

Management Board Report on the Performance of mBank S.A. Group in H1 2023



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

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1. About mBank Group

1.1. Executive summary

The key highlights of H1 2023 include:

- **Continuation of excellent operating results:**
 - **Net profit of Core Business** (mBank Group excluding the FX Mortgage Loans segment) at the level of **PLN 2,527.4 million**, higher by 72.3% compared to H1 2022, mainly due to dynamic growth of income;
 - **ROE net of Core Business** at the level of **41.7%**;
 - **Net profit of mBank Group of PLN 115.1 million**, lowered by costs of legal risk related to foreign currency loans;
 - **Increase of total income by 19.7%** on H1 2022, driven mainly by higher net interest income;
 - Historically high **core revenues**;
- **Underlying efficiency remained excellent**, with the normalised cost-to-income ratio at 28.5%;
- Increased protection against legal risk related to foreign currency mortgage loans: **coverage of CHF portfolio with created provisions increased to 75.4%**¹;
- The dynamics of volumes:
 - **Decrease in net loans and advances** by 6.2% compared to end of June 2022, attributable mainly to adjustments related to "credit holidays" and cost of legal risk related to foreign currency loans; decrease of new sales resulting from interest rate hikes and focus on capital efficiency;
 - **Increase in amounts due to clients** by 9.7% compared to the end of June 2022;
- The changes in loans and deposits resulted in a **loan-to-deposit ratio** of 67.0% compared to 78.3% as at June 30, 2022;
- **Capital ratios significantly surpassing the regulatory requirements and high level of liquidity:**
 - Increase of the capital ratios: Tier 1 amounted to 14.5% and total capital ratio reached 16.8%;
 - Higher surplus over the PFSA capital requirements: 4.4 p.p. over the Tier 1 capital ratio and 4.5 p.p. over the total capital ratio;
 - Liquidity ratios of mBank Group significantly surpassing the regulatory minima: LCR amounted to 217% and NSFR to 155%;
- **mBank's convenient and secure solutions attract individual and corporate clients:**
 - the number of monthly active users (MAU) of mBank mobile application increased to 3,306,000;
 - the number of mCompanyMobile users surpassed 100,000 and increased by 24.3% on an annual basis;
 - share of the mobile application in the sale of non-mortgage loans (by number of pieces) increased to 60% at the end of H1 2023.

¹ Coverage of mortgage loans portfolio in CHF with created provisions for legal risk – the cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in CHF divided by the net value of mortgage and housing loans in CHF increased by the impact of legal risk concerning lawsuits and settlement program related to active loans recognised as a reduction of gross carrying amount of loans.

1.2. mBank's Authorities

Supervisory Board of mBank

On December 9, 2022, dr Hans-Georg Beyer has been appointed as the Member of the Supervisory Board of mBank S.A. under a resolution of the bank's Supervisory Board. Hans-Georg Beyer's tenure began on January 1, 2023 for the duration of the present term of office of the Supervisory Board.

On March 30, 2023 the XXXVI Ordinary General Meeting of mBank S.A. appointed Thomas Schaufler for the position of a member of the Supervisory Board as of March 31, 2023 for the duration of the present term of office of the Supervisory Board. Thomas Schaufler replaced Arno Walter who on October 14, 2022 resigned from the function of member of the Supervisory Board as of March 30, 2023.

As of June 30, 2023, the Supervisory Board of mBank S.A. was composed as follows:

1. Prof. Agnieszka Słomka-Gołębiowska - Chairwoman of the Supervisory Board
2. Dr Bettina Orlopp – Deputy Chairwoman of the Supervisory Board
3. Hans-Georg Beyer – Member of the Supervisory Board
4. Tomasz Bieske - Member of the Supervisory Board
5. Dr Marcus Chromik - Member of the Supervisory Board
6. Mirosław Godlewski - Member of the Supervisory Board
7. Aleksandra Gren - Member of the Supervisory Board
8. Thomas Schaufler - Member of the Supervisory Board.

There are four independent members in the Supervisory Board:

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

Five committees operate within the Supervisory Board: the Executive Committee, the Risk Committee, the Audit Committee, the Remuneration and Nomination Committee and the IT Committee.

The composition of individual committees is presented below (in the first place - the chairperson of the committee).

Executive Committee	Risk Committee	Audit Committee	Remuneration and Nomination Committee	IT Committee
<u>Dr Bettina Orlopp</u>	<u>Dr Marcus Chromik</u>	<u>Tomasz Bieske</u>	<u>Prof. Agnieszka Słomka-Gołębiowska</u>	<u>Aleksandra Gren</u>
Prof. Agnieszka Słomka-Gołębiowska	Prof. Agnieszka Słomka-Gołębiowska	Aleksandra Gren	Dr Bettina Orlopp	Mirosław Godlewski
Dr Marcus Chromik	Aleksandra Gren	Prof. Agnieszka Słomka-Gołębiowska	Tomasz Bieske	Dr Marcus Chromik
	Mirosław Godlewski	Dr Bettina Orlopp	Mirosław Godlewski	
	Thomas Schaufler	Dr Hans-Georg Beyer	Dr Marcus Chromik	

Management Board of mBank

On January 17, 2023 Andreas Böger resigned from the function of Vice-President of the Management Board, Chief Financial Officer. The resignation took effect as of April 30, 2023. The reason for the resignation were plans of Andreas Böger to take on the role of Divisional Board Member responsible for Group Finance at Commerzbank AG.

On March 30, 2023 the Supervisory Board of mBank appointed new members to the Management Board of mBank as of May 1, 2023 for the duration of the present term of office of the Management Board:

- Pascal Ruhland, for the post of Vice-President of the Management Board, Chief Financial Officer;
- Julia Nusser, for the post of Vice-President of the Management Board, Head of Compliance, Legal Issues and HR.

As of June 30, 2023, the composition of the Management Board was as follows:

1. Cezary Stypułkowski - President of the Management Board, Chief Executive Officer
2. Krzysztof Dąbrowski - Vice-president of the Management Board, Head of Operations and Information Technology
3. Cezary Kocik - Vice-president of the Management Board, Head of Retail Banking
4. Marek Luszczyn - Vice-president of the Management Board, Chief Risk Officer
5. Julia Nusser - Vice-President of the Management Board, Chief People & Regulatory Officer
6. Adam Pers - Vice-president of the Management Board, Head of Corporate and Investment Banking
7. Pascal Ruhland - Vice-President of the Management Board, Chief Financial Officer

More information on the competences and CVs of individual members of the Supervisory Board and the Management Board can be found on the website <https://www.mbank.pl/en/about-us/bank-authorities/>.

1.3. Composition of mBank Group and key areas of activity

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

Segment	Retail Banking	Corporate and Investment Banking
Bank	<ul style="list-style-type: none"> ■ Retail customers 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) ■ Cooperation with banks and financial markets activity
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. ■ mFinanse CZ s.r.o.² ■ mFinanse SK s.r.o.² ■ mElements S.A. – Retail ■ mTowarzystwo Funduszy Inwestycyjnych 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. ■ mElements S.A. – Corporate
	<p>Other subsidiaries</p> <ul style="list-style-type: none"> ■ 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.

²mBank owns 100% shares in mFinanse CZ s.r.o. and mFinanse SK s.r.o. indirectly, through mFinanse S.A.

mBank S.A. Group

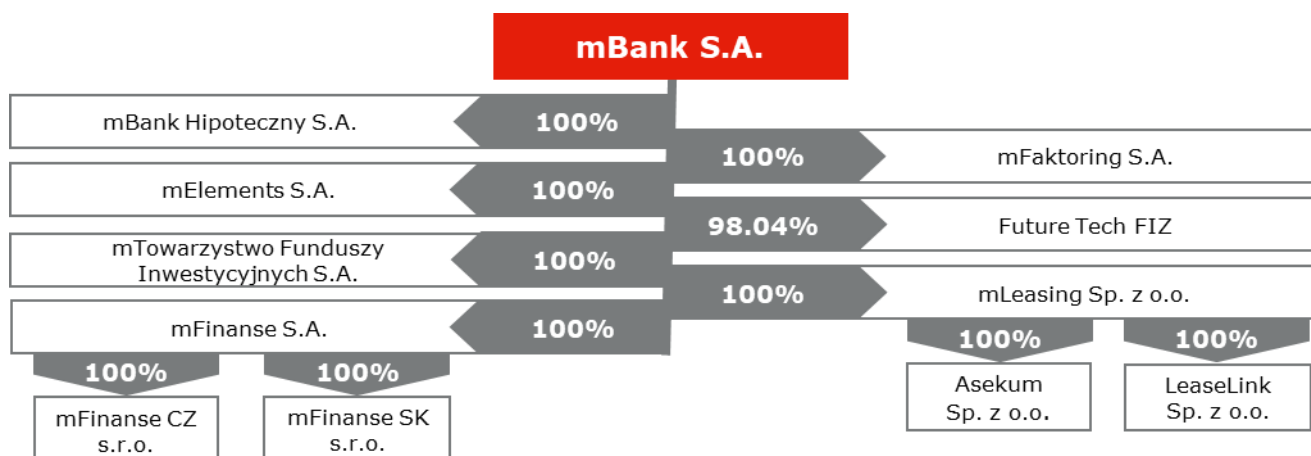
Management Board Report on the Performance of mBank S.A. Group in H1 2023

At the beginning of 2021, we have separated FX Mortgage Loans segment from Retail Banking segment. This change aimed to present separately results related to the product, which has already been withdrawn from the offer for individual customers, and at the same time is significant from the point of view of the assigned assets and the impact on the Group's results. Thanks to that the authentic and undistorted image of mBank Group is presented. Additionally, part of the activity of the Group is the Treasury and Other segment.

From the beginning of 2023, the Group started to consolidate the subsidiary mTowarzystwo Funduszy Inwestycyjnych S.A. (mTFI) in relation to the start of its operating activities. mTFI operates in the area of establishment and management of investment funds and providing portfolio management services which may include one or more financial instruments. The subsidiary operates on the basis of the Polish Financial Supervision Authority's permission and is a subject to its supervision.





Since the beginning of 2022 the Group started to consolidate subsidiaries mFinanse CZ s.r.o. and mFinanse SK s.r.o. in relation to the start of their operating activities. The mFinanse companies in the Czech Republic and Slovakia operate in the area of financial intermediation in the sale of banking products distributed by mBank's branches in the Czech Republic and Slovakia. The mFinanse companies in the Czech Republic and Slovakia took over the tasks that were previously carried out by mBank branches in these countries. Moreover, in the first quarter of 2022, the Group ceased to consolidate the subsidiary G-Invest Sp. z o.o. due to its immaterial impact on financial result and on financial statements of mBank Group.

mBank Group (including consolidated subsidiaries) as at the end of June 2023 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 ■ rating of Moody's Investor Services of Aa1 for covered bonds – the best possible rating acquired by a Polish issuer for debt instruments in issue
	<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 an online 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 2022 ■ 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, including guaranteed by Bank Gospodarstwa Krajowego (BGK) and with credit protection; financing within factoring consortium; import guarantees ■ mFaktoring's offer available in all mBank branches providing services to SMEs and corporations in Poland ■ member of Polish Factors Association ■ participant of Poland's first factoring consortium
	<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 19 active external financial entities in more than 184 stationary outlets across Poland and 152 partner branches

1.5. Ratings of mBank and mBank Hipoteczny

mBank's credit ratings assigned on request

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch).

S&P Global Ratings

On June 27, 2023, S&P Global Ratings (S&P) affirmed mBank's "BBB/A-2" long- and short-term issuer credit ratings and revised the outlook of the long-term rating from developing to stable.

Moreover, S&P affirmed the rating of senior preferred bonds issued by mBank at "BBB" and downgraded senior non-preferred debt instruments from "BBB-" to "BB+".

The stable outlook reflects S&P's opinion that mBank's underlying profitability and capitalization over the next 12-24 months will allow it to absorb future costs of legal risk arising from CHF mortgage loans and potential government-obligated costs.

Fitch Ratings

On July 13, 2023, Fitch affirmed mBank's Long term Issuer Default Rating at "BBB-", Viability Rating at "bbb-" and revised the outlook of the long term rating from negative to stable. At the same time Fitch placed mBank's Long-term Senior Preferred debt rating of "BBB" and Senior Non-Preferred debt rating of "BBB-" on Rating Watch Negative (RWN).

The revision of the rating outlook reflects Fitch's view that mBank's improved core profitability meaningfully strengthens its ability to absorb further costs of legal risk related to foreign currency mortgage loan portfolio and reduces the pressure on mBank's capitalization.

Ratings of mBank S.A.	S&P	Fitch
Long-term issuer credit rating (foreign currency)	BBB	BBB-
Short-term issuer credit rating (foreign currency)	A-2	F3
Stand-alone rating (Stand-alone Credit Profile by S&P / Viability rating by Fitch)	bbb-	bbb-
Long-term resolution counterparty ratings (long-term RCR)	BBB+	-
Short-term resolution counterparty rating (short-term RCR)	A-2	-
Ratings for unsecured issuances under Euro Medium Term Note Programme (EMTN)		
1. Senior Preferred Debt		
- Long-term rating	BBB	BBB
- Short-term rating	A-2	F3
2. Senior Non-Preferred Debt		
- Long-term rating	BB+	BBB-
- Short-term rating	A-2	F3
<i>Outlook of Long-term rating</i>	<i>stable</i>	<i>stable</i>

Other credit ratings

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

Moody's Investors Service (Moody's) evaluates mBank's creditworthiness based on publicly available information. Moody's assigned solicited rating to mBank Hipoteczny and mortgage covered bonds issued by mBank Hipoteczny.

On March 24, 2023, Moody's downgraded mBank's long-term deposit rating from "A3" to "Baa1" and the Baseline Credit Assessment (BCA) from "baa3" to "ba1". The adjusted BCA (i.e. including potential support from Commerzbank) was downgraded from "baa2" to "baa3". The short-term deposit rating was affirmed at "P-2". In the opinion of Moody's, the change in the rating resulted from the increase in risk related to the CHF mortgage loans portfolio after the announcement of the opinion of the Advocate General of the Court of Justice of the European Union. In addition, on March 24, 2023, Moody's downgraded the long-term issuer rating for mBank Hipoteczny from "Baa1" to "Baa2".

Moody's Investors Service	Ratings of mBank ¹⁾	Ratings of mBank Hipoteczny
Long-term Deposit Rating (foreign currency)	Baa1	-
Short-term Deposit Rating (foreign currency)	Prime-2	-
Long-term Issuer Rating (foreign)	-	Baa2
Short-term Issuer Rating (foreign)	-	Prime-2
Long-term Counterparty Risk Rating (foreign currency)	A3	A3
Short-term Counterparty Risk Rating (foreign currency)	Prime-2	Prime-2
Baseline Credit Assessment (BCA)	ba1	-
Adjusted Baseline Credit Assessment	Baa3	-
Rating of covered bonds issued by mBank Hipoteczny	-	Aa1
Outlook of Long-term Deposit Rating / Issuer Rating	negative	negative

¹⁾ Ratings based solely on publicly available information

mBank's ratings by Capital Intelligence Ratings and EuroRating based on publicly available information

Capital Intelligence Ratings

On April 6, 2023, Capital Intelligence Ratings lowered mBank's long-term foreign currency rating from "BBB+" to "BBB" and changed the rating outlook from negative to stable. The agency also affirmed mBank's short-term foreign currency rating at "A2" and downgraded Bank Standalone Rating (BSR) from "bbb+" to "bbb". The change in the rating resulted from the lowering of the operating environment risk rating (OPERA), which was impacted, among others, by the growing costs of legal risk related to FX mortgage loans.

EuroRating

On June 2, 2023, EuroRating affirmed the bank's rating at 'BBB-' and changed the rating outlook from stable to negative.

mBank's ESG ratings and indices

Rating of mBank assigned by Morningstar Sustainalytics

On June 16, 2023, mBank Group received an ESG Risk Rating of 13.0 and was assessed by Morningstar Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors. In no event the ESG Risk Rating Report shall be construed as investment advice or expert opinion as defined by the applicable legislation.

Morningstar Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an assessment of ESG risk, i.e. a total unmanaged ESG risk score or the ESG Risk Rating, that is comparable across all industries. Sustainalytics' ESG Risk Ratings provide a quantitative measure of unmanaged ESG risk and distinguish between five levels of risk: negligible, low, medium, high and severe. Learn more about the ESG Risk Ratings here: www.sustainalytics.com/corporate-solutions/esg-solutions/esg-risk-ratings.

mBank Group ESG Risk Rating improved over the year in terms of ESG Risk management, in particular in scope of Product Governance and Business Ethics categories assessed by Sustainalytics. Sustainalytics ESG Risk Rating Summary Report dated June 16, 2023 along with the disclaimer is available on our website: www.mbank.pl/en/investor-relations/ratings-debt-instruments/. It must be noted that the score might be subject to change over the year in case of various issues impacting ESG assessment of the company. An up-to-date rating can be obtained by the investors from Morningstar Sustainalytics. Disclaimer: <https://www.sustainalytics.com/legal-disclaimers>

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

On November 25, 2022, mBank received a rating of A (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. Previously, in July 2021, mBank had been assigned a BBB rating.

According to MSCI, the upgrade is driven by improvements in mBank's talent management initiatives as well as governance initiatives (e.g. employee training on business ethics standards). Furthermore, MSCI considers mBank to be a global leader in corporate governance, notably ownership and control. mBank is a data protection leader in the sector. The practices that distinguish mBank in this regard include cybersecurity training for all employees.

MSCI ESG Research provides MSCI ESG Ratings on global public and a few private companies on a scale of AAA (leader) to CCC (laggard), according to exposure to industry-specific ESG risks and the ability to manage those risks relative to peers.

mBank's MSCI ESG Rating along with the disclaimer is available on our website: www.mbank.pl/en/investor-relations/ratings-debt-instruments/. It must be noted that the score might be subject to change over the year in case of various issues impacting ESG assessment of the company. An up-to-date rating can be obtained by the investors from MSCI.

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, i.e. 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>.

Bloomberg Gender-Equality Index 2023

In January 2023, mBank was among the elite group of companies included in the Bloomberg Gender Equality Index 2023 for the third time. The Index recognises publicly listed companies that actively support equal opportunities in the work environment. Bloomberg experts appreciated mBank's efforts to ensure equal pay for women and men and access to promotion, to facilitate women's return to work after maternity or child care leave, as well as our extensive policy to prevent unacceptable behaviour. mBank is one of the 484 companies from 45 countries recognised in this edition of the index. More information about the index can be found on the website: <https://www.bloomberg.com/gei/about/>.

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, 2023, mBank's share capital amounted to PLN 169,859,568 divided into 42,464,892 shares, including 42,453,892 ordinary bearer shares and 11,000 ordinary registered shares with a nominal value of PLN 4 each.

Each share carries one voting right at the General Meeting. In H1 2023, the number of mBank shares increased by 31,397. The new shares were issued pursuant to Resolution No. 38 of the 31st Annual General Meeting of mBank S.A. dated May 9, 2018 on issuing subscription warrants, a conditional increase of the share capital with exclusion of the pre-emptive right of the existing shareholders to take up subscription warrants and shares, a change of the Company's by-laws and on applying for admission of shares to trading on the regulated market, and on dematerialisation of the shares.

Commerzbank AG is the majority shareholder of mBank, holding 69.12% of the share capital and votes at the General Meeting as at June 30, 2023. The majority of the remaining 30.88% of shares, which are in free float, are held by financial investors. These are in particular Polish pension funds and Polish and foreign investment funds. As at June 30, 2023, aside from Commerzbank AG, no shareholder exceeded the 5% threshold of shares and votes at the General Meeting.

mBank shares are included in the following indices: WIG, WIG-Poland, WIG20, WIG20TR, WIG30, WIG30TR, mWIG40, mWIG40TR, WIG-Banks, WIG-ESG, CEEplus and MSCI Poland.

