



mBank S.A. Group

IFRS Condensed Consolidated Financial Statements
for the first half of 2020

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

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Selected financial data

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first half of 2020.

| SELECTED FINANCIAL DATA FOR THE GROUP | in PLN '000 | | in EUR '000 | |
|--|--------------------------------------|---|--------------------------------------|---|
| | Period from 01.01.2020 to 30.06.2020 | Period from 01.01.2019 to 30.06.2019 - restated | Period from 01.01.2020 to 30.06.2020 | Period from 01.01.2019 to 30.06.2019 - restated |
| I. Interest income | 2 545 593 | 2 464 435 | 573 164 | 574 728 |
| II. Fee and commission income | 1 079 913 | 953 072 | 243 152 | 222 265 |
| III. Net trading income | 84 350 | 66 418 | 18 992 | 15 489 |
| IV. Operating profit | 632 617 | 968 061 | 142 440 | 225 760 |
| V. Profit before income tax | 362 370 | 749 175 | 81 591 | 174 714 |
| VI. Net profit attributable to Owners of mBank S.A. | 177 900 | 535 586 | 40 056 | 124 903 |
| VII. Net profit attributable to non-controlling interests | (63) | (45) | (14) | (10) |
| VIII. Net cash flows from operating activities | 7 413 747 | 3 285 916 | 1 669 274 | 766 305 |
| IX. Net cash flows from investing activities | (191 566) | (192 924) | (43 133) | (44 992) |
| X. Net cash flows from financing activities | (1 185 508) | (3 467 662) | (266 928) | (808 690) |
| XI. Total net increase / decrease in cash and cash equivalents | 6 036 673 | (374 670) | 1 359 213 | (87 376) |
| XII. Basic earnings per share (in PLN/EUR) | 4.20 | 12.65 | 0.95 | 2.95 |
| XIII. Diluted earnings per share (in PLN/EUR) | 4.20 | 12.64 | 0.95 | 2.95 |
| XIV. Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

| SELECTED FINANCIAL DATA FOR THE GROUP | in PLN '000 | | in EUR '000 | |
|---|-------------|-------------|-------------|------------|
| | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 |
| I. Total assets | 182 942 801 | 158 720 583 | 40 963 457 | 37 271 477 |
| II. Amounts due to other banks | 2 004 200 | 1 166 871 | 448 768 | 274 010 |
| III. Amounts due to customers | 139 622 520 | 116 661 138 | 31 263 439 | 27 394 890 |
| IV. Equity attributable to Owners of mBank S.A. | 16 910 784 | 16 151 303 | 3 786 562 | 3 792 721 |
| V. Non-controlling interests | 1 945 | 2 002 | 436 | 470 |
| VI. Share capital | 169 401 | 169 401 | 37 931 | 39 779 |
| VII. Number of shares | 42 350 367 | 42 350 367 | 42 350 367 | 42 350 367 |
| VIII. Book value per share (in PLN/EUR) | 399.31 | 381.37 | 89.41 | 89.56 |
| IX. Total capital ratio | 19.26 | 19.46 | 19.26 | 19.46 |

The following exchange rates were used in translating selected financial data into euro:

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June: EUR 1 = 4.4660, 31 December 2019: EUR 1 = 4.2585.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2020 and 2019: EUR 1 = PLN 4.4413 and EUR 1 = PLN 4.2880 respectively.

Consolidated income statement

| | Note | Period from 01.04.2020 to 30.06.2020 | Period from 01.01.2020 to 30.06.2020 | Period from 01.04.2019 to 30.06.2019 - restated | Period from 01.01.2019 to 30.06.2019 - restated |
|--|-----------|--|--|--|--|
| Interest income, including: | 5 | 1 210 616 | 2 545 593 | 1 263 592 | 2 464 435 |
| <i>Interest income accounted for using the effective interest method</i> | | 1 084 924 | 2 313 030 | 1 116 374 | 2 163 651 |
| <i>Income similar to interest on financial assets at fair value through profit or loss</i> | | 125 692 | 232 563 | 147 218 | 300 784 |
| Interest expenses | 5 | (204 005) | (473 518) | (265 812) | (536 402) |
| Net interest income | | 1 006 611 | 2 072 075 | 997 780 | 1 928 033 |
| Fee and commission income | 6 | 535 487 | 1 079 913 | 487 680 | 953 072 |
| Fee and commission expenses | 6 | (172 550) | (354 300) | (186 629) | (358 435) |
| Net fee and commission income | | 362 937 | 725 613 | 301 051 | 594 637 |
| Dividend income | 7 | 4 179 | 4 479 | 3 428 | 3 651 |
| Net trading income, including: | 8 | 39 545 | 84 350 | 28 276 | 66 418 |
| <i>Foreign exchange result</i> | | 2 217 | 8 449 | 11 952 | 36 452 |
| <i>Gains or losses on financial assets and liabilities held for trading</i> | | 39 398 | 77 626 | 13 386 | 24 711 |
| <i>Gains or losses from hedge accounting</i> | | (2 070) | (1 725) | 2 938 | 5 255 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 9 | 16 509 | (43 706) | 2 402 | (11 618) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | 10 | 5 530 | 2 258 | (2 131) | 14 718 |
| <i>Gains less losses from debt securities measured at fair value through other comprehensive income</i> | | 467 | 1 225 | 694 | 18 559 |
| <i>Gains less losses from investments in subsidiaries and associates</i> | | (3 082) | (4 152) | (2 878) | (4 472) |
| <i>Gains less losses from derecognition</i> | | 8 145 | 5 185 | 53 | 631 |
| Other operating income | 11 | 74 934 | 116 065 | 36 965 | 72 774 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | 12 | (344 115) | (713 914) | (206 416) | (327 163) |
| Result on provisions for legal risk related to foreign currency loans | | (188 972) | (201 883) | (23 182) | (27 774) |
| Overhead costs | 13 | (455 147) | (1 093 960) | (448 980) | (1 074 724) |
| Depreciation | | (116 362) | (213 872) | (88 140) | (178 178) |
| Other operating expenses | 14 | (48 802) | (104 888) | (32 926) | (92 713) |
| Operating profit | | 356 847 | 632 617 | 568 127 | 968 061 |
| Taxes on the Group balance sheet items | | (138 417) | (270 247) | (108 954) | (218 886) |
| Profit before income tax | | 218 430 | 362 370 | 459 173 | 749 175 |
| Income tax expense | | (131 499) | (184 533) | (86 791) | (213 634) |
| Net profit | | 86 931 | 177 837 | 372 382 | 535 541 |
| Net profit attributable to: | | | | | |
| - Owners of mBank S.A. | | 86 983 | 177 900 | 372 413 | 535 586 |
| - Non-controlling interests | | (52) | (63) | (31) | (45) |
| Net profit attributable to Owners of mBank S.A. | | 86 983 | 177 900 | 372 413 | 535 586 |
| Weighted average number of ordinary shares | 15 | 42 350 367 | 42 350 367 | 42 336 982 | 42 336 982 |
| Earnings per share (in PLN) | 15 | 2.05 | 4.20 | 8.80 | 12.65 |
| Weighted average number of ordinary shares for diluted earnings | 15 | 42 386 009 | 42 386 009 | 42 366 331 | 42 366 331 |
| Diluted earnings per share (in PLN) | 15 | 2.05 | 4.20 | 8.79 | 12.64 |

Consolidated statement of comprehensive income

| | Period from 01.04.2020 to 30.06.2020 | Period from 01.01.2020 to 30.06.2020 | Period from 01.04.2019 to 30.06.2019 - restated | Period from 01.01.2019 to 30.06.2019 - restated |
|--|--|--|--|--|
| Net profit | 86 931 | 177 837 | 372 382 | 535 541 |
| Other comprehensive income net of tax, including: | 238 484 | 577 309 | 34 169 | (35 350) |
| Items that may be reclassified subsequently to the income statement | | | | |
| Exchange differences on translation of foreign operations (net) | 158 | (303) | 82 | 53 |
| Cash flows hedges (net) | 82 441 | 367 235 | 12 840 | 37 663 |
| Debt instruments at fair value through other comprehensive income (net) | 155 885 | 210 377 | 21 247 | (73 064) |
| Items that will not be reclassified to the income statement | | | | |
| Actuarial gains and losses relating to post-employment benefits (net) | - | - | - | (2) |
| Total comprehensive income (net) | 325 415 | 755 146 | 406 551 | 500 191 |
| Total comprehensive income (net), attributable to: | | | | |
| - Owners of mBank S.A. | 325 467 | 755 209 | 406 582 | 500 236 |
| - Non-controlling interests | (52) | (63) | (31) | (45) |

Consolidated statement of financial position

| ASSETS | Note | 30.06.2020 | 31.12.2019 |
|---|-------------|--------------------|--------------------|
| Cash and balances with the Central Bank | | 11 141 250 | 7 897 010 |
| Financial assets held for trading and hedging derivatives | 16 | 3 556 981 | 2 866 034 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 17 | 1 971 123 | 2 267 922 |
| <i>Equity instruments</i> | 17 | 161 602 | 162 616 |
| <i>Debt securities</i> | 17 | 142 468 | 133 774 |
| <i>Loans and advances to customers</i> | 17 | 1 667 053 | 1 971 532 |
| Financial assets at fair value through other comprehensive income | 18 | 35 563 658 | 22 773 921 |
| Financial assets at amortised cost, including: | 19 | 126 393 560 | 118 779 885 |
| <i>Debt securities</i> | 19 | 12 551 206 | 11 234 873 |
| <i>Loans and advances to banks</i> | 19 | 6 921 359 | 4 341 758 |
| <i>Loans and advances to customers</i> | 19 | 106 920 995 | 103 203 254 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 979 | - |
| Non-current assets and disposal groups classified as held for sale | 20 | 16 570 | 10 651 |
| Intangible assets | 21 | 1 063 925 | 955 440 |
| Tangible assets | 22 | 1 162 505 | 1 262 397 |
| Current income tax assets | | 9 356 | 12 662 |
| Deferred income tax assets | 26 | 773 150 | 937 712 |
| Other assets | | 1 289 744 | 956 949 |
| TOTAL ASSETS | | 182 942 801 | 158 720 583 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Financial liabilities held for trading and hedging derivatives | 23 | 1 028 543 | 948 764 |
| Financial liabilities measured at amortised cost, including: | | 160 599 067 | 137 763 369 |
| <i>Amounts due to banks</i> | 24 | 2 004 200 | 1 166 871 |
| <i>Amounts due to customers</i> | 24 | 139 622 520 | 116 661 138 |
| <i>Debt securities issued</i> | | 16 408 214 | 17 435 143 |
| <i>Subordinated liabilities</i> | | 2 564 133 | 2 500 217 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 53 731 | 136 |
| Liabilities held for sale | 20 | 2 081 | 1 315 |
| Provisions | 25 | 950 333 | 739 296 |
| Current income tax liabilities | | 72 097 | 161 534 |
| Deferred income tax liabilities | 26 | 86 | 82 |
| Other liabilities | | 3 324 134 | 2 952 782 |
| TOTAL LIABILITIES | | 166 030 072 | 142 567 278 |
| EQUITY | | | |
| Equity attributable to Owners of mBank S.A. | | 16 910 784 | 16 151 303 |
| Share capital: | | 3 579 818 | 3 579 818 |
| Registered share capital | | 169 401 | 169 401 |
| Share premium | | 3 410 417 | 3 410 417 |
| Retained earnings: | | 12 576 947 | 12 394 775 |
| Profit from the previous years | | 12 399 047 | 11 384 425 |
| Profit for the current year | | 177 900 | 1 010 350 |
| Other components of equity | | 754 019 | 176 710 |
| Non-controlling interests | | 1 945 | 2 002 |
| TOTAL EQUITY | | 16 912 729 | 16 153 305 |
| TOTAL LIABILITIES AND EQUITY | | 182 942 801 | 158 720 583 |
| Total capital ratio (in %) | | 19.26 | 19.46 |
| Common Equity Tier 1 capital ratio (in %) | | 16.43 | 16.51 |
| Book value | | 16 910 784 | 16 151 303 |
| Number of shares | | 42 350 367 | 42 350 367 |
| Book value per share (in PLN) | | 399.31 | 381.37 |

Consolidated statement of changes in equity

Changes in equity from 1 January to 30 June 2020

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | Equity attributable to Owners of mBank S.A., total | Non-controlling interests | Total equity |
|---|--------------------------|------------------|-----------------------------|-----------------------|------------------------------|--------------------------------|--|---|--|-------------------|---|--|---------------------------|-------------------|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from the previous years | Profit for the current year attributable to Owners of mBank S.A. | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flows hedges | Actuarial gains and losses relating to post-employment benefits | | | |
| Equity as at 1 January 2020 | 169 401 | 3 410 417 | 9 826 282 | 98 316 | 1 153 753 | 1 316 424 | - | (5 435) | 74 321 | 119 142 | (11 318) | 16 151 303 | 2 002 | 16 153 305 |
| Total comprehensive income | - | - | - | - | - | - | 177 900 | (303) | 210 377 | 367 235 | - | 755 209 | (63) | 755 146 |
| Other increase or decrease in equity | - | - | - | - | - | 26 | - | - | - | - | - | 26 | 6 | 32 |
| Stock option program for employees | - | - | - | 4 246 | - | - | - | - | - | - | - | 4 246 | - | 4 246 |
| - value of services provided by the employees | - | - | - | 4 246 | - | - | - | - | - | - | - | 4 246 | - | 4 246 |
| Equity as at 30 June 2020 | 169 401 | 3 410 417 | 9 826 282 | 102 562 | 1 153 753 | 1 316 450 | 177 900 | (5 738) | 284 698 | 486 377 | (11 318) | 16 910 784 | 1 945 | 16 912 729 |

Changes in equity from 1 January to 31 December 2019

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | Equity attributable to Owners of mBank S.A., total | Non-controlling interests | Total equity |
|---|--------------------------|------------------|-----------------------------|-----------------------|------------------------------|--------------------------------|--|---|--|-------------------|---|--|---------------------------|-------------------|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from the previous years | Profit for the current year attributable to Owners of mBank S.A. | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flows hedges | Actuarial gains and losses relating to post-employment benefits | | | |
| Equity as at 1 January 2019 | 169 348 | 3 405 338 | 9 826 282 | 93 448 | 1 153 753 | 306 100 | - | (5 467) | 145 978 | 83 643 | (9 316) | 15 169 107 | 2 100 | 15 171 207 |
| Total comprehensive income | - | - | - | - | - | - | 1 010 350 | 32 | (71 657) | 35 499 | (2 002) | 972 222 | (98) | 972 124 |
| Issuance of ordinary shares | 53 | - | - | - | - | - | - | - | - | - | - | 53 | - | 53 |
| Other increase or decrease in equity | - | - | - | - | - | (26) | - | - | - | - | - | (26) | - | (26) |
| Stock option program for employees | - | 5 079 | - | 4 868 | - | - | - | - | - | - | - | 9 947 | - | 9 947 |
| - value of services provided by the employees | - | - | - | 9 947 | - | - | - | - | - | - | - | 9 947 | - | 9 947 |
| - settlement of exercised options | - | 5 079 | - | (5 079) | - | - | - | - | - | - | - | - | - | - |
| Equity as at 31 December 2019 | 169 401 | 3 410 417 | 9 826 282 | 98 316 | 1 153 753 | 306 074 | 1 010 350 | (5 435) | 74 321 | 119 142 | (11 318) | 16 151 303 | 2 002 | 16 153 305 |

Changes in equity from 1 January to 30 June 2019

| | Share capital | | Retained earnings | | | | | Other components of equity | | | | Equity attributable to Owners of mBank S.A., total | Non-controlling interests | Total equity |
|--|--------------------------|------------------|-----------------------------|-----------------------|------------------------------|--------------------------------|--|---|--|-------------------|---|--|---------------------------|-------------------|
| | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General banking risk reserve | Profit from the previous years | Profit for the current year attributable to Owners of mBank S.A. | Exchange differences on translation of foreign operations | Valuation of financial assets at fair value through other comprehensive income | Cash flows hedges | Actuarial gains and losses relating to post-employment benefits | | | |
| Equity as at 1 January 2019 | 169 348 | 3 405 338 | 9 826 282 | 93 448 | 1 153 753 | 306 100 | - | (5 467) | 145 978 | 83 643 | (9 316) | 15 169 107 | 2 100 | 15 171 207 |
| Total comprehensive income | - | - | - | - | - | - | 535 586 | 53 | (73 064) | 37 663 | (2) | 500 236 | (45) | 500 191 |
| Other increase or decrease in equity | - | - | - | - | - | (22) | - | - | - | - | - | (22) | (12) | (34) |
| Stock option program for employees | - | - | - | 4 905 | - | - | - | - | - | - | - | 4 905 | - | 4 905 |
| <i>- value of services provided by the employees</i> | - | - | - | <i>4 905</i> | - | - | - | - | - | - | - | <i>4 905</i> | - | <i>4 905</i> |
| Equity as at 30 June 2019 | 169 348 | 3 405 338 | 9 826 282 | 98 353 | 1 153 753 | 306 078 | 535 586 | (5 414) | 72 914 | 121 306 | (9 318) | 15 674 226 | 2 043 | 15 676 269 |

Consolidated statement of cash flows

| | Period from 01.01.2020 to 30.06.2020 | Period from 01.01.2019 to 30.06.2019 - restated |
|---|--|--|
| Profit before income tax | 362 370 | 749 175 |
| Adjustments: | 7 051 377 | 2 536 741 |
| Income taxes paid | (203 328) | (498 920) |
| Depreciation, including depreciation of fixed assets provided under operating lease | 234 567 | 202 135 |
| Foreign exchange (gains) losses related to financing activities | 421 141 | (79 579) |
| (Gains) losses on investing activities | (4 018) | (20 936) |
| Dividends received | (4 479) | (3 651) |
| Interest income (income statement) | (2 545 593) | (2 464 435) |
| Interest expense (income statement) | 473 518 | 536 402 |
| Interest received | 2 715 350 | 2 569 844 |
| Interest paid | (521 009) | (563 496) |
| Changes in loans and advances to banks | 73 702 | 245 054 |
| Changes in financial assets and liabilities held for trading and hedging derivatives | 81 972 | (22 293) |
| Changes in loans and advances to customers | (3 430 917) | (5 665 408) |
| Changes in financial assets at fair value through other comprehensive income | (12 727 400) | (452 172) |
| Changes in securities at amortised cost | (1 315 767) | (575 193) |
| Changes of non-trading equity securities mandatorily at fair value through profit or loss | (7 680) | (30 310) |
| Changes in other assets | (347 856) | (39 696) |
| Changes in amounts due to banks | 834 625 | 442 899 |
| Changes in amounts due to customers | 22 966 629 | 8 988 298 |
| Changes in issued debt securities | (203 734) | 301 165 |
| Changes in provisions | 211 037 | 44 383 |
| Changes in other liabilities | 350 617 | (377 350) |
| A. Cash flows from operating activities | 7 413 747 | 3 285 916 |
| Disposal of intangible assets and tangible fixed assets | 45 618 | 24 653 |
| Dividends received | 4 479 | 3 651 |
| Acquisition of shares in subsidiaries | - | (44 692) |
| Purchase of intangible assets and tangible fixed assets | (241 663) | (176 536) |
| B. Cash flows from investing activities | (191 566) | (192 924) |
| Proceeds from issue of debt securities | 95 000 | 565 000 |
| Repayments of loans and advances from banks | - | (560 027) |
| Repayments of other loans and advances | - | (1 058 369) |
| Redemption of debt securities | (1 179 973) | (2 310 650) |
| Payments of lease liabilities | (56 984) | (58 294) |
| Interest paid from loans and advances received from banks and from subordinated liabilities | (43 551) | (45 322) |
| C. Cash flows from financing activities | (1 185 508) | (3 467 662) |
| Net increase / decrease in cash and cash equivalents (A+B+C) | 6 036 673 | (374 670) |
| Effects of exchange rate changes on cash and cash equivalents | 22 640 | 17 760 |
| Cash and cash equivalents at the beginning of the reporting period | 9 609 929 | 10 630 969 |
| Cash and cash equivalents at the end of the reporting period | 15 669 242 | 10 274 059 |

Explanatory notes to the consolidated financial statements

1. Information regarding the Group of mBank S.A.

The Group of mBank S.A. ("Group", "mBank Group") consists of entities under the control of mBank S.A. ("Bank", "mBank") of the following nature:

- **strategic:** shares and equity interests in companies supporting particular business segments of mBank S.A. (corporates and financial markets segment, retail banking segment and other) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- **other:** shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

The parent entity of the Group is mBank S.A., which is a joint stock company registered in Poland and a part of Commerzbank AG Group.

The head office of the Bank is located at 18 Senatorska St., Warsaw.

The shares of the Bank are listed on the Warsaw Stock Exchange.

As at 30 June 2020, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A., the parent entity

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

On 22 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the amendments to the Bank's by-laws arising from Resolutions N°26 and Resolutions N°27 of the 26th Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in company by-laws, the name of the Bank has changed from BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other monetary intermediation" under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as "Banks" sector as part of the "Finance" macro-sector.

According to the by-laws of the Bank, the scope of its business consists of providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its by-laws. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activities as well as brokerage activities.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

The Bank may open and maintain accounts in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

The Bank conducts retail banking business in Czech Republic and Slovakia through its foreign mBank branches in these countries.

As at 30 June 2020 the headcount of mBank S.A. amounted to 6 114 FTEs (Full Time Equivalents) and of the Group to 6 827 FTEs (30 June 2019: Bank 5 993 FTEs, Group 6 677 FTEs).

As at 30 June 2020 the employment in mBank S.A. was 7 151 persons and in the Group 9 477 persons (30 June 2019: Bank 6 987 persons, Group 9 154 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 4.

