



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

IFRS Condensed Consolidated Financial Statements  
for the first half of 2019

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

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## Selected financial data

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first half of 2019.

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000		in EUR'000	
	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 - restated	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 - restated
I. Interest income	2 464 435	2 156 204	574 728	508 599
II. Fee and commission income	813 093	829 215	189 621	195 593
III. Net trading income	206 397	169 191	48 134	39 908
IV. Operating profit	968 061	1 149 446	225 760	271 128
V. Profit before income tax	709 234	953 284	165 400	224 858
VI. Net profit attributable to Owners of mBank S.A.	495 645	705 878	115 589	166 500
VII. Net profit attributable to non-controlling interests	(45)	(23)	(10)	(5)
VIII. Net cash flows from operating activities	3 285 916	961 828	766 305	226 873
IX. Net cash flows from investing activities	(192 924)	220 369	(44 992)	51 980
X. Net cash flows from financing activities	(3 467 662)	492 230	(808 690)	116 106
XI. Net increase / decrease in cash and cash equivalents	(374 670)	1 674 427	(87 376)	394 959
XII. Basic earnings per share (in PLN/EUR)	11.71	16.68	2.73	3.94
XIII. Diluted earnings per share (in PLN/EUR)	11.70	16.67	2.73	3.93
XIV. Declared or paid dividend per share (in PLN/EUR)	-	5.15	-	1.21

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN'000		in EUR'000	
	As at		As at	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
I. Total assets	152 433 213	145 750 119	35 849 768	33 895 377
II. Amounts due to banks	2 974 908	3 078 387	699 649	715 904
III. Amounts due to customers	110 341 075	102 009 062	25 950 394	23 723 038
IV. Equity attributable to Owners of mBank S.A.	15 679 158	15 213 980	3 687 478	3 538 135
V. Non-controlling interests	2 043	2 100	480	488
VI. Share capital	169 348	169 348	39 828	39 383
VII. Number of shares	42 336 982	42 336 982	42 336 982	42 336 982
VIII. Book value per share (in PLN/EUR)	370.34	359.35	87.10	83.57
IX. Total capital ratio	19.66	20.69	19.66	20.69

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2019: EUR 1 = 4.2520, 31 December 2018: EUR 1 = 4.3000.
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2019 and 2018: EUR 1 = PLN 4.2880 and EUR 1 = PLN 4.2395 respectively.

## Consolidated income statement

	Note	Period from 01.04.2019 to 30.06.2019	Period from 01.01.2019 to 30.06.2019	Period from 01.04.2018 to 30.06.2018 - restated	Period from 01.01.2018 to 30.06.2018 - restated
Interest income, including:	5	1 263 592	2 464 435	1 102 561	2 156 204
<i>Interest income accounted for using the effective interest method</i>		1 116 374	2 163 651	941 273	1 829 411
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		147 218	300 784	161 288	326 793
Interest expenses	5	(265 812)	(536 402)	(248 210)	(485 429)
<b>Net interest income</b>		<b>997 780</b>	<b>1 928 033</b>	<b>854 351</b>	<b>1 670 775</b>
Fee and commission income	6	412 441	813 093	409 920	829 215
Fee and commission expenses	6	(186 629)	(358 435)	(160 943)	(311 362)
<b>Net fee and commission income</b>		<b>225 812</b>	<b>454 658</b>	<b>248 977</b>	<b>517 853</b>
Dividend income	7	3 428	3 651	2 936	3 103
Net trading income, including:	8	103 515	206 397	84 698	169 191
<i>Foreign exchange result</i>		87 191	176 431	79 620	151 047
<i>Gains or losses on financial assets and liabilities held for trading</i>		13 386	24 711	7 950	23 853
<i>Gains or losses from hedge accounting</i>		2 938	5 255	(2 872)	(5 709)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	2 402	(11 618)	(17 691)	(56 060)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	10	(2 131)	14 718	1 716	6 020
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>		694	18 559	1 716	6 042
<i>Gains less losses from investments in subsidiaries and associates</i>		(2 878)	(4 472)	-	(22)
<i>Gains less losses from derecognition</i>		53	631	-	-
Other operating income	11	38 247	75 324	52 874	321 819
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(206 416)	(327 163)	(192 139)	(273 601)
Overhead costs	13	(448 980)	(1 074 724)	(449 991)	(985 152)
Depreciation		(88 140)	(178 178)	(58 663)	(124 495)
Other operating expenses	14	(57 390)	(123 037)	(37 362)	(100 007)
<b>Operating profit</b>		<b>568 127</b>	<b>968 061</b>	<b>489 706</b>	<b>1 149 446</b>
Taxes on the Group balance sheet items		(149 723)	(258 827)	(98 287)	(196 750)
Share in profits (losses) of entities under the equity method		-	-	299	588
<b>Profit before income tax</b>		<b>418 404</b>	<b>709 234</b>	<b>391 718</b>	<b>953 284</b>
Income tax expense		(86 791)	(213 634)	(98 437)	(247 429)
<b>Net profit</b>		<b>331 613</b>	<b>495 600</b>	<b>293 281</b>	<b>705 855</b>
<b>Net profit attributable to:</b>					
- Owners of mBank S.A.		331 644	495 645	293 295	705 878
- Non-controlling interests		(31)	(45)	(14)	(23)
<b>Net profit attributable to Owners of mBank S.A.</b>		<b>331 644</b>	<b>495 645</b>	<b>293 295</b>	<b>705 878</b>
<b>Weighted average number of ordinary shares</b>	<b>15</b>	<b>42 336 982</b>	<b>42 336 982</b>	<b>42 312 122</b>	<b>42 312 122</b>
<b>Earnings per share (in PLN)</b>	<b>15</b>	<b>7.83</b>	<b>11.71</b>	<b>6.93</b>	<b>16.68</b>
<b>Weighted average number of ordinary shares for diluted earnings</b>	<b>15</b>	<b>42 366 331</b>	<b>42 366 331</b>	<b>42 338 828</b>	<b>42 338 828</b>
<b>Diluted earnings per share (in PLN)</b>	<b>15</b>	<b>7.83</b>	<b>11.70</b>	<b>6.93</b>	<b>16.67</b>

**Consolidated statement of comprehensive income**

	Period from 01.04.2019 to 30.06.2019	Period from 01.01.2019 to 30.06.2019	Period from 01.04.2018 to 30.06.2018 - restated	Period from 01.01.2018 to 30.06.2018 - restated
<b>Net profit</b>	<b>331 613</b>	<b>495 600</b>	<b>293 281</b>	<b>705 855</b>
<b>Other comprehensive income net of tax, including:</b>	<b>34 169</b>	<b>(35 350)</b>	<b>(44 753)</b>	<b>27 341</b>
<b>Items that may be reclassified subsequently to the income statement</b>				
Exchange differences on translation of foreign operations (net)	82	53	40	102
Cash flows hedges (net)	12 840	37 663	(7 218)	20 236
Debt instruments at fair value through other comprehensive income (net)	21 247	(73 064)	(37 575)	7 003
<b>Items that will not be reclassified to the income statement</b>	-	-	-	-
Actuarial gains and losses relating to post-employment benefits (net)	-	(2)	-	-
<b>Total comprehensive income (net)</b>	<b>365 782</b>	<b>460 250</b>	<b>248 528</b>	<b>733 196</b>
<b>Total comprehensive income (net), attributable to:</b>	-	-	-	-
- Owners of mBank S.A.	365 813	460 295	248 542	733 219
- Non-controlling interests	(31)	(45)	(14)	(23)

**Consolidated statement of financial position**

<b>ASSETS</b>	<b>Note</b>	<b>30.06.2019</b>	<b>31.12.2018</b>
Cash and balances with the Central Bank		6 689 767	9 199 264
Financial assets held for trading and derivatives held for hedges	16	3 713 128	2 104 302
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	2 522 227	2 836 060
<i>Equity instruments</i>	17	85 295	72 775
<i>Debt securities</i>	17	75 920	58 130
<i>Loans and advances to customers</i>	17	2 361 012	2 705 155
Financial assets at fair value through other comprehensive income	18	24 556 879	24 338 284
Financial assets at amortised cost, including:	19	110 672 497	103 564 317
<i>Debt securities</i>	19	9 575 732	9 000 539
<i>Loans and advances to banks</i>	19	3 079 814	2 546 346
<i>Loans and advances to customers</i>	19	98 016 951	92 017 432
Fair value changes of the hedged items in portfolio hedge of interest rate risk		135	-
Intangible assets	20	822 131	776 175
Tangible assets	21	1 304 153	785 026
Current income tax assets		3 937	9 336
Deferred income tax assets	25	920 600	959 076
Other assets		1 227 759	1 178 279
<b>Total assets</b>		<b>152 433 213</b>	<b>145 750 119</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Financial liabilities held for trading and derivatives held for hedges	22	1 082 915	981 117
Financial liabilities measured at amortised cost, including:		132 357 569	125 611 195
<i>Amounts due to banks</i>	23	2 974 908	3 078 387
<i>Amounts due to customers</i>	23	110 341 075	102 009 062
<i>Debt securities issued</i>		16 563 922	18 049 583
<i>Subordinated liabilities</i>		2 477 664	2 474 163
Provisions	24	344 278	258 283
Current income tax liabilities		22 212	352 962
Deferred income tax liabilities	25	82	83
Other liabilities		2 944 956	3 330 399
<b>Total liabilities</b>		<b>136 752 012</b>	<b>130 534 039</b>
<b>Equity</b>			
<b>Equity attributable to Owners of mBank S.A.</b>		<b>15 679 158</b>	<b>15 213 980</b>
<b>Share capital:</b>		<b>3 574 686</b>	<b>3 574 686</b>
Registered share capital		169 348	169 348
Share premium		3 405 338	3 405 338
<b>Retained earnings:</b>		<b>11 924 984</b>	<b>11 424 456</b>
Profit from the previous years		11 429 339	10 108 005
Profit for the current year		495 645	1 316 451
<b>Other components of equity</b>		<b>179 488</b>	<b>214 838</b>
<b>Non-controlling interests</b>		<b>2 043</b>	<b>2 100</b>
<b>Total equity</b>		<b>15 681 201</b>	<b>15 216 080</b>
<b>Total liabilities and equity</b>		<b>152 433 213</b>	<b>145 750 119</b>
<b>Total capital ratio</b>		<b>19.66</b>	<b>20.69</b>
<b>Common Equity Tier 1 capital ratio</b>		<b>16.68</b>	<b>17.47</b>
<b>Book value</b>		<b>15 679 158</b>	<b>15 213 980</b>
<b>Number of shares</b>		<b>42 336 982</b>	<b>42 336 982</b>
<b>Book value per share (in PLN)</b>		<b>370.34</b>	<b>359.35</b>

**Consolidated statement of changes in equity**

Changes in equity from 1 January to 30 June 2019

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
<b>Equity as at 1 January 2019</b>	<b>169 348</b>	<b>3 405 338</b>	<b>9 826 282</b>	<b>93 448</b>	<b>1 153 753</b>	<b>350 973</b>	-	<b>(5 467)</b>	<b>145 978</b>	<b>83 643</b>	<b>(9 316)</b>	<b>15 213 980</b>	<b>2 100</b>	<b>15 216 080</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>495 645</b>	<b>53</b>	<b>(73 064)</b>	<b>37 663</b>	<b>(2)</b>	<b>460 295</b>	<b>(45)</b>	<b>460 250</b>
Other increase or decrease in equity	-	-	-	-	-	(22)	-	-	-	-	-	(22)	(12)	(34)
<b>Stock option program for employees</b>	-	-	-	<b>4 905</b>	-	-	-	-	-	-	-	<b>4 905</b>	-	<b>4 905</b>
- value of services provided by the employees	-	-	-	4 905	-	-	-	-	-	-	-	4 905	-	4 905
<b>Equity as at 30 June 2019</b>	<b>169 348</b>	<b>3 405 338</b>	<b>9 826 282</b>	<b>98 353</b>	<b>1 153 753</b>	<b>350 951</b>	<b>495 645</b>	<b>(5 414)</b>	<b>72 914</b>	<b>121 306</b>	<b>(9 318)</b>	<b>15 679 158</b>	<b>2 043</b>	<b>15 681 201</b>

Changes in equity from 1 January to 31 December 2018

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
<b>Equity as at 1 January 2018</b>	<b>169 248</b>	<b>3 394 928</b>	<b>7 727 317</b>	<b>93 634</b>	<b>1 153 753</b>	<b>1 599 590</b>	-	<b>(5 527)</b>	<b>168 393</b>	<b>(5 198)</b>	<b>(6 768)</b>	<b>14 289 370</b>	<b>2 186</b>	<b>14 291 556</b>
Effects of IFRS 9 implementation	-	-	-	-	-	(248 158)	-	-	(45 428)	-	-	(293 586)	-	(293 586)
<b>Restated equity as at 1 January 2018</b>	<b>169 248</b>	<b>3 394 928</b>	<b>7 727 317</b>	<b>93 634</b>	<b>1 153 753</b>	<b>1 351 432</b>	-	<b>(5 527)</b>	<b>122 965</b>	<b>(5 198)</b>	<b>(6 768)</b>	<b>13 995 784</b>	<b>2 186</b>	<b>13 997 970</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>1 316 451</b>	<b>60</b>	<b>23 013</b>	<b>88 841</b>	<b>(2 548)</b>	<b>1 425 817</b>	<b>(82)</b>	<b>1 425 735</b>
Issuance of ordinary shares	100	-	-	-	-	-	-	-	-	-	-	100	-	100
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	(217 907)	-	(217 907)
Transfer to supplementary capital	-	-	2 098 965	-	-	(2 098 965)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	(38)	-	-	-	-	-	(38)	(4)	(42)
<b>Stock option program for employees</b>	-	<b>10 410</b>	-	<b>(186)</b>	-	-	-	-	-	-	-	<b>10 224</b>	-	<b>10 224</b>
- value of services provided by the employees	-	-	-	10 224	-	-	-	-	-	-	-	10 224	-	10 224
- settlement of exercised options	-	10 410	-	(10 410)	-	-	-	-	-	-	-	-	-	-
<b>Equity as at 31 December 2018</b>	<b>169 348</b>	<b>3 405 338</b>	<b>9 826 282</b>	<b>93 448</b>	<b>1 153 753</b>	<b>(965 478)</b>	<b>1 316 451</b>	<b>(5 467)</b>	<b>145 978</b>	<b>83 643</b>	<b>(9 316)</b>	<b>15 213 980</b>	<b>2 100</b>	<b>15 216 080</b>



## Changes in equity from 1 January to 30 June 2018 - restated

	Share capital		Retained earnings					Other components of equity				Equity attributable to Owners of mBank S.A., total	Non-controlling interests	Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year attributable to Owners of mBank S.A.	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Actuarial gains and losses relating to post-employment benefits			
<b>Equity as at 1 January 2018</b>	<b>169 248</b>	<b>3 394 928</b>	<b>7 727 317</b>	<b>93 634</b>	<b>1 153 753</b>	<b>1 599 590</b>	-	<b>(5 527)</b>	<b>168 393</b>	<b>(5 198)</b>	<b>(6 768)</b>	<b>14 289 370</b>	<b>2 186</b>	<b>14 291 556</b>
Effects of IFRS 9 implementation	-	-	-	-	-	(248 158)	-	-	(45 428)	-	-	(293 586)	-	(293 586)
<b>Restated equity as at 1 January 2018</b>	<b>169 248</b>	<b>3 394 928</b>	<b>7 727 317</b>	<b>93 634</b>	<b>1 153 753</b>	<b>1 351 432</b>	-	<b>(5 527)</b>	<b>122 965</b>	<b>(5 198)</b>	<b>(6 768)</b>	<b>13 995 784</b>	<b>2 186</b>	<b>13 997 970</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>705 878</b>	<b>102</b>	<b>7 003</b>	<b>20 236</b>	-	<b>733 219</b>	<b>(23)</b>	<b>733 196</b>
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	(217 907)	-	(217 907)
Transfer to supplementary capital	-	-	2 098 965	-	-	(2 098 965)	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	(11)	-	-	-	-	-	(11)	3	(8)
<b>Stock option program for employees</b>	-	-	-	<b>7 363</b>	-	-	-	-	-	-	-	<b>7 363</b>	-	<b>7 363</b>
- value of services provided by the employees	-	-	-	7 363	-	-	-	-	-	-	-	7 363	-	7 363
<b>Equity as at 30 June 2018</b>	<b>169 248</b>	<b>3 394 928</b>	<b>9 826 282</b>	<b>100 997</b>	<b>1 153 753</b>	<b>(965 451)</b>	<b>705 878</b>	<b>(5 425)</b>	<b>129 968</b>	<b>15 038</b>	<b>(6 768)</b>	<b>14 518 448</b>	<b>2 166</b>	<b>14 520 614</b>

