



Management Board Report on the Performance of mBank S.A. Group in H1 2017

Table of contents

1. About mBank Group.....	3
1.1. Executive summary	3
1.2. mBank's Authorities.....	5
1.3. Composition of mBank Group and key areas of activity	7
1.4. Subsidiaries of mBank Group	9
1.5. Strategy of mBank Group for 2016-2020.....	11
1.6. Rating of mBank and Group subsidiaries	11
1.7. mBank shareholders and share price on the WSE	14
2. Business activity and key achievements.....	16
2.1. Key projects of mBank Group in H1 2017	16
2.2. Awards and distinctions.....	16
2.3. Retail Banking	19
2.4. Corporates and Financial Markets	27
2.5. Subsidiaries of mBank Group	34
3. Financial results and macroeconomic environment.....	37
3.1. Economy and banking sector in H1 2017	37
3.2. Financial results of mBank Group in H1 2017	43
4. Risk management	54
4.1. Risk management foundations and key changes in H1 2017	54
4.2. Main risks of mBank Group's business.....	56
4.3. Capital adequacy.....	68
5. Statements of the Management Board	71

1. About mBank Group

1.1. Executive summary

mBank Group is the fourth-largest financial institution in Poland as measured by total assets. It offers retail, corporate and investment banking as well as other financial services such as leasing, factoring, insurance, financing of commercial real property, brokerage operations, wealth management, corporate finance and advisory in the scope of capital markets. mBank is the only Polish bank which successfully extended its Polish business model on foreign markets by launching retail operations in the Czech Republic and Slovakia in 2007.

In H1 2017 the economic growth increased to ca. 4%, which was driven primarily by private consumption. After an unfavourable 2016 characterised by sharp decreases, H1 2017 brought stabilisation in investments. In line with expectations, increases in investments are now triggered by public investments and construction projects of the private sector. The growth rate of private investments has remained moderate due to uncertainty in the business environment and a slowdown in disbursement of EU funds for companies. In H1 2017 inflation processes in the Polish economy normalised. The dynamics of consumer prices returned to the target range and stabilised around the level of 2% year on year. In the conditions of faster economic growth and the return of inflation to the target range, the Monetary Policy Council maintained its hitherto stance and announced interest rate stabilisation until the end of 2017 and possibly even longer. In the first half of 2017, the value of Polish assets grew significantly – the Polish zloty strengthened in relation to major global currencies (US dollar, euro and Swiss franc), the main indices of the WSE grew substantially and the profitability of Polish bonds decreased considerably.

mBank Group reported business growth across all segments in H1 2017. Due to the occurrence of non-recurrent events, related to both income and costs, mBank Group's net profit dropped as compared to H1 2016.

The key events of H1 2017 include:

- **Decrease in the net profit** attributable to the owners of mBank by 29.8% to PLN 488.5 million compared with H1 2016.
- **Decrease in total income** by 2.2% year on year, mainly attributable to the booking of proceeds from the takeover of Visa Europe Limited by Visa Inc. in H1 2016, coupled with an increase of core income by 13.1%, which almost offset the income on the one-off transaction noted in the previous year;
- **Rise in operating expenses (including amortisation)** by 9.4% year on year, mostly driven by the posting of the annual contribution to the restructuring fund of the Bank Guarantee Fund (BFG) in H1 2017, whereas in 2016, the contribution (including prudential levy) was posted quarterly.
- **Increase in taxes on Group balance sheet items**, introduced in February 2016, up to PLN 184.3 million from PLN 146.3 million in H1 2016.
- Rising volumes:
 - **Increase in gross loans** by 1.9% compared with the end of 2016, supported by active sales in the Retail Banking segment as well as in the Corporate and Investment Banking segment. Excluding reverse repo/buy sell back transactions and the FX effect, gross loans rose by 4.3% in H1 2017.
 - **Drop in clients' deposits** (by 3.6% compared with the end of 2016), triggered mainly by a decrease in deposits of corporate clients combined with a stable deposit base of retail clients.
- The expansion on the retail loans market was reflected by the **record-high sales of non-mortgage loans** reaching PLN 3,689.1 million, which represents a rise by 20.2% compared with H1 2016. Additionally, in H1 2017, PLN 1,799.6 million worth of **mortgage loans was sold**, i.e. a considerable increase by 22.3% compared to the previous year.
- As a result of the growth in loans and drop in deposits, the loan to deposit ratio went up to 94.6% from 89.4% at the end of 2016.

- **Improved quality of assets** combined with stable risk costs (49 basis points) compared with H1 2016 (47 basis points).
- As a result of loans increase and a drop in deposits, loan-to-deposit ratio stood at 94.6% compared with 89.4% at the end of 2016 and 94.7% as at June 30, 2016
- **High quality of capital base** – capital ratios surpassing regulatory requirements: CET 1 ratio at 18.5%, Total Capital Ratio at 21.2%.
- **Accelerating client acquisition** – in 2017, 199 thousand individual and 560 corporate clients were acquired.

1.2. mBank's Authorities

Supervisory Board of mBank

The Annual General Meeting held on March 30, 2017, appointed the following members of the Supervisory Board for a three-year term:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Tomasz Bieske – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski – Member of the Supervisory Board
8. Jörg Hessenmüller – Member of the Supervisory Board
9. Thorsten Kanzler – Member of the Supervisory Board
10. Michael Mandel – Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

There newly appointed Supervisory Board has three new members: Tomasz Bieske, Janusz Fiszer and Mirosław Godlewski. At the same time, all of them, together with Agnieszka Słomka-Gołębiowska, are independent members.

There are 4 committees within the Supervisory Board: the Executive and Nominations Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. As of June 30, 2017, the composition of the Supervisory Board Committees was as follows:

Executive and Nominations Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny</u>	<u>Marcus Chromik</u>	<u>Tomasz Bieske</u>	<u>Andre Carls</u>
Andre Carls	Mirosław Godlewski	Andre Carls	Tomasz Bieske
Stephan Engels	Thorsten Kanzler	Janusz Fiszer	Stephan Engels
Teresa Mokrysz	Agnieszka Słomka-Gołębiowska	Jörg Hessenmüller	Maciej Leśny
		Agnieszka Słomka-Gołębiowska	

The résumés of all the members of mBank's Supervisory Board are available at mBank's website: <https://www.mbank.pl/en/about-us/bank-authorities/>.

Management Board of mBank

As of June 30, 2017, the Management Board of mBank was composed as follows:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Przemysław Gdański – Vice-president of the Management Board, Head of Corporate and Investment Banking
3. Christoph Heins – Vice-president of the Management Board, Chief Financial Officer (until June 30, 2017), starting from July 1, 2017, the position was taken by Andreas Böger
4. Lidia Jabłonowska-Luba – Vice-president of the Management Board, Chief Risk Officer
5. Frank Bock – Vice-president of the Management Board, Head of Financial Markets
6. Cezary Kocik – Vice-president of the Management Board, Head of Retail Banking

7. Krzysztof Dąbrowski – Vice-president of the Management Board, Head of Operations and Information Technology.

The composition of the Management Board changed in H1 2017. On March 30, 2017, two Vice-presidents of the Management Board, Jarosław Mastalerz and Christoph Heins, resigned from their functions at the Bank.

The resignation of the Vice President of the Management Board for Operations and Informatics Jarosław Mastalerz took place on March 31, 2017, and the reason behind the resignation is his intention to engage in the development and commercialisation of new technologies in the financial sector within the scope of a project implemented in cooperation with mBank. At the same time, under a resolution of the Bank's Supervisory Board of March 30, 2017, Krzysztof Dąbrowski was appointed as Vice-president of the Management Board, Head of Operations and Information Technology, as of April 1, 2017. He has been the CIO/CTO and managing director at mBank since 2014.

The resignation of the Vice President of the Management Board, Chief Financial Officer, Mr. Christoph Heins, took place on June 30, 2017, without giving the reason for the resignation. On March 30, 2017, the Supervisory Board appointed Andreas Böger to act in the capacity of Vice-president of the Management Board, Chief Financial Officer, with effect from July 1, 2017, until the end of the current term of office of the Management Board. Andreas Böger was formerly the head of the Corporate Finance division within Commerzbank's Group Development and Strategy.

Moreover, due to the resignation of Vice-president of the Management Board, Mr. Hans-Dieter Kemler, from his functions at the Bank with effect from April 30, 2017, Mr. Frank Bock, formerly the Managing Director in the Treasury Line of Commerzbank AG, was appointed Vice-president of the Management Board, Head of Financial Markets, as of May 1, 2017 until the end of the current term of the Management Board.

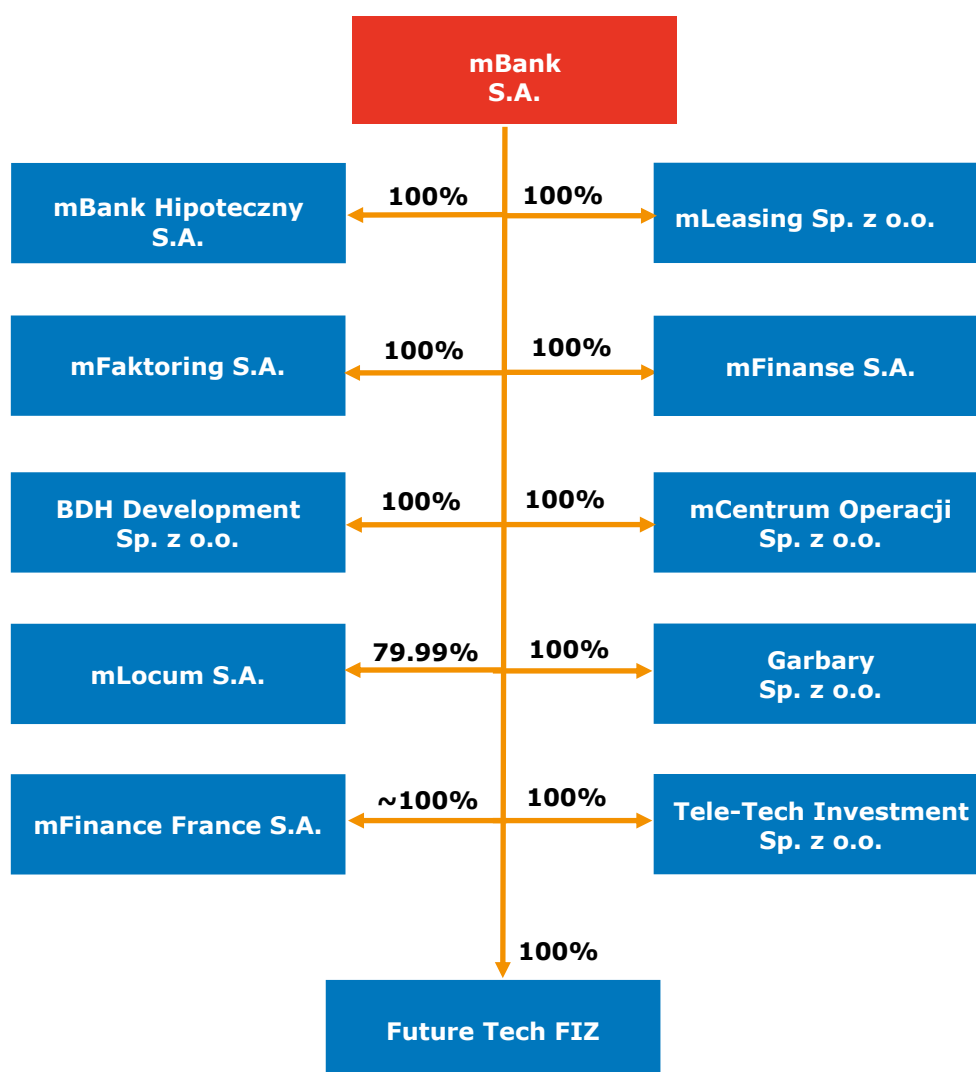
Further information on competences of particular members of the Management Board can be found at: <https://www.mbank.pl/en/about-us/bank-authorities/> .

1.3. Composition of mBank Group and key areas of activity

In H1 2017, two significant changes took place in the structure of mBank Group. On June 2, 2017, mBank concluded a preliminary conditional agreement on the sale of mLocum shares to Archicom. Upon obtaining required approvals (among others, of the President of the Office of Competition and Consumer Protection (UOKiK)), the final agreements on the sale of shares will be signed, most probably in Q3 2017, on the basis of which Archicom will become the majority shareholder of mLocum. Ultimately, after the finalisation of the second stage of the transaction, mBank will not hold any shares in mLocum. More information on the transaction can be found in chapter 1.4. Subsidiaries of mBank Group.

Moreover, in Q2 2017, the Bank took up 100% of the investment certificates in the Future Tech FIZ Closed-End Investment Fund (the Fund) for PLN 221.2 million. In July 2017, mBank's share in the number of investment certificates decreased to 98%. The Fund was established as an investment vehicle within the the mAccelerator project, which will focus on developing and commercialising high-potential projects in the field of new technologies supporting the sector of financial services (fin-tech) (more information on mAccelerator in section 2.1. Key projects of mBank Group in H1 2017). Quercus TFI S.A. is the body managing the Fund.

Consequently, mBank Group (consolidated subsidiaries) as at June 30, 2017 was composed as presented on the diagram below.



The table below presents the division of operations of mBank Group into business segments and areas.

Composition of mBank Group

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	Financial Markets
Bank	<ul style="list-style-type: none"> Retail clients, private banking clients, and micro-enterprises Affluent clients (Private Banking and Wealth Management) 	<ul style="list-style-type: none"> Service of corporations and non-banking financial institutions (K1) Large companies (K2) Small and medium-sized companies (K3) 	<ul style="list-style-type: none"> Banks Corporate clients in the scope of trading and sales Risk and liquidity management
	<ul style="list-style-type: none"> Retail part of mLeasing Sp. z o.o. Retail part of mBank Hipoteczny S.A. mFinanse S.A. 	<ul style="list-style-type: none"> Corporate part of mLeasing Sp. z o.o. Corporate part of mBank Hipoteczny S.A. mFactoring S.A. Garbary Sp. z o.o. Tele-Tech Investment Sp. z o. o. 	<ul style="list-style-type: none"> mFinance France S.A. mLeasing Sp. z o.o. – in the scope of funding mBank Hipoteczny S.A. – in the scope of funding
Consolidated subsidiaries	Other subsidiaries	<ul style="list-style-type: none"> mLocum S.A. (real property developer) mCentrum Operacji Sp. z o.o. (outsourcing services provider) BDH Development Sp. z o.o. (real property manager) Future Tech FIZ (closed-end investment fund) 	

1.4. Subsidiaries of mBank Group



mFinanse is a financial services intermediary operating as an open platform for selling financial products of various institutions including mBank. Its product offer includes loans, accounts, insurance as well as investment and savings products for both individuals and companies. The subsidiary offers the products of 19 financial entities, in more than 100 outlets across Poland.



mLeasing is one of the largest leasing companies in Poland and ranks third on the leasing market with 7.5% share (at the end of Q1 2017).

The subsidiary offers lease financing, loans, and car fleet rental and management services addressed to both corporate and retail clients.

In the corporate segment mLeasing offers various types of leasing products, including lease of private and commercial cars and heavy transport vehicles, car fleet management, lease of machines and equipment, and real property lease.

In the retail segment the subsidiary operates the "Leasing in Retail" programme addressed to micro-enterprises and SMEs, which are offered lease contracts using dedicated lease processes.



mLocum is an experienced and active real property developer that has been present on the real property market since 2000. It is one of the first real property developers in Poland operating on many local markets, including Kraków, Łódź, Wrocław, Warsaw, Poznań and Sopot.

The subsidiary organises and manages housing development projects. Other activities of the subsidiary include management of real property, including condominiums.

On June 2, 2017, mBank signed a preliminary conditional agreement on the sale of mLocum shares to Archicom, a company with an established position on the developer market, which has been successfully carrying out both housing and commercial projects in Poland for almost 30 years. Upon obtaining required approvals (among others, of the President of the Office of Competition and Consumer Protection (UOKiK), the final agreements on the sale of shares will be signed, most probably in Q3 2017, on the basis of which Archicom will become the majority shareholder of mLocum. Ultimately, after the finalisation of the second stage of the transaction, mBank will not hold any shares in mLocum.

The subject matter of the agreement is the sale of shares accounting for 79.99% of mLocum's share capital and the voting rights at the Annual Shareholders' Meeting of the company for PLN 87.6 million. The transaction will be executed in two stages. The first one, covering 51.0% of the company's share capital, is expected to take place in Q3 2017. The second stage of the transaction, in which 28.99% of the company shares are to be sold, is planned to be finalised by the end of 2018, however, it may be postponed until June 30, 2020 on the terms and conditions stipulated in the agreement.

The transaction arises from mBank Group's concentration on its core financial operations. Selling mLocum shares to a sector-leading company will make it possible to make better use of its potential and to achieve business objectives on the Polish market.

Bank Hipoteczny

mBank Hipoteczny (mBH) is the largest bank in terms of total assets and loan portfolio value of a mortgage bank in Poland, with the longest history of issue of mortgage bonds in the Polish capital market. The market share of mortgage bonds at the end H1 2017 according to mBH estimates was 36.0%.

mBH finances commercial investments on the real property market, including office buildings, commercial centres and facilities, hotels, warehouses, logistics centres, housing estates. Another important area of mBH's operation is lending to the public sector in the area of municipal investments and real properties of local government units.

The credit offer complements market analysis and advisory services addressed to investors and commercial real estate developers.

According to Fitch Ratings, mBH's long-term and short-term ratings are "BBB" (stable outlook) and "F2", respectively. The mortgage covered bonds issued by mBH are rated "A". For more information about mBH's ratings, see chapter 1.6. Ratings of mBank and mBank Hipoteczny.

Faktoring

mFaktoring is the eight largest player on the Polish factoring market among the members of the Polish Factors Association.

The services provided by mFaktoring are complementary to mBank's corporate offer. mFaktoring offers the financing of ongoing business operations, receivables management, credit protection, maintenance of debtors' settlement accounts and enforcement of receivables. In addition, the offer includes domestic and export factoring with recourse and credit protection, as well as import guarantees.

Products offered by mFaktoring are available in all mBank branches providing services to SMEs and corporations in Poland.

Centrum Operacji

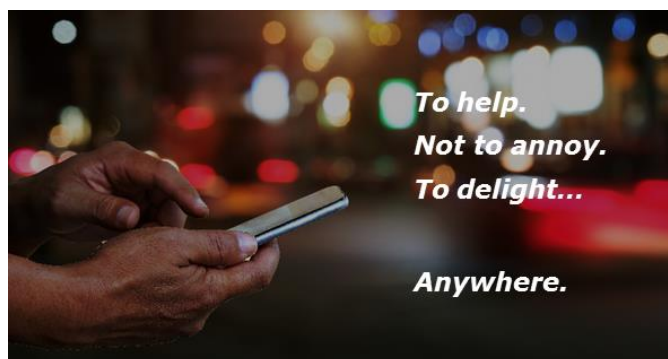
mCentrum Operacji (mCO) provides back-office support to the members of mBank Group.

In particular, the subsidiary handles the instructions and applications of retail and corporate clients of mBank Group. In addition, mCO supports the Group in terms of professional data archiving solutions, both electronic and paper-based.

mCO provides companies within the Group with quick access to information and supports them in planning, controlling and cost reduction processes, and monitoring of data security and confidentiality. This ensures the timeliness and quality of service, which translates into increased efficiency of customer service processes.

1.5. Strategy of mBank Group for 2016-2020

mBank Group's strategy until 2020 entitled **mobile Bank** was adopted by mBank's Supervisory Board in June 2016. The strategy sets the most important directions of mBank Group activities for the following years. It is based on three pillars forming a framework for business initiatives and operational activities to be undertaken by mBank over the next years. These include client-centricity, developing the Bank's competitive advantage in the area of mobility and continued improvement of efficiency. The "mobile Bank" strategy also defines the foundations for the strategy implementation, including engagement of mBank employees and principles of organisational development. It also focuses on technology, which is of critical importance nowadays.



The "mobile Bank" strategy also defines the foundations for the strategy implementation, including engagement of mBank employees and principles of organisational development. It also focuses on technology, which is of critical importance nowadays.

Strategy implementation

A number of project initiatives are run at the Bank with the purpose of implementing the Bank's main strategic priorities. The key achievements in specific areas include the following:

1. **Empathy** – in order to ensure that clients stay with mBank "forever" and recommend it, having been highly satisfied with its services, the Management Board appointed the Plenipotentiary of the Management Board for the client-centricity culture and client relations, who coordinates mBank Group's strategic actions aiming at permanently establishing the client-centric perspective at the Bank and represents clients and their interests before the Bank and the Group. Moreover, mBank has been consequently bolstering its position with regard to acquiring new clients from the young client segment (between 13 and 24 years of age) - in H1 2017, the acquisition grew by 19.1%, mainly due to the fact that the Bank's offer and marketing strategy were specifically targeted at this segment.
2. **Mobility** - the greatest number of regular mobile application users in Poland (according to a peer group comparison including the largest Polish banks listed on the WSE as at the end of March 2017) - currently, the number of clients who regularly use the mobile application is more than 1 million i.e. almost 42% of active mBank clients (a rise from 26% in December 2015). Moreover, in February 2017, mBank's mobile application was ranked second among the best applications in Europe in a survey conducted by the research and advisory company Forrester Research, and the new mBank CompanyNet, a modern platform which can be customised to the needs of individual users and which automatically adjusts to different mobile devices, was made available to corporate clients.
3. **Efficiency** - effective use of modern, remote distribution and contact channels while maintaining the headcount at the constant level of ca. 6.5 thousand FTEs since mid-2015. mBank is now one of the most efficient banks in the Polish banking sector in terms of revenues and profit per employee or outlet.

While determining the financial targets for the years 2016-2020 mBank took an ambitious approach regarding cost effectiveness as well as returns on equity and assets. Moreover, mBank's intention is to pay dividend of at least 50% of profits every year, subject to the expectations of the Polish Financial Supervision Authority in this respect, as well as to strengthen its funding base.