Corporates and Financial Markets Segment, including:**Corporate and Investment Banking**

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity)
- mFaktoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Asekum Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Garbary Sp. z o.o., subsidiary
- Tele-Tech Investment Sp. z o.o., subsidiary

Financial Markets

- mFinance France S.A., subsidiary
- mBank Hipoteczny S.A., subsidiary (with regard to activities concerning funding)
- mLeasing Sp. z o.o., subsidiary (with regard to activities concerning funding)

Retail Banking Segment

- mFinanse S.A., subsidiary
- mBank Hipoteczny S.A., subsidiary (the retail segment of the company's activity)
- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)
- Asekum Sp. z o.o., subsidiary (the retail segment of the company's activity)
- LeaseLink Sp. z o.o., - subsidiary
- mElements S.A., - subsidiary

Other

- BDH Development Sp. z o.o., subsidiary
- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

Other information concerning companies of the Group

Beginning from January 2020, the Group started to consolidate the company mElements S.A., operating in the construction of dedicated solutions for e-commerce trade and new technologies. The company develops and develops IT solutions including API solutions, online and mobile payments as well as services dedicated to online sellers, including the Paynow payment integrator. In October 2019, mElements S.A. received from the Polish Financial Supervision Authority permission to operate as a National Payment Institution. In 2019, the Company also became a member of the Chamber of Electronic Economy, associating the largest entities operating for the development of e-commerce in Poland. The Bank holds 100% shares in the company.

Information concerning the business conducted by the Group's entities is presented under Note 4 "Business Segments" of these condensed consolidated financial statements.

The condensed consolidated financial statements of the Bank cover the following companies:

| Company | 30.06.2020 | | 31.12.2019 | | 30.06.2019 | |
|--|--|----------------------|--|----------------------|--|----------------------|
| | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method |
| mBank Hipoteczny S.A. | 100% | full | 100% | full | 100% | full |
| mLeasing Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| mFinanse S.A. | 100% | full | 100% | full | 100% | full |
| mFaktoring S.A. | 100% | full | 100% | full | 100% | full |
| mFinance France S.A. | 99.998% | full | 99.998% | full | 99.998% | full |
| Future Tech Fundusz Inwestycyjny Zamknięty | 98.04% | full | 98.04% | full | 98.04% | full |
| Tele-Tech Investment Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| BDH Development Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| Garbary Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| Asekum Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| LeaseLink Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| mElements S.A. | 100% | full | - | - | - | - |
| mCentrum Operacji Sp. z o.o. w likwidacji | - | - | - | - | 100% | full |

As at 31 December 2019, the Group classified BDH Development Sp. z o. o. to non-current assets held for sale. In November 2019, mCentrum Operacji Sp. z o. o. has been liquidated. The company's results achieved up to the date of liquidation were included in the Consolidated Financial Statements of the Group for 2019. The above issues have been described respectively in Note 24 and in Note 43 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 29 July 2020.

2. Description of relevant accounting policies

Accounting basis

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2020. Comparative data include the period from 1 January 2019 to 30 June 2019 for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity, additionally for the period from 1 January to 31 December 2019 for the condensed consolidated statement of changes in equity, and in the case of the condensed consolidated statement of financial position, data as at 31 December 2019.

The Consolidated Financial Statements of mBank S.A. Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union on a historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading, financial assets which fail the SPPI test and financial assets and liabilities designated at fair value through profit or loss (FVTPL), debt and equity instruments at fair value through other comprehensive income (FVOCI) and liabilities related to cash-settled share-based payment transactions all of which have been measured at fair value. Non-current assets held for sale or group of these assets classified as held for sale are stated at the lower of the carrying value and fair value less costs to sell.

The data for the year 2019 presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 3.

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Group's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a

combination of both. The Group presents separately each material class of similar positions. The Group presents separately positions of dissimilar nature or function unless they are immaterial.

These condensed consolidated financial statements were prepared under the assumption that all the entities of the Group, except for mCentrum Operacji Sp. z o.o. w likwidacji which has been put into liquidation, continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered.

Detailed accounting principles applied to the preparation of these condensed consolidated financial statements are presented in Note 2 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020. These principles were applied consistently over all presented periods, except for the change in accounting policies introduced since the beginning of 2020, consisting in the change in the manner of recognizing the FX margin on spot transactions. The change has been described below, in the item "Comparative data".

New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2020.

Standards and interpretations not yet endorsed by the European Union:

These financial statements do not include standards and interpretations listed below which await endorsement of the European Union.

- Amendments to IFRS 16 COVID-19-Related Rent Concessions, published by International Accounting Standards Board on 28 May 2020, binding for annual periods starting on or after 1 June 2020.

Amendments to IFRS 16 provides practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

The Group is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- IFRS 17, *Insurance contracts*, published by the International Accounting Standards Board ("IASB") on 18 May 2017, binding for annual periods starting on or after 1 January 2023.

IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reinsurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.

The Group is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 17, published by International Accounting Standards Board on 25 June 2020, binding for annual periods starting on or after 1 June 2023.

Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage. The profit recognition pattern for insurance contracts under IFRS 17 has been amended to reflect insurance coverage and any investment services provided. Insurance contracts are now required to be presented on the balance sheet at the portfolio level. The amendments addresses also accounting mismatches that arise when an entity reinsures onerous contracts and recognizes losses on the underlying contracts on initial recognition.

The Group is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 1, Classification of liabilities as current or non-current, published by IASB on 23 January 2020, binding for annuals periods starting on or after 1 January 2022.

Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.

The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of their initial application.

- Amendment to IAS 1 Classification of Liabilities as Current or Non-Current- Deferral of Effective Date, published by IASB on 15 July 2020, binding for annuals periods starting on or after 1 January 2023.

Amendment to IAS 1 provides entities an operational relief by deferring the effective date of the amendments to the Standard by one year to annual reporting periods beginning on or after 1 January 2023.

The Group is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of their initial application.

- Annual Improvements to IFRS Standards 2018-2020, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture.

The amendment to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

The amendment to IFRS 9 clarifies which fees the entity includes when it applies the '10 per cent test' in assessing whether to derecognize a financial liability. A entity includes only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other's behalf.

The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives.

The amendment to IAS 41 removes the requirement to exclude cash flows for taxation when measuring fair value of a biological asset using a parent value technique. This will ensure consistency with the requirements in IFRS 13 Fair Value Measurement.

The Group is of the opinion that the application of the changes to standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

Amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

The Group is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

Amendments to IAS 37 specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The Group is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 3 Reference to the Conceptual Framework, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

Amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. They also added a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of conceptual framework) to identify the liabilities it has assumed in business combination. Moreover, the standard added an explicit statement that an acquirer does not recognize contingent asset acquired in a business combination.

The Group is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9, published by International Accounting Standards Board on 25 June 2020, binding for annuals periods starting on or after 1 June 2023.

Amendments to IFRS 4 provides a temporary exemption that permits the insurer to apply IAS 39 rather than IFRS 9 Financial Instruments. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.

The Group is of the opinion that the application of the changes to the standard will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB.

Comparative data

- The recognition of FX margin on spot transactions

From January 2020, the Group changed the rules for presenting the FX margin on spot transactions. So far, the FX margin was presented in the Net trading income as part of the Foreign exchange result. After the change, the FX margin is part of the Net fee and commission income and is recognized in the item "Commissions from currency transactions". The change was caused by adjusting the presentation of the FX margin in the income statement to the prevailing market practice. The comparative data for the period from 1 January to 30 June 2019 have been appropriately restated, which resulted in an increase in Fee and commission income and a decrease in the Net trading income by PLN 139 979 thousand.

- Presentation of result on provisions for legal risk related to foreign currency loans

Since the end of 2019 a new line item in the income statement has been separated in which the Group presents the result on provisions for legal risk related to foreign currency loans. Previously the expenses of creating provisions for court cases relating to foreign currency loans were presented in the other operating expenses, and income relating to release of those provisions was presented within other operating income. This change was introduced in order to enable a clearer presentation of issues relevant to the Group's financial results. The comparative data for the period from 1 January to 30 June 2019 have been adjusted accordingly, which resulted in the decrease of other operating income by PLN 2 550 thousand and decrease of other operating expenses by PLN 30 324 thousand. The result on provisions for legal risk related to foreign currency loans in the first half of 2019 was negative and amounted to PLN 27 774 thousand.

- The recognition of some transactions of purchase and sale of securities

In the fourth quarter 2019, the Bank adjusted the recognition of transactions in Treasury securities which in the previous years were incorrectly classified as outright buy or sale of securities and should have been classified as buy/sell back ("BSB") or sell/buy back ("SBB") transactions instead. Detailed information on the impact of the adjustments made on the income statement, statement of comprehensive income, statement of financial position and cash flow statement of the Group for 2019 and 2018 was presented in Note 2.30 to the Consolidated Financial Statements of mBank S.A. for 2019, published on 28 February 2020.

Due to the above, in these condensed consolidated financial statements the Group adjusted the comparative data as at and for the period ended 30 June 2019, decreasing retained earnings by PLN 44 873 thousand, as well as increasing the net profit for the first half of 2019 by decreasing the tax on selected financial institutions (banking tax) by PLN 39 941 thousand. Moreover, the Group decreased the amount of the provision for the banking tax by PLN 41 612 thousand and increased liabilities to tax authorities in the amount of PLN 46 544 thousand.

The impact of the adjustments on the comparative data presented in these condensed consolidated financial statements for the period from 1 January to 30 June 2019 and as at 30 June 2019 is presented in the following statements.

Restatements in the consolidated income statement

| | Period from 01.01.2019 to 30.06.2019 before restatement | Restatement | Period from 01.01.2019 to 30.06.2019 after restatement |
|--|---|----------------|--|
| Interest income, including: | 2 464 435 | - | 2 464 435 |
| <i>Interest income accounted for using the effective interest method</i> | 2 163 651 | - | 2 163 651 |
| <i>Income similar to interest on financial assets at fair value through profit or loss</i> | 300 784 | - | 300 784 |
| Interest expenses | (536 402) | - | (536 402) |
| Net interest income | 1 928 033 | - | 1 928 033 |
| Fee and commission income | 813 093 | 139 979 | 953 072 |
| Fee and commission expenses | (358 435) | - | (358 435) |
| Net fee and commission income | 454 658 | 139 979 | 594 637 |
| Dividend income | 3 651 | - | 3 651 |
| Net trading income, including: | 206 397 | (139 979) | 66 418 |
| <i>Foreign exchange result</i> | 176 431 | (139 979) | 36 452 |
| <i>Gains or losses on financial assets and liabilities held for trading</i> | 24 711 | - | 24 711 |
| <i>Gains or losses from hedge accounting</i> | 5 255 | - | 5 255 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (11 618) | - | (11 618) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | 14 718 | - | 14 718 |
| <i>Gains less losses from debt securities measured at fair value through other comprehensive income</i> | 18 559 | - | 18 559 |
| <i>Gains less losses from investments in subsidiaries and associates</i> | (4 472) | - | (4 472) |
| <i>Gains less losses from derecognition</i> | 631 | - | 631 |
| Other operating income | 75 324 | (2 550) | 72 774 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (327 163) | - | (327 163) |
| Result on provisions for legal risk related to foreign currency loans | - | (27 774) | (27 774) |
| Overhead costs | (1 074 724) | - | (1 074 724) |
| Depreciation | (178 178) | - | (178 178) |
| Other operating expenses | (123 037) | 30 324 | (92 713) |
| Operating profit | 968 061 | - | 968 061 |
| Tax on the Group's balance sheet items | (258 827) | 39 941 | (218 886) |
| Profit before income tax | 709 234 | 39 941 | 749 175 |
| Income tax expense | (213 634) | - | (213 634) |
| Net profit | 495 600 | 39 941 | 535 541 |
| Net profit attributable to: | | | |
| - Owners of mBank S.A. | 495 645 | 39 941 | 535 586 |
| - Non-controlling interests | (45) | - | (45) |
| Earnings per share (in PLN) | 11.71 | 0.94 | 12.65 |
| Diluted earnings per share (in PLN) | 11.70 | 0.94 | 12.64 |

Restatements in the consolidated statement of comprehensive income

| | Period from 01.01.2019 to 30.06.2019 before restatement | Restatement | Period from 01.01.2019 to 30.06.2019 after restatement |
|---|---|---------------|--|
| Net profit | 495 600 | 39 941 | 535 541 |
| Other comprehensive income net of tax | (35 350) | - | (35 350) |
| Total comprehensive income (net) | 460 250 | 39 941 | 500 191 |
| Total comprehensive income (net), attributable to: | | | |
| - Owners of mBank S.A. | 460 295 | 39 941 | 500 236 |
| - Non-controlling interests | (45) | - | (45) |

Restatement in the consolidated statement of financial position

| ASSETS | 30.06.2019 before restatement | Restatement | 30.06.2019 after restatement |
|--|--|--------------------|---|
| TOTAL ASSETS | 152 433 213 | - | 152 433 213 |
| LIABILITIES | 30.06.2019 before restatement | Restatement | 30.06.2019 after restatement |
| Provisions | 344 278 | (41 612) | 302 666 |
| Other liabilities | 2 944 956 | 46 544 | 2 991 500 |
| Other items of liabilities | 133 462 778 | - | 133 462 778 |
| TOTAL LIABILITIES | 136 752 012 | 4 932 | 136 756 944 |
| EQUITY | | | |
| Equity attributable to Owners of mBank S.A. | 15 679 158 | (4 932) | 15 674 226 |
| Share capital | 3 574 686 | - | 3 574 686 |
| Retained earnings | 11 924 984 | (4 932) | 11 920 052 |
| - Profit from the previous year | 11 429 339 | (44 873) | 11 384 466 |
| - Profit for the current year | 495 645 | 39 941 | 535 586 |
| Other components of equity | 179 488 | - | 179 488 |
| Non-controlling interests | 2 043 | - | 2 043 |
| TOTAL EQUITY | 15 681 201 | (4 932) | 15 676 269 |
| TOTAL LIABILITIES AND EQUITY | 152 433 213 | - | 152 433 213 |

Restatement in the consolidated statement of cash flow

| | Period from 01.01.2019 to 30.06.2019 before restatement | Restatement | Period from 01.01.2019 to 30.06.2019 after restatement |
|---|---|-----------------|--|
| Profit before income tax | 709 234 | 39 941 | 749 175 |
| Adjustments, including: | 2 576 682 | (39 941) | 2 536 741 |
| Changes in provisions | 85 995 | (41 612) | 44 383 |
| Changes in other liabilities | (379 021) | 1 671 | (377 350) |
| Other adjustments | 2 869 708 | - | 2 869 708 |
| A. Cash flows from operating activities | 3 285 916 | - | 3 285 916 |
| B. Cash flows from investing activities | (192 924) | - | (192 924) |
| C. Cash flows from financing activities | (3 467 662) | - | (3 467 662) |
| Net increase / decrease in cash and cash equivalents (A+B+C) | (374 670) | - | (374 670) |
| Effects of exchange rate changes on cash and cash equivalents | 17 760 | - | 17 760 |
| Cash and cash equivalents at the beginning of the reporting period | 10 630 969 | - | 10 630 969 |
| Cash and cash equivalents at the end of the reporting period | 10 274 059 | - | 10 274 059 |

The above-mentioned changes in the comparative data have been included in these financial statements in all the notes to which these changes referred.

3. Major estimates and judgments made in connection with the application of accounting policy principles

The Group applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flow attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realization of specific scenarios) for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 74.3 million or increase by PLN 83.5 million as at 30 June 2020, respectively (as at 31 December 2019: PLN 49.7 million and PLN 59.4 million, respectively). This estimation was performed for portfolio of loans and advances and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

COVID-19 pandemic impact on the mBank Group activities

Support measures implemented in the Group as a result of the COVID-19 pandemic

In connection with the crisis caused by the COVID-19 pandemic, the Group offers its clients a number of assistance tools aimed at supporting them in a difficult situation resulting from the outbreak of the epidemic. The purpose of these tools is to help maintain the financial liquidity of customers by reducing the financial burden in the short term.

The supporting measures offered by the Group are in line with the banks' position regarding the unification of the rules for offering supporting measures in the banking sector. This position is a non-legislative moratoriums within the meaning of the European Banking Authority (EBA) guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis notified by the Polish Financial Supervision Authority to the European Banking Authority.

The moratorium covers supporting instruments granted from 13 March to 30 September 2020.

The moratorium offered by the Group in Retail Banking area enables changes in the schedule of payments by suspending the payments of principal amounts or full instalments for the limited period up to 6 months, with the possibility of extending the loan period by the duration of the moratorium. Examination of applications that meet the conditions set by the moratorium takes place in a simplified process, i.e. without the verification of the client's repayment ability. The application process is supported by the mechanism of automated verification of boundary conditions (i.a. no delay in payment of more than one instalment, no grace period in the last 12 months, at least 6-month repayment history). If the verification result is positive, the customer's request is automatically accepted. Customer requests that fail the automatic verification are subject to review by a credit analyst.

While deferring the repayment of the principal part of the loan instalment the sum of the principal amount remaining after the grace period is divided according to the algorithm (equal or decreasing instalments - according to the credit agreement) for the residual maturity period. The extension of the loan period translates into lower instalments after the grace period, than in case of the deferral without the extension. When suspending principal and interest payments, the mechanism for the capital is the same as for the capital repayment deferral, while the suspended interest parts of instalments are spread out proportionally over the outstanding period after the suspension period.

The supporting tools accessible within the moratorium apply to retail clients whose delay in capital or interest payments does not exceed 30 days at the date of submission of the support application and applies only to loans granted before 13 March 2020, which were not classified as default.

The Group offers to retail clients also support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension

of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines. The scale of applications submitted for this form of assistance is currently not significant. As of 30 June 2020, 23 applications were submitted under this moratorium, of which 19 borrowers were granted support. The gross carrying amount of their loans was PLN 2.3 million.

The moratorium offered by the Group in Corporate Banking enables changes in the schedule of payments by suspending the payments of principal amounts for the limited period up to 6 months. In addition, small and medium-sized enterprises who are the Group's clients, have the possibility to suspend the repayment of full instalments for up to 3 months.

The amount of suspended principal part of instalments increases the last loan instalment. Concerning the suspension of both principal and interest part of instalments, the amount of suspended principal increases the last loan instalment, while the amount of suspended interest is added to subsequent interest instalments payable after the deferral period. In the case of commercial real estate financing transactions exceeding PLN 10 million, the repayment terms are negotiated individually.

The Group made available for the Corporate Banking clients also new financing aimed at stabilizing their liquidity situation, according to which collateral in the form of BGK (Bank Gospodarstwa Krajowego) guarantees is used. These guarantees do not constitute a government subsidies as defined in IAS 20. A transaction secured with a BGK guarantee must meet the conditions defined in a specific portfolio guarantee line agreement signed between the Group and BGK. The BGK guarantee secures up to 80% of the exposure, but not more than the specified maximum level defined in the agreement. The Group may use the BGK guarantee in the first place in case of non-payment of a borrower. If the Group have used BGK guarantee, potential recoveries from the borrower are shared between mBank Group and BGK on a pari passu basis.

In accordance with the Group's internal regulations the moratorium applies to all corporate clients who as of 15 March 2020 were not classified as default. The moratorium applies only to loans granted before 8 March 2020. In addition, when granting assistance, the Group requires maintaining collateral at least at the same level and limiting distribution to the owner.

The tables below present information on the scope of the moratoria applied in the Group and new financing covered by public guarantee programs (BGK) applied as a result of the outbreak of the COVID-19 pandemic.

| | 30.06.2020 | | | | |
|------------------------------------|--------------------|------------------|-----------------------|---|--------------------------------|
| | Number of obligors | Of which granted | Gross carrying amount | Accumulated impairment, accumulated negative changes in fair value due to credit risk | Net carrying amount/fair value |
| Moratoriums | 75 414 | 72 120 | 15 849 607 | (175 037) | 15 674 570 |
| - Individual customers | | | 6 295 666 | (58 680) | 6 236 986 |
| - Corporate customers | | | 9 553 941 | (116 357) | 9 437 584 |
| Government guarantees (BGK) | 14 | 14 | 127 319 | (347) | 126 972 |
| - Individual customers | | | - | - | - |
| - Corporate customers | | | 127 319 | (347) | 126 972 |

| | Performing | | | | |
|------------------------------------|-----------------------|---|--|--|------------------------|
| | Gross carrying amount | Of which: exposures with forbearance measures | Of which: grace period of capital and interest | Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | Accumulated impairment |
| Moratoriums | 15 617 208 | 246 083 | 141 838 | 2 836 164 | (118 630) |
| - Individual customers | 6 281 407 | 101 635 | 120 651 | 859 049 | (55 293) |
| - Corporate customers | 9 335 801 | 144 448 | 21 187 | 1 977 115 | (63 337) |
| Government guarantees (BGK) | 127 319 | 127 319 | - | 900 | (347) |
| - Individual customers | - | - | - | - | - |
| - Corporate customers | 127 319 | 127 319 | - | 900 | (347) |

| | Non-performing | | | | |
|------------------------------------|-----------------------|---|--|------------------------|-------------------------------------|
| | Gross carrying amount | Of which: exposures with forbearance measures | Of which: unlikely to pay that are not past-due or past-due <= 90 days | Accumulated impairment | Inflows to non-performing exposures |
| Moratoriums | 232 399 | 41 548 | 41 331 | (56 407) | 54 551 |
| - Individual customers | 14 259 | 162 | 28 | (3 387) | 1 881 |
| - Corporate customers | 218 140 | 41 386 | 41 303 | (53 020) | 52 670 |
| Government guarantees (BGK) | - | - | - | - | - |
| - Individual customers | - | - | - | - | - |
| - Corporate customers | - | - | - | - | - |

In the face of the unprecedented situation caused by the COVID-19 pandemic, mBank was the first bank in Poland who on 16 March 2020 offered to clients suspension of capital repayment. All retail clients of the bank, regardless of their expected financial situation, had the possibility to apply for assistance remotely, as part of the automated application approval process.

