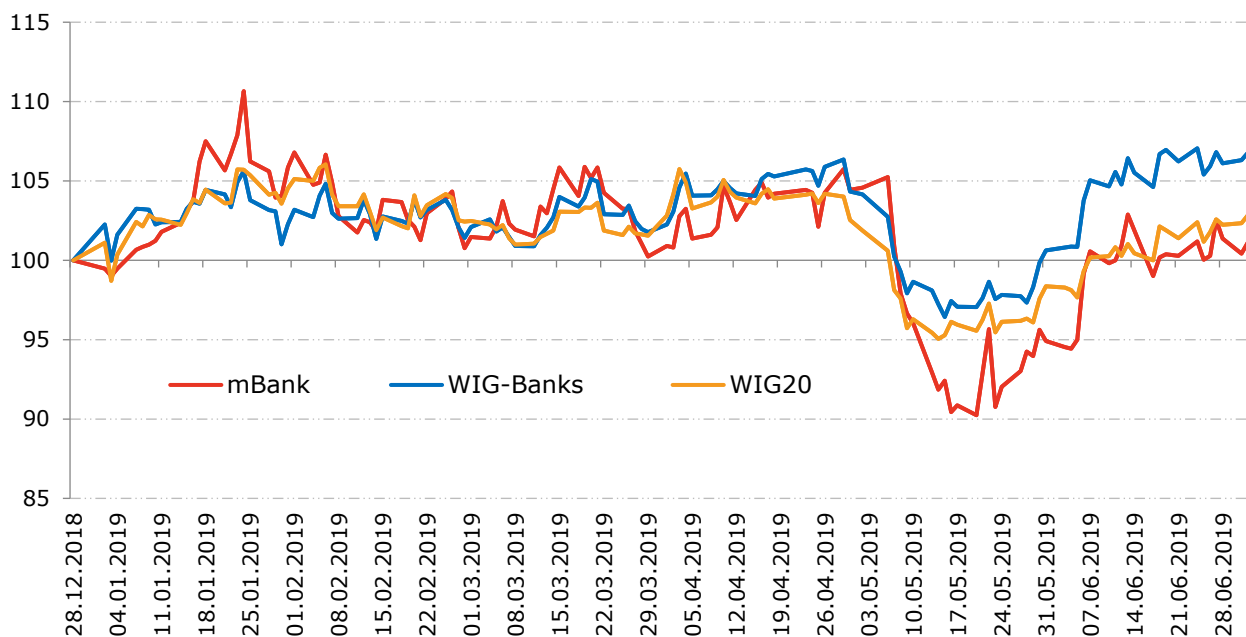
As regards the WSE, the half-year ended with main indices growing insignificantly. Periods of bullish market were interwoven with major drops. There was no strong demand stimulus on the part of foreign investors or domestic institutional investors. Final determination of the shape of the open-ended pension funds reform did not have any major impact on the WSE. In the short term, the solutions adopted will not require pension funds to sell shares. The only risk factor is the number of people willing to choose the Social Insurance Institution (ZUS) to avoid the 15% transformation fee. In the long term, the conditions on the WSE will be affected, among others, by the launch of Employee Capital Plans – the new retirement savings scheme.

In May, share prices of WSE-listed companies were negatively impacted by changes in MSCI Emerging Markets indices, which resulted in an outflow of foreign capital from the WSE. This affected 19 Polish companies in the MSCI Poland index (mainly WIG20 companies) and several companies in the MSCI Poland

Small Cap index. As a result of the May reclassification, 50% of Saudi stocks were added to MSCI Emerging Markets, A-class Chinese companies were upgraded, and shares of Argentinian companies were added to the index. This led to a drop in the Polish market's share in MSCI Emerging Markets indices.

June saw a major rebound of share prices, however, the main indices WIG and WIG20 did not reach the levels recorded at the end of April 2019.

mBank's share performance v. main WSE indices



In H1 2019, WIG20 and the broad-based WIG index went up by 2.2% and 4.3%, respectively.

The closing price per mBank share during the last session in H1 2019 (June 28) stood at PLN 430.00, representing an increase by 1.4% compared with the price reported on the last business day of 2018 (December 28). In the same period, WIG-banking index went up by 6.1%. For comparison, EURO STOXX Banks Index grew by 1.3% in H1 2019.

mBank's capitalisation amounted to PLN 18.2 billion (EUR 4.3 billion) as at June 30, 2019, compared with PLN 18.0 billion (EUR 4.2 billion) at the end of 2018 and PLN 16.9 billion (EUR 3.9 billion) a year before.

The P/BV (price/book value) ratio of mBank Group stood at 1.2 as at June 30, 2019. The same level was reported a year before. The P/E ratio (price/earnings per share) reached 18.4 after H1 2019, compared with 12.1 after H1 2018.

The current consensus regarding mBank Group's expected results is available on mBank's website: www.mbank.pl/relacje-inwestorskie/akcje-mbank/konsensus.html.

2. Business activity and key achievements

2.1. Key projects of mBank Group in H1 2019

Refreshed online banking

At mBank, we constantly strive to make our transaction service and mobile application more intuitive, user-friendly and convenient to use. Given the currently fast-growing level of mobile banking quality, we are trying to regularly improve the features of our mobile application, which was used by 1.7 million users at the end of June 2019. In H1 2019, we not only focused on expanding our product range, but also to a large extent tried to improve the existing functionalities. At the end of H1 2019, as many as 36% of our

clients used mBank's mobile solutions, including over 640,000 clients were mobile only. In response to the needs of our clients, in H1 2019 we implemented the following functions, among others:

Multi-currency service for MasterCard holders

One of the new features is to expand the availability of our multi-currency service. Initially, it was used as an add-on to Visa cards. From this year on, customers with a Mastercard debit card can also use it. The service enables clients to pay abroad free of charge. When they activate it, the card automatically "switches" to the appropriate currency and draws money from the appropriate sub-account. In total, we have introduced seven new currency accounts, increasing their number to 11. Accounts are available in USD, EUR, HUF, GBP, CHF, JPY, CZK, DKK, NOK and SEK as well as HRK.

Customers can fully enjoy the benefits of our multi-currency service and currency account by funding them in currency free of charge through our mKantor. It operates 24 hours a day, in the transaction service and the bank's mobile application.

In addition, mBank also offers a special multi-currency card - Visa Intensive Świat. It provides access to up to 150 currencies for holders of the mKonto Intensive package and allows them to withdraw free of charge from ATMs around the world. The product complements the wide range of choices that mBank guarantees its customers during foreign trips.

Improved offer for young customers

In H1 2019, we also took care of our individual customers. mBank has introduced a simplified offer for them, including a new eKonto account and a youth account. Both are free of charge, with a free withdrawal service from all ATMs in the country.

We have introduced exceptionally easy to meet price conditions, including free opening and maintenance of an account, no card fees with minimal activity of our clients, and facilities for withdrawals from ATMs in Poland and around the world. In the case of young mBank clients, our offer includes even more advantageous services, such as unconditionally free payment cards.

New mobile app features

The mobile application, which debuted in February 2014, has undergone many changes and innovations in just a few years, both in its appearance and in its new features, thanks to which more than half of our active customers continue to use our mobile solutions. They include, among others:

- **Adding a payee to the address book** - when making the next transfer to a new recipient, the customer is presented with an option of marking it as "trusted". By confirming this operation with a PIN, our customers' transactions are always secure;
- **Changing the PIN code on the card** - the possibility of changing the PIN code on the card in a simple and quick way via the mobile application;
- **Unblocking access to the transaction service in the application** - gaining access to the transaction service again in just a few minutes using our application;
- **Repeated transfers to Social Security Office (ZUS) and Tax Office (US)** - making the option of "redo" available, thanks to which it is possible to save and modify the data for the transfer;
- **Partial withdrawal option** - this feature allows customers to quickly withdraw funds from their savings account at any time;
- **Own QR code** - mBank clients can create their own QR code from the application level; this function is useful when they do not want to send the entire account number to, for example, several people;

- **SEPA currency transfers** - a convenient and fast function that allows clients to make foreign currency transfers abroad (in the EU and EEA countries) from the mobile application level;
- **Secure personal data** - we have enabled the option of reserving the ID card and changing personal data in the mobile application. Thanks to this, our customers can easily and effectively block a document that is important to them, without the need to contact the bank.

Extended insurance offer in mobile application

In H1 2019, we expanded the range of insurance products delivered in cooperation with AXA. In addition to the attractive offer, we enable a convenient purchase of insurance, which is confirmed by the release of new products in the mobile application. With one application, our customers can purchase life insurance, cancer insurance and accident insurance. AD&D (accidental death and dismemberment) insurance is also available for partners and children of mBank clients. We also enabled the purchase of property insurance through the mobile application.

mBank limits coal financing and focuses on RES (Renewable Energy Sources)

As a socially responsible organisation, mBank takes into account its own impact on the environment in its activities. Our organisation has decided to limit its funding for coal-fired power generation and mines. Therefore, in March this year we made an important decision to change the rules for crediting the mining and coal power industries. Since April 1, 2019, mBank has not been financing new coal mines and coal-fired power units. It will also not establish relations with companies in which the share of electricity from this raw material (calculated on the basis of generation capacity measurement) is over 50%. At the same time, we want to promote environmental solutions, in particular by financing projects that reduce CO2 emissions and carbon consumption.

In order to actively support pro-ecological initiatives, we are developing a wind farm and photovoltaic loan financing policy, adopted in 2018. Importantly, we want to carry out some projects in cooperation with our main shareholder - Commerzbank, which has extensive experience in this field in Europe.

mBank is eco-friendly

In March 2019, we took the initiative to stop buying mineral water in plastic bottles and switch to the so-called "tap water". Additionally, mBank stopped using of disposable cutlery and dishes. As it was calculated, every year about 4 tons of plastic was put into the basket on this account. It is also worth noting that we have reduced our paper consumption, among other things thanks to the print monitoring system, which has saved several million pages of paper. In branches, customers can confirm transactions using the mobile application, instead of signing paper printouts. We encourage our employees to move around the city by bike - in spring we organize free bicycle reviews, and throughout the season we provide parking spaces for cyclists - employees of Przystanek mBank in Łódź can use the largest bicycle parking lot in the city.

Launch of Sandbox - a test environment for developers

In accordance with the provisions of the EU PSD2 directive, mBank made available sandbox - the test API environment (Application Programming Interface), thanks to which potential bank partners can test the connection with its IT systems. "Sandbox" is a special IT system designed for third-party developers, i.e. TPP (Third-Party-Provider). mBank obtained the approval of the Polish Financial Supervision Authority (KNF) to act as TPP in July 2019.

In the future, financial market-related TPPs will be able to use bank systems to provide alternative services, such as initiating payments or aggregating information on client transactions. As part of the "sandbox", these companies can test the functionality of mBank's API to prepare for the production implementation of these services. Not only certified entities can use the environment, but also those who haven't submitted their application yet, but from the bank's perspective they conduct interesting and innovative activities. We have observed a great interest of external entities in testing our API, so we are able to constantly improve it on the basis of collected comments and opinions. Developers and people interested in the technical face of PSD2 are invited to visit the website dedicated to mBank API, where a simple registration enables test operations in a secure environment: <https://developer.api.mbank.pl/>

The operator of mBank sandbox, based on the Polish API standard, is a company from the capital group - mElements, an entity specialising in e-commerce solutions and API banking.

All relevant information for our individual, corporate, SME clients in the PSD2 area is available at <https://www.mbank.pl/psd2/>. In addition to a concise description of PSD2, readers can learn about the dates and scope of changes resulting from mBank's adjustment to the directive, including shortening the complaint handling time and transaction authorisation methods.

LeaseLink bought by mLeasing

In March 2019, mLeasing finalised the purchase of 100% of shares in LeaseLink - a company established in 2015, specialising in fintech in the leasing and e-commerce sectors. Over the last four years, LeaseLink has built its position as the leader of online leasing in the low denomination transactions segment. Fintech services are offered by nearly two thousand online shops, including the largest ones, such as Allegro, MediaMarkt, RTV Euro AGD and stationary shops, such as the IKEA Centre for Business and FotoJoker. LeaseLink offers its product primarily online - the company has created a special application, thanks to which they are the only ones in the world to provide leasing payment services, such as pay-by-link. By paying in this way, customers can instantly finance the purchase of assets regardless of the time and place of the transaction and without paper documents.

mLeasing is the sole owner of LeaseLink, and the value of the company's purchase transaction amounted to PLN 31.6 million. The total purchase of shares gave mLeasing a significant strengthening of its position in the area of financing small and medium-sized enterprises.

mAccelerator – mBank's fund for investments in start-ups

mAccelerator is the first fund in Central and Eastern Europe focusing on the development and commercialisation of state-of-the-art technology. Its budget for the development of innovative technology is EUR 50 million, i.e., more than PLN 200 million. The fund invests in startups which are likely to become partners to financial institutions around the world, currently focusing on cybersecurity, biometry, robotic process automation, artificial intelligence and digital marketing with a focus on chatbots and messengers. The fund steadily extends its investment portfolio. Its first investments in 2017 included: Digital Fingerprints, CyberRescue, and Digital Teammates. ChatForce and Samito (formerly SaveCart) joined the mAccelerator investment portfolio in 2018 and HCM Deck joined the fund in July 2019. The fund portfolio currently includes six companies:

- Digital Fingerprints – cybersecurity solutions based on passive biometry;
- CyberRescue – online security support services for individuals;
- Digital Teammates – Robotic Process Automation company;
- ChatForce (Bot4Business) – platform supporting automated customer communications via mobile communication platforms;
- Samito (formerly SaveCart) – marketing automation tools for online stores;
- HCM Deck – technology HR platform supporting HR and L&D departments in management, automation and analysis of HR development in large organisations.

Digital Fingerprints provides a system which analyses users' computer, mouse and touchpad behaviour patterns. Such data help to authenticate online banking users and prevent fraud including online theft.

CyberRescue assists clients who experience problems with network and hardware security. It can be reached by text message, Messenger, phone and email.

Digital Teammates is a provider of RPA (Robotic Process Automation) solutions in a unique Rent a Robot model. With proprietary technology and specialised staff, the company can assess the robotic potential, produce robots and launch them for clients within weeks.

ChatForce is a platform of automated communication with clients via mobile messaging systems including Messenger and WhatsApp. ChatForce interacts with messaging systems and learns from the user's previous conversations.

Samito offers a tool which monitors client activity and preferences to develop behavioural patterns. As a result, it displays real-time customised ads and sends messages and shopping recommendations to customers.

HCM Deck supports HR development with a state-of-the-art HR platform. It assists HR and L&D (Learning & Development) departments in planning of team competence development, provision of specialised educational tracks, individual employee development, organisation and delivery of on-site and online training.

EMTN Programme

The Euro Medium Term Notes Programme (EMTN), which makes it possible to issue debt securities with different interest structures in many tranches and currencies up to EUR 2 billion, started in April 2012. The bonds were issued by mFinance France, a company operating under French law based in Paris, and backed by mBank. In the period from 2012 to 2017 mFinance France carried out 6 issues of euro bonds denominated in CHF, EUR and CZK.

On April 11, 2018, mBank's Management Board passed a resolution authorising the execution of a new debt securities issue programme (Euro Medium Term Note Programme) by mBank directly. The programme will be carried out in many tranches and currencies. The securities will have different interest and maturity structure. The maximum principal amount was set at EUR 3 billion ("New EMTN Programme"). The New EMTN Programme is an update of the existing debt securities issue programme implemented by mFinance France.

The debt securities issued as part of the New EMTN Programme may be admitted to trading on the Luxembourg stock exchange and in other European countries. They may also be traded simultaneously on several stock exchanges.

On June 7, 2018, mBank issued four-year bonds with a face value of CHF 180 million and interest of 0.565%. The issued bond tranche was rated BBB+ and BBB by S&P Global Ratings (S&P) and Fitch Ratings (Fitch) respectively. The ratings correspond to the ratings of the EMTN Programme and the long-term ratings of mBank assigned by S&P and Fitch.

On April 1, 2019, an EMTN tranche of EUR 500 million was repaid. Only a few days later, on April 5, 2019, mBank issued unsecured bonds of CHF 125 million, with 5.5Y maturity and a coupon of 1.0183%. The bonds are governed by the British law and are traded on the SIX Swiss Exchange Ltd.

The table below presents a summary of outstanding tranches issued by mFinance France and mBank:

Issuer	Date of issue	Nominal value	Maturity date	Coupon
mFinance France	26.11.2014	EUR 500 M	26.11.2021	2.000%
mFinance France	26.09.2016	EUR 500 M	26.09.2020	1.398%
mFinance France	28.03.2017	CHF 200 M	28.03.2023	1.005%
mBank	07.06.2018	CHF 180 M	07.06.2022	0.565%
mBank	05.09.2018	EUR 500 M	05.09.2022	1.058%
mBank	05.04.2019	CHF 125 M	04.10.2024	1.0183%

2.2. Awards and distinctions

In H1 2019, mBank Group has gained recognition, winning a number of awards and distinctions, with the most important as follows:

Mobile Trends Awards 2018

The first quarter brought mBank two awards at the Mobile Trends Awards 2018, an annual gala that honours companies and institutions that make the best use of mobile technologies in their projects. We took first place in the category "Banking and Finance" and second place in the Internet users' voting. From the very beginning of the Mobile Trends Awards competition, we have won a total of 11 awards, including being 8 times at the top. We have also gained recognition for the implementation of mobile authorization and mTransfer mobile service.

Award in the "Service Quality Star" contest

In addition, we were named the most friendly company in the consumers' opinion, winning a statuette in the "Star of Service Quality" competition organized by the "Polish Service Quality Programme". Its mission is to raise the standard of relations with customers through constant monitoring of their satisfaction level.

"Banking Innovation of the Year 2019"

"Forbes" magazine acknowledged mBank in the famous "Banking Innovation of the Year 2019" ranking, during which our pioneering behavioural biometrics pilot programme was honoured. This innovative security tool, developed together with the company Digital Fingerprints, aims at precise analysis of user interaction with a computer and mobile device. The second place on the podium was taken by a company-opening service, which allows the opening of a company remotely through a bank, without a visit to the office. In the "top 10", experts also placed a credit API service, created by mElements S.A. Moreover, in the plebiscite Banker of the Year 2019, the President of mBank, Cezary Stypułkowski, took the third place.

mBank in the "Golden Banker 2019" plebiscite

We have received two valuable distinctions in this year's ranking of "Golden Banker 2019" (Złoty Bankier 2019). The first one, in the category "Safe Bank - Best Practices", was awarded for the best banking security practices. According to experts from Observatory.biz and SecurRing, mBank was awarded one of the three main prizes for high quality security features used in our mobile and online banking. In addition, another distinction in the "Fin-tech Innovation" category went to mBank and Digital Fingerprints for ground breaking behavioural biometry.

mBank as "Trustworthy Brand 2019"

mBank received a double award in the "Trustworthy Brand 2019" survey. We were appreciated in the category "Bank offering loans and credits for companies" and "Bank offering a corporate account". The aim of the survey published by the business monthly "My Company Polska" was to determine the level of confidence of Polish entrepreneurs in brands of products and services aimed at business.

mBank is the winner of the "Banking Stars" competition

In the ranking "Banking Stars" organized by Dziennik Gazeta Prawna and PwC Polska we took the second place in the main category - "Lifetime Achievement". mBank also won the first place in the "Innovation Star" category and the third place in the "Customer Relations" category. The awards were received by the president of the bank, Cezary Stypułkowski - during the ongoing European Financial Congress.

