

# **Management Board Report on the Performance of mBank S.A. Group in H1 2022**



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

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## **1. About mBank Group**

### **1.1. Executive summary**

The key highlights of H1 2022 include:

- **Net profit of PLN 742.0 million**, up by 74.3% compared with H1 2021, despite further costs of legal risk related to foreign currency loans;
- **Increase in income by 45.3%** on H1 2021, driven mainly by higher net interest income;
- Historically high **core revenues**;
- **Costs** impacted by the contribution to the Institutional Protection Scheme of PLN 390.8 million;
- **Underlying efficiency remained excellent**, with the normalised cost-to-income ratio at 35.7%;
- **Increase in net profit of the core business** (mBank Group excluding the FX Mortgage Loans segment) by 76.6% compared with H1 2021, delivering a core business **net ROE at 19.4%**.
- Increase in the following volumes:
  - **Rise in net loans and advances** by 7.2% compared with the end of 2021 and by 8.9% compared with the end of June 2021;
  - **Increase in amounts due to clients** by 2.6% compared with the end of 2021 and by 4.7% compared with the end of June 2021;
- The rise in loans and deposits resulted in a **loan-to-deposit ratio** of 77.2% compared with 73.8% at the end of 2021 and 74.2% as at June 30, 2021.
- **Solid capital base** with capital ratios surpassing the regulatory requirements: CET1 ratio at 13.9% and Total Capital Ratio at 16.4%.
- The bank executed its **first synthetic securitization** referencing a corporate portfolio of circa PLN 9 billion.
- **ESG initiatives:**
  - we joined the Partnership for Carbon Accounting Financials (PCAF) in order to assess the carbon footprint of our credit portfolio;
  - we provide assistance to Ukrainian citizens fleeing the war;
  - we continue our cooperation with the Great Orchestra of Christmas Charity;
  - we launched another edition of the social campaign "Digital Revolutions" ("Cyfrowe Rewolucje") supporting online businesses of SMEs.

**Summary of results of mBank Group core business**

PLN million	Core business	Non-core	mBank Group
Net interest income	3,134.1	53.7	3,187.7
Net fee, trading and other income	1,162.9	-17.2	1,145.7
<b>Total income</b>	<b>4,297.0</b>	<b>36.5</b>	<b>4,333.4</b>
<b>Total costs</b>	<b>-1,821.1</b>	<b>-42.2</b>	<b>-1,863.3</b>
Net impairment losses and fair value change on loans and advances	-454.7	-8.7	-463.5
Cost of legal risk related to FX loans	0.0	-367.8	-367.8
<b>Operating profit</b>	<b>2,021.1</b>	<b>-382.4</b>	<b>1,638.8</b>
Taxes on the Group balance sheet items	-304.7	-22.2	-326.9
<b>Profit before income tax</b>	<b>1,716.4</b>	<b>-404.6</b>	<b>1,311.8</b>
<b>Net profit</b>	<b>1,146.6</b>	<b>-404.6</b>	<b>742.0</b>
<b>Total assets</b>	<b>193,597.9</b>	<b>10,799.2</b>	<b>204,397.1</b>
Net interest margin	3.49%		3.34%
Cost/Income ratio	42.4%		43.0%
ROE net	19.4%		10.9%
ROA net	1.2%		0.7%

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

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

**Net impairment losses and fair value change on loans and advances** - the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.

**Net interest margin** – calculated by dividing net interest income by average interest earning assets. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

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

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

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

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

In H1 2022, there were no changes in the composition of the Supervisory Board.

As of June 30, 2022, the Supervisory Board of mBank S.A. was composed as follows:

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

There are four independent members in the Supervisory Board:

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

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

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

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee	IT Committee
<u>Agnieszka Słomka-Gołębiowska</u>	<u>Marcus Chromik</u>	<u>Tomasz Bieske</u>	<u>Bettina Orlopp</u>	<u>Aleksandra Gren</u>
Marcus Chromik	Mirosław Godlewski	Aleksandra Gren	Tomasz Bieske	Mirosław Godlewski
Bettina Orlopp	Bettina Orlopp	Armin Barthel	Mirosław Godlewski	Marcus Chromik
	Agnieszka Słomka-Gołębiowska		Marcus Chromik	

**Management Board of mBank**

There were no changes in the composition of the Management Board in H1 2022.

As of June 30, 2022, the composition of the Management Board was as follows:

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

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

**1.3. Composition of mBank Group and key areas of activity**

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

Segment	Retail Banking	Corporate and Investment Banking	
Bank	<ul style="list-style-type: none"> <li>■ Retail customers, Private Banking clients and microenterprises</li> <li>■ Affluent retail customers (Private Banking and Wealth Management)</li> </ul>	<ul style="list-style-type: none"> <li>■ Corporations and non-banking financial institutions (K1)</li> <li>■ Large Companies (K2)</li> <li>■ Small and Medium Enterprises (K3)</li> </ul>	<ul style="list-style-type: none"> <li>■ Banks</li> <li>■ Corporate clients in scope of trading and sales</li> </ul>
Consolidated subsidiaries	<ul style="list-style-type: none"> <li>■ mLeasing Sp. z o.o. – Retail</li> <li>■ Asekum Sp. z o.o.<sup>1</sup> – Retail</li> <li>■ LeaseLink Sp. z o.o.<sup>1</sup></li> <li>■ mBank Hipoteczny S.A. – Retail</li> <li>■ mFinanse S.A.</li> <li>■ mFinanse CZ s.r.o.<sup>2</sup></li> <li>■ mFinanse SK s.r.o.<sup>2</sup></li> <li>■ mElements S.A.</li> </ul>	<ul style="list-style-type: none"> <li>■ mLeasing Sp. z o.o. – Corporate</li> <li>■ Asekum Sp. z o.o.<sup>1</sup> – Corporate</li> <li>■ mBank Hipoteczny S.A. – Corporate</li> <li>■ mFaktoring S.A.</li> </ul>	
	<p><b>Other subsidiaries</b> ■ Future Tech FIZ</p>		

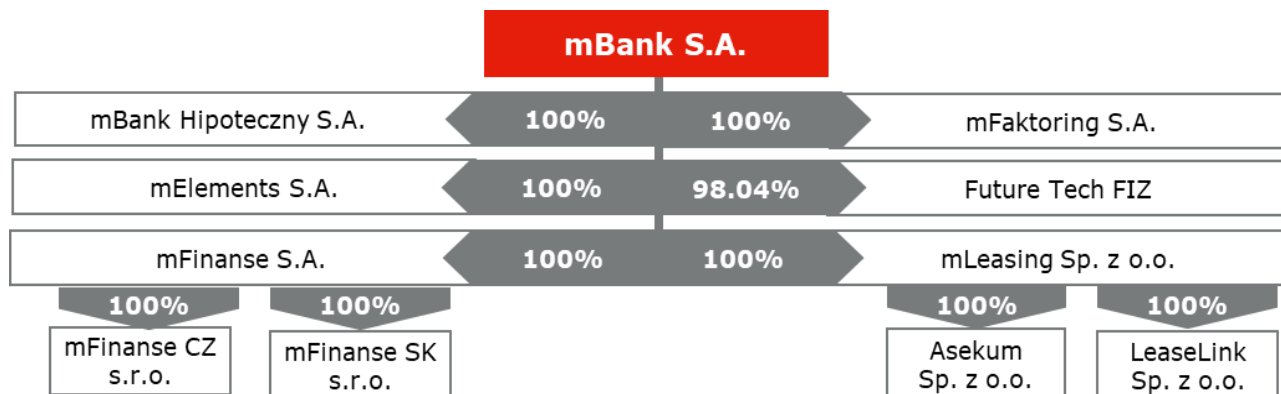
<sup>1</sup>mBank owns 100% shares in Asekum Sp. z o.o. and in LeaseLink Sp. z o.o. indirectly, through mLeasing Sp. z o.o.

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

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





In Q1 2022 the G-Invest company has ceased to be consolidated. Moreover, mBank Group has begun to consolidate subsidiaries mFinanse CZ and mFinanse SK, which operate in Czech Republic and Slovakia, through mFinanse S.A.

mBank Group (including consolidated subsidiaries) as at the end of June 2022 was composed as presented on the diagram below.



**1.4. Subsidiaries of mBank Group**

**Key Subsidiaries of mBank Group from the perspective of client offer**

	<ul style="list-style-type: none"> <li>■ the longest track record of issuing covered bonds on the Polish capital market</li> <li>■ providing stable, long-term and secure funding of mBank Group with use of pooling model in cooperation with mBank</li> <li>■ rating of Moody’s Investor Services of Aa1 for covered bonds – the best possible rating acquired by a Polish issuer for debt instruments in issue</li> </ul>
	<ul style="list-style-type: none"> <li>■ offer including leasing, loans, car fleet rental and management for both corporate clients and individuals</li> <li>■ various leasing products in corporate segment, including lease of private and commercial cars, heavy transport vehicles, car fleet management, lease of machines and equipment, real property lease</li> <li>■ in the retail segment the subsidiary operates the “Leasing in Retail” programme addressed to micro-enterprises and SMEs, which can sign lease contracts using dedicated lease processes</li> <li>■ leasing as an online payment method in e-commerce offered by LeaseLink</li> </ul>
	<ul style="list-style-type: none"> <li>■ fifth position on the Polish factoring market among the members of the Polish Factors Association – position maintained compared to 2021</li> <li>■ financing of ongoing business operations; receivables management; credit protection; maintenance of debtors’ settlement accounts and enforcement of receivables; the offer includes also domestic and export factoring with recourse, including guaranteed by Bank Gospodarstwa Krajowego (BGK) and with credit protection; financing within factoring consortium; import guarantees</li> <li>■ mFaktoring’s offer available in all mBank branches providing services to SMEs and corporations in Poland</li> <li>■ Member of Factors Chain International, the largest international factors chain and Polish Factors Association</li> </ul>
	<ul style="list-style-type: none"> <li>■ intermediary operations as an open platform for selling financial products of various institutions, including mBank</li> <li>■ the offer includes loans and advances, accounts, insurances as well as leasing for both individuals and companies</li> <li>■ offer of 16 active external financial entities in more than 189 stationary outlets across Poland and 163 partner branches</li> </ul>

## 1.5. Ratings of mBank and mBank Hipoteczny

### Credit ratings of mBank and mBank Hipoteczny

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch). Moody's Investors Service (Moody's), Capital Intelligence Ratings (CI Ratings) and EuroRating assigned for mBank ratings based on publicly available information. mBank Hipoteczny is rated by Moody's, including a rating for mortgage covered bonds issued by mBank Hipoteczny.

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

On June 9, 2022, S&P Global Ratings (S&P) affirmed the Bank's "BBB/A-2" long- and short-term issuer credit ratings and revised the rating outlook to developing from negative. S&P also affirmed the rating of the bank's senior unsecured preferred debt instruments at "BBB" and the rating of senior non-preferred debt instruments at "BBB-".

The developing outlook indicates that S&P may raise, lower or affirm the ratings over the next 12-24 months. According to S&P, the bank's rating could benefit from the build-up of additional loss-absorbing capacity (ALAC) buffers to meet MREL targets. These buffers would provide further protection to senior preferred creditors in a resolution scenario. At the same time, S&P continues to believe that elevated costs of legal risk related to CHF mortgage loans and rising cost of credit risk due to deteriorating economic environment could weaken the bank's strong capitalization and the "bbb" stand-alone credit profile.

S&P Global Ratings	Ratings of mBank
Long-term issuer credit rating (foreign currency)	BBB (developing outlook)
Short-term issuer credit rating (foreign currency)	A-2
Stand-alone Credit Profile (SACP)	bbb
Long-term resolution counterparty ratings (long-term RCR)	BBB+
Short-term resolution counterparty rating (short-term RCR)	A-2
Ratings for unsecured issuances under Euro Medium Term Note Programme (EMTN)	
1. Senior Preferred Debt	
- Long-term rating	BBB
- Short-term rating	A-2
2. Senior Non-Preferred Debt	
- Long-term rating	BBB-
- Short-term rating	A-2



### Ratings of mBank assigned by Fitch Ratings

From September 9, 2021, mBank's ratings assigned by Fitch Ratings – the long-term rating "BBB-" and viability rating (individual) "bbb-" have a negative outlook. Previously, from March 16, 2021, the above ratings were on Rating Watch Negative (RWN).

The removal of the RWN reflects Fitch's view that downside risks to ratings have reduced in the short term, following a significant delay to the Supreme Court ruling that could be highly negative for banks with significant foreign-currency mortgage exposures. Additionally, the economic recovery and lower-than-expected pressure on asset quality stemming from the pandemic support mBank's underlying profitability. Litigation risk and uncertainty pertaining to the Supreme Court resolution underpinned the decision to maintain a negative outlook.

Fitch Ratings	Ratings of mBank
Long-term IDR (foreign currencies)	BBB- (negative)
Short-term IDR (foreign currencies)	F3
Viability rating	bbb-
Support rating	5
Ratings for unsecured issuances under Euro Medium Term Note Programme (EMTN)	
3. Senior Preferred Debt	
- Long-term rating	BBB
- Short-term rating	F3
4. Senior Non-Preferred Debt	
- Long-term rating	BBB-
- Short-term rating	F3

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

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

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

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

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

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

### **mBank’s rating assigned by Capital Intelligence Ratings**

On 21 April 2022, Capital Intelligence Ratings affirmed the mBank’s Long-Term Foreign Currency at ‘BBB+’ and revised the rating Outlook to Negative from Stable. At the same time the agency affirmed Short-Term Foreign Currency rating at ‘A2’, Core Financial Strength rating of ‘bbb’, and Bank Standalone Rating at ‘bbb+’.

According to the agency, the revision of the Outlook to Negative reflects the ongoing uncertainty about the ultimate costs associated with the bank’s still sizable CHF mortgage loan portfolio and the likely need for further substantial legal cost provisions, which may in turn adversely impact mBank’s net profit and its capital position. In addition, the rise in geopolitical risks as a result of the war in Ukraine and surrounding uncertainty about the ultimate impact this will have on the Polish economy and the operating environment was also a key consideration for the revision of the outlook.

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

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

### **mBank’s rating by EuroRating**

On April 14, 2022 EuroRating lowered the bank's rating from ‘BBB’ to ‘BBB-’ and changed the rating outlook from negative to stable. The downgrade was mainly due to mBank’s high net loss generated in the fourth quarter of 2021 and the associated reduction in the value of the bank’s equity, as well as the increasing number of lawsuits concerning FX mortgage loans.

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

The table below compares long-term ratings (foreign currency) for mBank, Commerzbank and Poland assigned by Fitch, S&P and Moody’s as of June 30, 2022.

<b>Rating agency</b>	<b>Poland</b>	<b>mBank S.A.</b>	<b>Commerzbank AG</b>
S&P Global Ratings	A- (stable)	BBB (developing)	BBB+ (stable)
Fitch Ratings	A- (stable)	BBB- (negative)	-
Moody’s Investors Service	A2 (stable)	A3 <sup>1)</sup> (stable)	A1 <sup>1)</sup> (stable)

<sup>1)</sup> Long-term deposit rating, for mBank based on publicly available information.

Rating outlook in parentheses

### **mBank’s ESG ratings and indices**

#### **Rating of mBank assigned by Sustainalytics**

In May 2022, mBank Group received ESG Risk Rating from the research and rating agency Sustainalytics at the level of 14.8 (Low Risk). Such a level of the ESG risk is the most advantageous among banks in Poland. Among over 400 diversified banks worldwide assessed by Sustainalytics, mBank ranked 14<sup>th</sup> at the time of the publication of the Sustainalytics report. This Low Risk assessment of ESG Risk Rating belongs to the second-best category under the Sustainalytics’ five-point scale, where the lower the number, the better result it represents. Compared with the previous ESG rating mBank had received from Sustainalytics in 2021, the result was improved by 1.1 point. ESG stands for: Environmental (E), Social (S) and Corporate Governance (G). A company’s final ESG Risk Rating assigned by Sustainalytics is scored on material ESG issues such as corporate governance, data privacy and security, product governance, human capital, business ethics and ESG integration - financials.

Sustainalytics is a global provider of ESG and corporate governance products and services. It analyses companies’ sustainability for over 25 years. Sustainalytics’ ESG Risk Ratings measure the degree to which a company’s economic value is at risk driven by ESG factors, meaning the magnitude of a company’s

unmanaged ESG risks. The ESG Risk Ratings comprise two dimensions, Exposure and Management, to assess how much unmanaged ESG risk a company is exposed to.

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

Sustainalytics ESG Risk Rating Summary Report received based on an annual review along the disclaimer is available on our website: [www.mbank.pl/en/investor-relations/ratings-debt-instruments/](http://www.mbank.pl/en/investor-relations/ratings-debt-instruments/). It must be noted that the score might be subject to change over the year in case of various issues impacting ESG assessment of the company. An up-to-date rating can be obtained by the investors from Sustainalytics.

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

### **Rating of mBank assigned by MSCI**

In July 2021, mBank received a rating of BBB (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. MSCI ESG Ratings aim to measure a company's resilience to long-term ESG risks. Companies are scored on an industry-relative AAA-CCC scale across the most relevant Key Issues based on a company's business model.

MSCI runs its assessment in the following categories: Privacy and Data Security, Financing Environmental Impact, Consumer Financial Protection, Human Capital Development, Access to Finance and Governance.

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

### WIG-ESG index on the WSE

mBank is a member of WIG-ESG index on the Warsaw Stock Exchange since the beginning of its quotation, meaning September 2019. We are one of the companies listed in WIG20 and mWIG40 recognised as sustainable, i.e. obeying rules for social responsibility in particular in scope of environment, social, economic and governance issues. In the previous years we were a member of Respect Index, which was replaced by WIG-ESG. More information on the index is available on the website of Warsaw Stock Exchange: <https://gpwbenchmark.pl/karta-indeksu?isin=PL999998955>.

### Bloomberg Gender-Equality Index 2022

In January 2022, mBank was included, for the second time, in the global Bloomberg Gender Equality (Bloomberg GEI) Index. The Index tracks the performance of public companies that actively support gender equality in the work environment. It comprises 418 companies from 45 countries. Gender equality in the work environment is measured in five areas: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, anti-sexual harassment policies and pro-women brand. This prestigious index includes only companies which have reached or exceeded a global threshold established by Bloomberg. More information about the index can be found on the website: <https://www.bloomberg.com/gei/about/>.

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

### **Information on mBank shares and shareholders**

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

As of June 30, 2022, mBank's registered share capital amounted to PLN 169,655,728 and was divided into 42,413,932 shares, including 42,402,932 ordinary bearer shares and 11,000 ordinary registered shares with a nominal value of PLN 4 each. Each share gives the right to one vote. In H1 2022, the number of shares of mBank S.A. increased by 29,048. The aforementioned shares were issued on the basis of Resolution No. 38 of the 31st Annual General Meeting of the Bank dated 9 May 2018 on the issue of subscription warrants, conditional share capital increase with divestment of the existing shareholders' preemptive right to subscription warrants and shares, change of the company's by-Laws and on applying for admission of shares to trading on the regulated market, and dematerialization of shares.

Commerzbank AG, the majority shareholder of mBank, holds 69.21% of the share capital and votes at the General Meeting. The remaining 30.79% of mBank shares are in free float, with a largest share of financial investors. They include in particular Polish pension funds and Polish and foreign investment funds. As of June 30, 2022, the share of any shareholder, except of Commerzbank AG, did not exceed the 5% threshold of shares and votes at the General Meeting.

mBank shares belong to WSE indices: WIG, WIG-Poland, WIG20, WIG 20TR, WIG30, WIG30TR, WIG-Banks, WIG 140, WIG-ESG, MSCI Poland and CEEplus.