**Consolidated statement of cash flows**

	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 - restated
<b>Profit before income tax</b>	<b>709 234</b>	<b>953 284</b>
<b>Adjustments:</b>	<b>2 576 682</b>	<b>8 544</b>
Income taxes paid	(498 920)	(357 115)
Amortisation, including amortisation of fixed assets provided under operating lease	202 135	146 717
Foreign exchange (gains) losses related to financing activities	(79 579)	419 068
(Gains) losses on investing activities	(20 936)	(254 393)
Dividends received	(3 651)	(3 103)
Interest income (income statement)	(2 464 435)	(2 156 204)
Interest expense (income statement)	536 402	485 429
Interest received	2 569 844	2 024 852
Interest paid	(563 496)	(441 315)
Changes in loans and advances to banks	245 054	(349 289)
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(22 293)	114 867
Changes in loans and advances to customers	(5 665 408)	(5 439 709)
Changes in financial assets at fair value through other comprehensive income	(452 172)	(441 187)
Changes in securities at amortised cost	(575 193)	(892 857)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(30 310)	(30 733)
Changes in other assets	(39 696)	(12 587)
Changes in amounts due to other banks	442 899	419 180
Changes in amounts due to customers	8 988 298	6 635 594
Changes in debt securities in issue	301 165	352 238
Changes in provisions	85 995	27 349
Changes in other liabilities	(379 021)	(238 258)
<b>A. Cash flows from operating activities</b>	<b>3 285 916</b>	<b>961 828</b>
Disposal of shares in subsidiaries, net of cash disposed	-	100
Disposal of intangible assets and tangible fixed assets	24 653	19 983
Dividends received	3 651	3 103
Other investing inflows	-	416 540
Acquisition of shares in subsidiaries	(44 692)	-
Purchase of intangible assets and tangible fixed assets	(176 536)	(219 357)
<b>B. Cash flows from investing activities</b>	<b>(192 924)</b>	<b>220 369</b>
Proceeds from loans and advances from other banks	-	187 200
Issue of debt securities	565 000	2 230 390
Repayments of loans and advances from other banks	(560 027)	(1 423 990)
Repayments of other loans and advances	(1 058 369)	-
Redemption of debt securities	(2 310 650)	(231 148)
Payments of financial lease liabilities	n/a	(254)
Payments of lease liabilities	(58 294)	n/a
Dividends and other payments to shareholders	-	(217 907)
Interest paid from loans and advances received from other banks and from subordinated liabilities	(45 322)	(52 061)
<b>C. Cash flows from financing activities</b>	<b>(3 467 662)</b>	<b>492 230</b>
<b>Net increase / decrease in cash and cash equivalents (A+B+C)</b>	<b>(374 670)</b>	<b>1 674 427</b>
Effects of exchange rate changes on cash and cash equivalents	17 760	67 809
Cash and cash equivalents at the beginning of the reporting period	10 630 969	9 824 260
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>10 274 059</b>	<b>11 566 496</b>

## Explanatory notes to the consolidated financial statements

### 1. Information regarding the Group of mBank S.A.

The Group of mBank S.A. ("Group", "mBank Group") consists of entities under the control of mBank S.A. ("Bank", "mBank") of the following nature:

- **strategic:** shares and equity interests in companies supporting particular business segment of mBank S.A. (corporates and financial markets segment, retail banking segment and other) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- **other:** shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

The parent entity of the Group is mBank S.A., which is a joint stock company registered in Poland and a part of Commerzbank AG Group.

The head office of the Bank is located at 18 Senatorska St., Warsaw.

The shares of the Bank are listed on the Warsaw Stock Exchange.

As at 30 June 2019, mBank S.A. Group covered by the condensed consolidated financial statements comprised the following companies:

#### **mBank S.A., the parent entity**

mBank S.A. was established under the name of Bank Rozwoju Eksportu SA by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16<sup>th</sup> Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9<sup>th</sup> Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

On 22 November 2013, the District Court for the Capital City of Warsaw, 12<sup>th</sup> Commercial Division of the National Court Register, registered the amendments to the Bank's By-laws arising from Resolutions

N°26 and Resolutions N°27 of the 26<sup>th</sup> Annual General Meeting of mBank S.A., which was held on 11 April 2013. With the registration of changes in By-laws, the name of the Bank has changed from the current BRE Bank Spółka Akcyjna on mBank Spółka Akcyjna (abbreviated mBank S.A.).

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other monetary intermediation" under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as "Banks" sector as part of the "Finance" macro-sector.

According to the By-laws of the Bank, the scope of its business consists of providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its By-laws. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activities as well as brokerage activities.

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

The Bank may open and maintain accounts in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

The Bank conducts retail banking business in Czech Republic and Slovakia through its foreign mBank branches in these countries.

As at 30 June 2019 the headcount of mBank S.A. amounted to 5 993 FTEs (Full Time Equivalents) and of the Group to 6 677 FTEs (30 June 2018: Bank 5 682 FTEs, Group 6 358 FTEs).

As at 30 June 2019 the employment in mBank S.A. was 6 987 persons and in the Group 9 154 persons (30 June 2018: Bank 6 647 persons, Group 8 482 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 4.

**Corporates and Financial Markets Segment, including:****Corporate and Investment Banking**

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity)
- mFactoring S.A., subsidiary
- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- Asekum Sp. z o.o., subsidiary (the corporate segment of the company's activity)
- LeaseLink Sp. z o.o., - subsidiary (the corporate segment of the company's activity)
- Garbary Sp. z o.o., subsidiary
- Tele-Tech Investment Sp. z o.o., subsidiary

**Financial Markets**

- mFinance France S.A., subsidiary
- mBank Hipoteczny S.A., subsidiary (with regard to activities concerning funding)
- mLeasing Sp. z o.o., subsidiary (with regard to activities concerning funding)

**Retail Banking Segment (including Private Banking)**

- mFinanse S.A. (previously Aspiro S.A.), subsidiary
- mBank Hipoteczny S.A., subsidiary (the retail segment of the company's activity)
- mLeasing Sp. z o.o., subsidiary (the retail segment of the company's activity)
- Asekum Sp. z o.o., subsidiary (the retail segment of the company's activity)
- LeaseLink Sp. z o.o., - subsidiary (the retail segment of the company's activity)

**Other**

- mCentrum Operacji Sp. z o.o. w likwidacji, subsidiary
- BDH Development Sp. z o.o., subsidiary
- Future Tech Fundusz Inwestycyjny Zamknięty, subsidiary

**Other information concerning companies of the Group**

In March 2019, mLeasing acquired 100% shares in LeaseLink Sp. z o.o., a company specializing in leasing payment services. Detailed information on the acquired shares is presented in item 9 "Selected explanatory information".

Information concerning the business conducted by the Group's entities is presented under Note 4 "Business Segments" of these condensed consolidated financial statements.

The condensed consolidated financial statements of the Bank cover the following companies:

Company	30.06.2019		31.12.2018		30.06.2018	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFactoring S.A.	100%	full	100%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o. w likwidacji	100%	full	100%	full	100%	full
BDH Development Sp. z o.o.	100%	full	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	-	-
LeaseLink Sp. z o.o.	100%	full	-	-	-	-

Beginning from March 2019, the Group started to consolidate the company LeaseLink Sp. z o.o.

Beginning from October 2018, the Group started to consolidate the company Asekum Sp. z o.o.

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 31 July 2019.

## **2. Description of relevant accounting policies**

### **Accounting basis**

The Condensed Consolidated Financial Statements of mBank S.A. Group have been prepared for the 6-month period ended 30 June 2019. Comparative data include the period from 1 January 2018 to 30 June 2018 for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity, additionally for the period from 1 January to 31 December 2018 for the condensed consolidated statement of changes in equity, and in the case of the condensed consolidated statement of financial position, data as at 31 December 2018.

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

The data for the year 2018 presented in these mBank S.A. Group condensed consolidated financial statements was audited by the auditor.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 3.

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

These condensed consolidated financial statements were prepared under the assumption that all the entities of the Group, except for mCentrum Operacji Sp. z o.o. w likwidacji which has been put into liquidation, continues as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered.

Detailed accounting principles applied to the preparation of these condensed consolidated financial statements are presented in Note 2 to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on February 27, 2019. These principles were applied consistently over all presented periods, except for the accounting principles applied in connection with the implementation of IFRS 16 as of 1 January 2019, which is described in more detail below.

In addition, from the second quarter of 2019, with respect to interim financial statements, the Group applies the principle of accounting for income tax expense on the basis of the best estimate of the weighted average annual income tax rate expected by the Group in the full financial year.

### **New standards, interpretations and amendments to published standards**

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2019.

**IFRS 16 Leases**

The Standard was issued by International Accounting Standards Board (IASB) on January 13, 2016 and it has been accepted by the European Union. IFRS 16 applies for annual reporting periods beginning in or after 1 January 2019. The incoming standard supersedes regulations effectual until December 31, 2018: IAS 17 Leasing, IFRIC Interpretation 4 and SIC Interpretations 15 and 27.

The new standard introduced a single lessee accounting model, convergent with IAS 17. As per IFRS 16, the contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Transfer of the right of use occurs when it concerns an identified asset, for which the lessee possesses the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

If lease definition is executed, a company recognizes the right to use of the leased asset and a financial liability representing its obligation to make future lease payments, excluding short-term lease contracts lasting no longer than 12 months and lease contracts concerning immaterial lease assets.

The expenses related to the use of leased assets, previously presented as overhead costs, currently are classified as depreciation and interest expenses.

Right-of-use assets are depreciated on a straight-line basis, while liabilities under lease agreements are settled using the effective interest rate.

**Impact of IFRS 16 on financial statements**

In the first quarter of 2019, the Group completed the implementation of IFRS 16 (project), which was planned in three stages:

- stage I - analysis of all contracts for purchase of services, regardless of the current qualification, aimed at selecting those contracts on the basis of which the Group uses assets belonging to suppliers,
- stage II – assessment of contracts identified in the first stage in terms of meeting the criteria for considering leasing in accordance with IFRS 16,
- stage III - implementation of IFRS 16 based on the developed concept.

The object of the analyzes were consisted of all financial leasing contracts, operating lease, rental agreements, as well as the right of perpetual usufruct of land. In addition, the transactions of acquired services (costs of external services within operating activities) were analyzed in terms of the use of an identified asset.

As part of the project, the Group made relevant changes to the accounting policy and operational procedures. Methodologies for the correct identification of contracts that are leasing and the collection of data necessary for the correct accounting treatment of these transactions have been developed and implemented. In addition, the Group has implemented relevant changes in the IT systems of the Group companies, so that they are adapted to collect and process relevant data.

In the consolidated financial statements lease agreements have been shown, in which the Group acts as a lessor for third parties. The previous accounting treatment by the lessor has been largely unchanged by IFRS 16. This means that the lessor continues to classify leases as operating leases or finance leases and their accounting treatment as two separate types of leasing. Nevertheless, additional disclosures are required from 2019.

The Group decided to implement the standard on 1 January 2019. In accordance with the transitional provisions included in IFRS 16, the new principles were adopted retrospectively with reference to the cumulative effect of the initial application of the new standard to equity as at 1 January 2019. Therefore, comparative data for the financial year 2018 have not been restated (modified retrospective approach).

Individual adjustments resulting from the implementation of IFRS 16 are described below.

Description of adjustments

## (a) Recognition of leasing liabilities

After the adoption of IFRS 16, the Group recognizes lease liabilities in connection with a lease that was previously classified as an operating lease in accordance with the principles of IAS 17 Leasing. The liabilities result primarily from lease contracts for real estate, the right of perpetual usufruct of land and car leasing. These liabilities have been measured at the present value of lease payments remaining to be paid at the date of application of IFRS 16, discounted using the leasing interest rate as at 1 January 2019, calculated on the basis of the Bank's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term:

- fixed payments less any lease incentives receivable,
- variable lease payments that depend on market index or a rate
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

In order to calculate discount rates for IFRS 16, the Group assumed that the discount rate should reflect the cost of financing that would be incurred to purchase the leased asset.

As at 1 January 2019, the discount rate calculated by the Group amounted to:

- for contracts in PLN: 1.95%
- for contracts in EUR: 0.02%
- for contracts in USD: 2.93%
- for contracts in CZK: 2.19%

## (b) Recognition of right-of-use assets

Right-of-use assets are measured at cost and presented in the statement of financial position together with the assets owned by the Group along with the breakdown of additional information in the explanatory notes.

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- initial direct costs incurred by the lessee in connection with the conclusion of the leasing contract,
- an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset or carry out renovations.

## (c) Application of estimates

The implementation of IFRS 16 required making certain estimates and calculations that have an impact on the valuation of lease liabilities and right-of-use assets. They include, among others:

- determination of the duration of contracts (for contracts with an indefinite period or with the possibility of extending the Group applied the reasonably certain period of lease, due to significant economic factors discouraging the Group from terminating the contract)
- determining the interest rate used to discount future cash flows,
- determination of the depreciation rate.

## (d) The use of practical simplifications

When applying IFRS 16 for the first time, the Group applied the following practical simplifications allowed by the standard:

- applying one discount rate to the portfolio of leasing agreements with similar features,
- contracts for operating leases with the remaining lease period of less than 12 months as at 1 January 2019 were treated as short-term leasing,
- for operating lease contracts for which the underlying asset is of low value (less than PLN 20,000), the Group did not recognize any lease liabilities or related right-of-use assets. Lease payments on this account are recognized as expenses during the leasing period.
- the exclusion of initial direct costs in the measurement of right-of-use assets on the date of initial application, and
- using the time perspective (using the knowledge gained after the fact) in determining the leasing period, if the contract includes options for extending or terminating the lease agreement.

Impact on the consolidated statement of financial position of mBank Group

The impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and related right-of-use is presented in the table below:

	31 December 2018 (without IFRS16 effect)	IFRS 16 effect	1 January 2019 (with IFRS16 effect)
<b>ASSETS</b>			
Tangible fixed assets	785 026	562 375	1 347 401
including Right-of-use assets	-	562 375	562 375
<b>Liabilities and equity</b>			
Financial liabilities at amortised cost	125 611 195	563 360	126 174 555
including Lease liabilities	-	563 360	563 360

The reconciliation of the difference between the amounts of future lease payments due to irrevocable operating leases as at the end of 2018 and the lease liabilities recognized as at the date of first application of IFRS 16 are as follows:

	01.01.2019
Commitments due to operating lease as at 31 December 2018 (without discount)	603 248
The impact of the discount using the Group's incremental borrowing rate	(39 888)
<b>Lease liabilities as at 1 January 2019</b>	<b>563 360</b>
Other adjustments to right-of-use assets	(985)
<b>Right-of-use assets as at 1 January 2019</b>	<b>562 375</b>

Impact on the income statement

Since 2019 in the Group's income statement, a change in the classification of costs will appear (rental costs were replaced by depreciation and interest expense) and the time of recognition (recognition of leasing costs will be faster due to recognition of interest cost using the effective interest rate method) which was previously not applied to contracts other than those classified as finance leasing in accordance with IAS 17).

Impact on equity

The implementation of IFRS 16 did not affect retained earnings and equity of the Group as at 1 January 2019.



### Impact on capital ratios

Due to the inclusion of lease agreements in the Group's balance sheet as at 1 January 2019, the total amount of risk exposures increased, and thus the total capital ratio of the Group decreased by ca. 15 basis points.

### Published Standards and Interpretations which have been issued but are not yet binding or have not been adopted early

These financial statements do not include standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In relation to standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Group did not use the possibility of early application.

### **Standards and interpretations not yet approved by the European Union:**

- IFRS 17, *Insurance contracts*, published by the International Accounting Standards Board ("IASB") on 18 May 2017, binding for annual periods starting on or after 1 January 2021.

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

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

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) effective for financial years beginning on or after 1 January 2020.

Amendments to References to the Conceptual Framework in IFRS Standards is a document that sets out the objective of the financial reporting, the qualitative characteristics of useful financial information, a description of the reporting entity, definitions of an asset, a liability, equity, income and expenses, criteria of recognition assets and liabilities in financial statements and guidance on when to derecognize them, measurement bases and guidance on when to use them, as well as concepts and guidance on presentation and disclosure.

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

- Amendments to IFRS 3, *Definition of a Business*, published by the International Accounting Standards Board on 22 October 2018, binding for annual periods starting on or after 1 January 2020.

Amendments to IFRS 3 clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The main amendments are to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The assessment of whether the market participants are capable of replacing any missing inputs or processes and continuing to produce outputs has been removed. Moreover, guidance and illustrative examples have been added to help entities assess whether a substantive process has been acquired, and the definitions of a business and of outputs have been narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. An optional concentration test has been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

- Amendments to IAS 1 and IAS 8, Definition of Material, published by the International Accounting Standards Board on 31 October 2018, binding for annual periods starting on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 clarify the definition of material and its application by aligning the wording of the definition of material across IFRS Standards and other publications and making minor improvements to that wording, as well as including some of the supporting requirements in IAS 1 Presentation of Financial Statements in the definition to give them more prominence. The explanation accompanying the definition of material was clarified. The amendments have the objective to help entities make better materiality judgements without substantively changing existing requirements.

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

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

### Comparative data

In Q4 2018, the Group adjusted the disclosure concerning the impact of IFRS 9 implementation as at 1 January 2018, by introducing the following changes, which required adjustment of prior period errors and restatement of comparative data for the first half of 2018 included in these condensed consolidated financial statements.

- a) classification of loans and advances granted to customers whose interest structure was based on the quadrupled lombard rate, to fair value through profit or loss category

The portfolio of loans and advances granted to customers in the carrying amount of PLN 452 155 thousand as at 30 June 2018, composed mainly of credit cards whose interest structure was based on the quadrupled lombard rate, was recorded in "Non-trading financial assets measured at fair value through profit or loss." Before, the portfolio was recorded in "Financial assets measured at amortised cost". In view of the emerging market practice, the bank ultimately decided to classify the portfolio as measured at fair value through profit or loss. The difference between the fair value of this portfolio and the value at amortized cost was immaterial, therefore the Group did not adjust the value of this portfolio as at 30 June 2018.