The table below presents mBank Group's financial aspirations and their achievement:

Financial measure	Target point	Comment on achievement
Cost effectiveness, Cost/Income (C/I)	Top 3 in Poland, each year i.e. to be one of the three most effective listed banks in Poland	<ul style="list-style-type: none"> ■ The cost/income ratio reached 45.7% in 2016; mBank was third among peer banks listed on the WSE (the average ratio for the banking sector in Poland reached 56% according to KNF's data for 2016). ■ In H1 2017, the C/I ratio stood at 49.1% (the average ratio for the banking sector in Poland reached 59.3% according to KNF's data for January-May 2017).
Return on Equity, ROE net	Top 3 in Poland, each year i.e. to be among the three most profitable listed banks in Poland in terms of RoE adjusted for dividend distribution	<ul style="list-style-type: none"> ■ ROE reached 10.1% in 2016; mBank was sixth among peer banks listed on the WSE, whereas the Bank did not pay dividends from the previous years' profits (the average ratio for the banking sector in Poland reached 7.75% according to KNF's data for 2016). ■ At the end of H1 2017, ROE stood at 7.53% (the average ratio for the banking sector in Poland reached 6.69% according to KNF's data for January-May 2017).
Return on Assets, ROA net	Top 3 in Poland, in 2020 i.e. to be one of the three listed banks in Poland with the highest return on assets	<ul style="list-style-type: none"> ■ ROA reached 0.95% in 2016; mBank was eight among peer banks listed on the WSE (the average ratio for the banking sector in Poland reached 0.84% according to KNF's data for 2016). ■ At the end of H1 2017, ROA stood at 0.75% (the average ratio for the banking sector in Poland reached 0.72% according to KNF's data for January-May 2017).
Capital position, capital adequacy in terms of core capital CET1	Maintain the ability to pay out dividend in terms of CET1 ratio, each year - maintain the CET1 ratio at least 1.5 pp. above the capital requirement for mBank	<ul style="list-style-type: none"> ■ At the end of H1 2017, the CET1 ratio stood at 18.47% (the average ratio for the banking sector in Poland reached 16.45% according to KNF's data as at the end of March 2017). ■ According to the data as at March 2017, mBank had the best capital position among the peer group of entities listed on the WSE; as at the end of H1 2017, CET1 exceeds the minimum capital requirement for mBank Group by almost 5.3 pp., whereas the capital requirement includes the capital buffer connected with the FX mortgage portfolio, which is the largest of the buffers imposed on banks in Poland.
Funding stability, Loans/Deposits ratio (L/D)	To maintain an L/D ratio of no more than only slightly above 100% every year	<ul style="list-style-type: none"> ■ the L/D ratio stood at 94.6% at the end of June 2017 (the average ratio for the banking sector in Poland reached 98.3% according to KNF's data as at the end of May 2017).

* in the table, in the case of C/I, RoE and RoA, mBank's position as at the end of 2016 is indicated because peer banks' results have not been published yet and mBank's position cannot be compared with the results of peer banks for Q1 2017 due to the one-off postings of the contribution to the resolution fund of the Bank Guarantee Fund, which took place in this period.

The key challenge for the period covered by the current strategy is to improve mBank's profitability as measured with the ROA ratio. The current level of ROA is significantly influenced by the portfolio of CHF mortgage loans, which constitute 22% of the Group's entire loan portfolio and at the same time account for less than 3% of the Group's net interest income.

1.6. Rating of mBank and Group subsidiaries

Ratings of mBank and mBank Hipoteczny assigned by Fitch Ratings

In 2017, Fitch Ratings did not change the ratings and rating outlooks of mBank and mBank Hipoteczny. The latest rating change took place on March 7, 2016, when Fitch Ratings upgraded mBank's long-term foreign currency IDR from "BBB-" to "BBB" and the short-term foreign currency IDR from "F3" to "F2". The outlook on the long-term rating is stable. On January 18, 2017, Fitch affirmed all the ratings and the outlook on the long-term rating of mBank and mBank Hipoteczny. Additionally, on July 23, 2017, Fitch decided not to change the rating of mortgage covered bonds which have been assigned an "A" rating with a positive outlook.

Fitch Ratings – ratings of mBank	
Long-term IDR	BBB (stable outlook)
Short-term IDR	F2
Viability Rating	bbb-
Support Rating	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB
Fitch Ratings – ratings of mBank Hipoteczny	
Long-term IDR	BBB (stable outlook)
Short-term IDR	F2
Support Rating	2
Ratings of mortgage covered bonds issued by mBank Hipoteczny	A (positive outlook)

mBank's rating assigned by S&P Global Ratings

On March 28, 2017, S&P Global Ratings upgraded mBank's long-term rating from "BBB" to "BBB+" as a result of upgrading the rating of Commerzbank AG from "BBB+" to "A-". The long-term rating outlook for mBank after the upgrade is negative and so is Commerzbank's long-term rating outlook. Together with the upgrade of mBank's rating, the rating of bonds issued by mFinance France under the Euro Medium Term Note Programme (EMTN) was also upgraded to "BBB+".

S&P Global Ratings – ratings of mBank	
Long-term Deposit Rating	BBB+ (negative outlook)
Short-Term Rating	A-2
Stand-alone Credit Profile (SACP)	bbb-
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB+

mBank's rating assigned by Moody's based on publicly available information

Moody's ratings for mBank are based solely on publicly available information, and the Bank does not take part in the rating process, having the "non-participating issuer" status. From the beginning of 2017, both the ratings and the rating outlook remained unchanged.

mBank's* rating assigned by Moody's *	
Long-term Deposit Rating	Baa2 (stable outlook)
Short-Term Rating	Prime-2
Counterparty Risk Assessment	Baa1 (cr)/ P-2 (cr)

* "Non-participating issuer", rating based solely on information available in the public domain.

Ratings of Poland, mBank and Commerzbank – comparison

The table below compares the long-term ratings of Poland, mBank and Commerzbank as of June 30, 2017.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB (stab.)	BBB+ (stab.)
S&P Global Ratings	BBB+ (stab.)	BBB+ (neg.)	A- (neg.)
Moody's	A2 (stab.)	Baa2* (stab.)	A2* (stab.)

* Long-term deposit rating.

Rating outlook in brackets: stab. – stable, neg. – negative

1.7. mBank shareholders and share price on the WSE

mBank shares at the end of June 2017

Key characteristics of mBank shares as at June 30, 2017:

- Nominal value per share: PLN 4.00.
- Registered share capital: PLN 169,142,704, paid up in full; divided into 42,285,676 ordinary registered and bearer shares.
- mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992.
- mBank shares are part of the following WSE indices: WIG, WIG-Poland, WIG20, WIG30 and WIG-Banks; the shares are also included in derivative indices based on WIG20.

In H1 2017, the number of mBank shares increased by 5,549. New shares were issued pursuant to Resolution No. 21 of the 21st Annual General Meeting of the Bank dated March 14, 2008, and Resolution No. 3 of the 16th Annual General Meeting of the Bank of October 27, 2008, on issuing bonds with the pre-emptive right to take up shares of mBank S.A. and on the conditional share capital increase by way of issuing shares with exclusion of the pre-emptive right of the existing shareholders with a view to enabling persons participating in the incentive/employee programme to take up the shares of mBank S.A., and on applying for admission of the shares to trading on the regulated market, and on dematerialisation of the shares.

Commerzbank AG is the majority shareholder of mBank, holding 69.42% of share capital and votes at the AGM. Shares accounting for 30.58% of all shares are in free float. These shares are held mainly by financial investors (chiefly Polish pension funds, domestic and foreign investment funds). Moreover, at the end of June 2017, Nationale-Nederlanden Otwarty Fundusz Emerytalny exceeded the 5% threshold of shares and votes at the Annual General Meeting.

mBank stock performance on the WSE

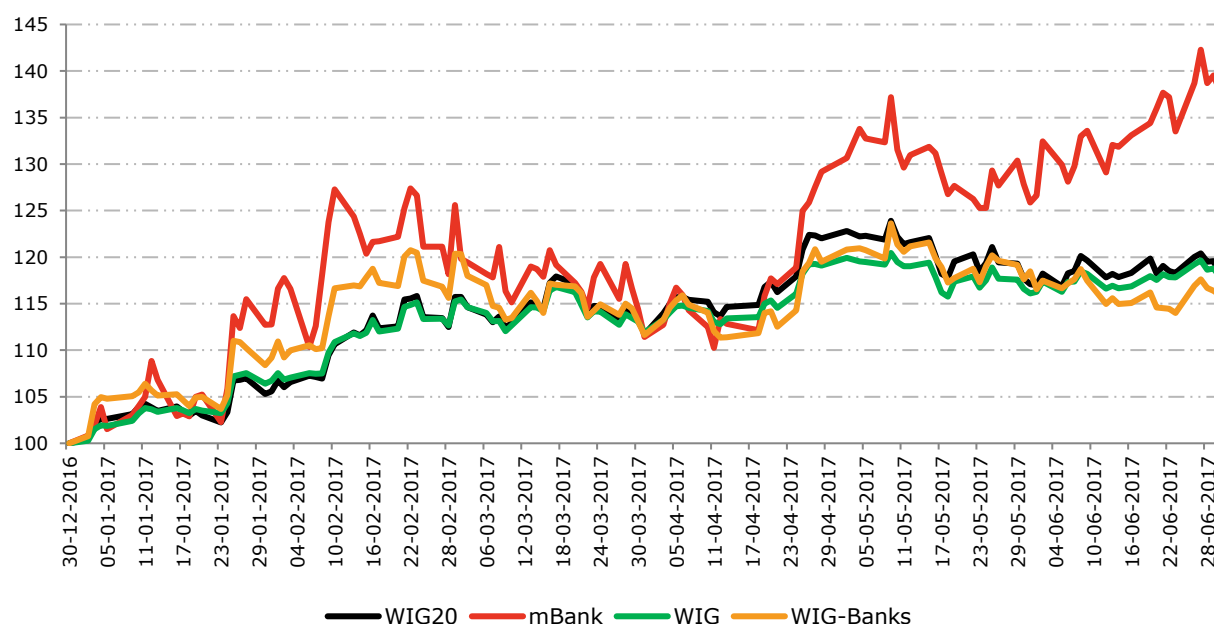
The situation on the WSE in H1 2017 was influenced by favourable global and domestic factors. Upbeat investors' sentiments translated into growing interest in emerging markets. Positive economic trends in Poland registered in Q1 2017 dispelled doubts of investors, who had before avoided investing in Polish shares due to political risk. It turned out that the government's economic policy did not lead to a budget collapse, the GDP dynamics gathered pace, fuelled by strong consumer demand, the unemployment rate decreased and the Polish zloty was one of the strongest currencies on the market. Also, the fact that the

relaxed monetary policy was maintained contributed to the good situation on the WSE. Low interest rates, coupled with this year's increase in inflation, encouraged investors to invest in shares.

The share prices of banks were helped by the reduced probability of conversion of CHF-denominated mortgage loans. In Q1 2017, growing expectations concerning interest rates increase in Poland additionally impacted on banks' share prices. In Q2, the possibility of interest rates being raised in the following quarters became significantly less likely.

In H1 2017, WIG20 and the broad-based index WIG grew by 18.1% and 17.9%, respectively. The closing price per mBank share during the last session in H1 2017 (June 30) stood at PLN 462.10, representing an increase by 37.8% compared with the price reported on the last business day of 2016 (December 30). In the same period, WIG-Banks index went up by 15.9%. For comparison, EURO STOXX Banks Index gained 11.3% in the analysed period.

mBank's share performance vs. main WSE indices



The P/BV (price/book value) ratio for mBank Group stood at 1.4 at the end of June 2017 compared with 1.0 a year before. The P/E ratio (price/earnings per share) reached 20.0 after H1 2017 against 9.4 after H1 2016.

mBank's capitalisation amounted to PLN 19.5 billion (EUR 4.6 billion) as at June 30, 2017, compared with PLN 13.0 billion (EUR 2.9 billion) in 2016.

The current consensus of expected results of mBank Group is available on mBank's website: <http://www.mbank.pl/relacje-inwestorskie/akcje-mbank/konsensus.html>.

2. Business activity and key achievements

2.1. Key projects of mBank Group in H1 2017

mBox project - mBank licensed its electronic banking to a French partner

Within the scope of the mBox project, mBank offers its retail banking solutions, which have received numerous awards both in Poland and abroad, to partners outside Poland. The offered solutions include electronic platforms (the internet platform and the mobile application) as well as product and marketing know-how. mBank will also support its partners in project management, organisational structure and other areas making up a successful digital retail banking provider.

The first partner to use mBank's know-how will be France's La Banque Postale, owned by the French postal service company La Poste. The bank has already signed a license agreement and commenced work related to the implementation. mBank plans to grant licenses for banking systems and intellectual property to further companies in the future.

The mBox project has been run in cooperation with mBank's strategic partner, Accenture, which acts as an intermediary in selling the license and provides comprehensive support to the buyer in implementing the project.



mBank to invest EUR 50 million in FinTech start-ups

On February 16, 2017, mBank announced the establishment of a EUR 50 million fund aimed at the development and commercialization of technology for financial institutions. The planned life of the fund is 10 years, with most of the money to be invested in the first 3-5 years. It expects to build a portfolio of at least 7 FinTech companies. Suitable start-ups are assumed to cooperate with mBank and offer their services to more than 5 million of bank's clients in Poland, Czech Republic and Slovakia, what will allow FinTechs to build a critical mass. In the next stage, these companies, taking advantage of the funding provided by mBank's fund and the bank's know-how, will expand globally.



The fund is primarily aiming at reaching untapped potential of start-ups in Poland and CEE region, who are yet unable to get financing from incumbent overseas VCs, however the geographical scope of potential investments extends broader – over OECD countries.

Investment decisions are supervised by a committee, composed of mBank's CEO Cezary Stypułkowski, CFO Andreas Böger, Head of Retail Banking Cezary Kocik and Head of Corporate and Investment Banking Przemysław Gdański.

2.2. Awards and distinctions

Since the beginning of 2017, mBank Group has received many awards and distinctions, with the most important ones being:

mBank's mobile application:

mBank awarded in Mobile Trends Awards 2016

mBank climbed the podium yet again, winning one of the awards granted annually for the best mobile solutions. Last year, mBank's mobile application was recognised both by the jury and by the Internet users and this year, mBank won the second Special Award for Mobile Authorisation, i.e. the innovative method for authorising transactions ordered in the transactional system without SMS passwords.



Forrester Research ranks mBank's mobile banking second in Europe

In its newest report "2017 European Mobile Banking Benchmark", Forrester Research, a global research and consulting company, examined the mobile offer of eleven European banks and ranked mBank second. It was awarded as many as 85 points on a 100-point scale.

At the same time, mBank's app was hailed as the most convenient and user-friendly. In particular, the app was praised for the way account history is presented, easy access to the most frequently used functionalities and the way of executing transfers.

mBank's impressive score corroborates that mobile solutions offered to Polish customers are among the very best in Europe.

Product offer and customer service quality:

mBank ranked first in the customer service quality ranking

For several years, mBank has been ranked among the leaders in customer service quality. In 2017, the Bank won the first prize in terms of information and transaction contact. It came third as regards interactions via an information form and the "Mobility Icon" took the second place in terms of the ergonomics of electronic banking channels. Mystery shoppers praised us for politeness and professional approach of our employees in the first contact with a client. Additionally, our form of communication was valued highly for being direct, uncomplicated and adequately concise. Clients also mentioned modern and tasteful decoration of mBank's outlets.

mBank again with gold in the "Golden Banker" competition

For the sixth time, mBank won the "Golden Bank" title for the highest quality of service provided in all channels and a distinction for applying the best practices in the security area. The title was awarded in the competition organised by *Bankier.pl* and *Puls Biznesu*.

The "Golden Bank" award is considered the most important accolade in the "Golden Banker" competition. The prize is awarded based on the "mystery shopper" survey, during which quality of service provided in the bank outlets and via remote channels is verified. Additionally, during the "Golden Banker" competition, banks' internet and mobile systems are audited in terms of security. mBank gained recognition as it was granted a distinction for the most secure financial institutions in the market for the second time in a row. We were also praised for our educational activities in the security area, i.e. our pioneering campaign called: "You don't do it in real life? Don't do it on-line!" ("Nie robisz tego w realu? Nie rób tego w sieci!") and our new secure way of authorising internet transactions - mobile authorisation.

Global Finance hails mBank as Poland's Best Treasury & Cash Management Provider

At the beginning of 2017, the international Global Finance magazine published the seventeenth edition of its annual ranking of the Best Treasury and Cash Management Banks and Providers. The ranking was divided into relevant categories, regions and countries. mBank won the contest and was named the Best Treasury and Cash Management Provider in Poland.



mBank uhonorowany przez Global Finance nagrodą
Best Treasury and Cash Management Provider in Poland 2017

mBank won five awards for its achievements in the Polish capital market in 2016

The issuers, stock exchange members and authorised advisors who achieved the best results in 2016 and contributed to the development of the Polish capital market were granted the total of thirty awards, five of which were received by mBank's representatives. It is also worth mentioning that we got recognised for successes in all WSE markets. These awards include:

- the award for the highest total value of IPOs on the WSE organised in 2016;
- the award for the largest share in trading in shares in the NewConnect market in 2016 (without market maker's transactions);
- the award for the highest value of trading in non-treasury bonds and for the highest value of issues of non-treasury debt instruments listed on Catalyst.

mBank also won a distinction for distributing information for stock exchange investors.

mBank in the Czech Republic receives seven awards in the "Zlatá koruna" competition

mBank in the Czech Republic received seven awards, two golden, two silver and three bronze, in the prestigious "Zlatá koruna" competition and voting. The prizes were awarded for:

- mKonto in the audience category (first prize),
- mKonto Business (first prize) and mKonto Business eMAX (third prize) in the entrepreneur category,
- mKonto Business in the company account category (second prize)
- the mKredytka Plus credit card in the payment card category (third prize)
- the Prvni mPujcka credit in the credit category (second prize)
- mKonto - with no fee guarantee in the account category (third prize)

The "Zlatá koruna" competition is held under the patronage of the Minister of Finance of the Czech Republic and every year awards the best financial products in the Czech market.

Other awards:mBank awarded "Transparent Company of 2016" title based on the WIG20 index

mBank was among the most transparent companies from the WIG20 index in 2016 in the first edition of the ranking prepared by *Parkiet* and the Accounting and Tax Institute.

The ranking was based on the results of a survey which included fifteen questions regarding finance reporting, investor relations and corporate governance. The surveys were sent to 140 issuers.

mBank awarded the Top Employers Polska 2017 Certificate

For the third time, mBank was awarded the Top Employers Polska Certificate, which is granted to the best employers – organisations which demonstrate top standards of HR practices. The Top Employers winners create exceptional working conditions, care about employees' talents and their development at all levels of the organisation and strive to further improve their practices related to employment.

mBank gets the Leopard award

During the 17th Kantar TNS Financial Conference (XVII Konferencja Finansowa Kantar TNS), Leopards (Lamparty), i.e. prizes assigned by bankers and insurers for the most admired creation of the bank brand image and insurance brand image, were awarded. mBank ranked third in "The Most Admired Creation of the Bank Brand" category.

mBank wins the Private Equity Diamonds competition

For the third time in a row, mBank won the "Private Equity Diamonds" („Diamenty Private Equity”) prize in the "Bank of the Year" category. The Diamonds were awarded by Executive Club, which brings together representatives from top management representing the most important Polish and international enterprises and by Polish Private Equity and Venture Capital Association (Polskie Stowarzyszenie Inwestorów Kapitałowych), which brings together private equity/venture capital investors.

mBank in the "Fifty Biggest Banks in Poland 2017" ranking

mBank turned out to be one of the main winners of the "Fifty Biggest Banks in Poland 2017" („50 największych banków w Polsce 2017") ranking, which was organised for the 22nd time by the *BANK* financial monthly. We took the first place in the "Retail Banking" and "Corporate Banking" categories and the third place in the "Efficiency of the Banks' Operations" category. Additionally, Jarosław Mastalerz was distinguished for his achievements and recognised as the market innovator by the award committee.

The "Fifty Biggest Banks in Poland 2017" ranking is one of the most prestigious professional rankings of banks in Poland. It is hard data, developed by experts cooperating with the editorial office, that influence the position of banks in particular categories. Based on surveys sent by banks, a group of independent experts chooses winners in various categories by assessing the market position of financial institutions in comparison with the whole banking sector. The surveys include the following questions: the number of employees, own funds, solvency ratio, provisions for non-performing receivables.

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

2.3. Retail Banking

mBank's Retail Banking segment serves 5,547 thousand individual clients 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 157* 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 highlights

- Increase of core income to PLN 1,270.0 million i.e. up by 17.9% compared to H1 2016.
- Record high sales of PLN 3,689.1 million worth of non-mortgage loans, i.e. up by 20.2% compared to H1 2016.
- Increase of mortgage loans sales by 22.3% compared to H1 2016.
- Increase of retail deposits by 9.0% year on year, mainly current accounts; 6.0% share of mBank in retail deposits market.
- Launch of an enhanced mobile application.

*Including 138 in Poland and 19 in the Czech Republic and Slovakia; excluding mFinanse (43) and mKiosks (110).