The vast majority of clients who received support under repayment moratoria, corresponding to 99% of the total exposure covered by the moratoria, benefited only from the suspension of the principal repayments. Consequently the customers are still obliged to make repayments but in a lower amount. The delay in the interest payments is subject to the standard days-past-due calculation. Overdue interest payment exceeding 30 days results in the reclassification of exposure to stage 2, and exceeding 90 days - to stage 3.

Impact of the COVID-19 pandemic on the client's financial situation assessment process

In assessing the financial situation of corporate clients, the Group uses only individual assessment as the most appropriate and precise (the Group does not use a collective or sectorial approach).

The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client. The Group conducts sector analysis of clients that have applied for moratorium. Among those clients, the largest balance sheet exposure as at 30 June 2020 is held by clients operating in the following sectors: real estate activities, wholesale and retail trade, and manufacturing.

The client is placed on the Watch List (LW - list of clients under observation) based on standard criteria defined in the Group's internal regulations. With regard to clients who have submitted an application for assistance to the Group, the list of criteria classifying to Watch List has been extended by an additional, discretionary premise in respect of COVID-19. On the basis of this premise, a risk analyst may put the client on the Watch List if, according to his opinion, problems arising from a pandemic may have a long-term nature and after its termination the customer may not return to the financial situation allowing the settlement of his obligations. Other criteria of the placement on Watch List, defined in the Group's credit regulations, also apply to customers who have received support from the Group in connection with COVID-19. Placing a customer on Watch List results in customer classification to stage 2.

In the scope of retail customers risk assessment, the borrowers with granted assistance tools in the form of moratorium are still subject to scoring approach in accordance with the standard risk assessment process.

Description of the forbearance classification approach applied in the Group in relation to COVID-19

According to the statement of the European Banking Authority on the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures published on 25 March 2020, saying that the use of COVID-19 aid tools in the form of repayment moratorium, meeting the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis published on 2 April 2020 does not automatically classify exposures to default and forbearance, as well as according to the UKNF (Polish Financial Supervision Authority) statement published as a part of the Supervisory Impulse Package for Security and Development that UKNF will apply a flexible approach to the application of EBA guidelines for unsupported and restructured exposures, the Group does not classify the granting of the moratoria due to the COVID-19 crisis as forbearance, with the exception of corporate clients, for whom there is applied an approach based on individual assessment whether classification of such client's exposure as forbearance is required, in accordance with the Group's internal regulations.

Due to the deterioration of the economic situation in the country resulting from the COVID-19 epidemic, the Group has taken additional actions aimed at including this information in the expected credit losses.

Due to the uncertainty caused by dynamic situation changes, the Group's activities were spread over time and in particular covered:

1. review of sectors and individual clients of the corporate portfolio, in particular clients under observation, in order to verify the potential increase in the probability of failure to implement the restructuring plans, which was already carried out in March as the first activity of the Group as part of taking into account the impact of the epidemic on clients' financial situation,
2. modification of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model, applied in the first quarter of 2020,
3. updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020,
4. updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020,
5. restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020.

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 165.9 million in the portfolio measured at amortized cost. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which the Group recognized an additional cost of PLN 9.4 million.

Due to the fact that changes in risk parameters following the outbreak of the COVID-19 pandemic were implemented over a period of several months in a very dynamically changing macroeconomic environment, the Group decided to present the total value of their impact on 30 June 2020, as presented in the table below.

| | 30.06.2020 | | |
|---|----------------------|---------------------|----------------|
| | Individual customers | Corporate customers | Total |
| Financial asset measured at amortized cost: | 79 229 | 86 714 | 165 943 |
| Stage 1 | 3 060 | 765 | 3 825 |
| Stage 2 | 60 971 | 13 320 | 74 291 |
| Stage 3 | 15 198 | 72 629 | 87 827 |
| Financial assets measured at fair value through profit or loss | 9 414 | - | 9 414 |

As at 30 June 2020, the Group did not apply management corrections (overlays).

The Group will continue to analyse the impact of COVID-19 and state aid programs on the result of the cost of credit risk in the upcoming quarters.

In order to assess expected credit loss (ECL) sensitivity to the future macroeconomic conditions, the Group determined the ECL value separately for each of the scenarios used. The impact of each of the scenarios is presented in the table in the next chapters of the document.

The table below presents forecasts of the main macroeconomic indicators adopted as of 30 June 2020 and as of 31 December 2019:

| Scenario as at 30.06.2020 | | base | | optimistic | | pessimistic | |
|--------------------------------|-----------------|-------|------------------------------------|------------|------------------------------------|-------------|------------------------------------|
| Probability | | 60% | | 20% | | 20% | |
| | | 2020 | The average for the next two years | 2020 | The average for the next two years | 2020 | The average for the next two years |
| GDP | y/y | -4.2 | 4.4 | 0.0 | 3.9 | -6.4 | 0.4 |
| Unemployment rate | end of the year | 7.0% | 5.5% | 3.3% | 2.9% | 9.2% | 11.9% |
| WIBOR3M | end of the year | 0.3 | 0.4 | 0.7 | 0.7 | 0.1 | 0.1 |
| Real estate price index | y/y | 101.0 | 105.5 | 103.0 | 105.9 | 91.9 | 102.8 |
| CHF/PLN | end of the year | 4.21 | 4.03 | 4.11 | 3.93 | 4.43 | 4.43 |

| Scenario as at 31.12.2019 | | base | | optimistic | | pessimistic | |
|--------------------------------|-----------------|-------|------------------------------------|------------|------------------------------------|-------------|------------------------------------|
| Probability | | 60% | | 20% | | 20% | |
| | | 2020 | The average for the next two years | 2020 | The average for the next two years | 2020 | The average for the next two years |
| GDP | y/y | 3.3 | 2.8 | 4.3 | 3.4 | 0.6 | 1.4 |
| Unemployment rate | end of the year | 3.9% | 4.0% | 3.0% | 3.5% | 6.5% | 8.0% |
| WIBOR3M | end of the year | 2.0 | 2.3 | 1.7 | 1.7 | 0.5 | 0.5 |
| Real estate price index | y/y | 102.0 | 101.0 | 103.8 | 103.2 | 100.0 | 102.6 |
| CHF/PLN | end of the year | 3.62 | 3.48 | 3.72 | 3.62 | 4.48 | 4.15 |

The value of credit risk cost is the result of all presented macroeconomic scenarios and the weights assigned to them. Impact of individual scenarios on the credit risk costs is as shown in the table below:

| Scenario as at 30.06.2020 | The change of the value of credit risk costs | |
|---------------------------|--|--|
| | 30.06.2020 | |
| optimistic | 43 058 | |
| base | 14 759 | |
| pessimistic | (77 216) | |

The above results were estimated taking into account the equal allocation to the stage 2 based on the weighted average of all 3 macroeconomic scenarios, without and assumption of additional potential migrations between stages. The ECL sensitivity analysis was performed on 85% of the assets of the portfolio of loans and advances to customers and off-balance sheet liabilities granted to them.

The reason for changes in the key values in the Group's risk models were changes in macroeconomic indicators following the outbreak of the COVID-19 pandemic. The Group's forecasts regarding the macroeconomic situation were influenced by gradually introduced government assistance measures in the area of monetary and fiscal policy and labour markets aimed at counteracting the COVID-19 crisis.

The launch of the Polish Development Fund (PFR) assistance program addressed to micro-enterprises and small, medium and large enterprises within the framework of the Crisis Shield created by the government had a significant impact. Measures taken on a large scale will help to protect an income and to reduce the number of job losses and bankruptcies, as well as will help to control the negative feedback between the real and financial sectors. In the Group's opinion, liquidity support for enterprises will stop the increase of unemployment to the level of approximately 8%, after the end of the first wave of dismissals, which took place in March and April and in the following years will start to decrease.

The Group's macroeconomic forecasts were significantly influenced by the European Council's (EC) commencement of negotiations with the Member States on the long-term EU budget for 2021-2027 and the plan for rebuilding Europe to support citizens, companies and EU countries in overcoming the economic crisis caused by the COVID-19 pandemic. EC estimates regarding the allocation of financial resources for Poland influenced the estimated GDP growth from 2021.

Description of assumptions regarding the calculation of the effective interest rate and significant modification

The solutions applied so far under the supporting measures as a results on COVID-19 crisis did not meet the criteria of significant modification applied by the Group in relation to financial assets.

In particular, there were no situations where the Group used as a supporting measures that would change the terms of the Groups' financial liabilities.

The change in the loan repayment schedule as a result of payment moratoria means from the point of view of the accounting principles applied by the Group, an insignificant modification which results in the following effects:

- if suspending of credit instalments is not part of the contract agreement, then the granting of the moratorium changes the contractual cash flows and the Group recalculates the gross carrying amount of the financial asset and recognizes the gain or loss on modification in the income statement;
- if suspending of credit instalments is a part of contract agreement (the existing contract agreement allows an equivalent grace period), the expected cash flows change and the cumulative adjustment to the gross carrying amount of the financial asset, recognized in correspondence with the net interest income in the income statement.

Provisions for legal risks

Provisions for legal proceedings are recognized for the value in dispute and other costs on each reporting date based on an estimate of the probability of loss. However, the Group's final liability may differ from the provisions that have been recognized, as a high degree of judgement is involved in assessing the probability of uncertain liabilities in such legal proceedings and quantifying them. These estimates may turn out to be inaccurate at a later stage of the proceedings.

The Group closely observes the developments in courts verdicts in legal proceedings regarding mortgage and housing loans in CHF, including impact of the Court of Justice of the European Union (CJEU) judgment described in point 26 Selected explanatory information "Proceedings before a court, arbitration body or public administration authority". As at 30 June 2020, the Group recognized a provision for individual court cases concerning indexation clauses in mortgage and housing loans in CHF in the amount of PLN 611 384 thousand (31 December 2019: PLN 417 653 thousand). This provision has been calculated in accordance with the calculation methodology implemented in 2019 based on the 'expected value' method allowed by the IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in which the obligation is estimated by weighting all possible outcomes by their associated probabilities. The methodology applied by the Bank depends on numerous assumptions, all associated with the significant degree of expert judgement made by the Bank, among which the most important are: an expected population of borrowers who will file a lawsuit against the Bank, the probability of losing the case having final and binding judgement, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of a losing the case in court. The increase in the provision in the first half of 2020 comprises mostly of the effects of increase of probability of loss assumed in the calculation, update of the assessment resulting in an increase of level of loss in case of losing the case by the Bank and change in the CHF / PLN exchange rate.

The population of borrowers who will file a lawsuit against the Bank has been projected for a period of 5 years (counting from 31 December 2019) based on the Bank's history of legal cases in the past and assumes a significant increase in inflow of new cases. The Bank assumes that vast majority of the projected cases will be filed within first 3 years. If the assumed number of inflowing cases changed by +/- 20% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 45.5 million. The assumed population of borrowers has not changed in the first half of 2020.

The probability of loss has been calculated using data from the Bank's history of final and binding positive and negative verdicts. The final rulings to-date in the indexation clauses proceedings are favourable to the Group in the majority of the cases. As the number of final verdicts is not statistically representative (too few binding verdicts have been issued by courts in cases related to mBank) the assumption of probability of loss takes also into account expert judgements by the Bank about the future trends in the court verdicts as well as anticipated verdicts of the Supreme Court and CJEU in CHF mortgage loans related proceedings. If the assumed probability of loss changed by +/- 10% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 61.1 million. As a result of assessment of the assumptions by the Bank the probability of loss assumed in the calculation increased in the first half of 2020 by 16.7%.

The methodology also takes into account the expected level of loss in case of losing the case by the Bank. The projected loss rate was calculated using the probabilities of different verdicts that may be issued. As currently there is still no homogenous line of verdicts taken by the courts in such cases the Bank took into account three possible losing scenarios of outcomes in legal proceedings: (i) the contract is partially invalid; the contract is not invalid, but the indexation mechanism is eliminated, which transforms a loan indexed to CHF into a PLN loan subject to the interest rate of the loan indexed to CHF, (ii) the contract is invalid in whole; the change in the contract resulting from deletion of the exchange rate norm (assuming that the norm defines the main subject matter of the contract) would be too far-reaching and (iii) the contract on a mortgage indexed to the CHF is not invalid and the loan remains a mortgage indexed to CHF; the gap should be filled by interpreting the contract based on a norm referring to the fixing rate of the NBP. Each of this scenarios is associated with a different level of predicted losses for the Bank. The Bank calculated the average level of loss weighted with the probabilities of occurrence of the given scenario in case of negative final and binding judgement. The probabilities of those scenarios applied by the Bank has been based on the assessment of the Bank consulted with the external legal advisor. If the assumed weighted average loss changed by +/- 5% and all other relevant assumptions remained constant the amount of the provision would change by +/- PLN 30.6 million. The weighted average loss assumed in the calculation increased in the first half of 2020 by 16.2%.

The method used to calculate the provision is based on parameters that are highly judgmental and with a high range of possible values. It is possible that the provision will have to be adjusted significantly in the future, particularly that important parameters used in calculations are interdependent.

Prepayments of retail loans

CJEU ruled on 11 September 2019 that in case concerning consumer loans paid off prematurely the consumer has the right to a reduction in the total cost of the loan in the event of early repayment of the

credit. The interpretation constituted an answer to a prejudicial question asked in a court case in which a few banks have participated including mBank.

The above ruling impacts consumer loans granted on 18 December 2011 or later, in the amount not exceeding 255 550 PLN or its equivalent in other currency and mortgage loans granted on 22 July 2017 or later with no limit of the loan amount, which have been paid off fully or partially.

As of 30 June 2020 the provision recorded within other provisions (Note 25) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 22.6 million (PLN 16,5 million as of 31 December 2019).

The total negative impact of early repayments of retail loans on the Group's first half 2020 gross profit amounted to PLN 29.1 million, of which PLN 25.0 million reduced net interest income and PLN 4.1 million increased other operating expenses.

The above estimates are burdened with significant uncertainty regarding the number of customers who will request the Bank to refund commissions regarding earlier repayments made by the CJEU verdict as well as the expected rate of loan prepayments in the future.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.7 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Income tax in interim financial statements

Income tax in interim financial statements is accrued in accordance with IAS 34. Interim period tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the first half of 2020 was 50.9%.

Revenue and expenses from sale of insurance products bundled with loans

Revenue from sale of insurance products bundled with loans are split into interest income and fee and commission income based on the relative fair value analysis of each of these products.

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

The Group leads in case of insurance policies bundled with loans to upfront recognition less than 10% of bancassurance income associated with cash and car loans and 0% to approximately 25% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

The costs of post-employment employee benefits are determined using an actuarial valuation method. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long-term nature of these programmes, such estimates are subject to significant uncertainty.

Leasing classification

The Group as lessor makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

The Group as a lessee makes certain estimates and calculations that have an impact on the valuation of lease liabilities and right-of-use assets. They include, among others: determination of the duration

of contracts, determining the interest rate used to discount future cash flows and determination of the depreciation rate of right-of-use assets.

4. Business segments

Following the adoption of "management approach" of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose both managing and perceiving business within the Group.

The Group conducts its business through different business segments, which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- The Retail Banking segment, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., LeaseLink Sp. z o.o. and mElements S.A. (since January 2020), as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
 - *Corporate and Investment Banking* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy/sell back and sell/buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFactoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
 - *Financial Markets* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o. and mBank Hipoteczny S.A. with regard to activities concerning funding.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty and mCentrum Operacji Sp. z o.o. w likwidacji until the date of liquidation of the company.

The principles of segment classification of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the statement of financial position, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are fully attributed to the appropriate business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

In connection with the change in the key of allocation of income on capital since the beginning of 2020, the comparative data for the first half of 2019 regarding the interest result by business segment activities of mBank S.A. Group have been changed accordingly. The other changes result from adjustments to comparative data described in Note 2 in the item "Comparative data".

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 June 2020 – data regarding consolidated income statement.

| | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|--|----------------------------------|-------------------|----------------|-----------------|----------------------------|
| | Corporate and Investment Banking | Financial Markets | | | |
| Net interest income | 552 747 | 115 110 | 1 400 424 | 3 794 | 2 072 075 |
| - sales to external clients | 562 265 | 365 063 | 1 146 500 | (1 753) | 2 072 075 |
| - sales to other segments | (9 518) | (249 953) | 253 924 | 5 547 | - |
| Net fee and commission income | 377 958 | (8 600) | 365 417 | (9 162) | 725 613 |
| Dividend income | - | - | - | 4 479 | 4 479 |
| Trading income | 25 797 | 42 622 | 16 907 | (976) | 84 350 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (748) | - | (44 456) | 1 498 | (43 706) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | (6 172) | 14 178 | (507) | (5 241) | 2 258 |
| Other operating income | 65 598 | 112 | 47 465 | 2 890 | 116 065 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (367 334) | 944 | (349 626) | 2 102 | (713 914) |
| Result on provisions for legal risk related to foreign currency loans | - | - | (201 883) | - | (201 883) |
| Overhead costs | (395 945) | (55 742) | (638 572) | (3 701) | (1 093 960) |
| Amortisation | (61 234) | (8 526) | (143 313) | (799) | (213 872) |
| Other operating expenses | (49 848) | (31) | (44 914) | (10 095) | (104 888) |
| Operating profit | 140 819 | 100 067 | 406 942 | (15 211) | 632 617 |
| Taxes on Group balance sheet items | (89 583) | (42 983) | (135 039) | (2 642) | (270 247) |
| Gross profit of the segment | 51 236 | 57 084 | 271 903 | (17 853) | 362 370 |
| Income tax | | | | | (184 533) |
| Net profit attributable to Owners of mBank S.A. | | | | | 177 900 |
| Net profit attributable to non-controlling interests | | | | | (63) |

Business segment reporting on the activities of mBank S.A. Group - data regarding consolidated statement of financial position

| 30.06.2020 | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|----------------------------|----------------------------------|-------------------|----------------|-----------|----------------------------|
| | Corporate and Investment Banking | Financial Markets | | | |
| Assets of the segment | 44 554 392 | 68 768 535 | 67 640 418 | 1 979 456 | 182 942 801 |
| Liabilities of the segment | 46 039 286 | 26 958 506 | 91 446 481 | 1 585 799 | 166 030 072 |

| 31.12.2019 | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|----------------------------|----------------------------------|-------------------|----------------|-----------|----------------------------|
| | Corporate and Investment Banking | Financial Markets | | | |
| Assets of the segment | 44 805 002 | 46 845 014 | 64 989 636 | 2 080 931 | 158 720 583 |
| Liabilities of the segment | 35 685 057 | 25 498 967 | 79 052 093 | 2 331 161 | 142 567 278 |

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 June 2019 – data regarding consolidated income statement

| | Corporates & Financial Markets | | Retail Banking | Other | Total figure for the Group |
|--|----------------------------------|-------------------|----------------|-----------------|----------------------------|
| | Corporate and Investment Banking | Financial Markets | | | |
| Net interest income | 504 736 | 104 854 | 1 310 588 | 7 855 | 1 928 033 |
| - sales to external clients | 504 217 | 362 026 | 1 060 286 | 1 504 | 1 928 033 |
| - sales to other segments | 519 | (257 172) | 250 302 | 6 351 | - |
| Net fee and commission income | 349 492 | (5 886) | 259 320 | (8 289) | 594 637 |
| Dividend income | - | - | - | 3 651 | 3 651 |
| Trading income | 35 237 | 14 952 | 18 309 | (2 080) | 66 418 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 3 669 | - | (46 070) | 30 783 | (11 618) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | 426 | 18 778 | (15) | (4 471) | 14 718 |
| Other operating income | 33 957 | 567 | 36 888 | 1 362 | 72 774 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (127 180) | 452 | (199 507) | (928) | (327 163) |
| Result on provisions for legal risk related to foreign currency loans | - | - | (27 774) | - | (27 774) |
| Overhead costs | (401 946) | (49 168) | (618 094) | (5 516) | (1 074 724) |
| Amortisation | (50 555) | (5 694) | (122 778) | 849 | (178 178) |
| Other operating expenses | (23 539) | (3 279) | (33 302) | (32 593) | (92 713) |
| Operating profit | 324 297 | 75 576 | 577 565 | (9 377) | 968 061 |
| Taxes on Group balance sheet items | (84 192) | (16 900) | (113 604) | (4 190) | (218 886) |
| Gross profit of the segment | 240 105 | 58 676 | 463 961 | (13 567) | 749 175 |
| Income tax | | | | | (213 634) |
| Net profit attributable to Owners of mBank S.A. | | | | | 535 586 |
| Net profit attributable to non-controlling interests | | | | | (45) |