Online Communication Leader

We have won the Online Communication Leader award in the Issuer's Golden Website competition organized by the Polish Association of Listed Companies for the twelfth time. mBank was awarded the first place in the Large Companies category. In our category, the jury assessed all companies from the WIG20 and mWIG40 index. The competition evaluated, among others, e-mail communication, social media communication and investor presentations. The jury also took into account the opinions of institutional and individual investors and journalists.

"Congress of the Forum of Banking Technologies 2019"

The President of mBank, Cezary Stypułkowski, received the prestigious title of Global Leader of the Banking Sector during the Congress of Banking Technology Forum. The award for mBank was granted, among others, for the implementation of a modern user interface and full online banking according to the latest model, which set the directions for the domestic and European financial markets.

Employer Branding Excellence Awards 2019

We were honoured in the Employer Branding Excellence Awards 2019 competition. In the "Internet Campaign" category, mBank received a distinction for the "Modelling Mission" project, which was aimed at students interested in developing into analytical banking as modellers in the area of risk.

XXIV Bank Ranking of the Financial Monthly BANK 2019

During the meeting of Banking Horizons 2019, mBank was awarded the first prize twice: in the categories "Innovation" and "Bank for young people". The second award, close to the identity of mBank as an institution actively responding to the needs of young generation clients, was granted on the basis of questionnaires with the participation of bank clients up to 26 years of age, who assessed, among other things, the services offered and the quality of service provided. Piotr Cyburt, the President of mBank Hipoteczny, was honoured with the title of "Market Visionary" for his many years of activity in popularizing mortgage bonds in the structure of bank financing.

The "Portfel" plebiscite of the "Wprost" weekly

In the fifth edition of the "Wprost" ranking, mBank took first place in the "Convenience and wide access" category for the best mobile application. For us, the distinction of our mobile application is particularly important in the context of maintaining the leading position of modern solutions convenient for the client in an increasingly innovative financial market.

More information on awards and distinctions can be found on the Bank's website in the "Press Centre" section: <https://en.media.mbank.pl/>.

2.3. Retail Banking

mBank's Retail Banking segment serves 5,552 thou. individuals and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 176 branches*. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key financial data (as at the end of H1 2019):

Share in pre-tax profit	Profit before tax	Income
65.2% ↓	PLN 462.5 M ↓	PLN 1,562.5 M ↓

Key highlights

- Net interest income increased by 18.9% year on year.
- Sales of non-mortgage loans grew by 19.9% year on year to PLN 5.2 billion.
- Sales of mortgage loans increased by 72.8% year on year to PLN 3.7 billion.
- Number of clients grew to 5,552 thousand.
- The most mobile bank in Poland: the highest share of mobile clients in the client base; already 1.7 million users of mobile app
- Volume of retail deposits grew by 17.3% year on year, mainly in current accounts (+17.1% year on year).
- Value of transactions made by mBank's payment cards increased by 22.5% year on year with the number of transactions up by 23.6% year on year.

* Including 143 in Poland and 33 in the Czech Republic and Slovakia; excluding mFinanse (42) and mKiosks (153).

Financial results

In H1 2019, the Retail Banking segment generated a profit before tax of PLN 462.5 million, which represents a decrease by PLN 228.2 million, i.e. 33.0% compared with H1 2018.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Net interest income	1,101.4	1,309.1	207.7	18.9%
Net fee and commission income	291.4	212.1	-79.2	-27.2%
Net trading income	61.3	65.5	4.2	6.8%
Net other operating income	201.3	-24.2	-225.5	+/-
Total income	1,655.4	1,562.5	-92.8	-5.6%
Net impairment losses and fair value change on loans and advances	-214.0	-245.6	-31.5	14.7%
Overhead costs and depreciation	-650.3	-740.9	-90.6	13.9%
Taxes on the Group balance sheet items	-100.4	-113.6	-13.2	13.2%
Profit before tax of Retail Banking	690.7	462.5	-228.2	-33.0%

The profit before tax of the Retail Banking segment in H1 2019 was driven by the following factors:

- **Decrease in total income** by PLN 92.8 million, i.e. 5.6% to PLN 1,562.5 million compared to H1 2018. Core income increased by 9.2%: net interest income grew by PLN 207.7 million (thanks to a shift towards high-margin products in the credit portfolio structure), while net fee and commission income declined by PLN 79.2 million or 2.5% (mainly lower commissions for agency service regarding the sale of insurance products offered by external financial entities due to the sale of an organized part of mFinanse acting as an agent in the scope of group insurance in Q1 2018). In H1 2018, the financial performance of Retail Banking was greatly impacted by net other operating income (other operating income net of other operating costs), which rose after posting the proceeds from selling an organized part of enterprise of mFinanse in Q1 2018.
- **Increase in net impairment losses and fair value change on loans and advances** by PLN 31.5 million year on year, propped up by higher credit volumes and a rising share of unsecured loans in the retail credit portfolio.
- **Increase in operating expenses (including depreciation)** by PLN 90.6 million year on year, driven mainly by higher contribution to the Bank Guarantee Fund.
- **Tax on the Group balance sheet items** at PLN 113.6 million.

Key business data (mBank and mBank Hipoteczny only)

thou.	30.06.2018	31.12.2018	30.06.2019	Semi-annual change	Annual change
Number of retail clients, including:	5,508.4	5,685.0	5,552.4	-2.3%	0.8%
Poland	4,592.2	4,760.6	4,614.6	-3.1%	0.5%
Foreign branches	916.2	924.3	937.9	1.5%	2.4%
The Czech Republic	638.3	642.2	651.6	1.5%	2.1%
Slovakia	277.9	282.1	286.2	1.5%	3.0%
PLN M					
Loans to retail clients, including:	50,513.5	52,510.7	55,751.2	6.2%	10.4%
Poland	45,901.8	47,801.8	50,968.9	6.6%	11.0%
mortgage loans	32,518.2	33,245.5	34,882.1	4.9%	7.3%
non-mortgage loans	13,383.7	14,556.3	16,086.7	10.5%	20.2%
Foreign branches	4,611.6	4,708.9	4,782.3	1.6%	3.7%
The Czech Republic	3,713.1	3,768.8	3,749.5	-0.5%	1.0%
Slovakia	898.5	940.2	1,032.8	9.9%	14.9%
Deposits of retail clients, including:	59,970.7	65,852.8	70,120.8	6.5%	16.9%
Poland	50,140.0	55,733.9	59,639.3	7.0%	18.9%
Foreign branches	9,830.6	10,119.0	10,481.6	3.6%	6.6%
The Czech Republic	6,999.6	7,163.2	7,317.8	2.2%	4.5%
Slovakia	2,831.0	2,955.7	3,163.8	7.0%	11.8%
Investment funds (Poland)	15,234.4	13,119.6	14,038.7	7.0%	-7.8%
thou.					
Credit cards, including	375.0	381.9	391.3	2.5%	4.3%
Poland	335.4	341.2	349.7	2.5%	4.3%
Foreign branches	39.6	40.7	41.6	2.1%	5.0%
Debit cards, including:	3,774.3	3,909.0	3,817.5	-2.3%	1.1%
Poland	3,194.9	3,319.9	3,220.8	-3.0%	0.8%
Foreign branches	579.4	589.1	596.7	1.3%	3.0%

¹A drop in the number of customers due to the cessation of the activity of Kompakt Finanse and closure of inactive technical accounts to repaid loans

Retail Banking in Poland

As the online and mobile banking leader, mBank focuses on technological innovation which makes its processes even more efficient. We are developing our offer to best address the needs of clients, in particular young clients, reflected in the structure of customer acquisition. Thanks to our efforts, mBank has become the bank of first choice for clients between 16 and 20 years of age according to an IQS Tracking survey of the young population. Moreover, mBank has won top awards from the financial monthly *Bank* as a Bank for the Young and for Innovation.

mBank is among the banks with the highest number of mobile customers. In the "Most mobile banks in Poland" report published on 27 March 2019 by the cashless.pl platform, we could see which banks on the Polish market have the highest ability to migrate from more traditional to the most modern channels. The presented results were based on the calculated customer mobility rate. In regard to mBank, the indicator was as high as 53.5%, placing us in the first place on the ranking podium. This means that more than half of our customers regularly log into their accounts from smartphones.

Bank clients are increasingly demanding, which is why instead of adding many more functions we are focusing on improving the existing functionalities. Modifications of mBank's mobile application include improvements to the currency exchange platform mKantor. After adding several currencies to the service, we have restructured the management of currency pairs and facilitated the process of buying and selling currencies to make the use of the platform even more convenient and intuitive.

On top of modifications to existing solutions, we have added a range of new functionalities to our mobile application. These include the option of adding recipients to the address book, changing PIN of a card, making a transfer in a foreign currency in SEPA system, stopping the ID card, or setting up a savings goal to make donations to the Great Orchestra of Christmas Charity (WOŚP).

Other mobile app solutions include the options of changing the payment card PIN, making SEPA currency transfers, modifications of personal details, and stopping the ID card in the system.

mBank's mobile application has 1,673.8 thousand active users in Poland, representing approximately 36% of our client base. More than 640 thousand customers are mobile-only. More information on new mobile solutions can be found in chapter 2.1. Key projects of mBank Group in H1 2019.

The online service includes a new service added in H1 2019: fast transfers enabling mBank clients to immediately credit the account with cash from other banks. The service is mainly offered to new clients of the bank who want to use the account immediately and wish to have it credited with cash. In co-operation with Przelewy24, clients' accounts are credited within 15 minutes.

We have simplified the process of setting up direct debits. To use the service, clients simply need to grant consent directly to the service provider, such as a mobile phone operator, and are not required to present the consent to the bank.

We are preparing to servicing of alternative financial services based on API functionality, which is discussed in more details in chapter 2.1. Key projects of mBank Group in H1 2019. More information on changes related to PSD2 relevant for individual clients can be found at <https://www.mbank.pl/psd2/informacje-dla-klientow/> (in Polish only). In H1 2019, we continued our efforts to provide strong customer authentication under the PSD2 requirements.

In January 2019, we supported the Grand Finale of the Great Orchestra of Christmas Charity (WOŚP) with our services for the second time. We launched the campaign "PLN 100 thousand every day from mBank for 100 payments from clients." A large part of donations in the Grand Finale were made via card terminals. mBank clients can support the Foundation at any time during the year by using a dedicated functionality in the mobile app.

Retail banking offer for individuals

Loans

New sales of unsecured loans for individuals in Poland stood at PLN 4,828.2 million in H1 2019, representing an increase of 21.7% year on year. In that period, we continued our efforts focusing on the use of digital selling channels. As the icon of mobility, thanks to technological development and marketing

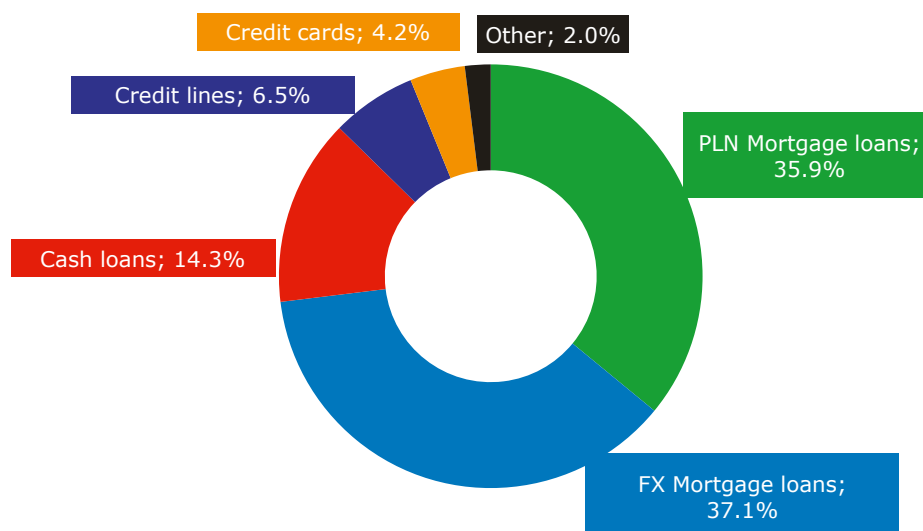
communication, we increased sales over electronic channels and reported an increase of the volumes of non-mortgage loans disbursed via the mobile app by 186.8%.

Sales of mortgage loans to individuals and micro-firms increased by 84.7% year on year and stood at PLN 3,338.4 million. Total mortgage loans for individuals in Poland stood at PLN 34,882.1 million at June 30, 2019 v. PLN 32,518.2 million at June 30, 2018 (+7.3% year on year).

Non-mortgage loans for individuals in Poland stood at PLN 16,086.7 million at June 30, 2019 v. PLN 13,383.7 million at June 30, 2018 (+20.2% year on year).

The structure of the Retail Banking loan portfolio in Poland (including mBank Hipoteczny) at June 30, 2019 was as follows:

Product structure of retail loan portfolio in Poland



The NPL ratio of the retail mortgage loan portfolio in Poland decreased steadily and reached 2.4% at June 30, 2019 (2.9% at June 30, 2018).

Deposits and investment funds

mBank reported a strong increase of balances in clients' current and term accounts in H1 2019. Apart from market conditions, it was driven by sales initiatives aiming to retain maturing term deposits as well as the launch of the promotions "Deposits with new cash" and "My goals".

Retail banking deposits in Poland stood at PLN 59,639.3 million at June 30, 2019 v. PLN 50,140.0 million at June 30, 2018 (+18.9% year on year).

The increase of the retail deposit base was accompanied by a drop in investment product balances. That was driven by weak conditions on the Warsaw Stock Exchange, problems faced by the local corporate bond market, as well as dwindling confidence in local collective investment institutions.

Cards and accounts

In H1 2019, we launched a simplified offer of accounts for individual clients, which includes a new eKonto account as well as an account for young clients. Both accounts are offered unconditionally free of charge, including free-of-charge cash withdrawals from all ATMs in Poland. Young clients are offered even more attractive conditions, including an unconditionally free-of-charge debit card.

We offer new currency accounts while the multicurrency service has become even more attractive. Clients can now open free-of-charge accounts in 11 currencies. We have added Mastercard debit cards to the multicurrency service, which was launched last year for Visa cards. The service supports card payments abroad. The card automatically switches to the local currency in order to debit the relevant currency

account. The bank charges no fees for such transactions. The service is easy to activate in the mobile app. Currency accounts can be easily credited with currencies free of charge by using the mKantor service.

As a partner of the Pol'and'Rock festival, mBank offers promotional accounts with a bonus of PLN 140 as well as a limited edition of special cards. The cards designed with the festival logo have a limit of 10 thousand cards. The cards are offered to existing and prospective clients of the bank.

The value of payments made by mBank retail banking clients with cards in Poland stood at PLN 21.6 billion, representing an increase of 22.5% year on year. The number of transactions of mBank clients increased by 23.6% year on year. The average transactionality of mBank credit cards is very high. The market share of mBank cards was 12.7% at 31 March 2019.

Offer for affluent clients

We continued to acquire affluent clients using mKonto Intensive accounts in H1 2019. The account offers free-of-charge cash withdrawals from ATMs around the world, three free-of-charge express money transfers per month, as well a priority call centre service. Multicurrency cards Visa Świat Intensive and credit cards World Mastercard Intensive are available exclusively with mKonto Intensive accounts. Both cards support free-of-charge currency conversion which means that clients pay no extra fees when shopping abroad or online in foreign currencies.

We acquire clients by offering attractive conditions to new clients and launching temporary promotions for existing clients. We opened a special promotion of mortgage loans at reduced fees and margins for affluent clients holding mKonto Intensive accounts in H1 2019. We launched a promotional savings offering at preferential interest rates to address special needs of affluent clients. The bank continued wide-range marketing activities to promote the Intensive offer and raise its awareness among mBank's affluent clients. Thanks to continued development of the product range offered to affluent clients and dynamic acquisition of new clients, the number of Intensive clients has doubled.

Offer for SMEs

We carried out intensive marketing campaigns in H1 2019 focusing on the mBank business startup service launched in 2018 (Firmootwieracz), as well as accounts offered free of charge for 24 months.

Firmootwieracz was launched in Q1 2018. It is an integrated online business startup service developed by mBank, where clients can open a business within 10 minutes online, via the call centre or at a bank branch. The business startup project is yet another example of customer-friendly solutions developed in co-operation with the public administration. It builds on the concept of one-stop-shop and takes it fully into the digital world. 23,612 clients used the service by the end of June 2019.

In the area of SME finance, sales of non-mortgage products increased by 16.3% year on year in H1 2019. We implemented a fully online factoring service as a part of the offer. Decisions granting a factoring limit up to PLN 50 thousand are available online within 5 minutes, as are decisions to finance invoices. The service is linked with a current account so clients can make payments individually or have them automatically debited to the account.

Sales of long-term mortgage-backed products increased by 45.8% year on year. More than 40% of products which finance property, plant and equipment are covered by BGK's *de minimis* guarantees.

In H1 2019, we introduced Visa Business currency cards in EUR and USD which can be used to make free-of-charge cash withdrawals from ATMs and easily pay for business expenses abroad without currency conversion.

Continued additions of new products for companies and the improvement of existing products have been appreciated by the market and clients. In H1 2019, mBank won for the third time the Trustworthy Brand title as a winner in two categories: Banks Offering Corporate Accounts and Banks Offering Corporate Loans.

Co-operation with the AXA Group

In H1 2019, mBank continued to develop the bancassurance co-operation with its strategic partner AXA.

The co-operation includes sales of insurance products to mBank clients with a special focus on stand-alone products including motor, travel, home and life insurance, as well as products bundled with bank products, such as loans. Following modifications introduced to the product range in 2018, the bank focuses on insurance products for individuals.

In H1 2019, mBank continued to develop the stand-alone product offer in order to follow digital clients who largely use remote channels to have their needs addressed and to contact the bank. In May 2019, we launched the functionality of buying home insurance via mBank's mobile app.

To address all needs of our clients, well aware that protection of life and health is one of the key needs of informed consumers, we launched a product package in June 2019 which provides broad insurance cover to clients and their close ones: partners and children. The broad insurance cover is packed into a simple and intuitive process available to clients via all sales channels including mBank's mobile application, online platform, call centre, and branches. In a single process, clients can purchase insurance cover including life insurance, serious cancer conditions, accidents suffered by clients or their close ones. The product was developed in close co-operation with our partner AXA, the #1 insurance brand globally, based on a close understanding of mBank clients' needs.

Retail Banking in the Czech Republic and Slovakia

mBank's activities in the Czech Republic and Slovakia in H1 2019 focused mainly on active customer acquisition. We launched new solutions and improved our product range.

In February, we launched a ground-breaking product in the Czech Republic: the payment card Visa World (mKarta Svět), which is very popular with clients who travel and make payments abroad. The card is the new default debit card linked to the mKonto account. mKarta Svět not only offers the most attractive FX rates of all debit cards available from banks, combined with payments free of commissions, but it also gives clients the full convenience of a local bank. The product range offered in the Czech Republic and Slovakia has been extended to include the automated savings product mSaver (My Goals) based on an analysis of clients' behavioural patterns.