Financial results

In H1 2017, the Retail Banking segment generated a profit before tax of PLN 436.0 million, which represents a decrease by PLN 156.8 million, i.e. 26.4% year on year.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Net interest income	838.5	971.1	132.6	15.8%
Net fee and commission income	238.8	298.9	60.2	25.2%
Dividend income	0.0	0.0	-	-
Net trading income	50.5	54.5	3.9	7.7%
Gains less losses from investment securities, investments in subsidiaries and associates	230.5	0.0	-230.5	-
Net other operating income	2.9	-16.5	-19.4	-/+
Total income	1 361.2	1 308.0	-53.2	-3.9%
Net impairment losses on loans and advances	-140.3	-158.4	-18.1	12.9%
Overhead costs and amortization	-548.7	-615.3	-66.6	12.1%
Taxes on bank balance sheet items	-79.4	-98.3	-18.9	23.8%
Profit before tax of Retail Banking	592.7	436.0	-156.8	-26.4%

The profit before tax of Retail Banking in H1 2017 was driven by the following factors:

- **Decrease in total income** by PLN 53.2 million, i.e., 3.9% to PLN 1,308.0 million year on year. The core income increased by 17.9%: net interest income went up by PLN 132.6 million (due to the change in the structure of the credit portfolio - increasing share of high-margin products), and net fee and commission income was higher by PLN 60.2 million (higher commissions for lending and for agency service regarding sale of products of external financial entities). In H1 2016, the segment's result was mainly driven by gains less losses from investment securities and investments in subsidiaries and associates thanks to posting the settlement of the takeover of Visa Europe Limited by Visa Inc.
- **Increase in operating expenses (including depreciation and amortisation)** by PLN 66.6 million, i.e., 12.1% year on year, driven mainly by posting the annual contribution to the resolution fund of the Bank Guarantee Fund and higher costs in the IT area.
- **Increase in net impairment losses on loans and advances** by PLN 18.1 million, i.e. 12.9% year on year, caused by the change of the retail loan portfolio structure and an increased volume of non-mortgage loans (unsecured loans).
- **Tax on the Group's balance sheet items** at PLN 98.3 million.

Business data (mBank only)

thou.	30.06.2016	31.12.2016	30.06.2017	YtD change	YoY change
Number of retail clients, including:	5,146.3	5,347.9	5,547.0	3.7%	7.8%
Poland	4,280.4	4,455.3	4,627.5	3.9%	8.1%
Foreign branches	865.9	892.6	919.5	3.0%	6.2%
The Czech Republic	607.4	628.9	646.0	2.7%	6.3%
Slovakia	258.4	263.7	273.5	3.7%	5.8%
PLN M					
Loans to retail clients, including:	48,220.8	48,926.1	48,731.1	-0.4%	1.1%
Poland	43,962.3	44,646.4	44,455.8	-0.4%	1.1%
mortgage loans	34,156.7	34,112.7	32,825.7	-3.8%	-3.9%
non-mortgage loans	9,805.6	10,533.7	11,630.1	10.4%	18.6%
Foreign branches	4,258.5	4,279.7	4,275.3	-0.1%	0.4%
The Czech Republic	3,261.5	3,310.9	3,391.2	2.4%	4.0%
Slovakia	997.0	968.8	884.1	-8.7%	-11.3%
Deposits of retail clients, including:	49,546.0	53,662.8	54,024.6	0.7%	9.0%
Poland	42,222.1	45,727.6	45,523.2	-0.4%	7.8%
Foreign branches	7,323.9	7,935.2	8,501.4	7.1%	16.1%
The Czech Republic	5,246.0	5,630.5	6,046.5	7.4%	15.3%
Slovakia	2,077.9	2,304.7	2,454.9	6.5%	18.1%
Investment funds (Poland)	5,510.1	5,972.3	6,747.0	13.0%	22.4%
thou.					
Credit cards, including	335.7	340.3	352.8	3.7%	5.1%
Poland	304.4	309.4	318.9	3.1%	4.8%
Foreign branches	31.3	30.9	33.9	9.9%	8.4%
Debit cards, including:	3,283.9	3,438.4	3,566.4	3.7%	8.6%
Poland	2,739.5	2,876.0	3,000.4	4.3%	9.5%
Foreign branches	544.4	562.4	566.0	0.6%	4.0%

Retail Banking in Poland

Offer for small and medium-sized enterprises

In H1 2017, the most important achievement in the area of core products - a simple offer of accounts for companies, addressing the needs of young entrepreneurs - was a record number of acquisitions of company accounts, whose number rose by 5.4% year on year.

As part of its lending activity, mBank implemented a new offer for startups, which is based on financial prognoses and allows new entrepreneurs to use a credit line in their current account up to PLN 30 thousand. Help of sales assistant was introduced for secured loans, which aims at identifying the client's needs and adjusting the product to the possibilities and purpose of the credit.

mBank continuously develops the synergy of sales between its channels. Since H1 2017, it has been possible to finalise a loan application online, even though it was submitted at mBank's outlet. Apart from this, a functionality was added to the offer, which makes it possible to increase the loan amount via the call centre in the case of applications submitted in the transactional system. In order to satisfy the needs of corporate clients, a call centre was launched as an intermediary in making appointments for clients who submitted their applications via the internet application and have to finalise them in the bank's outlet. Thanks to this, the offer for small and medium-sized enterprises has become even more available and flexible.

In H1 2017, a new foreign exchange service available 24/7 was implemented for FX mPlatform (mPlatforma Walutowa) and mKantor (mCurrency Exchange). The service may be accessed via the internet and mobile application.

Since mKsięgowość (mAccounting) was introduced to mBank's offer of additional products (i.e. since February 2016), every third client opening a company account has also applied for mKsięgowość. In H1 2017, the demand for mKsięgowość increased by 20.4%. A bank account connected with on-line accounting is convenient and may be cheaper than services provided by accounting offices. It is a time-saving solution, which allows clients to combine accounting services with a current account.

The continuous enhancement of the offer for companies with new products and improvement of the already existing products were appreciated by both the market and clients - in H1 2017, mBank won two awards and the "Trustworthy Brand 2017" (Marka Godna Zaufania 2017) title. The awards were granted in the second edition of the competition organised by the *My Company Polska* monthly. mBank was the only brand among the 350 laureates that was distinguished in two categories: "Bank offering business accounts" and "Bank offering loans/borrowings to companies".

Mobile application

The mobile application, launched in February 2014, has won a large group of new users over the last three years and has been enriched with a number of new features based on a survey of actual needs of the clients. Following the warm welcome for the new functionalities added to the app in 2016, such as the "Payment Assistant", mobile authorisation - a service allowing users to authorise transactions made in the transaction system via the mobile application and the possibility of logging in to the application using a fingerprint, mBank focused on further development.

On April 12, 2017, a new mobile application was made available to mBank clients. mBank designed the application based on the opinions and customs of the users. The software has a new interface and a simpler navigation. It also offers brand new functionalities.

Android Pay mobile payments are one of the key functionalities in the new app of mBank. For the first time in Europe, such a functionality is offered in an entirely different model, in which adding a card to Android Pay takes place at the level of the bank's app.

Moreover, in the new application, clients will find an **enhanced notification system**. "Push" notifications can be customised in any way, e.g. so as to get information about incoming transfers, card transaction settlements or payment proposals.

An innovative solution available in the new app is the **functionality for monitoring one's spending rate** designed by mBank, which helps users control their budget. In a simple graphic form, the app shows

whether in a given period of the current month, we have spent more or less than in the same period during the previous quarter.

Along with the new application, the bank offers **mobile authorisation** - which is an easier, faster and safer way of confirming transactions made via the transaction system. The whole process is executed in the application and does not require any additional software. mBank introduced this service within the pilot programme in December 2016 as one of the first banks in the world.

mBank also supports the BLIK standard of mobile payments by complementing this service with instant online payments. **BLIK OneClick** consists in saving information about a mobile device, online shop or a browser in the bank's mobile app. This way, while shopping online with BLIK, you do not have to copy a BLIK code every single time.

In H1 2017, mobile authorisation was awarded the Special Award – second place in a vote by Internet users – in the Mobile Trend Awards 2016 and was ranked second in the “Golden Banker 2017” competition, in the “innovation” category.

Forrester Research, a global research and advisory firm, analysed mobile banking solutions offered by European banks and also appreciated the functionalities and user-friendliness of mBank's application, ranking it second. The application scored best in terms of user-friendliness.

Almost 20% of all transfers are made at mBank via the mobile app. Furthermore, 30% of travel insurance policies are sold through the mobile channel. Every fifth cash loan was granted via the app. It is also worth noting that BLIK is very popular among mBank clients – in Q1 2017, 245 thousand persons used it.

Cooperation with AXA Group

In H1 2017, mBank continued and developed its cooperation with AXA, its strategic insurance partner. This cooperation covers sale of the AXA insurance products via different channels of the bank, both in respect of products bundled with banking products and stand-alone sale of insurance products, e.g. communication or housing products. The cooperation with AXA includes also the sale of insurance contracts on leasing products.

In the period under review, a total written premium from the sale of all products increased by 24.1% year on year.

Cooperation with Orange

In H1 2017, mBank continued its cooperation with Orange and continuously developed its product offer for Orange Finanse. Since the project's launch in October 2014, Orange Finanse has opened more than 380 thousand accounts, including over 64 thousand in H1 2017.

In H1 2017, the activity of Orange Finanse was supported with marketing campaigns promoting the brand, products and services offered by Orange Finanse among the existing and new clients of Orange. During this period, the scope of mobile payments was extended with Android Pay, which was launched to the clients of Orange Finanse on June 6, 2017. Additionally, efforts to enhance selling competences of Orange stores' employees continued.

In the period under review, Orange Finanse was appreciated by the *TotalMoney.pl*, *Comperia.pl* and *Bankier.pl* portals - Orange Finanse Personal Account (Konto Osobiste Orange Finanse) won the first place in every of these rankings. This means that mBank has a clear competitive advantage, offering the most favourable price conditions for such an account (no fees for the maintenance of the account and a card, cash withdrawals from all ATMs in Poland and internet transfers).

Development of the retail banking offer

Loans

As the leader in internet and mobile banking, mBank focuses on technological innovations which make mBank's processes even more efficient. Taking into account the comfort of using the transactional service, mBank decided to further optimise credit processes. Within the NML Express process, one may apply for a loan and release the funds during one log-in session. The above-mentioned optimisation improves mainly the comfort of clients, who may, on their own, submit loan applications and, at the same time, finalise an agreement and release the funds. The solution is addressed to clients who have already received

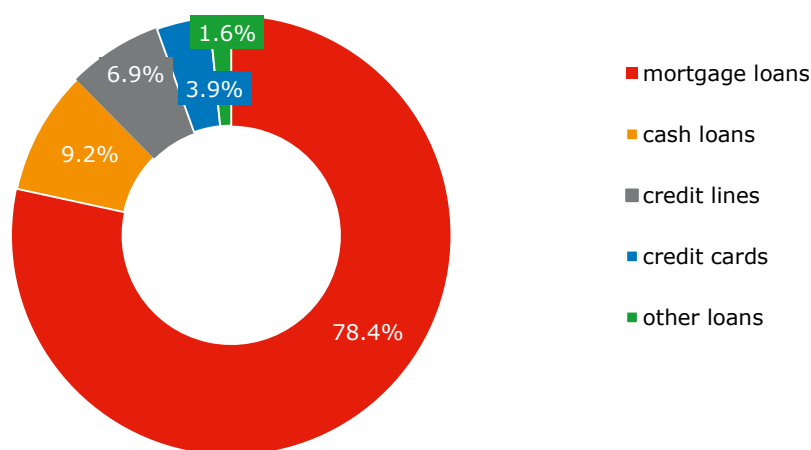
a special offer and were presented with an initial loan limit. Additionally, revolving loans and credit cards were added to the pool of fast loans in the mobile channel - it now takes only 30 seconds to obtain these products in the mobile application.

In its Spring campaign of credit offer, mBank continued its communication strategy based on the "Follow What You Borrow" (Kredyt ma się rozumieć) slogan. The campaign stressed the simple and transparent rules of taking out a loan and the security of credit service.

In H1 2017, a year-on-year increase in sales by 15.1% was reported in the area of unsecured loans for natural persons. The highest growth rate was reported in the area of credit cards - increase by 36.3% year on year. This area was supported with special offers and competitions for clients holding the MasterCard Me and World MasterCard cards. Sales in the area of borrowings for on-line shopping surged by 23.1% year on year.

The graph below presents the structure of the retail banking loan portfolio in Poland (for households) at the end of June 2017:

Retail loan portfolio (Household loans, mBank in Poland only)



In H1 2017, new sales of non-mortgage loans amounted to PLN 3,315.6 million, up by 17.8% year on year. Sales of mortgage loans stood at PLN 1,516.1 million (including sales of mBank Hipoteczny), which represents an increase of 50.2% year on year.

In H1 2017, the portfolio of non-mortgage loans for households grew dynamically – by PLN 1,096.4 million, i.e. 10.4% compared to the end of 2016, and by PLN 1,824.5 million, i.e. 18.6% year on year. The portfolio of mortgage loans stood at PLN 32,825.7 million and decreased by PLN 1,331.0 million year on year despite sales increase, driven by the appreciation of the zloty against the Swiss franc and systematic repayments of mortgage loans.

The NPL ratio of the mortgage loan portfolio slightly dropped year on year, and stood at 3.6% at the end of H1 2017.

Deposits and investment funds

Changes in the area of savings and investment products resulted mainly from the new division of clients into the following segments: young, mass and affluent.

In August 2016, mBank launched a new offer for young clients. The offer was designed to meet the needs of clients aged under 24. The core of the offer is the eKonto m account, which develops together with the age and needs of our clients and also gives the possibility of expressing oneself by personalised payment card. The acquisition of the young is supported by marketing activities carried out in selected media. The bank launched several initiatives, e.g. invited famous YouTubers, offered young people a ride in a sports car in seaside resorts as well as initiated making mural paintings and reverse graffiti in urban areas. These activities translated into an increased acquisition in this segment, up by 19.1% year on year.

For savings and settlement accounts in the mass segment, to which a basic debit card with a monthly fee is issued, the minimum amount limit was changed into a quantitative one (five transactions). This solution enables the clients to use their accounts without additional fees and in an easier way. In the case of accounts where fees are charged for cash withdrawals from domestic or foreign ATMs, uniform rates were introduced to replace the fees dependent on the withdrawal amount.

In H1 2017, mBank continued the account-promoting campaign, advertising the possibility of obtaining an attractive return for active card usage. This offer was additionally extended with a two-year guarantee of fixed fees and terms of reimbursement of fees for the account maintenance, the card and cash withdrawals from ATMs, as well as two-year guarantee of no monthly fees for using the card.

In addition, the deposit products area observed a series of initiatives:

- providing clients with the possibility of making phone payments with the use of the AndroidPay service from April 2017;
- providing clients with the possibility of making fast payments for products and services bought online;
- making the Payment Assistant service available outside the mobile application, and also making it available in the transactional service from February 2017.

As regards savings and investment products, the most popular products included products offering a safe rate of return coupled with increased liquidity (savings accounts). Term deposits, which freeze clients' funds for a period specified in an agreement, were slightly less popular.

In the area of investment products, the growth of assets (net purchases) among the Bank's clients exceeded the market indicators. In addition, Promising mFunds (mFundusze Dobrze Lokujące) enjoy great interest (introduced in Q4 2016).

For clients without any previous experience in investments, mBank prepared an offer introducing them to regular investments of funds in capital markets. The "Recipe for Profit" (Przepis na Zysk) deposit is addressed to those who would like to start investing their funds in investment funds in a secure way.

At the end of June 2017, retail deposits in Poland amounted to PLN 45,523.2 million compared with PLN 45,727.6 million at the end of 2016.

Cards

In H1 2017, the value of payment cards transactions made by mBank's retail clients exceeded PLN 14.7 billion, which represents a rise by 21.2% year on year. The number of transactions made by mBank clients grew by 24.6% compared to H1 2016.

Brokerage operations

The Brokerage Bureau of mBank (BM) provides a comprehensive offer of brokerage services to the largest Polish institutional investors (pension funds, investment funds, asset management companies), foreign funds, and individual clients, i.e. retail and affluent clients. The Brokerage Bureau enables clients to trade on regulated markets in Poland and abroad as well as on the OTC (FOREX/CFD) market. As part of wealth management services, clients may use investment advisory and asset portfolio management services. The Bureau is an active player in the capital market - it prepares and conducts public and private offerings (IPO/SPO/ABB).

In H1 2017, the Brokerage Bureau of mBank (BM) took advantage of the improvement of the economic situation and substantially increased its activity in the stock market - the turnover of BM in the equity market of the Warsaw Stock Exchange (WSE) increased by 120.3% year on year. At the same time the trading volumes on the WSE rose by 58.3%.

In H1 2017, BM participated in twelve transactions, which were worth a total of PLN 1.5 billion, including: the sale of the shares of Famur (PLN 535 million), Grupa Azoty (PLN 180 million), Robygy (PLN 78.9 million) and Wirtualna Polska Holding (PLN 51.0 million) in the ABB formula, acted as an intermediary in the call to subscribe for the sale of the shares of Pelion (PLN 408.5 million) and in a series of other transactions. mBank's activity in the area of capital transactions was appreciated - BM received an award from the WSE for the highest total value of IPOs on the WSE organised in 2016.

At the end of H1, the Brokerage Bureau maintained 304.5 thousand brokerage accounts (including 5.8 thousand Forex/CFD-related accounts and 1.6 thousand accounts held by financial institutions), which represented an increase by 4.2 thousand compared with the end of 2016.

Retail Banking in the Czech Republic and Slovakia

In H1 2017 in the Czech Republic and Slovakia mBank acquired 26.9 thousand clients (out of which 9.8 thousand clients in Slovakia, and 17.1 thousand clients on the Czech market).

The activity of mBank in the Czech Republic and Slovakia in H1 2017 was focused on intensifying its acquisition and sales efforts, as well as continued building the position of a mobile bank of reference. Two editions of NML sale campaign ("First loan for free") translated into an increase in sales.

The activity of mBank in the Czech Republic and Slovakia in H1 2016 was awarded with seven prizes in the Zlata Koruna contest: i.e. mKonto account, mKonto Business account, mKreditka Plus credit card and Prvni mPujcka loan (more about awards in the chapter 2.2 Awards and distinctions).

Loans and deposits

As of June 30, 2017, the loan portfolio of mBank clients in the Czech Republic and Slovakia amounted to PLN 4,275.3 million and remained stable compared to the end of 2016. In comparison to the end of June 2016 the loan portfolio increased slightly by 0.4%.

The Bank intensified its efforts aimed at increasing the sales of non-mortgage loans. Sales of non-mortgage loans in H1 2017 amounted to PLN 373.4 million, which represents an increase of 47.1% compared to H1 2016. Sales of non-mortgage loans amounted to PLN 275.1 million in the Czech Republic, which represents an increase by 45.9% year on year. At the same time sales of non-mortgage loans in Slovakia totaled PLN 98.3 million, increasing by 50.7% year on year.

Sales of mortgage loans in H1 2017 decreased year on year i.e. by 38.7% compared to H1 2016, and amounted to PLN 283.5 million. Sales of mortgage loans in Czech Republic amounted to PLN 262.7 million compared to PLN 365.9 million in H1 2016 (down by 28.2%), while in Slovakia stood at PLN 20.9 million (down by 78.4% year on year). The decrease resulted from the intensification of sales of loans with higher margins and changes in mortgage pricing policy.

The Bank's deposit base in the Czech Republic and Slovakia increased by PLN 566.2 million or 7.1% compared to the end of 2016 and by PLN 1,177.5 million or 16.1% compared to the end of June 2016.

2.4. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 21,500 corporate clients including large enterprises (K1 - annual sales exceeding PLN 500 million), mid-sized enterprises (K2 - annual sales of PLN 30 – 500 million) and small enterprises (K3 - annual sales below PLN 30 million) through a network of dedicated 46 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporates and Investment Banking, and Financial Markets.



Key highlights

- Increase in income by 3.7% compared to H1 2016. Core income increased by 5.7% year on year in H1 2017.
- Increase in corporate loans by 6.5% compared to H1 2016; 6.3% share of mBank in corporate loans for enterprises market
- Providing corporate customers with a new mCompanyNet transactional platform and FX mPlatform – solutions tailored to the needs of corporate clients.
- 43 issues of bonds under the Private Bond Issue Program by mBank Hipoteczny.
- mBank awarded for the best cash management in Poland by Global Finance.

Corporate and Investment Banking

Financial results

In H1 2017, the Corporate and Investment Banking segment generated a profit before tax of PLN 243.4 million. It remained unchanged (+PLN 0,9 million, i.e. 0.4%) year on year.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Net interest income	363.2	391.7	28.5	7.8%
Net fee and commission income	177.9	200.1	22.1	12.4%
Dividend income	0.0	0.0	-	-
Net trading income	125.9	118.6	-7.3	-5.8%
Gains less losses from investment securities, investments in subsidiaries and associates	21.0	-7.0	-28.0	-/+
Net other operating income	8.6	10.9	2.3	26.6%
Total income	696.6	714.3	17.7	2.5%
Net impairment losses on loans and advances	-47.3	-47.8	-0.6	1.2%
Overhead costs and amortization	-352.8	-354.5	-1.7	0.5%
Taxes on bank balance sheet items	-54.0	-68.6	-14.5	26.9%
Profit before tax of Corporate and Investment Banking	242.5	243.4	0.9	0.4%

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

- **Stable income** compared with the previous year. An increase in income from core business, which amounted to PLN 50.6 million, i.e. 9.4%, was offset by negative gains less losses from investment securities.
- **Stable operating costs (including amortisation)** at PLN 354.5 million in the period under review.
- **Stable net impairment losses on loans and advances** at PLN 47.8 million compared with H1 2016.
- **Tax on the Group's balance sheet items** at PLN 68.6 million.

