mBank S.A.

IFRS Condensed 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.

Contents

1. Selected financial data

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

SELECTED FINANCIAL DATA FOR THE BANK		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	2 165 384	1 891 855	504 987	446 245
II.	Fee and commission income	736 051	735 011	171 654	173 372
III.	Net trading income	206 017	173 917	48 045	41 023
IV.	Operating profit	1 138 946	961 497	265 612	226 795
V.	Profit before income tax	665 281	883 053	155 149	208 292
VI.	Net profit	473 574	705 650	110 442	166 447
VII.	Net cash flows from operating activities	1 373 111	2 538 113	320 222	598 682
VIII.	Net cash flows from investing activities	146 668	37 740	34 204	8 902
IX.	Net cash flows from financing activities	(1 867 749)	(852 285)	(435 576)	(201 034)
X.	Net increase / decrease in cash and cash equivalents	(347 970)	1 723 568	(81 150)	406 550
XI.	Basic earnings per share (in PLN/EUR)	11.19	16.68	2.61	3.93
XII.	Diluted earnings per share (in PLN/EUR)	11.18	16.67	2.61	3.93
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	5.15	-	1.21

SELECTED FINANCIAL DATA FOR THE BANK		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	143 942 202	137 649 170	33 852 823	32 011 435
II.	Amounts due to banks	2 993 606	3 136 771	704 047	729 482
III.	Amounts due to customers	115 638 641	109 873 386	27 196 294	25 551 950
IV.	Own Equity	15 681 638	15 175 043	3 688 062	3 529 080
V.	Share capital	169 348	169 348	39 828	39 383
VI.	Number of shares	42 336 982	42 336 982	42 336 982	42 336 982
VII.	Book value per share (in PLN/EUR)	370.40	358.43	87.11	83.36
VIII.	Total capital ratio	23.40	24.20	23.40	24.20

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

- <u>for items of the statement of financial position</u> – exchange rate announced by the National Bank of Poland as at 30 June 2019: EUR 1 = PLN 4.2520, 31 December 2018: EUR 1 = PLN 4.3000.
- <u>for items of the income statement</u> – 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.

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

2. Condensed financial data

Condensed 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:		1 109 146	2 165 384	970 880	1 891 855
Interest income accounted for using the effective interest method		*973 150*	*1 887 660*	*826 288*	*1 594 416*
Income similar to interest on financial assets at fair value through profit or loss		*135 996*	*277 724*	*144 592*	*297 439*
Interest expenses		(225 248)	(456 951)	(214 838)	(415 900)
Net interest income		**883 898**	**1 708 433**	**756 042**	**1 475 955**
Fee and commission income		373 977	736 051	374 772	735 011
Fee and commission expenses		(165 570)	(312 344)	(140 003)	(274 021)
Net fee and commission income		**208 407**	**423 707**	**234 769**	**460 990**
Dividend income	5.4	301 050	301 273	194 769	194 936
Net trading income, including:		104 607	206 017	88 188	173 917
Foreign exchange result		*86 912*	*176 101*	*78 622*	*149 873*
Gains or losses on financial assets and liabilities held for trading		*15 058*	*28 405*	*12 134*	*27 439*
Gains or losses from hedge accounting		*2 637*	*1 511*	*(2 568)*	*(3 395)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		1 101	(12 182)	(15 105)	(54 099)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:		(1 867)	2 100	(299)	1 453
Gains less losses from debt securities measured at fair value through other comprehensive income		*694*	*18 559*	*1 842*	*6 031*
Gains less losses from investments in subsidiaries and associates		*(344)*	*(995)*	-	*(22)*
Gains less losses from derecognition	5.4	*(2 217)*	*(15 464)*	*(2 141)*	*(4 556)*
Other operating income		12 465	25 980	13 992	24 100
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	5.14	(185 520)	(293 699)	(163 400)	(237 358)
Overhead costs	5.4	(400 500)	(966 464)	(400 172)	(878 157)
Depreciation		(79 000)	(158 645)	(52 760)	(112 364)
Other operating expenses		(42 259)	(97 574)	(35 684)	(87 876)
Operating profit		**802 382**	**1 138 946**	**620 340**	**961 497**
Taxes on the Bank's balance sheet items		(141 298)	(242 693)	(91 247)	(183 175)
Share in profits (losses) of entities under the equity method	5.4	(257 746)	(230 972)	(147 822)	104 731
Profit before income tax		**403 338**	**665 281**	**381 271**	**883 053**
Income tax expense		(77 242)	(191 707)	(91 436)	(177 403)
Net profit		**326 096**	**473 574**	**289 835**	**705 650**

Net profit		**326 096**	**473 574**	**289 835**	**705 650**
Weighted average number of ordinary shares	**5.26**	**42 336 982**	**42 336 982**	**42 312 122**	**42 312 122**
Earnings per share (in PLN)	**5.26**	**7.70**	**11.19**	**6.85**	**16.68**
Weighted average number of ordinary shares for diluted earnings	**5.26**	**42 366 331**	**42 366 331**	**42 338 828**	**42 338 828**
Diluted earnings per share (in PLN)	**5.26**	**7.70**	**11.18**	**6.85**	**16.67**