In H1 2019, mBank continued to improve its position as the mobile banking leader. The foreign branches continued to develop the mobile app by adding new functionalities, including setting up and editing of standing orders, changing card PINs, generating QR codes, and making SEPA payments.

In H1 2019, we added new solutions to our offer, which were previously unavailable on the market and were welcomed by our clients. mBank was one of the first providers of the Apple Pay service in the Czech Republic and Slovakia. mBank remains the only bank in Slovakia to offer the Google Pay service integrated directly with clients' accounts, launched already in February 2018.

In addition, in strategic partnership with the independent Czech financial service agent Broker Consulting, we opened new locations (OK Points) which specialise in banking services and operate under both brands. There were 44 OK Points by the end of June 2019. We also launched 41 cash deposit machines as a part of the co-operation. The development of the network of OK Points and deposit machines will continue in H2 2019 in view of strong interest of customers.

Thanks to new innovations and improvements, mBank's activities in the Czech Republic and Slovakia won several prestigious awards in H1 2019. mBank won four awards in the Czech contest The Golden Crown (Zlatá koruna), including two top awards: Individual Clients' Choice and Entrepreneurs' Choice. The bank won the top award in the Finparada competition for four products: mKonto was named the best current account, mKarta Svet was named the best card for international transactions, mHypoteka was named the best mortgage product, and mPujcka Plus was named the best consumer loan. The competition is based on a Scott & Ross survey of annual market data. mBank in Slovakia was named the most stable bank of the year by Mastercard and awarded for its mobile payment solutions. The Czech branch of mBank won the Superbrands award for the fourth consecutive time while the Slovak branch won the Superbrands award for the third consecutive time. The awards reflect mBank's leading position among the strongest brands in both countries.

Loans and deposits

The mBank loan portfolio in the Czech Republic and Slovakia was PLN 4,782.3 million at June 30, 2019, representing an increase of 3.7% year on year. The mortgage loan portfolio was PLN 3,774.4 million at June 30, 2019, representing an increase of 1.9% year in year. The non-mortgage loan portfolio increased by 11.3% to PLN 1,008.0 million at June 30, 2019.

Sales of mortgage loans in Slovakia increased sharply to PLN 140.7 million, i.e., by 111.4% year on year in H1 2019. That had a positive impact on the mortgage loan portfolio in Slovakia, which increased by 15.0% year on year to PLN 770.5 million at June 30, 2019. Following the introduction of new market regulations (including regulations governing the size and maturity of loans) in Q1 2019, the Czech market faced a dramatic drop in the production of mortgage loans. mBank also reported a decrease in sales of mortgage loans to PLN 231.6 million in H1 2019, down by 15.4% year on year. The volume of the mortgage loan portfolio decreased by 1.0% year on year to PLN 3,003.9 million at June 30, 2019. The Czech branch is focusing on retaining its market share and preparing far-reaching process improvements in order to boost the capacity and attractiveness of the offer. The bank expects to implement the new improved process in H1 2020.

Thanks to our focus on process automation and optimisation in non-mortgage lending, the non-mortgage loan portfolio improved and stood at PLN 745.6 million at June 30, 2019, up by 10.0% year on year, in the Czech Republic and at PLN 262.4 million, up by 14.9%, in Slovakia.

The volume of deposits continued to grow in H1 2019 and reached PLN 10,481.6 million at June 30, 2019 (an increase of 6.6% year on year).

mBank launched many advertising campaigns supporting the use of payment cards, resulting in an increase in the number of transactions by 13.4% in the Czech Republic and 15.7% in Slovakia year on year in H1 2019.

2.4. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 25,002 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million and full accounting), through a network of dedicated 46 branches. mBank Group’s offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.



Key financial data (at the end of H1 2019):

Share in pre-tax profit	Pre-tax profit	Total income
43.1%	PLN 305.3 M	PLN 1 036.9 M

Key highlights

- Increase of core income by 12.9% compared to H1 2018.

- Increase in corporate loans by 15.4% compared to the end of 2018.

- Increase of corporate deposits by 7.0% compared to the end of June H1 2018.

- Acquisition of 2.1 thou. new corporate clients compared to the end June 2018.

- Increase of mBank’s market shares in corporate deposits to 10.5% (9.0% in H1 2018) and to 7.1% (from 6.6% in H1 2018) in corporate loans.

- Factoring for SME: providing customers with a factoring product with an option to immediately sign a contract based on a predefined limit based on the account turnover history.

- Increase of mBank’s market shares in short-term debt securities to 12.3% at the end of June 2019 (9.4% in H1 2018) and in corporate debt to 12.9% (from 12.5% in H1 2018).

- Introduction of a smart cash deposit machine service, allowing safe deposit and automatic booking of funds on the customer's premises.

Corporate and Investment Banking

Financial results

In H1 2019, the Corporate and Investment Banking segment generated a profit before tax of PLN 237.8 million. This result marked an increase by PLN 7.6 million or 3.3% year on year.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Net interest income	440.1	502.4	62.3	14.2%
Net fee and commission income	231.5	256.0	24.5	10.6%
Net trading income	125.5	128.7	3.3	2.6%
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	0.2	0.4	0.2	134.1%
Net other operating income	24.5	10.4	-14.0	-57.4%
Total income	821.7	898.0	76.3	9.3%
Net impairment losses and fair value change on loans and advances	-124.4	-123.5	0.9	-0.7%
Overhead costs and depreciation	-391.8	-452.5	-60.7	15.5%
Taxes on the Group balance sheet items	-75.3	-84.2	-8.9	11.8%
Profit before tax of Corporate and Investment Banking	230.2	237.8	7.6	3.3%

The profit before tax of the Corporate and Investment Banking in the period under review was driven by the following factors:

- **Growth in income** by PLN 76.3 million or 9.3% year on year. Core income went up by 12.9% year on year and net trading income strengthened by 2.6%.
- **Stable impairment losses and fair value on loans and advances** compared to H1 2018.
- **Higher operating costs and depreciation** in the discussed period, mainly related to a higher contribution to the Bank Guarantee Fund.
- **Tax on the Group balance sheet items** at PLN 84.2 million.

Business results (mBank only)

	30.06.2018	31.12.2018	30.06.2019	YtD change	YoY change
Number of corporate clients	22,934	23,706	25,002	5.5%	9.0%
K1	2,148	2,193	2,277	3.8%	6.0%
K2	7,551	7,520	7,777	3.4%	3.0%
K3	13,235	13,993	14,948	6.8%	12.9%
PLN M					
Loans to corporate clients, including	23,911.6	25,575.3	27,586.7	7.9%	15.4%
K1	6,150.9	7,036.9	7,210.2	2.5%	17.2%
K2	15,308.4	15,745.6	17,212.9	9.3%	12.4%
K3	2,311.0	2,519.1	2,889.9	14.7%	25.1%
Reverse repo/buy sell back transactions	29.0	200.3	195.9	-2.2%	574.9%
Other	112.4	73.4	77.9	6.0%	-30.7%
Deposits of corporate clients, including	34,048.5	32,987.4	36,748.0	11.4%	7.9%
K1	15,311.1	12,765.2	15,311.2	19.9%	0.0%
K2	11,758.9	13,048.9	13,866.3	6.3%	17.9%
K3	5,329.0	5,993.2	6,010.7	0.3%	12.8%
Repo transactions	1,137.5	713.1	1,217.8	70.8%	7.1%
Other	511.9	467.1	342.1	-26.7%	-33.2%

Economic growth in H1 2019 once again exceeded 4.5% year on year, despite unfavourable global economic conditions and lingering uncertainty. The growth was propelled by private consumption and, for the first time in years, by business investment. Rising pessimism among corporates, reflected by economic tendency surveys, was coupled with consumer optimism that kept the real estate market booming. The relatively good economic climate mitigated tough operating environment for banks (record-low interest rates, contributions to the Bank Guarantee Fund (BFG), the banking tax and uncertainty about the size of the potential financial burden arising from CHF loans).

In H1 2019, the bank continued its efforts to attract new corporate clients, which yet again resulted in high acquisition of new companies – the corporate client base increased by 2,068 companies year on year, reaching the level of 25,002 clients. Consequently, client acquisition grew by 9% year on year.

The acquisition of new clients boosted the balances deposited in current accounts with mBank, which stood at PLN 16.0 billion at the end of June 2019, representing an increase by 20.4% year on year. The high volume of current deposits is a springboard for further development of transactional banking, which is of special relevance to the bank due to its potential for growth and forging closer relations with clients.

In H1 2019, mBank's small and medium-sized enterprises (SMEs - K3) segment acquired more than 2,000 new clients, which represents an increase by over 25% year on year. It is also noteworthy that the number of factoring clients grew by approx. 37% compared with H1 2018.

In the period under review, mBank launched a marketing campaign targeting the SMEs segment. The aim of the campaign entitled "You don't grow out of good things" ("Z dobrych rzeczy się nie wyrasta") was to promote the account dedicated to small and medium-sized enterprises, and at the same time, provide

extra support to the Great Orchestra of Christmas Charity (WOŚP). All bank account and transfer fees paid from January to June 2019 by SMEs that joined the campaign were donated to the WOŚP Foundation.

mBank's corporate banking was awarded by the Global Finance international magazine and took top spot in the World's Best Treasury and Cash Management Banks and Providers 2019 category.

In H1 2019, mBank was also a laureate of the Financing Bank of the Year award of the Polish Private Equity and Venture Capital Association (Polskie Stowarzyszenie Inwestorów Kapitałowych, PSIK) for its achievements on the Polish private equity/venture capital market. In the Financing Bank of the Year category mBank was also awarded the Investment Diamonds prize for the most professional bank supporting investment.

The key objective of Corporate and Investment Banking will be to further ensure dynamic development of the bank in the K3 segment and maintain a strong position in the K2 segment. Moreover, we want to place a greater emphasis on streamlining and simplifying the credit process, documentation, account opening process, and on introducing new transactional packages alongside a number of improvements to enhance the client's everyday comfort.

Products and services

The market of loans to enterprises grew by 4.9% year on year whereas the market of enterprises' deposits increased even more dynamically by 5.8% compared to June 2018. In this context, mBank reported higher growth in loan volumes (14.9%) as well as in the deposit volumes (16.7%) year on year (in aggregates comparable to NBP methodology). At the end of June 2019, mBank's shares in the market of loans and deposits of enterprises reached 7.1% and 10.5%, respectively.

Corporate loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) stood at PLN 27,390.8 million at the end of June 2019, representing an increase by 14.7% compared with the end of June 2018 (PLN 23,882.6 million).

PLN M	30.06.2018	31.12.2018	30.06.2019	YoY change
Loans to corporate clients ¹	23,883	25,375	27,391	14.7%
Loans to enterprises ²	23,547	24,616	27,044	14.9%
Loans granted to local governments	468	360	288	-38.3%
Market of loans to enterprises	363,519	374,438	381,513	4.9%
mBank's share in the market of lending to enterprises	6.5%	6.6%	7.1%	

¹ Excluding reverse repo transactions.

² NBP category which ensures comparability of results of the banking sector.

Corporate deposits

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 35,530.2 million at the end of June 2019, up by 8.0% compared with the end of June 2018 (PLN 32,910.9 million).

PLN M	30.06.2018	31.12.2018	30.06.2019	YoY change
Corporate deposits ¹	32,911	32,274	35,530	8.0%
Deposits of enterprises ²	26,304	27,099	30,695	16.7%
Deposits of local governments	1,732	267	1,400	-19.2%
Market of deposits of enterprises	276,006	301,026	292,101	5.8%
mBank's share in the total deposits of enterprises	9.5%	9.0%	10.5%	

¹ Excluding repo transactions.

² NBP category which ensures comparability of results of the banking sector.

De minimis guarantee

The bank continued to participate in the Portfolio Guarantee Line De Minimis (PLD) Agreement as part of the government’s “Supporting Entrepreneurship through BGK Sureties and Guarantees” programme. As at June 30, 2019, the amount drawn under the limit reached PLN 2,488.4 million.

On June 25, 2018, mBank signed another Portfolio Guarantee Line De Minimis Agreement (PLD-KFG), being a continuation of the previous agreement (PLD), with an allocated limit for guarantees at PLN 1,200 million. The amount drawn under the limit reached PLN 670.4 million as at June 30, 2019.

COSME

mBank continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme (a European Union programme for the competitiveness of enterprises running from 2014 to 2020). The BGK guarantee limit for mBank stands at PLN 680 million. As at June 30, 2019, the amount drawn under the limit reached PLN 535.2 million.

Corporate debt origination

The share of mBank in the non-treasury debt securities market at the end of May 2019 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
mBank (PLN M)	1,860	9,021	13,535
Market (PLN M)	15,181	70,107	59,328
Market share	12.3%	12.9%	23.4%
Market position	#3	#3	#1

The largest transaction in H1 2019 included bond issue worth a total of PLN 2 billion for Bank Gospodarstwa Krajowego. Other large value transactions arranged by mBank for other banks included: PLN 58 million for Credit Agricole and covered bond issue worth PLN 100 million for mBank Hipoteczny.

In the corporate bonds market, the Bank carried out a series of new issues, i.e.: Dino S.A. (PLN 170 million), EFL S.A. (PLN 164 million), Kruk S.A. (PLN 165 million), Echo Investment S.A. (PLN 100 million), Elemental Holding S.A. (PLN 61.8 million), Archicom S.A. (PLN 60 million) and LC Corp S.A. (PLN 60 million).

Transactional banking

Cash management is an area of Corporate Banking offering state-of-the-art solutions to facilitate planning, monitoring and management of highly liquid assets, cash processing, as well as electronic banking. The solutions facilitate daily financial operations, enhance effective cash flow management, and optimise interest costs and income.

mBank’s cash management offer supporting long-term relationships with clients, which has been under continuous development and improvement, is reflected by the following data:

Number of outgoing foreign transfers	+10.5%
Number of incoming foreign transfers	+7.4%
Number of corporate cards	+13.7%
Number of prepaid corporate cards	+9.5%
Number of mCompanyNet users	+6.0%

mBank CompanyNet

In H1 2019, mBank added new functionalities for electronic banking users. Now, everyone who visits our Virtual Branch can apply online for a new payment card, for changing their company’s details (name,

address of the registered office, correspondence address), for an auditor's opinion or for reimbursement on an incorrectly performed/addressed payment.

Another improvement is the electronic mismatch report for closed cash deposits featured in mBank CompanyNet. The new functionality is easy to navigate and user-friendly.

Transactional and cash service of the grand finale of the Great Orchestra of Christmas Charity (WOŚP)

mBank was the provider of transactional and cash service at the 27th grand finale of the Great Orchestra of Christmas Charity. The bank's support included, among others: processing of cash payments made by WOŚP collection centres, service of POS terminals used by WOŚP volunteers, identification of incoming transfers and mBank Connect integration services, which provided the foundation with effective access to donated funds. In addition, mBank accepted and handled other valuables (e.g. jewellery) put by donors in the collection boxes. The collection centres were also equipped with coin and banknote counters. When providing the services, the bank complied with the highest security standards.

Transactional and cash service of the 27th grand finale of the Great Orchestra of Christmas Charity was a major undertaking. mBank's transactional banking supported the 1,700 collection centres and over 120,000 volunteers participating in the event across Poland with:

- 20 big cash sorters,
- more than 400 coin counters,
- over 350 secure transports of cash,
- payment terminals for more than 430 volunteers and over 300 terminals in mBank's branches.

PSD2 – launch of mBank API

In line with the requirements of PSD2, mBank enabled all registered Third Party Providers (TPP), which is widely described in section 2.1. "Key projects of mBank Group in H1 2019". Detailed information on the services introduced to mBank in accordance with PSD2 with reference to corporate clients are available on the website: www.mbank.pl/psd2/msp-korporacje.

Cash deposit machines for businesses

To address the needs of businesses and the market, mBank launched and continues to develop a new service called the smart cash deposit machine. When integrated with a company's internal system and mBank's online banking, the solution allows for depositing cash and booking payments in real time without leaving the company's premises. mBank takes full responsibility for the paid cash immediately after it is deposited and the device automatically communicates with the secure cash transportation company when it is nearly full of cash. The smart cash deposit machine is the first such solution on the Polish market. It draws from mBank's extensive experience of cooperation with corporate clients. At the same time, every product is customised to meet individual needs of every client and their business. The scale of cooperation is decided based on factors such as cash volume in individual locations, seasonal nature of products or services, sales volatility, the specification of banknotes and coins used or Internet access. The client can choose the type of device as well as the service model and funding method.

Financial Markets

Financial results

The Financial Markets segment generated a pre-tax profit of PLN 67.5 million in H1 2019 compared to PLN 34.3 million a year earlier (up by 97.0%).

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Net interest income	125.2	113.8	-11.4	-9.1%
Net fee and commission income	-4.4	-5.9	-1.6	35.6%
Net trading income	-16.2	15.0	31.2	-/+
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	6.0	18.8	12.8	213.1%
Net other operating income	-1.0	-2.7	-1.7	175.3%
Total income	109.6	138.9	29.3	26.7%
Net impairment losses and fair value change on loans and advances	-0.2	0.5	0.6	-/+
Overhead costs and depreciation	-57.1	-54.9	2.2	-3.9%
Taxes on the Group balance sheet items	-18.0	-16.9	1.1	-6.4%
Profit before tax of Financial Markets	34.3	67.5	33.3	97.0%

The pre-tax profit of the Financial Markets segment in H1 2019 was driven by the following factors:

- **Higher income** compared with H1 2018, at the level of PLN 138.9 million, up 26.7% year on year. Increase of income can be attributable to higher net trading income by PLN 31.2 million thanks to growing HX result and gains from hedge accounting.
- **Modest decrease of operating costs (including depreciation)** to PLN 54.9 million.
- **Lower tax on the Group balance sheet items** at PLN 16.9 million.

Activity of Financial Markets

Since January 2019, activities of the financial market products sales area have been focused on finishing the process of centralisation of dealer teams, which effectively serve an ever growing number of clients using financial market products.

Additionally, the Financial Markets Sales Department undertook activities aimed at increasing the number of transactions concluded and income generated from the bank's cooperation with clients, including the following:

- Despite low market volatility, intensified telephone contact with clients and cross-selling of financial market products, aimed at increasing clients' activity and client acquisition, resulted in the margin on transactions with corporate clients growing by 5.2% year on year.
- Continuation of the process of converting clients from telephone service to the mCompanyNet platform pushed the margin on transactions concluded via the platform up by 11.3% compared with H1 2018. At the same time, margins on transactions executed by phone grew by 1.2%.
- In H1 2019, mBank significantly bolstered its leadership in the field of solutions pertaining to transactions hedging commodity price risk and became known among clients on a European scale. The Commodity Transactions Sales Division, together with the London Metal Exchange, organised the only industry event of this type for corporate clients from Poland and the entire region. Enhanced

cooperation with banking partners and a transfer of know-how helped the bank implement innovative products in this part of Europe. Development of the bank's product range was accompanied by an increase in the number of active clients and sales margins on commodity transactions (by 28.3% and 27.9% year on year, respectively).