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

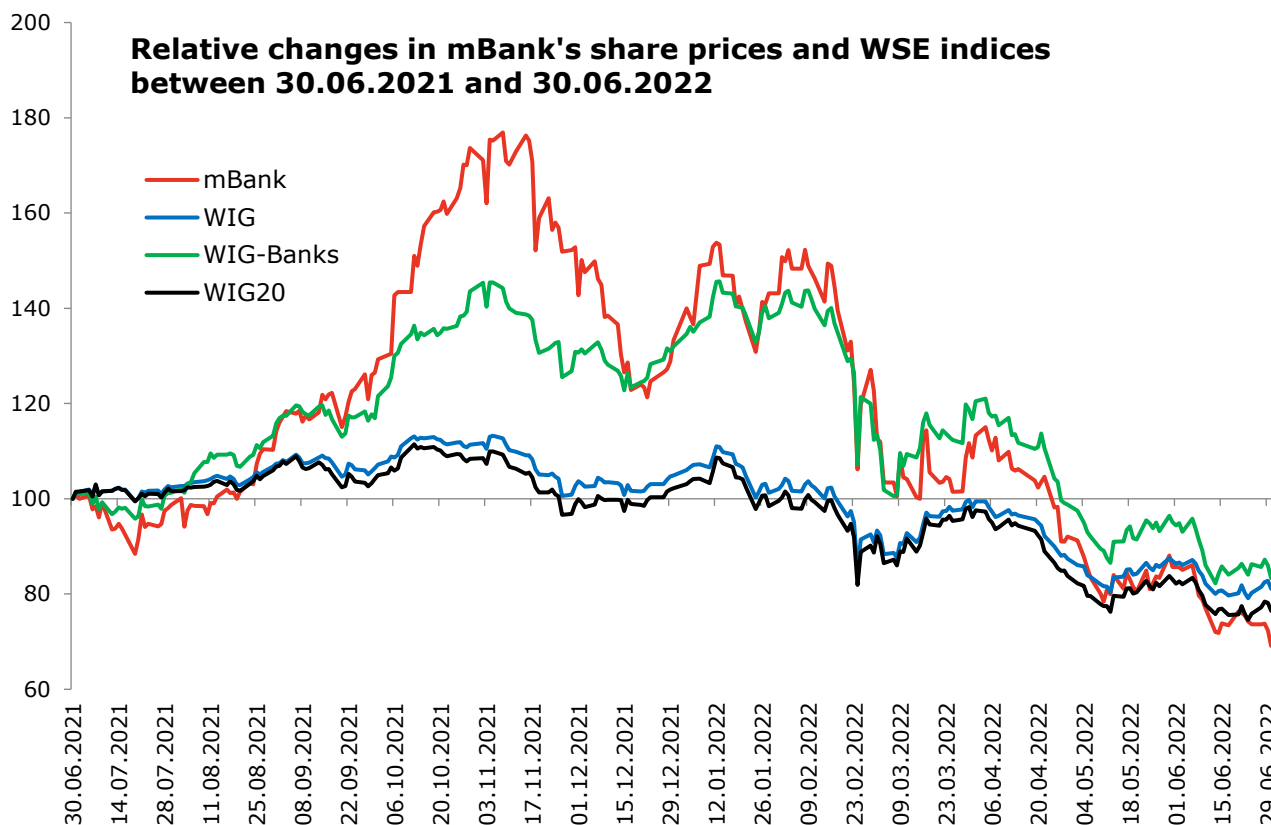
The performance of banking stocks on the Warsaw Stock Exchange (GPW) in H1 2022 reflects the deteriorating prospects for the banking sector despite the continued interest rate increases, which strongly supported the financial results of banks.

In H1 2022, investor sentiment dampened, among others, due to a gloomier outlook for economic growth in 2023, economic uncertainty brought about by external factors, in particular the war in Ukraine and the impact of sanctions imposed on Russia, a halt to Polish import of Russian gas, and an abrupt increase in fuel and gas prices.

The reduction in the price of banking stocks was additionally deepened by the government's plan for the support of mortgage borrowers, which is expected to bring losses to the banking sector running into billions of zlotys. The impact of some of the government's initiatives, in particular the ultimate cost of the credit vacations and the replacement of WIBOR with another benchmark, is still difficult to estimate. All this has fueled uncertainty about banks' future performance. So far they resulted mostly from the legal risk posed by the FX mortgage portfolio. New fears have emerged about how the recent interest rate increases, unprecedented in size and scale, will affect the loan repayment rate in the future, and consequently, the quality of the loan portfolio, cost of risk, and banks' willingness to lend.

The factors mentioned above have weakened the demand for banking stocks and reinforced the downward trend in the share prices of banks.

In H1 2022, the WIG-Banks index fell by 36.9% compared to the end of 2021. The reduction in the prices of banking stocks significantly contributed to the decrease in the main GPW indices. The broad-based WIG Index and the WIG20 index dropped by 25.2% and 36.9%, respectively. For comparison, in H1 2022, the EURO STOXX Banks Index fell by 20.3%.



mBank shares closed the last session in H1 2022 (June 30) at PLN 224.60, which represents a decrease by 48.2% compared with the last session of 2021 (December 30) and by 30.9% year on year. In H1 2022, the lowest price was reported on 30 June (PLN 224.60) and the highest (PLN 499.80) share price was on 12 January.

mBank's capitalisation amounted to PLN 9.5 billion (EUR 2.0 billion) on June 30, 2022, compared with PLN 13.8 billion (EUR 3.0 billion) a year before.

mBank Group's P/BV (price/book value) stood at 0.7 on June 30, 2022, compared with 0.8 reported at the end of H1 2021. The P/E ratio (price/earnings per share) reached 6.4 after H1 2022, compared with 16.2 a year before.

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

## **2. Business activity and key achievements**

### **2.1. Key events in mBank Group in H1 2022**

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

At mBank we continuously improve our online banking and mobile app to make them more intuitive and user-friendly. Bearing in mind the rapidly improving quality of online banking services, we spare no effort to enhance our mobile app which, at the end of June 2022, was used by 3.1 million clients in total. At the end of H1 2022, 1.5 million of our clients banked exclusively using their mobile devices.

#### Finance manager

The latest version of the app includes the personal finance manager (PFM). It enables our clients to analyse their personal budgets on an ongoing basis. Thanks to the history analysis feature, users can compare their expenses and income from the recent months and check the details. The data are presented in a chart and broken down into individual categories of expenses and income (e.g. everyday purchases, entertainment, salary). The finance manager will help clients manage their finances more efficiently and support their financial wellbeing.

#### Online payment and shopping insurance with the broadest coverage on the Polish market

In cooperation with UNIQA, mBank created "Safe online payments and shopping" (Bezpieczne płatności i zakupy online) insurance protecting clients from online scams. The insurance covers situations where a payment does not reach the retailer as a result of a crime, a transfer is made or payment card data are used by an unauthorised party, or where the goods received do not conform to the order or are damaged. Clients are also offered legal support. The insurance protection covers foreign transactions as well. All mBank account holders are eligible for this product. The monthly insurance premium is PLN 6.

#### Identity verification with the eDO App for mBank's corporate clients

mBank has enabled fully remote verification of corporate clients' identity. The function streamlines, among others, the appointment of persons authorised to manage an account or the update of their personal data. Identity verification is based on an e-ID card and a four-digit PIN set up at the office when collecting the e-ID card. The eDO App makes it possible to popularise the use of the electronic chip embedded in the e-ID card. Users' safety is ensured by Polska Wytwórnia Papierów Wartościowych. Clients only need to select the e-ID card verification after logging in to mBank CompanyNet.

#### Account for retail clients with an e-ID card in the mobile app

One year ago, mBank made it possible to open an account using an e-ID card via the bank's website. Now, it is the first bank in Poland to offer this account opening method in its mobile app. Opening an account this way is simple – all you need is a smartphone with NFC and mBank's mobile app.

#### mBank allows the use of public administration services via MojeID

When using public services, mBank's clients can now confirm their identity remotely via MojeID, a solution provided by KIR, which uses online banking data. MojeID is the only solution of this type in Poland that meets the requirements stipulated in the EU regulation eIDAS and in the Act on Trust Services and Electronic Identification.

#### mSzafer qualified electronic signature for mBank's retail clients

mBank's retail clients can sign agreements and official letters with the mSzafer qualified electronic signature, which is legally equivalent to a handwritten signature. They confirm their identity via MojeID in the bank's online banking. To sign documents, clients do not need to have any special tools, such as a card or a reader, or visit a point of sale. All they have to do is buy a signature on the mSzafer website and confirm their identity in mBank's online banking using MojeID. This is the first solution on the Polish market which makes it possible to obtain a qualified certificate fully remotely.

#### **Credit risk sharing transaction worth PLN 9 billion**

In March 2022, mBank and PGGM concluded a credit risk sharing transaction based on the bank's corporate loans portfolio. The transaction relates to a PLN 8.9 billion portfolio of loans to large, medium and small Polish corporates. The transaction marks the first partnership with a Polish bank for the Dutch pension fund PGGM, and mBank's first securitisation transaction overall. The transaction represents a significant milestone for the Polish market, both due to its value (it is the largest securitised portfolio in Central and Eastern Europe) and its innovativeness and complexity, as it is the first synthetic securitisation in Poland that complies with the 'Simple, Transparent, and Standardised' (STS) criteria. It is also the first transaction on the Polish market concluded only with a private investor and the first trade with a credit-linked note issued directly by the bank. The transaction resulted in an approx. 0.6 pp increase in CET1 ratio when

referenced to reported figures for mBank Group at the end of 2021. More information on the securitisation transaction can be found in Note 24 of Condensed Consolidated Financial Statements for the first half of 2022.

### **Third edition of Digital Revolutions with mBank**

On June 24, 2022 mBank launched the third edition of Digital Revolutions. The focal point of the campaign is the website [cyfrowerewolucje.pl](https://cyfrowerewolucje.pl), which is a comprehensive step-by-step guide on how to move a business online. The website offers entrepreneurs a free tutorial on effective sales and inspiring case studies of companies that are already successful on the Internet. Each tutorial ends with a knowledge check. All free materials have been prepared by e-commerce experts. Access to the materials is not restricted to mBank clients only; they are available to anyone who is interested in the topic.

Another component of our educational campaign is a digital revolution contest, in which the contestants can win prizes worth PLN 400,000 in total. The aim of the contest is to help the winning companies carry out a digital revolution. The contestants are asked to present their idea of an online business and justify why it has the potential to succeed in e-commerce. Both companies with long-standing experience and newly established businesses can participate in the contest (participants have to present their turnover for the last three months). The award package includes tools necessary to thrive in e-commerce, which will help the winners set up an online store, master email marketing, tackle legal issues, reach clients, deal with logistics and online payments. The winning companies will also be offered expert knowledge during training courses organised by DIMAQ and mentor support. MasterCard is the strategic partner of the contest.

### **Biuro Informacji Kredytowej invests in a fintech from mAccelerator's portfolio**

At the end of May 2022, Biuro Informacji Kredytowej (Credit Information Bureau, BIK) added the Digital Fingerprints brand to its portfolio. The stake in Digital Fingerprints was acquired by BIK under an agreement with Future-Tech FIZ (mAccelerator), mBank's subsidiary and the company's investor to date.

Digital Fingerprints is a Polish start-up founded in 2017 providing cybersecurity solutions based on behavioural biometrics. The company has developed a security system based on a biometric profile of customer behaviour, which includes the way a client types on the keyboard, moves a computer mouse or uses a mobile application. The algorithms used to build profiles have been developed with the use of artificial intelligence and machine learning processes. The biometric model detects anomalies in a user's behaviour, which makes it possible to identify a fraudulent operation and warn a bank against an unauthorised transfer from an account or false credit application. This technology will allow BIK to strengthen its competences in building sectoral anti-fraud systems and services.

### **Eco-loan for business clients at mBank**

In line with its ESG Strategy for 2021-2025 "From an icon of mobility, to an icon of possibility", mBank supports entrepreneurs in their green transformation and helps them care for the environment. The businesses planning to reduce their energy consumption as well as gas and waste emissions can borrow from PLN 30,000 to 200,000 from mBank on preferential terms. Companies that spend the borrowed funds for environmental purposes will pay no commission for granting the loan, and the margin will be lowered by 1 percentage point. The money will be paid to their business accounts in only 15 minutes after signing the agreement. In order to be eligible for the green loan, entrepreneurs must submit to the bank documents confirming their expenditure on environmental protection activities.

### **mBank helps the victims of the war in Ukraine**

In March 2022 mBank joined the charity collection for the Polish Centre for International Aid (PCPM) Foundation and enabled clients to make quick donations to the Ukrainians fleeing the war. mBank clients collected more than PLN 10 million. The PCPM Foundation will spend it on humanitarian aid for Ukrainians on the territory of Ukraine and those taking refuge in Poland, education of Ukrainian children, and in the future – on rebuilding destroyed Ukrainian cities, schools, hospitals and other critical infrastructure.

In April mBank launched a personal account dedicated to Ukrainian citizens and a fast-track account opening procedure based on an Ukrainian ID card or passport. The account and a card linked to it are offered free of charge. In addition, the bank will set up a dedicated hotline for clients handled by operators speaking Ukrainian.

mBank and the PCPM Foundation also established a centre of education and creativity for Ukrainian mothers and children in mBank's building located in the centre of Warsaw. Every day the centre is visited by dozens of children. The former office now houses a Ukrainian school and offers dance classes, sports activities, art classes or book readings for children. The children can also get help from a psychologist and speech therapist, and attend Polish lessons. Their mothers receive psychological support and career advice. In

addition to the school, a part of the former office space has been transformed into a temporary home for approx. 40 Ukrainians.

**mBank continues to work on decarbonising its credit portfolio and joins PCAF**

mBank is the first Polish bank to join the Partnership for Carbon Accounting Financials (PCAF). This alliance will allow the bank to determine the carbon footprint of its credit portfolio in line with the best standards. The decision was a necessary step towards reaching climate neutrality by 2050. mBank has committed to reduce net scope 1 and 2 greenhouse gas emissions, that is direct emissions from owned or controlled sources and indirect emissions from the generation of purchased energy, to zero by 2030. Climate neutrality in scope 3, which covers all the remaining emissions, is to be reached by 2050. PCAF brings together over 240 financial institutions all over the world. The organisation has developed a harmonised global approach to assess and disclose the greenhouse gas (GHG) emissions associated with the financial sector. This enables financial institutions to make transparent disclosures on the GHG emissions generated by their loan and investment portfolios. The PCAF methodology measures the GHG emissions associated with corporate loans, securities, mortgages and motor vehicle loans.

**mBank in cooperation with other banks finances the Polish shipbuilding industry**

A syndicate of banks signed a guarantee and letter of credit facility agreement with Remontowa Shiprepair Yard in Gdańsk to support the building of RoPax ferries, which is Remontowa's key project for the next several years. When delivered, RoPax vessels powered by dual-fuel engines using liquefied natural gas will be the most environmentally-friendly ferries for passengers and vehicles sailing across the Baltic Sea. Remontowa Shiprepair Yard in Gdańsk is the largest member of the Polish shipbuilding group Remontowa Holding. The facility granted by the syndicate amounts to EUR 81 million. mBank performs the function of a security agent. Each bank will provide bank guarantees, document and stand-by letters of credit in connection with supplies of materials to the shiprepair yard. In addition, banks will use counter-guarantees provided by KUKE. The ferries will run between Świnoujście and Ystad, supporting the development of marine transport and the Polish shipbuilding industry.

**mBank continues to play with the Great Orchestra of Christmas Charity (WOŚP)**

mBank, the main partner of WOŚP, prepared a special offer for the 30th Grand Finale of the Great Orchestra of Christmas Charity held on January 30, 2022. To mBank the 30th Grand Finale was exceptional, as it marked the fifth anniversary of cooperation with WOŚP. This year's fundraising was held to ensure the best standards of diagnostics and treatment of eye diseases and disorders in children. The clients could order collectible payment cards designed by Jurek Owskiak, including fully mobile eco-cards. As always, mBank made a financial contribution to increase the donations of clients. A dedicated heart-shaped icon was added in the mobile app available on Android and iOS enabling its users to make quick donations. All those willing to support WOŚP could also make donations at terminals in our branches and mKiosks. Also mLeasing prepared a special offer supporting the WOŚP fundraising. The subsidiary donated PLN 10 to WOŚP for every picture posted on Instagram or Facebook with a dedicated filter and the hashtag #GramyRazem2022. In addition, mBank and Paynow, an innovative payment tool, set up an online payment gateway at [mBank.pl/WOŚP](https://mBank.pl/WOŚP) enabling various forms of payments.

**News at the brokerage bureau**

mBank brokerage bureau has provided clients with online quotations of foreign markets in the eMakler service and is finishing work on implementing them in other channels, primarily the mBank Giełda application. It is an extremely important element of the offer, increasing the availability of investing in foreign markets, which remain a strategic segment in the development of the offer of mBank's brokerage bureau for retail clients.

**Operations of mBank Foundation**

To mark the celebration of the Earth Day, on April 22, 2022 mBank Foundation presented its new book "Green Mathematics" (Polish: "Matematyka na zielono"). Authored by Maja Krämer, the book provides an approachable mathematical explanation of the reasons and consequences of the impending environmental disaster. It encourages family discussions about changing everyday habits and living a more sustainable life, and at the same time, highlights the practical use of mathematics.

The book was published in a limited edition of 50,000 copies on FSC® certified paper. It means that the paper was produced in a socially and environmentally sustainable manner in a strictly controlled production process. The book was distributed by mBank branches until 30 June, during which time nearly 30,000 free copies were handed out to readers. The remaining printed copies will be donated to science centres, schools, libraries, etc.

In March, mBank Foundation launched the ninth edition of its flagship grant programme "mPower" (Polish: "mPotęga"). The programme promotes intriguing aspects of mathematics, helps students and teachers



explore maths in a friendly manner, and rewards unconventional approach to mathematical education. The results of the contest were announced in June. This year, grants were awarded to 114 projects from all around Poland, with the donations for beneficiaries totaling nearly PLN 632,000. Moreover, each of the two projects that polled the greatest number of votes online received an additional grant of PLN 5,000. All the projects will be implemented from September to December 2022.

On March 30, which is the birthday of the brilliant Polish mathematician Stefan Banach, mBank Foundation announced the results of its annual "A Step into the Future" (Polish: "Krok w przyszłość") competition. The jury of the contest chaired by professor Paweł Strzelecki from the Faculty of Mathematics, Informatics and Mechanics of the University of Warsaw selects the best papers in mathematics written by students that promote innovative, original ideas or set new research directions and methods. Seven out of 25 papers submitted for the competition qualified for the final of the 2021/2022 edition. The jury awarded the main prize of PLN 20,000 and two distinctions of PLN 10,000 each. On June 30, mBank Foundation announced the next (seventh) edition of the contest.

### **The EMTN Programme**

The Euro Medium Term Note Programme (EMTN) enables the issuance of debt securities in many tranches and currencies, with a different interest and maturity structure. Under the 2012 Programme, mBank's subsidiary based in Paris - mFinance France was the issuer of the bonds and mBank acted as the guarantor. Between 2012 and 2017, mFinance France completed six issues of bonds in CHF, EUR and CZK.

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

In September 2021 mBank placed its debut EUR 500 million Senior Non-Preferred Green Bonds with maturity on September 21, 2027 (with an option of early redemption at the request of the issuer on September 21, 2026).

The following table presents a summary of outstanding tranches:

<b>Issue date</b>	<b>Nominal value</b>	<b>Maturity date</b>	<b>Coupon</b>
28.03.2017	CHF 200,000,000	28.03.2023	1.005%
05.09.2018	EUR 460,030,000	05.09.2022	1.058%
05.04.2019	CHF 125,000,000	04.10.2024	1.0183%
20.09.2021	EUR 500,000,000	21.09.2027	0.966%

## **2.2. Awards and distinctions**

In H1 2022, mBank Group has gained recognition, winning a number of awards and distinctions, with the most important as follows:

### Leaders of the Banking and Insurance World competition

mBank has been recognised as the most innovative bank in the Leaders of the Banking and Insurance World competition. The jury acknowledged mBank's contribution to the development of the financial market, in particular its wide range of mobile payments and other innovations, which set trends for the whole market. The main aim of the competition is to reward people who meaningfully contributed to the development of the banking and insurance sector in Poland, as well as the most efficient banks and insurance companies and the most interesting solutions.

### Mobile Trend Awards

In the first quarter of 2022 mBank received three Mobile Trends Awards. The mBank Junior app won the main prize in MTA 2021 and the first place in the Banking and Finance for Children category. In addition, the mBank app was ranked second by votes of clients. The Mobile Trends Awards are granted to mobile technology projects based on the criteria of innovation, creativity, flawlessness and customer-friendliness. The competition jury consists of experts with many years of experience in the mobile industry.

### Golden Banker 2022

mBank received awards in four categories in the Golden Banker 2022 league table organised by Bankier.pl and *Puls Biznesu*. mBank won:

- 1st place in the Mortgage Loan category,
- 1st place in the Cash Loan category,
- 3rd place in the Social Media category,
- distinction in the Secure Bank – Best Practice category.