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

Condensed 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
Net profit	**326 096**	**473 574**	**289 835**	**705 650**
Other comprehensive income net of tax, including:	**18 981**	**28 116**	**(44 293)**	**26 513**
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	83	54	13	67
Cash flows hedges (net)	12 840	37 663	(7 218)	20 236
Share of other comprehensive income of entities under the equity method (net)	(1 999)	(4 043)	(893)	181
Debt instruments at fair value through other comprehensive income (net)	8 057	(5 558)	(36 195)	6 029
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	-	-	-	-
Total comprehensive income (net)	**345 077**	**501 690**	**245 542**	**732 163**

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

Condensed statement of financial position

ASSETS	30.06.2019	31.12.2018
Cash and balances with the Central Bank	6 689 023	9 182 971
Financial assets held for trading and derivatives held for hedges	3 748 575	2 126 112
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 282 229	2 567 330
Equity instruments	*24 774*	*12 226*
Debt securities	*75 920*	*58 130*
Loans and advances to customers	*2 181 535*	*2 496 974*
Financial assets at fair value through other comprehensive income	29 442 876	*28 173 110*
Financial assets at amortised cost, including:	96 997 524	91 111 844
Debt securities	*9 575 732*	*9 000 540*
Loans and advances to credit institutions	*7 379 434*	*5 909 341*
Loans and advances to customers	*80 042 358*	*76 201 963*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	135	-
Investements in subsidiaries	2 213 154	2 300 324
Intangible assets	700 594	693 210
Tangible assets	998 009	537 001
Current income tax assets	3 846	9 336
Deferred income tax assets	254 943	295 347
Other assets	611 294	652 585
Total Assets	**143 942 202**	**137 649 170**
LIABILITIES AND EQUITY		
Liabilities		
Financial liabilities held for trading and derivatives held for hedges	1 127 851	1 016 214
Financial liabilities measured at amortised cost, including:	124 470 777	118 342 044
Amounts due to banks	*2 993 606*	*3 136 771*
Amounts due to customers	*115 638 641*	*109 873 386*
Debt securities issued	*3 360 866*	*2 857 724*
Subordinated liabilities	*2 477 664*	*2 474 163*
Provisions	342 455	255 882
Current income tax liabilities	14 267	244 389
Deferred income tax liabilities	82	83
Other liabilities	2 305 132	2 615 515
Total liabilities	**128 260 564**	**122 474 127**
Equity		
Share capital:	**3 574 686**	**3 574 686**
Registered share capital	169 348	169 348
Share premium	3 405 338	3 405 338
Retained earnings:	**11 902 054**	**11 423 575**
- Profit from the previous years	11 428 480	10 106 090
- Profit for the current year	473 574	1 317 485
Other components of equity	**204 898**	**176 782**
Total equity	**15 681 638**	**15 175 043**
Total liabilities and equity	**143 942 202**	**137 649 170**

Total capital ratio	**23.40**	**24.20**
Common Equity Tier 1 capital ratio	**19.91**	**20.46**
Book value	**15 681 638**	**15 175 043**
Number of shares	**42 336 982**	**42 336 982**
Book value per share (in PLN)	**370.40**	**358.43**

IFRS Financial Statements for the first half of 2019 PLN (000’s)

Condensed statement of changes in equity

Changes from 1 January to 30 June 2019

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2019	**169 348**	**3 405 338**	**9 216 652**	**22 452**	**1 115 143**	**1 069 328**	**-**	**(5 160)**	**104 292**	**83 643**	**3 120**	**(9 113)**	**15 175 043**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**473 574**	**54**	**(5 558)**	**37 663**	**(4 043)**	**-**	**501 690**
Stock option program for employees	**-**	**-**	**-**	**4 905**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4 905**
- value of services provided by the employees	*-*	*-*	*-*	*4 905*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*4 905*
Equity as at 30 June 2019	**169 348**	**3 405 338**	**9 216 652**	**27 357**	**1 115 143**	**1 069 328**	**473 574**	**(5 106)**	**98 734**	**121 306**	**(923)**	**(9 113)**	**15 681 638**

Changes from 1 January to 31 December 2018

	Share capital		Retained earnings					Other components of equity					Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	
Equity as at 1 January 2018	**169 248**	**3 394 928**	**7 145 517**	**22 638**	**1 115 143**	**2 289 043**	**-**	**(5 336)**	**164 413**	**(5 198)**	**3 770**	**(6 605)**	**14 287 561**
Effects of IFRS 9 implementation	-	-	-	-	-	(248 158)	-	-	(44 857)	-	-	-	(293 015)
Restated equity as at 1 January 2018	**169 248**	**3 394 928**	**7 145 517**	**22 638**	**1 115 143**	**2 040 885**	**-**	**(5 336)**	**119 556**	**(5 198)**	**3 770**	**(6 605)**	**13 994 546**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 317 485**	**176**	**(15 264)**	**88 841**	**(650)**	**(2 508)**	**1 388 080**
Issuance of ordinary shares	100	-	-	-	-	-	-	-	-	-	-	-	100
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	-	(217 907)
Transfer to supplementary capital	-	-	2 071 135	-	-	(2 071 135)	-	-	-	-	-	-	-
Stock option program for employees	**-**	**10 410**	**-**	**(186)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10 224**
- value of services provided by the employees	*-*	*-*	*-*	*10 224*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*10 224*
- settlement of exercised options	*-*	*10 410*	*-*	*(10 410)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Equity as at 31 December 2018	**169 348**	**3 405 338**	**9 216 652**	**22 452**	**1 115 143**	**(248 157)**	**1 317 485**	**(5 160)**	**104 292**	**83 643**	**3 120**	**(9 113)**	**15 175 043**

