

# **Management Board Report on the Performance of mBank S.A. Group in H1 2021**



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## **1. About mBank Group**

### **1.1. Executive summary**

In H1 2021 the Polish and global economy was still strongly impacted by the COVID-10 pandemic. Still at the beginning of 2021, to curb the spread of the coronavirus, economic activity and social contacts were limited to a significant extent. Following a sharp third wave of the contagion in March and April, the pandemic subsided and most restrictions were lifted by the end of H1 2021.

GDP growth was robust in H1 2021, which was mainly driven by the economy's adapting to pandemic conditions and the contribution of additional (delayed) demand which surged after the economies unlocked. Activity in all key sectors picked up markedly at the end of H1. Importantly, private investments grew considerably already in Q1. The labour market also improved: employment grew while the unemployment rate dropped.

At the same time, in the banking sector a slow acceleration of lending was noted. Year-on-year dynamics of loans for enterprises and non-mortgage loans remained negative, though. Simultaneously, deposit dynamics decelerated after the record-high growth in H1 2020.

**In H1 2021 total income of mBank Group was record-high**, driven by growing volumes, improving structure of assets and rising number and activity of clients. **Net income was higher compared to H1 2020 and reached PLN 425.8 million.**

The key highlights of H1 2021 include:

- **Increase of total income by 2.7%** compared to H1 2020 thanks to dynamic growth of net fee and commission income;
- **Significant decrease of net impairment losses and fair value change on loans and advances** by 48.4% resulting from the creation of additional provisions for risks related to COVID-19 pandemic in H1 2020;
- **Higher costs of legal risk related to FX loans** driven mainly by higher than expected inflow of cases in the first half of 2021 and changes in level of loss on loan exposure in case of losing the case by mBank;
- **Lower total cost by 4.8% and lower adjusted cost-to-income ratio** at 39.6% in H1 2021 compared to 42.2% in H1 2020;
- **Increase of net profit of core business** (defined as mBank Group excluding FX Mortgage Loans segment) **by 96.3% compared to H1 2020, net ROE at 10.7%.**
- Increase in the following volumes:
  - **Increase in net loans and advances** by 7.1% compared to the end of 2020 and 7.4% compared to the end of June 2020;
  - **Increase in amounts due to clients** by 13.7% compared to the end of 2020 and 12.1% compared to the end of June 2020;
- Rising activity and improving consumer sentiment were reflected in **significantly higher sales of retail loans. The sales of mortgage loans** in H1 2021 reached PLN 6.3 billion, up 60.5% on an annual basis. **The sales of non-mortgage loans** increased by 33.2% to PLN 4.7 billion.
- As a result of developments in loans and deposits, **loan to deposit ratio was record-low at 74.2%** compared to 78.8% at the end of 2020.
- **High quality of the capital base** with capital ratios surpassing the regulatory requirements: CET 1 ratio at 15.2%, Total Capital Ratio at 17.6%.

**1.2. mBank's Authorities****Supervisory Board of mBank**

In H1 2021, there was a change in the composition of the Supervisory Board. Sabine Schmittroth resigned from membership in the Bank's Supervisory Board as well as from membership in the Executive and Nomination Committee and the Remuneration Committee with effect from March 25, 2021.

On 24 March 2021, Arno Walter was elected as the member of the Supervisory Board of mBank as of 25 March 2021, until the end of the current term of the Supervisory Board. He has been the Head of Wealth Management & Small Business Clients at Commerzbank AG since January 1, 2020 and he is also responsible for the integration of Comdirect Bank into Commerzbank.

As of June 30, 2021, the Supervisory Board of mBank S.A. was composed as follows:

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

There are four independent members in the Supervisory Board:

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

Five committees operate within the Supervisory Board: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Committee and the IT Committee. The latter one was established in Q1 2021. Its main tasks include: performing ongoing supervision over the Bank's activities in the field of IT and IT security in the periods between meetings of the Supervisory Board, analyzing the Bank's periodic reports presented to the Supervisory Board in the field of IT and IT security, presenting to the Supervisory Board conclusions from the review of the Bank's periodic reports in the field of IT and IT security, recommending the Supervisory Board to approve or reject the Bank's IT and cybersecurity strategies, monitoring the implementation of the IT Strategic Road Map and the introduction of IT strategic initiatives and monitoring the effectiveness of the IT operational risk management system, IT security and internal IT governance.

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

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

### **Management Board of mBank**

There were no changes in the composition of the Management Board in H1 2021. On March 3, 2021, the Polish Financial Supervision Authority granted its consent to appointing Marek Luszczyn as the Member of the Management Board of the Bank supervising the management of material risk in the Bank's operations. Marek Luszczyn was appointed to the Management Board of the bank on October 22, 2020.

As of June 30, 2021, the composition of the Management Board was as follows:

1. Cezary Stypułkowski - President of the Management Board, Chief Executive Officer
2. Andreas Böger - Vice-President of the Management Board, Chief Financial Officer
3. Krzysztof Dąbrowski - Vice-president of the Management Board, Head of Operations and Information Technology
4. Cezary Kocik - Vice-president of the Management Board, Head of Retail Banking
5. Marek Luszczyn - Vice-president of the Management Board, Chief Risk Officer
6. Adam Pers - Vice-president of the Management Board, Head of Corporate and Investment Banking.

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:

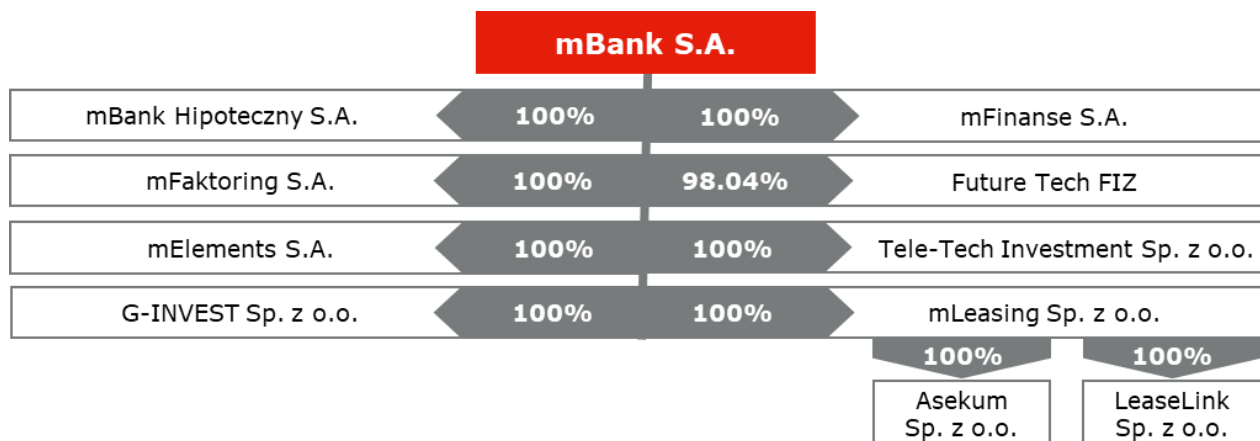
Segment	Retail Banking	Corporate and Investment Banking	
Bank	<ul style="list-style-type: none"> <li>■ Retail customers, Private Banking clients and microenterprises</li> <li>■ Affluent retail customers (Private Banking and Wealth Management)</li> </ul>	<ul style="list-style-type: none"> <li>■ Corporations and non-banking financial institutions (K1)</li> <li>■ Large Companies (K2)</li> <li>■ Small and Medium Enterprises (K3)</li> </ul>	<ul style="list-style-type: none"> <li>■ Banks</li> <li>■ Corporate clients in scope of trading and sales</li> </ul>
Consolidated subsidiaries	<ul style="list-style-type: none"> <li>■ mLeasing Sp. z o.o. – Retail</li> <li>■ Asekum Sp. z o.o.<sup>1</sup> – Retail</li> <li>■ LeaseLink Sp. z o.o.<sup>1</sup></li> <li>■ mBank Hipoteczny S.A. – Retail</li> <li>■ mFinanse S.A.</li> <li>■ mElements S.A.</li> </ul>	<ul style="list-style-type: none"> <li>■ mLeasing Sp. z o.o. – Corporate</li> <li>■ Asekum Sp. z o.o.<sup>1</sup> – Corporate</li> <li>■ mBank Hipoteczny S.A. – Corporate</li> <li>■ mFaktoring S.A.</li> <li>■ G-INVEST Sp. z o.o.</li> <li>■ Tele-Tech Investment Sp. z o.o.</li> </ul>	
	<p><b>Other subsidiaries</b> ■ Future Tech FIZ</p>		

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

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.





In April 2021 the mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna company has been established. mBank has taken up 100% shares of mTowarzystwo Funduszy Inwestycyjnych S.A., which equals 100% of votes on the General Meeting of mTowarzystwo Funduszy Inwestycyjnych S.A. Also in April 2021, the liquidation of mFinance France S.A. was concluded and in June the company was deleted from the French register of companies.

mBank Group (including consolidated subsidiaries) as at the end of June 2021 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"> <li>■ the longest track record of issuing covered bonds on the Polish capital market</li> <li>■ providing stable, long-term and secure funding of mBank Group with use of pooling model in cooperation with mBank</li> <li>■ rating of Moody’s Investor Services of Aa1 for covered bonds – long-term country ceiling for local and foreign currency bonds</li> </ul>
	<ul style="list-style-type: none"> <li>■ offer including leasing, loans, car fleet rental and management for both corporate clients and individuals</li> <li>■ 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</li> <li>■ 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</li> <li>■ leasing as a payment method in e-commerce offered by LeaseLink</li> </ul>
	<ul style="list-style-type: none"> <li>■ fifth position on the Polish factoring market among the members of the Polish Factors Association – position maintained compared to 2020</li> <li>■ 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, as well as import guarantees</li> <li>■ mFaktoring’s offer available in all mBank branches providing services to SMEs and corporations in Poland</li> <li>■ Member of Factors Chain International, the largest international factors chain and Polish Factors Association</li> </ul>
	<ul style="list-style-type: none"> <li>■ intermediary operations as an open platform for selling financial products of various institutions, including mBank</li> <li>■ the offer includes loans and advances, accounts, insurances as well as leasing for both individuals and companies</li> <li>■ offer of 14 active external financial entities in more than 189 stationary outlets across Poland and 168 partner branches</li> </ul>

### 1.5. Ratings of mBank and mBank Hipoteczny

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch). Moody's Investors Service (Moody's), Capital Intelligence Ratings (CI Ratings) and EuroRating assigned for mBank ratings based on publicly available information.

mBank Hipoteczny is rated by Moody's, including a rating for mortgage covered bonds issued by mBank Hipoteczny (a solicited rating).

#### Ratings of mBank assigned by S&P Global Ratings

On March 24, 2021, S&P Global Ratings affirmed mBank's ratings with a negative outlook.

The agency changed the rating outlook of the long-term issuer credit rating from developing to negative on April 27, 2020. The negative outlook on mBank is based on S&P's view that the risks stemming from the CHF-legacy loans litigation costs could undermine mBank's capitalization profile.

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

#### Ratings of mBank assigned by Fitch Ratings

On March 16, 2021, Fitch Ratings placed mBank's ratings on Rating Watch Negative (RWN).

The rating action reflects Fitch's view that legal risks related to legacy exposures to foreign currency mortgage loans have increased since the last review of the Bank's ratings. In the opinion of the agency, the risk related to this portfolio may materialize in the coming months and could have such a significant impact on the Bank's capital position to warrant negative actions on ratings.

Fitch expects to resolve the RWNs on mBank's ratings once the agency has more clarity about the size of potential losses.

Moreover, Fitch downgraded mBank's Support Rating (SR) to "5" from "3" and assigned a Support Rating Floor (SRF) of "No Floor". After the withdrawal of Fitch's ratings on mBank's parent company, Commerzbank AG, on 4 March 2021, Fitch decided to assign a Support Rating for mBank on the basis of support available from the Polish sovereign.

Fitch Ratings	Ratings of mBank
Long-term IDR (foreign currencies)	BBB- (RWN) <sup>1)</sup>
Short-term IDR (foreign currencies)	F3
Viability rating	bbb-
Support rating	5
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB-

<sup>1)</sup> RWN- Rating Watch Negative

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

There were no changes in the ratings and rating outlook assigned by Moody's in H1 2021. The last change took place on May 20, 2020. Moody's Investors Service affirmed then mBank's long-term deposit ratings at "A3" and changed the outlook to stable from negative. The bank's short-term deposit rating was affirmed at "Prime-2", Baseline Credit Assessment (BCA) at "baa3", Adjusted BCA at "baa2" and the Counterparty Risk Ratings (CRRs) at "A2/Prime-1".



## mBank S.A. Group

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Moody's Investors Service	Ratings of mBank <sup>1)</sup>	Ratings of mBank Hipoteczny
Long-term Deposit Rating (foreign currency)	A3 (stable outlook)	-
Short-term Deposit Rating (foreign currency)	Prime-2	-
Long-term Issuer Rating (foreign)	-	Baa1 (stable outlook) <sup>2)</sup>
Short-term Issuer Rating (foreign)	-	Prime-2
Long-term Counterparty Risk Rating (foreign currency)	A2	A2 <sup>2)</sup>
Short-term Counterparty Risk Rating (foreign currency)	Prime-1	Prime-1 <sup>2)</sup>
Baseline Credit Assessment (BCA)	baa3	-
Adjusted Baseline Credit Assessment	baa2	-
Rating of covered bonds issued by mBank Hipoteczny	-	Aa1 <sup>2)</sup>

<sup>1)</sup> Ratings based solely on publicly available information

<sup>2)</sup> The table presents mBank Hipoteczny's ratings upgraded on July 13, 2021. At the end of H1 2021 the ratings were as follows: Long-term Issuer Rating Baa2 (stable outlook), Long-term Counterparty Risk Rating A3, Short-term Counterparty Risk Prime-2, rating of mortgage covered bonds issued by mBank Hipoteczny Aa2.

On July 13, 2021, Moody's upgraded long-term issuer ratings of mBank Hipoteczny from Baa2 to Baa1. The rating actions reflected the rating agency's methodology change and re-assessment of interlinkages between mBank Hipoteczny and mBank S.A.

As a consequence of the of the upgrade of the long-term issuer rating, the long-term and short-term Counterparty Risk Rating was upgraded by one notch to A2/Prime-1. The rating of mortgage covered bonds issued by mBank Hipoteczny was raised by one notch to the long-term country ceiling for local and foreign currency bonds, i.e. to Aa1 from Aa2.

### mBank's rating by Capital Intelligence Ratings

On April 22, 2021, Capital Intelligence Ratings affirmed: mBank's long-term foreign currency rating and short-term foreign currency rating of "BBB+" and "A2" respectively, the bank standalone rating (BSR) of "bbb+" and the Core Financial Strength (CFS) at "bbb". The rating outlook remained stable.

According to CI Ratings, the key drivers for the affirmation of the FCRs are the Bank's strong capital ratios and resilient business model, which led to an improved operating income in 2020 despite the challenging operating environment.

Capital Intelligence Ratings	Ratings of mBank <sup>1)</sup>
Long-term rating (foreign currency)	BBB+ (stable outlook)
Short-term rating (foreign currency)	A2
Bank Standalone Rating (BSR)	bbb+
Core Financial Strength (CFS)	bbb

<sup>1)</sup> Rating based solely on publicly available information

### mBank's rating by EuroRating

On May 14, 2021, EuroRating affirmed mBank's rating of "BBB (ip)" with a negative outlook.

**Summary of ratings for Poland, mBank and Commerzbank**

The table below compares long-term ratings (foreign currency) for mBank, Commerzbank and Poland assigned by Fitch, S&P and Moody's, as of June 30, 2021.

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

<sup>1)</sup> Long-term Deposit Rating, for mBank based on publicly available publically available information.  
Rating outlook indicated in brackets: stab.-stable, neg.- negative, RWN - Rating Watch Negative.

**mBank's ESG ratings and indices****Rating of mBank assigned by Sustainalytics**

On April 19, 2021, mBank Group received ESG Risk Rating from the research and rating agency Sustainalytics at the level of 15.9 (Low Risk). This Low Risk assessment of ESG Risk Rating belongs to the second-best category under the Sustainalytics' five-point scale, where the lower the number, the better result it represents. ESG stands for: Environmental (E), Social (S) and Corporate Governance (G). A company's final ESG Risk Rating assigned by Sustainalytics is scored on material ESG issues such as corporate governance, data privacy and security, product governance, human capital, business ethics and ESG integration - financials.

Sustainalytics is a global provider of ESG and corporate governance products and services. It analyses companies' sustainability for over 25 years. Sustainalytics' ESG Risk Ratings measure the degree to which a company's economic value is at risk driven by ESG factors, meaning the magnitude of a company's unmanaged ESG risks. The ESG Risk Ratings comprise two dimensions, Exposure and Management, to assess how much unmanaged ESG risk a company is exposed to.

According to Sustainalytics, "mBank's overall ESG-related disclosure follows best practice, signalling strong accountability to investors and the public. The company's ESG-related issues are overseen by the executive team, suggesting that these are integrated in core business strategy. (...) The company's overall management of material ESG issues is strong."

Sustainalytics ESG Risk Rating Summary Report received based on an annual review is available on our website: [www.mbank.pl/en/investor-relations/ratings-debt-instruments/](http://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 Sustainalytics.

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

**Rating of mBank assigned by MSCI**

mBank ranks Average (A) in the ESG rating of MSCI. mBank maintains an "A" rank for over five recent rating actions, from 2016. MSCI ESG Ratings aim to measure a company's resilience to long-term ESG risks. Companies are scored on an industry-relative AAA-CCC scale across the most relevant Key Issues based on a company's business model.

MSCI runs its assessment in the following categories: Privacy and Data Security, Financing Environmental Impact, Consumer Financial Protection, Human Capital Development, Access to Finance and Governance. According to MSCI, mBank's performance is strongly attributable to corporate governance performance.

mBank's MSCI ESG Rating is available on our website: [www.mbank.pl/en/investor-relations/ratings-debt-instruments/](http://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.

We inform that the use by mBank of any MSCI ESG RESEARCH LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of mBank by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of 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>.

#### FTSE4Good Index Series

mBank is a member of an international, ethical index FTSE4Good, run since 2001 by FTSE Group. Citing after the FTSE: "FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that mBank S.A. has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products". More information on the index can be found on the website: <https://www.ftserussell.com/products/indices/ftse4good/>.

#### Bloomberg Gender-Equality Index 2021

In January 2021, mBank became a member of the Bloomberg Gender-Equality Index 2021. This index includes 380 companies from 44 countries and 11 economic sectors. It aims to track the performance of public companies committed to transparency in gender-data reporting. Companies are assessed in terms of actions for equality between women and men. mBank has been appreciated by the Bloomberg's experts for, among others, an equal access to promotions of women and men, offering flexible working hours and other solutions that help to combine work and family life. They also drew attention to the implemented anti-mobbing procedures and our support of women's entrepreneurship. Actions for gender equality are an important part of mBank's sustainable development strategy. Today, women account for 60.5% of its employees and 37.6% of senior management. 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, 2021, mBank's registered share capital amounted to PLN 169,468,160 and was divided into 42,367,040 shares, including 42,356,040 ordinary bearer shares and 11,000 ordinary registered shares with a nominal value of PLN 4 each. Each share gives the right to one vote. In H1 2021, the number of shares of mBank S.A. has not changed.

Commerzbank AG, the majority shareholder of mBank, holds 69.28% of the share capital and votes at the General Meeting. The remaining 30.72% of mBank shares are in free float, with a largest share of financial investors. They include in particular Polish pension funds and Polish and foreign investment funds. Nationale-Nederlanden Otwarty Fundusz Emerytalny exceeded a 5% threshold of the share capital and votes at the General Meeting.

In accordance with the notification dated December 8, 2020, Nationale-Nederlanden Otwarty Fundusz Emerytalny had a stake in mBank accounting for 5.06% of the share capital and the number of votes at the General Meeting. Remaining shareholders do not exceed the 5% threshold of total number of votes at the General Meeting.

mBank shares belong to WSE indices: WIG, WIG-Poland, WIG30, WIG 30TR, mWIG 40, mWIG 40TR, WIG-Banks, WIG-ESG and CEEplus.