Due to the change in the classification of this portfolio, interest income on these loans for the first half of 2018 in the amount of PLN 18 524 thousand was transferred from the item "Interest income accounted for using the effective interest method - Interest income on financial assets at amortized cost - Loans and advances" to item "Income similar to interest on financial assets at fair value through profit or loss - Non-trading financial assets mandatorily measured at fair value through profit or loss - Loans and advances".

Impairment of these loans in the amount of PLN 4 830 thousand, included in the income statement for the first half of 2018 in the item "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortized cost - Loans and advances" have been transferred to "Gains and losses on financial assets not held for trading that are compulsorily measured at fair value through profit or loss - Loans and advances".

- b) reclassification of VISA's preference shares

The preferred shares in VISA with a fair value of PLN 58 119 thousand as at 30 June 2018 were moved from "Financial assets measured at fair value through other comprehensive income" to "Non-trading financial assets measured at fair value through profit or loss" as, according to IAS 32, they do not match the definition of an equity instrument. Due to its characteristics, the instrument fails the SPPI test. The adjustment of the comparative data resulted in the transfer of the valuation of these instruments in the net amount of PLN 19 464 thousand being moved from "Other components of equity" to the "Profit from the previous years" in the amount of PLN 12 021 thousand and the current result to the item "Gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss - Debt securities" in the amount of PLN 9 178 thousand and "Income tax" in the amount minus PLN 1 735 thousand.

In addition, in the financial statements for 2018, in connection with the implementation of IFRS 15 "Revenue from contracts with customers", the Group made the changes to income and expenses presentation described below, which required adjustment of prior period errors and restatement of comparative data for the first half of 2018 included in these condensed consolidated financial statements.

a) netting of part of fees and commissions income and expenses from card organizations

In accordance with the requirements of IFRS 15, the Group has netted fees and commissions income from card organizations for the period from 1 January to 30 June 2018 in the amount of PLN 17 460 thousand, which constituted the reimbursement of costs incurred by the Bank, with fees and commissions expenses. The change did not affect the result on fees and commissions.

b) netting revenues and costs due to fees and commissions related to car fleet management

In accordance with the requirements of IFRS 15, the Group decreased by PLN 5 875 thousand fees and commissions expenses for the period from 1 January to 30 June 2018, i.e. by the amount of fees and commissions income related to the leasing car fleet management, which were reimbursed to the Group. The change did not affect the result on fees and commissions.

The impact of the changes introduced on the comparative data presented in these financial statements is presented in the tables below.

Restatements in the consolidated income statement of mBank S.A. Group.

	Period from 01.01.2018 to 30.06.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.06.2018 after restatement
Interest income, including:	2 156 204	-	2 156 204
<i>Interest income accounted for using the effective interest method</i>	1 847 935	(18 524)	1 829 411
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	308 269	18 524	326 793
Interest expenses	(485 429)	-	(485 429)
<b>Net interest income</b>	<b>1 670 775</b>	<b>-</b>	<b>1 670 775</b>
Fee and commission income	852 550	(23 335)	829 215
Fee and commission expenses	(334 697)	23 335	(311 362)
<b>Net fee and commission income</b>	<b>517 853</b>	<b>-</b>	<b>517 853</b>
Dividend income	3 103	-	3 103
Net trading income, including:	169 191	-	169 191
<i>Foreign exchange result</i>	151 047	-	151 047
<i>Gains or losses on financial assets and liabilities held for trading</i>	23 853	-	23 853
<i>Gains or losses from hedge accounting</i>	(5 709)	-	(5 709)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(60 408)	4 348	(56 060)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	6 020	-	6 020
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>	6 042	-	6 042
<i>Gains less losses from investments in subsidiaries and associates</i>	(22)	-	(22)
Other operating income	321 819	-	321 819
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(278 431)	4 830	(273 601)
Overhead costs	(985 152)	-	(985 152)
Depreciation	(124 495)	-	(124 495)
Other operating expenses	(100 007)	-	(100 007)
<b>Operating profit</b>	<b>1 140 268</b>	<b>9 178</b>	<b>1 149 446</b>
Tax on the Bank's balance sheet items	(196 750)	-	(196 750)
Share in profits (losses) of entities under the equity method	588	-	588
<b>Profit before income tax</b>	<b>944 106</b>	<b>9 178</b>	<b>953 284</b>
Income tax expense	(245 694)	(1 735)	(247 429)
<b>Net profit</b>	<b>698 412</b>	<b>7 443</b>	<b>705 855</b>
<b>Net profit attributable to:</b>			
- Owners of mBank S.A.	698 435	7 443	705 878
- Non-controlling interests	(23)	-	(23)
<b>Earnings per share (in PLN)</b>	<b>16.51</b>	0.17	<b>16.68</b>
<b>Diluted earnings per share (in PLN)</b>	<b>16.50</b>	0.17	<b>16.67</b>

## Restatements in the consolidated statement of comprehensive income of mBank S.A. Group

	Period from 01.01.2018 to 30.06.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.06.2018 after restatement
<b>Net profit</b>	<b>698 412</b>	<b>7 443</b>	<b>705 855</b>
<b>Other comprehensive income net of tax, including:</b>	<b>34 784</b>	<b>(7 443)</b>	<b>27 341</b>
<b>Items that may be reclassified subsequently to the income statement</b>			
Exchange differences on translation of foreign operations (net)	102	-	102
Cash flows hedges (net)	20 236	-	20 236
Change in valuation of debt instruments at fair value through other comprehensive income (net)	5 268	1 735	7 003
<b>Items that will not be reclassified to the income statement</b>			
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	9 178	(9 178)	-
<b>Total comprehensive income (net)</b>	<b>733 196</b>	<b>-</b>	<b>733 196</b>
<b>Total comprehensive income (net), attributable to:</b>			
- Owners of mBank S.A.	733 219	-	733 219
- Non-controlling interests	(23)	-	(23)

## Restatements in the consolidated statement of financial position of mBank S.A. Group

ASSETS	30.06.2018 before restatement	Adjustments	30.06.2018 after restatement
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 783 950	510 274	3 294 224
<i>Debt securities</i>	-	58 119	58 119
<i>Loans and advances to customers</i>	2 720 822	452 155	3 172 977
Financial assets at fair value through other comprehensive income	24 010 418	(58 119)	23 952 299
Financial assets at amortised cost, including:	99 982 445	(452 155)	99 530 290
<i>Loans and advances to customers</i>	86 880 588	(452 155)	86 428 433
Other items of assets	13 240 980	-	13 240 980
<b>Total assets</b>	<b>140 017 793</b>	<b>-</b>	<b>140 017 793</b>
<b>Equity</b>			
<b>Equity attributable to Owners of mBank S.A.</b>	<b>14 518 448</b>	<b>-</b>	<b>14 518 448</b>
<b>Share capital</b>	<b>3 564 176</b>	<b>-</b>	<b>3 564 176</b>
<b>Retained earnings</b>	<b>10 801 995</b>	<b>19 464</b>	<b>10 821 459</b>
Profit from the previous years	10 103 560	12 021	10 115 581
Profit for the current year	698 435	7 443	705 878
<b>Other components of equity</b>	<b>152 277</b>	<b>(19 464)</b>	<b>132 813</b>
<b>Non-controlling interests</b>	<b>2 166</b>	<b>-</b>	<b>2 166</b>
<b>Total equity</b>	<b>14 520 614</b>	<b>-</b>	<b>14 520 614</b>
<b>Total liabilities</b>	<b>125 497 179</b>	<b>-</b>	<b>125 497 179</b>
<b>Total liabilities and equity</b>	<b>140 017 793</b>	<b>-</b>	<b>140 017 793</b>

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

Period	from 01.01.2018 to 30.06.2018 before restatement	Adjustments	from 01.01.2018 to 30.06.2018 after restatement
<b>Profit before income tax</b>	<b>944 106</b>	<b>9 178</b>	<b>953 284</b>
<b>Adjustments:</b>	<b>17 722</b>	<b>(9 178)</b>	<b>8 544</b>
Income taxes paid	(357 115)	-	(357 115)
Amortisation, including amortisation of fixed assets provided under operating lease	146 717	-	146 717
Foreign exchange (gains) losses related to financing activities	419 068	-	419 068
(Gains) losses on investing activities	(245 215)	(9 178)	(254 393)
Dividends received	(3 103)	-	(3 103)
Interest income (income statement)	(2 156 204)	-	(2 156 204)
Interest expense (income statement)	485 429	-	485 429
Interest received	2 024 852	-	2 024 852
Interest paid	(441 315)	-	(441 315)
Changes in loans and advances to banks	(349 289)	-	(349 289)
Changes in financial assets and liabilities held for trading and derivatives held for hedges	114 867	-	114 867
Changes in loans and advances to customers	(5 439 709)	-	(5 439 709)
Changes in financial assets at fair value through other comprehensive income	(450 365)	9 178	(441 187)
Changes in securities at amortised cost	(892 857)	-	(892 857)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(21 555)	(9 178)	(30 733)
Changes in other assets	(12 587)	-	(12 587)
Changes in amounts due to other banks	419 180	-	419 180
Changes in amounts due to customers	6 635 594	-	6 635 594
Changes in debt securities in issue	352 238	-	352 238
Changes in provisions	27 349	-	27 349
Changes in other liabilities	(238 258)	-	(238 258)
<b>A. Cash flows from operating activities</b>	<b>961 828</b>	<b>-</b>	<b>961 828</b>
<b>B. Cash flows from investing activities</b>	<b>220 369</b>	<b>-</b>	<b>220 369</b>
<b>C. Cash flows from financing activities</b>	<b>492 230</b>	<b>-</b>	<b>492 230</b>
<b>Net increase / decrease in cash and cash equivalents (A+B+C)</b>	<b>1 674 427</b>	<b>-</b>	<b>1 674 427</b>
Effects of exchange rate changes on cash and cash equivalents	67 809	-	67 809
Cash and cash equivalents at the beginning of the reporting period	9 824 260	-	9 824 260
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>11 566 496</b>	<b>-</b>	<b>11 566 496</b>

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

Additionally, from half year 2019, the Group changed the rules for presenting balance sheet comparative data in interim financial statements to align the presentation with the prevailing market practice. As comparative data of balance sheet items, the Group only shows data at the end of the previous financial year, but does not show data at the end of the same period of the previous year.

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

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

#### Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 59.0 million or increase by PLN 69.2 million as at 30 June 2019, respectively (as at 31 December 2018: PLN 51.3 million and PLN 64.2 million, respectively). This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral. The rules of determining write-

downs and provisions for impairment of credit exposures have been described under Note 3.4.6 to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on February 27, 2019.

In the first half of 2019, the Group did not observe the impact of the expected CJEU judgment (described in Point 26 "Proceedings before a court, arbitration body or public administration authority") or Polish courts judgments regarding mortgage and housing loans in CHF on cash flows from this portfolio. The Group was also not in possession of reliable information on future events that would indicate the need to change the assumptions to estimates of expected credit losses in this respect in the half-year financial statements. Therefore, in the first half of 2019, the Group did not make any material changes to the model of expected credit losses for the portfolio of mortgage and housing loans in CHF, which would result from the above issues. The Group will monitor these issues in subsequent periods and will appropriately take into account the potential impact of changes in court rulings on the risk parameters for the portfolio of mortgage and housing loans in CHF.

#### Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.8 to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on February 27, 2019.

#### Deferred tax assets

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

#### Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense in the first half of 2019 was 30.1%.

The Group applies the approach described above for determining income tax in interim financial statements starting from the report for the first half of 2019. If the Group applied this approach from the beginning of the year, the income tax expense in the first quarter of 2019 would have been lower and net profit for the first quarter of 2019 would have been higher by PLN 39 240 thousand, while the income tax expense in the second quarter of 2019 would be higher and the net profit for the second quarter of 2019 would be lower by the same amount.

#### Revenue and expenses from sale of insurance products bundled with loans

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

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

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

#### Liabilities due to post-employment employee benefits

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

#### Leasing classification

The Group as lessor makes judgement classifying lease agreements as finance lease or operating lease based on the economic substance of the transaction basing on professional judgment whether substantially all the risk and rewards incidental to ownership of an asset were transferred or not.

#### **4. Business segments**

Following the adoption of "management approach" of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division, which serves the purpose of both managing and perceiving business within the Group.

The Group conducts its business through different business segments, which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- **The Retail Banking segment**, which divides its customers into mBank customers and Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products, brokerage and leasing services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A. and as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o., LeaseLink Sp. z o.o. and mBank Hipoteczny S.A.
- **The Corporates and Financial Markets segment**, which is divided into two sub-segments:
- **Corporate and Investment Banking sub-segment (business line)**, which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing, factoring and brokerage services. The Corporate and Investment Banking sub-segment includes the results of the following subsidiaries: mFactoring S.A., Garbary Sp. z o.o., Tele-Tech Investment Sp. z o.o. as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o., LeaseLink Sp. z o.o. and mBank Hipoteczny S.A.
- **Financial Markets sub-segment (business line)** consists primarily of treasury, financial markets, and financial institutions operations, manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKI to support the Polish export market. This sub-segment also includes the



results of mFinance France S.A. as well as the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding.

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under "Other". This segment includes the results of mCentrum Operacji Sp. z o.o. w likwidacji, BDH Development Sp. z o.o., Future Tech Fundusz Inwestycyjny Zamknięty.

The principles of segment classification of the Group's activities are described below.

Transactions between the business segments are conducted on regular commercial terms.

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

Assets and liabilities of a business segment comprise operating assets and liabilities, which account for most of the statement of financial position, whereas they do not include such items as taxes or loans.

The separation of the assets and liabilities of a segment, as well as of its income and costs, is done on the basis of internal information prepared at the Bank for the purpose of management accounting. Assets and liabilities for which the units of the given segment are responsible as well as income and costs related to such assets and liabilities are attributed to individual business segments. The financial result of a business segment takes into account all the income and cost items attributable to it.

The business operations of particular companies of the Group are fully attributed to the appropriate business segments (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as activity of foreign subsidiary mFinance France S.A. The activity of the company mFinance France S.A., after the elimination of income and expenses and assets and liabilities related to the issue of bonds under the EMTN programme, is presented in the "Foreign countries" segment. The cost of the EMTN programme as well as the related assets and liabilities are presented in the segment "Poland".

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 June 2019 – data regarding consolidated income statement

	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Net interest income	502 426	113 755	1 309 114	2 738	<b>1 928 033</b>
- sales to external clients	504 217	362 096	1 060 286	1 434	1 928 033
- sales to other segments	(1 791)	(248 341)	248 828	1 304	-
Net fee and commission income	255 995	(5 925)	212 128	(7 540)	<b>454 658</b>
Dividend income	-	-	-	3 651	<b>3 651</b>
Trading income	128 733	14 956	65 501	(2 793)	<b>206 397</b>
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	3 669	-	(46 070)	30 783	<b>(11 618)</b>
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	426	18 778	(15)	(4 471)	<b>14 718</b>
Other operating income	33 957	567	39 438	1 362	<b>75 324</b>
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(127 180)	452	(199 507)	(928)	<b>(327 163)</b>
Overhead costs	(401 946)	(49 168)	(618 094)	(5 516)	<b>(1 074 724)</b>
Amortisation	(50 555)	(5 694)	(122 778)	849	<b>(178 178)</b>
Other operating expenses	(23 539)	(3 279)	(63 626)	(32 593)	<b>(123 037)</b>
<b>Operating profit</b>	<b>321 986</b>	<b>84 442</b>	<b>576 091</b>	<b>(14 458)</b>	<b>968 061</b>
Taxes on Group balance sheet items	(84 192)	(16 900)	(113 604)	(44 131)	<b>(258 827)</b>
<b>Gross profit of the segment</b>	<b>237 794</b>	<b>67 542</b>	<b>462 487</b>	<b>(58 589)</b>	<b>709 234</b>
Income tax					(213 634)
Net profit attributable to Owners of mBank S.A.					495 645
Net profit attributable to non-controlling interests					(45)

Business segment reporting on the activities of mBank S.A. Group - data regarding consolidated statement of financial position

30.06.2019	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
<b>Assets of the segment</b>	44 754 692	45 188 733	60 431 997	2 057 791	<b>152 433 213</b>
<b>Liabilities of the segment</b>	36 318 222	26 821 390	71 244 841	2 367 559	<b>136 752 012</b>
Expenditures incurred on fixed assets and intangible assets	93 864	5 038	77 754	104	176 760

31.12.2018	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
<b>Assets of the segment</b>	42 262 523	45 241 697	56 475 056	1 770 843	<b>145 750 119</b>
<b>Liabilities of the segment</b>	32 620 034	28 783 798	67 336 104	1 794 103	<b>130 534 039</b>
Expenditures incurred on fixed assets and intangible assets	228 759	16 396	270 194	17 001	532 350

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 30 June 2018 – data regarding consolidated income statement