- In H1 2019, the Structured Finance Projects Team concluded hedging transactions in 45 projects, which accounted for 90% of all transactions planned for 2019. Over 50% of the transactions concluded hedged projects connected with commercial real estate funding (CRE projects).
- In order to increase client acquisition and margins on FX transactions in the affluent client segment, a new position for mass segment customer service was created in the Retail Client Sales Division.
- Intensive acquisition measures in the retail client segment resulted in margins and turnover growing by 13.8% and 63.2%, respectively, in the enterprises sector, and by 39.0% and 81.9%, respectively, in the private banking segment, as compared with H1 2018.

mBank's market shares in various financial instrument markets as at May 31, 2019 are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	11.8%	13.6%

Financial Institutions

The Financial Markets area covers relations with financial institutions, focusing mainly on raising capital from other banks and depositing excess funds with them.

As at the end of June 2019, mBank had 7 active loans in the amount of PLN 3,483 million, of which the debt on account of them amounted to PLN 3,527 million. In H1 2019, 4 credits in EUR were repaid in the total amount of PLN 1,828 million. The bank's total debt under loans from other banks was by PLN 4,014 million lower than at the end of H1 2018.

At the end of June 2019, mBank's total exposure resulting from loans granted to other banks amounted to PLN 131.9 million (the total exposure at the end of June 2018 amounted to PLN 167.3 million). It resulted from short- and medium-term loans granted to financial institutions from Poland and abroad.

In H1 2019 the Financial Institutions Department continued to actively support trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, as well as granted financing as part of syndicated loans. At the same time, the bank was still serving banks from the Commonwealth of Independent States (CIS) and offering them medium-term loans secured with KUKE insurance policies.

mBank's custody services

mBank provides services including settlement of transactions in securities registered in domestic and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring the valuation of their assets as well as performing operations related to benefits arising from securities. mBank's custody clients are mainly financial institutions, including in particular investment and pension funds, domestic and foreign financial institutions, banks which offer custodian and investment services, insurance companies, asset management institutions, and non-financial institutions.

As at June 30, 2019, the number of investment funds served by mBank dropped by 8.9% year on year. The decrease resulted from the continuation of changes in the structure of the portfolio of clients served by the Custody Department. In particular, the drop was reported for non-public assets funds.

2.5. Subsidiaries of mBank Group

Summary of financial results of mBank Group subsidiaries

The overall H1 2019 result of mBank Group subsidiaries of PLN 114.2 million was normalised compared to the profit before tax generated in H1 2018, which was impacted by the sale of an organized part of enterprise of mFinanse.

The table below presents the profit before tax posted by individual subsidiaries in H1 2019 against H1 2018.

PLN M	H1 2018	H1 2019	Change in %
mFinanse ¹	305.0	28.5	-90.7%
mBank Hipoteczny	23.4	26.8	14.7%
mLeasing	19.4	49.4	154.5%
mFaktoring	11.8	15.1	27.8%
Other ²	18.9	-5.7	+/-
Total	378.5	114.2	-69.8%

¹ Pre-tax profit in H1 2018 including the sale of an organized part of enterprise of mFinanse.

² Other subsidiaries include mFinance France, mCentrum Operacji in liquidation, BDH Development, Garbary, Tele-Tech Investment and Future Tech. Gross profit comprises effect of sale of real estate previously owned by Garbary Sp. z o.o. and an effect of separating organised part of enterprise of mCentrum Operacji and its organisational integration with mBank.

Business activity of selected subsidiaries



In H1 2019, mFinanse posted an increase in mortgage loan sales of 69.9% year on year (PLN 1,828.8 million in H1 2019 v. PLN 1,076.1 million in the same period last year). The increase in the mortgage loan volume is attributable to the policy of mFinanse's strategic partner - mBank. Reduced prices of mortgage loans offered by mBank resulted in growth in the number of credit applications and, thus, originated loans. Sales of cash loans rose as well in H1 2019. They stood at PLN 462.3 million in H1 2019, up by 41.7% from PLN 326.2 million in H1 2018.

The sales of car loans dedicated to car dealers rose compared with the same period last year (PLN 224.5 million compared to PLN 163.2 million in H1 2018). The subsidiary's sales results in the area of car leasing declined (PLN 35.8 million in H1 2019 compared with PLN 41.7 million in H1 2018).

In H1 2019, the subsidiary generated a profit before tax in the amount of PLN 28.5 million compared to PLN 305.0 million in H1 2018. The gross profit of H1 2018 included an impact of the sale of an organized part of enterprise in scope of group insurance.



The total value of contracts executed in H1 2019 amounted to PLN 2,616.5 million compared to PLN 2,952.5 million in H1 2018 (-11.4%).

The value of new movable assets purchased by mLeasing in H1 2019 reached PLN 2,480.2 million, down by 13.9% year on year. In H1 2019, the subsidiary financed real estate worth PLN 136.4 million, which represents an increase of 92,1% compared to H1 2018.

The consolidated profit before tax reported by mLeasing in H1 2019 stood at PLN 49.4 million, which translates into a 154.5% increase year on year. The strong improvement of the profit before tax achieved

in H1 2019 in relation to the reference period of the previous year is partly due to the consolidation of the results of the Asekum and LeaseLink.

Bank Hipoteczny

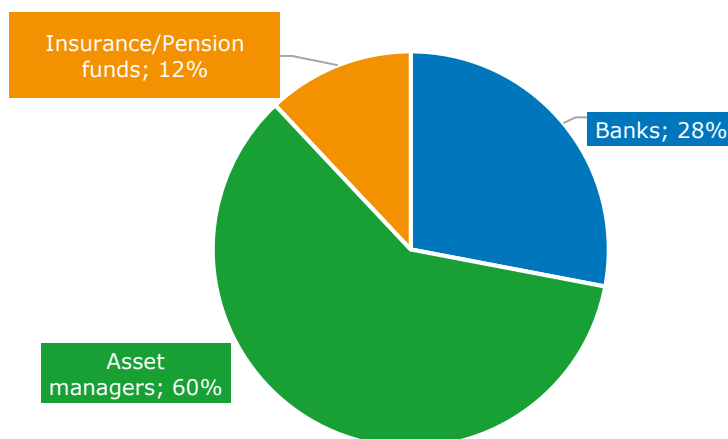
mBank Hipoteczny (mBH) is the oldest mortgage bank operating on the Polish capital market. Since 2000, mBank Hipoteczny (mBH) has been regularly issuing Polish covered bonds based on the Polish issuance programme. In H1 2019, mBank Hipoteczny issued covered bonds with a nominal value of PLN 100 million with an almost 10-year maturity, which is currently the longest series of mortgage covered bonds in PLN traded on the Polish stock market. As at the end of H1 2019, the total value of outstanding mortgage bonds issued by mBank Hipoteczny amounted to PLN 7,155.8 million (at the PLN/EUR exchange rate of 4.2520 of the National Bank of Poland prevailing on June 28, 2019).

The details of an issue performed by mBH in H1 2019 are summarized in the table below.

Volume	Currency	Issue date	Maturity	Tenor (in years)	Coupon
100 M	PLN	22.02.2019	20.12.2028	10	WIBOR3M+80bps

The abovementioned issue was fully covered by Polish investors. The transaction structure by investor type after allocation is presented below:

Distribution by investor type



At the same time, mBank Hipoteczny has also continued to issue unsecured bonds. In H1 2019, mBank Hipoteczny issued bonds with a nominal value of PLN 100 and 200 million. At the end of H1 2019, 6 series of unsecured bonds worth a total of PLN 715 million were issued. The product range of mBH includes zero-coupon and coupon bonds denominated in PLN with maturities from two months to one year.

On May 27, 2019, Moody's Investors Service Ltd. assigned the "Aa3" rating to cover bonds issued by mBank Hipoteczny. This is the highest possible rating that can be assigned to financial instruments issued in Poland (local and foreign currency bond ceilings for Poland). The rating is two notches above Poland's credit rating and five notches above the long-term issuer rating at Baa2.

The short-term issuer rating assigned by Moody's Investors Service to mBank Hipoteczny was at Prime-2. At the same time, Moody's assigned a long- and short-term CR Assessment of A3 (cr) and Prime-2 (cr), respectively, and a long- and short-term Counterparty Risk Rating of A3 (cr) and Prime-2 (cr), respectively. The outlook for mBH's long-term ratings is stable.

Since January 2019, mBank Hipoteczny has been operating in a new business model. In the coming years mBH plans to expand its portfolio of retail mortgage loans and CRE loans using the pooling model in close cooperation with mBank, which assumes that sales will be concluded by mBank's salesforce in both retail and commercial area.

mBH's gross loan portfolio totaled PLN 12.3 billion in H1 2019 compared with PLN 11.2 billion at the end of H1 2018 (+9.8%). The increase is attributable to CRE loan sales in H2 2018, which totaled PLN 174.6 million, and pooling transactions performed in the retail portfolio. In H1 2019 total amount of transferred principal reached PLN 1,313.5 million.

mBH's pre-tax profit increased by 14.6% compared with the same period last year (to PLN 26.8 million vs. PLN 23.4 million in H1 2018). The increase in profit in H1 2019 was driven mainly by higher net interest income, attributable predominantly to an increase in the retail portfolio. Lower costs related to the fair value correction (IFRS9) were another factor that had a positive impact on mBH's profit.

Faktoring

The amount of invoices purchased by the subsidiary stood at PLN 10.7 billion in H1 2019. This marks an increase (+26.1%) compared with the same period of 2018. The significant growth in the amount of purchased invoices secured the subsidiary the fifth place in the Polish factoring market, corresponding to 8.1% market share (data based on the Polish Factors Association).

In H1 2019, mFaktoring acquired 107 new customers and currently has over 725 clients. All Corporate Branches actively participated in building the factoring portfolio, giving the total of new factoring limits in the amount of PLN 700 million.

The structure of acquired customers by segments was respectively:

- K1 - PLN 353 million (7 clients)
- K2 - PLN 270 million (35 clients)
- K3 - PLN 77 million (65 clients)

mFaktoring is constantly developing its offer for different groups of clients. In April 2019, mBank made factoring available to customers running sole proprietorships. The decision to grant a limit of up to PLN 50,000 and to finance invoices is issued on-line within 5 minutes. The new service is available in the electronic banking service 24 hours a day. This means that an entrepreneur running a sole proprietorship and holding a corporate account with mBank can receive a decision and a factoring limit within just a few minutes. The Bank does not charge any commission for its granting. The service is linked to the current account, thanks to which the customer can repay himself or use the automatic collection of amounts due. A separate panel with factoring service in the mBank electronic banking service allows the client to add invoices and manage those that are already in the system. The customers can search and filter the list of documents and monitor their payment.

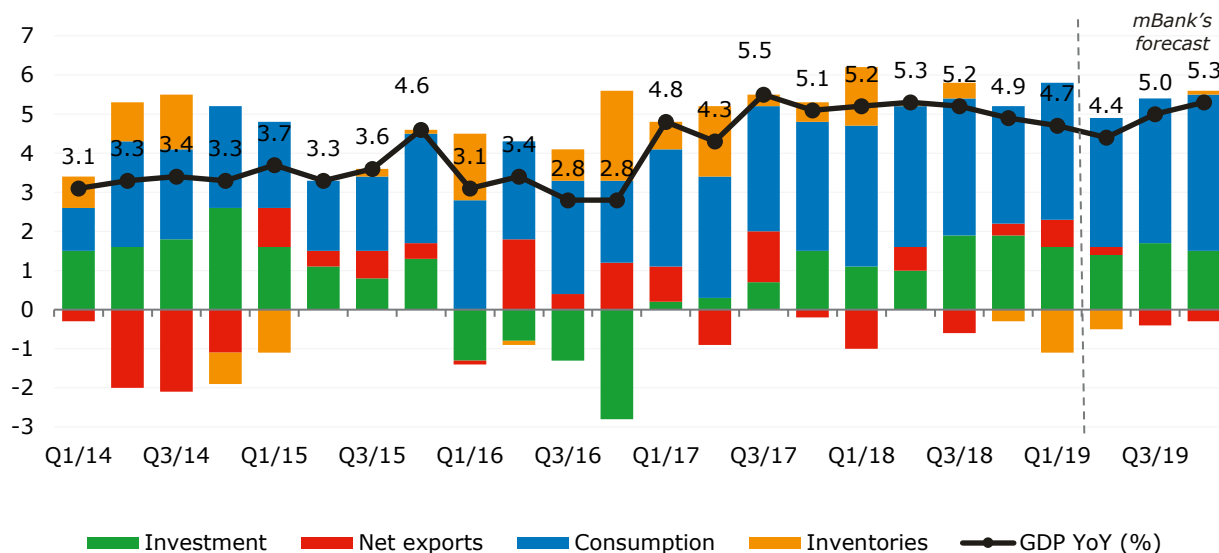
The growth coupled with cost discipline allowed the company to achieve a high profit. It earned a profit before tax of PLN 15.1 million in H1 2019, up by 27.8% compared with H1 2018.

3. Financial results and macroeconomic environment

3.1. Economy and banking sector in H1 2019

Subtle slowdown of the Polish economy

In H1 2019, Poland’s GDP increased by approx. 4.6%-4.7% year on year (when this report was written, the bank had access to its own GDP growth estimates for Q2 only), which means that the Polish economy slowed down only marginally compared with the end of 2017 (4.9% year on year in Q4 2018). It continued to show significant resistance to external factors. Poland’s economic performance was barely affected by the economic slowdown observed in the euro zone since 2018.



Private consumption remained the most important growth driver in H1 2019, increasing by 4% year on year. The reasons for buoyant consumption have not changed in years: the solid growth of consumer demand is fueled by a high increase in consumers’ salaries, secondary effects of the recovery in the real estate market and favourable conditions on the labour market (record-low unemployment rate). Furthermore, consumer sentiments improved again after a temporary decrease at the turn of the year. Some indicators show that the sentiments are record-high. In H2 2019, the effects of the new stimulus package, which includes personal income tax reductions and increased social benefits, will show at full power. Additionally, it is worth mentioning that public consumption made a solid contribution to GDP growth in H1 2019 due to, among other things, salary increases in the public sector.

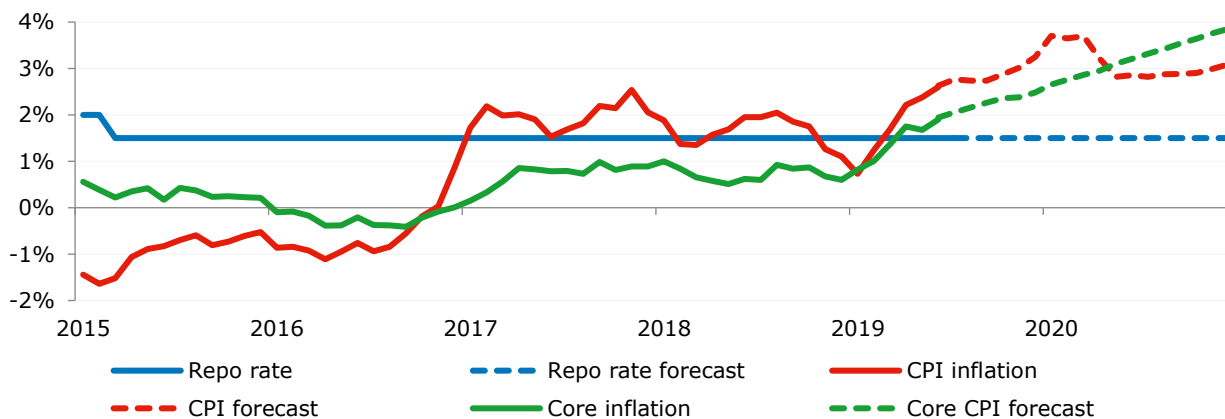
H1 2019 saw an increase in investment demand. Total gross expenditure on fixed assets grew by over 10%, making it the best time for investment since 2015. An analysis of the structure of investment expenditure, in terms of both sectors and types of investment, indicates clearly that the surprising acceleration of investment was driven primarily by the activity of private companies, in particular the foreign-owned ones. In the other segments, the existing trends, i.e. low but positive contributions of private Polish companies, and a slowdown in public investment, remained unchanged. The latter trend results from the maturing of the EU investment cycle and the fading of factors that boosted investment in the previous year (local government elections). High activity on the housing real estate market is also worthy of mention.

Polish exports have offered positive surprises in recent months. Despite a significant slowdown of the world economy and the worst performance of the European industry since 2012, exports of goods and services increased in the first five months of 2019 by 8.8% year on year. This result is attributable to cost competitiveness of Polish goods and services, structural changes (increased importance of services), major geographical diversification and, perhaps most importantly, relatively big role of consumer goods in Polish exports (as consumer demand was the least affected by the global economic slowdown). Considering that

the import growth rate fell to 6.1% year on year, this means that net exports in H1 2019 made a positive contribution to the economic growth.

Inflation returns to NBP's target

H1 2019 was marked by a robust growth in inflation, though not as strong as media reports on price rises would have us believe. The annual growth rate of prices of consumer goods and services went up from 0.7% year on year in January to 2.6% year on year in June. Each month (except for January and May) brought a positive surprise in this respect.

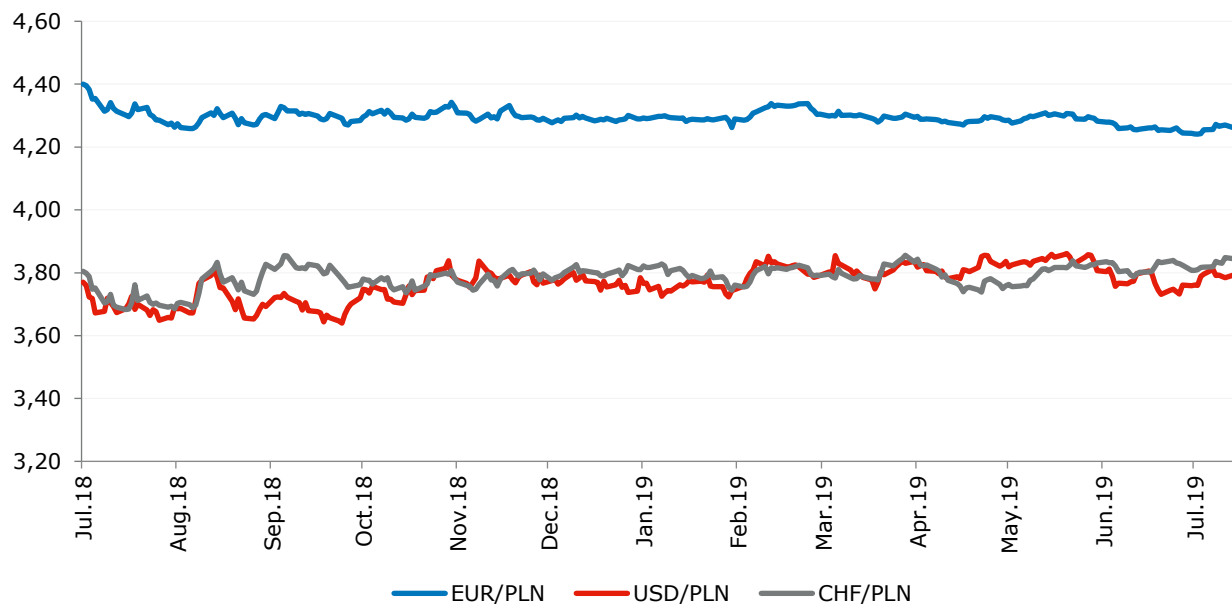


In H1 2019, the CPI was affected by a number of factors. Firstly, regulations on freezing power prices for households entered into force at the beginning of the year, which (due to a reduction in excise duty on electric power and the transitional fee, and a lack of decision of the Energy Regulatory Office (URE) as to electricity prices) translated into a decrease in electricity prices by approx. 9% in January. The prices of other fuels (liquid fuels) grew moderately in the first months of the year, reflecting the prior increase in oil prices. Secondly, food prices shot up (only in June a 6% year-on-year increase was reported), particularly the prices of vegetables, meat, flour bread, which is mainly attributable to weather conditions (drought), the outbreak of ASF in China and the costs of labour related to manufacturing of processed food. Finally, H1 2019 saw a clear and steady increase in core inflation, fuelled mainly by increasing prices of services. Core inflation has reached the highest rate since 2012. However, inflation might have exceeded 3% had it not been for the implemented solution related to energy prices.