Performance of mBank shares on the WSE

In H1 2023, the WIG-Banks index went up by 27.3% compared to the level recorded at the end of 2022. At the beginning of 2023, banking share prices continued the upward trend, which began around September and October 2022. The later events, in particular the unfavourable opinion of the Advocate General of the CJEU and the worsening sentiment on the European and American financial markets, triggered a sell-off of banking shares and a decrease in their prices.

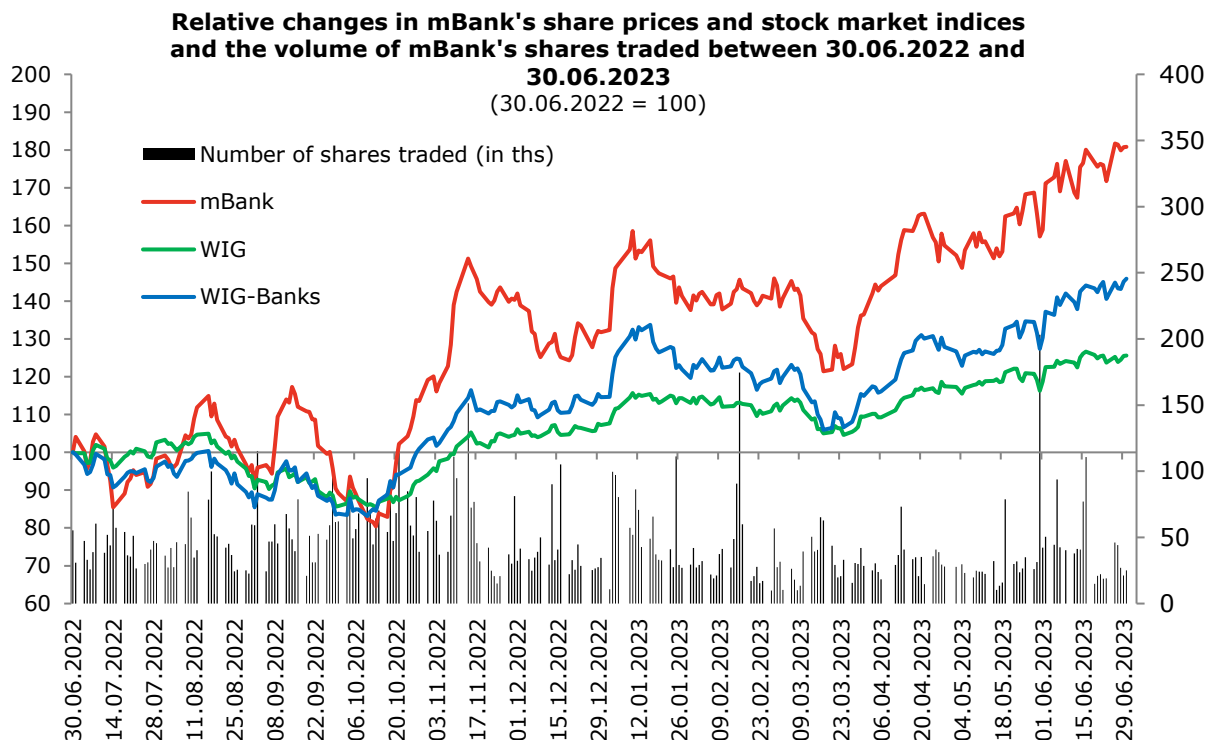
The collapse of Silicon Valley Bank, Signature Bank and First Republic Bank, and the fears that further banks may follow suit, caused a mass sell-off of banking shares in the United States. In Europe, the investors' attention was focused on the struggles of Credit Suisse, which triggered a sell-off of European banking shares and spread fears of systemic risk amid high interest rates. Once Credit Suisse was taken over by UBS, the situation on stock markets began to improve. Though WSE did not experience a panic-driven sell-off of Polish banking shares, in March the WIG-Banks index reached this year's lowest level. Investors decreed that the Polish banking sector was stable, as shown by the capital and liquidity ratios of banks. The banking share price declines were not caused by a tangible risk, but instead by a worsening market sentiment.

Good results reported by banks for Q1 2023 helped banking share prices to rebound in Q2 2023. The share prices on the WSE went back up in Q2 thanks to the better-than-expected economic situation in Poland and the prospects of economic growth in H2 2023. Investors reacted calmly to the CJEU ruling delivered on June 15, which was consistent with the prior opinion of the Advocate General and the market expectations. On the day the CJEU ruling was issued, the WIG-Banks index grew 0.6%, as did the price of mBank shares.

In H1 2023, the WIG and WIG20 indices went up by 17.1% and 15.0%, respectively, compared to the levels recorded at the end of 2022, which is less than WIG-Banks. On a year-to-year basis, WIG, WIG20 and WIG-Banks grew by 25.6%, 21.5% and 45.9%, respectively.

The closing price per mBank share during the last session in H1 2023 (on June 30) stood at PLN 406.10, representing an increase by 37.2% compared with the price reported during the last session of 2022 (on December 30) and by 80.8% year to year. In H1 2023 mBank reported its lowest (PLN 272.80) and highest (PLN 408.10) share price on January 17 and June 26, respectively.

The chart below shows the relative changes in mBank’s share price and stock market indices (left axis) and the volume of mBank’s shares traded between June 30, 2022 and June 30, 2023 (right axis).



mBank’s capitalisation amounted to PLN 17.2 billion (EUR 3.9 billion) as at June 30, 2023, which represents an increase from PLN 9.5 billion (EUR 2.0 billion) reported at the end of 2022.

The P/BV (price/book value) ratio of mBank Group stood at 1.3 as at June 30, 2023, compared with 0.7 a year before.

From among the bank analysts and brokers actively monitoring mBank’s financial performance and issuing recommendations on mBank shares, seven analysts advised investors to buy shares in mBank and four issued “hold” recommendations at the end of June 2023.

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 2023

New features of mBank online banking and mobile app

At mBank we continuously improve our online banking and mobile app to make them more intuitive and user-friendly. 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 2023, was used by 3.5 million clients in total. At the end of H1 2023, 1.7 million of our clients banked exclusively using their mobile devices.

Increasing the security of customer data thanks to data masking

In June we have provided a centralized mechanism for masking customer data in forms completed by customers. Masking allows for hiding confidential data, such as PESEL number or a payment card number until a pre-defined identifying function is provided. This security option is used in each of our sales and after-sales systems, both in the application and on the website. Compliant with the latest security restrictions, this security measure prevents cybercriminals from accessing sensitive information.

Secure phone calls thanks to in-app identity verification of mBank employees

Customers who get a call from mBank employees use additional verification of the identity of the person initiating the contact since last March. When picking up a phone call from a bank employee, a notification appears in the mBank mobile app to confirm the identity of the employee. Thanks to the solution, customers can be sure that they are talking to a genuine bank employee. This will improve customers' cyber security. The conversation continues after confirmation in the app. Customers who have opted for text messages as the authorisation method or do not have the mBank app retain access to their current method of identity verification.

More convenient user interface in the application

On the tabs of the sales offer of the mobile application, we have made available the client's loans, bills and insurance. Thanks to this change, customers gained easier access to the product offer. They can get acquainted with the bank's offer immediately after entering a specific product tab. At the same time, on the Personal Finance Manager (PFM) tab, we have placed a window in which we present the more advanced functionalities of the tool.

mBank settlement programme for clients with CHF mortgages

In the fourth quarter of 2022, following completion of the pilot phase, mBank launched an attractive settlement programme for customers with CHF loans. mBank has presented the settlement offer to almost all clients and regularly renews it. The offer is in line with the Polish Financial Supervision Authority's proposal and consists in converting the loan into PLN as if it had been taken out and repaid in the Polish currency from the beginning. As a result, the outstanding principal is reduced. The settlement process is efficient and does not require many formalities from borrowers. The bank is also open to negotiation with its customers. The converted loan bears interest at a variable or periodically fixed rate at an attractive level (4.99% at the date of preparation of this report). Settlements allow customers to definitively eliminate FX risk and interest rate risk for up to 5 years (interest rates may vary in the future depending on market conditions). Customers have signed more than 7,100 settlements until end of June 2023. The bank has launched a dedicated website which describes the settlement programme in detail. For more information on the settlements, see note 30 of the Consolidated Financial Statements of mBank Group S.A. for H1 2023.

Reduction of additional capital requirement related to the portfolio of foreign currency mortgages

On June 14, 2023, the mBank Management Board received a decision from the Polish Financial Supervision Authority amending the administrative decision of the Polish Financial Supervision Authority of 30 December 2022 regarding the additional capital requirement to cover risks arising from mortgage-backed foreign currency loans and advances to households. The Polish Financial Supervision Authority requires the bank to have an additional capital requirement at the consolidated level of own funds at 1.18 p.p. above the total capital ratio and 0.89 p.p. above the Tier 1 capital ratio.

The decision of the PFSA translates into the decrease of the additional capital requirement related to risk of foreign currency mortgage loans for households on the consolidated basis by 0.58 p.p. for TCR and by 0.43 p.p. for the Tier 1 capital ratio.

In addition, mBank's Management Board received a similar decision of the Polish Financial Supervision Authority regarding the additional capital requirement at the stand-alone level. As at the date of the report, mBank meets the Polish Financial Supervision Authority's minimum capital ratio requirements both on a

stand-alone and consolidated basis. The surplus over the total capital ratio increased to 4.5 p.p., and to 4.4 p.p. over the Tier 1 capital ratio.

mBank improves security of email contact with customers

At the beginning of 2023, mBank introduced visual marking of emails sent to customers. Within the partner email services, where almost 90% of the bank's customers have email accounts, mBank emails are marked as coming from a verified sender. This is the first use of sender visual identification on such a large scale in the Polish banking industry. Secure marking is available for all emails where the direct sender is mBank and the recipient is the bank's client (identified by the email address previously provided to the bank as a contact). Email service providers are technically responsible for marking the sender as trusted. Thanks to their cooperation with the bank, the providers can confirm the authenticity of the message. The solution will reduce cases of phishing, where criminals impersonate another person, such as a bank. Thanks to the mechanism for secure visual identification of the sender, it will be easier for customers to distinguish genuine messages from fake ones.

mBank educates on cyber security

For the past eight years, mBank has been running a large-scale educational campaign about online security. This year, mBank has prepared educational materials on a special website as well as videos that can be watched on TV and online. In these publications, mBank draws attention to the most popular forms of fraud that many customers may encounter, as well as the methods to prevent them. During the campaign, mBank reminds people about its free CyberRescue service, which provides access to 24/7 support from online security specialists. They can help if someone hacks your mailbox or takes over your social network account. They also give advice on what to do with a suspicious email or if a product ordered online does not arrive.

„Happy with age” campaign

As many as 52% of Poles admit that they rarely or never think about securing money for the future (data: Maison&Partners). mBank wants to change that. That is why in the "Happy with age" campaign, mBank shows that it is worth to plan with retirement in mind. The "Happy with age" campaign is one of the elements of the activities aimed at popularizing investments, which have been carried out for two years. mBank fights against the myths that investing is only for people with a lot of money or professional economic knowledge. mBank underlines that one can start even with small amounts, using solutions prepared by experts, with the future in mind. On [a special website](#) (available in Polish), mBank presents its offer of products and advice on saving for retirement.

As part of the campaign, mBank prepared a 3-minute spot presenting the results of an experiment that confronts young people's ideas about retirement with reality. The motto is "It's worth planning for the future. Where you don't have to do anything, and you can." Promotional activities are carried out in selected cinemas, on the Internet and on mBank's own channels. Influencers are also involved in promoting the campaign in social media.

New position on mBank's Management Board: Vice-President for Compliance, Legal and HR

A new position has been created on mBank's Management Board, taken up by Julia Nusser. Prior to joining mBank, Julia Nusser served as managing director at Commerzbank. Her tenure at mBank started on May 1, 2023 and will last until the end of the current term of the bank's Management Board. The Vice-President for Compliance, Legal and HR is responsible for ensuring compliance in all areas of mBank's business as part of the second line of defence. The Vice-President is also responsible for strategic positioning of the HR function, including retaining and attracting new talent.

For more information about mBank's Management Board, visit <https://www.mbank.pl/en/about-us/bank-authorities/>.

Demerger of mBank Hipoteczny

The demerger of mBank Hipoteczny was completed in May 2023. Some of the assets and liabilities of mBank Hipoteczny were transferred to mBank as the acquiring company. As a result, loans worth PLN 2 billion (mainly commercial real estate loans) were transferred to mBank. Over a dozen employees and part of the IT systems were also transferred to mBank. Customers affected by the change gained access to online banking. At the same time, the division of competences in mBank Group was rearranged.

mBank Hipoteczny, which was established in 1999, continues its activities as a mortgage bank. It will continue to issue securities, especially covered bonds, and carry out other treasury transactions, in particular derivative transactions. It will service mortgage-backed loans granted to individuals for non-business purposes. Such loans have either been concluded by mBank Hipoteczny in the past or have been transferred from mBank as part of a pooling agreement.

The detailed terms and conditions of the demerger are set out in the Demerger Plan of mBank Hipoteczny S.A. agreed in writing by the Management Boards of mBank and mBank Hipoteczny on May 31, 2022. It is available at <https://www.mbank.pl/en/investor-relations/demerger-plan-of-mbh/>.

Together with other banks, mBank is financing the construction of the first large-scale solar and wind farm in Poland with a capacity of over 200 MW

mBank takes part in a consortium of three banks which have provided loans totalling PLN 776 million for the construction of Kleczew Solar & Wind. It is Poland's first large-scale solar and wind farm with a capacity of more than 200 MW. mBank provided 17% of the consortium's loan volume. The farm is located on post-mining land in the municipality of Kleczew in the Wielkopolskie voivodeship.

Kleczew Solar & Wind will be one of the largest renewable energy parks in Central and Eastern Europe. In the first phase of the project, which is already under construction, 193 MWp of photovoltaic panels and approximately 12 MW of wind turbines will be connected to the grid. Thanks to the use of advanced technologies, including modern n-type photovoltaic panels, the energy generated at the Kleczew power plant will meet the demand of approximately 100,000 households. In subsequent expansion stages, the power plant can be increased to approximately 250 MWp in the solar part and with additional wind turbines and energy storage facilities. Energy from the Kleczew farm will be available to consumers in 2023.

The investment is an excellent example of the green transition of a former mine site and a symbolic step towards the decarbonisation of the Polish economy. It is part of the implementation of mBank's strategy, whose pillars include the financing of the green economy, in particular the development of renewable energy sources.

mBank eco-loans on preferential terms

The eco-loans support businesses in transition which increases their energy efficiency. mBank provides the loans and Bank Gospodarstwa Krajowego (BGK) grants European Union subsidies in the form of an environmental bonus. BGK co-financing is up to 70% of the eligible costs of modernisation.

The loans are aimed at small and medium-sized companies. The offer is available on the condition that the financed investment reduces primary energy consumption by at least 30%. The financing can be used to modernise existing infrastructure in order to increase the energy efficiency of the company's processes: buildings, process lines, machinery and equipment, as well as for RES installations.

For more information about the eco-loans, visit <https://www.mbank.pl/msp-korporacje/finansowanie/eko-kredyt/> (available in Polish only).

mBank and KUKE will jointly finance domestic investments of Polish exporters

mBank has signed an agreement with the Export Credit Insurance Corporation (KUKE) which allows mBank clients to take loans for exporters to strengthen their production capacity and use payment insurance guarantees. Thanks to the agreement, 80% of the financing granted for an investment implemented in Poland will be secured by KUKE. The guarantees will mitigate the risk associated with the loan, allowing more companies to obtain financing from mBank. KUKE's facilities boost the financial capacity of companies and have a positive impact on their relations with financing banks and contractors, enabling a significant increase in the scale of operations.

Support for the promotion of culture

The project "m jak malarstwo" is part of mBank's ESG strategy. A special fund set up by mBank in 2020 has been used to create a collection of artworks by the most promising Polish artists. In February 2023, mBank exhibited selected works at the Rondo Art Gallery of the Academy of Fine Arts in Katowice. This is the second show of painting works from the bank's collection, which includes almost one hundred paintings. Information about the project "m jak malarstwo" is available at www.mjakmalarstwo.pl (available in Polish only), where works from the collection can be viewed.

In July, the New Horizons International Film Festival took place in Wrocław for the 23rd time. mBank has been cooperating with the festival since 2019. In addition to being a patron, mBank has been involved in other activities. In previous years, mBank was, among others, a partner of the prestigious Gala Screenings section, the VR films section and, together with the website, created the podcasts "More New Horizons" and the radio programmes "New Horizons: More Good Cinema." This year, mBank increased its support and became the festival's title partner. On this occasion, mBank prepared a collector's edition of debit cards for its customers.

mBank plays with the Great Orchestra of Christmas Charity

The Great Orchestra of Christmas Charity (WOŚP) played for the 31st time in 2023. For mBank, it was the sixth anniversary of its cooperation with the foundation as strategic partner and sponsor. The 31st finale of the Great Orchestra of Christmas Charity took place on 29 January 2023. This time, the foundation collected

donations to fight sepsis and equip hospitals with modern diagnostic equipment. As usual, mBank topped up donations made by its customers. On this occasion, mBank prepared a collector's payment card with a commemorative design. mBank added a special "heart" icon to the mobile app to streamline donations and contributed PLN 1 for each click on the icon. Thanks to customer engagement, mBank donated PLN 2 million to the foundation. Companies served by mBank's corporate and investment banking could make a contribution to the collection organised by the Great Orchestra of Christmas Charity. mBank donated the equivalent of six months' fees for accounts opened by companies from January to the end of February 2023.

Operations of mBank Foundation

mBank Foundation invited 350 students from across Poland, mostly primary school children from small towns and rural areas, to this year's Maths Picnic held on March 14, the Pi Day, in the Copernicus Science Centre. This event marked the end of the 9th edition of the mPower ("mPotęga") grant programme. The theme of the event was mathematics in game development. mBank Foundation prepared a number of fun activities for its young guests, including a workshop where they had a chance to learn unknown facts about the lives of Polish scientists.

In March, mBank Foundation launched the 10th edition of its flagship grant programme mPower. The programme promotes intriguing aspects of mathematics, helps students and teachers explore maths in a friendly manner and rewards unconventional approach to mathematical education. In the mPower competition ended in June, mBank Foundation awarded a total of nearly PLN 1.15 million to the authors of 183 projects addressed to primary school students. Moreover, each of the two projects that won an online poll received an additional grant of PLN 5,000. The projects will be implemented from September to December 2023.

During the ten years of the mPower programme, thousands of students were given the chance to learn about the more interesting side of mathematics. Throughout this time mBank Foundation donated over PLN 8.6 million to education projects implemented by nearly 1,500 schools, libraries and non-governmental organisations. In June, mBank Foundation organised the first meeting for approx. 50 maths teachers to summarise what we have achieved together so far and work out the assumptions of a new programme – mFactorial ("mSilnia").

Like in the previous years, on March 30, the birthday of the brilliant Polish mathematician Stefan Banach, mBank Foundation announced the results of its annual "A Step into the Future" ("Krok w przyszłość") competition. The jury of the competition, chaired by professor Paweł Strzelecki from the Faculty of Mathematics, Informatics and Mechanics of the University of Warsaw, selected the best papers in mathematics written by students that promote innovative, original ideas or set new research directions and methods. Five out of 21 papers submitted for the competition qualified for the final of the 2022/2023 edition. The jury awarded the main prize of PLN 20,000 and two distinctions of PLN 10,000 each. On June 30, mBank Foundation announced the launch of the 8th edition of the competition.

The EMTN Programme

The Euro Medium Term Note Programme (EMTN) enables the issuance of debt securities in many tranches and currencies, with a different interest and maturity structure.