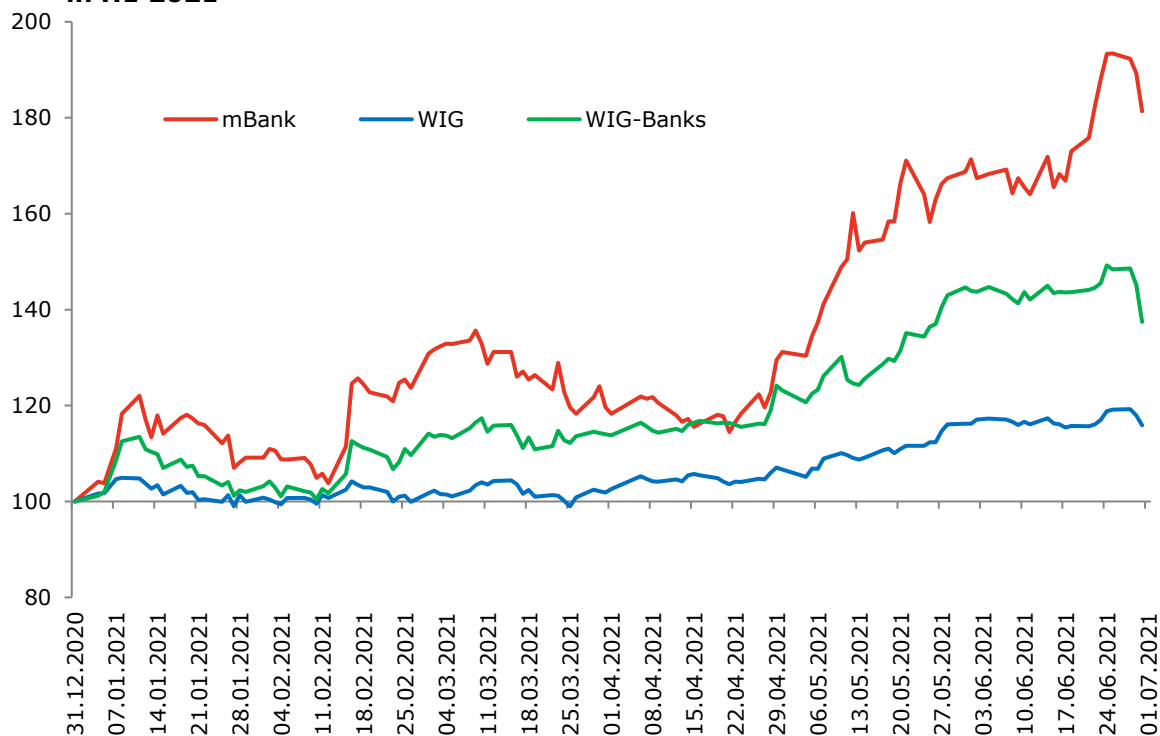
### **Performance of mBank shares on the WSE**

After being hit hard in 2020, in H1 2021 banks' shares were pushing the WSE indices higher. Investor sentiments towards banks as well as the perception of the outlook for the banking sector improved.

Banks' stock market performance in H1 2021 was also helped by upbeat Q1 2021 results reported by most banks, in particular high net fee and commission income and loan loss provisions that turned out to be lower than expected at the beginning of the year. Moreover, the accelerating rate of inflation observed globally and in Poland boosted expectations of interest rate increases, providing an additional stimulus for further gains in share prices. In H1 2021, markets factored in the economic recovery and improved financial results. Banks' share prices were also supported by the announcement on profit distribution at banks made by the Polish Financial Supervision Authority on June 24, 2021 in which the regulator allowed banks to pay dividends in H2 2021 upon meeting certain conditions.

In H1 2021, WIG-Banks gained 37.4%. At the same time, the broad-based WIG Index rose by 15.9%, while WIG20 went up by 11.8%. On a year-on-year basis, WIG-Banks rose by 57.5%.

**Relative changes in mBank's share prices and WSE indices in H1 2021**



mBank shares closed the last session in H1 2021 (June 30) at PLN 325.00 which represents an increase by 81.4% compared with the last session of 2020 (December 30). In H1 2021, mBank reported its lowest (PLN 186.00) and highest (PLN 346.60) share price on January 5 and June 25, respectively. Compared with June 30, 2020, mBank share price increased by 41.3%.

mBank's capitalisation amounted to PLN 13.8 billion (EUR 3.0 billion) on June 30, 2021, compared with PLN 9.7 billion (EUR 2.2 billion) a year before.

mBank Group's P/BV (price/book value) stood at 0.8 on June 30, 2021, compared with 0.6 reported at the end of H1 2020. The P/E ratio (price/earnings per share) reached 16.2 after H1 2021, compared with 27.4 a year before.

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 2021**

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

In the first half of 2021, COVID-19 pandemic was still having a significant impact on the Polish and global economy. At the beginning of 2021, in order to contain the spread of the contagion, economic operations and social contacts were restricted to a great degree. After a rapid third wave of contagions in March and April, the epidemical situation had eased out and most of epidemic restrictions were lifted before the end of the first half of 2021.

The activities which aimed to restrict social contacts were continued also in mBank Group. Most of the employees still work from home. The Group's business continuity went on uninterrupted and customer service was offered both at branches and remotely. Most of the branches remained open, while mKiosks were temporarily closed down due to the lockdown of shopping malls. The bank encouraged clients to take advantage of remote channels and introduced new solutions for the clients to enable them to use the services of mBank in that way.

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

The liquidity and capital position of the Group remains very strong. The Group's capital and liquidity ratios are high, exceeding the minimum thresholds set by the regulator. As at 30 June 2021, LCR (at the consolidated level) was 249% and mBank's NSFR was 149%, much above the required minima. The total capital ratio reached 17.55% compared to the regulatory requirement of 13.86%; the Tier 1 ratio was 15.18% against the regulatory requirement of 11.15%.

In connection with the crisis caused by the COVID-19 pandemic, mBank Group offered its clients a number of assistance tools aimed at supporting them in a difficult situation resulting from the outbreak of the epidemic. The purpose of these tools was to help maintain the financial liquidity of customers by reducing the financial burden in the short term. Detailed description of the support measures implemented in mBank Group as a result of the COVID-19 pandemic can be found in Note 3 of the IFRS Condensed Consolidated Financial Statements for the first half of 2021.

#### **New features of mBank online banking and mobile app**

At mBank we continuously improve our online banking and mobile app to make our products 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 2021, was used by 2.4 million clients in total. At the end of H1 2021, almost 1.1 million of our clients banked exclusively using their mobile devices (mobile only).

##### Mobile application for the Junior Account

mBank has shared the previously announced mobile application for the Junior Account which is intended for children younger than 13 years old. First features include checking the balance and reviewing the transaction history. The application is available on two most popular systems: Android and iOS. 80% of accounts have been opened by parents who declare mBank as their main bank. The Junior Application can be launched from the parent's mBank mobile application.

##### Refreshed help section in mBank's mobile application

Since January 2021, in the mobile application of mBank, next to the receiver icon appeared a little magnifying glass. Thanks to it, the clients have access to the refreshed help section. It is equipped with a topic search option, which works similar to popular internet search engines. The new help desktop comprises three elements: search engine, three most frequently asked questions and a section for contact and complaints.

##### New method for opening account at mBank with e-ID and eDO App

Since March 2021, the persons who do not have account at mBank yet can open it via the bank's website with their e-ID. Thanks to the e-ID, the bank can confirm identity of the client. The procedure is fully remote, without the need for signing the documents with the courier or at a branch. The verification of identity concludes automatically and is available at any place. eDO App enables creation of account, eliminates possible mistakes while filling out the applications and allows avoiding internet scams. The described process is an alternative to the "selfie account" which can be easily opened within mBank's mobile application. The clients have just as automated and easy route of opening the account in each channel, no matter which one they apply in.

**New mBank CompanyMobile app for corporates and SMEs**

In April 2021, mBank released a new version of the CompanyMobile app dedicated to SMEs and corporates. Its clear interface and intuitive navigation allow users to manage their company's finances and authorise transactions in a convenient manner. Changes can be noticed already at the login stage. To increase the user friendliness of the new app, users can log in using a PIN or biometrics. The interface of the app was designed from scratch, making navigation through the app highly intuitive. The dashboard displays the most important information and features right after logging in. The task manager reminds clients about orders pending authorisation, which can be done using a mobile phone. For user convenience, the most popular features can be accessed from the dashboard. They include transaction details and history, access to payment cards and the FX module designed for currency exchange and checking FX rates.

When developing the app, mBank employed cutting-edge technologies which enable quick development. This is why the app meets the typical needs of corporate clients such as convenient processing of large volumes of data or integration with internal processes in the company. The mobile platform ensures security and stability. The application was built in cooperation with mServices, an mBank Group subsidiary. This allowed us to take advantage of the mBank design system, a set of tools and principles which shorten the implementation time of desktop and mobile apps.

**Second edition of Digital Revolutions with mBank**

On 24 May 2021 mBank launched the second edition of Digital Revolutions. The focal point of the campaign is the new website [cyfrowerewolucje.pl](http://cyfrowerewolucje.pl), which is a comprehensive step-by-step guide on how to move a business online. The website offers entrepreneurs a free tutorial on effective sales and inspiring case studies of companies that are already successful on the Internet. Each tutorial ends with a knowledge check. All free materials have been prepared by e-commerce experts. Access to the materials is not restricted to mBank clients only; they are available to anyone who is interested in the topic.

Another component of our educational campaign is a digital revolution contest, in which the contestants can win prizes worth PLN 300,000 in total. The aim of the contest is to help the winner companies carry out a digital revolution. mBank's trusted partners will help the winners tackle legal, marketing and technological challenges associated with launching online business. MasterCard is the strategic partner of the contest.

**mBank supports sustainable development as an intermediary in the issue of green bonds by R.Power**

In June 2021, mBank was an intermediary in the issue of the first series of green bonds by R.Power, Poland's largest developer of solar farms, which launched a programme of issuing green bonds with a total nominal value of up to PLN 1 billion. The funds obtained from the issue of the first series of bonds with a total nominal value of PLN 150 million will be used for the purchase and development of photovoltaics projects. The aim of the issue is, among others, the financing or refinancing of development, purchase, construction and use of photovoltaic power station projects in Poland and other EU countries. The bonds will be admitted to trading in an alternative trading system operated by the Warsaw Stock Exchange. The issued bonds meet the criteria for green bonds in line with the Green Bond Principles (GBP) developed by the International Capital Market Association (ICMA). The investments funded from funds raised in the issue have a beneficial impact on the environment, thus supporting sustainable development. Over the last several months, R.Power has obtained record-high project financing amounting to PLN 530 million, including PLN 350 million granted by mBank.

mBank supports projects aimed at limiting greenhouse gas emissions. For the same purpose mBank also implemented the rules for financing small photovoltaic installations under the Project Finance formula and the preferences for financing photovoltaic installations for enterprises' own needs in order to assist our SME clients in energy transition.

**mBank plays together with the Great Orchestra of Christmas Charity**

mBank, as the main partner of the Foundation, prepared a special offer for the 29th Finale of the Great Orchestra of Christmas Charity (WOŚP). The clients can order customised payment cards designed by Jurek Owsiak, the Head of the Foundation. As usually, mBank also contributes financially to the payments done by its clients. Moreover, in the difficult pandemic time, the mobile experience of mBank matters more than ever in supporting the fundraising. There is a dedicated "heart" icon for quick payments in mBank's mobile application available on Android and iOS. Our outlets and mKiosks are equipped with terminals for card payments. mBank's employees collect and count the money from all collection points.

**News at the brokerage bureau**

mBank has introduced an offer of foreign investment funds of three global asset management companies: AllianceBernstein, Fidelity, and Schroders. The funds distinguish themselves thanks to appealing

management fees and low entry thresholds. At the moment of its launch, the offer included 42 funds registered in Luxemburg. More than half of them are equity funds, accompanied by bond funds, alternative funds and mixed fund. In Poland, AllianceBernstein offers its investment funds only to mBank. "Investment Fund Supermarket", integrated with mBank's transactional system, is the first internet platform in Poland that allows commission-free purchase of investment funds in a fully online mode.

### Operations of mBank Foundation

Despite the challenges related with the COVID-19 pandemic in H1 2021, mFoundation actively pursued its goals. In March, the eighth edition of mPotęga (mPower), a flagship grant programme of mFoundation has begun. The project promotes interesting aspects of mathematics, aids students and teachers in "taming" it in a friendly way, rewards original approach to teaching it. The competition concluded in June. This year mFoundation awarded grants to 161 projects from all across Poland (out of 635 submitted projects). In total, mFoundation earmarked almost PLN 943,000 for grants this year. Moreover, two projects which received the highest number of votes in an online plebiscite were granted additional PLN 5,000 each. All projects will be finalized from September until December 2021.

On the birthday anniversary of a prominent mathematician Stefan Banach, March 30, 2021, mFoundation announced the winners of fifth edition of a contest "Krok w przyszłość" ("A step into the future"). The jury led by professor PhD Paweł Strzelecki, the dean of Faculty of Mathematics, Informatics and Mechanics of University of Warsaw, awarded best student working papers which promotes innovative and original solutions and indicate new directions and methods of research. Ten out of 54 submitted works were in the final of the 2020/2021 edition of the contest. The jury has awarded the main prize of PLN 20,000 and two equal honorable mentions of PLN 10,000 each. On June 30, the next, sixth edition of the contest was announced.

In H1 2021, mFoundation awarded 52 grants of total almost PLN 295,000. The one-time financial aid was granted to, among others: schools and public pre-schools, libraries, and non-governmental organizations all across the country. The funds finance projects related to mathematical and quasi-mathematical education.

### 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. Under the 2012 Programme, mBank's subsidiary based in Paris - mFinance France was the issuer of the bonds and mBank acted as the guarantor. Between 2012 and 2017, mFinance France completed six issues of Eurobonds in CHF, EUR and CZK.

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 three tranches under this Programme: two tranches in 2018 (CHF 180 million of 4-year bonds and EUR 500 million of 4-year bonds) and one tranche in 2019 (CHF 125 million of 5.5-year bonds).

In 2020, the process of buyback and redemption of bonds from selected tranches was carried out and the issuer of bonds was substituted from mFinance France for mBank for two series of bonds:

1. EUR 500,000,000 bonds issued on November 26, 2014, maturing on November 26, 2021; as at the date of substitution their nominal value stood at EUR 427,583,000;
2. CHF 200,000,000 issued on March 28, 2017 maturing on March 28, 2023.

Following the substitution of the issuer for the bank, the continued activity of mFinance France had no further business justification. Therefore, on November 4, 2020, the Extraordinary General Meeting of mFinance France adopted a resolution to dissolve the company and open its liquidation. The liquidation process was completed on April 22, 2021.

In June 2021, mBank started works on updating the EMTN Prospectus.

The following table presents a summary of outstanding tranches:

Issue date	Nominal value	Maturity date	Coupon
26.11.2014	EUR 427,583,000	26.11.2021	2.000%
28.03.2017	CHF 200,000,000	28.03.2023	1.005%
07.06.2018	CHF 180,000,000	07.06.2022	0.565%
05.09.2018	EUR 460,030,000	05.09.2022	1.058%
05.04.2019	CHF 125,000,000	04.10.2024	1.0183%



## **2.2. Awards and distinctions**

In H1 2021, mBank Group has gained recognition, winning a number of awards and distinctions, with the most important as follows:

### mBank is one of top 10 private banking providers in CEE

mBank is one of Top 10 private banking providers in Central and Eastern Europe according to the international expert board of the *Euromoney* magazine. The experts appreciated the way mBank is offering services to its clients and mBank's approach to wealth management. Among the winners, mBank was the only authentic local Polish market player.

### mBank was named the Polish leader in the contest "The Best Treasury & Cash Management Banks and Providers 2021"

mBank was named the Polish leader in the contest "The Best Treasury & Cash Management Banks and Providers 2021" organized by the *Global Finance* magazine. For several years already mBank has been recognized by this magazine among other transactional banking providers. A variety of criteria were considered, including: profitability, market share and reach, customer service, competitive pricing, product innovation and the extent to which treasury and cash management providers have successfully differentiated themselves from their competitors.

### mBank ranked top three in the Stars of Banking competition

mBank ranked in the top three in the Stars of Banking competition organised by *Dziennik Gazeta Prawna* in cooperation with PwC Polska, which highlights the best banks of 2021. We ranked third in the overall business category and second in the Star of Innovation and ESG Star categories. The awards were made by an independent jury composed of experts from *Dziennik Gazeta Prawna*, PwC Polska, Digital University and Polish Business Roundtable. Banks were assessed in seven categories: growth, stability, efficiency, innovation, customer relationships, sustainable development, and overall business. The final result was based on the 2020 financial ratios, surveys filled out by banks, and customers' votes.

### mBank receives the Trustworthy Brand title for the fourth time

For the fourth time, mBank won the title of a Trustworthy Brand in the Bank Offering Corporate Loans category. The survey was commissioned by *My Company Polska* monthly. Its goal was to find out which brands offering various products and services are most trusted among entrepreneurs.

### „Golden Banker“

We came third in the Social Media category and won a distinction for the best practices for a secure bank in the contest organised by *Puls Biznesu* and Bankier.pl. In the Social Media category, the winners were chosen by internet users and expert committees. The winners in the Best Practices for a Secure Bank category were selected based on the results of a two-month audit of internet and mobile banking system security. During the audit, cybersecurity experts tested security and stability of the bank's servers. The jury appreciated our efforts in the area of security, among others, our social campaign "People Are Awesome", which we have been running for many years.

### mBank Contact Centre recognized by SMB Polish Marketing Association

During the 12th Golden Receiver gala organised by SMB Polish Marketing Association, mBank Contact Centre received awards in the following categories: Best Programme Improving the Image of a Contact Centre as a Workplace – award for the "#YouSuitUs" campaign, and Internal Improvement of Contact Centre Organisation – distinction for the implementation of the agile methodology. In the contest, mBank S.A. was represented by Ewa Czech-Strąkowska and Małgorzata Koziara.

### Silver CSR Leaf awarded to mBank

*Polityka* weekly in cooperation with the Responsible Business Forum and Deloitte awarded mBank the Silver CSR Leaf prize. Golden, Silver and White Leaves are awarded to companies supporting sustainable development and social engagement. We also won a distinction for good practices for two of our projects, "Digital revolutions" and "Child's Play Maths", in the tenth edition of *Polityka's* contest. This year, the jury distinguished good practices that helped counteract economic and social consequences of the pandemic, i.e. supported UN Sustainable Development Goals no. 3 (good health and well-being), no. 8 (economic growth and decent work), and no. 10 (reduced inequalities). The distinction motivates us to keep up our efforts aimed at the implementation of mBank's sustainable development strategy.

### mBank awarded for the fourth time in the Financing Bank of the Year category by PSIK

For the fourth time, mBank won the Polish Private Equity & Venture Capital Association's (PSIK) award in the Financing Bank of the Year category. The contest promotes the highest standards in the private

## **mBank S.A. Group**

Management Board Report on the Performance of mBank S.A. Group in H1 2021

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equity/venture capital sector and PE/VC investor contribution to the development of Polish companies. The award is given by PSIK members, which is a badge of the market's appreciation.

### #mBox solutions recognized by Gartner

The global research and advisory firm which specialize in strategic application of technology and technology management, Gartner, recognized mBank's #mBox solutions among the most innovative ideas of the finance sector in the "Eye on Innovation Award Initiatives in Financial Services 2020" report. These annual Gartner awards recognize financial services companies for their innovative use of technology to drive best-in-class initiatives.

### mBank received Best Private Bank for wealth management title

International experts once again hailed mBank S.A. as the best bank on the market and awarded us the Best Private Bank title for our wealth management services. We won in the Digital Portfolio Management category in the Central and Eastern Europe region. The winners were selected in the prestigious contest organised by the *Professional Wealth Management* (PMW) magazine published by the *Financial Times* group. The jury appreciated, in particular, our solution improving customer experience and allowing for better adjustment of the risk posed by the investment portfolio to the investor profile, which takes full advantage of cutting-edge digital possibilities.

### mBank's mobile workplace awarded

ICAN Institute and MIT Sloan Management Review Poland awarded mBank for its project regarding mobile workplace. The project received a distinction in the Technology and Organization category in a prestigious Master of Innovative Transformation competition. The contest aims to select leaders of digital transformation in Poland. The awards are handed over to the projects based on state-of-the-art technologies which are crucial to the improvement of the organization and market effectiveness or have positive impact on the climate and quality of life.

### mBank came second in the 2021 Banking Innovation of the Year

mBank came second in the 2021 Banking Innovation of the Year league table organised by Forbes Polska. We were distinguished for our customer data analysis system and for modelling their behavioural profiles. We implemented this project together with Synerise.

### mBank's Brokerage Bureau distinguished during the „Invest Cuffs 2021” conference

mBank's Brokerage Bureau was awarded the title of "Brokerage house of the year 2020" during the Invest Cuffs 2021 event. The laureates were chosen by individual investors. It was the seventh edition of the conference which brings together several thousand participants each year. More than 80,000 persons have voted during the seventh edition.

### mLeasing was one of the winners in the Forbes Diamonds 2021

mBank's leasing subsidiary – mLeasing – was one of the winners of the "Forbes Diamonds", a prestigious annual contest appreciating the fastest-developing companies in Poland. The reward is particularly important for mBank, given the hardships and unprecedented challenges the year 2020 posed for the Polish economy.

### Cezary Stypułkowski was recognized in the top 3 of the Banker of the Year ranking by Forbes Polska Magazine

Cezary Stypułkowski, President of the Management Board of mBank, was recognized in the top 3 of Banker of the Year ranking by Forbes Polska Magazine. The ranking incorporates key indicators (effectiveness, safety, growth) and jury's assessment. mBank has been recognized for, among others, business model and the mobile application whose number of users increased by 20% in the previous year.

### Rafał Jakubowski distinguished in the prestigious AD WO/MAN 2020 contest

Rafał Jakubowski, a director of retail marketing at mBank, was awarded a distinction in the AD WO/MAN contest 2020 in the category "Ad marketer of the year". The jury has recognized him for the projects he coordinated, among others: communication with individual and corporate clients, private banking communication, communicating the cooperation with the Great Orchestra of Christmas Charity and social media activities.

