mBank S.A.

IFRS Condensed Financial Statements
for the first half of 2020

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

Contents

1. Selected financial data

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

SELECTED FINANCIAL DATA FOR THE BANK		in PLN '000		in EUR '000	
		Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019 - restated	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019 - restated
I.	Interest income	2 252 110	2 165 384	507 084	504 987
II.	Fee and commission income	1 001 940	876 030	225 596	204 298
III.	Net trading income	89 497	66 038	20 151	15 401
IV.	Operating profit	606 214	1 138 946	136 495	265 612
V.	Profit before income tax	343 236	705 222	77 283	164 464
VI.	Net profit	174 392	513 515	39 266	119 756
VII.	Net cash flows from operating activities	6 890 128	1 373 111	1 551 376	320 222
VIII.	Net cash flows from investing activities	(136 663)	146 668	(30 771)	34 204
IX.	Net cash flows from financing activities	(720 680)	(1 867 749)	(162 268)	(435 576)
X.	Total net increase / decrease in cash and cash equivalents	6 032 785	(347 970)	1 358 338	(81 150)
XI.	Basic earnings per share (in PLN/EUR)	4.12	12.13	0.93	2.83
XII.	Diluted earnings per share (in PLN/EUR)	4.11	12.12	0.93	2.83
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK		in PLN '000		in EUR '000	
		30.06.2020	31.12.2019	30.06.2020	31.12.2019
I.	Total assets	174 380 077	149 228 273	39 046 144	35 042 450
II.	Amounts due to other banks	2 149 281	1 180 782	481 254	277 277
III.	Amounts due to customers	144 727 503	121 936 987	32 406 517	28 633 788
IV.	Equity	16 725 212	16 115 007	3 745 009	3 784 198
V.	Share capital	169 401	169 401	37 931	39 779
VI.	Number of shares	42 350 367	42 350 367	42 350 367	42 350 367
VII.	Book value per share (in PLN/EUR)	394.92	380.52	88.43	89.36
VIII.	Total capital ratio	22.34	22.84	22.34	22.84

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

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

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

2. Condensed financial data

Condensed income statement

	Note	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020	Period from 01.04.2019 to 30.06.2019 - restated	Period from 01.01.2019 to 30.06.2019 - restated
Interest income, including:		1 067 305	2 252 110	1 109 146	2 165 384
Interest income accounted for using the effective interest method		*944 189*	*2 026 509*	*973 150*	*1 887 660*
Income similar to interest on financial assets at fair value through profit or loss		*123 116*	*225 601*	*135 996*	*277 724*
Interest expenses		(172 421)	(400 070)	*(225 248)*	(456 951)
Net interest income		**894 884**	**1 852 040**	**883 898**	**1 708 433**
Fee and commission income		499 632	1 001 940	449 216	876 030
Fee and commission expenses		(147 688)	(302 909)	(165 570)	(312 344)
Net fee and commission income		**351 944**	**699 031**	**283 646**	**563 686**
Dividend income		4 179	30 824	301 050	301 273
Net trading income, including:		44 387	89 497	29 368	66 038
Foreign exchange result		*4 042*	*9 118*	*11 673*	*36 122*
Gains or losses on financial assets and liabilities held for trading		*39 811*	*77 321*	*15 058*	*28 405*
Gains or losses from hedge accounting		*534*	*3 058*	*2 637*	*1 511*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		16 095	(42 859)	1 101	(12 182)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:		8 040	5 336	(1 867)	2 100
Gains less losses from debt securities measured at fair value through other comprehensive income		*1 250*	*2 314*	*694*	*18 559*
Gains less losses from investments in subsidiaries and associates		*461*	*(390)*	*(344)*	*(995)*
Gains less losses from derecognition		*6 329*	*3 412*	*(2 217)*	*(15 464)*
Other operating income		16 942	23 044	11 183	23 430
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	5.14	(292 532)	(622 416)	(185 520)	(293 699)
Result on provisions for legal risk related to foreign currency loans		(188 972)	(201 883)	(23 182)	(27 774)
Overhead costs		(406 412)	(982 765)	(400 500)	(966 464)
Depreciation		(103 204)	(188 327)	(79 000)	(158 645)
Other operating expenses		(20 049)	(55 308)	(17 795)	(67 250)
Operating profit		**325 302**	**606 214**	**802 382**	**1 138 946**
Taxes on the Bank's balance sheet items		(130 599)	(254 714)	(100 529)	(202 752)
Share in profits (losses) of entities under the equity method		9 824	(8 264)	(257 746)	(230 972)
Profit before income tax		**204 527**	**343 236**	**444 107**	**705 222**
Income tax expense		(121 719)	(168 844)	(77 242)	(191 707)
Net profit		**82 808**	**174 392**	**366 865**	**513 515**

Net profit		**82 808**	**174 392**	**366 865**	**513 515**
Weighted average number of ordinary shares	**5.26**	**42 350 367**	**42 350 367**	**42 336 982**	**42 336 982**
Earnings per share (in PLN)	**5.26**	**1.96**	**4.12**	**8.67**	**12.13**
Weighted average number of ordinary shares for diluted earnings	**5.26**	**42 386 009**	**42 386 009**	**42 366 331**	**42 366 331**
Diluted earnings per share (in PLN)	**5.26**	**1.95**	**4.11**	**8.66**	**12.12**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of comprehensive income

