



**Management Board Report on the Performance of mBank S.A. Group
in H1 2020**

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1. About mBank Group

1.1. Executive summary

The COVID-19 pandemic brought economic activity to an abrupt halt in H1 2020. Efforts to curb the spread of the coronavirus introduced gradually since mid-March brought many sectors of the economy to a standstill. A support package for businesses and employees (the so-called "Anti-crisis Shield") was launched as early as in March to mitigate the economic impact of the pandemic. In addition, the Polish Development Fund implemented a financial support programme addressed to businesses worth a total of PLN 100 billion. The lockdown was gradually lifted starting on April 20. The European Union has also come up with new initiatives, including a EUR 750 billion worth recovery plan. As a result, we are more optimistic about the economic growth in the coming years.

The NBP's response to recent economic developments was relatively quick. The central bank cut interest rates by a total of 140 bps. in March, April, and May. It also launched extraordinary measures involving the purchase of Treasury and Treasury-backed bonds, and promised a discount credit programme.

The banking sector recorded a downturn in lending to corporates and individuals. At the same time corporate deposits reached record high levels, partly due to state aid being transferred to companies' accounts. Deposits of individuals increased significantly as well and were also favourably affected by the support programmes, which helped to maintain the majority of income from employment, and the decrease in consumption caused by the pandemic.

The lockdown had an impact on the operations and results of mBank Group in H1 2020. Despite record high income helped by growth in volumes, improved structure of assets, rising client base and higher number of transactions per client, net profit decreased year on year to PLN 177.9 million.

The key highlights of H1 2020 include:

- **Increase of total income** by 10.9% on H1 2019 thanks to a dynamic increase in net fee and commission income and net interest income;
- **Increase in net impairment losses and fair value change on loans and advances** by 106.0% due to higher provisions in Retail Banking and Corporate Banking;
- **Increase in provisions for legal risk related to foreign currency loans** in connection with a change in the Group's approach to the establishment of these provisions compared to H1 2019;
- The adjusted cost-to-income ratio stood at 42.2% in H1 2020 compared with 44.6% in H1 2019;
- Increase in the following volumes:
 - **Increase in net loans and advances** by 3.3% compared with the end of 2019 and by 8.3% compared with the end of June 2019;
 - **Increase in amounts due to clients** by 19.7% compared with the end of 2019 and by 26.5% compared with the end of June 2019;
- The effects of the lockdown were reflected in lower **sales of non-mortgage loans**, down 31.7% to PLN 3,550.9 million (in Poland, the Czech Republic, and Slovakia). At the same time, there was a slight **rise in mortgage loan sales**, which stood at PLN 3,911.2 million in H1 2020, up by 5.4% compared with the same period last year.
- As a result of developments in loans and deposits, the **loan-to-deposit ratio reached an all-time low of 77.9%**, down from 90.3% reported at the end of 2019.
- **High quality of the capital base** with capital ratios surpassing the regulatory requirements: CET 1 ratio at 16.4%, Total Capital Ratio at 19.3%.

1.2. mBank's Authorities

In H1 2020 notable changes took place in the composition of the Supervisory Board of mBank. On February 28, 2020, Mr Maciej Leśny, the Chairman of the Supervisory Board of mBank S.A. at that time informed that he would not run for another turn as a member of the Supervisory Board of mBank S.A. in 2020. On March 27, 2020, the XXXIII Ordinary General Meeting of mBank S.A. elected the 8-member Supervisory Board of mBank S.A. for a joint term of three years. On the same day the Supervisory Board elected Professor Agnieszka Słomka-Gołębiowska as Chairwoman of the Supervisory Board, and Jörg Hessenmüller as Deputy Chairman of the Supervisory Board. Two new members joined the Supervisory Board: Aleksandra Gren and Bettina Orlopp.

As of June 30, 2020, the Supervisory Board of mBank S.A. was composed as follows:

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

There are four independent members in the Supervisory Board:

1. Agnieszka Słomka-Gołębiowska
2. Aleksandra Gren
3. Mirosław Godlewski
4. Tomasz Bieske

Four committees operate within the Supervisory Board: the Executive and Nomination Committee, the Risk Committee, the Audit Committee and the Remuneration Committee. In addition, the IT Working Group meets regularly.

Below is the composition of individual committees (in the first places - the chairman of the commission).

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee
Agnieszka Słomka-Gołębiowska	Marcus Chromik	Tomasz Bieske	Michael Mandel
Jörg Hessenmüller	Mirosław Godlewski	Aleksandra Gren	Tomasz Bieske
Michael Mandel	Bettina Orlopp	Jörg Hessenmüller	Mirosław Godlewski
	Agnieszka Słomka-Gołębiowska		Jörg Hessenmüller

Management Board of mBank

There were no changes in the composition of the Management Board in H1 2020. As at June 30, 2020, it was as follows:

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

On 25 June 2020, the Supervisory Board of mBank adopted a resolution regarding dismissal of Frank Bock from the post of Vice-President of the Management Board, Head of Financial Markets of mBank S.A. as of 31 December 2020.

The decision is associated with the reorganization of the financial markets area within other business areas of the bank in order to increase efficiency of organizational structure and processes. Consequently, the number of positions on the Bank's Management Board will be reduced by one. Until the end of the year Frank Bock will be involved in the re-organization of the area.

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

1.3. Composition of mBank Group and key areas of activity

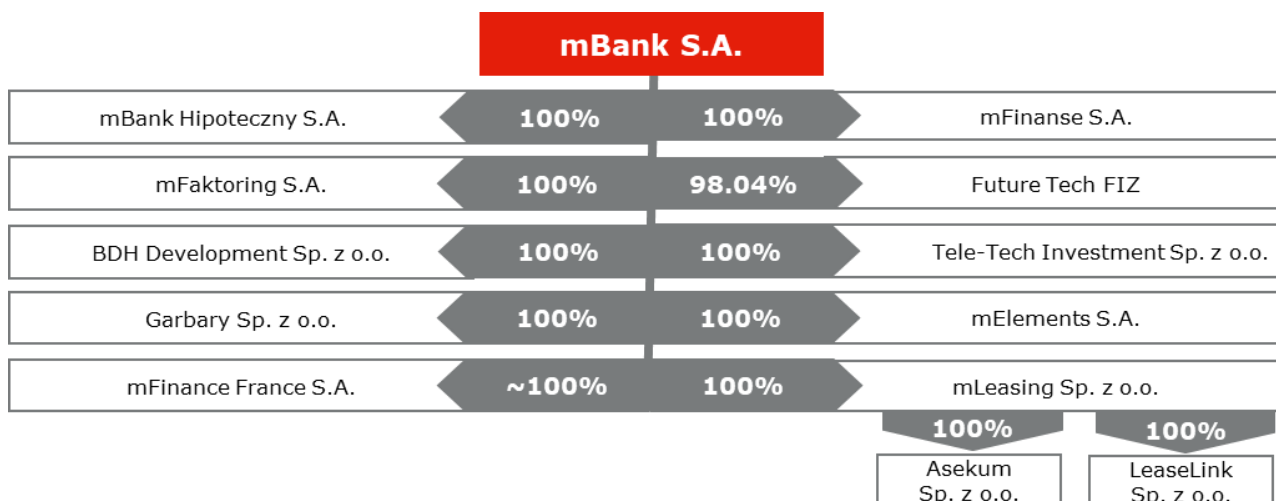
The subsidiaries of mBank Group offer a complex service for the customers and allow for processes optimisation and achieving various business targets. The structure of mBank Group from the perspective of segments and business areas is presented below:

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

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

Beginning from January 2020, the Group started to consolidate the company mElements S.A. The subsidiary operates in the construction and development of IT solutions including API solutions, online and mobile payments as well as services dedicated to e-commerce 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.

mBank Group (including consolidated subsidiaries) as at the end of June 2020 was composed as presented on the diagram below.



1.4. Subsidiaries of mBank Group

Key Subsidiaries of mBank Group from the perspective of client offer

	<ul style="list-style-type: none"> ■ the longest track record of issuing covered bonds on the Polish capital market ■ providing stable, long-term and secure funding of mBank Group with use of pooling model in cooperation with mBank ■ diversification of funding sources by means of covered bonds in PLN and foreign currencies ■ analysis and advisory services addressed to investors and entities active on the commercial real property market ■ rating of Moody's Investor Services of Aa3 for covered bonds – the highest possible rating of financial instruments issued from Poland
	<ul style="list-style-type: none"> ■ offer including leasing, loans, car fleet rental and management for both corporate clients and individuals ■ various leasing products in corporate segment, including lease of private and commercial cars, heavy transport vehicles, car fleet management, lease of machines and equipment, real property lease ■ in the retail segment the subsidiary operates the "Leasing in Retail" programme addressed to micro-enterprises and SMEs, which can sign lease contracts using dedicated lease processes ■ leasing as a payment method in e-commerce offered by LeaseLink
	<ul style="list-style-type: none"> ■ fifth position on the Polish factoring market among the members of the Polish Factors Association – position maintained compared to 2019 ■ financing of ongoing business operations, receivables management, credit protection, maintenance of debtors' settlement accounts and enforcement of receivables; the offer includes also domestic and export factoring with recourse and credit protection, as well as import guarantees ■ factoring for self-employed individuals available in 5 minutes online ■ mFaktoring's offer available in all mBank branches providing services to SMEs and corporations in Poland ■ leader of IT solutions among factoring companies; client service via Client Manager – Internet Service for Factoring Agreement Management ■ Member of Factors Chain International
	<ul style="list-style-type: none"> ■ intermediary operations as an open platform for selling financial products of various institutions, including mBank ■ the offer includes loans and advances, accounts, insurances as well as leasing for both individuals and companies ■ offer of 14 financial entities in more than 210 outlets across Poland

1.5. Ratings of mBank and mBank Hipoteczny

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch). These ratings are based on data provided to the agencies and talks between rating analysts and mBank's representatives. mBank has also ratings based on publically available information assigned by Moody's Investors Service (Moody's), Capital Intelligence Ratings (CI Ratings) and EuroRating.

mBank Hipoteczny is rated by Moody's and Fitch. Moody's has assigned rating for mortgage covered bonds issued by mBank Hipoteczny (a solicited rating).

Ratings of mBank and mBank Hipoteczny assigned by Fitch Ratings

On April 14, 2020 Fitch Ratings (Fitch) affirmed the Long-Term Issuer Default Rating (IDR) of mBank at 'BBB-' and Viability Rating at 'bbb-'. At the same time the ratings were removed from Rating Watch Positive. The outlook for IDR is stable.

The removal of the Positive Watch reflects Fitch's view that the sale of mBank by Commerzbank AG ceased to be the baseline scenario. Earlier the agency believed that the sale would be accompanied by the transfer of risks of the bank's foreign currency mortgage portfolio to the parent, which would support Fitch's assessment of mBank's company profile, risk appetite, asset quality and capital.

The stable outlook reflects Fitch's view that the bank's solid capital levels and buffers above minimum capital requirements are sufficient to withstand the expected weakening of the Polish economy without resulting in significant pressure on the ratings at their current level.

A similar change in the rating outlook related to mBank Hipoteczny.

Fitch Ratings	Ratings of mBank	Ratings of mBank Hipoteczny
Long-term IDR (foreign currencies)	BBB- (stable outlook)	BBB- (stable outlook)
Short-term IDR (foreign currencies)	F3	F3
Viability rating	bbb-	-
Support rating	3	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB-	-

Ratings of mBank assigned by S&P Global Ratings

On April 27, 2020, S&P Global Ratings ("S&P") affirmed the ratings of mBank and revised the rating outlook from developing to negative.

S&P expects that following rapid lending growth in 2018-2019, the bank's risk costs could increase steeply in the light of the expected recession in Poland in 2020 and other negative consequences of the COVID-19 pandemic. In addition, according to S&P, mBank remains one of the most exposed banks in Poland to economic and litigation risks stemming from its Swiss franc-denominated legacy mortgage loan portfolio.

At the same time, S&P believes that mBank is one of the most modern and best-digitalized banks in Poland with sound cost efficiency, a relatively small branch network and the bank's customers are used to remote channels, which positions mBank well in an era of branch rationalization and investment in digital channels.

S&P Global Ratings	Ratings of mBank
Long-term issuer credit rating (foreign currency)	BBB (negative outlook)
Short-term issuer credit rating (foreign currency)	A-2
Stand-alone Credit Profile (SACP)	bbb
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB
Long-term resolution counterparty ratings (long-term RCR)	BBB+
Short-term resolution counterparty rating (short-term RCR)	A-2

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

On May 20, 2020 Moody's Investors Service affirmed mBank's long-term deposit ratings at A3 and changed the outlook to stable from negative. The bank's short-term deposit rating was also affirmed at Prime-2. Baseline Credit Assessment (BCA) of mBank was affirmed at baa3 and its Adjusted BCA at baa2 and the Counterparty Risk Ratings (CRRs) at A2/Prime-1.

The change of mBank's rating outlook resulted from Commerzbank's decision announced on May 11, 2020 to retain its stake in mBank and to terminate the sales process. Moody's expects parental support to be forthcoming, in case of need, as long as mBank remains majority owned by Commerzbank.

The affirmation of mBank's baa3 BCA reflects the resilience of the bank's intrinsic financial strength against a deteriorating operating environment following the coronavirus pandemic outbreak. The expected drop in mBank's profitability in the currently adverse environment is balanced by the bank's solid capitalization, funding profile as well as mBank's solid liquidity ratios.

On May 20, 2020 Moody's has also affirmed the Baa2/Prime-2 issuer ratings of mBank Hipoteczny S.A. and changed the outlook on the long-term issuer ratings to stable from negative.

Moody's Investors Service	Ratings of mBank*	Ratings of mBank Hipoteczny
Long-term Deposit Rating (foreign currency)	A3 (stable outlook)	-
Short-term Deposit Rating (foreign currency)	Prime-2	-
Long-term Issuer Rating (foreign)	-	Baa2 (stable outlook)
Short-term Issuer Rating (foreign)	-	Prime-2
Long-term Counterparty Risk Rating (foreign currency)	A2	A3
Short-term Counterparty Risk Rating foreign currency)	Prime-1	Prime-2
Baseline Credit Assessment (BCA)	baa3	-
Adjusted Baseline Credit Assessment	baa2	-
Rating of covered bonds issued by mBank Hipoteczny	-	Aa3

* rating based solely on publicly available information

mBank's rating by Capital Intelligence Ratings

On April 22, 2020 Capital Intelligence Ratings lowered the long-term foreign currency rating (FCR) of mBank from 'A-' to 'BBB+' and the Core Financial Strength rating to 'bbb' from 'bbb+'. At the same time the agency affirmed the short-term rating at 'A2' and the bank standalone rating (BSR) of 'bbb+'. The outlook for the long-term FCR and BSR is stable.

The key driver for the downgrade of the LT FCR is the change in the Extraordinary Support Level (ESL) taken into account by the agency. As a result, CI considers the bank as a non-strategic part of the Commerzbank AG Group. The stable outlook indicates that the ratings are unlikely to change in the next 12 months despite the challenging operating environment related to the COVID-19 pandemic.

Capital Intelligence Ratings	Ratings of mBank*
Long-term rating (foreign currency)	BBB+ (stable outlook)
Short-term rating (foreign currency)	A2
Bank Standalone Rating (BSR)	bbb+
Core Financial Strength (CFS)	bbb

* rating based solely on publicly available information

mBank's rating by EuroRating

On May 11, 2020, EuroRating carried out periodic verification of mBank's credit rating. The bank's rating was maintained unchanged at 'BBB' with a negative outlook.

Summary of ratings for Poland, mBank and Commerzbank

The table below compares long-term ratings (foreign currency) for mBank, Commerzbank and Poland assigned by Fitch, S&P i Moody's, as at the end of June 2020.

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

¹ Long-term Deposit Rating

Rating outlook indicated in brackets: stab.-stable, neg.- negative.

mBank's ESG ratings and indices

Rating of mBank assigned by Sustainalytics

On January 14, 2020, mBank Group received ESG Risk Rating from the research and rating agency Sustainalytics. Sustainalytics' ESG Risk Ratings measure company's exposure to industry-specific material ESG risks, and how well a company is managing those risks. ESG is a standard for sustainable business, comprising three areas: Environmental (E), Social (S) and Corporate Governance (G). A company's final ESG Risk Rating assigned by Sustainalytics is scored on material ESG issues such as human capital, business ethics, corporate governance, data privacy and security, ESG integration - financials and product governance. Sustainalytics is a globally renowned independent research and rating agency, which analyses companies' sustainability for over 25 years.

According to Sustainalytics, mBank has low ESG risk (with a score of 13.4; the lower the score, the better the company's ESG performance). In its summary report Sustainalytics writes: the company is at low risk of experiencing material financial impacts from ESG factors (...) and has not experienced significant controversies.

Summary of ESG Risk Rating for mBank Group issued by Sustainalytics is available on our website: <https://www.mbank.pl/en/investor-relations/ratings-debt-instruments/>

For more information on mBank's activities in scope of ESG please see: <https://www.mbank.pl/en/about-us/corporate-social-responsibility/>.

Rating of mBank assigned by MSCI

mBank ranks Average (A) in the ESG rating of MSCI. According to MSCI, we are leaders e.g. in corporate governance, risk oversight and business ethics. We are scored Average in i.a. financial product safety, human capital development and access to finance. The rating is based on publically available data only.

More information can be found at <https://www.msci.com/esg-ratings/issuer/mbank-spolka-akcyjna/IID000000002158801>.

WIG-ESG index on the WSE

mBank is a member of WIG-ESG index on the Warsaw Stock Exchange since the beginning of its quotation, meaning September 2019. We are one of the companies listed in WIG20 and mWIG40 recognised as sustainable, meaning obeying rules for social responsibility in particular in scope of environment, social, economic and governance issues. In the previous years we were a member of Respect Index, which was replaced by WIG-ESG. More information on the index is available on the website of Warsaw Stock Exchange: <https://gpwbenchmark.pl/karta-indeksu?isin=PL9999998955>

FTSE4Good Index Series

mBank is a member of an international, ethical index FTSE4Good, run since 2001 by FTSE Group. Citing after the FTSE: "FTSE Russell (the trading name of FTSE International Limited and Frank Russell

Company) confirms that mBank S.A. has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products”.

More information on the index can be found on the website:

<https://www.ftserussell.com/products/indices/ftse4good>

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

Information on mBank shares and shareholders

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

As at June 30, 2020, mBank’s registered share capital amounted to PLN 169 401 468 and was divided into 42,350,367 shares, including 42,339,367 ordinary bearer shares and 11,000 ordinary registered shares with a nominal value of PLN 4 each. Each share gives the right to one vote. In H1 2020, the total number of shares has not changed. In June 2020, 1000 mBank’s registered shares were converted into ordinary bearer shares and assimilated with the bank’s shares traded on the stock exchange.

Commerzbank AG, the majority shareholder of mBank, holds 69.31% of the share capital and votes at the General Meeting. The remaining 30.67% of mBank shares are in free float, with a largest share of financial investors. They include in particular Polish pension funds and Polish and foreign investment funds. No minority shareholder exceeds a 5% of the share capital. Nationale-Nederlanden Otwarty Fundusz Emerytalny is the largest minority shareholder.

mBank shares belong to WSE indices: WIG, WIG-Poland, WIG20, WIG30, WIG 20TR, WIG 30TR, WIG-Banks WIG-ESG and CEEplus.

Performance of mBank shares on the WSE

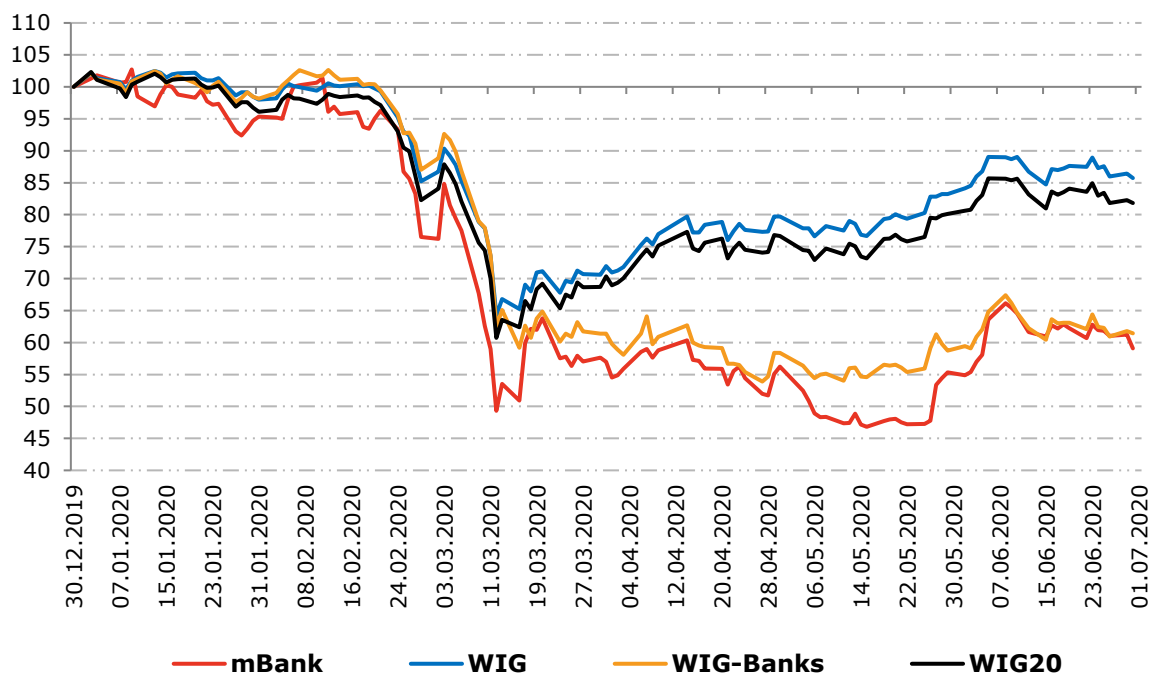
In March 2020, the world stock markets experienced a deep slump. Panic hit global markets amid threat of coronavirus, oil price slump and the expected global economic downturn. Most indices within a very short period fell by 30-40%. In May and June, the inflow of cheap money on the markets following the pursued monetary and fiscal policy as well as aid programs contributed to a surge in global stock prices. However, the upward trend was not strong due to the persisting Covid-19 pandemic and its severe economic effects as well as geopolitical and trade uncertainties.