In April 2018, a new EMTN Programme with a maximum value of EUR 3 billion was established by updating the previous debt issuance programme. The Programme provides for the issuance of debt securities directly by mBank. mBank issued four tranches under this Programme: two tranches in 2018 (CHF 180 million of 4-year bonds and EUR 500 million of 4-year bonds), one tranche in 2019 (CHF 125 million of 5.5-year bonds) and one tranche in 2021.

In September 2021 mBank placed its debut EUR 500 million Senior Non-Preferred Green Bonds with maturity on September 21, 2027 (with an option of early redemption at the request of the issuer on September 21, 2026). The rules for allocating funds from the issue to the bank's assets are set out in the framework document: mBank S.A. Group Green Bond Framework. The criteria for assessing and selecting green mortgages meet the requirements of the Climate Bonds Initiative (CBI) for low-emission housing in Poland. The fulfilment of these assumptions has been confirmed by Sustainalytics. The funds from the issue of green bonds were entirely used to refinance part of the portfolio of retail mortgage loans financing highly energy-efficient buildings.

The following table presents a summary of outstanding tranches:

Issue date	Nominal value	Maturity date	Coupon
05.04.2019	CHF 125,000,000	04.10.2024	1.0183%
20.09.2021	EUR 500,000,000	21.09.2027	0.966%

2.2. Awards and distinctions

In H1 2023, mBank Group has gained recognition, winning a number of awards and distinctions, with the most important as follows:

mBank on the podium in the general classification of the *Dziennik Gazeta Prawna* daily competition

Jury of the competition organized by *Dziennik Gazeta Prawna* daily recognized innovation as mBank's strongest point. mBank placed first in this category. The jury appreciated verification of payments with cards based on biometrics and the mobile verification of employee's identity. mBank also took a third place in the growth category. These two successes translated into a place on the podium in the main competition. The ranking was based on financial data for 2022, a survey on innovation and ESG aspects, evaluation of the jury and polls.

mBank is a laureate of the Leaders of the Banking and Insurance World competition

Jury of the competition acknowledged mBank's highest quality of service in all contact channels, most innovative electronic banking platform in Poland and applying best practice in the area of security, including wide range of educational initiatives in the area. mBank received the award also for consequently achieving goals related to sustainable development and corporate social responsibility (CSR), as well as cooperation with startups and introducing behavioral biometrics to card payments in the Internet.

mBank offers best domestic private banking – Euromoney Global Private Banking Awards

The international panel of experts sitting on the jury of the Euromoney Global Private Banking Awards awarded mBank the best domestic private bank. The bank has distinguished itself with a global and comprehensive approach to wealth management. mBank's state-of-the-art technology allows customers to use variety of solutions (mobile onboarding, video calls or the digital portfolio management tools) in a fully secure and remote manner.

Distinction for mBank's mobile technology in the Mobile Trends Awards competition

mBank received another Mobile Trends Awards statuette. The prize was awarded for 2022 in the 'Mobile Campaign' category. The jury appreciated the bank's activities promoting mobile onboarding, meaning the remote account opening process. The Mobile Trends Awards are a prestigious accolade of the mobile industry. For the last 12 years, the awards have been given to companies that excel in the use of mobile technology. The competition's jury is made up of experts who have been involved in the mobile industry for many years.

mBank's secure solutions on the podium

mBank's solutions which increase clients' security were in the top 3 of banking innovations' list published this year in the *Forbes* magazine. Mobile verification of employee's identity placed first, while biometric-based card payment verification came third. mBank is constantly increasing the security of its services by creating the most modern solutions on the market.

Distinction for mBank's „Competencies of the future – Mission Innovation“ development programme

mBank's development program was awarded two distinctions in the Employer Branding Excellence Awards competition organized by the HRM Institute. The jury appreciated mBank in the "EB innovation" and "internal communication" categories. The competition and the internal conference "Mission Innovation" are the development project's initiatives for mBank employees. They inspire employees to acquire competences of the future, such as data analytics, machine learning and artificial intelligence, critical thinking and creativity.

Second place in the satisfaction survey of Polish bank's clients

In the satisfaction survey carried out by ARC Rynek i Opinia for 2022, mBank came second in all three categories of the competition - satisfaction index, loyalty index and recommendation index among individual bank customers. The survey was carried out using the CAWI method (online surveys conducted at ePanel.pl). A total of 2,515 respondents aged 18–65 who have a bank account participated in the survey. It covered ten largest banks in Poland.

mBank amongst best perceived employers in Poland

In the Kincentric Poland survey, mBank was amongst the best rated employers in Poland. The bank was regarded so highly on the basis of cyclical "Pulse Check" surveys completed by mBank employees, in which employees can indicate what they are satisfied with and what disappoints them in the work environment. The Kincentric Best Employers organization recognizes leading organizations around the world using the most objective metric possible - opinion of employees. It appreciates human factors which are the key to facilitating success: employee engagement, deep agility, engaging leadership, and a focus on talent.

mBank maintained 1st place in the Employer branding LinkedIn Talent Awards competition

mBank won the LinkedIn Talent Awards in the 'Employer Branding' category for the second year in a row. In this category, an international jury recognises companies that build strong employer brands with significant social engagement through online channels.

mBank's initiatives related to diversity and creating inclusive culture once again appreciated

Responsible Business Forum once again named mBank as one of the best Polish employers in terms of managing diversity and building inclusive culture. Inclusive banking results directly from mBank's strategy. At the initiative of employees, a group was established at mBank which works to promote the benefits of equality, diversity and inclusive practices. The Diversity Charter Award recognizes employers who support DEI (diversity, equity, inclusion) areas. The competition is organized by the Diversity Charter organization supported by the Responsible Business Forum.

mBank's best practice were recognized in the Responsible Business Forum report

Responsible Business Forum acclaimed 10 projects which mBank managed in 2022. Their descriptions were compiled in the latest "Responsible Business in Poland. Good Practices" report. Amongst awarded mBank projects were: Help for Ukraine, mBank volunteers' support for the Finale of the Great Orchestra of Christmas Charity, "People are awesome" campaign and cybersecurity test, mBank Foundation "Maths in green" book, Financing the energy transition, mBank's decarbonization, Finance products which support ESG, Diverse and inclusive culture, Financial health of the clients, and Sustainable Development Code for Suppliers and Partners of mBank S.A. and Sustainability (ESG) Guide for mBank Group Suppliers.

mBank inspires with its initiatives related to diversity

The jury of Diamonds of Sustainable Economy Executive Club competition recognized mBank in the "Diversity leader" category. mBank was also nominated for the competition in the initiatives for sustainable finance and Corporate Social Responsibility category. Diamonds of Sustainable Economy awards honors corporations which distinguish themselves with "prominent achievements in the implementation of the idea of sustainable development, development, promotion of social activities and CSR".

mBank's Brokerage Bureau was awarded by Warsaw Stock Exchange

Warsaw Stock Exchange (WSE) recognized mBank's Brokerage Bureau for the highest activity on the futures market in 2022. WSE appreciated mBank's Brokerage Bureau's role in the derivatives market. The prizes were awarded during grand Stock Exchange Gala 2022 celebration.

Market highly regards analysts from mBank's Brokerage Bureau

Four analysts from mBank's Brokerage Bureau were distinguished in the 21st ranking published by the *Parkiet* daily. The ranking reflects the opinions of market participants. The questionnaires are completed by teams managing investment fund companies, open pension funds and closed-end investment funds. The ranking is divided into 14 sector categories. Analysts from mBank's Brokerage Bureau were the winners in four of them: the energy sector, technical analysis, the health and biotechnology sector, and the telecommunications, media and e-commerce sectors.

mBank actively participates in the global development of IT

Every year, the most active experts and teams participating in the TRIBES CIONET programme are awarded distinctions recognising their efforts in sharing their IT experience. The programme is run by CIONET, a global community of technology and IT leaders. Its mission is to enable knowledge sharing and to discuss IT problems and challenges faced by digitisation departments. The mBank team was awarded in the 'Overall Business' and 'Most Committed Expert Team' categories for the second consecutive year.

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 Area

mBank's Retail Banking segment serves 5,676 thou. individuals and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 176 branches*. The bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key financial data (as at the end of H1 2023):

Share in total income	Profit before tax	Income
62.9%	PLN 1,655.5 M	PLN 3,271.0 M

Key highlights

- High profit before tax – increased by 62.0% compared to H1 2022, mainly due to higher net interest income.

- Revenues reached a historically high level at PLN 3,271.0 million, grew by 29.6% year on year.

- Visible rebound of mortgage loan sales after the lowest point was hit in Q4 2022; stable level of non-mortgage loan sales.

- The volume of deposits increased by 14.6% year on year.

- mBank's share in the PLN mortgage loans market increased to 7.8% (by 0.2 p.p. year on year), while its share in the deposit market increased to 8.7% (by 0.5 p.p. year on year).

- Growing number of active users of mBank's mobile application: +12.5% year on year.

- „Happy with age” campaign about saving for retirement, in which mBank educates on safe investments. mBank prepared a special website presenting the saving offer of products and advisory and spots playing in selected cinemas.

- mBank launched the eighth edition of its social campaign on online safety, which included educational material on a dedicated website and video spots on TV and the internet. It also reminded about its free CyberRescue online service, which provides 24/7 access to support from online safety specialists.

- The release of new features in mBank's mobile app that enhance security through mobile authentication. Any telephone contact initiated by the bank is confirmed by the client in the mobile app, if it is installed.

- An increase in the share of sales in mobile channels in total non-mortgage loans sales to 60.5% at the end of June 2023, with an increase in the share of processes initiated by customers in digital channels to 86.9%.

- mBank achieved the highest NPS score (23) and placed first in the June ranking of individual customer satisfaction of the ten largest banks in Poland, which was conducted by an independent research agency. On a quarterly basis, mBank ranked second in this ranking.

- Value of transactions made by mBank's payment cards and BLIK increased by 20.3% year on year; the number of transactions up by 14.3% year on year.

* Including 129 in Poland and 47 in the Czech Republic and Slovakia; excluding mFinanse (40) and mKiosks (149).

Financial results

In H1 2023, the Retail Banking segment generated a profit before tax of PLN 1,655.5 million, which represents an increase by PLN 633.3 million, i.e. 62.0% compared with H1 2022.

PLN M	H1 2022	H1 2023	Change in PLN M	Change in %
Net interest income	1,933.9	2,720.9	787.0	40.7%
Net fee and commission income	575.7	496.2	-79.5	-13.8%
Net trading income	34.4	46.1	11.7	34.0%
Other income	-49.8	18.8	68.6	-/+
Net other operating income	30.6	-10.9	-41.5	+/-
Total income	2,524.8	3,271.0	746.2	29.6%
Net impairment losses and fair value change on loans and advances	-292.7	-431.3	-138.6	47.4%
Overhead costs and depreciation	-1,025.8	-959.8	66.0	-6.4%
Taxes on the Group balance sheet items	-184.2	-224.4	-40.2	21.8%
Profit before tax of Retail Banking	1,022.2	1,655.5	633.3	62.0%

Other income – calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

Total income - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.

Net impairment losses and fair value change on loans and advances – the sum of 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.

Overhead costs and depreciation – calculated as the sum of total overhead costs and depreciation.

Key business data (mBank and mBank Hipoteczny only)

thou.	30.06.2022	31.12.2022	30.06.2023	Semi-annual change	Annual change
Number of retail clients, including¹:	5,587.2	5,642.8	5,675.9	0.6%	1.6%
Poland	4,548.8	4,590.1	4,604.3	0.3%	1.2%
Foreign branches	1,038.4	1,052.7	1,071.5	1.8%	3.2%
The Czech Republic	723.0	732.3	748.7	2.2%	3.6%
Slovakia	315.5	320.4	322.9	0.8%	2.4%
Mobile application users	3,099.7	3,338.5	3,488.6	4.5%	12.5%
Poland	2,714.5	2,920.0	3,043.1	4.2%	12.1%
Foreign branches	385.2	418.5	445.6	6.5%	15.7%
PLN M					
Loans to retail clients, including:	75,595.4	71,645.1	68,643.9	-4.2%	-9.2%
Poland	65,354.9	61,381.5	58,953.6	-4.0%	-9.8%
mortgage loans	45,931.7	42,701.1	40,464.7	-5.2%	-11.9%
non-mortgage loans	19,423.2	18,680.4	18,488.9	-1.0%	-4.8%
Foreign branches	10,240.5	10,263.6	9,690.4	-5.6%	-5.4%
The Czech Republic	7,147.1	7,114.6	6,719.3	-5.6%	-6.0%
Slovakia	3,093.4	3,149.0	2,971.1	-5.6%	-4.0%
Deposits of retail clients, including:	109,763.7	122,726.8	125,815.3	2.5%	14.6%
Poland	93,511.4	105,750.2	109,115.2	3.2%	16.7%
Foreign branches	16,252.3	16,976.5	16,700.1	-1.6%	2.8%
The Czech Republic	11,393.2	12,047.8	12,063.9	0.1%	5.9%
Slovakia	4,859.1	4,928.8	4,636.2	-5.9%	-4.6%
Investment assets of mBank individual clients (Poland)	18,209.6	18,746.0	20,807.8	11.0%	14.3%
thou.					
Credit cards, including	364.2	361.0	361.6	0.2%	-0.7%
Poland	328.8	326.1	326.4	0.1%	-0.7%
Foreign branches	35.4	34.8	35.2	1.0%	-0.7%
Debit cards, including:	4,628.7	4,851.2	5,058.0	4.3%	9.3%
Poland	3,929.0	4,082.3	4,247.2	4.0%	8.1%
Foreign branches	699.7	768.9	810.9	5.5%	15.9%

¹ Includes the number of Kompakt Finanse clients.

Retail Banking in Poland

We introduced a number of new functionalities and improvements for clients in H1 2023 to make mBank's services even easier to use. The key implementations are described in Chapter 2.1. Key events in mBank Group in H1 2023. The new functionalities include, among others solutions, increasing cyber-safety of our clients.

mBank's mobile application has 3,488.6 thousand users, including 3,043.1 thousand in Poland. Monthly active users (MAU) increased by 5.5% YoY up to 3,306 thou. The significance of the mobile channel in daily banking continues to rise. Share of the mobile application in the sale of non-mortgage loans (by number of pieces) increased to 60% at the end of H1 2023 compared to 55% at the end of 2022. For more information concerning new mobile solutions, see Chapter 2.1. Key events in mBank Group in H1 2023.

mBank has updated its communication strategy which focuses on the youngest customers. A new marketing campaign has been launched under the slogan "cause I can" across all major social channels. As before, the target audience of the marketing campaign is generation Z. However, this time, mBank is also targeting younger people aged 13-17. Together with them, mBank celebrates important events, such as a change of school or the 13th birthday.

The new communication strategy will allow mBank to gain an advantage in attracting the youngest potential customers in an environment of intensifying competition in the sector. mBank supports the financial independence of teenagers by offering a wide range of products and services available to holders of eKonto dla Młodych accounts which can be opened by anyone over the age of 13. The account, card, online transfers and ATM withdrawals worldwide are free. Account holders have access to the full version of mBank's mobile app. They can order a personalised mBank card with an image of their choice.

We communicate directly with clients to build awareness of financial wellbeing and promote financial health. All these activities contribute to strengthening of our position as a leading bank helping clients improve their financial wellbeing. At the end of May, we prepared a special campaign promoting saving for retirement "Happy with age". More details about the campaign can be found in chapter 2.1. Key events in mBank Group in H1 2023.

As part of the project "Captivated by Economy" ("Porwani przez ekonomię") in 2023 we organised scenario-based classes in schools teaching children about saving, cybersecurity and entrepreneurship. In H1 2023 alone, more than 600 classes were held. Nearly 900 teachers enrolled for the project and underwent dedicated training. The classes are attractive not only because of the interesting things students can learn but also because of how they are held. The teachers have an interactive website, a quiz, a calculator and educational videos at their disposal.

As part of inclusive banking, we commissioned accessibility audits for people with special needs in three areas:

- digital (transaction website, mobile application, information page, application system, design system);
- communication and information (mLinia, mLinia na klik, service chat, application chat, video chat in Polish Sign Language);
- architectural (14 selected facilities).

We are analyzing post-audit reports and assess the possibility of introducing changes in individual channels. Based on the audit results, we planned changes to the system design and completed 60% of the work in this area. We are updating the guidelines to support the service of people with special needs in remote contact channels.

For each of the audited areas, we organized a public conference for employees, where we introduced the subject of accessibility and discussed the results of the audits.

Throughout the first half of 2023 we carried out business in an environment of high interest rates. Due to rising inflation and high rates and, as a consequence, increased interest rates of loans, our clients were limiting consumption and took cautious approach to incurring liabilities. For more information on the macroeconomic environment see chapter 3.1. Economy and banking sector in H1 2023.

Retail banking offer for individuals

Non-mortgage loans

During the first half of 2023, sales of non-mortgage loans at mBank were down 20.6% compared to H1 2022 and amounted to over PLN 2.3 billion. Simultaneously, mBank was focused on maintaining target profitability.

Electronic channels were the most popular sales channels in H1 2023. Sales made through these channels constituted over 81% of the total number of unsecured loan sales (79% in H1 2022).

Through continuing optimisation, we have provided internal clients with fast and convenient digital sales processes. In March 2023, we introduced a new and convenient way for our clients to apply for a cash loan. Simultaneously, as part of our ESG measures, in May 2023 we launched a special offer on the cash loan for environmentally friendly solutions called "I am eco-friendly" ("jestem eko").

In order to meet our clients' expectations, we want to promote the idea of responsible borrowing. We enable clients to optimise their current liabilities by consolidating them. We want to increase the share of this solution in total sales and to promote it to new groups of clients.

Mortgage loans

In H1 2023, total mortgage sales at mBank amounted to PLN 1.7 billion, down 61.9% year-on-year. We consistently sell loans to internal clients having at least a six-month relationship with mBank. Their share in the number of loans granted in H1 2023 averaged 86.9%. As many as 82.7% of clients who took out a mortgage in this period hold the Intensive account.

In H1 2023, the share of eco mortgage loans for the purchase or construction of an energy efficient property in the value of total mortgage sales increased to 12.3% from 5.3% in H1 2022. In H1 2023, we sold eco mortgage loans worth PLN 200.2 million. Properties eligible for an eco mortgage loan must not exceed the value of the annual non-renewable primary energy demand index specified by the bank, depending on the type of property, as set out in the Energy Performance Certificate or the Designed Energy Performance.

The NPL ratio of the retail mortgage loan portfolio in Poland stood at 2.23% as at June 30, 2023 compared to 1.94% a year before.

Deposits

In the first half of 2023, mBank continued to encourage saving by launching a number of promotional campaigns. It was the decisive factor behind the increase of mBank's deposit base. At the end of the first half of 2023, the retail deposits of mBank in Poland stood at PLN 109,115.2 million, up by 16.7% (+PLN 15,603.8 million) compared with the end of H1 2022. As a result, mBank's market share reached a high level of 8.7% as at the end of June. We observed funds from current accounts being transferred to savings products. At the same time, the decrease of funds in current accounts was offset by inflows from income tax refunds, the volume of which increased in the first half of 2023 by 108.3% compared to the refunds paid in the first half of 2022.

Cards and accounts

In H1 2023, we continued the special offer designed to acquire young and mature clients. In May, we launched a campaign addressed to 13-year-olds. Young people who open their first personal account with mBank are awarded with additional pocket money, Żabka gift cards and gaming vouchers. We also prepared dedicated birthday cards for those born in 2010.

New client acquisition efforts, also in remote channels, were supported by large-scale promotional activities. Also in H1 2023, we continued building the awareness of how the account opening process works at mBank. In particular, we launched a marketing campaign and TV ads under the slogan "Open your account with the mobile app – it's as easy as ABC!". The campaign proved successful, with one in four mBank clients opening their account remotely.