	Period from 01.04.2020 to 30.06.2020	Period from 01.01.2020 to 30.06.2020	Period from 01.04.2019 to 30.06.2019 - restated	Period from 01.01.2019 to 30.06.2019 - restated
Net profit	**82 808**	**174 392**	**366 865**	**513 515**
Other comprehensive income net of tax, including:	**121 537**	**431 567**	**18 981**	**28 116**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	210	(378)	83	54
Cash flows hedges (net)	66 348	356 755	12 840	37 663
Share of other comprehensive income of entities under the equity method (net)	15 823	1 282	(1 999)	(4 043)
Debt instruments at fair value through other comprehensive income (net)	39 156	73 908	8 057	(5 558)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income (net)	**204 345**	**605 959**	**385 846**	**541 631**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of financial position

ASSETS	30.06.2020	31.12.2019
Cash and balances with the Central Bank	11 123 126	7 861 776
Financial assets held for trading and derivatives held for hedges	3 651 299	2 921 749
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 752 572	2 035 189
Equity instruments	*89 149*	*87 597*
Debt securities	*142 468*	*133 774*
Loans and advances to customers	*1 520 955*	*1 813 818*
Financial assets at fair value through other comprehensive income	45 955 970	30 298 647
Financial assets at amortised cost, including:	107 107 552	101 310 293
Debt securities	*12 551 206*	*11 234 873*
Loans and advances to credit institutions	*9 980 205*	*7 337 703*
Loans and advances to customers	*84 576 141*	*82 737 717*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	979	-
Investments in subsidiaries	2 171 062	2 164 112
Non-current assets and disposal groups classified as held for sale	7 385	91 605
Intangible assets	908 987	823 109
Tangible assets	868 765	945 606
Current income tax assets	7 974	11 878
Deferred income tax assets	112 495	273 257
Other assets	711 911	491 052
TOTAL ASSETS	**174 380 077**	**149 228 273**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and derivatives held for hedges	1 075 268	987 933
Financial liabilities measured at amortised cost, including:	152 858 527	128 979 983
Amounts due to banks	*2 149 281*	*1 180 782*
Amounts due to customers	*144 727 503*	*121 936 987*
Debt securities issued	*3 417 610*	*3 361 997*
Subordinated liabilities	*2 564 133*	*2 500 217*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	53 731	136
Provisions	949 430	737 167
Current income tax liabilities	66 859	150 859
Deferred income tax liabilities	86	82
Other liabilities	2 650 964	2 257 106
TOTAL LIABILITIES	**157 654 865**	**133 113 266**
EQUITY		
Share capital:	**3 579 818**	**3 579 818**
Registered share capital	169 401	169 401
Share premium	3 410 417	3 410 417
Retained earnings:	**12 543 188**	**12 364 550**
- Profit from the previous years	12 368 796	11 383 570
- Profit for the current year	174 392	980 980
Other components of equity	**602 206**	**170 639**
TOTAL EQUITY	**16 725 212**	**16 115 007**
TOTAL LIABILITIES AND EQUITY	**174 380 077**	**149 228 273**

Total capital ratio	**22.34**	**22.84**
Common Equity Tier 1 capital ratio	**19.00**	**19.42**
Book value	**16 725 212**	**16 115 007**
Number of shares	**42 350 367**	**42 350 367**
Book value per share (in PLN)	**394.92**	**380.52**

IFRS Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of changes in equity

Changes from 1 January to 30 June 2020

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from previous years	Profit from the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2020	**169 401**	**3 410 417**	**9 216 652**	**27 320**	**1 115 143**	**2 005 435**	**-**	**(5 151)**	**58 363**	**122 150**	**6 370**	**(11 093)**	**16 115 007**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**174 392**	**(378)**	**73 908**	**356 755**	**1 282**	**-**	**605 959**
Stock option program for employees	**-**	**-**	**-**	**4 246**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4 246**
- value of services provided by the employees	-	-	-	*4 246*	-	-	-	-	-	-	-	-	*4 246*
Equity as at 30 June 2020	**169 401**	**3 410 417**	**9 216 652**	**31 566**	**1 115 143**	**2 005 435**	**174 392**	**(5 529)**	**132 271**	**478 905**	**7 652**	**(11 093)**	**16 725 212**

Changes from 1 January to 31 December 2019

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from previous years	Profit from the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2019	**169 348**	**3 405 338**	**9 216 652**	**22 452**	**1 115 143**	**1 024 455**	**-**	**(5 160)**	**104 292**	**83 643**	**3 120**	**(9 113)**	**15 130 170**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**980 980**	**9**	**(45 929)**	**38 507**	**3 250**	**(1 980)**	**974 837**
Issuance of ordinary shares	53	-	-	-	-	-	-	-	-	-	-	-	53
Stock option program for employees	**-**	**5 079**	**-**	**4 868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9 947**
- value of services provided by the employees	-	-	-	*9 947*	-	-	-	-	-	-	-	-	*9 947*
- settlement of exercised options	-	*5 079*	-	*(5 079)*	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2019	**169 401**	**3 410 417**	**9 216 652**	**27 320**	**1 115 143**	**1 024 455**	**980 980**	**(5 151)**	**58 363**	**122 150**	**6 370**	**(11 093)**	**16 115 007**