	Corporates & Financial Markets		Retail Banking	Other	Total figure for the Group
	Corporate and Investment Banking	Financial Markets			
Net interest income	440 107	125 155	1 101 384	4 129	<b>1 670 775</b>
- sales to external clients	450 922	319 060	897 199	3 594	<b>1 670 775</b>
- sales to other segments	(10 815)	(193 905)	204 185	535	-
Net fee and commission income	231 521	(4 368)	291 356	(656)	<b>517 853</b>
Dividend income	-	-	-	3 103	<b>3 103</b>
Trading income	125 463	(16 205)	61 328	(1 395)	<b>169 191</b>
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(6 029)	-	(58 990)	8 959	<b>(56 060)</b>
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	182	5 998	-	(160)	<b>6 020</b>
Other operating income	46 969	905	268 743	5 202	<b>321 819</b>
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(118 391)	(159)	(155 055)	4	<b>(273 601)</b>
Overhead costs	(351 930)	(51 453)	(571 942)	(9 827)	<b>(985 152)</b>
Amortisation	(39 895)	(5 652)	(78 340)	(608)	<b>(124 495)</b>
Other operating expenses	(22 505)	(1 890)	(67 452)	(8 160)	<b>(100 007)</b>
<b>Operating profit</b>	<b>305 492</b>	<b>52 331</b>	<b>791 032</b>	<b>591</b>	<b>1 149 446</b>
Taxes on Group balance sheet items	(75 275)	(18 048)	(100 358)	(3 069)	<b>(196 750)</b>
Share in profits (losses) of entities under the equity method	-	-	-	588	<b>588</b>
<b>Gross profit of the segment</b>	<b>230 217</b>	<b>34 283</b>	<b>690 674</b>	<b>(1 890)</b>	<b>953 284</b>
Income tax					(247 429)
Net profit attributable to Owners of mBank S.A.					705 878
Net profit attributable to non-controlling interests					(23)

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 30 June 2019 and for the period from 1 January to 30 June 2018

Information about geographical areas on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2019			from 1 January to 30 June 2018		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 817 231	110 802	<b>1 928 033</b>	1 582 736	88 039	<b>1 670 775</b>
Net fee and commission income	448 126	6 532	<b>454 658</b>	509 820	8 033	<b>517 853</b>
Dividend income	3 651	-	<b>3 651</b>	3 103	-	<b>3 103</b>
Trading income	201 776	4 621	<b>206 397</b>	164 794	4 397	<b>169 191</b>
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(11 618)	-	<b>(11 618)</b>	(56 060)	-	<b>(56 060)</b>
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates	14 718	-	<b>14 718</b>	6 020	-	<b>6 020</b>
Other operating income	73 325	1 999	<b>75 324</b>	321 048	771	<b>321 819</b>
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(321 398)	(5 765)	<b>(327 163)</b>	(262 775)	(10 826)	<b>(273 601)</b>
Overhead costs	(1 011 940)	(62 784)	<b>(1 074 724)</b>	(923 893)	(61 259)	<b>(985 152)</b>
Amortisation	(171 647)	(6 531)	<b>(178 178)</b>	(122 365)	(2 130)	<b>(124 495)</b>
Other operating expenses	(121 576)	(1 461)	<b>(123 037)</b>	(98 502)	(1 505)	<b>(100 007)</b>
<b>Operating profit</b>	<b>920 648</b>	<b>47 413</b>	<b>968 061</b>	<b>1 123 926</b>	<b>25 520</b>	<b>1 149 446</b>
Taxes on Group balance sheet items	(246 172)	(12 655)	<b>(258 827)</b>	(185 123)	(11 627)	<b>(196 750)</b>
Share in profits (losses) of entities under the equity method	-	-	-	588	-	<b>588</b>
<b>Gross profit of the segment</b>	<b>674 476</b>	<b>34 758</b>	<b>709 234</b>	<b>939 391</b>	<b>13 893</b>	<b>953 284</b>
Income tax			(213 634)			(247 429)
Net profit attributable to Owners of mBank S.A.			495 645			705 878
Net profit attributable to non-controlling interests			(45)			(23)

Information about geographical areas on the activities of mBank S.A. Group as at 30 June 2019 and as at 31 December 2018

Information about geographical areas on the activities of mBank S.A. Group for the period	from 1 January to 30 June 2019			from 1 January to 31 December 2018		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
<b>Assets of the segment, including:</b>	<b>147 224 488</b>	<b>5 208 725</b>	<b>152 433 213</b>	<b>138 339 905</b>	<b>7 410 214</b>	<b>145 750 119</b>
- tangible assets	2 082 947	43 337	<b>2 126 284</b>	1 541 714	19 487	1 561 201
- deferred income tax assets	918 301	2 299	<b>920 600</b>	957 159	1 917	959 076
<b>Liabilities of the segment</b>	<b>126 167 538</b>	<b>10 584 474</b>	<b>136 752 012</b>	<b>120 308 585</b>	<b>10 225 454</b>	<b>130 534 039</b>

**5. Net interest income**

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Interest income</b>			
<b>Interest income accounted for using the effective interest method</b>		<b>2 163 651</b>	<b>1 829 411</b>
Interest income of financial assets at amortised cost, including:		1 918 299	1 587 408
- Loans and advances		1 782 094	1 463 858
- Debt securities		109 302	95 495
- Cash and short-term placements		28 828	25 654
- Other		(1 925)	2 401
Interest income on financial assets at fair value through other comprehensive income		245 352	242 003
- Debt securities		245 352	242 003
<b>Income similar to interest on financial assets at fair value through profit or loss, including:</b>		<b>300 784</b>	<b>326 793</b>
Financial assets held for trading		32 073	32 351
- Loans and advances		1 220	-
- Debt securities		30 853	32 351
Non-trading financial assets mandatorily at fair value through profit or loss, including:		106 794	152 773
- Loans and advances		106 794	152 773
Interest income on derivatives classified into banking book		98 156	87 897
Interest income on derivatives concluded under the fair value hedge		37 241	37 969
Interest income on derivatives concluded under the cash flow hedge		26 520	15 803
<b>Total interest income</b>		<b>2 464 435</b>	<b>2 156 204</b>

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Interest expenses</b>			
Financial liabilities measured at amortised cost, including:		(530 784)	(483 931)
- Deposits		(325 927)	(278 950)
- Loans received		(7 992)	(14 985)
- Issue of debt securities		(152 861)	(150 121)
- Subordinated liabilities		(37 659)	(35 053)
- Lease agreements		(1 405)	n/a
- Other financial liabilities		(4 940)	(4 822)
Other		(5 618)	(1 498)
<b>Total interest expense</b>		<b>(536 402)</b>	<b>(485 429)</b>

**6. Net fee and commission income**

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Fee and commission income</b>			
Payment cards-related fees		195 862	188 634
Credit-related fees and commissions		201 853	182 896
Commissions for agency service regarding sale of insurance products of external financial entities		46 978	64 225
Fees from brokerage activity and debt securities issue		46 474	54 443
Commissions from bank accounts		103 969	103 634
Commissions from money transfers		69 767	64 000
Commissions due to guarantees granted and trade finance commissions		47 021	42 600
Commissions for agency service regarding sale of other products of external financial entities		36 736	57 320
Commissions on trust and fiduciary activities		13 144	13 353
Fees from portfolio management services and other management-related fees		6 510	6 610
Fees from cash services		24 546	27 709
Other		20 233	23 791
<b>Fee and commission income</b>		<b>813 093</b>	<b>829 215</b>

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Fee and commission expense</b>			
Payment cards-related fees		(118 661)	(100 926)
Commissions paid to external entities for sale of the Bank's products		(92 564)	(62 106)
Commissions paid for agency service regarding sale of insurance products of external financial entities		(4 783)	(4 057)
Discharged brokerage fees		(14 352)	(12 706)
Cash services		(19 506)	(24 083)
Fees to NBP and KIR		(6 224)	(5 572)
Other discharged fees		(102 345)	(101 912)
<b>Total fee and commission expense</b>		<b>(358 435)</b>	<b>(311 362)</b>

**7. Dividend income**

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Financial assets at fair value through other comprehensive income		3 651	3 103
<b>Total dividend income</b>		<b>3 651</b>	<b>3 103</b>

**8. Net trading income**

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Foreign exchange result</b>		<b>176 431</b>	<b>151 047</b>
Net exchange differences on translation		189 835	198 114
Net transaction gains/(losses)		(13 404)	(47 067)
<b>Gains or losses on financial assets and liabilities held for trading</b>		<b>24 711</b>	<b>23 853</b>
Derivatives, including:		10 738	22 045
- <i>Interest-bearing instruments</i>		6 484	18 027
- <i>Market risk instruments</i>		4 254	4 018
Equity instruments		-	(735)
Debt securities		13 724	2 543
Loans and advances		249	-
<b>Gains or losses from hedge accounting</b>		<b>5 255</b>	<b>(5 709)</b>
Net profit on hedged items		(161 464)	(26 868)
Net profit on fair value hedging instruments		166 719	20 053
Ineffective portion of cash flow hedge		-	1 106
<b>Net trading income</b>		<b>206 397</b>	<b>169 191</b>

The foreign exchange result includes profit/(loss) on spot and forward contracts, options, futures and recalculated assets and liabilities denominated in foreign currencies. The result on derivative transactions of interest-bearing instruments includes the result of swap contracts for interest rates, options and other derivatives. The result of the market risk instruments operations include profit/(loss) on: bond futures, index futures, security options, stock exchange index options, and options on futures contracts as well as the result from securities forward transactions and commodity swaps. The result on capital instruments operations includes the valuation and result on trading in equity securities held for trading.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 16 "Financial assets held for trading and derivatives held for hedges".

**9. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss**

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</b>			
Equity instruments		12 561	(218)
Debt securities		18 222	9 178
Loans and advances		(42 401)	(65 020)
<b>Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</b>		<b>(11 618)</b>	<b>(56 060)</b>

### 10. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Gains less losses related to sale of debt securities measured at fair value through other comprehensive income	18 559	6 042
Gains less losses related to sale and revaluation of investments in subsidiaries and associates	(4 472)	(22)
Gains less losses from derecognition, including:	631	-
- <i>Financial assets at amortised cost</i>	631	-
<b>Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates</b>	<b>14 718</b>	<b>6 020</b>

### 11. Other operating income

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	29 844	41 125
Income from services provided	1 356	13 387
Income from sub-leasing of assets due to right to use	1 161	n/a
Net income from operating lease	1 508	3 745
Income due to release of provisions for future commitments	10 027	1 899
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 250	82
Income from compensations, penalties and fines received	243	82
Net revenues from the sale of an organised part of the company mFinanse S.A.	13 500	238 832
Other	16 435	22 667
<b>Total other operating income</b>	<b>75 324</b>	<b>321 819</b>

Income from services provided is earned on non-banking activities.

Net revenues from the sale of an organised part of the company mFinanse S.A. concern to the transaction described in detail in Note 44 of the Consolidated Financial Statements of mBank S.A. Group for 2018 published on February 27, 2019.

Net income from operating lease consists of income from operating lease and related depreciation cost of fixed asset provided by the Group under operating lease, incurred to obtain revenue.

Net income from operating lease for the first half of 2019 and for the first half of 2018 is presented below.

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Net income from operating lease, including:</b>		
- Income from operating lease	25 465	25 967
- Depreciation cost of fixed assets provided under operating lease	(23 957)	(22 222)
<b>Total net income from operating lease</b>	<b>1 508</b>	<b>3 745</b>

## 12. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Financial assets at amortised cost, including:</b>	<b>(297 981)</b>	<b>(273 170)</b>
- Debt securities	(16)	6
<i>Stage 1</i>	(16)	6
- Loans and advances	(297 965)	(273 176)
<i>Stage 1</i>	(45 072)	(68 934)
<i>Stage 2</i>	(30 077)	(25 296)
<i>Stage 3</i>	(223 314)	(180 831)
<i>POCI</i>	498	1 885
<b>Financial assets at fair value through other comprehensive income</b>	<b>(326)</b>	<b>(216)</b>
- Debt securities	(326)	(216)
<i>Stage 1</i>	(423)	(102)
<i>Stage 2</i>	97	(114)
<b>Commitments and guarantees given</b>	<b>(28 856)</b>	<b>(215)</b>
<i>Stage 1</i>	1 243	307
<i>Stage 2</i>	3 031	1 572
<i>Stage 3</i>	(32 588)	(3 086)
<i>POCI</i>	(542)	992
<b>Net impairment losses on financial assets not measured at fair value through profit or loss</b>	<b>(327 163)</b>	<b>(273 601)</b>

## 13. Overhead costs

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Staff-related expenses	(503 472)	(466 418)
Material costs, including:	(328 164)	(365 576)
- costs of administration and real estate services	(135 078)	(182 225)
- IT costs	(84 509)	(85 722)
- marketing costs	(69 915)	(59 988)
- consulting costs	(32 835)	(31 401)
- other material costs	(5 827)	(6 240)
Taxes and fees	(13 977)	(11 055)
Contributions and transfers to the Bank Guarantee Fund	(226 146)	(138 070)
Contributions to the Social Benefits Fund	(2 965)	(4 033)
<b>Total overhead costs</b>	<b>(1 074 724)</b>	<b>(985 152)</b>



Staff-related expenses for the first half of 2019 and for the first half of 2018 are presented below.

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Wages and salaries		(404 408)	(375 969)
Social security expenses		(72 580)	(66 961)
Remuneration concerning share-based payments, including:		(5 223)	(7 645)
- share-based payments settled in mBank S.A. shares		(4 905)	(7 363)
- cash-settled share-based payments		(318)	(282)
Other staff expenses		(21 261)	(15 843)
<b>Staff-related expenses, total</b>		<b>(503 472)</b>	<b>(466 418)</b>

#### 14. Other operating expenses

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories		(20 994)	(18 220)
Provisions for future commitments		(30 583)	(28 398)
Costs arising from provisions created for other receivables (excluding loans and advances)		(145)	(637)
Donations made		(2 523)	(10 030)
Costs of sale of services		(275)	(152)
Compensation, penalties and fines paid		(569)	(1 124)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible		(7)	(18)
Debt collection expenses		(20 275)	(16 652)
Other operating costs		(47 666)	(24 776)
<b>Total other operating expenses</b>		<b>(123 037)</b>	<b>(100 007)</b>

In the first half of 2019 the item "Other operating expenses" includes a cost of provision for tax liability in the amount of PLN 28 380 thousand, created as a result of the Bank's decision to select an alternative method of taxing with income tax the interest paid by the Bank in relation to bonds issued before 1 January 2019 on foreign public markets under the EMTN program.

Costs of services provided concern non-banking services.

#### 15. Earnings per share

##### Earnings per share for 6 months

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Basic:</b>			
Net profit attributable to Owners of mBank S.A.		495 645	705 878
Weighted average number of ordinary shares		42 336 982	42 312 122
<b>Net basic profit per share (in PLN per share)</b>		<b>11.71</b>	<b>16.68</b>
<b>Diluted:</b>			
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share		495 645	705 878
Weighted average number of ordinary shares		42 336 982	42 312 122
Adjustments for:			
- share options		29 349	26 706
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 366 331	42 338 828
<b>Diluted earnings per share (in PLN per share)</b>		<b>11.70</b>	<b>16.67</b>

**16. Financial assets held for trading and derivatives held for hedges**

	30.06.2019	31.12.2018
<b>Derivatives, including:</b>	<b>1 139 940</b>	<b>1 006 079</b>
- Held for trading derivative financial instruments classified into banking book	180 831	81 480
- Held for trading derivative financial instruments classified into trading book	983 578	916 006
- Derivative financial instruments held for fair value hedging	331 089	175 649
- Derivative financial instruments held for cash flow hedging	260 804	196 668
- Offsetting effect	(616 362)	(363 724)
<b>Debt securities</b>	<b>2 529 666</b>	<b>1 055 057</b>
- General governments, including:	2 123 715	748 294
<i>pledged securities</i>	1 297 611	538 345
- Credit institutions	221 918	166 305
- Other financial corporations	87 791	72 626
- Non-financial corporations	96 242	67 832
<b>Loans and advances</b>	<b>43 522</b>	<b>43 166</b>
- Corporate customers	43 522	43 166
<b>Total financial assets held for trading</b>	<b>3 713 128</b>	<b>2 104 302</b>

The above note includes government bonds and treasury bills subject to pledge in sell-buy back transactions.

**Derivative financial instruments**

The Group has the following types of derivative instruments:

**Forward currency transactions** represent commitments to purchase foreign and local currencies, including outstanding spot transactions. **Futures for currencies and interest rates** are contractual commitments to receive or pay a specific net value, depending on currency rate of exchange or interest rate variations, or to buy or sell a foreign currency or a financial instrument on a specified future date for a fixed price established on the organised financial market. Because futures contracts are collateralised with fair-valued cash or securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal.

**FRA contracts** are similar to futures except that each FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

**Currency and interest rate swap contracts** are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Group consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Group evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

The Group applies fair value hedge accounting for fixed interest rate Eurobonds issued by mFinance France S.A, subsidiary of mBank, fixed interest rate mortgage bonds issued by mBank Hipoteczny a subsidiary of mBank, fixed interest rate loans received by mBank from European Investment Bank, fixed interest rate bonds issued by the Bank directly and variable rate loans indexed to market rates, granted by the Bank. Hedging instrument in both types of hedge accounting are fix to float Interest Rate Swap.

Detailed information on hedge accounting are presented in these Note below.