At the beginning of 2020 WIG index stood at 59,048 points. A strong downward trend started in mid-February. As a result of drops in stock prices, on March 12, 2020 WIG index was lower than at the beginning of the year by 37.1%. Afterwards, the index started to improve gradually, reaching 49,569 points on June 30, 2020. Investors have responded positively to gradual easing of lockdowns, lifting of coronavirus restrictions and introduction of assistance programs for enterprises.

Banks and financial companies have been severely hit by the effects of a pandemic. Since the second half of March, WIG-Banks index performed worse than the broad market index due to deteriorating forecasts of banking sector results. According to the Polish Bank Association (ZBP), the combined effect of interest rates cuts, an inability to increase interest income on new loans and an increase in the cost of risk, is likely to reduce the financial result of the banking sector by 80-85%.

Markets are afraid of the second wave of the coronavirus pandemic, which may halt the expected economic recovery. However, according to prevailing opinions even a recurrence of Covid-19 will not entail the next lockdown and reactions to subsequent waves of disease may be more moderate.

Relative changes in mBank's share prices and WSE indices in H1 2020



In H1 2020, WIG20 and the broad-based WIG index went down by 18.2% and 14.3%, respectively.

The closing price per mBank share during the last session in H1 2020 (June 30) stood at PLN 230.00, representing a decrease by 40.9% compared with the price reported on the last business day of 2019 (December 30). In the same period, WIG-Banks index went down by 38.6%. For comparison - in H1 2020, the EURO STOXX Banks Index decreased by 35.0%.

mBank's capitalisation amounted to PLN 9.7 billion (EUR 2.2 billion) as at June 30, 2020, compared with PLN 16.5 billion (EUR 3.9 billion) at the end of 2019 and PLN 18.2 billion (EUR 4.3 billion) a year before.

The P/BV (price/book value) ratio of mBank Group stood at 0.6 as at June 30, 2020 compared with 1.0 at the end of 2019 and 1.2 a year ago. The P/E ratio (price/earnings per share) reached 27.4 after H1 2020, compared with 17.0 after H1 2019.

The current consensus regarding mBank Group's expected results is available on mBank's website: <https://www.mbank.pl/en/investor-relations/shares/consensus.html>.

2. Business activity and key achievements

2.1. Key events in mBank Group in H1 2020

Impact of the COVID-19 pandemic on the activity of the Group

The COVID-19 pandemic resulted in a sharp slow-down of economic activity in H1 2020: in order to contain the spread of the contagion, economic operations and social contacts were put in a strict lockdown.

mBank Group imposed restrictions on social contacts, as well. Our employees, including contact centre staff, were quickly and efficiently enabled to work from home. The Group's business continuity went on uninterrupted and customer service was offered both at branches and remotely. Most of the branches remained open, while mKiosks were temporarily closed down due to the lockdown of shopping malls. The bank encouraged clients to take advantage of remote channels and advised them which operations required no personal visit to a branch.

The Group implemented a range of facilitations for clients in order to mitigate the impact of the pandemic on their financial standing. More information concerning support measures is described in the latter part of this chapter.

The liquidity and capital position of the Group remains very strong. The Group's capital and liquidity ratios are high, exceeding the minimum thresholds set by the regulator. As at 30 June 2020, LCR (at the consolidated level) was 243% and mBank's NSFR was 135%, much above the required minima. The total capital ratio reached 19.26% compared to the regulatory requirement of 14.41%; the Tier 1 ratio was 16.43% against the regulatory requirement of 11.63%. Following the decision of the Ministry of Finance to reduce the systemic risk buffer to zero, the minimum capital requirement at the consolidated level was reduced by 2.83 pps.

The interest rate cuts by a total of 140 basis points imposed by the Polish Monetary Policy Council (MPC) on 17 March, 8 April and 28 May 2020 will affect mBank Group's net interest income. The impact is currently estimated at PLN 250-300 million in 2020. The final figure may differ from the estimate depending on macroeconomic conditions, business activity, and changes in volumes.

In view of potential deterioration of macroeconomic conditions, the Group is expecting that its cost of risk will increase. For more information concerning the impact of macroeconomic projections on expected impairment of credit exposures, see Chapter 3. Major estimates and judgments made in connection with the application of accounting policy principles in the IFRS Condensed Consolidated Financial Statements for the first half of 2020.

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 moratorium** 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 March 13 to September 30, 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 installment, 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 installment the sum of the principal amount remaining after the grace period is divided according to the algorithm (equal or decreasing installments - according to the credit agreement) for the residual maturity period. The extension of the loan period translates into lower installments 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 installments 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 13th 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 23rd June 2020. The customers who lost their job or another major source of income after 13th March this year, 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 30th 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 installments for up to 3 months.

The amount of suspended principal part of installments increases the last loan installment. Concerning the suspension of both principal and interest part of installments, the amount of suspended principal increases the last loan installment, while the amount of suspended interest is added to subsequent interest installments 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 15th March 2020 were not classified as default. The moratorium applies only to loans granted before 8th 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 th June 2020				
	Number of obligors	Of which: granted	Gross carrying amount (PLN thousand)	Accumulated impairment, accumulated negative changes in fair value due to credit risk (PLN thousand)	Net carrying amount (PLN thousand)
Moratoria	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

PLN thousand	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
Moratoria	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)

PLN thousand	Non-performing				Inflows to non-performing exposures
	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	
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 16th 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.

Additional mBank's measures taken due to the COVID-19 pandemic

Operations of mBank Group in H1 2020 were strongly affected by the COVID-19 pandemic. Challenges concerned both work organisation in the Group in order to guarantee clients uninterrupted access to our services, as well as the anticipation of customer needs and participation in the implementation of the state aid packages.

Servicing applications for support under Polish Development Fund Financial Shield

Since April 29, 2020, companies which have between 1 and 249 employees may apply for funding under the Polish Development Fund (PFR) Financial Shield support scheme via mBank's transactional systems. Applications for subsidies may be filed in the retail banking transactional system and in mBank CompanyNet for SMEs and corporations. The filing and processing of applications are available free of charge. By joining the scheme at the earliest possible date, mBank helps its clients survive the difficult time of pandemic thanks to measures financed by the Polish Development Fund. To file an application with mBank, the client only needs to present an up-to-date power of attorney to represent the company and manage accounts in the bank, online banking access permissions, and up-to-date details in the banking system as per the entry in the business register. In H1 2020 nearly 37.8 thousand of mBank's corporate and retail clients applied for the PFR funding, totalling over PLN 5.5 billion. For details concerning applications and the conditions of the scheme, visit our website: www.mbank.pl/tarcza-pfr.

Accounting hotline available for mBank corporate clients free of charge

In March 2020 we launched a free hotline for the corporates, with an access to over 100 accountants – experts who work in CashDirector accounting firm on a daily basis or cooperate with mBank within the Poland-wide Chain of Certified Accounting Firms (Ogólnopolska Sieć Certyfikowanych Biur Rachunkowych). Corporate clients can obtain information concerning such topics as attendance or sick allowances or financial relief or postponing of social security system contributions. Apart from the hotline, we also prepared a dedicated website, where clients are encouraged to bank from home. On the website they can find out which services are available online – via the app or transactional service. In the special guide for the clients, displayed on mBank's website, we gathered useful tips for running activity in the altered reality, such as how to organise a video-conference, end and sign documents electronically or organize remote work for the employees.

mBank subsidises the COVID-19 Relief Fund of the Great Orchestra of Christmas Charity

In April 2020 mBank donated PLN 500,000 in aid of the COVID-19 Relief Fund of the Great Orchestra of Christmas Charity. The fund was established to support hospitals and medical facilities saving lives and health of those infected with COVID-19. We also encourage our clients to participate in the project and donate via a dedicated website: www.mbank.pl/wosp. Every contribution, regardless of the amount, is spent on medical equipment and personal protective equipment.

New features of mBank online banking

At mBank we continuously improve our online banking and mobile app to make our products more intuitive and user friendly. In H1 2020 we focused on digitalisation and process streamlining to guarantee our clients online and safe access to our services, which is particularly important given the COVID-19 pandemic. The measures have been described in the item "mBank's measures taken due to the COVID-19 pandemic". Bearing in mind the rapidly improving quality of online banking services, we spare no effort to enhance our mobile app which, at the end of June 2020, was used by 2.1 million clients in total. At the end of H1 2020, already 1 million of our clients banked exclusively using their mobile devices (mobile only, change in calculation method since December 2019).

New features of mBank mobile app

We continuously improve our mobile app launched in February 2014. In H1 2020 we upgraded it by adding the following new features:

- **Request for a transfer to a mobile phone using BLIK** – mBank was the first to enable its clients to send a request for transfer to people from their contact list. All they need to do is log into the app and select a beneficiary using BLIK from their contact list. A request is accepted with a click in the app within 72 hours. The transfer is executed via BLIK, and this is why the funds are immediately transferred to the beneficiary's bank account once a client accepts the payment on their cell phone. Since the service is executed in the banking ecosystem, its users can be sure that the money will be transferred to the person known by them and verified by the bank.
- **Virtual card** – clients may access the virtual card data in the app. A virtual card enables users to pay online;
- **Multi-currency service activation** – the service can be activated in the details of a selected debit card. It is available even for clients not holding bank accounts in foreign currencies.
- **Increased safety when making a card payment** – the feature comes in handy in particular when making a card payment abroad. It allows clients to block such services as surcharge, i.e. an additional fee charged by a foreign operator when making an ATM withdrawal or a dynamic currency conversion (DCC). Users can also block the card magnetic stripe via the mobile app;
- **Scanning codes for automated data entry when applying for a car insurance** – all the applicant for a car insurance needs to do is to scan the code on the first page of the car registration document, and the app automatically fills out the form.
- **Arranging the order of products on the home page** – to rearrange the home page, users just tap and hold a product they want to have displayed on the home page without logging into online banking system, unlike it was before;
- **Upgraded history transaction filters** – a full range of filters available on the home page.

Mortgage loan available online

Starting from May 2020, clients may apply for a mortgage loan without leaving home – either by phone or via an app for sending documents. At each stage of the process, they have support of our mortgage expert with whom they confirm the application for a mortgage loan. Clients receive the application via email, print it and send its scan to the bank via a dedicated app. Other documents required in the process are delivered in the same manner. This solution is safe, since all the files are transferred via the app, and emails sent to a client are additionally protected with a password sent to the client's phone number registered at the bank. The bank informs the client of its decision by email or via the mortgage expert, and they visit the bank only once to sign the agreement. All the documents required by the bank to release the loan, e.g. a notary deed, are sent via the app.

Online account opening with a selfie

Starting from late June those looking to open an account with mBank can do it using a selfie. All they need to become an mBank client from the safety of their home is a smartphone and an ID card. The process is entirely remote and does not even require a courier because the bank account agreement is approved via a text message. The account is active on the next business day at the latest. Clients can pay by card even before they receive it physically, provided that they add a card featuring the MasterCard logo to Google Pay. The service is available on Android and iOS phones. Currently it is dedicated to people over 18 years old looking to open an individual account.

Electronic signing of agreements for corporate clients at mBank

mBank continues to digitalise processes to enable clients to bank remotely. Starting from March, corporate clients can sign and send any application, statement, document or agreement with mBank without stepping

into the bank. mBank was the first bank in Poland to offer this opportunity to corporate clients. Once the terms and conditions of an agreement are agreed on between a client and their advisor over the phone, the advisor sends digitally signed documents to the client. Next, the client signs the agreement and a statement using a qualified electronic signature and sends them back to the bank. If the client does not have a qualified electronic signature, they send the documents via mBank CompanyNet and fill in an application as instructed by the advisor. The application must be authorised in the electronic banking system in line with the general rules of company representation (CEiDG/KRS). Other formalities are dealt with by mBank employees. The client is informed that the agreement was signed after all documents are successfully processed. The process covers agreements which can be signed electronically under the applicable law. Moreover, it does not cover processes which could previously been initiated using electronic applications in mBank CompanyNet available in the virtual branch.

Remote account opening for corporate clients

A fully electronic process enables corporate clients to open bank accounts and access mBank CompanyNet, the state-of-the-art banking system. All documents required in the process are signed using a qualified electronic signature by both parties. At every stage of the process clients are assisted by advisors, whether by email or phone. This solution is dedicated to entities established under Polish law as well as to legal persons and organisational units without legal personality which are granted legal capacity by law entered in the National Court Register (KRS). It is also available to sole proprietors (including civil-law partnerships) entered in the Central Register and Information on Business (CEiDG) and represented by holders of a personal identification number PESEL and a Polish ID card. Up-to-date information about remote banking for corporate clients is available at <https://www.mbank.pl/lp/zobacz-jak-wiele-korpo/>

Signing agreement at mLeasing via the internet

In response to the difficulties caused by the COVID-19 pandemics, mLeasing enabled its clients to sign the agreements in "live-mode" via internet. With use of popular video-communicators, such as Skype, WhatsApp and Messenger, customers can conclude leasing, rental and loan agreements. Leasing agreement is required by law to be signed in writing, therefore during the video-meeting the client shows her/his ID to the advisor and places the signature on the document. The agreement is confirmed by the authorization money transfer. In the next step, the client sends signed documents to mLeasing.

Junior account at mBank

mBank launched eKonto Junior, a free account with a card for children aged below 13, which can be opened online. The young clients can also freely withdraw cash from ATMs. The account is owned by the guardian, who can view transactions made by the child and set daily spending limits. Children can customise the design of their card or choose an account-linked wristband to make payments. The offer is complemented by a dedicated educational website whose host, Virtual Sam, teaches children how to pay by card and withdraw money. Sam explains the basic banking terms, such as a payment terminal, and teaches children about the security of banking products.

mBank doubles RES financing limits

In line with mBank's policy of financing wind farms and photovoltaics, we continue increasing our investments in renewable energy sources (RES). Back in 2018 we decided to allocate PLN 500 million for this purpose. In the summer of 2019 this amount was increased to PLN 1 billion, and then doubled again to PLN 2 billion in March 2020. Our decision is a response to growing interest in RES investments. The majority of projects already financed by the bank included wind farms, which are relatively more capital-intensive, while the remaining funds were allotted to photovoltaics.

In June 2020 mBank and Santander Bank Polska signed a syndicated loan agreement worth PLN 350 million (EUR 79 million) to finance a portfolio of photovoltaics plants designed by R.POWER, a leading Polish investor and developer of photovoltaic systems. The financing will be spent on the construction of 128 PV plants with a total capacity of 121 MWp, which won last year's RES auctions. So far this has been the largest financing granted to a photovoltaics project in Poland. Each bank has an equal share in the syndicated loan. The transaction is yet another step on mBank's way towards embracing the green transformation of the economy.

mBank supports companies in e-transformation

In May 2020, mBank made an e-commerce package available to new and existing clients. The package helps clients build an internet shop, offer quick payments, and increase sales. For many companies, online shops are a chance to adapt to the increasing digitalisation of the economy. A company account at mBank is the only requirement for using the intuitive and simple tools. As part of the offer available until the end of July 2020, mBank financed individual tools from the package, including Paynow, a quick mobile payment gateway, and the development and hosting of an e-shop on RedCart or Shoplo. The package also includes automated tools supporting sales and client acquisition developed by Samito. This solution received the Best Tool for eCommerce award in 2019. It helps carry out marketing campaigns and reduce shopping cart abandonment by as much as 20%. Additionally, the offer includes a tool for social media sales without the need to own an online shop, developed by 1koszyk. Products are sold using links, QR codes or NFC tags.

Social campaign "Cyfrowe rewolucje" ("Digital Revolution")

Aside from the e-commerce package dedicated to its clients, mBank helps companies build momentum with the social campaign "Cyfrowe rewolucje" ("Digital Revolution"). The core of the campaign are educational activities which help entrepreneurs create a successful online shop. We are the first online bank in Poland to support the transformation of our clients. The materials available at www.mbank.pl/cyfrowerewolucje include not only expert articles or industry reports, but also profiles of companies which have started a successful e-commerce business and wish to share their experience. The website offers unlimited access to expert articles, webinars, and industry reports. mBank has also prepared online educational meetings in the form of webinars and the brand new "speed dates" with experts, which will be launched in August 2020.

The campaign was promoted with a contest addressed to companies with a turnover of up to PLN 50 million. The participants had a chance to win two packages of specialist services worth PLN 100,000 each, and ten prizes worth PLN 10,000 each. The prizes, comprising services tailored to the size of a given company, helped companies to start or develop their e-commerce business. The partner of the campaign is the Chamber of Electronic Economy, while the contest is sponsored by MasterCard.

mBank has implemented the fastest online payment gateway on the market

Paynow is a new online payment system for e-commerce available to mBank's business clients, based on a cloud computing solution developed in collaboration with mElements. Clients can access the service also via mobile devices. The only requirements for using the service is owning a business account and an online shop. The payment management panel is integrated with the bank's online banking system. Paynow is a fast and low cost way of sending money. The seller receives funds instantly after the buyer makes the payment, and the provision on payments is 0.95% of the transaction value, regardless of the turnover. During the period of epidemic threat, since March 19, 2020, mBank withdrew from collecting the fees from transactions completed by Paynow, in order to support companies' activity in the internet. As of end of H1 2020, over 2,000 merchants signed an agreement for using Paynow, which translated into turnover of over PLN 19 million.

Garmin Pay and Fitbit Pay available for mBank clients

At the beginning of 2020, mBank launched Garmin Pay, a contactless payment service allowing owners of Garmin watches to pay through NFC. The service is available to all mBank clients free of charge. To activate it, a user must add a MasterCard or Visa card to the Garmin Pay wallet in a few simple steps and confirm the operation with a code sent via text. Starting from February 2020, our clients can also pay with use of Fitbit Pay. The digital Fitbit Pay wallet can be supplied with all contactless debit and credit cards issued by mBank.

Anti-virus protection supported by mBank and CyberRescue experts

Already since 2018 mBank clients can use CyberRescue, a free service that includes the support of online security experts. CyberRescue provides assistance in cases of online identity theft or malware attacks. Experts are available via email, phone, and even Messenger. The new service gives mBank clients access to premium features. It includes the first-ever complete package of security tools "CyberOchrona+" ("CyberProtection+"), comprising F-Secure SAFE or BitDefender Internet Security software and 24-hour

expert support with online security threats. The software selected by the client (F-Secure SAFE or BitDefender Internet Security) contains, among other things, anti-virus software, online banking security tools, protection against ransomware attacks, and parental control tools.

New services offered by the Brokerage Bureau

Since May 2020, individual investors have been able to become clients of mBank Brokerage Bureau online, without leaving home or even using courier services. The offer also applies to persons who do not hold personal accounts with mBank. Before, mBank clients were able to activate the eMakler service via online banking. The new process of opening an account with mBank Brokerage Bureau is quick and easy. A client fills out a registration request online and confirms their identity with the use of photos of documents. The concluded agreement is sent to the client via a secure email. The account is activated following a transfer verification. At the same time, clients can still conclude an agreement in mBank's Brokerage Service Points.

In view of the rising interest in shares and ETFs traded on foreign stock markets, mBank Brokerage Bureau launched a pioneering service called "Tematy inwestycyjne" ("Investment Topics"). Our clients can choose from several thousand companies and over 200 ETFs traded in New York, London, Frankfurt or Warsaw. To help them make a choice, mBank analyses the most popular and interesting investment ideas. We find an ETF which best suits our client's needs. We check whether it has appropriate assets, liquidity, and whether its provider is reliable. This way, we create an investment topic. In mBank's system, investors see icons symbolising investment topics, e.g. America, Cybersecurity, Clean Energy. If they click on an icon, they see information on a given topic, including the name and details of the relevant ETF. For more information on investment topics, go to: <https://www.mbank.pl/indywidualny/inwestycje/gielda/tematy-inwestycyjne-etf/>.

Social campaign promoting cybersecurity: "Ludzie są niesamowici" ("People are awesome")

In February 2020, we relaunched our nationwide social campaign promoting cybersecurity entitled "Ludzie są niesamowici". As part of the campaign, we explain which situations on the Internet can be dangerous and why. We also explain how to protect oneself by using comprehensive, multi-level protection. Online threats are ubiquitous. They apply not only to the bank's clients, but to all Internet users. Within the scope of the campaign we provide only information on online threats and ways to protect oneself from them. The campaign has a dedicated website: LudzieSaNiesamowici.pl. Several years ago, mBank was the first Polish bank to run a comprehensive social campaign promoting online security. Also mBank's Online Security Code is still available on our website: <https://www.mbank.pl/bezpieczenstwo/bezpieczny-klient/>.

mBank establishes the "M jak Malarstwo" ("P for Painting") fund

mBank established a dedicated fund called "M jak Malarstwo" to support young Polish painters. In June 2020, the first auction of paintings collected by the bank throughout the years took place. The income from the sale of 30 works of art totalling PLN 5.1 million was credited to the fund. The new collection will consist of paintings by young Polish artists. The works of art will be selected by a commission composed of experts on the contemporary art market. The remaining works of art from mBank's collection will be sold at live and online auctions organised by the auction house Desa Unicum. The June auction was the third auction conducted for mBank by Desa Unicum. The two previous ones were organised on occasion of the 27th and 28th Grand Finale of the Great Orchestra of Christmas Charity (WOŚP). The amount of PLN 2.7 million raised at the auctions was donated to the Foundation of the Great Orchestra of Christmas Charity.

Operations of mBank Foundation

Despite the challenges related with the COVID-19 pandemic in H1 2020, mFoundation actively pursued its goals. In February, we published a book entitled "Dziecinnie prosta matematyka" ("Child's Play Maths"). The book, which is yet another publication of mFoundation, is dedicated to parents and carers of small children. Its goal is to help them develop children's mathematical skills thanks to simple games. The book was written by three authors: Monika Jędrzejewska, a psychologist, Monika Jaworska and Katarzyna Nawrocka-Skolimowska, early childhood teachers. The book can be downloaded for free as an e-book at mjakmatematyka.pl, or it can be ordered and collected at a bank's branch. To obtain a copy of the book, one does not need to be an mBank client.

In cooperation with Monika Jędrzejewska, a psychologist who co-authored "Dziecinnie prosta matematyka", mFoundation prepared a special series of videos aimed at supporting the relationship between parents and children during the tough times of the pandemic entitled #dzieciwdomu. We published the episodes of the series divided by age groups as an event on mBank's facebook profile and on the website www.mBank.pl/dzieciwdomu.