Changes from 1 January to 30 June 2019 - restated

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from previous years	Profit from the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2019	**169 348**	**3 405 338**	**9 216 652**	**22 452**	**1 115 143**	**1 024 455**	**-**	**(5 160)**	**104 292**	**83 643**	**3 120**	**(9 113)**	**15 130 170**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**513 515**	**54**	**(5 558)**	**37 663**	**(4 043)**	**-**	**541 631**
Stock option program for employees	**-**	**-**	**-**	**4 905**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4 905**
- value of services provided by the employees	-			*4 905*	-	-	-	-	-	-	-	-	*4 905*
Equity as at 30 June 2019	**169 348**	**3 405 338**	**9 216 652**	**27 357**	**1 115 143**	**1 024 455**	**513 515**	**(5 106)**	**98 734**	**121 306**	**(923)**	**(9 113)**	**15 676 706**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of cash flows

	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019 - restated
Profit before income tax	**343 236**	**705 222**
Adjustments:	***6 546 892***	***667 889***
Income taxes paid	(187 336)	(373 992)
Amortisation	192 200	158 645
Foreign exchange (gains) losses related to financing activities	229 825	(44 833)
(Gains) losses on investing activities	4 778	210 090
Dividends received	(30 824)	(301 273)
Interest income (income statement)	(2 252 110)	(2 165 384)
Interest expense (income statement)	400 070	456 951
Interest received	2 491 619	2 296 282
Interest paid	(494 815)	(466 824)
Changes in loans and advances to banks	18 994	(681 776)
Changes in financial assets and liabilities held for trading and derivatives held for hedges	26 511	(36 554)
Changes in loans and advances to customers	(3 950 311)	(4 720 217)
Changes in financial assets at fair value through other comprehensive income	(13 432 216)	(263 386)
Changes in securities at amortised cost	(1 316 333)	(556 633)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(10 246)	(30 338)
Changes in other assets	(129 882)	48 453
Changes in amounts due to banks	966 057	425 040
Changes in amounts due to customers	23 260 125	6 459 163
Changes in debt securities in issue	176 166	511 804
Changes in provisions	212 263	44 961
Changes in other liabilities	372 357	(302 290)
A. Cash flows from operating activities	**6 890 128**	**1 373 111**
Disposal of shares in subsidiaries	650	-
Disposal of intangible assets and tangible fixed assets	1 814	4 799
Dividends received	30 824	301 273
Purchase of intangible assets and tangible fixed assets	(169 951)	(159 404)
B. Cash flows from investing activities	**(136 663)**	**146 668**
Proceeds from issue of debt securities	35 000	-
Repayments of loans and advances from banks	-	(560 027)
Repayments of other loans and advances	-	(1 058 369)
Repayment of debt securities in issue	(178 042)	-
Acquisition of shares in subsidiaries - increase of involvement	-	(150 000)
Payments of financial lease liabilities	(54 816)	(54 031)
Payments of other financial liabilities	(479 271)	-
Interest paid from loans and advances received from banks and subordinated liabilities	(43 551)	(45 322)
C. Cash flows from financing activities	**(720 680)**	**(1 867 749)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**6 032 785**	**(347 970)**
Effects of exchange rate changes on cash and cash equivalents	22 640	17 760
Cash and cash equivalents at the beginning of the reporting period	9 534 771	10 597 670
Cash and cash equivalents at the end of the reporting period	**15 590 196**	**10 267 460**

3. Description of relevant accounting policies

Accounting basis

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

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

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

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Bank presents separately each material class of similar positions. The Bank presents separately positions of dissimilar nature or function unless they are immaterial.

These financial statements were prepared under the assumption that the Bank continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Bank is endangered.

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

New standards, interpretations and amendments to published standards

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

Standards and interpretations not yet approved by the European Union:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comparative data

- The recognition of FX margin on spot transactions

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

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

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

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

In the fourth quarter 2019, the Bank adjusted the recognition of transactions in Treasury securities which in the previous years were incorrectly classified as outright buy or sale of securities and should have been classified as buy/sell back ("BSB") or sell/buy back ("SBB") transactions instead. Detailed information on the impact of the adjustments made on the income statement, statement of comprehensive income, statement of financial position and cash flow statement of the Bank for 2019 and 2018 was presented in Note 2.28 to the Financial Statements of mBank S.A. for 2019, published on 28 February.

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

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

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Restatements in the income statement of mBank S.A.