### Stars of Banking

With a score of 96.7 points out of 100 mBank triumphed in the ESG category and ranked among top three in the innovation category in the Stars of Banking competition organised by *Dziennik Gazeta Prawna* daily and PwC Polska. This way the bank moved up to the second place in the general league table. The awards were made by an independent jury composed of experts from *Dziennik Gazeta Prawna*, PwC Polska, Digital University and Polish Business Roundtable (PRB). Banks were assessed in seven categories: growth, stability, efficiency, innovation, customer relationships, sustainable development, and overall business. The main prize is awarded based on individual categories and the jury's assessment. mBank is particularly proud of its score in the ESG category as it attaches great importance to actions supporting the environment, social responsibility and corporate governance standards.

### Diversity IN Check 2022

mBank was named on the Diversity IN Check 2022 list. The list compiled by the Responsible Business Forum covers employers that are most advanced as regards inclusion and diversity management in Poland. This year mBank adopted the Diversity and Inclusion Policy at mBank S.A. The policy not only sums up mBank's activities so far, but it is also an important part of the strategy for upcoming years and it is connected with ESG goals regarding social responsibility. mBank believes that through diversity and inclusion, it contributes to its own social responsibility. As a signatory of the Diversity Charter we want to build a corporate culture where everybody feels good and unrestrained.

### CSR Leaves

In the CSR Leaves competition, *Polityka* weekly, Deloitte and the Responsible Business Forum granted mBank a Silver Leaf and a special prize for best practises as regards support for Ukraine. This year, mBank's efforts relating to ESG were rated higher than in 2021. Special thanks should be given to our clients and employees, who have helped Ukrainian refugees with dedication. Together we managed to collect over PLN 10 million on behalf of PCPM – the Polish Centre for International Aid, provide shelter for over 60 people and room for an Ukrainian school "Materynka" and PCPM's centre of education and creativity for children from Ukraine.

### mBank's press office hailed the best among Polish banks

Based on its market research, ARC Rynek i Opinia Sp. z o.o. recognised mBank's press office as the best one in the Polish banking sector. The assessment was conducted by financial journalists from top Polish

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

Management Board Report on the Performance of mBank S.A. Group in H1 2022

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media outlets. They recognised our press office's quick and active responses, high awareness of the specificity of journalists' work, relationship building skills and an interesting method of presenting topics.

### Polish Contact Centre Awards

mBank's Contact Centre was distinguished in the Polish Contact Centre Awards again. mBank received as many as six awards. Contact centres from many industries (finance, e-commerce, energy, central government and other) take part in the competition. mBank won main prizes in the Best Contact Centre Consultants Team and Best CC Employer categories. Moreover, mBank was distinguished in the following categories: Live Chat Support, Best Contact Centre Support Team, Internal Advancement in the Organisation, WOW Effect During a Conversation.

### GPW Benchmark Award for mBank Hipoteczny

mBank Hipoteczny received an award from GPW Benchmark. The subsidiary was recognized for the promotion of indices and benchmarks in development of the covered bond market and modern forms of real property financing in 2021. The award was granted during the annual Stock Exchange Summary gala, which honours leading capital market companies. The WSE representatives distinguished the best performing institutions which distinctly contributed to the development of the Polish capital market in 2021.

### mBank's Brokerage Bureau awarded by market commentators

In 2021, mBank's Brokerage Bureau gained 60,000 new clients. Now, the highest quality of our products has been confirmed by market commentators. In February 2022, mBank's eMakler account was ranked first in the 10th league table featuring the best brokerage services compiled by *Puls Biznesu*. In April, mBank's Brokerage Bureau was distinguished by the Warsaw Stock Exchange as the capital market leader in the category of trading on New Connect in 2021.

### Employer Branding Excellence Awards

The jury recognised mBank's actions in terms of recruitment with four distinctions during an EB Summit organised by HRM Institute:

- online campaign for the "Trafiaj po nitce do kłębka, czyli jak zagadki pomagają zatrudnić talenty?" project,
- online campaign for the "MIT czy HIT? Czyli jak z humorem zwiększyliśmy liczbę aplikacji do IT" project,
- image film for the "MIT czy HIT? mBank i cała prawda o pracy IT w bankowości" project,
- career page for the "Strona www.itwmbanku.pl – efektywna platforma komunikacji do specjalistów IT" project.

### Trustworthy Brand

mBank has been awarded the Trustworthy Brand by My Company Polska in two categories: Bank Offering Company Accounts and Bank Offering Corporate Loans. Thus, mBank received a distinction for the sixth time. The award is based on questionnaires submitted by Polish entrepreneurs and reflects their trust and appreciation for mBank as a business partner.

### AD WO/MAN 2021

Rafał Jakubowski, marketing director at mBank, was awarded in the 10th AD WO/MAN 2021 contest in the Ad Marketer of the Year category. Rafał has been working as marketing director at mBank since November 2014 and has more than 20 years of experience in company and brand marketing management. The AD WO/MAN of the Year title is awarded for accomplishments in the industry, innovative approach, creativity and promotion of the highest standards. The contest is organised by Press magazine, and the winner is selected in a vote by advertising, media and PR agencies, interactive companies, production, post-production and sound studios.

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

### 2.3. Retail Banking Area

mBank's Retail Banking segment serves 5,587 thou. individuals and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 177 branches\*. The bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key financial data (as at the end of H1 2022):

<b>Share in pre-tax profit</b>	<b>Profit before tax</b>	<b>Income</b>
<b>77.9%</b>	<b>PLN 1,022.2 M</b>	<b>PLN 2,524.8 M</b>

#### Key highlights

- Profit before tax increased by 60.3% compared to H1 2021, mainly due to higher net interest income.
- Net fee and commission income increased by 28.6% year on year.
- Sales of non-mortgage loans increased by 13.1% year on year, at the level of PLN 5.3 billion.
- Growing number of active users of mBank's mobile application: +4.7% compared with end of 2021.
- In cooperation with UNIQA, mBank created online payment and shopping insurance with the broadest coverage on the Polish market.
- Third edition of Digital Revolutions – mBank supports companies in moving business online.
- mBank brokerage bureau has provided clients with online quotations of foreign markets in the eMakler service. It is an extremely important element of the offer, increasing the availability of investing in foreign markets.
- Introduction of personal financial management functionalities (PFM) in mBank's application. PFM analyses transaction history of the client on a constant basis. Among others, it allows to compare spending and inflows from recent months, as well as to check their details.
- Further development of additional services in mBank's mobile application: adding qualified electronic signature (mSzafir) and support for extended functionality of KIR's mojeID solution for public administration services.
- Value of transactions made by mBank's payment cards increased by 29.7% year on year; the number of transactions up by 25.5% year on year.

\* Including 131 in Poland and 46 in the Czech Republic and Slovakia; excluding mFinanse (40) and mKiosks (149).

**Financial results**

In H1 2022, the Retail Banking segment generated a profit before tax of PLN 1,022.2 million, which represents an increase by PLN 384.6 million, i.e. 60.3% compared with H1 2021.

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Net interest income	1,265.6	1,919.0	653.4	51.6%
Net fee and commission income	459.3	590.6	131.2	28.6%
Net trading income	17.2	34.4	17.1	99.4%
Other income	2.9	-49.8	-52.7	+/-
Net other operating income	-3.1	30.6	33.7	-/+
<b>Total income</b>	<b>1,742.1</b>	<b>2,524.8</b>	<b>782.8</b>	<b>44.9%</b>
Net impairment losses and fair value change on loans and advances	-233.8	-292.7	-58.9	25.2%
Overhead costs and depreciation	-739.3	-1,025.8	-286.5	38.7%
Taxes on the Group balance sheet items	-131.4	-184.2	-52.8	40.2%
<b>Profit before tax of Retail Banking</b>	<b>637.6</b>	<b>1,022.2</b>	<b>384.6</b>	<b>60.3%</b>

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

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

thou.	30.06.2021	31.12.2021	30.06.2022	Semi-annual change	Annual change
<b>Number of retail clients, including:</b>	<b>5,464.3</b>	<b>5,514.6</b>	<b>5,587.2</b>	<b>1.3%</b>	<b>2.2%</b>
Poland	4,449.1	4,487.8	4,548.8	1.4%	2.2%
Foreign branches	1,015.2	1,026.9	1,038.4	1.1%	2.3%
The Czech Republic	709.7	717.8	723.0	0.7%	1.9%
Slovakia	305.5	309.0	315.5	2.1%	3.3%
<b>Mobile application users</b>	<b>2,751.2</b>	<b>2,959.8</b>	<b>3,099.7</b>	<b>4.7%</b>	<b>12.7%</b>
Poland	2,422.7	2,587.9	2,714.5	4.9%	12.0%
Foreign branches	328.4	371.9	385.2	3.6%	17.3%
<b>PLN M</b>					
<b>Loans to retail clients, including:</b>	<b>70,019.2</b>	<b>73,236.5</b>	<b>75,595.4</b>	<b>3.2%</b>	<b>8.0%</b>
<b>Poland</b>	<b>61,009.7</b>	<b>63,430.6</b>	<b>65,354.9</b>	<b>3.0%</b>	<b>7.1%</b>
mortgage loans	42,593.0	44,320.9	45,931.7	3.6%	7.8%
non-mortgage loans	18,416.7	19,109.7	19,423.2	1.6%	5.5%
<b>Foreign branches</b>	<b>9,009.5</b>	<b>9,805.9</b>	<b>10,240.5</b>	<b>4.4%</b>	<b>13.7%</b>
The Czech Republic	6,276.6	6,831.1	7,147.1	4.6%	13.9%
Slovakia	2,732.9	2,974.8	3,093.4	4.0%	13.2%
<b>Deposits of retail clients, including:</b>	<b>106,838.2</b>	<b>112,377.9</b>	<b>109,763.7</b>	<b>-2.3%</b>	<b>2.7%</b>
<b>Poland</b>	<b>91,336.0</b>	<b>96,586.7</b>	<b>93,511.4</b>	<b>-3.2%</b>	<b>2.4%</b>
<b>Foreign branches</b>	<b>15,502.3</b>	<b>15,791.2</b>	<b>16,252.3</b>	<b>2.9%</b>	<b>4.8%</b>
The Czech Republic	10,961.4	11,018.6	11,393.2	3.4%	3.9%
Slovakia	4,540.8	4,772.7	4,859.1	1.8%	7.0%
<b>Investment assets of mBank individual clients (Poland)</b>	<b>22,425.9</b>	<b>22,076.7</b>	<b>18,209.6</b>	<b>-17.5%</b>	<b>-18.8%</b>
<b>thou.</b>					
<b>Credit cards, including</b>	<b>380.3</b>	<b>376.8</b>	<b>364.2</b>	<b>-3.3%</b>	<b>-4.2%</b>
Poland	343.1	340.5	328.8	-3.5%	-4.2%
Foreign branches	37.2	36.2	35.4	-2.2%	-4.8%
<b>Debit cards, including:</b>	<b>4,281.7</b>	<b>4,456.9</b>	<b>4,628.7</b>	<b>3.9%</b>	<b>8.1%</b>
Poland	3,609.0	3,777.2	3,929.0	4.0%	8.9%
Foreign branches	672.7	679.7	699.7	3.0%	4.0%

## Retail Banking in Poland

We introduced a number of new functionalities and improvements for clients in H1 2022 to make mBank's services even easier to use. The key implementations are described in Chapter 2.1. Key events in mBank Group in H1 2022. The new functionalities include, among others finance manager (PFM) which analyzes the budget of the client and eco-loan for small businesses on preferential terms. The new offer is a milestone towards the implementation of the new strategy for 2021-2025 of mBank Group "From an icon of mobility, to an icon of possibility" and is in line with its assumptions, such as taking care of the financial health of our clients and supporting entrepreneurs in eco-transformation and caring for the environment.

Throughout the first half of 2022 we carried out business in an environment of rising interest rates. Due to rising inflation and rate hikes and as a consequence rising interest rates of loans, our clients were limiting consumption and took cautious approach to incurring liabilities. For more information on the macroeconomic environment see chapter 3.1. Economy and banking sector in H1 2022.

In H1 2022, we continued to promote mBank's eco-friendly solutions among our clients. In April, customers received the first cards made of 85% recycled plastic. We systematically replace new plastic with recycled plastic for other types of cards. Also during the 30th Final of the Great Orchestra of Christmas Charity, we offered our customers a plastic-free card with the image of the Great Orchestra of Christmas Charity (Mastercard Mobile). Every 6th WOŚP card issued is a Mobile MC. Thanks to the above activities, as well as the continuation of the promotion of plastic-free cards - Mastercard Mobile and virtual eCard - we saved 850 kg of plastic in half a year.

mBank's mobile application has 3,100 thousand users in Poland. Monthly active users (MAU) increased by 6.6% YoY up to 3,135 thou. The significance of the mobile channel in daily banking continues to rise. Share of the mobile application in the sale of non-mortgage loans (by number of pieces) increased to 52% at the end of H1 2022 compared to 42% at the end of 2021. For more information concerning new mobile solutions, see Chapter 2.1. Key events in mBank Group in H1 2022.

In January 2022, we supported the Grand Finale of the Great Orchestra of Christmas Charity (WOŚP). The 30th jubilee final of the Great Orchestra of Christmas Charity was also the 5th anniversary of mBank's cooperation with the foundation. Over the last five years, mBank together with its clients donated nearly PLN 70 million for the initiatives supported by the Grand Finales of WOŚP. This year, WOŚP raised funds to ensure the highest standards of diagnostics and treatment of sight in children. On that occasion mBank prepared a special offer, among others collector's cards, joint donations and numerous facilitations for the support of the Foundation's initiatives through the application, website page and in the branches. Our clients can support WOŚP at any time during the year and benefit from a variety of promotions.

### Retail banking offer for individuals

#### *Non-mortgage loans*

The stabilizing pandemic situation, accompanied by a continuous rate hikes and rising inflation, made the first half of 2022 a major challenge for the retail loans area. We ended the analyzed period with the result of over PLN 2.9 billion in the volume of loans granted, an increase by 6.9% compared to the same period last year (PLN 2.7 billion). The reasons for the satisfactory result can be found, among others, in the strengthening of our offer position on the non-mortgage loan market, as well as in the liberalization of the credit policy.

The undoubted leader of sales growth in the first half of the year were electronic channels, which managed to break last year's records and achieved over 50% share in unsecured loans sales. We also note the constantly growing share of sales in the mobile application.

By continuing to optimize processes, we provide our clients with the fastest and most convenient sales process. To meet the diverse and growing needs of our clients, we differentiate the interest rates in relation to the segments and we offer more attractive interest rates on cash loans for active clients who bank with us on a daily basis. We also develop a document upload process aimed at reducing the formalization of applying for a loan, further digitizing and simplifying the process. For new clients opening an account at mBank, we offer the possibility of declaring the amount of income in order to receive a loan offer to start.

#### *Mortgage loans*

At the end of 2021, we launched a promotional offer of eco-loans for the purchase or construction of energy-efficient real estate. In the first half of 2022, the value of granted eco-loans significantly exceeded our expectations. However, it should be borne in mind that the market environment (inflation, high interest rates, material and labor prices) may reduce customers' appetite for green construction in the following quarters of 2022.

Despite the deteriorating market conditions, the value of sales of mortgage loans in the first half of 2022 amounted to PLN 4.4 billion, an increase of 8.6% compared to the first half of 2021. The market share of mBank in this period increased from 10.9% to 13.4%. The war in Ukraine, interest rate increases and a decrease in customer creditworthiness after the KNF significantly increased the buffer for calculating it, caused a decrease in sales on the market at the end of June 2022 by nearly 60% year on year, which also had a negative impact on mBank's sales results in this area.

The NPL ratio of the retail mortgage loan portfolio in Poland stood at 1.94% as at June 30, 2022 compared to 1.70% a year before.

#### *Deposits*

mBank reported a decrease of balances in clients' current and saving accounts in H1 2022. The key factor behind this situation was elevated inflation, which forced clients to incur higher expenses related to addressing basis needs as well as actions of our competitors. Moreover, the Ministry of Finance was active with the sale of treasury bonds. The level of the sale amounted to PLN 30,9 billion in H1 2022, including PLN 14 billion in June 2022 only.

In the first half of 2022 mBank often took action to encourage clients to start saving. Thanks to the measures the volume of funds accumulated by the clients in term deposits increased by 48.7% compared to the end of 2021.

Retail banking deposits in Poland stood at PLN 93,511.4 million as at June 30, 2022 v. PLN 91,336.0 million as at June 30, 2021 (+2.4% year on year).

#### *Cards and accounts*

At the beginning of 2022, on the occasion of the 30th finale of the Great Orchestra of Christmas Charity, mBank's clients could order a unique card to their account which was designed by Jurek Owsiak. The cards were available to both existing clients and persons who were just opening an account. For the first time, clients could also order a mobile card with the portrayal of the Great Orchestra of Christmas Charity (without plastic). The mobile card is immediately activated in the mBank application and ready to be used. mBank has issued over 46,000 plastic cards and over 8,000 mobile cards.

In the last week of June, mBank introduced to its offer of limited edition icon cards the card for the 28th Pol'and'Rock festival. The card is available to both existing and new customers. The total number of issued plastic cards amounted to 15,000. Persons who care about the ecology can order mobile Pol'and'Rock card.

Mid-April, mBank has begun the process of migrating from plastic cards to cards made of recycled material in 85%. The first such card which went to our customers was the basic eKonto card, a well-known dolphin - Visa payWave. Since the start of the process, we have issued over 133,000 ecological cards to clients.

Holiday benefits are available to mBank clients during the special offer which lasts from June 1 to September 30, 2022. The clients need to activate or already have an active Multi-currency Service. The benefit package includes: multi-currency service, free-of-charge ATM withdrawals abroad, a discount on travel insurance and additional discounts in mOkazje (mDeals). In addition, clients who signed up for the bonus will have up to PLN 100 from payments made with their debit cards abroad returned to their account. The bonus will be paid after the end of the promotion, at the latest until October 30, 2022.

Since the end of 2021, we have extended the offer of using cards on mobile devices to Xiaomi Pay and SwatchPay!. The popularity of this type of payments grows each year. mBank is a leader in the category of payments with mobile devices. In the first half of 2022, mBank's clients made nearly 173 million of mobile transactions, which is 1/3 of the domestic market.

The value of payments made by mBank retail banking clients with cards in Poland in H1 2022 stood at PLN 35.4 billion, representing an increase of 29.7% year on year. The number of transactions of mBank clients increased by 25.5% year on year. The market share of mBank cards' transactions remains at stable level and amounted to 12.4% at 31 March 2021.

#### Investment funds for individuals

In the first half of 2022, main classes of assets recorded losses which impacted investment decisions of mBank's clients. The net cash flows into and out of investment funds was negative in H1 2022. Within such difficult market conditions, mBank launched promotions to support the sale of funds. mBank has implemented another edition of the "Save and Invest" promotion (combination of investment in funds with a bank deposit). Moreover, mBank encouraged regular investing through the "Up to PLN 150 for regular investment" promotion.



In March, the bank's offer was enriched with a one-time investment advisory service. As part of this service, mBank suggest pre-prepared investment strategies available under the umbrella fund mFundusze Dobrze Lokujące SFIO to clients who strive to open their investment goal.

#### Brokerage and asset management

The Brokerage Bureau of mBank provides a full range of brokerage services to individuals, institutional clients and private banking clients. We are the leader in the retail clients category. When cooperating with affluent clients, we combine state-of-the-art technology with experience and professionalism. We also serve the largest Polish institutional investors, including pension funds, investment funds, and asset management companies. Our clients also include foreign funds. The Brokerage Bureau enables clients to trade in regulated markets in Poland and abroad as well as in the OTC (CFD) market. As part of wealth management services, clients can use investment advisory and asset portfolio management services. The Bureau is an active player in the equity market, preparing and conducting public and private offerings (IPO/SPO/ABB).