Confronted with an increase in inflation, the Monetary Policy Council did not change its standpoint. The reasons for the acceleration of inflation processes were considered as external and independent of measures taken by the central bank, while the increases were deemed to be moderate and relatively small. Such standpoint of MPC was supported by the forecasts of the National Bank of Poland invariably indicating that economic growth will be lower in the future and inflation will again reach the NBP target in two years, without MPC's intervention. As a result, the current interest rate policy was established. The NBP President has recently stated that interest rates would not be changed until the end of the current Council's term of office, i.e. until the end of 2021.

Financial markets: impacted by global factors

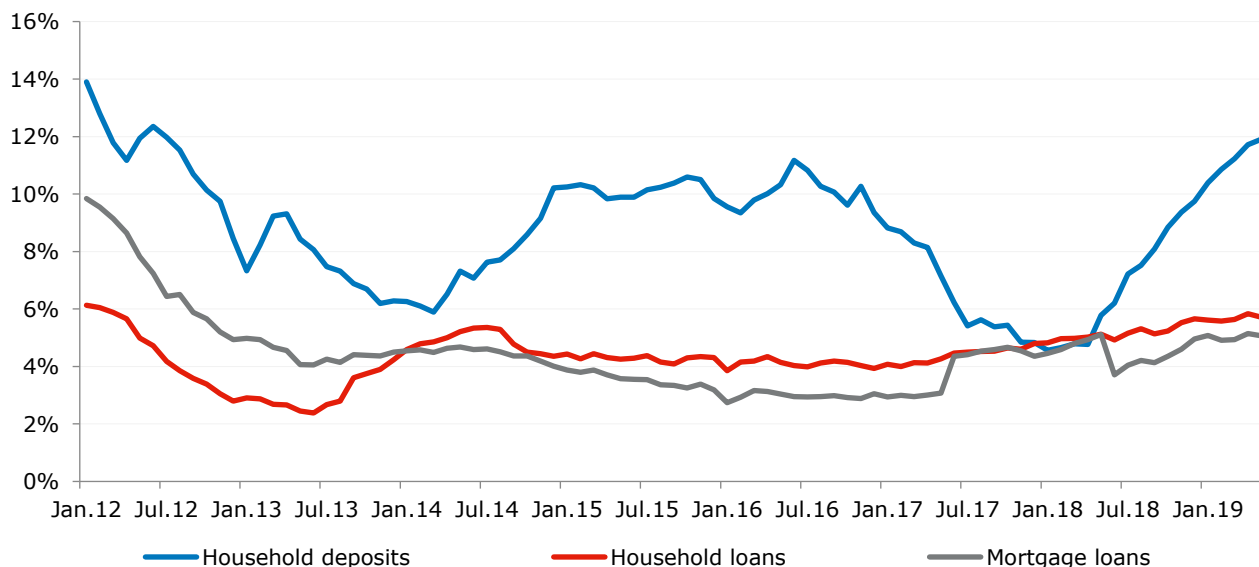
H1 2019 saw the strengthening of the Polish zloty and decreases in market interest rates, which in the bank's opinion, was caused by global factors. Growing pessimism about the prospects for the world economy and expectations of monetary stimulation by central banks were prevailing trends on the FX market and interest rate markets worldwide. The above was coupled with deteriorating macroeconomic data on the global economy and such events as the breakdown in trade talks between the United States and China, President Trump's threat to impose tariffs on all Mexican exports to the US, the last-minute postponement of the Brexit date, mounting tensions in the Middle East and elections to the European Parliament. In the discussed period, the zloty strengthened against the euro from 4.30 to 4.24 (fluctuation ranged from 4.24 to 4.34) and remained stable against the dollar, i.e. at 3.80 (fluctuation ranged from 3.71 to 3.86). This demonstrates low volatility of the zloty, which in turn bespeaks high stability of the Polish economy.



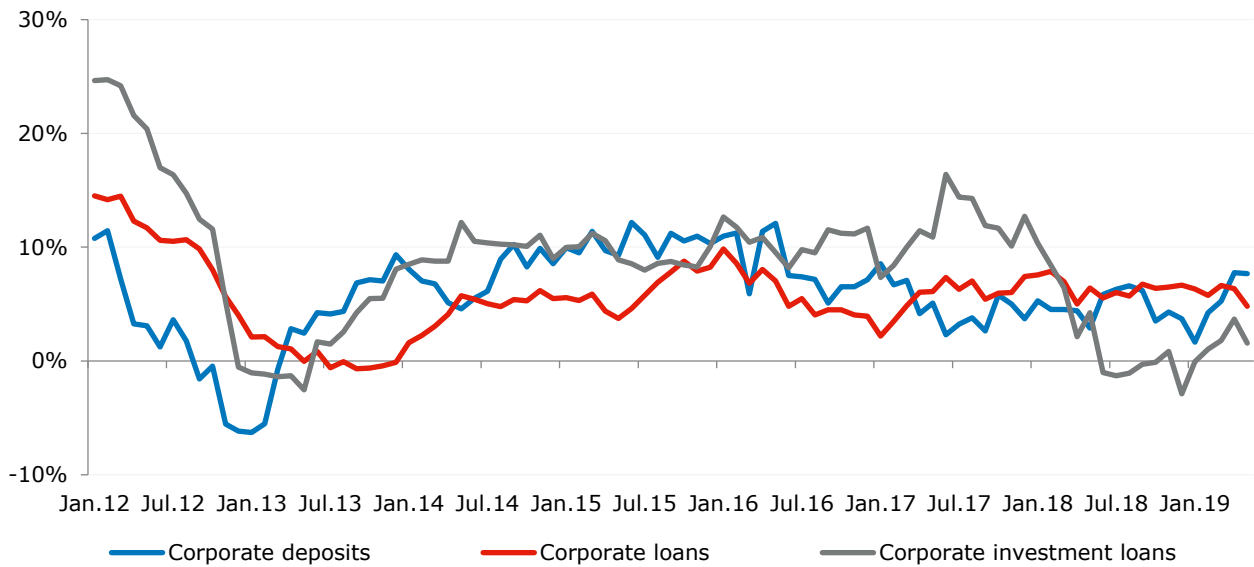
The decreased profitability of Polish Treasury securities in the discussed period impacted mainly medium and long term bonds. As regards securities with a maturity of 10 years, a drop in yields exceeded 50 bps. The flattening of the yield curve observed in H1 2019 resulted from pessimistic market sentiment and expectations of a decrease in interest rates on global markets. The impact of domestic factors was only temporary after the announcement of the fiscal simulation plan.

Solid growth in lending

In H1 2019, the banking sector saw a persistent decrease in the loan-to-deposit ratio. Despite increased lending, deposits continued to grow faster than loans.



The continuing dynamic growth in household deposits (growth rate of 12% in May 2018, the highest since 2012) and sustained high value of new mortgage loans were the key events in the retail sector. The former event was attributable to a high increase in household income and continued outflows from alternative investments (investment funds and asset markets). The latter one resulted from a revival on the housing real estate market, which was not affected by a slowdown in primary market sales, as it was compensated by a simultaneous increase in secondary market sales. As regards the corporate sector, the slight decrease in corporate loans was accompanied by an increase in the value of deposits.



Outlook for economic development in 2019

Key macroeconomic ratios

	2017	2018	2019F
GDP growth (YoY)	4.8%	5.1%	4.9%
Domestic demand (YoY)	4.9%	5.5%	4.5%
Private consumption (YoY)	4.5%	4.5%	4.4%
Investment (YoY)	4.0%	8.7%	9.4%
Inflation (eop)	2.1%	1.1%	3.1%
MPC rate (eop)	1.50	1.50	1.50
CHF/PLN (eop)	3.57	3.82	3.70
EUR/PLN (eop)	4.17	4.30	4.15





Banking sector – monetary aggregates (year to year)

	2017	2018	2019F
Corporate loans	5.9%	7.5%	11.1%
Household loans	1.9%	6.8%	4.6%
Mortgage loans	-0.1%	6.8%	3.5%
Non-mortgage loans	5.3%	6.8%	6.4%
Corporate deposits	2.4%	4.3%	13.0%
Household deposits	4.2%	10.1%	12.0%

Source: mBank’s estimates as of 01.07.2019.

Prospects for mBank Group and description of potential risks in the future

The impact of various factors affecting mBank Group is summarised in the table below. It takes into account both positive and negative phenomena, which allows for a reliable presentation of the expected situation of mBank Group in the coming periods.

Net interest income & NIM	(slightly positive) 
<ul style="list-style-type: none"> ■ Continued gradual increase of margin driven by changing structure of loan portfolio (more higher-yielding products). 	
<ul style="list-style-type: none"> ■ Limited room for further reduction of funding costs. 	
Net Fee & Commission income	(neutral) 
<ul style="list-style-type: none"> ■ Constantly rising client transactionality and strong acquisition in both retail and corporate segment. 	
<ul style="list-style-type: none"> ■ Selective adjustment of tariff of fees and commissions. 	
<ul style="list-style-type: none"> ■ Investment products market still under pressure. 	
Total costs	(slightly negative) 
<ul style="list-style-type: none"> ■ Expenses dependent from the bank's management to be kept under control. 	
<ul style="list-style-type: none"> ■ Rising depreciation due to ongoing investments in IT. 	
<ul style="list-style-type: none"> ■ Higher contribution to the Bank Guarantee Fund. 	
Loan Loss Provisions	(slightly negative) 
<ul style="list-style-type: none"> ■ Small downside risk due to changing loan book mix. 	
<ul style="list-style-type: none"> ■ Resilient asset quality supported by good macroeconomic situation and low unemployment. 	

An important factor forming the activities in the coming periods is the economic environment, whose development in H1 2019 and the prospects for a full calendar year are described in section 3.1. "Economy and banking sector in H1 2019".

The changing regulatory environment also has an impact on the future of the Group. Selected changes in this area are described later in this chapter. They involve costly adjustments on the IT side (e.g. CRR 2 regulation and CRD 5 directive) and in procedures (Recommendation B restricting banks' investment activity, Act on Strengthening Financial Market Supervision and Protection of Investors). The reform of benchmarks is an important change for cooperation between financial sector entities and with customers. Active participation of banks in determining best practices and dialogue with the regulator provide a credible opportunity for a possibly smooth adaptation to the modified legal and operational framework of operations.

Important information regarding factors that may affect mBank Group in the future is additionally described in selected notes to the IFRS Condensed Consolidated Financial Statements for H1 2019:

- 26. Proceedings before a court, arbitration body or public administration authority;
- 31. Factors affecting the results in the coming quarter;
- 32. Other information.

Changes in banking regulations

Recommendation B restricting banks' investment activity

On March 26, 2019, the Polish Financial Supervision Authority (KNF) released the amended recommendation on investment risk management at banks. The recommendation reflects supervisory expectations and good practices regarding banks' proprietary investments in financial instruments or shares in companies, but not in derivatives. Among others, the recommendation outlines expectations about investment strategy and policy, staff qualifications and internal procedures that banks must have in place, in keeping with the proportionality principle.

Act of 17 January 2019 on Amending the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution and Certain Other Acts (the "BFG Act")

On March 7, 2019, the amended BFG Act setting out detailed principles of banks' resolution entered into force. Its purpose is to streamline the resolution procedure and strengthen the deposit guarantee scheme. In particular, a new category of claims satisfied from the bankruptcy estate of a bank was added to Bankruptcy Law (between category five and six) in order to improve the effectiveness of the bail-in tool. Moreover, the KNF was further empowered to decide on the takeover of a bank by another bank when the conditions set out in law materialise (e.g. when a bank's own funds fall below the required minimum) and the BFG was authorised to support this process, while at the same time, mortgage banks were exempt from certain provisions of the act and the obligation to include the bail-in clause in the terms and conditions of issue and in financial instruments agreements was limited.

In April 2019, the KNF permitted the BFG to set up the first bridge bank in Poland ("Pierwszy Bank BFG") as its sole owner. In accordance with the BFG Act, a bridge bank, being one of the resolution tools, allows for continuing the critical functions of a bank placed under resolution and protects the financial stability of the banking sector after the resolution procedure has been instigated.

CRR 2 and CRD 5

On June 7, 2019, a package including CRR 2 and CRD 5 was published in the Official Journal of the European Union. The regulations govern long-term liquidity (introduction of NSFR), market risk in the trading book, leverage ratio, interest rate risk in the banking book, proportionality principle and special approach to financing SMEs and infrastructure projects. The broad scope covered by the package requires banks to make numerous adjustments, e.g. as far as measurement of capital used by products or stress testing are concerned, but the transitional provisions give banks time to gradually adjust to the new regulatory framework. At the same time, discussions about the Basel IV areas not covered by the CRR 2/CRD 5 package, in particular the revision of the standardised approach and the IRB approach for credit risk, are underway. Banks take active part in analysing the proposed solutions.

IFRS 16

Starting from January 1, 2019, institutions applying the International Financial Reporting Standards are obliged to comply with IFRS 16 *Leases*. The obligation to recognise lease contracts in the balance sheet (not in the off-balance sheet as before) affects the level of financial ratios as well as various industries, including the banking sector.

Commission Implementing Regulation (EU) 2019/482 of 22 March 2019 amending Commission Implementing Regulation (EU) 2016/1368 establishing a list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council

On March 26, 2019, Commission Implementing Regulation (EU) 2019/482 entered into force. Under the regulation, the Warsaw Interbank Offered Rate (WIBOR) was recognised by the European Commission as a critical benchmark. The decision was an element of a broader reform of benchmarks used to determine the price of many financial instruments and financial contracts. Since WIBOR was recognised as a critical benchmark, the period for bringing it into compliance with the EU Benchmarks Regulation (Regulation 2016/1011 of 8 June 2016 or BMR) was extended by two years. As a result, GPW Benchmark S.A. (WIBOR administrator) is obliged to implement all necessary modifications by the end of 2021. The regulators across the world are aware of the risks posed by a slow transition of the financial markets to reformed benchmarks and therefore call for introducing the necessary modifications as soon as possible (e.g. in product agreements).

Act on Employee Capital Plans

On January 1, 2019, the Act on Employee Capital Plans (PPK) entered into force. It establishes legal framework for a universal and voluntary pension savings system. Being a part of the government's Strategy for Responsible Development, PPK may increase not only the individual pension savings of employees, but also the overall savings in Poland and give a positive boost to the capital market. On July 1, 2019, employees of the largest companies will be the first to join the programme.

Act on Strengthening Financial Market Supervision and Protection of Investors

The first half of 2019 was marked by issuers' preparations for the entry into force of tighter regulations on bond issues and the resulting disclosure obligations scheduled for July 1, 2019 (under the Act of 9 November 2018 on Amending Certain Acts in Connection with Strengthening Financial Market Supervision and Protection of Financial Market Investors). Aiming at greater transparency and security of bond issues, the regulations stipulate, among others, mandatory dematerialisation of securities and their registration in the securities depository, and oblige issuers to involve an issue agent in the process, i.e. a professional entity tasked with verifying whether an issue complies with law.

3.2. Financial results of mBank Group in H1 2019

All changes presented in the analysis of financial results are calculated on the basis of the Consolidated Financial Statements for H1 2019 (in PLN'000).

Profit & Loss Account

mBank Group closed H1 2019 with a profit before tax of PLN 709.2 million v. PLN 953.3 million generated in H1 2018 (down by PLN 244.1 million or 25.6%). The net profit attributable to the owners of mBank stood at PLN 495.6 million v. PLN 705.9 million in H1 2018 (down by PLN 210.2 million or 29.8%).

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Interest income	2,156.2	2,464.4	308.2	14.3%
Interest expense	-485.4	-536.4	-51.0	10.5%
Net interest income	1,670.8	1,928.0	257.3	15.4%
Fee and commission income	829.2	813.1	-16.1	-1.9%
Fee and commission expense	-311.4	-358.4	-47.1	15.1%
Net fee and commission income	517.9	454.7	-63.2	-12.2%
Core income	2,188.6	2,382.7	194.1	8.9%
Dividend income	3.1	3.7	0.5	17.7%
Net trading income	169.2	206.4	37.2	22.0%
Other income	15.0	45.5	30.5	203.7%
Other operating income	321.8	75.3	-246.5	-76.6%
Other operating expenses	-100.0	-123.0	-23.0	23.0%
Total income	2,597.7	2,590.5	-7.2	-0.3%
Net impairment losses and fair value change on loans and advances	-338.6	-369.6	-30.9	9.1%
Overhead costs and depreciation	-1,109.6	-1,252.9	-143.3	12.9%
Taxes on the Group balance sheet items	-196.8	-258.8	-62.1	31.6%
Share in profits (losses) of entities under the equity method	0.6	-	-0.6	-
Profit before income tax	953.3	709.2	-244.1	-25.6%
Income tax expense	-247.4	-213.6	33.8	-13.7%
Net profit attributable to:	705.9	495.6	-210.3	-29.8%
- Owners of mBank S.A.	705.9	495.6	-210.2	-29.8%
- Non-controlling interests	0.0	0.0	0.0	-
ROA net	1.1%	0.7%		
ROE gross	13.8%	9.4%		
ROE net	10.2%	6.6%		
Cost / Income ratio	42.7%	48.4%		
Net interest margin	2.6%	2.7%		
Common Equity Tier 1 ratio	17.1%	16.7%		
Total capital ratio	20.1%	19.7%		

Core income – the sum of net interest income and net fee and commission income.

Other income – gains less losses on financial assets and liabilities not measured at fair value through profit and investments in subsidiaries and associates and gains or losses on financial assets not held for trading which must be measured at fair value through profit relating to equity instruments and debt securities (net of loans and advances).

Total income – net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.

General administrative expenses including depreciation and amortisation – general administrative expenses plus depreciation and amortisation.

Impairment and change of fair value of loans and advances – sum of impairment or reversed impairment of financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.

ROA net – calculated by dividing net profit attributable to Owners of the bank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

ROE gross – Calculated by dividing profit before income tax by the average equity attributable to Owners of the Bank net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Profit before income tax is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

ROE net – Calculated by dividing net profit attributable to Owners of the bank by the average equity attributable to Owners of the bank net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

Cost/Income ratio – general administrative expenses including depreciation and amortisation to total income (excluding tax on the Group balance sheet items).