**Currency and interest rate options** are agreements, pursuant to which the selling party grants the buying party the right, but not an obligation, to purchase (call option) or sell (put option) a specific quantity of a foreign currency or a financial instrument at a predefined price on or by

a specific date or within an agreed period. In return for accepting currency or interest rate risk, the buyer offers the seller a premium. An option can be either a public instrument traded at a stock exchange or a private instrument negotiated between the Group and a customer (private transaction). The Group is exposed to credit risk related to purchased options only up to the balance sheet value of such options, i.e. the fair value of the options.

**Market risk transactions** include futures contracts as well as commodity options, stock options and index options.

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the statement of financial position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the Group's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations.

### **Hedge accounting**

In accordance with the IFRS9 provisions, only on the day of initial application the Bank had the opportunity to choose as its accounting policy element to continue to apply the IAS 39 hedge accounting requirements instead of the IFRS 9 requirements.

IFRS 9 requires the Bank to ensure that its hedging relationships are compliant with the risk management strategy applied by the Bank and its objectives. IFRS 9 introduces new requirements with regard to the assessment of hedge effectiveness, rebalancing of the hedge relationship as well as it prohibits voluntary discontinuation of hedge accounting (i.e. in the absence of the conditions to stop the application of hedge accounting, as defined in the standard).

The Group decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39.

The Group determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 except for mortgage bonds issued by mBank Hipoteczny (mBH) at mBank Group hedging relationship, for which the hedged ratio was determined based on BPV (Basis Point Value).

The sources of hedge ineffectiveness for hedging relationships for which the ineffectiveness arises include mismatch of cash flow dates and repricing periods, base mismatch (e.g. another WIBOR), nominal mismatch in case when the hedge ratio is different than 1:1, CVA/DVA mismatch which is in hedging instrument and is not in hedged instrument and mismatch due to initial valuation of hedging instruments if a previously acquired derivative was included in hedging relationship.

### **Fair value hedge accounting**

The Group applies fair value hedge accounting, under which the only kind of hedged risk is the risk of changes in interest rates.

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.14 to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on February 27, 2019.

#### Description of the hedging relation

The Group hedges against the risk of change in fair value:

- Fixed interest rate Eurobonds issued by mFinance France S.A. (mFF), subsidiary of mBank. The hedged risk results from changes in interest rates;
- Mortgage bonds issued by mBank Hipoteczny (mBH), a subsidiary of mBank. The hedged risk results from changes in interest rates;
- Loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates;
- Fixed interest bonds issued by mBank. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are:

- two tranches of fixed interest rate Eurobonds issued by mFF with a total nominal value of EUR 1 000 000 thousand,
- one tranche of fixed interest rate Eurobonds issued by mFF with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 576 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively EUR 100 000 thousand, CHF 113 110 thousand and CHF 175 560 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 500 000 thousand.

Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognised in the income statement as trading income.

**The total results of fair value hedge accounting recognised in the income statement**

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	37 241	37 969
Net profit on hedged items (Note 8)	(161 464)	(26 868)
Net profit on fair value hedging instruments (Note 8)	166 719	20 053
<b>The total results of fair value hedge accounting recognised in the income statement</b>	<b>42 496</b>	<b>31 154</b>

**Cash flow hedge accounting**

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as "Cash flow hedges (net)".

The period from July 2019 to July 2024 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

The following note presents other comprehensive income due to cash flow hedges as at 30 June 2019 and 30 June 2018.

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Other gross comprehensive income from cash flow hedge at the beginning of the period</b>	<b>103 263</b>	<b>(6 418)</b>
- Unrealised gains/losses included in other gross comprehensive income during the reporting period	46 497	24 983
<b>Accumulated other gross comprehensive income at the end of the reporting period</b>	<b>149 760</b>	<b>18 565</b>
Income tax on accumulated other comprehensive income at the end of the reporting period	(28 454)	(3 527)
<b>Accumulated net other comprehensive income at the end of the reporting period</b>	<b>121 306</b>	<b>15 038</b>
Impact on other comprehensive income in the reporting period (gross)	46 497	24 983
Income tax on cash flow hedges	(8 834)	(4 747)
<b>Impact on other comprehensive income in the reporting period (net)</b>	<b>37 663</b>	<b>20 236</b>

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
<b>Gains/losses recognised in comprehensive income (gross) during the reporting period, including:</b>			
- Unrealised gains/losses included in other comprehensive income (gross)		46 497	24 983
- Amount included as interest income in income statement recognised during the reporting period		26 520	15 803
- Ineffective portion of hedge recognised in net trading income		-	1 106
<b>Impact on other comprehensive income in the reporting period (gross)</b>		<b>73 017</b>	<b>41 892</b>

**Total results of cash flow hedge accounting recognised in the income statement**

	the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Interest income on derivatives concluded under the cash flow hedge (Note 5)		26 520	15 803
Ineffective portion of cash flow hedge accounting (Note 8)		-	1 106
<b>The total results of cash flow hedge accounting recognised in the income statement</b>		<b>26 520</b>	<b>16 909</b>

**17. Non-trading financial assets mandatorily at fair value through profit or loss**

	30.06.2019	31.12.2018
<b>Equity instruments</b>	<b>85 295</b>	<b>72 775</b>
- Other financial corporations	25 518	12 934
- Non-financial corporations	59 777	59 841
<b>Debt securities</b>	<b>75 920</b>	<b>58 130</b>
- Other financial corporations	75 920	58 130
<b>Loans and advances</b>	<b>2 361 012</b>	<b>2 705 155</b>
- Individual customers	2 054 043	2 370 872
- Corporate customers	297 158	321 380
- Public sector customers	9 811	12 903
<b>Total non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>2 522 227</b>	<b>2 836 060</b>
Short-term (up to 1 year)	1 597 963	1 705 855
Long-term (over 1 year)	924 264	1 130 205

**18. Financial assets at fair value through other comprehensive income**

30.06.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
<b>Debt securities</b>	<b>24 556 879</b>	<b>24 545 641</b>	<b>16 101</b>	-	-	<b>(4 596)</b>	<b>(267)</b>	-	-
- Central banks	757 842	757 842	-	-	-	-	-	-	-
- General governments, including: <i>pledged securities</i>	21 208 327	21 208 515	-	-	-	(188)	-	-	-
- Credit institutions	1 493 619	1 493 619	-	-	-	-	-	-	-
- Other financial corporations	336 556	338 030	-	-	-	(1 474)	-	-	-
- Non-financial corporations	1 474 831	1 470 256	5 664	-	-	(998)	(91)	-	-
- Non-financial corporations	779 323	770 998	10 437	-	-	(1 936)	(176)	-	-
<b>Total financial assets at fair value through other comprehensive income</b>	<b>24 556 879</b>	<b>24 545 641</b>	<b>16 101</b>	-	-	<b>(4 596)</b>	<b>(267)</b>	-	-

Short-term (up to 1 year) gross	6 810 398
Long-term (over 1 year) gross	17 751 344

31.12.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
<b>Debt securities</b>	<b>24 338 284</b>	<b>24 321 098</b>	<b>21 721</b>	-	-	<b>(4 171)</b>	<b>(364)</b>	-	-
- Central banks	589 901	589 901	-	-	-	-	-	-	-
- General governments, including:	21 287 623	21 287 701	-	-	-	(78)	-	-	-
<i>pledged securities</i>	<i>2 207 051</i>	<i>2 207 051</i>	-	-	-	-	-	-	-
- Credit institutions	361 980	363 632	-	-	-	(1 652)	-	-	-
- Other financial corporations	1 488 643	1 478 557	11 333	-	-	(1 059)	(188)	-	-
- Non-financial corporations	610 137	601 307	10 388	-	-	(1 382)	(176)	-	-
<b>Total financial assets at fair value through other comprehensive income</b>	<b>24 338 284</b>	<b>24 321 098</b>	<b>21 721</b>	-	-	<b>(4 171)</b>	<b>(364)</b>	-	-
Short-term (up to 1 year) gross	6 694 165								
Long-term (over 1 year) gross	17 648 654								

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds and treasury bills pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank.

### 19. Financial assets at amortised cost

30.06.2019	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
<b>Debt securities</b>	<b>9 575 732</b>	<b>9 575 835</b>	-	-	-	<b>(103)</b>	-	-	-
- General governments, including:	8 332 056	8 332 056	-	-	-	-	-	-	-
<i>pledged securities</i>	<i>1 638 812</i>	<i>1 638 812</i>	-	-	-	-	-	-	-
- Other financial corporations	1 243 676	1 243 779	-	-	-	(103)	-	-	-
<b>Loans and advances to banks</b>	<b>3 079 814</b>	<b>3 081 019</b>	-	-	-	<b>(1 205)</b>	-	-	-
<b>Loans and advances to customers</b>	<b>98 016 951</b>	<b>87 583 599</b>	<b>9 196 102</b>	<b>4 212 927</b>	<b>253 765</b>	<b>(242 398)</b>	<b>(255 242)</b>	<b>(2 726 450)</b>	<b>(5 352)</b>
Individual customers	52 294 429	46 005 406	5 750 968	2 133 814	104 547	(127 046)	(196 681)	(1 373 248)	(3 331)
Corporate customers	45 177 766	41 033 969	3 445 134	2 078 087	149 218	(114 919)	(58 561)	(1 353 141)	(2 021)
Public sector customers	544 756	544 224	-	1 026	-	(433)	-	(61)	-
<b>Total financial assets at amortised cost</b>	<b>110 672 497</b>	<b>100 240 453</b>	<b>9 196 102</b>	<b>4 212 927</b>	<b>253 765</b>	<b>(243 706)</b>	<b>(255 242)</b>	<b>(2 726 450)</b>	<b>(5 352)</b>
Short-term (up to 1 year) gross	41 704 715								
Long-term (over 1 year) gross	72 198 532								

31.12.2018	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
<b>Debt securities</b>	<b>9 000 539</b>	<b>9 000 626</b>	-	-	-	<b>(87)</b>	-	-	-
- General governments, including:	7 742 000	7 742 000	-	-	-	-	-	-	-
pledged securities	2 137 273	2 137 273	-	-	-	-	-	-	-
- Other financial corporations	1 258 539	1 258 626	-	-	-	(87)	-	-	-
<b>Loans and advances to banks</b>	<b>2 546 346</b>	<b>2 547 864</b>	-	-	-	<b>(1 518)</b>	-	-	-
<b>Loans and advances to customers</b>	<b>92 017 432</b>	<b>82 159 668</b>	<b>8 714 545</b>	<b>3 976 749</b>	<b>209 017</b>	<b>(214 875)</b>	<b>(220 963)</b>	<b>(2 599 882)</b>	<b>(6 827)</b>
Individual customers	48 924 332	42 757 830	5 588 684	2 103 477	104 512	(110 937)	(171 820)	(1 345 048)	(2 366)
Corporate customers	42 456 817	38 765 918	3 125 861	1 872 269	104 505	(103 368)	(49 143)	(1 254 764)	(4 461)
Public sector customers	636 283	635 920	-	1 003	-	(570)	-	(70)	-
<b>Total financial assets at amortised cost</b>	<b>103 564 317</b>	<b>93 708 158</b>	<b>8 714 545</b>	<b>3 976 749</b>	<b>209 017</b>	<b>(216 480)</b>	<b>(220 963)</b>	<b>(2 599 882)</b>	<b>(6 827)</b>
Short-term (up to 1 year) gross	37 578 214								
Long-term (over 1 year) gross	69 030 255								

The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds pledged as sell-buy-back transactions, government bonds pledged as collateral for the loans received from the European Investment Bank.

In the item loans and advances granted to corporate clients were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking.

Loans and advances to customers 30.06.2019	Gross carrying amount	Individual customers	Corporate customers	Public sector customers
Current accounts	13 448 334	7 068 524	6 379 220	590
Term loans, including:	72 811 800	46 663 818	25 603 322	544 660
- housing and mortgage loans to individual customers	36 368 965	36 368 965		
Reverse repo / buy-sell-back	647 155	-	647 155	-
Finance leases	11 285 095	-	11 285 095	-
Other loans and advances	2 762 764	-	2 762 764	-
Other receivables	291 245	262 393	28 852	-
<b>Total gross carrying amount</b>	<b>101 246 393</b>	<b>53 994 735</b>	<b>46 706 408</b>	<b>545 250</b>

Loans and advances to customers 30.06.2019	Accumulated impairment	Individual customers	Corporate customers	Public sector customers
Current accounts	(990 375)	(678 574)	(311 801)	-
Term loans, including:	(1 938 837)	(1 021 732)	(916 611)	(494)
- housing and mortgage loans to individual customers	(465 510)	(465 510)		
Finance leases	(271 350)	-	(271 350)	-
Other loans and advances	(28 880)	-	(28 880)	-
<b>Total accumulated impairment</b>	<b>(3 229 442)</b>	<b>(1 700 306)</b>	<b>(1 528 642)</b>	<b>(494)</b>

<b>Total gross carrying amount</b>	<b>101 246 393</b>	<b>53 994 735</b>	<b>46 706 408</b>	<b>545 250</b>
Total accumulated impairment	(3 229 442)	(1 700 306)	(1 528 642)	(494)
<b>Total carrying amount</b>	<b>98 016 951</b>	<b>52 294 429</b>	<b>45 177 766</b>	<b>544 756</b>

Short-term (up to 1 year) gross	36 874 604
Long-term (over 1 year) gross	64 371 789

Loans and advances to customers 31.12.2018	Gross carrying amount	Individual customers	Corporate customers	Public sector customers
Current accounts	12 073 809	6 474 555	5 598 673	581
Term loans, including:	68 498 140	43 720 475	24 141 323	636 342
- housing and mortgage loans to individual customers	34 696 807	34 696 807		
Reverse repo / buy-sell-back	1 146 263	-	1 146 263	-
Finance leases	10 555 560	-	10 555 560	-
Other loans and advances	2 411 802	-	2 411 802	-
Other receivables	374 405	359 473	14 932	-
<b>Total gross carrying amount</b>	<b>95 059 979</b>	<b>50 554 503</b>	<b>43 868 553</b>	<b>636 923</b>

Loans and advances to customers 31.12.2018	Accumulated impairment	Individual customers	Corporate customers	Public sector customers
Current accounts	(931 926)	(664 656)	(267 270)	-
Term loans, including:	(1 837 896)	(965 515)	(871 741)	(640)
- housing and mortgage loans to individual customers	(453 300)	(453 300)		
Finance leases	(243 170)	-	(243 170)	-
Other loans and advances	(29 555)	-	(29 555)	-
<b>Total accumulated impairment</b>	<b>(3 042 547)</b>	<b>(1 630 171)</b>	<b>(1 411 736)</b>	<b>(640)</b>

<b>Total gross carrying amount</b>	<b>95 059 979</b>	<b>50 554 503</b>	<b>43 868 553</b>	<b>636 923</b>
Total accumulated impairment	(3 042 547)	(1 630 171)	(1 411 736)	(640)
<b>Total carrying amount</b>	<b>92 017 432</b>	<b>48 924 332</b>	<b>42 456 817</b>	<b>636 283</b>

Short-term (up to 1 year) gross	34 577 060
Long-term (over 1 year) gross	60 482 919

### The currency structure of housing and mortgage loans granted to individual customers

	30.06.2019	31.12.2018
<b>Housing and mortgage loans to individuals, including:</b>	<b>35 903 455</b>	<b>34 243 507</b>
- PLN	15 707 815	13 358 719
- CHF	13 837 254	14 409 167
- EUR	3 113 676	3 171 106
- CZK	3 003 320	3 053 157
- USD	213 146	227 414
- Other currency	28 244	23 944

Housing and mortgage loans to individuals in original currencies (main currencies in 000's)		
- PLN	15 707 815	13 358 719
- CHF	3 610 786	3 775 394
- EUR	732 285	737 467
- CZK	17 962 440	18 249 594
- USD	57 089	60 487

The table below includes loans and advances at amortized cost and does not include the loans and advances measured at fair value through profit or loss.



**The structure of concentration of carrying amounts of exposure of mBank Group**

No.	Sectors	Gross value	%	Gross value	%
		30.06.2019		31.12.2018	
1.	Household customers	53 994 735	53.33	50 554 503	53.18
2.	Real estate	6 035 804	5.96	5 781 986	6.08
3.	Construction	5 008 934	4.95	4 367 250	4.59
4.	Transport and logistics	2 913 096	2.88	2 729 735	2.87
5.	Food sector	2 878 171	2.84	2 854 184	3.00
6.	Metals	2 498 612	2.47	2 512 155	2.64
7.	Construction materials	2 355 468	2.33	1 897 015	2.00
8.	Financial sector	2 255 654	2.23	3 379 316	3.55
9.	Motorisation	2 229 121	2.20	2 019 772	2.12
10.	Chemicals and plastic products	2 026 370	2.00	1 913 025	2.01
11.	Wood, furniture and paper products	1 758 813	1.74	1 378 926	1.45
12.	Wholesale trade	1 571 737	1.55	1 362 759	1.43
13.	Scientific and technical activities	1 387 529	1.37	1 216 481	1.28
14.	Fuels	1 164 094	1.15	1 286 179	1.35
15.	Retail trade	1 051 059	1.04	835 071	0.88
16.	IT	1 015 062	1.00	1 024 833	1.08
17.	Rental and leasing activities	925 148	0.91	1 131 910	1.19
18.	Information and communication	874 147	0.86	887 843	0.93
19.	Services	821 450	0.81	828 299	0.87
20.	Power, power and heating distribution	786 661	0.78	1 011 767	1.06
21.	Pharmacy	764 508	0.76	342 945	0.36
22.	Textiles and wearing apparel	728 771	0.72	518 104	0.55
23.	Hotels and restaurants	689 053	0.68	614 454	0.65
24.	Human health	604 781	0.60	548 103	0.58
25.	Other manufacturing activity	600 822	0.59	570 565	0.60
26.	Agriculture, forestry and fishing	551 403	0.54	571 208	0.60
27.	Municipal services	468 755	0.46	431 003	0.45
28.	Media	460 654	0.46	425 252	0.45
29.	Public administration	414 079	0.41	490 562	0.52
30.	Household equipment	355 874	0.35	296 758	0.31
31.	Electronics	277 364	0.27	284 148	0.30
32.	Arts, entertainment and recreation	262 180	0.26	247 010	0.26
33.	Education and scientific research	174 017	0.17	168 568	0.18
34.	Mining	59 245	0.06	85 445	0.09

As at 30 June 2019, the total exposure of the Group in the above sectors (excluding household customers) amounts to 45.40% of the credit portfolio (31 December 2018: 46.28%).