Business results (mBank only)

	30.06.2016	31.12.2016	30.06.2017	YtD change	YoY change
Number of corporate clients	20,220	20,940	21,500	2.7%	6.3%
K1	2,138	2,123	2,119	-0.2%	-0.9%
K2	5,883	6,067	6,835	12.7%	16.2%
K3	12,199	12,750	12,546	-1.6%	2.8%
PLN M					
Loans to corporate clients, including	21,461.0	20,874.0	22,324.9	7.0%	4.0%
K1	5,603.7	4,999.7	5,115.9	2.3%	-8.7%
K2	12,650.5	12,744.8	14,124.1	10.8%	11.6%
K3	2,946.3	2,957.9	2,863.7	-3.2%	-2.8%
Reverse repo/buy sell back transactions	131.7	56.7	93.8	65.4%	-28.8%
Other	128.8	114.9	127.4	10.9%	-1.1%
Deposits of corporate clients, including	31,068.8	33,304.0	29,833.5	-10.4%	-4.0%
K1	13,328.8	12,659.0	11,605.4	-8.3%	-12.9%
K2	10,769.0	12,348.3	12,038.5	-2.5%	11.8%
K3	5,219.3	6,276.4	4,768.2	-24.0%	-8.6%
Repo transactions	1,287.6	1,600.5	1,034.6	-35.4%	-19.6%
Other	464.1	419.8	386.9	-7.8%	-16.6%

K1 is the segment of the largest corporations with annual sales over PLN 500 million, the largest public sector entities and non-bank financial institutions (including pension and investment funds and insurance companies); K2 is the segment of corporations with annual sales between PLN 30 and 500 million and medium-sized public sector enterprises; K3 is the segment of SMEs with annual sales of up to PLN 30 million.

In H1 2017 the corporate clients base increased by 1,280 companies year on year (+560 companies in H1 2017). The Bank continued the strategy of increasing its share in the small and medium enterprises (SMEs) sector. The initiatives aimed at strengthening the Bank's position on the SME market translated into high customer acquisition in this sector (K3 segment increased by 347 companies compared to the end of June 2016). The greatest increase, i.e. +952 companies year on year, took place in the K2 segment and was, to a large extent, attributable to the reclassification of a part of clients from the K3 segment as a result of development of their business activities.

Products and services

Corporate loans

The value of loans to corporate clients (excluding reverse repo transactions) amounted to PLN 22,231.1 million at the end of H1 2017, which represents an increase by 6.8% compared with the end of December 2016 (PLN 20,817.3 million) and by 4.2% compared with the end of H1 2016 (PLN 21,329.3 million).

PLN M	30.06.2016	31.12.2016	30.06.2017	YoY change
Loans to corporate clients ¹	21,329	20,817	22,231	4.2%
Loans to enterprises ²	20,070	19,950	21,393	6.6%
Loans granted to local governments	811	708	0	-100.0%
	,	,	,	,
Market of loans to enterprises	319,271	324,800	337,659	,
mBank's share in the market of lending to enterprises	6.3%	6.1%	6.3%	

¹ Excluding reverse repo transactions.

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

Corporate deposits

Corporate deposits gathered by the Bank (excluding repo transactions) amounted to PLN 28,798.9 million at the end of June 2017, which represents a decrease by 9.2% compared with the end of December 2016 (PLN 31,703.5 million) and by 3.3% compared with the end of H1 2016 (PLN 29,781.2 million).

PLN M	30.06.2016	31.12.2016	30.06.2017	YoY change
Corporate deposits ¹	29,781	31,703	28,799	-3.3%
Current corporate deposits	9,065	11,948	13,539	49.4%
Deposits of enterprises ²	25,639	28,446	24,881	-3.0%
Deposits of local governments	193	236	1,027	431.6%
	,	,	,	,
Market of deposits of enterprises	255,913	282,274	264,201	,
mBank's share in the total deposits of enterprises	10.0%	10.1%	9.4%	

¹ Excluding repo transactions.

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

European Union financing

On March 3, 2017 the Bank signed a new agreement with the European Investment Bank (EIB) to open a EUR 100 million credit line dedicated to financing projects and obligations related to the production cycle of SME (entities with a headcount less than 250 employees) and mid-caps (entities with a headcount ranging from over 250 to less than 3 thousand employees).

De minimis guarantees

The Bank continued to participate in the Portfolio Guarantee Line De Minimis (PLD) Agreement as part of the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" programme with an allocated limit for guarantees at PLN 2,200 million. As at June 30, 2017, the amount drawn under the limit reached PLN 1,812.3 million.

Innovative Economy Operational Programme

Under the agreement signed with Bank Gospodarstwa Krajowego (BGK), mBank offered loans backed by BGK guarantees to innovative clients from the SME sector. Guarantees were provided by the Innovative Economy Operational Programme. The pool of available funds under the Program amounted to PLN 250 million. The BGK guarantee limit for mBank stood at PLN 16.3 million and was fully utilized.

COSME

At the same time, mBank continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme (European Union programme supporting the competitiveness of enterprises in 2014-2020). The BGK guarantee limit for mBank stands at PLN 120 million. As at June 30, 2017, the value of used limit stood at PLN 114.2 million.

Corporate debt origination

The share of mBank in the non-treasury debt market at the end of May 2017 is presented on the chart below.

	Short-term debt	Corporate debt	Mid-term bank debt
mBank (PLN M)	1,461	8,012	13,563
Market (PLN M)	15,607	69,453	41,742
Market share	9.4%	11.5%	32.5%
Market position	#3	#4	#1

The largest issues arranged by mBank in H1 2017 included the issue of bonds worth PLN 1.2 billion for BGK, PLN 375 million for the European Investment Bank and PLN 375 million for PZU. Other large transactions in which the Bank participated included the issue of bonds for Volkswagen Bank worth PLN 200 million.

On the growing market of corporate bonds, mBank arranged a number of large issues, including: Kruk S.A. (PLN 25.5 million), Echo Investment. (PLN 155 million), Griffin Real Estate Invest (PLN 110 million), Archicom (PLN 60 million), Ronson (PLN 50 million) and EFL (PLN 20 million).

Development of the Corporate Banking offer*Development of transactional banking*

Cash management is an area of Corporate Banking offering state-of-the-art solutions to facilitate planning, monitoring and management of the most 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.

In H1 2017, the Smart Data Platform, which makes it possible to control spending with MasterCard payment cards, was made available to clients. The Smart Data service allows clients employing a large number of employees to manage the rather complicated process of settling business trips more effectively. The platform also makes it possible to e.g. attach invoices and receipts to transactions executed with the use of a business card and enter transactions which are not associated with card payments, e.g. cash payments.

mBank's comprehensive cash management offer, supporting long-term relationships with clients, is reflected in the following data:

- the number of domestic transfers made by corporate clients in H1 2017 increased by 20.2% year on year;
- the number of outgoing foreign transfers increased by 13.0% in H1 2017 year on year; the number of incoming transfers rose by 14.0%; the number of SEPA transfers (Single Euro Payments Area) grew by 30.0% in the reporting period;
- the number of direct debits rose by 14.2% in H1 2017 year on year;

- the number of corporate cards issued as at the end of June 2016 increased by 13.2% compared with June 2016;
- as at the end of June 2017 mBank issued a total of 472.5 thousand corporate pre-paid cards, which represents an 54.0% increase year on year;
- the number of mBank CompanyNet system users rose by 10.9% compared with H1 2016. Currently, there are 99.2 thousand active authorizations allowing the entitled employees of clients to cooperate with mBank.

CompanyNet: on-line banking for corporates in a new version

Corporate banking solutions are used by hundreds of thousands of users across Poland. So far, such platforms have differed from those addressed to individuals as little focus was put on user-friendliness and comfort. These elements, however, have become crucial from the point of view of users, who have started to pay more attention to the way the services are designed. In response to the demand of big companies and corporates, mBank made available to them a new version of the transactional service **CompanyNet** – it is easier, more intuitive and can be adjusted to the individual needs of the user.

The main features of the new system include customisation, mobility, intuitiveness and efficiency. The system is equipped with the function of assistant providing help to service users. Customisation means that every user can adjust the system to suit their needs – for example, define a list of shortcuts for the key functions and set plug-ins displaying e.g. account balances or information about transactions. This is important from the point of view of big corporates, where there are many users within one client, each of whom has different needs and adjusts their workstation to their liking. Mobility means that the system can be used in a comfortable way on a computer or a tablet as it automatically adapts to the screen size. What is more, the advanced mobile application **mBank CompanyMobile** makes it possible to manage the company's finances on the move. The application enables swift authorisation of orders and access to key information necessary to manage company finances.

Financial Markets

Financial results

The Financial Markets segment generated a profit before tax of PLN 23.1 million in H1 2017, compared with PLN 61.1 million year on year.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Net interest income	156.4	147.3	-9.1	-5.8%
Net fee and commission income	-1.7	-3.6	-1.9	114.0%
Dividend income	0.0	0.0	-	-
Net trading income	-36.5	-34.5	2.0	-5.5%
Gains less losses from investment securities, investments in subsidiaries and associates	4.4	2.8	-1.6	-35.7%
Net other operating income	0.4	-1.6	-1.9	-/+
Total income	123.0	110.5	-12.5	-10.1%
Net impairment losses on loans and advances	0.3	2.1	1.8	681.1%
Overhead costs and amortization	-50.4	-75.0	-24.6	48.7%
Taxes on bank balance sheet items	-11.7	-14.5	-2.7	23.3%
Profit before tax of Financial Markets	61.1	23.1	-38.0	-62.2%

The profit before tax of Financial Markets in H1 2017 was driven by the following factors:

- **Decrease in total income** by PLN 12.5 million, i.e., 10.1% year on year. The drop in income resulted mainly from lower net interest income chiefly due to lower income on derivatives classified into the banking book, compared with H1 2016. This in turn was attributable to changes in the FX funding structure of mBank Group. At the same time, interest income on investment securities dropped due to a decrease in the volume and profitability of these instruments.
- **Increase in operating costs (including amortisation and depreciation)** by 48.7% to PLN 75.0 million, caused mainly by the significant increase in the administrative costs connected with the contribution to the Bank Guarantee Fund.
- **Tax on the Group's balance sheet items** at PLN 14.5 million.

Activity of Financial Markets segment

Since January 2017 the activities of the financial market products sales area have been focused on retaining the existing client base and increasing product saturation of clients. Activities aiming at acquiring new clients and enlarging the Bank's share in the markets of FX products, commodity derivatives and interest rate risk hedging transactions related to large financing projects, as well as on selling commercial securities have been continued.

The key initiatives which impacted on the volume of transactions and income generated from the Bank's cooperation with clients included:

- Activities aimed at increasing the number of active clients. There were over 3 thousand active clients in the last quarter, this being the highest number ever.
- Market volatility was on a low level, as a result of which telephone contact with new and existing clients had to be intensified. These activities resulted in a significant increase in turnovers and margins on telephone transactions as well as a drop in turnovers and margins on the internet platform.

- In the retail part of mBank, in the area of enterprises and individuals, actions were taken to activate the clients who had so far executed transactions outside mBank. Thanks to these measures, in H1 2017, the trade volume increased by 46.9% year on year, and over 348 thousand transactions were concluded.
- In June 2017, the 24h currency platform dedicated to retail banking clients was launched. It allows retail banking clients to buy and sell currencies 24/7.

mBank's market shares in different financial instrument markets as at May 31, 2017 are presented below:

	Treasury bills & bonds	IRS / FRA	FX Spot & Forward
mBank	16.6%	10.0%	17.9%

Financial Institutions

The Financial Markets area covers relations with financial institutions, focusing mainly on raising capital from other banks and depositing excess funds with them.

As of June 30, 2017 mBank had eighteen active loans in the amount of PLN 17,492 million, of which the utilized value stood at PLN 10,540 million. In H1 2017, the Bank took out a new loan in EUR amounting to PLN 423 million. The debt resulting from the loans went up by PLN 3,804 million against the end of H1 2016 (in H2 2016 loans in the total amount of CHF 800 million were repaid). At the exchange rates from the end of H1 2016, the decrease would amount to PLN 3,280 million.

At the end of June 2017, mBank's total exposure resulting from loans granted to other banks amounted to PLN 128.3 million (the total exposure at the end of June 2016 amounted to PLN 146.9 million). mBank's portfolio comprised twelve short- and medium-term active loans granted to financial institutions from Poland and abroad.

The greatest accomplishments of the Financial Institutions Department in H1 2017 include:

- obtaining further, considerable funding in the amount of EUR 100 million from the European Investment Bank (EIB), and
- further acquisition of several loro accounts as well as maintaining the Bank's position as one of the leading Polish banks in handling settlements in PLN.

In H1 2017 mBank actively supported trade transactions concluded by Polish exporters by providing short-term financing to financial institutions. At the same time, the Bank was still serving banks from the Commonwealth of Independent States and offering them medium-term loans secured with KUKE insurance policies.

mBank's custody services

mBank provides services including settlement of transactions in securities registered in local 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, and processing corporate actions.

mBank's custody clients are mainly investment and pension funds, local and foreign financial institutions, banks offering custodian and investment services, insurance companies, asset management institutions and non-financial institutions.

At the end of H1 2017 the number of serviced investment and pension funds remained stable compared with the end of June 2016, while the total value of their assets grew by 14.0% compared with the end of H1 2016.

2.5. Subsidiaries of mBank Group

Summary of financial results of mBank Group subsidiaries

In H1 2017, the profit before tax generated by mBank Group subsidiaries amounted to PLN 147.1 million, compared with PLN 172.2 million (-14.6%) year on year.

The subsidiaries which reported better results in H1 2017 include mLocum and mBank Hipoteczny.

The table below presents the profit before tax posted by individual subsidiaries in H1 2017 against H1 2016.

PLN M	H1 2016	H1 2017	Change in %
mFinanse (formerly Aspiro)	78.3	72.1	-7.8%
mLeasing	41.2	33.9	-17.7%
mLocum	15.1	22.1	46.8%
mBank Hipoteczny	13.4	17.0	27.0%
mFactoring	11.2	5.3	-52.9%
mWealth Management ¹	9.0	0	-
Dom Maklerski mBanku ¹	2.9	0	-
Other ²	1.3	-3.3	-/+
Total	172.2	147.1	-14.6%

¹ Companies were integrated into the organisational structure of mBank as of May 20, 2016.

² Other subsidiaries include mFinance France, mCentrum Operacji, BDH Development, Garbary, Tele-Tech Investments and Future Tech.

Business activity of selected subsidiaries



In H1 2017 mFinanse recorded an increase in mortgage loan sales by 57.3% (PLN 740.7 million in H1 2017 compared to PLN 470.8 million in the corresponding period of 2016). The increase in mortgage loan volumes was strongly correlated with the shift in the pricing policy of one of the main partners of mFinanse, mBank Hipoteczny. Price promotions offered by mBank Hipoteczny have significantly increased the number of requests made to mBH, and consequently the number of loans granted.

The company is also continuing the sales network development project - in H1 2017 12 new outlets opened in shopping malls.

In H1 2017, the profit before tax of mFinanse stood at PLN 72.1 million, compared with PLN 78.3 million in H1 2016. The decrease of subsidiary's profit before tax was mainly driven by lower net fee and commission income and higher operating costs.



The total value of contracts executed in H1 2017 amounted to PLN 2,354.2 million, compared with PLN 2,076.4 million in H1 2016 (+13.4%).

The value of new movable assets purchased by mLeasing in H1 2017 reached PLN 2,228.0 million, resulting in a market share of 7.1%. In H1 2017, the subsidiary financed real estate worth PLN 126.2 million, which represented a 16.2% increase year on year.

The profit before tax reported by mLeasing in H1 2017 stood at PLN 33.9 million, which represents a 17.7% decrease year on year. The drop was mainly driven by higher costs of risk and financing (including banking

tax). Low risk costs in H1 2016 resulted from the recalibration of risk parameters applied to the calculation of the IBNI (Incurred But Not Identified) provision.

mLocum

In H1 2017, mLocum sold 222 apartments under final agreements, which is by 33 apartments more than in H1 2016. This had a direct impact on the subsidiary's results.

In February 2017, mLocum's housing projects were recognised by the following magazines: *Gazeta Finansowa*, *Home & Market* and *Gentleman*, which assigned the company the title of "Developer of the Year 2016". Additionally, in June 2017, the second stage of mLocum's project called "Tumskie Ogrody", located in Wrocław, was awarded the first prize in the "Multi-family Residential" category.

In H1 2017, the profit before tax of mLocum stood at PLN 22.1 million, up by PLN 7.0 million year on year.

On June 2, 2017, mBank signed a preliminary conditional agreement on the sale of mLocum shares to Archicom, a company with an established position on the developer market, which has been successfully carrying out both housing and commercial projects in Poland for almost 30 years (more information on the transaction can be found in chapter 1.4. Subsidiaries of mBank Group).

Bank Hipoteczny

In H1 2017, gross loan portfolio of mBank Hipoteczny (mBH) totalled PLN 10.3 billion, compared with PLN 8.5 billion at the end of H1 2016 (+20.8%). This increase resulted, in particular, from systematic growth in the portfolio of new mortgage loans granted to the retail clients of the Group with sales reaching PLN 1,327.3 million in H1 2017. The sales of commercial loans stood at PLN 409.4 million.

Despite the significant charge imposed on the bank in the form of a banking tax amounting to PLN 11.2 million and an increased contribution to the Bank Guarantee Fund totalling PLN 5.1 million (included in total in the income statement in H1 2017), mBank Hipoteczny reported a profit before tax of PLN 17.0 million, which was higher by 27.0% year on year (PLN 13.4 million in H1 2016). mBH's profit was mainly driven by the continuing growth in the credit portfolio, in particular in the retail banking line. In addition, compared with the previous year, in H1 2017, loan loss provisions dropped by PLN 8.6 million.

In H1 2017, based on the prospectus of mortgage covered bonds (which was approved by the PFSA on August 26, 2016), mBank Hipoteczny placed a tranche of 7-year covered bonds worth EUR 24.9 million on the market. The series issued is the cheapest financing raised from the issue of debt securities in the history of the Group, standing at 0.94% (0.46% above the swap rate).

The issuing activity of mBH on the public market in H1 2017 is summarized in the table below.

Volume	Currency	Date of issue	Maturity	Tenor (in years)	Coupon
24.9 million	EUR	02.02.2017	02.02.2024	7	Fixed (0.94%)

As of June 30, 2017, the total value of outstanding mortgage covered bonds issued by mBank Hipoteczny amounted to PLN 4,186.4 million.

On July 6, 2017, the Luxembourg Financial Sector Supervisory Commission (Commission de Surveillance du Secteur Financier, CSSF) approved the new base prospectus of mBH and the International Program of Covered Bonds Issuance amounting in total to EUR 3 billion.

The program provides for multiple issues of mortgage covered bonds in selected currencies with a fixed or floating rate. The offer is addressed to foreign institutional investors. Thanks to the new International Program of Covered Bonds Issuance, mBH will be able to satisfy investors' demand for issues exceeding EUR 250 million, which should translate into lower costs of financing of mBank Group as well as become a safe and stable funding source for lending activities.

Additionally, mBank Hipoteczny continues to issue unsecured bonds. In H1 2017, the subsidiary issued 43 series of bonds for the total amount of PLN 1,879 million. The mBH's offer includes zero-coupon and coupon bonds denominated in PLN with maturity ranging from two months to one year.

Faktoring

In H1 2017, the turnover of the company reached PLN 6.0 billion, which represents an increase by 10.9% compared with H1 2016. mFactoring was ranked eighth among factoring companies being members of the Polish Factors Association with 7.2% share.

In H1 2017, the subsidiary's profit before tax amounted to PLN 5.3 million, compared with PLN 11.2 million in H1 2016 (-52.9%), which was driven by a lower net fee and commission income.

Centrum Operacji

In H1 2017, mCentrum Operacji actively took part in the project related to the automation of the processes handled for mBank (the automation covered e.g.: posting complaints, overnight deposits, loan applications, migration of electronic documents of mBH).

In H1 2017, the subsidiary's profit before tax amounted to PLN 466.3 thousand, compared with the PLN 970.9 thousand loss reported in H1 2016, which was mainly driven by lower operating costs.

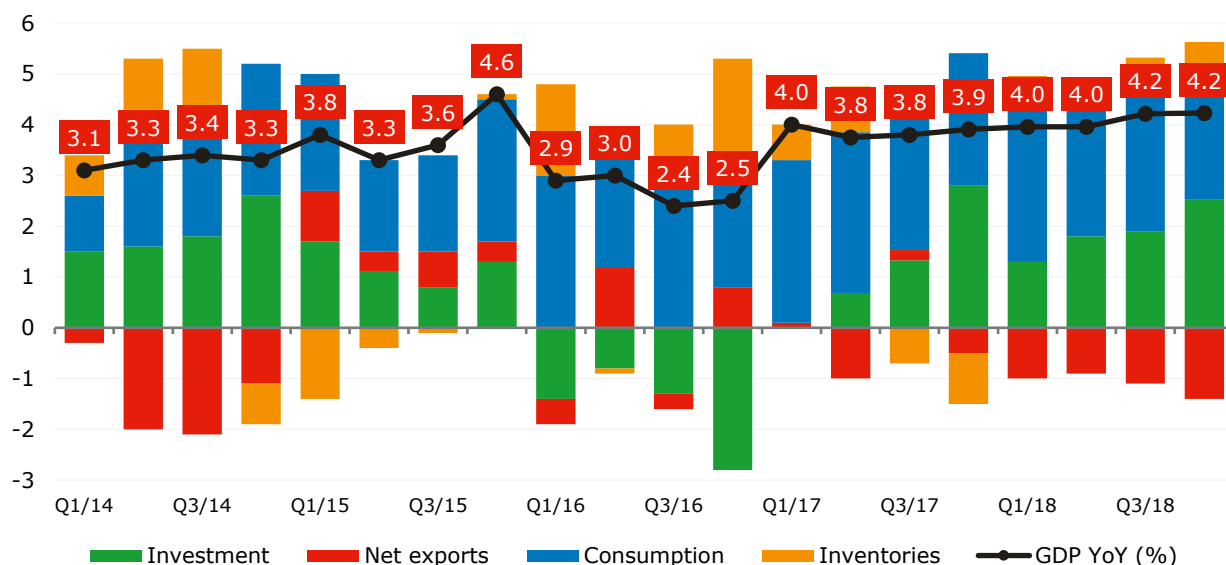
3. Financial results and macroeconomic environment

3.1. Economy and banking sector in H1 2017

Growth rate steadied in H1 2017

The growth rate accelerated to ca. 4% in H1 2017. According to the latest data of the Central Statistical Office (GUS), the Polish economy grew by 4% in Q1. Current estimates (based on high-frequency data) show a slight slowdown in Q2 to 3.8%.