In June 2020, mFoundation announced the winners of the seventh edition of its flagship grant programme, mPotęga (mPower). This year, 152 projects from all around Poland received grants for creative maths education. The best 30 projects will compete for the audience award, i.e. an additional grant worth PLN 5 thousand. In total, mFoundation earmarked almost PLN 955,000 for grants this year. The aim of mPotęga is to promote interesting aspects of mathematics and reward original approaches to teaching it. This year's edition of mPotęga was special due to the epidemic. Thus, we are all the more pleased that we could award more grants than last year.

EMTN Programme

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

On April 11, 2018, the bank established a new EUR 3 billion EMTN Programme, which provides for the issuance of notes directly by mBank, in many tranches and currencies, in different interest and maturity structure. Under the new programme the bank issued three tranches of notes: two tranches in 2018 (four-year bonds with a nominal value of CHF 180 million and a coupon of 0.565% and four-year bonds with a nominal value of PLN 500 million and a coupon of 1.058%) and one tranche in 2019 (CHF 125 million, with 5.5Y maturity and a coupon of 1.0183%).

On May 29, 2020 mBank launched the tender offer to the holders of the following tranches of notes:

1. EUR 500,000,000; 1.398% fixed rate, due on September 26, 2020, issued by mFinance France S.A. on September 26, 2016 – for 100% of the of the principal amount,
2. EUR 500,000,000; 2.000% fixed rate, due on November 26, 2021, issued by mFinance France S.A. on November 26, 2014 - for 100.50% of the of the principal amount, and
3. EUR 500,000,000; 1.058% fixed rate, due on September 5, 2022, issued by mBank on September 5, 2018 – for 98% of the of the principal amount.

The notes in a total principal amount of EUR 147,565,000 have been validly tendered in the tender offer. The total amount included the aggregate principal amount of EUR 35,178,000 of the 2020 notes, the aggregate principal amount of EUR 72,417,000 of the 2021 notes and the aggregate principal amount of EUR 39,970,000 of the 2022 notes. Following the settlement of the tender offer, the notes were repurchased by the bank and surrendered for cancellation.

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

Issuer	Date of issue	Nominal value	Maturity date	Coupon
mFinance France	26.11.2014	EUR 427,583,000	26.11.2021	2.000%
mFinance France	26.09.2016	EUR 464,822,000	26.09.2020	1.398%
mFinance France	28.03.2017	CHF 200,000,000	28.03.2023	1.005%
mBank	07.06.2018	CHF 180,000,000	07.06.2022	0.565%
mBank	05.09.2018	EUR 460,030,000	05.09.2022	1.058%
mBank	05.04.2019	CHF 125,000,000	04.10.2024	1.0183%

2.2. Awards and distinctions

In H1 2020, mBank Group has gained recognition, winning a number of awards and distinctions, with the most important as follows:

Second spot in the ranking of the most influential women in the payment industry

In Q1, online portal Cashless.pl awarded Joanna Erdman, head of strategic projects at mBank. Joanna Erdman, named the most influential woman of the payment industry in 2019, came second this year. The principal purpose of the ranking is to promote professional equality in the major institutions of the payment industry in Poland.

Award at the Partnership Guarantees Success conference organised by BGK

On February 6, 2020 mBank was awarded for the best quality of the BGK-backed credit portfolio at the Partnership Guarantees Success conference organised by Bank Gospodarstwa Krajowego (BGK). This award is a great recognition of the work of our business, risk assessment and sales support teams.

Finalist for the European IT & Software Excellence Awards 2020

mBank's IT team has made it to the finals for the prestigious European IT & Software Excellence Awards 2020 in the Innovating Technology Solution of the Year category. This is a great recognition of the skills of all team members, but also of the changes they made to take mBank's IT to the top level. The award ceremony will be held on October 20, 2020.

Trusted Brand of 2020

mBank won the title of the Trusted Brand of 2020 in the Business Account category. The results of a survey of the trust placed by Polish entrepreneurs in the brands of products and services dedicated to businesses were published in *My Company Polska* business monthly.

2020 awards of the Polish Private Equity and Venture Capital Association (PSIK)

mBank was awarded by the Polish Private Equity and Venture Capital Association in the Best Financing Bank category for the fourth time. PSIK associates Venture Capital and Private Equity investors active in Poland.

CSR White Leaf

Polityka weekly, the Responsible Business Forum and Deloitte awarded the White Leaf to mBank in the ninth ranking of socially responsible companies. This award is granted in recognition of activities in the area of corporate governance, human rights, treatment of employees, environmental protection, customer care, business integrity, and social responsibility. mBank was also recognised for "Projects and actions supporting Sustainable Development Goal (SDG) 13 – climate action: for RES policy and ESG-based investments for Private Banking clients". The award marks mBank's debut in the White Leaf ranking.

14th Ranking of Responsible Companies

mBank came twelfth in the general competition and fifth in the "Banking, Financial Sector and Insurance" industry competition in the Ranking of Responsible Companies organised by Koźmiński Business Hub. The organisers rank companies in terms of the quality of their corporate social responsibility management systems.

Universum Ranking

mBank was named one of the most attractive employers among young people in two categories: business and IT. Every year Universum, together with universities, ranks students' preferences on the labour market.

Young Stars of the Financial Market

Mateusz Namysł, an mBank employee, was one of three winners of the Young Stars of the Financial Market competition organised by *Parkiet* daily and the Association of Brokers and Advisers (ZMiD). The initiative honours successful young people aged up to 35.

Golden Banker

mBank won two awards in the Golden Banker competition organised by Bankier.pl and *Puls Biznesu* daily. The awards were granted for the third place in the Socially Responsible Bank category for mBank's cooperation with the Great Orchestra of Christmas Charity (WOŚP) and the third place in the Best Advertising Spot category for its advertisement featuring GrubSon, a Polish rapper, addressed to 18-year-olds.

2019 Warsaw Stock Exchange Summary

The GPW and Treasury BondSpot Poland 2019 awards were handed over at the 2019 Stock Exchange Summary gala to the best performing companies and those supporting the development of the Polish capital market. mBank was awarded in two categories: as a distributor of information for the highest value of its portfolio of orders for information products containing GPW and BondSpot data in 2019 and as the leader of market marketing on the Treasury BondSpot Poland market.

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

2.3. Retail Banking

mBank's Retail Banking segment serves 5,672 thou. individuals and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 186 branches*. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key financial data (as at the end of H1 2020):

Share in pre-tax profit	Profit before tax	Income
75.0%	PLN 271.9 M	PLN 1,787.1 M

Key highlights

- Net fee and commission income increased by 40.9% year on year.
- Sales of mortgage loans increased by 5.4% year on year, at the level of PLN 3.9 billion.
- Number of clients grew to 5,671.8 thousand.
- Support for individual clients and microfirms during the pandemics: possibility to defer payments of loan instalments, offered by mBank as the first player in the Polish banking sector.
- Further development of digital banking: mortgage loan available online, opening account via "selfie" and supporting companies in e-transformation.
- Volume of retail deposits grew by 28.1% year on year, mainly in current accounts and savings.
- Value of transactions made by mBank's payment cards increased by 4.5% year on year; the number of transactions down by 3.4% year on year.

* Including 146 in Poland and 40 in the Czech Republic and Slovakia; excluding mFinanse (44) and mKiosks (166).

Financial results

In H1 2020, the Retail Banking segment generated a profit before tax of PLN 271.9 million, which represents a decrease by PLN 192.1 million, i.e. 41.4% compared with H1 2019.

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Net interest income	1,310.6	1,400.4	89.8	6.9%
Net fee and commission income	259.3	365.4	106.1	40.9%
Net trading income	18.3	16.9	-1.4	-7.7%
Other income	0.0	1.8	1.8	-/+
Net other operating income	3.6	2,6	-1.0	-28.9%
Total income	1,591.8	1,787,1	195.3	12.3%
Net impairment losses and fair value change on loans and advances	-245.6	-396.4	-150.8	61.4%
Result on provisions for legal risk related to foreign currency loans	-27.8	-201.9	-174.1	626.9%
Overhead costs and depreciation	-740.9	-781.9	-41.0	5.5%
Taxes on the Group balance sheet items	-113.6	-135.0	-21.4	18.9%
Profit before tax of Retail Banking	464.0	271.9	-192.1	-41.4%

The profit before tax of the Retail Banking segment in H1 2020 was driven by the following factors:

- **Increase in total income** by PLN 195.3 million, i.e. 12.3% to PLN 1,787.1 million compared to H1 2019. Core income increased by 12.5%: net interest income grew by PLN 89.8 million despite operating in the low interest rates environment. Improvement was possible thanks to a shift towards high-margin products in the credit portfolio structure in the previous months and higher balance of loans compared to end of June 2019. Net fee and commission income rose by PLN 106.1 million, mainly owing to commissions for card payments and brokerage activity, which enjoyed higher popularity in H1 2020.
- **Increase in net impairment losses and fair value change on loans and advances** by PLN 150.8 million year on year, propped up by deterioration of macroeconomic environment following the outburst of COVID-19 pandemics.
- **Booking of provisions for legal risk related to foreign currency loans** at the level higher by PLN 174.1 million than the year before.
- **Increase in operating expenses (including depreciation)** by PLN 41.0 million year on year, driven mainly by higher contribution to the Bank Guarantee Fund and rise of depreciation.
- **Tax on the Group balance sheet items** at PLN 135.0 million.

Key business data (mBank and mBank Hipoteczny only)

thou.	30.06.2019	31.12.2019	30.06.2020	Semi-annual change	Annual change
Number of retail clients, including:	5,552.4	5,603.9	5,671.8	1.2%	2.2%
Poland	4,614.6	4,645.3	4 692.9	1.0%	1.7%
Foreign branches	937.9	958.6	978.9	2.1%	4.4%
The Czech Republic	651.6	667.0	683.2	2.4%	4.9%
Slovakia	286.2	291.5	295.7	1.4%	3.3%
PLN M					
Loans to retail clients, including:	55,751.2	60,017.0	63,070.6	5.1%	13.1%
Poland	50,968.9	54,933.1	57,496.5	4.7%	12.8%
mortgage loans	34,882.1	37,480.6	40,350.9	7.7%	15.7%
non-mortgage loans	16,086.7	17,452.5	17,145.6	-1.8%	6.6%
Foreign branches	4,782.3	5,083.8	5,574.1	9.6%	16.6%
The Czech Republic	3,749.5	3,913.5	4,084.8	4.4%	8.9%
Slovakia	1,032.8	1,170.3	1,489.3	27.3%	44.2%
Deposits of retail clients, including:	70,120.8	77,487.7	89,816.2	15.9%	28.1%
Poland	59,639.3	66,837.9	77,931.9	16.6%	30.7%
Foreign branches	10,481.6	10,649.8	11,884.3	11.6%	13.4%
The Czech Republic	7,317.8	7,346.4	8,095.0	10.2%	10.6%
Slovakia	3,163.8	3,303.5	3,789.2	14.7%	19.8%
Investment funds of mBank individual clients (Poland)	14,038.7	15,143.2	16,813.8	11.0%	19.8%
thou.					
Credit cards, including	391.3	396.5	392.7	-1.0%	0.3%
Poland	349.7	355.4	352.8	-0.8%	0.9%
Foreign branches	41.6	41.1	39.9	-2.8%	-4.0%
Debit cards, including:	3,817.5	3,848.7	3,942.2	2.4%	3.3%
Poland	3,220.8	3,231.5	3,305.2	2.3%	2.6%
Foreign branches	596.7	617.2	637.0	3.2%	6.7%

Retail Banking in Poland

We introduced a number of new functionalities and improvements for clients in H1 2020 to make mBank's services even easier to use. The key implementations, including request for a transfer to a mobile phone using BLIK service, as well as a new bank account *eKonto Junior*, are described in Chapter 2.1. Key events in mBank Group in H1 2020.

In April 2020, we implemented modifications to the processing of money transfers in accordance with the Cross-Border Payments Regulation (CBPR). CBPR requires us to provide the payer, in a clear and understandable way, before initiating a payment transaction, with information concerning the estimated charges for the currency conversion service included in the money transfer as well as the estimated total amount of the money transfer in the currency of the client's account. These requirements apply to transaction fees as well as currency conversion charges.

We further modified the processing of money transfers on 17 April 2020. As a result, the processing of money transfers was aligned with the new standards of client/system interaction via the user interface (UI). The relevant modifications were implemented in our transactional system. Thanks to smart website design and layout, it is now easier and more convenient than ever before for clients to order payments out of mBank. In addition, we improved user experience (UX) in the implementation of new applications for debit cards for individuals. We made sure to provide top quality of user interactions both in the mobile application and in online banking.

mBank's mobile application has 2,072.2 thousand active users in Poland, representing approximately 44% of our client base. More than 1 million customers are mobile-only (change in calculation method since December 2019). For more information concerning new mobile solutions, see Chapter 2.1. Key events in mBank Group in H1 2020.

In January 2020, we supported the Grand Finale of the Great Orchestra of Christmas Charity (WOŚP) with our services for the third time. As a part of WOŚP's 28th Grand Finale, we supported a money collection dedicated to children's treatment medicine. mBank and its clients donated PLN 13.5 million to the Foundation, including PLN 3 million donated by the bank. The campaign "100 for 100" raised PLN 2 million: mBank contributed PLN 100 thousand every day when clients made at least 100 donations to WOŚP. In addition, PLN 1 million of the bank's donation was raised at an auction of works of art from the bank's collection. mBank clients can support WOŚP during the Grand Finale and at any time during the year. Retail clients may set up a savings objective and donate a predefined amount to the Foundation every month.

Retail banking offer for individuals

Loans

New sales of unsecured loans for individuals in Poland stood at PLN 3,012.3 million in H1 2020, representing a decrease of 37.6% year on year. In that period, sales of non-mortgage loans were under pressure due to the lockdown in the economy imposed to contain the spread of the COVID-19 pandemic. In spite of the low interest rate environment, the uncertainty of clients about their financial standing at the time of crisis caused by the pandemic coupled with limited trade volumes due to the economic lockdown dampened demand for lending.

Sales of mortgage loans to individuals and micro-firms decreased modestly by 2.7% year on year and stood at PLN 3,248.5 million. Total mortgage loans for individuals in Poland stood at PLN 40,350.9 million as at 30 June 2020 v. PLN 34,882.1 million as at 30 June 2019 (+15.7% year on year).

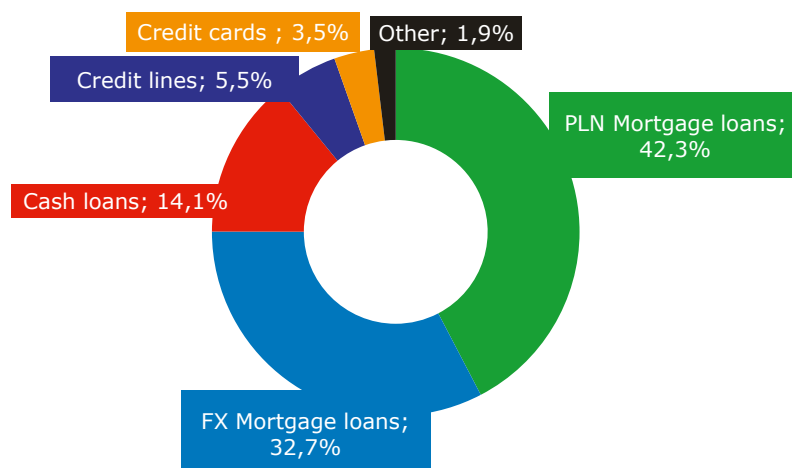
Non-mortgage loans for individuals in Poland stood at PLN 17,145.6 million as at 30 June 2020 v. PLN 16,086.7 million as at 30 June 2019 (+6.6% year on year).

Changed business conditions in connection with the COVID-19 pandemic forced even faster implementation of innovative digital processes. mBank, as a leader in mobile solutions, focused on enabling clients to finalize loan applications without leaving home. Our approach translated into implementation of two key initiatives fulfilling this need. The first one is to provide the possibility of confirming income in a cash loan, using the account information access service (AIS), introduced by the PSD2 directive for mBank's internal clients. The second one is a possibility to attach income documents for mBank loan products directly to the application. Increased availability of loans as part of remote processes is very

important for us, as nearly 40% of all sales took place in digital channels, which translated into a 28% increase in sales in these channels compared H1 2019. Also in mortgage processes, we have introduced the option of submitting a loan application in a remote process without leaving home, with the option of attaching all documents directly to the application, which is described in more detail in Chapter 2.1. Key events in mBank Group in H1 2020.

The structure of the Retail Banking loan portfolio in Poland (including mBank Hipoteczny) at June 30, 2020, was as follows:

Product structure of retail loan portfolio in Poland



The NPL ratio of the retail mortgage loan portfolio in Poland decreases steadily and reached 2.0% at June 30, 2020 (2.3% at June 30, 2019).

Deposits

mBank reported a strong increase of balances in clients' current and savings accounts in H1 2020. The increase was driven by two main factors. First, clients received funds under support schemes offered to mitigate the adverse impact of COVID-19. Secondly, and just as importantly, clients' propensity to save increased over that period. Uncertainty triggered by the coronavirus pandemic reduced consumer spending as well as investments. Despite three subsequent interest rate cuts in H1 2020, the volume of retail clients' deposits placed with mBank increased.

Retail banking deposits in Poland stood at PLN 77,931.9 million as at 30 June 2020 v. PLN 59,639.3 million as at 30 June 2019 (+30.7% year on year).

Cards and accounts

In the period under review, we developed the "Live Globally" package and launched its promotion on 15 July 2020. The package includes a multi-currency service, free-of-charge cash withdrawals from ATMs abroad, and a 15% discount on travel insurance. The multi-currency service was modified in April 2020. Since then, clients are no longer required to hold currency accounts in order to pay in foreign currencies at attractive exchange rates and low conversion fees. Clients may simply pay with an existing card and the bank will convert the payment currency at an attractive exchange rate. However, clients can still link their cards to currency accounts and pay directly in the transaction currency to avoid currency conversion charges.

mBank is working to improve customer service both by adding new products and by improving existing processes. This is why we have implemented fast dispatch of cards to clients. We are now dispatching cards on the day following the date of the client's order. As a result, clients receive new cards 2 to 4 days

faster than before. Clients can also activate renewed cards or substitute cards with a PIN, which is another major improvement of convenience for clients using cards. mBank also offers eCards, i.e., online payment wallets, which come without plastic.

In accordance with the PSD2 requirements, we are working to improve the security of clients' payments. As at 30 June 2020, we had migrated over 60% of cards to the new regime. As a result, clients will now be asked more frequently to authorise transactions with a PIN, including payments under PLN 100.

The value of payments made by mBank retail banking clients with cards in Poland stood at PLN 22.6 billion, representing an increase of 4.5% year on year. The number of transactions of mBank clients decreased by 3.4% year on year. The market share of mBank cards' transactions remains at stable level and amounted to 12.7% at 31 March 2020.

Brokerage operations and asset management

The Brokerage Bureau of mBank (BM) provides a comprehensive range of brokerage services to individual and private banking clients, the largest Polish institutional investors (pension funds, investment funds, asset management companies), and foreign funds. The Brokerage Bureau enables clients to trade in regulated markets in Poland and abroad as well as in the OTC (CFD) market. As part of wealth management services, clients can use investment advisory and asset portfolio management services. The Bureau is an active player in the capital market, preparing and conducting public and private offerings (IPO/SPO/ABB).

In H1 2020 investors' activity on the Warsaw Stock Exchange (WSE) increased significantly compared with the previous years. A growth in activity by 35% year on year observed on the equity market was mostly attributable to retail clients, whose operations accounted for approx. 21% of trading in H1 2020. BM is the leader in the market of brokerage services for retail clients. In H1 2020 BM clients concluded 10.5% of all transactions in stocks on the WSE, making us the top player on the market. With 28,000 new investment accounts opened in H1 2020, we are also the market leader in this regard. The turnover of BM on the WSE stock market amounted to PLN 262.8 billion (+35% year on year), which made mBank the sixth player in the market in terms of total turnover (with a share of 5.3% we have moved up in the ranking from the 13th to the 6th position) and fourth player from the perspective of turnover on the client's account (8.1% market share). Since the beginning of 2020, we have observed a growing interest of our clients, especially new ones, in investing in foreign markets. At the end of June 2020, the number of brokerage accounts of BM clients amounted to ca. 340,000.

The period of increased market volatility in H1 2020 resulted in a substantial outflow of assets from investment solutions on the Polish market. According to the Chamber of Fund and Asset Management (IZFiA), the value of assets managed by non-dedicated funds dropped by approx. 12%, while in Q1 alone, the drop was even more significant. Despite the trend observed on the market, assets managed as part of the asset management service provided to Private Banking clients by mBank Brokerage Bureau grew by approx. 3%. At the same time, the value of assets managed under white-label solutions went down similarly to the broad market of Polish investment funds.

As part of Wealth Management, we focused on further promotion of thematic solutions. ESG strategies enjoyed great popularity. At the end of June, ESG assets accounted for ca. 28% of assets in investment strategies with a comparable investment risk level. Another solution that our clients found particularly interesting was the MegaTrendy investment strategy. It focuses on investing in three investment topics: scarcity of resources, new technologies, and demographic changes, in line with the global trends, which have shown that broadly defined thematic solutions are relatively resilient to the COVID-19-related crisis. We expect that such investments will continue to grow, which is why we will focus on developing new solutions in this area. As regards investment solutions offered by external providers, clients still prefer foreign solutions such as AllianceBernstein, Schroders, Fidelity, or Allianz/Pimco.

In H1 2020 the stock market was characterised by low transactional activity and high volatility, resulting from the impact of the pandemic on the sentiment of stock market participants. Only several capital transactions such as IPO, SPO and ABB were conducted on the Polish market. mBank Brokerage Bureau participated in the second largest transaction of this type in H1 2020 – SPO of CCC shares worth PLN 507 million – as one of the joint bookrunners. Furthermore, we performed or announced three share buybacks, one takeover bid for the sale of shares of a WSE-listed company, and one squeeze-out.