**20. Intangible assets**

	30.06.2019	31.12.2018
Goodwill	33 487	3 532
Patents, licences and similar assets, including:	445 392	440 636
- computer software	367 890	367 822
Other intangible assets	1 496	1 968
Intangible assets under development	341 756	330 039
<b>Total intangible assets</b>	<b>822 131</b>	<b>776 175</b>

**21. Tangible assets**

	30.06.2019	31.12.2018
Tangible assets, including:	698 201	668 460
- land	1 033	1 033
- buildings and structures	161 327	160 804
- equipment	202 339	177 868
- vehicles	231 342	219 275
- other fixed assets	102 160	109 480
Fixed assets under construction	76 671	116 566
The right to use, including;	529 281	n/a
- real estate	478 290	n/a
- the right of perpetual usufruct of land	48 702	n/a
- cars	882	n/a
- other	1 407	n/a
<b>Total tangible assets</b>	<b>1 304 153</b>	<b>785 026</b>

**22. Financial liabilities held for trading and derivatives held for hedges**

	30.06.2019	31.12.2018
Derivatives, including:	1 082 915	981 117
- Held for trading derivative financial instruments classified into banking book	78 674	74 986
- Held for trading derivative financial instruments classified into trading book	1 129 809	995 156
- Derivative financial instruments held for fair value hedging	122	10 660
- Derivative financial instruments held for cash flow hedging	415	-
- Offsetting effect	(126 105)	(99 685)
<b>Total financial liabilities held for trading and derivatives held for hedges</b>	<b>1 082 915</b>	<b>981 117</b>

**23. Financial liabilities measured at amortised cost – amounts due to banks and customers**

30.06.2019	Amount due to banks	Amount due to customers, total	Individual customers	Corporate customers	Public sector customers
<b>Deposits, including:</b>	<b>2 123 634</b>	<b>106 610 078</b>	<b>70 165 664</b>	<b>34 516 476</b>	<b>1 927 938</b>
Current accounts	850 333	78 990 379	55 737 442	22 690 903	562 034
Term deposits	119 661	26 401 938	14 428 222	10 607 812	1 365 904
Repo transactions	1 153 640	1 217 761	-	1 217 761	-
<b>Loans and advances received</b>	<b>186 766</b>	<b>2 430 913</b>	-	<b>2 430 913</b>	-
<b>Other financial liabilities, including:</b>	<b>664 508</b>	<b>1 300 084</b>	<b>75 365</b>	<b>1 179 561</b>	<b>45 158</b>
Liabilities in respect of cash collaterals	479 785	437 039	17 068	419 963	8
Leasing liabilities	-	533 430	-	492 965	40 465
Other liabilities	184 723	329 615	58 297	266 633	4 685
<b>Total</b>	<b>2 974 908</b>	<b>110 341 075</b>	<b>70 241 029</b>	<b>38 126 950</b>	<b>1 973 096</b>
Short-term (up to 1 year)	2 788 228	106 862 730			
Long-term (over 1 year)	186 680	3 478 345			

31.12.2018	Amount due to banks	Amount due to customers, total	Individual customers	Corporate customers	Public sector customers
<b>Deposits, including:</b>	<b>1 821 123</b>	<b>97 798 992</b>	<b>65 766 024</b>	<b>31 294 333</b>	<b>738 635</b>
Current accounts	864 189	74 122 771	52 064 464	21 595 872	462 435
Term deposits	156 391	22 963 140	13 701 560	8 985 380	276 200
Repo transactions	800 543	713 081	-	713 081	-
<b>Loans and advances received</b>	<b>747 381</b>	<b>3 457 264</b>	<b>-</b>	<b>3 457 264</b>	<b>-</b>
<b>Other financial liabilities, including:</b>	<b>509 883</b>	<b>752 806</b>	<b>157 541</b>	<b>594 706</b>	<b>559</b>
Liabilities in respect of cash collaterals	348 776	396 704	51 390	345 314	-
Other liabilities	161 107	356 102	106 151	249 392	559
<b>Total</b>	<b>3 078 387</b>	<b>102 009 062</b>	<b>65 923 565</b>	<b>35 346 303</b>	<b>739 194</b>
Short-term (up to 1 year)	2 890 328	97 735 387			
Long-term (over 1 year)	188 059	4 273 675			

The Group presents amounts due to micro enterprises provided by Retail Banking of mBank S.A. under amounts due to individual customers.

## 24. Provisions

	30.06.2019	31.12.2018
For legal proceedings	124 803	106 321
Commitments and guarantees given	140 334	109 409
Other provisions	79 141	42 553
<b>Total provisions</b>	<b>344 278</b>	<b>258 283</b>

Other provisions present provisions for the potential claims of third parties.

## Movements in the provisions

	30.06.2019	31.12.2018
<b>As at the beginning of the period (by type)</b>	<b>258 283</b>	<b>190 975</b>
<b>Impact of the implementation of IFRS 9 on 1 January 2018</b>		<b>44 324</b>
- increase in provisions for commitments and guarantees given		44 324
<b>As at the beginning of the period (by type)</b>	<b>258 283</b>	<b>235 299</b>
<b>Change in the period (due to)</b>	<b>85 995</b>	<b>22 984</b>
- increase of provisions	138 641	101 933
- release of provisions	(41 082)	(66 423)
- write-offs	(10 836)	(14 672)
- foreign exchange differences	(728)	2 146
<b>As at the end of the period (by type)</b>	<b>344 278</b>	<b>258 283</b>

## 25. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2019	31.12.2018
<b>As at the beginning of the period</b>	<b>1 344 037</b>	<b>960 678</b>
Impact of the implementation of IFRS 9 on 1 January 2018		109 632
<b>Restated opening balance</b>		<b>1 070 310</b>
Changes recognized in the income statement	103 659	272 367
Changes recognized in other comprehensive income	210	972
Other changes	1 371	388
<b>As at the end of the period</b>	<b>1 449 277</b>	<b>1 344 037</b>

Provisions for deferred income tax	30.06.2019	31.12.2018
<b>As at the beginning of the period</b>	<b>(385 044)</b>	<b>(331 509)</b>
Impact of the implementation of IFRS 9 on 1 January 2018		(40 243)
<b>Restated opening balance</b>		<b>(371 752)</b>
Changes recognized in the income statement	(134 731)	10 905
Changes recognized in other comprehensive income	(8 980)	(27 252)
Other changes	(4)	3 055
<b>As at the end of the period</b>	<b>(528 759)</b>	<b>(385 044)</b>
Income tax	30.06.2019	30.06.2018
Current income tax	(182 562)	(403 509)
Deferred income tax recognised in the income statement	(31 072)	156 080
<b>Income tax recognised in the income statement</b>	<b>(213 634)</b>	<b>(247 429)</b>
Recognised in other comprehensive income	(8 770)	(5 563)
<b>Total income tax</b>	<b>(222 404)</b>	<b>(252 992)</b>

## 26. Fair value of assets and liabilities

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

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

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

The approach to the method used for the loans that are fair valued in line of IFRS9 requirements, is described in the point 3.4.7 to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on February 27, 2019.

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

For disclosure purposes, the Group assumed that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items.

In addition, the Group assumes that the estimated fair value of financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

**Financial assets and liabilities measured at amortised cost**

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

	30.06.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets at amortised cost</b>				
<b>Debt securities</b>	<b>9 575 732</b>	<b>9 744 647</b>	<b>9 000 539</b>	<b>9 148 798</b>
<b>Loans and advances to banks</b>	<b>3 079 814</b>	<b>3 048 306</b>	<b>2 546 346</b>	<b>2 521 793</b>
<b>Loans and advances to customers, including:</b>	<b>98 016 951</b>	<b>98 331 039</b>	<b>92 017 432</b>	<b>91 924 443</b>
<b>Individual customers</b>	<b>52 294 429</b>	<b>53 488 625</b>	<b>48 924 332</b>	<b>49 612 551</b>
Current accounts	6 389 950	6 572 907	5 809 899	5 972 042
Term loans	45 642 086	46 653 325	42 754 960	43 281 036
Other receivables	262 393	262 393	359 473	359 473
<b>Corporate customers</b>	<b>45 177 766</b>	<b>44 295 409</b>	<b>42 456 817</b>	<b>41 673 943</b>
Current accounts	6 067 419	5 929 994	5 331 403	5 217 161
Term loans, including finance leases	35 700 456	34 955 524	33 581 972	32 913 340
Reverse repo / buy-sell-back transactions	647 155	647 155	1 146 263	1 146 263
Other loans and advances	2 733 884	2 733 884	2 382 247	2 382 247
Other receivables	28 852	28 852	14 932	14 932
<b>Public sector customers</b>	<b>544 756</b>	<b>547 005</b>	<b>636 283</b>	<b>637 949</b>
<b>Financial liabilities measured at amortised cost</b>				
<b>Amounts due to banks</b>	<b>2 974 908</b>	<b>2 973 540</b>	<b>3 078 387</b>	<b>3 076 822</b>
<b>Amounts due to customers</b>	<b>110 341 075</b>	<b>110 398 714</b>	<b>102 009 062</b>	<b>101 932 151</b>
<b>Debt securities issued</b>	<b>16 563 922</b>	<b>16 941 835</b>	<b>18 049 583</b>	<b>18 236 156</b>
<b>Subordinated financial liabilities</b>	<b>2 477 664</b>	<b>2 496 800</b>	<b>2 474 163</b>	<b>2 492 101</b>

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

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

Financial liabilities. Financial instruments representing liabilities include the following:

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

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

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

In case of covered bonds and other debt securities issued by mBank Hipoteczny, for the purpose of the disclosures swap curves and forecasted initial spreads for certain issues are used.

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

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

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

### **Financial assets and liabilities measured at fair value**

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

30.06.2019	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>Financial assets</b>				
<b>Financial assets held for trading and derivatives held for hedges</b>	<b>3 713 128</b>	<b>2 123 715</b>	<b>1 139 940</b>	<b>449 473</b>
Loans and advances to customers	43 522	-	-	43 522
Debt securities	2 529 666	2 123 715	-	405 951
Derivative financial instruments, including:	1 139 940	-	1 139 940	-
Derivative financial instruments held for trading	1 164 409	-	1 164 409	-
Derivative financial instruments held for hedging	591 893	-	591 893	-
Ineffective portion of cash flow hedge	(616 362)	-	(616 362)	-
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>2 522 227</b>	<b>902</b>	<b>-</b>	<b>2 521 325</b>
Loans and advances to customers	2 361 012	-	-	2 361 012
Debt securities	75 920	-	-	75 920
Equity securities	85 295	902	-	84 393
<b>Financial assets at fair value through other comprehensive income</b>	<b>24 556 879</b>	<b>22 401 915</b>	<b>757 842</b>	<b>1 397 122</b>
Debt securities	24 556 879	22 401 915	757 842	1 397 122
<b>Total financial assets</b>	<b>30 792 234</b>	<b>24 526 532</b>	<b>1 897 782</b>	<b>4 367 920</b>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments, including:	1 082 915	-	1 082 915	-
Derivative financial instruments held for trading	1 208 483	-	1 208 483	-
Derivative financial instruments held for hedging	537	-	537	-
Ineffective portion of cash flow hedge	(126 105)	-	(126 105)	-
<b>Total financial liabilities</b>	<b>1 082 915</b>	<b>-</b>	<b>1 082 915</b>	<b>-</b>

Assets Measured at Fair Value Based on Level 3 - changes in the period from 1st January to 30 June 2019	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income
<b>As at the beginning of the period</b>	<b>306 763</b>	<b>58 130</b>	<b>72 005</b>	<b>1 266 558</b>
<b>Gains and losses for the period:</b>	<b>1 059</b>	<b>17 790</b>	<b>7 945</b>	<b>(8 039)</b>
Recognised in profit or loss:	1 059	17 790	7 945	-
- Net trading income	1 059	(432)	(11)	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	18 222	12 428	-
- Gains less losses from investments in subsidiaries and associates	-	-	(4 472)	-
Recognised in other comprehensive income:	-	-	-	(8 039)
- Financial assets at fair value through other comprehensive income	-	-	-	(8 039)
Purchases	966 670	-	4 493	506 875
Redemptions	(427 744)	-	-	(54 854)
Sales	(4 149 596)	-	(50)	(898 017)
Issues	3 708 799	-	-	584 599
<b>As at the end of the period</b>	<b>405 951</b>	<b>75 920</b>	<b>84 393</b>	<b>1 397 122</b>

During the first half of 2019 there were no transfers of financial instruments between the levels of fair value hierarchy.

31.12.2018	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
<b>RECURRING FAIR VALUE MEASUREMENTS</b>				
<b>Financial assets</b>				
<b>Financial assets held for trading and derivatives held for hedges</b>	<b>2 104 302</b>	<b>748 294</b>	<b>1 006 079</b>	<b>349 929</b>
Loans and advances to customers	43 166	-	-	43 166
Debt securities	1 055 057	748 294	-	306 763
Derivative financial instruments, including:	1 006 079	-	1 006 079	-
Derivative financial instruments held for trading	997 486	-	997 486	-
Derivative financial instruments held for hedging	372 317	-	372 317	-
Ineffective portion of cash flow hedge	(363 724)	-	(363 724)	-
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>	<b>2 836 060</b>	<b>770</b>	<b>-</b>	<b>2 835 290</b>
Loans and advances to customers	2 705 155	-	-	2 705 155
Debt securities	58 130	-	-	58 130
Equity securities	72 775	770	-	72 005
<b>Financial assets at fair value through other comprehensive income</b>	<b>24 338 284</b>	<b>22 481 825</b>	<b>589 901</b>	<b>1 266 558</b>
Debt securities	24 338 284	22 481 825	589 901	1 266 558
<b>Total financial assets</b>	<b>29 278 646</b>	<b>23 230 889</b>	<b>1 595 980</b>	<b>4 451 777</b>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments, including:	981 117	-	981 117	-
Derivative financial instruments held for trading	1 070 142	-	1 070 142	-
Derivative financial instruments held for hedging	10 660	-	10 660	-
Ineffective portion of cash flow hedge	(99 685)	-	(99 685)	-
<b>Total financial liabilities</b>	<b>981 117</b>	<b>-</b>	<b>981 117</b>	<b>-</b>

Assets Measured at Fair Value Based on Level 3 - changes in 2018	Debt trading securities	Non-trading debt securities mandatorily at fair value through profit or loss	Non-trading equity securities mandatorily at fair value through profit or loss	Debt securities at fair value through other comprehensive income	Equity securities at fair value through other comprehensive income
<b>As at the beginning of the period</b>	<b>288 676</b>	-	-	<b>1 214 940</b>	<b>86 639</b>
Transfer between asset categories due to the implementation of IFRS 9 as at 01.01.2018	-	46 538	40 101	-	(86 639)
<b>Restated opening balance</b>	<b>288 676</b>	<b>46 538</b>	<b>40 101</b>	<b>1 214 940</b>	-
<b>Gains and losses for the period:</b>	<b>2 065</b>	<b>11 592</b>	<b>(7 388)</b>	<b>3 791</b>	-
Recognised in profit or loss:	2 065	11 592	(7 388)	-	-
- Net trading income	2 065	4 564	-	-	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	7 028	-	-	-
- Gains less losses from investments in subsidiaries and associates	-	-	(7 388)	-	-
Recognised in other comprehensive income:	-	-	-	3 791	-
- Financial assets at fair value through other comprehensive income	-	-	-	3 791	-
Purchases	1 244 432	-	42 454	1 629 915	-
Redemptions	(439 375)	-	-	(251 779)	-
Sales	(5 472 304)	-	(3 162)	(1 586 363)	-
Issues	4 683 269	-	-	256 054	-
<b>As at the end of the period</b>	<b>306 763</b>	<b>58 130</b>	<b>72 005</b>	<b>1 266 558</b>	-

In 2018 there were no transfers of financial instruments between the levels of fair value hierarchy.

### **Level 1**

As at 30 June 2019, at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 2 123 715 thousand (see Note 16) and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 21 171 035 thousand (see Note 18) (31 December 2018 respectively: PLN 748 294 thousand and PLN 21 251 235 thousand). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 230 880 thousand (31 December 2018: PLN 1 230 590 thousand).

In addition, as at 30 June 2019 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 902 thousand (31 December 2018: PLN 770 thousand).