In addition, we continued to promote our Junior offer among parents. Most of all, we focused on financial education, savings and first payments made by children. These were addressed in a new version of the campaign entitled "Money Tales" ("Bajki o pieniądzach").

We used the slogan "Engage at every age" to invite children to support the 31st grand finale of the Great Orchestra of Christmas Charity (WOSP). In May we launched a special offer "Junior account with pocket money" ("eKonto Junior z kieszonkowym") encouraging parents to make regular payments to their children's accounts. We also promoted saving for a child's future in a special campaign offering a 7% annual interest rate on amounts up to PLN 5,000. We support parents not only in helping their children take their first steps into banking, but also in everyday life. Knowing how important it is to keep children safe, we offered a discount on accident insurance to parents opening accounts for their children.

The value of payments made by mBank retail banking clients with cards and BLIK in Poland in H1 2023 stood at PLN 51.0 billion, representing an increase of 20.3% year on year. The number of transactions of mBank clients increased by 14.3% year on year. The market share of mBank cards' transactions remains at stable level and amounted to 12.4% at the end of 2022 (latest data available).

Investment funds for individuals

In the first half of 2023, the net cash flows into and out of investment funds for retail clients was positive. Sale of funds was supported by promotions. mBank has implemented another edition of the "Save and

Invest” promotion (combination of investment in funds with a bank deposit). Moreover, mBank encouraged regular investing through the "Premium for regular investment" promotion.

In January, mBank introduced funds of a new investment fund company VIG / C-Quadrat TFI S.A. to the offer of the Supermarket of Investment Funds. In turn, in May mBank introduced several changes to mFundusze (mFunds), i.e. investment funds whose portfolios are managed by mTFI experts. The name of the umbrella fund has been changed to Ready SFIO Strategies. The names of the three existing sub-funds have also changed. In addition, mBank added five new sub-funds to the offer. Three of them are managed as life cycle funds and are dedicated to investing for additional financial security during retirement.

mTFI started business operations in Q1 2023. In the first year, the company is focusing on taking over a portfolio of investment funds created for mBank under a white label formula by external entities. On its website, mTFI discloses the investment standards it applies, including information on introducing ESG into its operations, as well as educational materials for potential clients.

Brokerage and asset management

The Brokerage Bureau of mBank provides a full range of brokerage services to individuals, institutional clients and private banking clients. We are a leader in the retail clients category. In the affluent clients segment, we combine state-of-the-art technology with experience and professionalism. We also serve the largest Polish institutional investors, including pension funds, investment funds, and asset management companies. Our clients also include 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 equity market, preparing and conducting public and private offerings (IPO/SPO/ABB).

In H1 2023, the turnover on the Warsaw Stock Exchange (GPW) increased modestly compared with H2 2022. Bureau’s turnover on the GPW main market amounted to PLN 10.7 billion, which makes mBank the eight player in terms of total turnover (up from the ninth position, with a share of 4.0%) and the seventh player from the perspective of turnover on clients’ account (4.9% share). Five most active Warsaw Stock Exchange brokers are remote members serving foreign clients.

With ca. 7,500 new investment accounts opened in the period under review, mBank’s Brokerage Bureau is the second player on the market in this category (according to data of the Central Securities Depository of Poland (KDPW)). The number of brokerage accounts of the Brokerage Bureau’s clients amounted to approx. 425,000 at the end of H1 2023, and their share in the retail turnover on the GPW stood at ca. 18%. The Brokerage Bureau maintained its leading position in both categories.

Since the beginning of 2023, our clients, especially new ones, have continued to invest in foreign markets. At the end of H1 2023, foreign assets accounted for approx. 10% of all assets of retail clients. More than 43,000 clients held them in their portfolios.

In H1 2023, all model investment strategies managed by the Brokerage Bureau of mBank recorded positive investment results, which reflects global trends in the financial markets. The highest, double-digit returns were recorded by strategies with the largest equity component (the Megatrends Strategy and the Polish Small and Medium-Sized Enterprises Strategy), whose performance was supported by increases in equity markets. In H1 2023, only a narrow group of companies saw rises in their share prices, which reduced the opportunity for investment diversification. In addition, rising yields in the underlying markets had a negative impact on bond valuations. Consequently, five out of the eight model Asset Management strategies existing at the end of 2022, offered to Private Banking clients, outperformed the corresponding market benchmarks. The Polish equity fund mBank Innovations PL also performed strongly, both in relative (compared to its competitors) and nominal terms.

In H1 2023, the Brokerage Bureau of mBank continued its numerous activities to educate and inform clients about investing in response to clients’ needs identified by mBank. One example of these activities is the publicly accessible video series "Views from the Tower" ("Widoki z Wieży"). The videos summarise events in the financial market. mBank’s experts also created a podcast "Everyone Knows" ("Wszyscy się znają") about investing and finances. The Brokerage Bureau also produces regular publications for clients and employees. These include the "Expected Investment Directions" ("Oczekiwane Kierunki Inwestycyjne") newsletter and the "Investment Compass" ("Kompas Inwestycyjny"), a dedicated website with the latest news from the world of finance and investment.

Assets managed by the Brokerage Bureau under the Asset Management formula increased in H1 2023. The ESG Dynamic Growth Strategy and the Income Strategy were particularly popular with clients.

In H1 2023, the stock exchange market was characterised by moderate transactional activity (nine ABB transactions, including two involving newly issued shares). Additionally, one IPO took place in May; however, it failed to pique investors’ interest.

Despite the ongoing war in Ukraine, H1 2023 saw a significant inflow of capital and an increase in the valuation of GPW listed companies, in particular those included in WIG20. This created favourable conditions for the realisation of profits through the sale of company shares by shareholders and opened the market to capital increases by existing issuers.

In the period under review, mBank's Brokerage Bureau performed an ABB of CCC S.A. in the capacity of a global co-coordinator, one tender offer for the sale of shares of a GPW listed company, and three share buybacks.

Offer for SMEs

In the first half of 2023, we observed a decrease in the number of new enterprises on the market (-2% year on year). Less interest in setting up a business was mainly due to the implementation of new regulations, e.g. increasing operating costs. The exception is the trend of Ukrainian citizens opening their own businesses.

During the period under review, we promoted a business account free-of-charge for two years. Continuing the strategy from 2021, we focused on encouraging entrepreneurs to use our additional services. We emphasized the benefits of a package of tools for enterprises, which are available to mBank clients as part of the business account. New entrepreneurs who decided to start a business with us were supported with a moneyback for a good start. We communicated our offer as part of a broad marketing campaign promoting the offer of accounts for enterprises.

We want to be a business partner and respond to the key needs of entrepreneurs. Bearing in mind the aspect of security and stability in uncertain times, from June 2023 we offer clients running a sole proprietorship "Company account for PLN 0 forever". In the second quarter of 2023, we observed a growing trend of opening limited liability companies. We took care of better exposure of the offer for this type of companies, which, combined with sales activities in remote channels, resulted in an increase of accounts opened by limited liability companies by 4% on an annual basis.

In the area of financing the operations of small and medium-sized enterprises, in the first half of 2023 we focused on the development of sales to internal customers. In addition to altering the credit policy and selected processes, we supported the development of remote channels. Thanks to, among others, new communication tools, we increased the share of this channel in total sales by 4 p.p. year on year.

In the area of the Paynow gateway, in the first half of 2023 we increased the transaction volume by 30% compared with H1 2022. We introduced a new promotion that reduces the costs incurred by our clients, which will enable further development of their online stores.

Relations with UNIQA

In the first half of 2023, mBank continued to cooperate with its strategic insurance partner UNIQA in the area of bancassurance. The cooperation covers the sale of insurance to mBank's clients and focuses on the segment of standalone products, i.e.:

- motor insurance,
- travel insurance,
- real property insurance,
- life and health insurance
- e-commerce insurance – "Safe online payment and shopping insurance".

mBank clients intensively use remote channels to contact the bank and fulfil their needs. As a result, all mBank insurance products which are not linked to banking products have been available in every sales channel, including mBank's mobile application. Between January and June 2023, 40% of standalone insurance products were purchased via the mobile application (+8 p.p. year on year).

mBank observes a growing number of clients who have active insurance unrelated to banking products. Complete withdrawal of Covid restrictions and constraints translated into an increase in the number of trips. Consequently, the number of travel insurances sold in H1 2023 increased significantly (by 41% year on year).

The pandemic has contributed to the higher awareness of the Poles concerning their life and health protection as well as safeguarding the financial security of themselves and their relatives in case of unexpected circumstances. In the first half of 2023 we observed growing sales of life and health insurance (+12% year on year). 18% of the insurance policies has been purchased via mobile channel.

Retail Banking in the Czech Republic and Slovakia

Despite the persisting uncertainty on the two markets, connected with the ongoing war in Ukraine and rising inflation, mBank in the Czech Republic and Slovakia managed to meet its business targets in the first half of 2023 and as a result grew both in the client base (3.2% year on year in June) and financial results.

The different market conditions in the Czech Republic and Slovakia, especially in terms of base interest rates, had an impact on our operations in these countries. The persistent trend of high interest rates at 7% 2W REPO rates in the Czech Republic has exacerbated the market's shift away from mortgage loans. The opposite trend and a significant increase in client interest can be seen in savings products. This is reflected, e.g., in the interest rates that banks are willing to offer on non-term savings accounts, reaching levels of 6%. In Slovakia, the pace of rate increases is linked to decisions taken by the European Central Bank (EBC). Therefore the move away from mortgage loans and towards savings products is much slower. Also, the structure of products offered differs significantly and is more directed towards linked and term offers.

mBank continued its works towards the goal of being a fully digital bank in the Czech Republic and Slovakia and offering superior solutions to the clients. In the first half of 2023, the first part of a project concerning nationwide digital identity of banks' clients in the Czech Republic was successfully launched. Thanks to it, mBank in the Czech Republic has enabled its new clients who are opening an account to use an identity confirmed by another Czech bank. Within the first few months after the launch, the banking identity became the most frequently used method of identity verification in applications submitted online.

mBank continued to further develop its offer in the card area, including mobile payments, as well as removing technical barriers in payments. The implementations were supported with TV spots and direct communication to mBank clients in both Czech Republic and Slovakia.

In the area of lending, mBank Czech Republic and mBank Slovakia have launched two major projects focused on online sales of mortgage loans and modifying of the digital loan process. The objective is to deliver best possible solutions from user's perspective, making it highly efficient at the same time.

Loans and deposits

The value of mBank's loan portfolio in the Czech Republic and Slovakia amounted to PLN 9,690.4 million at the end of June 2023, representing a decrease of 5.4% compared with the first half of 2022. The change was driven by a decrease of mBank's loan portfolio in the Czech Republic (-6.0% year on year) and Slovakia (-4.0% year on year).

mBank successfully shifted resources from the area of mortgage loan sales to cash loan sales. Compared with the record high H1 2022, sales of non-mortgage loans in foreign branches of mBank amounted to PLN 790.8 million, and were lower by 29.9% (by 30.6% in the Czech Republic and 28.4% in Slovakia). The decrease in sales in the first half of 2023 was affected by high interest rates of the Czech Central Bank and rate hikes of the European Central Bank, which translated into an increase in interest rates on loans.

Thanks to aforementioned solid sales, the value of the non-mortgage loan portfolio in the Czech Republic and Slovakia increased to PLN 2,718.2 million at the end of June 2023, an increase of 12.2% year on year (10.1% in the Czech Republic and 16.7% in Slovakia).

Sales of mortgage loans in mBank foreign branches decreased by 79.7% year-on-year (by 83.1% in the Czech Republic and 77.5% in Slovakia). This translated into a decrease in the mortgage loan portfolio, which at the end of June 2023 amounted to PLN 6,972.1 million, i.e. it was lower by 10.8% year on year.

The volume of deposits in mBank's foreign branches increased by 2.8% year on year to PLN 16,700.1 million. Thanks to an attractive interest rate on deposits, volumes in the Czech Republic increased by 5.9% year on year. Deposits in Slovakia decreased by 4.6% compared to end of June 2022.

2.4. Corporate and Investment Banking Area

The Corporate and Investment Banking segment serves 33,669 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 43 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.



Key financial data (at the end of H1 2023):

Share in total income	Pre-tax profit	Total income
35.0% ↓	PLN 1,194.7 M ↑	PLN 1,817.7 M ↑

Key highlights

- Increase of profit before income tax by 45.8% year on year, and total income by 11.3% year on year.

- Increase of corporate loans at the bank level by 8.2% year on year, along with slight decrease of mBank Group’s market share in corporate loans to the level of 8.0% compared with 8.3% year ago.

- Stable level of corporate deposits at the bank level.

- 89.2% of our corporate clients use mBank Company Mobile application, while the number of individual users increased by 24.3% in the last 12 months.

- mBank has signed an agreement with the Export Credit Insurance Corporation (KUKE) which allows mBank clients to take loans for exporters to strengthen their production capacity and use payment insurance guarantees.

- As part of a consortium of three banks, mBank financed an investment in wind and solar energy. The farm is located on post-mining land and will be one of the largest renewable energy parks in Central and Eastern Europe, as well as the first large-scale project in Poland to combine solar and wind energy. The energy generated at the plant will meet the needs of around 100,000 households

- Offer of an eco-loan with co-financing from Polish Development Bank (BGK) for small and medium-sized companies which will support them in a transition increasing their energy efficiency.

- January 2023 marked the sixth anniversary of cooperation between the Great Orchestra of Christmas Charity, which played for the 31th time this year, and mBank, the foundation's main banking partner. The foundation raised money to fight sepsis and provide hospitals with modern diagnostic equipment. As usually, mBank also contributes financially to the payments done by its clients. mBank has prepared, among others, offer for corporate clients. As part of it, account maintenance fees for six months of accounts opened in January and February are donated to the charity.

Financial results

In H1 2023, the Corporate and Investment Banking segment generated a profit before tax of PLN 1,194.7 million. This result marked an increase by PLN 375.2 million or 45.8% year on year.

PLN M	H1 2022	H1 2023	Change in PLN M	Change in %
Net interest income	858.9	1,143.0	284.2	33.1%
Net fee and commission income	590.6	526.9	-63.7	-10.8%
Net trading income	171.4	125.1	-46.3	-27.0%
Other income	-2.7	0.1	2.8	-/+
Net other operating income	15.1	22.6	7.5	49.5%
Total income	1,633.3	1,817.7	184.4	11.3%
Net impairment losses and fair value change on loans and advances	-166.8	48.5	215.3	-/+
Overhead costs and depreciation	-533.3	-548.4	-15.0	2.8%
Taxes on the Group balance sheet items	-113.8	-123.2	-9.4	8.3%
Profit before tax of Corporate and Investment Banking	819.5	1,194.7	375.2	45.8%

Other income – calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

Total income - calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.

Overhead costs and depreciation – calculated as the sum of total overhead costs and depreciation.

Net impairment losses and fair value change on loans and advances – the sum of 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.

Business results (mBank only)

	30.06.2022	31.12.2022	30.06.2023	YtD change	YoY
Number of corporate clients	32,664	33,025	33,669	2.0%	3.1%
K1	2,240	2,218	2,327	4.9%	3.9%
K2	10,200	10,329	10,391	0.6%	1.9%
K3	20,224	20,478	20,951	2.3%	3.6%
PLN M					
Loans to corporate clients, including	33,756.3	32,974.8	36,508.7	10.7%	8.2%
K1	6,555.5	6,578.8	6,879.8	4.6%	4.9%
K2	21,757.6	21,705.5	22,889.6	5.5%	5.2%
K3	3,207.4	3,079.3	3,068.5	-0.3%	-4.3%
Reverse repo/buy sell back transactions	2,235.7	1,611.2	3,670.8	127.8%	64.2%
Deposits of corporate clients, including	49,774.0	50,264.7	49,733.7	-1.1%	-0.1%
K1	16,358.2	14,576.9	14,240.5	-2.3%	-12.9%
K2	21,355.1	22,104.9	22,721.2	2.8%	6.4%
K3	11,749.3	13,273.0	12,269.3	-7.6%	4.4%
Repo transactions	311.5	309.9	502.7	62.2%	61.4%

Products and services

The market of loans to enterprises increased by 1.1% year on year whereas the market of enterprises' deposits rose by 13.1% compared to June 2022. In this context, mBank reported stronger growth in loan volumes (+4.0%) while dynamics in the deposit volumes (+1.0%) year on year lagged the market pace (in aggregates comparable to NBP methodology). At the end of June 2023, mBank's shares in the market of loans and deposits of enterprises reached 8.0% and 10.4%, respectively.

Corporate loans

The value of corporate loans at mBank (excluding repo transactions) stood at PLN 32,837.9 million at the end of June 2023, up by 4.2% compared with the end of June 2022 (PLN 31,520.6 million).

PLN M	30.06.2022	31.12.2022	30.06.2023	YoY change
Loans to corporate clients ¹	31,521	31,364	32,838	4.2%
Loans to enterprises ²	32,598	32,454	33,891	4.0%
Loans granted to local governments	20	11	56	180.3%
Market of loans to enterprises	421,347	424,361	425,793	1.1%
mBank's share in the market of lending to enterprises	7.7%	7.6%	8.0%	

¹ Bank, 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 49,231.0 million at the end of June 2023, down by 0.5% compared with the end of June 2022 (PLN 49,462.5 million).

PLN M	30.06.2022	31.12.2022	30.06.2023	YoY change
Corporate deposits ¹	49,463	49,955	49,231	-0.5%
Deposits of enterprises ²	51,058	52,924	51,575	1.0%
Deposits of local governments	1,394	758	157	-88.7%
Market of deposits of enterprises	436,996	490,670	494,191	13.1%
mBank's share in the total deposits of enterprises	11.7%	10.8%	10.4%	

¹ Bank, excluding repo transactions.

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

De minimis guarantees

mBank continued to implement the de minimis portfolio guarantee line (PLD) agreement under the government programme "Supporting entrepreneurship with BGK guarantees and sureties." As at 30 June 2023, the utilised limit amounted to PLN 2,493.1 million.

mBank processed the utilisation of the de minimis guarantee limit under the agreement of 25 June 2018. Under the guarantee line (PLD-KFG) agreement, the limit granted to mBank amounts to PLN 10,200 million. As at 30 June 2023, the utilised limit amounted to PLN 8,160.7 million.

Liquidity Guarantee

In 2023, we continued to perform the guarantee line agreement under the Liquidity Guarantee Fund (FGP) until its completion on 30 June 2023. Under the FGP programme, the utilised limit amounted to PLN 2,932.9 million. The FGP programme is followed by guarantees under the Crisis Guarantee Fund. The limit allocated to mBank is PLN 1,400 million. As at 30 June 2023, the utilisation of the limit amounted to PLN 799.4 million. We continued to perform the BiznesMax guarantee line (FG POIR) portfolio agreement, where the guarantee limit allocated to mBank under the agreement with BGK amounts to PLN 670 million. As at 30 June 2023, the utilised limit amounted to PLN 582.7 million. We performed the agricultural guarantee line (FGR) portfolio agreement. The guarantee limit granted to mBank under the agreement with BGK is PLN 70 million. As at 30 June 2023, the utilised limit amounted to PLN 46.2 million.

Corporate debt securities issues

In the first half of 2023, mBank carried out a series of new issues (either independently or as a part of a consortium), including: Polski Holding Nieruchomości SA (PLN 220 million), Develia SA (PLN 180 million), Ghelamco Investment sp. z o.o (PLN 180 million), Kruk SA (PLN 120 million), Archicom SA (PLN 62 million), Marvipol Development SA (PLN 54 million), BBI Development SA (PLN 37 million). An issue of EUR 29 million was also carried out for MLP Group SA.