IFRS Financial Statements for the first half of 2019 PLN (000's)

Changes from 1 January to 30 June 2018 - restated

	Share capital		Retained earnings					Other components of 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	Exchange differences on translation of foreign operations	Valuation of financial assets at fair value through other comprehensive income	Cash flows hedges	Share in profits (losses) of entities under the equity method	Actuarial gains and losses relating to post-employment benefits	Total equity
Equity as at 1 January 2018	**169 248**	**3 394 928**	**7 145 517**	**22 638**	**1 115 143**	**2 289 043**	**-**	**(5 336)**	**164 413**	**(5 198)**	**3 770**	**(6 605)**	**14 287 561**
Effects of IFRS 9 implementation	-	-	-	-	-	(248 158)	-	-	(44 857)	-	-	-	(293 015)
Restated equity as at 1 January 2018	**169 248**	**3 394 928**	**7 145 517**	**22 638**	**1 115 143**	**2 040 885**	**-**	**(5 336)**	**119 556**	**(5 198)**	**3 770**	**(6 605)**	**13 994 546**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**705 650**	**67**	**6 029**	**20 236**	**181**	**-**	**732 163**
Dividends	-	-	-	-	-	(217 907)	-	-	-	-	-	-	(217 907)
Transfer to supplementary capital	-	-	2 071 135	-	-	(2 071 135)	-	-	-	-	-	-	-
Stock option program for employees	**-**	**-**	**-**	**7 362**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7 362**
- value of services provided by the employees	-	-	-	*7 362*	-	-	-	-	-	-	-	-	*7 362*
Equity as at 30 June 2018	**169 248**	**3 394 928**	**9 216 652**	**30 000**	**1 115 143**	**(248 157)**	**705 650**	**(5 269)**	**125 585**	**15 038**	**3 951**	**(6 605)**	**14 516 164**

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

Condensed statement of cash flows

	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 - restated
Profit before income tax	**665 281**	**883 053**
Adjustments:	***707 830***	***1 655 060***
Income taxes paid	(373 992)	(279 407)
Amortisation	158 645	112 364
Foreign exchange (gains) losses related to financing activities	(44 833)	287 723
(Gains) losses on investing activities	210 090	(119 822)
Dividends received	(301 273)	(194 936)
Interest income (income statement)	(2 165 384)	(1 891 855)
Interest expense (income statement)	456 951	415 900
Interest received	2 296 282	1 788 565
Interest paid	(466 824)	(437 039)
Changes in loans and advances to banks	(681 776)	107 439
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(36 554)	(766 951)
Changes in loans and advances to customers	(4 720 217)	(3 980 139)
Changes in financial assets at fair value through other comprehensive income	(263 386)	*(207 096)*
Changes in securities at amortised cost	(556 633)	*(892 857)*
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(30 338)	*(18 134)*
Changes in other assets	48 453	(103 876)
Changes in amounts due to banks	425 040	422 049
Changes in amounts due to customers	6 459 163	7 634 354
Changes in debt securities in issue	511 804	20 614
Changes in provisions	86 573	27 799
Changes in other liabilities	(303 961)	(269 635)
A. Cash flows from operating activities	**1 373 111**	**2 538 113**
Disposal of shares in subsidiaries	-	100
Disposal of intangible assets and tangible fixed assets	4 799	187
Dividends received	301 273	194 936
Purchase of intangible assets and tangible fixed assets	(159 404)	(157 483)
B.Cash flows from investing activities	**146 668**	**37 740**
Proceeds from loans and advances from banks	-	187 200
Issue of debt securities	-	658 630
Repayments of loans and advances from banks	(560 027)	(1 423 990)
Repayments of other loans and advances	(1 058 369)	-
Acquisition of shares in subsidiaries - increase of involvement	(150 000)	(1 300)
Payments of financial lease liabilities	*n/a*	(2 856)
Payments of lease liabilities	(54 031)	*n/a*
Dividends and other payments to shareholders	-	(217 907)
Interest paid from loans and advances received from banks and subordinated liabilities	(45 322)	(52 062)
C. Cash flows from financing activities	**(1 867 749)**	**(852 285)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(347 970)**	**1 723 568**
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	10 597 670	9 750 574
Cash and cash equivalents at the end of the reporting period	**10 267 460**	**11 541 951**

3. Description of relevant accounting policies

Accounting basis

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

The Financial Statements of mBank S.A. have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union on a historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading 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. condensed financial statements was audited by the auditor.