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 30 June 2020 and for the period from 1 January to 30 June 2019

| | from 1 January to 30 June 2020 | | | from 1 January to 30 June 2019 | | |
|--|--------------------------------|-------------------|----------------|--------------------------------|-------------------|----------------|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| Net interest income | 1 926 385 | 145 690 | 2 072 075 | 1 814 980 | 113 053 | 1 928 033 |
| Net fee and commission income | 717 253 | 8 360 | 725 613 | 586 816 | 7 821 | 594 637 |
| Dividend income | 4 479 | - | 4 479 | 3 651 | - | 3 651 |
| Trading income | 83 947 | 403 | 84 350 | 63 086 | 3 332 | 66 418 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (43 706) | - | (43 706) | (11 618) | - | (11 618) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | 2 234 | 24 | 2 258 | 14 718 | - | 14 718 |
| Other operating income | 114 495 | 1 570 | 116 065 | 70 775 | 1 999 | 72 774 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (723 840) | 9 926 | (713 914) | (321 398) | (5 765) | (327 163) |
| Result on provisions for legal risk related to foreign currency loans | (201 883) | - | (201 883) | (27 774) | - | (27 774) |
| Overhead costs | (1 024 115) | (69 845) | (1 093 960) | (1 011 940) | (62 784) | (1 074 724) |
| Amortisation | (207 130) | (6 742) | (213 872) | (171 647) | (6 531) | (178 178) |
| Other operating expenses | (104 014) | (874) | (104 888) | (91 252) | (1 461) | (92 713) |
| Operating profit | 544 105 | 88 512 | 632 617 | 918 397 | 49 664 | 968 061 |
| Taxes on Group balance sheet items | (252 155) | (18 092) | (270 247) | (206 231) | (12 655) | (218 886) |
| Gross profit of the segment | 291 950 | 70 420 | 362 370 | 712 166 | 37 009 | 749 175 |
| Income tax | | | (184 533) | | | (213 634) |
| Net profit attributable to Owners of mBank S.A. | | | 177 900 | | | 535 586 |
| Net profit attributable to non-controlling interests | | | (63) | | | (45) |

Information about geographical areas on the activities of mBank S.A. Group as at 30 June 2020 and as at 31 December 2019

| | 30.06.2020 | | | 31.12.2019 | | |
|--|-------------|-------------------|--------------------|-------------|-------------------|--------------------|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| Assets of the segment, including: | 170 058 337 | 12 884 464 | 182 942 801 | 149 957 094 | 8 763 489 | 158 720 583 |
| - tangible assets | 2 205 416 | 37 584 | 2 243 000 | 2 188 996 | 39 492 | 2 228 488 |
| - deferred income tax assets | 770 787 | 2 363 | 773 150 | 935 335 | 2 377 | 937 712 |
| Liabilities of the segment | 154 060 388 | 11 969 684 | 166 030 072 | 131 757 088 | 10 810 190 | 142 567 278 |

5. Net interest income

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|-------------------------------|-------------------------------|
| Interest income | | | |
| Interest income accounted for using the effective interest method | | 2 313 030 | 2 163 651 |
| Interest income of financial assets at amortised cost, including: | | 2 096 948 | 1 918 299 |
| - Loans and advances | | 1 959 105 | 1 782 094 |
| - Debt securities | | 123 971 | 109 302 |
| - Cash and short-term placements | | 20 383 | 28 828 |
| - Other | | (6 511) | (1 925) |
| Interest income on financial assets at fair value through other comprehensive income | | 216 082 | 245 352 |
| - Debt securities | | 216 082 | 245 352 |
| Income similar to interest on financial assets at fair value through profit or loss, including: | | 232 563 | 300 784 |
| Financial assets held for trading | | 22 701 | 32 073 |
| - Loans and advances | | 3 026 | 1 220 |
| - Debt securities | | 19 675 | 30 853 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | | 61 634 | 106 794 |
| - Loans and advances | | 61 634 | 106 794 |
| Interest income on derivatives classified into banking book | | 74 288 | 98 156 |
| Interest income on derivatives concluded under the fair value hedge | | 40 095 | 37 241 |
| Interest income on derivatives concluded under the cash flow hedge | | 33 845 | 26 520 |
| Total interest income | | 2 545 593 | 2 464 435 |

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|-------------------------------|-------------------------------|
| Interest expenses | | | |
| Financial liabilities measured at amortised cost, including: | | (464 921) | (530 784) |
| - Deposits | | (281 443) | (325 927) |
| - Loans received | | (5 394) | (7 992) |
| - Issue of debt securities | | (135 461) | (152 861) |
| - Subordinated liabilities | | (37 677) | (37 659) |
| - Lease liabilities | | (1 217) | (1 405) |
| - Other financial liabilities | | (3 729) | (4 940) |
| Other | | (8 597) | (5 618) |
| Total interest expense | | (473 518) | (536 402) |

The item "Other" in the part concerning interest income accounted for using the effective interest method includes the result on insignificant modification of financial assets.

6. Net fee and commission income

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Fee and commission income | | | |
| Payment cards-related fees | | 226 527 | 195 862 |
| Credit-related fees and commissions | | 225 979 | 201 853 |
| Commissions from currency transactions | | 161 641 | 139 979 |
| Commissions from bank accounts | | 97 397 | 103 969 |
| Commissions from money transfers | | 70 216 | 69 767 |
| Commissions for agency service regarding sale of insurance products of external financial entities | | 54 948 | 46 978 |
| Fees from brokerage activity and debt securities issue | | 93 285 | 46 474 |
| Commissions due to guarantees granted and trade finance commissions | | 47 522 | 47 021 |
| Commissions for agency service regarding sale of other products of external financial entities | | 36 589 | 36 736 |
| Commissions on trust and fiduciary activities | | 16 130 | 13 144 |
| Fees from portfolio management services and other management-related fees | | 6 201 | 6 510 |
| Fees from cash services | | 21 685 | 24 546 |
| Other | | 21 793 | 20 233 |
| Fee and commission income | | 1 079 913 | 953 072 |

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Fee and commission expense | | | |
| Payment cards-related fees | | (107 989) | (118 661) |
| Commissions paid to external entities for sale of the Group's products | | (86 681) | (92 564) |
| Commissions of insurance products | | (5 368) | (4 783) |
| Commissions paid for sale of external financial entities | | (10 319) | (9 890) |
| Discharged brokerage fees | | (17 911) | (14 352) |
| Costs for cash services | | (20 292) | (19 506) |
| Fees to NBP and KIR | | (6 747) | (6 224) |
| Other discharged fees | | (98 993) | (92 455) |
| Total fee and commission expense | | (354 300) | (358 435) |

7. Dividend income

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Financial assets at fair value through profit and loss | | 4 479 | 3 651 |
| Total dividend income | | 4 479 | 3 651 |

8. Net trading income

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|---|------------|----------------------------------|----------------------------------|
| Foreign exchange result | | 8 449 | 36 452 |
| Net exchange differences on translation | | (218 715) | 49 856 |
| Net transaction gains/(losses) | | 227 164 | (13 404) |
| Gains or losses on financial assets and liabilities held for trading | | 77 626 | 24 711 |
| Derivatives, including: | | 32 711 | 10 738 |
| - Interest-bearing instruments | | 31 952 | 6 484 |
| - Market risk instruments | | 759 | 4 254 |
| Debt securities | | 48 425 | 13 724 |
| Loans and advances | | (3 510) | 249 |
| Gains or losses from hedge accounting | | (1 725) | 5 255 |
| Net profit on hedged items | | (99 910) | (161 464) |
| Net profit on fair value hedging instruments | | 96 361 | 166 719 |
| Ineffective portion of cash flow hedge | | 1 824 | - |
| Net trading income | | 84 350 | 66 418 |

The foreign exchange result includes profit/(loss) on forward contracts, options, futures and recalculated assets and liabilities denominated in foreign currencies. The result on derivative transactions of interest-bearing instruments includes the result of swap contracts for interest rates, options and other derivatives. The result of the market risk instruments operations include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps. The result on equity instruments operations includes the valuation and result on trading in equity securities held for trading.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 16 "Financial assets held for trading and hedging derivatives".

9. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|---|------------|----------------------------------|----------------------------------|
| Equity instruments | | 1 498 | 12 561 |
| Debt securities | | 2 320 | 18 222 |
| Loans and advances | | (47 524) | (42 401) |
| Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | | (43 706) | (11 618) |

10. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|---|------------|----------------------------------|----------------------------------|
| Gains less losses related to sale of debt securities measured at fair value through other comprehensive income | | 1 225 | 18 559 |
| Gains less losses related to sale and revaluation of investments in subsidiaries and associates | | (4 152) | (4 472) |
| Gains less losses from derecognition, including: | | 5 185 | 631 |
| - Financial assets at amortised cost | | (3 174) | 631 |
| - Financial liabilities at amortised cost | | 8 359 | - |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates | | 2 258 | 14 718 |

11. Other operating income

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories | | 49 988 | 29 844 |
| Income from services provided | | 4 685 | 1 356 |
| Net income from operating lease | | 1 927 | 2 669 |
| Income due to release of provisions for future commitments | | 22 533 | 7 477 |
| Income from recovering receivables designated previously as prescribed, remitted or uncollectible | | 2 015 | 1 250 |
| Income from compensations, penalties and fines received | | 495 | 243 |
| Net revenues from the sale of an organised part of the company mFinanse S.A. | | 12 167 | 13 500 |
| Other | | 22 255 | 16 435 |
| Total other operating income | | 116 065 | 72 774 |

Income from services provided is earned on non-banking activities.

Net revenues from the sale of an organised part of the company mFinanse S.A. concern to the transaction described in detail in Note 12 of the Consolidated Financial Statements of mBank S.A. Group for 2019 published on 28 February 2020.

Net income from operating lease consists of income from operating lease and right-of-use in sublease and related depreciation cost of fixed asset provided by the Group under operating lease and right-of-use in sublease, incurred to obtain revenue.

Net income from operating lease and right-of-use assets in sublease generated for the first half of 2020 and for the first half of 2019 is presented below.

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Net income from operating lease and right-of-use assets in sublease, including: | | | |
| - Income from operating lease | | 20 501 | 25 465 |
| - Income from right-of-use assets in sublease | | 2 121 | 1 161 |
| - Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease | | (20 695) | (23 957) |
| Total net income from operating lease and right-of-use assets in sublease | | 1 927 | 2 669 |

12. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Financial assets at amortised cost, including: | | | |
| - Debt securities | | (8) | (16) |
| Stage 1 | | (8) | (16) |
| - Loans and advances | | (683 338) | (297 965) |
| Stage 1 | | 9 903 | (45 072) |
| Stage 2 | | (82 991) | (30 077) |
| Stage 3 | | (604 972) | (223 314) |
| POCI | | (5 278) | 498 |
| Financial assets at fair value through other comprehensive income | | 485 | (326) |
| - Debt securities | | 485 | (326) |
| Stage 1 | | 732 | (423) |
| Stage 2 | | (247) | 97 |
| Commitments and guarantees given | | (31 053) | (28 856) |
| Stage 1 | | (4 451) | 1 243 |
| Stage 2 | | (3 925) | 3 031 |
| Stage 3 | | (23 159) | (32 588) |
| POCI | | 482 | (542) |
| Net impairment losses on financial assets not measured at fair value through profit or loss | | (713 914) | (327 163) |

13. Overhead costs

| the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|----------------------------------|----------------------------------|
| Staff-related expenses | (522 982) | (503 472) |
| Material costs, including: | (324 072) | (328 164) |
| - costs of administration and real estate services | (124 081) | (135 078) |
| - IT costs | (90 807) | (84 509) |
| - marketing costs | (60 774) | (69 915) |
| - consulting costs | (41 346) | (32 835) |
| - other material costs | (7 064) | (5 827) |
| Taxes and fees | (12 732) | (13 977) |
| Contributions and transfers to the Bank Guarantee Fund | (229 957) | (226 146) |
| Contributions to the Social Benefits Fund | (4 217) | (2 965) |
| Total overhead costs | (1 093 960) | (1 074 724) |

Staff-related expenses for the first half of 2020 and for the first half of 2019 is presented below.

| the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|----------------------------------|----------------------------------|
| Wages and salaries | (422 501) | (404 408) |
| Social security expenses | (75 644) | (72 580) |
| Remuneration concerning share-based payments, including: | (4 444) | (5 223) |
| - share-based payments settled in mBank S.A. shares | (4 246) | (4 905) |
| - cash-settled share-based payments | (198) | (318) |
| Other staff expenses | (20 393) | (21 261) |
| Staff-related expenses, total | (522 982) | (503 472) |

14. Other operating expenses

| the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|---|----------------------------------|----------------------------------|
| Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories | (48 066) | (20 994) |
| Provisions for future commitments | (12 510) | (259) |
| Costs arising from provisions created for other receivables (excluding loans and advances) | (258) | (145) |
| Donations made | (3 071) | (2 523) |
| Costs of sale of services | - | (275) |
| Compensation, penalties and fines paid | (345) | (569) |
| Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible | - | (7) |
| Debt collection expenses | (18 886) | (20 275) |
| Other operating costs | (21 752) | (47 666) |
| Total other operating expenses | (104 888) | (92 713) |

The item "Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories" includes mainly the costs of mLeasing Sp. z o. o. from the sale of leasing items.

Costs of services provided concern non-banking services.

15. Earnings per share

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Basic: | | | |
| Net profit attributable to Owners of mBank S.A. | | 177 900 | 535 586 |
| Weighted average number of ordinary shares | | 42 350 367 | 42 336 982 |
| Net basic profit per share (in PLN per share) | | 4.20 | 12.65 |
| Diluted: | | | |
| Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share | | 177 900 | 535 586 |
| Weighted average number of ordinary shares | | 42 350 367 | 42 336 982 |
| Adjustments for: | | | |
| - share options | | 35 642 | 29 349 |
| Weighted average number of ordinary shares for calculation of diluted earnings per share | | 42 386 009 | 42 366 331 |
| Diluted earnings per share (in PLN per share) | | 4.20 | 12.64 |

16. Financial assets held for trading and derivatives held for hedges

| | 30.06.2020 | 31.12.2019 |
|--|------------------|------------------|
| Derivatives, including: | 1 487 670 | 959 776 |
| - Held for trading derivative financial instruments classified into banking book | 262 083 | 138 882 |
| - Held for trading derivative financial instruments classified into trading book | 1 361 655 | 877 926 |
| - Derivative financial instruments held for fair value hedging | 334 200 | 230 937 |
| - Derivative financial instruments held for cash flow hedging | 813 771 | 273 282 |
| - Offsetting effect | (1 284 039) | (561 251) |
| Debt securities | 1 884 596 | 1 733 569 |
| - General governments, including: | 1 463 420 | 1 330 541 |
| <i>pledged securities</i> | 538 512 | 162 038 |
| - Credit institutions | 186 673 | 170 953 |
| - Other financial corporations | 82 160 | 122 429 |
| - Non-financial corporations | 152 343 | 109 646 |
| Loans and advances | 184 715 | 172 689 |
| - Corporate customers | 184 715 | 172 689 |
| Total financial assets held for trading | 3 556 981 | 2 866 034 |

The above note includes government bonds and treasury bills subject to pledge in sell/buy back transactions.

Derivative financial instruments

The Group has the following types of derivative instruments:

Forward currency transactions represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal.

FRA contracts are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists

of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

Currency and interest rate options are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

Market risk transactions include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

Hedge accounting

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are presented in these Note below.

In accordance with the IFRS9 provisions, only on the day of initial application the Bank had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Bank to ensure that its hedging relationships are compliant with the risk management strategy applied by the Bank and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Group decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

The Group determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 except for mortgage bonds issued by mBank Hipoteczny (mBH) at mBank Group hedging relationship, for which the hedged ratio was determined based on BPV (Basis Point Value).

The sources of hedge ineffectiveness for hedging relationships for which the ineffectiveness arises include mismatch of cash flow dates and repricing periods, base mismatch (e.g. another WIBOR), nominal mismatch in case when the hedge ratio is different than 1:1, CVA/DVA mismatch which is in hedging instrument and is not in hedged instrument and mismatch due to initial valuation of hedging instruments if a previously acquired derivative was included in hedging relationship.

Fair value hedge accounting

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.13. to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

Description of the hedging relation

The Group hedges against the risk of change in fair value:

- fixed interest rate eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates;
- mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates;
- loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates;
- fixed interest bonds issued by mBank. The hedged risk results from changes in interest rates,
- part of the fixed interest rate mortgage portfolio granted by mBank's foreign branch in the Czech Republic. The hedged risk results from changes in interest rates,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed-rate deposits. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- two tranches of fixed interest rate eurobonds issued by mFF with a total nominal value of EUR 892 405 thousand,
- one tranche of fixed interest rate eurobonds issued by mFF with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 576 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand, CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 460 030 thousand,
- part of the fixed interest rate mortgage portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed-rate deposits.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income, with the exception of interest income and costs of the interest element of the valuation of hedging instruments, which are presented in the item Interest income / expense on derivatives concluded under the fair value hedge.

The total results of fair value hedge accounting recognised in the income statement

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Interest income on derivatives concluded under the fair value hedge accounting (Note 5) | | 40 095 | 37 241 |
| Net profit on hedged items (Note 8) | | (99 910) | (161 464) |
| Net profit on fair value hedging instruments (Note 8) | | 96 361 | 166 719 |
| The total results of fair value hedge accounting recognised in the income statement | | 36 546 | 42 496 |

Cash flow hedge accounting

- cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 in the position "Other net trading income and result on hedge accounting". Portion

of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from July 2020 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

- cash flow hedges in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny

The Group applies hedge accounting in relation to mortgage loans and mortgage bonds issued by mBank Hipoteczny. The purpose of the hedging strategy is to eliminate the risk of volatility of cash flows generated by mortgage loans in PLN due to changes in reference interest rates and mortgage bonds denominated in a convertible currency due to exchange rate changes using currency interest rate swaps (CIRS).

As part of hedge accounting, the Group designates a hedged item consisting of:

- parts of the portfolio of housing loans for retail customers entered in the collateral register for mortgage covered bonds, denominated in PLN with an interest rate indexed to 3M WIBOR, the loan margin is excluded from collateral;
- mortgage bonds issued by the Bank in EUR with a fixed interest rate

As hedging instruments, the Group uses CIRS derivative transactions in which, as a party to the transaction, it pays variable interest flows in PLN increased by a margin, and receives fixed interest rates in EUR and the denominations are exchanged at the beginning and at the end of the transaction. As transactions concluded by a mortgage bank, CIRS transactions are subject to entry in the register of covered bond collateral. In addition, if the bank's bankruptcy is announced by the court, it will not be immediately terminated, it will last until the end of the original maturity on the conditions specified on the date of the transaction (they will not be extended beyond the original maturity).

The Group hedges the interest rate risk and currency risk within one economic relationship between the concluded CIRS transactions and part of the loan portfolio in PLN and mortgage bonds financing them in EUR. For the purposes of cash flow hedge accounting, the Group simultaneously establishes two hedging relationships:

- by decomposing the part of the actual CIRS transaction securing the portfolio of loans in PLN with a variable interest rate (hedging against interest rate risk) and
- by decomposing the actual portion of the CIRS transaction securing the liability in EUR (protection against currency risk).

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Group uses the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the risk being hedged in the form of a derivative. The valuation principles are analogous to the principles for the valuation of interest rate derivatives.

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from April 2020 to September 2025.

The following note presents other comprehensive income due to cash flow hedges for the first half of 2020 and for the first half of 2019.

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|--|------------|----------------------------------|----------------------------------|
| Other gross comprehensive income from cash flow hedge at the beginning of the period | | 147 088 | 103 263 |
| Unrealised gains/losses included in other gross comprehensive income during the reporting period | | 549 472 | 73 017 |
| Profits / (Losses) recognized in other comprehensive income in the period | | (96 095) | (26 520) |
| - <i>net interest income</i> | | (33 845) | (26 520) |
| - <i>foreign exchange result</i> | | (62 250) | - |
| Accumulated other gross comprehensive income at the end of the reporting period | | 600 465 | 149 760 |
| Deferred income tax on accumulated other comprehensive income at the end of the reporting period | | (114 088) | (28 454) |
| Accumulated other net comprehensive income at the end of the reporting period | | 486 377 | 121 306 |
| Impact on other comprehensive income in the reporting period (gross) | | 453 377 | 46 497 |
| Deferred tax on cash flow hedges | | (86 142) | (8 834) |
| Impact on other comprehensive income in the reporting period (net) | | 367 235 | 37 663 |

| | the period | from 01.01.2020 to 30.06.2020 | from 01.01.2019 to 30.06.2019 |
|---|------------|----------------------------------|----------------------------------|
| Gains/losses recognised in comprehensive income (gross) during the reporting period, including: | | | |
| Unrealised gains/losses included in other comprehensive income (gross) | | 453 377 | 46 497 |
| Results of cash flow hedge accounting recognised in the income statement | | 97 919 | 26 520 |
| - amount included as interest income in income statement during the reporting period (Note 5) | | 33 845 | 26 520 |
| - ineffective portion of hedge recognised included in other net trading income in income statement (Note 8) | | 1 824 | - |
| - foreign exchange result | | 62 250 | - |
| Impact on other comprehensive income in the reporting period (gross) | | 551 296 | 73 017 |

17. Non-trading financial assets mandatorily at fair value through profit or loss

| | 30.06.2020 | 31.12.2019 |
|--|------------------|------------------|
| Equity instruments | 161 602 | 162 616 |
| - Other financial corporations | 91 574 | 106 250 |
| - Non-financial corporations | 70 028 | 56 366 |
| Debt securities | 142 468 | 133 774 |
| - Other financial corporations | 142 468 | 133 774 |
| Loans and advances | 1 667 053 | 1 971 532 |
| - Individual customers | 1 388 679 | 1 685 799 |
| - Corporate customers | 274 788 | 279 062 |
| - Public sector customers | 3 586 | 6 671 |
| Total non-trading financial assets mandatorily at fair value through profit or loss | 1 971 123 | 2 267 922 |
| Short-term (up to 1 year) | 1 166 267 | 1 382 155 |
| Long-term (over 1 year) | 804 856 | 885 767 |

18. Financial assets at fair value through other comprehensive income

| 30.06.2020 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|--|-------------------|-----------------------|---------------|---------|------|------------------------|----------------|---------|------|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| Debt securities | 35 563 658 | 35 526 172 | 41 378 | - | - | (2 525) | (1 367) | - | - |
| - Central banks | 5 744 967 | 5 744 967 | - | - | - | - | - | - | - |
| - General governments, including: <i>pledged securities</i> | 27 737 630 | 27 737 795 | - | - | - | (165) | - | - | - |
| - Credit institutions | 1 331 830 | 1 331 830 | - | - | - | - | - | - | - |
| - Other financial institutions | 248 746 | 249 189 | - | - | - | (443) | - | - | - |
| - Non-financial corporations | 1 344 975 | 1 345 790 | - | - | - | (815) | - | - | - |
| - Non-financial corporations | 487 340 | 448 431 | 41 378 | - | - | (1 102) | (1 367) | - | - |
| Total financial assets at fair value through other comprehensive income | 35 563 658 | 35 526 172 | 41 378 | - | - | (2 525) | (1 367) | - | - |
| Short-term (up to 1 year) gross | 12 990 069 | | | | | | | | |
| Long-term (over 1 year) gross | 22 577 481 | | | | | | | | |

| 31.12.2019 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|--|-------------------|-----------------------|---------------|---------|------|------------------------|----------------|---------|------|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| Debt securities | 22 773 921 | 22 737 162 | 41 121 | - | - | (3 242) | (1 120) | - | - |
| - Central banks | 3 219 627 | 3 219 627 | - | - | - | - | - | - | - |
| - General governments, including: <i>pledged securities</i> | 17 573 979 | 17 574 048 | - | - | - | (69) | - | - | - |
| - Credit institutions | 1 232 295 | 1 232 295 | - | - | - | - | - | - | - |
| - Other financial institutions | 263 460 | 264 583 | - | - | - | (1 123) | - | - | - |
| - Non-financial corporations | 1 162 968 | 1 163 964 | - | - | - | (996) | - | - | - |
| - Non-financial corporations | 553 887 | 514 940 | 41 121 | - | - | (1 054) | (1 120) | - | - |
| Total financial assets at fair value through other comprehensive income | 22 773 921 | 22 737 162 | 41 121 | - | - | (3 242) | (1 120) | - | - |
| Short-term (up to 1 year) gross | 4 031 311 | | | | | | | | |
| Long-term (over 1 year) gross | 18 746 972 | | | | | | | | |

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds and treasury bills pledged as sell/buy back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank.