Financing of renewable energy sources (RES)

The mBank Group's strategy for 2021-2025 provides for the allocation of capital worth PLN 10 billion to finance investments, especially in renewable energy sources. mBank has consistently increased its participation in the financing of renewable energy projects. When introducing a credit policy for financing of renewable energy installations in December 2018, mBank allocated PLN 500 million for this purpose. Since then, the limit has been regularly increased and amounts to PLN 5 billion as of 2023. As at 30 June 2023, mBank's RES portfolio reached PLN 3.5 billion and the RES limit utilisation rate was 69%. In the first half of 2023, mBank financed 5 photovoltaic (PV) investments. More than PLN 502 million was allocated for this purpose.

Development of Corporate Banking products and services

Transactional banking

Cash management is a corporate banking area which offers state-of-the-art solutions to facilitate the planning, monitoring, and management of highly liquid funds, cash processing, and electronic banking. These solutions facilitate day-to-day financial operations, improve the efficiency of cash flow management, and help to optimise interest costs and income.

mBank’s extensive and continuously developing cash management offering, which supports long-term customer relationships, is reflected in the year-on-year growth rate shown below:

Number of incoming international transfers	+12.1%
Number of outgoing international transfers	+7.2%
Number of corporate payment cards	+9.8%
Number of active users of mCompanyNet	+24.3%

Digital onboarding of corporate customers

At mBank, we are continuously developing the remote account opening process for corporate clients. In the first half of 2023 we opened more than 85.5% of accounts digitally. We added more legal forms of companies which can open an account remotely and we are using this process to assist us in concluding non-standard agreements. The agreement generator eliminates manual work on the side of Relationship Managers as well as operations (automation of registration).

Electronic banking

Within our e-banking system mBank CompanyNet, we have implemented a new unique way of concluding agreements with clients. Clients who would like to conclude an agreement electronically but do not have a qualified electronic signature can sign documents directly in electronic banking. In this process, we use a qualified electronic seal and a qualified timestamp, which allows us to identify precisely who signed the documentation and when, and ensures the integrity of the documentation throughout the process. An electronic signature from the client’s authentication tools, such as a mobile token or QR token, is used by the client to sign documents. Importantly, the process is initiated by an mBank employee who verifies the authorisation of the client’s representatives before handing over the documentation to the client. The documentation can only be signed by persons designated by mBank. We are expanding the range of agreements that can be signed using this method.

mBank’s virtual branch enjoys unwavering client interest. In the first half of 2023, clients completed 62% more digital processes than in the same period last year. mBank provided clients with new processes which can be completed electronically. Remote conclusion of agreements, as described above, is one example of such implementations. Increased convenience for clients and the bank, more automation, and higher speed of service will contribute to a more flexible sales model for new services.

Thanks to continued work on the Administrator Centre, we have achieved a high 84% rate of client self-service in the comprehensive management of the mBank CompanyNet system.

As regards remote identification, mBank CompanyNet users completed 74% of the processes on their own in the first half of 2023. In the period under review, we implemented remote identification for passport holders, which will allow for a faster self-service and fully automatic onboarding for new system users while meeting regulatory requirements in this area. We made biometric identification available to Polish and foreign citizens. It is sufficient for mBank’s corporate clients to hold a biometric passport or a Polish e-card and the eDO App of the Polish Security Printing Works (PWPW).

The Online Assistant is a state-of-the-art solution available to all our corporate clients on the mBank CompanyNet platform since November 2022. The service has been very popular with clients. In the first half of 2023, we handled 6,000 interactions in this channel; 2,000 of the bank’s corporate clients used the service. The Online Assistant significantly speeds up the bank’s customer service for enquiries related to the products and services used by clients on a daily basis. It is a part of the bank’s corporate client center which ensures the best possible quality of customer support, develops the consultants’ expertise, and adapts the functionalities to clients’ needs.

In corporate banking, we worked in the first half of 2023 to improve the functionality of the mBank CompanyNet online system in its key areas and to enhance customer satisfaction. 85% of clients are very satisfied or satisfied with the solution we offer.

mBank CompanyMobile

The development of the mBank CompanyMobile application has enabled further dynamic growth in the number of users. Compared to the first half of 2022, their number increased by 24.3%. The app is so popular that as many as 89% of corporate clients have at least one user of the mobile app. In the first half of 2023, we launched an advanced mechanism handling push notifications, expanded the payments module, and added the option of marketing communication with clients.

eCommerce and Paynow payment gateway

Client interest in the Paynow payment gateway was very strong in the first half of 2023. We signed 100 contracts for the service and activated more than 90% of them. We are recording dynamic growth in turnover and expect the trend to continue. In addition to sales-related activities, mBank is working on further development of the product. During the period under review, we implemented payment links. This service will allow our merchants' customers to pay for an order without having to go through the entire shopping process. Customers will get a direct payment link generated by the merchant in the Paynow panel. This solution increases the merchants' conversion rate and order volumes and speeds up the payment process. We are working on mechanisms to make it easier for customers to pay further merchants in order to make our offer even more attractive.

Activity of the Financial Markets Sales Department

In the first half of 2023, mBank achieved better results on currency exchange-based products offered to large strategic clients compared with the corresponding period of 2022. With regard to K2 and K3 segment clients, the result for all currency products decreased compared to the record high first half of 2022.

In the period under review, we maintained a stable base of strategic clients. We recorded solid results on spot transactions and the sale of derivatives, especially raw materials, for this segment of clients. Partnership with a high number of clients in the field of investment instruments (deposits) actively supported the bank in liquidity management.

In the first half of 2023, mBank's project team concluded hedging transactions in 45 projects, including those related to renewable energy projects, acquisitions of companies, and related to the financing of commercial real estate. The discussed period is also a time of intensive activation activities in the area of dealership service for retail customers, which contributed to the increase in the margin in the Private Banking area and in companies compared to the same period last year. In this period, the number of all active retail clients using the FX platform service also increased by 21%.

mBank's market shares in various financial instrument markets as at May 31, 2023 are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	10.6%	13.0%

Financial Institutions

The Financial Clients Department provides services to financial institutions which are banks. The activity of the Department focuses, among others, on raising capital from other banks. It also deposits excess funds with them and provides financing to bank's clients and offers mBank's services with the scope of processing the PLN currency.

As at the end of June 2023, mBank had 4 active loans received (including one subordinated loan from Commerzbank) in the amount of PLN 3,084 million. The level of debt arising from loans was lower by PLN 92 million compared to first half of 2022. It was a result of significant appreciation of Polish zloty against Swiss franc as at the end of first half of 2023.

At the end of June 2023, mBank's exposure resulting from loans granted to other banks totaled an equivalent of PLN 89.4 million. At the end of June 2022 it amounted to PLN 96.6 million. It resulted from short- and medium-term loans granted to domestic and foreign financial institutions.

In H1 2023 the Financial Clients Department actively supported trade transactions concluded by Polish exporters by offering short-term financing to financial institutions and setting limits for trade transactions, as well as granting financing as part of syndicated loans.

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;
- performing operations related to benefits arising from securities.

mBank's custody clients are mainly domestic and foreign financial institutions, including in particular investment and pension funds, other banks which offer custodian and investment services, insurance companies, asset management institutions, and non-financial institutions.

As at June 30, 2023, the number of investment funds served by mBank dropped by 8.2% year on year.

2.5. Subsidiaries of mBank Group

Summary of financial results of mBank Group subsidiaries

The overall H1 2023 result of mBank Group subsidiaries amounted to PLN 150.0 million, which translates into a decrease of 10.1% compared to H1 2022. The decrease was driven by a lower result of mFinanse due to provision booked in relation to the inspection by the Social Insurance Institution (ZUS). On the other hand, mLeasing contributed positively to the total result. The table below presents the profit before tax posted by individual subsidiaries in H1 2023 against H1 2022.

PLN M	H1 2022	H1 2023	Change in %
mFinanse ¹	23.3	-16.6	+/-
mLeasing ²	94.4	115.1	21.9%
mBank Hipoteczny	10.9	35.4	233.9%
mFaktoring	27.3	18.3	-33.1%
Other ³	11.0	-2.1	+/-
Total	166.9	150.0	-10.1%

¹ Including mFinanse CZ s.r.o. and mFinanse SK s.r.o.

² Including LeaseLink and Asekum.

³ In H1 2022, „Other” subsidiaries included: mElements and Future Tech. Results for H1 2023 comprise mElements, Future Tech and mTFI.

Business activity of selected subsidiaries



The cash loan market saw a drop in sales in H1 2023. High interest rates, rising debt servicing costs and stubbornly high inflation discouraged clients from taking out new loans. The sales of cash loans dropped compared with 2022 (PLN 359.1 million in H1 2023 vs PLN 503.9 million in H1 2022).

The acquisition of new mortgage applications was slower despite regulatory changes improving the creditworthiness of mortgage applicants. The lower number of credit applications translated into a 45.6% decrease in mortgage loan disbursements in H1 2023 compared with the same period last year (PLN 1,014.7 million in H1 2023 vs PLN 1,865.0 million a year earlier). Loan instalments are determined to a great extent by high interest rates. High instalments, in turn, prevent clients from assuming new long-term obligations.

The subsidiary reported an increase in sales in the leasing category. This was helped, among others, by improved availability of cars on the market. In the analysed period, mFinanse recorded a year-on-year increase in sales volumes by 17.0% (43.1 million in H1 2023 vs 36.8 million a year earlier).

In H1 2023, mFinanse posted a loss before tax amounting to PLN 16.6 million compared with a profit of PLN 23.3 million in H1 2022. The loss was partly due to a provision set up following an inspection of the

Social Insurance Institution (ZUS) covering the correctness and reliability of calculation of social insurance contributions and other contributions mandatorily collected by ZUS and enrolment for social insurance and health insurance in 2018–2021.

mFinanse's result was also negatively affected by the economic and geopolitical situation, which contributed to the slowdown of mortgage loans' sales. The pre-tax result also factors in the sale of organised parts of the enterprise in the insurance agency area completed in the previous years.

mLeasing

In 2023, mLeasing continued to finance PV installations, which it has offered since 2019. In 2022, the subsidiary added the financing of energy storage and heat pumps to its product mix. In H1 2023, mLeasing financed a total of 170 installations and devices in this market segment worth jointly PLN 35 million.

In 2023, the subsidiary expanded its range of eco-financing solutions with the financing of infrastructure for charging electric car batteries, which was made available to clients in Q1 2023.

mLeasing's share in the registration of electric vehicles in Poland is growing. As at the end of H1 2023, mLeasing had a 6.4% share in the leased electric vehicle market (vs a 4.5% share in 2022). The number of electric vehicles registered by mLeasing in the first six months of 2023 exceeded the full-year figure for 2022.

Launched by mLeasing in 2020, the mAuto portal offers new and used cars with attractive financing and a wide range of additional services. Clients can use many convenient and modern solutions, such as door to door deliveries or quality certificates confirming the technical condition of used cars. In the first half of 2023, the number of new and post-leasing cars delivered to clients exceeded 700 units. We note an increasing share of electric cars in the sales.

The consolidated profit before tax reported by mLeasing in H1 2023 stood at PLN 115.1 million, which represents a 21.9% increase year on year. The subsidiary's H1 2023 income of PLN 221.9 million was up by 5.9% year on year. The total value of contracts executed by mLeasing in H1 2023 amounted to PLN 3,640.6 million, up by 26.3% year on year.

The value of new movable assets purchased by mLeasing in H1 2023 reached PLN 3,589.4 million, up by 26.7% compared with H1 2022. In H1 2023, the subsidiary financed real estate worth PLN 51.2 million, which represented a 2.5% increase year on year.

The H1 2023 increase in new business is higher than the analogous increase on the lease market. It is mainly attributable to clients with low turnover and lease of vehicles.

mBank Hipoteczny

mBank Hipoteczny (mBH) is the oldest mortgage bank operating on the Polish capital market. Since 2000, mBank Hipoteczny has been regularly issuing Polish covered bonds in Poland and abroad. As at June 30, 2023, the total value of covered bonds issued by mBH amounted to PLN 6.2 billion, which represented 34.1% of the total value of outstanding covered bonds issued by Polish mortgage banks. In its strategy for 2023–2026, mBank Hipoteczny undertook to issue green covered bonds supporting sustainable development goals (ESG). In addition, mBH continues its unsecured bonds issuance programme. At the end of H1 2023, the bank's portfolio included one bond series worth PLN 35 million. In H1 2023, mBank Hipoteczny did not issue any debt instruments, which was a consequence of the liquidity management policy pursued at the level of mBank Group and a focus on intra-group financing.

mBH's total assets stood at PLN 10.2 billion at the end of June 2023, of which 89.2% were retail loans transferred from mBank in a pooling transaction. In H1 2023, one pooling transaction was executed, adding 458 loan agreements worth a total of PLN 120.2 million to the mBH's balance sheet. The gross value of the loan portfolio fell on a year-on-year basis, largely due to a transfer of commercial loans to mBank as part of the division of mBank Hipoteczny described in section 2.1 "Key events in mBank Group in H1 2023" and prepayments.

mBH's profit before tax amounted to PLN 35.4 million in H1 2023, which represents an over threefold increase compared with the same period last year. This result was driven mostly by higher net interest income and lower loan loss provisions partly resulting from the corporate portfolio transfer to mBank.

Faktoring

In the first half of 2023, the subsidiary's turnover, i.e. the value of purchased invoices, reached PLN 17.2 billion, which translates into a minor increase of 0.1% compared with the same period of the previous year. The company maintained the fifth position on the factoring market in Poland, corresponding to an 8% market share (data based on the Polish Factors Association).

In the first half of 2023, mFaktoring acquired 99 new clients with a total factoring limit of PLN 378.2 million. The number of new clients acquired in the first half of 2023 is the same as the number of customers acquired in the corresponding period of the previous year. The sum of factoring limits on new clients is lower than in the previous year (a decrease of 20.4%), while the income on new transactions in the first half of 2023 is higher by 41.8% than in the first half of 2022.

The subsidiary observes a slightly higher demand for financing from existing customers. As a result, interest income and fee and commission income in the first half of 2023 amounted to PLN 41.4 million, i.e. increased by 4.0% compared with the corresponding period of the previous year.

The gross profit of mFaktoring for the first half of 2023 amounted to PLN 18.3 million, compared to PLN 27.3 million for the first half of 2022. The result before profit of mFaktoring in H1 2023 was negatively impacted by impairment on financial assets not measured at fair value through profit or loss on two clients (of approx. PLN 15 million).

In 2023, the company intends to continue cooperation with Bank Gospodarstwa Krajowego under the crisis guarantee program introduced in response to the effects of the crises caused by Russian aggression in Ukraine. This program secures factoring limits granted to ensure financial liquidity to the clients. The BGK program remains active until the end of 2023.

3. Financial results and macroeconomic environment

3.1. Economy and banking sector in H1 2023

The first half of 2023 was dominated by two important developments. First, inflation globally has peaked, with significant declines in many economies in recent months. As a result, the discussion of interest rate cuts is getting hotter. Second, the banking crisis in the United States, which has sown a lot of confusion in the financial markets. So far, however, its effects on the real economy have not been significant.

The domestic economy proved relatively resilient to the high interest rate environment in the first quarter. As a result, GDP declined by 0.3% year-on-year, with market expectations pointing to a deeper slowdown. Gross fixed capital formation surprised to the upside, rising 5.5% year-on-year. At the same time, private consumption was weak, contracting by 2.0% in annual terms. The largest positive contribution to the first quarter result came from net exports, which added 4.3 p.p. At the same time, inventories made a strong negative contribution, subtracting 4.1 p.p. As far as foreign trade is concerned, there was a clear slowdown in domestic demand as imports fell by 4.6% year-on-year. Foreign demand, on the other hand, grew by 3.2% year-on-year, which is a relatively good result. In the coming quarters, external demand is expected to deteriorate, which could lead to a lower contribution of net exports to GDP. For the year as a whole, the bank expects GDP growth of 1.5%. The main drivers of such result are expected to be investments and foreign trade. At the same time, the bank expects a strong negative contribution from inventories. Factors supporting the economic recovery from the second half of 2023 include declining inflation, expected lower borrowing costs, continued strong wage growth and expansionary fiscal policy.

Inflation in Poland peaked at 18.4% year-on-year in February. Since then, we have seen a steady decline. In June, inflation stood at 11.5% in annual terms. So far, statistical base effects in fuel and energy prices have been the main reason for the decline in inflation. Prices of food and non-alcoholic beverages are also slowly declining. Core inflation remains high. According to the latest data from the National Bank of Poland, core inflation (excl. food and energy) stood at 11.5% year-on-year in May, after peaking at 12.3% year-on-year in March. According to the bank, inflation for the year as a whole will average around 12%. Subsequently, it should fall to around 7% in 2024. According to the bank's current forecast, the inflation target will not be reached until at least the end of 2025.

In the first half of the year, the MPC kept the key interest rate at 6.75%. According to the July inflation projection of the National Bank of Poland, inflation will reach a minimum of 3.4% year-on-year in the last quarter of 2025. Therefore, we cannot talk about reaching the inflation target within the projection horizon. However, the direction of the projection itself seems sufficient for the MPC to seriously consider cutting interest rates after the holidays. According to the NBP's ongoing communication, the bank expects the first rate cut of 25 bps in October. By the end of the year, the bank expects the key interest rate to fall to 6.25%. In the first half of next year, the bank expects the cycle of rate cuts to continue to 5.5%. In the bank's view, the MPC will start cutting interest rates when inflation may actually stop declining.

The zloty strengthened noticeably against the euro. The bank believes this was helped by a large conversion of foreign currency savings. The outbreak of the war in Ukraine was a factor behind the increase in foreign currency savings last year. Compared with the end of last year, yields on local currency government bonds have fallen sharply. This was recently supported by rising expectations of interest rate cuts and weaker data. In the first half of the year, we saw a moderate reduction in credit risk as measured by asset swap spreads. Then, they have returned to levels seen at the end of 2022. The outlook for EU funds (the Recovery and Resilience Facility) remains uncertain. This does not pose a risk to growth for the time being, as the PFR (Polish Development Fund) pre-finances expenditure. The volume of loans to households has started to recover slightly, supported by the PFSA's recommendation to increase creditworthiness for fixed-rate loans and the government's announcement of the "2% Safe Credit" program. The situation looks similarly for corporate loans. The annual growth rate of deposits, both corporate and household, remains positive. Looking ahead, the bank expects a moderate improvement in both deposits and loans in the second half of the year.

Outlook for economic development in 2023

Key macroeconomic ratios

	2021	2022	2023F
GDP (YoY)	6.9%	5.1%	1.5%
Domestic demand (YoY)	8.5%	5.1%	-2.6%
Private consumption (YoY)	6.2%	3.3%	-0.1%
Investment (YoY)	1.2%	5.0%	5.3%
Inflation (end of period)	8.6%	16.6%	8.5%
MPC rate (end of period)	1.75%	6.75%	6.25%
CHF/PLN (end of period)	4.42	4.73	4.58
EUR/PLN (end of period)	4.59	4.69	4.55





Banking sector – monetary aggregates (year to year)

	2021	2022	2023F
Corporate loans	3.9%	9.6%	3.7%
Consumer loans	4.9%	-3.8%	-1.0%
Corporate deposits	10.4%	11.6%	6.9%
Consumer deposits	6.7%	3.3%	7.0%

Source: Projections of the bank's Chief Economist.