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

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

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

Detailed accounting principles applied to the preparation of these condensed consolidated financial statements are presented in Note 2 to the Financial Statements of mBank S.A. for 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 Bank 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 Bank 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 endorsed 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 incoming standard introduces a single lessee accounting model, convergent with finance lease model under IAS 17. As per IFRS 16, the contract is, or contains, a lease, if it 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 of the asset and controls the 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 in the amount of discounted future lease payments, excluding short-term lease contracts lasting no longer than 12 months and leases of low-value assets .

The expenses related to the use of leased assets, previously presented as overhead costs, currently are to be 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 Bank 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 Bank 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 was 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 Bank 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 Bank has implemented relevant changes in the IT systems of the Bank companies, so that they are adapted to collect and process relevant data.

In the financial statements lease agreements have been shown, in which the Bank 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 Bank 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 as at 1 January 2019 are described below.

<u>Description of adjustments</u>

(a) Recognition of leasing liabilities

After the adoption of IFRS 16, the Bank 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 Bank 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 Bank 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 Bank 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 Bank applied the reasonably certain period of lease, due to significant economic factors discouraging the Bank 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 Bank 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 will be treated as short-term leasing,

- for operating lease contracts for which the underlying asset is of low value (less than PLN 20,000), the Bank 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.

IFRS Condensed Financial Statements for the first half of 2019 PLN (000’s)

Impact on the statement of financial position

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

	31 December 2018 (without IFRS16 effect)	IFRS 16 effect	1 January 2019 (with IFRS16 effect)
ASSETS			
Tangible fixed asstes	537 001	516 704	1 053 705
including Right-of-use assets	-	528 691	528 691
Liabilities and equity			
Financial liabilities at amortised cost	118 342 044	527 562	118 869 606
including Lease liabilities	-	527 562	527 562

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 initial application of IFRS 16 are as follows:

	2019
Commitments due to operating lease as at 31 December 2018 (without discount)	556 112
The impact of the discount using the Bank's incremental borrowing rate	(39 347)
Plus: finance lease liabilities as at 31 December 2018	10 797
Lease liabilities as at 1 January 2019	**527 562**
Other adjustments to right-of-use assets	1 129
Right-of-use assets as at 1 January 2019	**528 691**

Impact on the income statement

Since 2019 in the Bank's income statement, a change in the classification of costs will appear (rental costs will be 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 does not affect retained earnings and equity of the Bank as at 1 January 2019.

Impact on capital ratios

Due to the inclusion of lease agreements in the Bank's balance sheet as at 1 January 2019 the total amount of risk exposures increased, and thus the total capital ratio of the Bank decreased by ca. 19 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 Bank 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, reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.

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

- 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 Bank 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 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 Bank 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) classification of the retail mortgage loan portfolio to be measured at fair value through other comprehensive income

Due to a change in business model assessment, the portfolio of loans and advances customers comprising retail mortgage loans which in the future could be sold to mBank's subsidiary mBank Hipoteczny and serve as collateral for covered bond issues, the Bank classified those portfolios to "Financial assets measured at fair value through other comprehensive income".

In the financial statements of financial position for the first half of 2018, the Bank classified such loan portfolios to:

• financial assets valued at amortized cost - PLN 2 420 720 thousand,

• financial assets held for trading at fair value through profit or loss - PLN 831 292 thousand.

The Bank measured to fair value the portfolio of retail mortgage loans previously measured at amortized cost, due to immateriality it did not adjust the value of this portfolio as at 30 June 2018. The revaluation effect was recognized in other comprehensive income in the fourth quarter of 2018.

Due to reclassification of loans and advances portfolio, interest income related to the loans previously classified as assets held for trading valued at fair value through profit or loss for first half-year of 2018 in the amount of PLN 6 161 thousand, was transferred from item "Income similar to interest on financial assets at fair value through profit or loss – Financial assets held for trading – Loans and advances" to item "Interest income accounted for using the effective interest method – Interest income on financial assets at fair value through other comprehensive income".

The valuation of the loans previously classified as assets held for trading measured at fair value through profit or loss for first half-year of 2018 in the amount of minus PLN 1 045 thousand, recognized in the Income statement as "Net trading income - Gains or losses on financial assets and liabilities held for trading – Loans and advances" was transferred to the item "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at fair value through other comprehensive income – Loans and advances".

c) 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. As at 30 June 2018, 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 Bank 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 financial statements.

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

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

In accordance with the requirements of IFRS 15, the Bank 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.

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

Restatements in the income statement of mBank S.A.