Offer for SMEs

In H1 2020, we saw record declines in the openings of new companies on the market. The lockdown of the economy due to the COVID-19 pandemic has deprived many entrepreneurs of their sources of income. At mBank, we have implemented a number of improvements aimed at facilitating business in such a changing reality. As part of our support for entrepreneurs, we have launched a free hotline for our clients open seven days a week, with over 100 accountants, described in more detail in Chapter 2.1. Key events in mBank Group in H1 2020. In the discussed period, we helped over 5,500 entrepreneurs via the hotline. We have also prepared a number of regularly updated guides and launched the INBOX functionality in the mOrganizer system for online document exchange between entrepreneurs and accountants. In the area of corporate financing, we focused on further process improvements in the context of E2E Digitalization. We have enabled clients to deliver financial documents fully online.

In response to the government's decision on reliefs in the field of payment of insurance contributions to the Social Insurance Institute (ZUS), for the duration of the pandemic, we resigned from charging account fees conditional on payment to ZUS. This exemption covered over 70,000 customers.

We have made it possible for clients to apply for a PFR subsidy on the transaction service, which is also described in Chapter 2.1. Key events in mBank Group in H1 2020. Over 34,000 customers have already submitted applications through our service. Their accounts at mBank received co-financing in the total amount of nearly PLN 3 billion. The second area of activities, crucial for providing clients with the funds necessary to run their business, focused on providing financing secured by BGK de minimis and COSME guarantees.

Co-operation with the AXA Group

In H1 2020, mBank continued to develop the bancassurance co-operation with its strategic partner AXA. The co-operation includes sales of insurance products to mBank clients with a special focus on stand-alone products including motor, travel, home and life insurance, as well as products bundled with bank products, such as loans.

At mBank we continue to develop the insurance product offer in order to meet the demands of digital clients who largely use remote channels to have their needs addressed and to contact the bank. As a result, the full stand-alone insurance products offer is available in all contact channels. Any stand-alone product, meaning motor, home, travel and life insurance for the clients and their relatives, can be acquired in mBank's mobile app. Our clients welcome this process – in June 2020 already 19% of all stand-alone insurance products were purchased via the app.

Retail Banking in the Czech Republic and Slovakia

Continuing from 2019, also in H1 2020 the main focus of foreign branches was on acquisition of the new clients and optimisation of processes related to all products. The branches completed several projects aimed at sales capacity extension and sales processes fine-tuning.

In order to improve its proposition for new clients mBank delivered several new functionalities including possibility to block DCC transactions on card, when the payment is offered in the own currency instead of the local one. This feature release has drawn significant positive publicity across the whole market as mBank introduced it as first among the banks. Along this, mBank has also given its clients the possibility to block transactions where a surcharge is being applied, meaning in cases when the additional charge would be accounted by the foreign operator when withdrawing money from the ATM. Clients can also – for security reasons – block the use of the magnetic stripe. In the payments area, mBank has introduced a second cut-off time for domestic payments. In case the client enters their CZK payment order till 1 p.m., it will be credited to the receiving bank in Czech Republic with the same value date.

mBank strengthened its position among mobile banks on the Czech market by launching of mobile path to account opening in June. Thanks to using modern technologies and open banking solution, mBank established connection to the two biggest banks on the Czech market. The data gathered through this connection might be used in loan processes later on.

First half of 2020 was dramatically impacted by COVID pandemic in both Czech and Slovak markets. Also mBank had to change its plans in the Czech Republic and Slovakia in order to adopt to new situation as well as to fulfil all the regulatory requirements. All functions were highly limited by a necessity to close

branches and kiosks for several weeks. One of the most important new requirements was a possibility to postpone instalments of clients' personal loans and mortgages. In both countries this possibility introduced by law which was approved and came into force in a really short time. mBank managed to be the first bank which delivered fully automated process of so called 'loan holidays' to its clients in Slovakia. Also in the Czech Republic mBank managed to introduce all the legal requirements on time. Moreover, mBank delivered a fully automated solution which allowed to process 95% of requests without any manual input and saved significant amount of workforce.

mBank again scored high in the Zlatá Koruna competition. We took the top position in the Public vote with mKonto and mKarta Svět, which can be used for foreign transfers. Business clients also casted their votes to mBank's products. Thanks to their recognition, our mKonto Business gained the first prize and eMax Business scored third in the ranking.

Since the beginning of 2020 the acquisition rate of new clients is developing positively. We observe a visible, gradual and sustained increase in acquisition dynamics. Importantly, the newly acquired accounts are active in 74% of cases. This increase was possible due to confluence of two events. The first is COVID-related move to digital and e-commerce sphere, where clients appreciate the possibility to open a current account remotely, without a necessity to make a personal call to a branch. The second owes to a spill-over effect of the successful launch of a TV campaign in December 2019. In the campaign we offered an attractive proposition of mSpoření and account opening bonus for new clients of mBank.

Loans and deposits

The mBank loan portfolio in the Czech Republic and Slovakia was PLN 5,574.1 million as at 30 June 2020, representing an increase of 16.6% year on year. The mortgage loan portfolio was PLN 4,354.6 million as at 30 June 2020, representing an increase of 15.4% year in year. The non-mortgage loan portfolio increased by 21.0% to PLN 1,219.5 million as at 30 June 2020.

mBank was successful in expanding the sale of mortgage loans in the Czech Republic and Slovakia by promoting loans at a time when other banks' lending slowed down due to the COVID-19 pandemic. Sales of mortgage loans in Slovakia increased further to PLN 299.9 million, i.e., by 113.1% year on year in H1 2020. That had a positive impact on the mortgage loan portfolio in Slovakia, which increased by 50.6% year on year to PLN 1,160.5 million as at 30 June 2020. Sales of mortgage loans in the Czech Republic stood at PLN 362.8 million, representing an increase of 56.7% year on year in H1 2020. The volume of the mortgage loan portfolio increased by 6.3% year on year to PLN 3,194.1 million as at 30 June 2020.

Thanks to our focus on process automation and optimisation in non-mortgage lending, the non-mortgage loan portfolio grew and stood at PLN 890.7 million as at 30 June 2020, up by 19.5% year on year, in the Czech Republic and at PLN 328.8 million, up by 25.3%, in Slovakia.

The volume of deposits continued to grow in H1 2020 and reached PLN 11,884.3 million as at June 30, 2020 (an increase of 13.4% year on year).

2.4. Corporates and Financial Markets



The Corporates and Financial Markets segment serves 27,725 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million and full accounting), through a network of dedicated 46 branches. mBank Group’s offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets. In line with the resolution of the Supervisory Board of mBank adopted on June 25, 2020, regarding the dismissal of Mr. Frank Bock from the post of Vice-President of the Management Board, Head of Financial Markets of mBank S.A. as of December 31, 2020, there is going to be the reorganization of the financial markets area within other business areas of the bank. It will take place until the end of the year.

Key financial data (at the end of H1 2020):

Share in pre-tax profit	Pre-tax profit	Total income
29.9% ↓	PLN 108.3 M ↓	PLN 1 129.5 M ↑

Key highlights

- Increase of total income to PLN 1,129.5 million by 9.6% compared to H1 2019.

- Stable level of corporate loans at the bank level (without reverse repo/buy sell back transactions): decrease by 0.3% compared to the end of 2019, increase by 5.0% on an annual basis.

- Increase of corporate deposits at the bank level (without repo transactions) by 28.0% compared to the end of 2019 and by 26.5% year on year.

- Increase of mBank’s market shares in corporate deposits to 11.4% (10.5% in H1 2019) and to 7.6% (from 7.1% in H1 2019) in corporate loans.

- Support instruments for clients in order to cope with the consequences of the COVID-19 pandemic. Distribution of the support solutions provided by the BGK and EU funds, including i.a. *de minimis* guarantees and liquidity guarantees. Participation in the distribution of the Polish Development Fund (PFR) subsidies.

- Increasing of the renewable energy sources financing limit to PLN 2 billion. mBank has been financing green energy since 2018 and systematically increases its exposure.

- Digitalisation of processes, i.a. digital onboarding and possibility to sign agreements with mBank electronically. mLeasing also introduced a solution to sign agreements live from home, using internet video-communicators.

- Introduction of the fastest online payment gateway Paynow for mBank’s corporate clients. Cloud computing solution, developed in co-operation with mElements, ensures the high speed of the service, available also on mobile devices.

Corporate and Investment Banking

Financial results

In H1 2020, the Corporate and Investment Banking segment generated a profit before tax of PLN 51.2 million. This result marked a decrease by PLN 188.9 million or 78.7% year on year.

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Net interest income	504.7	552.7	48.0	9.5%
Net fee and commission income	349.5	378.0	28.5	8.1%
Net trading income	35.2	25.8	-9.4	-26.8%
Other income	0.4	-6.2	-6.6	+/-
Net other operating income	10.4	15.8	5.3	51.2%
Total income	900.3	966.1	65.8	7.3%
Net impairment losses and fair value change on loans and advances	-123.5	-368.1	-244.6	198.0%
Overhead costs and depreciation	-452.5	-457.2	-4.7	1.0%
Taxes on the Group balance sheet items	-84.2	-89.6	-5.4	6.4%
Profit before tax of Corporate and Investment Banking	240.1	51.2	-188.9	-78.7%

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

- **Growth in income** by PLN 65.8 million or 7.3% year on year. Core income went up by 9.0% year on year, but net trading income deteriorated by -26.8%.
- **Notable accumulation of impairment losses and fair value on loans and advances** compared to H1 2019, caused primarily by proactive provisioning for potential implications of COVID-19 pandemics on the quality of the loan portfolio.
- **Slightly higher operating costs and depreciation** in the discussed period, mainly related to a higher staff-related costs and depreciation.
- **Tax on the Group balance sheet items** at the level of PLN 89.6 million, rising alongside higher assets volume in the Group.

Business results (mBank only)

	30.06.2019	31.12.2019	30.06.2020	YtD change	YoY change
Number of corporate clients	25,002	26,476	27,725	4.7%	10.9%
K1	2,277	2,319	2,384	2.8%	4.7%
K2	7,777	8,211	8,553	4.2%	10.0%
K3	14,948	15,946	16,788	5.3%	12.3%
PLN M					
Loans to corporate clients, including	27,703.5	28,962.4	29,279.2	1.1%	5.7%
K1	7,282.6	7,307.1	7,376.6	1.0%	1.3%
K2	17,212.9	18,685.1	18,678.6	0.0%	8.5%
K3	2,889.9	2,840.9	2,651.1	-6.7%	-8.3%
Reverse repo/buy sell back transactions	195.9	13.4	403.4	x30	106.0%
Other	122.2	115.9	169.4	46.2%	38.6%
Deposits of corporate clients, including	36,748.0	35,216.0	45,647.5	29.6%	24.2%
K1	15,311.2	12,434.0	16,285.6	31.0%	6.4%
K2	13,866.3	14,934.4	19,018.1	27.3%	37.2%
K3	6,010.7	7,079.4	9,180.1	29.7%	52.7%
Repo transactions	1,217.8	175.4	715.5	x4	-41.2%
Other	342.1	592.9	448.1	-24.4%	31.0%

H1 2020 was a period of dynamic changes. The pandemic's impact on the economy, described in more detail in Chapter 3.1. Economy and the banking sector in H1 2020, took its toll on enterprises. In the period under review, corporate deposits reached record-high levels, partly due to state aid being transferred to companies' accounts. At the same time, we recorded a downturn in lending to corporates in the banking sector. It was caused both by the tightening of the lending policy and by weaker investment demand, which was squeezed by uncertainty. Similarly to other entities operating in the banking sector, mBank supported its clients in coping with the consequences of the pandemic. One of the measures we took was a temporary suspension of loan instalment payments (loan payment holiday).

Despite the challenges related to the COVID-19 pandemic, in H1 2020 the bank continued its efforts to attract new corporate clients. This resulted in high acquisition of new companies; the corporate client base reached the level of 27,725 entities, up by 10% compared with June 2019. mBank's small and medium-sized enterprises segment (SMEs – K3) acquired more than 1,800 new clients, which represents an increase by over 10% year on year. The highest client acquisition rate was observed in Q1 2020.

mBank actively supports its clients from the private equity/venture capital (PE/VC) sector. In recognition of our efforts, in June 2020, we received the PSIK 2020 award in the "Best Financing Bank" category in the competition organised by the Polish Private Equity and Venture Capital Association. We received the award for our 2019 achievements, i.e. for financing 16 transactions with the participation of PE/VC funds, including new takeovers, and for recapitalisation/refinancing transactions and credit lines for private equity funds. mBank provides financing in the form of senior loans, mezzanine financing, bond issues or structured working capital programmes; it adjusts the financing structures to the clients' needs, ensuring full flexibility of its products.

Products and services

The market of loans to enterprises grew by 0.6% year on year whereas the market of enterprises' deposits soared by 30.9% compared to June 2019. In this context, mBank reported higher growth in loan volumes (7.6%) as well as in the deposit volumes (41.6%) year on year (in aggregates comparable to NBP methodology). At the end of June 2020, mBank's shares in the market of loans and deposits of enterprises reached 7.6% and 11.4%, respectively.

Corporate loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) stood at PLN 28,875.5 million at the end of June 2020, representing an increase by 5.0% compared with the end of June 2019 (PLN 27,507.6 million).

PLN M	30.06.2019	31.12.2019	30.06.2020	YoY change
Loans to corporate clients ¹	27,508	28,949	28,876	5.0%
Loans to enterprises ²	27,044	28,797	29,018	7.3%
Loans granted to local governments	288	200	144	-50.1%
Market of loans to enterprises	381,513	383,965	383,770	0.6%
mBank's share in the market of lending to enterprises	7.1%	7.5%	7.6%	

¹ Excluding reverse repo transactions.

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

Corporate deposits

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 44,932.0 million at the end of June 2020, up by 26.5% compared with the end of June 2019 (PLN 35,530.2 million).

PLN M	30.06.2019	31.12.2019	30.06.2020	YoY change
Corporate deposits ¹	35,530	35,041	44,932	26.5%
Deposits of enterprises ²	30,695	32,770	43,463	41.6%
Deposits of local governments	1,400	164	120	-91.4%
Market of deposits of enterprises	292,101	330 081	382,464	30.9%
mBank's share in the total deposits of enterprises	10.5%	9.9%	11.4%	

¹ Excluding repo transactions.

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

De minimis guarantee

The bank continued to perform the Portfolio De Minimis Guarantee Line (PLD) Agreement as part of the government programme "Supporting Entrepreneurship through BGK Sureties and Guarantees". The total amount of the guarantee limit allocated by BGK stood at PLN 4.7 billion, from which the bank utilised PLN 1.77 billion. mBank Corporate Banking granted 747 loans secured with a guarantee, and the total amount of de minimis guarantees reached PLN 619.02 million (loan value: PLN 898.84 million).

Corporate debt origination

The share of mBank in the non-treasury debt securities market at the end of May 2020 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
mBank (PLN M)	600	7,496	11,880
Market (PLN M)	12,480	77,685	55,023
Market share	4.8%	9.6%	21.6%
Market position	#4	#3	#1

The largest transaction in H1 2020 included bond issue worth a total of PLN 95 million for mBank Hipoteczny. The bank concluded also an issue of own debt securities worth PLN 35 million.

In the corporate bonds market, the Bank carried out a series of new issues, i.e.: Echo Investment S.A. (PLN 150 million), Archicom S.A. (PLN 90 million) mLeasing and LeaseLink (total of PLN 70 million) and Amica S.A. (PLN 20 million).

Development of Corporate Banking products and services

Transactional banking

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

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

Number of outgoing foreign transfers	-0.6%
Number of incoming foreign transfers	+18.4%
Number of corporate cards	+5.7%
Number of mCompanyNet users	+6.6%

mBank CompanyNet

In January 2020, we added new functions for electronic banking users. Clients can now verify account numbers of beneficiaries against the whitelist of VAT payers. To verify entities registered as VAT payers by the Head of the Tax Office, one needs to enter the counterparty’s NIP number. The service is free of charge regardless of the transfer amount. This way mBank responds to the needs of its clients and makes doing business in the ever-changing legal environment easier for them. When ordering a domestic transfer in mBank CompanyNet, the client decides whether they want the bank to verify if the counterparty’s account number is on the whitelist. We reject the transfer and send the client a relevant notification if the system does not find the counterparty’s account number on the list when booking the transfer. The client will have three days to decide on the transfer execution and notification to the Tax Office.

Digital onboarding of corporate clients

In H1 2020 we worked on a project aimed at full digitalisation of the client acquisition and onboarding process. A new system was implemented in early July. The new solution, which is unique on the Polish market, is based on a state-of-the-art platform enabling the sales forces to interact with the client, which supports the sales and formal onboarding process. The platform guides the client through the account opening procedure and enables them to gain access to online banking and order cards or cash services. In addition, the platform supports the Know your Customer activities and other compliance aspects, which are necessary in the process of establishing cooperation with the client. The main objectives of the project include shortening the corporate account opening process to one business day and improving its efficiency.

Thanks to the system, paper versions of applications, agreements and signature specimen cards are no longer needed. Moreover, the system enables automation of the exchange of information with external sources (information integrator). Currently, the system enables the activation of four products: account, cash services, cards, and electronic banking. At further stages, new functionalities will be implemented to expand the target group.

Cash deposit machines for businesses available at their location

mBank continues to develop the smart cash deposit machine service. When integrated with a company's internal system and mBank's online banking, the solution allows for depositing cash and booking cash deposits in real time without leaving the company's premises. mBank takes full responsibility for the cash immediately after it is deposited and the device automatically communicates with the secure cash transportation company before it is full. As at June 30, 2020, 268 clients used the service.

Renewable Energy Sources (RES)

At mBank we continue green transformation. Our activities comprise among others investments in the renewable energy sources (RES). In December 2018 we approved mBank S.A. Credit Policy of Financing Renewable Energy Source Installations. In 2020 we increased the limit for funding RES project under the auction support system to PLN 2 billion. We fund also projects outside of the auction system. In H1 2020 mBank financed four photovoltaic (PV) investments. It earmarked PLN 412.5 million for this purpose. Additionally, mBank provided financing for one wind farm in the amount of PLN 185.4 million. As of end of June, 2020, the limit utilisation under the Policy starting from its introduction reached nearly 60%. In H1 2020 mBank signed a syndicated loan agreement on the financing of portfolio of photovoltaics plants designed by R.POWER. mBank's share in the syndicated loan amounts to 50%; for details, go to Chapter 2.1. Key events in mBank Group in H1 2020.

Financial Markets

On 25 June 2020, the Supervisory Board of the Bank adopted a resolution regarding dismissal of Mr. Frank Bock from the post of Vice-President of the Management Board, Head of Financial Markets of mBank S.A.

The negative economic effects caused by the COVID-19 pandemic require the banking sector to adapt its strategy and take non-standard actions.

Termination of the contract of Mr. Frank Bock as of 31.12.2020 is associated with the reorganization of the financial markets area within other business areas of the Bank in order to increase efficiency of organizational structure and processes, and its effect will be a reduction in the number of positions on the Bank's Management Board by one. Until the end of the year Mr. Frank Bock will be involved in the reorganization of the area.

Financial results

The Financial Markets segment generated a pre-tax profit of PLN 57.1 million in H1 2020 compared to PLN 58.7 million a year earlier (down by 2.7%).

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Net interest income	104.9	115.1	10.3	9.8%
Net fee and commission income	-5.9	-8.6	-2.7	46.1%
Net trading income	15.0	42.6	27.7	185.1%
Other income	18.8	14.2	-4.6	-24.5%
Net other operating income	-2.7	0.1	2.8	-/+
Total income	130.0	163.4	33.4	25.7%
Net impairment losses and fair value change on loans and advances	0.5	0.9	0.5	108.8%
Overhead costs and depreciation	-54.9	-64.3	-9.4	17.1%
Taxes on the Group balance sheet items	-16.9	-43.0	-26.1	154.3%
Profit before tax of Financial Markets	58.7	57.1	-1.6	-2.7%

The pre-tax profit of the Financial Markets segment in H1 2020 was driven by the following factors:

- **Higher income** compared with H1 2019, at the level of PLN 163.4 million, up 25.7% year on year. Increase of income can be attributable to higher net trading income by PLN 27.7 million thanks to higher volatility on the markets, caused by activity of the investors and uncertainty caused by the COVID-19 pandemics.
- **Increase of operating costs (including depreciation)** to PLN 64.3 million.
- **Higher tax on the Group balance sheet items** at PLN 43.0 million, primarily due to higher balance of cash held on account at the central bank and invested in the securities, after significant inflow of deposits from the clients.

Activity of Financial Markets

Since the beginning of January 2020, the activities of the financial market products sales area have been focused on completing the introduction of a new mechanism for uploading prices to transaction platforms, digitalisation of client onboarding, and the process of supporting the management of digital relationships with clients. The period preceding the economic lockdown caused by the COVID-19 outbreak, i.e. before mid-March 2020, witnessed a dynamic rise in income across all product classes and a considerable increase in the number of active clients.

The bank managed to complete all planned development activities at the beginning of March 2020, before the outbreak of the COVID-19 pandemic. The introduced changes made it possible to ensure continuous customer service in this difficult time more effectively. Since mid-March all the employees of the financial market sales department have been working remotely. Throughout this time, they took measures designed to retain clients, increase the number of transactions, and boost income from cooperation with clients, in particular:

- Despite the slowdown experienced by many areas of the Polish and global economy, increased telephone activity and cross-selling of financial market products translated into higher margins on transactions with corporate clients, which rose by 13.4% compared with the same period last year.
- In H1 2020 the commodity team set a number of records, including the record number of active clients and a marked increase in margins on commodity transactions, in spite of the new reality brought about by the COVID-19 pandemic. The dynamically rising client base and the increasing number of transactions would not be possible without the automation of the process of registering and confirming transactions completed in H1 2020.
- In H1 2020 the Team for Structured Finance Projects concluded hedging transactions in 43 projects, which accounted for the majority of transactions planned for 2020. Over 50% of the transactions hedged projects connected with commercial real estate funding. The margin on hedging transactions concluded in H1 2020 was 60% higher than a year before.
- The Retail Sales Division strengthened cooperation with business lines, which resulted in new campaigns addressed to businesses and mass clients. Moreover, we also modified the onboarding of new clients to improve acquisition and margins on FX transactions in these segments.
- Intense acquisition of retail clients helped boost our income and sales.

mBank's market shares in various financial instrument markets as at May 31, 2020 are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	12.2%	22.3%

Financial Institutions

The Financial Markets area covers relations with financial institutions, focusing, among others, on raising capital from other banks and depositing excess funds with them. As at the end of June 2020, mBank had 8 active loans in the amount of PLN 4,045 million, with the resulting debt amounting to PLN 4,370 million. The debt arising from loans was PLN 244 million higher than at the end of H1 2019.