	Period from 01.01.2019 to 30.06.2019 before restatement	Adjustments	Period from 01.01.2019 to 30.06.2019 after restatement
Interest income, including:	2 165 384	-	2 165 384
Interest income accounted for using the effective interest method	*1 887 660*	-	*1 887 660*
Income similar to interest income on financial assets at fair value through profit or loss	*277 724*	-	*277 724*
Interest expenses	(456 951)	-	(456 951)
Net interest income	**1 708 433**	**-**	**1 708 433**
Fee and commission income	736 051	139 979	876 030
Fee and commission expense	(312 344)	-	(312 344)
Net fee and commission income	**423 707**	**139 979**	**563 686**
Dividend income	301 273	-	301 273
Net trading income, including:	206 017	(139 979)	66 038
Foreign exchange result	*176 101*	*(139 979)*	*36 122*
Gains or losses on financial assets and liabilities held for trading	*28 405*	-	*28 405*
Gains or losses from hedge accounting	*1 511*	-	*1 511*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(12 182)	-	(12 182)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	2 100	-	2 100
Gains less losses from debt securities measured at fair value through other comprehensive income	*18 559*	-	*18 559*
Gains less losses from investments in subsidiaries and associates	*(995)*	-	*(995)*
Gains less losses from derecognition	*(15 464)*	-	*(15 464)*
Other operating income	25 980	(2 550)	23 430
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(293 699)	-	(293 699)
Result on provisions for legal risk related to foreign currency loans	-	(27 774)	(27 774)
Overhead costs	(966 464)	-	(966 464)
Depreciation	(158 645)	-	(158 645)
Other operating expenses	(97 574)	30 324	(67 250)
Operating profit	**1 138 946**	**-**	**1 138 946**
Taxes on the Bank's balance sheet items	(242 693)	39 941	(202 752)
Share in profits (losses) of entities under the equity method	(230 972)	-	(230 972)
Profit before income tax	**665 281**	**39 941**	**705 222**
Income tax expense	(191 707)	-	(191 707)
Net profit	**473 574**	**39 941**	**513 515**
Earnings per share (in PLN)	**11.19**	**0.94**	**12.13**
Diluted earnings per share (in PLN)	**11.18**	**0.94**	**12.12**

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Restatements in the statement of comprehensive income of mBank S.A.

	Period from 01.01.2019 to 30.06.2019 before restatement	Adjustments	Period from 01.01.2019 to 30.06.2019 after restatement
Net profit	**473 574**	**39 941**	**513 515**
Other comprehensive income net of tax	**28 116**	**-**	**28 116**
Total comprehensive income (net)	**501 690**	**39 941**	**541 631**

Restatements in the statement of financial position of mBank S.A.

ASSETS	30.06.2019 before restatement	Adjustments	30.06.2019 after restatement
TOTAL ASSETS	**143 942 202**	**-**	**143 942 202**

LIABILITIES	30.06.2019 before restatement	Adjustments	30.06.2019 after restatement
Provisions	342 455	(41 612)	300 843
Other liabilities	2 305 132	46 544	2 351 676
Other items of liabilities	125 612 977	-	125 612 977
TOTAL LIABILITIES	**128 260 564**	**4 932**	**128 265 496**
EQUITY			
Share capital	**3 574 686**	**-**	**3 574 686**
Retained earnings	**11 902 054**	**(4 932)**	**11 897 122**
- Profit from the previous year	11 428 480	(44 873)	11 383 607
- Profit for the current year	473 574	39 941	513 515
Other components of equity	**204 898**	**-**	**204 898**
TOTAL EQUITY	**15 681 638**	**(4 932)**	**15 676 706**
TOTAL LIABILITIES AND EQUITY	**143 942 202**	**-**	**143 942 202**

Restatements in the statement of cash flow statement of mBank S.A.

	Period from 01.01.2019 to 30.06.2019 before restatement	Restatement	Period from 01.01.2019 to 30.06.2019 after restatement
Profit before income tax	**665 281**	**39 941**	**705 222**
Adjustments, including:	**707 830**	**(39 941)**	**667 889**
Changes in provisions	86 573	(41 612)	44 961
Changes in other liabilities	(303 961)	1 671	(302 290)
Other adjustments	925 218	-	925 218
A. Cash flows from operating activities	**1 373 111**	**-**	**1 373 111**
B. Cash flows from investing activities	**146 668**	**-**	**146 668**
C. Cash flows from financing activities	**(1 867 749)**	**-**	**(1 867 749)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(347 970)**	**-**	**(347 970)**
Effects of exchange rate changes on cash and cash equivalents	17 760	-	17 760
Cash and cash equivalents at the beginning of the reporting period	10 597 670	-	10 597 670
Cash and cash equivalents at the end of the reporting period	**10 267 460**	**-**	**10 267 460**

The above described and presented changes of comparative data are included in these financial statements in all the notes to which such changes were applicable.

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realization of specific scenarios) for portfolio of loans and advances and contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances and contingent liabilities impairment would either decrease by PLN 57.2 million or increase by PLN 59.7 million as at 30 June 2020, respectively (as at 31 December 2019: PLN 34.6 million and PLN 37.1 million, respectively). This estimation was performed for portfolio of loans and advances and contingent liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral - Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6 to the Financial Statements of mBank S.A. for 2019, published on 28 February 2020.

COVID-19 pandemic impact on the mBank activities

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

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

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

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

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

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

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

mBank offers to retail clients also support under so-called Crisis Shield 4.0, effective from 23 June 2020. The customers who lost their job or another major source of income after 13 March 2020, have the right to suspend the loan repayment for up to 3 months without charging interest during the period of suspension of the agreement. This assistance tool is considered as a legislative moratorium within the meaning of the EBA guidelines. The scale of applications submitted for this form of assistance is currently not significant. As of 30 June 2020, 23 applications were submitted under this moratorium, of which 19 borrowers were granted support. The gross carrying amount of their loans was PLN 2.3 million.