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 5,464 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 179 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 2021):

<b>Share in pre-tax profit</b>	<b>Profit before tax</b>	<b>Income</b>
<b>83.6%</b>	<b>PLN 621.1 M</b>	<b>PLN 1,742.1 M</b>

#### Key highlights

- Net fee and commission income increased by 26.4% year on year.
- Sales of mortgage loans increased by 60.5% year on year, at the level of PLN 6.3 billion.
- Growing number of active users of mBank's mobile application in Poland: +6.5% compared with end of 2020.
- In March mBank has introduced an offer of more than 40 funds registered in Luxemburg as part of mBank's "Investment Fund Supermarket". They are offered by three foreign asset management companies. Moreover, since April mBank offers investment consulting services to its retail clients.
- In March 2021 mBank launched a mobile application for the Junior Account, which is available to children younger than 13 years old.
- Second edition of Digital Revolutions – mBank supports companies in moving business online.
- Volume of retail deposits grew by 19.0% year on year, mainly in current accounts.
- Value of transactions made by mBank's payment cards increased by 20.4% year on year; the number of transactions up by 19.2% year on year.

\* Including 136 in Poland and 43 in the Czech Republic and Slovakia; excluding mFinanse (40) and mKiosks (149).

**Financial results**

In H1 2021, the Retail Banking segment generated a profit before tax of PLN 621.1 million, which represents an increase by PLN 149.4 million, i.e. 31.7% compared with H1 2020.

PLN M	H1 2020	H1 2021	Change in PLN M	Change in %
Net interest income	1,329.2	1,265.6	-63.5	-4.8%
Net fee and commission income	363.5	459.3	95.8	26.4%
Net trading income	16.8	17.2	0.5	2.9%
Other income	1.8	2.9	1.1	62.6%
Net other operating income	2.6	-3.1	-5.6	-221.4%
<b>Total income</b>	<b>1,713.8</b>	<b>1,742.1</b>	<b>28.3</b>	<b>1.6%</b>
Net impairment losses and fair value change on loans and advances	-364.4	-233.8	130.6	-35.8%
Overhead costs and depreciation	-771.9	-755.8	16.1	-2.1%
Taxes on the Group balance sheet items	-105.8	-131.4	-25.6	24.2%
<b>Profit before tax of Retail Banking</b>	<b>471.7</b>	<b>621.1</b>	<b>149.4</b>	<b>31.7%</b>

The profit before tax of the Retail Banking segment in H1 2021 was driven by the following factors:

- **Increase in total income** by PLN 28.3 million, i.e. 1.6% to PLN 1,742.1 million compared to H1 2020. Net interest income decreased by PLN 63.5 million due to rate cuts in 2020. Net fee and commission income rose by PLN 95.8 million, mainly owing to fees from brokerage activity, commissions related to bank accounts and credit-related fees and commissions.
- **Lower net impairment losses and fair value change on loans and advances** by PLN 130.6 million year on year, resulting from the creation of additional provisions for risks related to COVID-19 pandemic in H1 2020.
- **Decrease in operating expenses (including depreciation)** by PLN 16.1 million year on year, driven mainly by lower staff cost;
- **Tax on the Group balance sheet items** at PLN 131.4 million.

**Key business data (mBank and mBank Hipoteczny only)**

<b>thou.</b>	<b>30.06.2020</b>	<b>31.12.2021</b>	<b>30.06.2021</b>	<b>Semi-annual change</b>	<b>Annual change</b>
<b>Number of retail clients, including:</b>	<b>5,671.8</b>	<b>5,661.8</b>	<b>5,464.3</b>	<b>-3.5%</b>	<b>-3.7%</b>
Poland	4,692.9	4,658.5	4,449.1	-4.5%	-5.2%
Foreign branches	978.9	1,003.4	1,015.2	1.2%	3.7%
The Czech Republic	683.2	702.7	709.7	1.0%	3.9%
Slovakia	295.7	300.7	305.5	1.6%	3.3%
<b>PLN M</b>					
<b>Loans to retail clients, including:</b>	<b>62,523.5</b>	<b>65,579.3</b>	<b>70,019.2</b>	<b>6.8%</b>	<b>12.0%</b>
<b>Poland</b>	<b>56,949.4</b>	<b>58,351.2</b>	<b>61,009.7</b>	<b>4.6%</b>	<b>7.1%</b>
mortgage loans	39,803.8	41,205.1	42,593.0	3.4%	7.0%
non-mortgage loans	17,145.6	17,146.1	18,416.7	7.4%	7.4%
<b>Foreign branches</b>	<b>5,574.1</b>	<b>7,228.1</b>	<b>9,009.5</b>	<b>24.6%</b>	<b>61.6%</b>
The Czech Republic	4,084.8	5,182.0	6,276.6	21.1%	53.7%
Slovakia	1,489.3	2,046.1	2,732.9	33.6%	83.5%
<b>Deposits of retail clients, including:</b>	<b>89,816.2</b>	<b>98,221.0</b>	<b>106,838.2</b>	<b>8.8%</b>	<b>19.0%</b>
<b>Poland</b>	<b>77,931.9</b>	<b>84,402.2</b>	<b>91,336.0</b>	<b>8.2%</b>	<b>17.2%</b>
<b>Foreign branches</b>	<b>11,884.3</b>	<b>13,818.7</b>	<b>15,502.3</b>	<b>12.2%</b>	<b>30.4%</b>
The Czech Republic	8,095.0	9,564.6	10,961.4	14.6%	35.4%
Slovakia	3,789.2	4,254.1	4,540.8	6.7%	19.8%
<b>Investment assets of mBank individual clients (Poland)</b>	<b>16,436.3</b>	<b>20,166.3</b>	<b>23,897.0</b>	<b>18.5%</b>	<b>45.4%</b>
<b>thou.</b>					
<b>Credit cards, including</b>	<b>392.7</b>	<b>388.0</b>	<b>380.3</b>	<b>-2.0%</b>	<b>-3.1%</b>
Poland	352.8	349.4	343.1	-1.8%	-2.7%
Foreign branches	39.9	38.6	37.2	-3.5%	-6.8%
<b>Debit cards, including:</b>	<b>3,942.2</b>	<b>4,141.4</b>	<b>4,281.7</b>	<b>3.4%</b>	<b>8.6%</b>
Poland	3,305.2	3,472.1	3,609.0	3.9%	9.2%
Foreign branches	637.0	669.4	672.7	0.5%	5.6%

## Retail Banking in Poland

In H1 2021, we continued to promote mBank's eco-friendly solutions among our clients. In June, we launched a direct campaign in mBank's channels entitled "Eco-banking. Yes, mBank makes it happen" to celebrate the World Environment Day. The campaign promoted solutions which reduce paper and plastic consumption and the carbon footprint, including mobile payment cards, electronic correspondence instead of traditional letters, and online services.

In H1 2021, we expanded the range of services available in direct channels. Clients are now able to apply for a change in their data, change of the account type, or order necessary documents. Since March, clients have been able to open an mBank account without leaving their home using an e-ID (more information on the subject is available in chapter 2.1 "Key events in mBank Group in H1 2021"). The above-mentioned solutions are not only convenient, but also reduce paper use and eliminate the need to visit a branch or order a courier.

We introduced a number of new functionalities and improvements for clients in H1 2021 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 2021.

mBank's mobile application has 2,422.7 thousand active users in Poland, representing approximately 44% of our client base. Almost 1.1 million customers are mobile-only. For more information concerning new mobile solutions, see Chapter 2.1. Key events in mBank Group in H1 2021.

In January 2021, we supported the Grand Finale of the Great Orchestra of Christmas Charity (WOŚP) for the fourth time. As a part of WOŚP's 29th Grand Finale, we supported a money collection dedicated to purchasing otolaryngology, ENT and head diagnostic medical equipment. mBank and its clients donated PLN 20 million to the Foundation, including PLN 2 million donated by the bank during a campaign which lasted for 20 days. During this campaign mBank contributed PLN 1,000 to each first 100 donations to WOŚP made by its clients. mBank's clients have once again showed extraordinary generosity. Our clients can support WOŚP during the Grand Finale and at any time during the year. Retail clients may set up a savings objective and donate to the Foundation a small amount after each payment or a predefined amount every month.

### Retail banking offer for individuals

#### *Loans*

After the challenging period of the COVID-19 pandemic, H1 2021 saw an increase in sales of non-secured loans for individuals. We granted more than PLN 2.7 billion loans in H1 2021, an increase of 50% year on year. Our focus on sales of cash loans for individuals generated record-breaking volumes of nearly PLN 2.2 billion, exceeding the previous record achieved in 2019. Improving economic conditions allowed for a relaxed credit rating policy, which additionally improved our sales performance.

Electronic channels were a strong growth driver in H1 2021, accounting for nearly one half of all sales of unsecured loans. The mobile application outperformed online banking, accounting for more than half of all loans sold via the remote channels. These figures corroborate the decision to further develop and improve time-tested digital sales solutions. We continue to optimise digital-first processes. We launched new project initiatives to deliver quick and convenient selling processes to our clients. We offered a range of new options in H1 2021 in order to generate the expected product economics while addressing the different needs of clients with the biggest cross-selling potential, including:

- Credit holidays for cash loans, added to the offer to provide flexibility of repayment options;
- Special offers: my first loan, offers for clients whose salary is credited to their bank account with mBank.

Sales of mortgage loans increased in H1 2021. We sold PLN 4.0 billion new loans, an increase of 30.7% year on year and a record of the decade. With process improvements and automation, we are in a position to meet growing demand for mortgage loans. Thanks to modifications implemented in the last months, clients increasingly use remote channels to submit documents and credit applications to the bank.

Since June 30, we offer loans at interest rates fixed for a term of five years. Our existing PLN borrowers can switch to interest rates fixed for a term, as well. The offer is available to new and existing mortgage borrowers. If a borrower accepts this option, their instalments will be fixed for five years irrespective of the floating WIBOR. Fixed interest rates are set on a case-by-case basis depending on the margin paid by the borrower when the loan agreement was signed. The bank presents a new offer two months before the end of the five-year term. Our existing PLN borrowers can switch to interest rates fixed for a term.

We focused on selling mortgage loans to existing clients in H1 2021. As a result, the share of affluent clients in mortgage sales increased markedly from 54% to 66%.

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The NPL ratio of the retail mortgage loan portfolio in Poland stood at 1.7% as at June 30, 2021. The decrease compared with the previous year (2.1%) results from implementation of new definition of default.

### *Deposits*

mBank reported a strong increase of balances in clients' current and savings accounts in H1 2021. At the same time, the balances in term accounts dropped. The key factor which influenced the structure of deposits was the long-lasting low level of interest rates. After they have been subsequently lowered three times in 2020, the clients are less inclined to transferring money to term funds, which have low interest rates due to relatively low market interest rates. Consumer sentiment has not returned to the pre-pandemic level yet due to persisting threat of contracting the illness. As a consequence, clients' propensity to save increased over that period which is reflected by the volumes of retail clients' deposits placed with banks.

Retail banking deposits in Poland stood at PLN 91,336.0 million as at June 30, 2021 v. PLN 77,931.9 million as at June 30, 2020 (+17.2% year on year).

### *Cards and accounts*

mBank has complied with the new PSD2 directive requirements related to payment card transactions. When the client pays with a plastic card through a payment terminal, mBank can ask for an additional authorization in the form of entering the PIN code. For the payments which value exceeds PLN 100, the PIN code is always required. With the cards added to mobile devices, the PIN code is not required to be entered in the retail and service points. Transactions exceeding PLN 100 will require the client to unlock the device (Google Pay, Apple Pay) or to enter the PIN code into the watch (Garmin Pay, Fit Bit). Moreover, in case of Google Pay, every third transaction below PLN 100 will require unlocking the device.

The popularity of mobile cards grows every year. The details of such cards are available in the app. Thanks to mobile payment solutions, clients can make payments at a store or withdraw money from an ATM. Only in H1 2021 clients who opted for virtual cards and MC mobile helped us reduce plastic use by 250 kilograms!

On the 27th Pol'and'Rock festival mBank launched orders for the unique card for the account, which was designed by Jurek Owsiak. mBank will play on the Most Beautiful Festival of the World for the fourth time. The designed card has the logo of the Academy of Finest of Arts. mBank is the Academy's patron and prepared 15,000 cards which are available to both current clients and persons who will be creating the account. The card allows for contactless payments and for the impatient it offers Google Pay so that the clients do not have to wait for the card to pay with it. After ordering the new Mastercard, the clients have to activate Google Pay payments in the mobile application.

Holiday benefits are available to mBank clients during the special offer which lasts from July 1<sup>st</sup>, 2021 till September 30, 2021. The clients need to activate or have already activated a multi-currency service. The benefit package includes: multi-currency service, free-of-charge money withdraws from ATMs abroad, 15% discount for travel insurance and improved discounts in mOkazje (mBenefits).

The value of payments made by mBank retail banking clients with cards in Poland in H1 2021 stood at PLN 27.3 billion, representing an increase of 20.4% year on year. The number of transactions of mBank clients increased by 19.2% year on year. The market share of mBank cards' transactions remains at stable level and amounted to 12.4% at 31 March 2021.

### Investment funds for individuals

The net cash flows into and out of investment funds was positive in H1 2021. Sales of funds were supported by new editions of the "deposits with funds" promotion where the bank offered interest rates superior to ordinary bank deposits to clients who also invested in funds.

In March, we added more than 40 Luxembourg funds offered by three foreign asset managers to the Investment Fund Supermarket (for details, see section 2.1 "Key events in the mBank Group in H1 2021"). Since April, retail banking clients can use an investment advisory service which suggests funds to consider in investment portfolios.

### Brokerage and asset management

mBank's Brokerage Office provides a full range of brokerage services to individuals and private banking clients. We work with affluent clients and combine experience with professionalism. We serve the biggest institutional investors in Poland, including pension funds, investment funds, and asset managers, as well as foreign funds. Brokerage Office clients trade on regulated markets in Poland and abroad and make over-the-counter (OTC) transactions in CFDs (contract-for-difference). Wealth management clients use investment advisory and portfolio asset management services. The Brokerage Office is active on the capital market as an arranger of public and private IPOs/SPOs/ABBs.

Investor activity on the Warsaw Stock Exchange (GPW) stabilised in H1 2021 as compared to H2 2020. Turnover on the GPW main market increased by 28% year on year. The share of retail investors in turnover was approx. 20% in H1 2021. mBank's Brokerage Office is a leader of brokerage services for retail clients. Brokerage Office clients generated 9.8% of all equity transactions on the GPW Main Market in H1 2021, putting us at the top of the ranking. We are the leader in new investment accounts: we opened approx. 19.1 thousand new accounts in H1 2021 (excluding broker pension accounts). The Brokerage Office's turnover on the GPW main equity market stood at PLN 18.2 billion, an increase of 30% year on year. mBank ranked seventh in total turnover (5.4% market share, down from the sixth to the seventh position) and sixth in turnover on clients' account (7.2% market share). Our clients, in particular new clients, have been strongly interested in investing on foreign markets since early 2021.

The number of broker accounts held by mBank Brokerage Office clients stood at approx. 365 thousand as at 30 June 2021. We closed more than 30 thousand inactive accounts in H1 2021. As a result, the total number of accounts remained stable year on year.

Market conditions in H1 2021 favoured higher-risk investment strategies as a result of a regular uptrend on the equity and commodity markets.

In total, as at the end of June 2021, the value of assets managed by mBank's Brokerage Office amounted to almost PLN 3.3 billion.

The newest asset management strategies, introduced or modified in the last two/three years, were the most popular investment strategies in H1 2021, including the Anti-inflation Strategy, the Megatrends Strategy, the ESG Balanced Strategy, and the Multiasset Strategy. In view of the sales success of those solutions in H1 2021, the product offer remained relatively unchanged. However, in anticipation of the authorisation for mBank's proprietary investment fund company, we developed products to be added once the authorisation is granted. With a proprietary investment fund company, we will be in a position to quickly address new developments in the environment, especially as regards thematic investment products, such as ESG products as well as pension products.

Trading on the stock exchange was very active in H1 2021 while volatility remained low. The market was still affected by the pandemic in Q1 but rallied in Q2. Around 10 IPOs, SPOs and ABBs were closed in Poland. mBank's Brokerage Office took part in three deals in H1 2021: as Global Joint Coordinator and Joint Bookbuilder in the IPO of Shoper worth PLN 363 million; Joint Coordinator and Joint Bookbuilder in the IPO of Vercom worth PLN 225 million; and Global Coordinator and Bookbuilder in the ABB of Mabion worth PLN 134 million. We managed three tender offers for shares of companies listed on GPW, one buy-in, and one forced buy-out.

#### Offer for SMEs

The number of new firms on the market continued to decrease in H1 2021 following the economic lockdown imposed in December 2020 to contain the pandemic. The number of new companies registered in CEIDG and KRS dropped by 6% compared to pre-pandemic levels reported in 2019.

To support new businesses which decided to open via mBank under the difficult circumstances, we offered reimbursements of fees (moneyback). Businesses could use the credits for any purpose, such as payment of social security contributions. We issued communications addressed to all other businesses, assuring them of an attractive offer for the difficult times. We offered business bank accounts at no fee for two years. We promoted value added services and encouraged businesses to be more active. We offered promotional free-of-charge accounting services to businesses. Business clients could apply for our payment gateway service Paynow. The number of active accounts increased by 15% year on year in H1 2021.

We continued our initiative for businesses "OkO w OkO" in 2021. Similar to 2020, all meetings were held remotely. We stay close to our business clients who take part in meetings and share their needs and observations regarding our offer of business products and services.

We developed processes supporting PFR's support scheme ("Shield") for businesses in H1 2021. We implemented solutions for clients to clear grants, including powers of companies' duly authorised representatives, appeals from official decisions concerning grant clearing, repayments or cancellations. As at the time of this writing, 18.5 thousand clients received PFR cancellation decisions. PFR cancelled PLN 1,118 million grant money in total. Clients are required to repay PLN 315 million (22% of the original grants). In January, we supported businesses applying for PFR's new pandemic emergency grants ("Shield 2.0"). 6.5 thousand clients used the scheme via mBank. More than PLN 700 million grants were credited to bank accounts with mBank.

New prices of selected corporate products took effect in H1 2021. We focused on transparent client communications. We monitor client activity, resignations, as well as feedback provided in complaints and



instructions. We flexibly address clients' needs, including modifications to our retention offer for existing clients.

In the e-commerce segment, we implemented corporate bank account and Paynow applications, facilitating and accelerating the processing of new clients' applications. We implemented GooglePay as a new method of payments (for details, see section 2.1 "Key events in the mBank Group in H1 2021"). We launched a paywall in foreign languages: English and Ukrainian. We offered foreign currency card payments (EUR, USD, GBP). Clients can make reimbursements directly from Paynow accounts. We expanded our partnership with retail platforms by adding Hotrest, Takedrop, KQS.projekt, GO Shop, Bookero, Automater, TrisoSHOP, Comarch e-Sklep, Roomadmin.

Clients can open a business along with a corporate account with mBank at any of the 235 accounting firms which are mBank's partners in the OSCBR project (National Certified Accounting Firm Network). We added a new section to our website: "mBank's accountant partners." We developed support services for prospective businesses, including a free-of-charge accounting hotline where clients can learn about grants and subsidies for new businesses offered by the Labour Office, EU Funds, and the fund for the disabled PFRON.

We launched a promotion with the Finance mOrganiser for business clients who open a current account or a business with mBank. In the promotion, clients were offered a package of benefits supporting business finance management for a period of six months, including free-of-charge invoicing, payment monitoring, expenses management, a financial assistant, as well as bookkeeping.

We improved the processing of applications for the FX mPlatform where clients can exchange currencies at attractive rates, which improved customer experience and raised the percentage of approved applications. In partnership with ITCard, mBank offers terminals with the mBank logo and colours.

Our market share in the SME segment continued to increase steadily and reached 15.6% in working capital finance, an increase of 1.4 p.p. year on year.

We develop our products and services with a focus on remote channels. We enabled mobile application processing. We raised the business owner credit surety limit in the mobile application from PLN 100 thousand to PLN 150 thousand. Our sales increased by 13% year on year in H1 2021 vs. a 9% growth across the market. We were named a Trusted Brand as a business lender.

#### Relations with UNIQA (formerly AXA)

In H1 2021 mBank continued to develop its bancassurance cooperation with the strategic partner UNIQA (formerly AXA). The partnership covers sales of insurance products to mBank clients with a focus on stand-alone products, including car, travel, home, and life insurance, as well as bundled products, including insurance bundled with loans.

mBank develops its insurance offer to address the needs of clients who actively use remote banking channels. The stand-alone product offer is available across all access channels. All stand-alone products, including car, home, travel, and health and life insurance for clients and their close ones, are available in the mBank mobile application. 22% of stand-alone insurance products sold in H1 2021 were purchased in the mobile app.

The prolonged pandemic affects people's ability and readiness to travel and, consequently, buy travel insurance. Travel insurance is an important part of our product portfolio, in particular in the remote channels. However, holiday travel picked up as restrictions were lifted, and the number of travel insurance products sold in June 2021 increased.

#### **Retail Banking in the Czech Republic and Slovakia**

Following the strategy of previous years, in H1 2021 mBank focused on the acquisition of new customers, further automation and digitalization of its process. We were strengthening the non-mortgage lending as well as recovering in several areas touched by COVID-19 pandemic.