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

### **Level 2**

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 757 842 thousand (31 December 2018: PLN 589 901 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 30 June 2019 and 31 December 2018, level 2 also includes the value of options referencing on the WIG20 index. For options valuation on WIG 20 index an internal Bank's model (based on implied volatility model) using market parameters is applied.

### **Level 3**

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 841 701 thousand (31 December 2018: PLN 1 595 063 thousand) and includes the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

Level 3 includes also the fair value of local government bonds in the amount of PLN 37 292 thousand (31 December 2018 - PLN 36 388 thousand).

The above mentioned debt instruments are classified as level 3 because in addition to parameters which transform quotations taken directly from active and liquid financial markets (interest rate curves), their valuation uses credit spread estimated by the Bank by means of an internal credit risk model and reflects the credit risk of the issuer. The model uses parameters (e.g. PD, LGD) and information acquired from the market (including credit spreads implied from transactions). Credit



risk parameters PD and LGD are not observed on active markets and hence were generated by statistical analysis.

Level 3 as at 30 June 2019 includes the value of loans and advances to customers in the amount of PLN 2 404 534 thousand (31 December 2018 – PLN 2 748 321 thousand).

The fair value for loans and advances to customers is calculated as the present value of future cash flows (adjusted by prepayments) using current interest rates, including credit spread, cost of liquidity and cost of capital margin. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the Group's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 84 393 thousand (31 December 2018: PLN 72 005 thousand). Equity securities presented at level 3 have been valued using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

## **27. Prudential consolidation**

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR Regulation"), mBank is a significant subsidiary of EU parent institution, responsible for the preparation of the consolidated prudentially financial data to fulfil the requirement of disclosures described in IAS 1.135 *Presentation of Financial Statements*.

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

### **Basis of the preparation of the consolidated financial data**

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 6-month period ended 30 June 2019 and for the 6-month period ended 30 June 2018.

The consolidated profit presented in the consolidated prudentially financial data may be included in consolidated Common Equity Tier 1 for the purpose of the calculation of consolidated Common Equity Tier 1 capital ratio, consolidated Tier 1 capital ratio and consolidated total capital ratio with the prior permission of the KNF or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group consolidated prudentially financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for the first half of 2019, prepared in compliance with IFRS, except for the consolidation standards presented below.

The consolidated prudentially financial data includes the Bank and the following entities:

Company	30.06.2019		31.12.2018		30.06.2018	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
mFinance France S.A.	99.998%	full	99.998%	full	99.998%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
Tele-Tech Investment Sp. z o.o.	100%	full	100%	full	100%	full
mCentrum Operacji Sp. z o.o. w likwidacji	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	-	-
LeaseLink Sp. z o.o.	100%	full	-	-	-	-

Beginning from March 2019, the Group started to consolidate the company LeaseLink Sp. z o.o. Information about the company has been included under Note 1 and in point 9 "Selected explanatory information".

Beginning from October 2018, the Group started to consolidate the company Asekum Sp. z o.o. Information about the company has been included under Note 1 to the Consolidated Financial Statements of mBank S.A. Group for 2018, published on February 27, 2019.

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

- a) EUR 10 million;
- b) 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Consolidated prudentially income statement**

	Period from 01.04.2019 to 30.06.2019	Period from 01.01.2019 to 30.06.2019	Period from 01.04.2018 to 30.06.2018 - restated	Period from 01.01.2018 to 30.06.2018 - restated
Interest income, including:	1 263 418	2 464 124	1 102 436	2 155 995
<i>Interest income accounted for using the effective interest method</i>	<i>1 116 200</i>	<i>2 163 340</i>	<i>941 148</i>	<i>1 829 202</i>
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	<i>147 218</i>	<i>300 784</i>	<i>161 288</i>	<i>326 793</i>
Interest expenses	(265 812)	(536 402)	(247 932)	(484 769)
<b>Net interest income</b>	<b>997 606</b>	<b>1 927 722</b>	<b>854 504</b>	<b>1 671 226</b>
Fee and commission income	412 441	813 093	409 920	829 215
Fee and commission expenses	(186 628)	(358 432)	(160 940)	(311 351)
<b>Net fee and commission income</b>	<b>225 813</b>	<b>454 661</b>	<b>248 980</b>	<b>517 864</b>
Dividend income	3 428	3 651	2 936	3 103
Net trading income, including:	103 515	206 397	84 698	169 191
<i>Foreign exchange result</i>	<i>87 191</i>	<i>176 431</i>	<i>79 620</i>	<i>151 047</i>
<i>Gains or losses on financial assets and liabilities held for trading</i>	<i>13 386</i>	<i>24 711</i>	<i>7 950</i>	<i>23 853</i>
<i>Gains or losses from hedge accounting</i>	<i>2 938</i>	<i>5 255</i>	<i>(2 872)</i>	<i>(5 709)</i>
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	2 402	(11 618)	(17 691)	(56 060)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	(2 286)	14 364	20 992	24 478
<i>Gains less losses from debt securities measured at fair value through other comprehensive income</i>	<i>694</i>	<i>18 685</i>	<i>1 716</i>	<i>6 042</i>
<i>Gains less losses from investments in subsidiaries and associates</i>	<i>(3 033)</i>	<i>(4 952)</i>	<i>19 276</i>	<i>18 436</i>
<i>Gains less losses from derecognition</i>	<i>53</i>	<i>631</i>	<i>-</i>	<i>-</i>
Other operating income	38 247	75 324	34 114	302 966
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(206 416)	(327 163)	(192 139)	(273 601)
Overhead costs	(448 733)	(1 074 221)	(451 172)	(985 654)
Depreciation	(88 140)	(178 178)	(58 662)	(124 492)
Other operating expenses	(57 309)	(122 878)	(36 555)	(98 987)
<b>Operating profit</b>	<b>568 127</b>	<b>968 061</b>	<b>490 005</b>	<b>1 150 034</b>
Taxes on the Group balance sheet items	(149 723)	(258 827)	(98 287)	(196 750)
<b>Profit before income tax</b>	<b>418 404</b>	<b>709 234</b>	<b>391 718</b>	<b>953 284</b>
Income tax expense	(86 791)	(213 634)	(98 437)	(247 429)
<b>Net profit</b>	<b>331 613</b>	<b>495 600</b>	<b>293 281</b>	<b>705 855</b>
<b>Net profit attributable to:</b>				
- Owners of mBank S.A.	331 644	495 645	293 295	705 878
- Non-controlling interests	(31)	(45)	(14)	(23)

**Consolidated prudentially statement of financial position**

<b>ASSETS</b>	<b>30.06.2019</b>	<b>31.12.2018</b>
Cash and balances with the Central Bank	6 689 767	9 199 264
Financial assets held for trading and derivatives held for hedges	3 713 128	2 104 302
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 625 858	2 940 396
<i>Equity instruments</i>	188 926	177 111
<i>Debt securities</i>	75 920	58 130
<i>Loans and advances to customers</i>	2 361 012	2 705 155
Financial assets at fair value through other comprehensive income	24 556 879	24 338 284
Financial assets at amortised cost, including:	110 672 400	103 564 317
<i>Debt securities</i>	9 575 732	9 000 539
<i>Loans and advances to banks</i>	3 079 717	2 546 346
<i>Loans and advances to customers</i>	98 016 951	92 017 432
Fair value changes of the hedged items in portfolio hedge of interest rate risk	135	-
Intangible assets	822 131	776 175
Tangible assets	1 304 153	785 026
Current income tax assets	3 937	9 336
Deferred income tax assets	920 600	959 076
Other assets	1 173 991	1 123 938
<b>Total assets</b>	<b>152 482 979</b>	<b>145 800 114</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Financial liabilities held for trading and derivatives held for hedges	1 082 915	981 117
Financial liabilities measured at amortised cost, including:	132 407 407	125 661 317
<i>Amounts due to banks</i>	2 974 908	3 078 387
<i>Amounts due to customers</i>	110 390 913	102 059 184
<i>Debt securities issued</i>	16 563 922	18 049 583
<i>Subordinated liabilities</i>	2 477 664	2 474 163
Provisions	344 278	258 283
Current income tax liabilities	22 212	352 962
Deferred income tax liabilities	82	83
Other liabilities	2 944 884	3 330 272
<b>Total liabilities</b>	<b>136 801 778</b>	<b>130 584 034</b>
<b>Equity</b>		
<b>Equity attributable to Owners of mBank S.A.</b>	<b>15 679 158</b>	<b>15 213 980</b>
<b>Share capital:</b>	<b>3 574 686</b>	<b>3 574 686</b>
- Registered share capital	169 348	169 348
- Share premium	3 405 338	3 405 338
<b>Retained earnings:</b>	<b>11 924 984</b>	<b>11 424 456</b>
- Profit from the previous years	11 429 339	10 108 005
- Profit for the current year	495 645	1 316 451
<b>Other components of equity</b>	<b>179 488</b>	<b>214 838</b>
<b>Non-controlling interests</b>	<b>2 043</b>	<b>2 100</b>
<b>Total equity</b>	<b>15 681 201</b>	<b>15 216 080</b>
<b>Total liabilities and equity</b>	<b>152 482 979</b>	<b>145 800 114</b>

## Selected explanatory information

### 1. Compliance with international financial reporting standards

The presented condensed consolidated report for the first half of 2019 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

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

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

The description of the Group's accounting policies is presented in Note 2 and 3 of these condensed consolidated financial statements. The accounting principles adopted by the Group were applied on a continuous basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 16 as of 1 January 2019, which were presented under Note 2 in point "New standards, interpretations and amendments to published standards".

### 3. Seasonal or cyclical nature of the business

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

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

- From 1 January 2018, the Group has implemented the International Financial Reporting Standard - IFRS 16: "Leases", whose impact on the statement of financial situation of the Group as at 1 January 2019 has been presented under Note 2 in point "New standards, interpretations and amendments to published standards".
- In accordance with the Resolution of the Banking Guarantee Fund dated April 11, 2019, regarding the determination of the amount of contributions to the bank guarantee fund for 2019, the Group recognized in the income statement on the current period a contribution in the amount of PLN 197 252 thousand.
- In connection with the renewed analysis of the treatment of certain transactions in previous years, in the second quarter of 2019 the Group created a provision amounting to PLN 41 612 thousand for potential additional payment of tax on selected financial institutions (banking tax) stemming from the results of this analysis. The provision was recognised by the Group in the income statement account in the line "Taxes on the Group balance sheet items".

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

Events as indicated above did not occur in the Group.

### 6. Issues, redemption and repayment of non-equity and equity securities

- In the first half of 2019, mBank Hipoteczny S.A. issued mortgage bonds in the amount of PLN 100 000 thousand and long term bonds in the amount of PLN 165 000 thousand as well as short term bonds in the amount of PLN 300 000 thousand. In the same period the company redeemed mortgage bonds in the amount of PLN 80 000 thousand and long term bonds in the amount of PLN 80 000 thousand.
- On 5 April 2019, under the new Euro Medium Term Note Program (EMTN Program), mBank issued unsecured bonds with a nominal value of CHF 125 000 thousand (equivalent of PLN 477 775 thousand at the average NBP exchange rate of April 5, 2019), with maturity on October 4, 2024.

- On 1 April 2019 mFinance France S.A. redeemed Eurobonds with a nominal value of EUR 500 000 thousand, issued on March 24, 2014.

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

On 28 March 2019, the 32nd Annual General Meeting of mBank S.A. adopted a resolution regarding the distribution of the net profit for 2018. The net profit of mBank S.A. in the amount of PLN 1 317 484 333.94 was allocated in the amount of PLN 248 157 618.16 for covering losses from previous years. The remaining part of the profit in the amount of PLN 1 069 326 715.78 was left undivided.

#### 8. Significant events after the end of the first half of 2019, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

#### 9. Effect of changes in the structure of the entity in the first half of 2019, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- LeaseLink Sp. z o.o.

On March 8, 2019, mLeasing acquired 100% shares in LeaseLink Sp. z o.o. (hereinafter "Leaselink"). LeaseLink is a company operating in the field of fintech in the sectors of leasing of low-value objects and e-commerce, specializing in leasing payment services. The Bank indirectly holds 100% shares in LeaseLink through mLeasing. The consideration transferred for shares amounted to PLN 31 610 thousand.

Until the publication of these financial statements, the accounting for the business combination has not been completed. The following disclosure presents provisional amounts for items for which the accounting is incomplete. The Group will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect the information obtained about the facts and circumstances that existed at the acquisition date. In accordance with the requirements of IFRS 3, the period in which the Group is required to complete the settlement of the business combination shall not exceed one year from the acquisition date.

The table below presents provisional financial data regarding assets and liabilities of LeaseLink as at the date of acquisition of shares by mLeasing.

Items	
Loans and advances to banks	1 355
Loans and advances to customers	65 482
Intangible assets	2 590
Tangible asstes	1 165
Other assets	3 546
<b>Total assets</b>	<b>74 138</b>
Amounts due to banks	72 483
<b>Total liabilities</b>	<b>72 483</b>
<b>Net assets</b>	<b>1 655</b>

As at the acquisition date of 100% shares in LeaseLink the Group recognized goodwill in the amount of PLN 29 955 thousand.

Purchase price	31 610
Net asstes acquired	1 655
<b>Goodwill</b>	<b>29 955</b>

- mCentrum Operacji Sp. z o.o. w likwidacji

According to the resolution of the Extraordinary General Meeting of Shareholders of May 6, 2019, the company mCentrum Operacji Sp. z o. o. was put into liquidation. Currently, the company's name is mCentrum Operacji Sp. z o. o. in liquidation. The company is not conducting operations.

**10. Changes in contingent liabilities and commitments**

In the first half of 2019, there were no changes in contingent liabilities and commitments of credit nature, i.e. guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first half of 2019, events as indicated above did not occur in the Group.

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

In the first half of 2019, events as indicated above did not occur in the Group.

**13. Revaluation write-offs on account of impairment of financial assets**

Data regarding write-offs on account of impairment of financial assets is presented under Note 12 of these condensed consolidated financial statements.

**14. Reversals of provisions against restructuring costs**

In the first half of 2019, events as indicated above did not occur in the Group.

**15. Acquisitions and disposals of tangible fixed asset items**

In the first half of 2019, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease operations that are performed by the companies of the Group.

**16. Material liabilities assumed on account of acquisition of tangible fixed assets**

In the first half of 2019, events as indicated above did not occur in the Group.

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

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

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

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

**19. Corrections of errors from previous reporting periods**

Corrections of errors from the previous period, made in connection with the implementation of IFRS 9 and IFRS 15 starting from 1 January 2018, are described in Note 2 in the section "Comparative data". These adjustments did not affect the opening balance of the current period or the current reporting period.

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

In the first half of 2019, events as indicated above did not occur in the Group.

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

In the first half of 2019, events as indicated above did not occur in the Group.

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

mBank S.A. did not publish a performance forecast for the year 2019.

## 23. Registered share capital

The total number of ordinary shares as at 30 June 2019 was 42 336 982 shares (31 December 2018: 42 336 982 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 JUNE 2019						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 988 000	39 952 000	fully paid in cash	1986
ordinary registered*	-	-	12 000	48 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
<b>Total number of shares</b>			<b>42 336 982</b>			
<b>Total registered share capital</b>				<b>169 347 928</b>		
<b>Nominal value per share (PLN)</b>			<b>4</b>			

\* As at the end of the reporting period

## 24. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2019 it held 69.33% of the share capital and votes at the General Meeting of mBank S.A.

In the first half of 2019 there were no changes in the ownership structure of significant blocks of shares in the Bank.

On February 4, 2019 the Bank received from Nationale-Nederlanden Otworthy Fundusz Emerytalny (Fund) a notification of a reduction in the total number of votes at the General Meeting of mBank S.A. to less than 5%. Until 28 January 2019, Fund held 2 117 564 shares in mBank S.A., which accounted for 5.002% of the share capital of mBank S.A. and entitled to 2 117 564 votes at the general meeting of mBank S.A. From January 29, 2019, Fund holds 2 101 872 shares in mBank S.A., which constitutes 4.965% of the share capital of mBank S.A. and entitles to 2 101 872 votes at the general meeting of mBank S.A.



**25. Change in Bank shares and rights to shares held by managers and supervisors**

	Number of shares held as at the date of publishing the report for Q1 2019	Number of shares acquired from the date of publishing the report for Q1 2019 to the date of publishing the report for H1 2019	Number of shares sold from the date of publishing the report for Q1 2019 to the date of publishing the report for H1 2019	Number of shares held as at the date of publishing the report for H1 2019
<b>Management Board</b>				
1. Cezary Stypułkowski	19 384	-	-	19 384
2. Lidia Jabłonowska-Luba	-	-	-	-
3. Frank Bock	223	-	-	223
4. Andreas Böger	180	-	-	180
5. Krzysztof Dąbrowski	1 630	-	-	1 630
6. Cezary Kocik	-	-	-	-
7. Adam Pers	-	-	-	-

As at the date of publishing the report for the first quarter of 2019 and as at the date of publishing the report for the first half of 2019, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for the first quarter of 2019 and as at the date of publishing the report for the first half of 2019, the Member of the Supervisory Board of mBank S.A. Mr Jörg Hessenmüller had the 7 175 Bank's shares.

As at the date of publishing the report for the first quarter of 2019 and as at the date of publishing the report for the first half of 2019, the other Members of the Supervisory Board of mBank S.A. had neither Bank shares nor rights to Bank shares.