Contribution to GDP growth

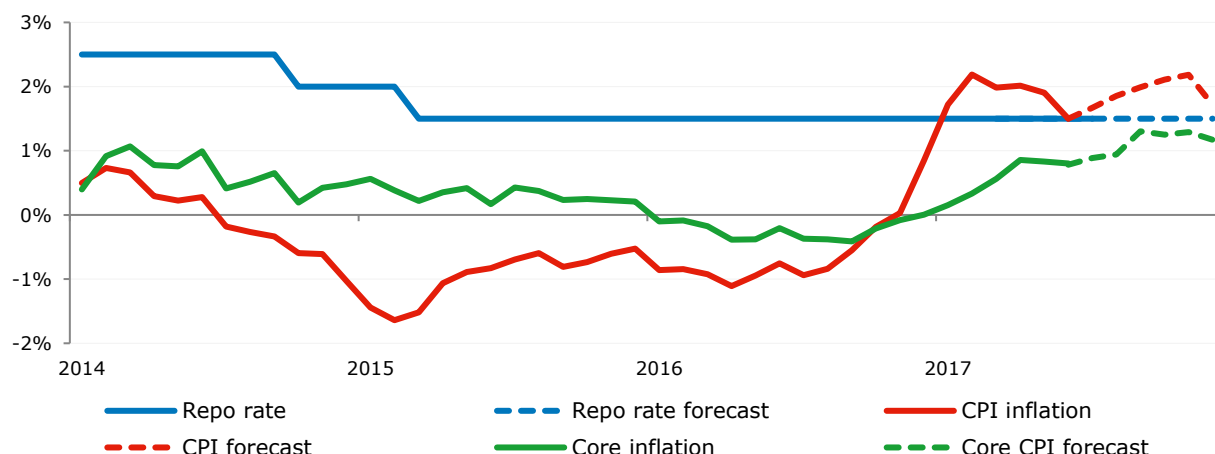


The economic growth was primarily driven by private consumption. Its growth went up to 4.7% in Q1 and remained at a similar level in Q2 thanks to a range of factors which have already been mentioned in the previous reports. Firstly, the situation on the labour market remains very good: the number of the unemployed and the unemployment rate have not been this low since the early 90's. Secondly, the upward trend in salaries continues with more and more employees receiving higher pay. Thirdly, consumer mood has hit record high - the number of optimists has exceeded the number of pessimists for the first time ever (the figure has been confirmed by numerous studies). Fourthly, the amount of money saved by the beneficiaries of the 500+ child benefit programme in 2016 continues to be high. mBank expects the high consumption growth (i.e. over 4%) to continue in the second half of the year.

After an unfavourable 2016 characterised by sharp decreases, H1 2017 brought stabilisation in investment. According to mBank's estimates, investment went up by 3% year on year in Q2 following a decrease by 0.6% year on year in Q1 2017. As expected, the increase in investment is attributable to public investment and construction projects of the private sector. The growth rate of private investment has remained moderate due to uncertainty in the business environment and a slowdown in the disbursement of EU funds for companies. With new public investment projects due to be launched in the coming months, the growth rate will increase sharply in H2 to reach 10% in late 2017 and early 2018.

Inflation steadied in the neighbourhood of 2%. MPC sees no reason for interest rate changes.

Inflation processes in the Polish economy normalised in H1 2017. The growth in consumer prices returned to the target range and stabilised around 2% year on year due to a number of external and internal factors. Firstly, the beginning of 2017 saw an accumulation of effects of oil price increases caused by the OPEC agreement (crude oil prices have decreased significantly since then and so have the retail prices of oil). Secondly, high prices of imported food (Spanish fruit and vegetables) pushed up inflation in late 2016 and early 2017. Thirdly, the period of negative core inflation ended finally with prices of core consumer goods and services accelerating significantly due to both external (price increases mentioned above) and domestic (situation on the labour market, higher salaries) factors. mBank expects inflation to stand at 2-2.5% in H2 due to a further increase in core inflation.

CPI Inflation and reference rate


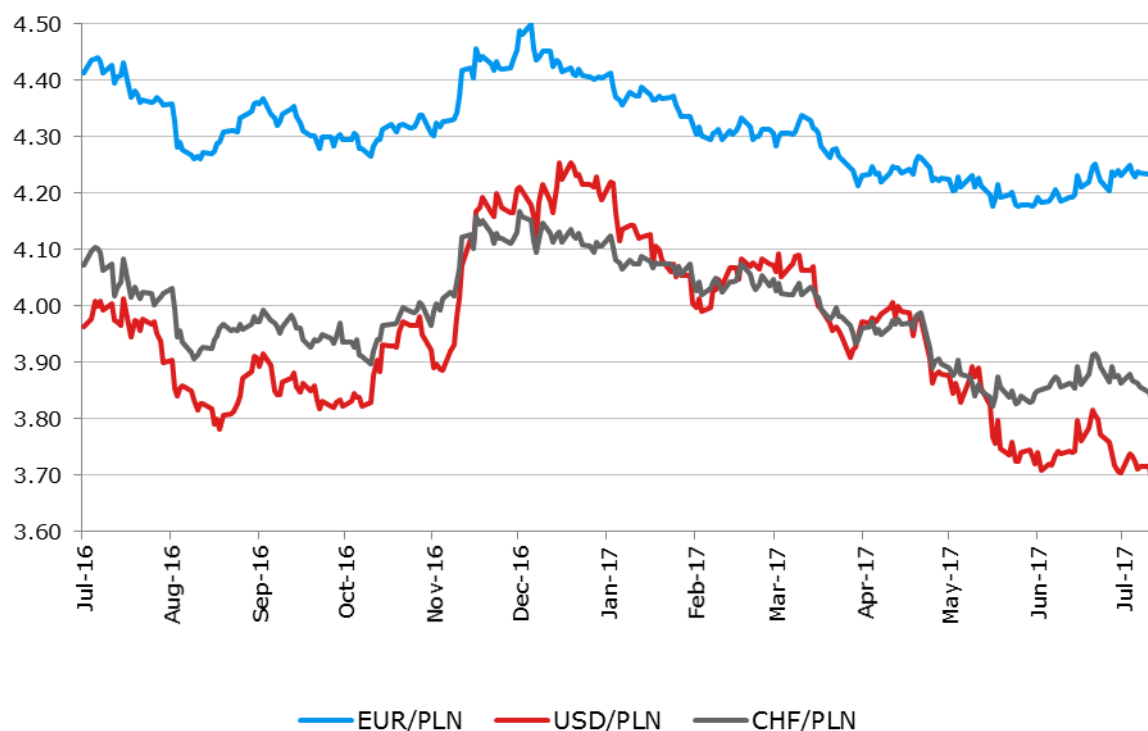
In view of the faster economic growth and the return of inflation to the target range the Monetary Policy Council (MPC) confirmed that interest rates will remain stable until the end of 2017 or even longer. The materialisation of the preferred macro-economic scenario supported by favourable projections of the National Bank of Poland (according to which inflation will return to the target range and stay there throughout the forecast period) reinforced the Council's dovish rhetoric. This constellation of factors will prevail in the months to come allowing the MPC to maintain the dovish stance. The first interest rate increase in Poland since 2012 is not likely to take place earlier than in 2018 when the scale of acceleration of domestic inflation processes (MPC does not react symmetrically to supply shocks) will become clear.

Financial markets - a good six months for Polish assets

In the first half of 2017, the value of Polish assets grew significantly – the Polish zloty strengthened against the major global currencies (US dollar, euro and Swiss franc), the main indices of the WSE grew substantially and the yields on Polish bonds decreased considerably. This was due to a combination of several factors.

Global factors were helping the emerging markets assets: rapid increases in the risk-free rate in developed markets came to an end, whereas long-term interest rates entered a phase of consolidation that is likely to last for several months; the perception of the monetary policy of the main central banks (especially in view of the slower than expected growth in the USA) was dovish. These processes were accompanied by an improved sentiment towards emerging markets. In addition, Polish assets were clearly favoured by emerging market investors, which was evidenced by a number of recommendations and their relative stability.

Currency exchange rates



Domestic factors included positive surprises in macroeconomic data, dynamic improvement in fiscal data and the perception of political and institutional stability in H1. As a consequence, the risk premiums in prices of Polish assets decreased considerably in the first months of the year - it is especially visible when looking at the yields on 10-year Polish and German bonds.

Bond yields in Poland and Germany

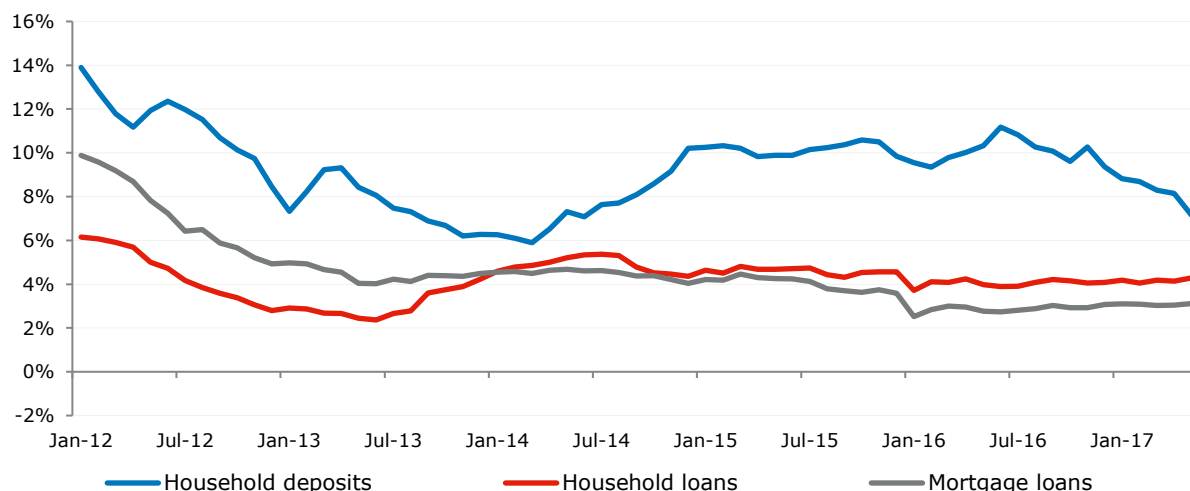


Money supply and the banking sector as the mirror of the economy

Trends in retail loans and retail deposits observed hitherto continued in Q1 and Q2 2017. Accumulation of household deposits has been slowing down gradually, which is no surprise in view of accelerating private consumption and some savers looking for alternative forms of saving as interest on deposits continues to fall (however, the net inflow of capital into investment funds is not historically high). As a result, the

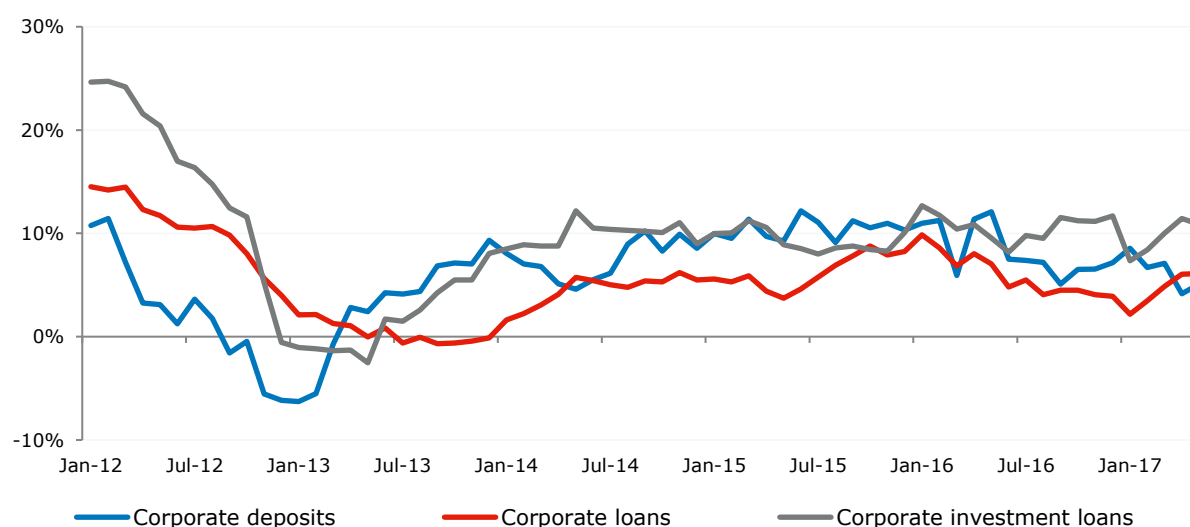
growth rate of household deposits decreased from 9.4% year on year in December to 7.2% year on year (net of FX effects). The share of current deposits paying no interest keeps growing, while the portion of term deposits in total deposits is shrinking gradually. Growth in lending to households was driven by two factors: slight acceleration in housing loans (the amount of originated loans increased by ca. PLN 1.5-2 billion compared with 2015) and stable growth in the remaining part of the portfolio of loans to households.

Household loans and deposits



Higher growth volatility in the corporate segment makes it harder to clearly identify predominant medium-term trends (as compared with the households segment). The growth rate of corporate deposits decreased gradually in H1 2017. This was due to a combination of factors including the weakening of direct and indirect FX effects (the value of FX deposits and exporters' revenues decreased due to a major strengthening of the zloty in H1 2017), lower attractiveness of deposits as compared with alternative solutions (investment funds, Treasury bonds), and higher imports. The rate of growth in corporate loans increased significantly in H1 due to the weakening of the adverse effects of the decrease in working capital loans in 2016 and continued solid growth in investment loans. The rate of growth in corporate lending is likely to increase in the months to come along with improving prospects for private investment.

Corporate loans and deposits



Selected changes in recommendations of the Polish Financial Supervision Authority (PFSA) and other regulations affecting banksThe Regulation of the Minister of Development and Finance of March 6, 2017, on the risk management system, internal control system, remuneration policy as well as detailed method for banks' internal capital assessment

The Regulation of the Minister of Development and Finance on the risk management system, remuneration policy, the internal control system and internal capital adequacy assessment was published on March 24, 2017. The Regulation governs the determination of fixed and variable components of remuneration of risk takers. Other important provisions of the Regulation include banks' obligation to implement comprehensive violation reporting systems. The responsibility for ensuring that the system is independent and effective lies with the competent management board member, whereas employees must be trained in violation reporting procedures applicable in their institutions. The Regulation, with certain exceptions, came into force on May 1, 2017.

Recommendation H concerning banks' internal control systems

In addition to the aforesaid Regulation, on April 25, 2017, the Polish Financial Supervision Authority issued the new Recommendation H to adjust the provisions governing the functioning of banks' internal control systems to new regulatory requirements in this respect. The Recommendation has strengthened the role of the internal control system as one of the components of a bank's risk management system and has introduced the three lines of defence model which provides for mechanisms enabling the monitoring and control of banks' activities. The Recommendation must be implemented by banks by December 31, 2017.

New principles of calculating contributions towards the Bank Guarantee Fund (BFG)

Following the amendments introduced by the Act of June 10, 2016, on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution and related regulations, the results of banks changed considerably in Q1 2017 compared with the previous period, driven mainly by the one-off recognition of contributions to the bank resolution fund in Q1. Changes in the charges imposed on banks result also from the new contribution calculation base and the taking into account of risk profiles of individual institutions pursuant to the Regulation of the Minister of Development and Finance of December 27, 2016, on the method of determining the risk profiles of banks and branches of foreign banks and on taking into account the risk profile in the calculation of contributions towards the bank guarantee fund and pursuant to the methodology laid down in Commission Delegated Regulation (EU) 2015/63 of October 21, 2014, supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

Act of March 23, 2017, on Mortgage Credit and Supervision of Mortgage Credit Intermediaries and Agents

On April 12, 2017, the President signed the Act of March 23, 2017, on Mortgage Credit and Supervision of Mortgage Credit Intermediaries and Agents, which governs the conclusion of mortgage loan agreements, the rights and obligations of parties to such agreements and defines the manner of supervising the activity of intermediaries and agents taking into account the principles stipulated in Directive 2014/17/EU. The main provisions of the Act include the rule whereby mortgage loans must be granted in the currency in which the customer earns the majority of their income, ban on tying practices, the customer's right of early repayment (in whole or in part) of the loan during the lifetime of the agreement and solutions facilitating debt restructuring in justified cases addressed to customers. Another important change aimed at regulating the mortgage market is the launch of an electronic credit intermediaries register maintained by the PFSA. The Act will enter into force within three months from its announcement (with certain exceptions).

Amendments to the Act on Trading in Financial Instruments and Certain Other Acts

As a result of the implementation of the Market Abuse Directive (MAD) and in connection with the Market Abuse Regulation (MAR) which is directly applicable in the member states, the Amendments to the Act on Trading in Financial Instruments and Certain Other Acts adopted by the Sejm on February 10, 2017, entered into force on May 6, 2017. The main changes resulting from the Amendments refer to the procedures for detecting and preventing the use of confidential information and anonymous reporting of violations of the law, procedures and ethical standards in investment firms as well as sanctions imposed

by the PFSA. Another purpose of the Amendments was to adjust the regulations applicable hitherto to MAR.

Another amendment to the Act on Trading in Financial Instruments passed on March 9, 2017, came into force on April 29, 2017. The notions of the stock exchange market and the OTC market have been replaced by the single term "regulated market". In addition, the amending act stipulates the rules of obtaining the permit for carrying out the activity on the regulated market and participating in the market.

Regulation of the Minister of Development and Finance of February 15, 2017 on out-of-court proceedings before the Financial Ombudsman

The Regulation of the Minister of Development and Finance governing the amicable proceedings before the Financial Ombudsman was published on February 21, 2017. The Regulation defines, among others, the rules for initiating and conducting out-of-court proceedings, governs the communication between the parties to such proceedings and specifies the requirements for persons authorised to carry out such proceedings with a view to facilitating amicable settlement of disputes between customers and financial institutions.

Regulation of the Minister of Development and Finance of May 25, 2017, on the higher risk weight for exposures secured by mortgage on real property

Following the recommendations of the Financial Stability Committee dated January 13, 2017, on the restructuring of the portfolio of FX housing loans, on May 25, 2017, the Minister of Development and Finance issued a regulation providing for higher risk weights for exposures secured by mortgage on real property. Exposures secured by mortgage on residential property for which the amount of the principal and/or interest instalment depends on fluctuations of the exchange rate of a currency or currencies other than the currencies of the debtor's income have been assigned a risk weight of 150%. Exposures secured by mortgage on office premises or other types of commercial real property located in the Republic of Poland have been assigned a risk weight of 100%. The Regulation will enter into force on December 1, 2017.

Regulation of the Minister of Development and Finance of May 25, 2017, on the information necessary for compiling, updating and assessing the feasibility of resolution plans and group resolution plans

The regulation defining the scope of information which can be obtained by the Bank Guarantee Fund from specific entities for the purpose of compiling resolution plans entered into force on June 17, 2017. Under the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution, the Bank Guarantee Fund is obliged to prepare the aforesaid plans by October 9, 2017. Pursuant to the regulation, banks are also obliged to prepare regular reports, e.g. on a quarterly basis, based on Annex V to Commission Implementing Regulation (EU) 2016/1066 of June 17, 2016, which is used to determine the minimum level of own funds and eligible liabilities (MREL).

Regulation of the Minister of Development and Finance of March 6, 2017, on the criteria for and manner of conducting the supervisory review and evaluation in banks

The Regulation of the Minister of Development and Finance defining the criteria for and manner of conducting the supervisory review and evaluation in banks (Polish: BION) which was governed hitherto by Resolution No. 312/2012 of the PFSA was announced on March 24. In addition to the requirements provided for in the Resolution, BION must now take into account systemic risk, leverage risk and the review of the bank's compliance with the requirements regarding the internal ratings-based approach applied to calculate own funds requirements. The Regulation came into force on May 1, 2017.

Bank Supervisory Review and Evaluation Methodology for 2017

On April 27, 2017, the Polish Financial Supervision Authority published the BION Methodology for 2017, according to which the review must take into account the quality of risk management in the area of FX lending. It also provides for certain changes regarding concentration risk assessment.

3.2. Financial results of mBank Group in H1 2017

All figures presented in the analysis of financial results have been calculated on the basis of the Consolidated Financial Statements for H1 2017 (in PLN thousand).

Income statement

Profit before tax generated by mBank Group in H1 2017 stood at PLN 712.2 million compared with PLN 907.8 million in H1 2016 (down by PLN 195.6 million or 21.5%). Net profit attributable to the owners of mBank amounted to PLN 488.5 million compared with PLN 696.3 million a year before (down by PLN 207.8 million or 29.8%).

The key drivers of mBank Group's profit in H1 2017 included:

- **Decrease in total income** by 2.2% year on year, mainly attributable to the booking of proceeds from the takeover of Visa Europe Limited by Visa Inc. in H1 2016; at the same time income from core operations increased by 13.1%;
- **Increase in total overhead costs** (including amortisation/depreciation) by 9.4% year on year, driven by the recognition of the annual contribution to the resolution fund of the Bank Guarantee Fund in Q1 2017, whereas in 2016 the contribution was recognised quarterly;
- **Increase in net impairment losses on loans and advances** by 9.2% driven by higher provisions in the Retail Banking segment;
- **Increase in the tax on the Group's balance sheet items** to PLN 184.3 million from PLN 146.3 million in H1 2016 (the tax was charged for the first time in February 2016);
- **Continued organic growth and business expansion**, as demonstrated by:
 - Retail client base in Poland, the Czech Republic and Slovakia growing to 5,547 thousand (+199 thousand clients year to date);
 - Number of corporate clients hitting 21,500 (+560 year to date).