In H1 2022 the turnover on the Warsaw Stock Exchange (WSE) dropped modestly compared with H2 2021 due to unfavourable market conditions. The share of domestic institutions and retail clients (which are mainly served by Polish brokers) decreased, while that of foreign institutions (served by foreign brokers) grew. The turnover on the WSE main market remained similar year on year, dropping only marginally. The turnover of BM on the WSE main stock market amounted to PLN 13 billion (-29% year on year), which made mBank the ninth player in terms of total turnover (drop from the 7th place with a share of 4.0%) and seventh player from the perspective of turnover on clients' account (5.3% share). Five most active Warsaw Stock Exchange brokers are remote members serving foreign clients.

mBank's Brokerage Bureau is the second player on the market as regards the number of new investment accounts; we opened approx. 16,600 such accounts in the period under review. The number of brokerage accounts of the Brokerage Bureau's clients amounted to ca. 407,000 at the end of H1 2022.

Since the beginning of 2022, we have observed a growing interest of our clients, especially new ones, in investing in foreign markets. At the end of H1 2022, foreign assets accounted for approx. 12% of all assets of retail clients. More than 45,000 clients held them in their portfolios.

In H1 2022 investment strategies managed by mBank's Asset Management Department yielded negative investment results, which reflects the global trends in the financial markets. At the same time, 9 out of 11 model asset management strategies offered to private banking clients (MultiAsset, Dynamic Growth, ESG Dynamic Growth, Capital Protection, Polish Small and Medium-Sized Enterprises, Aggressive Allocation, Income Strategy, Sustainable ESG, Sustainable Growth) outperformed their respective market benchmarks. In addition to the above, it is worth stressing that the results of Polish debt funds were relatively good compared with the competition.

Assets managed by Asset Management Department shrank by almost 10%, to approx. PLN 3.3 billion. The decrease was mostly attributable to mFundusze Dobrze Lokujące offered in the retail channel and the widely distributed mFundusz Konserwatywny, and, to a smaller extent, to insurance capital funds. On the other hand, private banking asset management strategies generated an increase in assets by slightly more than PLN 30 million. The increase in the value of assets recorded in this area was almost exclusively attributable to a new investment strategy based on Polish Treasury bonds.

In H1 2022 the Asset Management Department of mBank's Brokerage Bureau continued to implement numerous educational and informational campaigns on investing in order to address clients' needs identified by mBank. Some examples of such campaigns include webinars (available to the public and offered only to clients and/or employees), media appearances and regular publications addressed directly to clients and employees (e.g. Expected Investment Directions and Investment Compass).

In H2 2022 the preparations for setting up mTFI will be continued. mBank's application filed with the Polish Financial Supervision Authority (KNF) in 2021 is still pending consideration by the regulator. The creation of mTFI will allow mBank greater flexibility in adjusting its product range to changing expectations of clients and market fluctuations. In this context it is worth stressing that the ESG agenda is one of the pillars of mBank's strategy for 2021-2025, which will have a material impact on the bank's investment product range in the future.

In H1 2022, the stock market was characterised by extremely low transactional activity (3 ABB transactions, including ABB for Enea and PGE, state-controlled companies from the power industry, and IPO for Creotech, which moved from New Connect to the WSE main market). In consequence of supply chain disruptions during the Covid-19 pandemic and the outbreak of the war in Ukraine, the situation on the WSE has deteriorated significantly since the beginning of 2022, making it virtually impossible for existing or new issuers to increase their share capital and for shareholders to sell their stakes.

In the period under review, despite unfavourable market conditions, mBank's Brokerage Bureau performed four takeover bids for the sale of shares of a WSE-listed company, three share buybacks, and two squeeze-outs.

#### Offer for SMEs

In H1 2022 the number of new enterprises on the market rose. The introduction of the Polish Deal had a significant impact on the increase. The program sparked interest in legal forms other than sole proprietorship. Moreover, Ukrainian citizens considering setting up their own businesses contributed to the increase as well.

In H1 2022 we continued our flagship programme "24 months free of charge" in two acquisition processes: opening of new accounts and "Firmootwieracz" enabling clients to set up a business and open a company account at mBank. We added an option to use accounting services on preferential terms and Moneyback for new entrepreneurs using the "Firmootwieracz" process. At the end of H1 2022 we started adding to our product range new solutions that fill in the gaps on the market and respond to the needs of our clients, such as auxiliary accounts (with cards) and foreign currency accounts in EUR and/or USD (also with cards).

In accordance with mBank's ESG strategy we also launched a new product, "eco-loan" dedicated to financing eco-friendly investments. The product complies with the goals set out in Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investments.

In November 2020 mBank enabled its clients to use MojeID as part of its commercial services. In February 2022, thanks to stronger cooperation with KIR and integration with the National Hub (login.gov.pl), mBank clients were given unrestricted remote access to the services provided by public administration offices and systems, e.g. ePUAP, Internet Patient Account, or websites such as praca.gov.pl or biznes.gov.pl. This implementation also enabled mBank clients to set up Trusted Profiles and use them, among others, to sign official letters or submit statements, e.g. to the Tax Office or the Social Insurance Institution (ZUS).

In the e-commerce area, retail transactions processed through the Paynow gateway surged by 78.1% in H1 2022 compared with H1 2021. We also improved buyers' experience by implementing a functionality enabling them to finish interrupted payments, which resulted in increasing the number of successfully paid purchases made in online stores operated by our clients. Moreover we launched a new special offer based on progressive rates where the commission paid by clients depends on the volume of transactions generated by them in the Paynow gateway. The new offer allowed for optimising the costs borne by our clients, and by doing so, positively affected the growth of their online stores. The aforesaid measures pushed up the number of new Paynow gateways installed.

Invariably, it is our priority to help entrepreneurs find solutions to the business problems they face on a daily basis. For instance, in H1 2022 we helped them understand the assumptions underlying the Polish Deal. We provided clients with publications about amendments to the act, organised educational webinars with a tax advisor who responded to questions of entrepreneurs, and set up a dedicated hotline where clients could ask additional questions to a professional accountant who helped resolve their doubts.

In the coming months we plan to expand the product range dedicated to entrepreneurs by offering them support in opening a limited liability company (Polish: spółka z o.o.) and a package of additional services dedicated to this client group.

We also plan to launch new services for clients, such as SOFT POS, and e-commerce clients. As far as the ESG agenda is concerned, we plan new initiatives supporting the green transformation of companies as well as entrepreneurship in Poland, in particular, among women.

#### Relations with UNIQA

In H1 2022, mBank continued to cooperate with its strategic insurance partner UNIQA in the area of bancassurance. The cooperation covers the sale of insurance to mBank's clients and focuses on the segment of standalone products, i.e., motor insurance, travel insurance, real property insurance, life and health insurance and a new type of insurance – "Safe online payment and shopping insurance". For more information on the new offer, see chapter 2.1. Key events in mBank Group in H1 2022.

mBank develops its insurance product portfolio to meet the needs of its clients who intensively use direct channels to fulfil their needs and contact the bank. As a result, the standalone insurance product mix is available in every access channel. In June 2022, the bank added a new product for the e-commerce market, "Safe online payment and shopping insurance", to its insurance product portfolio. All standalone products can be purchased in mBank's mobile app. Between January and June 2022, 32% of standalone insurance products were purchased via the mobile app (+10 pp year on year). The relaxation of COVID-19 restrictions translated into an increase in the number of trips and, thus, a higher number of travel insurance policies

sold. In H1 2022 this policy category was a significant component of the portfolio in terms of quantity, in particular in the mobile channel.

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

In H1 2022 mBank in the Czech Republic and Slovakia continued its focus on the digitalization and strengthening its position in non-mortgage lending by switching the resources from mortgage lending and changes in price setting logic.

Focus on digital and mobile solutions was mainly visible through further improvements of the customer experience when using the mobile application. Thanks to the implemented changes customers are able to check the account number as well as make the payments in a more convenient way. Following the launch of our first fully virtual card in Q4 2021, mBank has launched several activities to support its adoption by customers. Thanks to it, eKarta became the second most issued card type within Czech Republic and Slovakia.

In H1 2022 mBank in the Czech Republic and Slovakia was focusing on strengthening its position in non-mortgage lending. Apart from a new pricing model, we improved the process of granting the loan which led to the significant increase in outstanding balances and record high new sales as well as continuously increasing market share of mBank Czechia and Slovakia in the cash loan area.

Thanks to the changes in pricing – simplification, significantly improved monitoring and changes in card area management, the fee and commission income generated in the foreign branches increased significantly in H1 2022 compared to H1 2021.

#### Loans and deposits

mBank's loan portfolio in the Czech Republic and Slovakia amounted to PLN 10,240.5 million as at June 30, 2022, representing an increase of 13.7% year on year. The mortgage loan portfolio reached PLN 7,817.7 million as at June 30, 2022, representing an increase of 4.8% year on year (the increase results from depreciation of Polish zloty – the value in local currencies decreased slightly due to the change of strategy implemented in 2021).

mBank was able to successfully switch its resources from sales of mortgage loans to sales of cash loans and achieved record high results of new non-mortgage loan sales representing 76.8% year to year growth in foreign branches.

Thanks to above mentioned improvements, the non-mortgage loan portfolio grew and stood at PLN 2,422.8 million as at June 30, 2022, up by 56.0% year on year, in the Czech Republic and Slovakia.

The volume of deposits continue to grow on Slovakia while level off in Czechia, where we can observe moves between current and saving accounts resulting in total outstanding balances of PLN 11,393.2 in Czechia and PLN 4,859.1 in Slovakia.

## 2.4. Corporate and Investment Banking Area

The Corporate and Investment Banking segment serves 32,664 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 - annual sales of PLN 50 million – 1 billion) and small enterprises (K3 - annual sales below PLN 50 million and full accounting), through a network of dedicated 43 branches. mBank Group’s offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring.



Key financial data (at the end of H1 2022):

<b>Share in pre-tax profit</b>	<b>Pre-tax profit</b>	<b>Total income</b>
<b>62.5%</b>	<b>PLN 819.5 M</b>	<b>PLN 1,626.4 M</b>

### Key highlights

- Increase of total income by 45.0% year on year.
- Increase of net fee and commission income by 23.6% compared with H1 2021.
- Increase of corporate loans at the Group level by 12.8% compared to the end of 2021, along with stable mBank Group’s market share in corporate loans at 8.3%.
- Increase of corporate deposits at the bank level by 14.4% compared to the end of 2021.
- 82% of our corporate clients use mBank Company Mobile application, while the number of individual users increased by 36% in the last 12 months.
- Development of CompanyMobile application for SME and corporate clients: added the possibility of remote identity verification via e-ID and eDO App. The function facilitates and speeds up the appointment of a plenipotentiary to the account or updating personal data.
- January 2022 marked the fifth anniversary of cooperation between the Great Orchestra of Christmas Charity, which played for the 30th time this year, and mBank, the foundation's main banking partner. The foundation raised money to ensure the highest standards of diagnosis and treatment of eyesight in children. During the five-year cooperation, mBank and its clients supported the foundation's goals with the amount of nearly PLN 70 million. mBank has prepared, among others, offer for corporate clients. As part of it, account maintenance and transfer fees (from January till June) are donated to the charity.

**Financial results**

In H1 2022, the Corporate and Investment Banking segment generated a profit before tax of PLN 819.5 million. This result marked an increase by PLN 430.4 million or 110.6% year on year.

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Net interest income	524.4	852.0	327.5	62.5%
Net fee and commission income	477.8	590.6	112.8	23.6%
Net trading income	130.0	171.4	41.5	31.9%
Other income	2.4	-2.7	-5.1	+/-
Net other operating income	-12.6	15.1	27.7	-/+
<b>Total income</b>	<b>1,122.0</b>	<b>1,626.4</b>	<b>504.4</b>	<b>45.0%</b>
Net impairment losses and fair value change on loans and advances	-173.7	-159.9	13.8	-7.9%
Overhead costs and depreciation	-453.9	-533.2	-79.5	17.5%
Taxes on the Group balance sheet items	-105.5	-113.8	-8.3	7.9%
<b>Profit before tax of Corporate and Investment Banking</b>	<b>389.0</b>	<b>819.5</b>	<b>430.4</b>	<b>110.6%</b>

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

## mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2022

### Business results (mBank only)

	30.06.2021	31.12.2021	30.06.2022	YtD change	YoY
<b>Number of corporate clients</b>	<b>30,417</b>	<b>31,315</b>	<b>32,664</b>	<b>4.3%</b>	<b>7.4%</b>
K1	2,347	2,272	2,240	-1.4%	-4.6%
K2	9,335	9,740	10,200	4.7%	9.3%
K3	18,735	19,303	20,224	4.8%	7.9%
<b>PLN M</b>					
<b>Loans to corporate clients, including</b>	<b>30,582.1</b>	<b>28,189.0</b>	<b>33,756.3</b>	<b>19.7%</b>	<b>10.4%</b>
K1	6,851.7	6,058.1	6,555.5	8.2%	-4.3%
K2	19,281.9	18,983.4	21,757.6	14.6%	12.8%
K3	2,890.8	2,959.9	3,207.4	8.4%	11.0%
Reverse repo/buy sell back transactions	1,557.7	187.6	2,235.7	1,091.5%	43.5%
<b>Deposits of corporate clients, including</b>	<b>45,687.5</b>	<b>43,396.0</b>	<b>49,774.0</b>	<b>14.7%</b>	<b>8.9%</b>
K1	13,810.1	9,892.0	16,358.2	65.4%	18.5%
K2	21,077.9	21,602.3	21,355.1	-1.1%	1.3%
K3	10,580.7	11,813.9	11,749.3	-0.5%	11.0%
Repo transactions	218.8	87.8	311.5	254.7%	42.4%

### Products and services

The market of loans to enterprises increased by 14.0% year on year whereas the market of enterprises' deposits increased by 9.0% compared to June 2021. In this context, mBank reported weaker growth in loan volumes (+10.4%) but stronger in the deposit volumes (+9.2%) year on year (in aggregates comparable to NBP methodology). At the end of June 2022, mBank's shares in the market of loans and deposits of enterprises reached 7.7% and 11.7%, respectively.

#### Corporate loans

The value of corporate loans at mBank (excluding repo transactions) stood at PLN 31,520.6 million at the end of June 2022, up by 8.6% compared with the end of June 2021 (PLN 29,024.4 million).

PLN M	30.06.2021	31.12.2021	30.06.2022	YoY change
Loans to corporate clients <sup>1</sup>	29,024	28,001	31,521	8.6%
Loans to enterprises <sup>2</sup>	29,534	28,842	32,598	10.4%
Loans granted to local governments	84	34	20	-76.0%
Market of loans to enterprises	369,684	385,593	421,347	14.0%
mBank's share in the market of lending to enterprises	8.0%	7.5%	7.7%	

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

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

## mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2022

### Corporate deposits

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 49,462.5 million at the end of June 2022, up by 8.8% compared with the end of June 2021 (PLN 45,468.8 million).

PLN M	30.06.2021	31.12.2021	30.06.2022	YoY change
Corporate deposits <sup>1</sup>	45,469	43,308	49,463	8.8%
Deposits of enterprises <sup>2</sup>	46,745	46,795	51,058	9.2%
Deposits of local governments	210	265	1,394	563.6%
Market of deposits of enterprises	400,743	436,882	436,996	9.0%
mBank's share in the total deposits of enterprises	11.7%	10.7%	11.7%	

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

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

### De minimis guarantee

The bank continued to perform the Portfolio De Minimis Guarantee Line (PLD) Agreement as part of the government programme "Supporting Entrepreneurship through BGK Sureties and Guarantees". As at June 30, 2022, the amount drawn under the limit reached PLN 2,493.12 million.

On June 25, 2018, mBank signed another Portfolio Guarantee Line De Minimis Agreement (PLD-KFG), being a continuation of the previous agreement (PLD), with an allocated limit for de minimis guarantees at PLN 7,200 million. As at June 30, 2022, the amount drawn under the limit reached PLN 5,319.58 million.

### COSME guarantees

In the first half of 2022 we continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme (a European Union programme for the competitiveness of enterprises running from 2014 to 2020). The BGK guarantee limit for mBank stands at PLN 2,000 million. As at June 30, 2022, the amount drawn under the limit reached PLN 1,760.45 million.

In H1 2022 in the corporate area we also continued:

- portfolio agreement on BiznesMax guarantee line (FG POIR). The guarantee limit assigned to mBank under the agreement is PLN 380 million. The amount drawn under the limit reached PLN 360.4 million as at June 30, 2022.
- portfolio agreement on liquidity guarantee line (FGP). The guarantee limit assigned to mBank under the agreement with BGK is PLN 11,000 million. As at June 30, 2022, the amount drawn under the limit reached PLN 2,865.03 million.
- portfolio agreement on agricultural guarantee line (FGR). The guarantee limit assigned to mBank under the agreement with BGK is PLN 45 million. The amount drawn under the limit reached PLN 33.29 million as at June 30, 2022.

The share of mBank in the non-treasury debt securities market at the end of May 2022 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
<b>mBank (PLN M)</b>	300	9,667	9,096
Market (PLN M)	13,899	98,101	45,419
Market share	2.15%	9.85%	20.02%
Market position	#5	#4	#2

In the corporate bonds market, the bank carried out a series of new issues, i.e.: KRUK SA (PLN 350 million), Europejski Fundusz Leasingowy (PLN 200 million), Ghelamco Group (PLN 135 million), ARCHICOM SA (PLN 110 million), R.Power (PLN 75 million).

## Development of Corporate Banking products and services

### *Transactional banking*

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

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

Number of outgoing domestic transfers	+1.3%
Number of outgoing foreign transfers	+14.3%
Number of corporate cards	+5.3%
Number of mCompanyNet active users	+11.8%

### *Virtual Branch*

We want our clients to be able to handle as many matters as possible independently, without having to contact the bank. The Virtual Branch is the result of our efforts to optimise and digitalise banking processes. Clients can use the system to submit electronic applications pertaining to the key areas of cooperation with the bank. We constantly add new modules and functions to the Virtual Branch system. In 2022, we digitalised the six most labour-intensive processes involving clients and the bank. Currently more than 40% of key processes are fully digital.

In H1 2022, clients were eager to handle their operations remotely. The number of applications handled in the digital process increased by 16% compared with H1 2021 (net of one-off events related to the handling of the Polish Development Fund's (PFR) programme in 2021). Digital solutions help us protect the natural environment (among others, by reducing paper use) and allow us to save time and other resources. Apart from generating savings for the bank, the implemented functionalities also increased customer satisfaction.

### *mBank CompanyMobile*

Corporate clients' experience with the retail banking app shape their expectations about how a business banking app should work. Keeping this trend in mind, in H1 2022 we started working on a payment module of the mobile app for corporate clients. This has been one of the key focal points of our work.

Mobile solutions are gaining popularity. 82% of our corporate clients use the mobile app, and the number of individual users went up by 36% over 12 months. The same period also saw a hike in the use of the app by almost 170%. This demonstrates how the new app increased the importance of the mobile channel in our clients' work.

### *Digital onboarding of corporate clients*

We also promote remote channels in the context of establishing relationships with corporate clients. The process is universal and suitable for clients of all sizes, regardless of how complex their organisational structures may be. Digital onboarding is used by clients from all segments. We confirm clients' identity remotely, without requesting them to visit a branch or fill out any paper documents. An account can be opened within a single day. It is not only a convenient and eco-friendly solution, but also one that maximises the quality of client onboarding and facilitates document processing. In H1 2022, we concluded almost 2,000 Integrated Bank Account Agreements via our modern client onboarding website, which accounts for ca. 70% of all agreements.

### *eCommerce and Paynow gateway*

We want to be the bank of first choice for e-commerce market participants. Our goal is to boost online shops' sales and help them operate more conveniently and effectively. We have planned a variety of improvements to ensure successful transactions. Streamlining the payment process is our priority. The value of transactions processed via the online payment gateway Paynow is still on the rise. We are continuously increasing the group of clients who use the service actively by developing the technology and broadening the range of functionalities supporting the conversion to remote channels.

Over the last few months, we have been helping clients operating online stores to visibly increase their income. We created payment-related mechanisms which distinguish us from the competition. We can save many purchase orders by offering payers the possibility of changing the payment method or trying again after an unsuccessful payment attempt.



In H1 2022 we introduced profound changes in Paynow, mainly in order to gain an edge over the competitors. We created a unique value for companies which receive funds from online sales to individual bank accounts held for each client. We used MassCollect service, a banking solution already in place, enabling to order a payment with the use of the gateway including the individual subaccount of the contractor. Within MassCollect every payer receives an individual account number which identifies the payer and the payment. The service helps sellers link incoming payments to clients regardless of whether they receive money by a standard transfer or by innovative Paynow payments. The solution makes payment settlements significantly easier for sellers.