In the area of mortgage lending, we launched a completely new process for mortgage application processing. Consequently we managed to reduce the time of processing the loan application from the clients by half compared with 2020. We also decided to strengthen our focus on non-mortgage lending, especially cash loan product. The cash loans' sales have been negatively affected by the COVID-19 impacts. Nevertheless, mBank was able to deliver several functionalities such as PSD2 based solutions for income verification, automation of external registers for checking customers data and changes in product limits. These novelties, together with enhanced sales channels focus and improvements in risk area brought significant growth in Q2 2021 and new sales records in June.

mBank continued to further strengthen its digital positions in both markets. During the spring months, we launched a completely new version of IB 3.0 Internet Banking, which brings a number of quality and

technological improvements over the existing solution. It provides simplified search, new display of transactions or uniform appearance (customization) according to the device used. In Q1 2021 mBank also launched service of instant payments allowing customers to receive or send payment to different bank in seconds. Big move supporting mBank's mobility and digitalization was done in the banking identity projects, which is one of the biggest digitalization projects on the Czech market. It is focused on using customers' bank identity as official identity accepted by public and private sector. In H1 2021 mBank has become the shareholder in joint venture called Bankovní identita a.s. and together with 9 biggest banks mBank is playing an active role in digitalization of the Czech market.

Despite the unfavorable results of COVID-19 pandemic, all branches remained open to our clients. At the same time, there was a further improvement of services for customers at selected branches. Some outlets have been moved to more attractive locations, new mKiosks have been installed (Prague Chodov, Bratislava or Košice), as well as new premises have been created, primarily for brokerage companies (Brno, Banská Bystrica, Prešov). We have appointed branch manager for the further development of employees at branches and the position of regional relationship manager for the intensification of relations with brokers at the local level.

Since July 1, mBank offers to its clients in Czech Republic a protected account ("Protective Account") with a card. mBank introduced the account to its offer to comply with the requirements of the Czech National Bank and Czech Ministry of Justice. The protected account differentiate from the basic account due to protection of part of the funds (described in the bill) from potentially being seized during an enforcement proceeding.

#### Loans and deposits

The mBank loan portfolio in the Czech Republic and Slovakia amounted to PLN 9,009.5 million as at June 30, 2021, representing an increase of 61.6% year on year. The mortgage loan portfolio reached PLN 7,456.4 million as at June 30, 2021, representing an increase of 71.2% year on year. The non-mortgage loan portfolio increased by 27.4% to PLN 1,553.1 million as at June 30, 2021.

mBank was able to keep the level of mortgage loans sales even at the time when other banks' lending slowed down due to the COVID-19 pandemic. Sales of mortgage loans in Slovakia increased further to PLN 750.5 million, i.e., by 150.3% year on year in H1 2021. It had a positive impact on the mortgage loan portfolio in Slovakia, which increased by 96.7% year on year to PLN 2,282.3 million as at June 30, 2021. Sales of mortgage loans in the Czech Republic stood at PLN 1,343.3 million, representing almost a threefold increase year on year in H1 2021. The volume of the mortgage loan portfolio increased by 62.0% year on year to PLN 5,174.2 million as at 30 June 2021.

Thanks to above mentioned improvements, the non-mortgage loan portfolio grew and stood at PLN 1,102.4 million as at June 30, 2021, up by 23.8% year on year, in the Czech Republic and at PLN 450.7 million, up by 37.1%, in Slovakia.

The volume of deposits continued to grow in H1 2021 and reached PLN 15,502.3 million as at June 30, 2021 (an increase of 30.4% year on year).

## 2.4. Corporate and Investment Banking Area

The Corporate and Investment Banking segment serves 30,417 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 2021):

<b>Share in pre-tax profit</b>	<b>Pre-tax profit</b>	<b>Total income</b>
<b>52.4%</b>	<b>PLN 389.0 M</b>	<b>PLN 1,122.0 M</b>

### Key highlights

- Increase of net fee and commission income by 25.9% compared with H1 2020.
- Increase of corporate loans at the bank level (without reverse repo/buy sell back transactions): increase by 4.0% compared to the end of 2020, marginal decrease by -0.1% on an annual basis.
- Increase of corporate deposits at the bank level (without repo transactions) by 31.8% compared to the end of 2020 and by 1.8% year on year.
- Increase of mBank's market shares in corporate deposits to 11.7% (11.4% in H1 2020) and to 8.0% (from 7.6% in H1 2020) in corporate loans.
- New mBank CompanyMobile app for corporate clients and SMEs.
- mBank shared new functionalities to corporate clients: ApplePay, GooglePay and GarminPay.
- mBank arranged the first green bonds issuance of the largest Polish developer of photovoltaic plants: R.Power.

**Financial results**

In H1 2021, the Corporate and Investment Banking segment generated a profit before tax of PLN 389.0 million. This result marked an increase by PLN 267.9 million or 221.3% year on year.

PLN M	H1 2020	H1 2021	Change in PLN M	Change in %
Net interest income	574.5	524.4	-50.1	-8.7%
Net fee and commission income	379.6	477.8	98.2	25.9%
Net trading income	104.3	130.0	25.6	24.6%
Other income	-6.3	2.4	8.7	-138.5%
Net other operating income	15.8	-12.6	-28.4	-179.8%
<b>Total income</b>	<b>1,067.9</b>	<b>1,122.0</b>	<b>54.1</b>	<b>5.1%</b>
Net impairment losses and fair value change on loans and advances	-366.9	-173.7	193.2	-52.7%
Overhead costs and depreciation	-486.3	-453.8	32.5	-6.7%
Taxes on the Group balance sheet items	-93.6	-105.5	-11.8	12.6%
<b>Profit before tax of Corporate and Investment Banking</b>	<b>121.1</b>	<b>389.0</b>	<b>267.9</b>	<b>221.3%</b>

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

- **Growth in income** by PLN 54.1 million or 5.1% year on year. Net interest income decreased as a result of rate cuts, while net fee and commission income significantly increased due to growing base and activity of clients and adjustment of prices. Due to higher volatility of currency exchange rates, net trading income grew as well.
- **Notable decrease of impairment losses and fair value on loans and advances** compared to H1 2020, resulting from the creation of additional provisions for risks related to COVID-19 pandemic in H1 2020.
- **Lower operating costs and depreciation** in the discussed period, mainly related to a lower staff-related costs and material costs.
- **Tax on the Group balance sheet items** at the level of PLN 105.5 million, rising alongside higher assets volume in the Group.

**mBank S.A. Group**

Management Board Report on the Performance of mBank S.A. Group in H1 2021

Business results (mBank only)

	30.06.2020	31.12.2020	30.06.2021	YtD change	YoY
<b>Number of corporate clients</b>	<b>27,725</b>	<b>29,083</b>	<b>30,417</b>	<b>4.6%</b>	<b>9.7%</b>
K1	2,384	2,358	2,347	-0.5%	-1.6%
K2	8,553	8,862	9,335	5.3%	9.1%
K3	16,788	17,863	18,735	4.9%	11.6%
<b>PLN M</b>					
<b>Loans to corporate clients, including</b>	<b>30,543.9</b>	<b>28,036.1</b>	<b>30,596.5</b>	<b>9.1%</b>	<b>0.2%</b>
K1	7,392.4	6,719.5	6,813.2	1.4%	-7.8%
K2	18,807.8	18,302.3	19,281.9	5.4%	2.5%
K3	2,709.3	2,714.4	2,890.8	6.5%	6.7%
Reverse repo/buy sell back transactions	1,465.0	103,8	1,557.7	1,400.2%	6.3%
Other	169.4	196.1	52.9	-73.0%	-68.8%
<b>Deposits of corporate clients, including</b>	<b>45,663.0</b>	<b>34,816.6</b>	<b>45,973.0</b>	<b>32.0%</b>	<b>0.7%</b>
K1	16,289.5	8,673.2	13,810.1	59.2%	-15.2%
K2	19,025.5	15,631.5	21,077.9	34.8%	10.8%
K3	9,183.4	9,958.4	10,580.7	6.2%	15.2%
Repo transactions	715.5	93.2	218.8	134.7%	-69.4%
Other	449.1	460.3	285.4	-38.0%	-36.4%

The first half of 2021 was characterized by economic rebound despite the persistence of COVID-19 pandemic. The rebound positively impacted companies' activity. Although the growth dynamics of deposits slowed down compared to the previous year, it remained positive. It was a result of among others, realization of pent-up demand by the companies and improvement of market sentiment. The improvement in the area of private investments was reflected in a significant hastening of corporate lending.

Despite the challenges posed by the COVID-19 pandemic, the first half of the year was another period of extensive efforts which aimed to attract new corporate clients. This resulted in high acquisition of new companies; the corporate client base increased by almost 10% compared to June 2020 and reached 30,417 entities. mBank's small and medium-sized enterprises segment (SMEs – K3) acquired more than 1,900 new clients compared to June 2020.

In H1 2021, we introduced new convenient solutions for our clients despite persisting challenges of the COVID-19 pandemic. We focused on further dynamic process digitisation and optimisation. We implemented a new online application and developed solutions dedicated to e-commerce. We continued to focus on digitisation and automation of mass processes. As a result, we protect the environment and save time and resources. We continually add new modules and functions to our system. We want to make sure that clients can bank easily from home or office without having to contact the bank.

Products and services

The market of loans to enterprises shrank by -3.7% year on year whereas the market of enterprises' deposits was characterized by a positive dynamics of 4.8% compared to June 2020. In this context, mBank reported higher growth in loan volumes (+1.8%) as well as in the deposit volumes (+7.6%) year on year (in aggregates comparable to NBP methodology). At the end of June 2021, mBank's shares in the market of loans and deposits of enterprises reached 8.0% and 11.7%, respectively.

Corporate loans

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 29,038.8 million at the end of June 2021, down by -0.1% compared with the end of June 2020 (PLN 29,078.9 million).

## mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2021

PLN M	30.06.2020	31.12.2020	30.06.2021	YoY change
Loans to corporate clients <sup>1</sup>	29,079	27,932	29,039	-0.1%
Loans to enterprises <sup>2</sup>	29,018	27,966	29,534	1.8%
Loans granted to local governments	144	84	84	-41.8%
Market of loans to enterprises	383,770	367,329	369,684	-3.7%
mBank's share in the market of lending to enterprises	7.6%	7.6%	8.0%	

<sup>1</sup> Bank, excluding reverse repo transactions.

<sup>2</sup> 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 45,754.2 million at the end of June 2021, up by 1.8% compared with the end of June 2020 (PLN 44,947.5 million).

PLN M	30.06.2020	31.12.2020	30.06.2021	YoY change
Corporate deposits <sup>1</sup>	44,948	34,723	45,754	1.8%
Deposits of enterprises <sup>2</sup>	43,463	36,836	46,745	7.6%
Deposits of local governments	120	173	210	75.5%
Market of deposits of enterprises	382,464	393,893	400,743	4.8%
mBank's share in the total deposits of enterprises	11.4%	9.4%	11.7%	

<sup>1</sup> Bank, excluding repo transactions.

<sup>2</sup> NBP category which ensures comparability of results of the banking sector.

### De minimis guarantee

The bank continued to implement a portfolio agreement for de minimis guarantee lines (PLD) under the government programme "Supporting entrepreneurship with BGK sureties and guarantees." The drawn limit was PLN 2,493.1 million as at June 30, 2021. On June 25, 2018, mBank signed another portfolio agreement for de minimis guarantee lines (PLD-KFG) in continuation of the earlier agreement (PLD). The de minimis guarantee limit allocated to mBank under the PLD-KFG is PLN 6,200 million. The drawn limit was PLN 3,485.5 million as at June 30, 2021.

In H1 2021, we continued to support the portfolio guarantee line with reguarantees of the European Investment Bank under COSME, the European Union programme for the competitiveness of enterprises in 2014–2020. The guarantee limit granted by BGK to mBank is PLN 2,000 million. The drawn limit was PLN 1,343.7 million as at June 30, 2021.

Other initiatives of our corporate banking line continued in H1 2021 included:

- portfolio guarantee line agreement BiznesMax (FG POIR). The guarantee limit granted to mBank under the agreement with BGK is PLN 300 million. The drawn limit was PLN 238.2 million as at June 30, 2021;
- portfolio guarantee line agreement BiznesMax (FG POIR). The guarantee limit granted to mBank under the agreement with BGK is PLN 11,000 million. The drawn limit was PLN 1,589.8 million as at June 30, 2021;
- portfolio agricultural guarantee line agreement (FGR). The guarantee limit granted to mBank under the agreement with BGK is PLN 50 million. The drawn limit was PLN 13.8 million as at June 30, 2021.

The share of mBank in the non-treasury debt securities market at the end of April 2021 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
<b>mBank (PLN M)</b>	300	9,854	10,407
Market (PLN M)	16,536	97,092	54,210
Market share	1.81%	10.15%	19.20%
Market position	#5	#4	#2

In the corporate bonds market, the bank carried out a series of new issues, i.e.: Echo Investment S.A. (PLN 195 million), Develia SA (PLN 150 million), Robyg SA (PLN 150 million), R Power (PLN 150 million), Marvipol SA (PLN 116 million), Ghelamco (PLN 57 million).

Development of Corporate Banking products and services

*Transactional banking*

Cash management is an area of Corporate Banking offering state-of-the-art solutions to facilitate planning, monitoring, and management of highly liquid assets, cash processing, as well as electronic banking.

The solutions facilitate daily financial operations, enhance effective cash flow management, and optimise interest costs and income.

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

Number of outgoing foreign transfers	+16%
Number of incoming foreign transfers	+17%
Number of corporate cards	-3.2%
Number of mCompanyNet users	+4.0%

*Virtual Branch*

Virtual Branch is an integral part of the mBank CompanyNet system where clients can submit electronic applications in the key areas of banking. Virtual Branch is where clients can do most of their banking by digital means. In H1 2021, we supported close to 18,000 processes in this channel while customer self-service ranged from 40% to 83%. Clients appreciate the efforts we make with a view to process and application digitisation. Our initiatives helped to cut the workload and improve banking processes. The modifications generated savings and improved customer satisfaction thanks to instantaneous customer service.

*CompanyMobile*

Nearly 80% of our clients use the mobile application. The number of app users increased by 33% year on year in H1 2021. Early in the year, we launched a new mobile app for corporate clients (for details, see section 2.1 “Key events in the mBank Group in H1 2021”). mBank Company Mobile brings modern design and great customer experience for smartphone users. More than 93% of clients used the new application within two months after release. Clients welcomed the new app and we continue to develop new functionalities.

*Digital onboarding of corporate clients*

mBank consistently promotes remote channels of corporate client relations. All client segments use our flagship project: digital client onboarding. The digital channels have been gaining in popularity. More than 65% of agreements with all new corporate clients in H1 2021 were signed fully remotely. The digital platform of corporate client acquisition supports state-of-the-art sales interaction with clients and onboarding of most transactional banking products. We confirm client identity remotely without the need to visit a branch and completely paper-free. The convenient, environment-friendly solution greatly improves the quality of client onboarding and document processing. The universal process can be used by clients of all sizes and internal complexity. We significantly improved the interactions between the bank and clients. We open new accounts within less than 24 hours.

The benefits of the remote process are obvious to clients as well as internally within the bank. We have improved back office processes, monitor the process end-to-end, and continuously track the status of

applications. From the very beginning of the relationship, we offer the full range of mBank's products, including mainly transactional banking products, such as electronic banking, cards, and cash services.

#### *Corporate payment cards*

We implemented ApplePay, GooglePay and GarminPay functionalities for corporate cards in June 2021. As a result, card users can pay with smartphones and selected smartwatches. The benefits for clients include time savings, convenience, and security of payments.

#### *eCommerce and Paynow gateway*

Clients increasingly use the Paynow payment gateway. Paynow is a state-of-the-art gateway offered in the cloud and integrated with mBank's electronic banking systems. Clients can easily integrate the gateway with an online store with API and plug-ins on leading retail platforms. We support all popular methods of payments in line with the highest security standards. We offer top service availability, capacity, and load resilience. We tested all those features when processing payments at the 29th Finale of the Great Orchestra of Christmas Charity (WOŚP), which in large part took place online in 2021.

In June 2021, we processed transactions in a total amount which was more than six times that processed in January 2021. The number of clients continues to grow dynamically. As we offer online payment processing, we can precisely identify the needs of business clients. mBank has a clear advantage over alternative payment providers as the service can be integrated with the entire offer of our group.

#### *Client Centre for Corporate Clients – Advisor Centre for Employees*

The Client Centre in its new format launched in 2020 to support corporate clients in everyday banking. The number of Client Centre interactions increased by 17% year on year in H1 2021. Growing volumes of interactions are coupled by improving quality indicators. We have improved the percentage of calls picked up within 20 seconds (from 84% in 2020 to 87% in H1 2021). The Client Centre's operating model was aligned in H1 2021 with the needs of external and internal clients. We appointed two dedicated teams: a team which provides individual comprehensive service to key clients of the bank, including non-Polish speakers; and the Advisor Centre which fosters and promotes advisors' knowledge of processes and products, facilitating and improving their work. We continue to develop and implement new tools for our consultants to improve the quality and efficiency of customer service.

#### *Credit process automation*

With a view to the needs of K2 and K3 clients who require financing up to PLN 6 million, we have implemented a simple credit process which provides quick funding. We have largely cut the scope of documents required from clients and the timing of our credit decisions. We have implemented a contract generator which provides credit documentation for clients and mitigates the risk of error on the bank's end. mBank continues to improve its range of credit products to address the needs of our clients.

#### *Renewable energy sources (RES)*

mBank continues on the path to green transition. Among other efforts, we finance investments in renewable energy sources. We approved the mBank S.A. Credit Policy for financing of renewable energy sources in December 2018. We raised the limit for projects under the auction support scheme to PLN 4 billion, double the original amount, in December 2020. We finance RES projects in and outside the auction support scheme. mBank financed four photovoltaics (PV) investment projects in H1 2021 in a total amount of PLN 228 million. mBank's RES portfolio stood at PLN 2.3 billion as at June 30, 2021 and the exposure doubled year on year. 57.6% of the RES limit has been drawn since the approval of the Policy. mBank was the Sole Arranger and Dealer of a PLN 1 billion bond issue programme for R.Power Sp. z o.o. (for details, see section 2.1 "Key events in the mBank Group in H1 2021")



**Activity of the Financial Markets Sales Department**

The Financial Markets segment focused early in the year on top quality of customer service for corporate and retail clients provided fully over remote channels. The organisation of the Financial Markets Sales Department was modified at the turn of Q2 2021 in order to improve efficient customer service with broad digitisation and alignment of the service with current market requirements. Efficient service provided to growing numbers of clients ensures digital customer relationship management and continuous development of business intelligence tools.

- Following a weak start to the year and improved performance month after month in H1 2021, our margin dropped by 4.7% year on year. However, with strong customer acquisition and cross-selling efforts, the number of active clients increased by 11.3% in H1 2021.
- The corporate business of the Financial Markets Sales Department performed very well in the strategic client segment (K1) in H1 2021. The margin (net of deposits) in H1 2021 improved by 11% year on year and by 42% vs. H1 2019 (PLN 26.5 million vs. PLN 24.0 million and PLN 18.6 million, respectively).
- The margins on commodity transactions generated by our commodity section in H1 2021 increased by 6% year on year. With focused calls and client acquisition efforts, the number of active clients increased by 3% year on year. We ensured full business continuity for interbank clients in the migration process following Brexit (in early 2021).
- The Project Team closed hedging transactions in 37 projects in H1 2021. More than half of all transactions were structured finance projects while 16 transactions related to commercial real estate finance. We successfully restructured several CRE hedging transactions affected by the pandemic. The margin on hedging transactions in H1 2021 was historically high and increased by 13.1% year on year.
- With new initiatives of the Retail Client Sales Section developed in partnership with the business lines in H1 2021, the margin increased by more than 15% year on year. As a result of several marketing campaigns supporting sales in H1 2021, the number of active clients using the FX platform increased by 12% year on year in the business client segment and by 16% in the retail clients segment.

mBank's market shares in various financial instrument markets as at May 31, 2021 are presented below:

	<b>Treasury bills &amp; bonds</b>	<b>IRS/FRA</b>
mBank	10.76%	18%

### Financial Institutions

At mBank we cooperate with financial institutions. The Financial Clients Department provides services to financial institutions which are banks. In the second half of 2020 it took over the activity of Financial Institutions Department as a consequence of organizational changes within the bank. 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 2021, mBank had 4 active loans received in the amount of PLN 2,790 million. In the first half of 2021, mBank has repaid before maturity 3 loans in EUR which amounted to PLN 1,356 million total. The level of debt arising from loans was lower by PLN -1,580 million compared to first half of 2020.

At the end of June 2021, mBank's exposure resulting from loans granted to other banks totaled PLN 102.9 million (vs. PLN 131.4 million at the end of June 2020). It resulted from short- and medium-term loans granted to domestic and foreign financial institutions.

In H1 2021 the Financial Clients Department actively supported trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, as well as granting financing as part of syndicated loans. At the same time, the bank continued to serve banks from the Commonwealth of Independent States (CIS) and offered them medium-term loans secured with KUKE insurance policies.