In H1 2017, the gross value of loans and advances increased by 1.9% (or 4.3% net of reverse repo transactions and FX effects) compared with December 31, 2016 and by 2.8% v. the end of June 2016 (or 4.9% net of reverse repo transactions and FX effects). Deposits dropped by 3.6% compared with December 2016 (or 3.0% net of repo transactions) and were higher by 3.3% compared with the end of June 2016 (or 3.7% net of repo transactions). Consequently, loan-to-deposit ratio stood at 94.6% compared with 89.4% at the end of 2016 and 94.7% as at June 30, 2016.

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

- Gross ROE of 11.0% (14.9% at the end of H1 2016).
- Net ROE of 7.5% (11.5% at the end of H1 2016).

Growing own funds and adjustment of the application of the regulatory floor to the requirements of article 500 of the CRR Regulation in December 2016, brought an improvement in the capital ratios of mBank Group. Total Capital Ratio as of June 30, 2017, amounted to 21.2%, against 20.3% at the end of 2016 and 18.3% at the end of June 2016. Common Equity Tier 1 capital ratio reached 18.5%, compared with 17.3% at the end of 2016 and 15.6% at the end of June 2016.

Contribution of business lines and segments to the financial results

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

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Retail Banking	592.7	436.0	-156.8	-26.4%
Corporate and Investment Banking	242.5	243.4	0.9	0.4%
Financial Markets	61.1	23.1	-38.0	-62.2%
Other	11.5	9.7	-1.8	-15.2%
Profit before tax of mBank Group	907.8	712.2	-195.6	-21.5%

Retail Banking was the biggest contributor to the profit before tax of the Group (61.2%) in H1 2017. The profit earned by the Corporate and Investment Banking and Financial Markets accounted for 34.2% and 3.2% of the Group's total profit before tax respectively.

Income of mBank Group

The total income generated by mBank Group in H1 2017 stood at PLN 2,162.7 million compared with PLN 2,211.9 million a year before, which represents a decrease of PLN 49.2 million, or 2.2%. The decrease in income is attributable to the settlement of the takeover of Visa Europe Limited by Visa Inc. in H1 2016. At the same time income from core operations rose by PLN 233.6 million or 13.1%.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Interest income	1,892.5	1,972.8	80.3	4.2%
Interest expense	-531.7	-459.0	72.6	-13.7%
Net interest income	1,360.9	1,513.8	152.9	11.2%
Fee and commission income	717.2	822.4	105.2	14.7%
Fee and commission expense	-295.7	-320.3	-24.5	8.3%
Net fee and commission income	421.4	502.2	80.7	19.2%
Dividend income	2.6	3.1	0.5	20.8%
Net trading income	143.6	138.0	-5.6	-3.9%
Gains less losses from investment securities, investments in subsidiaries and associates	248.2	-16.7	-264.8	-/+
The share in profits (losses) of investments in joint ventures	-0.1	0.0	0.1	-
Other operating income	149.2	149.0	-0.1	-0.1%
Other operating expenses	-113.9	-126.8	-12.9	11.3%
Total income	2,211.9	2,162.7	-49.2	-2.2%

Net interest income remained mBank Group's largest source of income in H1 2017 (70.0% of total income). It stood at PLN 1,513.8 million compared with PLN 1,360.9 million in H1 2016, up by PLN 152.9 million or 11.2%. Despite low interest rates, an increase in interest income coupled with lower interest expenses was posted.

Interest income increased by PLN 80.3 million or 4.2% year on year in H1 2017 and stood at PLN 1,972.8 million. Income on loans and advances to customers, which with a share of 73.3% is the main source of interest income, stood at PLN 1,445.5 million, up by PLN 110.8 million or 8.3% year on year. This was possible thanks to rising credit volumes and shifts in the structure of assets towards high-margin products, especially non-mortgage loans. The period under review saw also a decrease in income from derivative instruments classified into the banking book - down by PLN 33.6 million or 31.5% against H1 2016. It was attributable to changes in the currency structure of mBank Group's financing. At the same time, interest income on investment securities fell by PLN 12.9 million or 3.6% due to their lower volume and falling profitability.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	1,334.6	1,445.5	110.8	8.3%
Investment securities	353.9	341.0	-12.9	-3.6%
Cash and short-term placements	26.4	30.0	3.6	13.6%
Trading debt securities	32.9	42.3	9.4	28.6%
Interest income on derivatives classified into banking book	106.7	73.1	-33.6	-31.5%
Interest income on derivatives concluded under the fair value hedge	28.2	31.5	3.3	11.7%
Interest income on derivatives concluded under the cash flow hedge	7.9	7.1	-0.8	-10.6%
Other	1.9	2.4	0.5	27.8%
Total interest income	1,892.5	1,972.8	80.3	4.2%

Interest expenses decreased by PLN 72.6 million or 13.7% year on year in H1 2017. Costs arising from amounts due to customers decreased by PLN 89.5 million or 26.5% due to lower average interest on deposits and a growing share of funds accumulated in current accounts. Costs arising from amounts due to banks decreased as well (down by PLN 7.2 million or 19.1%), which was attributable to a lower volume of liabilities to other banks. Costs arising from issue of debt securities went up by PLN 17.6 million or 15.0% due to a larger volume of such securities (a new EMTN tranche in the amount of CHF 200 million was issued in March 2017).

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Arising from amounts due to banks	-37.8	-30.6	7.2	-19.1%
Arising from amounts due to customers	-338.0	-248.5	89.5	-26.5%
Arising from issue of debt securities	-117.2	-134.7	-17.6	15.0%
Arising from subordinated liabilities	-33.7	-35.2	-1.5	4.4%
Interest expense related to post-employment benefits	-4.9	-10.0	-5.0	102.0%
Total interest expenses	-531.7	-459.0	72.6	-13.7%

Net interest margin rose to 2.42% in H1 2017 from 2.27% a year before.

Net commission income amounted to PLN 502.2 million in H1 2017, up by PLN 80.7 million or 19.2% year on year. The increase in net commission income was driven mainly by higher credit-related fees and commissions and commissions for agency service regarding sale of products of external financial entities.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Payment cards-related fees	168.7	182.0	13.3	7.9%
Credit-related fees and commissions	138.4	159.8	21.4	15.5%
Commissions from insurance activity	78.1	93.9	15.9	20.3%
Fees from brokerage activity and debt securities issue	58.0	68.4	10.4	18.0%
Commissions from bank accounts	84.5	91.8	7.3	8.6%
Commissions from money transfers	53.9	57.6	3.7	6.8%
Commissions due to guarantees granted and trade finance commissions	28.6	34.1	5.6	19.4%
Commissions for agency service regarding sale of products of external financial entities	51.3	71.6	20.3	39.7%
Commissions on trust and fiduciary activities	12.6	13.1	0.5	4.1%
Fees from portfolio management services and other management-related fees	5.7	7.5	1.8	31.0%
Fees from portfolio management services and other management-related fees	23.4	26.1	2.7	11.7%
Other	14.1	16.4	2.4	16.8%
Total fee and commission income	717.2	822.4	105.2	14.7%

Commission income increased by PLN 105.2 million or 14.7% year on year. Payment card-related fees, which make the biggest contribution to commission income, increased by PLN 13.3 million or 7.9% year on year in the period under review, thanks to an increase in the volume and value of non-cash transactions.

Fees and commissions on loans increased by 15.5% year on year as a result of higher sales of retail non-mortgage loans.

Commissions for agency service regarding sale of products of external financial entities went up by 39.7% compared with H1 2016.

Commissions for agency service regarding sale of insurance products of external financial entities rose by 20.3% year on year, which confirms the positive results of cooperation with AXA Group demonstrated by higher sales in different product lines, including leasing and standalone products.

Higher activity of Dom Maklerski mBanku in the stock market and transactions executed in H1 2017 resulted in an increase of fees from brokerage activity and debt securities issue by 18.0% year on year.

The increase in the customer base, expansion of transactional banking and an increased transactional activity of clients had a favourable impact on commissions from bank accounts, which increased by 8.6%, and commissions from money transfers, which grew by 6.8%.

Fee and commission expenses increased by PLN 24.5 million or 8.3% year on year in H1 2017. The increase was mainly driven by other discharged fees and commissions paid to external entities for sale of the Bank's products.

Dividend income in H1 2017 amounted to PLN 3.1 million compared with PLN 2.6 million a year before. Similar to H1 2016, the income booked in H1 2017 included dividends received from Biuro Informacji Kredytowej (BIK) and Krajowa Izba Rozliczeniowa (KIR), in which the Bank holds minority interests.

Net trading income stood at PLN 138.0 million in H1 2017 and was lower by PLN 5.6 million or 3.9% compared with H1 2016. The decrease was driven by a lower foreign exchange result (down by

PLN 3.6 million or 2.6%), as well as other net trading income and net income from hedge accounting (down by PLN 2.1 million).

Gains less losses on investment securities and investments in subsidiaries and associates stood at -PLN 16.7 million compared with PLN 248.2 million in H1 2016. An impairment related to the mLocum shares in connection with the sale transaction in the amount of -PLN 7.7 million was recognised in H1 2017. Moreover, the Group posted an impairment on Polski Standard Płatności Sp. z o.o. in the amount of -PLN 4.8 million and an impairment on the portfolio of debt securities available for sale in the amount of -PLN 7.5 million (bonds issued by Sygnity S.A.). In H1 2016, mBank Group recognised the proceeds from the takeover of Visa Europe Limited by Visa Inc. in the amount of PLN 251.7 million.

Net other operating income (other operating income net of other operating expenses) amounted to PLN 22.3 million compared with PLN 35.3 million in H1 2016 (-PLN 13.0 million or -36.9%). The decrease is attributable to higher provisions for future liabilities (up by PLN 6.5 million). At the same time, in H1 2017 net income from the sales of apartments by mLocum rose on a year-on-year basis (+PLN 6.7 million).

Net impairment losses on loans and advances

Net impairment losses on loans and advances in mBank Group amounted to PLN 203.3 million in H1 2017 compared with PLN 186.3 million in the same period last year, up by PLN 17.1 million or 9.2%.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Retail Banking	-140.3	-158.4	-18.1	12.9%
Corporates and Financial Markets	-47.0	-45.8	1.2	-2.6%
Other	1.1	0.9	-0.2	-19.9%
Total net impairment losses on loans and advances	-186.3	-203.3	-17.1	9.2%

Net impairment losses on loans and advances in the Retail Banking segment grew by PLN 18.1 million in H1 2017 compared with H1 2016, mainly as a result of a change in the structure of the retail loans portfolio, with the rising share of unsecured loans.

Net impairment losses on loans and advances in the Corporate Banking and Financial Markets changed only slightly in H1 2017 (down by PLN 1.2 million) which is a proof of maintaining a high quality loan portfolio.

Costs of mBank Group

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

The total overhead costs of mBank Group (including amortisation) stood at PLN 1,062.8 million in H1 2017, up by PLN 91.3 million or 9.4% year on year. The increase was driven by the recognition of the annual contribution to the resolution fund of the Bank Guarantee Fund in Q1 2017, whereas in 2016 the contribution was recognised on a quarterly basis.

PLN M	H1 2016	H1 2017	Change in PLN M	Change in %
Staff-related expenses	-436.8	-447.2	-10.4	2.4%
Material costs, including	-319.7	-349.5	-29.8	9.3%
- logistic costs	-168.8	-179.0	-10.2	6.0%
- IT costs	-66.1	-81.3	-15.2	23.0%
- marketing costs	-57.4	-52.8	4.7	-8.1%
- consulting services costs	-22.9	-30.6	-7.7	33.5%
- other material costs	-4.5	-5.9	-1.4	31.0%
Taxes and fees	-20.1	-10.7	9.4	-47.0%
Contributions and transfer to the Bank Guarantee Fund	-74.2	-149.1	-74.9	101.0%
Contributions to the Social Benefits Fund	-3.6	-3.7	-0.1	1.4%
Amortization	-117.1	-102.7	14.4	-12.3%
Total overhead costs and amortization	-971.5	-1,062.8	-91.3	9.4%
Cost / Income ratio	43.9%	49.1%		
Employment (FTE)	6,529	6,514		

Staff-related expenses went up by PLN 10.4 million or 2.4% year on year, due to salaries increase. The number of FTEs decreased by 15.

Material costs went up by PLN 29.8 million or 9.3% in the period under review. In H1 2017, mBank Group reported higher IT costs coupled with an increase in the costs of logistics and consulting services and a reduction in marketing costs.

Amortisation and depreciation charges dropped by PLN 14.4 million or 12.3% year on year due to an earlier write-off of unused IT system functionalities, which took place in H1 2016.

Contributions to the Bank Guarantee Fund increased significantly - from PLN 74.2 million in H1 2016 to PLN 149.1 million in H1 2017 due to the recognition of the annual contribution to the resolution fund of the Bank Guarantee Fund in the amount of PLN 116.8 million in Q1 2017.

As a result of the changes in the income and costs of mBank Group the cost-to-income ratio of mBank Group stood at 49.1% compared with 43.9% a year before (49.6% - net of the one-off income from the settlement of the takeover of Visa Europe Limited by Visa Inc.).

Changes in the consolidated statement of financial position

Changes in the assets of mBank Group

In H1 2017, the assets of mBank Group rose slightly by PLN 684.0 million or 0.5% compared to H1 2016. As of June 30, 2017, the assets amounted to PLN 129,417.5 million.

The table below presents changes in particular items of mBank Group assets.

PLN M	30.06.2016	31.12.2016	30.06.2017	% YtD change	% YoY change
Cash and balances with Central Bank	6,433.2	9,164.3	5,855.4	-36.1%	-9.0%
Loans and advances to banks	1,680.8	3,082.9	2,259.1	-26.7%	34.4%
Trading securities	3,233.2	3,800.6	3,296.6	-13.3%	2.0%
Derivative financial instruments	2,411.5	1,808.8	1,325.1	-26.7%	-45.1%
Net loans and advances to customers	80,774.8	81,763.3	83,377.0	2.0%	3.2%
Investment securities	31,644.3	31,393.4	30,469.6	-2.9%	-3.7%
Non-current assets held for sale	0.0	0.0	170.8	-	-
Intangible assets	503.6	582.7	627.9	7.8%	24.7%
Tangible assets	722.8	757.4	711.9	-6.0%	-1.5%
Other assets	1,329.4	1,390.2	1,323.9	-4.8%	-0.4%
Total assets	128,733.5	133,743.5	129,417.5	-3.2%	0.5%

Loans and advances to customers remained the largest asset category of mBank Group at the end of H1 2017. Their share in total assets increased by PLN 1,613.7 million or 2.0% compared with the end of 2016. As at June 30, 2017, they accounted for 64.4% of the balance sheet total compared with 61.1% at the end of 2016.

PLN M	30.06.2016	31.12.2016	30.06.2017	YtD in PLN M	YtD change in %
Loans and advances to individuals	48,272.2	48,949.8	48,757.8	-192.0	-0.4%
Loans and advances to corporate entities	33,936.9	34,174.3	36,143.0	1,968.7	5.8%
Loans and advances to public sector	1,357.0	1,228.2	1,081.1	-147.1	-12.0%
Other receivables	296.0	228.4	239.5	11.1	4.8%
Total (gross) loans and advances to customers	83,862.2	84,580.8	86,221.4	1,640.6	1.9%
Provisions for loans and advances to customers (negative amount)	-3,087.4	-2,817.5	-2,844.3	-26.8	1.0%
Total (net) loans and advances to customers	80,774.8	81,763.3	83,377.0	1,613.7	2.0%

In H1 2017, gross loans and advances to individual clients decreased slightly by PLN 192.0 million or 0.4%. The value of mortgage and housing loans dropped by PLN 1,363.7 million or 3.9% despite growing sales, which reached PLN 1,799.6 million in H1 2017, i.e. +22.3% year on year against PLN 1,471.7 million in H1 2016. The drop was driven by the appreciation of the zloty against the Swiss franc and systematic repayments of mortgage loans. At the same time, in H1 2017, the Group sold PLN 3,689.1 million worth of non-mortgage loans, which represents a 20.2% hike as compared with H1 2016. Net of the FX effect, loans and advances to individuals grew by 4.9% year on year.

The volume of gross loans and advances to corporate clients grew by PLN 1,968.7 million or 5.8% in H1 2017 compared with the end of 2016. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans and advances to corporate clients increased by 7.5% compared with the end of 2016.

The volume of gross loans and advances to the public sector decreased by PLN 147.1 million or 12.0% in H1 2017.

Investment securities constituted mBank Group's second largest asset category (23.5%). In H1 2017, their value fell by PLN 923.7 million or 2.9%. The portfolio of debt securities issued by the central bank decreased by 94.5%, while the portfolio of remaining debt securities increased by 40.0% in H1 2017, up to PLN 1,763.7 million. The portfolio of debt securities issued by the government remained almost unchanged in H1 2017 (+1.0% year on year).

The balance of trading securities dropped by PLN 504.0 million in H1 2017, mainly as a result of reducing the portfolio of treasury bonds and the remaining debt securities (banks' bonds, corporate bonds).

On June 2, 2017, mBank concluded a preliminary conditional agreement on the sale of all mLocum shares, accounting for a 79.99% share in the share capital, to Archicom. In view of the above, as of June 30, 2017, the Group classified mLocum as non-current assets (disposals groups) held for sale.

The table below presents changes in the liabilities and equity of mBank Group in H1 2017:

PLN M	30.06.2016	31.12.2016	30.06.2017	YtD change	YoY change
Amounts due to other banks	12,058.2	8,486.8	8,641.3	1.8%	-28.3%
Derivative financial instruments	2,157.2	1,599.3	1,114.5	-30.3%	-48.3%
Amounts due to customers	85,302.3	91,418.0	88,155.9	-3.6%	3.3%
Debt securities in issue	10,115.5	12,660.4	13,011.7	2.8%	28.6%
Subordinated liabilities	3,910.5	3,943.3	2,232.8	-43.4%	-42.9%
Liabilities held for sale	0.0	0.0	61.6	-	-
Other liabilities	2,392.9	2,584.6	2,519.2	-2.5%	5.3%
Total Liabilities	115,936.5	120,692.3	115,737.1	-4.1%	-0.2%
Total Equity	12,797.0	13,051.2	13,680.4	4.8%	6.9%
Total Liabilities and Equity	128,733.5	133,743.5	129,417.5	-3.2%	0.5%

Amounts due to customers are the principal source of funding of mBank Group. As at the end of June 2017, they accounted for 68.1% of the Group's total liabilities and equity as compared with 68.4% at the end of 2016 and 66.3% at the end of June 2016.

PLN M	30.06.2016	31.12.2016	30.06.2017	YtD in PLN M	YtD change in %
Individual customers	49,452.5	53,494.9	53,835.2	340.3	0.6%
Corporate customers	35,119.1	37,383.5	32,737.1	-4 646.4	-12.4%
Public sector customers	730.6	539.6	1,583.6	1 044.0	193.5%
Total amounts due to customers	85,302.3	91,418.0	88,155.9	-3 262.1	-3.6%

Amounts due to customers decreased by PLN 3,262.1 million or 3.6% in H1 2017, to PLN 88,155.9 million. The decrease was observed mainly in amounts due to corporate clients, which went down by 12.4% in the period under review, both in current accounts and in term deposits.

Amounts due to individuals remained at a level similar to that reported at the end of 2016 (an increase by PLN 340.3 million or 0.6%). The increase in funds on current accounts (+8.0%) was, to a large degree, offset by the outflow of funds from term deposits (-17.6%).

Amounts due to the public sector went up by 193.5% to PLN 1,583.6 million, which was chiefly attributable to an increase in the volume of term deposits.

Amounts due to other banks grew slightly by PLN 154.6 million or 1.8% to PLN 8,641.3 million compared with the end of 2016.

The share of debt securities in issue in the funding structure of mBank Group grew from 9.5% at the end of 2016 to 10.1% at the end of June 2017. Their value increased moderately by PLN 351.3 million or 2.8% compared to the end of 2016.

In H1 2017, subordinated liabilities decreased by 43.4%. mBank redeemed subordinated bonds worth CHF 400 million in Q1 2017.

The operations of mLocum, due to a preliminary conditional agreement with Archicom concerning the sale of mLocum's shares signed in June 2017, were recognised in Liabilities held for sale.

In H1 2017, equity grew by PLN 629.3 million, i.e. 4.8%, as a result of an increase in retained profits, while its share in total liabilities and equity of mBank Group accounted for 10.6% at the end of H1 2017 (9.8% as at the end of 2016 and 9.9% the year before).

Financial results of mBank Group in Q2 2017

The profit before tax generated by mBank Group in Q2 2017 stood at PLN 382.4 million against PLN 329.9 million in the previous quarter. Net profit attributable to the shareholders of mBank reached PLN 269.7 million, up from PLN 218.8 million in Q1 2017.