At the end of June 2020, mBank's exposure resulting from loans granted to other banks totalled PLN 131.4 million (vs. PLN 131.9 million at the end of June 2019). It resulted from short- and medium-term loans granted to domestic and foreign financial institutions.

In H1 2020 the Financial Institutions Department actively supported trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, as well as granting financing as part of syndicated loans. At the same time, the bank continued to serve banks from the Commonwealth of Independent States (CIS) and offered them medium-term loans secured with KUKE insurance policies.

We found H1 2020 challenging due to the COVID-19 pandemic, which forced us to change our work model. Even though face-to-face contacts and meetings now take place virtually, with clients being served via email and videoconferences, the relations with correspondent banks have not been disrupted. Our customer service standard has remained unchanged throughout the pandemic. Owing to the experience and skills gained, we can continue to strengthen our relationships with other banks.

mBank's custody services

mBank provides services including settlement of transactions in securities registered in domestic and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring the valuation of their assets as well as performing operations related to benefits arising from securities. mBank's custody clients are mainly financial institutions, including in particular investment and pension funds, domestic and foreign financial institutions, banks which offer custodian and investment services, insurance companies, asset management institutions, and non-financial institutions. As at June 30, 2020, the number of investment funds served by mBank increased by 9.4% year on year.

2.5. Subsidiaries of mBank Group

Summary of financial results of mBank Group subsidiaries

The overall H1 2020 result of mBank Group subsidiaries of PLN 38.2 million, which translates into drop of 66.6% compared to H1 2019. Deterioration of performance was caused partly by the impact of COVID-19 pandemics and loan loss provisions recorded by several subsidiaries. The table below presents the profit before tax posted by individual subsidiaries in H1 2020 against H1 2019.

PLN M	H1 2019	H1 2020	Change in %
mFinanse	28.5	15.8	-44.5%
mBank Hipoteczny	26.8	8.1	-70.0%
mLeasing	49.4	23.0	-53.5%
mFaktoring	15.1	-2.6	+/-
Other ¹	-5.7	-6.1	7.3%
Total	114.2	38.2	-66.6%

¹In 2019, "Other" subsidiaries included mFinance France, mCentrum Operacji in liquidation, BDH Development, Garbary, Tele-Tech Investment and Future Tech. mCentrum Operacji was liquidated in December 2019. Starting from January 2020, the company mElements is consolidated by the Group. Consequently, in 2020 "Other" subsidiaries comprise mFinance France, mElements, BDH Development, Garbary, Tele-Tech Investment and Future Tech.

Business activity of selected subsidiaries



The COVID-19 pandemic has had a negative impact on mFinanse's business. H1 2020 was marked by falling sales and shrinking financial results. As a result, the subsidiary introduced cost adjustments to maintain business continuity and save jobs. A full return to sales processes will depend on the time needed for the consumer mood to turn positive again. Apart from the demand factor, H1 2020 sales were affected by the introduction of stricter lending criteria by mBank during the pandemic, which translated into drops in all product groups.

Mortgage loan sales decreased by 14.0% in H1 2020 compared with the same period last year (PLN 1,574.1 million vs. PLN 1,828.8 million). In the period under review, cash loan sales dropped to PLN 221.2 million from PLN 462.3 million in H1 2019 (i.e. by 53.7%). The profit from selling car loans dedicated to car dealers decreased on the year before. It stood at PLN 143.6 million in H1 2020 compared with PLN 224.5 million in the same period last year. Profit earned by the car leasing area fell to PLN 37.0 million in H1 2020 from PLN 40.6 million in H1 2019.

In H1 2020 the subsidiary's pre-tax profit amounted to PLN 15.8 million compared with PLN 28.5 million in H1 2019.

As regards business continuity, in response to the outbreak of the pandemic we took measures to protect the health and security of our employees, business partners, and clients. Head office employees were allowed to work remotely. The brick-and-mortar and partner branches operated in line with the security rules developed on the basis of the guidelines of the Ministry of Health. During the first phase of the pandemic, mKiosks were closed in line with the regulation of the Minister of Finance. We reopened them in line with all the applicable security rules following the gradual lockdown easing, including the opening of shopping centres. Our branches were provided with sneeze guards, disinfectants, and personal protection equipment.

Since the beginning of the pandemic we have been working on support measures to help the sales network go through this difficult period. We have introduced social packages adjusted to the pandemic and reacted

to the market situation on an ongoing basis, including adjustments to the sales network remuneration model.

mLeasing

The total value of contracts executed in H1 2020 amounted to PLN 2,042.0 million, compared with PLN 2,616.5 million in H1 2019 (-22.0% year on year).

The value of new movable assets purchased by mLeasing in H1 2020 reached PLN 2,042.0 million, down by 17.7% compared with H1 2019. In H1 2020, the company did not finance any real property.

The consolidated pre-tax profit reported by mLeasing in H1 2020 stood at PLN 23.0 million, which represents a 53.5% decrease year on year. The drop was mainly driven by higher credit risk provisions.

In connection with the COVID-19 pandemic, we changed the work system at the subsidiary. We implemented remote work, while in cases where physical presence of employees is required, we introduced rotating shift work. We offered our clients the possibility of reducing from three to six leasing instalments. Clients can apply for suspension of principal instalment repayment and extension of the repayment period by a period when the client pays only the interest. We do not charge any commission for applications to reduce instalments. Within a short time, we prepared an automatic process for handling clients' applications to ensure that the decision-making procedure is quick. In H1 2020 applications for restructuring were filed with respect to 32.9% of the portfolio. In an effort to ensure high quality of the subsidiary's loan portfolio, we tightened the conditions for granting new financing by taking into account clients' resilience to the consequences of the pandemic.

mBank Hipoteczny

mBank Hipoteczny (mBH) is the oldest mortgage bank operating on the Polish capital market. Since 2000, mBH has been regularly issuing Polish covered bonds in line with the Polish issuance programme. As at June 30, 2020, the total value of the outstanding mortgage bonds issued by mBank Hipoteczny amounted to PLN 8.1 billion. This accounts for 30.4% of the entire market, whose value stands at over PLN 26.5 billion (at the PLN/EUR exchange rate of 4.660 of the National Bank of Poland published on June 30, 2020). The financing and liquidity profile of mBank Group in H1 2020 did not provide for the need to issue covered bonds by mBank Hipoteczny.

The Group started to prepare for the issue of green debt instruments, including covered bonds. For this purpose, mBank S.A. Group Green Bond Framework was adopted. The document sets out the goals of mBank Group and rules for supporting the environmental goals of the European Union and the UN Sustainable Development Goals. mBank S.A. Group Green Bond Framework is compliant with the Green Bond Principles (GBP), which was confirmed by Sustainalytics in its Second Party Opinion.

In addition, mBH continues to issue unsecured bonds. In H1 2020, mBank Hipoteczny issued bonds with a nominal value of PLN 60 million and PLN 35 million. As at the end of H1 2020, there were five series of bonds issued, worth a total of PLN 460 million. mBH issues zero-coupon and coupon bonds denominated in PLN with maturities from two months to one year.

On May 20, 2020, Moody's Investors Service Ltd affirmed the long-term and short-term issuer's ratings of mBank Hipoteczny at Baa2 and Prime-2 respectively and changed the outlook on long-term rating from negative to stable. At the same time, Moody's Investors Service affirmed Counterparty Risk Assessments at A3(cr)/Prime-2(cr) and Counterparty Risk Ratings at A3/Prime-2.

In 2020 mBank Hipoteczny has expanded its loan portfolio using the pooling model in Retail Banking in close cooperation with mBank, i.e. with sales effected by mBank's salesforce. Since January 2020, four pooling transactions totalling PLN 374.5 million have been concluded in the retail portfolio. However, the value of mBH's loan portfolio decreased compared with H1 2019. Gross portfolio value totalled PLN 11.8 billion at the end of June 2020 compared with PLN 12.3 billion at the end of H1 2019, which represents a drop of 4.3%. The portfolio value was directly affected by the transfer of commercial loan sales to mBank in 2019 and a lower growth rate of the retail loan portfolio.

mBH's pre-tax profit, excluding pooling, amounted to PLN 8.1 million, down by 70.0% compared with the same period last year. This results both from a lower value of the loan portfolio and from interest rate cuts, which translated into a lower net interest income. Additionally, impairment losses increased almost twofold, reaching the level of PLN 14.8 million. The change in the value of provisions was mostly due to the fact that new macroeconomic forecasts taking into account the impact of the COVID-19 pandemic on the expected credit risk losses were included in the impairment loss calculation models.

In H1 2020 we implemented new work rules at mBank Hipoteczny to curb the spread of COVID-19. Under the new rules, employees work remotely and, in areas where it is impossible, they take shifts in the office in line with all the security measures. The rules are to ensure security while maintaining continuity of performed processes.

Apart from the re-organisation of work, mBank Hipoteczny also developed support measures for corporate and retail clients. As regards the latter, we enabled suspension of principal or principal and interest instalment repayment by up to six months. Additionally, we enabled clients to conveniently apply for the suspension of loan instalment repayment by filing an online instruction. In the case of corporate clients, applications for support were considered on an individual basis. The measures proposed by us enjoyed popularity among our clients in both portfolios. From March 16 to June 30, 2020, we received applications for support solutions from clients representing around 10% of our retail portfolio and from our commercial clients totalling nearly 38% of this portfolio.

Faktoring

In H1 2020 the subsidiary's turnover (the value of purchased invoices) reached PLN 11 billion, up by 3.1% year on year. Despite the growth rate being lower than in previous quarters, the company maintained the fifth position on the factoring market in Poland with a market share of 8.2% (according to the Polish Factors Association).

In H1 2020, mFaktoring acquired 58 new clients with limits totalling PLN 127.8 million. New business development was stifled by the restrictions related to the COVID-19 pandemic. The restrictions imposed in mBank Group, applicable as of 16 March 2020, contributed to a drop in acquisition, mainly due to the limitations on the offering of some products and restricted access to financing for selected entities.

During the COVID-19 pandemic, the company performs all processes remotely. In response to the needs reported by some clients, we offer support measures. In particular, we extend payment periods and the recourse period. We have also undertaken a number of activities aimed at strengthening the monitoring of the receivables portfolio. Payment delays in the mFaktoring portfolio are longer than at the beginning of the pandemic. However, it does not translate into a significant risk increase. In the period under review, there were no signals of worse payment discipline of the largest recipients in the mFaktoring portfolio. We carefully monitor interest and commission income, which fell compared to H1 2019 by 1.5% and potentially might decrease even further due to the economic consequences of the COVID-19 pandemic.

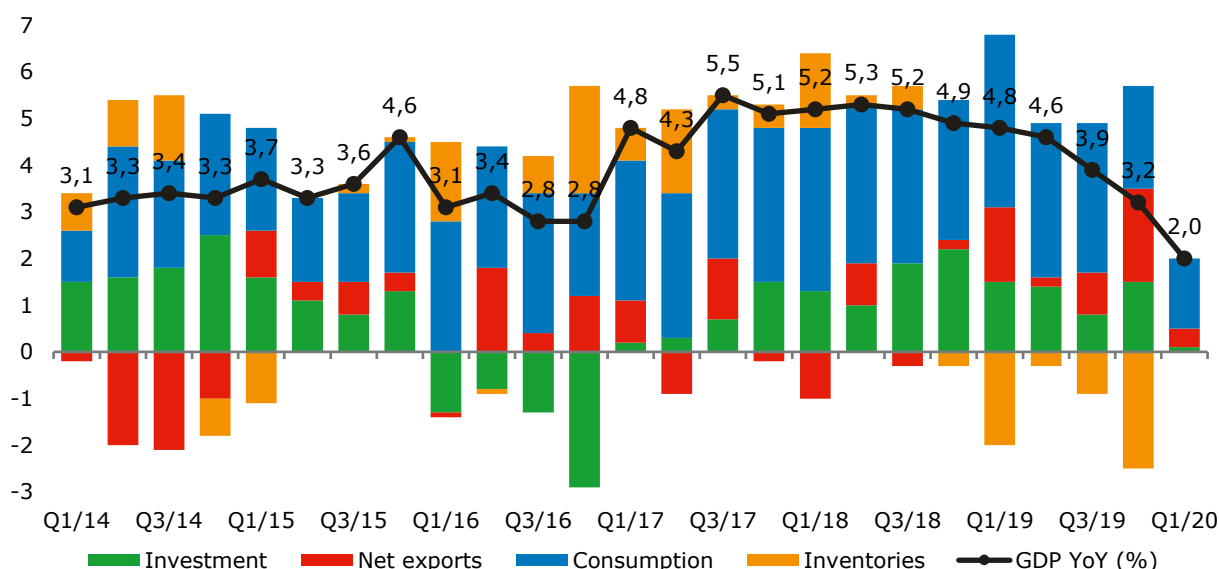
The decision to set up provisions for uncollectible receivables also affected the subsidiary's pre-tax result for H1 2020. It needs to be stressed that the provisions are not connected with the COVID-19 pandemic. As a result, the pre-tax profit of mFaktoring recognised in the consolidated financial statements of mBank Group for H1 2020 amounted to PLN -2.6 million (loss) against PLN 15.1 million in H1 2019 (profit).

3. Financial results and macroeconomic environment

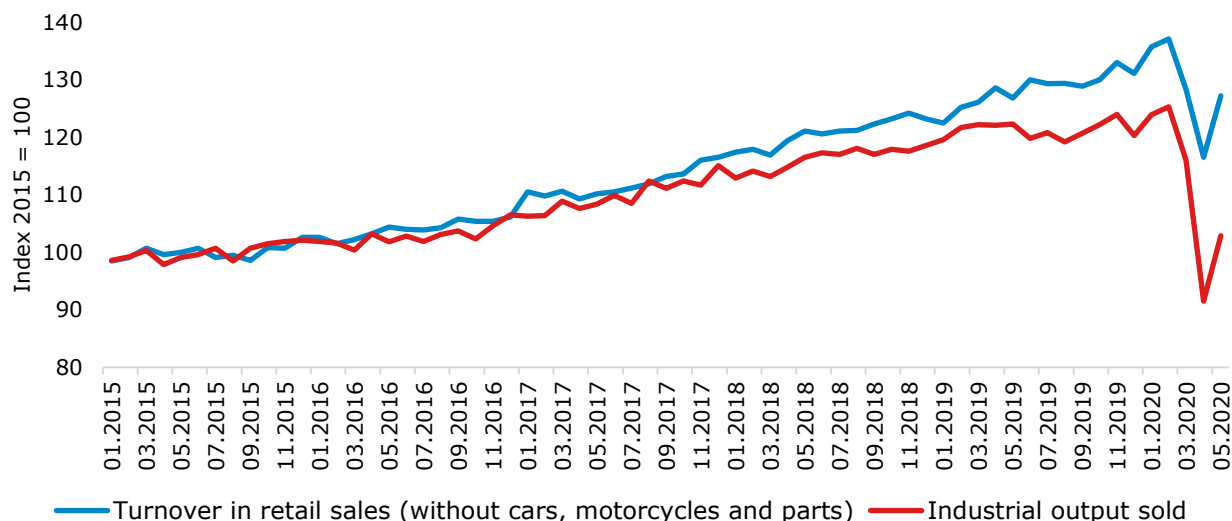
3.1. Economy and banking sector in H1 2020

All forecasts revised due to COVID-19

The COVID-19 pandemic brought economic activity to an abrupt halt at the end of Q1 2020. Efforts to curb the spread of the coronavirus introduced gradually since mid-March have brought many sectors of the economy to a standstill. According to Statistics Poland (GUS), GDP growth rate was still positive in Q1 (+2% year on year). In Q2, however, we expect the GDP to have shrunk by 8-10%, while the annual growth rate is likely to stand at -4.2%. In contrast to past economic slowdowns, this time the GDP growth curve will not be smoothed by strong positive impact of net exports. On the one hand, it is a result of a global slump in exports caused largely by the disruption of global supply chains. On the other hand, it is a consequence of a major plunge in global demand. With the progress of the epidemic varying markedly across countries, both components are at risk of sharp drops due to restrictions on consumer activity and production in countries still struggling with surging numbers of infected patients or even with a second wave of COVID-19 infections. We expect a clear revival in GDP growth starting from Q3, but owing to the factors mentioned before, it will still be prone to abrupt stops. A survey on consumer activity in the US during the current (second) wave shows that the rising number of infections in the immediate surroundings of consumers (the state) is not the only explanation for their reduced spending. Added to this is also their negative reaction to the growing number of infected patients across the whole country.



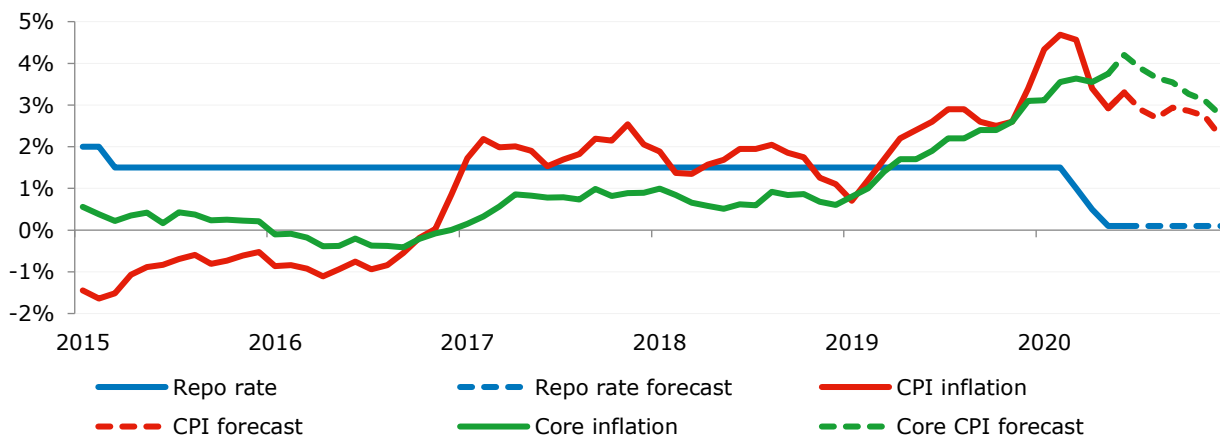
The latest data suggest that while an almost perfectly V-shaped rebound to somewhere around the pre-COVID levels is a likely scenario for retail sales, production is expected to perform far worse. Consumer optimism was quickly restored thanks to state aid and liquidity programmes. This was also helped by unemployment rates rising more slowly than it was expected when the pandemic broke out. However, it is worth stressing that increased consumer optimism has partly released pent-up demand, and what is more, consumers have purchased durable goods which are considered a substitute for market services. This is evidenced by a two-digit year-on-year growth in sales of furniture, electronics, and household appliances observed in May, which definitely pushed consumption growth rates up. At the same time, market services hit by the pandemic are unlikely to return to the previous levels, which will be a potential impediment to GDP growth. In addition, in the second half of the year the savings rate (see the section on deposits) is set to rise on fears of a second wave of COVID-19 infections. Consequently, the coming months will see a considerable slowdown in consumption, while the annual growth rates will be far below zero.



The pandemic has changed the way governments approach fiscal policy. All countries in unison loosened their fiscal policies by adjusting as was practicable the proportion of spending to liquidity. The European Union has also come up with new initiatives with the EUR 750 billion recovery plan being the major project. In our opinion the plan provides a solid support for GDP from 2021 onwards. This is why we revised our 2021 forecast up to +4.6%. It is worth stressing that it is not only a favourable base effect from a weak 2020. Since this type of spending has a potential for generating positive feedback, the GDP growth in 2021 may even exceed forecasts.

Inflation well above the target, but it will drop soon

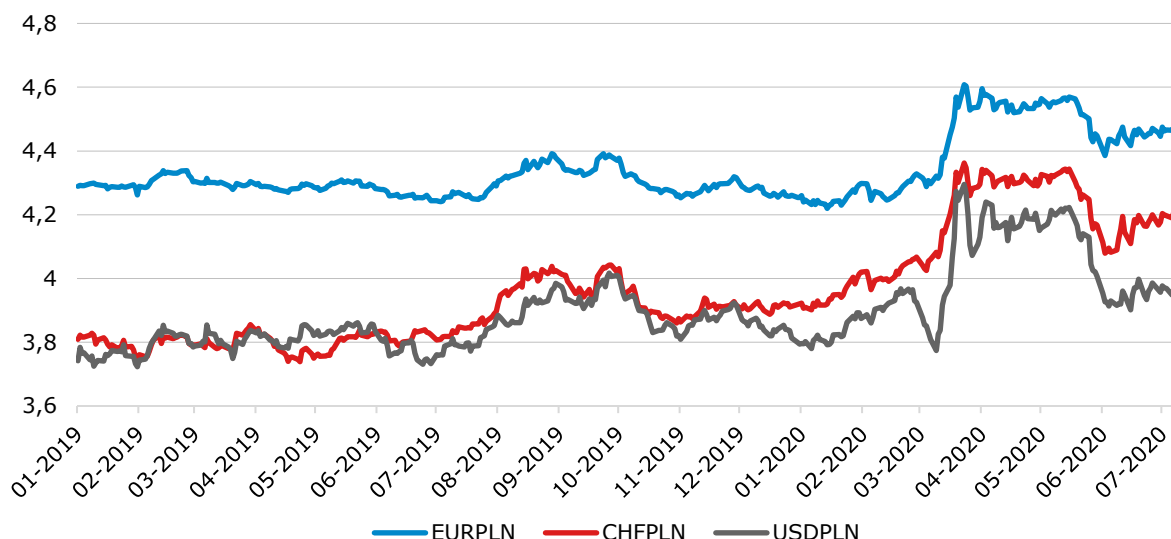
Inflation rocketed in Q1 2020 fuelled by high food prices, dynamic economic activity, a strong labour market, and an increase in regulated prices. In Q2 inflation was lower, pushed down by low oil prices. Core inflation, excluding food and energy prices, was yet higher than expected. This was caused, among others, by disrupted collection of prices and the methodology developed at the EU level to impute missing data. There are at least three variants of the imputation methodology for countries to select from. The extra charges relating to the epidemic being passed on to consumers have become an important element of the new reality. The relatively good standing of households has encouraged companies to include these extra costs in prices, which were paid by consumers in the wake of economic reopening and restoration of consumer demand. The demand build-up is likely to slow down significantly in the coming months. The typical economic effects connected with the demand gap will make themselves felt. These include current demand falling below a level that can be met when an economy is at full production capacity. Inflation is expected to decline substantially to around 1.5% over the next 12 months. However, deflation is unlikely to occur. The price adjustments observed so far suggest that consumers consider security as a priority and are willing to pay for it. The extra charges are likely to become increasingly widespread, while certain services, such as air transport, will no longer be able to benefit from economies of scale, which is expected to curb the downward cost-push pressure on prices.