We found H1 2021 similar to H1 2020, due to the COVID-19 pandemic, which forced us to change our work model. Even though face-to-face contacts and meetings now take place virtually, with clients being served via email and videoconferences, the relations with correspondent banks have not been disrupted. Our customer service standard has remained unchanged throughout the pandemic. Owing to the experience and skills gained, we can continue to strengthen our relationships with other banks.

### mBank's custody services

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

As at June 30, 2021, the number of investment funds served by mBank dropped by -11.52% year on year.

## 2.5. Subsidiaries of mBank Group

### Summary of financial results of mBank Group subsidiaries

The overall H1 2021 result of mBank Group subsidiaries amounted to PLN 141.5 million, which translates into almost a threefold increase compared to H1 2020. Improvement of performance was caused mainly by the good handling of COVID-19 pandemic impact, improvement of income and lower loan loss provisions recorded by some subsidiaries. The table below presents the profit before tax posted by individual subsidiaries in H1 2021 against H1 2020.

PLN M	H1 2020	H1 2021	Change in %
mFinanse	15.8	29.5	86.3%
mLeasing <sup>1</sup>	23.0	87.1	278.8%
mBank Hipoteczny	8.1	14.3	77.3%
mFaktoring	-2.6	14.3	-/+
Other <sup>2</sup>	-6.1	-3.6	-40.1%
<b>Total</b>	<b>38.2</b>	<b>141.5</b>	<b>270.6%</b>

<sup>1</sup> Including LeaseLink and Asekum.

<sup>2</sup> In 2020, „Other” subsidiaries included: mFinance France, BDH Development, G-Invest, Tele-Tech Investment, Future Tech and mElements. Since December 2020, the consolidation of mFinance France S.A. was terminated, due to substitution and liquidation of the company. In the latter half of 2020 the consolidation of BDH Development was also terminated. Consequently, in 2021 „Other” subsidiaries comprise: mElements, G-Invest, Tele-Tech Investment and Future Tech.

### Business activity of selected subsidiaries



In the first half of 2021, mFinanse has been systematically rebuilding the sales and financial results which were negatively impacted by the COVID-19 pandemic and subsequent lockdowns of the economy in 2020 and 2021. mFinanse has continued restructuring projects which allowed to maintain business continuity, preserve jobs and improve financial results. In the period under review, the consumer market was slowly rebounding to the pre-pandemic state and the consumer sentiment was improving. Apart from the demand factor, sales were also affected by the lending policy of mBank. In H1 2021, mFinanse loosened the policy for certain product groups and carried out marketing campaign for mBank products which were praised by the clients.

In the first half of 2021, the positive trend of mortgage loan sales continued. Low interest rates, high interest of the clients in the real estate investments and pro-active lending policy of banks should support the growth of sales also in the coming months. In the first half of 2021, mFinanse recorded higher mortgage loan sales compared to H1 2020 (PLN 2,146.2 million in H1 2021 compared to PLN 1,574.1 million in H1 2020).

Despite the issues arising from the periods when the economy was under lockdown in January, March and April, the subsidiary has recorded a significant growth of the volume of cash loan launches. It was supported by consumer sentiments and, again, the lending policy of banks. In the period under review sales of cash loans also increased. They amounted to PLN 436.0 million, an increase by 97.1% YoY, when the sales reached PLN 221.2 million.

The profit in the car loans area dedicated to car dealers decreased YoY. In H1 2021 it reached PLN 113.6 million, while it amounted to PLN 143.6 million a year before.

In the car leasing area, the profit were up by 62.8% and amounted to PLN 60.3 million in the first half of 2021, while a year before it reached PLN 37.0 million.

In the first half of 2021, the subsidiary’s pre-tax profit amounted to PLN 29.5 million compared to PLN 15.8 million a year before. Higher pre-tax profit in H1 2021 was a result of the increase of sales volume in the

area of financial intermediary. Due to it, the subsidiary improved sales results and at the same time maintained cost discipline.

## **mLeasing**

The total value of contracts executed in H1 2021 amounted to PLN 3,265.5 million, compared with PLN 2,042.0 million in H1 2020. The value of new contracts increased by 59.9% year on year.

The value of new movable assets purchased by mLeasing in H1 2021 reached PLN 3,222.5 million, up by 57.8% compared with H1 2020 (PLN 2,042.0 million). In H1 2021, the company financed real properties at the value of PLN 43 million, while in H1 2020 it did not finance any real property.

The consolidated pre-tax profit reported by mLeasing in H1 2021 stood at PLN 87.1 million, which represents almost a fourfold increase year on year. The improvement was mainly driven by the growth of sales and also high risk provisions which were made in H1 2020.

In relations to the COVID-19 pandemic, mLeasing has already offered its client the possibility of reducing from three to six leasing instalment in 2020. The possibility is still available in the form of applying for suspension of principal instalment repayment and extension of the repayment period by a period when the client pays only the interest. We prepared an automatic process for handling clients' applications to ensure that the decision-making procedure is quick. As at the end of H1 2021 applications for restructuring were filed with respect to 4.4% of the portfolio. In H1 2021 we loosened the conditions for granting new financing compared to H1 2020. It was a result of improvement of economic situation which positively impacted resilience of the clients to the lockdowns, compared to the first period of pandemic in 2020.

## **mBank Hipoteczny**

mBank Hipoteczny (mBH) is the oldest mortgage bank operating on the Polish capital market. Since 2000, mBH has been regularly issuing Polish covered bonds in line with the Polish and foreign issuance programme. As at June 30, 2021, the total value of the outstanding mortgage bonds issued by mBank Hipoteczny amounted to PLN 6.94 billion. This accounts for 28.1% of the entire market, whose value stands at over PLN 24.7 billion (at the PLN/EUR exchange rate of 4.5208 of the National Bank of Poland published on June 30, 2021). The financing and liquidity profile of mBank Group in H1 2021 did not provide for the need to issue covered bonds by mBank Hipoteczny.

In addition, mBank Hipoteczny has unsecured bond issuance programme. In H1 2021, mBank Hipoteczny did not issue such bonds. As at the end of H1 2021, there were 3 issued series of bonds, worth a total of PLN 160 million. The offer of mBank Hipoteczny comprises zero-coupon and coupon bonds denominated in PLN with maturities from two months to one year.

On July 13, 2021, Moody's Investors Service Ltd upgraded long-term and short-term Counterparty Risk Assessment to the level of A2(cr) and Prime-1(cr) from the level of A3(cr) and Prime-2(cr) respectively. The long-term and short-term Counterparty Risk Rating was upgraded to the level of A2 and Prime-1 from the level of A3 and Prime-2 respectively.

The Moody's Investors Service agency also upgraded the long-term issuer ratings of mBank Hipoteczny from Baa2 to Baa1 with stable outlook and confirmed the Short-term Issuer Rating at the level of Prime-2. At the same time, the agency has upgraded the Rating of covered bonds issued by mBank Hipoteczny to Aa1 from the level of Aa2.

The rating actions reflected the rating agency's methodology change and re-assessment of interlinkages between mBank Hipoteczny and mBank S.A.

In 2021 mBank Hipoteczny has expanded its loan portfolio using the pooling model in Retail Banking in close cooperation with mBank, i.e. with sales effected by mBank's salesforce. Since January 2021, five pooling transactions totalling PLN 1,119.8 million have been concluded in the retail portfolio, which was reflected by the growth of the gross value of mBH's loan portfolio by 4% as at the end of 2021 compared to the end of 2020. The gross portfolio value amounted to PLN 12.0 billion as at the end of June 2021, compared to PLN 11.5 billion at the end of 2020.

mBH's pre-tax profit amounted to PLN 14.3 million, up by 77.3% compared with the same period last year. This results mainly from decreasing impairment losses provisions, which were affected by taking into account the guarantees for certain corporate loan portfolio exposure positions. As part of creating provisions for corporate loan portfolio, in H1 2021 mBank Hipoteczny updated the level of provisions in line with the most recent information on clients using the financial support measures related to the COVID-19 pandemic. Additionally, as part of the portfolio of loans subject to restructuring and debt collection activities, the level

of loan loss provisions was updated in line with changes in collateral value and the status of enforcement/insolvency proceedings.

In H1 2021 we still followed the work rules which had been implemented at mBank Hipoteczny at the beginning of 2020 to curb the spread of COVID-19. The rules cover remote work and, in areas where it is impossible, they take shifts in the office in line with all the security measures. The rules are to ensure security while maintaining continuity of performed processes.

Apart from the re-organisation of work, mBank Hipoteczny also developed support measures for corporate and retail clients. As regards the latter, we enabled suspension of principal or principal and interest instalment repayment by up to six months. Additionally, we enabled clients to conveniently apply for the suspension of loan instalment repayment by filing an online instruction. In the case of corporate clients, applications for support were considered on an individual basis. The requests for measures proposed by us for both portfolios decreased (0.5% of retail clients compared to 10% in H1 2020; 8.5% of corporate loan agreements compared to 38% in H1 2020).

Additionally, from June 24, 2021 mBank Hipoteczny realizes requests for suspension of execution of loan agreements (compliant to Articles 31fa-31fc of the law on subsidies for interest on bank loans granted to protect financial liquidity of enterprises affected by COVID-19 and amendments to some other Laws (Shield 4.0). As at June 30, 2021, we received 23 applications for support solutions (including 8 in H1 2021), the support was granted to 21 clients (including 7 in H1 2021).



## **Faktoring**

In H1 2021 the subsidiary's turnover (the value of purchased invoices) reached PLN 14.2 billion, up by 29% year on year. Thanks to growing dynamics compared to previous quarters, the company maintained the fifth position on the factoring market in Poland with a market share of 8.5% (according to the Polish Factors Association).

In H1 2021, mFaktoring acquired 79 new clients with limits totalling PLN 376.1 million. New business development accelerated compared to H1 2020 when it was affected by the restrictions related to the COVID-19 pandemic.

During the COVID-19 pandemic, the company performs all processes remotely. In response to the needs reported by some clients, we offer support measures. In particular, we extend payment periods and the recourse period. We have also undertaken a number of activities aimed at strengthening the monitoring of the receivables portfolio. In the period under review, there were no signals of worse payment discipline of the largest recipients in the mFaktoring portfolio. We carefully monitor interest and commission income, which increased compared to H1 2020 by 11.6%.

The decision to set up provisions for uncollectible receivables also affected the subsidiary's pre-tax result for H1 2021. It needs to be stressed that the provisions are not connected to the COVID-19 pandemic. As a result, the pre-tax profit of mFaktoring recognised in the consolidated financial statements of mBank Group for H1 2021 amounted to PLN 14.3 million (profit) against PLN -2.6 million in H1 2020 (loss).

### 3. Financial results and macroeconomic environment

#### 3.1. Economy and banking sector in H1 2021

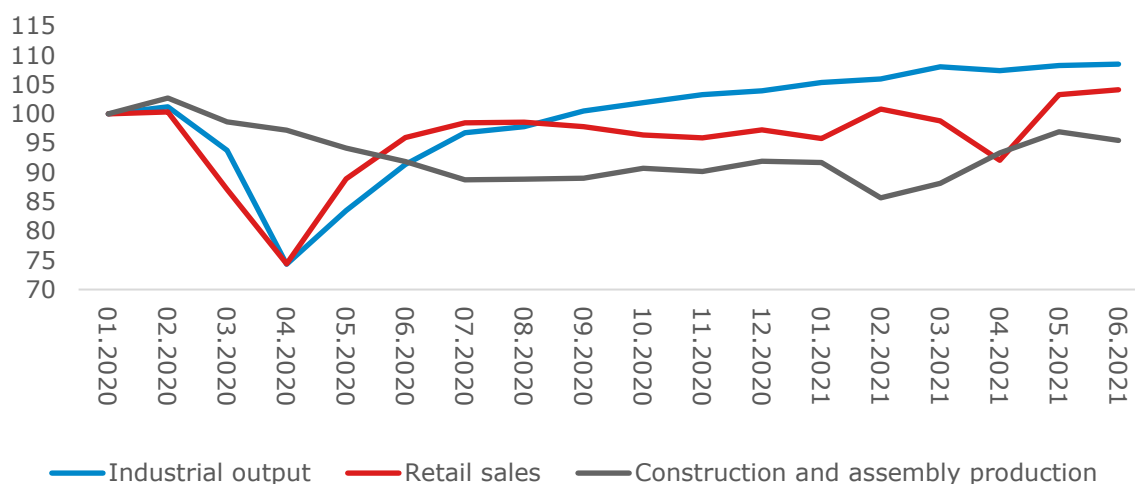
##### Pandemic impact

Following a sharp third wave of the contagion in March and April, the pandemic subsided and most restrictions were lifted by the end of H1 2021. The experts are now debating whether the Delta variant (and other mutations of the virus) will bring new waves of the contagion. The experience of some countries (UK, Israel) suggests that a wave may occur despite a high percentage of the population being vaccinated (around 60%). However, the new waves cause much fewer hospitalisations and fatalities. According to projections, new waves will occur without however imposing a heavy burden on the health care sector. If so, potential restrictions will not be very onerous to the economy.

##### Economic conditions

GDP growth was robust in H1 2021. Net of seasonal effects, GDP grew +1.1% QoQ in Q1. Available high-frequency data (retail sales, industrial output, construction) and service indicators suggest that Q2 will be much stronger with estimated growth of +2.5% QoQ net of seasonal effects. The strong growth is mainly driven by the economy’s adapting to pandemic conditions (Q1) and the contribution of additional (delayed) demand which surged after the economies unlocked (Q2). Activity in all key sectors picked up markedly at the end of H1. Importantly, private investments grew considerably already in Q1, a major surprise compared to the projections. The labour market also improved. Employment grew while the unemployment rate dropped. As expected, demand for labour did not dwindle in the period when the support schemes (including the PFR Shield) were being cleared. In view of a good start to the year and a positive composition of GDP growth with a fast-growing share of investments, expected GDP growth in 2021 is 5.7%.

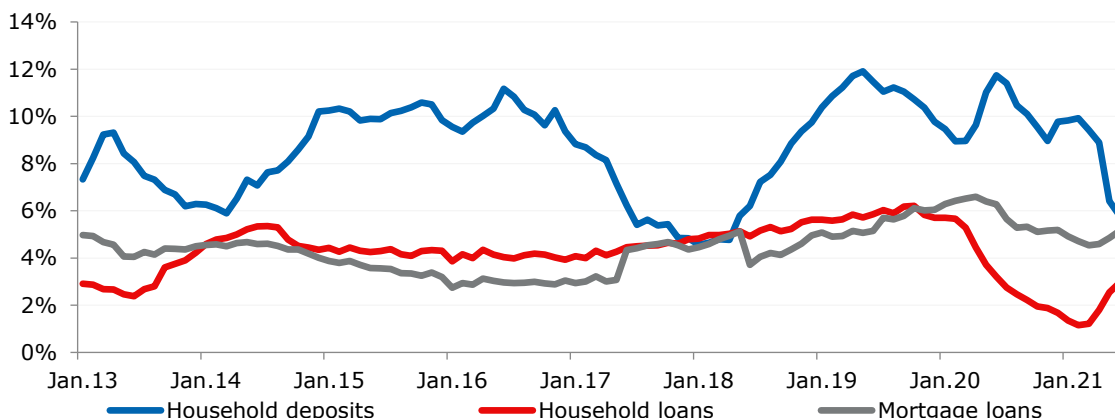
**Figure 1.** Economy by sectors (net of seasonal effects, 01.2020=100).



Source: Statistics Poland, own research

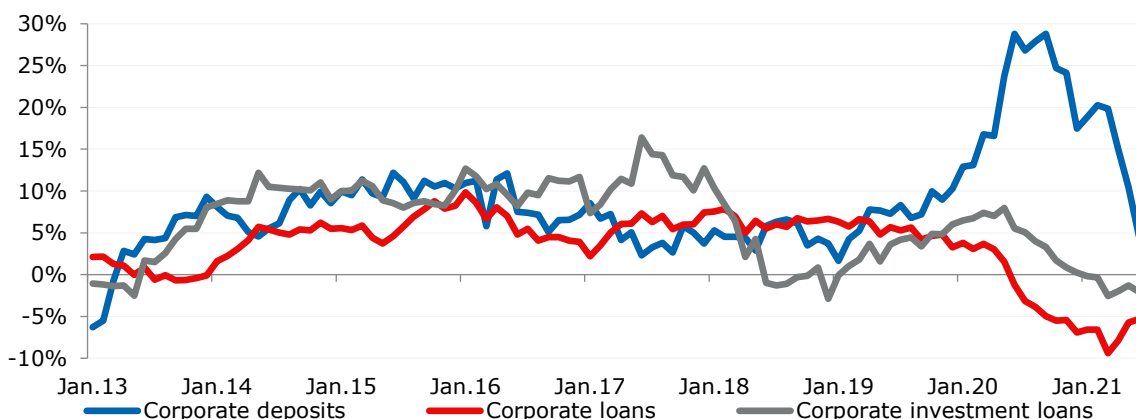
The monetary aggregates changed markedly in H1 2021. Annual growth of corporate and household deposits continued to decline. However, loans performed differently. Annual growth turned around initially for household loans and later for debt of non-financial companies. NBP’s analysis of new household and corporate lending corroborates the trend and shows that monthly sales increased considerably. Consolidation of GDP growth will strengthen the trends in lending. The decrease in the annual growth of deposits, currently driven mainly by the base effect and the materialisation of delayed consumer demand, should soon slow down. Strong GDP growth, improvements on the labour market, and bigger demand for loans should favour positive growth in deposits in coming years.

**Figure 2.** Household debt and (current and term) deposits, annual change (%), net of FX effect



Source: NBP, own research

**Figure 3.** Non-financial corporate debt and (current and term) deposits, annual change (%), net of FX effect

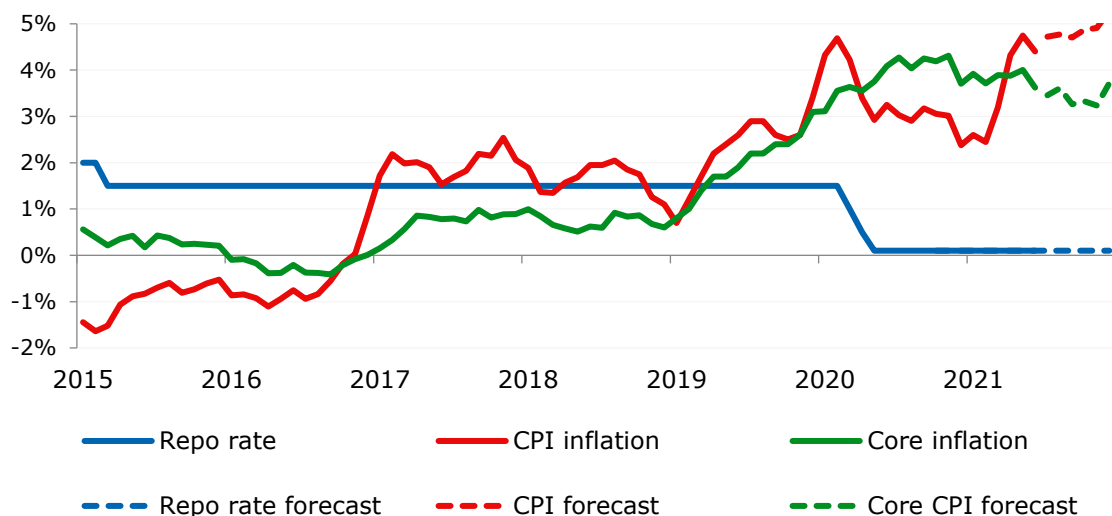


Source: NBP, own research

Inflation brought many a surprise in H1 2021. CPI was 4.4% at the end of June 2021. The price rise is partly generated by the temporary impact of the economy unlocking and by sharply rising prices of energy commodities on the global markets. In part, it is also driven by a delayed (secondary) effect of electricity prices which were raised early in the year. In part, however, it is attributable to standard inflationary pressures which will further mount with stronger GDP growth. Inflation is mainly being driven by prices of goods (impact of economic unlocking as well as prices of global commodities) while the pressures exerted by prices of services have modestly subsided (but remain strong). The rise in prices of commodities will soon dwindle. However, inflation of service prices will step up in view of a stronger job market. Expected inflation is 4.2% in 2021 and somewhat less in 2022, yet remaining well above the NBP target (2.5%).

This decomposition of inflation allows the Monetary Policy Council (RPP) to continue a very relaxed monetary policy despite the inflation target being exceeded. The rhetoric of the Council (and NBP Governor Glapiński) has gradually evolved, preparing the market for interest rate hikes within a one-year horizon. The most likely scenario is that rate hikes will start early next year. The Hungarian and Czech central banks started to raise the rates in June and expect to continue tightening the policy in the coming months.