PLN M	Q2 2016	Q1 2017	Q2 2017	QoQ change	YoY change
Interest income	947.1	982.5	990.3	0.8%	4.6%
Interest expense	-262.6	-233.5	-225.5	-3.4%	-14.1%
Net interest income	684.4	749.0	764.8	2.1%	11.7%
Fee and commission income	365.3	407.1	415.3	2.0%	13.7%
Fee and commission expense	-155.6	-157.6	-162.7	3.3%	4.6%
Net fee and commission income	209.7	249.6	252.6	1.2%	20.5%
Core income	894.1	998.6	1 017.4	1.9%	13.8%
Dividend income	2.6	0.2	3.0	1828.6%	14.8%
Net trading income	59.5	76.9	61.1	-20.6%	2.6%
Gains less losses from investment securities, investments in subsidiaries and associates	244.8	1.6	-18.3	-/+	-/+
The share in profits (losses) of investments in joint ventures	0.0	0.0	0.0	-	-
Other operating income	55.1	46.3	102.7	121.9%	86.5%
Other operating expenses	-53.0	-41.8	-85.0	103.4%	60.2%
Total income	1,203.0	1,081.8	1 080.9	-0.1%	-10.2%
Net impairment losses on loans and advances	-117.7	-82.9	-120.4	45.2%	2.3%
Overhead costs and amortization	-490.7	-577.7	-485.1	-16.0%	-1.1%
Taxes on bank balance sheet items	-89.0	-91.3	-93.0	1.9%	4.5%
Profit before income tax	505.5	329.9	382.4	15.9%	-24.4%
Income tax expense	-116.3	-110.9	-109.2	-1.5%	-6.1%
Net profit attributable to:	389.2	218.9	273.1	24.8%	-29.8%
- Owners of mBank S.A.	388.5	218.8	269.7	23.3%	-30.6%
- Non-controlling interests	0.7	0.1	3.4	-95.7%	395.4%
ROA net	1.2%	0.7%	0.8%		
ROE gross	16.7%	10.8%	11.7%		
ROE net	12.8%	6.8%	8.2%		
Cost / Income ratio	40.8%	53.4%	44.9%		
Net interest margin	2.3%	2.4%	2.4%		
Common Equity Tier 1 ratio	15.6%	18.8%	18.5%		
Total capital ratio	18.3%	21.6%	21.2%		

The main drivers of mBank Group's financial results in Q2 2017 included:

- **Increase in net interest income** by PLN 15.8 million, i.e. 2.1%, driven mainly by a 3.4% decrease in interest expenses against the previous quarter;
- **Increase in net fee and commission income** by PLN 3.1 million, i.e. 1.2%, driven mainly by the increase in commissions for agency services regarding sale of other products of external financial entities and commissions for brokerage activity and debt securities issue;
- **Decrease in net trading income** against the previous quarter by PLN 15.8 million, i.e. 20.6%, driven mainly by lower FX result attributable to the negative valuation of CIRS and lower market volatility;
- **Decrease in operating costs (including depreciation)** by PLN 92.6 million, i.e. 16.0%, due to booking of the annual contribution to the resolution fund of the Bank Guarantee Fund made in Q1 2017;
- **Increase in net impairment losses on loans and advances** (by PLN 37.5 million) driven by a rise in provisions in the Corporates and Financial Markets segment, which stood at PLN 40.8 million against PLN 5.0 million in the previous quarter. In the analysed period, net impairment losses on loans and advances in the Retail Banking segment rose to PLN 79.9 million from PLN 78.5 million in Q1.
- **Increase in taxes on Group's balance sheet items** up to PLN 93.0 million against PLN 91.3 million in Q1 2017.

The balance sheet total of mBank Group stood at PLN 129,417.5 million as at June 30, 2017 compared with PLN 130,488.4 million at the end of March 2017.

Net loans and advances to clients increased by PLN 1,679.1 million, i.e. 2.1% in Q2 2017. Higher volume of loans was reported in both the retail clients segment (+PLN 419.8 million, i.e. 0.9%) and the corporate clients segment (+PLN 1,302.4 million, i.e. 3.7%). Net of FX effects, the value of loans and advances to individuals rose by approx. 1.4%. In Q2 2017, mBank Group sold PLN 1,001.5 million worth of mortgage loans and PLN 1,887.9 million worth of non-mortgage loans.

At the same time, amounts due to clients dropped by PLN 588.1 million, i.e. 0.7%, including a decrease in the corporate clients segment (in particular, outflow of funds from term deposits) by 2.4% in the analysed period. Amounts due to individuals remained stable quarter on quarter, whereas funds from current accounts rose by PLN 1,971.9 million and term deposits fell by PLN 1,978.9 million.

4. Risk management

4.1. Risk management foundations and key changes in H1 2017

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 organizational structure, starting at the levels of the Supervisory Board (including the Risk Committee of the Supervisory Board) and the Bank's Management Board, through specialised committees and units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit.

Three lines of defence

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 **Risk** (risk management area), **IT, Security and Compliance function**, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure.
- The third line of defence is **Internal Audit**, ensuring independent assessment of activities connected with risk management performed by the first and the second line of defence.

Pillars of risk management

The framework for risk management at mBank Group derives from the **concept of three pillars**:

- **Client-centric approach** – striving to understand and balance specific needs of the Risk's diverse stakeholders (Business, the Management Board, the Supervisory Board, shareholders, regulators).
- **One Risk** - integrated approach to risk management and responsibility to the clients for all risks (defined in the Risk Catalogue of mBank Group).
- **Risk vs Rate of Return** perspective – supporting business decision-making process on the basis of long-term relationship between risk and rate of return avoiding tail risks.

Vision and mission of the risk management area

Vision of the risk management area

We take advantage of the opportunities in a dynamically changing environment, using innovative methods of risk management.

Bearing in mind the bank's efficiency and safety, we create value for the customer in a partner dialogue with the business.

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

- **Empathy** understood as active adaptation of risk management to the changing needs of different groups of customers.
- Promoting the experience of **mobility**.

- **Efficiency** understood as: measuring, improving and automating risk processes in the culture of Lean; shaping - through a partner dialogue - risk appetite ensuring safe and profitable balance sheet of the bank.
- **Engaged employees** – challenge realized through building a work environment which fosters innovation, attracts, maintains and develops employees with knowledge of business and risk management, curious to find solutions and openly communicating.
- **Technological advantage**, which means the implementation of risk management based on a common integrated data platform (CDL) and the search for technological solutions enabling innovative risk management.

Business and Risk Forum of mBank Group

In the risk management process, the Bank attaches high importance to the communication between organizational units of the first and the second lines of defence in mBank as well as between the Bank and the Group subsidiaries. An important role in this regard is played by the **Business and Risk Forum of mBank Group** which is a formal decision and communication platform dedicated for finding solutions ensuring the optimal relation between profits and risk taking, in accordance with the risk appetite approved by the Management Board. The Forum is constituted by the following Committees assigned to individual business lines:

- Retail Banking Risk Committee (KRD),
- Corporate and Investment Banking Risk Committee (KRK),
- Financial Markets Risk Committee (KRF).

The Committees are composed of the representatives of business lines and respective risk management area departments of mBank and the respective organizational units of the Group subsidiaries. Each Committee is responsible for all risks generated by business activity of the given business line.

Key activities and changes in the risk management area in H1 2017

The risk control and management process in the mBank Group is subject to continuous improvement with emphasis on the improvement of customer-oriented integrated risk management. Selected projects being implemented in H1 2017 are described below:

- Establishment of the Investment Banking Committee which aims at ensuring proper and effective risk management in the process of completing selected investment transactions offered by the Bank's Brokerage Bureau. The Committee is in particular responsible for:
 - identification and management of potential risks posed by the transaction, including reputational and market risks,
 - fast and efficient exchange of information between the business lines and the risk management area on the Bank's strategy adopted towards the customer. This should eliminate the situation of inconsistency in such strategies. Both areas will be also able to improve their knowledge about the client and the transaction,
 - providing a standardized service process for the transactions those are subject to the Investment Banking Committee and to adapt this process to the new organizational structure of mBank resulting from the takeover of the brokerage activity of the Brokerage House (former mDM) by mBank in 2016.
- Update of the Risk Management Strategy of the mBank Group and the other strategies for managing particular risks (credit risk in the corporate and the retail areas, market risk, liquidity risk, operational risk and reputational risk). The updated strategies, including the new challenges facing the risk management area in 2017, were approved by the Management Board and the Supervisory Board of the Bank.

- Implementation of the Concentration Risk Management Strategy of mBank Group. The strategy, defining the framework for managing concentration risk using the existing system of limits and stress tests, was approved by the Management Board and the Supervisory Board of the Bank.
- The internal capital adequacy assessment process (ICAAP) and its documentation were reviewed. The document describing ICAAP was extended with provisions relating to the internal liquidity adequacy assessment process (ILAAP). In addition, modifications were made to the risk inventory process.
- Periodic risk inventory process was carried out resulting in the update of the Risk Catalogue of mBank Group. The process was carried out in accordance with the modified rules. The key change consists in inclusion in the Catalogue of all risks identified in the Group's operations (previously the Catalogue included the list of material risks).
- Risk appetite was defined for the subsequent planning horizon with special attention paid to 2018. Conclusions from analyses and discussions on potential impact on the Group of several issues identified during the managerial dialogue with particular emphasis on the package of non-financial risks, were taken into account while formulating risk appetite.
- Programme of continuous increase of work efficiency based on the Lean Management rules was continued. Further processes in the risk management area are reviewed and streamlined using the lean philosophy and tools. The purpose of the programme is to allow the growing number of tasks accompanying business growth and increasing number of regulatory requirements without the need to significantly increase resources and to reallocate resources from the streamlined operating areas to the areas where resources need to be increased due to the realized projects or growing scope of tasks.
- The IFRS 9 implementation project was continued. The IFRS 9 will take effect starting from January 2018. The Group plans to complete the works including implementation of the necessary changes aimed at adjusting the Group to the new standard in December 2017.

4.2. Main risks of mBank Group's business

The Management Board of mBank takes measures necessary to ensure that the Bank manages all material risks arising from the implementation of the adopted strategy of mBank Group. For this purpose, the risk identification and materiality assessment is carried out at least once a year within the internal capital adequacy assessment process (ICAAP) in mBank Group.

In accordance with the Risk Catalogue of mBank Group approved in Q1 2017, the following risks were recognized as material in the Group's operations as of June 30, 2017:

- credit risk,
- operational risk,
- market risk,
- business risk (including strategic risk),
- liquidity risk,
- reputation risk,
- model risk,
- capital risk (including risk of excessive leverage),
- regulatory risk.

mBank monitors all the aforementioned risks. The following section presents the rules of monitoring credit, market, liquidity and operational risk in mBank Group using risk measures applied by mBank and taking into account differences in the profile and scale of business of the 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 (in particular Recommendation S, T and C) and CRR/CRDIV, which address issues related to credit risk management.

Tools and measures

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

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

The Bank and the Group subsidiaries use, in their credit risk management process, 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 the 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. Thanks to its simplicity, this measure is broadly used in communication with clients and in the construction of price matrices for credit products.

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.
- 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.

In addition, the RORAC ratio (Return on Risk Adjusted Capital) is applied in the decision-making process and the assessment of profitability of a client in the CRM system.

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

- DtI (Debt-to-Income) - i.e. monthly credit payments to the net income of a household (used for individual customers).
- DPD (Days-Past-Due) - a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value).
- Vintage ratios, which present the quality of cohorts of loans grouped by disbursement time at a different phase of their lifetime.
- RC LLP (Risk Cost LLP) - cost of risk for a loan portfolio (segment), i.e. increment in loan loss provisions to the performing loan portfolio balance.
- 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. In H1 2017 the Strategy was updated – particularly it was adjusted to the new mBank Group strategy. The Strategy is realised by credit risk policies, limits reducing the risk and the principles of risk assessment of business entities applying for financing. The Bank manages credit risk both at the single entity level and the consolidated level.

In H1 2017 the corporate credit risk policy as well as industry policies, e.g. policy regarding financing commercial real estate were updated. Updates reflect, among other things, the economic trends and prospects for development of particular sectors and industries.

The diversified approach to corporate clients is tied to the client's risk level as measured by PD and credit risk concentration measured with LAD of a client or group of related clients, taking into account the exposure of the Group subsidiaries. The decision-making competence levels are defined in a decision-making matrix, including the EL-rating and the aggregate exposure.

mBank follows a simplified credit decision-making procedure for a defined group of clients and transactions, in particular transactions under fast credit procedures (FCP), which enhances effectiveness while ensuring compliance with all legal and supervisory requirements and good practice of credit risk management. In H1 2017 organizational changes in the risk area were made as part of the project of restructuring corporate credit process. The purpose was to improve effectiveness of processes. The process of assessment of small exposures was centralized and the decision-making powers were adjusted to these modifications.

The Group actively manages credit risk aiming to optimise profitability taking into account return on risk. Analyses of the Group's risks are performed on an on-going basis. Risk management is supported by analyses of the Group's credit portfolio structure, limits, guidelines and recommendations on the Group's exposure to selected companies, sectors and geographic markets. In its current credit risk management and determination of concentration risk, the Bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

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

In the corporate banking the Group avoids concentration in industries and sectors where credit risk is considered excessively high. The acceptable risk level is defined taking into account market segmentation and sector concentration limits. In H1 2017 new methodology of assigning industry limits was introduced.

It enhances the existing mechanisms for controlling industry concentration risk by using quantitative factors based on portfolio data while maintaining the importance of expert's opinions as well.

In compliance with the Recommendation S of the Polish Financial Supervision Authority, 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 Group strives to unlock synergies with Commerzbank more broadly in syndicated finance of selected Group clients. For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products with low capital consumption, in particular products of investment banking (ECM, DCM, M&A), transactional banking and financial markets instruments. For selected clients (big tickets), the Group prefers arrangement of syndicated finance which provides a satisfactory level of profitability with limited risk of high concentration of exposure to individual clients/groups of related companies.

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

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.

The Bank's retail credit offer covers a broad range of products financing the needs of individual customers (OF) and micro-companies (MF). The offered credit products in combination with the constantly upgraded transactional platform, savings and insurance products address all financial needs of clients within the Group.

Apart from the Polish market, the Retail Banking credit products are offered through the foreign branches (OZ) of the Bank in the Czech Republic and Slovakia in an online banking model similar to that operating in Poland. The share of the foreign branches' exposure portfolio was around 10% of the aggregate retail portfolio at the end of June 2017 (by value). The Bank ensures the coherence of the credit risk management policy on all markets; any differences in specific rules or parameter values in credit policy derive from the specificities of local markets or different goals of business strategies and are at each time subject to approval by the Retail Banking Risk Committee.

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.

Under the portfolio approach, exposures are classified (separately for each market) as ML (mortgage-secured products) or NML (unsecured products or products with non-mortgage collateral). Furthermore, the segmentation includes products for individuals (ML OF, NML OF) and products for business clients (ML MF, NML MF).

The main point of reference in the retail banking credit risk management process is risk appetite defined in correlation with the strategy of the 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. Consequently, the Bank continues to focus its NML policies on lending to existing clients with a high creditworthiness while systematically growing the acquisition of external clients. These initiatives include lending to clients under a joint project of mBank and one of the biggest telecom operators (Orange Finanse Project). Furthermore, the Bank increasingly provides financing to clients doing shopping online. To reduce operational risks of accepting new clients, the Bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

mBank decided to restore acquisition of mortgage products for private individuals in mBank effective on July 22, 2017. Until that day, the sale of loans for financing residential real estate took place in mBank Hipoteczny. The new acquisition will be still restricted to products which may be financed with issue of mortgage bonds - non-purpose mortgage loans and loans to finance cooperative ownership right to premises are withdrawn from the offer. 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 maintained; taking into account, inter alia, current, historically lowest, levels of interest rates, the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness.

Additionally, 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 properties within large urban areas.

Quality of the mBank Group loan portfolio

As of June 30, 2017, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients remained at the level noted at the end of 2016, i.e. 5.3%.

Provision for loans and advances to customers increased from PLN 2,817.5 million at the end of 2016 to PLN 2,844.3 million at the end of June 2017. The IBNI (Incurred But Not Identified) loss provision increased from PLN 226.4 million to PLN 232.9 million in that period.

The ratio of provisions to non-performing loans remained at the level of 57.2%.

To assess impairment, the Bank applies credit risk parameters based on those derived from the A-IRB methodology.

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 mBank Group.

At the end of June 2017, the Group's loans and advances (net) to customers rose by 2.0%, where the increase was in wholly driven by the rising corporate portfolio. In the corporate portfolio the loans in current accounts rose by 24.3% and term loans granted to SME grew by 4.3%, while the term loans granted to large enterprises decreased by nearly 4.0%.

The table below presents the quality of mBank Group's credit portfolio as at the end of June 2017 compared to the end of 2016 and the end of June 2016.

Quality of mBank Group's Loan Portfolio	30.06.2107 (in PLN thou.)	31.12.2016 (in PLN thou.)	30.06.2016 (in PLN thou.)
Loans and advances to individuals:	48,757,793	48,949,829	48,272,191
- current accounts	7,039,110	6,458,369	6,276,593
- term loans, including:	41,718,683	42,491,460	41,995,598
- housing and mortgage loans	34,005,417	35,369,113	35,220,185
- other	0	0	0
Loans and advances to corporate entities:	36,142,978	34,174,289	33,936,902
- current accounts	5,126,975	4,125,405	4,725,577
- term loans:	29,077,561	28,267,897	27,424,522
- large enterprises	4,840,701	5,037,182	5,293,658
- medium & small enterprises	24,236,860	23,230,715	22,130,864
- reverse repo/buy sell back	93,825	56,676	131,734
- other	1,844,617	1,724,311	1,655,069
Loans & advances to public sector	1,081,106	1,228,230	1,357,033
Other receivables	239,484	228,424	296,038
Total (gross) loans and advances to customers	86,221,361	84,580,772	83,862,164
Provision for loans and advances to customers (negative amount)	(2,844,336)	(2,817,495)	(3,087,355)
Total (net) loans and advances to customers	83,377,025	81,763,277	80,774,809
Short-term (up to 1 year)	27,827,783	26,909,693	26,897,267
Long-term (over 1 year)	55,549,242	54,853,584	53,877,542
Incurred but not identified (IBNI) losses			
Gross balance sheet exposure	81,653,575	80,043,614	79,016,656
IBNI loss provision for portfolio exposures	(232,926)	(226,430)	(253,341)
Net balance sheet exposure	81,420,649	79,817,184	78,763,315
Impaired exposures			
Gross balance sheet exposure	4,567,786	4,537,158	4,845,508
Provisions for impaired exposures	(2,611,410)	(2,591,065)	(2,834,014)
Net balance sheet exposure	1,956,376	1,946,093	2,011,494

Market risk

mBank organises market risk management processes in line with the requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and EBA guidelines, concerning market risk management.

Tools and measures

In its business, mBank is exposed to market risk, i.e. the risk of unfavourable changes in the present value of financial instruments in the Bank's portfolios due to changes in market risk factors: interest rates, FX rates, stock prices and index value, the implied volatility of options, and credit spreads. In terms of the banking book mBank identifies interest rate risk, which is defined as a risk of adverse change in both valuation of banking book positions and net interest income arising from adverse movements in interest rates.

The Bank identifies market risk related with positions of the trading book measured at fair value (using the direct measurement method or the model measurement method) which may materialise in the form of losses reflected in mBank's financial performance. Moreover, the Bank attributes market risk to the banking book positions, regardless of the methods for calculating earnings generated from those positions used for the purpose of accounting reporting. In particular, in order to measure the interest rate risk of

Retail and Corporate Banking products without a fixed interest revaluation date or with rates administered by the Bank, the Bank uses replicating portfolio models. The Bank uses the capital modelling concept, which is reflected in market risk measurement at the level of the Bank's internal organisational structures. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models.

Market risk exposure is quantified by measurement of Value at Risk (VaR), measurement of Stressed Value at Risk (Stressed VaR), measurement of expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall) and by use of stress tests.

Market risk, in particular interest rate risk of the banking book, is also quantified by measurement of Earnings at Risk (EaR) of the banking book.

mBank has limited risk appetite for interest rate risk in long term buckets by setting BPV (+1bp) limit for total interest rate position of mBank Group for tenors above 20 years and above 30 years, as well as it established an acceptable appetite for credit spread risk by setting CS BPV (+1bp) limit in the structure described by rating categories for all debt papers (treasury, commercial and with own receivables status) on mBank Group portfolio.

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 in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions. The Bank conducts trading activity on well-known markets using financial instruments the Bank has adequate expertise in and that have been approved for trading.

Bank stabilizes interest income by investing stable parts of equity and current accounts in long-term assets. Managing interest rate risk of the banking book takes into account the economic and accounting perspectives, and the financial instruments used for hedging are adequate to the Bank's expertise and have been approved for trading.

The market risk profile is derived from the strategic goals of business units, the policy of the Committee (ALCO) in charge of shaping the structure of the Group's assets and liabilities and the limits on market risk exposure established by the Financial Markets Risk Committee (KRF) at the Bank level, and by the Management Board and Supervisory Board at the Group level. The system of limits reflects in a quantitative manner the defined risk appetite.

In accordance with the previously described general principles of risk management, market risk management is organized under so-called three lines of defence. The main principle of organisation of the market risk management process stipulates separation between the market risk monitoring and control function and the functions related with opening and maintaining open market risk positions.

In addition, the Bank applies the rule of organizational separation between managing banking book operations (including portfolios of Treasury Department, Debt Securities Issue Department and Structured and Mezzanine Finance Department) and trading book operations (including portfolios of Financial Markets Department and Own Transactions Division in Brokerage Bureau).

Measuring mBank's market risk

Value at Risk

In H1 2017, the Bank's market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the VaR limits.

The VaR figures for the Bank's portfolio were driven mainly by portfolios of instruments sensitive to interest rates and to selected credit spread – T-bonds portfolios in the banking book and in the trading book including interest rate swap positions. The portfolios of instruments sensitive to changes in exchange rates, such as FX forwards and options, and the exposure of the portfolios to equity price risk and the risk of implied volatility of options traded on the WSE had a relatively low impact on the Bank's risk profile.