Movements in expected credit losses allowance on financial assets at fair value through other comprehensive income

| Change from 1 January to 30 June 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | As at the end of the period |
|--|-----------------------------------|---------------------|---------------------|---------------------|--|---|------------------------|-----------------------------|
| Debt securities | (4 362) | - | - | - | (454) | 1 074 | (150) | (3 892) |
| Stage 1 | (3 242) | - | - | - | (454) | 1 074 | 97 | (2 525) |
| Stage 2 | (1 120) | - | - | - | - | - | (247) | (1 367) |
| Expected credit losses allowance, total | (4 362) | - | - | - | (454) | 1 074 | (150) | (3 892) |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | As at the end of the period |
|--|-----------------------------------|---------------------|---------------------|---------------------|--|---|------------------------|-----------------------------|
| Debt securities | (4 535) | - | - | - | (963) | 2 518 | (1 382) | (4 362) |
| Stage 1 | (4 171) | (214) | 72 | - | (963) | 2 367 | (333) | (3 242) |
| Stage 2 | (364) | 214 | (72) | - | - | 151 | (1 049) | (1 120) |
| Expected credit losses allowance, total | (4 535) | - | - | - | (963) | 2 518 | (1 382) | (4 362) |

Explanation of changes in the financial instruments gross carrying amount impacting the changes on expected credit losses allowance

| Change from 1 January to 30 June 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Other movements | As at the end of the period |
|---|-----------------------------------|---------------------|---------------------|---------------------|--|---|-----------------|-----------------------------|
| Debt securities | 22 778 283 | - | - | - | 21 183 588 | (9 093 653) | 699 332 | 35 567 550 |
| Stage 1 | 22 737 162 | - | - | - | 21 183 588 | (9 093 653) | 699 075 | 35 526 172 |
| Stage 2 | 41 121 | - | - | - | - | - | 257 | 41 378 |
| Financial assets at fair value through other comprehensive income, gross | 22 778 283 | - | - | - | 21 183 588 | (9 093 653) | 699 332 | 35 567 550 |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Other movements | As at the end of the period |
|---|-----------------------------------|---------------------|---------------------|---------------------|--|---|-----------------|-----------------------------|
| Debt securities | 24 342 819 | - | - | - | 15 882 431 | (18 387 362) | 940 395 | 22 778 283 |
| Stage 1 | 24 321 098 | 12 952 | (40 218) | - | 15 882 431 | (18 378 592) | 939 491 | 22 737 162 |
| Stage 2 | 21 721 | (12 952) | 40 218 | - | - | (8 770) | 904 | 41 121 |
| Financial assets at fair value through other comprehensive income, gross | 24 342 819 | - | - | - | 15 882 431 | (18 387 362) | 940 395 | 22 778 283 |

19. Financial assets at amortised cost

| 30.06.2020 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|--------------------|-----------------------|-------------------|------------------|----------------|------------------------|------------------|--------------------|-----------------|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| Debt securities | 12 551 206 | 12 551 285 | - | - | - | (79) | - | - | - |
| - General governments, including: | 9 666 258 | 9 666 258 | - | - | - | - | - | - | - |
| <i>pledged securities</i> | 1 863 200 | 1 863 200 | - | - | - | - | - | - | - |
| - Credit institutions | 794 530 | 794 530 | - | - | - | - | - | - | - |
| - Other financial institutions | 2 090 418 | 2 090 497 | - | - | - | (79) | - | - | - |
| Loans and advances to banks | 6 921 359 | 6 922 616 | - | - | - | (1 257) | - | - | - |
| Loans and advances to customers | 106 920 995 | 94 934 743 | 10 544 605 | 4 757 545 | 276 422 | (306 459) | (342 052) | (2 918 915) | (24 894) |
| Individual customers | 60 089 510 | 54 120 598 | 5 499 066 | 2 160 484 | 107 779 | (183 231) | (264 593) | (1 344 323) | (6 270) |
| Corporate customers | 46 481 597 | 40 464 413 | 5 045 538 | 2 595 993 | 168 643 | (122 911) | (77 459) | (1 573 996) | (18 624) |
| Public sector customers | 349 888 | 349 732 | 1 | 1 068 | - | (317) | - | (596) | - |
| Total financial assets at amortised cost | 126 393 560 | 114 408 644 | 10 544 605 | 4 757 545 | 276 422 | (307 795) | (342 052) | (2 918 915) | (24 894) |

| | |
|---------------------------------|------------|
| Short-term (up to 1 year) gross | 44 461 309 |
|---------------------------------|------------|

| | |
|-------------------------------|------------|
| Long-term (over 1 year) gross | 85 525 907 |
|-------------------------------|------------|

| 31.12.2019 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|--------------------|-----------------------|------------------|------------------|----------------|------------------------|------------------|--------------------|-----------------|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| Debt securities | 11 234 873 | 11 234 952 | - | - | - | (79) | - | - | - |
| - General governments, including: | 9 975 484 | 9 975 484 | - | - | - | - | - | - | - |
| <i>pledged securities</i> | 1 799 235 | 1 799 235 | - | - | - | - | - | - | - |
| - Other financial institutions | 1 259 389 | 1 259 468 | - | - | - | (79) | - | - | - |
| Loans and advances to banks | 4 341 758 | 4 342 890 | - | - | - | (1 132) | - | - | - |
| Loans and advances to customers | 103 203 254 | 94 130 201 | 7 920 046 | 4 105 697 | 237 588 | (313 118) | (258 035) | (2 603 391) | (15 734) |
| Individual customers | 56 999 856 | 52 456 328 | 4 076 251 | 2 039 606 | 102 706 | (189 868) | (198 492) | (1 284 124) | (2 551) |
| Corporate customers | 45 819 083 | 41 290 212 | 3 843 795 | 2 065 043 | 134 882 | (122 923) | (59 543) | (1 319 200) | (13 183) |
| Public sector customers | 384 315 | 383 661 | - | 1 048 | - | (327) | - | (67) | - |
| Total financial assets at amortised cost | 118 779 885 | 109 708 043 | 7 920 046 | 4 105 697 | 237 588 | (314 329) | (258 035) | (2 603 391) | (15 734) |

| | |
|---------------------------------|------------|
| Short-term (up to 1 year) gross | 42 975 941 |
|---------------------------------|------------|

| | |
|-------------------------------|------------|
| Long-term (over 1 year) gross | 78 995 433 |
|-------------------------------|------------|

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

In the item loans and advances granted to corporate clients were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking.

| Loans and advances to customers 30.06.2020 | Gross carrying amount | including: | | |
|---|-----------------------|----------------------|---------------------|-------------------------|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | 12 814 204 | 7 269 301 | 5 543 283 | 1 620 |
| Term loans, including: | 81 839 872 | 54 321 415 | 27 169 276 | 349 181 |
| - housing and mortgage loans to natural persons | 42 247 358 | 42 247 358 | | |
| Reverse repo or buy/sell back | 1 464 963 | - | 1 464 963 | - |
| Finance leases | 11 562 476 | - | 11 562 476 | - |
| Other loans and advances | 2 395 372 | - | 2 395 372 | - |
| Other receivables | 436 428 | 297 211 | 139 217 | - |
| Total gross carrying amount | 110 513 315 | 61 887 927 | 48 274 587 | 350 801 |

| Loans and advances to customers 30.06.2020 | Accumulated impairment | including | | |
|---|------------------------|----------------------|---------------------|-------------------------|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | (985 414) | (634 897) | (350 517) | - |
| Term loans, including: | (2 206 504) | (1 163 520) | (1 042 071) | (913) |
| - housing and mortgage loans to natural persons | (464 102) | (464 102) | | |
| Finance leases | (349 902) | - | (349 902) | - |
| Other loans and advances | (50 500) | - | (50 500) | - |
| Total accumulated impairment | (3 592 320) | (1 798 417) | (1 792 990) | (913) |
| Total gross carrying amount | 110 513 315 | 61 887 927 | 48 274 587 | 350 801 |
| Total accumulated impairment | (3 592 320) | (1 798 417) | (1 792 990) | (913) |
| Total carrying amount | 106 920 995 | 60 089 510 | 46 481 597 | 349 888 |
| Short-term (up to 1 year) gross | 37 550 145 | | | |
| Long-term (over 1 year) gross | 72 963 170 | | | |

| Loans and advances to customers 31.12.2019 | Gross carrying amount | including: | | |
|---|-----------------------|----------------------|---------------------|-------------------------|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | 13 455 553 | 7 493 468 | 5 958 926 | 3 159 |
| Term loans, including: | 78 051 279 | 50 819 397 | 26 850 332 | 381 550 |
| - housing and mortgage loans to natural persons | 38 979 040 | 38 979 040 | | |
| Reverse repo or buy/sell back | 13 398 | - | 13 398 | - |
| Finance leases | 11 631 675 | - | 11 631 675 | - |
| Other loans and advances | 2 629 690 | - | 2 629 690 | - |
| Other receivables | 611 937 | 362 026 | 249 911 | - |
| Total gross carrying amount | 106 393 532 | 58 674 891 | 47 333 932 | 384 709 |

| Loans and advances to customers 31.12.2019 | Accumulated impairment | including | | |
|---|------------------------|----------------------|---------------------|-------------------------|
| | | Individual customers | Corporate customers | Public sector customers |
| Current accounts | (966 201) | (664 889) | (301 312) | - |
| Term loans, including: | (1 901 009) | (1 010 146) | (890 469) | (394) |
| - housing and mortgage loans to natural persons | (414 932) | (414 932) | | |
| Finance leases | (289 832) | - | (289 832) | - |
| Other loans and advances | (33 236) | - | (33 236) | - |
| Total accumulated impairment | (3 190 278) | (1 675 035) | (1 514 849) | (394) |
| Total gross carrying amount | 106 393 532 | 58 674 891 | 47 333 932 | 384 709 |
| Total accumulated impairment | (3 190 278) | (1 675 035) | (1 514 849) | (394) |
| Total carrying amount | 103 203 254 | 56 999 856 | 45 819 083 | 384 315 |
| Short-term (up to 1 year) gross | 36 875 519 | | | |
| Long-term (over 1 year) gross | 69 518 013 | | | |

The currency structure of housing and mortgage loans granted to individual customers

| | 30.06.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| Net housing and mortgage loans to natural persons (in PLN '000), including: | 41 783 256 | 38 564 108 |
| - PLN | 21 152 752 | 18 624 049 |
| - CHF | 13 889 083 | 13 561 831 |
| - EUR | 3 392 034 | 3 120 555 |
| - CZK | 3 115 277 | 3 024 539 |
| - USD | 208 604 | 206 635 |
| - Other currency | 25 506 | 26 499 |
| Net housing and mortgage loans to natural persons in original currencies (main currencies in '000) | | |
| - PLN | 21 152 752 | 18 624 049 |
| - CHF | 3 321 317 | 3 458 504 |
| - EUR | 759 524 | 732 783 |
| - CZK | 18 699 142 | 18 046 175 |
| - USD | 52 405 | 54 411 |

Movements in expected credit losses allowance

| Change from 1 January to 30 June 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | Write-offs | Other movements | As at the end of the period |
|--|-----------------------------------|---------------------|---------------------|---------------------|--|---|------------------------|----------------|-----------------|-----------------------------|
| Debt securities | (79) | - | - | - | - | - | - | - | - | (79) |
| Stage 1 | (79) | - | - | - | - | - | - | - | - | (79) |
| Loans and advances to banks | (1 132) | - | - | - | (519) | 620 | (226) | - | - | (1 257) |
| Stage 1 | (1 132) | - | - | - | (519) | 620 | (226) | - | - | (1 257) |
| Loans and advances to customers | (3 190 278) | - | - | - | (102 621) | 128 416 | (733 291) | 267 588 | 37 866 | (3 592 320) |
| Stage 1 | (313 118) | (222 144) | 98 928 | 2 845 | (49 934) | 29 627 | 147 337 | - | - | (306 459) |
| Stage 2 | (258 035) | 204 901 | (120 888) | 96 726 | (5 478) | 12 045 | (271 323) | - | - | (342 052) |
| Stage 3 | (2 603 391) | 17 243 | 21 960 | (99 551) | (37 806) | 87 484 | (610 308) | 267 588 | 37 866 | (2 918 915) |
| POCI | (15 734) | - | - | (20) | (9 403) | (740) | 1 003 | - | - | (24 894) |
| Expected credit losses allowance, total | (3 191 489) | - | - | - | (103 140) | 129 036 | (733 517) | 267 588 | 37 866 | (3 593 656) |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Changes in credit risk | Write-offs | Other movements | As at the end of the period |
|--|-----------------------------------|---------------------|---------------------|---------------------|--|---|------------------------|----------------|-----------------|-----------------------------|
| Debt securities | (87) | - | - | - | - | - | 8 | - | - | (79) |
| Stage 1 | (87) | - | - | - | - | - | 8 | - | - | (79) |
| Loans and advances to banks | (1 518) | - | - | - | (1 560) | 1 529 | 417 | - | - | (1 132) |
| Stage 1 | (1 518) | - | - | - | (1 560) | 1 529 | 417 | - | - | (1 132) |
| Loans and advances to customers | (3 042 547) | - | - | - | (265 758) | 144 356 | (623 937) | 597 253 | 355 | (3 190 278) |
| Stage 1 | (214 875) | (382 332) | 102 610 | 4 397 | (119 016) | 50 598 | 245 500 | - | - | (313 118) |
| Stage 2 | (220 963) | 333 478 | (130 698) | 128 900 | (21 970) | 21 901 | (368 616) | - | (67) | (258 035) |
| Stage 3 | (2 599 882) | 48 854 | 28 088 | (133 297) | (124 522) | 76 222 | (488 828) | 589 552 | 422 | (2 603 391) |
| POCI | (6 827) | - | - | - | (250) | (4 365) | (11 993) | 7 701 | - | (15 734) |
| Expected credit losses allowance, total | (3 044 152) | - | - | - | (267 318) | 145 885 | (623 512) | 597 253 | 355 | (3 191 489) |

Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowance

| Change from 1 January to 30 June 2020 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Write-offs | Other movements | As at the end of the period |
|--|-----------------------------------|---------------------|---------------------|---------------------|--|---|------------------|--------------------|-----------------------------|
| Debt securities | 11 234 952 | - | - | - | 2 468 162 | (1 764 212) | - | 612 383 | 12 551 285 |
| Stage 1 | 11 234 952 | - | - | - | 2 468 162 | (1 764 212) | - | 612 383 | 12 551 285 |
| Loans and advances to banks | 4 342 890 | - | - | - | 2 870 857 | (147 049) | - | (144 082) | 6 922 616 |
| Stage 1 | 4 342 890 | - | - | - | 2 870 857 | (147 049) | - | (144 082) | 6 922 616 |
| Loans and advances to customers | 106 393 532 | - | - | - | 16 424 022 | (10 412 028) | (271 088) | (1 621 123) | 110 513 315 |
| Stage 1 | 94 130 201 | 1 777 015 | (5 126 303) | (605 419) | 15 474 968 | (9 217 896) | - | (1 497 823) | 94 934 743 |
| Stage 2 | 7 920 046 | (1 753 797) | 5 184 142 | (582 621) | 864 549 | (996 630) | - | (91 084) | 10 544 605 |
| Stage 3 | 4 105 697 | (23 218) | (57 839) | 1 131 003 | 79 243 | (193 691) | (271 088) | (12 562) | 4 757 545 |
| POCI | 237 588 | - | - | 57 037 | 5 262 | (3 811) | - | (19 654) | 276 422 |
| Financial assets at amortised cost, gross | 121 971 374 | - | - | - | 21 763 041 | (12 323 289) | (271 088) | (1 152 822) | 129 987 216 |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Write-offs | Other movements | As at the end of the period |
|--|-----------------------------------|---------------------|---------------------|---------------------|--|---|------------------|--------------------|-----------------------------|
| Debt securities | 9 000 626 | - | - | - | 1 952 008 | (486 122) | - | 768 440 | 11 234 952 |
| Stage 1 | 9 000 626 | - | - | - | 1 952 008 | (486 122) | - | 768 440 | 11 234 952 |
| Loans and advances to banks | 2 547 864 | - | - | - | 3 517 663 | (1 696 413) | - | (26 224) | 4 342 890 |
| Stage 1 | 2 547 864 | - | - | - | 3 517 663 | (1 696 413) | - | (26 224) | 4 342 890 |
| Loans and advances to customers | 95 059 979 | - | - | - | 34 350 790 | (18 991 377) | (597 253) | (3 428 607) | 106 393 532 |
| Stage 1 | 82 159 668 | 3 406 464 | (3 116 956) | (626 902) | 32 103 237 | (16 817 502) | - | (2 977 808) | 94 130 201 |
| Stage 2 | 8 714 545 | (3 253 951) | 3 189 531 | (450 634) | 1 916 470 | (1 861 076) | - | (334 839) | 7 920 046 |
| Stage 3 | 3 976 749 | (152 513) | (72 575) | 992 776 | 318 861 | (302 412) | (589 552) | (65 637) | 4 105 697 |
| POCI | 209 017 | - | - | 84 760 | 12 222 | (10 387) | (7 701) | (50 323) | 237 588 |
| Financial assets at amortised cost, gross | 106 608 469 | - | - | - | 39 820 461 | (21 173 912) | (597 253) | (2 686 391) | 121 971 374 |

The table below includes loans and advances at amortized cost and does not include the loans and advances measured at fair value through profit or loss.

The structure of concentration of carrying amounts of exposure of mBank Group

| No. | Sectors | Gross value | % | Gross value | % |
|-----|---------------------------------------|-------------|-------|-------------|-------|
| | | 30.06.2020 | | 31.12.2019 | |
| 1. | Household customers | 61 887 927 | 56.00 | 58 674 891 | 55.15 |
| 2. | Real estate | 7 019 506 | 6.35 | 6 305 974 | 5.93 |
| 3. | Construction | 5 404 938 | 4.89 | 5 160 496 | 4.85 |
| 4. | Financial sector | 2 878 425 | 2.60 | 1 766 892 | 1.66 |
| 5. | Food sector | 2 858 886 | 2.59 | 3 017 507 | 2.84 |
| 6. | Transport and logistics | 2 683 153 | 2.43 | 2 825 670 | 2.66 |
| 7. | Metals | 2 302 513 | 2.08 | 2 331 810 | 2.19 |
| 8. | Motorisation | 2 277 124 | 2.06 | 2 240 037 | 2.11 |
| 9. | Construction materials | 2 124 889 | 1.92 | 2 178 231 | 2.05 |
| 10. | Chemicals and plastic products | 1 884 052 | 1.70 | 1 915 441 | 1.80 |
| 11. | Wood, furniture and paper products | 1 755 226 | 1.59 | 1 782 443 | 1.68 |
| 12. | Scientific and technical activities | 1 497 298 | 1.35 | 1 406 065 | 1.32 |
| 13. | Wholesale trade | 1 356 079 | 1.23 | 1 427 747 | 1.34 |
| 14. | Rental and leasing activities | 1 180 967 | 1.07 | 1 116 106 | 1.05 |
| 15. | Retail trade | 1 168 342 | 1.06 | 1 231 428 | 1.16 |
| 16. | IT | 1 063 503 | 0.96 | 1 172 087 | 1.10 |
| 17. | Power, power and heating distribution | 1 037 758 | 0.94 | 1 126 577 | 1.06 |
| 18. | Pharmacy | 935 143 | 0.85 | 894 470 | 0.84 |
| 19. | Fuels | 884 416 | 0.80 | 1 033 659 | 0.97 |
| 20. | Information and communication | 770 481 | 0.70 | 944 929 | 0.89 |

As at 30 June 2020, the total exposure of the Group in the above sectors (excluding household customers) amounts to 37.17% of the credit portfolio (31 December 2019: 37.50%).