Interest margin – net interest income to average interest-earning assets. Interest-earning assets include: cash in hand and transactions with the central bank, amounts due from banks, securities (including all valuation methods), loans and advances to clients (net, including all valuation methods). Average interest-earning assets are based on balances at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

The financial results of mBank Group in H1 2019 were driven mainly by the following factors:

- **Increase of the core income** by 8.9% year on year owing to an increase of the net interest income by 15.4%. Meanwhile, total income remained stable (-0.3%) despite gains on the sale of an organised part of the enterprise of mFinanse booked in H1 2018;
- **Increase of operating expenses (including depreciation)** by 12.9% year on year, mainly due to an increase of the contribution to the Banking Guarantee Fund;
- **Increase of net impairment losses and fair value change on loans and advances** by 9.1% due to higher provisions in retail banking;
- **Increase of the tax on the Group balance sheet items** to PLN 258.8 million (+31.6%). In connection with the renewed analysis of the treatment of certain transactions in previous years, in Q2 2019 the Group created a provision in the amount of PLN 41.6 million for potential additional payment of tax from selected financial institutions ("banking tax"). The provision was recognised by the Group in the income statement account in the line "Taxes on the Group balance sheet items".
- **Continued organic growth and business expansion** demonstrated by:
 - continued strong acquisition of retail clients in Poland, the Czech Republic and Slovakia; the number of clients decreased to 5,552 thousand mainly due to the closing of inactive accounts of Kompakt Finanse clients;
 - increase in the number of corporate clients to 25,002 (+1,296 year to date).

Net loans and advances increased by 6.0% year to date and by 12.1% year on year. Deposits increased by 8.2% year to date and by 12.8% year on year. As a result, the loan to deposit ratio amounted to 91.0% compared with 92.9% at December 31, 2018 and 91.6% at June 30, 2018.

Changes in the Group's results were reflected in the profitability ratios:

- ROE gross was 9.4% (against 13.8% in H1 2018);
- ROE net was 6.6% (against 10.2% in H1 2018).

The total capital ratio stood at 19.7% v. 20.7% at December 31, 2018 and 20.1% at June 30, 2018. The Tier 1 ratio was 16.7% v. 17.5% at December 31, 2018 and 17.1% at June 30, 2018. The decrease of the capital ratios was driven by a strong increase in total risk exposure amount over that period.

Contribution of business segments and business lines to the financial results

The table below presents the contribution of the business lines to the Group's profit before tax:

PLN M	H1 2018	H1 2019	Change in %	% share in profit before tax
Retail Banking	690.7	462.5	-33.0%	65.2%
Corporate and Investment Banking	230.2	237.8	3.3%	33.5%
Financial Markets	34.3	67.5	97.0%	9.5%
Other	-1.9	-58.6	x30.8	-8.3%
Profit before tax of mBank Group	953.3	709.2	-25.6%	100.0%

Income of mBank Group

mBank Group generated income at the level of PLN 2,590.5 million in H1 2019 v. PLN 2,597.7 million in H1 2018, representing a decrease of PLN 7.2 million or 0.3%. Income remained stable despite gains on the sale of an organised part of the enterprise of mFinanse booked in H1 2018. That was mainly driven by a significant improvement in the net interest income by PLN 257.3 million.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Interest income	2,156.2	2,464.4	308.2	14.3%
Interest expense	-485.4	-536.4	-51.0	10.5%
Net interest income	1,670.8	1,928.0	257.3	15.4%
Fee and commission income	829.2	813.1	-16.1	-1.9%
Fee and commission expense	-311.4	-358.4	-47.1	15.1%
Net fee and commission income	517.9	454.7	-63.2	-12.2%
Dividend income	3.1	3.7	0.5	17.7%
Net trading income	169.2	206.4	37.2	22.0%
Other income	15.0	45.5	30.5	203.7%
Other operating income	321.8	75.3	-246.5	-76.6%
Other operating expenses	-100.0	-123.0	-23.0	23.0%
Total income	2,597.7	2,590.5	-7.2	-0.3%

Net interest income remained the main source of income of mBank Group in H1 2019 (74.4% of total income). It reached the level of PLN 1,928.0 million v. PLN 1,670.8 million in H1 2018, representing an increase of PLN 257.3 million or 15.4%. Interest income increased substantially despite the persisting low-rate environment.

Interest income increased by PLN 308.2 million or 14.3% year on year and stood at PLN 2,464.4 million in H1 2019. Interest from loans and advances to clients, which are the main source of interest income, increased by PLN 273.5 million or 16.9% year in year. That growth was driven by an increase in loan volumes and a change of the structure of assets with a bigger share of higher-margin products, in particular non-mortgage loans. Income from investment securities increased by PLN 17.2 million or 5.1% year on year in H1 2019 due to an increase of the volumes. Interest income on derivatives classified into banking book and interest income on derivatives concluded under the cash flow hedge also increased.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Loans and advances	1,616.6	1,890.1	273.5	16.9%
Investment securities	337.5	354.7	17.2	5.1%
Cash and short term funds	25.7	28.8	3.2	12.4%
Debt securities held for trading	32.4	30.9	-1.5	-4.6%
Interest income on derivatives classified into banking book	87.9	98.2	10.3	11.7%
Interest income on derivatives concluded under the fair value hedge	38.0	37.2	-0.7	-1.9%
Interest income on derivatives concluded under the cash flow hedge	15.8	26.5	10.7	67.8%
Other	2.4	-1.9	-4.3	+/-
Total interest income	2,156.2	2,464.4	308.2	14.3%

Interest income on loans and advances includes interest income on loans and advances in the following lines: assets held for trading, non-trading financial assets mandatorily measured at fair value through profit or loss, and financial assets at amortised cost.

Interest income on investment securities includes interest income in the following lines: financial assets not held for trading mandatorily measured at fair value through profit or loss, including debt securities, financial assets measured at fair value through other comprehensive income, and financial assets at amortised cost, including debt securities.

Interest expenses increased by PLN 51.0 million or 10.5% year on year in H1 2019. Costs of deposits rose by PLN 47.0 million or 16.8% due to a bigger volume of retail and corporate deposits. The cost of debt securities in issue, which is the second biggest source of funding, went up by PLN 2.7 million or 1.8%. The cost of borrowings dropped by PLN 7.0 million or 46.7%.

The net interest margin increased to 2.68% in H1 2019 v. 2.57% in H1 2018 (+11 bps).

Net fee and commission income stood at PLN 454.7 million in H1 2019, representing a decrease of PLN 63.2 million or 12.2% year on year in H1 2019. The decrease of the net fee and commission income was driven both by a lower income and higher costs in H1 2019.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Payment cards-related fees	188.6	195.9	7.2	3.8%
Credit-related fees and commissions	182.9	201.9	19.0	10.4%
Commissions for agency service regarding sale of insurance products of external financial entities	64.2	47.0	-17.2	-26.9%
Fees from brokerage activity and debt securities issue	54.4	46.5	-8.0	-14.6%
Commissions from bank accounts	103.6	104.0	0.3	0.3%
Commissions from money transfers	64.0	69.8	5.8	9.0%
Commissions due to guarantees granted and trade finance commissions	42.6	47.0	4.4	10.4%
Commissions for agency service regarding sale of other products of external financial entities	57.3	36.7	-20.6	-35.9%
Commissions on trust and fiduciary activities	13.4	13.1	-0.2	-1.6%
Fees from portfolio management services and other management-related fees	6.6	6.5	-0.1	-1.5%
Fees from cash services	27.7	24.5	-3.2	-11.4%
Other	23.8	20.2	-3.6	-15.0%
Fee and commission income	829.2	813.1	-16.1	-1.9%

Fee and commission income dropped by PLN 16.1 million or 1.9% year on year. Fees and commissions on payment cards, which are the biggest part of the fee and commission income, increased by PLN 7.2 million or 3.8% in H1 2019 driven by a higher volume and value of cashless transactions.

Credit-related fees and commissions increased by PLN 19.0 million or 10.4% year on year in H1 2019, driven by higher sales of retail mortgage loans, non-mortgage loans and corporate loans.

Following the sale in H1 2018 of an organised part of the enterprise of mFinanse, acting as a group insurance agent, fees and commissions on sale of insurance products of third-party financial institutions decreased by PLN 17.2 million or 26.9% year on year in H1 2019.

Lower trading volumes on the Warsaw Stock Exchange and fewer transactions closed by Dom Maklerski mBanku in H1 2019 caused a drop in fees on brokerage transactions and origination of securities by PLN 8.0 million or 14.6% year on year.

Fees and commissions on sale of products of third-party financial institutions dropped by PLN 20.6 million or 35.9% year on year in H1 2019 mainly due to lower income generated on sale of units of investment funds via the Investment Fund Supermarket.

Fee and commission costs increased by PLN 47.1 million or 15.1% year on year in H1 2019. The increase was mainly driven by a higher cost of payment card processing and insurance as well as commissions paid to third parties for sale of mBank products.

Dividend income was PLN 3.7 million in H1 2019, representing a slight increase year on year. Dividends paid by Biuro Informacji Kredytowej (BIK) and Krajowa Izba Rozliczeniowa (KIR), in which mBank holds minority interests, were booked in H1 2019, similar to H1 2018.

Net trading income reached PLN 206.4 million in H1 2019, representing an increase of PLN 37.2 million or 22.0% year on year in H1 2019. The rise was mainly generated by FX income, which grew by PLN 25.4 million.

Other income accounted for PLN 45.5 million in H1 2019 v. PLN 15.0 million in H1 2018.

Net other operating result (net other operating income and expenses) was negative at PLN 47.7 million v. positive PLN 221.8 million in H1 2018 when gains on the sale of an organised part of the enterprise of mFinanse at PLN 219.7 million were booked.

Impairment and change of fair value of loans and advances

mBank Group's impairment and change of the fair value of loans and advances (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss plus gains or losses on non-trading loans and advances mandatorily at fair value through profit or loss) stood at PLN -369.6 million in H1 2019 and was higher in absolute terms than in H1 2018, when it stood at PLN -338.6 million (-PLN 30.9 million, +9.1%). Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss stood at PLN -327.2 million and gains or losses on loans and advances mandatorily at fair value through profit or loss amounted to PLN -42.4 million in H1 2019. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. Gains or losses on non-trading loans and advances mandatorily at fair value through profit or loss are mainly related to the credit risk of the portfolio of loans and advances measured with this accounting method.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Retail Banking	-214.0	-245.6	-31.5	14.7%
Corporates and Financial Markets	-124.6	-123.1	1.5	-1.2%
Other	0.0	-0.9	-0.9	+/-
Total net impairment losses and fair value change on loans and advances	-338.6	-369.6	-30.9	9.1%

Net impairment losses and fair value change of loans and advances in Retail Banking increased by PLN 31.5 million year on year in H1 2019. That was mainly driven by an increase in the volume of loans and changes in the structure of retail loans with a growing share of unsecured loans.

Net impairment losses and fair value change in Corporates & Financial Markets in H1 2019 remained at the similar level to H1 2018 (+ PLN 1.5 million year on year).

Cost of mBank Group

In the period under review, mBank Group continued to invest in growth in strategic areas which will drive additional revenue in the coming years. The Group maintained high efficiency of operations, measured by the cost/income ratio.

Operating expenses of mBank Group (including depreciation) stood at PLN 1,252.9 million in H1 2019, representing an increase by PLN 143.3 million or 12.9% year on year.

PLN M	H1 2018	H1 2019	Change in PLN M	Change in %
Staff-related expenses	-466.4	-503.5	-37.1	7.9%
Material costs, including	-365.6	-328.2	37.4	-10.2%
- administration and real estate services costs	-182.2	-135.1	47.1	-25.9%
- IT costs	-85.7	-84.5	1.2	-1.4%
- marketing costs	-60.0	-69.9	-9.9	16.5%
- consulting costs	-31.4	-32.8	-1.4	4.6%
- other material costs	-6.2	-5.8	0.4	-6.6%
Taxes and fees	-11.1	-14.0	-2.9	26.4%
Contributions and transfers to the Bank Guarantee Fund	-138.1	-226.1	-88.1	63.8%
Contributions to the Social Benefits Fund	-4.0	-3.0	1.1	-26.5%
Depreciation	-124.5	-178.2	-53.7	43.1%
Total overhead costs and depreciation	-1,109.6	-1,252.9	-143.3	12.9%
Cost / Income ratio	42.7%	48.4%	-	-
Employment (FTE)	6,358	6,677	319	5.0%

Personnel expenses increased by PLN 37.1 million or 7.9% year on year driven by higher salary costs. At the same time, the headcount increased by 319 FTEs, mainly in relation to projects implemented by the bank and the opening of new branches.

Material costs decreased by PLN 37.4 million or 10.2% over that period. Following the implementation of IFRS 16, administrative expenses and real estate maintenance costs (lease payments) were partly replaced in the period under review by depreciation and amortisation charges as well as interest costs. Marketing costs increased by PLN 9.9 million or 16.5%.

Depreciation increased by PLN 53.7 million or 43.1% year on year in H1 2019 due to the implementation of IFRS 16 as well as capex previously invested in IT systems.

The contribution to the Banking Guarantee Fund amounted to PLN 226.1 million in H1 2019, representing an increase of PLN 88.1 million year on year. The costs of H1 2019 and the costs of H1 2018 included the annual contributions to the resolution fund booked in Q1. The contribution stood at PLN 197.3 million in 2019 v. PLN 97.1 million in 2018.

Following changes in mBank Group's income and costs, the cost/income ratio (C/I) of mBank Group stood at 48.4% v. 42.7% in H1 2018. The normalised cost/income ratio (adjusted for the contribution to the resolution fund in H2) improved slightly in H1 2019 (down to 44.6% from 44.8% in H1 2018, adjusted for one-off gains on the sale of an organised part of the enterprise of mFinanse and the contribution to the resolution fund in H2 2018).

Changes in the consolidated statement of financial position

Changes in assets of mBank Group

In H1 2019, assets of the Group increased by PLN 6,683.1 million or 4.6% and stood at PLN 152,433.2 million as at June 30, 2019.

PLN M	30.06.2018	31.12.2018	30.06.2019	YtD change	YoY change
Cash and balances with Central Bank	5,514.9	9,199.3	6,689.8	-27.3%	21.3%
Loans and advances to banks	3,787.0	2,546.3	3,079.8	21.0%	-18.7%
Financial assets held for trading and derivatives held for hedges	4,634.9	2,061.1	3,669.6	78.0%	-20.8%
Net loans and advances to customers	89,601.4	94,765.8	100,421.5	6.0%	12.1%
Investment securities	33,388.4	33,469.7	34,293.8	2.5%	2.7%
Intangible assets	703.5	776.2	822.1	5.9%	16.9%
Tangible assets	715.5	785.0	1,304.2	66.1%	82.3%
Other assets	1,672.2	2,146.7	2,152.4	0.3%	28.7%
Total assets	140,017.8	145,750.1	152,433.2	4.6%	8.9%

Investment securities – sum of financial assets at fair value through other comprehensive income, debt securities at amortised cost and non-trading debt securities and equity instruments mandatorily at fair value through profit or loss.

Net loans and advances to clients – sum of loans and advances at amortised cost, non-trading loans and advances to customers mandatorily at fair value through profit or loss and loans and advances classified as assets held for trading.

Loans and advances to customers retained the largest share in the balance sheet of mBank Group at the end of H1 2019. Their net volume increased by PLN 10,820.1 million or 12.1% year on year. As at June 30, 2019, they accounted for 65.9% of the balance sheet total against 64.0% at the end of H1 2018 and 65.0% at the end of 2018.

PLN M	30.06.2018	31.12.2018	30.06.2019	YtD change	YoY change
Loans and advances to individuals	51,108.2	52,925.4	56,048.8	5.9%	9.7%
Loans and advances to corporate entities	40,756.3	44,233.1	47,047.1	6.4%	15.4%
Loans and advances to public sector	790.3	649.8	555.1	-14.6%	-29.8%
Total (gross) loans and advances to customers	92,654.8	97,808.3	103,650.9	6.0%	11.9%
Provisions for loans and advances to customers	-3,053.3	-3,042.5	-3,229.4	6.1%	5.8%
Total (net) loans and advances to customers	89,601.4	94,765.8	100,421.5	6.0%	12.1%

In H1 2019, gross loans and advances to individuals rose by PLN 3,123.4 million or 5.9%. The volumes of mortgage loans, housing loans, and non-mortgage loans increased sharply. High dynamics of sales were observed both in mortgage and non-mortgage loans. In H1 2019, mBank Group sold PLN 3,710.7 million worth of mortgage loans, which represents a strong hike as compared with the sales in H1 2018 (PLN 2,147.6 million). Sales of non-mortgage loans stood at PLN 5,195.8 million in H1 2019 (PLN 4,331.6 million in H1 2018). Net of the FX effect, loans and advances to individuals grew by 5.9% compared with the end of 2018 and by 9.4% year on year.

The volume of gross loans and advances to corporate clients grew by PLN 2,814.0 million or 6.4% year to date in H1 2019. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans to corporate clients increased by 8.1% against the end of 2018 and 14.8% against H1 2018.

The volume of gross loans and advances to the public sector decreased by PLN 94.8 million or 14.6% in H1 2019.

Investment securities constituted mBank Group's second largest category of assets (22.5%). In H1 2019, their value increased by PLN 824.1 million or 2.5%.

The balance of financial assets held for trading and derivatives held for hedges went up by PLN 1,608.5 million or 78.0% in H1 2019 as a result of an increase in the value of derivatives (+13.3% year to date) and an increase on the position of debt securities issued by the central government and local governments (+183.8%).

Changes in liabilities and equity of mBank Group

The table below presents changes in liabilities and equity of the Group in H1 2019:

PLN M	30.06.2018	31.12.2018	30.06.2019	YtD change	YoY change
Amounts due to other banks	4,548.8	3,078.4	2,974.9	-3.4%	-34.6%
Amounts due to customers	97,794.4	102,009.1	110,341.1	8.2%	12.8%
Debt securities in issue	16,817.7	18,049.6	16,563.9	-8.2%	-1.5%
Subordinated liabilities	2,206.7	2,474.2	2,477.7	0.1%	12.3%
Other liabilities	4,129.6	4,922.8	4,394.4	-10.7%	6.4%
Total Liabilities	125,497.2	130,534.0	136,752.0	4.8%	9.0%
Total Equity	14,520.6	15,216.1	15,681.2	3.1%	8.0%
Total Liabilities and Equity	140,017.8	145,750.1	152,433.2	4.6%	8.9%

Amounts due to customers are the principal source of funding of mBank Group. Their share in the structure of liabilities and equity of mBank Group recorded an increase year on year. As at the end of June 2019, amounts due to customers accounted for 72.4% of the Group's total liabilities and equity as compared with 70.0% at the end of 2018 and 69.8% at the end of June 2018.