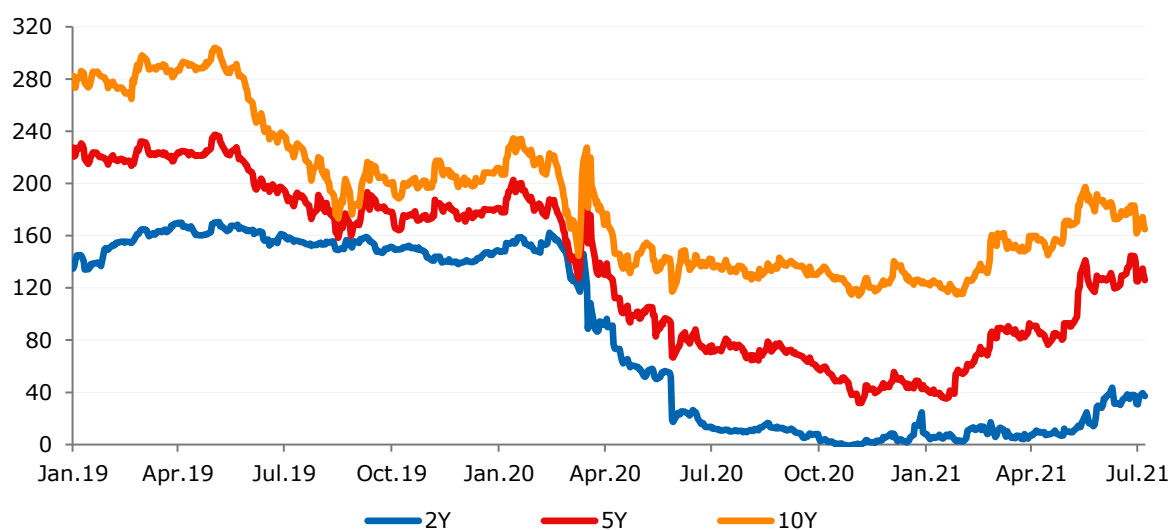
**Figure 4.** Current and projected inflation, NBP rates



Source: Statistics Poland, NBP, own research

Bond yields were rising in H1 2021. Initially, only the long end of the curve spiked, driven mainly by global rate hikes in view of higher inflation and rising expectations of global economic recovery. Yields across the short end of the curve rose at the end of H1, pushed up by rising expectations of RPP policy normalisation.

**Figure 5.** Polish sovereign yields by tenor (bps)

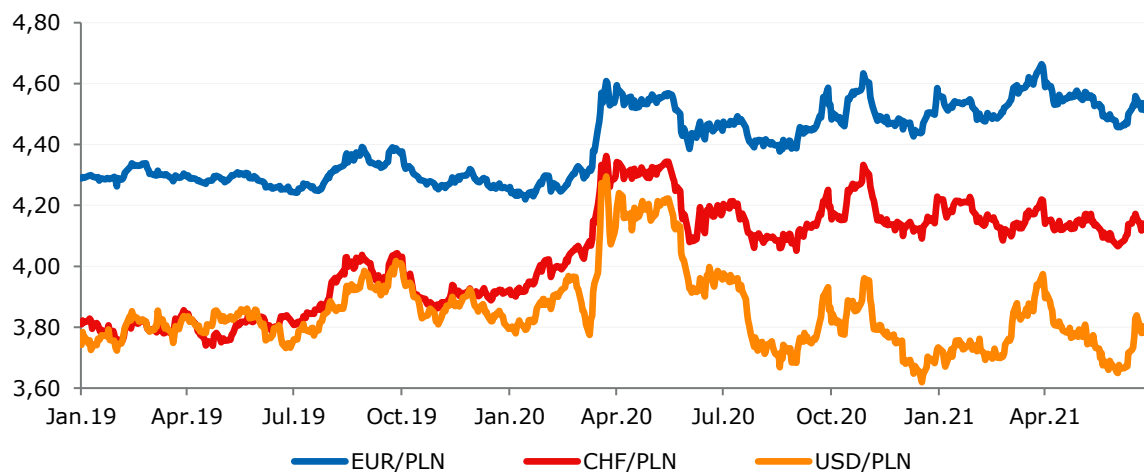


Source: Bloomberg, own research

The Polish zloty was moderately stable throughout H1 2021 but appreciated modestly year to date. The currency’s reaction to higher GDP growth remains modest compared to historical performance. The exchange rate will likely budge only when monetary policy normalises. According to projections, the zloty will appreciate modestly by the year’s end.



**Figure 6.** Foreign exchange rates for currency pairs XXX/PLN



Source: Bloomberg, own research

**Outlook for economic development in 2021**

Key macroeconomic ratios

	2019	2020	2021F
GDP (YoY)	4.5%	-2.7%	5.7%
Domestic demand (YoY)	3.5%	-3.8%	7.4%
Private consumption (YoY)	4.0%	-3.0%	5.8%
Investment (YoY)	7.2%	-8.4%	13.0%
Inflation (eop)	3.4%	2.4%	5.2%
MPC rate (eop)	1.5%	0.1%	0.1%
CHF/PLN (eop)	3.92	4.22	4.04
EUR/PLN (eop)	4.25	4.56	4.45





Banking sector – monetary aggregates (year to year)

	2019	2020	2021F
Corporate loans	3.0%	-4.8%	6.2%
Consumer loans	6.0%	3.0%	4.4%
Corporate deposits	10.0%	19.0%	19.3%
Consumer deposits	9.7%	10.7%	6.2%

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.

<b>Net interest income &amp; NIM</b>	<b>(negative)</b>	
<ul style="list-style-type: none"> <li>■ Interest rate cuts to the historically lowest level translating into weaker interest income and strong pressure on margin</li> </ul>		
<ul style="list-style-type: none"> <li>■ Exhausted space for deposit repricing and reducing funding costs</li> </ul>		
<b>Net Fee &amp; Commission income</b>	<b>(positive)</b>	
<ul style="list-style-type: none"> <li>■ Reviving customer activity and transactionality along with gradual relaxation of pandemic restrictions and economic rebound</li> </ul>		
<ul style="list-style-type: none"> <li>■ Selective adjustments of tariff of fees and commissions</li> </ul>		
<b>Total costs</b>	<b>(slightly negative)</b>	
<ul style="list-style-type: none"> <li>■ Reasonable management of operating costs amid growing economy</li> </ul>		
<ul style="list-style-type: none"> <li>■ Rising amortization due to ongoing investments in IT</li> </ul>		
<ul style="list-style-type: none"> <li>■ Announced lower contribution to the Bank Guarantee Fund</li> </ul>		
<b>Loan Loss Provisions &amp; FV change</b>	<b>(slightly positive)</b>	
<ul style="list-style-type: none"> <li>■ Despite expiration of loan moratoria and anti-crisis aid package, the overall asset quality should not deteriorate materially</li> </ul>		
<ul style="list-style-type: none"> <li>■ The financial standing of corporate and retail borrowers to be supported by progressing recovery of the Polish economy</li> </ul>		

An important factor forming the activities in the coming periods is the economic environment, whose development in H1 2021 and the prospects for a full calendar year are described in Chapter 3.1. Economy and banking sector in H1 2021.

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

Important information regarding factors that may affect mBank Group in the future is additionally described in selected notes to the IFRS Condensed Consolidated Financial Statements for the first half of 2021:

- 3. Major estimates and judgements made in connection with the application of accounting policy principles (incl. Legal risk related to individual court cases concerning indexation clauses in mortgage and housing loans in CHF)
- 26. Proceedings before a court, arbitration body or public administration authority;
- 31. Factors affecting the results in the coming quarter;
- 32. Other information.

## **Changes in selected regulations relevant to banks**

### Best Practice for GPW Listed Companies 2021

On March 29, 2021, the Supervisory Board of the Warsaw Stock Exchange (GPW) passed a resolution on adopting the Best Practice for GPW Listed Companies 2021 (DPSN 2021). It is a new version of the corporate governance rules that have been binding on companies listed on the GPW regulated market since 2002. As expected by the market, DPSN 2021 includes ESG issues, such as climate protection, sustainable development, corporate board diversity, and equal pay. The revised document covers also issues such as distribution of profits, issue of shares without pre-emptive right, and share buybacks. The new rules entered into force on July 1, 2021. Companies were obliged to publish the first information on their observance of DPSN 2021 by July 31, 2021.

### Recommendation R on Classification of Credit Exposures, Estimation and Recognition of Expected Credit Losses and Credit Risk Management

On April 15, 2021 the Polish Financial Supervision Authority issued Recommendation R. It is a collection of rules and guidelines regarding classification of credit exposures, estimation and recognition of expected credit losses in accordance with the accounting policy applicable at the bank, and credit risk management.

The recommendation stipulates that banks should have in place comprehensive risk management rules that are proportional to the nature, scale and complexity of their operations. These should include a clear organisational structure with precisely defined, transparent and coherent scopes of responsibility. In addition, the recommendation requires banks to have effective procedures for identifying credit risk to which banks are or may be exposed. Their purpose is to manage, review and report this risk and to have appropriate mechanisms of control, including internal control. These include proper administrative and accounting procedures, remuneration policy and respective practices. Recommendation R will enter into force on January 1, 2022.

### EBA Guidelines on loan origination and monitoring

The EBA Guidelines on loan origination and monitoring set uniform standards improving the loan origination processes and mechanisms and align them with consumer protection and fair treatment rules. Their introduction will allow greater resilience and stability of banks. The EBA Guidelines entered into force on June 30, 2021. Before they reach full compliance, banks can apply transitional provisions. The guidelines set out, among others:

- rules of ongoing monitoring of the financial situation of consumers, credit risk and credit exposures;
- requirements for the creditworthiness assessment of borrowers during the credit-granting process and throughout the life cycle of loans, and for handling data for such assessments;
- supervisory expectations for the risk-based pricing of loans;
- guidance on the approaches to the valuation of collateral;
- ESG factors (E – environment, S – social, G – governance) and sustainable finance in the credit-granting processes.

### Sustainable Finance Disclosure Regulation

SFDR governs sustainability-related disclosures in the financial services sector. The new rules will ensure greater transparency in analysing risks for sustainable development faced by financial market participants (sustainability risks). The regulation extends the scope of obligations of banks and other financial institutions regarding the disclosure of approach to sustainability risk management and investment decision-making (excluding the credit portfolio) The first stage of SFDR implementation started on March 10, 2021. Under the new regulation, financial market participants are obliged to disclose additional information on their corporate websites. In the next stages they will be obliged to comply, among others, with the following obligations prior to signing a contract with a client:

- explain to the client the manner in which sustainability risks are integrated into their investment decisions;
- provide the client with the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available.
- In the case when information on adverse sustainability impacts (ASI) is provided, it should be taken into consideration at the stage of concluding a contract.

### Act of 25 February 2021 on Amendments to the Banking Law Act and Certain Other Acts

The purpose of the act is to introduce the necessary amendments to Polish law in connection with the entry into force of EU regulations on capital requirements for financial institutions, i.e. CRD V/CRR II. The changes introduced under CRR II include: mandatory leverage ratio, mandatory net stable funding ratio (NSFR), more risk sensitive capital requirements for institutions that extensively trade in securities and derivatives, and new requirements such as total loss-absorbing capacity (TLAC) for global systemically important institutions (G-SIIs). The major changes arising from CRD V apply, among others, to: approval of financial holding companies and mixed financial holding companies that can be parent undertakings of banking groups, use of the standardised methodology and the simplified standardised methodology to evaluate interest rate risk (in addition to the risk management system used so far). Moreover, they specify the categories of institutions and employees exempted from the obligation to apply certain remuneration policy components and vest the power to remove a member of an institution's management body who does not fulfil the requirements necessary for the exercise of their respective function in competent authorities. The new regulations authorise supervisory authorities to impose additional or more frequent reporting requirements on supervised institutions. They also modify the systemic risk buffer, which so far could be introduced on the financial sector or one or more subsets of that sector; now, a systemic risk buffer can be introduced for all or a subset of exposures. Also the maximum buffer of other systemically important institutions (O-SIIs) was changed from 2% to 3%. The new regulations limit profit distributions where the leverage ratio buffer requirement is not met.

### EBA Guidelines on AML

On March 1, 2021 EBA published its new guidelines on money laundering and terrorist financing risk factors, which extend the ML/TF legal framework applicable in the European Union. The document is a response to the current threats connected with illegal financial transactions and complement the risk assessment solutions arising from the Act of 1 March 2018 on Combating Money Laundering and Terrorism Financing. The Guidelines strengthen the requirements applicable to individual and business-wide risk assessments, as well to customer due diligence (CDD) measures. The EBA Guidelines on AML enter into force three months after publication in all EU official languages.

### Act on Amendments to the Act on Combating Money Laundering and Terrorism Financing and Certain Other Acts

On April 8, 2021 the President signed into law the Act on Amendments to the Act on Combating Money Laundering and Terrorism Financing and Certain Other Acts. The key changes result from the implementation of a directive of the European Parliament and of the Council. The new regulations extend the catalogue of obligated institutions. In addition, they change certain definitions, e.g. of beneficial owner and politically exposed person, as well as the scope of application of enhanced due diligence (EDD) measures. The majority of new regulations require obligated institutions to comply within 14 days from their publication in the Journal of Laws.

### IBOR reform

In H1 2021 financial markets, including banks, continued preparations for the discontinuation of IBORs and LIBOR-based indices starting from 2022 and for changing their methodologies of determining interest rates such as WIBOR. In Poland the KNF authorised GPW Benchmark S.A. to act as the administrator of interest rate benchmarks, including the critical benchmark WIBOR. The Financial Market Institute (IRF) was approved by the KNF as the administrator of the funding cost index (WKF). The manner of implementing the IBOR reform is being worked out, among others, by the Polish Financial Supervision Authority and the Financial Stability Committee. The currently used LIBOR-based rates will be replaced by risk free rates (RFRs), which are not vulnerable to market participants' manipulations. The LIBOR-based indices will no longer be provided after 2021.

In accordance with BMR, a methodology of determining new benchmarks should be based first of all on data on real market transactions. Where transaction data are unavailable, benchmarks can be determined based on quotes (waterfall method).

### Regulation of the Minister of Finance, Development Funds and Regional Policy of 23 December 2020 Amending the Regulation on Principles of Creating Provisions for Risk Related to Banks' Activity

The regulation that entered into force on January 26, 2021 aims at facilitating the classification of credit exposures by banks in resolution entities as defined in the Act on the Bank Guarantee Fund (BFG). The purpose of this regulation is to ensure stability of entities subject to resolution.

### New MREL Methodology

(Minimum Requirement for Own Funds and Eligible Liabilities)

On the basis of the Banking Package adopted in 2019, including, among others, amendments to the BRR Directive, the Bank Guarantee Fund ('BFG') published on February 4, 2021 new draft rules for determining the MREL for commercial banks ('New Methodology'). Implementation of changes to the MREL resulting from the Banking Package is being currently transposed into the Polish legal system. Full application of the New Methodology will be possible after the entry into force of the changes related to the implementation of the new rules at the level of statutory changes.

According to the New Methodology, the MREL will be expressed as a percentage of the total risk exposure amount ("TREA") referred to in Art. 92 (3) of CRR and the total exposure measure ("TEM") referred to in Art. 429 and 429a of CRR, and the entity should meet both requirements at the same time.

The MREL requirement will consist of two components: the Loss Absorption Amount (equal to the sum of the capital requirement under Pillar I and II) and the Recapitalisation Amount (depending on the resolution instrument preferred in case of a given institution). In addition, a Combined Buffer Requirement will be imposed on top of Minimum Requirement for Own Funds and Eligible Liabilities (will no longer be a component of this requirement), i.e. CET1 capital held for the Combined Buffer Requirement will not be eligible to meet the MREL requirement. Moreover, according to the New Methodology, the optional Market Confidence Charge will be set at 0% (except for domestic subsidiaries in cross-border groups, SPE).

BFG will set the overall MREL requirement and a part of the requirement that should be covered by subordinated instruments (including non-preferred senior instruments). The MREL requirement (subordinated) will be equal to the MREL requirement determined on the basis of capital requirements at the individual level, the difference between the requirement at the consolidated and individual level may be satisfied by senior liabilities.

The first binding MREL interim target will be applicable from January 1, 2022, and the target date for MREL compliance is January 1, 2024. The New Methodology also defines the paths to reach the target levels of the MREL indicator expressed in relation to TREA and TEM, taking as a starting point the capital requirements being in force on December 31, 2020.

Additionally, when a mortgage bank is exempt from the MREL, the mortgage bank's exposures are excluded from the consolidation of the group it is a part of, i.e. the MREL requirement on a consolidated basis for the resolution group does not include TREA / TEM of the mortgage bank.

### 3.2. Financial results of mBank Group in H1 2021

All changes presented in the analysis of financial results are calculated on the basis of the IFRS Condensed Consolidated Financial Statements for the first half of 2021 (in PLN'000). Potential disparities in the tables might be a result of rounding the values.

#### Profit & Loss Account

mBank Group closed H1 2021 with a profit before tax of PLN 742.8 million v. PLN 362.4 million generated in H1 2020 (up by PLN 380.5 million or +105.0%). The net profit attributable to the owners of mBank stood at PLN 425.8 million v. PLN 177.9 million in H1 2020 (up by PLN 247.9 million or +139.4%).

PLN M	H1 2020	H1 2021	Change in PLN M	Change in %
Interest income	2,545.6	2,054.6	-491.0	-19.3%
Interest expense	-473.5	-146.1	327.4	-69.1%
<b>Net interest income</b>	<b>2,072.1</b>	<b>1,908.4</b>	<b>-163.6</b>	<b>-7.9%</b>
Fee and commission income	1,079.9	1,292.3	212.4	19.7%
Fee and commission expense	-354.3	-371.6	-17.3	4.9%
<b>Net fee and commission income</b>	<b>725.6</b>	<b>920.6</b>	<b>195.0</b>	<b>26.9%</b>
<b>Core income</b>	<b>2,797.7</b>	<b>2,829.1</b>	<b>31.4</b>	<b>1.1%</b>
Dividend income	4.5	3.9	-0.6	-12.7%
Net trading income	84.4	106.8	22.4	26.6%
Other income	6.1	97.3	91.2	1,501.7%
Other operating income	116.1	108.0	-8.1	-6.9%
Other operating expenses	-104.9	-163.5	-58.6	55.9%
<b>Total income</b>	<b>2,903.8</b>	<b>2,981.6</b>	<b>77.8</b>	<b>2.7%</b>
Net impairment losses and fair value change on loans and advances	-761.4	-393.1	368.4	-48.4%
Costs of legal risk related to foreign currency loans	-201.9	-314.8	-112.9	55.9%
Overhead costs and depreciation	-1,307.8	-1,244.9	62.9	-4.8%
Taxes on the Group balance sheet items	-270.2	-286.0	-15.7	5.8%
<b>Profit before income tax</b>	<b>362.4</b>	<b>742.8</b>	<b>380.5</b>	<b>105.0%</b>
Income tax expense	-184.5	-317.1	-132.5	71.8%
<b>Net profit attributable to:</b>	<b>177.8</b>	<b>425.8</b>	<b>247.9</b>	<b>139.4%</b>
<b>- Owners of mBank S.A.</b>	<b>177.9</b>	<b>425.8</b>	<b>247.9</b>	<b>139.4%</b>
- Non-controlling interests	-0.1	0.0	0.0	-34.9%
ROA net	0.2%	0.4%		
ROE gross	4.4%	8.9%		
ROE net	2.1%	5.1%		
Cost / Income ratio	45.0%	41.8%		
Net interest margin	2.5%	2.1%		
Common Equity Tier 1 ratio	16.4%	15.2%		
Total capital ratio	19.3%	17.6%		

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

**Other income** – gains or losses on derecognition of financial assets and liabilities and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss relating to equity instruments and debt securities (net of loans and advances).

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

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

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

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

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

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

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

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

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The main drivers of the financial results of mBank Group in H1 2021 included:

- **Increase of total income** by 2.7% compared with H1 2020, mainly due to an increase in fee and commission income by 26.9%;
- **Lower operating expenses** (depreciation) by 4.8% compared with H1 2020, caused chiefly by lower staff cost;
- **Decrease of net impairment losses and fair value change on loans and advances** by 48.4% due to lower provisions in retail and corporate segments;
- **Higher costs of legal risk related to foreign currency loans**, resulting mainly from higher than expected inflow of cases in the first half of 2021 and changes in level of loss on loan exposure in case of losing the case by mBank.
- **Increase of taxes on the Group balance sheet items** in connection with an increase in the value of assets;
- **Continued organic growth and business expansion** as demonstrated by:
  - number of corporate clients growing to 30,417 (+2,692 year on year);
  - sale of mortgage loans increasing +60.5%, while sales of non-mortgage loans increased +33.2% compared with H1 2020.

At the same time, number of retail clients decreased to 5,464.3 thousand due to closure of inactive accounts of the clients.

In H1 2021, net loans and advances to customers increased by PLN 7,673.9 million (+7.1%). Amounts due to customers increased by PLN 18,884.8 million (+13.7%) in H1 2021. As a consequence, the loan-to-deposit hit record-low at 74.2% compared with 78.8% at the end of 2020 and 77.5% on June 30, 2020.

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

- Gross ROE of 8.9% (vs. 4.4% in H1 2020);
- Net ROE of 5.1% (vs. 2.1% in H1 2020).

The Total Capital Ratio stood at 17.6% compared with 19.9% at the end of 2020 and 19.3% at the end of June 2020. The Common Equity Tier 1 Capital Ratio stood at 15.2% compared with 17.0% at the end of 2020 and 16.4% at the end of June 2020. The decrease in the capital ratios was driven by an increase in the total risk exposure amount over that period.