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

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

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

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

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

	30.06.2020				
	Number of obligors	Of which granted	Gross carrying amount	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Net carrying amount/fair value
Moratoriums	**52 466**	**52 306**	**10 520 639**	**(127 950)**	**10 392 689**
- Individual customers			6 286 426	(58 530)	6 227 896
- Corporate customers			4 234 213	(69 420)	4 164 793
Government guarantees (BGK)	**14**	**14**	**127 319**	**(347)**	**126 972**
- Individual customers			-	-	-
- Corporate customers			127 319	(347)	126 972

	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: grace period of capital and interest	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment
Moratoriums	**10 437 939**	**123 837**	**141 692**	**1 615 647**	**(83 957)**
- Individual customers	6 272 804	100 437	120 505	858 814	(55 260)
- Corporate customers	4 165 135	23 400	21 187	756 833	(28 697)
Government guarantees (BGK)	**127 319**	**127 319**	**-**	**900**	**(347)**
- Individual customers	-	-	-	-	-
- Corporate customers	127 319	127 319	-	900	(347)

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	Non-performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Inflows to non-performing exposures
Moratoriums	**82 700**	**216**	**-**	**(43 993)**	**54 405**
- Individual customers	13 622	134	-	(3 270)	1 735
- Corporate customers	69 078	82	-	(40 723)	52 670
Government guarantees (BGK)	**-**	**-**	**-**	**-**	**-**
- Individual customers	-	-	-	-	-
- Corporate customers	-	-	-	-	-

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

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

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

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

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

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

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

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

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

Due to the deterioration of the economic situation in the country resulting from the COVID-19 epidemic, the Bank has taken additional actions aimed at including this information in the expected credit losses. Due to the uncertainty caused by dynamic situation changes, the mBank's activities were spread over time and in particular covered:

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

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 145.9 million in the portfolio measured at amortized cost. In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which mBank recognized an additional cost of PLN 9.4 million.

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

	30.06.2020		
	Individual customers	**Corporate customers**	**Total**
Financial asset measured at amortized cost:	**78 529**	**67 404**	**145 933**
Stage 1	2 910	1 367	4 277
Stage 2	60 521	4 058	64 579
Stage 3	15 098	61 979	77 077
Financial assets measured at fair value through profit or loss	**9 414**	-	**9 414**

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

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

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

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

Scenario as at 30.06.2020		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		2020	The average for the next two years	2020	The average for the next two years	2020	The average for the next two years
GDP	y/y	-4.2	4.4	0.0	3.9	-6.4	0.4
Unemployment rate	end of the year	7.0%	5.5%	3.3%	2.9%	9.2%	11.9%
WIBOR3M	end of the year	0.3	0.4	0.7	0.7	0.1	0.1
Real estate price index	y/y	101.0	105.5	103.0	105.9	91.9	1082.
CHF/PLN	end of the year	4.21	4.03	4.11	3.93	4.43	4.43

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

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

Scenario as at 30.06.2020	The change of the value of credit risk costs 30.06.2020
optimistic	40 773
base	15 414
pessimistic	(64 588)

The above results were estimated taking into account the equal allocation to the stage 2 based on the weighted average of all 3 macroeconomic scenarios, without and assumption of additional potential migrations between stages. The ECL sensitivity analysis was performed on 89% of the assets of the portfolio of loans and advances to customers and off-balance sheet liabilities granted to them.

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

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

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

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

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

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

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

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

Provisions for legal risks

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

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

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

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

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

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

Prepayments of retail loans

CJEU ruled on 11 September 2019 that in case concerning consumer loans paid off prematurely the consumer has the right to a reduction in the total cost of the loan in the event of early repayment of the credit. The interpretation constituted an answer to a prejudicial question asked in a court case in which a few banks have participated including mBank.

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

As of 30 June 2020 the provision recorded within other provisions related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 22.6 million (PLN 16.3 million as of 31 December 2019).

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

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

<u>Fair value of derivatives and other financial instruments</u>

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.5 to the Financial Statements of mBank S.A. for 2018, published on 28 February 2020.

<u>Deferred tax assets</u>

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

<u>Income tax in interim financial statements</u>

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense in the first half of 2020 was 49.2%.

<u>Revenue and expenses from sale of insurance products bundled with loans</u>

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

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

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

<u>Liabilities due to post-employment employee benefits</u>

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

5. Selected explanatory information

5.1. Compliance with international financial reporting standards

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

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

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

The description of the Bank's accounting policies is presented in Note 3 and 4 of these condensed financial statements. The accounting principles adopted by the Bank were applied on a continuous basis for all periods presented in the financial statements, except for the changes in accounting principles, which were presented under Note 3 in point "Comparative data".