20. Non-current assets and liabilities held for sale

On 7 November 2019, as part of implementing the mBank Group plan to withdraw from development activity and focus on the main activity in the financial industry, mBank S.A. signed a conditional agreement for the sale of shares in the company BDH Development Sp. z o.o. (BDH) to Archicom Polska S.A. The transaction will be finalized after all the conditions precedent are met in the form of the sale by BDH of shares held in CSK Sp. z o. o. registration by the registry court of the reduction in BDH's share capital related to the redemption of shares, and the President of the Office for Competition and Consumer Protection's consent to the concentration consisting in the acquisition by Archicom Polska S.A. control over BDH (conditions met) and after signing the promised agreement between the parties. The parties undertook to sign a promised agreement transferring the value of BDH shares no later than 31 December 2020.

In connection with the above agreement, in accordance with the accounting principles described in Note 2.19 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020, as at 31 December 2019, the Group classified BDH as non-current assets held for sale.

The financial data regarding assets and liabilities held for sale are presented below.

| ASSETS | 30.06.2020 | 31.12.2019 |
|--|---------------|---------------|
| Current income tax liabilities | 348 | - |
| Other assets | 16 222 | 10 651 |
| TOTAL ASSETS | 16 570 | 10 651 |
| LIABILITIES | 30.06.2020 | 31.12.2019 |
| Financial liabilities measured at amortised cost, including: | 1 822 | 96 |
| <i>Amounts due to banks</i> | 96 | 96 |
| <i>Amounts due to customers</i> | 1 726 | - |
| Other liabilities | 259 | 1 219 |
| TOTAL LIABILITIES | 2 081 | 1 315 |

21. Intangible assets

| | 30.06.2020 | 31.12.2019 |
|--|------------------|----------------|
| Goodwill | 27 760 | 27 760 |
| Patents, licences and similar assets, including: | 748 731 | 696 491 |
| - computer software | 558 799 | 576 535 |
| Other intangible assets | 3 893 | 1 199 |
| Intangible assets under development | 283 541 | 229 990 |
| Total intangible assets | 1 063 925 | 955 440 |

22. Tangible assets

| | 30.06.2020 | 31.12.2019 |
|---|------------------|------------------|
| Tangible assets, including: | 648 341 | 698 634 |
| - land | 653 | 1 033 |
| - buildings and structures | 156 081 | 163 524 |
| - equipment | 170 066 | 188 496 |
| - vehicles | 222 771 | 238 850 |
| - other fixed assets | 98 770 | 106 731 |
| Fixed assets under construction | 55 707 | 75 416 |
| The right to use, including: | 458 457 | 488 347 |
| - real estate | 408 055 | 437 295 |
| - the right of perpetual usufruct of land | 48 014 | 48 358 |
| - cars | 1 606 | 1 561 |
| - other | 782 | 1 133 |
| Total tangible assets | 1 162 505 | 1 262 397 |

23. Financial liabilities held for trading and derivatives held for hedges

| | 30.06.2020 | 31.12.2019 |
|---|------------------|----------------|
| Derivatives, including: | 1 028 543 | 948 764 |
| - Held for trading derivative financial instruments classified into banking book | 156 261 | 104 161 |
| - Held for trading derivative financial instruments classified into trading book | 1 155 553 | 957 386 |
| - Derivative financial instruments held for fair value hedging | 1 920 | 6 451 |
| - Derivative financial instruments held for cash flow hedging | 640 | 12 960 |
| - Offsetting effect | (285 831) | (132 194) |
| Total financial liabilities held for trading and derivatives held for hedges | 1 028 543 | 948 764 |

24. Financial liabilities measured at amortised cost – amounts due to banks and customers

| 30.06.2020 | Amount due to banks | Amount due to customers | including: | | |
|--|---------------------|-------------------------|----------------------|---------------------|-------------------------|
| | | | Individual customers | Corporate customers | Public sector customers |
| Deposits | 1 165 031 | 135 147 704 | 89 627 662 | 44 794 883 | 725 159 |
| Current accounts | 775 809 | 110 456 881 | 76 703 032 | 33 279 934 | 473 915 |
| Term deposits | - | 23 975 329 | 12 924 630 | 10 799 455 | 251 244 |
| Repo transactions | 389 222 | 715 494 | - | 715 494 | - |
| Loans and advances received | 199 037 | 3 175 731 | - | 3 175 731 | - |
| Other financial liabilities | 640 132 | 1 299 085 | 149 414 | 1 107 029 | 42 642 |
| Liabilities in respect of cash collaterals | 407 970 | 468 336 | 41 990 | 424 980 | 1 366 |
| Leasing liabilities | - | 484 570 | - | 444 377 | 40 193 |
| Other liabilities | 232 162 | 346 179 | 107 424 | 237 672 | 1 083 |
| Deposits and other financial liabilities, total | 2 004 200 | 139 622 520 | 89 777 076 | 49 077 643 | 767 801 |
| Short-term (up to 1 year) | 2 004 200 | 135 439 360 | | | |
| Long-term (over 1 year) | - | 4 183 160 | | | |

| 31.12.2019 | Amount due to banks | Amount due to customers | including: | | |
|--|---------------------|-------------------------|----------------------|---------------------|-------------------------|
| | | | Individual customers | Corporate customers | Public sector customers |
| Deposits | 528 448 | 112 424 332 | 77 525 267 | 34 083 016 | 816 049 |
| Current accounts | 424 200 | 88 073 656 | 62 639 670 | 24 823 049 | 610 937 |
| Term deposits | - | 24 175 269 | 14 885 597 | 9 084 560 | 205 112 |
| Repo transactions | 104 248 | 175 407 | - | 175 407 | - |
| Loans and advances received | 189 901 | 2 980 294 | - | 2 980 294 | - |
| Other financial liabilities | 448 522 | 1 256 512 | 139 105 | 1 074 601 | 42 806 |
| Liabilities in respect of cash collaterals | 301 021 | 423 059 | 43 854 | 377 593 | 1 612 |
| Leasing liabilities | - | 496 912 | - | 456 052 | 40 860 |
| Other liabilities | 147 501 | 336 541 | 95 251 | 240 956 | 334 |
| Deposits and other financial liabilities, total | 1 166 871 | 116 661 138 | 77 664 372 | 38 137 911 | 858 855 |
| Short-term (up to 1 year) | 816 830 | 112 608 069 | | | |
| Long-term (over 1 year) | 350 041 | 4 053 069 | | | |

The Group presents amounts due to micro enterprises provided by Retail Banking of mBank S.A. under amounts due to individual customers.

25. Provisions

| | 30.06.2020 | 31.12.2019 |
|--|----------------|----------------|
| Provisions for legal proceedings, including: | 687 391 | 484 760 |
| - provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF | 611 384 | 417 653 |
| - provisions for other legal proceedings relating to loans in foreign currencies | 66 284 | 61 103 |
| - provisions for remaining legal proceedings | 9 723 | 6 004 |
| Provisions for commitments and guarantees given | 185 605 | 153 432 |
| Other provisions | 77 337 | 101 104 |
| Provisions, total | 950 333 | 739 296 |

The issues related to individual cases concerning indexation clauses in mortgage and housing loans in CHF is presented in point 26 Selected explanatory information.

The methodology of the measurement of provisions for legal risk regarding individual court cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 3.

The item Other provisions includes provisions recognized related to the judgment of the CJEU of 11 September 2019 regarding reimbursement of commissions in case of earlier loan repayments of consumer loans and mortgage loans, which is described in detail in Note 3.

Movements in the provisions

| Change from 1 January to 30 June | 2020 | | | |
|--|--|--|--|------------------|
| | Provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF | Provisions for other legal proceedings relating to loans in foreign currencies | Provisions for remaining legal proceedings | Other provisions |
| Provisions as at the beginning of the period | 417 653 | 61 103 | 6 004 | 101 104 |
| Change in the period, due to: | 193 731 | 5 181 | 3 719 | (23 767) |
| - increase of provisions | 195 113 | 7 105 | 4 293 | 8 217 |
| - release of provisions | - | (335) | - | (7 599) |
| - utilization | (1 382) | (1 589) | (579) | (21 380) |
| - reclassification to non-current assets held for sale | - | - | - | (3 040) |
| - foreign exchange differences | - | - | 5 | 35 |
| Provisions as at the end of the period | 611 384 | 66 284 | 9 723 | 77 337 |

| Change from 1 January to 31 December | 2019 | | | |
|--|--|--|--|------------------|
| | Provisions for individual cases concerning indexation clauses in mortgage and housing loans in CHF | Provisions for other legal proceedings relating to loans in foreign currencies | Provisions for remaining legal proceedings | Other provisions |
| Provisions as at the beginning of the period | 30 565 | 67 258 | 8 498 | 42 553 |
| Change in the period, due to: | 387 088 | (6 155) | (2 494) | 58 551 |
| - increase of provisions | 387 855 | 3 776 | 2 114 | 136 179 |
| - release of provisions | (339) | (3 506) | (2 894) | (5 947) |
| - utilization | (428) | (6 425) | (1 714) | (71 985) |
| - reclassification to non-current assets held for sale | - | - | - | 302 |
| - foreign exchange differences | - | - | - | 2 |
| Provisions as at the end of the period | 417 653 | 61 103 | 6 004 | 101 104 |

Movements in provisions for loan commitments, guarantees and other financial facilities and other commitments

| Change from 1 January to 30 June 2020 | As at the beginning of the period | Transfer to stage 1 | Transfer to stage 2 | Transfer to stage 3 | Increases due to granting and takeover | Decreased results of derecognised from balance sheet | Changes in credit risk (net) | As at the end of the period |
|---|-----------------------------------|---------------------|---------------------|---------------------|--|--|------------------------------|-----------------------------|
| Loan commitments | 63 864 | - | - | - | 26 857 | (26 475) | 9 916 | 74 162 |
| Stage 1 | 35 708 | 15 887 | (2 582) | (1) | 10 829 | (6 171) | (13 298) | 40 372 |
| Stage 2 | 23 639 | (15 887) | 2 583 | (170) | 6 163 | (6 630) | 18 212 | 27 910 |
| Stage 3 | 2 136 | - | (1) | 171 | 9 391 | (12 859) | 5 232 | 4 070 |
| POCI | 2 381 | - | - | - | 474 | (815) | (230) | 1 810 |
| Guarantees and other financial facilities | 89 568 | - | - | - | 19 392 | (26 501) | 28 982 | 111 441 |
| Stage 1 | 4 781 | 570 | (531) | - | 9 775 | (9 253) | (504) | 4 838 |
| Stage 2 | 4 713 | (570) | 531 | (233) | 652 | (1 705) | 1 030 | 4 418 |
| Stage 3 | 79 684 | - | - | 233 | 8 965 | (14 963) | 28 471 | 102 390 |
| POCI | 390 | - | - | - | - | (580) | (15) | (205) |
| Other commitments | - | - | - | - | 8 | (6) | - | 2 |
| Stage 1 | - | - | - | - | 8 | (6) | - | 2 |
| Provisions on off-balance sheet commitments and financial guarantees | 153 432 | - | - | - | 46 257 | (52 982) | 38 898 | 185 605 |

| Change from 1 January to 31 December 2019 | As at the beginning of the period | Transfer to stage 1 | Transfer to stage 2 | Transfer to stage 3 | Increases due to granting and takeover | Decreased results of derecognised from balance sheet | Changes in credit risk (net) | As at the end of the period |
|---|-----------------------------------|---------------------|---------------------|---------------------|--|--|------------------------------|-----------------------------|
| Loan commitments | 57 914 | - | - | - | 36 450 | (43 974) | 13 474 | 63 864 |
| Stage 1 | 32 575 | 32 226 | (4 616) | (112) | 22 736 | (13 204) | (33 897) | 35 708 |
| Stage 2 | 18 247 | (32 226) | 4 688 | (145) | 10 844 | (11 234) | 33 465 | 23 639 |
| Stage 3 | 6 231 | - | (72) | 257 | 1 695 | (19 479) | 13 504 | 2 136 |
| POCI | 861 | - | - | - | 1 175 | (57) | 402 | 2 381 |
| Guarantees and other financial facilities | 51 495 | - | - | - | 60 502 | (28 484) | 6 055 | 89 568 |
| Stage 1 | 2 784 | 1 484 | (674) | (3) | 13 852 | (7 847) | (4 815) | 4 781 |
| Stage 2 | 4 994 | (1 484) | 674 | (189) | 2 773 | (1 755) | (300) | 4 713 |
| Stage 3 | 47 154 | - | - | 192 | 43 877 | (20 477) | 8 938 | 79 684 |
| POCI | (3 437) | - | - | - | - | 1 595 | 2 232 | 390 |
| Other commitments | - | - | - | - | 109 | (109) | - | - |
| Stage 1 | - | - | - | - | 109 | (109) | - | - |
| Provisions on off-balance sheet commitments and financial guarantees | 109 409 | - | - | - | 97 061 | (72 567) | 19 529 | 153 432 |

26. Assets and liabilities for deferred income tax

| Deferred income tax assets | 30.06.2020 | 31.12.2019 |
|--|--|--|
| As at the beginning of the period | 1 473 790 | 1 344 037 |
| Changes recognized in the income statement | 115 798 | 124 182 |
| Changes recognized in other comprehensive income | 11 238 | 855 |
| Other changes | 208 | 4 716 |
| As at the end of the period | 1 601 034 | 1 473 790 |
| | | |
| Provisions for deferred income tax | 30.06.2020 | 31.12.2019 |
| As at the beginning of the period | (536 160) | (385 044) |
| Changes recognized in the income statement | (145 659) | (136 256) |
| Changes recognized in other comprehensive income | (146 151) | (11 231) |
| Other changes | - | (3 629) |
| As at the end of the period | (827 970) | (536 160) |
| | | |
| Income tax | The period from 01.01.2020 to 30.06.2020 | The period from 01.01.2019 to 30.06.2019 |
| Current income tax | (154 672) | (182 562) |
| Deferred income tax recognised in the income statement | (29 861) | (31 072) |
| Income tax recognised in the income statement | (184 533) | (213 634) |
| Recognised in other comprehensive income | (134 913) | (8 770) |
| Total income tax | (319 446) | (222 404) |

27. Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either:

- on the main market for the asset or liability,
- in the absence of a main market, for the most advantageous market for the asset or liability.

In line with IFRS9, for accounting purposes, the Group determines the valuation of its assets and liabilities through amortised cost or through fair value. In addition, for the positions that are valued through amortised cost, there is calculated and disclosed the fair value, but only for disclosure purposes – according to IFRS7.

The approach to the method used for the loans that are fair valued in line of IFRS9 requirements, is described in the Note 3.3.7 to the Consolidated Financial Statements of mBank Group for 2019, published on 28 February 2020.

Following market practices the Group values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Group. All significant open positions in derivatives are valued by marked-to-model using prices observable in the market. Domestic commercial papers are marked to model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

For disclosure purposes, the Group assumed that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items. In addition, the Group assumes that the estimated fair value of financial assets and financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

Positions that are recognised in GL through amortised cost

The following table presents a summary of balance sheet values and fair values for each group of financial assets and liabilities not recognised in the statement of financial position of the Group at their fair values.

| | 30.06.2020 | | 31.12.2019 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets at amortised cost | | | | |
| Debt securities | 12 551 206 | 13 056 795 | 11 234 873 | 11 409 164 |
| Loans and advances to banks | 6 921 359 | 6 840 121 | 4 341 758 | 4 338 448 |
| Loans and advances to customers, including: | 106 920 995 | 108 179 048 | 103 203 254 | 103 538 180 |
| Loans and advances to individuals | 60 089 510 | 62 257 771 | 56 999 856 | 58 296 285 |
| Current accounts | 6 634 404 | 6 792 133 | 6 828 579 | 7 011 607 |
| Term loans | 53 157 895 | 55 168 427 | 49 809 251 | 50 922 652 |
| Other | 297 211 | 297 211 | 362 026 | 362 026 |
| Loans and advances to corporate entities | 46 481 597 | 45 565 896 | 45 819 083 | 44 854 574 |
| Current accounts | 5 192 766 | 5 076 021 | 5 657 614 | 5 522 094 |
| Term loans, including finance lease | 37 339 779 | 36 540 823 | 37 301 706 | 36 472 717 |
| Reverse repo or buy/sell back transactions | 1 464 963 | 1 464 963 | 13 398 | 13 398 |
| Other loans and advances | 2 344 872 | 2 344 872 | 2 596 454 | 2 596 454 |
| Other | 139 217 | 139 217 | 249 911 | 249 911 |
| Loans and advances to public sector | 349 888 | 355 381 | 384 315 | 387 321 |
| Financial liabilities at amortised cost | | | | |
| Amounts due to other banks | 2 004 200 | 2 004 200 | 1 166 871 | 1 166 836 |
| Amounts due to customers | 139 622 520 | 139 650 816 | 116 661 138 | 116 661 251 |
| Debt securities in issue | 16 408 214 | 16 436 554 | 17 435 143 | 17 711 082 |
| Subordinated liabilities | 2 564 133 | 2 533 844 | 2 500 217 | 2 519 770 |

The following sections present the key assumptions and methods used by the Group for estimation of the fair values of financial instruments:

Loans and advances to banks and loans and advances to customers. The fair value for loans and advances to banks and loans and advances to customers is disclosed as the estimated value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

Financial liabilities. Financial instruments representing liabilities for the Group include the following:

- Contracted borrowings;
- Deposits;
- Issues of debt securities;
- Subordinated liabilities.

The fair value for these financial liabilities with more than 1 year to maturity is based on discounted cash flows by the use of discounting factor including an estimation of a spread reflecting the credit spread for mBank and the liquidity margin. For the loans received from European Investment Bank in EUR and in CHF the Group used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

In the case of deposits, the Group has applied the curve constructed on the basis of quotations of money market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of subordinated liabilities, the Group used curves based on cross-currency basis swap levels taking into account the original spread on subordinated liabilities and their maturities.

In case of covered bonds and other debt securities issued by mBank Hipoteczny, for the purpose of the disclosures swap curves and forecasted initial spreads for certain issues are used.

The Group assumed that the fair values of these instruments with less than 1 year to maturity was equal to the carrying amounts of the instruments.

According to the fair value methodology applied by the Group, financial assets and liabilities are classified as follows:

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: prices quoted on active markets for the similar instruments or other valuation techniques for which all significant input data are based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Positions that are recognised in GL through fair value

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Group at their fair values.

| 30.06.2020 | Including: | Level 1 | Level 2 | Level 3 |
|--|-------------------|---------------------------------|--|----------------------------|
| | | Quoted prices in active markets | Valuation techniques based on observable market data | Other valuation techniques |
| RECURRING FAIR VALUE MEASUREMENTS | | | | |
| Financial assets | | | | |
| Financial assets held for trading and hedging derivatives | 3 556 981 | 1 463 420 | 1 417 643 | 675 918 |
| Loans and advances to customers | 184 715 | - | - | 184 715 |
| Debt securities | 1 884 596 | 1 463 420 | - | 421 176 |
| Derivative financial instruments, including: | 1 487 670 | - | 1 417 643 | 70 027 |
| Derivative financial instruments held for trading | 1 623 738 | - | 1 623 738 | - |
| Hedging derivative financial instruments | 1 147 971 | - | 1 077 944 | 70 027 |
| Offsetting effect | (1 284 039) | - | (1 284 039) | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | 1 971 123 | 878 | - | 1 970 245 |
| Loans and advances to customers | 1 667 053 | - | - | 1 667 053 |
| Debt securities | 142 468 | - | - | 142 468 |
| Equity securities | 161 602 | 878 | - | 160 724 |
| Financial assets at fair value through other comprehensive income | 35 563 658 | 29 014 533 | 5 744 967 | 804 158 |
| Debt securities | 35 563 658 | 29 014 533 | 5 744 967 | 804 158 |
| Total financial assets | 41 091 762 | 30 478 831 | 7 162 610 | 3 450 321 |
| Financial liabilities | | | | |
| Derivative financial instruments, including: | 1 028 543 | - | 1 028 543 | - |
| Derivative financial instruments held for trading | 1 311 814 | - | 1 311 814 | - |
| Hedging derivative financial instruments | 2 560 | - | 2 560 | - |
| Offsetting effect | (285 831) | - | (285 831) | - |
| Total financial liabilities | 1 028 543 | - | 1 028 543 | - |

| Assets and Liabilities Measured at Fair Value Based on Level 3 - changes from 1 January to 30 June 2020 | Debt trading securities | Derivative financial instruments | Non-trading debt securities mandatorily at fair value through profit or loss | Non-trading equity securities mandatorily at fair value through profit or loss | Debt securities at fair value through other comprehensive income |
|---|-------------------------|----------------------------------|--|--|--|
| As at the beginning of the period | 403 028 | (7 524) | 133 774 | 161 791 | 1 032 369 |
| Gains and losses for the period: | 2 702 | 77 551 | 8 694 | (1 067) | 6 238 |
| Recognised in profit or loss: | 2 702 | 64 613 | 8 694 | (1 067) | - |
| <i>Net trading income</i> | 2 702 | 64 613 | 6 374 | 53 | - |
| <i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i> | - | - | 2 320 | 1 446 | - |
| <i>Gains or losses on subsidiaries and associates</i> | - | - | - | (2 566) | - |
| Recognised in other comprehensive income: | - | 12 938 | - | - | 6 238 |
| <i>Financial assets at fair value through other comprehensive income</i> | - | - | - | - | 6 238 |
| <i>Cash flow hedges</i> | - | 12 938 | - | - | - |
| Purchases | 859 150 | - | - | - | 175 724 |
| Redemptions | (79 024) | - | - | - | (240 375) |
| Sales | (3 989 742) | - | - | - | (3 245 080) |
| Issues | 3 225 062 | - | - | - | 3 075 282 |
| As at the end of the period | 421 176 | 70 027 | 142 468 | 160 724 | 804 158 |