PLN M	30.06.2018	31.12.2018	30.06.2019	YtD change	YoY change
Individual customers	59,902.8	65,923.6	70,241.0	6.5%	17.3%
Corporate customers	35,591.7	35,346.3	38,127.0	7.9%	7.1%
Public sector customers	2,299.9	739.2	1,973.1	166.9%	-14.2%
Total amounts due to customers	97,794.4	102,009.1	110,341.1	8.2%	12.8%

Amounts due to customers increased by PLN 8,332.0 million or 8.2% in H1 2019, up to PLN 110,341.1 million. In the period under review, a rise in amounts due to all clients' groups could be observed.

Amounts due to corporate clients went up by 7.9% in the period under review. The increase was driven by term deposits (+18.1%) and current accounts (+5.1%). At the same time, mBank repaid a part of the borrowings from the European Investment Bank at EUR 246 million.

Amounts due to individuals rose by PLN 4,317.5 million or 6.5% in H1 2019. Growth was reported on current accounts (+7.1%) as well as on term deposits (+5.3%).

Amounts due to the public sector went up by 166.9% to PLN 1,973.1 million, which was chiefly attributable to a low reference base at the end of 2018 and an increase in the volume of term deposits.

Amounts due to other banks decreased by PLN 103.5 million or 3.4% year to date and stood at PLN 2,890.3 million. Following a number of repayments in 2018, given position of liabilities recorded rather stable path in H1 2019. Year to date decrease was mainly driven by a repayment of borrowings to another bank of EUR 130 million, partly offset by an increase of repo transactions.

The share of debt securities in issue in the funding structure of mBank Group dropped from 12.4% at the end of 2018 to 10.9% at the end of June 2019. Their value decreased by PLN 1,485.7 million or 8.2% compared with the end of 2018. This reduction is primarily attributable to a repayment of EUR 500 million of bonds under the EMTN programme on 1 April 2019, partly offset by a new EMTN issue of CHF 125 million on 5 April 2019. In addition, mBank Hipoteczny issued covered bonds worth PLN 100 million on 22 February 2019.

Subordinated liabilities remained stable year to date in the absence of repayments or new issues and owing to a relatively stable exchange rate of CHF, a currency in which a large part of mBank's subordinated debt is denominated.

In H1 2019, equity grew by PLN 465.1 million or 3.1% as a result of an increase in retained earnings, while its share in total liabilities and equity of mBank Group accounted for 10.3% at the end of H1 2019, compared to 10.4% at June 30, 2018 and December 31, 2018.

Financial results of mBank Group in Q2 2019

The profit before tax generated by mBank Group in Q2 2019 stood at PLN 418.4 million compared to PLN 290.8 million in the previous quarter. Net profit attributable to the owners of mBank reached PLN 331.6 million, compared to PLN 164.0 million in Q1 2019. It includes increased taxes on the Group balance sheet items and was positively impacted by income tax averaging.

PLN M	Q1 2019	Q2 2019	Change in PLN M	Change in %
Interest income	1,200.8	1,263.6	62.7	5.2%
Interest expense	-270.6	-265.8	4.8	-1.8%
Net interest income	930.3	997.8	67.5	7.3%
Fee and commission income	400.7	412.4	11.8	2.9%
Fee and commission expense	-171.8	-186.6	-14.8	8.6%
Net fee and commission income	228.8	225.8	-3.0	-1.3%
Core income	1,159.1	1,223.6	64.5	5.6%
Dividend income	0.2	3.4	3.2	1437.2%
Net trading income	102.9	103.5	0.6	0.6%
Other income	27.7	17.8	-9.9	-35.8%
Other operating income	37.1	38.2	1.2	3.2%
Other operating expenses	-65.6	-57.4	8.3	-12.6%
Total income	1,261.4	1,329.2	67.8	5.4%
Net impairment losses and fair value change on loans and advances	-145.6	-206.4	-60.8	41.7%
Overhead costs and depreciation	-715.8	-537.1	178.7	-25.0%
Taxes on the Group balance sheet items	-109.1	-149.7	-40.6	37.2%
Profit before income tax	290.8	418.4	127.6	43.9%
Income tax expense	-126.8	-86.8	40.1	-31.6%
Net profit attributable to:	164.0	331.6	167.6	102.2%
- Owners of mBank S.A.	164.0	331.6	167.6	102.2%
- Non-controlling interests	0.0	0.0	0.0	-
ROA net	0.4%	0.9%		
ROE gross	7.8%	11.1%		
ROE net	4.4%	8.8%		
Cost / Income ratio	56.7%	40.4%		
Net interest margin	2.6%	2.8%		
Common Equity Tier 1 ratio	17.6%	16.7%		
Total capital ratio	20.6%	19.7%		

The main drivers of mBank Group's financial results in Q2 2019 included:

- **Increase in net interest income** by PLN 67.5 million or 7.3% mainly driven by an increase in interest income by 5.2% quarter on quarter thanks to growing volumes in retail and corporate banking and changing asset mix;
- **Decrease in net fee and commission income** by PLN 3.0 million or 1.3% mainly driven by an increase in expenses;
- **Net trading income** remaining high and stable quarter on quarter;
- **Decrease in operating costs (including depreciation)** by PLN 178.7 million or 25.0%, driven by the annual contribution to the resolution fund of the Banking Guarantee Fund booked in Q1 2019;

- **Increase in net impairment losses and fair value change on loans and advances** (by PLN 78.3 million) driven mainly by a rise in provisions in the Corporates and Financial Markets segment, which stood at PLN 92.6 million against PLN 31.4 million in the previous quarter. In the analysed period, impairment losses on loans and advances in the Retail Banking segment amounted to PLN 131.3 million v. PLN 114.3 million in Q1 2019;
- **Increase in taxes on the Group balance sheet items** at PLN 149.7 million. In connection with the renewed analysis of the treatment of certain transactions in previous years, in Q2 2019 the Group created a provision in the amount of PLN 41.6 million for potential additional payment of tax from selected financial institutions ("banking tax"). The provision was recognised by the Group in the income statement account in the line "Taxes on the Group balance sheet items".
- **Lower effective income tax rate** due to changed approach in accordance with IAS 34, i.e. estimated average annual effective income tax rate applied to the profit before tax of the interim period.

The balance sheet total of mBank Group stood at PLN 152,433.2 million as at June 30, 2019 compared with PLN 150,818.7 million at the end of March 2019.

Net loans and advances to clients increased by PLN 2,698.7 million or 2.8% in Q2 2019. A higher volume of loans was reported in both the retail clients segment (up by PLN 1,973.1 million or 3.6%) and the corporate clients segment (up by PLN 865.0 million or 1.9%). In Q2 2019, mBank Group sold PLN 2,220.5 million worth of mortgage loans and PLN 2,620.5 million worth of non-mortgage loans.

At the same time, amounts due to clients rose by PLN 2,692.9 million or 2.5%. Growth was reported in amounts due to individuals (up by PLN 2,019.6 million or 3.0%) and to corporate clients (up by PLN 462.9 million or 1.2%). In both cases, this was attributable to the inflow of funds to current and savings accounts. Funds in current accounts of individuals rose by PLN 1,898.4 million and of corporate clients by PLN 2,026.3 million.

4. Risk management

4.1. Risk management foundations and key changes in H1 2019

mBank Group manages risk on the basis of regulatory requirements and best market practice by developing risk management strategies, policies and guidelines. The risk management process is conducted at all levels of the organisational structure, starting at the levels of the Supervisory Board (including Risk Committee of the Supervisory Board) and the bank's Management Board, through specialised committees and units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit.

Risk management roles and responsibilities in mBank Group are organised around **the three lines of defence scheme**:

- The first line of defence is **Business** (business lines), whose task is to take risk and capital aspects into consideration when making all business decisions, within the risk appetite set for the Group;
- The second line of defence, mainly the **risk management area, IT, Security and Compliance function**, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure. The second line of defence acts independently of the Business;
- The third line of defence is **Internal Audit**, making independent assessment of activities connected with risk management performed by the first and the second line of defence.

In the communication between organisational units in the risk management area and business lines in mBank as well as between the bank and the Group subsidiaries an important role is played by the **Business and Risk Forum of mBank Group** which is constituted by the Retail Banking Risk Committee, Corporate and Investment Banking Risk Committee, and Financial Markets Risk Committee. The main function of these committees is to develop the principles of risk management and risk appetite in the given business line, by making decisions and issuing recommendations concerning in particular: risk policies, processes and tools for risk assessment, risk limitation system, assessment of the quality and profitability of the portfolio of exposures to clients, approval of introducing new products to the offer.

The management function at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the risk management area supervised by the Vice-President of the Management Board, Chief Risk Officer.

Vision of the risk management area

We take advantage of the opportunities in a dynamically changing environment, using innovative methods of risk management.

Bearing in mind the bank's efficiency and safety, we create value for the customer in a partner dialogue with the business.

The **Mission** of the risk management area is to be actively involved in the initiatives and actions undertaken while realization of the strategy of mBank Group. This support is organized around five challenges:

- **Empathy** understood as active adaptation of risk management to the changing needs of different groups of customers;
- Promoting the experience of **mobility**;
- **Efficiency** understood as: measuring, improving and automating risk processes in the culture of Lean; shaping (through a partner dialogue) risk appetite ensuring safe and profitable balance sheet of the bank;

- **Engaged employees.** This challenge is realised through building a work environment which fosters innovation, attracts, maintains and develops employees with knowledge of business and risk, curious to find solutions and openly communicating;
- **Technological advantage,** which means the implementation of risk management based on a common integrated data platform (CDL, Common Data Layer) and the search for technological solutions enabling innovative risk management.

Key activities and changes in the risk management area in H1 2019:

- Risk appetite was defined for the subsequent planning horizon. Conclusions from analyses and discussions on potential impact on the Group of several issues identified during the managerial dialogue with particular emphasis on the package of non-financial risks, were taken into account while formulating risk appetite;
- The programme of continuous increase of work efficiency based on the Lean Management rules was continued. The purpose of the programme is to allow the growing number of tasks accompanying business growth and increasing number of regulatory requirements without the need to significantly increase resources and to reallocate resources from the streamlined operating areas to the areas where resources need to be increased due to the realised projects or growing scope of tasks.

4.2. Main risks of mBank Group's business

The Management Board of mBank takes measures necessary to ensure that the Group manages all material risks arising from the implementation of the adopted strategy of mBank Group, in particular, through approving strategies and processes for managing material risks in the Group.

The following risks were recognized as material in the Group's operations as of December 31, 2018: credit risk, operational risk, market risk, business risk (including strategic risk), liquidity risk, reputation risk, model risk, capital risk (including risk of excessive leverage) and regulatory risk.

The following sections present the rules of monitoring credit, market, liquidity and operational risk in mBank Group. The detailed information on managing the abovementioned risks as well as information concerning the management of other risks (business risk, reputational risk, model risk, capital risk and regulatory risk) are presented in Note 3 of the mBank S.A. Group IFRS Consolidated Financial Statements 2018.

Credit risk

The bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (PFSA) (in particular Recommendation S, T and C) and CRR/CRDIV, which address issues related to credit risk management.

Tools and measures

Credit risk inherent in financing of mBank Group clients is assessed based on shared statistical models developed for the AIRB (Advanced Internal Rating-Based) approach and uniform tools, and is based on common definitions of terms and parameters used in the credit risk management and rating process. The bank ensures their cohesion at the Group level.

The Group uses different models for particular client segments. The rules governing clear assignment of clients to a system are defined in the bank and the Group subsidiaries internal regulations.

In their credit risk management process, the bank and the Group subsidiaries use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%);
 - LGD (Loss Given Default) – estimated relative loss in case of default (%);
 - EAD (Exposure at Default) – estimated exposure at the time of default (amount);
 - EL – Expected Loss taking into account the probability of default (amount);
- and related measures including:

- RD (Risk Density) – relative expected loss defined as EL to EAD (%);
- LAD (Loss at Default) – estimated loss (amount) in case of default (the product of EAD and LGD).

In the decision-making process, for reporting and communication with business units, PD and EL are expressed in the language of rating classes whose definitions (Masterscale) are uniform across Commerzbank Group.

In its credit risk management process, the bank also attaches great importance to the assessment of unexpected loss. For this purpose, the bank uses the RWA (Risk Weighted Assets) measure, which is applied, under the AIRB approach, to calculate regulatory capital required to cover credit risk (unexpected loss).

In managing mortgage-secured credit exposures the Group uses the LtV ratio (Loan to Value), i.e. the value of the loan to the market value (or mortgage banking calculated value) of the real estate which secures the loan.

Stress testing is an additional tool of credit risk assessment. Stress testing of the regulatory capital and economic capital required to cover credit risk is carried out quarterly.

In addition to the tools listed above, which are applied both in the corporate and in the retail credit risk measurement, the Group uses tools specific to these areas.

For corporate credit risk the Group defines maximum exposure to a client/group of related clients using the following credit risk mitigating measures:

- MBPZO (Maximum Safe Total Exposure), which defines the maximum level of financial debt of an entity from financial institutions calculated under the bank's methodology, approved by the bank's competent decision-making body. An alternative measure used by the bank to clients applying for small exposure is Borrowing Capacity (BC);
- LG (General Limit), which defines the level of credit risk financial exposure to a client/group of related clients acceptable to the Group, approved by the bank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit.

In order to minimise credit risk, the Group uses a broad range of collateral for credit products, which also enable active management of the capital requirement. In the assessment of the quality of collaterals for risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value) reflecting the pessimistic variant of debt recovery from the collateral through forced sale. The RORAC ratio (Return on Risk Adjusted Capital) is applied in the decision-making process and the assessment of profitability of a client in the CRM system.

Retail credit risk measures are constructed to reflect the characteristics of this customer segment and, in the case of portfolio measures, the high granularity of the loan portfolio:

- DtI (Debt-to-Income) - i.e. monthly credit payments to the net income of a household (used for individual customers);
- DPD (Days-Past-Due) - a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value);
- Vintage ratios, which present the quality of cohorts of loans grouped by disbursement time at a different phase of their lifetime;
- COR (Cost of risk) - cost of risk for a loan portfolio (segment), i.e. ratio of provisions result and changes in valuation of contracts based on fair value approach to the exposure;
- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

Strategy

Corporate and Investment Banking

In accordance with the Corporate Credit Risk Management Strategy in mBank Group, the main goal in this area is defining a safe level of risk appetite in sales of risk-bearing products to the Group clients and use synergies by integrating the offer of the bank and Group subsidiaries. The Strategy is realised by credit risk policies, limits reducing the risk and the principles of risk assessment of business entities applying for financing. The bank manages credit risk both at the single entity level and the consolidated level.

The Group actively manages credit risk aiming to optimise profitability taking into account the cost of risk. In its current credit risk management and determination of concentration risk, the bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

The bank monitors credit portfolio on a quarterly basis including an analysis of the dynamics of change in size and (sector) segmentation of the credit portfolio, client risk (analysis of PD rating), quality of collateral against credit exposures, the scale of change in EL, Risk Density, and default exposures.

The Group strives to avoid concentration in industries and sectors where credit risk is considered excessively high. The bank uses internally defined industry limits for day-to-day management of the sector concentration risk.

In compliance with the Recommendation S of the Polish Financial Supervision Authority (PFSA), the bank has identified a mortgage-secured credit exposure portfolio in retail and corporate banking and applies the Mortgage-Secured Credit Exposure Risk Management Policy. The bank manages the mortgage-secured credit exposure portfolio risk with a focus on defining an optimised portfolio structure in terms of quality (rating), currencies, country regions, tenors, and types of properties.

mBank Group strives to unlock synergies with Commerzbank more broadly in syndicated finance of selected Group clients. For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products with low capital consumption, in particular products of investment banking (ECM, DCM, M&A), transactional banking and financial markets instruments.

mBank promotes financing alternative to banking loans by arranging public and private programmes and club deals for bonds issued by clients with a stable financial position.

Retail Banking

Lending in retail banking is a key segment of the Group's business model, both in terms of the share in total assets and the contribution to its profits.

As credit exposures are highly granular (more than 2.5 million active loans), the retail banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

Furthermore, the Retail Banking credit risk management has the following characteristics:

- high standardisation and automation of the credit process, including decision-making, both in acquisition, post-sale services, and debt collection;
- little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g. no discretionary adjustment of clients' ratings);
- extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and roll-rates analysis.

The main point of reference in the retail banking credit risk management process is risk appetite defined in correlation with the strategy of mBank Group. The general principle underlying the lending strategy of the Group in terms of sales of retail loans is to address the offer to clients who have an established relationship with the bank or to address it to new clients for whom the loan is a product initiating a long-

term relationship of highly transactional nature. Thereby, the bank continues to focus its non-mortgage loans policies on lending to existing clients with a high creditworthiness while systematically growing the acquisition of external clients. As part of these activities, the bank increasingly participates in financing customers making purchases via Internet. To reduce risks of accepting new clients, the bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

The new acquisition focuses on products which may be financed with issue of mortgage bonds. Those exposures will then be transferred to mBank Hipoteczny in the pooling process to enable the issue of mortgage bonds. The conservative policy of assessing borrowers' reliability and creditworthiness is applied; taking into account, inter alia, current, historically lowest, levels of interest rates, the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness.

In order to mitigate the risk associated with a decrease in the value of mortgage collateral in relation to the value of credit exposure, the Group's credit offer is (and will be) directed mainly to clients who buy standard properties within large urban areas.

Quality of mBank Group loan portfolio

As of June 30, 2019, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) remained unchanged at 4.8% compared to December 2018.

The level of expected credit losses and special credit risk adjustments for loans and advances to customers slightly increased from PLN 3,453.0 million at the end of December 2018 to PLN 3,592.0 million at the end of June 2019.

The ratio of credit risk costs to impaired exposures decreased in the analysed period from 62.8% in December 2018 to 61.3% in June 2019. The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all of the client's liabilities towards the bank.

The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all of the client's liabilities towards the bank.

The table below presents the quality of mBank Group loan portfolio as at the end of December 2018 and as at the end of June 2019.