5.3. Seasonal or cyclical nature of the business

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

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

In the first half of 2020 the COVID-19 pandemic significantly affected the Bank's results, mainly by increasing expected credit losses charges and valuation of loan portfolio measured at fair value through profit or loss. The financial results for the first half of 2020 also include additional costs related to the increase in the provision for legal risk related to the portfolio of mortgage and housing loans in CHF in the amount of PLN 201.9 million. Detailed information in this regard is presented in Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

In the first half of 2020, the Bank increased the provisions for legal risk related to the portfolio of mortgage and housing loans in CHF by PLN 201.9 million. The increase in the provision for legal risk related to foreign currency loans resulted mainly from the change in the loss probability ratio used in the calculation of the provision, as well as the update of the expected level of loss in the event of the Bank losing the case and the change in the CHF/PLN exchange rate. Detailed information in this regard is presented in Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

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

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

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

  The detailed information on the redemption offer and the results of this offer were provided in current reports published by mBank S.A. on 29 May 2020 and on 8 June 2020.

- mBank S.A. issued certificates of deposits in the amount of PLN 35 000 thousand.

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

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

5.8. Income and profit by business segments

Income and profit by business segments within the Bank are presented in Note 4 of the condensed consolidated financial statements for the first half of 2020.

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

Events as indicated above did not occur in the Bank.

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

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

In connection with the above agreement, as at 31 December 2019, the Bank classified BDH as non-current assets held for sale. The decrease in the value of shares as at 30 June 2020 compared to 31 December 2019 results from a decrease in the share capital of BDH related to the redemption of shares.

5.11. Changes in contingent liabilities and commitments

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

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

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

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

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

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

the period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, including:		
Financial assets at amortised cost	(583 935)	(260 637)
- Debt securities	*(8)*	*(16)*
- Loans and advances	*(583 927)*	*(260 621)*
Financial assets at fair value through other comprehensive income	(6 329)	(3 631)
- Equity instruments	*485*	*(326)*
- Debt securities	*(6 814)*	*(3 305)*
Commitments and guarantees granted	(32 152)	(29 431)
Total gains less losses from financial assets not measured at fair value through profit or loss	**(622 416)**	**(293 699)**

5.15. Reversals of provisions against restructuring costs

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

5.16. Acquisitions and disposals of tangible fixed asset items

In the first half of 2020, there were no material transactions of acquisition or disposal of any tangible fixed assets.

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

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

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

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

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

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

5.20. Corrections of errors from previous reporting periods

In the first half of 2020, events as indicated above did not occur in the Bank. The restatements of comparative data have been described in the Note 3, in the item "Comparative data".

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

As part of the actions taken in Poland and around the world related to the COVID-19 pandemic, in March, April and May 2020, the Monetary Policy Council reduced interest rates by a total of 140 basis points, which affected the valuation of assets and liabilities to fair value. The COVID-19 pandemic also caused a sharp slowdown in economic activity at the end of the first quarter of 2020. Efforts to slow down the spread of the virus, introduced gradually from mid-March, froze activities in many sectors of the economy. In the first half of May, a gradual opening of the economy began and this process is taking place in stages and consists in resuming activity by individual industries while maintaining an increased sanitary regime. These activities also affected the fair value of loans and advances. For more information on the impact of COVID-19 on the valuation of loans, see Note 4, "Major estimates and judgments made in connection with the application of accounting policies".

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

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

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

mBank S.A. did not publish a performance forecast for the year 2020.

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5.24. Registered share capital

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

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

* As at the end of the reporting period

5.25. Material share packages

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

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

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

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

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

5.26. Earnings per share

Earnings per share for 6 months

the period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Basic:		
Net profit	174 392	513 515
Weighted average number of ordinary shares	42 350 367	42 336 982
Net basic profit per share (in PLN per share)	**4.12**	**12.13**
Diluted:		
Net profit applied for calculation of diluted earnings per share	174 392	513 515
Weighted average number of ordinary shares	42 350 367	42 336 982
Adjustments for:		
- share options	35 642	29 349
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 386 009	42 366 331
Diluted earnings per share (in PLN per share)	**4.11**	**12.12**

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

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

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

The value of provisions for litigations as at 30 June 2020 amounted to PLN 687 303 thousand (PLN 484 672 thousand as at 31 December 2019). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

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

1. Claims of Interbrok's clients

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

2. A lawsuit filed by LPP S.A.

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

   The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the

Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland.

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

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

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

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

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

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

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

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

• interest on the loans covered by the class action will be charged at the fixed interest rate applicable on the date the loans were granted;

• a claim of the class members will arise for reimbursement of amounts potentially paid in excess of the fixed interest in the period covered by the class action.

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

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

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

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

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

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

6. Individual court proceedings concerning indexation clauses to CHF

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

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

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

   The Bank's approach to the measurement of provisions for legal risk associated with this portfolio of loans has been described in the Note 4 "Major estimates and judgments made in connection with the application of accounting policy principles".