One of the highlights of 2022 was mBank's involvement in the handling of donations to the Great Orchestra of Christmas Charity. The fundraiser generated immense transaction traffic. During that time, we demonstrated our reliability and showed the benefits of using cloud computing for Paynow. On the day of the finale, the gateway reached efficiency of 60 transactions per minute. We can handle up to 200 transactions per minute.

#### *Client Centre for Corporate Clients mBank CompanyNet*

In H1 2022 we improved the user experience of the mBank CompanyNet transaction system. The Cobrowsing service helps clients navigate the system thanks to the support provided by online assistants. The service received an enthusiastic welcome from clients taking part in the pilot run. Since July all clients have been able to share their screen with Customer Centre consultants and receive help online. The solution is secure. A consultant can only view the mBank CompanyNet screen shared by a client and cannot make any changes in the system. After establishing a connection with a client, a consultant can track the client's movements in the system in real time and guide them if needed.

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

In accordance with the strategy of mBank Group for 2021-2025 the Group will earmark PLN 10 billion for the financing of green investments. One of the key actions in this area is the financing of investments in renewable energy sources (RES).

mBank has been consistent in increasing its share in RES projects. When introducing its credit policy on the financing of RES installations in 2018, mBank earmarked PLN 500 million for this purpose. Since then this amount has been raised several times to reach PLN 4 billion (from 2020 onwards).

At the end of June 2022 mBank's RES portfolio reached a record high of PLN 3.1 billion, with 79% utilisation of the RES limit.

In 2022 alone mBank has already provided funding totalling nearly PLN 700 million to six photovoltaics investments and two windfarm investments.

#### *Awards*

Every year mBank's Corporate and Investment Banking wins recognition from industry experts. mBank came first in the 15th League Table of Banks organised by the Polish Union of Developers (PZFD). The real estate developers taking part in the poll assessed the cooperation with banks in the area of financing and servicing housing investments. In particular, they pointed out mBank's advantage as regards the quality of cooperation and availability of client advisors as well as the lack of communication bottlenecks in the investment completion process. Moreover, they praised mBank for its fast credit decisions, procedures that match the bank's declarations and smooth process of controlling the completion of individual stages of development undertakings as part of the Housing Escrow Account (MRP).

#### Activity of the Financial Markets Sales Department

In the first half of 2022 the Department reported the best ever results from cooperation with strategic clients (K1). The record high performance was driven by strong sales of derivative instruments (including commodity derivatives) and investment instruments, such as T-bonds and deposits. High market volatility proved conducive to attracting a large number of clients in H1 2022, with the average client activity up by more than 10% compared with H1 2021.

- The period under review was also marked by record high margins on transactions with corporate clients. Effective operation in the period of heightened volatility made it possible to improve performance in every month of 2022 compared with analogous months of the previous years. The margins in the K2 and K3 segments grew by 69.3% year on year in H1 2022. Consistent cross-selling efforts and effective onboarding of new clients pushed the monthly average number of active clients up.
- The first six months of 2022 also marked the best period for the commodity team in terms of margins, and client activity levels (up by 13% year on year, 108 active clients). The onboarding of new interbank partners strengthened the bank's security and price competitiveness. mBank continues to be the

## mBank S.A. Group

### Management Board Report on the Performance of mBank S.A. Group in H1 2022

leading Polish financial institution offering commodity price risk hedging transactions as reflected by positive feedback from existing clients and great interest among potential clients.

- The project team concluded hedging transactions in 50 projects in H1 2022, of which 40% were connected with RES projects and 60% with commercial real estate funding. The margin on hedging transactions concluded in H1 2022 soared to record highs so far unseen by the team. The number of implemented projects increased by 28% compared with H1 2021.
- High economic volatility and the implementation of a new model of cooperation with business lines in the Retail Client Dealer Service Division in H1 2022 contributed to a rise in margins in the group of corporate clients and in the group of Private Banking clients. Also the number of active clients using the FX platform rose significantly. Compared to H1 2021, the number of active corporate and Private Banking clients using the services of the Department went up by 24% and 38%, respectively.

mBank's market shares in various financial instrument markets as at May 31, 2022 are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	9.4%	19.5%

#### Financial Institutions

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

As at the end of June 2022, mBank had 4 active loans received (including one subordinated loan from Commerzbank) in the amount of PLN 3,176 million. The level of debt arising from loans was higher by PLN 386 million compared to first half of 2021. It was a result of significant depreciation of Polish zloty against Swiss franc as at the end of first half 2022.

At the end of June 2022, mBank's exposure resulting from loans granted to other banks totaled an equivalent of PLN 96.6 million. At the end of June 2021 it amounted to PLN 102.9 million. It resulted from short- and medium-term loans granted to domestic and foreign financial institutions.

In H1 2022 the Financial Clients Department actively supported trade transactions concluded by Polish exporters by offering short-term financing to financial institutions, as well as granting financing as part of syndicated loans. Due to Russia's aggression towards Ukraine, the bank restricted providing services to banks from Russia and Belarus related to medium-term loans secured with the KUKI policy and short-term financing of transactions related to these countries.

#### mBank's custody services

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

As at June 30, 2022, the number of investment funds served by mBank dropped by 8.8% year on year.

## 2.5. Subsidiaries of mBank Group

### Summary of financial results of mBank Group subsidiaries

The overall H1 2022 result of mBank Group subsidiaries amounted to PLN 166.9 million, which translates into an increase of 18.0% compared to H1 2021. Improvement of performance was caused mainly by the increased income in mFactoring and the sale of Digital Fingerprints by Future Tech. The table below presents the profit before tax posted by individual subsidiaries in H1 2022 against H1 2021.

PLN M	H1 2021	H1 2022	Change in %
mFinanse <sup>1</sup>	29.5	23.3	-21.1%
mLeasing <sup>2</sup>	87.1	94.4	8.4%
mBank Hipoteczny	14.3	10.9	-23.5%
mFactoring	14.3	27.3	91.1%
Other <sup>3</sup>	-3.6	11.0	-/+
<b>Total</b>	<b>141.5</b>	<b>166.9</b>	<b>18.0%</b>

<sup>1</sup> Including mFinanse CZ s.r.o. and mFinanse SK s.r.o.

<sup>2</sup> Including LeaseLink and Asekum.

<sup>3</sup> In 2021, „Other” subsidiaries included: mElements, G-Invest, Tele-Tech Investment and Future Tech. Results for H1 2022 comprise mElements and Future Tech.

### Business activity of selected subsidiaries



In H1 2022 the deteriorating political and economic situation caused by the conflict in Ukraine had a significant impact on the operation of mFinanse.

A positive sales trend continued on the cash loans market, despite interest rate hikes, rising debt-servicing costs, and growing inflation. Sales of cash loans rose compared to 2021 (PLN 494.0 million in H1 2022 vs PLN 436.6 million in H1 2021), which shows that clients' interest in cash loans remained unaffected by the negative factors. The current situation shows that short-term, emergency, low-value loans are currently in demand from clients. More serious purchasing decisions will be postponed for "better times".

As far as the mortgage loans market is concerned, after a relatively good start of the year and sales increases reported in Q1 2022 (up by 14% compared with Q1 2021), the following months brought a slowdown in the acquisition of new applications. The smaller number of credit applications translated into a 13.4% decrease in mortgage loan disbursements in H1 2022 compared with the same period last year (PLN 1,864.4 million in H1 2022 vs PLN 2,152.0 million a year earlier). The downturn on the mortgage loans market is directly connected with declining creditworthiness of clients (restricted by the KNF's recommendations published in March), rising prices of construction materials, labour costs, and growing inflation. The aforesaid factors will define the market in the upcoming months and a further decline in sales of mortgage loans must be assumed.

mFinanse saw a considerable rise in the number of new personal accounts, which was driven by full reopening of shopping malls and the lifting of COVID-19 restrictions. In the analysed period we recorded an increase in new accounts by 10,000, which represents a rise by 29.2% year on year (44,700 in H1 2022 vs 34,600 a year earlier).

In H1 2022 the subsidiary's profit before tax amounted to PLN 23.3 million compared with PLN 29.5 million in H1 2021. The decrease was driven mostly by the economic and geopolitical situation, which contributed to the collapse on the mortgage loans market, and consequently, to a drop in mortgage sales volumes.

## **mLeasing**

The total value of contracts executed by mLeasing in H1 2022 amounted to PLN 2,883.1 million, compared with PLN 3,265.5 million in H1 2021. The value of new contracts decreased by 11.7% year on year.

The value of new movable assets purchased by mLeasing in H1 2022 reached PLN 2,833.2 million, down by 12.1% compared with H1 2021 (PLN 3,222.5 million). In H1 2022, the subsidiary financed real properties at the value of PLN 49.9 million, compared with PLN 43 million in H1 2021 (+16.2% on a yearly basis).

The consolidated pre-tax profit reported by mLeasing in H1 2022 stood at PLN 94.4 million, which represents an increase of 8.4% compared with the pre-tax profit reported in H1 2021 (PLN 87.1 million). The pre-tax profit increased in H1 2022 despite higher cost of risk than in H1 2021. Revenues in H1 2022 increased by 18.6% compared with the same period of 2021.

In the first quarter of 2022, mLeasing won a tender for vendor service of Hyundai cars. The contract was signed for one year with the possibility of extending it for another 2 years.

## **Bank Hipoteczny**

mBank Hipoteczny (mBH) is the oldest mortgage bank operating on the Polish capital market. Since 2000, mBH has been regularly issuing Polish covered bonds in line with the Polish and foreign issuance programme. As at June 30, 2022, the total value of the outstanding mortgage bonds issued by mBank Hipoteczny amounted to PLN 6.06 billion. This accounts for 33.1% of the entire market, whose value stands at PLN 18.3 billion.

In addition, mBH continues its unsecured bonds issuing programme. At the end of H1 2022, the bank's portfolio of issued bonds included two bond series worth a total of PLN 95 million. mBH issues zero-coupon and coupon bonds denominated in PLN with maturities from two months to one year.

In H1 2022 mBank Hipoteczny continued to grow its retail credit portfolio in the pooling model, i.e. via a transfer of loans granted by mBank. Since January 2022, five pooling transactions totalling PLN 1,385.04 million have been effected in the retail portfolio, pushing the gross value of the portfolio up by 1.1% at the end of H1 2022 compared with the end of June 2021. Gross portfolio value totalled PLN 12.1 billion at the end of June 2022 compared with PLN 12.0 billion at the end of H1 2021.

mBH's profit before tax amounted to PLN 10.9 million in H1 2022, down by 23.5% compared with the same period last year. The drop was largely driven by lower net interest income and higher loss allowances for credit exposures. In the commercial portfolio, the year-on-year rise in loss allowances was driven by higher provisions for defaulted loans resulting from changes in the collateral value and the outcome of enforcement/bankruptcy proceedings. mBH's net interest income was lower compared with the same period last year. The decrease was a result of increasing the provision for returns of commission related to prepayment of loans.

In H1 2022 mBank Hipoteczny developed support measures for corporate and retail clients. The bank enabled its clients to suspend the repayment of principal or principal and interest instalments for up to six months. In addition, the bank made it possible for clients to apply for loan payment holiday online. In addition to the support measures offered so far, in H1 2022 retail clients could also apply for BGK's subsidies from the Borrower Support Fund (FWK).

On May 31, 2022 the management boards of mBank Hipoteczny S.A. and mBank S.A. agreed on and signed the mBH division plan. In accordance with the plan the division of the subsidiary and the transfer of the organised part of its enterprise to mBank will take place in Q2 2023. The purpose of the division is to finalise the consolidation of sales and after-sales of commercial loans in a single entity (mBank).

## Faktoring

In H1 2022 the subsidiary's turnover (the value of purchased invoices) reached PLN 17.1 billion, up by 21.0% year on year. The strong performance helped the subsidiary maintain the fifth position on the factoring market in Poland with a market share of 8% (according to the Polish Factors Association).

In H1 2022, mFaktoring acquired 99 new clients with limits totalling PLN 475.4 million. The development of new business was visibly faster year on year. The number of new clients increased by 25.3% and the volume of limits went up by 26.4%.

In addition to new sales, the subsidiary has also observed higher demand for financing from existing clients. As a result, net interest and commission income increased in H1 2022 by 58.6% year on year.

In consequence, the profit before tax profit of mFaktoring stood at PLN 27.3 million in H1 2022 compared with PLN 14.3 million in H1 2021.

In H1 2022, the subsidiary continued to cooperate with Bank Gospodarstwa Krajowego as part of the liquidity guarantee programme. On June 30, 2022, the guarantee for repayments of factoring limits introduced during the COVID-19 pandemic ended. However, in H2 2022 a new guarantee line as part of Crisis Guarantee Fund (FGK) will be available.

### **3. Financial results and macroeconomic environment**

#### **3.1. Economy and banking sector in H1 2022**

The first half of 2022 passed in the shadow of the war in Ukraine. From a macroeconomic perspective it is a shock that has translated (and will continue to translate) into both nominal and real variables.

In the real sphere, the negative impact of the war has not yet been strongly visible in the most important data, i.e. the GDP result for Q1 (up 8.5% YoY). Here, the largest contribution to growth came from inventories (+7.7 p.p.). They built up more strongly than is implied by typical cyclical, which in the bank's view may result in a lower future GDP path. Consumption grew by 6.6% YoY - part of the increase was determined by spending by and for refugees from Ukraine (according to PESEL numbers, more than 1.2 million Ukrainians were registered in Poland due to the war by July 15), and part of the spending by refugees from Ukraine was also visible in net exports. The monthly data for Q2 also suggests relatively high GDP growth (bank's forecast of 6.7% YoY), but it has already showed gradual signs of slowdown (weakening industrial and construction activity). The next quarters will bring further deceleration of growth, in the bank's opinion. The entire year 2022, in bank's assessment, will end with growth of 4.6% YoY, but 2023 will bring GDP growth of 0.4% YoY. The deceleration of GDP will result from several factors, including: the global slowdown, interest rate hikes and the real effects of price increases (commodity prices and lower real consumer purchasing power).

The first half of the year was also marked by rising inflation. After a one-time reduction in inflation in February 2022 (due to the anti-inflation shield), each subsequent month brought higher inflation. At the end of June 2022, CPI was at 15.5% YoY. Exogenous factors (fuel, food and energy prices - here price increases were largely determined by the outbreak of the war) were mainly responsible for the rise in inflation. However, core inflation was also growing (9.1% YoY as of the end of June). Bank's assessment is that inflation will remain near 15% until the end of the year. Inflation will remain above the NBP target throughout the next year as well (the bank estimates 8% YoY, at the end of 2023).

The MPC continued its cycle of interest rate hikes. However, the increase in expected inflation (also due to the outbreak of the war) resulted in stronger than expected MPC moves (at the end of the first half of the year, the reference rate was 6%, as of August 2, 2022 it was already at 6.5%). The cycle of hikes will end, in bank's view, in the 6.5-7.5% range. In the bank's opinion, the MPC will end the cycle exactly when inflation stops rising, which is in line with MPC rhetoric.

The outbreak of the war resulted in the weakening of the zloty. In addition, this was compounded by the effects of cooling global demand. Increased credit risk in Poland (and a drop in global sentiment) and increases in expected interest rates caused a sell-off in the bond market. The market remained under the weight of low liquidity, which was indirectly reflected in higher asset-swap spreads and higher volatility. The fact that Poland still has not yet tapped into funds under the Recovery and Resilience Facility also does not help. Higher interest rates will contribute to the slowing growth of household loan volumes. This is an important element in terms of corporate loans as well. In the bank's opinion, early repayments will also exert their adverse impact and corporate deposits will decelerate. Looking at household deposits, slight increases can be expected, supported by higher nominal wages and an increase in precautionary savings. However, the household deposits will be negatively affected by the decelerating economic growth and, consequently, the labour market. The volume of household deposits will also be adversely affected by retail bond offerings (sales amounted to nearly PLN 31 billion in the first half of the year - including switches).

**Outlook for economic development in 2022**

## Key macroeconomic ratios

	2020	2021	2022F
GDP (YoY)	-2.2%	5.9%	4.6%
Domestic demand (YoY)	-2.9%	7.6%	7.3%
Private consumption (YoY)	-3.0%	6.1%	5.3%
Investment (YoY)	-4.9%	3.8%	5.5%
Inflation (end of period)	2.4%	8.6%	15.3%
MPC rate (end of period)	0.1%	1.75%	7.0%
CHF/PLN (end of period)	4.22	4.42	4.79
EUR/PLN (end of period)	4.56	4.59	4.65

## Banking sector – monetary aggregates (year to year)

	2020	2021	2022F
Corporate loans	-4.8%	3.9%	10.0%
Consumer loans	3.0%	4.9%	-1.3%
Corporate deposits	19.0%	10.4%	1.2%
Consumer deposits	10.7%	6.7%	2.3%

Source: Projections of the bank's Chief Economist.

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

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

<b>Net interest income &amp; NIM</b>	<b>(neutral)</b>	■
<ul style="list-style-type: none"> <li>■ Ongoing cycle of rate hikes translating into rising cost of deposits, exhausted potential for further margin improvement</li> </ul>		
<ul style="list-style-type: none"> <li>■ Material negative impact of credit vacations on interest income</li> </ul>		
<b>Net Fee &amp; Commission income</b>	<b>(slightly positive)</b>	▲
<ul style="list-style-type: none"> <li>■ Uptrend anchored in growing customer base and transactionality as well as extending investment product offering</li> </ul>		
<ul style="list-style-type: none"> <li>■ Relevant adjustments to tariff of fees already implemented</li> </ul>		
<b>Total costs</b>	<b>(negative)</b>	▼
<ul style="list-style-type: none"> <li>■ Visible wage and inflationary pressure weights on operating costs</li> </ul>		
<ul style="list-style-type: none"> <li>■ Investments in future growth along with increasing revenues</li> </ul>		
<ul style="list-style-type: none"> <li>■ An additional contribution to the Borrowers' Support Fund</li> </ul>		
<b>Loan Loss Provisions &amp; FV change</b>	<b>(slightly negative)</b>	▼
<ul style="list-style-type: none"> <li>■ The overall asset quality should not deteriorate materially thanks to prudent approach in loan origination</li> </ul>		
<ul style="list-style-type: none"> <li>■ Financial standing of borrowers may be affected by the changing macroeconomic environment and geopolitical developments</li> </ul>		

An important factor forming the activities in the coming periods is the economic environment, whose development in H1 2022 and the prospects for a full calendar year are described in Chapter 3.1. Economy and banking sector in H1 2022.

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

Important information regarding factors that may affect mBank Group in the future is additionally described in the following explanatory notes and information to the Condensed Consolidated Financial Statements for the first half of 2022:

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



## Changes in selected regulations relevant to banks

### Act on Crowdfunding of Business Undertakings and Support for Borrowers

The Bill on Crowdfunding of Business Undertakings and Support for Borrowers has been signed into law by the president on July 14<sup>th</sup>, 2022. The act enters into force 14 days from its announcement.

The new act enables a consumer to request suspension of the performance of their PLN mortgage loan agreement. The group of eligible borrowers includes individuals who took out one mortgage loan in PLN to meet their own housing needs, regardless of their financial standing. The credit vacations can last up to four months in both 2022 and 2023. During this period no interest or fees other than insurance-related fees connected with the agreement will be charged.

Moreover, the aforesaid act amends the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System by introducing a definition of the key benchmark and authorising the KNF to present to the Financial Stability Committee its stance on the need to determine a replacement for the key benchmark. Upon familiarising itself with the KNF's stance, the Committee will issue a recommendation on the need to determine a replacement or present a stance on its refusal to issue the recommendation. A replacement or replacements for the key benchmark and other major adjustments will be set out in a regulation of the minister competent for financial institutions. When issuing the regulation the minister will take into account the increase in the systemic risk in the financial system caused by the cessation of publication or discontinuation of the key benchmark WIBOR. If no replacement for the key benchmark WIBOR is determined, WIBOR will be replaced by a percentage rate calculated in the process of determining the POLONIA benchmark organised by the National Bank of Poland (NBP).

The act also provides for higher contributions to the Borrowers Support Fund. Set up in 2015, the Fund is governed by the Act on Assistance to Home Loan Borrowers in a Difficult Financial Situation. The Fund, which is financed from banks' contributions, supports mortgage borrowers facing financial difficulties. So far there has been little interest in the Fund, however, this is expected to change as the clients' awareness is growing and the market situation is changing. The Act on Crowdfunding of Business Undertakings and Support for Borrowers obliges the banking sector to contribute an additional PLN 1.4 billion to the Borrower Support Fund in 2022.