Loans and advances to customers 31.12.2018	Gross carrying amount	Gross carrying amount		
		Individual customers	Corporate customers	Public sector customers
Current accounts	12,073,809	6,474,555	5,598,673	581
Term loans, including:	68,498,140	43,720,475	24,141,323	636,342
- housing and mortgage loans to individual customers	34,696,807	34,696,807	-	-
Reverse repo/buy-sell-back	1,146,263	-	1,146,263	-
Finance leases	10,555,560	-	10,555,560	-
Other loans and advances	2,411,802	-	2,411,802	-
Other receivables	374,405	359,473	14,932	-
Total gross carrying amount	95,059,979	50,554,503	43,868,553	636,923

Loans and advances to customers 31.12.2018	Accumulated impairment	Accumulated impairment		
		Individual customers	Corporate customers	Public sector customers
Current accounts	-931,926	-664,656	-267,270	-
Term loans, including:	-1,837,896	-965,515	-871,741	-640
- housing and mortgage loans to individual customers	-453,300	-453,300	-	-
Finance leases	-243,170	-	-243,170	-
Other loans and advances	-29,555	-	-29,555	-
Other receivables	-	-	-	-
Total accumulated impairment	-3,042,547	-1,630,171	-1,411,736	-640

Total gross carrying amount	95,059,979	50,554,503	43,868,553	636,923
Total accumulated impairment	-3,042,547	-1,630,171	-1,411,736	-640
Total net carrying amount	92,017,432	48,924,332	42,465,817	636,283

Loans and advances to customers 30.06.2019 (PLN thou.)	Gross carrying amount	Gross carrying amount		
		Individual customers	Corporate customers	Public sector customers
Current accounts	13,448,334	7,068,524	6,379,220	590
Term loans, including:	72,811,800	46,663,818	25,603,322	544,660
- housing and mortgage loans to individual customers	36,368,965	36,368,965	-	-
Reverse repo/buy-sell-back	647,155	-	647,155	-
Finance leases	11,285,095	-	11,285,095	-
Other loans and advances	2,762,764	-	2,762,764	-
Other receivables	291,245	262,393	28,852	-
Total gross carrying amount	101,246,393	53,994,735	46,706,408	545,250

Loans and advances to customers 30.06.2019 (PLN thou.)	Accumulated impairment	Accumulated impairment		
		Individual customers	Corporate customers	Public sector customers
Current accounts	-990,375	-678,574	-311,801	-
Term loans, including:	-1,938,837	-1,021,732	-916,611	-494
- housing and mortgage loans to individual customers	-465,510	-465,510	-	-
Finance leases	-271,350	-	-271,350	-
Other loans and advances	-28,880	-	-28,880	-
Other receivables	-	-	-	-
Total accumulated impairment	-3,229,442	-1,700,306	-1,528,642	-494

Total gross carrying amount	101,246,393	53,994,735	46,706,408	545,250
Total accumulated impairment	-3,229,442	-1,700,306	-1,528,642	-494
Total net carrying amount	98,016,951	52,294,429	45,177,766	544,756

The accumulated credit risk costs related to the portfolio of loans and advances to customers measured at fair value through profit and loss amounted to PLN 362.6 million as at the end of June 2019. The decrease compared to December 2018 is caused by the gradual closing of the portfolio (repayment of existing exposures) and realization of debt collection processes.

Market risk

mBank organises market risk management processes in line with the requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and EBA guidelines, concerning market risk management.

Tools and measures

Market risk is defined as the risk of unfavourable changes in the valuation of financial instruments in the bank's portfolios due to changes in market risk factors: interest rates, FX rates, stock prices and indices values, implied volatilities of options, and credit spreads. In terms of the banking book mBank identifies interest rate risk, which is defined as a risk of adverse change in both valuation of banking book positions and net interest income arising from changes in interest rates.

Market risk exposure including interest rate risk of banking book is quantified by measurement of Value at Risk (VaR), Stressed Value at Risk (Stressed VaR), Expected Shortfall (ES - expected loss under condition that this loss exceeds Value at Risk) and by use of stress tests. For selected portfolios, mBank uses Basis Point Value (BPV) and Credit Spread Basis Point Value (CS BPV) measures. Interest rate risk of the banking book, is also quantified by determining the volatility in the net interest income (Δ NII) of the banking book.

Measurement and analysis of market risk takes place in two perspectives (including and without taking into account the modelling of stable parts of equity capital and current accounts, insensitive to changes in interest rates), which allows controlling the impact on the market risk level of the applied strategy for stabilising net interest income.

Strategy

The implementation of market risk management strategy involves managing the bank's positions in a way enabling to maintain market risk profile within the risk appetite defined by the bank.

The market risk profile is derived from the strategic goals of business units, the decisions of dedicated committees and the limits on market risk exposures established at the level of the bank's organisational units, mBank Group and the entities. The system of limits reflects the defined risk appetite in a quantitative manner.

The bank is focused on meeting customers' business needs, while reducing trade in derivatives in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions. mBank has limited appetite for currency risk, which is expressed through market risk limits. The bank conducts trading activity on well-known markets using financial instruments the bank has adequate expertise in and that have been approved for trading.

The bank stabilises interest income using long-term fixed-rate assets and derivatives and assuming - for equity capital the maximum modelled maturity of 10 years and for current accounts - the maximum modelled maturity of 5 years. The management of interest rate risk of the banking book takes into account the economic and accounting perspectives, and the financial instruments used for hedging are adequate to the bank's expertise and have been approved for trading.

The main principle stipulates separation between the market risk monitoring and control function and the functions related to opening and maintaining open market risk positions. In addition, the bank applies the rule of organisational separation between managing banking book and trading book positions.

Market risk measurement

The mBank's positions constitute the main source of market risk for mBank Group.

Value at risk

In H1 2019, the market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the VaR limits.

The table presents VaR values for the Group's and the mBank's portfolios (excluding the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates):

PLN thousand	H1 2019				2018			
	mBank Group		mBank		mBank Group		mBank	
	30.06.19	average	30.06.19	average	31.12.18	average	31.12.18	average
VaR IR	26,878	25,877	26,805	25,762	24,910	25,703	24,788	25,516
VaR FX	1,367	725	1,394	732	317	427	341	421
VaR EQ	0	0	0	0	0	51	0	51
VaR CS	22,072	21,737	21,576	21,173	18,234	13,674	17,839	13,255
VaR	27,753	31,518	27,181	31,072	27,459	27,290	27,209	26,976

VaR IR – interest rate risk

VaR FX - FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk.

The VaR figures were driven mainly by portfolios of instruments sensitive to interest rates and to selected credit spreads – mainly T-bonds portfolios (in the banking and trading book) and interest rate swap positions.

Stress testing

In H1 2019, the average utilisation of the stress test limits amounted to:

- 74% (PLN 1,626 million) for mBank Group and 75% (PLN 1,598 million) for mBank – for the portfolio without modelling of stable parts of equity capital and current accounts, insensitive to changes in interest rates,
- 65% (PLN 977 million) for mBank Group and 66% (PLN 950 million) for mBank - for the portfolio with modelling of stable parts of equity capital and current accounts, insensitive to changes in interest rates

The results of stress tests for mBank Group and mBank (excluding the modelling of stable parts of equity capital and current accounts, insensitive to changes in interest rates) is presented in the following table:

PLN M	H1 2019				2018			
	mBank Group		mBank		mBank Group		mBank	
	30.06.19	average	30.06.19	average	31.12.18	average	31.12.18	average
Base ST	899	843	893	836	808	620	802	612
CS ST	801	783	781	762	706	734	689	714
Total ST	1,700	1,626	1,674	1,598	1,514	1,354	1,491	1,326

Base stress test – standard stress test

CS stress test – stress test with scenarios including credit spread changes

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

An important part of the presented results of stress tests is the value of the test due to changes in the credit spread for treasury bond portfolios.

Interest rate risk of the banking book

In H1 2019, in order to expand the existing portfolio of measures to assess the interest rate risk of the banking book, mBank introduced a new risk measure to quantify net interest income volatility in line with the EBA guidelines. The volatility of net interest income is calculated and monitored over a five-year horizon in the bank's base scenario assuming a normal situation and in more than 20 defined stress-test scenarios. The table below presents the volatility of the net interest income within 12 months horizon, assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curves by 100 bps with floor on product level) and based on a stable portfolio over the period.

PLN M 30.06.2019	H1 2019
	ΔNII
PLN	-157.8
USD	-7.0
EUR	-114.5
CHF	+19.2
CZK	-34.3
Other CCY	-0.7
Total	-295.2

Liquidity risk

mBank organises liquidity risk management processes in line with the requirements resulting from the law and supervisory recommendations in particular the PFSA Recommendations (among others P, C, H and S) as well as EBA guidelines concerning liquidity risk management.

Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e. the risk of being unable to honour its payment obligations, arising from the bank's balance-sheet and off-balance-sheet positions, on terms favourable to the bank and at a reasonable price.

In terms of its sources, liquidity risk may result from internal factors (reputation risk resulting for instance in excessive withdrawal of cash by bank clients, materialisation of credit risk) and external factors (turbulences and crises in the financial markets, country risk, turbulences in the operation of clearing systems).

The bank has defined a set of liquidity risk measures and a system of limits, buffers and warning thresholds which protect the bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Balance Sheet Risk Management Department. The main measures used in liquidity risk management of the bank include measures based on liquidity gap calculation in LAB methodology, the regulatory measures (M3, M4, LCR) and also NSFR (Net Stable Funding Ratio) for analysis only. LAB measures reflect the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the bank, which represent potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario.

The methodology for measuring the liquidity gap (LAB) includes normal conditions scenario (LAB Base Case) describing the situation under normal conditions, i.e. without specific, negative occurrences. For the purpose of this scenario, no continuation of activity is assumed (the so-called run-off scenario and stress scenarios, of which the following are limited:

- LAB Bank Stress (short-term) – short-term scenario (up to 2 weeks) of the idiosyncratic stress;
- LAB Market Stress (long-term) – long-term scenario (up to 2 months) of the market crisis;
- LAB Combined Stress I – combined stress scenario that presents the effects of the simultaneous occurrence of short-term idiosyncratic stress and long-term market related stress.

Cash flow projections used in LAB measures are based on crisis scenarios, which include among others excessive withdrawal of cash by the bank's clients and being unable to liquidate some assets due to an external crisis occurring to various extent dependent on assumed scenario.

Moreover, the bank has a process of reporting and monitoring of intraday liquidity position including crisis scenario for intraday liquidity. The reverse stress scenario is the complement of the liquidity stress testing system.

In order to support the process of liquidity risk management, the bank has a system of early warnings indicators (EWI) and recovery indicators. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the bank's balance sheet. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan for mBank Group.

LCR calculation and reporting is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, which has been in force since October 2015. With the respect of NSFR, the bank reports to the NBP according to the standards established by EBA in 2014, and reports to the PSFA in the form of a dedicated questionnaire.

Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the bank and the current market situation as well as funding needs of the Group subsidiaries. The bank manages liquidity risk at two levels: strategic (within committees of the bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory (M3, M4, LCR) and internal measures. The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in stress conditions in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN and for individual foreign currencies).

The bank has a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. The subsidiaries are financed by mBank through the Treasury Department. Additionally, mBank Hipoteczny raises funding in the market by issuance of covered bonds and short-term debt securities and mLeasing raises funding by issuance of short-term debt securities.

The bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by mBank Group and aimed at neutralising this threat. The document defines the division of responsibility for monitoring and identifying threats, and actions during the emergency situation. The Contingency Plan is tested at least annually.

The bank limits the volume and term concentration of foreign currency funding of mBank with FX swaps and CIRS. In addition, the limit is decomposed into individual limits for CIRS and FX swaps as well as limits for funding in EUR and CHF. The structure of these limits reflects the bank's preferences for funding structure in those currencies.

Measuring mBank's liquidity risk

The liquidity of mBank remained at a safe level in H1 2019, as reflected in the high surplus of liquid assets over short-term liabilities in LAB measures and in the levels of regulatory measures.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures M3, M4, LCR in H1 2019:

Measure ¹	30.06.2019
LAB Base Case 1M	11,038
LAB Base Case 1Y	14,778
M3	4.32
M4	1.35
LCR	183%

¹ LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.

Measuring the Group's liquidity risk

The Group's liquidity risk measurement includes in addition mBank Hipoteczny and mLeasing. mBank monitors liquidity risk of the subsidiaries to protect liquidity also at the Group level in the event of adverse events (crises).

The Group's liquidity was at a safe level in H1 2019, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB measures and the LCR calculated at the Group level.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the LCR at mBank Group level:

Measure ¹	30.06.2019
LAB Base Case 1M	13,098
LAB Base Case 1Y	15,741
LCR Group	221%

¹ LAB measures are shown in PLN million, LCR is relative measure presented as a decimal.

Operational risk

mBank organises the operational risk management process taking into account the rules and requirements set out in external regulations, in particular in the Recommendations M, H and D of the Polish Financial Supervision Authority (PFSA), CRR Regulation and Regulation of the Minister of Development and Finance (on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks), which constitute a starting point for the framework of the operational risk control and management system in mBank Group.

Tools and measures

In order to effectively manage operational risk, the bank applies quantitative and qualitative methods and tools, which intend to cause-oriented operational risk management.

The basic qualitative tool is the Internal Control System Self-Assessment carried out by the bank's organisational units and the Group subsidiaries. The Self-Assessment process aims to provide communication about the need to change and improve control processes, and thus a more pro-active approach to operational risk management and increasing operational risk awareness in mBank Group. In the Self-Assessment process, the bank identified significant processes and connected them with the general and specific objectives of the internal control system. The end result of the Self-Assessment is the evaluation of risks and control mechanisms as well as the creation of corrective action plans aimed at changing the structure or the optimization of the control mechanisms in order to improve the adequacy and effectiveness of the internal control system.

The bank also prepares scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences.

In accordance with the requirements of Recommendation M, the bank has a process for identifying threats associated with operational risk in all relevant areas of the bank’s operations and for creating new and modifying existing products, processes and systems, as well as for changes in the organisational structure.

Quantitative tools include mainly collection of data on operational events and effects. With the use of the database available at mBank Group, data on operational risk losses are recorded with an emphasis on the cause. Recorded data are analysed by the Integrated Risk Management Department and at organisational units. This approach allows organisational units to carry out ongoing monitoring of their current risk profile. mBank has an access to external operational loss databases and applies them to analyse operational risk and potential threats, that institutions operating in the financial sector are exposed to.

The key risk indicators (KRI) are another tool. Ongoing monitoring of risk factors recognized as key at the given moment allows for prediction of an increased level of operational risk and adequate response by the organisational units in order to avoid the occurrence of operational events and losses.

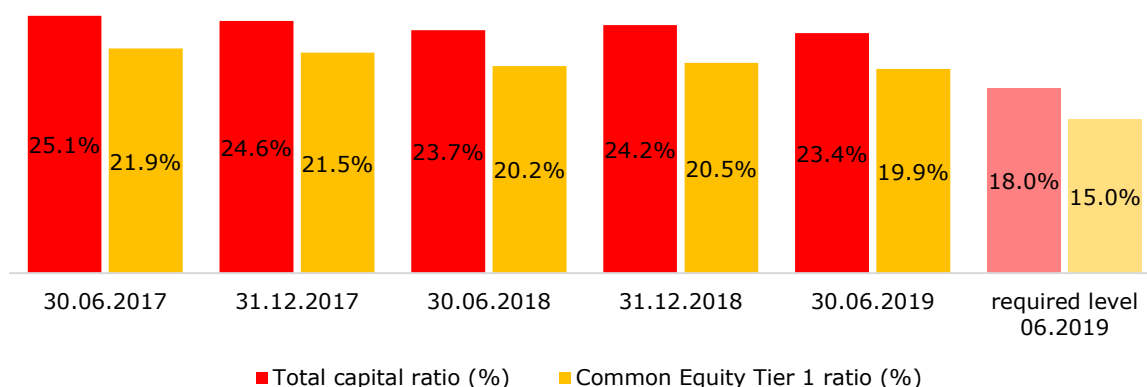
Strategy

The organisation of the operational risk control and management system is aimed at enabling effective control and management of this risk at every level of the bank’s organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the bank. The operational risk control and management process at the bank is developed and coordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk. The operational risk control process is supervised by the Supervisory Board of the bank through its Risk Committee.

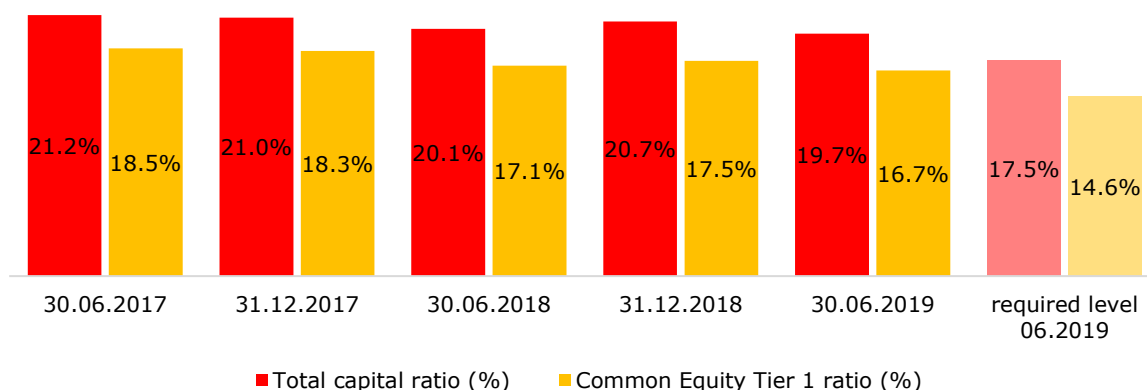
4.3. Capital adequacy

One of the bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy, the bank creates a framework and guidelines for the most effective planning and use of the capital base. The strategic goals of mBank and mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the levels required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios of mBank



Capital ratios of mBank Group



The capital ratios of mBank Group in H1 2019 were driven by the following factors:

- inclusion, in Common Equity Tier 1 capital, of the remaining part (not included earlier) of the net profit of mBank Group for the year 2018 as approved by the General Meeting of Shareholders;
- inclusion in the calculation of own funds of the amount of impairment or reversal of impairment of financial assets not measured at fair value in the financial result for the first half of 2019;
- expansion of mBank Group business activity;
- implementation from January 1, 2019 of the International Financial Reporting Standard 16.

mBank Group is obligated to maintain own funds on the level exceeding regulatory and supervisory requirements. Consequently the level of the required capital ratios encompasses:

- the basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%;
- the additional capital charge in Pillar II with regard to FX mortgage loan portfolio – 3.64% at the level of total capital ratio and 2.73% at the level of Tier 1 capital on consolidated basis (and on individual basis 4.18% and 3.14% accordingly), according to the PFSA decision of October 15, 2018, and the subsequent communication of November 29, 2018
- the combined buffer requirement of additional 5.87% (on consolidated basis), which consists of:
 - the capital conservation buffer (2.50%),
 - the other systemically important institution’s buffer (0.5%) - according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer; according to the PFSA decision of June 31, 2018, the capital buffer amounted to 0.5%,
 - systemic risk buffer (2.82%) – due to the fact that not all exposures are located in Poland, due to mBank two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to mBank Group amounted to 2.82% in June 2019,
 - countercyclical capital buffer (0.05%).

On individual basis the value of the combined buffer requirement is 5.84% mainly due to a lower, than at the Group level, value of the systemic risk buffer (2.79%).

Capital ratios, both on consolidated and individual basis, were above the values required throughout the first half of 2019. With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement and the combined buffer requirement.

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including provisions regarding transitional period, amounted to 8.42%. The stand-alone leverage ratio amounted to 8.73%.

For the purposes of the capital adequacy account, including calculation of own funds, pursuant to Article 1 paragraph 9 of Regulation (EU) 2017/2395 of the European Parliament and the Council of December 12, 2017 (Ordinance) amending the CRR Regulation, it will not apply transition period, which allows to mitigate the impact on capital related to the introduction of IFRS 9.

Hence, the capital ratios, the amount of Tier 1 capital and the leverage ratio reported in this document fully reflect the impact of IFRS 9.

More details on capital adequacy of mBank Group at the end of the first half of 2019 can be found in the Disclosures regarding capital adequacy.

5. Statements of the Management Board

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- IFRS Condensed Consolidated Financial Statements for the first half of 2019 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance;
- Management Board Report on the Performance of mBank S.A. Group in H1 2019 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the review of the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2019 and IFRS Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2019 – Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for issue of a review report of these financial statements, in compliance with respective provisions of Polish law and professional standards.