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

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

Tax audits

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

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

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

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

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

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

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

5.28. Off-balance sheet liabilities

	30.06.2020	31.12.2019
1. Contingent liabilities granted and received	**49 637 539**	**46 072 755**
Commitments granted	**45 161 284**	**42 078 100**
- financing	31 209 871	28 121 245
- guarantees and other financial facilities	12 732 653	13 956 855
- other commitments	1 218 760	-
Commitments received	**4 476 255**	**3 994 655**
- financial commitments	538 660	392 130
- guarantees	3 937 595	3 602 525
2. Derivative financial instruments (nominal value of contracts)	**732 035 780**	**589 039 886**
Interest rate derivatives	623 258 058	492 076 810
Currency derivatives	103 617 769	91 490 523
Market risk derivatives	5 159 953	5 472 553
Total off-balance sheet items	**781 673 319**	**635 112 641**

5.29. Transactions with related entities

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

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

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

(in PLN 000's)	mBank's subsidiaries			CommerzbankAG			Other companies of the Commerzbank AG Group		
As at the end of the period	**30.06.2020**	**31.12.2019**	**30.06.2019**	**30.06.2020**	**31.12.2019**	**30.06.2019**	**30.06.2020**	**31.12.2019**	**30.06.2019**
Statement of Financial Position									
Assets	17 378 775	16 967 391		1 711 042	457 033		19 562	19	
Liabilities	5 606 523	5 613 881		2 014 807	1 817 780		66 142	67 848	
Income Statement									
Interest income	145 923		171 734	16 827		35 745	256		324
Interest expense	(44 624)		(58 746)	(13 146)		(17 614)	(185)		(222)
Fee and commission income	8 208		8 500	2 817		2 275	49		28
Fee and commission expense	(85 688)		(122 810)	-		(1 030)	-		-
Other operating income	2 213		3 299	739		731	-		-
Overhead costs, amortisation and other operating expenses	(4 822)		(2 443)	(5 181)		(5 027)	-		-
Contingent liabilities granted and received									
Contingent liabilities granted	6 721 653	7 005 347		2 154 223	2 124 709		3 483	3 502	
Contingent liabilities received	-	-		1 876 188	1 816 577		-	-	

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

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

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

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

On 20 November 2014, mFF issued a tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 November 2021. In this case, the guarantee was granted on 20 November 2014 for the duration of the Programme, i.e. to 26 November 2021. In June 2020, there was a partial redemption of bonds with nominal value of EUR 72 417 thousand, described in detail in item 5.6 of the Selected Explanatory Information, therefore the amount of the guarantee was reduced accordingly.

On 21 September 2016, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 September 2020. In this case, the guarantee was granted on 21 September 2016 for the duration of the Programme, i.e. to 26 September 2020. In June 2020, there was a partial redemption of bonds with nominal value of EUR 35 178 thousand, described in detail in item 5.6 of the Selected Explanatory Information, therefore the amount of the guarantee was reduced accordingly

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

5.31. Fair value of assets and liabilities

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

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

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

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

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

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

Financial assets and liabilities measured at amortised cost

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

	30.06.2020		31.12.2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**12 551 206**	**13 056 795**	**11 234 873**	**11 409 164**
Loans and advances to banks	**9 980 205**	**9 898 967**	**7 337 703**	**7 334 393**
Loans and advances to customers, including:	**84 576 141**	**85 606 238**	**82 737 717**	**82 724 274**
Loans and advances to individuals	**42 071 295**	**43 990 528**	**41 456 124**	**42 383 476**
Current accounts	6 634 404	6 792 133	6 828 579	7 011 607
Term loans	35 139 680	36 901 184	34 265 519	35 009 843
Other	297 211	297 211	362 026	362 026
Loans and advances to corporate entities	**42 246 515**	**41 356 841**	**40 995 685**	**40 057 005**
Current accounts	5 441 206	5 324 461	5 934 931	5 799 411
Term loans, including finance lease	35 000 432	34 227 503	34 638 535	33 835 375
Reverse repo or buy/sell back transactions	1 464 963	1 464 963	13 398	13 398
Other loans and advances	200 697	200 697	158 911	158 911
Other	139 217	139 217	249 910	249 910
Loans and advances to public sector	**258 331**	**258 869**	**285 908**	**283 793**
Financial liabilities at amortised cost				
Amounts due to other banks	**2 149 281**	**2 149 281**	**1 180 782**	**1 180 747**
Amounts due to customers	**144 727 503**	**144 761 050**	**121 936 987**	**122 037 314**
Debt securities in issue	**3 417 610**	**3 380 698**	**3 361 997**	**3 407 731**
Subordinated liabilities	**2 564 133**	**2 533 844**	**2 500 217**	**2 519 770**

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

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

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

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

The fair value for these financial liabilities with more than 1 year to maturity is based on cash flows discounted using interest rates. For the loans received from European Investment Bank in EUR and in CHF the Bank used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