	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:	1 891 855	-	1 891 855
Interest income accounted for using the effective interest method	*1 606 779*	*(12 363)*	*1 594 416*
Income similar to interest on financial assets at fair value through profit or loss	*285 076*	*12 363*	*297 439*
Interest expenses	(415 900)	-	(415 900)
Net interest income	**1 475 955**	**-**	**1 475 955**
Fee and commission expenses	752 471	(17 460)	735 011
Net fee and commission income	(291 481)	17 460	(274 021)
Fee and commission income	**460 990**	**-**	**460 990**
Dividend income	194 936	-	194 936
Net trading income, including:	172 872	1 045	173 917
Foreign exchange result	*149 873*	-	*149 873*
Gains or losses on financial assets and liabilities held for trading	*26 394*	*1 045*	*27 439*
Gains or losses from hedge accounting	*(3 395)*	-	*(3 395)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(58 447)	4 348	(54 099)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates, including:	1 453	-	1 453
Gains less losses from debt securities measured at fair value through other comprehensive income	*6 031*	-	*6 031*
Gains less losses from investments in subsidiaries and associates	*(22)*	-	*(22)*
Gains less losses from derecognition	*(4 556)*	-	*(4 556)*
Other operating income	24 100	-	24 100
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(241 143)	3 785	(237 358)
Overhead costs	(878 157)	-	(878 157)
Depreciation	(112 364)	-	(112 364)
Other operating expenses	(87 876)	-	(87 876)
Operating profit	**952 319**	**9 178**	**961 497**
Tax on the Bank's balance sheet items	(183 175)	-	(183 175)
Share in profits (losses) of entities under the equity method	104 731	-	104 731
Profit before income tax	**873 875**	**9 178**	**883 053**
Income tax expense	(175 668)	(1 735)	(177 403)
Net profit	**698 207**	**7 443**	**705 650**
Earnings per share (in PLN)	**16.50**	0.18	**16.68**
Diluted earnings per share (in PLN)	**16.49**	0.18	**16.67**

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

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

	Period from 01.01.2018 to 30.06.2018 before restatement	Adjustments	Period from 01.01.2018 to 30.06.2018 after restatement
Net profit	**698 207**	**7 443**	**705 650**
Other comprehensive income net of tax, including:	**33 956**	**(7 443)**	**26 513**
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations (net)	67	-	67
Cash flows hedges (net)	20 236	-	20 236
Share of other comprehensive income of entities under the equity method (net)	181	-	181
Debt instruments at fair value through other comprehensive income (net)	4 294	1 735	6 029
Items that will not be reclassified to the income statement			
Fair value changes of equity instruments measured at fair value through other comprehensive income (net)	9 178	(9 178)	-
Total comprehensive income (net)	**732 163**	**-**	**732 163**

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

ASSETS	30.06.2018 before restatement	Adjustments	30.06.2018 after restatement
Financial assets held for trading and derivatives held for hedges	5 501 438	(831 292)	4 670 146
Non-trading financial assets mandatorily at fair value through profit or loss, including:	2 514 191	510 274	3 024 465
Debt securities	-	*58 119*	*58 119*
Loans and advances to customers	*2 503 121*	*452 155*	*2 955 276*
Financial assets at fair value through other comprehensive income	23 062 789	3 193 893	26 256 682
Financial assets at amortised cost, including:	91 352 494	(2 872 875)	88 479 619
Loans and advances to customers	*74 697 141*	*(2 872 875)*	*71 824 266*
Other items of assets	9 581 294	-	9 581 294
Total assets	**132 012 206**	**-**	**132 012 206**
Equity			
Share capital	**3 564 176**	**-**	**3 564 176**
Retained earnings:	**10 799 824**	**19 464**	**10 819 288**
- Profit from the previous years	10 101 617	12 021	10 113 638
- Profit for the current year	698 207	7 443	705 650
Other components of equity	**152 164**	**(19 464)**	**132 700**
Total equity	**14 516 164**	**-**	**14 516 164**
Total liabilities	**117 496 042**	**-**	**117 496 042**
Total liabilities and equity	**132 012 206**	**-**	**132 012 206**

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

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

Period	from 01.01.2018 to 30.06.2018 before restatement	Adjustments	from 01.01.2018 to 30.06.2018 after restatement
Profit before income tax	**873 875**	**9 178**	**883 053**
Adjustments:	***1 664 238***	***(9 178)***	***1 655 060***
Income taxes paid	(279 407)	-	(279 407)
Amortisation	112 364	-	112 364
Foreign exchange (gains) losses related to financing activities	287 723	-	287 723
(Gains) losses on investing activities	(110 644)	(9 178)	(119 822)
Dividends received	(194 936)	-	(194 936)
Interest income (income statement)	(1 891 855)	-	(1 891 855)
Interest expense (income statement)	415 900	-	415 900
Interest received	1 788 565	-	1 788 565
Interest paid	(437 039)	-	(437 039)
Changes in loans and advances to banks	107 439	-	107 439
Changes in financial assets and liabilities held for trading and derivatives held for hedges	(766 951)	-	(766 951)
Changes in loans and advances to customers	(3 980 139)	-	(3 980 139)
Changes in financial assets at fair value through other comprehensive income	(216 274)	9 178	(207 096)
Changes in securities at amortised cost	(892 857)	-	(892 857)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(8 956)	(9 178)	(18 134)
Changes in other assets	(103 876)	-	(103 876)
Changes in amounts due to other banks	422 049	-	422 049
Changes in amounts due to customers	7 634 354	-	7 634 354
Changes in debt securities in issue	20 614	-	20 614
Changes in provisions	27 799	-	27 799
Changes in other liabilities	(269 635)	-	(269 635)
A. Cash flows from operating activities	**2 538 113**	**-**	**2 538 113**
B. Cash flows from investing activities	**37 740**	**-**	**37 740**
C. Cash flows from financing activities	**(852 285)**	**-**	**(852 285)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**1 723 568**	**-**	**1 723 568**
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	9 750 574	-	9 750 574
Cash and cash equivalents at the end of the reporting period	**11 541 951**	**-**	**11 541 951**

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 Bank 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 Bank only presented data at the end of the previous financial year, but does not presented data at the end of the same period of the previous year.