### Institutional Protection Scheme (IPS)

On April 22, 2022 the Act on Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts was announced. The new law allows commercial banks to set up institutional protection schemes (IPS). The provisions of the act governing IPS entered into force on May 7, 2022.

The purpose of IPS is to support the liquidity and solvency of the scheme members as well as the restructuring and acquisition of other banks. Banks can join the schemes voluntarily. The IPS agreement was approved by the KNF. Banks' contribution to the support fund under the protection scheme will account for 0.4% of covered deposits. The amendments to the Act on Covered Bonds and Mortgage Banks and Certain Other Acts suspend the obligation to make contributions to the Deposit Guarantee Scheme due for 2022 until October 31, 2022. The contributions to the Deposit Guarantee Scheme due for Q2 and Q3 2022 will be calculated and payable in Q4 2022.

On June 7<sup>th</sup>, mBank S.A., Alior Bank S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., Millennium Bank S.A., Bank Polska Kasa Opieki S.A., PKO Bank Polski S.A., and Santander Bank Polska S.A. initiated the process of forming the IPS. After the Polish Financial Supervision Authority had approved the IPS, the banks established the unit managing the system in the form of a joint-stock company. The total contribution of the banks to the IPS amounts to c. PLN 3.17 billion.

### Act on Guaranteed Housing Loan

Under the new act individuals who have a good credit score and can afford to repay a mortgage loan but do not have savings to make a down payment will be able to take out a mortgage loan to build a home or buy a flat. The loan will be granted in PLN for a minimum of 15 years. The new law provides for an option to partially cover a mortgage loan taken out to buy a flat with a guarantee. The part covered by the guarantee cannot be lower than 10% and higher than 20% of the expenditures (real estate value) financed from the loan. The guarantee, which will be provided by Bank Gospodarstwa Krajowego, replaces the requirement for a down payment. The act entered into force on May 26, 2022.

### Regulation of the Minister of Finance on the Provision of Contributions to the Bank Guarantee Fund by Banks, Branches of Foreign Banks, Investment Firms, Cooperative Savings and Credit Unions, and the National Cooperative Savings and Credit Union (SKOK), in the Form of Commitments to Pay

The regulation, effective since March 12, 2022, sets out additional conditions that must be met by agreements between entities making contributions in the form of commitments to pay and the National

Bank of Poland (NBP), the Central Securities Depository of Poland (KDPW) or a company to which KDPW entrusted the performance of certain activities connected with trading in financial instruments. The new conditions include provisions on placing an irrecoverable block in favour of BFG on assets pledged as collateral for such commitments to pay and funds from their redemption until the purchase of new assets. In addition, the regulation sets the minimum ratio of the value of assets in which the funds securing the commitments to pay are invested to the value of the commitments, and caps on the share of individual assets in the total amount of the commitments to pay. Banks and other entities referred to in the regulation are obliged to inform the Fund about these amounts and assets in the manner and scope defined in the regulation and to measure the assets pledged as collateral for the commitments to pay in the manner specified in the regulation.

Regulation of the Minister of Finance Amending the Regulation on Higher Risk Weight for Exposures Secured by Mortgage on Real Property

The regulation, effective since March 29, 2022, sets new risk weights applicable until September 30, 2023 for exposures secured by mortgage on residential real property. The regulation applies to agreements where the amount of the principal or interest instalment depends on changes in a foreign currency exchange rate. In accordance with the new act a bank must also inform clients that it will join proceedings before a court of arbitration in order to present to debtors an offer to change the terms and conditions of their loan agreements so as to make the loan instalment amounts independent of changes in a foreign currency exchange rate. If a bank created total provisions, impairment losses on receivables and gross carrying amount adjustments for changes in the estimated cash flows from these credit exposures that cover the expected losses resulting from these exposures at least at the level of:

- 35% of gross exposures before adjustments – a risk weight of 50% is assigned, except for an exposure or any part of an exposure that exceeds the mortgage value of the residential real property, which is assigned a risk weight of 75%;
- 28% of gross exposures before adjustments – a risk weight of 75% is assigned;
- 20% of gross exposures before adjustments – a risk weight of 100% is assigned.

### 3.2. Financial results of mBank Group in H1 2022

All changes presented in the analysis of financial results are calculated on the basis of the Condensed Consolidated Financial Statements for the first half of 2022 (in PLN'000). Potential disparities in the tables might be a result of rounding the values.

#### Profit & Loss Account

mBank Group closed H1 2022 with a profit before tax of PLN 1,311.8 million v. PLN 742.8 million generated in H1 2021 (up by PLN 569.0 million or +76.6%). The net profit attributable to the owners of mBank stood at PLN 742.0 million v. PLN 425.8 million in H1 2021 (up by PLN 316.2 million or +74.3%).

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Interest income	2,054.6	4,048.4	1,993.8	97.0%
Interest expense	-146.1	-860.7	-714.6	489.0%
<b>Net interest income</b>	<b>1,908.4</b>	<b>3,187.7</b>	<b>1,279.3</b>	<b>67.0%</b>
Fee and commission income	1,292.3	1,560.3	268.1	20.7%
Fee and commission expense	-371.6	-407.0	-35.3	9.5%
<b>Net fee and commission income</b>	<b>920.6</b>	<b>1,153.3</b>	<b>232.7</b>	<b>25.3%</b>
<b>Core income</b>	<b>2,829.1</b>	<b>4,341.0</b>	<b>1,512.0</b>	<b>53.4%</b>
Dividend income	3.9	4.8	0.9	23.4%
Net trading income	106.8	96.5	-10.3	-9.6%
Other income	97.3	-113.1	-210.4	+/-
Other operating income	108.0	150.0	41.9	38.8%
Other operating expenses	-163.5	-145.8	17.7	-10.8%
<b>Total income</b>	<b>2,981.6</b>	<b>4,333.4</b>	<b>1,351.9</b>	<b>45.3%</b>
Net impairment losses and fair value change on loans and advances	-393.1	-463.5	-70.4	17.9%
Costs of legal risk related to foreign currency loans	-314.8	-367.8	-53.0	16.8%
Overhead costs and depreciation	-1,244.9	-1,863.3	-618.4	49.7%
Taxes on the Group balance sheet items	-286.0	-326.9	-41.0	14.3%
<b>Profit before income tax</b>	<b>742.8</b>	<b>1,311.8</b>	<b>569.0</b>	<b>76.6%</b>
Income tax expense	-317.1	-569.7	-252.6	79.7%
<b>Net profit attributable to:</b>	<b>425.8</b>	<b>742.2</b>	<b>316.4</b>	<b>74.3%</b>
<b>- Owners of mBank S.A.</b>	<b>425.8</b>	<b>742.0</b>	<b>316.2</b>	<b>74.3%</b>
- Non-controlling interests	0.0	0.1	0.2	-380.5%
ROA net	0.4%	0.7%		
ROE gross	8.9%	19.3%		
ROE net	5.1%	10.9%		
Cost / Income ratio	41.8%	43.0%		
Net interest margin	2.1%	3.3%		
Common Equity Tier 1 ratio	15.2%	13.9%		
Total capital ratio	17.6%	16.4%		

## mBank S.A. Group

### Management Board Report on the Performance of mBank S.A. Group in H1 2022

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

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

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

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

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

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

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

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

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

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

The main drivers of the financial results of mBank Group in H1 2022 included:

- **Increase in income** by 45.3% on H1 2021, mainly due to an increase in net interest income;
- **Increase in operating costs** (including depreciation) by 49.7% compared with H1 2021, driven largely by the posting of the contribution to the Institutional Protection Scheme;
- **Increase in net impairment losses and fair value change on loans and advances** by 17.9%, mainly due to the pessimistic macroeconomic scenario adopted in Q1 2022;
- **Higher costs of legal risk related to foreign currency loans**, mainly attributable to a change in level of loss on loan exposure for repaid portfolio in case of losing the case by the bank and the cost of the final verdicts;
- **Increase in taxes on the Group balance sheet items** in connection with an increase in the value of assets;
- **Higher income tax rate** attributable to the revision of the annual average effective tax rate connected with the expected impact of credit vacation on mBank Group's performance in 2022;
- **Continued organic growth and business expansion** as demonstrated by:
  - number of retail clients hitting 5,586,500 (+123,200 year on year);
  - number of corporate clients growing to 33,664 (+2,247 year on year).

In H1 2022, net loans and advances to clients increased by PLN 8,520.8 million (+7.2%). Amounts due to clients increased by PLN 4,078.5 million or 2.6% in H1 2022. Consequently, the loan-to-deposit ratio stood at 77.2% compared with 73.8% at the end of 2021 and 74.2% on June 30, 2021.

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

- Gross ROE of 19.3% (vs 8.9% in H1 2021);
- Net ROE of 10.9% (vs 5.1% in H1 2021).

The Total Capital Ratio stood at 16.4% compared with 16.6% at the end of 2021 and 17.6% at the end of June 2021. The Common Equity Tier 1 Capital Ratio stood at 13.9% compared with 14.2% at the end of 2021 and 15.2% at the end of June 2021. The decrease in the capital ratios was driven by a decrease in own funds in the reporting period.

## mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2022

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

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

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Retail Banking	637.6	1,022.2	384.6	60.3%
Corporate and Investment Banking	389.0	819.5	430.4	110.6%
Treasury and Others	42.5	-125.3	-167.8	-394.6%
<b>Profit before tax of core business</b>	<b>1,069.1</b>	<b>1,716.4</b>	<b>647.3</b>	<b>60.5%</b>
FX Mortgage Loans	-326.3	-404.6	-78.3	24.0%
<b>Profit before tax of mBank Group</b>	<b>742.8</b>	<b>1,311.8</b>	<b>569.0</b>	<b>76.6%</b>

**Profit before tax of the core business** (mBank Group excluding FX Mortgage Loans segment) reached PLN 1,716.4 million compared to PLN 1,069.1 million in H1 2021, up by 60.5%. Net profit increased by 52.5% to PLN 1,146.6 million in the period under review.

It was reflected in the profitability ratio net **ROE of 19.4%** in H1 2022 compared to 10.7% in H1 2021.

### Income of mBank Group

mBank Group generated total income of PLN 4,333.4 million in H1 2022 compared to PLN 2,981.6 million in H1 2021, which represents an increase by PLN 1,351.9 million or 45.3%. During this period, net interest income and net fee and commission income improved markedly.

**Net interest income** remained the main source of income of mBank Group in H1 2022 (73.6% of total income). It stood at PLN 3,187.7 million compared to PLN 1,908.4 million in H1 2021, representing an increase by PLN 1,279.3 million (+67.0%). The hike in net interest income was attributable to a series of interest rate rises by a total of 590 bps taking place between October 2021 and the end of June 2022 (in July, interest rates were raised again, pushing the reference rate up to 6.5%).

**Interest income** increased by PLN 1,993.8 million or 97.0% year on year and stood at PLN 4,048.4 million in H1 2022. In connection with the interest rate hikes, income on loans and advances to clients, constituting the main source of interest income, went up by PLN 1,784.0 million or 110.9% year on year. The period under review also saw an increase in income from investment securities by PLN 225.3 million or 95.6% compared to H1 2021, attributable to higher interest rates coupled with a drop in the nominal value of the portfolio.

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Loans and advances	1,609.0	3,393.0	1,784.0	110.9%
Investment securities	235.7	461.0	225.3	95.6%
Cash and short term funds	1.3	122.9	121.5	9,143.9%
Debt securities held for trading	6.7	13.8	7.1	105.3%
Interest income on derivatives classified into banking book	43.2	0.0	-43.2	-100.0%
Interest income on derivatives concluded under the fair value hedge	53.1	0.0	-53.1	-100.0%
Interest income on derivatives concluded under the cash flow hedge	107.0	0.0	-107.0	-100.0%
Other	-1.5	57.7	59.2	-/+
<b>Total interest income</b>	<b>2,054.6</b>	<b>4,048.4</b>	<b>1,993.8</b>	<b>97.0%</b>

## mBank S.A. Group

### Management Board Report on the Performance of mBank S.A. Group in H1 2022

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

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

**Interest expense** increased by PLN 714.6 million or 489.0% year on year in H1 2022. Deposit expenses went up by PLN 286.9 million or 1,050.0% to PLN 314.3 million due to higher interest rates on deposits introduced after the interest rate rises. Costs of debt securities in issue, which constitute the Group's second-largest source of funding, increased by PLN 51.5 million or 70.1%. In the same period, interest expenses on derivatives classified into banking book, derivatives concluded under the fair value hedge and derivatives concluded under the cash flow hedge went up, driven by transactions hedging interest rate risk of deposits (which are modelled as a fixed rate products) due to rising interest rates.

Net interest margin rose to 3.34% in H1 2022 from 2.07% a year before (+127 bps).

**Net fee and commission income** amounted to PLN 1,153.3 million in H1 2022, up by PLN 232.7 million or 25.3% year on year. The growth was mainly attributable to higher client activity and earlier price adjustments in the retail and corporate segments.

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Payment cards-related fees	207.8	307.7	99.9	48.0%
Credit-related fees and commissions	256.4	302.3	45.9	17.9%
Commissions for foreign currencies exchange	188.0	261.1	73.1	38.9%
Commissions for agency service regarding sale of insurance products of external financial entities	62.2	74.5	12.3	19.7%
Fees from brokerage activity and debt securities issue	128.4	100.5	-28.0	-21.8%
Commissions from bank accounts	194.3	221.0	26.8	13.8%
Commissions from money transfers	87.9	108.4	20.5	23.4%
Commissions due to guarantees granted and trade finance commissions	48.5	53.6	5.1	10.4%
Commissions for agency service regarding sale of other products of external financial entities	43.8	45.9	2.1	4.8%
Commissions on trust and fiduciary activities	16.5	17.2	0.7	4.1%
Fees from portfolio management services and other management-related fees	14.0	13.4	-0.6	-4.5%
Fees from cash services	20.7	26.7	6.0	29.0%
Other	23.7	28.1	4.4	18.7%
<b>Fee and commission income</b>	<b>1,292.3</b>	<b>1,560.3</b>	<b>268.1</b>	<b>20.7%</b>

Fee and commission income increased by PLN 268.1 million or 20.7% year on year. Payment card-related commissions, which are the largest contributor to the fee and commission income, rose by PLN 99.9 million or 48.0% compared to the previous year as a result of greater client activity and earlier price changes. The number and value of cashless transactions grew by 25.5% and 29.7% on the previous year, respectively.

Credit-related fees and commissions increased by PLN 45.9 million, i.e. 17.9% year on year, driven by higher credit sales to corporate clients.

A significant growth was observed in commissions on FX transactions, which went up by PLN 73.1 million or 38.9% year on year in connection with high FX rate volatility. Most of the remaining categories of fee and commission income also increased.

In H1 2022, investor activity on the WSE dropped compared with the previous year, which resulted in lower commissions from brokerage activity and securities issue by PLN 28.0 million (-21.8%) compared with H1 2021.

Fee and commission expense increased by PLN 35.3 million or 9.5% year on year in H1 2022. The increase was mainly driven by the payment card service costs.

**Dividend income** amounted to PLN 4.8 million in H1 2022, increasing slightly against H1 2021. Similarly to the previous year, income posted in the period under review included dividends received from Biuro Informacji Kredytowej (BIK) and Krajowa Izba Rozliczeniowa (KIR), in which mBank holds minority stakes.

**Net trading income** stood at PLN 96.5 million in H1 2022 and was lower by PLN 10.3 million or 9.6% compared with H1 2021. The decrease was attributable to lower gains or losses from financial assets and liabilities held for trading, mainly interest rate derivatives.

**Other income** (an item including gains or losses from derecognition of financial assets and liabilities and gains or losses from non-trading financial assets mandatorily measured at fair value through profit or loss connected with equity instruments and debt securities) totaled PLN -113.1 million compared with PLN 97.3 million in H1 2021. The negative value in 2022 results from negative result on the sale of bonds and revaluation of shares in companies in which mBank holds minority stakes.

**Net other operating income** (other operating income net of other operating expenses) stood at PLN 4.2 million, compared with PLN -55.5 million in H1 2021, when higher provisions for future liabilities were created.

Net impairment losses and fair value change on loans and advances

In H1 2022, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at PLN -463.5 million, and increased compared with H1 2021 when it amounted to PLN -393.1 million (PLN 70.4 million or 17.9%). In H1 2022, impairment or reversal of impairment on financial assets not measured at fair value through profit or loss amounted to PLN -445.0 million, while gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss amounted to PLN -18.5 million. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. The item "gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss" is mainly related to the credit risk of the portfolio of loans and advances measured with the use of this method.

PLN M	H1 2021	H1 2022	Change in PLN M	Change in %
Retail Banking	-233.8	-292.7	-58.9	25.2%
Corporate and Investment Banking	-173.7	-159.9	13.8	-7.9%
Treasury and Other	14.4	-10.9	-25.3	-/+
<b>Total net impairment losses and fair value change on loans and advances</b>	<b>-393.1</b>	<b>-463.5</b>	<b>-70.4</b>	<b>17.9%</b>

Net impairment losses and fair value change on loans and advances in Retail Banking rose by PLN 58.9 million year on year and stood at PLN 292.7 million in H1 2022. The increase in risk costs results from the adoption of a pessimistic macroeconomic scenario in estimating portfolio provisions due to the economic consequences of the war in Ukraine.

Net impairment losses and fair value change on loans and advances in Corporate and Investment Banking stood at PLN 159.9 million in H1 2022, down by PLN 13.8 million year on year. Lower impairment losses reflect the continuing high quality of the corporate loan portfolio.

Cost of legal risk related to foreign currency loans

Legal risk costs connected with foreign currency loans stood at PLN 367.8 million in H1 2022, which represents a year-on-year increase by PLN 53.0 million. The major driver of these costs in H1 2022 was the increase of the impact of the legal risk related to individual court cases, which mainly resulted from the change in level of loss on loan exposure for repaid portfolio in case of losing the case by the bank and the cost of the final verdicts. More information about the method of calculating legal risk costs is provided in Note 30 to mBank S.A. Group Condensed Consolidated Financial Statements for H1 2022.

## mBank S.A. Group

### Management Board Report on the Performance of mBank S.A. Group in H1 2022

#### Costs of mBank Group

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

Total overhead costs of mBank Group (including depreciation) stood at PLN 1,863.3 million in H1 2022, up by PLN 618.4 million or 49.7% year on year.

PLN M	H1 2021	H1 2022	Change in PLN	Change in %
Staff-related expenses	-498.7	-590.7	-92.0	18.4%
Material costs, including	-321.4	-374.0	-52.6	16.3%
- administration and real estate services costs	-126.9	-139.7	-12.7	10.0%
- IT costs	-89.2	-108.5	-19.3	21.7%
- marketing costs	-62.4	-69.9	-7.5	12.0%
- consulting costs	-35.9	-48.7	-12.8	35.7%
- other material costs	-7.0	-7.3	-0.2	3.0%
Taxes and fees	-16.6	-17.7	-1.1	6.4%
Contributions and transfer to the Bank Guarantee Fund	-178.5	-245.9	-67.5	37.8%
Contributions to the Social Benefits Fund	-5.4	-7.5	-2.1	39.0%
Institutional Protection Scheme	-	-390.8	-390.8	-
Depreciation	-224.2	-236.7	-12.5	5.6%
<b>Total overhead costs and depreciation</b>	<b>-1,244.9</b>	<b>-1,863.3</b>	<b>-618.4</b>	<b>49.7%</b>
Cost / Income ratio	41.8%	43.0%	-	-
Employment (FTE)	6,641	6,999	358	5.4%

Staff-related expenses rose by PLN 92.0 million (+18.4%) year on year due to an increase in remuneration costs. At the same time, the number of FTEs increased by 358 (mainly in compliance and IT), whereas in certain areas of the bank the employees were given pay rises.

Material costs increased by PLN 52.6 million (+16.3%) in the period under review. IT costs, consulting costs and costs of administration and real estate services were higher compared to H1 2021.

Depreciation rose by PLN 12.5 million (+5.6%) year on year due to previous investment outlays on IT systems.