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

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

Net interest income & NIM	(slightly negative)	
<ul style="list-style-type: none"> ■ With rates having reached the peak and anticipation of first cuts in Autumn, potential for further margin improvement exhausted 		
<ul style="list-style-type: none"> ■ Subdued loan volumes may impact dynamics of interest income 		
Net Fee & Commission income	(neutral)	
<ul style="list-style-type: none"> ■ Uptrend in customer base and transactionality may be offset by weaker demand for banking products and lower volatility 		
<ul style="list-style-type: none"> ■ Relevant adjustments to tariff of fees already implemented 		
Total costs	(slightly negative)	
<ul style="list-style-type: none"> ■ Visible wage and inflationary pressure weights on operating costs 		
<ul style="list-style-type: none"> ■ Rising amortisation driven by investments in future growth 		
<ul style="list-style-type: none"> ■ Reduced contributions to the Deposit Guarantee Scheme 		
Loan Loss Provisions & FV change	(slightly negative)	
<ul style="list-style-type: none"> ■ Financial standing of borrowers may be affected by the complex macroeconomic environment and geopolitical developments 		
<ul style="list-style-type: none"> ■ The overall asset quality should not deteriorate materially thanks to prudent approach in loan origination unless more negative market scenarios materialise 		

An important factor forming the activities in the coming periods is the economic environment, whose development in H1 2023 and the prospects for a full calendar year are described in Chapter 3.1. Economy and banking sector in H1 2023.

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 the following explanatory notes and information to the Condensed Consolidated Financial Statements for the first half of 2023:

- 3. Major estimates and judgements made in connection with the application of accounting policy principles;
- 30. Legal risk related to mortgage and housing loans granted to individual customers in CHF;
- 31. Factors affecting the results in the coming quarter;
- 32. Other information.

Changes in selected regulations relevant to banks

Judgement of the Court of Justice of the European Union in case C-520/21

On June 15, 2023, the Court of Justice of the European Union (CJEU) passed a judgement regarding remuneration for the use of capital. The CJEU ruled as follows: In the context of the annulment in its entirety of a mortgage loan agreement on the ground that it cannot continue in existence after the removal of the unfair terms, Article 6 (1) and Article 7 (1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts must be interpreted as:

- not precluding a judicial interpretation of national law according to which the consumer has the right to seek compensation from the credit institution going beyond reimbursement of the monthly instalments paid and the expenses paid in respect of the performance of that agreement together with the payment of default interest at the statutory rate from the date on which notice is served, provided that the objectives of Directive 93/13 and the principle of proportionality are observed and,
- precluding a judicial interpretation of national law according to which the credit institution is entitled to seek compensation from the consumer going beyond reimbursement of the capital paid in respect of the performance of that agreement together with the payment of default interest at the statutory rate from the date on which notice is served.

The key information about regulations and court rulings connected with mortgage and housing loans granted in CHF to individuals is provided in Note 30 to the Consolidated Financial Statements of mBank S.A. Group for H1 2023.

Safe 2% loan and home savings account – Act of April 14, 2023 on State Aid for Home Buyers

The act entered into force on July 1, 2023 (with certain exceptions). Among others, it introduces the safe 2% loan, i.e. a loan secured by a mortgage, including a loan where the agreement provides for mortgage security after the construction of a single-family house is completed or after the ownership of a residential dwelling unit is separated, with instalments that are or have been eligible for a subsidy.

In order to be eligible for the loan, applicants must meet several conditions, among others, they cannot own a flat, a house or a cooperative member's ownership right to a residential dwelling unit and must meet the age criterion.

The safe 2% loan will be available until December 31, 2027. It can be used to cover, in whole or in part, expenditures on meeting the borrower's housing needs.

The safe 2% loan can be granted without any downpayment or with a downpayment not higher than PLN 200,000 in the Polish zloty for a period of at least 15 years.

In accordance with the act, the safe 2% loan with a semi-fixed interest rate is available to borrowers aged not more than 45; if the loan is applied for by two household members, only one of them must meet the age criterion.

The maximum amount of the safe 2% loan is PLN 500,000. If the borrower runs a household with a spouse or has at least one child, the maximum loan amount is PLN 600,000. The state subsidy to loans instalments will be paid for 10 years. The loan will be repaid in equal principal instalments (decreasing principal and interest instalments). In accordance with information published on the website of the Ministry of Development and Technology, in the 10-year period the borrower will pay 2% interest on the loan plus margins, commissions and other fees of the lending bank (if applicable).

Moreover, the act introduces a home savings account. Systematic payments to this account (at least 11 payments of at least PLN 500 in a year) will be rewarded with an additional savings bonus from the state budget. The bonus will be equal to the annual inflation rate or the rate of change in the price per one square metre of a usable area of a residential building. Every year, the rate more preferable to savers will apply. In addition, savings will bear interest as per the table of interest rates of the bank operating the account and the interest will be exempt from the capital gains tax.

Act of December 1, 2022 on Financial Information System

The act, which entered into force on February 10, 2023, sets out the rules for operation of the Financial Information System (SInF). It enables quick and smooth access to information on accounts held for individuals and entities linked to serious crime. The primary purpose of collecting account information is to combat money laundering and terrorism financing.

The act obliges the bank to provide to SInF information on accounts, agreements on safekeeping of items and securities and safe deposit box agreements. Such information will be processed in SInF for five years from the account closure date or from the agreement termination/expiry date.

Amendments to Recommendation J of the Polish Financial Supervision Authority (KNF) on Rules for Collecting and Processing Real Estate Market Data by Banks

On March 24, 2023, the Polish Financial Supervision Authority adopted the amended Recommendation J, which will replace the version of Recommendation J adopted in 2012. Recommendation J sets out good practices for banks collecting and processing real estate market data saved in their own databases and in inter-bank databases which support the management of risk posed by mortgage-backed credit exposures. The amended version comprises 10 recommendations. It applies to all loans secured by a mortgage granted on or after its effective date. Among others, Recommendation J governs the collection and processing of real estate market data by banks and the creation and use of databases.

Act of May 26, 2023 on Amending Certain Acts to Mitigate Certain Consequences of Identity Theft

The underlying purpose of the act is to increase protection against fraud resulting from theft of data enabling unique identification of individuals, such as the personal identification number (PESEL). It aims at restricting the possibility of using stolen data to assume financial and property obligations.

The act amends the Banking Law Act, the Consumer Loan Act and the Payment Services Act. It obliges banks to verify if the PESEL number of a consumer has been entered into the register of blocked PESEL numbers before concluding certain agreements with the consumer and before a bank account holder makes a cash withdrawal at the bank's cash desk. If, at the time of concluding an agreement, the consumer's PESEL number was entered into the register of blocked PESEL numbers, the bank will not have the right to satisfy its claims under this agreement or sell the receivables arising from it.

Act of October 6, 2022 on Amending Acts to Combat Usury

The act entered into force on May 18, 2023. It significantly reduces the limits on non-interest costs of consumer credit. The non-interest costs independent of the lending period were reduced from 25% to 10% of the total loan amount. The non-interest costs dependent on the lending period were reduced from 30% to 10% of the total loan amount. A separate cap on non-interest credit costs was set for loans with a repayment period of less than 30 days – at a maximum of 5% of the total loan amount.

Moreover, the limit on non-interest costs of consumer credit in the entire lending period was significantly reduced from 100% to 45% of the total loan amount. The new limits on non-interest costs of consumer credit entered into force on December 18, 2022; however, they do not apply to agreements signed before this date.

Amendments to Recommendation S of the Polish Financial Supervision Authority (KNF) on Best Practice for the Management of Mortgage-Backed Credit Exposures

On June 19, 2023, the KNF passed amendments to Recommendation S, a best-practice guideline for the management of mortgage-backed credit exposures.

The amended Recommendation covers provisions concerning banks' participation in the government programme whereby Bank Gospodarstwa Krajowego offers guarantees for mortgage loans without a downpayment under the rules set out in the Act on Guaranteed Housing Loan. Banks will not be obliged to request a downpayment on loans. Moreover, they will not be obliged not to lend the full value of the real property posted as collateral. The amendments also cover provisions concerning the method of assessing creditworthiness of clients applying for the safe 2% loan.

Additionally, the new KNF provisions present the methodology for calculating the interest rate buffer. The buffer takes into account fluctuations in interest rate level when measuring and assessing the risk associated with mortgage-backed credit exposures. The interest rate may be variable or semi-fixed.

The KNF expects banks and branches of credit institutions to align their operations with the amended Recommendation S by July 1, 2024.

Regulation of the European Parliament and of the Council on Digital Operational Resilience For the Financial Sector and Amending Regulations (EC) No. 1060/2009, (EU) No. 648/2012, (EU) No. 600/2014 and (EU) No. 909/2014 (DORA)

The regulation establishes uniform requirements for the security of network and information systems supporting the business processes of financial entities. The requirements will enable reaching a high common level of digital operational resilience. The regulation sets out, among other things, requirements applicable to financial entities. The requirements cover:

- managing information and communication technology (ICT) risk;
- reporting major ICT-related incidents to competent authorities;
- testing digital operational resilience;

- sharing information and intelligence in relation to cyber threats and vulnerabilities;
- measures for the sound management of ICT third-party risk.

The regulation entered into force on January 16, 2023. Its addressees must align their operations with the regulation by January 17, 2025.

Act of April 14, 2023 on Amending the Act on Investment Funds and Managing Alternative Investment Funds, the Act on Bonds and the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution and Certain Other Acts

Selected amendments introduced by the act:

- Amendments to the Act on Bonds of January 15, 2015.

Provisions concerning a new bond category – capital bonds have been added to the Act on Bonds. Banks will classify this bond category as regulatory capital.

Capital bonds will be issuable for the purpose of classifying as own funds as Additional Tier 1 or Tier 2 instruments, in accordance with Article 52 or Article 63 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

The act specifies in detail the scope of data and information that must be contained in the terms and conditions of a capital bonds issue, stipulating, among other things, that the terms and conditions must specify in detail the risk factors arising from a specific loss absorption mechanism if the event specified in the terms and conditions occurs, in particular, the terms and conditions must specify the issuer's right to redeem the bonds in the form of a permanent write-off or a temporary write-off reducing the nominal value of the capital bonds or the right to convert the capital bonds into shares in such an event. Capital bonds will become due in the event of bankruptcy or initiation of liquidation of the capital bonds issuer.

The act introduces an instrument to cover capital shortage by supporting institutions that apply to State Treasury for assistance in achieving the applicable capital requirements. The State Treasury will then temporarily acquire shares or bonds of such an institution.

- Amendments to the Banking Law Act of August 29, 1997:

The act introduces solutions for an agreement on subordinated loan taken out to classify the loan as an Additional Tier 1 instrument. The Management Board of the Bank will be able to write off the loan by way of a permanent write-off or a temporary write-off reducing the subordinated loan amount in whole or in part upon the occurrence of an event specified in the agreement. The claim for repayment of the subordinated loan will become due upon the bank's declaration of bankruptcy or liquidation.

3.2. Financial results of mBank Group in H1 2023

All changes presented in the analysis of financial results are calculated on the basis of the Condensed Consolidated Financial Statements for the first half of 2023 (in PLN'000). Potential disparities in the tables might be a result of rounding the values.

Profit & Loss Account

mBank Group closed H1 2023 with a profit before tax of PLN 545.3 million v. PLN 1,311.8 million generated in H1 2022 (down by PLN -766.5 million or -58.4%). The net profit attributable to the owners of mBank stood at PLN 127.3 million v. PLN 742.0 million in H1 2022 (down by PLN -614.7 million or -82.8%).

PLN M	H1 2022	H1 2023	Change in PLN M	Change in %
Interest income	4,063.2	7,295.8	3,232.5	79.6%
Interest expense	-853.8	-3,062.0	-2,208.2	258.6%
Net interest income	3,209.4	4,233.7	1,024.3	31.9%
Fee and commission income	1,545.5	1,485.7	-59.8	-3.9%
Fee and commission expense	-407.0	-497.0	-90.1	22.1%
Net fee and commission income	1,138.5	988.7	-149.8	-13.2%
Core income	4,347.9	5,222.4	874.5	20.1%
Dividend income	4.8	4.6	-0.2	-4.1%
Net trading income	96.5	3.9	-92.6	-96.0%
Other income	-113.1	-25.2	87.9	+/-
Other operating income	150.0	142.6	-7.3	-4.9%
Other operating expenses	-145.8	-151.2	-5.4	3.7%
Total income	4,340.3	5,197.1	856.8	19.7%
Net impairment losses and fair value change on loans and advances	-470.4	-371.1	99.3	-21.1%
Costs of legal risk related to foreign currency loans	-367.8	-2,348.7	-1,980.8	538.5%
Overhead costs and depreciation	-1,863.3	-1,559.3	304.0	-16.3%
Operating profit or loss	1,638.8	918.0	-720.8	-44.0%
Taxes on the Group balance sheet items	-326.9	-372.7	-45.8	14.0%
Profit/Loss before income tax	1,311.8	545.3	-766.5	-58.4%
Income tax expense	-569.7	-418.0	151.7	-26.6%
Net profit/loss attributable to:	742.2	127.3	-614.9	-82.8%
- Owners of mBank S.A.	742.0	127.3	-614.7	-82.8%
- Non-controlling interests	0.1	0.0	-0.2	+/-
ROA net	0.7%	0.1%		
ROE gross	19.3%	8.1%		
ROE net	10.9%	1.9%		
Cost / Income ratio	42.9%	30.0%		

Net interest margin	3.4%	4.1%
Common Equity Tier 1 ratio	13.9%	14.5%
Total capital ratio	16.4%	16.8%

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

Other income – calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

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/loss before income tax by the average equity attributable to Owners of the Bank. The average equity is calculated on the basis of the balances as at the end of each month. Profit/loss 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/loss attributable to Owners of the bank by the average equity attributable to Owners of the bank. The average equity is calculated on the basis of the balances as at the end of each month. Net profit/loss 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).

Net interest margin – net interest income to average interest-earning assets. To calculate the margin, net interest income was calculated without factoring in the result from the non-substantial modification which includes the cost of the credit holidays. 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 2023 included:

- **Increase in income** by 19.7% on H1 2022, mainly thanks to an increase in net interest income;
- **Lower operating costs** (including depreciation) by 16.3% compared with H1 2022, when the contribution to the Institutional Protection Scheme had been posted;
- **Decrease in net impairment losses and fair value change on loans and advances** by 21.1%; mainly due to partial release of provisions in the Corporate and Investment Banking segment;
- **Higher costs of legal risk related to foreign currency loans**, mainly attributable to the inclusion of the anticipated effects of the June 2023 CJEU ruling on the costs of implementing final court judgments and the costs of settlements;
- **Increase in 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:
 - growing number of retail clients hitting 5,675,900 (+33,000 compared with end of 2022);
 - growing number of corporate clients hitting 33,669 (+644 compared with end of 2022).

The Total Capital Ratio stood at 16.8% compared with 16.4% at the end of 2022 and 16.4% at the end of June 2022. The Common Equity Tier 1 Capital Ratio stood at 14.5% compared with 13.8% at the end of 2022 and 13.9% at the end of June 2022. The increase in the capital ratios was driven by an increase in own funds in the reporting period and decrease of total risk exposure amount. At the same time, the surplus over the PFSA minimum capital requirements increased to 4.4 p.p over the Tier 1 capital ratio and 4.5 p.p. over the total capital ratio. On 14 June 2023, mBank received a decision from the Polish Financial Supervision Authority regarding the decrease of additional capital requirement to cover risks arising from mortgage-backed foreign currency loans and advances to households to 1.18 p.p. above the total capital ratio and 0.89 p.p. above the Tier 1 capital ratio. More details are provided in chapter 2.1 Key events in mBank Group in H1 2023.

Summary of results of mBank Group core business in H1 2023

Profit before tax of the core business (mBank Group excluding FX Mortgage Loans segment) reached PLN 2,957.6 million in H1 2023 compared to PLN 1,716.4 million in H1 2022, up by 72.3%. Net profit increased by 121.5% to PLN 2,539.6 million in the period under review.

It was reflected in the profitability ratio **ROE net of 41.7%** in H1 2023 compared to 19.4% in H1 2022.

PLN M	Core business	Non-core	mBank Group
Net interest income	4,225.1	8.7	4,233.7
Net fee, trading and other income	1,003.9	-40.6	963.4
Total income	5,229.0	-31.9	5,197.1
Total costs	-1,530.0	-29.3	-1,559.3
Net impairment losses and fair value change on loans and advances	-383.6	12.5	-371.1
Cost of legal risk related to FX loans	0.0	-2,348.7	-2,348.7
Operating profit	3,315.4	-2,397.4	918.0
Taxes on the Group balance sheet items	-357.9	-14.8	-372.7
Profit before income tax	2,957.6	-2,412.3	545.3
Net profit	2,539.6	-2,412.3	127.3
Total assets	207,381.3	5,534.4	212,915.7
Net interest margin	4.22%		4.08%
Cost/Income ratio	29.3%		30.0%
ROE net	41.7%		1.9%
ROA net	2.4%		0.1%

Core business – results of mBank Group excluding the FX Mortgage Loans segment.

Total income – calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.

Net impairment losses and fair value change on loans and advances - the sum of 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.

Net interest margin – calculated by dividing net interest income by average interest earning assets. Net interest income calculated for the purpose of net interest margin excludes gains or losses on modification. Gains or losses on modification includes costs of credit holidays. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as 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).

Cost/Income ratio – calculated by dividing overhead costs and depreciation by total income (excluding tax on Group's balance sheet items).

ROE net – calculated by dividing net profit/loss 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/loss 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).

ROA net - calculated by dividing net profit/loss 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/loss 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).

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 2022	H1 2023	Change in PLN M	Change in %
Retail Banking	1,022.2	1,655.5	633.3	62.0%
Corporate and Investment Banking	819.5	1,194.7	375.2	45.8%
Treasury and Others	-125.3	107.3	232.6	-/+
Profit before tax of core business	1,716.4	2,957.6	1,241.1	72.3%
FX Mortgage Loans	-404.6	-2,412.3	-2,007.7	496.2%
Profit before tax of mBank Group	1,311.8	545.3	-766.5	-58.4%

Income of mBank Group

mBank Group generated total income of PLN 5,197.1 million in H1 2023 compared to PLN 4,340.3 million in H1 2022, which represent an increase by PLN 856.8 million or 19.7%. During this period, net interest income improved markedly.

Net interest income remained the main source of income of mBank Group in H1 2023 (81.5% of total income). It stood at PLN 4,233.7 million compared to PLN 3,209.4 million in H1 2022, representing an increase by PLN 1,024.3 million or 31.9%. The hike in net interest income was attributable to a series of interest rate rises taking place between October 2021 and September 2022 by 665 bps in total (between June and September 2022, interest rates were increased by 75 bps).

Interest income increased by PLN 3,232.5 million or 79.6% year on year and stood at PLN 7,295.8 million. In connection with the interest rate hikes, income on loans and advances to clients, constituting the main source of interest income, went up by PLN 2,026.8 million or 59.5% year on year. The period under review also saw an increase in income from investment securities by PLN 803.7 million or 174.3% compared to H1 2022, attributable to higher value of debt securities portfolio and its higher profitability due to change of its structure. Income from cash and short term funds increased by PLN 268.4 million or 218.5% as well. The increase was attributable to higher value of these instruments and interest rate hikes.

PLN M	H1 2022	H1 2023	Change in PLN M	Change in %
Loans and advances	3,407.8	5,434.6	2,026.8	59.5%
Investment securities	461.0	1,264.7	803.7	174.3%
Cash and short term funds	122.9	391.2	268.4	218.5%
Debt securities held for trading	13.8	37.3	23.5	169.7%
Interest income on derivatives classified into banking book	0.0	45.4	45.4	-
Interest income on derivatives concluded under the fair value hedge	0.0	0.0	0.0	-
Interest income on derivatives concluded under the cash flow hedge	0.0	0.0	0.0	-
Other	57.7	122.6	64.9	112.4%
Total interest income	4,063.2	7,295.8	3,232.5	79.6%

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 increased by PLN 2,208.2 million or 258.6% year on year in H1 2023. Deposit expenses went up by PLN 1,633.6 million or 519.8% to PLN 1,947.9 million due to higher interest rates on deposits introduced after the interest rate rises and higher value of clients' deposits. Costs of debt securities in issue, which constitute the Group's second-largest source of funding, increased by PLN 101.8 million or 86.3%. In the same period, interest expenses on derivatives classified into banking book, derivatives concluded under the fair value hedge and derivatives concluded under the cash flow hedge went up, driven by transactions hedging interest rate risk of deposits (which are modelled as a fixed rate products) due to rising interest rates.