### Contribution of business segments and business lines to the financial results

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

PLN M	H1 2020	H1 2021	Change in %	% share in profit before tax
Retail Banking	471.7	621.1	31.7%	83.6%
Corporate and Investment Banking	121.1	389.0	221.3%	52.4%
FX Mortgage Loans	-196.9	-309.8	57.4%	-41.7%
Other	-33.6	42.5	-/+	5.7%
<b>Profit before tax of mBank Group</b>	<b>362.4</b>	<b>742.8</b>	<b>105.0%</b>	<b>100.0%</b>

Profit before tax of the core business (mBank Group excluding FX Mortgage Loans segment) reached PLN 1,052.6 million compared to PLN 559.2 million in H1 2020, up by 88.2%. Net profit increased by 96.3% to PLN 735.6 million in the period under review.

It was reflected in the profitability ratio net ROE of 10.7% in H1 2021 compared to 5.6% in H1 2020.



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#### Income of mBank Group

mBank Group generated total income at the level of PLN 2,981.6 million in H1 2021 vs. PLN 2,903.8 million in H1 2020, which represents an increase of PLN 77.8 million or 2.7%. During this period, net fee and commission income improved markedly.

**Net interest income** remained the main source of income of mBank Group in H1 2021 (64.0% of total income). It stood at PLN 1,908.4 million vs. PLN 2,072.1 million in H1 2020, representing a decrease by PLN 163.6 million or -7.9%. Lower net interest income was a result of subsequent rate cuts in H1 2020 which totalled -140 bps.

**Interest income** decreased by PLN 491.0 million or -19.3% year on year and stood at PLN 2,054.6 million in H1 2021. Income on loans and advances to clients, constituting the main source of interest income, went down by PLN 414.8 million or -20.5% year on year. It was a result of the rate cuts. In the period under review, the income from investment securities also decreased by PLN 104.3 million (-30.7%) compared with H1 2020, attributable to lower interest rates and decrease in the nominal value of the portfolio. In the same period, the interest income on derivatives concluded under the cash flow hedge increased by PLN 73.2 million (+216.2%), which was related to shielding against interest rate cuts in the form of fixed rate instruments.

PLN M	H1 2020	H1 2021	Change in PLN M	Change in %
Loans and advances	2,023.8	1,609.0	-414.8	-20.5%
Investment securities	340.1	235.7	-104.3	-30.7%
Cash and short term funds	20.4	1.3	-19.1	-93.5%
Debt securities held for trading	19.7	6.7	-12.9	-65.8%
Interest income on derivatives classified into banking book	74.3	43.2	-31.1	-41.8%
Interest income on derivatives concluded under the fair value hedge	40.1	53.1	13.0	32.3%
Interest income on derivatives concluded under the cash flow hedge	33.8	107.0	73.2	216.2%
Other	-6.5	-1.5	5.0	-76.8%
<b>Total interest income</b>	<b>2,545.6</b>	<b>2,054.6</b>	<b>-491.0</b>	<b>-19.3%</b>

**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.

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**Interest expense** decreased by PLN 327.4 million or -69.1% year on year in H1 2021. Deposit expenses fell by PLN 254.1 million or -90.3% to the level of PLN 27.3 million, despite a significant increase in the volume of retail and corporate deposits in H1 2021. Costs of debt securities in issue, which constitute the Group's second-largest source of funding, decreased by PLN 62.0 million or -45.8%.

Net interest margin fell to 2.07% in H1 2021 from 2.49% a year before (-22 bps.).

**Net fee and commission income** amounted to PLN 920.6 million in H1 2021, up by PLN 195.0 million or 26.9% year on year. The growth in net commission income was mainly driven by an increase in the activity of clients in H1 2021 and price adjustment in the retail and corporate segment.

PLN M	H1 2020	H1 2021	Change in PLN M	Change in %
Payment cards-related fees	226.5	207.8	-18.7	-8.3%
Credit-related fees and commissions	226.0	256.4	30.4	13.5%
Commissions for foreign currencies exchange	161.6	188.0	26.4	16.3%
Commissions for agency service regarding sale of insurance products of external financial entities	54.9	62.2	7.3	13.3%
Fees from brokerage activity and debt securities issue	93.3	128.4	35.2	37.7%
Commissions from bank accounts	97.4	194.3	96.9	99.5%
Commissions from money transfers	70.2	87.9	17.7	25.2%
Commissions due to guarantees granted and trade finance commissions	47.5	48.5	1.0	2.1%
Commissions for agency service regarding sale of other products of external financial entities	36.6	43.8	7.2	19.7%
Commissions on trust and fiduciary activities	16.1	16.5	0.4	2.4%
Fees from portfolio management services and other management-related fees	6.2	14.0	7.8	126.2%
Fees from cash services	21.7	20.7	-1.0	-4.7%
Other	21.8	23.7	1.9	8.6%
<b>Fee and commission income</b>	<b>1,079.9</b>	<b>1,292.3</b>	<b>212.4</b>	<b>19.7%</b>

Commission income increased by PLN 212.4 million or 19.7% year on year. Credit-related fees and commissions, which constitutes for the largest item of commission income, increased by PLN 30.4 million or +13.5% year on year. The increase was a result of higher sales of retail mortgage and non-mortgage loans.

Payment cards-related fees were lower by PLN 18.7 million or -8.3% in the period under review, which is a consequence of higher settlements with card operators booked in H1 2020, whereas the number and value of card transactions increased significantly year on year.

The largest increase was recorded on commissions on bank accounts, which were up by PLN 96.9 million or +99.5% year on year. The increase stems from rising number of clients, adjusting prices in the retail and corporate segments and from collecting fees related to exceeding a defined limit of funds on the account as at the first day of calendar year from corporate clients in H1 2021.

In H1 2021 investors' activity on the Warsaw Stock Exchange (WSE) continued to increase compared with the previous years, while the turnover of mBank's Brokerage Bureau on the WSE equity market rose by 30% year on year. As a result, fees from brokerage activity and debt securities issue increased by PLN 35.2 million or 37.7% compared with H1 2020.

Fee and commission expense increased by PLN 17.3 million or 4.9% year on year in H1 2021, driven mainly by payment cards-related expenses and commissions paid to external entities for sale of the bank's products.

**Dividend income** amounted to PLN 3.9 million in H1 2021 decreasing slightly against H1 2020. Similarly to the previous year, the income posted in H1 2021 included dividends received from Biuro Informacji Kredytowej (BIK) and Krajowa Izba Rozliczeniowa (KIR), in which mBank holds minority interests.

**Net trading income** amounted to PLN 106.8 million in H1 2021, up by PLN 22.4 million or 26.6% compared with the previous year. An increase was reported mainly in foreign exchange result, which rose by PLN 61.1 million driven mainly by high market volatility.

**Other income** (includes gains or losses on derecognition of financial assets and liabilities and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss relating to equity instruments and debt securities) amounted to PLN 97.3 million compared with PLN 6.1 million in H1 2020. Higher income in 2021 resulted from recognizing in Q1 2021 gains from the sale of bonds.

**Net other operating income** (other operating income net of other operating expenses) stood at PLN -55.5 million, compared with PLN 11.2 million in H1 2020. Decrease of the balance stems from recognizing in H1 2021 higher provision for future liabilities.

Net impairment losses and fair value change on loans and advances

In H1 2021, 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 -393.1 million, and significantly decreased compared with H1 2020 when it amounted to PLN -761.4 million (PLN 368.4 million or -48.4%). In H1 2021, impairment or reversal of impairment on financial assets not measured at fair value through profit or loss amounted to PLN -381.0 million, while gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss amounted to PLN -12.1 million. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. The item "gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss" is mainly related to the credit risk of the portfolio of loans and advances measured with the use of this method.

PLN M	H1 2019	H1 2020	Change in PLN M	Change in %
Retail Banking	-364.4	-233.8	130.6	-35.8%
Corporate and Investment Banking	-366.9	-173.7	193.2	-52.7%
Other	-30.2	14.4	44.6	-147.6%
<b>Total net impairment losses and fair value change on loans and advances</b>	<b>-761.4</b>	<b>-393.1</b>	<b>368.4</b>	<b>-48.4%</b>

Net impairment losses and fair value change on loans and advances in Retail Banking dropped down by PLN 130.6 million year on year and stood at PLN 233.8 million in H1 2021. Net impairment losses and fair value change on loans and advances in Corporate and Investment Banking stood at PLN 173.7 million in H1 2021, down by PLN 193.2 million year on year.

Lower cost of risk in both segments resulted from the creation of additional provisions for risks related to COVID-19 pandemic in H1 2020.

Cost of legal risk related to foreign currency loans

Cost of legal risk related to foreign currency loans stood at PLN 314.8 million in H1 2021, up by PLN 112.9 million year on year. The increase of the impact of the legal risk in the first half of 2021 resulted mainly from higher than expected inflow of cases in the first half of 2021 and changes in level of loss on loan exposure in case of losing the case by the bank. More information about the method for calculating these costs can be found in Note 3 of the IFRS Condensed Consolidated Financial Statements for the first half of 2021.

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 the cost-to-income ratio, increased.

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Total overhead costs of mBank Group (including depreciation) stood at PLN 1,244.9 million in H1 2021, down by PLN 62.9 million or -4.8% year on year.

PLN M	H1 2020	H1 2021	Change in PLN	Change in %
<b>Staff-related expenses</b>	<b>-523.0</b>	<b>-498.7</b>	<b>24.2</b>	<b>-4.6%</b>
<b>Material costs, including</b>	<b>-324.1</b>	<b>-321.4</b>	<b>2.7</b>	<b>-0.8%</b>
- administration and real estate services costs	-124.1	-126.9	-2.8	2.3%
- IT costs	-90.8	-89.2	1.6	-1.8%
- marketing costs	-60.8	-62.4	-1.6	2.7%
- consulting costs	-41.3	-35.9	5.5	-13.3%
- other material costs	-7.1	-7.0	0.0	-0.3%
<b>Taxes and fees</b>	<b>-12.7</b>	<b>-16.6</b>	<b>-3.9</b>	<b>30.5%</b>
<b>Contributions and transfer to the Bank Guarantee Fund</b>	<b>-230.0</b>	<b>-178.5</b>	<b>51.5</b>	<b>-22.4%</b>
<b>Contributions to the Social Benefits Fund</b>	<b>-4.2</b>	<b>-5.4</b>	<b>-1.2</b>	<b>28.7%</b>
<b>Depreciation</b>	<b>-213.9</b>	<b>-224.2</b>	<b>-10.4</b>	<b>4.8%</b>
<b>Total overhead costs and depreciation</b>	<b>-1,307.8</b>	<b>-1,244.9</b>	<b>62.9</b>	<b>-4.8%</b>
Cost / Income ratio	45.0%	41.8%	-	-
Employment (FTE)	6,827	6,641	-186	-2.7%

Staff-related expenses fell by PLN 24.2 million or -4.6% year on year due to lower staff cost. At the same time, the number of FTEs decreased by 186, mainly in connection with optimisation of the employment and the branch network in mBank Group.

Material costs went down slightly in the period under review (PLN -2.7 million or -0.8%). Consulting costs and IT costs decreased in the period under review.

Depreciation increased by PLN 10.4 million or 4.8% year on year in H1 2021 due to earlier investment outlays on IT systems.

The contribution to the Bank Guarantee Fund stood at PLN 178.5 million in H1 2021, down by PLN 51.5 million against H1 2020. Both H1 2021 and H1 2020 costs comprised the annual contribution to the resolution fund. The contribution amounted to PLN 131.2 million and PLN 167.2 million in 2021 and 2020, respectively.

As a result of changes in the income and costs of mBank Group, the cost-to-income ratio of mBank Group stood at 41.8% compared with 45.0% in the same period last year. The adjusted cost-to-income ratio (net of the contribution to the resolution fund attributable to the second half of the year) improved in H1 2021 (down to 39.6% from 42.2% in H1 2020).

**Changes in the consolidated statement of financial position**

Changes in assets of mBank Group

In H1 2021, assets of mBank Group increased by PLN 19,599.3 million or 11.0% and stood at PLN 198,470.9 million as at June 30, 2021.

PLN M	30.06.2020	31.12.2020	30.06.2021	YtD change	YoY change
Cash and balances with Central Bank	11,141.3	3,968.7	16,523.3	316.3%	48.3%
Loans and advances to banks	6,921.4	7,354.3	9,750.4	32.6%	40.9%
Financial assets held for trading and derivatives held for hedges	3,372.3	2,398.8	3,027.0	26.2%	-10.2%
Net loans and advances to customers	108,225.7	108,567.4	116,241.3	7.1%	7.4%
Investment securities	48,418.9	51,728.9	47,421.5	-8.3%	-2.1%
Intangible assets	1,063.9	1,178.7	1,207.8	2.5%	13.5%
Tangible assets	1,162.5	1,514.6	1,554.0	2.6%	33.7%
Other assets	2,089.8	2,160.3	2,745.5	27.1%	31.4%
<b>Total assets</b>	<b>182,395.7</b>	<b>178,871.6</b>	<b>198,470.9</b>	<b>11.0%</b>	<b>8.8%</b>

**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.

Loans and advances to customers retained the largest share in the balance sheet of mBank Group at the end of H1 2021. Their net volume increased by PLN 8,015.6 million or 7.4% year on year and by PLN 7,673.9 million i.e. 7.1% in H1 2021. As at June 30, 2021, they accounted for 58.6% of the balance sheet total compared with 59.3% at the end of H1 2020 and 60.7% at the end of 2020.

PLN M	30.06.2020	31.12.2020	30.06.2021	YtD change	YoY change
Loans and advances to individuals	62,729.5	65,951.6	70,093.0	6.3%	11.7%
Loans and advances to corporate entities	48,734.1	46,025.4	49,635.1	7.8%	1.8%
Loans and advances to public sector	354.4	231.2	220.7	-4.5%	-37.7%
<b>Total (gross) loans and advances to customers</b>	<b>111,818.0</b>	<b>112,208.2</b>	<b>119,948.7</b>	<b>6.9%</b>	<b>7.3%</b>
Provisions for loans and advances to customers	-3,592.3	-3,640.8	-3,707.4	1.8%	3.2%
<b>Total (net) loans and advances to customers</b>	<b>108,225.7</b>	<b>108,567.4</b>	<b>116,241.3</b>	<b>7.1%</b>	<b>7.4%</b>

In H1 2021, gross loans and advances to individuals rose by PLN 4,141.4 million or 6.3%. The volume of gross mortgage and housing loans increased by 6.5% compared with the end of 2020. In the period under review we have noted a record rebound in sales of new loans. In H1 2021, mBank Group sold PLN 6,278.9

## mBank S.A. Group

### Management Board Report on the Performance of mBank S.A. Group in H1 2021

million mortgage loans (+60.5% year on year) and PLN 4,731.0 million non-mortgage loans (+33.2% compared with H1 2020).

Net of the FX effect, loans and advances to individuals grew by 6.9% compared with the end of 2020 and by 11.3% year on year.

The volume of gross loans and advances to corporate clients grew by PLN 3,609.7 million or 7.8% year to date in H1 2021. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans to corporate clients increased by 5.4% compared to the end of 2020 and by 1.4% compared to the end of June 2020.

In H1 2021, sales of corporate loans (including new sales, increase of limits and renewals) decreased by -16.3% year on year. The lower dynamics than in the previous year resulted from the reduced demand for new financing in the face of economic turmoil caused by the COVID-19 pandemic and the financial support under the "Financial Shield" of the Polish Development Fund (Polski Fundusz Rozwoju).

The volume of gross loans and advances to the public sector decreased by PLN 10.5 million or -4.5% in H1 2021.

Investment securities constituted mBank Group's second largest category of assets (23.9%). In H1 2021, their value decreased by PLN 4,307.4 million or -8.3% mainly as a result of decrease in the volume of securities issued by the sector of general and local governments.

The balance of financial assets held for trading and derivatives held for hedges went up by PLN 628.2 million or 26.2% in H1 2021 as a result of an almost twofold increase on debt securities issued by the central and local governments, credit institutions and other entities.

#### Changes in liabilities and equity of mBank Group

The table below presents changes in liabilities and equity of mBank Group in H1 2021:

PLN M	30.06.2020	31.12.2020	30.06.2021	YtD change	YoY change
Amounts due to other banks	2,004.2	2,399.7	2,820.6	17.5%	40.7%
Amounts due to customers	139,622.5	137,698.7	156,583.5	13.7%	12.1%
Debt securities in issue	16,408.2	13,996.3	13,061.0	-6.7%	-20.4%
Subordinated liabilities	2,564.1	2,578.3	2,542.2	-1.4%	-0.9%
Other liabilities	4,883.9	5,523.5	6,769.9	22.6%	38.6%
<b>Total Liabilities</b>	<b>165,483.0</b>	<b>162,196.5</b>	<b>181,777.3</b>	<b>12.1%</b>	<b>9.8%</b>
<b>Total Equity</b>	<b>16,912.7</b>	<b>16,675.1</b>	<b>16,693.6</b>	<b>0.1%</b>	<b>-1.3%</b>
<b>Total Liabilities and Equity</b>	<b>182,395.7</b>	<b>178,871.6</b>	<b>198,470.9</b>	<b>11.0%</b>	<b>8.8%</b>

Amounts due to customers are the principal source of funding of mBank Group. Their share in the structure of liabilities and equity of mBank Group recorded an increase year on year. As at the end of June 2021, amounts due to customers accounted for 78.9% of the Group's total liabilities and equity as compared with 77.0% at the end of 2020 and 76.5% at the end of June 2020.

**mBank S.A. Group**

## Management Board Report on the Performance of mBank S.A. Group in H1 2021

PLN M	30.06.2020	31.12.2020	30.06.2021	YtD change	YoY change
Individual customers	89,777.1	97,976.4	106,699.7	8.9%	18.8%
Corporate customers	49,077.6	39,236.1	49,094.6	25.1%	0.0%
Public sector customers	767.8	486.2	789.2	62.3%	2.8%
<b>Total amounts due to customers</b>	<b>139,622.5</b>	<b>137,698.7</b>	<b>156,583.5</b>	<b>13.7%</b>	<b>12.1%</b>

Amounts due to customers increased by PLN 18,884.8 million or 13.7% in H1 2021, up to PLN 156,583.5 million. In the period under review, a strong rise in amounts due to individual customers and corporate clients could be observed.

Amounts due to corporate clients went up by PLN 9,858.5 million or 25.1% in the period under review. The increase was driven mainly by current accounts (+32.1%), while funds on term deposits decreased (-11.4% YtD). Increase in total deposits in H1 2021 was contributed by funds from anti-crisis shields that topped up corporate accounts.

Amounts due to individuals rose by PLN 8,723.3 million or 8.9% in H1 2021. It is a continuation of an upward trend which has been present for a last couple of months, which results from higher inclination to save during COVID-19 epidemic. The value of funds on current accounts increased by 11.4%. Due to the reduction in interest on term deposits to the level significantly below 1% as a result of the reduction in market interest rates, term deposits decreased by 13.1% compared to the end of 2020.

Amounts due to the public sector in H1 2021 went up by 62.3% to PLN 789.2 million.

Amounts due to other banks increased by PLN 420.9 million or 17.5% year to date and stood at PLN 2,820.6 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 7.8% at the end of 2020 to 6.6% at the end of June 2021. Their value decreased by PLN 935.3 million or -6.7% compared with the end of 2020. This decrease is primarily attributable to the redemption of covered bonds of mBank Hipoteczny: in March PLN 300 million and in June EUR 50 million, and bonds of mBank Hipoteczny.

Subordinated liabilities decreased by 1.4% year to date due to appreciation of the zloty against the Swiss franc, in which a part of mBank's subordinated debt (CHF 250 million) is denominated.

In H1 2021, equity grew marginally by PLN 18.5 million or 0.1%. Its share in total liabilities and equity of mBank Group accounted for 8.4% at the end of H1 2021, compared to 9.3% at June 30, 2020 and at December 31, 2020.

**Financial results of mBank Group in Q2 2021**

The profit before tax generated by mBank Group in Q2 2021 stood at PLN 238.5 million against PLN 504.3 million in the previous quarter. Net profit attributable to owners of mBank reached PLN 108.7 million, against PLN 317.1 million in Q1 2021.