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

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

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

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

Financial assets and liabilities measured at fair value

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

30.06.2020	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**3 651 299**	**1 463 420**	**1 418 520**	**769 359**
Loans and advances to customers	184 715	-	-	184 715
Debt securities	2 048 064	1 463 420	-	584 644
Derivative financial instruments, including:	1 418 520	-	1 418 520	-
Derivative financial instruments held for trading	1 671 191	-	1 671 191	-
Derivative financial instruments held for hedging	949 889	-	949 889	-
Ineffective portion of cash flow hedge	(1 202 560)	-	(1 202 560)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**1 752 572**	**878**	**-**	**1 751 694**
Loans and advances to customers	1 520 955	-	-	1 520 955
Debt securities	142 468	-	-	142 468
Equity securities	89 149	878	-	88 271
Financial assets at fair value through other comprehensive income	**45 955 970**	**27 958 888**	**5 699 967**	**12 297 115**
Loans and advances to customers	10 726 438	-	-	10 726 438
Debt securities	35 229 532	27 958 888	5 699 967	1 570 677
Total financial assets	**51 359 841**	**29 423 186**	**7 118 487**	**14 818 168**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	1 075 268	-	1 075 268	-
Derivative financial instruments held for trading	1 358 484	-	1 358 484	-
Derivative financial instruments held for hedging	2 560	-	2 560	-
Ineffective portion of cash flow hedge	(285 776)	-	(285 776)	-
Total financial liabilities	**1 075 268**	**-**	**1 075 268**	**-**

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Assets Measured at Fair Value Based on Level 3 - changes in the period from 1st January to 30 June 2020	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**460 191**	**133 774**	**86 772**	**1 488 819**
Gains and losses for the period:	**3 667**	**8 694**	**1 499**	**12 524**
Recognised in profit or loss:	3 667	8 694	1 499	-
- Net trading income	*3 667*	*6 374*	*53*	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*2 320*	*1 446*	-
Recognised in other comprehensive income:	-	-	-	12 524
- Financial assets at fair value through other comprehensive income	-	-	-	*12 524*
Purchases	1 245 451	-	-	614 732
Redemptions	(127 024)	-	-	(240 525)
Sales	(5 049 453)	-	-	(3 380 155)
Issues	4 051 812	-	-	3 075 282
As at the end of the period	**584 644**	**142 468**	**88 271**	**1 570 677**

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

31.12.2019	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**2 921 749**	**1 330 541**	**958 328**	**632 880**
Loans and advances to customers	172 689	-	-	172 689
Debt securities	1 790 732	1 330 541	-	460 191
Derivative financial instruments, including:	958 328	-	958 328	-
Derivative financial instruments held for trading	1 058 084	-	1 058 084	-
Derivative financial instruments held for hedging	392 705	-	392 705	-
Ineffective portion of cash flow hedge	(492 461)	-	(492 461)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 035 189**	**825**	**-**	**2 034 364**
Loans and advances to customers	1 813 818	-	-	1 813 818
Debt securities	133 774	-	-	133 774
Equity securities	87 597	825	-	86 772
Financial assets at fair value through other comprehensive income	**30 298 647**	**17 388 493**	**2 999 645**	**9 910 509**
Loans and advances to customers	8 421 690	-	-	8 421 690
Debt securities	21 876 957	17 388 493	2 999 645	1 488 819
Total financial assets	**35 255 585**	**18 719 859**	**3 957 973**	**12 577 753**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	987 933	-	987 933	-
Derivative financial instruments held for trading	1 108 063	-	1 108 063	-
Derivative financial instruments held for hedging	11 887	-	11 887	-
Ineffective portion of cash flow hedge	(132 017)	-	(132 017)	-
Total financial liabilities	**987 933**	**-**	**987 933**	**-**

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Assets Measured at Fair Value Based on Level 3 - changes in the period from 1st January to 31 December 2019	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
As at the beginning of the period	**328 102**	**58 130**	**11 456**	**1 742 614**
Gains and losses for the period:	**1 777**	**75 644**	**75 316**	**(9 660)**
Recognised in profit or loss:	1 777	75 644	75 316	-
- Net trading income	*1 777*	*320*	*(10)*	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*75 324*	*75 326*	-
Recognised in other comprehensive income:	-	-	-	(9 660)
- Financial assets at fair value through other comprehensive income	-	-	-	*(9 660)*
Purchases	2 044 401	-	-	1 397 817
Redemptions	(531 490)	-	-	(274 629)
Sales	(6 819 158)	-	-	(2 155 733)
Issues	5 436 559	-	-	788 410
As at the end of the period	**460 191**	**133 774**	**86 772**	**1 488 819**

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

Level 1

As at 30 June 2020, at level 1 of the fair value hierarchy, the Bank has presented the fair value of held for trading government bonds in the amount of PLN 1 463 420 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 26 784 172 thousand (31 December 2019 respectively: PLN 1 330 541 thousand and PLN 16 404 265 thousand). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 174 716 thousand (31 December 2019: PLN 984 228 thousand).

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

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

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 5 669 967 thousand (31 December 2019: PLN 2 999 645 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 June 2020 and 31 December 2019, level 2 also includes the value of options referencing on the WIG20 index. For options on WIG 20 index an internal model (based on implied volatility model) using market parameters is applied.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 2 259 636 thousand (31 December 2019: PLN 2 046 502 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

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

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

Level 3 as at 30 June 2020 includes the value of loans and advances to customers in the amount of PLN 12 432 108 thousand (31 December 2019 – PLN 10 408 197 thousand).

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

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

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

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 88 271 thousand (31 December 2019: PLN 86 772 thousand). Equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

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

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

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

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

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

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

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

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

5.33. Factors affecting the results in the coming quarter

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

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

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

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

5.34. Other information

- Requirements on mBank Group capital ratios as at 30 June 2020

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

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

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

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

5.35. Events after the balance sheet date

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