The table below presents VaR statistics of mBank's portfolio in H1 2017:

PLN thousand	H1 2017				2016			
	30.06.17	average	max	min	31.12.16	average	max	min
VaR IR	8,443	9,317	15,641	5,281	12,903	13,721	18,454	11,042
VaR FX	366	444	870	251	772	547	816	351
VaR EQ	80	175	437	49	199	214	791	62
VaR CS	12,801	16,574	23,320	12,616	21,249	27,172	30,150	19,856
VaR	17,967	21,204	34,560	16,265	28,037	35,306	40,726	27,124

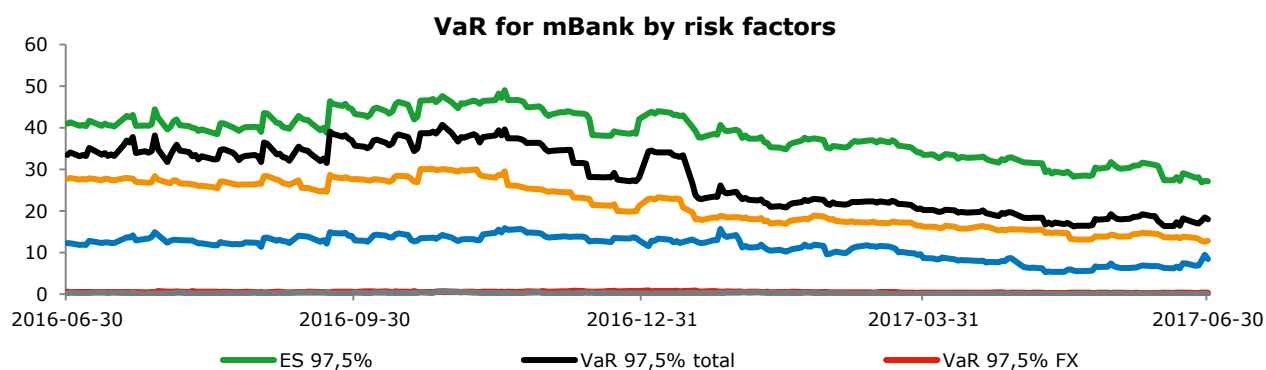
VaR IR – interest rate risk

VaR FX – FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk

The graph below presents changes in VaR for mBank in 12 months to 30.06.2017 (PLN million):



In H1 2017, VaR decreased mainly due to the reduction of bonds portfolio and changes in observations in the 12-month window taken to calculation.

VaR statistics in stress conditions

In the Bank, VaR in stress conditions is also observed. The table below presents VaR statistics in stress conditions in H1 2017 in comparison to statistics of this measure for 2016:

PLN thousand	H1 2017				2016			
	30.06.17	average	max	min	31.12.16	average	max	min
Stressed VaR IR	39,166	37,434	48,768	27,827	45,288	43,671	50,339	36,293
Stressed VaR FX	598	1,153	2,836	349	2,339	1,363	2,655	576
Stressed VaR EQ	235	327	662	61	422	342	1,495	2
Stressed VaR CS	82,243	86,146	91,849	77,714	87,930	87,516	96,278	74,731
Stressed VaR	112,931	115,664	124,823	101,868	124,833	119,771	130,662	105,462

Stress testing

The result of stress tests for mBank in H1 2017 in comparison to 2016 is presented in the table below:

PLN M	H1 2017				2016			
	30.06.17	average	max	min	31.12.16	average	max	min
Base stress test	39	57	115	9	97	82	120	20
CS stress test	684	709	767	626	752	695	782	623
Total stress test	723	765	882	638	849	777	892	656

Base stress test – standard stress test.

CS stress test – stress test with scenarios including credit spread changes.

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

In H1 2017, the average utilisation of the stress test limit for mBank without capital modelling was 59% (PLN 765.2 million). The main part of the presented stress test results is the value of stress tests for change of the credit spread of T-bond portfolios because the stress test scenarios assume on average a 100 bps increase of credit spreads.

Interest rate risk of the banking book

In H1 2017 the interest rate risk of the banking book as measured by EaR, i.e. potential decrease of interest income within 12 months assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curve by 100 basis points) and based on a stable value of the portfolio over the period, was as presented in the table below:

PLN M	H1 2017				2016			
	30.06.17	average	max	min	31.12.16	average	max	min
PLN	154.6	121.4	175.6	86.8	171.8	78.3	180.0	34.7
USD	13.5	12.4	17.8	8.6	9.3	7.5	13.8	1.2
EUR	99.9	92.7	113.1	67.3	64.9	70.6	142.3	50.2
CHF	0.0	0.0	0.1	0.0	0.0	4.1	21.6	0.0
CZK	3.6	3.1	5.5	2.2	3.1	4.1	7.5	2.4

Measuring mBank Group's market risk

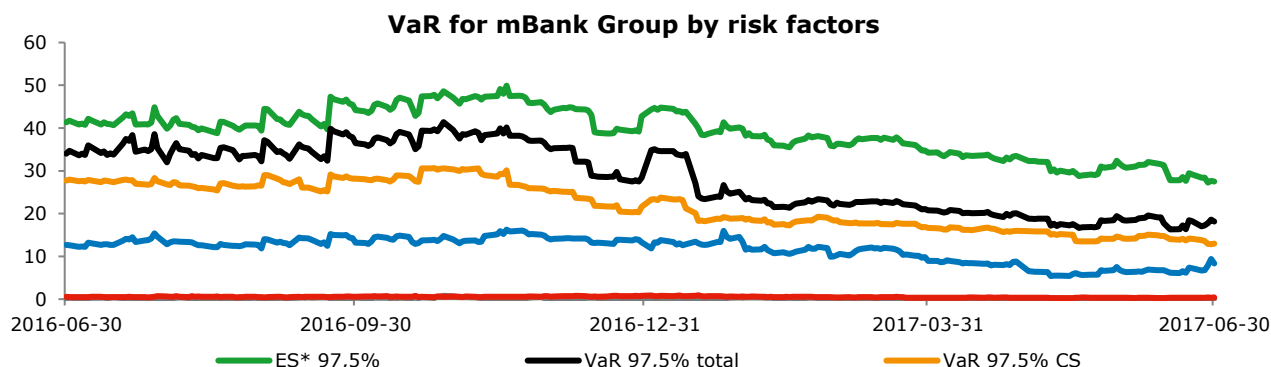
The main sources of market risk of the Group are mBank's positions. The table below shows VaR statistics (VaR at a 97.5% confidence level for a one-day holding period) for mBank Group in H1 2017 for individual members of the Group in which market risk positions were identified (i.e. portfolios of mBank, mBank Hipoteczny, mLeasing) and their decomposition to the VaR corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), stock prices/index value risk (VaR EQ), and credit spread risk (VaR CS).

The table below presents VaR statistics in H1 2017.

PLN thousand	mBank Group	mBank	mBH	mLeasing
VaR IR average	9,545	9,317	110	151
VaR FX average	451	444	19	15
VaR EQ average	175	175	0	0
VaR CS average	16,943	16,574	401	0
VaR average	21,640	21,204	397	148
VaR max	35,076	34,560	493	232
VaR min	16,319	16,265	282	52
VaR 30.06.2017	18,142	17,967	282	88

For comparison, at the end of 2016, VaR for mBank Group was PLN 28,438 thousand, including VaR of mBank at PLN 28,037 thou., mBank Hipoteczny – PLN 459 thousand and mLeasing – PLN 212 thou.

The graph below presents changes in VaR for mBank Group in 12 months to 30.06.2017 (PLN million):



Stress testing

The result of stress tests for mBank Group in H1 2017 is presented in the table below:

PLN M	H1 2017				2016			
	30.06.17	average	max	min	31.12.16	average	max	min
Base stress test	43	60	121	11	102	87	125	26
CS stress test	698	723	782	640	767	710	798	639
Total stress test	741	784	903	655	869	797	914	679

Base stress test – standard stress test.

CS stress test – stress test with scenarios including credit spread changes.

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

In H1 2017, the average utilisation of the stress test limit for mBank Group without capital modelling was 58% (PLN 783.7 million) and with capital modelling was 63% (PLN 857.1 million).

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.

Tools and measures

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

In terms of its sources, liquidity risk may result from internal factors (reputation risk resulting for instance in excessive withdrawal of cash by Bank clients, materialisation of credit risk) and external factors (turbulences and crises in the financial markets, country risk, turbulences in the operation of clearing systems).

For this purpose, the Bank has defined a set of liquidity risk measures and a system of limits 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 Financial Markets Risk Department. The main measures used in liquidity risk management of the Bank include ANL (Available Net Liquidity) measures, the regulatory measures (M1, M2, M3, M4), LCR, and also NSFR (Net Stable Funding Ratio) for analysis only. ANL measure reflects the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the Bank, which represents potential risk of being unable

to meet liabilities within a specific time horizon and under a certain scenario. ANL scenarios include base scenario (ANL Base), and three liquidity stress test scenarios: internal (ANL Stress), systemic (ANL Stress Market) and a combination of both (ANL Stress Combined). Cash flow projections used in these measures are based on crisis scenarios, which include excessive withdrawal of cash by the Bank's clients and being unable to liquidate some assets due to an external crisis occurring to various extent dependent on assumed scenario. Moreover, the Bank has a process of reporting and monitoring of intraday liquidity position including crisis scenario for intraday liquidity. The reverse stress scenario is the complement of the liquidity stress testing system.

In order to support the process of liquidity risk management, the Bank has a system of early warnings indicators (EWI). It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan.

Bank reports LCR measure according to the standard compliant with Commission Delegated Regulation (EU) No. 2015/61 of October 10, 2014.

In terms of NSFR, the Bank reports to the National Bank of Poland according to standards set by EBA in 2014, as well as to the Polish Financial Supervision Authority in a form of a dedicated questionnaire.

Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the Bank and the current market situation as well as funding needs of the Group subsidiaries.

The Bank manages liquidity risk at two levels: strategic (within committees of the Bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory and internal measures.

The first category includes four liquidity measures determined by the Polish Financial Supervision Authority: M1, M2, M3, M4 and LCR measure, which is additionally reported to the National Bank of Poland. NSFR measure is monitored.

The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in defined tenors for ANL measures in stress conditions in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN) and for specific foreign currencies.

The Bank has a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. Financing of subsidiaries is done from mBank via the Treasury Department, with the exception of mBank Hipoteczny and mLeasing. mBank Hipoteczny raises funding in the market by issuance of covered bonds, short-term debt securities and from mBank, mLeasing raises funding by issuance of short-term debt securities and from mBank, while other subsidiaries raise all of their funding from mBank.

The Bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by the mBank Group and aimed at neutralising this threat. The document defines the division of responsibility for monitoring and identifying threats, and actions during the emergency situation. The Contingency Plan is tested at least annually.

The Bank has developed the Recovery Plan of mBank Group, functioning in parallel with the Contingency Plan and covering situations where a broader range of actions, than those defined in the Contingency Plan, is required.

Bank limits the volume and term concentration of foreign currency funding of mBank with FX-swaps and CIRS. The limit is set in order to determine the relevant risk appetite accepted by the Bank in this respect. In addition, the limit is decomposed into individual limits for CIRS and FX-swaps as well as limits for funding in EUR and CHF. The limit structure reflects the Bank's preference for currency funding with long tenors.

In H1 2017 the review of internal liquidity adequacy assessment process (ILAAP) has been established and conducted. The process covers the Bank and the mBank Group. The results of the review have been presented to the Management Board and the Supervisory Board.

Measuring mBank's liquidity risk

The liquidity of mBank remained at a safe level in H1 2017, as reflected in the high surplus of liquid assets over short-term liabilities in ANL measures and in the levels of regulatory measures.

The table below presents the ANL gaps for tenors up to 1M and 1Y in H1 2017 as well as the regulatory measures M1, M2, M3, M4 and the LCR:

Measure*	H1 2017			
	30.06.2017	mean	maximum	minimum
ANL Base 1M	15,536	18,54	22,210	15,536
ANL Base 1Y	13,769	17,312	21,137	13,769
ANL Stress 1M	12,795	15,821	19,471	12,795
ANL Stress 1Y	11,027	14,580	18,398	11,027
ANL Market 1M	12,154	14,902	18,278	11,837
ANL Combined 1M	11,194	13,949	17,324	10,867
M1	12,759	13,971	17,995	10,832
M2	1.38	1.41	1.60	1.30
M3	4.60	4.74	4.93	4.49
M4	1.40	1.40	1.43	1.38
LCR	158%	171%	183%	158%

* ANL Base, ANL Stress, ANL Stress Market, ANL Stress Combined and M1 are shown in PLN million; M2, M3 and M4 are relative measures presented as a decimal; ANL Stress is limited up to 1Y, ANL Stress Market and ANL Stress Combined are limited up to 1M.

Measuring the Group's liquidity risk

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

The Group's liquidity was at a safe level in H1 2017, as reflected in the high surplus of liquid assets over short-term liabilities in the ANL Stress tenors and the LCR calculated at the Group level.

The table below presents the ANL Stress gap for tenors up to 1M and 1Y and the LCR at the mBank Group level:

Measure*	H1 2017			
	30.06.2017	mean	maximum	minimum
ANL Stress 1M	14,115	17,328	21,169	14,115
ANL Stress 1Y	12,564	15,816	19,690	12,564
LCR Group	160%	175%	191%	160%

* ANL Stress is shown in PLN million.

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, which constitute a starting point for the framework of the operational risk control and management system in mBank Group.

Tools and measures

The Bank understands operational risk as the possibility of incurring a loss arising from inadequate or defective internal processes, systems, errors or actions taken by the Bank's employee or from external events. In particular, operational risk includes legal risk.

Operational risk accompanies all processes at banks and its consequences can be often very harmful. It is characterized by an asymmetric distribution of losses; overwhelmingly, these are small value losses. Large losses are rare but the size of such a loss may exceed the sum of all the remaining operational losses in a given reporting period.

In order to effectively manage operational risk, the Bank applies quantitative and qualitative methods and tools. The tools applied by the Bank intend to cause-oriented operational risk management.

The basic qualitative tool is the internal control system self-assessment carried out once a year by the Bank's organizational units and the Group subsidiaries. The aim of the process is to increase the awareness of operations risk in mBank Group, to ensure communication about the necessity of changes and improvements in control processes, and thus a more active approach to operational risk management. The end result of the self-assessment is the assessment of key risks and control mechanisms as well as the creation of recovery plans aimed at changing the structure or the optimization of the control mechanisms in order to improve the adequacy and effectiveness of internal control system.

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

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

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

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

Strategy

The operational risk control and management system, forms an organisational basis in order to enable effective control and management of operational risk at every level of mBank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the Bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk and Capital Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the Bank. The operational risk control and management process at mBank is developed and co-ordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the Bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk.

The entire operational risk control process is supervised by the Supervisory Board of the Bank through its Risk Committee.

4.3. Capital adequacy

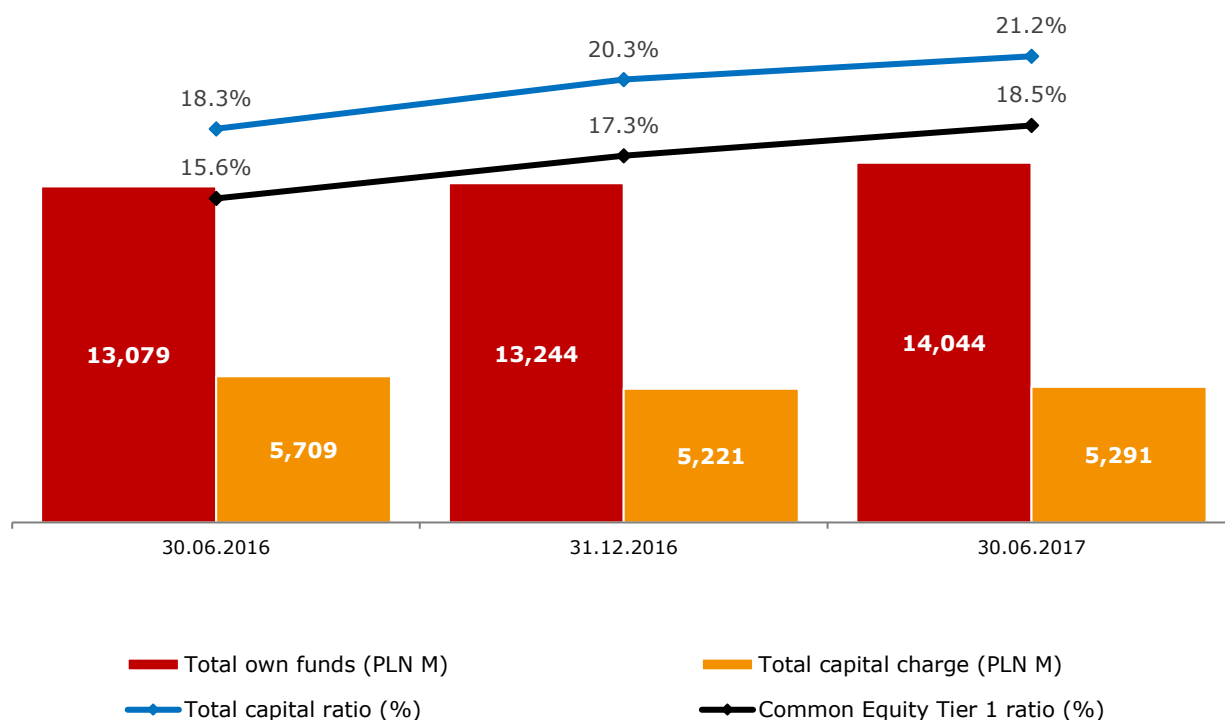
Maintaining an adequate level of capital is one of the main tasks of the Bank. The Management Board of mBank ensures consistency of the capital and risk management process by means of a system of strategies, policies, procedures and limits for the management of particular risks which constitute the ICAAP architecture. Furthermore, in line with the Capital Management Policy applicable at mBank, the

Bank maintains an optimum level and structure of own funds, guaranteeing maintenance of the total capital ratio at a level higher than the supervisory requirement, at the same time covering all significant risks identified in the Bank's operations and key risk concentrations resulting from the applied business strategy. The assessment process comprises determination of the appropriate capital surplus required to cover potential losses resulting from materialization of particular risk factors related to the existing portfolios and planned activity. New regulatory requirements as well as possible adverse macroeconomic changes are also taken into account in the capital management process.

The Capital Management Policy at mBank is based on two main pillars:

- maintenance of an optimal level and structure of own funds, with the use of available methods and means (retained net profit, issue of shares, subordinated bonds, etc.);
- effective use of the existing capital among others by applying a system of capital utilisation measures resulting in reduction of the activity that does not generate the expected return and development of products with lower capital absorption.

Capital adequacy of mBank Group



The capital ratios of mBank Group in H1 2017 were driven by the following factors:

- inclusion in Common Equity Tier 1 capital the remaining part of the net profit of mBank Group for the year 2016, not included in Common Equity Tier 1 capital in 2016;
- inclusion in Common Equity Tier 1 capital the verified net profit of the mBank Group for Q1 2017, net of expected charges and dividends, on the basis of the PFSA decisions from May 29, 2017;
- change of the limit for unrealized gains measured at fair value included in Common Equity Tier 1 capital;
- change of the limit for grandfathered subordinated instruments included in Tier 2 capital;
- inclusion of the Future Tech FIZ company in prudential consolidation;

- expansion of the mBank Group business activity;
- appreciation of the Polish currency against the foreign currencies.

In H1 2017 capital ratios on consolidated and individual basis were well above the required values, i.e. 17,02% for total capital ratio and 13,21% for Tier 1 ratio on consolidated basis and 17,58% for total capital ratio and 13,63% for Tier 1 ratio on individual basis. The level of the required capital ratios encompasses:

- the basic requirement of PFSA addressed to banks in Poland to maintain the total capital ratio of 12% and the Tier 1 ratio of 9%;
- the additional capital charge in Pillar II related to the portfolio of foreign exchange retail mortgage loans – 3.25% (consolidated basis) and 3.81% (individual basis) at the level of total capital ratio;
- the combined buffer requirement of additional 1.77% of the total risk exposure amount, including: capital conservation buffer (1.25%), O-SII buffer (0.50%) and countercyclical capital buffer (0.02%).

As of June 30, 2017, the consolidated total capital ratio of mBank Group stood at 21.24% and the Common Equity Tier 1 ratio at 18.47%.

The individual total capital ratio of mBank stood at 25.12% and the Common Equity Tier 1 ratio at 21.90%.

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and the Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including provisions regarding transitional period, amounted to 9.15% on consolidated basis and 9.14% on individual basis.

Detailed information on capital adequacy of mBank Group is communicated in „Disclosures regarding capital adequacy of mBank S.A. Group as at 30 June 2017“.

Stress tests

In order to ensure compliance with regulatory requirements under normal and stress conditions the Group and the Bank carry out sensitivity analyses for key risk concentrations. These analyses are used among others for calculation of the capital surplus above the level of regulatory requirements.

Additionally integrated stress tests are conducted based on scenario of unfavourable economic conditions that may adversely affect the Bank's financial position in at least a full two-year time horizon (for liquidity risk - a one-year time horizon). The risk scenario, i.e. the most plausible (in at least a full two-year time horizon) scenario of negative deviations from the base scenario, expressed in terms of macroeconomic and financial ratios, is common for all risk types, applied at the Group level and aligned with the corresponding scenario accepted by the consolidating entity.

Reverse stress tests are conducted in order to identify events that might potentially pose a risk to the functioning of the Group and the Bank.

The Group and the Bank take part in regulatory stress tests conducted by the Polish Financial Supervision Authority in order to determine the impact of assumed macroeconomic stress scenarios on the Group's balance sheet and P&L as well as on prudential norms.

5. Statements of the Management Board

True and fair picture in the presented reports

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

- IFRS Condensed Consolidated Financial Statements for the first half of 2017 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 the first half of 2017 presents a true picture of the developments, achievements, and situation of the mBank S.A. Group, including a description of the main risks and threats.

Appointment of the auditor

The Auditor authorised to audit financial statements and performing the review of the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for the first half of 2017 and IFRS Condensed Stand-alone Financial Statements of mBank S.A. for the first half of 2017 – PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością - 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.

Signatures of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
27.07.2017	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
27.07.2017	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	
27.07.2017	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate and Investment Banking	
27.07.2017	Andreas Böger	Deputy President of the Management Board, Chief Financial Officer	
27.07.2017	Frank Bock	Deputy President of the Management Board, Head of Financial Markets	
27.07.2017	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
27.07.2017	Krzysztof Dąbrowski	Deputy President of the Management Board, Head of Operations and Information Technology	