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

As at 30 June 2019, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities and receivables of the Bank or its subsidiaries, which would represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 30 June 2019 was also not higher than 10% of the Bank's equity.

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

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

The value of provisions for litigations as at 30 June 2019 amounted to PLN 124 803 thousand (PLN 106 321 thousand as at 31 December 2018). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

**Information on the most important court proceedings relating to the issuer's contingent liabilities****1. Claims of Interbrok's clients**

Since 14 August 2008, 170 entities which have been clients of Interbrok Investment E. Drózdź i Spółka Spółka jawna (hereinafter Interbrok) called the Bank for amicable settlement for the total amount of PLN 386,086 thousand via the District Court in Warsaw. Nine compensation lawsuits were filed against the Bank. Eight of the nine lawsuits were filed by former clients of Interbrok for the total amount of PLN 800 thousand with the proviso that the claims may be extended up to the total amount of PLN 5,950 thousand. The plaintiffs alleged that the Bank had aided in Interbrok's illegal activities, which caused damage to them. With regard to seven of the aforementioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew their suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 275,423 thousand, including statutory interest and costs of proceedings. According to the

claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed.

2. A lawsuit filed by LPP S.A.

On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 009.15 on account of interchange fee. In the lawsuit, LPP S.A. petitioned the court for awarding the damages jointly from mBank S.A. and from other domestic bank.

The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union. In the plaintiff's opinion, the collusion took the form of an agreement in restriction of competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of payments for goods purchased by them with payment cards in the territory of Poland. According to the plaintiff:

- a. the banks agreed on the interchange fee amount for transactions made with VISA and/or MasterCard payment cards and charged the plaintiff these amounts,
- b. the sued banks as well as other banks operating in Poland collaborating with the sued banks charged the plaintiff the interchange fees in the amount agreed on in the collusion and amounts of interchange fees paid by the plaintiff to the sued banks and other banks collaborating with the sued banks in the years 2008 - 2014,
- c. the plaintiff suffered losses due to the collusion of the sued banks and other banks operating in Poland as the banks agreed on the interchange fee amount and charged the plaintiff the fee, and
- d. the sued banks were aware of the legal nature of the collusion and economic consequences the plaintiff had to face due to the collusion (the plaintiff's losses: the plaintiff had to pay more than it would have paid if the sued banks and other banks collaborating with the sued banks had not entered in the collusion).

mBank S.A. has submitted its statement of defence on 16 August 2018. The hearing was held on November 23, 2018. The court postponed the hearing and requested the Plaintiff to address formal irregularities in a pleading (reply to the statement of defence). The court accepted the Defendants' requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons.

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

On 4 February 2011, a class action filed with the Regional Court in Łódź on 20 December 2010 by the Municipal Consumer Ombudsman representing a group of 835 individuals, the Bank's retail banking clients, was served on the Bank. The class action was filed to determine the Bank's liability for the improper performance of mortgage loan agreements. It was in particular claimed that the Bank had improperly applied provisions of agreements on changing interest rate, namely that the Bank had not lowered interest on loans, despite the fact that, according to the Plaintiff, it was obliged to do so. The Bank does not agree with the above-mentioned allegations. On 18 February 2011, the Bank responded to the lawsuit filing for its dismissal in whole.

On 6 May 2011, the Regional Court in Łódź decided to dismiss the application for dismissing the lawsuit, filed by mBank S.A., and admitted the case to be heard as a class action. In response to this decision, mBank S.A. filed a complaint with the Court of Appeal in Łódź on 13 June 2011. However, the Court of Appeal in Łódź dismissed mBank S.A.'s complaint on 28 September 2011. Currently, the case proceeds as a class action. Until March 2012, new individuals had been joining the class action. As at 17 October 2012, the group of class members consisted of 1,247 individuals. The Regional Court in Łódź did not establish bail for the benefit of mBank S.A., which was applied for by the Bank. The Bank filed a complaint about this decision. But on 29 November 2012, the Court of Appeal in Łódź overturned the Bank's complaint about the establishment of bail. The judgment is binding and the plaintiff is not obliged to pay bail. The final statement of

defence was sent in January 2013 and on 15 February 2013, the plaintiff answered it in a pleading. By its decision of 18 February 2013, the Regional Court in Łódź submitted the case to mediation. On 26 February 2013, the Municipal Consumer Ombudsman appealed against the case being submitted to mediation. On 22 June 2013, a trial was held and on 3 July 2013, the Court announced its judgment allowing the claim in full. According to the Court, the Bank did not properly execute the agreements concluded with consumers, as a result of which they suffered losses. The Bank appealed against this judgment on 9 September 2013. However, on 30 April 2014, the Court of Appeal in Łódź dismissed the appeal of mBank S.A., upholding the stance adopted by the Regional Court expressed in the judgment. Upon receiving a written justification of the judgment, mBank S.A. brought a cassation appeal. The cassation appeal was filed with the Supreme Court by mBank S.A. on 3 October 2014. By its decision of 7 October 2014, the Court of Appeal in Łódź suspended the enforcement of the judgment passed by the Regional Court until the cassation appeal of mBank S.A. has been resolved. On 18 February 2015, the Supreme Court accepted the cassation appeal filed by mBank S.A. for review. On 14 May 2015, the Supreme Court revoked the ruling of the Court of Appeal in Łódź and referred the case back to that court for re-examination. By the decision of 24 September 2015, the Court of Appeal in Łódź admitted the expert opinion evidence in order to verify the legality of mBank's actions connected with changing the interest rates on the mortgage loans covered by the class action in the period from 1 January 2009 to 28 February 2010.

mBank S.A. received the expert's opinion in April 2016. Both parties filed pleadings in which they commented on the opinion. On 22 June 2016, the Court of Appeal in Łódź obliged the expert to submit a supplementary opinion answering the comments made by the parties. The supplementary opinion was issued in September 2016. The expert sustained all the arguments and the standpoint presented in the initial opinion.

On 24 February 2017, a trial was held during which the court admitted the oral supplementary expert opinion as evidence; however, the opinion did not allay the Court's doubts so by the resolution of 6 April 2017, the Court of Appeal admitted another written supplementary expert opinion as evidence. The supplementary opinion was issued by an expert and presented to Parties for comments. On 29 September 2017, the Bank submitted a comprehensive piece of writing with its comments on the opinion. On 30 April 2018, a hearing was held before the Court which accepted supplementary verbal testimony of an expert as evidence. The Court issued a decision obliging mBank to submit certificates containing the history of changes in interest rates applied to each credit agreement covered by the proceedings by 15 June 2018. The court granted the Plaintiff's attorney a period of 21 days to collect data necessary to supplement the opinion by an expert. In June 2018, the Bank filed a comprehensive pleading, in which it requires, among others, the change of an expert. The Bank is waiting for the date of the hearing.

As of 30 June 2019 the total value of claims in this class actions amounted to PLN 5.2 million.

#### 4. Class action against mBank S.A. concerning indexation clauses

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

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

By its decision of 19 December 2016, the Regional Court in Łódź admitted the case to be heard as a class action. mBank filed a complaint about this decision; however, the Court of Appeal in Łódź dismissed the complaint on 15 March 2017.

By its decision of 9 May 2017, the Regional Court in Łódź decided on instigating a class action and set the time limit of three months from the publication of the decision for persons whose claims may be covered by the class action to join the class. Within the time limit set, 352 persons joined the group of class members. As decided by the Court on 13 March 2018, the group is composed of 1,731 persons. The said decision was appealed against by both parties. Regardless of the

appeal proceedings, the Court scheduled a hearing for 5 October 2018. On 5 October 2018, after conducting the substantive hearing, hearing the parties and presenting final votes, the court closed the hearing. October 19, 2018 the court issued a judgment in which it dismissed all claim of the plaintiff. In the oral justification, the court stated that the Plaintiff had not shown that he had a legal interest in bringing the claim in question, and also referred to the validity of loan agreements indexed by CHF, stressing that both the contract itself and the indexation clause are in compliance with both applicable regulations and rules of social coexistence. On 11 January 2019, the appeal of the plaintiff to which the Bank submitted a response.

As of 30 June 2019 the total value of claims in this class actions amounted to PLN 377 million.

Apart from the class action proceedings there are also individual court proceedings initiated against the Bank by its customers in connection with CHF loan agreements.

The majority of those cases relate to indexation clauses in CHF loan agreements and mostly include claims for adjudgement of a loan as PLN loan, bearing interest at the rate applicable for CHF indexed loan or for invalidity of the loan agreements in part (i.e. in the scope of the provisions related to indexation) or in whole. The final judgments issued until the date of this report in the indexation clauses proceedings are favourable to the Group in vast majority of the cases. However, given some recent verdicts of Polish courts in similar cases as well as the potential impact of the expected verdict of the Court of Justice of the European Union (CJEU) (the matter described below), the risk exists that the observed line of verdicts in such cases may change. If materialized, such risk might create significant negative impact on mBank Group and other banks having foreign currency mortgage loan portfolios. As the verdict of CJEU has not been issued yet and as any practical application of this verdict by Polish courts in their decisions is not known, as at the date of signing of these financial statements the Group is not able to estimate reliably the amount of contingent liability stemming from the verdict of CJEU.

The carrying amount of mortgage and housing loans granted to individual customers in in Swiss franc presented in the consolidated financial statements of mBank S.A. Group as of 30 June 2019 amounted to PLN 13 837 254 thousand (i.e. CHF 3 610 786 thousand).

### **The expected verdict of CJEU**

In April 2018 the Regional Court in Warsaw requested for a preliminary ruling of CJEU in a specific case concerning CHF loan granted by one of the domestic banks. The submitted questions were to determine, among others, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive or invalid indexation clause in a loan agreement.

On 14 May 2019, the Advocate General of the Court of Justice of the European Union issued an opinion concerning these questions. According to the opinion once a indexation clause has been considered abusive, a domestic court is to decide whether a LIBOR-based PLN loan agreement can be performed further under domestic law or it has to be cancelled. It is permissible to replace an abusive conversion clause with another provision of law only when cancellation of the agreement is unfavorable to the client who consents to such a replacement. The Advocate General expressed his opinion on the impossibility to supplement the agreement by the court at its discretion with another provision of law. The opinion of the Advocate General is not binding for CJEU, however in the past in the majority of cases CJEU followed the opinion of Advocate General in its verdicts. The verdict of CJEU has not been issued yet, however it is expected in September 2019. It is also expected that this verdict may impact future decisions of Polish courts in the cases concerning CHF loan agreements, which were assessed by these courts as abusive.

### **Tax audits**

On April 9, 2019, mBank Hipoteczny S.A. was requested by the Head of the First Masovian Tax Office in Warsaw to submit the tax documentation referred to in Article 9a (1)-(3a) of the Corporate Income Tax Act concerning transactions concluded with related entities, and was informed about the initiation of verification activities regarding the correctness of the CIT-8 and CIT-8/O tax returns for 2017.

On September 24, 2018, mBank S.A. was requested by the Head of the First Masovian Tax Office in Warsaw to submit the tax documentation referred to in Article 9a (1)-(3a) of the Corporate Income Tax Act concerning transactions concluded in 2016 with related entities.

On September 24, 2018, mLeasing Sp. z o.o. was requested by the Head of the First Masovian Tax Office in Warsaw to submit the tax documentation referred to in Article 9a (1)-(3a) of the Corporate Income Tax Act concerning transactions concluded in 2016 with related entities.

From June 11, 2018 to September 5, 2018, in CSK Sp. z o. o., (on 100% dependent on BDH Development Sp. z o.o.) the employees of the Lodz Treasury Office in Łódź (Urząd Skarbowy Łódź Śródmieście) conducted the tax inspection in the area of corporate income tax for 2016. The inspection did not reveal any irregularities.

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

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

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

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

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

## **27. Off-balance sheet liabilities**

Off-balance sheet liabilities as at 30 June 2019 and 31 December 2018 were as follows.

	30.06.2019	31.12.2018
<b>1. Contingent liabilities granted and received</b>	<b>42 099 028</b>	<b>40 041 417</b>
<b>Commitments granted</b>	<b>37 797 633</b>	<b>36 461 423</b>
- financing	28 279 871	27 882 914
- guarantees and other financial facilities	8 888 216	8 541 433
- other commitments	629 546	37 076
<b>Commitments received</b>	<b>4 301 395</b>	<b>3 579 994</b>
- financial commitments	909 698	381 660
- guarantees	3 391 697	3 198 334
<b>2. Derivative financial instruments (nominal value of contracts)</b>	<b>586 846 345</b>	<b>517 423 172</b>
Interest rate derivatives	477 093 242	420 056 711
Currency derivatives	101 389 756	93 080 870
Market risk derivatives	8 363 347	4 285 591
<b>Total off-balance sheet items</b>	<b>628 945 373</b>	<b>557 464 589</b>

## **28. Transactions with related entities**

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 30 June 2019 and as at 31 December 2018, and related costs and income for the period from 1 January to 30 June 2019 and from 1 January to 30 June 2018 are presented in the table below.

PLN (000's)	mBank S.A. subsidiaries and associates			Commerzbank AG			Other companies of the Commerzbank AG Group		
	30.06.2019	31.12.2018	30.06.2018	30.06.2019	31.12.2018	30.06.2018	30.06.2019	31.12.2018	30.06.2018
<b>As at the end of the period</b>									
<b>Statement of Financial Position</b>									
Assets	-	-	-	995 979	555 810	-	12 904	7 587	-
Liabilities	18 109	24 895	-	2 048 892	2 188 337	-	906 499	968 311	-
<b>Income Statement</b>									
Interest income	4	-	555	35 745	-	53 823	324	-	277
Interest expense	(37)	-	(306)	(19 008)	-	(39 876)	(2 469)	-	(3 196)
Fee and commission income	49	-	578	2 275	-	630	28	-	17
Fee and commission expense	-	-	-	(1 030)	-	-	-	-	-
Other operating income	30	-	-	731	-	9	-	-	-
Overhead costs, amortisation and other operating expenses	(1)	-	-	(5 027)	-	(5 234)	-	-	-
<b>Contingent liabilities granted and received</b>									
Contingent liabilities granted	349 755	352 182	-	1 418 819	1 842 625	-	-	-	-
Contingent liabilities received	-	-	-	1 616 210	2 074 354	-	-	-	-

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 30 June 2019 recognised in the Group's income statement for that period amounted to PLN 17 288 629 thousand (in the period from 1 January to 30 June 2018: PLN 22 898 764).

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

### 29. Credit and loan guarantees, other guarantees granted of significant value

As at 30 June 2019, the Bank's significant exposure under guarantees granted related to the guarantee payment of all amounts to be paid in respect of debt securities issued by mFinance France S.A. (mFF), a subsidiary of the mBank S.A.

On 20 November 2014, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 November 2021. In this case, the guarantee was granted on 20 November 2014 for the duration of the Programme, i.e. to 26 November 2021.

On 21 September 2016, mFF issued next tranche of Eurobonds with nominal value of EUR 500 000 thousand maturing on 26 September 2020. In this case, the guarantee was granted on 21 September 2016 for the duration of the Programme, i.e. to 26 September 2020.

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

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

In the first half of 2019, events as indicated above did not occur in the Group.

### 31. Factors affecting the results in the coming quarter

Apart from operating activity of the Bank and mBank Group entities, there are no other events expected in the third quarter of 2019 that would have a significant impact on the profit of this period.

### 32. Other information

- Requirements on mBank Group capital ratios as of June 30, 2019

Starting from 1 January 2019 the binding conservation capital buffer defined in the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015 (Dz.U. 2015 item 1513), increased from 1.875% to 2.5% of the total risk exposure amount.

Consequently, taking into account other components of the required level of capital ratios resulting, inter alia, from administrative decisions of the PFSA received in 2018, the required level of capital ratios at the end of June 2019 was as follows:

- Individual total capital ratio – 18.02% and Tier 1 capital ratio – 14.98%
- Consolidated total capital ratio – 17.51% and Tier 1 capital ratio – 14.60%.

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

■ Proposals for restructuring foreign currency mortgage loans

In recent years, discussions regarding proposals for restructuring mortgage loans granted in foreign currencies to individual clients have been conducted. At the meeting that began on October 19, 2016, the Sejm of the Republic of Poland began working on three draft laws regulating the above-mentioned issue in different ways: a bill presented by the President of the Republic of Poland *on the rules for reimbursement of certain debts arising from loan and loan agreements* and parliament members' draft *Act on restructuring loans denominated or indexed to a currency other than the Polish currency and on the introduction of a ban on such loans* and the *Act on special rules for the restructuring of foreign currency housing loans due to a change in the exchange rate of foreign currencies to the Polish currency*.

As at the date of publication of this report, the intentions for further work on the aforementioned proposals are not known. Therefore, the Bank is not able to reliably assess the probability of implementing the aforementioned solutions as well as estimate the potential impact of the final solutions on the financial statements of the Bank and the mBank Group.

On 4 July 2019, the Sejm adopted the *Act on amending the Act on support for borrowers in financial difficulties who have taken out a housing loan and certain other acts*. The original proposal provided for the creation of the so-called Conversion Fund earmarked for financing conversion of loans. In the course of the legislative process this solution was abandoned (i.e. the provisions regarding the Conversion Fund were deleted).

### **33. Events after the balance sheet date**

From 30 June 2019 until the date of publication of these condensed financial statements, no events occurred, which would require additional disclosure in these condensed financial statements.