The National Bank of Poland was relatively quick to respond to new economic circumstances by cutting interest rates in March, April and May by a total of 140 basis points. Moreover, it also took non-standard measures such as purchase of T-bonds and state-backed bonds and announced a new financing instrument similar to the European TLTRO which, however, turned out to be highly unpopular. Under the new circumstances, the burden of supporting the economy has shifted towards fiscal policy. The bar is set high for the Monetary Policy Council (RPP) if it wishes to slash interest rates below zero. This would require a return of strong declines in economic activity. Certain measures making up the arsenal of the central bank, such as quantitative easing, can be perceived as more effective in the environment of zero interest rates and greater coordination with fiscal policy. We expect the RPP to keep close track of the economic revival. A premature withdrawal of the stimulus would strengthen the zloty and considerably worsen the outlook for a rise in exports, especially when the new global order has just started to emerge.

Financial markets impacted by global and local risks

The outbreak of the pandemic caused an immediate depreciation of the Polish zloty. The first stage of the depreciation was triggered by capital outflows from emerging markets and problems with USD financing. This stage is probably over now owing to unprecedented monetary and fiscal policy easing around the world. Consequently, investors have regained risk appetite and the zloty has strengthened, even despite interest rates in Poland being slashed to record low levels.



Interest rates in the global economy have moved down in tandem. This means that global risk appetite is the key determinant of the value of the zloty. In our opinion low interest rates may cause increased volatility of the currency, which is likely to depreciate on waning risk appetite. At the moment, investors are at the crossroads. The number of infections has picked up again in many countries. Another lockdown similar to that introduced in March and April is highly unlikely. Nevertheless, an economic slowdown or even a slight slump cannot be ruled out. At the same time, further fiscal stimulus will not be automatic. Only central banks, which have already extended their arsenal of measures, are on full alert.

We expect the zloty to be under a slight pressure to depreciate, helped by the RPP’s policy and rhetoric. In its last announcement the RPP stated clearly that a relatively small depreciation of the zloty would impede the revival. Nevertheless, we forecast the zloty to strengthen subtly over the next year. The economy is finely balanced, while the rebound in 2021 is likely to be spectacular. In addition, the new EU plan changes the balance of currency flows to the benefit of the zloty.

Slower growth in lending and record high deposits

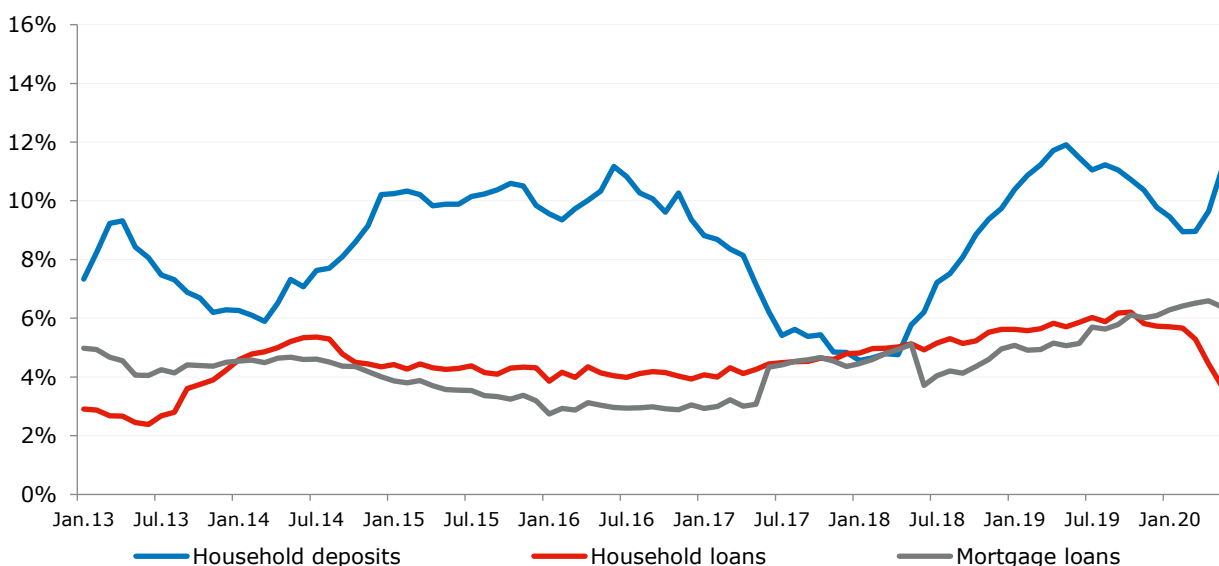
Trends observed in the banking sector in the previous quarters continued in Q1. In Q2, some of the trends were reinforced, while others were completely reversed.

Which trends were reinforced? Mostly, the downward trend in loans to households and corporate loans. A slowdown in economic activity will favour a further decrease in these categories. Although there have been feeble signs of reduced demand for mortgage loans, the example of other low-interest countries (the

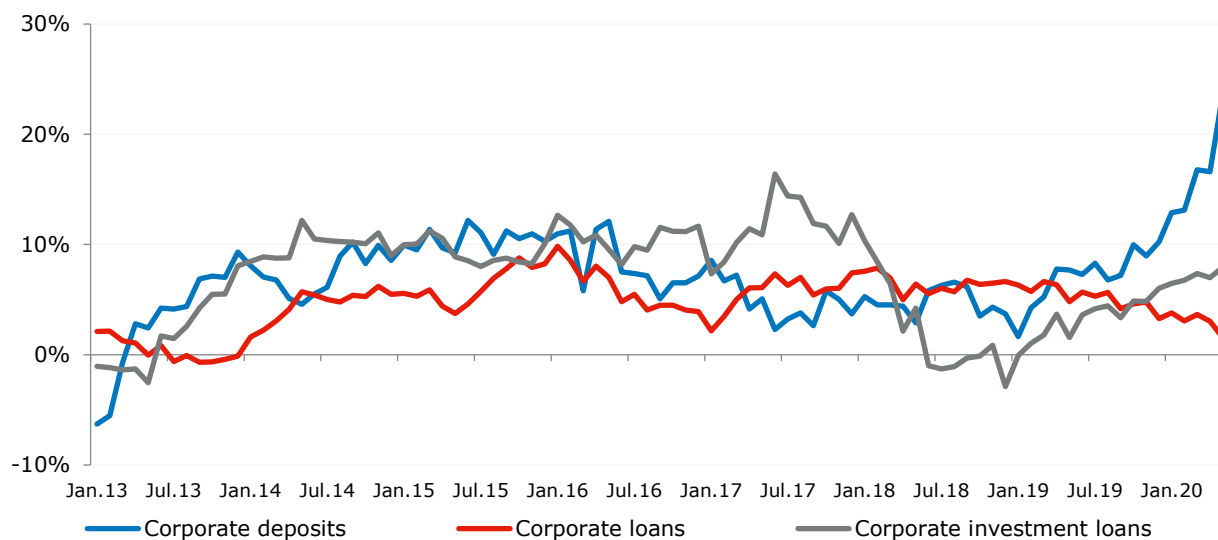
Netherlands, Norway, Denmark) shows that the reduction may be only temporary and that demand for real properties will be back to normal relatively fast. Although corporate investment loans are still rising, the data collected over the last few months most likely show a continuation of investment projects started in the past. Adding to this are orders enabling companies to remain operational during the pandemic, but these include mainly operating expenses. Solid liquidity support from the Polish Development Fund (PFR) and widespread cost-cutting started in Q2 suggest that the trend will soon be shifting. Judging from the early stage of the public investment programme (with investment projects expected to accumulate not until 2021) and local government investments, investment is unlikely to be back on an upward trajectory earlier than in 2021. In accordance with research papers^a new corporate income tax solutions (the so-called Estonian CIT) have little effect on investment, despite contributing positively to firms’ survival during a crisis. Lingering uncertainty about how the virus will evolve may generate increased demand for liquidity among companies and make investors extra cautious. On the other hand, the necessary restructuring and preparations for functioning in the new reality should positively affect investments. It seems that in the short term cuts will prevail, while in the long term development will be the way to go. One thing is almost certain: any new lending must be perceived in the context of providing the corporate sector with high, yet unequally distributed (mostly to large corporates), liquidity. We will keep close track of this credit segment.

What has changed?

The current recession is exceptional, mainly as far as deposits are concerned. They rocketed in both the corporate sector, largely due to the government’s support programmes, and in the households segment. Household deposits were also favourably affected by the support programmes, which helped to maintain the previous levels of income from employment, and the decrease in consumption caused by the pandemic. Growth in deposits will slow down when the economic activity starts to go back to normal. Nevertheless, as we have already mentioned, the more turbulent environment will encourage companies and households to maintain higher liquidity levels and, consequently, deposits, as demonstrated by household shopping preference surveys. In addition, the household deposits sector will witness further reduction in term deposits, a portion of which may flow into capital markets. As far as the corporate sector is concerned, some of the money provided by PFR (at least 25%) will have to be paid back in 2021. The remainder will be converted into non-repayable grants available to companies that will not cut jobs. It is worth mentioning that the potential mass-scale repayments will take place in 2021, when the economic activity is expected to be much better than now, especially as far as exports are concerned. In addition, the repayments received by the PFR will probably soon be injected back into the economy, because the fund’s primary role is to support investment.



^ahttps://www.eestipank.ee/sites/eestipank.ee/files/publication/en/WorkingPapers/2011/wp_211.pdf



Outlook for economic development in 2020

Key macroeconomic ratios

	2018	2019	2020F
GDP growth (YoY)	5.1%	4.1%	-4.2%
Domestic demand (YoY)	5.3%	3.5%	-3.8%
Private consumption (YoY)	4.3%	3.9%	-2.6%
Investment (YoY)	8.9%	6.9%	-9.5%
Inflation (eop)	1.1%	3.4%	2.2%
MPC rate (eop)	1.50%	1.50%	0.10%
CHF/PLN (eop)	3.82	3.92	4.11
EUR/PLN (eop)	4.30	4.25	4.40





Banking sector – monetary aggregates (year to year)

	2018	2019	2020F
Corporate loans	7.5%	3.0%	-6.7%
Household loans	6.8%	6.1%	2.4%
Mortgage loans	6.8%	6.7%	2.7%
Non-mortgage loans	6.8%	5.1%	2.0%
Corporate deposits	4.3%	10.0%	17.7%
Household deposits	10.1%	9.7%	5.6%

Source: mBank's estimates as of 03.07.2020.

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

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

Net interest income & NIM	(negative) 
<ul style="list-style-type: none"> ■ Reduction of interest rates by 140 bps in total will translate into lower interest income and strong pressure on margin ■ Insufficient space for deposit repricing equivalently to rate cuts 	
Net Fee & Commission income	(slightly negative) 
<ul style="list-style-type: none"> ■ Lower sales of banking products, curbed new loan production ■ A decrease in customer activity, rise of price sensitivity 	
Total costs	(neutral) 
<ul style="list-style-type: none"> ■ Strictly-disciplined management of operating expenses ■ Rising amortisation due to ongoing investments in IT ■ Higher contribution to the Deposit Guarantee Scheme 	
Loan Loss Provisions	(negative) 
<ul style="list-style-type: none"> ■ The financial standing of corporate and retail borrowers can worsen in the coming quarters due to the expected deterioration of the macroeconomic situation ■ The anti-crisis stimulus package may limit the negative impact of the recession on the asset quality 	

An important factor forming the activities in the coming periods is the economic environment, whose development in H1 2020 and the prospects for a full calendar year are described in Chapter 3.1. Economy and banking sector in H1 2020.

The changing regulatory environment also has an impact on the future of the Group. Selected changes in this area are described later in this chapter.

Important information regarding factors that may affect mBank Group in the future is additionally described in selected notes to the IFRS Condensed Consolidated Financial Statements for the first half of 2020:

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

Changes in selected regulations relevant to banks

Regulations and guidelines issued amid the COVID-19 pandemic

Polish and EU lawmakers and regulators have taken active measures to reduce the impact of the COVID-19 pandemic. The initial efforts focused on curbing the spread of the virus. They included, among others, travel restrictions, limits on public gatherings, border controls, and the closure of schools, shopping centres, and other places. On April 16, 2020 the Polish government announced its plan for gradual lockdown easing allowing businesses to reopen in several steps under a strict sanitary regime. The key measures to mitigate and reduce the negative impact of the coronavirus on the economy and society have been defined in a package of laws making up the so-called "anti-crisis shield". A list of all the regulations making up the anti-crisis shield is available on <https://www.gov.pl/web/tarczaantykrzysowa/materialy>

The economic unfreezing was divided by the government into four stages, introduced under condition of fulfilling increased sanitary restrictions and constant monitoring of pandemics' development. The first stage started on April, 20, and focused mainly on allowing more people in the shops and relaxing the restrictions in movement. Next stages took place starting from May, 4, each followed by the next in two-weeks periods.

Due to the dynamic development of the epidemiological situation government measures may be adjusted and differ from the description provided below, which has been prepared as of the beginning of July 2020.

The strongest anti-crisis stimulus measures launched in Poland comprise the following three pillars: direct aid from the state budget, credit guarantees for businesses worth a total of PLN 75 billion, and financial support for companies granted by the Polish Development Fund (PFR) totalling PLN 100 billion, out of which PLN 60 billion will have the form of non-repayable grants. The first two pillars include, among others, the following measures:

- 1) support for the healthcare, i.e. financing the fight against the coronavirus pandemic and additional money for the development of healthcare infrastructure;
- 2) employment security, including wage subsidies for employees on partial furlough and working in companies whose operation has been disrupted, awarded for three months. The amount and conditions of financing depend on, among others, the size of the company and the decrease in revenue caused by the pandemic. The government has also offered support for people working under civil-law contracts and the self-employed;
- 3) childcare benefit for employees awarded in the case of limited availability of nursery schools, kindergartens, and schools;
- 4) funding for businesses provided under the Liquidity Guarantee Fund addressed to large companies worth PLN 8.5 billion; funding in the form of subordinated bonds worth PLN 6 billion for medium-sized and large companies provided by the PFR;
- 5) extension of *de minimis* guarantees offered by BGK to small and medium-sized enterprises;
- 6) suspension of social insurance contributions or allowing companies to pay them in instalments.

The third pillar of the anti-crisis shield comprises the Financial Shield of the Polish Development Fund for Businesses and Employees. The programme consists of three basic components worth a total of PLN 100 billion (4.5% of the GDP). Its big advantage, appreciated by businesses, consists in transparency and a relatively simple application procedure. The first component of the programme involves repayable subsidies for micro-enterprises. The amount of support depends on the number of employees and the decrease in revenue. 75% of the subsidy can be converted into a non-repayable grant if the company continues operation for the next twelve months (25% of the loan) and keeps the average headcount for twelve months (50% of the loan). The support is channeled mainly via banks. The total value of the scheme addressed to micro-enterprises stands at PLN 25 billion. The non-repayable part is worth PLN 16 billion.

The second pillar includes repayable subsidies for small and medium-sized enterprises. The conditions are the same as in the case of micro-enterprises. The amount of the loan depends on the revenue posted in 2019 and the decrease in revenue caused by COVID-19. The subsidy cannot exceed PLN 3.5 million, out of which 75% can be converted into a non-repayable grant: 25% if the company continues operation for the next 12 months, 25% if it keeps the average headcount, and 25% depending on the loss sustained by the company. The support is also granted via electronic banking. The maximum value of the programme is PLN 50 billion, out of which PLN 32 billion can be converted into non-repayable grants.

The third component consists in support for large companies with more than 250 employees. In addition to the above conditions, a large company applying for support must fulfil additional criteria such as the loss of ability to produce goods or provide services as a result of COVID-19 or lack of access to the capital market or credit limits. The funding will be available in three forms: liquidity (loans and/or bonds), preferential (partially non-repayable preferential loans), and investment (acquisition of shares). The total value of the scheme addressed to large companies stands at PLN 25 billion. The non-repayable part is worth PLN 12 billion.

Other measures taken to mitigate the impact of the pandemic include the strengthening of the financial system, including a base rate reduction by the Monetary Policy Council, reduction of the mandatory reserve rate to 0.5%, repo operations of the National Bank of Poland, and potential long-term refinancing operations (LTRO). Important changes directly affecting the banking sector include a recommendation of the Polish Financial Supervision Authority (PFSA) not to pay dividends, which was issued in March 2020 with a view to strengthening the capital base. The Regulation of the Minister of Finance dated 18 March 2020 repealing the systemic risk buffer regulation, i.e. reducing the buffer from 3% to 0%, serves a similar purpose of releasing capital to support the lending activity of banks. Certain supervisory obligations have been postponed. In addition, selected banks indirectly support the anti-crisis measures, for example by implementing a system for handling subsidies for micro-enterprises and SMEs granted under the Financial Shield of the Polish Development Fund.

Information about measures taken by the Group amid the COVID-19 pandemic is presented in individual chapters of this report.

Communication from the Polish Financial Supervision Authority (PFSA) on information processing by supervised entities using public or hybrid cloud computing services

In its communication dated January 23, 2020 the PFSA defined new terms, such as disclosure of information, encryption or cloud-based outsourcing. The purpose was to dispel doubts of supervised entities operating in the financial sector about their interpretation. The PFSA considers the security of the processing of information relevant for the processes or operation of supervised entities and legally protected information as a priority. The Polish regulator recommends that data processing centres should be located in the territory of EEA countries. The deadlines for meeting the requirements laid down in the communication have been extended following the outbreak of the COVID-19 pandemic. On March 26, 2020 the PFSA postponed the deadline for complying with the regulation to November 1, 2020. The entities using cloud services are obliged to notify the PFSA about it not later than 30 days from the commencement of cloud-based information processing.

Methodology for the assessment of suitability of members of authorities of supervised entities dated January 27, 2020

The purpose of the methodology published by the Office of the Polish Financial Supervision Authority (the PFSA Office) is to improve the transparency and predictability of the suitability assessment process and its criteria. The methodology covers expectations, forms, and process maps for individual participants of the financial market, which enable them to document the assessment process. The supervisory expectations and best practices presented in the methodology concern, among others, the criteria of the individual and collective assessment, assessment of specific positions and functions or tools supporting the process. The aforesaid requirements must be included in internal suitability assessment processes and in motions filed with the PFSA.

BFG communication on MREL

In its communication dated March 26, 2020 the Bank Guarantee Fund (BGF) outlined the MREL-related (Minimum Requirement for own funds and Eligible Liabilities) measures it plans to take due to the COVID-19 pandemic. The revised MREL will take into account the reduction of the systemic risk buffer to 0%. The first interim MREL target applies from January 1, 2022, while the target deadline for meeting MREL under BRRD2 was extended by one year to January 1, 2024.

Regulation on documents relating to banking activities saved on digital data carriers

The regulation will supersede the previous regulation issued in 2004 and allow for using electronic seals referred to in the eIDAS regulation in addition to electronic signatures which have been used so far.

Moreover, it will also allow for storing documents relating to banking activities in a decentralised and distributed database. The regulation sets out requirements with regard to security of documents. The regulation dated March 9, 2020 will enter into force six months after its announcement.

Regulations pending legislation

The first six months of 2020 were marked by intensive work on amending regulations of vital importance to the banking sector. The key ones include draft amendments to the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution and Certain Other Acts, which transposes BRRD2 to the Polish law. Also the Banking Law Act and certain other acts must be amended in connection with the transposition of the CRDV/CRR2 package. In addition, draft amendments to the Regulation on Risk Management System, Internal Control System, Remuneration Policy and Detailed Method for Banks' Internal Capital Assessment are currently in consultations. The bank keeps close track of the legislation process in order to ensure timely compliance with new regulations.

3.2. Financial results of mBank Group in H1 2020

All changes presented in the analysis of financial results are calculated on the basis of the IFRS Condensed Consolidated Financial Statements for the first half of 2020 (in PLN'000).

Profit & Loss Account

mBank Group closed H1 2020 with a profit before tax of PLN 362.4 million v. PLN 749.2 million generated in H1 2019 (down by PLN 386.8 million or 51.6%). The net profit attributable to the owners of mBank stood at PLN 177.9 million v. PLN 535.6 million in H1 2019 (down by PLN 357.7 million or 66.8%).

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Interest income	2,464.4	2,545.6	81.2	3.3%
Interest expense	-536.4	-473.5	62.9	-11.7%
Net interest income	1,928.0	2,072.1	144.0	7.5%
Fee and commission income	953.1	1,079.9	126.8	13.3%
Fee and commission expense	-358.4	-354.3	4.1	-1.2%
Net fee and commission income	594.6	725.6	131.0	22.0%
Core income	2,522.7	2,797.7	275.0	10.9%
Dividend income	3.7	4.5	0.8	22.7%
Net trading income	66.4	84.4	17.9	27.0%
Other income	45.5	6.1	-39.4	-86.6%
Other operating income	72.8	116.1	43.3	59.5%
Other operating expenses	-92.7	-104.9	-12.2	13.1%
Total income	2,618.3	2,903.8	285.5	10.9%
Net impairment losses and fair value change on loans and advances	-369.6	-761.4	-391.9	106.0%
Result on provisions for legal risk related to foreign currency loans	-27.8	-201.9	-174.1	626.9%
Overhead costs and depreciation	-1,252.9	-1,307.8	-54.9	4.4%
Taxes on the Group balance sheet items	-218.9	-270.2	-51.4	23.5%
Profit before income tax	749.2	362.4	-386.8	-51.6%
Income tax expense	-213.6	-184.5	29.1	-13.6%
Net profit attributable to:	535.5	177.8	-357.7	-66.8%
- Owners of mBank S.A.	535.6	177.9	-357.7	-66.8%
- Non-controlling interests	-0.1	-0,1	0.0	40.0%
ROA net	0.7%	0.2%		
ROE gross	10.0%	4.4%		
ROE net	7.1%	2.2%		
Cost / Income ratio	47.9%	45.0%		
Net interest margin	2.7%	2.5%		
Common Equity Tier 1 ratio	16.7%	16.4%		
Total capital ratio	19.7%	19.3%		

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

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

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

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

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

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

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

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

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

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

The main drivers of the financial results of mBank Group in H1 2020 included:

- **Increase of total income** by 10.9% on H1 2019, mainly due to an increase in net interest income by 7.5% and in fee and commission income by 22.0%;
- **Higher operating expenses (depreciation)** by 4.4% compared with H1 2019, caused chiefly by higher depreciation;
- **Increase of net impairment losses and fair value change on loans and advances** by 106.0% due to higher provisions in Retail Banking and Corporate Banking segments;
- **Higher provisions for legal risk related to foreign currency loans**, resulting from a change in the approach to the establishment of these provisions in Q4 2019;
- **Increase of taxes on the Group balance sheet items** in connection with an increase in the value of assets;
- **Continued organic growth and business expansion** as demonstrated by:
 - number of retail clients reaching 5,671,900 (+119,400 year on year);
 - number of corporate clients growing to 27,725 (+2,723 year on year).