PLN M	Q1 2021	Q2 2021	Change in PLN M	Change in %
Interest income	1,019.4	1,035.2	15.8	1.5%
Interest expense	-72.5	-73.6	-1.2	1.6%
<b>Net interest income</b>	<b>946.9</b>	<b>961.5</b>	<b>14.6</b>	<b>1.5%</b>
Fee and commission income	645.9	646.3	0.4	0.1%
Fee and commission expense	-177.9	-193.8	-15.9	8.9%
<b>Net fee and commission income</b>	<b>468.1</b>	<b>452.6</b>	<b>-15.5</b>	<b>-3.3%</b>
<b>Core income</b>	<b>1,415.0</b>	<b>1,414.1</b>	<b>-0.8</b>	<b>-0.1%</b>
Dividend income	0.4	3.5	3.0	689.1%
Net trading income	63.2	43.6	-19.6	-31.0%
Other income	86.7	10.6	-76.1	-87.8%
Other operating income	55.0	53.0	-2.0	-3.6%
Other operating expenses	-81.5	-82.0	-0.5	0.6%
<b>Total income</b>	<b>1,538.8</b>	<b>1,442.8</b>	<b>-96.0</b>	<b>-6.2%</b>
Net impairment losses and fair value change on loans and advances	-164.7	-228.4	-63.6	38.6%
Costs of legal risk related to foreign currency loans	-66.3	-248.5	-182.3	275.0%
Overhead costs and depreciation	-664.7	-580.2	84.4	-12.7%
Taxes on the Group balance sheet items	-138.8	-147.2	-8.3	6.0%
<b>Profit before income tax</b>	<b>504.3</b>	<b>238.5</b>	<b>-265.8</b>	<b>-52.7%</b>
Income tax expense	-187.2	-129.8	57.4	-30.7%
<b>Net profit attributable to:</b>	<b>317.1</b>	<b>108.7</b>	<b>-208.4</b>	<b>-65.7%</b>
<b>- Owners of mBank S.A.</b>	<b>317.1</b>	<b>108.7</b>	<b>-208.4</b>	<b>-65.7%</b>
- Non-controlling interests	0.0	0.0	0.0	-
ROA net	0.7%	0.2%		
ROE gross	12.2%	5.7%		
ROE net	7.7%	2.6%		
Cost / Income ratio	43.2%	40.2%		
Net interest margin	2.1%	2.0%		
Common Equity Tier 1 ratio	16.6%	15.2%		
Total capital ratio	19.2%	17.6%		

The main drivers of mBank Group's financial results in Q2 2021 compared with Q1 2021 included:

- **Slight increase in net interest income** by PLN 14.6 million or +1.5%;



- **Lower net fee and commission income** driven by a substantial increase in commissions from bank accounts in the previous quarter; at the same time payment cards-related fees, and credit-related fees and commissions recorded increases;
- **Decrease in net trading income**, mainly due to lower foreign exchange result;
- **Higher net impairment losses and fair value change on loans and advances** (by PLN 63.6 million) translating into an increase in risk costs to 80 bps. from 59 bps. in the previous quarter;
- **Increase in costs of legal risk related to foreign currency loans** to PLN 248.5 million compared with PLN 66.3 million in Q1 as a result of the update of assumed population of clients who will sue the bank;
- **Decrease in operating costs (including depreciation)** by PLN 84.4 million or -12.7% related to recognition of annual contribution to the resolution fund of Bank Guarantee Fund in Q1 2021;
- **Increase in taxes on the Group balance sheet items** to PLN 147.2 million resulting from the higher value of assets.

The balance sheet total of mBank Group stood at PLN 198,470.9 million as at June 30, 2021 compared with PLN 194,217.1 million at the end of March 2021.

Net loans and advances to clients increased by 2.4% in Q2 2021 to PLN 116,241.3 million. An increase in the value of loans was reported both in the retail client sector (+3.4%), and in the corporate client sector (+1.5%).

At the same time, amounts due to clients went up by 2.9% to PLN 156,583.5 million. Similarly to loans, growth was reported both in amounts due to individuals (+3.0%) and to corporate clients (+2.6%). In both cases, this was attributable to the inflow of funds to current and savings accounts.

## **4. Risk management**

### **4.1. Risk management foundations**

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

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

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

- The first line of defence is **Business** (business lines), whose task is to take risk and capital aspects into consideration when making all business decisions, within the risk appetite set for the Group;
- The second line of defence, mainly the organizational units of the **risk management area, Security and Compliance function**, creates framework and guidelines concerning managing individual risks, supporting supports Business in their implementation and independently analyses and assesses the risk. The primary goal of the second line of defence is supervising the control functions and risk exposure. The second line of defence acts independently of the Business;
- The third line of defence is **Internal Audit**, which independently assesses risk management activities performed by the first and the second lines 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 the mBank Group is based on three pillars:

- Supporting sustainable growth i.a. through the development of tools and processes designed from the client's perspective. In its credit decisions, policies, expansion and portfolio structure, the Group takes into account the impact on the natural environment and the community in which it operates. 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.
- Pursuing 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.
- 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 work. We draw conclusions and learn from mistakes.

## **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, 2021: 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, reputation 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 the 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) and CRR/CRDIV, which address issues related to credit risk management.

#### Tools and measures

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

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

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

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

and related measures including:

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

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

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

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

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

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

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

- MBPZO (Maximum Safe Total Exposure), which defines the maximum level of financial debt of an entity from financial institutions calculated under the bank's methodology, approved by the bank's competent decision-making body. An alternative measure used by the bank to clients applying for small exposure is Borrowing Capacity (BC);

- LG (General Limit), which defines the level of credit risk financial exposure to a client/group of related clients acceptable to the Group, approved by the bank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit.

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

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

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

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

## Strategy

### *Corporate and Investment Banking*

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

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

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

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

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

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

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

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

- tightened criteria of granting new financing;
-

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

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

#### *Retail Banking*

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

As credit exposures are highly granular (more than 2 million active loans), the retail banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

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

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

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

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

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

#### Quality of mBank Group loan portfolio

As of June 30, 2021, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) decreased to 4.4% from 4.8% at the end of 2020. The change of the indicator applies to both retail and mainly to corporate banking and is caused by realization of debt collection processes.

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, 2021, the NPL<sub>REG</sub> ratio (ratio calculated according to EBA guidelines) was at 3.97%.

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 3,962.6 million at the end of December 2020 to PLN 3,998.1 million at the end of June 2021.

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The coverage ratio (with provisions as defined earlier) remained unchanged in the analysed period at 58.3% at the end of June 2021 compared to December 2020.

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

The table below presents the quality of mBank Group loan portfolio as at the end of June 2020, December 2020 and as at the end of June 2021.

Loans and advances to clients 30.06.2020 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	109,966,215	2,204,997	112,171,212
Non-performing loans and advances	5,033,967	467,556	5,501,523
Non-performing loans ratio (NPL)	4.6%	21.2%	4.9%
Provisions for non-performing loans	-2,943,809	-293,578	-3,237,387
Provisions for performing loans	-648,511	-56,631	-705,142
Coverage ratio	58.5%	62.8%	58.8%
Coverage ratio, including provisions for performing loans	71.4%	74.9%	71.7%

Data as of June 30, 2020 have been adjusted in connection with the change in the approach to the recognition of provisions related to the CHF mortgage loans portfolio introduced in Q1 2021.

Loans and advances to clients 31.12.2020 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	110,513,959	2,015,959	112,529,918
Non-performing loans and advances	5,008,638	423,905	5,432,543
Non-performing loans ratio (NPL)	4.5%	21.0%	4.8%
Provisions for non-performing loans	-2,902,799	-265,583	-3,168,382
Provisions for performing loans	-738,027	-56,211	-794,238
Coverage ratio	58.0%	62.7%	58.3%
Coverage ratio, including provisions for performing loans	72.7%	75.9%	72.9%

Data as of December 31, 2020 have been adjusted in connection with the change in the approach to the recognition of provisions related to the CHF mortgage loans portfolio introduced in Q1 2021.

Loans and advances to clients 30.06.2021 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	118,518,965	1,719,568	120,238,533
Non-performing loans and advances	4,889,784	384,186	5,273,970
Non-performing loans ratio (NPL)	4.1%	22.3%	4.4%
Provisions for non-performing loans	-2,838,169	-238,007	-3,076,176
Provisions for performing loans	-869,181	-52,700	-921,881
Coverage ratio	58.0%	62.0%	58.3%
Coverage ratio, including provisions for performing loans	75.8%	75.7%	75.8%

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

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

**Provisions for non-performing loans** - provisions for loans and advances at amortised cost with impairment (basket 3 and POCI) and

fair value change of loans and advances mandatorily at fair value through profit or loss in default

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

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

## Market risk

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

### Tools and measures

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

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

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

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

- the Value at Risk (VaR);
- 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.

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 2021, 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.

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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's	H1 2021				2020			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2021	Mean	30.06.2021	Mean	31.12.2020	Mean	31.12.2020	Mean
VaR IR	6,736	13,088	6,846	13,327	11,332	9,169	11,091	9,365
VaR FX	3,266	3,880	3,356	3,794	2,333	1,478	2,196	1,390
VaR CS	57,071	62,384	55,804	61,257	77,291	53,573	76,296	52,497
<b>VaR</b>	<b>53,860</b>	<b>55,828</b>	<b>52,719</b>	<b>55,345</b>	<b>66,246</b>	<b>47,259</b>	<b>66,191</b>	<b>46,512</b>
<b>Stressed VaR</b>	<b>149,939</b>	<b>153,571</b>	<b>149,643</b>	<b>151,169</b>	<b>154,612</b>	<b>134,063</b>	<b>152,842</b>	<b>130,963</b>

VaR IR – interest rate risk

VaR FX - FX risk

VaR CS – credit spread risk

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

### Sensitivities measures

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

PLN 000's	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Banking book	-385	-1,197	-279	-1,195	-13,608	-13,934	-13,341	-13,739
Trading book	107	-2	107	-2	-222	-205	-222	-205
<b>Total</b>	<b>-277</b>	<b>-1,199</b>	<b>-172</b>	<b>-1,196</b>	<b>-13,831</b>	<b>-14,139</b>	<b>-13,563</b>	<b>-13,944</b>

The credit spread sensitivity (CS BPV) for the mBank's banking book, results in c.a. 49% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

### Interest rate risk of the banking book

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



PLN mln zł	Δ NII
	30.06.2021
PLN	-423
USD	-9
EUR	-132
CHF	19
CZK	-60
other	-1
<b>Total</b>	<b>-605</b>

**Liquidity risk**

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

**mBank Group liquidity position**

In the first half of 2021, the liquidity of the mBank Group was at a safe, very high level, which was reflected in the high amount of liquid funds.

Strong discipline in balance sheet management caused that the mBank Group had a comfortable liquidity position, reflected by high levels of liquidity ratios, which were well above the minimum regulatory levels. In the first half of 2021, a stable increase of deposit base exceeding the growth of the loan portfolio had a direct impact on strengthening the liquidity position.

Tools and measures

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

The bank has defined a set of liquidity risk measures and a system of limits, buffers and warning thresholds which protect the bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Balance Risk Management Department.

The main measures used in liquidity risk management of the bank include measures based on liquidity gap calculation in LAB methodology, the regulatory measures (M3, M4, LCR) and the NSFR (Net Stable Funding Ratio) measure, which comes into force as of 28 June 2021.

LAB measures reflect the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the bank, which represent potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario.

The methodology for measuring the liquidity gap (LAB) includes normal conditions scenario (LAB Base Case) and stress scenarios (short-term, long-term and combined). Stress scenarios and normal conditions scenario are limited. Moreover, the bank has a process of reporting and monitoring of intraday liquidity position including crisis scenario for intraday liquidity. The reverse stress scenario is the complement of the liquidity stress testing system.

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

LCR calculation and reporting is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, amended by the Commission Delegated Regulation (EU) 2018/1620 of July 13, 2018, which applies from April 30, 2020.

In terms of NSFR, for December 2020 and March 2021, the bank submitted to the Polish Financial Supervision Authority the NSFR calculation based on Regulation (EU) 2019/876 of the European Parliament

and of the Council of May 20, 2019 amending Regulation (EU) No 575/2013. On 27 June, 2021, regulatory limits to the NSFR and the reporting obligation governed by the aforementioned regulation come into force.

### Strategy

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

Liquidity risk limiting covers supervisory (M3, M4, LCR, 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 bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by mBank Group and aimed at neutralising this threat. The Contingency Plan is tested annually.

### Measuring mBank's liquidity risk

At the end of the first half of 2021 the liquidity of mBank remained at a safe, very high level in 2020, as reflected in the high surplus of liquid assets over short-term liabilities in LAB measures and in the levels of regulatory measures.

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

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

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures M3, M4, LCR, NSFR at the end of the first half of 2021 at mBank and mBank Group level:

	30.06.2021	30.06.2021
Measure <sup>1</sup>	Bank	Group level
<b>LAB Base Case 1M</b>	42,347	44,066
<b>LAB Base Case 1Y</b>	34,309	36,189
<b>M3</b>	3.78	X
<b>M4</b>	1.53	X
<b>LCR</b>	236%	249%
<b>NSFR</b>	149%	150%

<sup>1</sup> LAB measures are shown in PLN million; M3, M4 and LCR, 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, remuneration policy and detailed method of estimating internal capital in banks), which constitute a starting point for the framework of the operational risk control and management system in mBank Group.

### Tools and measures

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

The basic qualitative tools are:

*Self-Assessment of Internal Control System.*

Self-assessment concerns selected risks that materialize as operational risk. We realize it in conjunction with the control function, which is part of the internal control system. Once a year, it is carried out by the bank's organizational units, foreign branches, as well as units of mBank Hipoteczny, mLeasing, mFaktoring and mFinanse. Thanks to Self-Assessment, we increase awareness of operational risk and identify weaknesses in operational risk management and draw conclusions from them in order to improve processes. As a result, the bank manages its operational risk more actively.

The aim of Self-Assessment is to support the operational risk management process in mBank Group by:

- introducing uniform rules for identifying and assessing risks that affect the level of operational risk,
- risk assessment in processes, based on the assessment of the adequacy and effectiveness of control mechanisms that limit the level of a given risk,
- defining corrective action plans when it is identified that the risk is not effectively and adequately mitigated.

*Operational risk scenarios*

They identify the risks associated with rare operational risk events with potentially very serious consequences and quantification of the value of potential losses and frequencies of their occurrence and take appropriate action to minimize the organization's weaknesses.

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

The basic quantitative tools of the tools include, first of all:

*Operating Loss Register (RSO)*

RSO collects data on events and operational effects. Using the database available within the mBank Group, information on operational risk losses is recorded with a 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 analyze their risk profile on an ongoing basis. mBank also uses access to external databases on operational losses and uses them to analyze operational risk and potential threats to which institutions operating in the financial sector are exposed.

*Key risk factors (KRI)*

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

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

Strategy

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

**Threats related to ESG factors**

We live in an environment of changing climate, which has and can have a greater impact on the financial situation of our clients. The rapid pace of technological changes and the increase in average temperature

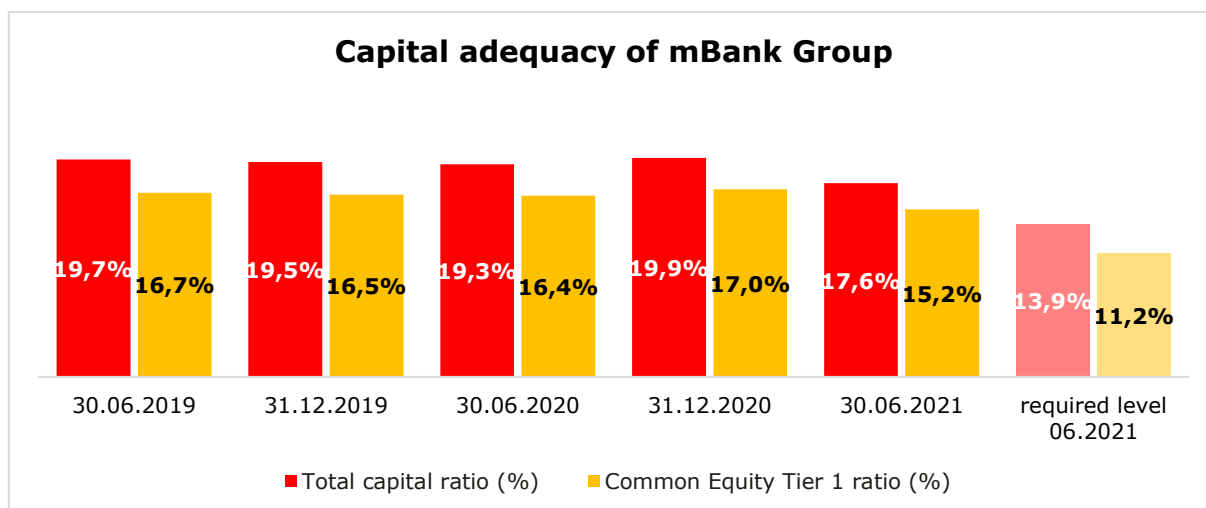
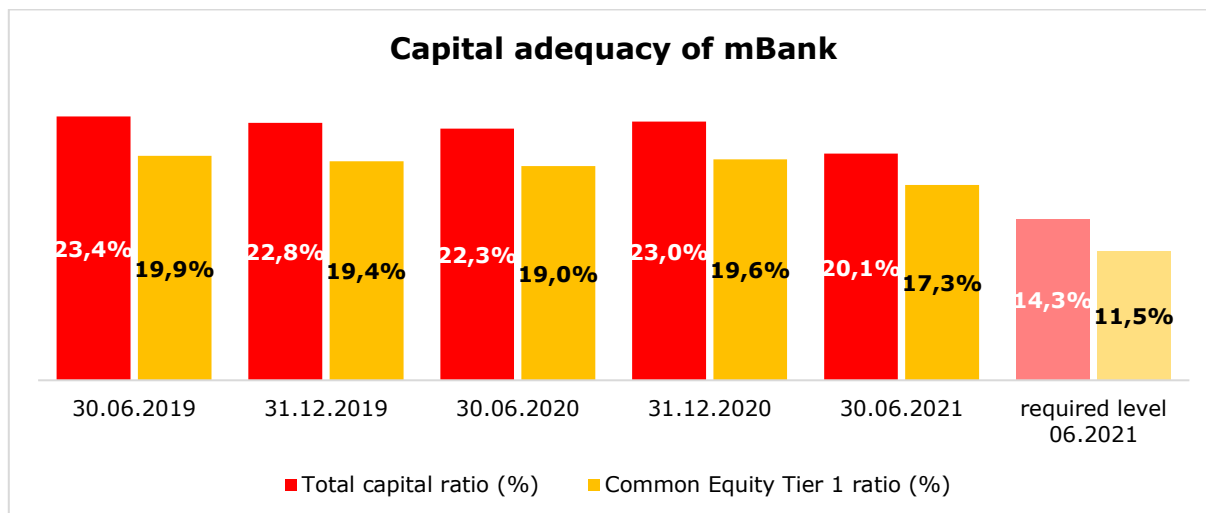
will affect the activities of individual economic sectors. The bank's goal is to support the development of technologies that have a positive impact on the climate and the environment. The bank's general approach to climate issues is part of the mBank Group's strategy for 2020-2023.

Environmental and legal changes, the impact of geopolitics and technological development force changes in the models of operation of some clients. The effects of adjusting the clients' business profile affect the relationship with the bank. All these aspects mean that the customer's assessment takes into account a risk of climate-related transformation (transition risk). The bank monitors regulatory changes addressing climate issues on an ongoing basis and assesses their potential impact on the Group. The assessment also takes into account the client's physical risk, resulting primarily from threats related to the climate (e.g. flood).

In assessing the business risk profile, the bank also identifies sensitive areas and related threats related to social issues (including those resulting from the development of new technologies) and resulting from corporate governance. These threats often translate directly into reputational risk as well as other types of risk. mBank is an institution of social trust, therefore mBank's reputation has a unique value. In order to mitigate these threats, the bank implemented a number of policies in the area of compliance, human and employee rights, and related to servicing industries and sensitive areas, especially in terms of mBank's reputational risk. These areas are constantly closely monitored and analyzed as they may result in legal responsibility.

### 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.



The capital ratios of mBank Group in H1 2021 were driven by the following factors:

- a significant change in the value of risk-weighted assets, mainly due to:
  - implementation of a new LGD model for mBank's retail portfolio, including regulatory restrictions in the form of multipliers for this parameter;
  - application of regulatory restrictions (multipliers) with regard to the final RWA value for mBank's AIRB retail portfolio and the entire AIRB mLeasing portfolio related to the recommendation after the implementation of the New Default Definition;
  - implementation of new CRR2 provisions with regard to the requirements for the calculation of exposures exposed to counterparty credit risk;
- including in Common Equity Tier 1 capital the remaining part (not included earlier) of the net profit of mBank Group for the year 2020 approved by the General Meeting of Shareholders;
- including in the calculation of own funds of impairment on financial assets not measured at fair value through profit or loss for the second half of 2021;
- change in the treatment of intangible assets in the calculation of Common Equity Tier 1 capital;

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- a decrease in the amount of other accumulated comprehensive income included in Common Equity Tier 1 capital;
- including in the calculation of Tier 2 capital of the excess of provisions over the expected recognized losses according to the IRB method;
- amortization of one of the tranches of the subordinated liability in Tier 2 capital.

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 – 2.82% at the level of total capital ratio and 2.11% at the level of Tier 1 capital on consolidated basis (and on individual basis 3.24% and 2.43% accordingly), according to the PFSA decision of November 25, 2020, and the subsequent communication of December 17, 2020;
- the combined buffer requirement of additional 3.04% (on consolidated and individual 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%) – starting from 1st January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the exceptional socioeconomic situation that appeared after the occurrence of the global pandemic COVID-19, this requirement was abolished by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020;
  - countercyclical capital buffer (0.04%).

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 II Regulation and the Commission Delegated Regulation (EU) 2019/876 of May 20, 2019, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, amounted to 6.99%. The stand-alone leverage ratio amounted to 7.15%.

More details on capital adequacy of mBank Group in H1 2021 will be available in the Disclosures regarding capital adequacy.

## **5. Statements of the Management Board**

### **True and fair picture in the presented reports**

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

- IFRS Condensed Consolidated Financial Statements for the first half of 2021 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 2021 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

### **Appointment of the auditor**

The Auditor authorised to audit financial statements and performing the review of the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2021 and IFRS Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2021 – Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for issue of a review report of these financial statements, in compliance with respective provisions of Polish law and professional standards.