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances and contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances and contingent liabilities impairment would either decrease by PLN 45.1 million or increase by PLN 48.3 million as at 30 June 2019, respectively (as at 31 December 2018: PLN 33.7 million and PLN 42.7 million, respectively). This estimation was performed for portfolio of loans and advances and contingent liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral - Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.4.6 to the Financial Statements of mBank S.A. for 2018, published on February 27, 2019.

In the first half of 2019, the Bank did not observe the impact of the expected CJEU judgment (described in Note 5.27 "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 Bank 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 Bank 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 Bank 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 2.5 to the Financial Statements of mBank S.A. 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 28.8%.

The Bank 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 Bank 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 38 984 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 Bank leads in case of insurance policies bundled with loans to upfront recognition less than 10% of bancassurance income associated with cash and car loans and 0% to approximately 25% of bancassurance income associated with mortgage loans. Recognition of the remaining part of the income is spread over the economic life of the associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

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.

5. Selected explanatory information

5.1. Compliance with international financial reporting standards

The presented condensed financial statements 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).

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

The description of the Bank's accounting policies is presented in Note 3 and 4 of these condensed financial statements. The accounting principles adopted by the Bank were applied on a continuous basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 16 as of 1 January 2019, which were presented under Note 3 under point "Comparative data".

5.3. Seasonal or cyclical nature of the business

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

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

- From 1 January 2018, the Bank has implemented the International Financial Reporting Standard - IFRS 16: "Leases", whose impact on the statement of financial situation of the Bank as at 1 January 2019 has been presented under Note 3 under 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 Bank recognized in the income statement on the current period a contribution in the amount of PLN 183 937 thousand.
- In the first half of 2019, the Bank received a dividend from its subsidiary, mFinanse S.A., in the amount of PLN 295 110 thousand, which was recognised in the profit and loss account under the item "Dividend income". At the same time, the payment of the dividend affected the valuation of the company using the equity method, which was included in the "Share in profits (losses) of entities accounted for using the equity method". The dividend's impact on Bank's net profit for the first half of 2019 was neutral.
- In connection with the renewed analysis of the treatment of certain transactions in previous years, in the second quarter of 2019 the Bank 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 Bank in the income statement account in the line "Taxes on the Bank's balance sheet items".
- In the first half of 2019 the Bank sold retail mortgage loans to mBank Hipoteczny, which will serve as collateral for mortgage bonds issued by mBank Hipoteczny. In the financial statements of the Bank these loans were measured at fair value through other comprehensive income. In connection with this sale, the Bank realized a loss in the amount of PLN 15 878 thousand, which was shown in the item "Gains less losses from derecognition".

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

Events as indicated above did not occur in the Bank.

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

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

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.

5.7. 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.

5.8. Income and profit by business segments

Income and profit by business segments within the Bank are presented in Note 4 of the condensed consolidated financial statements for the first half of 2019.

5.9. 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 Bank.

5.10. 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

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

5.11. 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 Bank. There was no single case of granting of guarantees or any other contingent liability of any material value for the Bank.

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

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

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

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

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

the period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, including:		
Financial assets at amortised cost	(260 637)	(235 447)
- Debt securities	*(16)*	*6*
- Loans and advances	*(260 621)*	*(235 453)*
Financial assets at fair value through other comprehensive income	(3 631)	(1 272)
- Equity instruments	*(326)*	*(216)*
- Debt securities	*(3 305)*	*(1 056)*
Commitments and guarantees granted	(29 431)	(639)
Total gains less losses from financial assets not measured at fair value through profit or loss	**(293 699)**	**(237 358)**

5.15. Reversals of provisions against restructuring costs

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

5.16. Acquisitions and disposals of tangible fixed asset items

In the first half of 2019, there were no material transactions of acquisition or disposal of any tangible fixed assets.

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

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

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

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

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

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

5.20. Corrections of errors from previous reporting periods

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 3 in the section "Comparative data". These adjustments did not affect the opening balance of the current period or the current reporting period.

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

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

5.22. 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 Bank.

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

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

5.24. 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.

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

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
Total number of shares			**42 336 982**			
Total registered share capital				**169 347 928**		
Nominal value per share (PLN)		**4**				

* As at the end of the reporting period

5.25. Material share packages

Commerzbank AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 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 Otwarty 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.

5.26. 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
Basic:		
Net profit	473 574	705 650
Weighted average number of ordinary shares	42 336 982	42 312 122
Net basic profit per share (in PLN per share)	**11.19**	**16.68**
Diluted:		
Net profit applied for calculation of diluted earnings per share	473 574	705 650
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
Diluted earnings per share (in PLN per share)	**11.18**	**16.67**

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

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

The value of provisions for litigations as at 30 June 2019 amounted to PLN 124 715 thousand (PLN 106 233 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 Bank.