In H1 2020, net loans and advances increased by 3.3% compared with December 31, 2019 and by 8.3% against the end of June 2019. Deposits grew by 19.7% against the end of 2019 and by 26.5% against the end of June 2019. Consequently, the loan-to-deposit ratio hit record-low at 77.9% compared with 90.3% at the end of 2019 and 91.0% on June 30, 2019.

The changes in the Group's results translated into the following profitability ratios:

- Gross ROE of 4.4% (vs. 10.0% in H1 2019);
- Net ROE of 2.2% (vs. 7.1% in H1 2019).

The Total Capital Ratio stood at 19.3% compared with 19.5% at the end of 2019 and 19.7% at the end of June 2019. The Common Equity Tier 1 Capital Ratio stood at 16.4% compared with 16.5% at the end of 2019 and 16.7% at the end of June 2019. The decrease in the capital ratios was driven by an increase in the total risk exposure amount over that period.

Contribution of business segments and business lines to the financial results

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

PLN M	H1 2019	H1 2020	Change in %	% share in profit before tax
Retail Banking	464.0	271.9	-41.4%	75.0%
Corporate and Investment Banking	240.1	51.2	-78.7%	14.1%
Financial Markets	58.7	57.1	-2.7%	15.8%
Other	-13.6	-17.9	31.6%	-4.9%
Profit before tax of mBank Group	749.2	362.4	-51.6%	100.0%

Income of mBank Group

mBank Group generated total income at the level of PLN 2,903.8 million in H1 2020 vs. PLN 2,618.3 million in H1 2019, which represents an increase of PLN 285.5 million or 10.9%. During this period, net interest income and net fee and commission income improved markedly.

Net interest income remained the main source of income of mBank Group in H1 2020 (72.5% of total income). It stood at PLN 2,072.1 million vs. PLN 1,928.0 million in H1 2019, representing an increase by PLN 144.0 million or 7.5%. Despite the persisting low-rate environment and a series of interest rate cuts in H1 2020, interest income increased and costs decreased.

Interest income increased by PLN 81.2 million or 3.3% year on year and stood at PLN 2,545.6 million in H1 2020. Income on loans and advances to clients, constituting the main source of interest income, went up by PLN 133.7 million or 7.1% year on year. This was possible thanks to rising credit volumes and shifts in the structure of assets towards high-margin products, especially non-mortgage loans. The period under review also saw a decrease in income from investment securities by PLN 14.6 million or 4.1% against H1 2019, attributable to lower interest rates despite an increase in the nominal value of the portfolio.

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Loans and advances	1,890.1	2,023.8	133.7	7.1%
Investment securities	354.7	340.1	-14.6	-4.1%
Cash and short term funds	28.8	20.4	-8.4	-29.3%
Debt securities held for trading	30.9	19.7	-11.2	-36.2%
Interest income on derivatives classified into banking book	98.2	74.3	-23.9	-24.3%
Interest income on derivatives concluded under the fair value hedge	37.2	40.1	2.9	7.7%
Interest income on derivatives concluded under the cash flow hedge	26.5	33.8	7.3	27.6%
Other	-1.9	-6.5	-4.6	238.2%
Total interest income	2,464.4	2,545.6	81.2	3.3%

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

Interest income from investment securities includes interest income on the following items: non-trading financial assets measured mandatorily at fair value through profit or loss, including debt securities, financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, including debt securities.

Interest expense decreased by PLN 62.9 million or 11.7% year on year in H1 2020. Deposit expenses fell by PLN 44.5 million or 13.6% despite a significant increase in the volume of retail and corporate deposits in H1 2020. Costs of debt securities in issue, which constitute the Group's second-largest source of funding, decreased by PLN 17.4 million or 11.4%.

Net interest margin fell to 2.48% in H1 2020 from 2.68% a year before (-20 bps.). The decrease was driven by three rate cuts in H1 2020 by a total of 140 bps.

Net fee and commission income amounted to PLN 725.6 million in H1 2020, up by PLN 131.0 million or 22.0% year on year. The growth in net commission income was mainly driven by an increase in income in H1 2020, which was partially attributable to price adjustments made in H2 2019.

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Payment cards-related fees	195.9	226.5	30.7	15.7%
Credit-related fees and commissions	201.9	226.0	24.1	12.0%
Commissions for foreign currencies exchange	140.0	161.6	21.7	15.5%
Commissions from bank accounts	104.0	97.4	-6.6	-6.3%
Commissions from money transfers	69.8	70.2	0.4	0.6%
Commissions for agency service regarding sale of insurance products of external financial entities	47.0	54.9	8.0	17.0%
Fees from brokerage activity and debt securities issue	46.5	93.3	46.8	100.7%
Commissions due to guarantees granted and trade finance commissions	47.0	47.5	0.5	1.1%
Commissions for agency service regarding sale of other products of external financial entities	36.7	36.6	-0.1	-0.4%
Commissions on trust and fiduciary activities	13.1	16.1	3.0	22.7%
Fees from portfolio management services and other management-related fees	6.5	6.2	-0.3	-4.7%
Fees from cash services	24.5	21.7	-2.9	-11.7%
Other	20.2	21.8	1.6	7.7%
Fee and commission income	953.1	1 079.9	126.8	13.3%

Commission income increased by PLN 126.8 million or 13.3% year on year. Payment cards-related fees, which make the biggest contribution to commission income, increased by PLN 30.7 million or 15.7% year on year in the period under review thanks to an increase in the volume and value of non-cash transactions and an increase in certain payment card fees introduced in H2 2019.

Credit-related fees and commissions increased by PLN 24.1 million or 12.0% year on year as a result of higher sales of retail mortgage and non-mortgage loans and corporate loans.

Commissions on FX transactions, which since 2020 have been included in fee and commission income (before they were included in the foreign exchange result) rose by 21.7 million or 15.5% in the period under review. The increase was driven by higher activity of both corporate and retail clients.

In H1 2020 investors' activity on the Warsaw Stock Exchange (WSE) increased significantly compared with the previous years, while the turnover of mBank's Brokerage Bureau on the WSE equity market rose by 35% year on year. As a result, fees from brokerage activity and debt securities issue increased by PLN 46.8 million or 100.7% compared with H1 2019.

Fee and commission expense decreased by PLN 4.1 million or 1.2% year on year in H1 2020, driven mainly by payment cards-related fees and commissions paid to external entities for sale of the bank's products.

Dividend income amounted to PLN 4.5 million in H1 2020 increasing slightly against H1 2019. Similarly to the previous year, the income posted in H1 2020 included dividends received from Biuro Informacji Kredytowej (BIK) and Krajowa Izba Rozliczeniowa (KIR), in which mBank holds minority interests.

Net trading income amounted to PLN 84.4 million in H1 2020, up by PLN 17.9 million or 27.0% compared with the previous year. An increase was reported mainly in gains or losses on financial assets and liabilities held for trading, which rose by PLN 52.9 million driven mainly by high market volatility caused by the COVID-19 pandemic. The foreign exchange result decreased. The part of this result, related to the margin earned on FX spot transactions, was moved to fee and commission income (commissions on FX transactions) as of 2020.

Other income amounted to PLN 6.1 million compared with PLN 45.5 million in H1 2019.

Net other operating income (other operating income net of other operating expenses) stood at PLN 11.2 million, compared with -PLN 19.9 million in H1 2019.

Net impairment losses and fair value change on loans and advances

In H1 2020, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at -PLN 761.4 million, up from -PLN 369.6 million in H1 2019 (-PLN 391.9 million or +106.0%). In H1 2020, impairment or reversal of impairment on financial assets not measured at fair value through profit or loss amounted to -PLN 713.9 million, while gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss amounted to -PLN 47.5 million. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. The item "gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss" is mainly related to the credit risk of the portfolio of loans and advances measured with the use of this method.

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Retail Banking	-245.6	-396.4	-150.8	61.4%
Corporates and Financial Markets	-123.1	-367.1	-244.1	198.3%
Other	-0.9	2.1	3.0	-/+
Total net impairment losses and fair value change on loans and advances	-369.6	-761.4	-391.9	106.0%

Net impairment losses and fair value change on loans and advances in Retail Banking rose by PLN 150.8 million year on year and stood at PLN 396.4 million in H1 2020. The significant increase in risk costs results from, among others, the adoption of macroeconomic scenario in estimating portfolio provisions, taking into account the impact of covid-19 pandemic on the economy.

Net impairment losses and fair value change on loans and advances in Corporate Banking and Financial Markets stood at PLN 367.1 million in H1 2020, up by PLN 244.1 million year on year. Higher impairment losses resulted from, among others, an additional review of sectors and individual clients, especially clients put on the watch list, conducted to check the potential increase in the probability of failure to carry out restructuring plans due to the change in the economic situation in Poland caused by the COVID-19 pandemic.

Result on provisions for legal risk related to foreign currency loans

The result on provisions for legal risk related to foreign currency loans stood at PLN 201.9 million in H1 2020, up by PLN 174.1 million year on year. In Q4 2019 the Group changed the approach to calculating provisions for legal risk related to foreign currency loans. More information about this method can be found in Note 3 of the IFRS Condensed Consolidated Financial Statements for the first half of 2020.

Costs of mBank Group

In the period under review, mBank Group pursued further investments in growth in the strategic areas, which will help to boost income in the coming years. At the same time, high operational efficiency, measured by the cost-to-income ratio, was maintained.

Total overhead costs of mBank Group (including depreciation) stood at PLN 1,307.8 million in H1 2020, up by PLN 54.9 million or 4.4% year on year.

PLN M	H1 2019	H1 2020	Change in PLN	Change in %
Staff-related expenses	-503.5	-523.0	-19.5	3.9%
Material costs, including	-328.2	-324.1	4.1	-1.2%
- administration and real estate services costs	-135.1	-124.1	11.0	-8.1%
- IT costs	-84.5	-90.8	-6.3	7.5%
- marketing costs	-69.9	-60.8	9.1	-13.1%
- consulting costs	-32.8	-41.3	-8.5	25.9%
- other material costs	-5.8	-7.1	-1.2	21.2%
Taxes and fees	-14.0	-12.7	1.2	-8.9%
Contributions and transfer to the Bank Guarantee Fund	-226.1	-230.0	-3.8	1.7%
Contributions to the Social Benefits Fund	-3.0	-4.2	-1.3	42.2%
Depreciation	-178.2	-213.9	-35.7	20.0%
Total overhead costs and depreciation	-1,252.9	-1,307.8	-54.9	4.4%
Cost / Income ratio	47.9%	45.0%	-	-
Employment (FTE)	6,677	6,827	151	2.3%

Staff-related expenses rose by PLN 19.5 million or 3.9% year on year due to an increase in wages and salaries. At the same time, the number of FTEs increased by 151, mainly in connection with the projects carried out at the bank and the opening of new branches.

Material costs went up slightly in the period under review (+PLN 4.1 million or 1.2%). Costs of administration and real estate services and marketing costs decreased in the period under review, while IT costs and consulting costs increased.

Depreciation increased by PLN 35.7 million or 20.0% year on year in H1 2020 due to earlier investment outlays on IT systems and licensing costs related to an IT system used by the bank.

The contribution to the Bank Guarantee Fund stood at PLN 230.0 million in H1 2020, up by PLN 3.8 million against H1 2019. Both H1 2020 and H1 2019 costs comprised the annual contribution to the resolution fund recognised in Q1. The contribution amounted to PLN 167.2 million and PLN 197.3 million in 2020 and 2019, respectively.

As a result of changes in the income and costs of mBank Group, the cost-to-income ratio of mBank Group stood at 45.0% compared with 47.9% in the same period last year. The adjusted cost-to-income ratio (net of the contribution to the resolution fund attributable to the second half of the year) improved slightly in H1 2020 (down to 42.2% from 44.6% in H1 2019).

Changes in the consolidated statement of financial position

Changes in assets of mBank Group

In H1 2020, assets of the Group increased by PLN 24,222.2 million or 15.3% and stood at PLN 182,942.8 million as at June 30, 2020.

PLN M	30.06.2019	31.12.2019	30.06.2020	YtD change	YoY change
Cash and balances with Central Bank	6,689.8	7,897.0	11,141.3	41.1%	66.5%
Loans and advances to banks	3,079.8	4,341.8	6,921.4	59.4%	124.7%
Financial assets held for trading and derivatives held for hedges	3,669.6	2,693.3	3,372.3	25.2%	-8.1%
Net loans and advances to customers	100,421.5	105,347.5	108,772.8	3.3%	8.3%
Investment securities	34,293.8	34,305.2	48,418.9	41.1%	41.2%
Intangible assets	822.1	955.4	1,063.9	11.4%	29.4%
Tangible assets	1,304.2	1,262.4	1,162.5	-7.9%	-10.9%
Other assets	2,152.4	1,918.0	2,089.8	9.0%	-2.9%
Total assets	152,433.2	158,720.6	182,942.8	15.3%	20.0%

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

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

Loans and advances to customers retained the largest share in the balance sheet of mBank Group at the end of H1 2020. Their net volume increased by PLN 8,351.3 million or 8.3% year on year and by PLN 3,425.3 million i.e. 3.3% in H1 2020.

As at June 30, 2020, they accounted for 59.5% of the balance sheet total compared with 65.9% at the end of H1 2019 and 66.4% at the end of 2019.

PLN M	30.06.2019	31.12.2019	30.06.2020	YtD change	YoY change
Loans and advances to individuals	56,048.8	60,360.7	63,276.6	4.8%	12.9%
Loans and advances to corporate entities	47,047.1	47,785.7	48,734.1	2.0%	3.6%
Loans and advances to public sector	555.1	391.4	354.4	-9.5%	-36.2%
Total (gross) loans and advances to customers	103,650.9	108,537.8	112,365.1	3.5%	8.4%
Provisions for loans and advances to customers	-3,229.4	-3,190.3	-3,592.3	12.6%	11.2%
Total (net) loans and advances to customers	100,421.5	105,347.5	108,772.8	3.3%	8.3%

In H1 2020, gross loans and advances to individuals rose by PLN 2,915.4 million or 4.8%. The volume of gross mortgage and housing loans increased by 8.4% compared with the end of 2019.

During the pandemic, sales of new loans slowed down sharply. In H1 2020, mBank Group sold PLN 3,911.2 million mortgage loans (+ 5.4% year on year) and PLN 3,550.9 million non-mortgage loans (-31.7% compared with H1 2019).

Net of the FX effect, loans and advances to individuals grew by 3.1% compared with the end of 2019 and by 10.4% year on year.

The volume of gross loans and advances to corporate clients grew by PLN 948.4 million or 2.0% year to date in H1 2020. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans to corporate clients decreased by 2.6% against the end of 2019 and increased marginally, by 0.2%, against H1 2019.

In H1 2020, sales of corporate loans (including new sales, increase of limits and renewals) increased by 3.4% year on year. The lower dynamics than in the previous year resulted from the reduced demand for new financing in the face of economic turmoil caused by the COVID-19 pandemic, the financial support under the "Financial Shield" of the Polish Development Fund (Polski Fundusz Rozwoju) and tightening credit policies.

The volume of gross loans and advances to the public sector decreased by PLN 37.0 million or 9.5% in H1 2020.

Investment securities constituted mBank Group's second largest category of assets (26.5%). In H1 2020, their value increased by PLN 14,113.8 million or 41.1% mainly as a result of an increase in the volume of securities issued by the sector of general and local governments.

The balance of financial assets held for trading and derivatives held for hedges went up by PLN 678.9 million or 25.2% in H1 2020 as a result of an increase in the value of derivatives (+55.0% year to date) and an increase on the position of debt securities issued by the central and local governments, credit institutions and other entities (+8.7%).

Changes in liabilities and equity of mBank Group

The table below presents changes in liabilities and equity of the Group in H1 2020:

PLN M	30.06.2019	31.12.2019	30.06.2020	YtD change	YoY change
Amounts due to other banks	2,974.9	1,166.9	2,004.2	71.8%	-32.6%
Amounts due to customers	110,341.1	116,661.1	139,622.5	19.7%	26.5%
Debt securities in issue	16,563.9	17,435.1	16,408.2	-5.9%	-0.9%
Subordinated liabilities	2,477.7	2,500.2	2,564.1	2.6%	3.5%
Other liabilities	4,399.4	4,803.9	5,431.0	13.1%	23.4%
Total Liabilities	136,756.9	142,567.3	166,030.1	16.5%	21.4%
Total Equity	15,676.3	16,153.3	16,912.7	4.7%	7.9%
Total Liabilities and Equity	152,433.2	158,720.6	182,942.8	15.3%	20.0%

Amounts due to customers are the principal source of funding of mBank Group. Their share in the structure of liabilities and equity of mBank Group recorded an increase year on year. As at the end of June 2020, amounts due to customers accounted for 76.3% of the Group's total liabilities and equity as compared with 73.5% at the end of 2019 and 72.4% at the end of June 2019.

PLN M	30.06.2019	31.12.2019	30.06.2020	YtD change	YoY change
Individual customers	70,241.0	77,664.4	89,777.1	15.6%	27.8%
Corporate customers	38,127.0	38,137.9	49,077.6	28.7%	28.7%
Public sector customers	1,973.1	858.9	767.8	-10.6%	-61.1%
Total amounts due to customers	110,341.1	116,661.1	139,622.5	19.7%	26.5%

Amounts due to customers increased by PLN 22,961.4 million or 19.7% in H1 2020, up to PLN 139,622.5 million. In the period under review, a strong rise in amounts due to individual customers and corporate clients could be observed.

Amounts due to corporate clients went up by PLN 10,939.7 million or 28.7% in the period under review. The increase was driven mainly by current accounts (+34.1%) and to a lesser extent by term deposits (+18.9%). The increase in deposits in Q2 2020 was contributed by funds from anti-crisis shields that topped up corporate accounts.

Amounts due to individuals rose by PLN 12,112.7 million or 15.6% in H1 2020. Such a strong increase resulted from the reduction of expenses during the COVID-19 epidemic and the impact of aid activities. The value of funds on current accounts increased by 22.5%. Due to the reduction in interest on term deposits to the level significantly below 1% as a result of the reduction in market interest rates, term deposits decreased by 13.2% compared to the end of 2019.

Amounts due to the public sector in H1 2020 went down by 10.6% to PLN 767.8 million.

Amounts due to other banks decreased by PLN 837.3 million or 71.8% year to date and stood at PLN 2,004.2 million. Year to date decrease was mainly driven by funds on current accounts maintained at mBank by other institutions, repo transactions with banks and other liabilities, including cash collaterals.

The share of debt securities in issue in the funding structure of mBank Group dropped from 11.0% at the end of 2019 to 9.0% at the end of June 2020. Their value decreased by PLN 1,026.9 million or 5.9% compared with the end of 2019. This decrease is primarily attributable to the earlier redemption of part of three tranches of notes with a total nominal value of EUR 147.6 million issued under the EMTN program and the redemption of covered bonds of mBank Hipoteczny at maturities: in April PLN 150 million and in June EUR 50 million.

Subordinated liabilities increased by 2.6% year to date due to depreciation of the zloty against the Swiss franc, in which a part of mBank's subordinated debt (CHF 250 million) is denominated.

In H1 2020, equity grew by PLN 759.4 million or 4.7% as a result of an increase in retained earnings, while its share in total liabilities and equity of mBank Group accounted for 9.2% at the end of H1 2020, compared to 10.3% at June 30, 2019 and 10.2% at December 31, 2019.

Financial results of mBank Group in Q2 2020

The profit before tax generated by mBank Group in Q2 2020 stood at PLN 218.4 million against PLN 143.9 million in the previous quarter. Net profit attributable to owners of mBank reached PLN 87.0 million, down from PLN 90.9 million in Q1 2020.