Net interest margin rose to 4.08% in H1 2023 from 3.37% a year before.

Net fee and commission income amounted to PLN 988.7 million in H1 2023, down by PLN 149.8 million or 13.2% year on year. The drop was mainly attributable to higher fee and commission expense.

PLN M	H1 2022	H1 2023	Change in PLN M	Change in %
Payment cards-related fees	307.7	332.0	24.3	7.9%
Credit-related fees and commissions	302.3	308.1	5.8	1.9%
Commissions for foreign currencies exchange	261.1	245.2	-16.0	-6.1%
Commissions for agency service regarding sale of insurance products of external financial entities	59.7	65.7	6.0	10.1%
Fees from brokerage activity and debt securities issue	100.5	81.5	-19.0	-18.9%
Commissions from bank accounts	221.0	145.4	-75.7	-34.2%
Commissions from money transfers	108.4	117.4	8.9	8.2%
Commissions due to guarantees granted and trade finance commissions	53.6	58.3	4.7	8.8%
Commissions for agency service regarding sale of other products of external financial entities	45.9	31.4	-14.5	-31.7%
Commissions on trust and fiduciary activities	17.2	15.1	-2.1	-12.1%
Fees from portfolio management services and other management-related fees	13.4	12.2	-1.2	-9.1%
Fees from cash services	26.7	33.2	6.6	24.6%
Other	28.1	40.4	12.3	43.8%
Fee and commission income	1,545.5	1,485.7	-59.8	-3.9%

Fee and commission income decreased by PLN 59.8 million or 3.9%. Payment card-related commissions, which are the largest contributor to the fee and commission income, rose by PLN 24.3 million or 7.9% compared to the previous year as a result of greater client activity. The number and value of cashless transactions grew by 14.3% and 20.3% on the previous year, respectively.

In the first half of 2023, mBank withdrew a part of the fees charged to corporate clients for maintaining accounts, which resulted in a decrease in commissions from bank accounts by PLN 75.7 million or 34.2% compared to H1 2022.

Fee and commission expense increased by PLN 90.1 million or 22.1%. The increase was mainly driven by other discharged fees and payment card service costs.

Dividend income amounted to PLN 4.6 million in H1 2023 compared to PLN 4.8 million in H1 2022. Similarly to the previous year, income posted in the period under review included dividends received from Biuro Informacji Kredytowej (BIK) and Krajowa Izba Rozliczeniowa (KIR), in which mBank holds minority stakes.

Net trading income stood at PLN 3.9 million in H1 2023 and was lower by PLN 92.6 million or 96.0% compared to H1 2022. The decrease was mainly attributable to lower foreign exchange result.

Other income (an item including gains or losses from derecognition of financial assets and liabilities and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss connected with equity instruments and debt securities) totaled PLN -25.2 million compared to PLN -113.1 million in H1 2022. Higher result in 2023 is attributable mainly to revaluation of equity instruments and non-trading debt securities.

Net other operating income (other operating income net of other operating expenses) stood at PLN -8.6 million compared to PLN 4.2 million in H1 2022. In H1 2023 higher provisions for future liabilities were created.

Net impairment losses and fair value change on loans and advances

In H1 2023, 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 -371.1 million, and decreased compared to H1 2022 when it amounted to PLN -470.4 million (PLN -99.3 million or -21.1%). In H1 2023, impairment or reversal of impairment on financial assets not measured at fair value through profit or loss amounted to PLN -349.9 million, while gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss amounted to PLN -21.2 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 2022	H1 2023	Change in PLN M	Change in %
Retail Banking	-292.7	-431.3	-138.6	47.4%
Corporate and Investment Banking	-166.8	48.5	215.3	-/+
Other	-10.9	11.7	22.6	-/+
Total net impairment losses and fair value change on loans and advances	-470.4	-371.1	99.3	-21.1%

Net impairment losses and fair value change on loans and advances in Retail Banking rose by PLN 138.6 million year on year and stood at PLN 431.3 million in H1 2023. The increase in risk costs results mainly from observed and predicted difficulties, which can affect small enterprises. An additional element contributing to the increase in the cost of risk was the necessity to adopt macroeconomic scenario in risk parameters used in the models, which includes a current economic situation of Poland.

Net impairment losses and fair value change on loans and advances in Corporate and Investment Banking stood at PLN +48.5 million in H1 2023, down by PLN 215.3 million year on year. Realised lower impairment losses result mainly from efficient management of the debt collection and restructuring portfolio, which contributed to a release of part of previously created provisions.

Cost of legal risk related to foreign currency loans

Legal risk costs connected with foreign currency loans stood at PLN 2,348.7 million in H1 2023, which represents a year on year increase by PLN 1,980.8 million. The major drivers of these costs in H1 2023 were mainly the inclusion of the anticipated effects of the June 2023 CJEU ruling on the costs of implementing final court judgments and the costs of settlements. More information about the method of calculating legal risk costs is provided in Note 30 to mBank S.A. Group Condensed Consolidated Financial Statements for H1 2023.

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, operational efficiency, measured by normalised cost-to-income ratio, increased.

Total overhead costs of mBank Group (including depreciation) stood at PLN 1,559.3 million in H1 2023, down by PLN 304.0 million or 16.3% year on year.

PLN M	H1 2022	H1 2023	Change in PLN	Change in %
Staff-related expenses	-590.7	-689.5	-98.8	16.7%
Material costs, including	-374.0	-423.9	-50.0	13.4%
- administration and real estate services costs	-139.7	-175.0	-35.3	25.3%
- IT costs	-108.5	-124.5	-16.0	14.7%
- marketing costs	-69.9	-85.6	-15.8	22.6%
- consulting costs	-48.7	-30.1	18.6	-38.1%
- other material costs	-7.3	-8.7	-1.5	20.6%
Taxes and fees	-17.7	-19.8	-2.1	11.8%
Contributions and transfer to the Bank Guarantee Fund	-245.9	-181.8	64.1	-26.1%
Contributions to the Social Benefits Fund	-7.5	-6.1	1.4	-18.9%
Institutional Protection Scheme	-390.8	0.0	390.8	-100.0%
Depreciation	-236.7	-238.1	-1.4	0.6%
Total overhead costs and depreciation	-1,863.3	-1,559.3	-304.0	-16.3%
Cost / Income ratio	42.9%	30.0%	-	-
Employment (FTE)	6,999	7,171	146	2.1%

Staff-related expenses rose by PLN 98.8 million or 16.7% year on year, due to an increase in remuneration costs. At the same time, the number of FTEs increased by 172 (mainly in compliance and IT), whereas in certain areas of the bank the employees were given pay rises.

Material costs increased by PLN 50.0 million or 13.4% in the period under review. Costs of administration and real estate services, IT costs and marketing costs were higher compared to H1 2022.

The contribution to the Bank Guarantee Fund (BFG) in H1 2023 stood at PLN 181.8 million, down by PLN 64.1 million against the contribution recognised in H1 2022. Both H1 2023 and H1 2022 costs include the annual contribution to the resolution fund.

Moreover, decrease of operating costs in H1 2023 on an annual basis resulted from recognising a contribution to the Institutional Protection Scheme in the amount of PLN 390.8 million in H1 2022.

Depreciation in H1 2023 was slightly higher year on year (PLN 1.4 million or 0.6%).

As a result of changes in the income and costs of mBank Group, the cost-to-income ratio of mBank Group stood at 30.0% compared with 42.9% in the same period last year. Normalised cost-to-income ratio (net of the contribution to the resolution fund and the Institutional Protection Scheme in H1 2022) improved in H1 2023 (down to 28.5% from 35.6% in H1 2022).

Changes in the consolidated statement of financial position

Changes in assets of mBank Group

In H1 2023, assets of mBank Group increased by PLN 3 035.8 million or 1.4% and stood at PLN 212,927.9 million as at June 30, 2023.

PLN M	30.06.2022	31.12.2022	30.06.2023	YtD change	YoY change
Cash and balances with Central Bank	12,522.9	16,014.3	15,962.1	-0.3%	27.5%
Loans and advances to banks	8,547.7	9,806.3	11,927.8	21.6%	39.5%
Securities held for trading and derivatives held for hedges	3,165.9	2,484.9	2,828.0	13.8%	-10.7%
Net loans and advances to customers	126,121.5	120,183.1	118,319.0	-1.6%	-6.2%
Investment securities	45,162.2	54,350.8	56,677.1	4.3%	25.5%
Intangible assets	1,299.5	1,391.7	1,580.0	13.5%	21.6%
Tangible assets	1,494.5	1,484.9	1,455.0	-2.0%	-2.6%
Other assets	3,856.2	4,176.0	4,178.9	0.1%	8.4%
Total assets	202,170.4	209,892.1	212,927.9	1.4%	5.3%

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.

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.

Other assets – the sum of fair value changes of the hedged items in portfolio hedge of interest rate risk, non-current assets and disposal groups classified as held for sale, investment property, current income tax assets, deferred income tax assets and other assets.

Loans and advances to customers retained the largest share in the balance sheet of mBank Group at the end of H1 2023. Their net volume decreased by PLN 7,802,5 million or -6.2% year on year and by PLN 1,864.1 million i.e. -1.6% in H1 2023. As at June 30, 2023, they accounted for 55.6% of the balance sheet total compared with 62.4% at the end of H1 2022 and 57.3% at the end of 2022.

PLN M	30.06.2022	31.12.2022	30.06.2023	YtD change	YoY change
Loans and advances to individuals	75,387.7	71,122.2	68,154.7	-4.2%	-9.6%
Loans and advances to corporate entities	53,956.8	52,207.5	53,429.2	2.3%	-1.0%
Loans and advances to public sector	138.4	107.7	143.5	33.2%	3.7%
Total (gross) loans and advances to customers	129,482.9	123,437.4	121,727.4	-1.4%	-6.0%
Provisions for loans and advances to customers	-3,361.4	-3,254.2	-3,408.4	4.7%	1.4%
Total (net) loans and advances to customers	126,121.5	120,183.1	118,319.0	-1.6%	-6.2%

In H1 2023, gross loans and advances to individuals declined by PLN 2,967.5 million or -4.2%. The volume of gross mortgage and housing loans to individuals decreased by -6.4% compared with the end of 2022. This decline in volume was mainly caused by adjustments related to the cost of legal risk for FX loans.

The sale of a new mortgage loan performed at visibly lower level than in the first half of 2022 and in the previous periods. Nevertheless, in the period under review we observed a rebound of mortgage loans' sales compared to H2 2022. This was due, among others, to the improvement in the creditworthiness of customers during the discussed period following the easing of this rules for assessing creditworthiness by banks in accordance with Recommendation S of the Polish Financial Supervision. At the same time, the lower activity of the bank's lending in the first half of 2023 was affected by the focus on the capital effectiveness of the new loans. In H1 2023, mBank Group sold PLN 1,848.6 million of mortgage loans (-

62.8% less than in the previous year) and PLN 4,143.6 million of non-mortgage loans (-22.5% less than in H1 2022).

Net of the FX effect, loans and advances to individuals decreased by -3.2% compared with the end of 2022 and by -9.0% year on year.

The volume of gross loans and advances to corporate clients grew by PLN 1,221.7 million or 2.3% year to date. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans to corporate clients inched by 0.2% compared to the end of 2022 and decreased by -2.0% compared to the end of June 2022.

In H1 2022, sales of corporate loans (including new sales, increase of limits and renewals) decreased by -21.3% year on year. The main part of sales was short-term financing, related to ongoing operations, while investment loans were not as popular among the clients as in previous periods.

The volume of gross loans and advances to the public sector increased by PLN 35.8 million or 33.2% in H1 2023.

Investment securities constituted mBank Group's second largest category of assets. They stood at PLN 56,677.1 million, which represented 26.6% of total assets. In H1 2023, their value increased by PLN 2,326.3 million or 4.3%, and YoY by PLN 11,514.9 million or 25.5%. This was mainly driven by investing money deposited by clients into securities, in particular in the central bank's bills portfolio.

The balance of financial assets held for trading and derivatives held for hedges went up by PLN 343.1 million or 13.8% in H1 2023.

Changes in liabilities and equity of mBank Group

The table below presents changes in liabilities and equity of mBank Group in H1 2023:

PLN M	30.06.2022	31.12.2022	30.06.2023	YtD change	YoY change
Amounts due to other banks	4,565.0	3,270.2	3,204.4	-2.0%	-29.8%
Amounts due to customers	161,096.0	174,130.9	176,662.5	1.5%	9.7%
Debt securities in issue	12,203.8	9,465.5	8,157.1	-13.8%	-33.2%
Subordinated liabilities	2,702.3	2,740.7	2,685.4	-2.0%	-0.6%
Other liabilities	8,225.8	7,569.7	8,748.8	15.6%	6.4%
Total Liabilities	188,792.8	197,177.1	199,458.2	1.2%	5.6%
Total Equity	13,377.6	12,715.0	13,469.7	5.9%	0.7%
Total Liabilities and Equity	202,170.4	209,892.1	212,927.9	1.4%	5.3%

Other liabilities – the sum of financial liabilities held for trading and derivatives held for hedges, fair value changes of the hedged items in portfolio hedge of interest rate risk, liabilities held for sale, provisions, current income tax liabilities, deferred income tax liabilities and other liabilities.

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 increased year on year. As at the end of June 2023, amounts due to customers accounted for 83.0% of the Group's total liabilities and equity as compared with 79.7% at the end of June 2022. The share has not changed compared with the end of 2022.

PLN M	30.06.2022	31.12.2022	30.06.2023	YtD change	YoY change
Individual customers	109,913.7	122,890.0	125,924.7	2.5%	14.6%
Corporate customers	49,334.1	49,980.6	50,215.0	0.5%	1.8%
Public sector customers	1,848.2	1,260.2	522.7	-58.5%	-71.7%
Total amounts due to customers	161,096.0	174,130.8	176,662.4	1.5%	9.7%

Amounts due to customers increased by PLN 2,531.6 million or 1.5% in H1 2023, up to PLN 176,662.5 million. In the period under review, a strong rise in amounts due to individual clients and a modest increase in amounts due to corporate customers could be observed.

Amounts due to individuals increased by PLN 3,034.7 million or 2.5% in H1 2023. The increase in the deposit base of individual customers was influenced by the bank's activities focused on maintaining an attractive offer in a competitive environment in the banking sector, with deposit interest rates adjusted to interest rates and high inflation. For this reason, term deposits increased by PLN 2,381.7 million, i.e. 8.8%. At the same time, funds on current accounts increased by PLN 670.6 million, ie 0.7%

Amounts due to corporate clients went up by PLN 234.4 million or 0.5% in the period under review. The increase was driven mainly by term deposits (PLN +1,032.4 million or +9.3%), while funds on current accounts decreased (PLN -962.6 or -2.6% YtD).

Amounts due to the public sector in H1 2023 went down by -58.5% to PLN 522.7 million.

Amounts due to other banks decreased by PLN 65.8 million or -2.0% year to date and stood at PLN 3,204.4 651,8 million. The year-to-date increase was mainly driven by 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 4.5% at the end of 2022 to 3.8% at the end of June 2023. Their value decreased by PLN 1,308.4 million or -13.8% compared with the end of 2022. This decrease is primarily attributable to the redemption at maturity of a tranche of CHF bonds issued under the EMTN programme and covered PLN bonds of mBank Hipoteczny.

Subordinated liabilities decreased by -2.0% 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 2023, equity increased by PLN 754.6 million or 5.9%. Higher value of equity results from a rise of retained earnings value and other items of own equity. The share of equity in total liabilities and equity of mBank Group accounted for 6.3% at the end of H1 2023, compared to 6.1% with the end of 2022 and 6.6% at 30 June, 2022.

Other information

Information on off-balance sheet items of mBank Group can be found in section 27 of the selected explanatory information of the mBank S.A. Group Consolidated Financial Statements for the first half of 2023.

Information on transactions with related entities of mBank Group can be found in section 28 of the selected explanatory information of the mBank S.A. Group Consolidated Financial Statements for the first half of 2023.

Information on agreements regarding credit and loan guarantees or guarantees granted of a significant amount can be found in section 29 of the selected explanatory information of the mBank S.A. Group Consolidated Financial Statements for the first half of 2023.

As at June 30, 2023 mBank S.A. did not have any agreements referred to in Article 141t.1 of the Banking Law Act.

Information on proceedings before a court, arbitration body or public administration authority can be found in section 26 of the selected explanatory information of the mBank S.A. Group Consolidated Financial Statements for the first half of 2023.

Financial results of mBank Group in Q2 2023

The profit before tax generated by mBank Group in Q2 2023 stood at PLN 75.8 million against PLN 469.5 million in the previous quarter. Net loss attributable to owners of mBank reached PLN -15.5 million, against PLN 142.8 million in Q1 2023.

PLN M	Q1 2023	Q2 2023	Change in PLN M	Change in %
Interest income	3,638.7	3,657.1	18.5	0.5%
Interest expense	-1,605.5	-1,456.5	149.1	-9.3%
Net interest income	2,033.1	2,200.6	167.5	8.2%
Fee and commission income	737.8	748.0	10.2	1.4%
Fee and commission expense	-236.7	-260.3	-23.6	10.0%
Net fee and commission income	501.1	487.6	-13.4	-2.7%
Core income	2,534.2	2,688.3	154.1	6.1%
Dividend income	0.1	4.5	4.4	3,593.4%
Net trading income	7.2	-3.3	-10.5	+/-
Other income	-28.9	3.6	32.5	-/+
Other operating income	78.7	63.9	-14.8	-18.9%
Other operating expenses	-89.7	-61.5	28.1	-31.4%
Total income	2,501.7	2,695.4	193.7	7.7%
Net impairment losses and fair value change on loans and advances	-178.9	-192.2	-13.3	7.5%
Costs of legal risk related to foreign currency loans	-808.5	-1,540.2	-731.7	90.5%
Overhead costs and depreciation	-854.9	-704.4	150.4	-17.6%
Taxes on the Group balance sheet items	-190.0	-182.7	7.3	-3.8%
Profit/Loss before income tax	469.5	75.8	-393.6	-83.8%
Income tax expense	-326.7	-91.3	223.3	-68.3%
Net profit/loss attributable to:	142.7	-15.4	-170.3	+/-
- Owners of mBank S.A.	142.8	-15.5	-170.5	+/-
- Non-controlling interests	-0.1	0.0	0.1	-/+
ROA net	0.3%	-0.1%		
ROE gross	14.3%	2.2%		
ROE net	4.3%	-0.8%		
Cost / Income ratio	34.2%	26.1%		
Net interest margin	3.8%	4.3%		
Common Equity Tier 1 ratio	13.7% ¹	14.5%		
Total capital ratio	16.1% ¹	16.8%		

¹ Ratios recalculated taking into account the retrospective inclusion of net profit for the first quarter of 2023 in own funds (after PFSA approval).

The main drivers of mBank Group's financial results in Q2 2023 compared with Q1 2023 included:

- **Further increase in net interest income** by PLN 167.5 million (+8.2%);
- **Slight decrease in net fee and commission income** resulting mainly from higher fee and commission expense, while fee and commission income also increased;
- **Decrease in net trading income**, largely due to lower gains on financial assets and liabilities held for trading;
- **Slightly higher net impairment losses and fair value change on loans and advances** (by PLN 13.3 million), translating into an increase in cost of risk to 64 bps from 59 bps in the previous quarter;
- **Increase in costs of legal risk related to foreign currency loans** to PLN 1,540.2 million compared to PLN 808.5 million in Q1;
- **Decrease in operating costs (including depreciation)** by PLN 150.4 million, driven largely by recognition of contribution to the resolution fund in Q1 at PLN 182.9 million. Operating costs net of the contribution to the BGF increased by 5.0% quarter on quarter;
- **Lower taxes on the Group balance sheet items** at PLN 182.7 million, driven by decrease of the balance sheet total.