During the first half of 2020 there were no transfers of financial instruments between the levels of fair value hierarchy.

| 31.12.2019 | Including: | Level 1 | Level 2 | Level 3 |
|--|-------------------|---------------------------------|--|----------------------------|
| | | Quoted prices in active markets | Valuation techniques based on observable market data | Other valuation techniques |
| RECURRING FAIR VALUE MEASUREMENTS | | | | |
| Financial assets | | | | |
| Financial assets held for trading and hedging derivatives | 2 866 034 | 1 330 541 | 959 776 | 575 717 |
| Loans and advances to customers | 172 689 | - | - | 172 689 |
| Debt securities | 1 733 569 | 1 330 541 | - | 403 028 |
| Derivative financial instruments, including: | 959 776 | - | 959 776 | - |
| Derivative financial instruments held for trading | 1 016 808 | - | 1 016 808 | - |
| Hedging derivative financial instruments | 504 219 | - | 504 219 | - |
| Offsetting effect | (561 251) | - | (561 251) | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | 2 267 922 | 825 | - | 2 267 097 |
| Loans and advances to customers | 1 971 532 | - | - | 1 971 532 |
| Debt securities | 133 774 | - | - | 133 774 |
| Equity securities | 162 616 | 825 | - | 161 791 |
| Financial assets at fair value through other comprehensive income | 22 773 921 | 18 521 925 | 3 219 627 | 1 032 369 |
| Debt securities | 22 773 921 | 18 521 925 | 3 219 627 | 1 032 369 |
| Total financial assets | 27 907 877 | 19 853 291 | 4 179 403 | 3 875 183 |
| Financial liabilities | | | | |
| Derivative financial instruments, including: | 948 764 | - | 941 240 | 7 524 |
| Derivative financial instruments held for trading | 1 061 547 | - | 1 061 547 | - |
| Hedging derivative financial instruments | 19 411 | - | 11 887 | 7 524 |
| Offsetting effect | (132 194) | - | (132 194) | - |
| Total financial liabilities | 948 764 | - | 941 240 | 7 524 |

| Assets Measured at Fair Value Based on Level 3 - changes from 1 January to 31 December 2019 | Debt trading securities | Derivative financial instruments | Non-trading debt securities mandatorily at fair value through profit or loss | Non-trading equity securities mandatorily at fair value through profit or loss | Debt securities at fair value through other comprehensive income |
|---|-------------------------|----------------------------------|--|--|--|
| As at the beginning of the period | 306 763 | - | 58 130 | 72 005 | 1 266 558 |
| Gains and losses for the period: | 429 | (7 524) | 75 644 | 75 041 | (8 352) |
| Recognised in profit or loss: | 429 | (3 810) | 75 644 | 75 041 | - |
| <i>Net trading income</i> | 429 | (3 810) | 320 | (8) | - |
| <i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i> | - | - | 75 324 | 75 326 | - |
| <i>Gains or losses on subsidiaries and associates</i> | - | - | - | (277) | - |
| Recognised in other comprehensive income: | - | (3 714) | - | - | (8 352) |
| <i>Financial assets at fair value through other comprehensive income</i> | - | - | - | - | (8 352) |
| <i>Cash flow hedges</i> | - | (3 714) | - | - | - |
| Purchases | 1 330 096 | - | - | 11 055 | 1 098 460 |
| Redemptions | (233 141) | - | - | - | (274 629) |
| Sales | (3 246 823) | - | - | (10 891) | (1 838 078) |
| Issues | 2 245 704 | - | - | 14 581 | 788 410 |
| As at the end of the period | 403 028 | (7 524) | 133 774 | 161 791 | 1 032 369 |

In 2019 there were no transfers of financial instruments between the levels of fair value hierarchy.

With regard to financial instruments valued in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by the Bank on the basis of internal rules. In case if there is no market price used to a direct valuation for more than 5 working days, the method of valuation is changed, i.e. change from marked-to-market valuation to marked-to-model valuation under the assumption that the valuation model for the respective type of this instrument has been already approved. The return to marked-to-market valuation method takes place after a period of at least 10 working days in which the market price was available on a continuous basis. If there is no market prices for a debt treasury bonds the above terms are respectively 2 and 5 working days.

Level 1

As at 30 June 2020, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 1 463 420 thousand (see Note 16) and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 27 699 477 thousand (see Note 18) (31 December 2019 respectively: PLN 1 330 541 thousand and PLN 17 537 697 thousand). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 315 056 thousand (31 December 2019: PLN 984 228 thousand).

In addition, as at 30 June 2020 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 878 thousand (31 December 2019: PLN 825 thousand).

These instruments are classified as level 1 because their valuation is directly derived by applying current market prices quoted on active and liquid financial markets.

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 5 744 967 thousand (31 December 2019: PLN 3 219 627 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

In addition, the level 2 category includes the valuation of derivative financial instruments borne on models consistent with market standards and practices, using parameters taken directly from the markets (e.g., foreign exchange rates, implied volatilities of fx options, stock prices and indices) or parameters which transform quotations taken directly from active and liquid financial markets (e.g. interest rate curves).

As at 30 June 2020 and 31 December 2019, level 2 also includes the value of options referencing on the WIG-20 index. For options valuation on WIG-20 index an internal Bank's model (based on implied volatility model) using market parameters is applied.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 329 649 thousand (31 December 2019: PLN 1 532 889 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 38 153 thousand (31 December 2019 - PLN 36 282 thousand).

Model valuation for these items assumes a valuation based on the market interest rate yield curve adjusted by the level of credit spread. The credit spread parameter reflects the credit risk of the security issuer and is determined in accordance with the Bank's internal model. This model uses credit risk parameters (e.g. PD, LGD) and information obtained from the market (including implied spreads from transactions). PD and LGD parameters are not observed on active markets and therefore have been determined on the basis of statistical analysis. Both models - the valuation of debt instruments and the credit spread model were built internally in the Bank by risk units, were approved by the Model Risk Committee and are subject to periodic monitoring and validation carried out by an entity independent of the units responsible for building and maintaining the model.

Level 3 as at 30 June 2020 includes the value of loans and advances to customers in the amount of PLN 1 851 768 thousand (31 December 2019 – PLN 2 144 221 thousand).

The Fair Value calculation for loans and advances to customers is based on its discounted estimated future cash flows. Future cash flows are determined taking into account:

- repayment schedule,
- time value of money, based on risk-free interest rates set in the process of forecasting interest flows,
- uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modifying contract flows using multi-year credit risk parameters Lt PD and Lt LGD,
- other factors that would be taken into consideration by the potential exposure buyer (overhead costs and the profit margin expected by market participants) during the process of calibration of the discount rate used in the valuation process.

Due to requirements of IFRS 13 for the exposures for which there are no quotes on an active market, the Bank calibrates the discount rate based on fair value at the date of the initial recognition (i.e. the cost price of exposure). Calibration margin reflects market valuation of costs related to maintaining exposures in the portfolio and market expectations about profit margin realized on similar exposures.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 160 724 thousand (31 December 2019: PLN 161 791 thousand). The equity securities presented at level 3 have been valued using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (for more information, see Note 16). As at 30 June 2020, the valuation of these contracts was positive (assets) and amounted to PLN 70 027 thousand, while as at 31 December 2019 the valuation was negative (liabilities) and amounted to PLN 7 524 thousand.

28. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 ("CRR Regulation"), mBank is a significant subsidiary of EU parent institution, responsible for the preparation of the consolidated prudentially financial data to fulfil the requirement of disclosures described in IAS 1.135 "Presentation of Financial Statements".

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 6-month period ended 30 June 2020 and for the 6-month period ended 30 June 2019.

The consolidated profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the KNF or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the first half of 2020, prepared in compliance with IFRS, except for the consolidation standards presented below.

The consolidated prudentially financial data includes the Bank and the following entities:

| Company | 30.06.2020 | | 31.12.2019 | | 30.06.2019 | |
|--|--|----------------------|--|----------------------|--|----------------------|
| | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method |
| mBank Hipoteczny S.A. | 100% | full | 100% | full | 100% | full |
| mLeasing Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| mFinanse S.A. | 100% | full | 100% | full | 100% | full |
| mFaktoring S.A. | 100% | full | 100% | full | 100% | full |
| mFinance France S.A. | 99,998% | full | 99,998% | full | 99,998% | full |
| Future Tech Fundusz Inwestycyjny Zamknięty | 98,04% | full | 98,04% | full | 98,04% | full |
| Tele-Tech Investment Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| Asekum Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| LeaseLink Sp. z o.o. | 100% | full | 100% | full | 100% | full |
| mElements S.A. | 200% | full | - | - | - | - |
| mCentrum Operacji Sp. z o.o. w likwidacji | - | - | - | - | 100% | full |

Beginning from January 2020, the Group started to consolidate the company mElements S.A. Information of the companies is included in Note 1.

In November 2019, mCentrum Operacji Sp. z o. o. has been liquidated. The liquidation process have been described respectively in Note 24 and in Note 43 to the Consolidated Financial Statements of mBank S.A. Group for 2019, published on 28 February 2020.

Beginning from March 2019, the Group started to consolidate the company LeaseLink Sp. z o. o.

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

- EUR 10 million;
- 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Consolidated prudentially income statement

| | Period from 01.04.2020 to 30.06.2020 | Period from 01.01.2020 to 30.06.2020 | Period from 01.04.2019 to 30.06.2019 | Period from 01.01.2019 to 30.06.2019 |
|--|--|--|--|--|
| Interest income, including: | 1 211 045 | 2 546 348 | 1 263 281 | 2 464 124 |
| <i>Interest income accounted for using the effective interest method</i> | <i>1 085 353</i> | <i>2 313 785</i> | <i>1 116 063</i> | <i>2 163 340</i> |
| <i>Income similar to interest on financial assets at fair value through profit or loss</i> | <i>125 692</i> | <i>232 563</i> | <i>147 218</i> | <i>300 784</i> |
| Interest expenses | (204 005) | (473 518) | (265 812) | (536 402) |
| Net interest income | 1 007 040 | 2 072 830 | 997 469 | 1 927 722 |
| Fee and commission income | 535 487 | 1 079 913 | 487 680 | 953 072 |
| Fee and commission expenses | (172 549) | (354 298) | (186 626) | (358 432) |
| Net fee and commission income | 362 938 | 725 615 | 301 054 | 594 640 |
| Dividend income | 4 179 | 4 479 | 3 428 | 3 651 |
| Net trading income, including: | 39 545 | 84 350 | 28 276 | 66 418 |
| <i>Foreign exchange result</i> | <i>2 217</i> | <i>8 449</i> | <i>11 952</i> | <i>36 452</i> |
| <i>Gains or losses on financial assets and liabilities held for trading</i> | <i>39 398</i> | <i>77 626</i> | <i>13 386</i> | <i>24 711</i> |
| <i>Gains or losses from hedge accounting</i> | <i>(2 070)</i> | <i>(1 725)</i> | <i>2 938</i> | <i>5 255</i> |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 16 509 | (43 706) | 2 402 | (11 618) |
| Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including: | 5 240 | 1 564 | (2 485) | 14 364 |
| <i>Gains less losses from debt securities measured at fair value through other comprehensive income</i> | <i>467</i> | <i>1 225</i> | <i>820</i> | <i>18 685</i> |
| <i>Gains less losses from investments in subsidiaries and associates</i> | <i>(3 372)</i> | <i>(4 846)</i> | <i>(3 358)</i> | <i>(4 952)</i> |
| <i>Gains less losses from derecognition</i> | <i>8 145</i> | <i>5 185</i> | <i>53</i> | <i>631</i> |
| Other operating income | 74 586 | 115 583 | 36 965 | 72 774 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (344 115) | (713 914) | (206 416) | (327 163) |
| Result on provisions for legal risk related to foreign currency loans | (188 972) | (201 883) | (23 182) | (27 774) |
| Overhead costs | (454 950) | (1 093 561) | (448 477) | (1 074 221) |
| Depreciation | (116 362) | (213 872) | (88 140) | (178 178) |
| Other operating expenses | (48 791) | (104 868) | (32 767) | (92 554) |
| Operating profit | 356 847 | 632 617 | 568 127 | 968 061 |
| Taxes on the Group balance sheet items | (138 417) | (270 247) | (108 954) | (218 886) |
| Profit before income tax | 218 430 | 362 370 | 459 173 | 749 175 |
| Income tax expense | (131 499) | (184 533) | (86 791) | (213 634) |
| Net profit | 86 931 | 177 837 | 372 382 | 535 541 |
| Net profit attributable to: | | | | |
| - Owners of mBank S.A. | 86 983 | 177 900 | 372 413 | 535 586 |
| - Non-controlling interests | (52) | (63) | (31) | (45) |

Consolidated prudentially statement of financial position

| ASSETS | 30.06.2020 | 31.12.2019 |
|---|--------------------|--------------------|
| Cash and balances with the Central Bank | 11 141 250 | 7 897 010 |
| Financial assets held for trading and derivatives held for hedges | 3 556 981 | 2 866 034 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 1 977 605 | 2 275 772 |
| <i>Equity instruments</i> | 168 084 | 170 466 |
| <i>Debt securities</i> | 142 468 | 133 774 |
| <i>Loans and advances to customers</i> | 1 667 053 | 1 971 532 |
| Financial assets at fair value through other comprehensive income | 35 563 658 | 22 773 921 |
| Financial assets at amortised cost, including: | 126 393 523 | 118 778 693 |
| <i>Debt securities</i> | 12 551 206 | 11 234 873 |
| <i>Loans and advances to banks</i> | 6 921 359 | 4 341 723 |
| <i>Loans and advances to customers</i> | 106 920 958 | 103 202 097 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 979 | - |
| Non-current assets and disposal groups classified as held for sale | 7 385 | 91 605 |
| Intangible assets | 1 063 925 | 955 440 |
| Tangible assets | 1 162 505 | 1 262 397 |
| Current income tax assets | 9 356 | 12 662 |
| Deferred income tax assets | 773 150 | 937 712 |
| Other assets | 1 373 964 | 956 928 |
| TOTAL ASSETS | 183 024 281 | 158 808 174 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Financial liabilities held for trading and derivatives held for hedges | 1 028 543 | 948 764 |
| Financial liabilities measured at amortised cost, including: | 160 682 675 | 137 853 610 |
| <i>Amounts due to banks</i> | 2 004 200 | 1 168 178 |
| <i>Amounts due to customers</i> | 139 706 128 | 116 750 072 |
| <i>Debt securities issued</i> | 16 408 214 | 17 435 143 |
| <i>Subordinated liabilities</i> | 2 564 133 | 2 500 217 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 53 731 | 136 |
| Provisions | 950 333 | 739 296 |
| Current income tax liabilities | 72 097 | 161 534 |
| Deferred income tax liabilities | 86 | 82 |
| Other liabilities | 3 324 087 | 2 951 447 |
| TOTAL LIABILITIES | 166 111 552 | 142 654 869 |
| EQUITY | | |
| Equity attributable to Owners of mBank S.A. | 16 910 784 | 16 151 303 |
| Share capital: | 3 579 818 | 3 579 818 |
| - Registered share capital | 169 401 | 169 401 |
| - Share premium | 3 410 417 | 3 410 417 |
| Retained earnings: | 12 576 947 | 12 394 775 |
| - Profit from the previous years | 12 399 047 | 11 384 425 |
| - Profit for the current year | 177 900 | 1 010 350 |
| Other components of equity | 754 019 | 176 710 |
| Non-controlling interests | 1 945 | 2 002 |
| TOTAL EQUITY | 16 912 729 | 16 153 305 |
| TOTAL LIABILITIES AND EQUITY | 183 024 281 | 158 808 174 |

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half of 2020 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 29 March 2018 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2018, item 757).

2. Consistency of accounting principles and calculation methods applied to the drafting of the half-year report and the last annual financial statements

The description of the Group's accounting policies is presented in Note 2 and 3 of these condensed consolidated financial statements. The accounting principles adopted by the Group were applied on a continuous basis for all periods presented in the financial statements, except for the changes in accounting principles, which were presented under Note 2 in point "Comparative data".

3. Seasonal or cyclical nature of the business

The business operations of the Group do not involve significant events that would be subject to seasonal or cyclical variations.

4. Nature and values of items affecting assets, liabilities, equity, net profit/(loss) or cash flows, which are extraordinary in terms of their nature, magnitude or exerted impact

In the first half of 2020 the COVID-19 pandemic significantly affected the Group's results, mainly by increasing expected credit losses charges and valuation of loan portfolio measured at fair value through profit or loss. The financial results for the first half of 2020 also include additional costs related to the increase in the provision for legal risk related to the portfolio of mortgage and housing loans in CHF in the amount of PLN 201.9 million. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

5. Nature and amounts of changes in estimate values of items, which were presented in previous interim periods of the current reporting year, or changes of accounting estimates indicated in prior reporting years, if they bear a substantial impact upon the current interim period

In the first half of 2020, the Group increased the provisions for legal risk related to the portfolio of mortgage and housing loans in CHF by PLN 201.9 million. The increase in the provision for legal risk related to foreign currency loans resulted mainly from the change in the loss probability ratio used in the calculation of the provision, as well as the update of the expected level of loss in the event of the Bank losing the case and the change in the CHF/PLN exchange rate. Detailed information in this regard is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

6. Issues, redemption and repayment of non-equity and equity securities

In the first half of 2020 the following issues and redemptions of debt securities took place:

- On 29 May 2020, the Bank addressed to holders of outstanding bonds issued by mFinance France S.A.; (a) with a total nominal value of EUR 500 000 thousand, with maturity date on 26 September 2020; (b) with a total nominal value of EUR 500 000 thousand, with maturity date on 26 November 2021, and (c) issued by the Bank with a total nominal value of EUR 500 000 thousand with a maturity date on 5 September 2022, invitations to submit these bonds for redemption by the Bank.

As a result of the announced redemption offer, Bank accepted for purchase all correctly issued bonds with nominal value, respectively: (a) EUR 35,178 thousand, (b) EUR 72 417 thousand, (c) EUR 39 970 thousand. The redemption offer was settled on 10 June 2020.

- mBank S.A. issued certificates of deposits in the amount of PLN 35 000 thousand.
- mBank Hipoteczny S.A. issued long term bonds in the amount of PLN 95 000 thousand and redeemed long term bonds in the amount of PLN 522 600 thousand.

7. Dividends paid (or declared) altogether or broken down by ordinary shares and other shares

On 27 March 2020, the 33rd Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2019. The net profit of mBank S.A. in the amount of PLN 980 980 thousand was left undivided.

8. Significant events after the end of the first half of 2020, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first half of 2020, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

Events as indicated above did not occur in the Group.

10. Changes in contingent liabilities and commitments

In the first half of 2020, there were no changes in contingent liabilities and commitments of credit nature, i.e. guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

11. Write-offs of the value of inventories down to net realisable value and reversals of such write-offs

In the first half of 2020, events as indicated above did not occur in the Group.

12. Revaluation write-offs on account of impairment of tangible fixed assets, intangible assets, or other assets as well as reversals of such write-offs

In the first half of 2020, events as indicated above did not occur in the Group.

13. Revaluation write-offs on account of impairment of financial assets

Data regarding write-offs on account of impairment of financial assets is presented under Note 12 of these condensed consolidated financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2020, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2020, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease operations that are performed by the companies of the Group.

16. Material liabilities assumed on account of acquisition of tangible fixed assets

In the first half of 2020, events as indicated above did not occur in the Group.

17. Information about changing the process (method) of measurement the fair value of financial instruments

In the reporting period there were no changes in the process (method) of measurement the fair value of financial instruments.

18. Changes in the classification of financial assets due to changes of purpose or use of these assets

In the reporting period there were no changes in the classification of financial assets as a result of a change in the purpose or use of these assets.

19. Corrections of errors from previous reporting periods

In the first half of 2020, events as indicated above did not occur in the Group. The restatements of comparative data have been described in the Note 2, in the item "Comparative data".

20. Information on changes in the economic situation and operating conditions that have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether these assets and liabilities are included in the fair value or in the adjusted purchase price (amortized cost)

As part of the actions taken in Poland and around the world related to the COVID-19 pandemic, in March, April and May 2020, the Monetary Policy Council reduced interest rates by a total of 140 basis points, which affected the valuation of assets and liabilities to fair value. The COVID-19 pandemic also caused a sharp slowdown in economic activity at the end of the first quarter of 2020. Efforts to slow down the spread of the virus, introduced gradually from mid-March, froze activities in many sectors of the economy. In the first half of May, a gradual opening of the economy began and this process is taking place in stages and consists in resuming activity by individual industries while maintaining an increased sanitary regime. These activities also affected the fair value of loans and advances. For more information on the impact of COVID-19 on the valuation of loans, see Note 3, "Major estimates and judgments made in connection with the application of accounting policies".

21. Default or infringement of a loan agreement or failure to initiate composition proceedings

In the first half of 2020, events as indicated above did not occur in the Group.

22. Position of the management on the probability of performance of previously published profit/loss forecasts for the year in light of the results presented in the half-yearly report compared to the forecast

The Bank did not publish a performance forecast for the year 2020.