PLN M	Q1 2020	Q2 2020	Change in PLN M	Change in %
Interest income	1,335.0	1,210.6	-124.4	-9.3%
Interest expense	-269.5	-204.0	65.5	-24.3%
Net interest income	1,065.5	1,006.6	-58.9	-5.5%
Fee and commission income	544.4	535.5	-8.9	-1.6%
Fee and commission expense	-181.8	-172.6	9.2	-5.1%
Net fee and commission income	362.7	362.9	0.3	0.1%
Core income	1,428.1	1,369.5	-58.6	-4.1%
Dividend income	0.3	4.2	3.9	1,293.0%
Net trading income	44.8	39.5	-5.3	-11.7%
Other income	-24.0	30.1	54.1	-225.3%
Other operating income	41.1	74.9	33.8	82.2%
Other operating expenses	-56.1	-48.8	7.3	-13.0%
Total income	1,434.3	1,469.5	35.2	2.5%
Net impairment losses and fair value change on loans and advances	-409.3	-352.2	57.1	-14.0%
Result on provisions for legal risk related to foreign currency loans	-12.9	-189.0	-176.1	1,363.7%
Overhead costs and depreciation	-736.3	-571.5	164.8	-22.4%
Taxes on the Group balance sheet items	-131.8	-138.4	-6.6	5.0%
Profit before income tax	143.9	218.4	74.5	51.8%
Income tax expense	-53.0	-131.5	-78.5	148.0%
Net profit attributable to:	90.9	86.9	-4.0	-4.4%
- Owners of mBank S.A.	90.9	87.0	-3.9	-4.3%
- Non-controlling interests	0.0	-0.1	-0.1	+/-
ROA net	0.2%	0.2%		
ROE gross	3.6%	5.3%		
ROE net	2.2%	2.1%		
Cost / Income ratio	51.3%	38.9%		
Net interest margin	2.6%	2.3%		
Common Equity Tier 1 ratio	16.5%	16.4%		
Total capital ratio	19.4%	19.3%		

The main drivers of mBank Group's financial results in Q2 2020 compared with Q1 2020 included:

- **Decrease in net interest income** by PLN 58.9 million or 5.5% resulting from the NBP's rate cuts by a total of 140 bps.;
- **Stable net fee and commission income** driven by a substantial increase in fees from brokerage activity and debt securities issue and a simultaneous decrease in commissions on FX transactions, payment cards-related fees, and credit-related fees and commissions caused by lower client activity;
- **Slight decrease in net trading income;**

- **Lower net impairment losses and fair value change on loans and advances** (by PLN 57.1 million) translating into a decrease in risk costs to 128 bps. from 151 bps. in the previous quarter;
- **Increase in provisions for legal risk related to foreign currency loans** to PLN 189.0 million compared with PLN 12.9 million in Q1 as a result of the update of certain assumptions applied in the methodology of calculating this provision;
- **Decrease in operating costs (including depreciation)** by PLN 164.8 million or 22.4% related to the recognition of the annual contribution to the resolution fund of the Bank Guarantee Fund in Q1 2020 and a simultaneous increase in depreciation costs in Q2;
- **Increase in taxes on the Group balance sheet items** to PLN 138.4 million resulting from the higher value of assets;
- **Higher income tax rate** based on the estimated average annual effective income tax rate applied to the interim pre-tax result.

The balance sheet total of mBank Group stood at PLN 182,942.8 million as at June 30, 2020 compared with PLN 173,823.3 million at the end of March 2020.

Net loans and advances to clients contracted by PLN 2,099.0 million or 1.9% in Q2 2020. A decrease in the value of loans was reported in the corporate sector (-PLN 1,760.0 million or 3.5%), while retail loans remained stable (-PLN 85.4 million or 0.1%). In Q2 2020, mBank Group sold PLN 1,684.5 million worth of mortgage loans and PLN 1,189.7 million worth of non-mortgage loans in the retail segment.

At the same time, amounts due to clients went up by PLN 10,662.1 million or 8.3%. Growth was reported in amounts due to individuals (up by PLN 6,858.3 million or 8.3%) and to corporate clients (up by PLN 3,744.4 million or 8.3%). In both cases, this was attributable to the inflow of funds to current and savings accounts.

4. Risk management

4.1. Risk management foundations

mBank Group manages risk on the basis of regulatory requirements and best market practice by developing risk management strategies, policies and guidelines.

The risk management process is conducted at all levels of the organisational structure, starting at the levels of the Supervisory Board (including Risk Committee of the Supervisory Board) and the bank's Management Board, through specialised committees and units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit.

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

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

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

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

Pillars of risk management

Risk management framework in mBank Group rests on **three pillars concept**:

- **Customer Focus**, which means striving to understand and balance specific needs of the risk management area's various stakeholders (Business, Management Board, Supervisory Board, shareholders, regulatory authorities).
- **One Risk**, understood as an integrated approach to risk management and responsibility towards the clients for all types of risk defined in the Risk Catalogue of mBank Group.
- **Risk vs Rate of Return**, perspective understood as a support for the business decision-making process based on the long-term relationship between risk and the rate of return, avoiding tail risks.

Vision of the risk management area

Vision of the risk management area

We manage risk boldly, safely and efficiently. Employees are engaged and happy.

Mission of the risk management area

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

- **Employees** – I work in a collaborative environment, which develops people who are curious and look for solutions. I acquire new knowledge and skills;
- **Client** – I operate efficiently based on the real needs of different customer groups. I make and verify bold hypotheses;
- **Strong balance sheet** – In partnership dialogue, we shape risk appetite which ensures a balance between the level of capital, liquidity and profitability of the bank. I operate on the basis of friendly processes, consistent data, functional tools, reports, clear regulations.

4.2. Main risks of mBank Group's business

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

The following risks were recognized as material in the Group's operations as of June 30, 2020: credit risk, risk of foreign currency lending (it is associated with actual or potential threat to the bank's results and capital related to foreign currency loans to unsecured borrowers), operational risk, market risk, business risk (including strategic risk), liquidity risk, reputation risk, model risk, capital risk (including risk of excessive leverage) and tax risk.

The following sections present the rules of monitoring credit, market, liquidity and operational risk in mBank Group.

Credit risk

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

Tools and measures

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

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

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

- PD – Probability of Default (%);
 - LGD (Loss Given Default) – estimated relative loss in case of default (%);
 - EAD (Exposure at Default) – estimated exposure at the time of default (amount);
 - EL – Expected Loss taking into account the probability of default (amount);
- and related measures including:
- RD (Risk Density) – relative expected loss defined as EL to EAD (%);
 - LAD (Loss at Default) – estimated loss (amount) in case of default (the product of EAD and LGD).

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

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

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

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

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

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

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

In order to minimise credit risk, the Group uses a broad range of collateral for credit products, which also enable active management of the capital requirement. In the assessment of the quality of collaterals for risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value) reflecting the pessimistic variant of debt recovery from the collateral through forced sale.

The level of profitability from relations with clients is taken into account in credit decision process, so that the planned level of profitability covers at least the estimated amounts of the expected loss on bank customer involvement.

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

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

Strategy

Corporate and Investment Banking

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

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

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

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

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

For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products with low capital consumption, in particular products of investment banking, transactional banking and financial markets instruments.

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

The bank, in the corporate banking area, on regular basis, adapted credit risk policy and the credit risk management process to the economic situation caused by the coronavirus pandemic. In the field of credit policy, the bank:

- tightened criteria of granting new financing
- modified rules of financing clients operating in industries exposed – according to bank’s opinion - on negative effects of pandemic
- prepared dedicated regulations that implemented solutions presented in banks’ approach in scope of unified rules of offering support for the clients of the banking system.

With regard to credit risk management process, on the meetings of Corporate and Investment Banking Risk Committee there are presented reports and analytical materials concerning impact of pandemic on the quality of credit portfolio, regulations that adjust credit policy to the changes of market environment. The frequency of the Committee meeting was increased and adjusted to current needs of credit risk management.

Retail Banking

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

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

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

- high standardisation and automation of the credit process, including decision-making, both in acquisition, post-sale services, and debt collection;
- little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g. no discretionary adjustment of clients’ ratings);

- extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and roll-rates analysis.

The main point of reference in the retail banking credit risk management process is risk appetite defined in correlation with the strategy of mBank Group. The general principle underlying the lending strategy of the Group in terms of sales of retail loans is to address the offer to clients who have an established relationship with the bank or to address it to new clients for whom the loan is a product initiating a long-term relationship of highly transactional nature. Thereby, the bank continues to focus its non-mortgage loans policies on lending to existing clients with a high creditworthiness. To reduce risks of accepting new groups of clients, the bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

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

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

Bank adapted its current credit policy for ML and NML segment to expected economic downturn caused by COVID-19 pandemic. Changes in credit policy address most probable risks:

- lower income of customers,
- increased unemployment rate,
- permanent deterioration of financial standing in particular sectors.

Bank increased the frequency of Risk and Business Forum meetings. We analyse current situation of customers, sales volumes and approval rates. According to those analysis credit policy is subject to rapid revision.

Quality of mBank Group loan portfolio

As of June 30, 2020, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) increased to 4.9% from 4.5% at the end of 2019. The change of the indicator applies mainly to corporate banking and is caused by including the impact of COVID-19 pandemic in the portfolio under observation.

In accordance with the EBA guidelines on management of non-performing and forborne exposures, which came into force from June 30, 2019, banks are obliged to monitor and manage the NPL portfolio. Banks should strive to maintain the value of the NPL portfolio below the threshold set by the regulator at 5%. As of June 30, 2020, the NPL_{REG} ratio (ratio calculated according to EBA guidelines) was at 4.7%.

Provisions (defined as credit risk costs for loans and advances to customers, i.e. provisions for loans and advances at amortised cost and fair value change of loans and advances mandatorily at fair value through profit or loss) increased from PLN 3,574.2 million at the end of December 2019 to PLN 3,942.5 million at the end of June 2020.

The coverage ratio (with provisions as defined earlier) decreased in the analysed period from 60.7% in December 2019 to 58.8% in June 2020. The change of the indicator applies mainly to corporate banking and is caused by the increase in new exposures in Stage 3, which are characterized by a lower coverage ratio.

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

The table below presents the quality of mBank Group loan portfolio as at the end of June 2019, December 2019 and as at the end of June 2020.

mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2020

Loans and advances to clients 30.06.2019 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	101,246,393	2,758,583	104,004,976
Non-performing loans and advances	4,466,692	498,321	4,965,013
Non-performing loans ratio (NPL)	4.4%	18.1%	4.8%
Provisions for non-performing loans	-2,731,802	-312,159	-3,043,961
Provisions for performing loans	-497,640	-50,462	-548,102
Coverage ratio	61.2%	62.6%	61.3%
Coverage ratio, including provisions for performing loans	72.3%	72.8%	72.3%

Loans and advances to clients 31.12.2019 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	106,393,532	2,517,750	108,911,282
Non-performing loans and advances	4,343,285	514,222	4,857,507
Non-performing loans ratio (NPL)	4.1%	20.4%	4.5%
Provisions for non-performing loans	-2,619,125	-331,454	-2,950,579
Provisions for performing loans	-571,153	-52,485	-623,638
Coverage ratio	60.3%	64.5%	60.7%
Coverage ratio, including provisions for performing loans	73.5%	74.7%	73.6%

Loans and advances to clients 30.06.2020 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	110,513,315	2,204,997	112,718,312
Non-performing loans and advances	5,033,967	467,556	5,501,523
Non-performing loans ratio (NPL)	4.6%	21.2%	4.9%
Provisions for non-performing loans	-2,943,809	-293,578	-3,237,387
Provisions for performing loans	-648,511	-56,631	-705,142
Coverage ratio	58.5%	62.8%	58.8%
Coverage ratio, including provisions for performing loans	71.4%	74.9%	71.7%

Non-performing loans and advances - loans and advances at amortised cost with impairment (basket 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default

NPL ratio - loans and advances at amortised cost with impairment (basket 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default in the whole portfolio

Provisions for non-performing loans - provisions for loans and advances at amortised cost with impairment (basket 3 and POCI) and fair value change of loans and advances mandatorily at fair value through profit or loss in default

Provisions for performing loans - provisions for loans and advances at amortised cost without impairment (basket 1 and 2) and fair value change of non-default loans and advances mandatorily at fair value through profit or loss

Coverage ratio - coverage ratio of loans and advances related to the portfolio in default.

Market risk

In the process of organisation of the market risk management, the bank follows requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

Tools and measures

In its operations, the bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the bank's portfolios due to changes of the market risk factors, in particular:

- interest rates (IR);
- foreign exchange rates (FX);
- implied volatilities of relevant options;
- credit spreads (CS), to the extent reflecting market fluctuations of debt instruments prices.

In terms of the banking book, the bank distinguishes the interest rate risk, which defines as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

For the purpose of internal management, the bank quantifies exposure to market risk, both for banking and trading book, by measuring:

- the Value at Risk (VaR);
- the Value at Risk in stressed conditions (Stressed VaR);
- economic capital to cover market risk;
- stress tests scenario values;
- portfolio sensitivities to changes of market prices or market parameters.

For the banking book, the bank also uses the following measures (described in more detail in the chapter on interest rate risk):

- sensitivity of the economic value of capital (delta EVE);
- sensitivity of net interest income (delta NII);
- repricing gap.

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

Strategy

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

The bank is focused on meeting customers' business needs, while reducing trade in derivatives, as well as applying the principle of lack of commodity open positions.

The bank stabilises interest income using long-term fixed-rate assets and derivatives and assuming - for equity capital and current accounts - the maximum modelled maturity of 10 years.

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

Market risk measurement

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

Value at risk

In H1 2020, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), remained at a moderate level in relation to the established VaR limits.

The table below presents VaR and Stressed VaR for the Group's and mBank's portfolios (including modelling of equity capital and current accounts):

PLN ths	H1 2020				2019			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2020	mean	30.06.2020	mean	31.12.2019	mean	31.12.2019	mean
VaR IR	10,278	6,448	10,632	6,508	4,294	3,840	3,778	3,759
VaR FX	1,549	1,256	1,415	1,197	767	957	728	961
VaR CS	60,722	35,000	59,406	34,048	21,908	21,927	20,989	21,241
VaR	54,279	33,078	53,006	32,192	22,494	21,999	21,978	21,344
Stressed VaR	134,184	109,324	130,306	106,007	97,073	108,369	94,229	104,269

The Value at Risk (VaR) was largely influenced by the portfolios of instruments sensitive to the interest rates and the separate credit spread - mainly the portfolios of the Treasury bonds (in the banking and trading books) and positions resulting from interest rate swap transactions.

Sensitivities measures

The table presents the values of IR BPV and CS BPV (+1 b.p.) for the Group's and mBank's portfolios, broken down into the banking and trading books (including modelling of equity capital and current accounts):

PLN ths	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Banking book	-1,121	257	-1,074	263	-11,375	-8,302	-11,111	-8,075
Trading book	-6	56	-6	56	-517	-504	-517	-504
Total	-1,128	312	-1,080	318	-11,892	-8,806	-11,629	-8,579

The credit spread sensitivity (CS BPV) for the mBank's banking book, results in c.a. 45% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

Interest rate risk of the banking book

The sensitivity of net interest income is calculated and monitored over a five-year horizon in the bank's base scenario assuming a normal situation and in more than 20 defined stress-test scenarios. The table below presents the sensitivity of the net interest income within 12 months horizon, assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curves by 100 bps with floor on product level) and based on a stable portfolio over the period.

PLN m	Δ NII	
	31.12.2019	30.06.2020
PLN	-190.8	-323.0
USD	-2.1	-3.5
EUR	-119.2	-86.3
CHF	7.9	7.0
CZK	-40.5	-43.9
Other CCY	-0.6	-0.8
Total	-345.3	-450.4

Liquidity risk

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

mBank Group liquidity position.

In 2020, the liquidity of the mBank Group was at a safe, very high level, which was reflected in the high amount of liquid funds.

Strong discipline in balance sheet management caused that the mBank Group entered a period of crisis with a comfortable liquidity position, reflected by high levels of liquidity ratios, which were well above the minimum regulatory levels. In 1H'2020, a stable increase of deposit base and a decrease of dynamics of lending growth had a direct impact on strengthening the liquidity position.

Tools and measures

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

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

The methodology for measuring the liquidity gap (LAB) includes normal conditions scenario (LAB Base Case) and stress scenarios (short-term, long-term and combined). Stress scenarios are limited.

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

In order to support the process of liquidity risk management, the bank has a system of early warnings indicators (EWI) and recovery indicators. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan for mBank Group.

LCR calculation and reporting is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, amended by the Commission Delegated Regulation (EU) 2018/1620 of July 13, 2018, which applies from April 30, 2020. With the respect of NSFR, the bank reports to the NBP according to the standards established by EBA in 2014, and reports to the PSFA in the form of a dedicated questionnaire.

Strategy

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

Liquidity risk limiting covers supervisory (M3, M4, LCR) and internal measures. The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in stress conditions in specific time horizons and for different liquidity risk profiles. The bank limits also the volume and term concentration of foreign currency funding of mBank with FX swaps and CIRS. The structure of these limits reflects the bank's preferences for funding structure in those currencies.

The bank has a centralised approach to the Group's funding management. The subsidiaries are financed by mBank through the Treasury Department. Additionally, mBank Hipoteczny raises funding in the market

by issuance of covered bonds and short-term debt securities and mLeasing raises funding by issuance of short-term debt securities.

The bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by mBank Group and aimed at neutralising this threat. The Contingency Plan is tested at least annually.

Measuring mBank's and the Group's liquidity risk

The liquidity of mBank remained at a safe, very high level in 2020, as reflected in the high surplus of liquid assets over short-term liabilities in LAB measures and in the levels of regulatory measures.

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

Liquidity measures, both internal and regulatory, are definitely above the current structure of limits.

In the second quarter of 2020, the Bank adapted the LCR calculation method to the guidelines of Commission Delegated Act 2018/1620 and the latest EBA guidelines.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures M3, M4, LCR in 2020 at mBank and mBank Group level:

	30.06.2020	30.06.2020
Measure ¹	Bank	Group level
LAB Base Case 1M	32,919	34,072
LAB Base Case 1Y	23,909	25,718
M3	4.43	x
M4	1.51	x
LCR	226%	243%

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

Operational risk

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

Tools and measures

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

The basic qualitative tool is the Self-Assessment of Internal Control System carried out by the bank's organisational units and the Group subsidiaries. The Self-Assessment process aims to provide communication about the need to change and improve control processes, and thus a more pro-active approach to operational risk management and increasing operational risk awareness in mBank Group. The end result of the Self-Assessment is the evaluation of risks, control mechanisms and independent monitoring of control mechanisms as well as the creation of corrective action plans aimed at changing the structure or the optimization of the control mechanisms and their independent monitoring.

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

In accordance with the requirements of Recommendation M, the bank has a process for identifying threats associated with operational risk in all relevant areas of the bank's operations and for creating new

and modifying existing products, processes and systems, as well as for changes in the organisational structure.

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

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

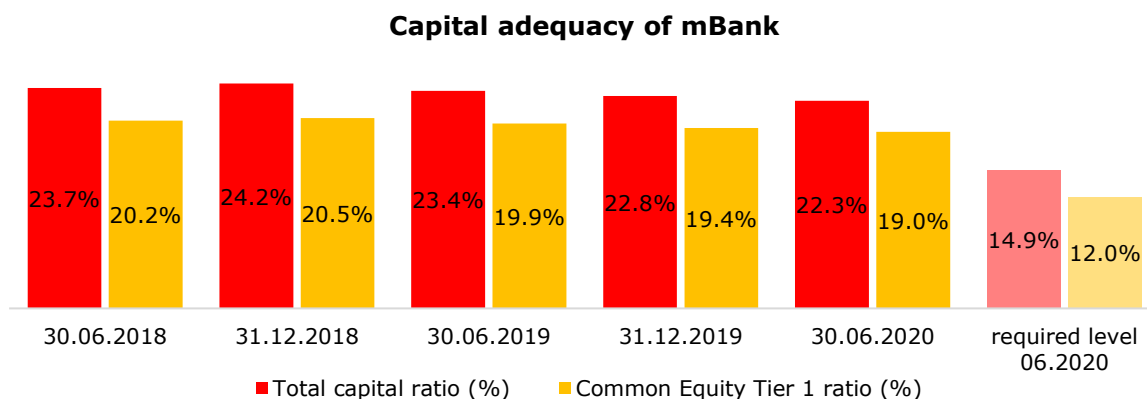
mBank Group through operational risk tools monitors the processes operating during a pandemic and defines corrective action plans which will improve the methods of work performed by employees in the home office mode.

Strategy

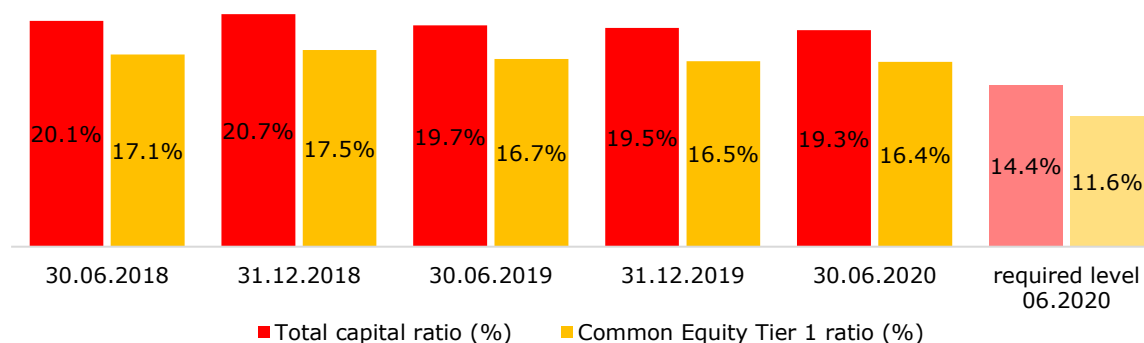
The organisation of the operational risk control and management system is aimed at enabling effective control and management of this risk at every level of the bank’s organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board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

4.3. Capital adequacy

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



Capital adequacy of mBank Group



The capital ratios of mBank Group in H1 2020 were driven by the following factors:

- inclusion, in Common Equity Tier 1 capital, of the remaining part (not included earlier) of the net profit of mBank Group for the year 2019 as approved by the General Meeting of Shareholders;
- inclusion in the calculation of own funds of the amount of impairment not measured at fair value in the financial result in the H1 2020.

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

- the basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%;
- the additional capital charge in Pillar II with regard to FX mortgage loan portfolio – 3.11% at the level of total capital ratio and 2.33% at the level of Tier 1 capital on consolidated basis (and on individual basis 3.62% and 2.71% accordingly), according to the PFSA decision of November 5, 2019, and the subsequent communication of November 18, 2019;
- the combined buffer requirement of additional 3.30% (on consolidated basis), which consists of:
 - the capital conservation buffer (2.50%);
 - the other systemically important institution’s buffer (0.75%) - according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer; according to the PFSA decision of October 14, 2019, the capital buffer amounted to 0.75%;
 - systemic risk buffer (0.00%) – starting from 1st January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the exceptional socioeconomic situation that appeared after the occurrence of the global pandemic COVID-19, this requirement was abolished by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020;
 - countercyclical capital buffer (0.05%).

On individual basis the value of the combined buffer requirement is 3.30%.

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

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and the Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including provisions regarding transitional period, amounted to 7.47%. The stand-alone leverage ratio amounted to 7.68%.

More details on capital adequacy of mBank Group in the H1 2020 can be found in the Disclosures regarding capital adequacy.

5. Statements of the Management Board

True and fair picture in the presented reports

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

- IFRS Condensed Consolidated Financial Statements for the first half of 2020 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance;
- Management Board Report on the Performance of mBank S.A. Group in H1 2020 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the review of the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2020 and IFRS Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2020 – Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for issue of a review report of these financial statements, in compliance with respective provisions of Polish law and professional standards.