Capital ratios of mBank Group increased in Q2 2023 compared to the end of March 2023. The Total Capital Ratio stood at 16.8% compared with 16.1% at the end of March 2023. The Common Equity Tier 1 Capital Ratio increased to 14.5% compared with 13.7% at the end of March 2023. The increase in the capital ratios was driven by an increase in own funds and decrease of total risk exposure amount. At the same time, the surplus over the minimum capital requirements increased to 4.5 p.p. over the total capital ratio and 4.4 p.p. over the Tier 1 capital ratio.

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 organisational 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 units), 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 **organisational units of the risk management area, Security, Data Protection Inspector and Compliance function**, creates framework and guidelines concerning managing individual risks, supports and supervises Business in their implementation and independently analyses and assesses the risk. 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 Deputy Chairman of the Management Board, Chief Risk Officer.

The Risk management strategy of mBank Group is based on three pillars:

- **We support sustainable growth** i.a. through the development of tools and processes designed from the client's perspective. In our credit decisions, policies, expansion and portfolio structure, we take into account the impact on the natural environment and the community in which we operate. In the dialogue with the Business, we indicate the directions of acquisition and expansion in order to jointly build a diversified loan portfolio with a significant share of prospective and responsible sectors and segments. We finance clients' needs responsibly, educate them and transparently communicate the decisions. We develop solutions in a dialogue with the client and for the sake of good loan portfolio quality.
- **We pursue prudent and stable risk management**, i.a. by shaping a safe and profitable balance sheet and managing risk in an integrated manner. We monitor newly emerging risks and build the competences of our employees in this area. We develop the ability to manage ESG and cyber risk.
- **We are developing the risk management area in response to the challenges of a changing world.** We are passionate about new technologies. We experiment to increase the level of automation and digitalization of our processes. We draw conclusions and learn from mistakes. We promote the development of a risk culture at mBank, broad understanding of risk and the importance of multi-faceted looking into the future. We learn having in mind the future needs in changing conditions.

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, 2023: credit risk, risk of foreign currency credit portfolio (associated with actual or potential threat to the bank's results and capital related to foreign currency mortgage loans granted to unsecured borrowers until 2012), operational risk, market risk, business risk (including strategic risk), liquidity risk, compliance risk, reputational risk, model risk, capital risk (including risk of excessive leverage) and tax risk.

The following sections present the rules of managing 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 Recommendation S, T and C), EBA's Guidelines on loan origination and monitoring and CRR/CRDIV, which address issues related to credit risk management.

Tools and measures

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

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

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

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

and related measures including:

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

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

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

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

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

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

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

- MBPZO (Maximum Safe Total Exposure), which defines the maximum level of financial debt of an entity from financial institutions calculated under the bank's methodology, approved by the bank's competent decision-making body. An alternative measure used by the bank 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);
- DStI (Debt-Service-to-Income) – the ratio of actual yearly credit charges and other financial burdens to the applicant's yearly net income (ratio used only 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 Corporate Credit Risk Management Strategy takes into account the statements of the mBank Group Strategy for 2021-25, which determines the most important areas of development in the coming years, including:

- The first-choice bank for e-commerce market participants,
- Best digital corporate banking for high-potential companies,
- Technology, security and data as a source of competitive advantage.

The Corporate Risk Management 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. mBank focuses on increasing exposure to clients with low or medium PD-rating (stable financial condition) and low or medium level of risk concentration. In its current credit risk management, including concentration risk, the bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD. 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.

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.

Developing its lending activities, the Group considers environmental, social and corporate governance impacts and incorporates ESG considerations into its credit risk processes and policies. Given the increasing importance of environmental change, bank places particular emphasis on the assessment of climate risks,

including in particular the level of greenhouse gas emissions and their reduction potential. The Group places equal importance on social issues and corporate governance. At the same time, bank intensifies the optimization, automation and digitization of credit processes.

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

mBank offers innovative investment products as part of a new integrated platform that ensures appropriate product selection and efficient use of capital.

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 (c.a. 2 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 associated with new clients, the bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

The new acquisition in mortgage loans segment 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. In the mortgage segment, mBank focuses on meeting the credit needs of the existing population of active internal customers. The mortgage loan consolidates the relationship with the existing customer and is not used to attract external customers. mBank mainly sells products may be the basis for the issue of covered bonds. The conservative policy of assessing borrowers' reliability and creditworthiness is applied taking into account, i.a. long-term interest rate estimates (considering buffers resulting from supervisory regulations).

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

Quality of mBank Group loan portfolio

As of June 30, 2023, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) slightly increased to 4.1% from 4.0% at the end of December 2022. The increase of the indicator results from the retail business line and is mitigated by its decrease in corporate banking.

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, 2023, the NPL_{REG} ratio (ratio calculated according to EBA guidelines) was at 3.6%.

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 3,374.7 million at the end of December 2022 to PLN 3,527.2 million at the end of June 2023.

Coverage ratios of non-performing loans and advances (coverage ratio and coverage ratio including provisions for performing loans) increased in the analysed period respectively from 52.3% and 68.8% in December 2022 to 53.3% and 71% in June 2023.

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

The table below presents the quality of mBank Group loan portfolio as at the end of December 2022 and as at the end of June 2023.

Loans and advances to clients 30.06.2023 (PLN ('000))	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	120,989,582	852,881	121,842,463
Non-performing loans and advances	4,810,505	155,624	4,966,129
Non-performing loans ratio (NPL)	4,0%	18,3%	4,1%
Provisions for non-performing loans	-2,553,921	-94,743	-2,648,664
Provisions for performing loans	-854,467	-24,073	-878,540
Coverage ratio	53.1%	60.9%	53.3%
Coverage ratio, including provisions for performing loans	70.9%	76.3%	71.0%

Loans and advances to clients 31.12.2022 (PLN ('000))	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	122,584,242	974,976	123,559,218
Non-performing loans and advances	4,741,346	163,471	4,904,817
Non-performing loans ratio (NPL)	3.9%	16.8%	4.0%
Provisions for non-performing loans	-2,465,716	-97,927	-2,563,643
Provisions for performing loans	-788,496	-22,593	-811,089
Coverage ratio	52.0%	59.9%	52.3%
Coverage ratio, including provisions for performing loans	68.6%	73.7%	68.8%

Non-performing loans and advances - loans and advances at amortised cost with impairment (stage 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 (stage 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 (stage 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 (stages 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 Group's portfolios due to changes of the market risk factors, in particular:

- interest rates (IR);
- foreign exchange rates (FX);
- stock share prices and indices;
- 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);
- expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall);
- 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 (IR BPV – Interest Rate Basis Point Value, CS BPV – Credit Spread Basis Point Value).

For the banking book, the bank also uses the following measures:

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

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 2023, 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 ('000)	H1 2023				2022			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2023	Mean	30.06.2023	Mean	31.12.2022	Mean	31.12.2022	Mean
VaR IR	14,716	19,567	11,976	19,705	16,300	15,448	16,102	15,913
VaR FX	544	612	714	622	1,051	1,515	1,104	1,485
VaR CS	73,592	81,849	72,417	80,272	90,321	89,876	88,835	87,931
VaR	78,615	87,443	78,277	86,678	91,139	91,924	89,048	90,313
Stressed VaR	85,573	87,591	84,810	85,900	91,415	110,049	88,261	108,174

VaR IR – interest rate risk (without separate credit spread)

VaR FX - FX risk

VaR CS – credit spread risk

The Value at Risk in normal (VaR) and stressed conditions (Stressed VaR) were largely influenced by the portfolios of instruments sensitive to the separate credit spread - mainly the portfolios of the Treasury bonds (in the banking and trading books). The decrease in VaR resulted mainly from further reduction of the bond portfolio and maintaining liquidity surpluses in liquid instruments. VaR decreased more than Stressed VaR due to the changing calculation window of the measure and decreasing market volatility of interest rate.

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 ('000)	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Banking book	462	129	509	230	-6,987	-7,297	-6,867	-7,136
Trading book	-63	-118	-63	-118	-358	-242	-358	-242
Total	399	11	446	112	-7,345	-7,539	-7,225	-7,378

The credit spread sensitivity (CS BPV) for the mBank's banking book decreased slightly in H1 2023 due to reduction of the bond portfolio and results in c.a. 70% 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. Increase of the interest rate sensitivity (IR BPV) resulted from suspending investments in long-term bonds.

Interest rate risk of the banking book

The sensitivity of net interest income is calculated and monitored in the bank's base scenario assuming a normal situation and in more than 22 defined stress-test scenarios.

The table below presents the sensitivity of the net interest income within 12 months horizon, assuming a 100 bps change of market interest rates (parallel shift of the curves for all currencies with floor on product level in decreasing interest rates scenario) and based on a stable portfolio over the period.

PLN ('000)	Δ NII*	
	30.06.2023	31.12.2022
Sudden parallel up by 100 bp	379,947	117,442
Sudden parallel down by 100 bp	-669,511	-768,800

* The measure calculated at mBank level. More information on delta NII is included in the Condensed Consolidated Financial Statements for 2022.

Decrease of delta NII in H1 2023 in decreasing interest rates scenario results from the adjustment of the bank's position and the assumptions regarding changes in interest rates on deposits to the market situation. Taking into account the uncertainty of the inflation development and a possible increase on the market interest rates, the bank kept large part of its assets in instruments with a floating interest rate. In H1 2023 bank maintained further investing funds in short-term assets sensitive to changes in interest rates. Moreover, the sensitivity of NII in increasing interest rates scenario was influenced by the updated assumptions concerning the lower pricing of deposit accounts.

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

The liquidity position of mBank Group in the first half of 2023 was at a safe and high level, which was reflected in the high value of available liquidity buffers. mBank Group maintained high liquidity despite unfavourable market conditions (caused mainly by war in Ukraine and failures of foreign banks), reflected in high levels of liquidity measures, well above the minimum regulatory levels. mBank continued to operate in an environment of high interest rates, which translated into higher prices offered to customers for their deposits and negative impact on valuation of debt securities. In the first half of 2023, the increase in the deposit base and the continued low dynamics of lending 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 losing its ability 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 internal measures based on liquidity gap calculation in various scenarios in LAB methodology as well as the regulatory measures i.e. LCR and NSFR.

LAB liquidity scenarios 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 warning indicators (EWI) and recovery indicators. Breach 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 Commission Implementing Regulation (EU) 2021/451 of the 17th of December 2020

introducing the NSFR as a reporting requirement from the 28th of June 2021, according to uniform reporting forms applicable to all institutions.

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 (the bank’s Management Board, committees of the bank) and operational (the Treasury and Investor Relations Area, Financial Markets Settlement and Services Department, subsidiaries of the bank).

Liquidity risk limiting covers supervisory (LCR and NSFR) 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 Financing Strategy is based on the following assumptions:

- Diversifying sources and timing of financing,
- Maintaining safe regulatory levels and internal liquidity measures,
- Stable increase in transaction deposits,
- Incurring liabilities eligible for the MREL indicator or ensuring the implementation of the ESG strategy e.g. by issuing green bonds,
- Maintaining the issuing capacity of mBank Hipoteczny, but with the bank's greater involvement in financing the subsidiary by purchasing its covered bonds,
- Increasing financial independence from the majority shareholder.

The bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy, division of roles 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 annually.

Measuring liquidity risk at the consolidated and individual level

The liquidity of mBank remained at a safe, high level in 2022, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB liquidity gap 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, throughout the entire reporting period were definitely above the current structure of limits.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures LCR and NSFR at the end of June 2023 at mBank and mBank Group level:

	30.06.2023	
Measure ¹	mBank	mBank Group
LAB Base Case 1M	40,930	43,226
LAB Base Case 1Y	32,491	34,532
LCR	199%	217%
NSFR	154%	155%

¹ LAB measures are shown in PLN million; LCR and NSFR 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 and the remuneration policy at banks), which constitute the starting point for the framework of the control system and operational risk management in mBank Group.

Tools and measures

Due to the dynamics of changes in factors affecting operational risk, the key elements of the risk management process are: identification, assessment, control and monitoring, counteracting the materialisation of operational risk and risk reporting.

In order to effectively manage operational risk, the bank uses quantitative and qualitative methods and tools that aim at reason-oriented management of this risk. The bank performs them in conjunction with the control function, which is an element of the internal control system.

In accordance with the requirements of Recommendation M, the bank has a process of identifying threats related to operational risk for all significant areas of the bank's operations and risk analysis in the process of creating new and modifying existing products, changing of processes and systems, as well as for changing the organizational structure.

The operational risk management process is carried out on the basis of a group of tools, including:

- Self-Assessment of Operational Risk, which is performed by organizational units of the bank and the Group companies. The purpose of this process is to ensure the risk identification and assessment and taking adequate risk mitigation measures. In addition, the Self-assessment supports the process of introducing changes and improving control processes. The end result of the Self-Assessment is the assessment of processes, sub-processes and key operational risks as well as the creation of the corrective action plans.
- The Register of Operating Losses is a database of losses resulting from operational events that arise, which are recorded with the focus on the cause of their occurrence. The analysis of recorded data takes place in the Integrated Risk Management Department and in organizational units. This approach enables organizational units to analyse their risk profile on an ongoing basis. mBank also uses access to external databases on operational losses and uses them to analyse operational risk and potential threats to which institutions operating in the financial sector are exposed.
- The key risk indicators KRI and risk indicators RI support the ongoing monitoring of risk. The process makes it possible to predict in advance the occurrence of an increased level of operational risk and to react appropriately by organizational units in order to avoid the occurrence of operational events and losses. KRI and RI, thanks to the system of warning and alarm thresholds, allow to determine the level of risk tolerance.
- Operational risk scenarios that analyse the risks associated with the occurrence of rare but potentially very severe operational risk events.
- Providing opinions on products before the implementation of a new or modified product offer and analysis of the impact of the outsourcing agreement on the operational risk profile.

mBank Group, through operational risk tools, monitors and improves the methods of work performed by employees in the hybrid mode.

Strategy

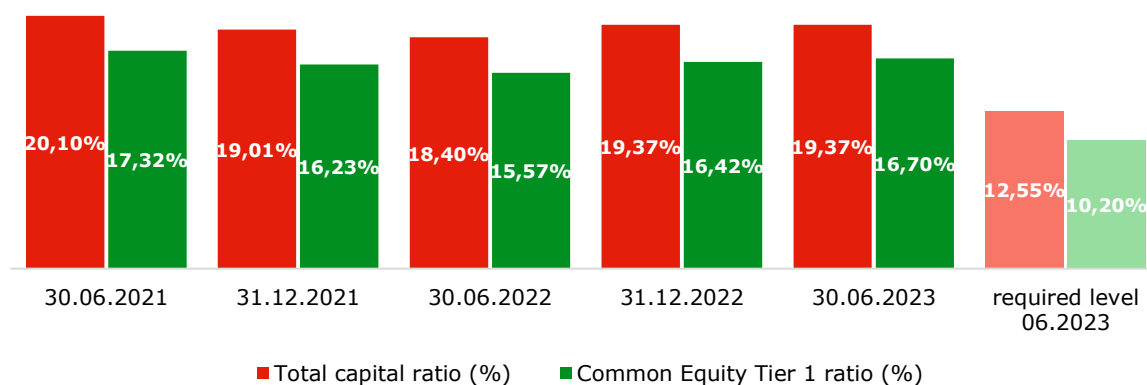
The organisation of the operational risk control and management system is aimed at enabling effective control and management of this risk at every level of the bank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the of the Supervisory Board and its Committees, 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 across all lines of defence. The central operational risk control function focuses on preparation and coordination of the operational risk control and management process in the bank, development of tools, raising awareness in the bank about operational risk and the control function as well as reporting the operational risk profile. Whereas operational risk management takes place in every organisational unit of the bank and in every subsidiary of mBank Group. It consists in identifying, evaluation and monitoring operational risk and taking actions aimed to avoid,

mitigate or transfer operational risk. The operational risk management process is supervised by the Supervisory Board of the bank through its Risk Committee.

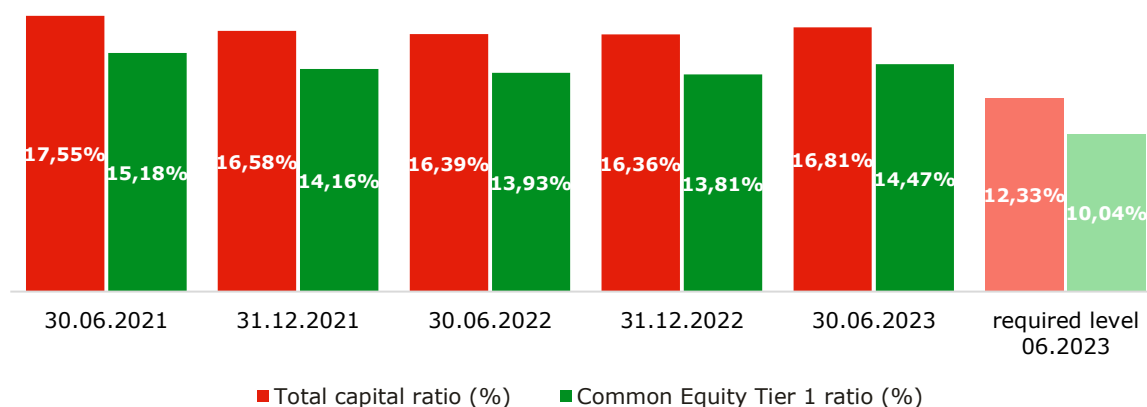
4.3. Capital adequacy

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



Capital adequacy of mBank Group



The Group's capital ratios in the first half of 2023 were mainly influenced by the following events affecting the Group's own funds:

- costs of legal risk related to mortgage loans in Swiss francs,
- partial amortization of subordinated liabilities included in the calculation of own funds,
- increase in the valuation of debt instruments measured at fair value through other comprehensive income, which was, however, offset by the discontinuation of the transitional provisions regarding the temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, in accordance with the regulation of the European Parliament and of the Council (EU) 2020/873 of June 24, 2020,
- taking into account the net result for the first quarter of 2023 in the calculation of own funds, after obtaining the consent of the Polish Financial Supervision Authority, and

- reduction of exceeding the threshold on deferred income tax assets based on future profitability, referred to in Art. 48 of the CRR Regulation.

In 2023 an increase of risk-weighted assets is expected, due to regulatory factors. They result from implementation of material changes in models of all parameters: PD, CCF and LGD, in the portfolios subject to the AIRB method. The bank expects a rise of the risk weighted assets at the value of ca. PLN 4.5 billion. The final impact shall depend on the conditions for implementation of models indicated in the decision of banking authorities.

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 – 1.18% at the level of total capital ratio and 0.8% at the level of Tier 1 capital on consolidated basis (and on individual basis 1.38% and 1.03% accordingly), according to the PFSA decision of June 14, 2023 (and on individual basis according to decision of June 13, 2023);
- the combined buffer requirement of additional 3.15% (on consolidated basis), which consists of:
 - the capital conservation buffer (2.5%);
 - the other systemically important institution's buffer (0.5%) - according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer;
 - systemic risk buffer (0.00%) –in accordance with the Regulation of the Minister of Finance, which has been in force since 19 March 2020;
 - countercyclical capital buffer (0.15%) - resulting mainly from the involvement in the Czech Republic and Slovakia.

On individual basis the value of the combined buffer requirement is 3.17%.

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, amounted to 5.62%. The stand-alone leverage ratio amounted to 6.43%.

More details on capital adequacy of mBank Group in the first half of 2023 can be found in the Disclosures regarding capital adequacy of mBank S.A. Group as at June 30, 2023.

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:

- Condensed Consolidated Financial Statements for the first half of 2023 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 2023 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 Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2023 and Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2023 – KPMG Audyt 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.