23. Registered share capital

The total number of ordinary shares as at 30 June 2020 was 42 350 367 shares (31 December 2019: 42 350 367 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

| REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2020 | | | | | | |
|---|-------------------|--------------------|-------------------|-------------------------------------|--------------------|---------------|
| Share type | Type of privilege | Type of limitation | Number of shares | Series / face value of issue in PLN | Paid up | Registered on |
| ordinary bearer* | - | - | 9 989 000 | 39 956 000 | fully paid in cash | 1986 |
| ordinary registered* | - | - | 11 000 | 44 000 | fully paid in cash | 1986 |
| ordinary bearer | - | - | 2 500 000 | 10 000 000 | fully paid in cash | 1994 |
| ordinary bearer | - | - | 2 000 000 | 8 000 000 | fully paid in cash | 1995 |
| ordinary bearer | - | - | 4 500 000 | 18 000 000 | fully paid in cash | 1997 |
| ordinary bearer | - | - | 3 800 000 | 15 200 000 | fully paid in cash | 1998 |
| ordinary bearer | - | - | 170 500 | 682 000 | fully paid in cash | 2000 |
| ordinary bearer | - | - | 5 742 625 | 22 970 500 | fully paid in cash | 2004 |
| ordinary bearer | - | - | 270 847 | 1 083 388 | fully paid in cash | 2005 |
| ordinary bearer | - | - | 532 063 | 2 128 252 | fully paid in cash | 2006 |
| ordinary bearer | - | - | 144 633 | 578 532 | fully paid in cash | 2007 |
| ordinary bearer | - | - | 30 214 | 120 856 | fully paid in cash | 2008 |
| ordinary bearer | - | - | 12 395 792 | 49 583 168 | fully paid in cash | 2010 |
| ordinary bearer | - | - | 16 072 | 64 288 | fully paid in cash | 2011 |
| ordinary bearer | - | - | 36 230 | 144 920 | fully paid in cash | 2012 |
| ordinary bearer | - | - | 35 037 | 140 148 | fully paid in cash | 2013 |
| ordinary bearer | - | - | 36 044 | 144 176 | fully paid in cash | 2014 |
| ordinary bearer | - | - | 28 867 | 115 468 | fully paid in cash | 2015 |
| ordinary bearer | - | - | 41 203 | 164 812 | fully paid in cash | 2016 |
| ordinary bearer | - | - | 31 995 | 127 980 | fully paid in cash | 2017 |
| ordinary bearer | - | - | 24 860 | 99 440 | fully paid in cash | 2018 |
| ordinary bearer | - | - | 13 385 | 53 540 | fully paid in cash | 2019 |
| Total number of shares | | | 42 350 367 | | | |
| Total registered share capital | | | | 169 401 468 | | |
| Nominal value per share (PLN) | | 4 | | | | |

* As at the end of the reporting period

24. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2020 it held 69.31% of the share capital and votes at the General Meeting of mBank S.A. In the first half of 2020 there were no changes in the ownership structure of Bank's material shares packages.

- Commerzbank AG announcement regarding the withdrawal from the sale of mBank S.A. shares

On 11 May 2020, Commerzbank AG published a communication in which it announced that mBank would remain part of the Commerzbank AG Group. Commerzbank has decided to retain a majority stake in mBank and complete the sale process.

Earlier, on 26 September 2019 Commerzbank AG published a communication according to which the new business strategy of Commerzbank was approved by the Management and Supervisory Board of Commerzbank. The strategy provided for sale of the majority stake in mBank held by Commerzbank. In the current market situation, which is dominated by the coronavirus crisis, the transaction seems impracticable on reasonable terms, says Commerzbank.

25. Change in Bank shares and rights to shares held by managers and supervisors

| | Number of the rights to shares held as at the date of publishing the report for Q1 2020 | Number of the rights to shares acquired from the date of publishing the report for Q1 2020 to the date of publishing the report for H1 2020 | Number of the rights to shares sold from the date of publishing the report for Q1 2020 to the date of publishing the report for H1 2019 | Number of the rights to shares held as at the date of publishing the report for H1 2020 |
|-------------------------|---|---|---|---|
| Management Board | | | | |
| 1. Cezary Stypułkowski | - | 918 | 918 | - |
| 2. Lidia Jabłowska-Luba | - | 413 | 413 | - |
| 3. Frank Bock | - | 321 | 321 | - |
| 4. Andreas Böger | - | 459 | 459 | - |
| 5. Krzysztof Dąbrowski | - | 459 | 459 | - |
| 6. Cezary Kocik | - | 551 | 551 | - |
| 7. Adam Pers | - | - | - | - |

| | Number of shares held as at the date of publishing the report for Q1 2020 | Number of shares acquired from the date of publishing the report for Q1 2020 to the date of publishing the report for H1 2020 | Number of shares sold from the date of publishing the report for Q1 2020 to the date of publishing the report for H1 2019 | Number of shares held as at the date of publishing the report for H1 2020 |
|-------------------------|---|---|---|---|
| Management Board | | | | |
| 1. Cezary Stypułkowski | 21 249 | 918 | - | 22 167 |
| 2. Lidia Jabłowska-Luba | - | 413 | - | 413 |
| 3. Frank Bock | 334 | 321 | - | 655 |
| 4. Andreas Böger | 270 | 459 | - | 729 |
| 5. Krzysztof Dąbrowski | 1 000 | 459 | - | 1 459 |
| 6. Cezary Kocik | 1 040 | 551 | - | 1 591 |
| 7. Adam Pers | - | - | - | - |

As at the date of publishing the report for the first quarter of 2020 and as at the date of publishing the report for the first half of 2020, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first quarter of 2020 and as at the date of publishing the report for the first half of 2020, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had the 7 175 Bank's shares.

As at the date of publishing the report for the first quarter of 2020 and as at the date of publishing the report for the first half of 2020, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

26. Proceedings before a court, arbitration body or public administration authority

The Group monitors the status of all court cases brought against entities of the Group, including the status of court rulings regarding loans in foreign currencies in terms of shaping of and possible changes in the line of verdicts of the courts, as well as the level of required provisions for legal proceedings.

The Group creates provisions for litigations against entities of the Group, which as a result of the risk assessment involve a probable outflow of funds from fulfilling the liability and when a reliable estimate of the amount of the liability can be made. The amount of provisions is determined taking into account the amounts of outflow of funds calculated on the basis of scenarios of potential settlements of disputable issues and their probability estimated by the Group based on the previous decisions of courts in similar matters and the experience of the Group.

The value of provisions for litigations as at 30 June 2020 amounted to PLN 687 391 thousand (PLN 484 760 thousand as at 31 December 2019). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

Information on the most important court proceedings relating to the issuer's contingent liabilities

1. Claims of Interbrok's clients

Since 14 August 2008, 170 entities which have been clients of Interbrok Investment E. Drózdź i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 386 086 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5 950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the afore-mentioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 275 423 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed.

2. A lawsuit filed by LPP S.A.

On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 thousand on account of interchange fee. In the lawsuit, LPP S.A. petitioned the court for awarding the damages jointly from mBank S.A. and from other domestic bank.

The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland.

mBank S.A. has submitted its statement of defence and requested that the action be dismissed. The court accepted the Defendants' requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons. Two banks have notified of their intention to intervene in the case as an indirect intervener.

3. A lawsuit filed by Polski Koncern Naftowy ORLEN S.A.

On 7 February 2020, mBank S.A. received a lawsuit filed by Polski Koncern Naftowy ORLEN S.A. (Orlen) with its registered office in Płock seeking damages amounting to PLN 635 681 thousand on account of interchange fee. In the lawsuit, Orlen petitioned the court for awarding the damages jointly from mBank S.A. and other domestic bank and also from Master Card Europe and VISA Europe Management Services.

The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union, i.e. a collusion restricting competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of card payments for goods and services purchased by clients on the territory of Poland.

On 28 May 2020, mBank S.A. filed a response to the lawsuit.

4. Class action against mBank S.A. concerning the clause on changing interest rate

On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank's retail banking clients, was served on the Bank. The class action was filed to determine the Bank's liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the Plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. On 18 February 2011, the Bank responded to the lawsuit filing for its dismissal in whole.

As at 17 October 2012, the group of class members consisted of 1,247 individuals. On 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. On 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010. On Hearing which took place on 15th July mBank S.A. withdrew the mBank's appeal against the ruling of 9 September 2013. In consequence the Appeal Court decided to dismissed proceedings what means that the ruling of the District Court in Łódź dated 3 July 2013 is final and non-appealable. The ruling dated 3 July 2013 does not question the validity of the concluded credit agreements. Once the ruling becomes final and non-appealable:

- interest on the loans covered by the class action will be charged at the fixed interest rate applicable on the date the loans were granted;
- a claim of the class members will arise for reimbursement of amounts potentially paid in excess of the fixed interest in the period covered by the class action.

As at 30 June 2020 the total value of claims in this class actions amounted to PLN 5.2 million.

5. Class action against mBank S.A. concerning indexation clauses

On 4 April 2016, the Municipal Consumer Ombudsman representing a group of 390 individuals, retail clients of mBank, who concluded agreements on CHF-indexed mortgage loans with mBank, filed a class action with the Regional Court in Łódź against the Bank.

The class action includes alternative claims for declaring invalidity of the loan agreements in part i.e. in the scope of the provisions related to indexation, or in whole; or for finding that the indexation provisions are invalid as they permit indexation of over 20% and below 20% at the CHF exchange rate from the table of exchange rates of mBank S.A. applicable as at the date of conclusion of each of the loan agreements.

As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. On 19 October 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff to which the Bank submitted a response. On 27 February 2020, a hearing was held at the Court of Appeal in Łódź. On 9 March 2020, a verdict was passed in a case in which the Court of Appeal referred the case for re-examination of the Regional Court. On 9 June 2020, the Court of Appeal agreed to the plaintiff's motion to secure the plaintiff's claims by suspending the obligation to repay principal and interest instalments and prohibiting the bank from issuing calls for payment and terminating credit agreements. The Bank lodged a complaint about this decision, which the court decided to reject. On 24 July 2020, the Court also rejected the Bank's complaint against the decision to reject the complaint lodged on 13 July 2020 against the decision to grant security.

As at 30 June 2020 the total value of claims in this class actions amounted to PLN 377 million.

6. Individual court proceedings concerning indexation clauses to CHF

Apart from the class action proceedings there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements. As at 30 June 2020, 5 353 (31 December 2019: 3 715 proceedings) individual court proceedings were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 1 126.0 million (31 December 2019: PLN 443.2 million). The value of provisions for all court proceedings related to CHF loan agreements amounted to PLN 677.7 million as at 30 June 2020 (as at 31 December 2019: PLN 478.8 million).

Out of the individual proceedings, 4 596 (31 December 2019: 2 902 proceedings) proceedings with the total value of claims amounting to PLN 1 113.0 million (31 December 2019: PLN 430.1 million) related to indexation clauses in CHF loan agreements and include claims for declaring ineffectiveness or invalidity in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or invalidity in whole of the loan agreements. The final rulings to-date in the indexation clauses proceedings are favourable to the Bank in the majority of the cases.

The carrying amount of mortgage and housing loans granted to individual customers in CHF presented in the condensed consolidated financial statements of mBank S.A. Group as at 30 June 2020 amounted to PLN 13.9 billion (i.e. CHF 3.3 billion) compared to PLN 13.6 billion (i.e. CHF 3.5 billion) as at the end of 2019. Additionally the volume of the portfolio of loans granted in CHF that were already fully repaid as of 30 June 2020 amounted to PLN 6.5 billion (as at 31 December 2019: PLN 6.3 billion).

The Bank's approach to the measurement of provisions for legal risk associated with this portfolio of loans has been described in the Note 3 "Major estimates and judgments made in connection with the application of accounting policy principles".

Ruling of the Court of Justice of the European Union regarding a CHF mortgage

On 3 October 2019 the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

Tax audits

On 9 April 2019, mBank Hipoteczny S.A. was requested by the Head of the First Masovian Tax Office in Warsaw to submit the tax documentation referred to in Article 9a (1)-(3a) of the Corporate Income Tax Act concerning transactions concluded with related entities, and was informed about the initiation of verification activities regarding the correctness of the CIT-8 and CIT-8/O tax returns for 2017.

The tax authorities, may inspect at any time the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances, which may give rise to a potential tax liability in this respect.

Inspection by the Office of the Polish Financial Supervision Authority (PFSA Office)

In the period from October till December 2018 the PFSA Office employees carried out an inspection in the Bank in order to investigate whether the activities of mBank S.A. in the area of fulfilling its duties as the depositary were in conformity with the law and agreements on the performance of functions of the depositary, in particular in conformity with the Act of 27 May 2004 on Investment Funds and Management of Alternative Investment Funds (Journal of Laws of 2018, item 1355, as later amended).

The detailed findings of the inspection were presented in the protocol delivered to the Bank on 11 February 2019. On 25 February 2019 the Bank delivered to the PFSA office its objections to the protocol as well as additional explanations related to the issues being the subject of the inspection.

On 1 April 2019 the Bank received PFSA response to the objections to the inspection protocol as well as PFSA recommendations in regard to the adjustment of Bank's activity as a depositary bank for investment funds to the applicable law. All objections of the Bank have been rejected by the regulator.

On 25 April 2019 the Bank submitted to PFSA Office a declaration of actions taken as realization of post-inspection recommendations. PFSA by letter dated 4 September 2019 objected to the implementation of selected recommendations. On 11 October 2019 Bank submitted to PFSA the response addressing given objections, in which the description of taken actions was further specified as well as some new solutions for implementation were presented. On 5 December 2019, the PFSA Office sent to the Bank a reply to the letter containing the acceptance of some of the Bank's activities aimed at implementing post-audit recommendations and clarifications of other expectations that are being implemented. On 14 May 2020 the Bank formally confirmed the implementation of all the PFSA recommendations.

On 27 February 2020, the Bank received the decision of PFSA Office dated 25 February 2020 to initiate administrative proceedings regarding the imposition of an administrative penalty on the Bank, pursuant to the provisions of the Act dated 27 May 2004 on investment funds and management of alternative investment funds.

27. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2020 and 31 December 2019 were as follows.

| | 30.06.2020 | 31.12.2019 |
|---|--------------------|--------------------|
| 1. Contingent liabilities granted and received | 46 412 372 | 42 068 017 |
| Commitments granted | 41 936 117 | 38 073 362 |
| - financing | 32 782 954 | 29 134 935 |
| - guarantees and other financial facilities | 7 934 403 | 8 938 427 |
| - other commitments | 1 218 760 | - |
| Commitments received | 4 476 255 | 3 994 655 |
| - financial commitments | 538 660 | 392 130 |
| - guarantees | 3 937 595 | 3 602 525 |
| 2. Derivative financial instruments (nominal value of contracts) | 739 356 283 | 596 187 240 |
| Interest rate derivatives | 628 858 893 | 497 168 526 |
| Currency derivatives | 105 337 437 | 93 546 161 |
| Market risk derivatives | 5 159 953 | 5 472 553 |
| Total off-balance sheet items | 785 768 655 | 638 255 257 |

28. Transactions with related entities

mBank S.A. is the parent entity of the mBank S.A. Group and Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 30 June 2020 and as at 31 December 2019, and related costs and income for the period from 1 January to 30 June 2020 and from 1 January to 30 June 2019 are presented in the table below.

| As at the end of the period | mBank's subsidiaries | | | Commerzbank AG | | | Other companies of the Commerzbank AG Group | | |
|---|----------------------|------------|------------|----------------|------------|------------|---|------------|------------|
| | 30.06.2020 | 31.12.2019 | 30.06.2019 | 30.06.2020 | 31.12.2019 | 30.06.2019 | 30.06.2020 | 31.12.2019 | 30.06.2019 |
| Statement of Financial Position | | | | | | | | | |
| Assets | 113 524 | 160 187 | | 1 794 680 | 528 688 | | 19 562 | 19 | |
| Liabilities | 23 543 | 31 518 | | 2 271 133 | 2 059 006 | | 514 997 | 709 071 | |
| Income Statement | | | | | | | | | |
| Interest income | 1 069 | | 4 | 16 827 | | 35 745 | 256 | | 324 |
| Interest expense | (73) | | (37) | (14 283) | | (19 008) | (1 781) | | (2 469) |
| Fee and commission income | 237 | | 49 | 2 817 | | 2 275 | 49 | | 28 |
| Fee and commission expense | - | | - | - | | (1 030) | - | | - |
| Other operating income | 57 | | 30 | 739 | | 731 | - | | - |
| Overhead costs, amortisation and other operating expenses | - | | (1) | (5 181) | | (5 027) | - | | - |
| Contingent liabilities granted and received | | | | | | | | | |
| Liabilities granted | 372 741 | 355 716 | | 2 154 223 | 2 124 709 | | 3 483 | 3 502 | |
| Liabilities received | - | - | | 1 876 188 | 1 816 577 | | - | - | |

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 June 2020 recognized in the Group's income statement for that period amounted to PLN 16 696 thousand (in the period from 1 January to 30 June 2019: PLN 17 289 thousand).

With regard to the Management Board and other key management personnel the remuneration costs include also remuneration in the form of shares and share options.

29. Credit and loan guarantees, other guarantees granted of significant value

As at 30 June 2020, the Bank's significant exposure under guarantees granted related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

On 20 November 2014, mFF issued a tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 November 2021. In this case, the guarantee was granted on 20 November 2014 for the duration of the Programme, i.e. to 26 November 2021. In June 2020, there was a partial redemption of bonds with nominal value of EUR 72 417 thousand, described in detail in item 6 of the Selected Explanatory Information, therefore the amount of the guarantee was reduced accordingly.

On 21 September 2016, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 September 2020. In this case, the guarantee was granted on 21 September 2016 for the duration of the Programme, i.e. to 26 September 2020. In June 2020, there was a partial redemption of bonds with nominal value of EUR 35 178 thousand, described in detail in item 6 of the Selected Explanatory Information, therefore the amount of the guarantee was reduced accordingly.

On 14 March 2017, mFF issued next tranche of Eurobonds with nominal value of CHF 200 000 thousand maturing on 28 March 2023. In this case, the guarantee was granted on 14 March 2017 for the duration of the Programme, i.e. to 28 March 2023.

30. Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance and their changes as well as information relevant to an assessment of the issuer's capacity to meet its liabilities

- The changes in the composition of the Supervisory Board of mBank S.A.

On 27 March 2020, during the XXXIII Ordinary General Meeting of Shareholders of mBank S.A. a new composition of the Supervisory Board of mBank S.A. has been constituted. Mr. Maciej Leśny, the current chairman of the Supervisory Board, has retired. His function was taken by Mrs. Agnieszka Słomka-Gołębiowska, who was previously an independent member of the Council.

From 27 March 2020, the composition of the Supervisory Board of mBank S.A. is as follows:

1. Agnieszka Słomka-Gołębiowska - Chairwoman
2. Jörg Hessenmüller - Deputy Chairwoman
3. Tomasz Bieske
4. Marcus Chromik
5. Mirosław Godlewski
6. Aleksandra Gren
7. Michael Mandel
8. Bettina Orlopp

- The changes in the composition of the Management Board of mBank S.A.

On 25 June 2020, Supervisory Board of mBank S.A. adopted a resolution to dismiss Mr. Frank Bock from the function of the Vice President of the Management Board for Financial Markets mBank S.A. as of 31 December 2020.

The termination of the agreement with Mr. Frank Bock on 31 December 2020 is associated with the reorganization of the financial markets area within other business areas of the Bank, in order to increase the efficiency of the organizational and process structure, and its effect will be a reduction in the number of positions on the Bank's Management Board. Mr. Frank Bock will be involved in the reorganization of the area by the end of this year.

31. Factors affecting the results in the coming quarter

In the first half of 2020 the COVID-19 pandemic significantly affected the Group's results, mainly by increasing expected credit losses charges. The Group expects further impact of the pandemic and related activities undertaken in Poland and worldwide on the results of the next quarter and the entire 2020.

The reduction of interest rates by the Monetary Policy Council by 140 basis points in total, announced on 17 March, 8 April and on 28 May 2020, will have a negative impact on the Group's net interest income. The impact is currently estimated to be approximately in the range of PLN 250-300 million in 2020. The final impact may differ from the current estimation depending on the macroeconomic situation, business activity and volume development.

The Group has introduced a number of facilities for customers to limit the impact of the pandemic on their financial situation. Despite this, due to the potential deterioration of the macroeconomic situation, the Group expects that the financial situation of borrowers will deteriorate in the following quarters and thus further significantly increase the expected credit losses charges in the second half and in the entire 2020 when compared to those charges in the second half of 2019 and entire 2019. Moreover, the weakening of the zloty may have a negative impact on the amount of provisions created for legal risk of foreign currency mortgage and housing loans.

Considering the above, the Bank's Management Board expects that the consolidated net result in the second half of 2020 and in the entire 2020 will be significantly lower than the net profit achieved in the second half of 2019 and in entire 2019.

32. Other information**■ Requirements on mBank Group capital ratios as of 30 June 2020**

On 19 March 2020, into force the repeal of the regulation on the systemic risk buffer applicable to banks in Poland under the provisions of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015 (Dz. U. 2019, item 483) into force. Thus, the value of the system buffer was reduced to 0% for mBank and mBank Group from 2.81% and 2.83%, respectively.

Given the above, as well as the other components that make up the required level of capital ratios, the minimum required level of capital ratios at the end of June 2020 was as follows:

- Individual total capital ratio – 14.41% and Tier 1 capital ratio – 11.63%,
- Consolidated total capital ratio – 14.92% and Tier 1 capital ratio – 12.01%.

At the date of publication of these financial statements, mBank S.A. and mBank Group S.A. fulfil the KNF requirements related to the required capital ratios on both individual and consolidated levels.

33. Events after the balance sheet date

From 30 June 2020 until the date of approval of these condensed consolidated financial statements, no events occurred, which would require additional disclosure in these condensed consolidated financial statements.