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

1. Claims of Interbrok's clients

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

2. A lawsuit filed by LPP S.A.

   On 17 May 2018, mBank S.A. received a lawsuit filed by LPP S.A. with its registered office in Gdańsk seeking damages amounting to PLN 96 307 009.15 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 Bank 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 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 Bank 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. as of 30 June 2019 amounted to PLN 13 837 254 thousand (i.e. CHF 3 610 786 thousand).

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

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 24 September 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.

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.

5.28. Off-balance sheet liabilities

		30.06.2019	31.12.2018
1.	**Contingent liabilities granted and received**	**46 545 200**	**46 586 902**
	Commitments granted	**42 243 805**	**43 006 908**
	- financing	27 732 450	27 256 725
	- guarantees and other financial facilities	13 881 809	15 713 107
	- other commitments	629 546	37 076
	Commitments received	**4 301 395**	**3 579 994**
	- financial commitments	909 698	381 660
	- guarantees	3 391 697	3 198 334
2.	**Derivative financial instruments (nominal value of contracts)**	**584 791 038**	**515 651 767**
	Interest rate derivatives	474 256 116	417 184 171
	Currency derivatives	102 171 575	94 182 005
	Market risk derivatives	8 363 347	4 285 591
	Total off-balance sheet items	**631 336 238**	**562 238 669**

5.29. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 30 June 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.

(in PLN 000's)	mBank's subsidiaries and associates			CommerzbankAG			Other companies of the Commerzbank AG Group excluding mBank S.A, subsidiaries		
As at the end of the period	**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**
Statement of Financial Position									
Assets	18 129 292	16 098 429		920 698	555 690		12 904	7 587	
Liabilities	5 620 274	8 179 812		1 846 076	1 918 804		52 946	56 543	
Income Statement									
Interest income	171 734		154 506	35 745		53 823	324		277
Interest expense	(58 746)		(81 573)	(17 614)		(37 120)	(222)		(126)
Fee and commission income	8 500		5 673	2 275		630	28		17
Fee and commission expense	(122 810)		(88 927)	(1 030)		-	-		-
Other operating income	3 299		6 550	731		9	-		-
Overhead costs, amortisation and other operating expenses	(2 443)		(1 106)	(5 027)		(5 234)	-		-
Contingent liabilities granted and received									
Contingent liabilities granted	7 708 579	10 058 396		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 Bank'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.

5.30. 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 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.

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

5.31. Fair value of assets and liabilities

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

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

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

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 Financial Statements of mBank S.A. for 2018, published on February 27, 2019.

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

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

Financial assets and liabilities measured at amortised cost

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

	30.06.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**9 575 732**	**9 744 647**	**9 000 540**	**9 148 798**
Loans and advances to banks	**7 379 434**	**7 347 926**	**5 909 341**	**5 884 788**
Loans and advances to customers, including:	**80 042 358**	**79 683 372**	**76 201 963**	**75 912 683**
Individual customers	**39 662 566**	**40 477 822**	**38 441 362**	**38 895 475**
Current accounts	6 389 951	6 572 908	5 809 898	5 972 041
Term loans	33 010 222	33 642 521	32 271 991	32 563 961
Other receivables	262 393	262 393	359 473	359 473
Corporate customers	**39 940 060**	**38 768 648**	**37 235 689**	**36 495 606**
Current accounts	6 360 381	6 222 956	5 859 055	5 744 813
Term loans, including finance leases	32 731 100	31 697 113	30 103 484	29 477 643
Reverse repo / buy-sell-back transactions	647 155	647 155	1 146 263	1 146 263
Other loans and advances	172 572	172 572	111 955	111 955
Other receivables	28 852	28 852	14 932	14 932
Public sector customers	**439 732**	**436 902**	**524 912**	**521 602**
Financial liabilities measured at amortised cost				
Amounts due to banks	**2 993 606**	**2 992 238**	**3 136 771**	**3 135 206**
Amounts due to customers	**115 638 641**	**115 855 869**	**109 873 386**	**109 893 816**
Debt securities issued	**3 360 866**	**3 420 196**	**2 857 724**	**2 844 520**
Subordinated financial liabilities	**2 477 664**	**2 496 800**	**2 474 163**	**2 492 101**