The contribution to the Bank Guarantee Fund (BFG) in H1 2022 stood at PLN 245.9 million, up by PLN 67.5 million against H1 2021. Both H1 2022 and H1 2021 costs include the annual contribution to the resolution fund. In 2022 the contribution stood at PLN 194.2 million, up from PLN 131.2 million a year before. In Q2 2022 the bank did not post the contribution to the Deposit Guarantee Scheme in line with BFG's decision to suspend banks' contributions in connection with their contributions to the Institutional Protection Scheme.

In H1 2022 the bank recognised a cost of contribution in the amount of PLN 390.8 million to the Institutional Protection Scheme, which was established in June 2022 under Article 4 (1) (9a) of the Banking Law Act of 29 August 1997. More information about the Scheme is provided in the section "Selected changes in banking regulations" of this chapter.

As a result of changes in the income and costs of mBank Group, the cost-to-income ratio of mBank Group stood at 43.0% compared with 41.8% in the same period last year. The adjusted cost-to-income ratio (net of the contribution to the resolution fund and the Institutional Protection Scheme for the second half of the year) improved in H1 2022 (down to 35.7% from 39.6% in H1 2021).



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

Changes in assets of mBank Group

In H1 2022, assets of mBank Group increased by PLN 4,858.3 million or 2.4% and stood at PLN 204,397.1 million as at June 30, 2022.

PLN M	30.06.2021	31.12.2021	30.06.2022	YtD change	YoY change
Cash and balances with Central Bank	16,523.3	12,202.3	12,522.9	2.6%	-24.2%
Loans and advances to banks	9,750.4	7,229.7	8,547.7	18.2%	-12.3%
Securities held for trading and derivatives held for hedges	3,027.0	2,548.7	3,165.9	24.2%	4.6%
Net loans and advances to customers	116,241.3	118,054.9	126,575.7	7.2%	8.9%
Investment securities	47,421.5	52,675.7	45,162.2	-14.3%	-4.8%
Intangible assets	1,207.8	1,284.0	1,299.5	1.2%	7.6%
Tangible assets	1,554.0	1,542.3	1,494.5	-3.1%	-3.8%
Other assets	2,745.5	4,001.6	5,628.7	40.7%	105.0%
<b>Total assets</b>	<b>198,470.9</b>	<b>199,538.9</b>	<b>204,397.1</b>	<b>2.4%</b>	<b>3.0%</b>

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

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

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

Loans and advances to customers retained the largest share in the balance sheet of mBank Group at the end of H1 2022. Their net volume increased by PLN 10,334.3 million or 8.9% year on year and by PLN 8,520.8 million i.e. 7.2% in H1 2022. As at June 30, 2022, they accounted for 61.9% of the balance sheet total compared with 58.6% at the end of H1 2021 and 59.2% at the end of 2021.

PLN M	30.06.2021	31.12.2021	30.06.2022	YtD change	YoY change
Loans and advances to individuals	70,093.0	73,244.0	75,822.5	3.5%	8.2%
Loans and advances to corporate entities	49,635.1	47,836.0	53,976.2	12.8%	8.7%
Loans and advances to public sector	220.7	153.0	138.4	-9.5%	-37.3%
<b>Total (gross) loans and advances to customers</b>	<b>119,948.7</b>	<b>121,233.0</b>	<b>129,937.1</b>	<b>7.2%</b>	<b>8.3%</b>
Provisions for loans and advances to customers	-3,707.4	-3,178.1	-3,361.4	5.8%	-9.3%
<b>Total (net) loans and advances to customers</b>	<b>116,241.3</b>	<b>118,054.9</b>	<b>126,575.7</b>	<b>7.2%</b>	<b>8.9%</b>

In H1 2022, gross loans and advances to individuals rose by PLN 2,578.4 million or 3.5%. The volume of gross mortgage and housing loans to individuals increased by 3.8% compared with the end of 2021. In the period under review we have noted a drop in sales of new mortgage loans. In October 2021 after a period of historically low interest rates, The Monetary Policy Council began to hike rates. By 30 June 2022 the main interest rate increased by 5.90% (by 4.25 pp. in H1 2022 only), which has significantly limited sales

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of new mortgage loans. In H1 2022, mBank Group sold PLN 4,967.8 million mortgage loans (-20.9 % year on year) and PLN 5,346.7 million non-mortgage loans (+13,1% compared with H1 2021).

Net of the FX effect, loans and advances to individuals grew by 2.5% compared with the end of 2021 and by 5.7% year on year.

The volume of gross loans and advances to corporate clients grew by PLN 6,140.2 million or 12.8% year to date in in H1 2022. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans to corporate clients increased by 7.7% compared to the end of 2021 and by 6.0% compared to the end of June 2021.

In H1 2022, sales of corporate loans (including new sales, increase of limits and renewals) increased by 24.6% year on year. The main part of sales was short-term financing, related to ongoing operations, which were impacted by rising prices of key stocks.

The volume of gross loans and advances to the public sector decreased by PLN 14.6 million or -9.5% in H1 2022.

Investment securities constituted mBank Group's second largest category of assets (22.1%). In H1 2022, their value decreased by PLN 7,513.5 million or -14.3% mainly as a result of decrease in the volume of securities issued by the sector of central and local governments and central banks.

The balance of financial assets held for trading and derivatives held for hedges went up by PLN 617.3 million or 24.2% in H1 2022 as a result of an almost twofold increase on debt securities issued by the central and local governments, credit institutions and other entities as well as conversion of debt into shares in the debt collection process of one of the bank's clients.

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

The table below presents changes in liabilities and equity of mBank Group in H1 2022:

PLN M	30.06.2021	31.12.2021	30.06.2022	YtD change	YoY change
Amounts due to other banks	2,820.6	3,359.6	2,651.8	-21.1%	-6.0%
Amounts due to customers	156,583.5	159,935.1	164,013.6	2.6%	4.7%
Debt securities in issue	13,061.0	13,429.8	12,203.8	-9.1%	-6.6%
Subordinated liabilities	2,542.2	2,624.5	2,702.3	3.0%	6.3%
Other liabilities	6,769.9	6,472.0	9,448.1	46.0%	39.6%
<b>Total Liabilities</b>	<b>181,777.3</b>	<b>185,821.0</b>	<b>191,019.6</b>	<b>2.8%</b>	<b>5.1%</b>
<b>Total Equity</b>	<b>16,693.6</b>	<b>13,717.9</b>	<b>13,377.6</b>	<b>-2.5%</b>	<b>-19.9%</b>
<b>Total Liabilities and Equity</b>	<b>198,470.9</b>	<b>199,538.9</b>	<b>204,397.1</b>	<b>2.4%</b>	<b>3.0%</b>

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

Amounts due to customers are the principal source of funding of mBank Group. Their share in the structure of liabilities and equity of mBank Group increased slightly year on year. As at the end of June 2022, amounts due to customers accounted for 80.2% of the Group's total liabilities and equity as compared with 78.9% at the end of June 2021. The share has not changed compared with the end of 2021.

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PLN M	30.06.2021	31.12.2021	30.06.2022	YtD change	YoY change
Individual customers	106,699.7	112,446.1	109,913.7	-2.3%	3.0%
Corporate customers	49,094.6	46,848.7	52,219.4	11.5%	6.4%
Public sector customers	789.2	640.3	1,880.5	193.7%	138.3%
<b>Total amounts due to customers</b>	<b>156,583.5</b>	<b>159,935.1</b>	<b>164,013.6</b>	<b>2.6%</b>	<b>4.7%</b>

Amounts due to customers increased by PLN 4,078.5 million or 2.6% in H1 2022, up to PLN 164,013.6 million. In the period under review, a strong rise in amounts due to corporate clients and a modest decrease in amounts due to individual customers could be observed.

Amounts due to corporate clients went up by PLN 5,370.8 million or 11.5% in the period under review. The increase was driven mainly by term deposits (PLN +6,761.8 million or +1,236.5%), while funds on current accounts decreased (PLN -2,026.1 or -4.8% YtD).

Amounts due to individuals decreased by PLN 2,532.5 million or 2.3% in H1 2022. Due to high level of inflation and emergence of alternatives to hold money by households, for example in the form of Ministry of Finance treasury bonds with favorable interest rate, the value of funds on current accounts decreased by 6,431.2 or 6.2%. In the same period the value of funds on term deposits increased by PLN 3,917.4 million or 47.6% compared with the end of 2021.

Amounts due to the public sector in H1 2022 went up by 193.7% to PLN 1,880.5 million.

Amounts due to other banks decreased by PLN 707,8 million or 21.1% year to date and stood at PLN 2 651,8 million. The year-to-date increase was mainly driven by repo transactions with banks and other liabilities, including cash collaterals.

The share of debt securities in issue in the funding structure of mBank Group dropped from 6.7% at the end of 2021 to 6.0% at the end of June 2022. Their value decreased by PLN 1,226.0 million or 9.1% compared with the end of 2021. This decrease is primarily attributable to the redemption at maturity of a tranche of CHF bonds issued under the EMTN programme and covered EUR and PLN bonds of mBank Hipoteczny.

Subordinated liabilities increased by 3.0% year to date due to depreciation of the zloty against the Swiss franc, in which a part of mBank's subordinated debt (CHF 250 million) is denominated.

In H1 2022, equity fell by PLN 340.3 million or 2.5%. Lower value of equity results from decrease of other equity positions. Its share in total liabilities and equity of mBank Group accounted for 6.5% at the end of H1 2022, compared to 6.9% with the end of 2021 and 8.4% at 30 June, 2021.

**Financial results of mBank Group in Q2 2022**

The profit before tax generated by mBank Group in Q2 2022 stood at PLN 598.3 million against PLN 713.6 million in the previous quarter. Net profit attributable to owners of mBank reached PLN 229.7 million, against PLN 512.3 million in Q1 2022.

PLN M	Q1 2022	Q2 2022	Change in PLN M	Change in %
Interest income	1,716.3	2,332.1	615.8	35.9%
Interest expense	-217.0	-643.7	-426.8	196.7%
<b>Net interest income</b>	<b>1,499.3</b>	<b>1,688.4</b>	<b>189.0</b>	<b>12.6%</b>
Fee and commission income	792.9	767.4	-25.5	-3.2%
Fee and commission expense	-194.9	-212.1	-17.1	8.8%
<b>Net fee and commission income</b>	<b>598.0</b>	<b>555.3</b>	<b>-42.6</b>	<b>-7.1%</b>
<b>Core income</b>	<b>2,097.3</b>	<b>2,243.7</b>	<b>146.4</b>	<b>7.0%</b>
Dividend income	0.8	4.0	3.2	378.0%
Net trading income	95.6	0.9	-94.8	-99.1%
Other income	-18.3	-94.9	-76.6	419.5%
Other operating income	66.4	83.6	17.3	26.0%
Other operating expenses	-63.3	-82.5	-19.2	30.3%
<b>Total income</b>	<b>2,178.6</b>	<b>2,154.8</b>	<b>-23.8</b>	<b>-1.1%</b>
Net impairment losses and fair value change on loans and advances	-268.5	-195.0	73.6	-27.4%
Costs of legal risk related to foreign currency loans	-192.8	-175.1	17.7	-9.2%
Overhead costs and depreciation	-843.9	-1,019.4	-175.5	20.8%
Taxes on the Group balance sheet items	-159.8	-167.1	-7.3	4.5%
<b>Profit before income tax</b>	<b>713.6</b>	<b>598.3</b>	<b>-115.3</b>	<b>-16.2%</b>
Income tax expense	-201.3	-368.4	-167.2	83.1%
<b>Net profit attributable to:</b>	<b>512.3</b>	<b>229.8</b>	<b>-282.5</b>	<b>-55.1%</b>
<b>- Owners of mBank S.A.</b>	<b>512.3</b>	<b>229.7</b>	<b>-282.6</b>	<b>-55.2%</b>
- Non-controlling interests	0.0	0.1	0.1	-
ROA net	1.0%	0.5%		
ROE gross	20.9%	17.7%		
ROE net	15.0%	6.8%		
Cost / Income ratio	38.7%	47.3%		
Net interest margin	3.2%	3.5%		
Common Equity Tier 1 ratio	13.5%	13.9%		
Total capital ratio	15.9%	16.4%		

The main drivers of mBank Group's financial results in Q2 2022 compared with Q1 2022 included:

- **Significant increase in net interest income** by PLN 189.0 million (+12.6%);
- **Decrease in net fee and commission income** resulting from a substantial increase in the commission for account maintenance in the previous quarter; at the same time, payment card-related commissions, credit-related commissions and commissions on FX transactions grew;
- **Decrease in net trading income**, largely due to lower foreign exchange result;
- **Lower net impairment losses and fair value change on loans and advances** (by PLN 73.6 million) translating into a decrease in risk costs to 62 bps from 89 bps in the previous quarter;
- **Decrease in costs of legal risk related to foreign currency loans** to PLN 175.1 million compared with PLN 192.8 million in Q1;
- **Increase in operating costs (including depreciation)** by PLN 175.5 million, driven largely by the posting of the PLN 390.8 million contribution to the Institutional Protection Scheme;
- **Increase in taxes on the Group balance sheet items** to PLN 167.1 million.
- **Higher income tax rate** attributable to a revision of the annual average effective tax rate connected with the expected impact of credit vacation on mBank Group's performance in 2022 (income tax charge throughout a year is determined based on the forecast annual Effective Tax Rate (ETR) in order to present an adjusted tax rate approximating the annual rate in interim financial statements).

The balance sheet total of mBank Group stood at PLN 204,397.1 million as at June 30, 2022 compared with PLN 204,914.4 million at the end of March 2022.

Net loans and advances to clients increased by 2.5% to PLN 126,575.7 million in Q2 2022. Higher credit volumes were reported both in retail (+0.9%) and corporate clients segment (+4.8%).

At the same time, amounts due to clients dropped slightly by 0.4% to PLN 164,013.6 million. A modest decrease was observed both in amounts due to individual clients (-1.1%) and corporate clients (-1.1%).

## **4. Risk management**

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

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

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

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

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

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

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

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

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

## 4.2. Main risks of mBank Group's business

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

The following risks were recognized as material in the Group's operations as of June 30, 2022: credit risk, risk of foreign currency credit portfolio (associated with actual or potential threat to the bank's results and capital related to foreign currency mortgage loans granted to unsecured borrowers until 2012), operational risk, market risk, business risk (including strategic risk), liquidity risk, compliance risk, reputation risk, model risk, capital risk (including risk of excessive leverage) and tax risk.

The following sections present the rules of managing credit, market, liquidity and operational risk, and threats related to ESG factors in mBank Group.

### Credit risk

The bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (PFSA) (in particular Recommendation S, T and C), EBA's Guidelines on loan origination and monitoring and CRR/CRDIV, which address issues related to credit risk management.

#### Tools and measures

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

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

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

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

and related measures including:

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

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

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

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

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

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

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

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

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

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

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

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

### Strategy

#### *Corporate and Investment Banking*

In accordance with the Corporate Credit Risk Management Strategy in mBank Group, the main goal in this area is defining a safe level of risk appetite in sales of risk-bearing products to the Group clients and use synergies by integrating the offer of the bank and Group subsidiaries. The Corporate Credit Risk Management Strategy takes into account the statements of mBank Group Strategy for 2021-25, which sets out key areas of development:

- the first-choice bank for e-commerce market participants,
- best digital banking for high-potential companies,
- technology, security and data as a source of competitive advantage,
- distinctive employees and organizational culture, where cooperation is based on trust and positive intentions.

The Corporate Credit Risk Management Strategy also takes into account the ESG strategy, which is an integral part of the Strategy of mBank Group for 2021-2025.

The Corporate Risk Management Strategy is realised by credit risk policies, limits reducing the risk and the principles of risk assessment of business entities applying for financing. The bank manages credit risk both at the single entity level and the consolidated level.



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

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

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

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

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

When developing its lending activities, the Group considers environmental, social and corporate governance impacts, gradually introducing ESG issues into the credit risk management system. The bank monitors regulatory changes addressing ESG issues on an ongoing basis and assesses their potential impact on the Group. In order to actively mitigate threats and quickly identify opportunities for building a competitive advantage, the bank included ESG factors' assessment in the process of granting and monitoring loans.

On regular basis the bank adapted credit risk policies and the credit risk management process to the economic situation caused by the COVID-19 pandemic.

#### *Retail Banking*

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

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

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

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

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

The new business focuses on products which may be financed with issue of mortgage bonds. Those exposures will then be transferred to mBank Hipoteczny in the pooling process to enable the issue of mortgage bonds. The conservative policy of assessing borrowers' reliability and creditworthiness is applied; the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness (including interest rate risk buffers resulting from supervisory regulations).

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

#### Quality of mBank Group loan portfolio

As of June 30, 2022, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) decreased insignificantly to 3.8% from 3.9% at the end of 2021. The change of the indicator applies to both business lines and results from the realization of debt collection processes.

In accordance with the EBA guidelines on management of non-performing and forborne exposures, which came into force from June 30, 2019, banks are obliged to monitor and manage the NPL portfolio. Banks should strive to maintain the value of the NPL portfolio below the threshold set by the regulator at 5%. As of June 30, 2022, the NPL<sub>REG</sub> ratio (ratio calculated according to EBA guidelines) was at 3.5%.

Provisions (defined as credit risk costs for loans and advances to customers, i.e. provisions for loans and advances at amortised cost and fair value change of loans and advances mandatorily at fair value through profit or loss) increased from PLN 3,346.7 million at the end of December 2021 to PLN 3,521.2 million at the end of June 2022.

Coverage ratios of non-performing loans and advances (coverage ratio and coverage ratio including provisions for performing loans) increased in the analysed period respectively from 53.1% and 70.4% in December 2021 to 54.6% and 70.8% in June 2022.

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

The table below presents the quality of mBank Group loan portfolio as at the end of June 2022, the end of December 2021 and the end of June 2021.

<b>Loans and advances to clients 30.06.2022 (PLN ('000))</b>	<b>At amortised cost</b>	<b>At fair value</b>	<b>Loans and advances, total</b>
Gross carrying amount	128,947,147	1,145,259	130,092,406
Non-performing loans and advances	4,802,642	173,161	4,975,803
Non-performing loans ratio (NPL)	3.7%	15.1%	3.8%
Provisions for non-performing loans	-2,587,012	-128,374	-2,715,386
Provisions for performing loans	-774,412	-31,401	-805,813
Coverage ratio	53.9%	74.1%	54.6%
Coverage ratio, including provisions for performing loans	70.0%	92.3%	70.8%

<b>Loans and advances to clients 31.12.2021 (PLN ('000))</b>	<b>At amortised cost</b>	<b>At fair value</b>	<b>Loans and advances, total</b>
Gross carrying amount	120,080,864	1,314,147	121,395,011
Non-performing loans and advances	4,574,022	181,449	4,755,471
Non-performing loans ratio (NPL)	3.8%	13.8%	3.9%
Provisions for non-performing loans	-2,396,983	-129,218	-2,526,201
Provisions for performing loans	-781,127	-39,344	-820,471
Coverage ratio	52.4%	71.2%	53.1%
Coverage ratio, including provisions for performing loans	69.5%	92.9%	70.4%

## mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2022

Loans and advances to clients 30.06.2021 (PLN ('000))	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	118,518,965	1,719,568	120,238,533
Non-performing loans and advances	4,889,784	384,186	5,273,970
Non-performing loans ratio (NPL)	4.1%	22.3%	4.4%
Provisions for non-performing loans	-2,838,169	-238,007	-3,076,176
Provisions for performing loans	-869,181	-52,700	-921,881
Coverage ratio	58.0%	62.0%	58.3%
Coverage ratio, including provisions for performing loans	75.8%	75.7%	75.8%

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

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

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

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

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

### Market risk

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

#### Tools and measures

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

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

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

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

- the Value at Risk (VaR);
- expected loss under condition that this loss exceeds Value at Risk (ES - Expected Shortfall);
- the Value at Risk in stressed conditions (Stressed VaR);
- economic capital to cover market risk;
- stress tests scenario values;
- portfolio sensitivities to changes of market prices or market parameters (IR BPV - Interest Rate Basis Point Value, CS BPV - Credit Spread Basis Point Value).

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

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

## mBank S.A. Group

Management Board Report on the Performance of mBank S.A. Group in H1 2022

- repricing gap.

### Strategy

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

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

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

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

### Market risk measurement

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

#### Value at risk

In H1 2021, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), remained at a moderate level in relation to the established VaR limits.