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

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

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

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

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

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

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

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

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

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

Financial assets and liabilities measured at fair value

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

30.06.2019	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**3 748 575**	**2 123 715**	**1 139 188**	**485 672**
Loans and advances to customers	43 522	-	-	43 522
Debt securities	2 565 865	2 123 715	-	442 150
Derivative financial instruments, including:	1 139 188	-	1 139 188	-
Derivative financial instruments held for trading	1 207 064	-	1 207 064	-
Derivative financial instruments held for hedging	474 143	-	474 143	-
Ineffective portion of cash flow hedge	(542 019)	-	(542 019)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 282 229**	**902**	**-**	**2 281 327**
Loans and advances to customers	2 181 535	-	-	2 181 535
Debt securities	75 920	-	-	75 920
Equity securities	24 774	902	-	23 872
Financial assets at fair value through other comprehensive income	**29 442 876**	**21 286 825**	**549 939**	**7 606 112**
Loans and advances to customers	5 751 614	-	-	5 751 614
Debt securities	23 691 262	21 286 825	549 939	1 854 498
Total financial assets	**35 473 680**	**23 411 442**	**1 689 127**	**10 373 111**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	1 127 851	-	1 127 851	-
Derivative financial instruments held for trading	1 253 419	-	1 253 419	-
Derivative financial instruments held for hedging	537	-	537	-
Ineffective portion of cash flow hedge	(126 105)	-	(126 105)	-
Total financial liabilities	**1 127 851**	**-**	**1 127 851**	**-**

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
As at the beginning of the period	**328 102**	**58 130**	**11 456**	**1 742 614**
Gains and losses for the period:	**1 121**	**17 790**	**12 416**	**(8 270)**
Recognised in profit or loss:	1 121	17 790	12 416	-
- Net trading income	*1 121*	*(432)*	*(12)*	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*18 222*	*12 428*	-
Recognised in other comprehensive income:	-	-	-	(8 270)
- Financial assets at fair value through other comprehensive income	-	-	-	*(8 270)*
Purchases	1 180 393	-	-	636 783
Redemptions	(427 744)	-	-	(54 854)
Sales	(4 913 521)	-	-	(1 046 374)
Issues	4 273 799	-	-	584 599
As at the end of the period	**442 150**	**75 920**	**23 872**	**1 854 498**

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

IFRS Condensed Financial Statements for the first half of 2019 PLN (000's)

31.12.2018	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**2 126 112**	**748 294**	**1 006 550**	**371 268**
Loans and advances to customers	43 166	-	-	43 166
Debt securities	1 076 396	748 294	-	328 102
Derivative financial instruments, including:	1 006 550	-	1 006 550	-
Derivative financial instruments held for trading	1 030 994	-	1 030 994	-
Derivative financial instruments held for hedging	309 484	-	309 484	-
Ineffective portion of cash flow hedge	(333 928)	-	(333 928)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**2 567 330**	**770**	**-**	**2 566 560**
Loans and advances to customers	2 496 974	-	-	2 496 974
Debt securities	58 130	-	-	58 130
Equity securities	12 226	770	-	11 456
Financial assets at fair value through other comprehensive income	**28 173 110**	**21 352 274**	**499 912**	**6 320 924**
Loans and advances to customers	4 578 310	-	-	4 578 310
Debt securities	23 594 800	21 352 274	499 912	1 742 614
Total financial assets	**32 866 552**	**22 101 338**	**1 506 462**	**9 258 752**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	1 016 214	-	1 016 214	-
Derivative financial instruments held for trading	1 105 239	-	1 105 239	-
Derivative financial instruments held for hedging	5 766	-	5 766	-
Ineffective portion of cash flow hedge	(94 791)	-	(94 791)	-
Total financial liabilities	**1 016 214**	**-**	**1 016 214**	**-**

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
As at the beginning of the period	**311 826**	**-**	**-**	**1 635 170**	**55 486**
Transfer between asset categories due to the implementation of IFRS 9 as at 01.01.2018	-	46 538	8 948	-	(55 486)
Restated opening balance	**311 826**	**46 538**	**8 948**	**1 635 170**	-
Gains and losses for the period:	**2 257**	**11 592**	**-**	**9 120**	**-**
Recognised in profit or loss:	2 257	11 592	-	-	-
- Net trading income	*2 257*	*4 564*	-	-	-
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	*7 028*	-	-	-
Recognised in other comprehensive income:	-	-	-	9 120	-
- Financial assets at fair value through other comprehensive income	-	-	-	*9 120*	-
Purchases	1 350 961	-	2 546	2 189 754	-
Redemptions	(442 675)	-	-	(316 279)	-
Sales	(6 615 676)	-	(38)	(2 031 205)	-
Issues	5 721 409	-	-	256 054	-
As at the end of the period	**328 102**	**58 130**	**11 456**	**1 742 614**	**-**

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 Bank has presented the fair value of held for trading government bonds in the amount of PLN 2 123 715 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 20 055 945 thousand (31 December 2018 respectively: PLN 748 294 thousand and PLN 20 121 684 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 549 939 thousand (31 December 2018: PLN 499 912 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 on WIG 20 index an internal model (based on implied volatility model) using market parameters is applied.

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 2 335 276 thousand (31 December 2018: PLN 2 092 458 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 7 976 671 thousand (31 December 2018 – PLN 7 118 450 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 Bank. To reflect the fact that the Bank's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 23 872 thousand (31 December 2018: PLN 11 456 thousand). Equity securities presented at level 3 have been valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

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

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

5.33. Other information

- Requirements on mBank Group capital ratios as at 30 June 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, the required level of capital ratios as at 30 June 2019 amounted to:

- 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. fulfils the KNF requirements related to the required capital ratios for 2019 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 asses 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).

5.34. 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.