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

PLN ('000)	First half of the year 2022				2021			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2022	Mean	30.06.2022	Mean	31.12.2021	Mean	31.12.2021	Mean
VaR IR	15 099	10 953	16 696	11 316	16 199	10 693	15 825	11 024
VaR FX	835	1 836	812	1 803	2 096	3 312	2 095	3 276
VaR CS	92 657	86 548	90 521	84 668	86 724	63 057	85 154	61 846
<b>VaR</b>	<b>93 240</b>	<b>88 990</b>	<b>91 576</b>	<b>87 278</b>	<b>83 808</b>	<b>59 744</b>	<b>79 934</b>	<b>59 744</b>
<b>Stressed VaR</b>	<b>100 433</b>	<b>120 403</b>	<b>99 813</b>	<b>118 674</b>	<b>139 372</b>	<b>155 427</b>	<b>136 733</b>	<b>153 259</b>

*VaR IR - interest rate risk*

*VaR FX - FX risk*

*VaR EQ - stock price risk*

*VaR CS - credit spread risk*

The Value at Risk (VaR) was largely influenced by the portfolios of instruments sensitive to the interest rates and the separate credit spread - mainly the portfolios of the Treasury bonds (in the banking and trading books) and positions resulting from interest rate swap transactions. Increase of Value at Risk in H1 2022 resulted from high market volatility caused by growing inflation and war in Ukraine.

#### Sensitivities measures

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

PLN ('000)	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021
Banking book	293	1 199	422	1 302	-8 851	-11 709	-8 658	-11 499
Trading book	-154	112	-154	112	-255	-209	-255	-209
<b>Total</b>	<b>139</b>	<b>1 311</b>	<b>268</b>	<b>1 414</b>	<b>-9 106</b>	<b>-11 918</b>	<b>-8 913</b>	<b>-11 708</b>

The credit spread sensitivity (CS BPV) for mBank's banking book, results in more than 50% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

### Interest rate risk of the banking book

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

	Δ NII*	
	30.06.2022	31.12.2021
Parallel increase by 100 bps	(62 098)	351 795
Parallel decrease by 100 bps	(583 855)	(715 290)

\* - measure calculated at mBank level

Negative value of ΔNII for parallel increase of interest rates for 30.06.2022 represents conservative assumptions applied for risk measurement purposes, related to increased interest paid on deposits. In decrease scenarios, a high level of interest rates reduces the effect of the decrease of the client interest rate to zero, hence a decline in sensitivity.

The sensitivity of the economic value of capital is calculated and monitored for 14 scenarios (including regulatory shock scenarios described in the EBA guidelines) taking into account changes in the level and slope of the yield curve as well as currency and credit spreads, broken down into values in currencies together and separately for material currencies. The economic value of capital (for the outflow balance) in shock scenarios for interest rate risk are presented in the table below:

	Δ EVE	
	30.06.2022	31.12.2021
Sudden parallel increase by 200 bps	(447 657)	(398 397)
Sudden parallel decrease by 200 bps	501 681	425 964
Parallel shock up	(528 063)	(513 194)
Parallel shock down	594 091	552 547
Steeper shock	8 224	87 539
Flattener shock	(105 515)	(187 360)
Short rates shock up	(277 638)	(349 279)
Short rates shock down	290 092	364 488
Maximum	(528 063)	(513 194)
Tier 1 Capital	13 014 966	13 552 027

### Liquidity risk

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

#### mBank Group liquidity position

In the first half of 2022, the liquidity of mBank Group was at a safe, high level, which was reflected in the high amount of liquid funds.

mBank Group maintained high liquidity despite unfavourable market conditions (war in Ukraine, depreciation of PLN and monetary policy tightening by Polish MPC), reflected by high levels of liquidity ratios, which were well above the minimum regulatory levels. The lower level of liquidity ratios in the current reporting period resulted from the change in following factors:

- development of lending, the dynamics of which significantly exceeded growth of deposit base,
- need to maintain a higher minimum of mandatory reserve requirement,
- negative changes in valuation of securities portfolio and balance of collateral posted and received caused by market factors (depreciation of PLN and interest rate increases by National Bank of Poland).

#### Tools and measures

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

The bank has defined a set of liquidity risk measures and a system of limits, buffers and warning thresholds which protect the bank's liquidity in the event of unfavourable internal or external conditions. Independent

measurement, monitoring and controlling of liquidity risk is performed daily by the Balance Risk Management Department.

The main measures used in liquidity risk management of the bank include internal measures based on liquidity gap calculation in various scenarios in LAB methodology as well as the regulatory measures i.e. LCR and NSFR.

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

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

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

LCR calculation is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, amended by the Commission Delegated Regulation (EU) 2018/1620 of July 13, 2018 and the Commission Delegated Regulation (EU) 2022/786 of February 10, 2022. NSFR calculation is carried out with the European Parliament and of Council regulation (EU) No 575/2013 of June 26, 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012. Bank reports LCR and NSFR to the NBP according to CRR and the Commission Implementing Regulation (EU) 2021/451 of 17<sup>th</sup> of December 2020.

### Strategy

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

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

The bank has a centralised approach to the Group's funding management. The subsidiaries are financed by mBank through the Treasury Department. Additionally, mBank Hipoteczny raises funding in the market by issuance of covered bonds and short-term debt securities and mLeasing raises funding by issuance of short-term debt securities.

The Financing Strategy is based on the following assumptions:

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

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

### Measuring liquidity risk at the consolidated and individual level

The liquidity of mBank remained at a safe, high level in the first half of 2022, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB liquidity gap and in the levels of regulatory measures.

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

Liquidity measures, both internal and regulatory, throughout the entire reporting period were definitely above the current structure of limits.

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

Measure <sup>1</sup>	30.06.2022	30.06.2022
	mBank	mBank Group
<b>LAB Base Case 1M</b>	27 954	29 582
<b>LAB Base Case 1Y</b>	13 893	15 707
<b>LCR</b>	173%	184%
<b>NSFR</b>	135%	138%

<sup>1</sup> LAB measures are shown in PLN million; LCR and NSFR are relative measures presented as a decimal.

### **Operational risk**

mBank organises the operational risk management process taking into account the rules and requirements set out in external regulations, in particular in the Recommendations M, H and D of the Polish Financial Supervision Authority (PFSA), CRR Regulation and Regulation of the Minister of Finance, Funds and Regional Policy on the Risk Management and Internal Control Systems, and Remuneration Policy in Banks, which constitute the starting point for the framework of the control system and operational risk management in mBank Group.

#### Tools and measures

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

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

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

mBank identify risks on the basis of all available sources for all significant areas of the bank's operations as well as new and modified products, processes and systems. Risk identification takes into account both internal and external factors.

- The Register of Operating Losses is a database of losses resulting from operational events that arise, which are recorded with the focus on the cause of their occurrence. The analysis of recorded data takes place in the Integrated Risk Management Department and in organizational units. This approach enables organizational units to analyze their risk profile on an ongoing basis.
- mBank also uses access to external databases on operational losses and uses them to analyze operational risk and potential threats to which institutions operating in the financial sector are exposed.
- Operational risk scenarios that describe the risks associated with the occurrence of rare but potentially very severe operational risk events.

The operational risk assessment covers the entire management structure and individual business lines. It mainly consists in determining the probability of occurrence and the size of possible future losses due to operational risk. Risk assessment allows to determine what further actions will be taken with the identified risk.

- Self-Assessment of Operational Risk Management Effectiveness, which is performed by organizational units of the bank and the Group subsidiaries.
- The purpose of this process is to ensure the risk identification and assessment and appropriate modifications. In addition, it supports the communication process about the need to change and improve control processes. This translates into a more active approach to operational risk management and increasing operational risk awareness in mBank Group. The end result of the Self-Assessment is the assessment of processes, sub-processes and key operational risks as well as the creation of the corrective action plans.
- Providing opinions on products before the implementation of a new or modified product offer and the impact of the outsourcing agreement on the operational risk profile. The bank identifies and assesses the risks associated with these products, including operational risk.

mBank has a system of regular monitoring of operational events and the results of other tools in this regard, which enables the observation of the operational risk profile and ensures that relevant information is regularly provided to the Management Board and Supervisory Board.

Regular monitoring allows to quickly detect weaknesses in the risk management system. Thanks to the identification and analysis of the circumstances related to the recorded event and the operational loss, we can identify some or all of the reasons for the occurrence of an operational event and adequately prevent their repetition.

The key risk indicators KRI and risk indicators RI support the ongoing monitoring of risk. The process makes it possible to predict in advance the occurrence of an increased level of operational risk and to react appropriately by organizational units in order to avoid the occurrence of operational events and losses. KRI and RI, thanks to the system of warning and alarm thresholds, allow to determine the level of risk tolerance.

In mBank, the management information system is complete, and ensures the provision of reliable (covering the entire area of operational risk) as well as regular information on the risk level and profile as part of management reports and reports dedicated to operational risk.

#### Strategy

The organisation of the operational risk control and management system is aimed at enabling effective control and management of this risk at every level of the bank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the of the Supervisory Board and its committees, Management Board of the bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the bank. The central operational risk control function focuses on preparation and coordination of the operational risk control and management process in the bank, development of tools, raising awareness in the bank about operational risk and the control function as well as reporting the operational risk profile. Whereas operational risk management takes place in every organisational unit of the bank and in every subsidiary of mBank Group. It consists in identifying, evaluation and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk. The operational risk control process is supervised by the Supervisory Board of the bank through its Risk Committee.

In mBank, we attach great importance to the security of both IT systems and the data stored in them, using appropriate organizational and technical solutions. We promote cybersecurity among our employees. Thanks to e-learning and stationary training, we constantly increase their awareness and knowledge in this terms. We also run educational campaigns for our clients.

#### **Threats related to ESG factors**

The principles of responsible business conduct and sustainable development set the direction of mBank Group's operations. Environmental, social and corporate governance aspects play a key role in how we manage our company. To meet the growing climatic, social and ethical challenges, the ESG agenda has been included in the "Strategy of mBank Group for 2021-2025". The new ESG strategy covers our responsibility in 5 main areas of activity:

- for the climate,
- for society,
- for the financial condition of the clients served,



- towards investors,
- for compliance with the declared ESG values.

The ESG management system is organized by mBank Group Sustainable Development Committee, chaired by the Vice-President of the Management Board, Chief Risk Officer. The Committee indicates the directions of activities and proposes them to the Management Board, supervises the implementation of the ESG strategy and the course of ESG initiatives, approves ESG policies. The Management Board regularly conducts dialogue with the Supervisory Board on ESG issues, and also the Supervisory Board's Risk Committee discusses ESG issues on a quarterly basis. Assessment of the work effects of mBank's top 100 managers takes into account the ESG goals. In addition, the following roles were established at the bank:

- The Ethics Officer of the bank who supports employees in resolving ethical dilemmas,
- The customer experience team that looks at all initiatives from the customer's perspective to minimize the risk of inadequate expectations, breach of customer trust and disputes,
- The Management Board Plenipotentiary for Diversity and Inclusiveness, who, i.a., develops a policy of diversity and inclusiveness.

We consider the risk of negative financial impact on an institution resulting from the current or prospective impact of climate change, social issues and corporate governance on its counterparties or invested assets as an ESG risk. We analyse this risk in a horizontal way. This means that we are studying its impact on our business profile from the widest perspectives. We are increasingly examining how ESG issues translate into various categories of risks, such as: credit, market, operational, reputational, non-compliance or liquidity. In accordance with the risk management philosophy described in the "Risk Management Strategy of mBank Group", we are gradually and increasingly embedding ESG issues in the risk management system. We are gradually and in the widest possible spectrum introducing ESG issues into banking processes, including in:

- introducing new products and services to the offer,
- employee recruitment and development,
- organizational culture,
- relationships with suppliers.

The risks associated with the negative impact of climate on a company can be classified as physical risks and transition risks according to the Climate-Related Reporting Supplement (2019/C 209/01) to Guidelines on non-financial reporting (2017/C 215/01) issued by European Commission.

Physical risk is the risk to a company resulting from the physical effects of climate change, such as violent weather events or long-term climate change such as rising sea levels. Due to the business model adopted at mBank, in which the basic service channel is remote channels, mBank is to a small extent exposed to the direct impact of physical risk. A possible physical risk for mBank is the occurrence of temporary power outages. This is minimized by using appropriate technical solutions in accordance with the Business Continuity Management System. The geographical location of our headquarters and facilities in Poland, the Czech Republic and Slovakia, in places with a temperate climate, means that the physical risk to service operations is limited. By this we mean an insignificant threat to the work of the bank's branches and headquarters.

In the credit process, we analyze various ESG factors that may have an impact on the directions of adjusting the customer business profile and their transformation, resulting, inter alia, from environmental, technological and legal changes. The assessment also takes into account the client's physical risk, resulting primarily from threats related to the climate (e.g. flood). According to the "Corporate Credit Risk Management Strategy of mBank Group", we are supporting enterprises that operate in accordance with the standards of sustainable business development and we are conducting an active credit policy towards clients who are looking for financing for pro-ecological industrial, infrastructure and housing investments.

In assessing the business risk profile, the bank also identifies sensitive areas and related threats related to social issues (including those resulting from the development of new technologies) and resulting from corporate governance. These threats often translate directly into reputational risk as well as other types of risk. mBank is an institution of social trust, therefore mBank's reputation has a unique value.

In order to mitigate these threats, we monitor changes in our environment, especially the regulatory ones, on an ongoing basis, and we have implemented many internal policies described in the document "mBank's

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Sustainability Standards" (available at <https://www.mbank.pl/pdf/CSR/mbank-sustainability-standards.pdf>) . These policies regulate various ESG-related issues, including:

- banking services and customer relations,
- rules for credit loans lending,
- data security and privacy,
- relations with employees,
- legal compliance,
- corporate governance and ethical business,
- communication with external stakeholders,
- relationships with suppliers,
- diversity among employees.

Our "Policy of servicing industries sensitive to mBank's reputation risk" excludes servicing socially controversial companies or violating the "The Ten Principles of the UN Global Compact". We apply special rules to support entities from the defence sector. Our credit policy "mBank Policy of Lending to Sectors Significant to the EU Climate Policy" describes the financing conditions of entities, inter alia, from the mining, energy, heating, transport and fuel sectors. It indicates industries / projects preferred for financing due to the positive aspect of the impact on the climate. It also indicates industries and projects that are excluded. It excludes, with some exceptions, the financing of mining and coal-based energy. At the same time, we apply the "Renewable Energy Policy", according to which energy from renewable sources, such as solar and wind, is our priority. Every year, during the update of individual industry policies, we assess whether climate change compared to the previous update changed the situation in a given sector in a way justifying a change in the approach by indicating the preferred sectors and investments as well as those which the bank is not interested in financing.

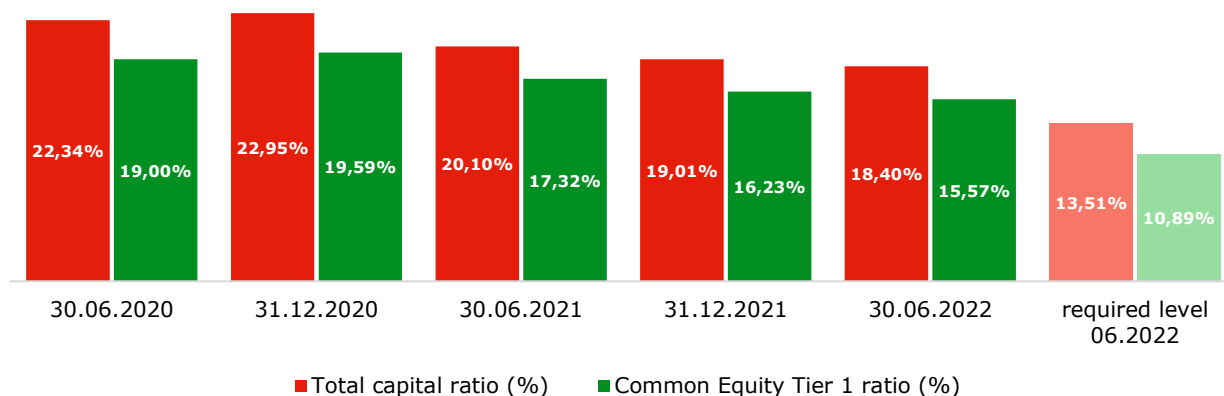
We actively cooperate with the Sustainalytics agency and monitor other ESG ratings and indices (e.g. MSCI, GEI) on an ongoing basis. In May 2022, we received from the Sustainalytics agency the best ESG risk rating among banks in Poland, at the level of 14.8 points. Compared to the previous Sustainalytics rating in 2021, mBank improved its result by 1.1 points. This rating is an objective measure of a bank's progress in terms of corporate social responsibility and sustainability. This rating concerns the effective management by the bank of the potential risks related to ESG issues. The agency assessed that mBank manages risk well in all 6 areas it examined. They concern:

- product management,
- corporate governance,
- human capital management,
- protection of privacy and data security,
- business ethics,
- integration of financial and ESG aspects.

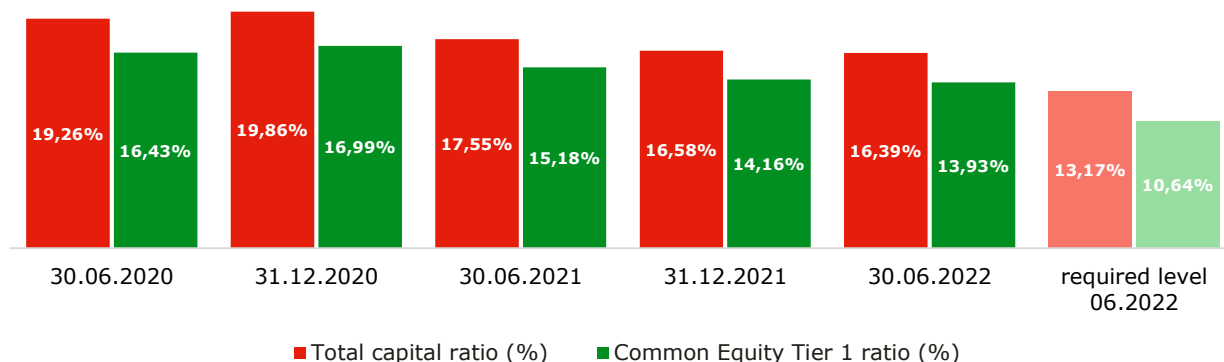
### 4.3. Capital adequacy

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

#### Capital adequacy of mBank



#### Capital adequacy of mBank Group



The capital ratios of mBank Group in the first half of 2022 were driven by the following factors:

- decrease in the value of TREA, which was driven mainly by the settlement of the synthetic securitization transaction in Q1 and the separation of a sub-portfolio of Qualifying Revolving Retail Exposures (QRRE) in Q2;
- the subsequent decrease of other comprehensive income due to the continuation of the negative valuation of debt instruments measured at fair value through other comprehensive income;
- taking into account the current profit for 1Q2022 in the calculation of own funds;
- taking into account the impairment of financial assets not measured at fair value through profit or loss for 2Q2022 in the calculation of own funds;
- exceeding the threshold mentioned in Article 49 of CRR Regulation;
- the amortization of one of the tranches of subordinated liabilities.

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

- the basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%;
- the additional capital charge in Pillar II with regard to FX mortgage loan portfolio – 2.12% at the level of total capital ratio and 1.59% at the level of Tier 1 capital on consolidated basis (and on individual basis 2,45% and 1,83% accordingly), according to the PFSA decision of November 24, 2021 (and on individual basis according to decision of October 29, 2021);
- the combined buffer requirement of additional 3.05% (on consolidated basis), which consists of:
  - the capital conservation buffer (2.5%);
  - the other systemically important institution's buffer (0.5%) - according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer;
  - systemic risk buffer (0.00%) – starting from 1st January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the exceptional socioeconomic situation that appeared after the occurrence of the global pandemic COVID-19, this requirement was abolished by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020;
  - countercyclical capital buffer (0.05%).

On individual basis the value of the combined buffer requirement is 3.06%.

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

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and the Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, comfortably meets regulatory requirement.

More details on capital adequacy of mBank Group in the first half of 2022 can be found in the Disclosures regarding capital adequacy.

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

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

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

- Condensed Consolidated Financial Statements for the first half of 2022 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group as well as its financial performance;
- Management Board Report on the Performance of mBank S.A. Group in H1 2022 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

### **Appointment of the auditor**

The Auditor authorised to audit financial statements and performing the review of the Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2022 and Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2022 – KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa - was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for issue of a review report of these financial statements, in compliance with respective provisions of Polish law and professional standards.